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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

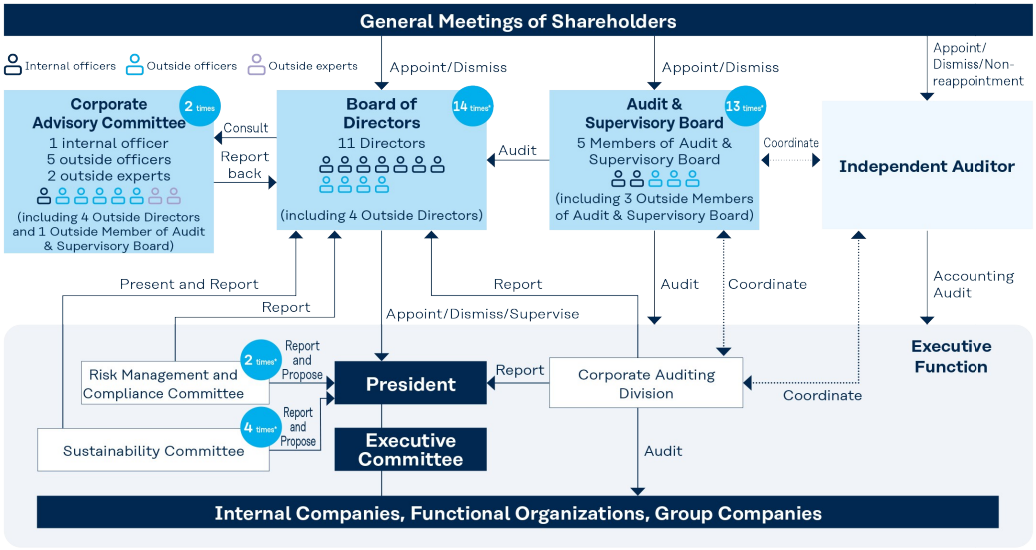
Kuraray’s Steps to Strengthen Corporate Governance

	Initiative / Purpose
2003	Reduced the maximum number and the term of office of Directors Introduced Executive Officer system
	Increased the number of Outside Corporate Auditors from two to three
	Strengthening the management monitoring function of Members of Audit & Supervisory Board
	Established **the CSR Committee**
	Reinforcing the Group's CSR promotion structure
	Established **the Management Advisory Committee**
	Establishing an advisory body for the President
2008	**Introduced Outside Directors (two)**
	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)
	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
	Enhancing disclosure targeting overseas shareholders
2016	Started analysis and evaluation of the effectiveness of the Board of Directors
2017	Split off the Risk Management and Compliance Committee from the CSR Committee
	Strengthening risk management and compliance measures
2018	Abolished the Management Advisory Committee and established **the Corporate Advisory Committee** as an advisory body to the Board of Directors, comprised mainly of Outside Officers
	Improving the transparency, fairness, and objectivity of decision-making on important management matters such as the appointment and remuneration of Directors, etc., and further enhancing corporate governance
2020	**Increased the number of Outside Directors from three to four (one-third of the Board of Directors)**
	Strengthening the management monitoring function and independence of the Board of Directors
2022	CSR Committee reorganized into **Sustainability Committee**
	Stepping up sustainability promotion initiatives

Corporate Governance System

Corporate Governance System

(As of March 29, 2023)



* Number of times held in 2022.

Board of Directors

The Board of Directors, which meets at least once a month, sets bylaws for the Board, deliberates and decides on statutory matters and other key management issues, and supervises business execution. The Board of Directors is chaired by the Chairman and Director. The maximum number of Directors is set at 12, to facilitate agile management decision-making by the Board, and the term of office is set at one year to clarify their responsibilities to shareholders. There are currently 11 incumbent Directors, of whom one is female and one is non-Japanese. Four are Outside Directors, who possess a wealth of experience in and broad insight into the economy, finance, and corporate management, and are responsible for supervising management from an independent, third-party standpoint.

Major Proposals and Reports in Fiscal 2022	▸ Status of key measures in the Medium-Term Management Plan "PASSION 2026" ▸ Verification of significance of holding cross-held shares ▸ TCFD-based climate change initiatives ▸ Expansion of optical-use poval film production facilities ▸ Impact of Russian invasion of Ukraine

Corporate Advisory Committee

The Company has established a Corporate Advisory Committee comprised mainly of Outside Officers and outside experts to serve as an advisory body to the Board of Directors. The committee works to improve the transparency, fairness, and objectivity of decision-making on important management matters such as the appointment and remuneration of Directors and further enhance corporate governance. Corporate Advisory Committee meetings are held twice a year in principle.

The committee consists 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]). No head of the committee has been appointed; meetings are run by the Chairman. As Outside Directors and Outside Corporate Auditors make up the majority of committee members, the independence of the Corporate Advisory Committee is sufficiently ensured.

