

Corporate Governance

Message from the Chairman of the Board of Directors



Masaaki Ito

Chairman and Director

We will engage in more lively deliberations, strive to swiftly make the best possible decisions, and seek to enhance long-term, sustainable corporate value.

Corporate Governance Framework of the Kuraray Group

I believe that maintaining appropriate relationships with various stakeholders and fulfilling our duties to society by building an effective corporate governance system to ensure the efficiency, transparency, and fairness of management will ultimately contribute to the long-term, sustainable enhancement of corporate value.

We have adopted as our form of governance “a company with Audit & Supervisory Board,” and this is the framework within which we ensure the efficiency of management. Meanwhile, to enhance the effectiveness of our supervisory and monitoring functions, we are working to establish a corporate governance structure centered on the Board of Directors and the Audit & Supervisory Board. We are

discussing various issues, including management remuneration, the selection and cultivation of new company officers, internal controls, and risk management.

Cultivating Constructive Dialogue while Understanding and Respecting Differences

I believe that the greatest contribution to our global business development, and our expansion and growth into an even better company, is not only the knowledge, abilities, and experience of the members of the Board of Directors. It is also their ability to speak out and perform their duties from multifaceted perspectives, born out of diversity in terms of gender, nationality, and career background.

In January 2021, I became Chairman of the Board and a non-representative director. In this new role, I am free to pursue my duties with a focus on monitoring and supervising management. It is my long-held conviction that listening attentively to what people have to say is vital. As Chairman of the Board, I seek to ensure that members respect and listen carefully to one another and that all members are free to express their opinions without prejudice. I run meetings of the Board of Directors so that members can exchange questions and opinions. Looking back, Kuraray has a long-standing culture of encouraging free and open discussion among employees. We create value by cultivating constructive dialogue while seeking to understand and respect differences. This is reflected in the values upheld in our philosophy: respect for individuals, close cooperation to attain shared goals, and constant creation of new value. Our outside officers share this philosophy as they take part in management.

I believe enabling each member to express a wide

array of opinions and engage in lively discussion based on his or her own knowledge and experience is essential to the decision-making process at Board meetings. As Chairman of the Board, I will work to cultivate even more lively deliberations so that the Company can swiftly make the best possible decisions and actively contribute to the long-term, sustainable enhancement of the Kuraray Group's corporate value.

Further Increasing Diversity of the Board of Directors and Striving to Enhance Corporate Value

Every year, the Company evaluates the effectiveness of the Board of Directors. In December 2022, we administered an attributed survey to all Directors and to Members of Audit & Supervisory Board.

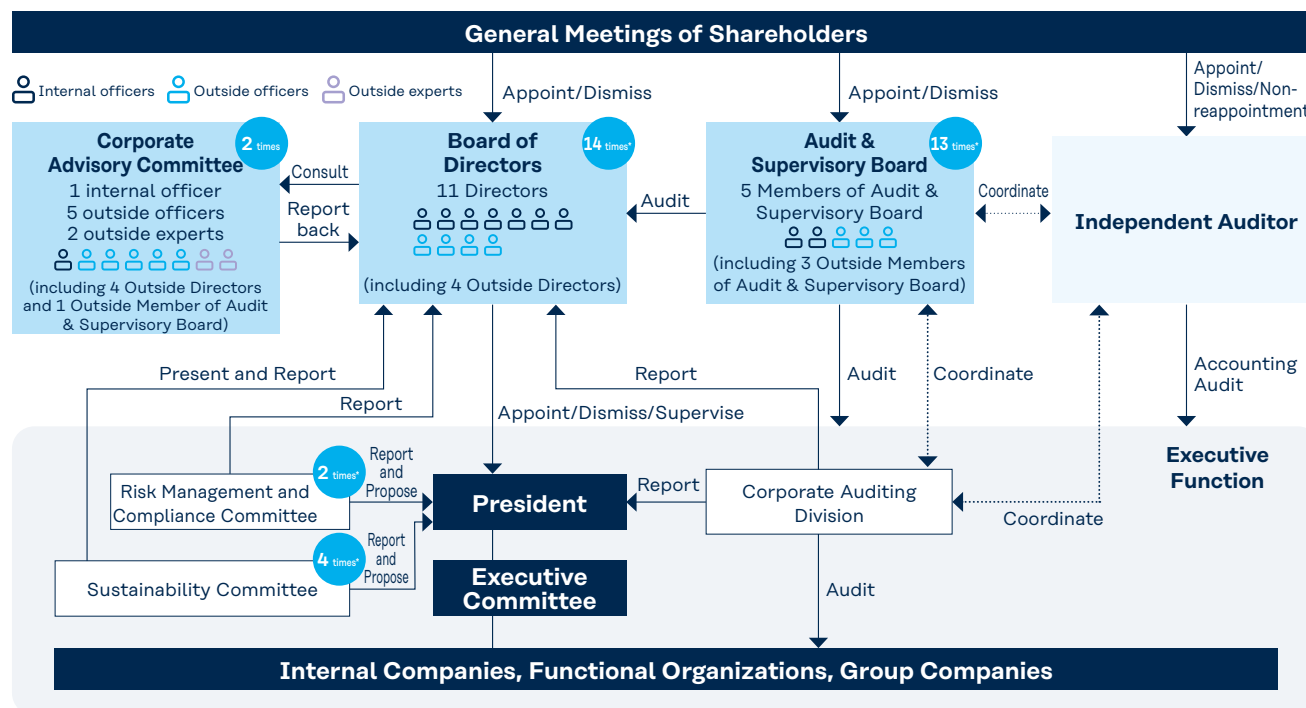
Having analyzed and evaluated the responses, we confirmed that, generally, the Company's Board is functioning appropriately. For example, we have ensured its effectiveness regarding the Board's makeup, meeting agendas, how meetings are run, and the framework for cooperation and communication outside the Board of Directors. However, we also identified a number of issues to be addressed going forward.

