

Governance

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Points of Corporate Governance Updated	Message from the Outside Executives
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Basic Views on Corporate Governance

Kuraray Co., Ltd. (“Kuraray” or “the Company”) believes that the maintenance of appropriate relationships with various stakeholders and the fulfillment of social responsibilities through establishing a corporate governance system that ensures effective and fair management will contribute to the long-term and sustainable enhancement of corporate value.

The Company has adopted the governance system as “a company with the board of corporate auditors.” Under this framework, the Company has established corporate governance functions centered on its Board of Directors and Board of Corporate Auditors to improve the effectiveness of supervisory and monitoring functions while maintaining management efficiency and handling issues, including management remuneration, selection of new company officers, internal controls, and risk management.

The Company believes that the above establishment of functions contributes to the long-term and sustainable corporate value enhancement.

Kuraray’s Steps to Strengthen Corporate Governance

The Company has worked continuously to strengthen corporate governance by taking steps such as separating supervision and execution functions through the introduction of the Executive Officer System, appointing and increasing the number of Outside Directors and Outside Corporate Auditors, establishing the the Risk Management and Compliance Committee, evaluating the Board of Directors' effectiveness, and establishing the Corporate Advisory Committee and changing CSR Committee into Sustainability Committee. Starting in 2020, the number of Outside Directors increased by one to four, accounting for one-third of the 12 total members of the Board of Directors. Additionally, for diversity in terms of gender and nationality, we appointed two females as an Outside Director and one as an Outside Corporate Auditor, and one foreign national as a Director. We will hold discussions based on diversified views and perspectives and further strengthen our corporate governance system.

2003	<ul style="list-style-type: none"> ● Reduced the maximum number and the term of office of Directors ● Introduction of the Executive Officer System ● Increased the number of Outside Corporate Auditors from two to three Purpose: Strengthening the management monitoring function of Corporate Auditors ● Established the CSR Committee Purpose: Reinforced the Group's CSR promotion structure ● Established the Management Advisory Committee as an advisory body for the President
2008	<ul style="list-style-type: none"> ● Introduced two Outside Directors Purpose: Strengthening the management monitoring function of the Board of Directors ● Started early delivery of the notice of convocation of the ordinary general meeting of shareholders (at least three weeks before the date of the meeting) Purpose: Providing enough time for shareholders to examine each proposal ● Started uploading an English translation of the notice of convocation of the ordinary general meeting of shareholders to the Tokyo Stock Exchange platform and the Company's website
2016	<ul style="list-style-type: none"> ● Started analysis and evaluation of the effectiveness of the Board of Directors
2017	<ul style="list-style-type: none"> ● Established the Risk Management and Compliance Committee Purpose: Separated the Committee from the CSR Committee to strengthen risk management and compliance measures
2018	<ul style="list-style-type: none"> ● Established the Corporate Advisory Committee Purpose: Abolished the Management Advisory Committee and established the Corporate Advisory Committee as an advisory body to the Board of Directors, the membership of which is comprised mainly of Outside Officers and outside experts, in order to further enhance the corporate governance of the Company by improving the transparency, fairness, and objectivity of decision-making on important management matters such as the appointment and remuneration, etc., of Directors
2020	<ul style="list-style-type: none"> ● Increased the number of Outside Directors from three to four (one-third of the Board of Directors) Purpose: Strengthening the management monitoring function and independence of the Board of Directors
2022	<ul style="list-style-type: none"> ● CSR Committee reorganized as the Sustainability Committee Purpose: Strengthening sustainability promotion measures

Key Points of Corporate Governance of the Kuraray Group

The key points of Kuraray's corporate governance are as follows:

1	Kuraray has adopted the governance system as a "company with board of corporate auditors" and established the Board of Corporate Auditors comprised of five Corporate Auditors, at least three of whom are Outside Corporate Auditors. It has done this to ensure the fairness and transparency of management.
2	The Company has been appointing Outside Directors since 2008, and four Outside Directors which comprise one-third of the Board of Directors are in office.
3	The Company has established the Corporate Advisory Committee, comprised of Outside Officers and outside experts, as an advisory organ to the Board of Directors.

