

Corporate Governance

For details, please visit our website:
https://www.kuraray.com/csr/report2022/corporate_governance



As “a company with a board of corporate auditors,” the Kuraray Group is working to establish a management framework that is highly efficient as well as sound and transparent. To enhance the effectiveness of our supervisory and monitoring functions, we are augmenting corporate governance functions centered on the Board of Directors and the Board of Corporate Auditors. We seek to set the course for management through repeated discussions on various issues, including management remuneration, cultivation and selection of new company officers, internal controls, and risk management.

For the Board of Directors, what contributes to the advancement of global businesses and appropriate supervision and decision-making is the knowledge, experience, and abilities of Board members, and their multifaceted perspectives, born out of diversity in terms of gender, nationality, and background. We also stress independence, with nearly half of our Directors and Corporate Auditors coming from outside the company. Going forward, we will draw on diverse human resources to further enhance corporate governance, aiming to build corporate value sustainably over the long term.

To enable all of our stakeholders, including shareholders and investors, to gain a deeper understanding of the Group’s efforts toward value creation over the medium to long term,

the Kuraray Group also actively engages in IR activities and has been issuing the “Kuraray Report” since 2018.

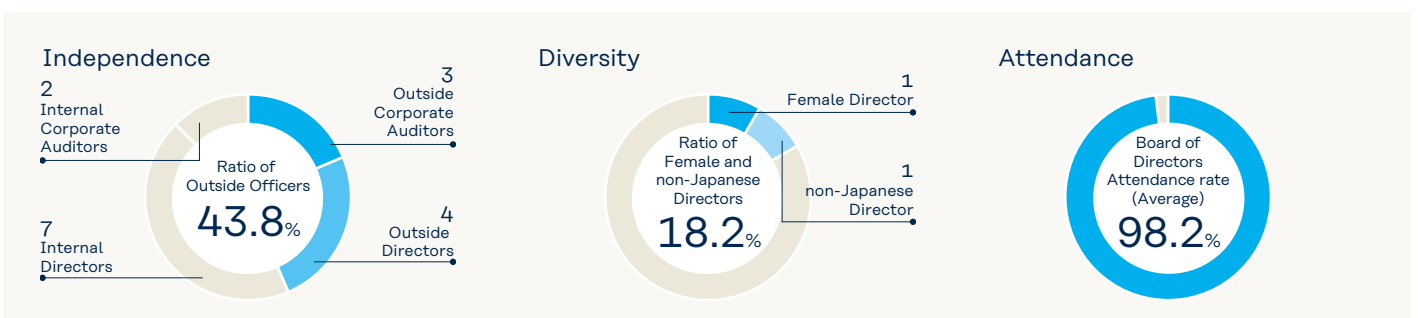
This year, we launched a new Medium-Term Management Plan, “PASSION 2026,” leading up to 2026, which marks the 100th anniversary of our founding. Through this Report, I would like to convey how the Kuraray Group will work to fulfill its social responsibilities and contribute to society through our business activities.

In compiling the “Kuraray Report 2022”, we referred to the International Integrated Reporting Framework of the Value Reporting Foundation (VRF)*1, the Guidance for Collaborative Value Creation from the Japanese Ministry of Economy, Trade and Industry, and other sources, creating a summary of our approaches across the Group. I attest that the process of creating the Report and its contents are accurate.

We will continue to pursue constructive dialogue with all of our stakeholders, using the “Kuraray Report” as one of our engagement tools. At the same time, we will make every effort to build corporate value as a Specialty Chemical Company contributing to customers, society, and the planet while growing sustainably. I look forward to your continued understanding and support.

