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Introduction of Performance-linked Share-based Remuneration Plan for Directors, etc., of Tokuyama Corporation

Tokuyama Corporation (hereinafter the “Company,” “Tokuyama” or “we”) hereby announces that the Board of Directors of the Company, at its meeting held today, made a resolution to introduce a performance-linked share-based remuneration plan (the “Plan”) for Directors (excluding Directors who are Audit and Supervisory Committee Members, non-executive Directors, External Directors, and persons not resident in Japan; hereinafter the same applies) and Executive Officers (excluding non-residents of Japan; hereinafter the same applies; hereinafter collectively referred to with Directors as “Directors, etc.”) of the Company as follows, and make a proposal on the agenda to seek shareholders’ approval of the introduction of the Plan at the 154th Ordinary General Meeting of Shareholders (hereinafter “this Ordinary General Shareholders’ Meeting”) to be held on June 22, 2018.

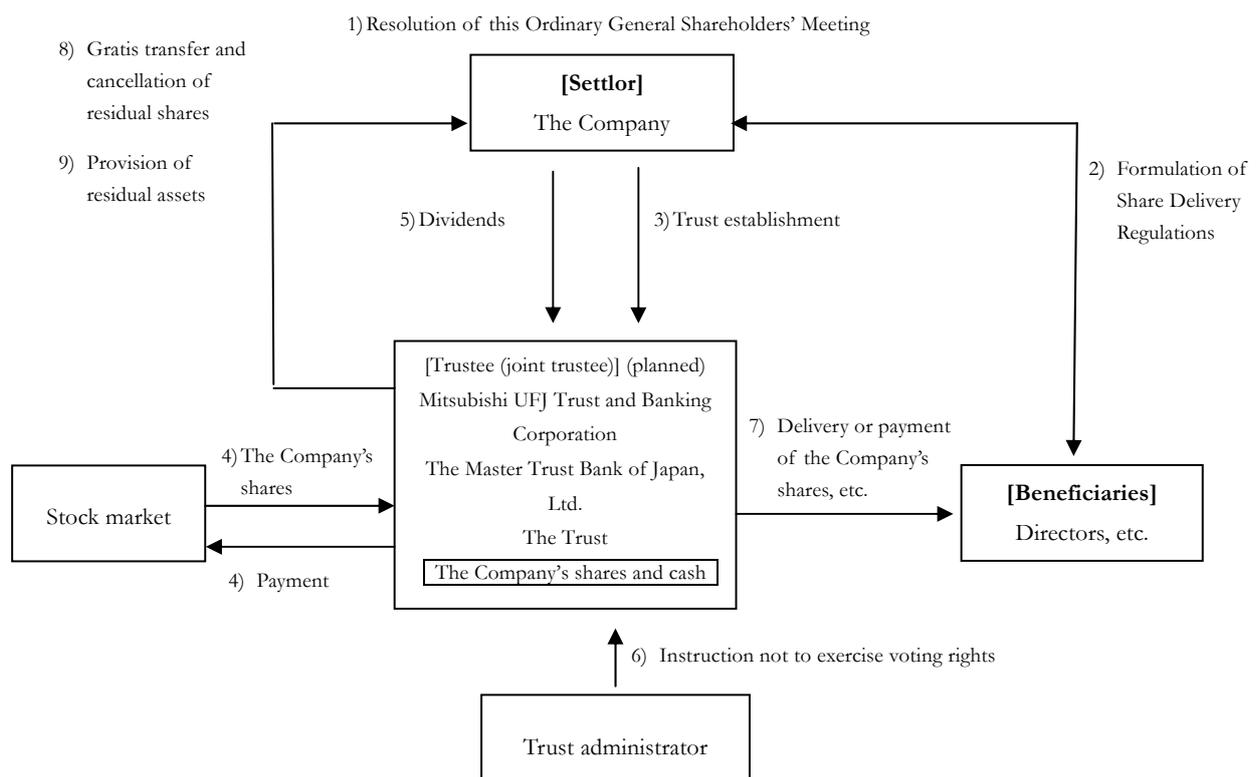
1. Introduction of the Plan

(1) In 2016, Tokuyama set forth the basic policy of management that we aim to achieve by 2025 as a “New Foundation,” and we have set forth the goal of becoming a global leader in advanced materials through unique technologies across growth businesses, and becoming a leader in Japan in traditional businesses through strengthening competitiveness. As we focus on creating the necessary driving force to propel new profit growth, we are steadily implementing the key strategies set forth in the Medium-Term Management Plan, the “cornerstone of the Group’s revitalization,” covering the five-year period starting in fiscal 2016: “change the Group’s organizational culture and structure,” “rebuild the Group’s business strategies,” “strengthen Group management,” and “improve the Company’s financial position.” Now, as we aim to realize the above Medium-Term Management Plan, the Company shall introduce the Plan in

order to clarify the linkage between the remuneration of Directors, etc., and Tokuyama’s corporate value, enhance motivation to achieve the business performance targets in the Medium-Term Management Plan, and further press forward with shared interests between Directors, etc. and shareholders by promoting the holding of the Company’s shares by Directors, etc.

- (2) The introduction of the Plan will be subject to obtaining approval at this Ordinary General Shareholders’ Meeting.
- (3) The Plan employs a framework using a trust for officer remuneration plan, which is a so-called Board Incentive Plan (BIP) (this trust, hereinafter “BIP trust”). As with performance shares and restricted shares in Europe and North America, a BIP trust is a system whereby shares in the Company and cash equivalent to the conversion amount of the Company’s shares (hereinafter “the Company’s shares, etc.”) will be delivered or paid in accordance with business performance and the recipient’s rank.

