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## **Renewal of Policy Regarding Large-Scale Purchases of Tokuyama Corporation's Company Shares (Anti-Takeover Measures)**

Tokuyama Corporation (hereinafter “the Company,” “Tokuyama” or “we”) hereby announces that the Board of Directors of the Company, at its meeting held on May 22, 2018, determined to renew a policy (hereinafter “the Policy”) regarding the Large-Scale Purchase of Tokuyama’s shares, as explained in the following, and make a proposal on the agenda to seek shareholders’ approval of the renewal of the Policy at the 154th Ordinary General Shareholders’ Meeting (hereinafter “this Ordinary General Shareholders’ Meeting”) to be held on June 22, 2018. The renewal of the Policy is based on the “Basic Policy Regarding Persons Who Control the Company’s Decisions on Financial Matters and Business Policies” (hereinafter the “Basic Policy”) as defined in the main section of Article 118, item 3 of the Enforcement Regulation of the Companies Act. It is one of our measures to prevent the Company’s decisions on financial matters and business policies from being controlled by persons deemed inappropriate according to the Basic Policy (Article 118, item 3(b)2 of the Enforcement Regulation of the Companies Act).

At the meeting of the Board of Directors held on April 30, 2015, Tokuyama determined to adopt the Policy Regarding Large-Scale Purchases of Tokuyama Corporation’s Shares (Anti-Takeover Measures) (hereinafter the “Former Policy”), which was announced in a press release as of the aforementioned day. Later, at the 151st Ordinary General Shareholders’ Meeting held on June 24, 2015, the Former Policy was approved by a majority of the vote of shareholders, thereby continuing the Former Policy. The Former Policy will be effective until the closing of this Ordinary General Shareholders’ Meeting.

After considering the status of the Former Policy, including the appropriateness of its continuation, from the perspective of protecting the common interests of Tokuyama’s shareholders and Tokuyama’s corporate value, the Company shall renew the Former Policy, with certain amendments that are made from the standpoint to

continue to improve an environment in which the Company's management can commit themselves to achieving the goals set forth in the medium-term management plan. The Policy will take effect on condition that the above proposal on the agenda is approved by shareholders at this Ordinary General Shareholders' Meeting. In case it is not approved thereat, the Policy shall not be renewed.

Tokuyama does not plan to continue renewing the Policy for an indefinite period. The Company will consider abolishing the Policy when it has determined that it has completed steps to gain a firm foothold by carrying out the series of measures identified in its medium-term management plan, currently in progress.

In cases where amendments of the Companies Act, the Financial Instruments and Exchange Act and the associated regulations, Cabinet Orders, Cabinet Office Ordinances and/or Ordinances of the Ministry (hereinafter, in general, "laws and regulations") come into effect including the change of the names of laws and regulations and the establishment of new laws and regulations inheriting the previous content, each provision of the laws and regulations referred to in this document shall be read as corresponding provision to the previous content, unless otherwise stipulated by the Board of Directors.

In order to respect shareholders' views when activating countermeasures, the following amendments will be made to the Policy.

- The activation of countermeasures (4. (1)) by Tokuyama's Board of Directors to protect the common interests of Tokuyama's shareholders and Tokuyama's corporate value shall be limited only to cases when approval at a General Shareholders' Meeting has been obtained (see page 9-10); and
- Other amendments to words and phrasing, etc. have been made.

The status of the major shareholders of the Company as of March 31, 2018 is provided in the Appendix. As of May 22, 2018, we have not received any Large-Scale Purchase proposal.

## **1. Purpose of the Large-Scale Purchase Rules**

### **(1) Basic Policy and Its Background**

Tokuyama has put in place a renewed Group vision in a bid to further clarify its role and significance. As a key component of this vision, the Tokuyama Group is determined to help realize a prosperous society by creating value that enhances people's lives centered on the field of chemistry. Drawing on the chemical technologies that it has nurtured over many years, the Group will contribute to the well-being, growth, and development of society by continuously creating and proposing new value.

Since our founding in 1918, Tokuyama and our group companies have developed a wide range of businesses organized into five segments: Chemicals Segment, including soda ash, caustic soda, and polyvinyl chloride; Cement Segment, including cement and building materials; Specialty Products Segment, including polycrystalline silicon, fumed silica, aluminum nitride, and high-purity chemicals for electronics manufacturing; Life & Amenity Segment, including microporous film, dental materials, and ion exchange membranes; and Others Segment. These businesses are based on a foundation of uniform devotion to the production of goods and earning the longstanding trust of our stakeholders, in particular, our customers.

In each of these businesses, we attempt to anticipate future changes to the business operating environment, make advance introductions of management resources and continuously improve corporate value. This effort involves endeavoring to create business; develop technology; build equipment; bolster trust and cooperation with our stakeholders, in particular, our customers; and collect management resources. We believe that, from this medium- to long-term perspective, the cumulative result of these efforts and the advance introduction of management resources are the very source of Tokuyama's corporate value.

Consequently, in order to raise management efficiency and increase profitability while being engaged in management from such a medium- to long-term perspective, we believe that persons who have highly professional expertise and/or marketing/technical know-how being in charge of important duties with regard to the Company's decisions on financial matters and business policies in compliance with laws, regulations and the Articles of Incorporation will contribute to the common interests of Tokuyama's shareholders and Tokuyama's corporate value.

The above explains Tokuyama's Basic Policy Regarding Persons Who Control the Company's Decisions on Financial Matters and Business Policies.

