

[Provisional Translation Only]

The Company provides this English translation of the original Japanese document solely for information purposes, and in the event of any discrepancy between this translation and the Japanese original, the latter shall prevail.

## Corporate Governance Report

Last Update: June 30, 2020

**DAICEL CORPORATION**

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Securities Code: 4202

<https://www.daicel.com/en/>

The corporate governance of DAICEL CORPORATION (the “Company”) is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

For Daicel, the strengthening of corporate governance is recognized as an important management issue to improve corporate value and fulfill the Company’s social mission and responsibility as a listed company. By clarifying the division of roles of each organization, the Company ensures mobility and institutes a management system that can promptly make decisions and implement them. As well, the Company actively incorporates external opinions into company management and improves both the transparency and fairness of management. Thus, the Company strives to maintain the soundness of its management.

### [Reasons for Non-compliance with the Principles of the Corporate Governance Code] **(Updated)**

#### Principle 1-3

In June 2020, Daicel formulated “DAICEL VISION 4.0” as the Company’s fourth long-term vision. The Company has set a new fundamental principle of “The Company making lives better by co-creating value – Sustainable Value Together”. In addition, the Company has positioned the “Sustainable Management Policy” under the basic principles in order to concurrently achieve a sustainable society and business expansion. The Company believes that an upward spiral of “Happiness for workers”, “Environment that offers happiness” and “Happiness for society and people” in the “Sustainable management policy” will ultimately improve corporate value and the common interests of shareholders.

The Company has defined three operations (OP-I, OP-II, OP-III) for achieving the goals of “DAICEL VISION 4.0”, and establishing the mid-term strategy “Accelerate 2025” which is positioned as a phase to simultaneously execute the Original Daicel (OP-I), the New Daicel (OP-II) and prepare for the execution of the New Business Group (OP-III).

The Company’s policies for capital and return to shareholders are as follows.

- Maximizing asset efficiency and realizing optimal capital structure
- Securing soundness to maintain fund raising capacity

- Stable dividends reflecting the consolidated business results

The Company will flexibly carry out treasury stock acquisition as a shareholder return measure to supplement dividends.

The Company has determined that it is necessary to scrutinize and review the impact of COVID-19 on our medium-term strategy "Accelerate 2025". Accordingly, the Company could not announce more specific management targets and shareholder return policies at this time, but will provide notification as soon as possible.

#### **Principle 5-2**

In our long-term vision "DAICEL VISION 4.0", formulated in June 2020, the Company strives to improve corporate value through realization of "Happiness of employees", "Environment that provides happiness" and "Happiness for society and people" in our "Sustainable management policy".

Aiming for "Management with stronger consciousness of Balance Sheet", the Company has set indices as below and has also defined the business efficiency/growth indicators that drive these indices.

Indices of growth and acceleration

- Corporate value: Equity spread (difference between ROIC and WACC)

Corporate (future internal fund) indices

- Corporate ROE, ROIC, ROA, WACC
- WACC by business segment (hurdle rate)
- Corporate Sales growth rate

In addition, the Company set the targets and key indices as below in the mid-term strategy "Accelerate 2025".

FY2026/3 Target

- ROIC: 10.0%
- EBITDA: more than 100 billion yen
- Operating profit: a record high

Key Indices:

- $ROE \geq ROIC \geq ROA > WACC$

The Company has determined that it is necessary to examine and review the impact of COVID 19 on the medium-term strategy "Accelerate 2025". Accordingly, the Company could not announce more specific management targets and shareholder return policies at this time, but will provide notification as soon as possible.

### **[Disclosure Based on the Principles of the Corporate Governance Code] (Updated)**

#### **Principle 1-4**

(Policy Regarding Cross-holdings of Shares)

We will adhere to a shareholding policy only when this principle is judged to contribute to the improvement of medium- and long-term corporate value from the perspective of strengthening business relationships, maintaining the stability of transactions with financial institutions, and maintaining or strengthening cooperative business relationships. When some stocks do not meet the purpose of our possession or are not recognized economic rationality due to changes in business environment and other factors, we will reduce the stocks in order.

(Verification in Board of Directors)

We will periodically verify the appropriateness of the purpose, the quantitative and qualitative benefits arising from business transactions, and the economic rationality of the risks held of all stocks that we possess. We report the result of the verification to Board of Directors, and the content is examined carefully.

As a result of these verifications, in FY2020/3 we sold all shares of the three stocks.

(Standards Regarding the Exercise of Voting Rights Associated with Cross-shareholdings)

Regarding rights of voting related to strategic shareholdings, we determine to exercise the rights considering if the exercise of the rights do not cause serious impacts on Daicel and our Group's purposes of possession, will contribute to sustainable growth and enhance mid- and long-term corporate value of the investee company, and contribute to the common benefits of shareholders.

#### **Principle 1-7**

In an effort to monitor transactions between related parties, the Company conduct a questionnaire every year to determine whether transactions have taken place between Directors, Audit & Supervisory Board

Members, Executive Officers, and their close relatives and the Group; moreover, to determine whether transactions have taken place between a group whose the substantial majority of voting rights were held by Directors, Audit & Supervisory Board Members, Executive Officers or their close relatives and the Group. The Management Committee confirms the importance and the nature of all transactions taking place between related parties, such as whether the amount of the transaction is large or irregular.

In addition, the Company requires the Board of Directors to deliberate and resolve conflicts of interest regarding transactions involving Directors (through resolutions of the Board of Directors and post-exit reports at every six months).

#### **Principle 2-6**

We have established the Defined Benefit Corporate Pension Plan Asset Management Committee, consisting of members from human resources, accounting and finance departments and other related divisions with adequate capacity of managing deposit of corporate pension. The Company conducts adequate initiatives in terms of personnel and management, such as implementing the monitoring of investment institutions based on the basic policy of deposit management, which we have formulated on our own.

#### **Principle 3-1**

- 1) The Company has posted its basic philosophy, long-term vision, and an outline of its medium-term management plan on its website.
- 2) The Company posts its basic views to corporate governance on its website and describes it in the Securities Report and in Corporate Governance Report I, Article 1.
- 3) The policies and procedures for determining compensation for Directors and Audit & Supervisory Board Members are described in the Securities Report; in Corporate Governance Report II, Article 1, "Director Remuneration"; and in the convocation notice of the Annual General Meeting of Shareholders.
- 4) Regarding the appointment of management executives and nomination of the Director and Audit & Supervisory Board Member candidates, the Company requires the personnel "to agree with and inherit the Daicel Group's Basic Philosophy, Conduct Policy and Daicel Code of Conduct" and "to possess necessary credentials and experiences to realize mid- and long-term enhancement of the Company's corporate value" as standards and nominates the persons with adequate personality, knowledge, motivation, ethical view and management perspective to lead the Company. As the selection and nomination, we make determinations based on the reports from the Nomination and Compensation Committee, which consists of the Outside Directors, the Executive Chairperson and the Directors, and the Outside Directors are the majority.

Based on their evaluations, performances and so forth, the Company appoints the Executive Officers from certain target persons who possess a mid- and a long-term management view and the ability to display their leadership. As the nomination of the Director candidates, the Company considers the balance and diversity of knowledge, experience and ability as the whole Board of Directors and the scale of the Company, and finally determines at the Board of Directors. For nominating the candidates of the Audit & Supervisory Board Members, we make decisions with the agreement of the Audit & Supervisory Board, considering their knowledge, experience and abilities that enable to audit the Directors' performance adequately, fairly and effectively, and the scale of the Company.

Furthermore, we determine the removal according to the answers of the Nomination and Compensation Committee, considering the Removal Standards mentioned below.