2. Overview of the Plan



- 1) The Company will obtain approval for officer remuneration related to the introduction of the Plan by resolution at this Ordinary General Shareholders’ Meeting.
- 2) At a meeting of the Board of Directors, the Company will formulate the Share Delivery Regulations in relation to the content of the Plan.
- 3) The Company will entrust money within the range approved by resolution at this Ordinary General

Shareholders' Meeting, as described in item 1), and establish a trust (the Trust) with Directors, etc., who fulfill the beneficiary requirements as beneficiaries.

- 4) In accordance with the instructions of the trust administrator, the Trust will acquire the Company's shares from the stock market, using the money entrusted in the above item 3) as funds. The number of shares acquired by the Trust will be within the range approved by resolution at this Ordinary General Shareholders' Meeting, as described in item 1).
- 5) Dividends for the Company's shares in the Trust will be paid in the same way as with other shares of the Company.
- 6) Voting rights of the Company's shares in the Trust will not be exercised during the trust period.
- 7) In accordance with the Share Delivery Regulations of the Company, Directors, etc., who have been granted a certain number of points during the trust period and who fulfill the beneficiary requirements will receive delivery of the Company's shares corresponding to a certain ratio of the number of points, and receive cash equivalent to the conversion amount of the Company's shares, after conversion within the Trust, corresponding to the number of remaining points, in accordance with the provisions of the trust agreement.
- 8) Any residual shares generated by the failure to achieve business performance targets during the Plan Period (as defined in the below item (1)), etc., when the trust period expires will be subject to delivery or payment to Directors, etc., if the Trust continues to be used under the Plan or a similar share-based remuneration plan, through changes to the trust agreement and additional entrustments. If the Trust will end upon the expiration of the trust period, the Trust shall transfer these residual shares gratis to the Company, and the Company shall cancel them by resolution of the Board of Directors, as a measure for shareholder returns.
- 9) Any residual dividends pertaining to the Company's shares in the Trust when the trust period expires will be utilized as acquisition funds for shares if the Trust continues to be used, but if the Trust ends upon the expiration of the trust period, they will revert to the Company within the range of the reserve fund for trust expenses after deducting share acquisition funds from the trust money, and any amount that exceeds the reserve fund for trust expenses will be donated to an organization with no special interests with the Company or Directors, etc.