## **(2) Medium- to Long-Term Management Strategies**

Under the Medium-Term Management Plan formulated in May 2016, we have identified the following two medium- to long-term management strategies, which we intend to carry out over the next decade through to the fiscal year ending March 31, 2026.

- Transition to a robust business structure that is resilient against changes in its operating environment and is capable of sustainable growth

The Tokuyama Group has set the goal of becoming a global leader in advanced materials through unique technologies across growth businesses including the Specialty Products as well as Life & Amenity segment together with the development of new products. In such traditional businesses as the Cement and Chemicals segments, the Group will work to become a leader in Japan through strengthening competitiveness.

- Transition to a Group-wide low-cost structure by undertaking a comprehensive review of existing work practices

The Tokuyama Group will reduce costs by adopting a cross-departmental approach that differs from conventional methods and undertaking strategic capital expenditures as a part of efforts to cut back principal costs including raw material, fuel, repairs and maintenance, and logistics costs

The Tokuyama Group is focused on rebuilding its financial platform as a first step toward its revitalization. In addition to completing the transfer of Tokuyama Malaysia Sdn. Bhd., the Group has undertaken measures such as purchasing and retiring Class A shares. Recognizing the significant deterioration in our

operations due to impairment losses recorded in relation to Tokuyama Malaysia's business since 2014, we remain committed to strengthening our financial platform, improving our corporate governance structure and systems, and clarifying business strategies as a part of efforts to make the most of lessons learned. Moving forward, we will work diligently to create the necessary driving force to propel new profit growth.

In order to overcome each of these issues, we will steadfastly carry out the priority measures set out in our current medium-term management plan and reform both management and the Group's operations in a bid to secure renewed growth.

- Change its organizational climate

In order to change the Group's organizational culture and structure as soon as possible, Tokuyama has launched a new personnel system for managers, who are a necessary component of our organization, in which the level of achievement of targets is more greatly reflected in treatment. In addition, we have revised our personnel system for senior employees, who possess abundant experience, such that treatment will be based on results. Looking ahead, we plan to expand this system to all employees.

In order to incorporate fresh perspectives in the Group's business promotion activities, we will also actively recruit outside personnel with specialized skills and a wealth of experience as a part of our human resources development system.

- Rebuild its business strategies

In order to realize the aspirations of becoming a leader in its traditional businesses in Japan and a global leader in advanced materials identified under its Medium-Term Management Plan, Tokuyama will strengthen the competitiveness of each business utilizing ICT and accelerate the pace of overseas business development.

In addition, steps will be taken to introduce a new business evaluation system that focuses on capital efficiency and to optimize the business portfolio.

As far as research and development is concerned, we will rebuild our R&D structure so that it is more in tune with customers' needs and cultivate new business domains by implementing open innovation with other companies.

- Strengthen Group management

In order to fully capitalize on synergies within the Tokuyama Group, every effort was made to accelerate the pace of overhauling sales strategies with strong support for human resources and management based on flexible capital policies. As a result, reform of the Group as a whole will also gather pace.

In addition to applying the new business evaluation system to consolidated subsidiaries and clarifying the degree of contribution to enhancing corporate value, we will work to reinforce internal control at Group companies

- Improve its financial structure

Steps were taken to execute an unsecured bond trust-type debt assumption agreement, undertake the repayment in advance of loan agreements with financial covenants, and reduce interest-bearing debt in order to quickly stabilize the Company's financial position. Moving forward, Tokuyama will continue to reduce interest-bearing debt while working to enhance its shareholders' equity by building up profits for the period.

### **(3) Corporate Governance**

A corporate governance system is an extremely important structure for every company in realizing improvement in its corporate value. We therefore believe that routine oversight and periodic reviews should be made so that the corporate governance of Tokuyama is operated appropriately at all times.

Tokuyama is a company with an Audit and Supervisory Committee.

The Company introduced an executive officer system to separate the supervision and execution functions in April 2011, assigning External Directors in June of the said year. The number of External Directors was subsequently increased in stages.

In June 2017, the Company transitioned from a company with a Board of Auditors to a company with an Audit and Supervisory Committee.

The Audit and Supervisory Committee selects three External Directors from five Committee members and endeavors to ensure management transparency and fairness. By doing so, it strives to maintain management soundness.

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

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

Based on the foregoing philosophy, we hereby designate the rules as set forth in 3. below regarding Large-Scale Purchases so that the necessary and adequate information can be furnished to the shareholders at the time of a Large-Scale Purchase.

Tokuyama shall require Large-Scale Purchasers to comply with the Large-Scale Purchase Rules, and in cases where a Large-Scale Purchaser fails to comply with the same, we may take certain countermeasures

from the perspective of protecting the common interests of Tokuyama's shareholders and Tokuyama's corporate value.

## **2. Purchases of Tokuyama's Shares to which the Policy Is Applied**

The Policy will apply to an action that falls under (i) or (ii) below or similar actions (regardless of the specific purchase method thereof, whether it is through market transactions or a tender offer, excluding cases where the prior consent of Tokuyama's Board of Directors has been obtained regarding either case (hereinafter such a purchase shall be referred to as a "Large-Scale Purchase"). The party carrying out such Large-Scale Purchase (hereinafter the "Large-Scale Purchaser") must comply with the Large-Scale Purchase Rules that are set forth in the Policy.