##### **[Removal Standards]**

1. In the case of actions violating laws and the article of association or antisocial actions
2. In the case of significantly damaging the Company's corporate value by the unsatisfactory professional conduct.
3. In the case of not being recognized their credentials as the Company's leader, such as not respecting the Daicel Group's Basic Philosophy, Conduct Policy and Daicel Code of Conduct.

The Daicel Group's Basic Philosophy, Conduct Policy and Daicel Code of Conducts can be seen the webpages listed below.

Daicel Group's Basic Philosophy

<https://www.daicel.com/en/profile/philosophy.html>

Daicel Group's Conduct Policy

<https://www.daicel.com/en/csr/policy.html>

5) The reasons for the nomination and appointment of candidates for the positions of Director and Audit & Supervisory Board Member are presented in the convocation notice for the Annual General Meeting of Shareholders. In addition, the reasons for nomination and appointment of individual candidates for the positions of Outside Director and Outside Audit & Supervisory Board Member are presented in the Securities Report and in the Corporate Governance Report II, Article 1, “Directors” and “Audit & Supervisory Board.”

Yet the removal has not been disclosed, since it has never occurred.

#### **Supplementary Principle 4-1-1**

The Board of Directors deliberates on important issues as stipulated in laws and regulations, the Articles of Incorporation and the Board of Directors’ Regulations. Decision-making and the undertaking of other matters are entrusted to Executive Officers and to the Management Meeting, the decision-making body at the business execution level. The Board of Directors receives reports on the results of decision-making undertaken at the Management Meeting and on the content of important meetings such as the Management Meeting, Planning Meeting, and Strategy Meeting, as well as the status of business execution by Executive Officers. Through these reports, the Board of Directors oversees decision-making and business execution by the Management Meeting and Executive Officers.

#### **Principle 4-9**

Regarding standards ensuring the independence of Outside Directors and Outside Audit & Supervisory Board Members from the Company, the Company has established Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members, which are presented in the convocation notice for Annual General Meeting of Shareholders; Securities Reports; the Corporate Governance Report II, Article 1, “Independent Directors/ Audit & Supervisory Board Members”; and on the Company website.

#### **Supplementary Principle 4-11-1**

Company policy is to ensure the members of the Board of Directors have the ability and insight to serve as Directors and have diverse knowledge, experience, and expertise. The Board of Directors is committed to maintaining the scale to make decisions promptly and efficiently while engaging in sufficient and appropriate discussions in meetings. At the present time, the Company considers 12 or fewer members as an appropriate number.

Regarding candidates nominated for the Board of Directors, the Company makes its decisions according to the report of the Nomination and Compensation Committee composed Outside Directors, the chairperson of the Board of Directors and representative Directors, and chaired by an Outside Director, and whose majority is Outside Director.

#### **Supplementary Principle 4-11-2**

Every year, we disclose the concurrent positions of Outside Directors and Outside Audit & Supervisory Board Members at other companies through the convocation notice of Annual General Meeting of Shareholders.

#### **Supplementary Principle 4-11-3**

In order to maintain or improve the effectiveness of the Board of Directors, the Company analyzes and evaluates the performance of the Board of Directors once a year through a self-assessment of Directors and Audit & Supervisory Board Members.

Specifically, the Company takes questionnaire surveys and individual interview with Directors and Audit & Supervisory Board Members regarding the composition of the Board of Directors; the content of its deliberations, resolutions, and reports and the like; and its operating methods. The Company analyzes and evaluates the results in order to confirm that the Board of Directors is functioning effectively. In addition, the Company uses the opinions of the Directors and Audit & Supervisory Board Members to secure diversity in the Board of Directors, set the themes that are particularly appropriate for board deliberations, provide necessary information for management decisions and supervision, allocate time to important agenda, and simplify technical terminology, thus improving the Board of Directors in a timely manner to ensure its increased effectiveness in the future.

**Supplementary Principle 4-14-2**

Directors and Audit & Supervisory Board Members attend external seminars and training sessions in order to acquire the knowledge necessary for the performance of their duties and work tasks in addition to updating their skills and the like. The Company bears the costs of these activities.

Moreover, newly appointed Directors and Audit & Supervisory Board Members (excluding Outside Directors and Outside Audit & Supervisory Board Members) are required to attend external seminars. The Company also provides annual compliance training for Directors, Audit & Supervisory Board Members, Executive Officers, and other senior employees (excluding external officers). The Company continues to offer opportunities for them to deepen their understanding of the Daicel Group by providing introductory initiatives for the Board of Directors and conducting factory tours for Outside Directors and Outside Audit & Supervisory Board Members.

**Principle 5-1**

The Company-appointed head of the Corporate Support Headquarter is an Executive Officer responsible for IR, and the Investor Relations & Corporate Communications is responsible for IR. Earnings briefing sessions are held each quarter for shareholders and investors. In addition, the President and Executive Officers responsible for IR provide shareholders and investors with explanations of these earnings reports as well as interim results.

In view of the Company's shareholding structure, the Company endeavors to engage in dialogue with foreign investors, visit offices of foreign investors and participate in conferences for foreign investors sponsored by securities companies. When it is difficult to attend conferences or visit investors, the Company efforts to maintain and enhance engagement in dialogue through alternative means such as telephone conferences.

**2. Capital Structure**

|                            |               |
|----------------------------|---------------|
| Foreign Shareholding Ratio | More than 30% |
|----------------------------|---------------|

**[Status of Major Shareholders] (Updated)**

| Name / Company Name   | Number of Shares Owned | Percentage (%) |
|---|------------------------|----------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account)  | 21,055,900             | 6.77           |
| Japan Trustee Services Bank, Ltd. (Trust Account)   | 18,052,600             | 5.80           |
| Nippon Life Insurance Company   | 17,402,214             | 5.59           |
| Toyota Motor Corporation  | 15,000,000             | 4.82           |
| NORTHERN TRUST CO. (AVFC) RE<br>SILCHESTER INTERNATIONAL<br>INVESTORS INTERNATIONAL VALUE<br>EQUITY TRUST | 9,874,800              | 3.17           |
| FUJIFILM Holdings Corporation   | 8,390,740              | 2.69           |
| National Mutual Insurance Federation of<br>Agricultural Cooperatives                                      | 7,779,300              | 2.50           |
| SSBTC CLIENT OMNIBUS ACCOUNT  | 7,553,855              | 2.43           |
| Sumitomo Mitsui Banking Corporation   | 7,096,176              | 2.28           |
| MUFG Bank, Ltd  | 6,503,097              | 2.09           |

|   |      |
|---|------|
| Controlling Shareholder (except for Parent Company) | ---  |
| Parent Company                                      | None |

The Change in Mass Holdings Report provided for public inspection dated April 22, 2019, indicates that the Nippon Life Insurance Company and two other companies held the following shares as of April 15, 2019. However, because the Company cannot confirm the number of shares of real property held as of March 31, 2020, these are not included in the Status of Major Shareholders table above.

Details of Change in Mass Holdings Report

Nippon Life Insurance Company 17,407 thousand shares 5.24%  
Nissei Asset Management Corporation 2,786 thousand shares 0.84%  
Taiju Life Insurance Company Limited 2,500 thousand shares 0.75%  
Total 22,693 thousand shares 6.84%

The Change in Mass Holdings Report provided for public inspection dated April 13, 2018, indicates that the Mitsubishi UFJ Financial Group's three co-owners held the following shares as of April 9, 2018. However, because the Company cannot confirm the number of shares of real property held as of March 31, 2020, these are not included in the Status of Major Shareholders table above.