Corporate Governance System

Board of Directors and Business Execution Body

According to the Board of Directors Regulations, the Board of Directors (convenes at least once a month) deliberates and decides important management matters, including legal matters, and supervises business execution. The Chairman of the Board of Directors is chaired by the Chairman and Director. The maximum number of Directors is set at 12, to promote agile management decision-making by the Board of Directors. The term of office is set at one year to clarify their responsibilities to the shareholders. There are currently 12 incumbent Directors, of whom one is female, and one is non-Japanese, including four Outside Directors with a wealth of experience in and broad insight into the economy, finance, and management. These four Outside Directors are supervising management from an independent third-party standpoint. Pursuant to

Article 427, Paragraph 1 of the Companies Act, the Company has entered into contracts with Outside Directors which limit their liability for damages under Article 423, Paragraph 1 of the same Act. The maximum liability amount under such agreements shall be the amount stipulated in the laws and regulations. However, the above liability limitation shall only be applied when such Outside Directors executed their duties in good faith and without gross negligence.

As the chief executive responsible for business execution, the President appointed by the Board of Directors exercises control over business execution in the Company and its subsidiaries (hereinafter “the Group”). Every executive officer (one-year term of office) appointed by the Board of Directors is responsible for business execution in the Group organization. As the heads of internal companies, divisions, and major functional organizations, the executive officers bear responsibilities for operations and business results.

In this way, the Company clearly separates the responsibilities of Directors, that is, decision-making on and supervision of management, from the duties of business execution. Some Directors hold concurrent positions as executive officers. The President has established the Executive Committee (in principle, convenes twice a month) and various other councils and committees to deliberate and report on important matters concerning the Group’s management policies and business execution.

Corporate Advisory Committee

The Company has established a “Corporate Advisory Committee” comprised mainly of Outside Officers and outside experts as an advisory function to the Board of Directors. This committee works to enhance transparency, fairness, and objectivity in decision-making concerning important management matters, including nomination and remuneration of Directors, and further strengthening its corporate governance.

The Corporate Advisory Committee was comprised of eight members: the Chairman and Director (Mr. Masaaki Ito), four Outside Directors (Mr. Jun Hamano, Ms. Keiko Murata, Mr. Satoshi Tanaka, and Mr. Kiyoto Ido), one Outside Corporate Auditor (Ms. Tomomi Yatsu), and two outside experts (Mr. Takeshi Komura and Mr. Go Egami [listed under the name Mr. Haruki Kohata]), as of the submission date of this report. No head of the committee has been appointed; meetings are chaired by the Chairman and Director of the Company.

Board of Corporate Auditors and Internal Audit

The Board of Corporate Auditors consists of five Corporate Auditors, including one female Corporate Auditor, and three of them are independent Outside Corporate Auditors, the majority thereof. Kazuhiro Nakayama serves as Chairman. With extensive experience in and broad insight into areas such as finance, law, and management, the Outside Corporate Auditors perform their duties from an independent third-party standpoint.

The Board of Corporate Auditors convenes monthly, in principle. Corporate Auditors meet regularly with the Accounting Auditor and receive reports on audit planning, implementation status, and audit content. In addition, Corporate Auditors concurrently serve as corporate auditors at major Group companies and conduct Group company audits as appropriate. They also attend the periodic Group Auditor Liaison Meetings consisting of the Group company auditors, through which they acquire information on the respective companies.

< Board of Directors (January to December 2021) >

		Ratio of attendance
Representative Director and Chairman	Masaaki Ito	100% (15/15)
Representative Director and President	Hitoshi Kawahara	100% (15/15)
Representative Director and Senior Managing Executive Officer	Hiroaya Hayase	100% (15/15)
Director and Senior Managing Executive Officer	Yoshimasa Sano	100% (15/15)
Director and Managing Executive Officer	Kenichi Abe	100% (15/15)
Director and Managing Executive Officer	Keiji Taga	100% (15/15)
Director and Managing Executive Officer	Matthias Gutweiler	80% (12/15)
Director and Managing Executive Officer	Nobuhiko Takai	100% (15/15)
Outside Director	Jun Hamano	100% (15/15)
Outside Director	Keiko Murata	100% (15/15)
Outside Director	Satoshi Tanaka	100% (15/15)
Outside Director	Kiyoto Ido ^(※1)	100% (11/11)

※1 : Accedence on March 25th, 2021

< Board of Corporate Auditors (January to December 2021) >

		Ratio of attendance
Standing Corporate Auditor	Kazuhiro Nakayama	100% (13/13)
Standing Corporate Auditor	Yukinori Yamane ^(※1)	100% (3/3)
Standing Corporate Auditor	Naoya Uehara ^(※2)	100% (10/10)
Corporate Auditor	Mitsuhiro Nagahama	100% (13/13)
Corporate Auditor	Tomomi Yatsu	100% (13/13)
Corporate Auditor	Kenji Komatsu	100% (13/13)