- (i) With respect to the shares<sup>1</sup> issued by the Company, a purchase and other actions where the holding ratio of the shares<sup>2</sup> of a holder<sup>3</sup> will be 20% or more.
- (ii) With respect to the shares<sup>4</sup> issued by the Company, a tender offer<sup>5</sup> where the total of the owning ratio of the shares<sup>6</sup> owned by a party carrying out the tender offer and the owning ratio of the shares owned by a party having a special relationship<sup>7</sup> with the said party will be 20% or more.

## **3. Details of the Large-Scale Purchase Rules**

The Large-Scale Purchase Rules require that Large-Scale Purchasers furnish the necessary and adequate information to Tokuyama's Board of Directors in advance, whereupon Large-Scale Purchases shall be commenced after the elapse of a certain period for Tokuyama's Board of Directors to appraise the same (hereinafter the "Large-Scale Purchase Rules").

A summary of the Large-Scale Purchase Rules is as follows.

### **(1) Provision of the Large-Scale Purchase Information**

Prior to any Large-Scale Purchase, Large-Scale Purchasers shall provide to Tokuyama's Board of Directors the required and adequate information (hereinafter the "Large-Scale Purchase Information") for decision making by Tokuyama's shareholders and the appraisal and consideration of Tokuyama's Board of Directors.

In cases where a Large-Scale Purchaser attempts to carry out a Large-Scale Purchase, a "Statement of Intent" regarding the execution of the Large-Scale Purchase must first be provided to Tokuyama's Representative Director in accordance with the Large-Scale Purchase Rules. The Statement of Intent shall have set forth therein the Large-Scale Purchaser's name, address, corporate establishment governing law, representative name and contact information within Japan; a summary of the proposed Large-Scale Purchase; and covenants that adhere to the Large-Scale Purchase Rules. Tokuyama shall deliver to the Large-Scale Purchaser a list of the Large-Scale Purchase Information to be initially submitted by the same within 10 business days after receipt of the Statement of Intent. Upon judging that sufficient Large-Scale Purchase Information has been provided, Tokuyama's Board of Directors will publicly announce the fact

that it has received sufficient information at a time and in a manner that it deems appropriate. The principal items regarding the Large-Scale Purchase Information shall be as follows. In cases where it is concluded necessary for the shareholders to make a decision, Tokuyama's Board of Directors may publicly announce all or part of the facts of the Large-Scale Purchase proposal and the Large-Scale Purchase Information submitted to Tokuyama's Board of Directors at a time that it deems appropriate.

When determining whether or not the Large-Scale Purchaser has complied with the procedure set forth in the Large-Scale Purchase Rules, Tokuyama's Board of Directors shall sufficiently consider to a reasonable extent various facts on the side of the Large-Scale Purchaser, including the fact that the Large-Scale Purchaser may not necessarily have detailed information with respect to the Company, and shall not determine that the Large-Scale Purchaser has not complied with the procedure set forth in the Large-Scale Purchase Rules solely for the reason that part of the Large-Scale Purchase Information that has been requested by Tokuyama's Board of Directors has not been provided by the Large-Scale Purchaser.

- (i) A Summary of the Large-Scale Purchaser or its group (including specific name, capital and financial information).
- (ii) The purpose, method and details of the Large-Scale Purchase (including the type and value of purchase consideration, the timing of the purchase and the appropriateness of the purchase method).
- (iii) The existence of any notification of intent to a third party and, if such notification of intent exists, the details thereof, at the time of the Large-Scale Purchase
- (iv) The basis for calculating the purchase consideration and materials that evidence funding for the purchase (including the specific name and procurement method of the provider of purchase funds (including substantive providers)).
- (v) The existing collateral for the shares of Tokuyama that are already owned or the planned establishment of collateral for the shares of Tokuyama to be purchased in the future (including the method and details of the planned establishment of collateral).
- (vi) The intended fundamental management policies and business plans of Tokuyama and the Tokuyama Group after the completion of the Large-Scale Purchase.
- (vii) Any changes planned after the completion of the Large-Scale Purchase or the details thereof when making such changes regarding the relationship among our stakeholders, including customers, business partners, employees and local community, and Tokuyama and the Tokuyama Group.
- (viii) The probability of acquiring the approvals, licenses and/or permits to be acquired from any governments or third parties in Japan and overseas, in accordance with the Antitrust Law, other laws and regulations, and the like.

## **(2) Appraisal and Consideration by Tokuyama's Board of Directors**

Tokuyama's Board of Directors believes that, after the Large-Scale Purchaser completes the provision of

the Large-Scale Purchase Information to Tokuyama's Board of Directors, a period of 60 days (in cases of purchases of all of Tokuyama's shares through a tender offer of the consideration in cash (denominated in Japanese yen) only) or 90 days (in cases of other Large-Scale Purchases) should be secured as a period for Tokuyama's Board of Directors to appraise, consider, negotiate, form opinions about or devise alternate proposals (hereinafter the "Board of Directors Appraisal Period") in accordance with the degree of difficulty for appraising and considering the Large-Scale Purchase. During the Board of Directors Appraisal Period, Tokuyama's Board of Directors shall sufficiently appraise and consider the provided Large-Scale Purchase Information while accepting the advice of outside experts and the like as deemed appropriate and necessary, whereupon the opinions and/or alternate proposal of Tokuyama's Board of Directors shall be carefully summarized and publicly announced in a timely and appropriate manner.

In addition, to confirm shareholders' view regarding the activation of countermeasures against a Large-Scale Purchase, the Board of Directors of the Company shall hold a General Shareholders' Meeting as soon as practically possible, and shall submit a proposal regarding the appropriateness of activating countermeasures.