Details of Change in Mass Holdings Report

MUFG Bank, Ltd. 6,503 thousand shares 1.86%  
Mitsubishi UFJ Trust and Banking Corporation 13,959 thousand shares 3.99%  
Mitsubishi UFJ Kokusai Asset Management Co., Ltd. 1,493 thousand shares 0.43%  
Total 21,955 thousand shares 6.27%

The Change in Mass Holdings Report provided for public inspection dated February 12, 2020, indicates that Silchester International Investors LLP held the following shares as of February 7, 2020. However, because the Company cannot confirm the number of shares of real property held as of March 31, 2020, these are not included in the Status of Major Shareholders table above.

Details of Change in Mass Holdings Report

Silchester International Investors LLP 20,259 thousand shares 6.10%

The Change in Change Report pertaining to Mass Holdings Report provided for public inspection dated August 6, 2019, indicates that BlackRock Japan Co., Ltd. and ten other companies held the following shares as of July 31, 2019. However, because the Company cannot confirm the number of shares of real property held as of March 31, 2020, these are not included in the Status of Major Shareholders table above.

Details of Change in Mass Holdings Report

BlackRock Japan Co., Ltd. 3,966 thousand shares 1.20%  
BlackRock Fund Advisors 3,962 thousand shares 1.19%  
BlackRock Institutional Trust Company, N.A. 5,583 thousand shares 1.68%  
BlackRock Asset Management (UK) Limited and two other companies 3,137 thousand shares 0.95%  
Total 16,648 thousand shares 5.02%

### 3. Corporate Attributes

|   |  |
|---|--|
| Listed Stock Market and Market Section  | Tokyo Stock Exchange<br>First Section      |
| Fiscal Year-End   | March                                      |
| Type of Business  | Chemicals                                  |
| Number of Employees (consolidated) as of the<br>End of the Previous Fiscal Year | More than 1000                             |
| Sales (consolidated) as of the End of the<br>Previous Fiscal Year               | From ¥100 billion to less than ¥1 trillion |
| Number of Consolidated Subsidiaries as of the                                   | From 50 to less than 100                   |

|                                 |  |
|---------------------------------|--|
| End of the Previous Fiscal Year |  |
|---------------------------------|--|

**4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder**

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| ----- |
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**5. Other Special Circumstances which may have Material Impact on Corporate Governance**

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## II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

|                   |  |
|-------------------|--|
| Organization Form | Company with Audit & Supervisory Board Members |
|-------------------|--|

#### [Directors]

|   |                     |
|---|---------------------|
| Maximum Number of Directors Stipulated in Articles of Incorporation | 12                  |
| Term of Office Stipulated in Articles of Incorporation              | 1                   |
| Chairperson of the Board  | Company Chairperson |
| Number of Directors   | 10                  |
| Number of Outside Directors   | 5                   |
| Number of Independent Directors                                     | 5                   |

#### Outside Directors' Relationship with the Company (1) (Updated)

| Name              | Attribute            | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |
|-------------------|----------------------|--------------------------------|---|---|---|---|---|---|---|---|---|---|
|                   |                      | a                              | b | c | d | e | f | g | h | i | j | k |
| Masafumi Nogimori | From another company |                                |   |   |   |   |   |   | △ |   |   |   |
| Teisuke Kitayama  | From another company |                                |   |   |   | △ |   |   |   |   |   |   |
| Sonoko Hacchoji   | From another company |                                |   |   |   |   |   |   |   |   |   |   |
| Toshio Asano      | From another company |                                |   |   |   |   |   |   | △ |   |   |   |
| Takeshi Furuichi  | From another company |                                |   |   |   |   |   |   | ○ |   |   |   |

\* Categories for "Relationship with the Company"

- \* "○" when the director presently falls or has recently fallen under the category;
- \* "△" when the director fell under the category in the past
- \* "●" when a close relative of the director presently falls or has recently fallen under the category;
- \* "▲" when a close relative of the director fell under the category in the past

- a. Executive of the Company or its subsidiaries
- b. Non-executive director or executive of a parent company of the Company
- c. Executive of a fellow subsidiary company of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the listed company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director/Audit & Supervisory Board Member
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Member are mutually appointed (the director himself/herself only)

- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2) (Updated)

| Name              | Designation as Independent Director | Supplementary Explanation of the Relationship  | Reasons of Appointment   |
|-------------------|-------------------------------------|--|--|
| Masafumi Nogimori | ○                                   | Mr. Nogimori conducted business at Astellas Pharma Inc. until June 2016. This company is a customer of Daicel products, but Daicel Group's sales to this company group are less than 1% of Daicel Group's consolidated sales. Therefore Daicel does not expect above situation to affect his independence as an Outside Director.  | From the insight and experience he had gained as an executive well-versed in the management of pharmaceuticals production, Mr. Nogimori has spoken out proactively regarding mainly points to be careful of formulating medium-to long-term strategies, M&A strategy, necessity of continuation of takeover defense measures, capital policy, shareholder return policy and others when making important decisions with the Board of Directors from a perspective of fairness and impartiality. He is thus fully capable of fulfilling his supervisory duties. Moreover, he meets the Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members stipulated by the Company in [Independent Directors/ Audit & Supervisory Board Members]<br>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Director. |
| Teisuke Kitayama  | ○                                   | Mr. Kitayama conducted business at the Sumitomo Mitsui Banking Corporation, Company's main bank and Sumitomo Mitsui Financial Group, Inc., the parent company of Sumitomo Mitsui Banking Corporation until March 2011. This company is principal borrower of Daicel, and borrowings of Daicel Group from this company account for approximately 2.7% of total consolidated assets of Daicel Group. | From the insight and experience he had gained as an executive well-versed in the management of financial institutions, Mr. Kitayama has spoken out proactively regarding mainly medium-to long-term strategies, capital policy, shareholder return policy, joint research with university, internal audit systems and others when making important decisions with the Board of Directors from a perspective of fairness. He is thus fully capable of fulfilling his supervisory duties. Moreover, he meets the Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members stipulated by the Company in [Independent Directors/ Audit & Supervisory Board Members]   |

|                 |   |   |  |
|-----------------|---|---|--|
|                 |   | <p>However, as it has been approximately 8 years since Mr. Kitayama ceased to be involved in the execution of business operations at this company and Sumitomo Mitsui Financial Group, Inc., it is not expected that this will affect his independence as an Outside Director of Daicel.</p>  | <p>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Director.</p>   |
| Sonoko Hacchoji | ○ | -   | <p>From the insight and experience she had gained as an executive well-versed in the management of financial institutions and hotels, Ms. Hacchoji has spoken out proactively regarding mainly medium-to long-term strategies, R&amp;D initiatives, capital investment related to environment, necessity of continuation of takeover defense measures and others when making important decisions with the Board of Directors from a perspective of fairness. She is thus fully capable of fulfilling her supervisory duties. Moreover, she meets the Standards for Independence of Outside Directors/Outside Audit &amp; Supervisory Board Members stipulated by the Company in [Independent Directors/Audit &amp; Supervisory Board Members]</p> <p>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed her as an Independent Director.</p> |
| Toshio Asano    | ○ | <p>Mr. Asano was an executive at Asahi Kasei Corporation until March 2016. Although Daicel sells its products to and supplies raw materials to, sales of Daicel Group to the this company Group are less than 1% of consolidated net sales of Daicel Group, and Daicel Group's purchases from this company group are less than 1% of consolidated net sales of this company group, and Daicel does not expect</p> | <p>From the insight and experience he had gained as an executive well-versed in the management of Companies manufacturing and selling chemicals, Mr. Asano has spoken out proactively regarding mainly medium-to long-term strategies, M&amp;A strategy, system related to environment, safety, disaster prevention, business portfolio management and others when making important decisions with the Board of Directors from a perspective of fairness. He is thus fully capable of fulfilling his supervisory duties. Moreover, he meets the Standards for Independence of Outside Directors/Outside Audit &amp; Supervisory Board Members stipulated by the Company in [Independent</p>  |