※1 : Resigned on March 25th, 2021

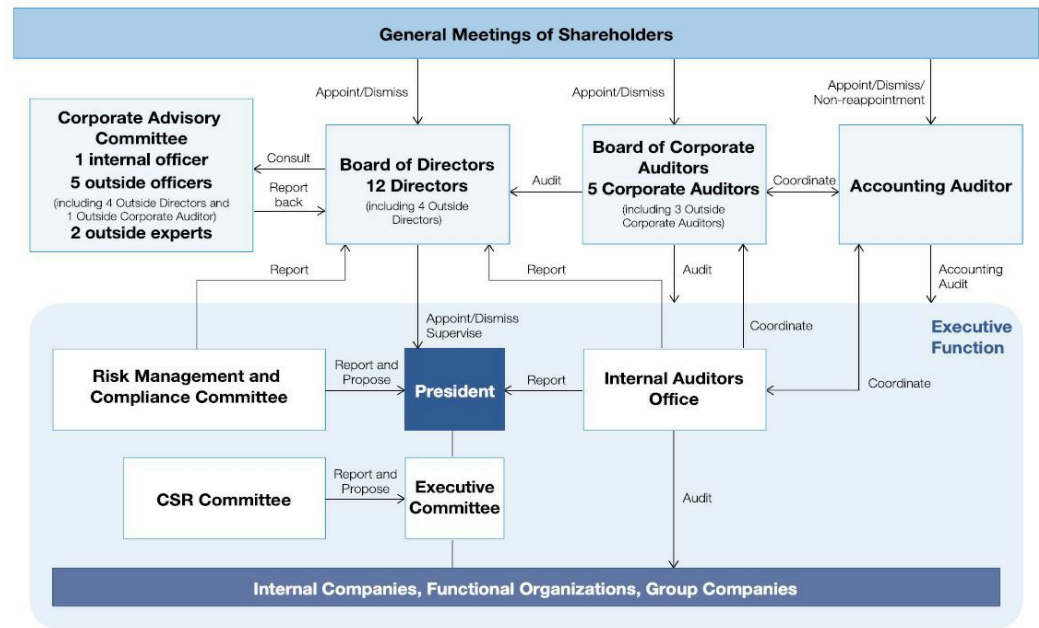
※2 : Accedence on March 25th, 2021

Risk Management and Compliance Committee

The Risk Management and Compliance Committee, under the direct control of the President, is chaired by the Director in charge of the Corporate Sustainability Division and aims to ensure the appropriate management of risks that could have a significant impact on business management, thorough compliance with laws and regulations and corporate ethics, and fair business practices. The committee identifies material risks and proposes them to the President in its regular monitoring of risks for the entire Group. The President then specifies those that require countermeasures as management risks and, at the same time, appoints a supervising officer for

each risk to implement risk avoidance and mitigation measures. The committee checks the progress of the efforts to ensure the steady execution of the risk countermeasures. The committee reports this series of activities to the Board of Directors and reflects its instructions in the risk countermeasures.

Corporate Governance System (As of March 25, 2021)



Policies for the Appointment of the Candidates for Directors and Corporate Auditors and the Independence Standards for Outside Officers

Policies for the Appointment of the Candidates for Directors and Corporate Auditors

- (1) The Company appoints individuals who have experience, knowledge, and capabilities required for Directors of the Company as candidates at the Board of Directors meeting with the attendance of Outside Officers and elect them as Directors with the resolution of the General Meeting of Shareholders. However, the candidates for Outside Directors shall satisfy the criteria of independence provided separately.
- (2) The Company appoints individuals who have experience, knowledge, and capabilities required for Corporate Auditors of the Company as candidates at the Board of Directors meeting with the presence of Outside Officers. It elects them as Corporate Auditors with the resolution of the General Meeting of Shareholders after obtaining the board of corporate auditors' consent. However, the candidates for Outside Corporate Auditors shall satisfy the criteria of independence provided separately.