*If there is a possibility that the number of shares in the Trust will be insufficient for the number of the Company's shares corresponding to the Number of Share Conversion Points (as defined in the below item (5); hereinafter the same applies) specified for Directors, etc., during the trust period, or if there is a possibility that the money in the trust assets will be insufficient for the payment of the trust fees and trust expenses, then the Company may entrust additional money to the Trust, within the range of the total maximum amount of trust money set forth in the below item (7).

(1) Overview of the Plan

The Plan is a scheme under which the Company's shares, etc., will be delivered or paid as officer remuneration in accordance with the rank of Directors, etc., the level of achievement of business performance targets in the Medium-Term Management Plan, and other factors, over the three fiscal years covered by the Medium-Term Management Plan set forth by the Company, from the fiscal year ending March 31, 2019 until the fiscal year ending March 31, 2021 (hereinafter "the Plan Period"). Furthermore, if the Trust is continued (as defined in item (4) b. below; hereinafter the same applies), the fiscal years corresponding to subsequent medium-term management plans shall each be Plan Periods.

(2) Resolution at this Ordinary General Shareholders' Meeting relating to the introduction of the Plan

At this Ordinary General Shareholders' Meeting, a resolution shall be made regarding the total maximum amount of trust money to be contributed to the Trust, the total maximum number of the Company's shares, etc., to be delivered or paid from the Trust, and other necessary matters. Furthermore, if continuing the Trust, the Company shall decide to change the trust agreement when the trust period expires and make additional contributions to the Trust, by resolution of the Board of Directors and within the range approved at this Ordinary General Shareholders' Meeting.

(3) Persons eligible for the Plan (beneficiary requirements)

After completing the prescribed beneficiary vesting procedures, Directors, etc., may receive the delivery or payment from the Trust of a number of the Company's shares, etc., corresponding to the Number of Share Conversion Points, paid they satisfy the following beneficiary requirements.

The beneficiary requirements are as follows.

- (i) He or she must have been in office as a Director, etc., during the Plan Period (includes persons newly appointed as Directors, etc., during the Plan Period);
- (ii) He or she must be a resident of Japan;
- (iii) He or she must not be someone who has retired owing to personal circumstances, dismissal, etc., or someone who has performed certain illegal actions during his or her time in office;
- (iv) The Number of Share Conversion Points must have been determined;
- (v) He or she must meet other criteria deemed necessary for achieving the objectives of the performance-linked share-based remuneration plan.

(4) Trust Period

a. Initial Trust Period

The initial trust period will be the period of approximately three (3) years from August 2018 (planned) to August 2021 (planned).

b. Continuation of the Trust

When the trust period expires, the Company may continue the Trust by amending the trust agreement and making additional entrustments. In this case, a number of years corresponding to the medium-term management plan formulated by the Company at that time shall be the new Plan Period, the trust period of the Trust will be extended by the same length of period as the new Plan Period, and the Company will make additional contributions within the range of the total maximum amount of trust money to be contributed to the Trust, as approved by resolution at this Ordinary General Shareholders' Meeting, and continue granting points to Directors, etc., during the extended trust period. However, when making these additional contributions, if there are shares in the Company (excluding shares in the Company corresponding to points granted to Directors, etc., whose delivery or payment is incomplete) and money remaining in the trust assets on the final day of the trust period prior to extension (hereinafter "Remaining Shares, etc."), the total amount of the monetary amount of the Remaining Shares, etc., and any trust money additionally contributed shall be within the range of the maximum amount of trust money to be contributed to the Trust in the new Plan Period, as approved by resolution at this Ordinary General Shareholders' Meeting. Such extensions of the trust period shall not be limited to one time only, and the trust period may subsequently be similarly reextended.

(5) The Company's shares to be delivered to Directors, etc.