|                  |   |  |  |
|------------------|---|--|--|
|                  |   | this to affect his independence as an Outside Director of Daicel..   | Directors/ Audit & Supervisory Board Members]<br>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Director.   |
| Takeshi Furuichi | ○ | Mr. Furuichi conducts business at Nippon Life Insurance Company. This company is a lender to Daicel and holds an insurance contract with Daicel. However, Daicel Group borrows from this company, which accounts for less than 1% of Daicel Group's consolidated total assets, and Daicel has paid to this company, which accounts for less than 1% of net premium income of this company. Therefore Daicel does not expect above situation to affect his independence as an Outside Director. | From the insight and experience he has gained as an executive well-versed in the management of financial institutions, Mr. Furuichi is expected to speak out proactively when making important decisions with the Board of Directors from a perspective of fairness. He meets the Standards for Independence of Outside Directors/Outside Audit & Supervisory Board Members stipulated by the Company in [Independent Directors/ Audit & Supervisory Board Members]<br>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Director. |

|   |             |
|---|-------------|
| Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee | Established |
|---|-------------|

#### Committee's Name, Composition, and Attributes of Chairperson

|                       | Committee Corresponding to Nomination Committee | Committee Corresponding to Remuneration Committee |
|-----------------------|---|---|
| Committee's Name      | Nomination and Compensation Committee           | Nomination and Compensation Committee             |
| All Committee Members | 8   | 8   |
| Full-time Members     | 0   | 0   |
| Inside Directors      | 3   | 3   |
| Outside Directors     | 5   | 5   |
| Outside Experts       | 0   | 0   |
| Other                 | 0   | 0   |
| Chairperson           | Outside Directors                               | Outside Directors                                 |

Supplementary Explanation (Updated)

Nomination Committees and Compensation Committees are established as bodies that report on the nomination of Directors and Executive Officers and make recommendations on their compensation, under the consultation of the chairperson of the Board of Directors or the Audit & Supervisory Board.

As of June 19, 2020, the members of the committee are as follows:

Chairperson: Masafumi Nogimori, Outside Director  
 Member: Teisuke Kitayama, Outside Director  
 Member: Sonoko Hacchoji, Outside Director  
 Member: Toshio Asano, Outside Director  
 Member: Takeshi Furuichi, Outside Director  
 Member: Misao Fudaba, Chairperson of Board of Director  
 Member: Yoshimi Ogawa, Representative Director, President  
 Member: Kotaro Sugimoto, Representative Director

Nomination Committees and Compensation Committees were held whenever there is an issue to be discussed concerning the personnel and compensation of officers. In FY 2020/3, Nomination Committees and Compensation Committees were held 9 times to discuss the appointment of officers and division of duties under the new organization, the amount of individual compensation for each Director and the performance-based bonus, and submit reports to Board of Directors.

#### [Audit & Supervisory Board]

|   |             |
|---|-------------|
| Establishment of Audit & Supervisory Board  | Established |
| Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation | 5           |
| Number of Audit & Supervisory Board Members   | 5           |

Cooperation among Audit & Supervisory Board Members, Accounting Auditors and Internal Audit Departments (Updated)

Audit & Supervisory Board Members regularly receive reports from the Company's internal auditing divisions and the External Auditor. In addition, they collaborate on an "as-needed" basis through exchanges of information and opinions when undertaking company audits.

#### **Collaboration with External Auditor**

In order to strengthen cooperation with the External Auditor, the Audit & Supervisory Board Members hold meetings about 10 times a year and exchange audit plans with External Auditor. Audit & Supervisory Board Members receives an explanation from External Auditor regarding the status of the establishment of a system to ensure that duties are performed properly (Article 131 of the Ordinance on Accounting of Companies), and receives quarterly reports on the implementation of accounting audits and reports on the status of internal control audits. Audit & Supervisory Board Members provide the External Auditor with explanations of the status of audits conducted by the Audit & Supervisory Board Members.

Audit & Supervisory Board Members consent to audit compensation decisions of the External Auditor. Moreover, they make the decision on whether to reappoint the External Auditor.

#### **Collaboration with the Auditing Office**

About every three months the Auditing Office reports to Audit & Supervisory Board Members with respect to the status of internal audits, particularly the status of improvement and evaluation of internal controls related to financial reporting. In addition, Audit & Supervisory Board Members effort to receive information as needed from the Auditing Office.

#### **Collaboration with the Quality Management Division**

The Quality Management Division regularly report to Audit & Supervisory Board Members regarding the

status of quality assurance within the Group.

#### **Collaboration status with the Corporate Compliance Program Division**

Audit & Supervisory Board Members conduct regular meetings with the Corporate Compliance Program Division. In addition, Standing Audit & Supervisory Board Members participate in top management reviews and corporate compliance officer training.

#### **Collaboration with Responsible Care Division**

Audit & Supervisory Board Members receive reports on the activities of the Responsible Care Division, in addition to participating in the Daicel Group Responsible Care Promotion Conference held annually with an eye to improving the level of awareness and initiatives regarding the Group's philosophy and policy with respect to Responsible Care.

Meanwhile, Outside Audit & Supervisory Board Members receive reports on the content of the state of cooperation with each internal audit division (Auditing Office, Quality Management Division, Corporate Compliance Program Division, and Responsible Care Division) from Standing Audit & Supervisory Board Members and provide commentary and opinions as necessary.

#### **Collaboration status with the Internal Control Division**

Audit & Supervisory Board Members attend Board of Directors meetings and receive reports from officers in charge of internal control (Corporate Planning, Legal Group, Accounting & Finance Group, Personnel Group, Responsible Care Division, Corporate Compliance Program etc.) as appropriate. Audit & Supervisory Board Members also receive reports on the status of activities from the Internal Control Division as appropriate and hold hearings with the Internal Control Division.

Outside Audit & Supervisory Board Members attend Board of Directors meetings, receives reports from the officers in charge of internal control, and expresses his opinions as necessary. Outside Audit & Supervisory Board Members also receive reports on the content of hearings with the internal control division from full-time Audit & Supervisory Board Members, and express opinions as necessary.

|  |           |
|--|-----------|
| Appointment of Outside Audit & Supervisory Board Members | Appointed |
| Number of Outside Audit & Supervisory Board Members      | 3         |
| Number of Independent Audit & Supervisory Board Members  | 3         |

#### **Outside Audit & Supervisory Board Member's Relationship with the Company (1) (Updated)**

| Name          | Attribute | Relationship with the Company* |   |   |   |   |   |   |   |   |   |   |   |   |
|---------------|-----------|--------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|
|               |           | a                              | b | c | d | e | f | g | h | i | j | k | l | m |
| Ryo Ichida    | CPA       |                                |   |   |   |   |   |   |   |   |   |   |   |   |
| Junichi Mizuo | Academic  |                                |   |   |   |   |   |   |   |   |   |   |   |   |
| Hideo Makuta  | Lawyer    |                                |   |   |   |   |   |   |   |   | ○ |   |   |   |

\* Categories for "Relationship with the Company"

- \* "○" when the director presently falls or has recently fallen under the category;
- "△" when the director fell under the category in the past
- \* "●" when a close relative of the director presently falls or has recently fallen under the category;
- "▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