Independence Standards for Outside Officers

- (1) The Company judges that its Outside Officers and the candidates for the Outside Officers are fully independent of the Company if they do not fall under any of the following items:
 - (i) A business executive of the Group
 - (ii) A counterparty that has transactions principally with the Group, or its business executive

thereof

- (iii) A major business partner of the Group, or its business executive thereof
- (iv) A major lender of the Group, or its business executive thereof
- (v) A counterparty that receives a large amount of donations from the Group, or its business executive thereof
- (vi) A major shareholder of the Company (who possesses 10% or more of the total voting rights either directly or indirectly), or its business executive thereof
- (vii) A business executive of the party whose major investor (who possesses 10% or more of the total voting rights either directly or indirectly) is the Group
- (viii) A consultant, certified public accountant, or other accounting professional, attorney, or other legal professional who receives a large amount of monetary or other assets from the Group other than the executive remuneration (in case of a legal entity, association, or other organization, a person belonging thereto)
- (ix) A person who belongs to an accounting firm that conducts the statutory audit of the Company
- (x) A person who has fallen under the above criterion (i) in the past 10 years
- (xi) A person who has fallen under any of the above criteria (ii) through (ix) in the past three years
- (xii) A person whose position constitutes him/her as having an Outside Officer's interlocking relationship with the Group
- (xiii) A relative of the persons listed in the above criteria (i) through (xi)

(2) Even in cases where a person falls under any of the above items, if the person is deemed to be appropriate for the post of an independent Outside Officer in light of his/her personality, knowledge, and other qualities, the Company may appoint him/her as independent Outside Officer on the condition that the reasons why the person is deemed appropriate for the post are explained to the public.

Directors' Remuneration System

Policies for Determining the Remuneration for Directors

The Company's basic policy for the remuneration of its officers is to have a competitive level and system of remuneration that can secure and retain competent officers fit for their positions and responsibilities to achieve long-term and sustainable improvements in corporate performance and corporate value. The remuneration system for Directors comprises three parts: (1) fixed remuneration as basic remuneration per job responsibilities, (2) performance-linked remuneration as an incentive to achieve yearly business results, and (3) stock-based remuneration designed to enhance corporate value over the medium to long term and sharing of value with shareholders through appropriate corporate management, provided that remuneration for Outside Directors shall solely comprise fixed remuneration without performance-linked or stock-based remuneration as their role is to supervise management from an independent standpoint. Remuneration for Corporate Auditors also shall solely comprise fixed remuneration as their role. The specific level and system of remuneration are verified and deliberated by the Corporate

Advisory Committee, mainly comprising outside officers and outside experts, regarding whether the level and system of remuneration are appropriate. The Board of Directors receives reports on the results from the Committee and gives it due consideration to determine the level and system of remuneration for Directors. The remuneration for Corporate Auditors is determined after verification and deliberation as to whether the level of remuneration is appropriate by the Board of Corporate Auditors.

Performance-Linked Remuneration System

The Company abolished the bonus scheme for Directors and introduced a performance-linked remuneration system in July 2006, thereby strengthening the incentives of Directors to increase the Company's corporate value. In addition, to respond to the increase in the amount of performance-linked remuneration in conjunction with the improved business performance, it was resolved to increase the maximum amount of annual remuneration to Directors from ¥450 million to ¥800 million (including ¥100 million annually for Outside Directors) at the Company's 131st Ordinary General Meeting of Shareholders, held on June 22, 2012. Performance-linked remuneration is not paid to Outside Directors.

Calculation Method of Performance-Linked Remuneration

As a short-term performance incentive, the performance-linked remuneration for the President shall be the amount that is obtained by multiplying the amount of actual net income attributable to owners of the parent for the current fiscal year (before deducting performance-linked remuneration [bonus]) by 0.75/1000. The performance-linked remuneration for Directors shall be determined by multiplying the said amount by a predetermined index corresponding to each Director's position. The amounts of performance-linked remuneration paid to Directors in charge of business units shall be determined so that they partially reflect the performance of the relevant business units.

Restricted Stock Compensation Scheme

At the 140th Ordinary General Meeting of Shareholders held on March 25, 2021, the Company resolved to abolish the existing stock options plan, and introduce a restricted stock compensation plan, with the aim of incentivizing internal Directors and Executive Officers to improve the Company's corporate value in a sustainable manner as well as raise the degree to which they share value with shareholders. Restricted stock compensation for Directors under this plan shall not exceed ¥90 million, separately from the maximum amount of fixed remuneration by position and performance-linked remuneration. The number of shares to be granted under the plan shall not exceed 60,000 shares each year. Restricted stock compensation is not paid to Outside Directors. Monetary compensation linked to stock price (phantom stock) has been introduced in lieu of restricted stock compensation for Directors who are non-residents of Japan.