At a certain time every year during the trust period, points calculated based on the following calculation formula (hereinafter "Base Points") shall be granted to Directors, etc., in accordance with their rank, and at a certain time immediately following the final day of the final fiscal year in the Plan Period (scheduled for June 2021 for the initial Plan Period), the number of the Company's shares to be delivered or paid shall be determined based on the number of points (hereinafter "Number of Share Conversion Points") calculated by multiplying the Base Points accumulated during the trust period (hereinafter "Accumulated Number of Points") by the performance-linked coefficient.

The performance-linked coefficient shall be determined with the range of 0 to 200%, based on the level of achievement of business performance targets using consolidated operating profit and other achievements in the final fiscal year of the Plan Period (the fiscal year ending March 31, 2021).

<<Calculation formula for Base Points>>

Base amount of share-based remuneration determined by rank \div Average closing price of the Company's shares on the Tokyo Stock Exchange during the month before the first month of the Plan Period (for the first Plan Period, the month preceding the month of the date when the trust agreement is executed) (any fractions less than one shall be discarded)

One (1) point shall equal one (1) share in the Company, and fractions less than one point shall be discarded. However, if a share split, share consolidation, etc., of the Company's shares is conducted

during the trust period, the number of the Company's shares per point and the total maximum number of the Company's shares to be delivered from the Trust (as defined in the below item (7)) shall be adjusted in accordance with the split ratio, consolidation ratio, etc., of the Company's shares.

Furthermore, if a Director, etc., retires or dies, or is transferred overseas, during the trust period, the number of shares to be delivered or paid shall be determined with the number of points accumulated up to that time as the Number of Share Conversion Points.

(6) Method and timing of delivery or payment of the Company's shares, etc., to Directors, etc.

Directors, etc., who fulfill the beneficiary requirements shall receive delivery from the Trust of a number of the Company's shares corresponding to 70% of the Number of Share Conversion Points (shares less than one unit will be discarded) around July immediately following the final day of the final fiscal year of the Plan Period (around July 2021 for the initial Plan Period; however, if a Director, etc., retires during the trust period, it shall be at that time), and shall receive payment of cash equivalent to the conversion amount of the number of the Company's shares corresponding to the remaining Number of Share Conversion Points, after conversion in the Trust. In the event that a Director, etc., dies during the trust period, his or her heir shall receive payment from the Trust of cash equivalent to the conversion amount of the number of the Company's shares corresponding to the Number of Share Conversion Points calculated at that point, after conversion in the Trust.

In addition, if a Director, etc., is transferred overseas during the trust period, he or she shall receive payment from the Trust by the date of his or her transfer overseas of cash equivalent to the conversion amount of the number of the Company's shares corresponding to the Number of Share Conversion Points calculated at that point, after conversion in the Trust.

(7) Total maximum amount of trust money to be contributed to the Trust and total maximum number of the Company's shares to be delivered from the Trust

The total maximum amount of trust money to be contributed to the Trust during the trust period and the total maximum number of the Company's Shares to be delivered from the Trust shall be within the following limits, subject to resolution at this Ordinary General Shareholders' Meeting.

Total maximum amount of trust money to be contributed to the Trust in the initial trust period

360 million yen (*1)

However, if the Trust is continued as described in the above item (4) b., the total maximum amount of trust money to be contributed to the Trust shall be an amount equivalent to 120 million yen multiplied by the number of years in the new Plan Period.

(*1) This shall be the total amount, including funds for the acquisition of shares by the Trust during the trust period, and trust fees and trust expenses.

Total maximum number of the Company's shares to be delivered from the Trust during the initial trust period

120,000 shares (*2)

However, if the Trust is continued as described in the above item (4) b., the total maximum number of the Company's shares to be delivered from the Trust during the extended trust period shall be a number of shares equivalent to 40,000 shares multiplied by the number of years in the new Plan Period.

(*2) The total maximum number of the Company's shares to be delivered shall be established based on the above total maximum amount of trust money, taking into consideration the current share price, etc.