Major Discussions and Reports in Fiscal 2022	▸ Officer remuneration ▸ Officer personnel matters ▸ Medium-Term Management Plan "PASSION 2026"

Board of Corporate Auditors and Internal Audits

The Audit & Supervisory Board consists of five Members, including three independent Outside Members of Audit & Supervisory Board. Four are male and one is female. The Audit & Supervisory Board convenes monthly, in principle.

The Members of Audit & Supervisory Board meet regularly with the Independent Auditor and receive reports on audit planning, implementation status, and audit content. They also receive reports on the results of internal audits from the Corporate Auditing Division, the in-house audit department. In addition, The Members of Audit & Supervisory Board 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 to gain information on the respective companies.

There are also staff to assist the Members of Audit & Supervisory Board in carrying out their duties.

Risk Management and Compliance Committee

The committee, under the direct control of the President, is tasked with ensuring 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 Group companies. The President then specifies those that require countermeasures as management risks and appoints a supervising officer for each risk to implement risk avoidance and mitigation measures. This committee also reports on a range of activities to the Directors and incorporates their direction in future risk response measures.

Sustainability Committee

The former CSR Committee was reorganized in January and the Sustainability Committee was established. The committee is chaired by the President and is made up primarily of members of the Executive Committee. The committee helps to better promote sustainability by enabling swift decision-making on sustainability projects at the management level and expedited planning and implementation of such projects. The Sustainability Committee also reports on a range of activities to the Board of Directors and reflects the results of Board discussions in sustainability initiatives.

Major Agenda Items for Fiscal 2022	▸ Promotion framework, plans, and status of various sustainability projects* ▸ Progress of CCUS Project Team ▸ PDCA for Responsible Care

* Global environment and measures to reduce GHG emissions, TCFD disclosure, sustainable portfolio, sustainable procurement, diversity and inclusion, new strategy proposals

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

The Company appoints individuals who have the experience, knowledge, and capabilities required for Directors of the Company at Board of Directors meetings with the attendance of Outside Officers, and elects them as Directors with a resolution of the General Meeting of Shareholders. However, candidates for Outside Directors will satisfy the criteria of independence provided separately.

The Company appoints individuals who have the experience, knowledge, and capabilities required for Corporate Auditors of the Company at Board of Directors meetings with the attendance of Outside Officers, and elects them as Corporate Auditors with a resolution of the General Meeting of Shareholders after obtaining the consent of the Board of Corporate Auditors. However, candidates for Outside Corporate Auditors will satisfy the criteria of independence provided separately.

The election and dismissal of Directors and the appointment and removal of Representative Directors and Directors with special titles are determined by the Board of Directors after deliberation by the Corporate Advisory Committee.

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.

Main Areas of Expertise and Experience of Directors and Corporate Auditors*1

	Name	Board of Directors Audit & Supervisory Board Attendance*2	Knowledge, Experience of Officers								
			Corporate Management	Global	Sales and Marketing	Production and Equipment Technology	R&D	Legal Affairs and Risk Management	Finance and Accounting	Environment and Society	Human Resources and Labor Management
Directors	Hitoshi Kawahara	100%	○	○	○						
	Hiroaya Hayase	100%	○	○		○	○				
	Masaaki Ito	100%	○	○		○	○				
	Yoshimasa Sano	100%		○	○						
	Keiji Taga	100%		○	○			○	○		
	Matthias Gutweiler Foreign national	100%	○	○		○	○				
	Nobuhiko Takai	100%		○	○						
	Jun Hamano Outside Independent	100%								○	○
	Keiko Murata Outside Independent	100%		○					○	○	
	Satoshi Tanaka Outside Independent	93%	○	○	○						○
	Kiyoto Ido Outside Independent	100%		○					○	○	
Members of Audit & Supervisory Board	Kazuhiro Nakayama	100%		○		○	○			○	
	Naoya Uehara	100%		○				○			
	Mitsuhiro Nagahama Outside Independent	100%	○	○					○		○
	Tomomi Yatsu Outside Independent	100%						○	○		
	Kenji Komatsu Outside Independent	100%	○	○	○						

*1 The above table shows up to four areas of knowledge or experience possessed by Directors or Members of Audit & Supervisory Board. It does not represent all of their knowledge or experience.
*2 Rate of attendance rate from January 2022 to December 2022.

Support System for Outside Officers

Information is shared with Outside Officers by distributing and explaining in advance the proposals to be deliberated at the regular and extraordinary meetings of the Board of Directors. Staff from the Secretariat Group of the General Affairs Department assist in sharing this information with Outside Directors. Staff are appointed to assist Corporate Auditors including Outside Corporate Auditors. Staff collect and provide information necessary for their auditing activities and offer other forms of support.

Evaluation of the Effectiveness of the Board of Directors

Every fiscal year, the Company evaluates and verifies the effectiveness of the Board of Directors to make improvements as needed.