Corporate Officer Remuneration for Fiscal 2020

Director classification	Total amount of remuneration, etc. (Millions of yen)	Total amount by type of remuneration, etc. (Millions of yen)			Number of eligible officers (persons) ^{*1}
		Monetary remuneration	Performance-linked remuneration ^{*3}	Stock option-based remuneration ^{*2}	
Directors (excluding Outside Directors)	351	270	36	45	11
Corporate Auditors (excluding Outside Corporate Auditors)	55	55	—	—	3
Outside Officers	82	78	—	3	8

*1 The above number of eligible corporate officers includes four Directors and one Corporate Auditor who retired at the close of the 139th Ordinary General Meeting of Shareholders, held on March 26, 2020.

*2 Separately from the above stock option-based remuneration, share acquisition rights amounting to ¥32 million were granted to Directors who concurrently serve as Executive Officers (eight Directors) as stock option-based remuneration for Executive Officers.

*3 Performance-linked remuneration is calculated based on net income attributable to owners of the parent for fiscal 2018 and 2019. In fiscal 2018, we set a target of ¥49 billion in net income attributable to owners of the parent, while the actual result was ¥33.5 billion. In fiscal 2019, we set a target of ¥47 billion in net income attributable to owners of the parent, while the actual result was ¥1.9 billion in net loss attributable to owners of the parent.

Evaluation of the Effectiveness of the Board of Directors

Analysis and Evaluation of the Effectiveness of the Board of Directors

(1) Analysis and Evaluation Method The Company distributed a “Questionnaire on Evaluation of the Effectiveness of the Board of Directors” to all the Directors and Corporate Auditors in December 2020 and collected responses and opinions from all members in January 2021. The secretariat of the Board of Directors aggregated the responses, and analyzed and evaluated the effectiveness of the Board of Directors based on the data.

Questionnaire (34 questions in total)

- Concerning the structure of the Board of Directors
- Concerning the agenda of the Board of Directors
- Concerning the operations of the Board of Directors
- Systems outside the Board of Directors

(2) Outline of Analysis and Evaluation Results

The evaluation confirmed that the Company’s Board of Directors is generally functioning properly and that the effectiveness of the Board of Directors is secured in all aspects such as its size, composition, diversity, agenda selection, the scope of matters to be discussed or reported, the timing for scheduling the Board of Directors meetings, frequency of the meetings, operations of the Board of Directors including deliberation time, provision of additional information to the Directors, systems outside the Board of Directors such as those for providing training opportunities, etc.

In light of the results of this evaluation, the Company will continue to examine and implement necessary measures to make discussions more lively and productive at the Board of Directors meetings.

Cross-Shareholdings

The Company has set forth the policy on cross-shareholdings and standards for exercising voting rights pertaining to cross-held shares as follows.

(1) Coming from the viewpoint of stable and long-term business operation, the Company may

hold the shares of its business partners, etc., if maintaining and strengthening the relationships with such business partners are deemed to contribute to corporate value enhancement.

(2) Regarding the shares held pursuant to the preceding paragraph (hereinafter, “cross-held shares”), the Company regularly examines economic rationality and significance of holding individual stock at the Board of Directors meetings in consideration of benefits and risks associated with such holding, capital cost, and other factors. The Company will sell shares of stocks, as necessary, whose holding was deemed not to be appropriate based on the examination to reduce such stocks.

(3) Concerning the voting rights pertaining to the cross-held shares, the Company appropriately exercises such voting rights in light of the objectives of shareholdings set forth in the preceding two paragraphs, taking into consideration the business conditions of the companies and potential impact on the business operation of the Company or a subsidiary of the Company. Particularly, the Company carefully exercises such voting rights in a case where the performance of the companies has been sluggish for a long period of time, or a serious scandal has occurred, or in a case where a proposal that would impair shareholders’ value was made.

Content of Examination on the Propriety of Holding Cross-Held Shares

In the fiscal year ended December 31, 2020, the Company sold all shares of five stocks and part of two stocks of its cross-held shares. Additionally, as the result of an examination at the Board of Directors meeting held on February 10, 2021, of the economic rationality and significance of holding individual cross-held stock for the fiscal year ended December 31, 2020 (examination on cross-held shares as of the end of December 2020) in consideration of benefits and risks, capital cost, and other factors associated with such holding, the Company plans to continue with the sale of some stocks.

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