- c. Non-executive director or executive of a parent company of the Company
- d. Audit & Supervisory Board Member of a parent company of the Company
- e. Executive of a fellow subsidiary company of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an Audit & Supervisory Board Member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)
- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Audit & Supervisory Board Member himself/herself only)
- k. Executive of a company, between which and the Company outside directors/Audit & Supervisory Board Member are mutually appointed (the Audit & Supervisory Board Member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the Audit & Supervisory Board Member himself/herself only)
- m. Others

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Outside Audit & Supervisory Board Member's Relationship with the Company (2) (Updated)

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| Name          | Designation as Independent Audit & Supervisory Board Members | Supplementary Explanation of the Relationship | Reasons of Appointment   |
|---------------|--|---|--|
| Ryo Ichida    | ○  | -----   | Mr. Ichida fulfills his auditing function by proactively speaking from a fair and equitable standpoint from an expert viewpoint, based on his expert knowledge, insight and experience as an accountant and tax accountant, regarding important decisions in Board of Directors and the formulation of audit policies and other resolutions and consultations in Audit & Supervisory Board. He confirmed of internal audit method, measures for stock acquisition in M&A, accounting approach for impairment loss, and spoke out proactively regarding points to be careful of formulating medium-to long-term strategies, officer's compensation and others, Thus, he fully carries out his audit responsibilities and meets the Standards for Independence of Outside Directors/ Outside Audit & Supervisory Board Members stipulated by the Company in [Independent Directors/ Audit & Supervisory Board Members] In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Audit & Supervisory Board Member. |
| Junichi Mizuo | ○  | -----   | Mr. Mizuno fulfills his auditing function by proactively speaking from a fair and  |

|              |   |  |  |
|--------------|---|--|--|
|              |   |  | <p>equitable standpoint from an expert viewpoint, based on his high-level expertise and experience as a researcher in areas such as CSR, corporate governance, and management ethics, regarding important decisions in Board of Directors and the formulation of audit policies and other resolutions and consultations in Audit &amp; Supervisory Board. He confirmed of the implementation status and the appropriateness of the internal whistle blowing system, ESG and SDGs initiatives, approach of human resource development and spoke out points to be careful of formulating medium-to long-term strategies, necessity of continuation of takeover defense measures, and others.</p> <p>He is thus fully capable of fulfilling his supervisory duties. Moreover he meets the Standards for Independence of Outside Directors/ Outside Audit &amp; Supervisory Board Members stipulated by the Company in [Independent Directors/ Audit &amp; Supervisory Board Members]</p> <p>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Audit &amp; Supervisory Board Member.</p> |
| Hideo Makuta | ○ | <p>Mr. Makuta is a lawyer of Nagashima Ohno &amp; Tsunematsu legal office which Daicel receive regal advices. Daicel has paid to this company, which accounts for less than 1% of net sales of this company. Therefore Daicel does not expect above situation to affect his independence as an Outside Director.</p> | <p>Mr. Makuta is expected to fully fulfill his auditing function by proactively speaking from a fair and impartial standpoint, based on his advanced expertise and insight as a lawyer, as well as his experience in corporate legal affairs, when making important decisions in Board of Directors and in formulating audit policies and other resolutions and consultations in Audit &amp; Supervisory Board.</p> <p>He meets the Standards for Independence of Outside Directors/Outside Audit &amp; Supervisory Board Members stipulated by the Company in [Independent Directors/ Audit &amp; Supervisory Board Members]</p> <p>In light of these facts, the Company has determined that no possibility of a conflict of interest exists with regard to general shareholders and has thus appointed him as an Independent Audit &amp; Supervisory Board Member.</p>   |

## [Independent Directors/ Audit & Supervisory Board Members]

|  |   |
|--|---|
| Number of Independent Directors/ Audit & Supervisory Board Members | 8 |
|--|---|

### Matters relating to Independent Directors/ Audit & Supervisory Board Members

The Company's Standards for Independence of Outside Directors/ Outside Audit & Supervisory Board Members is as follows.

The independence of Outside Directors/Outside Audit & Supervisory Board Members of the Company refers to such a person being independent from the Company's management without falling under any of the following:

1. A person executing the business, etc. ("Executing Person") of the Company (\*1) and its affiliates (hereinafter, "the Group") and their relatives, etc. (\*2);
2. A party for which the Group is a principal business partner (\*3) or an Executing Person thereof;
3. A principal business partner of the Group (\*4) or an Executing Person thereof;
4. A major shareholder of the Company (\*5) or an Executing Person thereof;
5. A director and other Executing Person of an organization (\*6) that has received a certain amount or more of donations or subsidies from the Group;
6. A consultant, certified public accountant or other accounting professional, or lawyer or other legal professional who has received a substantial amount of monetary compensation or other consideration other than director/corporate auditor compensation from the Group (\*7) (if the party receiving such consideration is a corporation, association or other entity, a person belonging to the said entity or a person who has belonged to the said entity in the past three years).

(\*1) An Executing Person refers to those who conduct business operations or conducted business operations within the past three years, including directors (excluding Outside Directors), executive officers and employees.

(\*2) Relatives refer to relatives within the second degree of kinship of those who conduct important business operations, including directors (excluding Outside Directors), executive officers and division managers.

(\*3) A party for which the Group is a principal business partner refers to a business partner group (which means entities that belong to the consolidated group to which the direct business partner belongs; the same shall apply hereinafter) that supplies products and services to the Group, where the business partner group's trading amount with the Group exceeds 2% of the consolidated sales of the business partner group in the any of the recent past three fiscal year.

(\*4) A principal business partner of the Group refers to those who fall under either of the following:

- (1) A business partner group to whom the Group supplies products and services, where the Group's trading amount with such group exceeds 2% of the Group's consolidated sales in the any of the recent past three fiscal years.
- (2) A financial institution group (which means entities that belong to the consolidated group to which the direct lender belongs) from which the Group has borrowed funds, where the total amount of the Group's borrowings from the financial institution group exceeds 2% of the Group's consolidated total assets at the end of the any of the recent past three fiscal year.

(\*5) A major shareholder of the Company refers to those who directly or indirectly hold voting interests of 10% or more.

(\*6) An organization that has received a certain amount or more of donations or subsidies from the Group refers to public interest incorporated foundations, public interest incorporated associations, non-profit organizations, etc. which receive donations or subsidies of over 10 million yen per year within any of the past three years from the Group.

(\*7) A consultant, certified public accountant or other accounting professional, or lawyer or other legal professional who has received a substantial amount of monetary compensation or other consideration other than director/corporate auditor compensation from the Group refers to those who received such consideration other than Director/ Audit & Supervisory Member compensation of over 10 million yen from the Group in any of the recent past three fiscal year or those who belong to an entity which receives such consideration from the Group in amount exceeding 2% of the said entity's consolidated sales or gross income.

The Company has designated all Outside Directors /Outside Audit & Supervisory Board Members meeting the qualifications for Independent Directors / Audit & Supervisory Board Members as Independent Directors / Audit & Supervisory Board Members.

#### [Incentives]

|                                  |   |
|----------------------------------|---|
| Incentive Policies for Directors | Performance-linked Remuneration / Other |
|----------------------------------|---|

#### Supplementary Explanation

The Company has decided to introduce performance-based bonuses as a short-term incentive. It will, therefore, pay bonuses in accordance with the accomplishment of performance indicators designated by the Board of Directors as of July 2018.