*1 Established in June 2021 through the merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

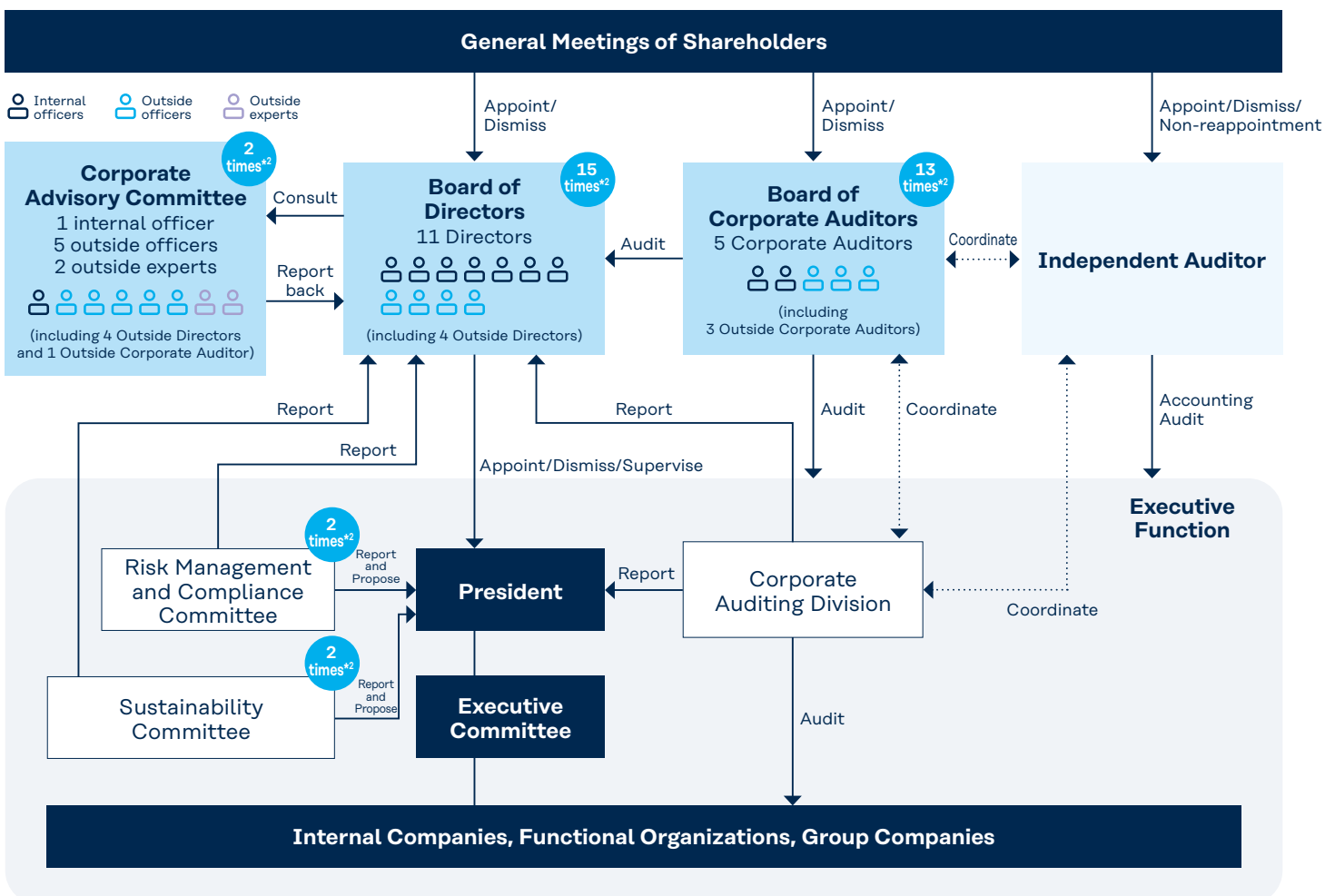
Corporate Governance Highlights



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 Corporate Auditors
	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 and outside experts	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	To step up sustainability promotion initiatives

Corporate Governance System (As of March 24, 2022)



*2 Number of times held in 2021. The Sustainability Committee previously met as the CSR Committee.