Among these issues, some respondents expressed the opinion that further increasing the diversity of Board members should be an objective over the longer term. After I became president of the Company, we increased the diversity of the Board by bringing a non-Japanese Director and a female Director on as new members, but I believe we still have a way to go in this regard. We will continue to work on further improvements going forward.



[Points of Corporate Governance](#)

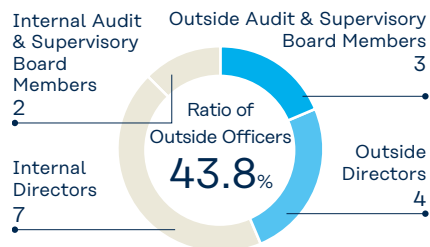
Corporate Governance System (As of March 29, 2023)



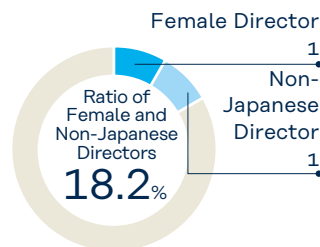
* Number of times held in 2022.

Corporate Governance Highlights

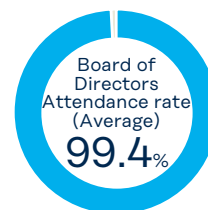
Independence



Diversity



Attendance



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
	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

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 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 Member of Audit & Supervisory Board (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 of the Board of Directors. As Outside Officers 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"

Audit & Supervisory Board 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.

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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 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

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 diversity; agenda items for Board meetings, including the scope of discussion and reporting; operation 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

Policies and Procedures for the Election and Dismissal of Executives*¹ and the Appointment of Candidates for Directors and Members of Audit & Supervisory Board

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 Members of Audit & Supervisory Board of the Company at Board of Directors meetings with the attendance of Outside Officers, and elects them as Members of Audit & Supervisory Board with a resolution of the General Meeting of Shareholders after obtaining the consent of the Audit & Supervisory Board. However, candidates for Outside Members of Audit & Supervisory Board 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.

*1 The Company defines executives as Directors and Members of Audit & Supervisory Board.

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 Members of Audit & Supervisory Board including Outside Members of Audit & Supervisory Board. Staff collect and provide information necessary for their auditing activities and offer other forms of support.

Cross-Shareholdings

From the viewpoint of stable, long-term business operations, the Company holds the shares of its business partners and other entities if maintaining and strengthening the relationships with such business partners and other entities are deemed to contribute to the enhancement of corporate value. The Board of Directors regularly verifies the economic rationality and significance of holding shares (cross-shareholdings), and seeks to sell shares, as necessary, whose holding is deemed not to be appropriate, to reduce such stocks. 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.

 [Corporate Governance Report](#)

 [Points of Corporate Governance](#)

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	<p>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)</p> <p>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 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.</p>
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Restricted Stock Compensation Plan	<p>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.</p>
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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 Members of Audit & Supervisory Board

(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.