From July 2018 onward, the Company has also introduced a Restricted Stock Compensation System as a medium- and long-term incentive for Directors (excluding Outside Directors), Executive Officers (excluding those serving concurrently as Director) and Subordinate Directors, aiming to step up value-sharing with shareholders and motivate them to contribute more to the improvement in corporate value in the medium- and long-term. Details of this Stock Compensation Scheme are disclosed in the Securities Registration Statement.

(Excerpts from the Securities Registration Statement of FY2018/3: Details of the Stock Compensation Scheme)

Eligible Directors etc. shall pay all monetary compensation receivables provided by the Company in accordance with this scheme as property contributed in kind, and the Company's common shares shall be issued to the eligible Directors etc. or disposed of by the Company. The total amount of monetary compensation receivables that the Company provides to eligible directors, etc. in accordance with this scheme shall not exceed 100 million yen per year and the total number of common stock of the Company to be issued or disposed of shall not exceed 125 thousand shares per year (however, in the event that a split of the Company's common stock [including allotment of the Company's common stock without contribution] or a reverse stock split is carried out or any event arises that makes it necessary to adjust the total number of the Company's common stock to be issued or disposed of as restricted stocks, such total number shall be adjusted to a reasonable extent). The amount of payment per share shall be determined by the Board of Directors based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution by the Board of Directors (if no trading is reported on that day, the closing price of the trading day immediately preceding that day), within a scope that it shall not be particularly advantageous to the eligible Directors etc. who take the restricted shares.

In the subscription specified by the Securities Registration Statement, the Company decided to grant a total amount of ¥182,474,528 in monetary compensation receivables for 154,117 common shares and set 30 years of transfer restricted period, after taking into account the objectives of the scheme, duties of eligible Directors etc. and other factors and according to the report by the Nomination and Compensation Committee (chaired by an Outside Director), the majority of which is represented by outside Directors.

|                             |       |
|-----------------------------|-------|
| Recipients of Stock Options | ----- |
|-----------------------------|-------|

#### Supplementary Explanation

-----

#### [Director Remuneration]

|  |                          |
|--|--------------------------|
| Disclosure of Individual Directors' Remuneration | No Individual Disclosure |
|--|--------------------------|

#### Supplementary Explanation (Updated)

Amounts of compensation, etc., for Directors and Audit & Supervisory Board Members of the Company for FY 2020/3 are as follows:

Total Amount of Compensation, etc., Per Executive Category, Total Amount of Compensation, etc., by Type and Number of Executives

- Director (excluding Outside Directors) 7 persons, 280 million yen (including monthly compensation of 227 million yen, performance-based bonus of 0 million yen and stock compensation of 52 million yen)
- Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Members) 3 persons, 64 million yen (monthly compensation only)

Outside Director: 6 persons, 62 million yen (monthly compensation only)

Outside Audit & Supervisory Board Members: 3 persons, 39 million yen (monthly compensation only)

Notes:

1. The above figures include 3 Directors and 1 Audit & Supervisory Board Member who retired at the conclusion of the 153rd Ordinary General Meeting of Shareholders held on June 21, 2019.
2. A resolution of the 153rd Ordinary General Meeting of Shareholders held on June 21, 2019, held the amount of compensation for Directors to a maximum of 500 million yen annually (including a maximum of 80 million yen per year for Outside Directors).
3. A resolution of the 152nd Ordinary General Meeting of Shareholders held on June 22, 2018, held the amount of compensation for Audit & Supervisory Board Members to a maximum of 120 million yen annually.

|  |             |
|--|-------------|
| Policy on Determining Remuneration Amounts and Calculation Methods (Updated) | Established |
|--|-------------|

#### Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

##### 1. Approach regarding Compensation

- (1) Compensation of Directors and Audit & Supervisory Board Members shall be determined by Board of Directors' resolution for Directors, and Audit & Supervisory Board Members' discussion for Audit & Supervisory Board Members, within the scope of the total amount of compensation etc. approved by the general meeting of shareholders.
- (2) Compensation of Directors shall consist of monthly compensations, performance-based bonuses and stock compensation. Their compensation system shall be closely linked with the Company's performance and reflect their duties. Currently, the ratio of monthly compensation, performance-linked bonus and stock compensation for Directors (excluding Outside Directors) is approximately 65: 20: 15. Compensation of Audit & Supervisory Board Members shall consist of monthly compensations, and their compensation system shall reflect their duties.
- (3) To ensure transparency and fairness with regard to compensation, the Company will establish opportunities for the exchange of opinions at the Nomination and Compensation Committee, which is an advisory body, and the Board of Directors.
- (4) Bonuses and stock compensations will not be paid to Outside Directors and Outside Audit & Supervisory Board Members.

##### 2. Method of calculating monthly compensation

In principle, the monthly compensation of Directors and Audit & Supervisory Board Members is a fixed amount paid in accordance with internal rules that are determined by the Directors' duties and job titles in business execution and as to whether or not the Audit & Supervisory Board Members are full-time. Regarding monthly compensation, the Company has revised the compensation to an appropriate and fair level reflective of its business performance, accomplishment of medium- and long-term business plans, and social situation, among other factors.

##### 3. Method of calculating bonuses

Bonuses to Directors are closely linked to business performance in order to further share value with shareholders and motivate them to contribute to higher performance, and are paid in accordance with performance indicators established in Board of Directors. Currently, net sales and operating income are used

as the indicators to emphasize business growth, market expansion, and improvements in the earning power of our core business. These indicators are given a 50-50 weighting, and the basic amount of performance-linked bonus is calculated by multiplying the rank-based amount with a payout rate that fluctuates between 0% and 200% depending on the level of accomplishment of the performance indicators. The payout rates linked to the indicators are calculated as follows.

- Calculate the standard deviation ( $\sigma$ , sigma) based on the average value of net sales over the past 5 years.
- Draw a line based on 3 points: the value of net sales for the relevant fiscal year, which serves as an indicator; the value that is  $1\sigma$  higher than the first figure, and the value that is  $1\sigma$  lower than the first figure.
- The payout ratio is determined by plotting the actual net sales of the relevant fiscal year on that line.

(The same calculation is used to determine the payout ratio based on operating income.)

The final amount of performance-based bonuses are determined by assessing the status of each director from the perspectives of practicing sustainable management policies and accomplishing medium-term strategies, and adding or subtracting up to 20% to or from the basic amount of the performance-based bonus.

#### 4. Regarding stock-based compensations

The Company introduced Restricted Stock Compensation System to step up value-sharing with shareholders and motivate Directors to contribute more to medium- to long-term improvement in corporate value. The stocks cannot be transferred for a period of 30 years, and the Board of Directors decides on an amount for each eligible individual, which is then divided by the stock price at a certain point to calculate the number of shares to be awarded.

#### 5. The name of the person who has the authority to make decisions on the policy, the content of authority, and the scope of discretion

The compensation policy for officers has been determined by a resolution of Board of Directors for directors, and by discussions of Auditors for Auditors, based on the deliberations of and reports from the Nomination and Compensation Committee. The amount of monthly remuneration, performance-linked bonus and stock remuneration for each Director is determined by resolution of Board of Directors, and the amount of monthly remuneration for each Audit & Supervisory Board Member is determined by consultation of Audit & Supervisory Board.

#### 6. Nomination and Compensation Committee

To ensure transparency, validity and objectivity, the amount of compensation of Directors and Audit & Supervisory Board Members is determined in accordance with the report by the Nomination and Compensation Committee (chaired by an Outside Director), the majority of which is represented by Outside Directors. When the Committee is consulted by the Chairperson of the Board of Directors or the Chairperson of Audit & Supervisory Board with respect to remuneration of Directors or Audit & Supervisory Board Members, the Committee will deliberate on the matter and report to Board of Directors or Audit & Supervisory Board.