Corporate Governance System

Board of Directors

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 11 incumbent Directors, of whom one is female, and one of whom is non-Japanese. The four Outside Directors have 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. Board meetings are held at least once a month.

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

Board of Corporate Auditors and Internal Audits

The Board of Corporate Auditors consists of five Corporate Auditors, including three independent Outside Corporate Auditors, a majority. Four members are male and one is female. The Board of Corporate Auditors convenes monthly, in principle.

Corporate Auditors 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

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. The committee checks the progress of the efforts to ensure the steady execution of the risk countermeasures (▶▶p. 55).

Sustainability Committee

The former CSR Committee was reorganized in January 2022 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 will help to better promote sustainability by enabling swift

Major Proposals and Reports of the Board of Directors in Fiscal 2021

- Formulation, revision of various policies to enhance governance (HR and tax policies, basic policy regarding development of internal controls systems, etc.)
- Verification of significance of holding cross-held shares
- Introduction of internal carbon pricing
- Measures against unauthorized access

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 of the Corporate Advisory Committee in Fiscal 2021

- Officer remuneration, officer personnel matters
- Next Medium-Term Management Plan
- Change in Tokyo Stock Exchange listing
- Revisions to corporate governance code

Division, the in-house audit department. In addition, Corporate Auditors 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 Corporate Auditors in carrying out their duties.

Priority issues for Fiscal 2021

- Conduct a comprehensive review of the facilities of overseas plants in particular, not only to confirm their safety designs but also management aspects (operation management and facility management) and establish highly effective countermeasures for identified issues in order to mitigate the risk of safety-related accidents occurring.
- Establish a globally unified confidential information management system and strengthen measures to protect data in a timely manner.
- Ensure the thorough prevention of recurrence of any violation recurring through the use of globally established programs to comply with the Antimonopoly Law.
- Ensure business continuity in response to the pandemic by thoroughly implementing measures to prevent infection and the spread of infection based on the emergency response to COVID-19.

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.

Policies and procedures for the election and dismissal of executives*1 and the appointment of 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

*1 The Company defines executives as Directors and Corporate Auditors.

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.



For details on Independence Standards for Outside Officers, please visit the website below.

Corporate Governance Report

<https://www.kuraray.com/ir/library/governance>

Points of Corporate Governance

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Main Areas of Expertise and Experience of Directors and Corporate Auditors*2

	Name	Board of Directors Board of Corporate Auditors Attendance*3	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 80%	○	○		○	○				
	Nobuhiko Takai	100%		○	○						
	Jun Hamano	Outside Independent 100%								○	○
	Keiko Murata	Outside Independent 100%		○					○	○	
	Satoshi Tanaka	Outside Independent 100%	○	○	○						○
Kiyoto Ido	Outside Independent 100%		○					○	○		
Corporate Auditors	Kazuhiro Nakayama	100%		○		○	○			○	
	Naoya Uehara	100%		○				○			
	Mitsuhiro Nagahama	Outside Independent 100%	○	○					○		○
	Tomomi Yatsu	Outside Independent 100%						○	○		
	Kenji Komatsu	Outside Independent 100%	○	○	○						

*2 The above table shows up to four areas of knowledge or experience possessed by Directors or Corporate Auditors. It does not represent all of their knowledge or experience.

*3 Rate of attendance rate from January 2021 to December 2021.

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.

Analysis and Evaluation of the Effectiveness of the Board of Directors

Analysis and Evaluation Method

The Company evaluates the effectiveness of the Board of Directors once a year. A signed questionnaire for evaluating the effectiveness of the Board of Directors was distributed to all Directors and Corporate Auditors in December 2021 and responses and opinions from all members were collected in January 2022. The secretariat of the Board of Directors aggregated the responses, and the effectiveness of the Board of Directors was analyzed and evaluated based on the data.