In fiscal 2022, the Company administered a signed questionnaire for evaluating the effectiveness of the Board of Directors to all Directors and Members of Audit & Supervisory Board. The secretariat of the Board of Directors aggregated the responses and opinions and analyzed and evaluated the effectiveness of the Board of Directors based on the data.

Question Content (38 questions in total)	▶ Composition of the Board of Directors ▶ Board meeting agendas ▶ Operation of Board meetings	▶ Framework for cooperation and communication outside the Board of Directors

Summary of Evaluation Results

Fiscal 2022 evaluation of the effectiveness of the Board of Directors can be summarized as follows.

The Company's Board of Directors was found to be functioning properly and its effectiveness is being ensured in all respects, including the makeup of the Board in terms of size and diver- sity; agenda items for Board meetings, including the scope of discussion and reporting; opera- tion of Board meetings, including the timing of scheduling, meeting frequency, and time set aside for deliberation; the framework for cooperation and communication outside the Board of Directors, including providing additional information and training opportunities to Directors.

Key Comments

- The makeup of the Board of Directors is generally appropriate, but there is room for further diversity to achieve the vision of the Group, such as increasing the number of female and non-Japanese members and directors with knowledge of digital transformation, IT, and ESG.
- To deepen discussions at the Board of Directors, it is desirable to have more opportunities to report on key matters and more in-depth report content.
- Outside Officers had more opportunities to take part in discussions on the formulation of the Medium-Term Management Plan, resulting in deeper deliberation on the strategic direction of the Company. It is desirable to have even more opportunities for discussion going forward.
- To have constructive discussions, it is desirable to make further improvements to Board meeting materials and set aside adequate time for open discussion.

Initiatives for the Future

In light of the results of the fiscal 2022 evaluation, the Company will continue to explore measures to make discussions more lively and more productive at Board of Directors meetings.

▶ Makeup of the Board of Directors to realize the vision of the Group (diversity, expertise)
▶ More in-depth reports on key matters, greater opportunities for reporting
▶ More in-depth materials and preliminary explanations for Outside Directors to gain greater understanding (i.e., background and positioning of project proposals)
▶ Ongoing, expanded business site tours and other means to increase Outside Directors' understanding of the business

Officers' Remuneration System

Basic Policy

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 Directors 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 will solely comprise fixed remuneration without performance-linked or stock-based remuneration, as their role is to supervise management from an independent standpoint.

The specific level and system of remuneration will be verified and deliberated by the Corporate Advisory Committee, mainly comprising outside officers and outside experts, on whether the level and system of remuneration are appropriate, based on the results of a survey by a specialized external research institution on executive remuneration covering companies such as those listed on the First Section of the Tokyo Stock Exchange, and the salary of the managers of the highest level in the Company. 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.

Performance-Linked Remuneration System

The Company abolished the prior bonus scheme to Directors and introduced a performance-linked remuneration system in July 2006, thereby strengthening the incentive for increasing 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 remunerations 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 consolidated 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 the position of each Director. 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 they share value with shareholders. Restricted stock compensation for Directors under this plan shall not exceed the annual amount of ¥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.

Remuneration for Each Category of Officers

(FY2022)

Category	Total amount of remuneration, etc. (Millions of yen)	Total amount by type of remuneration, etc. (Millions of yen)				Number of persons paid*4
		Monetary remuneration			Stock-based remuneration	
		Fixed remuneration	Performance-linked remuneration*1	Other*2	Restricted stock compensation*3	
Directors [of which Outside Directors]	536 (57)	321 (57)	185 (–)	1 (–)	27 (–)	12 (4)
Members of Audit & Supervisory Board [of which Outside Members of Audit & Supervisory Board]	95 (37)	95 (37)	–	–	–	5 (3)

*1 Performance-linked remuneration is calculated based on net income attributable to owners of the parent for fiscal 2022. The fiscal 2022 target for net income attributable to owners of the parent was ¥43.0 billion, while the actual result was ¥54.3 billion (rounded down to the nearest ¥100 million based on figures given in the securities report).
*2 One Director who is not a resident of Japan received monetary compensation linked to stock price (phantom stock) instead of restricted stock compensation within the range of the monetary remuneration limit.
*3 This is the restricted stock compensation of seven Directors. Separately from the restricted stock compensation under the Scheme, another ¥14 million in restricted stock compensation was given to five Directors concurrently serving as Executive Officers of the Company as compensation to serve as Executive Officers.
*4 The number of persons paid includes one Director who retired at the conclusion of the 141st Ordinary General Meeting of Shareholders held on March 24, 2022.

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 to the business operation of the Company or a subsidiary of the Company (hereinafter "the Group"). Particularly, the Company carefully exercises such voting rights in a case where 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.

Examination of the Propriety of Holding Cross-Held Shares

In fiscal 2022, the Company sold all shares of four stocks and part of two stocks of its cross-held shares. Additionally, as a result of the examination of all cross-held shares held as of the end of December 2022 at the Board of Directors meeting held on February 9, 2023, the Company plans to continue to sell some stocks.

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