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## **Notice Regarding Revision to Criteria for Defining the Independence of External Directors**

Tokuyama Corporation (hereinafter “the Company,” “Tokuyama” or “we”) hereby announces that the Board of Directors of the Company, at its meeting held on April 24, 2019, determined to revise its Criteria for Defining the Independence of External Directors (hereinafter “the Criteria”).

For its sustained growth and to increase its corporate value over the medium to long term, the Company continually works on corporate governance improvements and secures the independence and the strengthening of the supervisory function of its Board of Directors. The Company recently reviewed and revised the Criteria from the perspective of selecting a wide range of independent outside director candidates suitable for improving the Company’s governance in the years to come.

The Criteria before and after revision are set out below.

### Before Revision

Tokuyama’s Criteria for Defining the Independence of External Directors and External Audit & Supervisory Committee Members is presented as follows.

External Directors and External Audit & Supervisory Committee Members who fulfill the below-mentioned terms and conditions shall be considered independent from individuals who engage in the execution of business operations [Note 1].

- A) is not currently or has in the past been an individual who engages or has engaged in the execution of business operations of the Company or its affiliated companies.
- B) is not currently an individual who engages in the execution of business operations of a trading

partner [Note 2] of the Company.

- C) is an individual, who in the past engaged in the execution of business operations of a major trading partner of the Company but retired from that position more than five years ago. Meanwhile, major trading partner shall be defined as any trading partner that falls within the following criteria.
- (1) A financial institution that has financed more than 10% of the Company's total borrowings.
  - (2) A trading partner who accounts for more than 5% of the Company's total transaction volume (the total of the Company's net sales and purchases).
  - (3) A trading partner where the amount of transactions (the total of the Company's net sales and purchases) with the Company account for more than 5% of the total transaction volume of the subject trading partner.
  - (4) An auditor who is responsible for the statutory audit of the Company.
  - (5) A law firm that serves as legal counsel to the Company.
  - (6) An individual who receives a substantial compensation payment [Note 3] other than compensation for executives from the Company.
- D) An individual, who in the past engaged in the execution of business operations of a trading partner that does not fall within the scope of a major trading partner but retired from that position more than one year ago.
- E) An individual who is not within a second degree of kinship of an individual excluded according to above criteria from A to C.

Note 1 Pursuant to Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act of Japan.

Note 2 Trading partners involved in a wide range of activities including financing, purchase and sale as well as outsourcing transactions.

Note 3 A substantial compensation payment is defined as an annual amount of compensation that exceeds ¥10 million.

#### After Revision

With regard to its Criteria for Defining the Independence of External Directors, the Company adjudges those who do not fall into any of the following categories as demonstrating sufficient independence.

- A) Persons who are not currently nor in the past 10 years been engaged in the execution of business operations of the Company or its affiliated companies [Note 1].
- B) Persons who are not currently nor in the past three years been engaged in the execution of business operations of a major trading partner of the Company, or executives thereof. However, the Company's major trading partners are defined as those that fall into either of the following categories:
- (1) Financial institutions that have financed more than 2% of the Company's total borrowings.
  - (2) Trading partners that account for more than 2% of the Company's consolidated net sales
- C) Persons who currently deem or in the past three years have deemed the Company or an executive thereof to be a major trading partner. However, persons who deem the Company to be a major trading partner are defined as those cases in which the amounts paid by the Company account for

2% or more of the said trading partner's consolidated sales.

D) Consultants, accountants or legal professionals who currently receive or in the past three years have received large financial considerations or other property [Note 2] from the Company besides their compensation as a director/auditor. (If the entity in receipt of the assets is an organization, such as a legal entity or an association, the person who belongs to such organization.) However, includes those that fall into either of the following categories:

- (1) Auditors who are responsible for the statutory audit of the Company.
- (2) Law firms that serve as legal counsel to the Company.

E) Spouses or relatives within the second degree of kinship of the relevant persons in the sections above (but limited to important persons [Note 3])

Note 1 Pursuant to Article 2, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act of Japan.

Note 2 In the case of an individual, a substantial compensation payment is defined as an annual amount of compensation that exceeds ¥10 million, and in the case of an organization, an amount of 2% or more of the annual total income of that organization.

Note 3 In the case of a company, important persons are defined as those who hold the responsible positions of director, executive officer, operating officer and positions equivalent to manager; in the case of an accounting office and audit corporation, certified accountants; in the case of law offices and legal corporations, lawyers; and in the case of a tax accountant office and tax accountant corporation, tax accountants. In other organizations, an important person means directors, such as a director or a councillor.