The Board of Directors of the Company shall also promptly disclose information related to an overview of the proposal at the General Shareholders' Meeting regarding the activation of countermeasures, and any other matters judged appropriate by the Board of Directors of the Company.

After the conclusion of the General Shareholders' Meeting, the Board of Directors of the Company shall resolve to activate or not activate countermeasures based on the resolution of the General Shareholders' Meeting.

Therefore, Large-Scale Purchases shall commence only after a resolution has been made by the Board of Directors.

#### **4. Policy When a Large-Scale Purchase Is Attempted (Please refer to Exhibit 1, "Outline of the Policy," for a summary of the Policy)**

##### **(1) When a Large-Scale Purchaser Fails to Comply with the Large-Scale Purchase Rules**

In cases where a Large-Scale Purchaser fails to comply with the Large-Scale Purchase Rules, Tokuyama's Board of Directors may, regardless of the specific purchase method thereof, take measures (hereinafter the "Countermeasures"), that is "Allotment of Share Options without Contribution" defined in Article 277 and following of the Companies Act, for the purpose of protecting the common interests of Tokuyama's shareholders and Tokuyama's corporate value, and oppose the Large-Scale Purchase, provided the views of shareholders have been confirmed.

A detailed outline of the Countermeasures is as set forth in Exhibit 2. However, in cases of actually implementing the Allotment of Share Options without Contribution, an exercise period and exercise terms may be established in light of their effect as Countermeasures. In this case, such share options may not be exercised by the Large-Scale Purchaser. In addition, there may be cases in which changes are made, such as adding a clause (an acquisition clause) in which Tokuyama may acquire the share options in

exchange for its shares or other property regarding the details of said share options.

Furthermore, in relation to the Former Policy, the Company registered the issuance of the share options for quick issuance (submitted on June 25, 2015, June 24, 2016, and June 23, 2017). In case shareholders approve the renewal of the Policy at this Ordinary General Shareholders' Meeting, Tokuyama plans to register the issuance of the share options again for quick issuance thereof.

## **(2) When a Large-Scale Purchaser Complies with the Large-Scale Purchase Rules**

In cases where a Large-Scale Purchaser complies with the Large-Scale Purchase Rules, Tokuyama's Board of Directors will only go so far as to express its opposition or present an alternate proposal regarding such purchase proposal, even if it is opposed to said Large-Scale Purchase, and shall not, in principle, take any Countermeasures pertaining to said Large-Scale Purchase.

The shareholders shall determine whether to accept the Large-Scale Purchaser's purchase proposal upon considering the details of said purchase proposal and the opinions, alternate proposals and the like of Tokuyama's Board of Directors pertaining thereto.

However, in cases where it is determined that said Large-Scale Purchase will significantly damage the common interests of Tokuyama's shareholders and Tokuyama's corporate value, even if the Large-Scale Purchase Rules have been complied with, Tokuyama's Board of Directors may implement a Countermeasure (the specific details of the Countermeasure are as set forth in the foregoing 4. (1)) in order to protect the common interests of Tokuyama's shareholders and Tokuyama's corporate value, provided the views of shareholders have been confirmed. Specifically, in cases where there are reasonable grounds for concluding that the Large-Scale Purchase corresponds to any of the scenarios described in (i) through (v) below, such a Large-Scale Purchase will, in principle, be determined to be one that will significantly damage the common interests of Tokuyama's shareholders and Tokuyama's corporate value. Meanwhile, a Countermeasure against the Large-Scale Purchase shall be exclusively activated in cases where the Large-Scale Purchase is judged to significantly damage the common interests of Tokuyama's shareholders and Tokuyama's corporate value, and shall not necessarily be activated only due to the fact that the Large-Scale Purchase is determined to formally fall under any of the categories (i) through (v) below.

- (i) When it is determined that the purchase of Tokuyama's shares is being carried out for the purpose of causing Tokuyama's related parties to take over Tokuyama's shares at an overstated share price, regardless of whether there is genuine intent to participate in the management of Tokuyama (so-called green mailer).
- (ii) When it is determined that the purchase of Tokuyama's shares is being carried out for the purpose of temporarily controlling the management of Tokuyama so that the intellectual property rights, know-how, trade secrets and principal suppliers, customers and the like required with respect to Tokuyama's or the Tokuyama Group companies' business can be transferred to the Large-Scale Purchaser or its group companies and the like.

- (iii) When it is determined that the purchase of Tokuyama's shares is being carried out in accordance with plans to divert the assets of Tokuyama or the Tokuyama Group companies to secure or use as a source of funds to repay the obligations of the Large-Scale Purchaser or its group companies and the like after controlling the management of Tokuyama.
- (iv) When it is determined that the purchase of Tokuyama's shares is being carried out for the purpose of temporarily controlling the management of Tokuyama so that Tokuyama's or the Tokuyama Group companies' high-value assets, such as real estate and securities, can be disposed of through sales and the like or so that an opportunity is afforded to cause the share price to increase rapidly due to temporarily high dividends whereupon Tokuyama's shares can be sold at an inflated price.
- (v) When it is determined that the purchase method of Tokuyama's shares proposed by the Large-Scale Purchaser will restrict the shareholders' opportunity and freedom to make decisions, such as oppressive two-stage purchases (executing purchases of shares, such as tender offers, whereby no solicitations for purchasing all the shares are made in the initial purchase, and disadvantageous purchase terms are set or the purchase terms are not made explicitly clear in the second stage), whereby shareholders may essentially be forced to sell their Tokuyama shares (provided that incremental tender offers shall not always correspond hereto).