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 the composition of the Board of Directors, including size and diversity, the scope of matters to be discussed or reported, operations of the Board of Directors, including the timing for scheduling meetings, frequency of the meetings, deliberation time, and partnerships and communication systems outside the Board of Directors such as those for providing additional information and training opportunities to the Directors.

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.

Sample Questionnaire Items

- Is the size of the Board of Directors appropriate?
- Is the Board of Directors made up of Directors with different backgrounds in terms of knowledge, experience, and expertise, and is diversity ensured?
- Is the selection of agendas for Board meetings appropriate?
- Does the Board of Directors deliberate to set the strategic direction of the Company?
- Are Board discussions constructive regarding specific management strategies and plans?
- Are the number and frequency of Board meetings appropriate?
- Is the time allowed for deliberation at Board meetings appropriate?
- Do Outside Directors have sufficient opportunities to speak at Board meetings and express frank, active, and constructive opinions from an independent standpoint?
- Is a place ensured for cooperation between the Internal Auditors Office of the Company and Directors and Corporate Auditors?
- Is a system in place for providing information to Outside Directors and Outside Corporate Auditors?

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 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 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>

As a short-term performance incentive, the performance-linked remuneration for the President will 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 will be determined by multiplying the said amount by a predetermined remuneration index corresponding to each Director's position. The amounts of performance-linked remuneration paid to Directors in charge of business units will be determined so that they partially reflect the performance of the relevant business units.

Restricted Stock Compensation Plan	At the 140th Ordinary General Meeting of Shareholders held on March 25, 2021, the Company resolved to abolish the existing stock option 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 will 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 will 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.
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As the stock option scheme was abolished in March 2021, no new stock options will be granted. However, the exercise of previously-granted stock options held by Directors and

Executive Officers on retirement will continue until such time as all Directors and Executive Officers currently holding stock options have retired.

Total Amount of Remuneration, etc., Paid to Directors and Corporate Auditors

(FY2021)

Category	Total amount of remuneration, etc. (Millions of yen)	Total amount by type of remuneration, etc. (Millions of yen)					Number of persons paid*5
		Monetary remuneration			Stock-based remuneration		
		Fixed remuneration	Performance-linked remuneration*1	Other*2	Restricted stock compensation*3	Stock option-based remuneration*4	
Directors [of which Outside Directors]	510 (61)	343 (56)	98 (—)	0 (—)	25 (—)	42 (4)	13 (5)
Corporate Auditors [of which Outside Corporate Auditors]	92 (35)	92 (35)	—	—	—	—	6 (3)

*1 Performance-linked remuneration is calculated based on net income attributable to owners of the parent for fiscal 2021. The target set for net income attributable to owners of the parent for fiscal 2021 was ¥30 billion, while the actual result was ¥37.2 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 ¥25 million of restricted stock compensation was granted to seven Directors and another ¥14 million was granted to five Directors concurrently serving as Executive Officers of the Company as compensation for their service in that capacity, as resolved at the meeting of the Board of Directors held on March 25, 2021.

*4 ¥42 million (including ¥4 million to four Outside Directors) of share purchase warrants as stock options for a stock-linked compensation was granted to 11 Directors and another ¥28 million was granted to six Directors concurrently serving as Executive Officers of the Company as compensation for their service in that capacity, as resolved at the meeting of Board of Directors held on January 20, 2021.

*5 The number of persons paid includes one Director and one Corporate Auditor who retired at the conclusion of the 140th Ordinary General Meeting of Shareholders held on March 25, 2021.

Cross-Shareholdings

Policy on 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.

- 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.
- 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.
- 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 2021, the Company sold all shares of two 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 9, 2022, of the economic rationality and significance of holding individual cross-held stock for 2021 (examination of cross-held shares as of the end of December 2021) in consideration of benefits and risks, capital cost, and other factors associated with such holding, the Company plans to continue to sell some stocks.



Concerning the policies on cross-shareholdings and standards for exercising voting rights pertaining to cross-held shares, please visit the website below.

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