#### 7. Details of activities of Board of Directors and Nomination and Compensation Committee in the process of determining the amount of remuneration for officers for the most recent fiscal year

With regard to the determination of the amount of remuneration for officers for the most recent fiscal year, Nomination and Compensation Committee met twice to thoroughly discuss the revision of the compensation policy and the specific amount of remuneration for each officer. After that, Board of Directors meetings was held 3times, and deliberated from various viewpoints, based on the committee's recommendations, and decided on the remuneration policy and specific remuneration amount for each Director.

### [Supporting System for Outside Directors and/or Audit & Supervisory Board Members (Updated)]

The Board of Directors (with the attendance of Audit & Supervisory Board Members) also provides a summary of the agenda of all the conference bodies described in the securities report to Outside Directors in each instance.

With regard to particularly important decisions, an officer or a person in charge provides details of the project to the Outside Directors in advance and endeavors to provide sufficient information so that the Board of

Directors can make appropriate decisions.

In the event an Outside Director or Outside Audit & Supervisory Board Member is absent from the Board of Directors, the minutes of the Board of Directors are sent to the absent member and an officer later explains any important issues.

#### [Retired presidents/CEOs holding advisory positions]

Information on retired presidents/CEOs holding advisory positions (Updated)

| Name             | Job title/<br>position | Responsibilities  | Employment terms<br>(Full/part time,<br>with/without compensation,<br>etc.) | Date when<br>former role<br>as president/<br>CEO ended | Term |
|------------------|------------------------|---|---|--|------|
| Daisuke<br>Ogawa | Special<br>Advisor     | 1. External activities such as maintaining business relationships with customers<br>2. Advice based on knowledge and experience on the Company's business | part time, with compensation  | June 20,2014   | 1    |

Number of retired presidents/CEOs holding advisory positions

1

Others (Updated)

The Special Advisor does not attend any meeting body including the Board of Directors. In addition, the Special Advisor is not involved in any decision on management and business execution.

The appointment of Special Advisors and its remuneration are decided by the Board of Directors upon the receipt of recommendation issued at the Nomination and Compensation Committee, which is accounted for a majority by Outside Directors and whose chairperson is served by an Outside Director.

## 2.Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) (Updated)

Daicel is the Company with Audit & Supervisory Board. With regard to Directors, by welcoming Outside Directors and allowing them to apply their expertise by providing opinions and advice, the Company has strengthened the appropriateness of the decisions made by its Board of Directors and the supervision of the execution of Director duties. The Company has also adopted an Executive Officer system. The adoption of this system has enabled the Company to clearly separate its decision-making, supervisory, and business execution functions. Such a clear division of roles has allowed the Company to bolster its business management structure and, consequently, corporate activities. The Company has also established two types of Strategic Business Units (SBUs) that have business planning, marketing, and R&D functions. These are Value-Providing SBUs that deliver common value to target markets and Material-Providing SBUs that offer additional value from the chain of technologies and materials that Daicel has long cultivated, regardless of markets. With regard to production functions, we have integrated our plants into two Production Companies according to common core technologies and integrated functions related to ordering, production planning, and logistics into Customer Center to further improve our productivity in such areas as product quality and

production cost and to strengthen competitiveness by optimizing the entire value chain.

The following is an outline of the organization of the Company under the current system.

### **Board of Directors**

Daicel's Board of Directors comprises 10 Directors, 5 of whom have been appointed from outside the Company. The Board of Directors meets to make decisions concerning important management issues in line with the regulations for Board of Directors. Furthermore, the Board of Directors supervises the execution of business and business operations. At Daicel, each Outside Director is tasked with providing advice and supervisory functions according to his or her experience and expertise. The Company's 5 Outside Directors have each been designated as Independent Directors. In addition, the Company has concluded a liability limitation agreement with all 5 Outside Directors.

The term of office for Daicel's Directors is one year. This short term of office enables Daicel shareholders to increase their involvement in the appointment of Directors. At the same time, it allows the Company to better clarify the management responsibilities of its Directors and thereby strengthen its corporate governance.

The members are as follows.

Misao Fudaba, Chairperson of Board of Directors  
Yoshimi Ogawa, Representative Director, President and CEO  
Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer  
Yasuihiro Sakaki, Director and Senior Managing Executive Officer  
Akihisa Takabe, Director and Managing Executive Officer  
Masafumi Nogimori, Outside Director  
Teisuke Kitayama, Outside Director  
Sonoko Hacchoji, Outside Director  
Toshio Asano, Outside Director  
Takeshi Furuichi, Outside Director  
Shinji Fujita, Standing Audit & Supervisory Board Member  
Hisanori Imanaka, Standing Audit & Supervisory Board Member  
Ryo Ichida, Outside Audit & Supervisory Board Member  
Junichi Mizuo, Outside Audit & Supervisory Board Member  
Hideo Makuta, Outside Audit & Supervisory Board Member

In addition to the regular meeting of the Board of Directors which is held once a month in principle based on an annual schedule, a special meeting of the Board of Directors is also held as needed. In FY 2019/3, meetings of the regular Board of Directors 14 times were held to discuss settlement of accounts and budgets, long-term vision, medium-term strategy, reorganization, corporate governance, large-scale capital investment, M & A, and other issues.

### **Audit & Supervisory Board Members and Audit & Supervisory Board**

Daicel currently has 5 Audit & Supervisory Board Members, 3 of whom have been appointed from outside the Company. The Audit & Supervisory Board holds meeting to report, deliberate on, and make decisions on important issues relating to the Company's audits. In addition, Standing Audit & Supervisory Board Members are required to attend meetings of the Management Meetings, the Planning Meetings, the Strategy Meetings, the Risk Management Committee and other important bodies, which thereby enables them to audit the overall management of corporate affairs.

Audit & Supervisory Board Members regularly receive reports from the Company's internal auditing divisions and External Auditors. They collaborate through the exchange of information and opinions on an as-needed basis. Regarding the specific circumstances of their cooperation, this is described in "Collaboration Status of Corporate Auditors, External Auditor, and the Internal Audit Division."

The Company has entered into a liability limitation agreement with its 3 Outside Audit & Supervisory Board Members. All three Outside Audit & Supervisory Board Members have been designated as Independent Audit & Supervisory Board Members.

Ryu Ichida, Outside Audit & Supervisory Board Member, is a certified public accountant and tax accountant, and has knowledge of finance and accounting.

Junichi Mizuo, Outside Audit & Supervisory Board Member, has a high degree of specialized knowledge and experience as a researcher in CSR, corporate governance and business ethics.

Hideo Makuta, Outside Audit & Supervisory Board Member, has been a prosecutor of the Supreme Public Prosecutor's Office and a member of the Fair Trade Commission, and has a high degree of specialized knowledge and insight as a lawyer.

Mr. Shinji Fujita, Standing Audit & Supervisory Board Member, has been in charge of the accounting department for many years, overseeing the finance and accounting of the Group, and has considerable knowledge of these matters.

Hisashi Imanaka, Standing Audit & Supervisory Board Member, has been responsible for the departments that are directly involved in the management of the Company and has a wide range of knowledge and insight regarding the overall management of the Group.

The Company has also established the Office of the Audit & Supervisory Board as an organization to support audits by Audit & Supervisory Board Members. The Office of Audit & Supervisory Board has its own dedicated staffs that are independent from the business divisions.

### **Nomination and Compensation Committee**

The Nomination and Compensation Committee, which is chaired by Outside Directors and consists of Outside Directors, the Chairperson of the Board of Directors, and Representative Directors, reports on the personnel and remuneration of Directors, Executive Officers and other officers in response to requests from Chairperson of Board of Directors or Chairperson of Audit & Supervisory Board.