## **5. Establishment of a Special Committee**

### **(1) Special Committee Members**

A Special Committee is an organ in the Former Policy that serves as a deterrent against arbitrary decision making by Tokuyama's Board of Directors before activating a Countermeasure. The Special Committee shall remain established upon the renewal of the Policy. The Special Committee shall comprise at least three members, who shall be selected from among External Directors, attorneys-at-law, Certified Public Accountants, Certified Public Tax Accountants, academic experts and outside knowledgeable persons who have sufficient experience as Directors or executives to enable fair and neutral decision making. The current Special Committee comprises one attorney-at-law and two External Directors. The names and brief work histories of the members who will assume office after the close of this Ordinary General Shareholders' Meeting are set forth in Exhibit 3, "Brief Work Histories of the Attorney-at-Law and External Directors as Special Committee Members (planned to assume office)."

### **(2) Functions of the Special Committee**

In cases where Tokuyama's Board of Directors contemplates activating a Countermeasure, the following procedures must be taken in order to ensure fair decision making.

First, Tokuyama's Board of Directors shall inquire of the Special Committee as to the suitability of activating a Countermeasure, whereupon the Special Committee shall make a recommendation to Tokuyama's Board of Directors on the suitability of activating such a Countermeasure while accepting advice from outside experts and the like based on said inquiries. Resolutions to make a recommendation

shall be made by unanimous approval of the members of the Special Committee, in principle. Tokuyama's Board of Directors shall respect the recommendation of the Special Committee to the utmost when a decision as to whether to activate a Countermeasure has been made.

With regard to the implementation of any countermeasure against an inappropriate Large-Scale Purchase, the Board of Directors of the Company shall convene a General Shareholders' Meeting to confirm the shareholders' view. As set forth in 3. (2) above, Large-Scale Purchases shall commence only after this series of procedures has been completed.

## **6. Impact on the Shareholders when Activating a Countermeasure**

Although no circumstances are expected to arise from the implementation of the Countermeasure, in which Tokuyama's shareholders (excluding the Large-Scale Purchaser in violation of the Large-Scale Purchase Rules) suffer any especial losses in regards to legal rights or economic considerations, the Company's stock price might be affected, to which shareholders would have to pay attention. If Tokuyama's Board of Directors decides to implement a Countermeasure, such matter shall be timely and appropriately disclosed in accordance with laws and ordinances and securities exchange regulations, etc.

If the Large-Scale Purchaser withdraws the tender offer that it has already initiated after a resolution to implement an Allotment of Share Options without Contribution as a specific Countermeasure is approved at a General Shareholders' Meeting of the Company, or if the Large-Scale Purchaser immediately disposes of Tokuyama's shares after purchasing them, or if General Shareholders' Meeting approves a resolution to accept a Large-Scale Purchase, the purchase itself ceases to be a Large-Scale Purchase. In these cases, Tokuyama may cancel the implementation of the Allotment of Share Options without Contribution or acquire the share options gratis that were already allotted gratis. In such cases, Tokuyama's stock price might be affected, to which shareholders would have to pay attention. If Tokuyama cancels the Allotment of Share Options without Contribution or acquires the share options gratis that were already allotted gratis after determination of shareholders to be allotted gratis the share options, the dilution of stock value per share will not occur. Any shareholders who conduct the purchase and sale of the Company's shares assuming the dilution of the per share stock value will suffer a significant loss due to changes in stock prices.

## **7. Procedures Required of Tokuyama Shareholders Attendant to the Issuance of the Share Options**

### **(1) Allotment of the Share Options**

In cases where Tokuyama's Board of Directors approves a resolution to implement an Allotment of Share Options without Contribution, Tokuyama shall set the allotment date of the share options and give a public notice of this date. Furthermore, because the share options will be allotted to the shareholders by way of "Allotment of Share Options without Contribution" as stipulated under Article 277 of the Companies Act, the shareholders entered or registered in the final shareholders' register or beneficial shareholders' register as of the allotment date will naturally become the holders of share options on the day when such Allotment of Share Options without Contribution becomes effective.

## **(2) Procedures for Exercising the Share Options**

Tokuyama shall send the claim forms for exercising the share options (a prescribed written instrument by the Company that includes a covenant that the shareholder him or herself is not the Large-Scale Purchaser) and the other documents required for exercising the rights of the share options to the shareholders entered or registered in the final shareholders' register or beneficial shareholders' register as of the allotment date. After the issuance of the share options, the shareholders shall be issued one ordinary share of the Company for each share option through submitting the required documents thereof and paying a payment-handling institution an amount determined by Tokuyama's Board of Directors that is at least one Japanese yen for each share option.

However, as set forth in the foregoing 4. (1), in cases where Tokuyama makes a change, such as the addition of a clause (an acquisition clause) that enables the Company to acquire the share options in exchange for Tokuyama shares or other assets, or, in other words, in cases where it has been determined that Tokuyama can obtain the share options in exchange for the Company's shares, if Tokuyama completes the acquisition procedures, the shareholders who own the share options determined by Tokuyama's Board of Directors to be the subject of the acquisition will receive shares of the Company as consideration for the acquisition by Tokuyama of the share options without having to pay any sum of money equivalent to the exercise price thereof. Note that, in this case, shareholders may be asked to separately submit a prescribed written instrument of the Company covenanting that they are not the Large-Scale Purchaser.