(8) Method of acquisition of the Company's shares by the Trust

The Company intends for the Trust to acquire the Company's shares in the initial acquisition from the stock market, within the range of the funds for the acquisition of shares and the total maximum number of the Company's shares to be delivered from the Trust described in the above item (7).

Furthermore, if there is a possibility that the number of shares in the Trust will be insufficient for the number of shares corresponding to the Number of Share Conversion Points granted to Directors, etc., during the trust period, owing to an increase in the number of Directors, etc., during the trust period or other factors, the Company may contribute additional money to the Trust, and the Trust may acquire additional shares in the Company, within the range of the total maximum amount of trust money to be contributed to the Trust and the total maximum number of the Company's shares to be delivered from the Trust as described in the above item (7).

(9) Exercise of voting rights of the Company's shares in the Trust

In order to ensure neutrality toward management, voting rights of the Company's shares in the Trust (i.e. the Company's shares prior to their delivery to Directors, etc., as described in the above item (6)) will not be exercised during the trust period.

(10) Treatment of dividends of the Company's shares in the Trust

Dividends from the Company's shares in the Trust shall be received by the Trust and used for the trust fees and trust expenses of the Trust.

(11) Treatment at the expiration of the trust period

Any residual shares generated at the expiration of the trust period owing to the failure to achieve business performance targets during the Plan Period, etc., shall be subject to delivery to Directors, etc., if the Trust continues to be used under the Plan or a similar share-based remuneration plan. If the Trust will end upon the expiration of the trust period, the Trust shall transfer these residual shares gratis to the

Company, and the Company shall cancel them by resolution of the Board of Directors, as a measure for shareholder returns.

In addition, any residual dividends pertaining to the Company's shares in the Trust when the trust period expires will be utilized as acquisition funds for shares if the Trust continues to be used, but if the Trust ends upon the expiration of the trust period, they will revert to the Company within the range of the reserve fund for trust expenses after deducting share acquisition funds from the trust money, and any amount that exceeds the reserve fund for trust expenses will be donated to an organization with no special interests with the Company or Directors, etc.

(Reference)

[Trust Agreement Content]

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|------------------------------------|--|
| 1) Type of trust | Trust of money other than money trust (third-party benefit trust) |
| 2) Trust objective | To provide incentive to Directors, etc. |
| 3) Settlor | The Company |
| 4) Trustee | Mitsubishi UFJ Trust and Banking Corporation (planned)
(Joint trustee: The Master Trust Bank of Japan, Ltd. (planned)) |
| 5) Beneficiaries | Directors, etc., who fulfill the beneficiary requirements |
| 6) Trust administrator | Third party with no special interests with the Company
(Certified Public Accountant) |
| 7) Date of trust agreement | August, 2018 (planned) |
| 8) Trust period | August, 2018 (planned) to August, 2021 (planned) |
| 9) Start of the Plan | August, 2018 (planned) |
| 10) Exercise of voting rights | Voting rights will not be exercised |
| 11) Class of shares to be acquired | Common shares of the Company |
| 12) Upper limit of trust money | 360 million yen (planned) (including trust fees and trust expenses) |
| 13) Timing of share acquisition | August 8, 2018 (planned) to August 20, 2018 (planned) |
| 14) Method of share acquisition | Acquisition from the stock market |
| 15) Rights holder | The Company |
| 16) Residual assets | Residual assets that may be received by the Company, the rights holder, shall be within the range of the reserve fund for trust expenses after deducting share acquisition funds from the trust money. |

[Details of Administrative Tasks Related to the Trust and Shares]

- 1) Administrative tasks related to the trust
Mitsubishi UFJ Trust and Banking Corporation and The Master Trust Bank of Japan, Ltd. are to become the trustees of the BIP trust and perform administrative tasks related to the trust.
- 2) Administrative tasks related to shares
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. is to perform administrative tasks related to delivering the Company's shares to beneficiaries based on an administration entrustment agreement.