

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 two are 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 2023

- Verification of significance of holding cross-held shares
- TCFD-based climate change initiatives
- Operation of new isoprene plant in Thailand
- Verification of fire incident at EVAL plant in the United States
- HR development
- Progress of Medium-Term Management Plan "PASSION 2026"
- Capital investment
- Business planning

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.

Main Topics Considered in Fiscal 2023

- Legal compliance, compliance framework
- Quality assurance framework
- Implementation, operation of internal control systems at various Kuraray Group companies
- Response measures related to serious accidents, epidemics, natural disasters, and other risks
- Status of efforts to secure and cultivate talent for the next generation, retain talented personnel, pass on skills, etc.
- Status of Medium-Term Management Plan "PASSION 2026"

Corporate Advisory Committee

The Company has established a Corporate Advisory Committee composed 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 seven members: four Outside Directors (Ms. Keiko Murata, Mr. Satoshi Tanaka, Mr. Kiyoto Ido, and Ms. Naoko Mikami), one Outside Member of Audit & Supervisory Board (Ms. Tomomi Yatsu), and two outside experts (Mr. Go Egami [listed under the name Mr. Haruki Kohata] and Mr. Jun Hamano). The committee is chaired by an Outside Director.

Major Discussions and Reports in Fiscal 2023

- Officer remuneration
- Officer personnel matters
- HR development

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. [P.64](#)

Sustainability Committee

In January 2022, the Kuraray Group established a Sustainability Committee to replace the CSR Committee.

Chaired by the President, the committee makes swift decisions regarding sustainability issues at the management level, expedites the planning and implementation of response measures, and reinforces sustainability initiatives in the Group. The Sustainability Committee also reports on a range of activities to the Board of Directors and reflects Board directives in sustainability initiatives.

Major Agenda Items for Fiscal 2023

- Participation in GX League
- PSA* System assessment results
- Extending scope of TCFD scenario analysis
- Exploring concrete measures to reduce GHG emissions
- Supplier questionnaire survey in CSR procurement
- Progress of diversity and inclusion measures in Japan and abroad
- Group response to regulatory trends regarding sustainability

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 2023, 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 (40 questions in total)

- Composition of the Board of Directors
- Board meeting agendas
- Operation of Board meetings
- Support system for Directors and Audit & Supervisory Board Members

Summary of Evaluation Results

Questionnaire responses were positive overall, confirming that the effectiveness of the Board of Directors is being ensured, including the fact that Board discussions are constructive and that the recommendations and deliberations of various Directors are appropriate and draw on their respective expertise. On the other hand, responses noted issues, including the need to deepen discussions around the building of a more sophisticated business portfolio, longer-term management strategies, and management that is attuned to the cost of capital.

Key Comments

- The composition of the Board of Directors is generally appropriate but, in addition to increasing the ratio of Outside Officers, there is a need for greater diversity, such as increasing the number of female and non-Japanese members and directors with knowledge of digital transformation and IT.
- The Board should consider increasing the number of Outside Directors with experience in corporate management.
- While the Board discusses a wide range of topics, building businesses to be the next drivers of earnings, management that is attuned to the cost of capital and stock prices, and raising up candidates to succeed the President are ongoing issues for management.
- It is desirable to foster more vigorous discussions about longer-term improvements to the portfolio and management strategies.
- The way Board meetings are run and the support framework for Directors and Audit & Supervisory Board Members have improved over the years.

Initiatives for the Future

The Kuraray Group continues to seek to improve the effectiveness of the Board of Directors based on past evaluations of its effectiveness and issues to be considered. In March 2024, we appointed a new female director who has experience in corporate management to increase the diversity of the Board. In fiscal 2024, we will conduct a management review of the Medium-Term Management Plan, including by members of the Board of Directors, aiming to facilitate more lively, more in-depth discussions at Board meetings.

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.

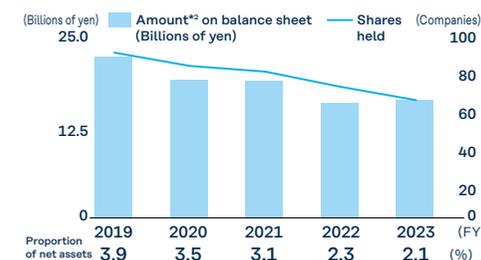
Support System for Outside Officers

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 2023, out of its cross-shareholdings in listed companies, the Company sold all stocks held in six companies and a portion of stocks held in two companies. This brought the ratio of cross-shareholdings to net assets to 2.1% as of the end of fiscal 2023.

Status of Cross-Shareholdings



*² Total of stocks of listed and unlisted companies

Officers' Remuneration System

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, made up of 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.

Total Amount of Executive Remuneration (FY2023)

Category	Total amount of remuneration, etc. (Millions of yen)	Total amount by type of remuneration, etc. (Millions of yen)				Number of persons paid
		Monetary remuneration			Stock-based remuneration	
		Fixed remuneration	Performance-linked remuneration*1	Other*2	Restricted stock compensation*3	
Directors [of which Outside Directors]	512 (57)	313 (57)	168 (-)	2 (-)	28 (-)	11 (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 ¥42.4 billion in fiscal 2023 (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 six Directors. Separately from the restricted stock compensation under the Scheme, another ¥13 million in restricted stock compensation was given to four Directors concurrently serving as Executive Officers of the Company as compensation to serve as Executive Officers.

Composition of compensation, etc.



Method for determining the amount of compensation (incentives), etc.

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.</p> <p>(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>
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>

*4 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.