## **8. Effective Period, and Abolition and Change of the Policy**

The Policy will be effective until the closing of the Ordinary General Shareholders' Meeting for the last fiscal year that ends within three (3) years after this Ordinary General Shareholders' Meeting. Even before the end of the effective period, Tokuyama's Board of Directors shall review the Policy as necessary from the point of view of protecting the common interests of Tokuyama's shareholders and Tokuyama's corporate value based on revisions to relevant laws and ordinances, such as the Companies Act, trends in judicial decisions and measures taken by securities exchanges and other institutions. Note that if it has been determined to change the Policy, the details thereof shall immediately be disclosed. In addition, any substantial change or abolition of the Policy shall be brought up as an agenda proposal at the General Shareholders' Meeting.

The Policy was determined by the unanimous approval of the Directors, including three External Directors who are Audit and Supervisory Committee Members, in a resolution by Tokuyama's Board of Directors at a meeting held on May 22, 2018.

## **9. Reasonableness of the Policy**

### **(1) Consistency of the Policy with the Basic Policy without Damaging the Common Interests of Tokuyama's Shareholders**

As described in the foregoing 3., the Policy will enable Tokuyama's Board of Directors to appraise, consider, negotiate, form opinions about or devise alternate proposals for the Large-Scale Purchase by requiring the Large-Scale Purchaser in advance to provide the necessary information for the Large-Scale Purchase and secure a certain period for Tokuyama's Board of Directors to appraise the same. Meanwhile, the shareholders will be, in turn, allowed to make a decision of whether to accept a Large-Scale Purchase, in accordance with the Policy. Furthermore, under the Policy, countermeasures shall only be activated in cases when approval at a General Shareholders' Meeting has been obtained. In other words, the Policy is renewed to constrain any purchase that is contrary to the common interests of Tokuyama's shareholders and therefore is consistent with the Basic Policy.

### **(2) Respect for the Shareholders' Intentions**

The Company makes a proposal on the agenda to seek shareholders' approval of the renewal of the Policy at this Ordinary General Shareholders' Meeting and shall not renew the Policy in case the shareholders' approval cannot be obtained. Thus, the intentions of the shareholders are reflected.

Even before the end of the effective period, the Company shall review the Policy as necessary based on revisions to relevant laws and ordinances. However, any substantial change or abolition of the Policy shall be brought up as an agenda proposal at the General Shareholders' Meeting.

Note that the term of office for Tokuyama's Directors (excluding Directors who are Audit and Supervisory Committee Members) shall be for one year, whereupon the intentions of the shareholders regarding the continuation of the Policy shall be reflected, even during the effective period of the Policy, through the exercise of voting rights regarding the agenda proposal for the appointment of Directors at the Ordinary General Shareholders' Meeting held each year.

### **(3) The Requirements in the Guidelines regarding Anti-Takeover Measures Satisfied**

The Policy satisfies all the three basic principles formulated in the "Guidelines Regarding Takeover Defenses for the Purposes of the Protection and Enhancement of Corporate Value and Shareholders' Common Interests" jointly released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005: (i) the principle of the protection and enhancement of corporate value and shareholders' common interests; (ii) the principle of prior disclosure and shareholders' intentions; and (iii) the principle of securing necessity and suitability. The substance of the Policy also reflects recent practices and discussions, such as "Takeover Defense Measures in Light of Recent Environmental Changes" released on June 30, 2008, by the Corporate Value Study Group of the Ministry of Economy, Trade and Industry.

#### **(4) Respect for the Judgment of Highly Independent Outsiders**

The Company has established a Special Committee as an organ that serves as a deterrent against arbitrary decision making by Tokuyama's Board of Directors. The Special Committee comprises at least three members, who shall be selected from among External Directors, attorneys-at-law, Certified Public Accountants, Certified Public Tax Accountants, academic experts and outside knowledgeable persons, all of whom are independent from the management team of the Company that is engaged in executing duties. The committee shall give advice to the Board of Directors on the judgment as to whether implementation of a Countermeasure is appropriate. The Board of Directors shall maximally accept the advice of the Special Committee to adopt resolutions as an organ under the Companies Act.

#### **(5) Reasonable and Objective Requirements for Activating a Countermeasure**

The Policy is so formulated that the Countermeasure against a Large-Scale Purchase may not be activated unless the reasonable and objective requirements for activating a countermeasure, which have been disclosed in advance, are met to prevent Tokuyama's Board of Directors from arbitrarily activating the Countermeasure.

#### **(6) Advice from Outside Experts**

Tokuyama's Board of Directors and the Special Committee may, for themselves, seek the advice of outside professionals (including attorneys-at-law, Certified Public Accountants, consultants, financial advisors and other specialists). The objectivity and reasonableness of the determination of the Board of Directors will thus be ensured.

#### **(7) Not a "Dead-Hand" Type or "Slow-Hand" Type Anti-Takeover Measure**

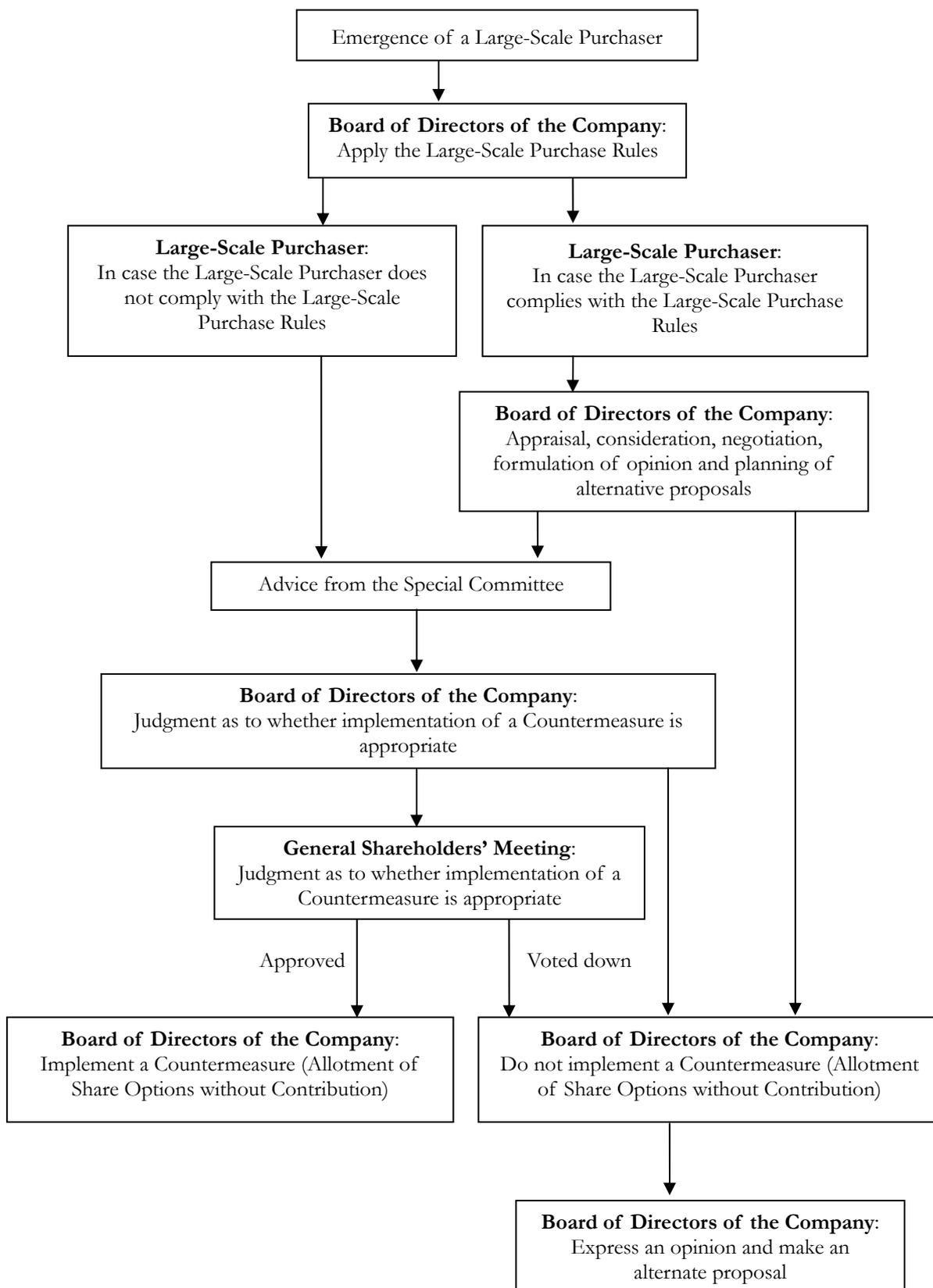
The Policy is not a so-called "dead hand" type anti-takeover measure (a takeover defense measure in which the triggering of the measure cannot be prevented even though a majority of the members of the Board of Directors are replaced). Neither is the Policy a "slow-hand" anti-takeover measure (a takeover defense measure in which the triggering of the measure takes more time to prevent due to the inability to replace all of the Directors at one time) because the Company does not adopt a board system with a different tenure of office for Directors (because the term of office for Tokuyama's Directors (excluding Directors who are Audit and Supervisory Committee Members) is one year.)

Notes:

1. Defined in Article 27-23, Paragraph 1, of the Financial Instruments and Exchange Act, hereinafter the same applies, unless otherwise stipulated.
2. Defined in Article 27-23, Paragraph 4, of the Financial Instruments and Exchange Act, hereinafter the same applies.
3. Defined as holders in Article 27-23, Paragraph 3 and any joint holders defined in Article 27-23, Paragraph

- 5, including a person deemed to be a joint holder pursuant to Article 27-23, Paragraph 6, of the Financial Instruments and Exchange Act, hereinafter the same applies.
4. Defined in Article 27-2, Paragraph 1, of the Financial Instruments and Exchange Act, the same applies in (ii).
  5. Defined in Article 27-2, Paragraph 6, of the Financial Instruments and Exchange Act, hereinafter the same applies.
  6. Defined in Article 27-2, Paragraph 8, of the Financial Instruments and Exchange Act, hereinafter the same applies.
  7. Defined in Article 27-2, Paragraph 7, of the Financial Instruments and Exchange Act, hereinafter the same applies (including persons who the Board of Directors regards as applicable). With regard to persons listed in Item 1 of the same Paragraph, persons are excluded who are set forth in Article 3, Paragraph 2, of the Cabinet Office Order on Disclosure Required for Tender Offer for Share Certificates, etc. by Person Other than Issuer.

**Outline of the Policy**



**Outline of the Allotment of Share Options without Contribution**

1. Shareholders Subject to Allotment of Share Options without Contribution and Terms and Conditions Thereof

The share options shall be allotted at a 1:1 ratio for each share held (excluding, however, ordinary shares of the Company held by Tokuyama) to shareholders entered or registered in the final shareholders' register or beneficial shareholders' register as of the allotment date stipulated by Tokuyama's Board of Directors.

2. Type and Number of Shares for Purpose of the Share Options

The type of shares for the purpose of the share options shall be ordinary shares of the Company, and the number of shares corresponding to each share option shall be one share. However, the requisite changes shall be made in cases where Tokuyama executes a share split or a reverse share split.

3. Total Number of Share Options to Be Issued

The total number of allotted share options shall be the number stipulated by Tokuyama's Board of Directors. Tokuyama's Board of Directors may execute Allotments of Share Options without Contribution multiple times.

4. Issuance Price of the Share Options

Gratis.

5. Amount to Be Paid upon Exercise of Each Share Option

The amount to be paid upon the exercise of each share option shall be the amount stipulated by Tokuyama's Board of Directors of at least one Japanese yen per share.

6. Transfer Restrictions on the Share Options

The transfer of share options must be approved by Tokuyama's Board of Directors.

7. Exercise Terms and Conditions

Large-Scale Purchasers cannot exercise the share options.

8. Exercise Period, etc., of the Share Options

The exercise period of the share options, exercise terms and conditions other than those set forth in the foregoing 7., grounds for extinguishing shares, share extinguishment terms and conditions, and other

required matters shall be separately stipulated by Tokuyama's Board of Directors

#### 9. Share Options with Acquisition Clause

As set forth in 7.(2) of the Policy, Tokuyama may make changes, such as the addition of a clause (an acquisition clause) that enables it to exchange shares or other assets of the Company for the share options in regards to the details of the share options.

#### 10. Cancellation of the Allotment of Share Options without Contribution or Acquisition of the Allotted Share Options Gratis

If the Large-Scale Purchaser withdraws the tender offer that it has already initiated after Tokuyama's Board of Directors approves a resolution to implement an Allotment of Share Options without Contribution as a specific Countermeasure, or if the Large-Scale Purchaser immediately disposes of Tokuyama's shares after purchasing them, or if General Shareholders' Meeting approves a resolution to accept a Large-Scale Purchase, the purchase itself ceases to be a Large-Scale Purchase. In these cases, Tokuyama may cancel the implementation of the Allotment of Share Options without Contribution or acquire the share options gratis that were already allotted gratis.

**Brief Work Histories of the Attorneys-at-Law and External Directors as Special Committee Members (planned to assume office)**

Junya Sato (born May 4, 1953)

Apr. 1982 Registered as Lawyer,  
Apr. 1982 Law Office of Furness, Sato & Ishizawa  
(currently Law Office of Oku, Katayama & Sato)

Mr. Junya Sato and the Company have not entered into a consultancy agreement and he has no special interest in or with the Company.

Shin Kato (born June 27, 1961)

Apr. 1990 Registered as Lawyer,  
Hiranuma Law Office  
Apr. 1995 Aoyama Central Law Office  
Sept. 2001 South Toranomom Law Office  
Jun. 2013 Audit & Supervisory Board Member of the Company  
Jan. 2014 Representative lawyer, Kato Law Office (To present)  
Jun. 2017 External Director who is an Audit and Supervisory Committee Member of the Company  
(To present)

Mr. Shin Kato is an External Director as set forth in Article 2, item 15 of the Companies Act. The Company has notified Tokyo Stock Exchange, Inc., that he is an independent officer as provided for in Article 415, item 6 and Article 436-2 of its Enforcement Rules for Securities Listing Regulations. He has no special interest in or with the Company.

Yoshikazu Tsuda (born December 27, 1950)

Apr. 1974	Joined Nisshin Steel Co., Ltd.
Jun. 2003	Executive Officer, General Manager, Finance Dept.
Apr. 2006	Managing Executive Officer, Chief Financial Officer
Jun. 2006	Director, Managing Executive Officer, Chief Financial Officer
Oct. 2012	Director, Managing Executive Officer, Chief Financial Officer, Nisshin Steel Holdings Co., Ltd.
	Director, Managing Executive Officer, Chief Financial Officer, Nisshin Steel Co., Ltd.
Apr. 2014	Director, Assistant to President, Nisshin Steel Co., Ltd.
Jun. 2014	Senior Advisor
Jun. 2015	Advisor
Jun. 2015	Audit & Supervisory Board Member of the Company
Jun. 2017	External Director who is an Audit and Supervisory Committee Member of the Company (To present)

Mr. Yoshikazu Tsuda is an External Director as set forth in Item 15 of Article 2 of the Companies Act. The Company has notified Tokyo Stock Exchange, Inc., that he is an independent officer as provided for in Article 415, Paragraph 6 and Article 436-2 of its Enforcement Rules for Securities Listing Regulations. He has no special interest in or with the Company.

**Top 10 Major Shareholders**

(Percentage of shares held to the total number of shares issued (excluding treasury stock))

(As of March 31, 2018)

Name of Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
The Master Trust Bank of Japan, Ltd. (trust account)	8,144	11.71
Japan Trustee Services Bank, Ltd. (trust account)	7,399	10.64
Nippon Life Insurance Company	2,174	3.13
The Yamaguchi Bank, Ltd.	1,649	2.37
Meiji Yasuda Life Insurance Company	1,488	2.14
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.)	1,419	2.04
Sojitz Corporation	1,296	1.86
Sumitomo Metal Mining Co., Ltd.	1,180	1.70
Mitsubishi UFJ Trust and Banking Corporation	1,170	1.68
Japan Trustee Services Bank, Ltd. (trust account 5)	1,161	1.67

(Note) The Percentage of Shares Held is calculated after deducting the shares held by the Company as treasury stock (378,378 shares).