The members are as follows.

Misao Fudaba, Chairperson of Board of Directors

Yoshimi Ogawa, Representative Director, President and CEO

Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer

Masafumi Nogimori, Outside Director

Teisuke Kitayama, Outside Director

Sonoko Hacchoji, Outside Director

Toshio Asano, Outside Director

Takeshi Furuichi, Outside Director

### **Management Advisory Committee**

The Management Advisory Committee is in charge of deliberating on such important corporate matters as the formulation of Group strategies and business restructuring based on the strategies. By doing so, the committee serves as an advisory body for the President & CEO. The Committee comprises the President & CEO, Directors (excluding Outside Directors), and Executive Officers designated by the President & CEO. The committee convenes these members on an "as-needed" basis.

The members are as follows.

Yoshimi Ogawa, Representative Director, President and CEO

Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer

Yasuhiro Sakaki, Director and Senior Managing Executive Officer

Akihisa Takabe, Director and Managing Executive Officer

### **Executive Officers**

The Company has adopted an Executive Officer System. This system has enabled the Company to isolate its decision-making, supervisory structure, and, consequently, its corporate activities in a clear manner. Currently, this system comprises 23 Executive Officers (4 of whom serve concurrently as Directors).

Executive Officers include the officers in charge of SBU (Strategic Business Unit), heads of SBU, heads of in-house companies, heads of sites, heads of corporate divisions, and the presidents of Group Companies, who administer corporate affairs.

### **Management Meeting**

Daicel has established the Management Meeting as a body to deliberate on and make decisions prior to its President & CEO implementing the basic corporate management policies formulated by the Board of Directors. The Management Meeting consists of the President & CEO, Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members), Directors (excluding Outside Directors) and the Executive Officers selected by the President & CEO as its members. The Management Meeting convenes, in principle, twice a month.

The members are as follows.

Yoshimi Ogawa, Representative Director, President and CEO  
Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer  
Yasuhiro Sakaki, Director and Senior Managing Executive Officer  
Akihisa Takabe, Director and Managing Executive Officer  
Shinji Fujita, Standing Audit & Supervisory Board Member  
Hisanori Imanaka, Standing Audit & Supervisory Board Member  
Hidekage Kojima, Senior Managing Executive Officer  
Takashi Ueno, Managing Executive Officer  
Yukio Yoshino, Executive Officer  
Takashi Iiyama, Executive Officer

### **Planning Meeting**

Regarding important planning projects of the Business Division, the Planning Meeting has been established as a body focused on discussions by members of the management team. It convenes twice a month, in principle.

The members are as follows.

Yoshimi Ogawa, Representative Director, President and CEO  
Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer  
Yasuhiro Sakaki, Director and Senior Managing Executive Officer  
Akihisa Takabe, Director and Managing Executive Officer  
Shinji Fujita, Standing Audit & Supervisory Board Member  
Hisanori Imanaka, Standing Audit & Supervisory Board Member  
Hidekage Kojima, Senior Managing Executive Officer  
Takashi Ueno, Managing Executive Officer  
Yukio Yoshino, Executive Officer  
Takashi Iiyama, Executive Officer

### **Strategy Meeting**

The Strategy Meeting has been established as a place mainly for members of the management team to discuss issues and problems related to divisions, Group Companies, and development of new businesses. It convenes at least monthly, in principle.

The members are as follows.

Yoshimi Ogawa, Representative Director, President and CEO  
Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer  
Yasuhiro Sakaki, Director and Senior Managing Executive Officer  
Akihisa Takabe, Director and Managing Executive Officer  
Shinji Fujita, Standing Audit & Supervisory Board Member  
Hisanori Imanaka, Standing Audit & Supervisory Board Member  
Hidekage Kojima, Senior Managing Executive Officer  
Takashi Ueno, Managing Executive Officer  
Yukio Yoshino, Executive Officer  
Takashi Iiyama, Executive Officer

### **Subsidiary SBU and In-house Company Presidents' Meeting**

The management team receives reports on the current situation and management issues from heads of in-house companies, heads of SBU, and the presidents of Group Companies. Subsidiary, SBU and In-house Company Presidents' Meeting have been established to assess the status of each business and provide support and problem resolution without delay. It convenes twice a year, in principle.

The members are as follows.

Yoshimi Ogawa, Representative Director, President and CEO  
Kotaro Sugimoto, Representative Director and Senior Managing Executive Officer  
Yasuhiro Sakaki, Director and Senior Managing Executive Officer  
Akihisa Takabe, Director and Managing Executive Officer  
Shinji Fujita, Standing Audit & Supervisory Board Member  
Hisanori Imanaka, Standing Audit & Supervisory Board Member  
Hidekage Kojima, Senior Managing Executive Officer  
Dieter Heckmann, Managing Executive Officer

Takashi Ueno, Managing Executive Officer  
Naohide Hakushi, Managing Executive Officer  
Naotaka Kawaguchi, Managing Executive Officer  
Yukio Yoshino, Executive Officer  
Yasuo Tsuji, Executive Officer  
Hitoshi Hayashi, Executive Officer  
Ikuo Takahashi, Executive Officer  
Takashi Iiyama, Executive Officer  
Akio Kojima, Executive Officer  
Haruyoshi Tashika, Executive Officer  
Seiji Yamakado, Executive Officer  
Nobuhiko Ikeda, Executive Officer  
Kazuya Kurosawa, Executive Officer

#### **Auditing Office**

The Auditing Office has been established to provide an internal audit function; it conducts regular internal audits on each business division and Group Company.

The Company has entered into a liability limitation agreement with the Outside Directors and Outside Audit & Supervisory Board Members. The detail of this agreement are as follows:

In assuming liability for the damages stipulated in Article 423 Paragraph 1 of the Companies Act, the individual in question shall be liable for such damages to the extent of ¥15 million or the minimum liability amount set forth in Article 425 Paragraph 1 of the Companies Act, whichever is higher. The above liability limitation applies only in cases where the individual in question has performed the duties resulting in the liability in good faith and in the absence of gross negligence.

### **3. Reasons for Adoption of Current Corporate Governance System**

The Company has established a corporate framework under which the Board of Directors makes management decisions in an efficient manner and fulfills supervisory functions, and Audit & Supervisory Board accomplishes auditing and supervisory functions. Such a framework has enabled the Company to continue reinforcing its corporate governance.

Within the scope presented in the Report by the Financial System Council's Study Group on the Internationalization of Japanese Financial and Capital Markets (released on June 17, 2009), the Company has recognized that the current status of Daicel falls within the scope of "Cooperation with the Election of Outside Directors and the Audit & Supervisory Board."

### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Vitalize the General Shareholder Meetings and Smooth Exercise of Voting Rights (Updated)

|   | Supplementary Explanations   |
|---|--|
| Scheduling AGMs Avoiding the Peak Day         | 154th Annual General Meeting of Shareholders was held on June 19, 2020.  |
| Allowing Electronic Exercise of Voting Rights | As of the Company's 150th Annual General Meeting of Shareholders held on June 17, 2016, voting rights could be exercised via the Internet. In addition, from the 154th Ordinary General Meeting of Shareholders held on June 19, 2020, the Company has introduced "smart exercise" that allows shareholders to log in to the voting website by reading the QR code |
| Participation in Electronic Voting Platform   | Beginning with the Company's 150th Annual General Meeting of Shareholders held on June 17, 2016, voting rights could be exercised with the Voting Rights Exercise Form provided by ICJ, Inc.   |
| Providing Convocation Notice in English       | An English-language translation of the convocation notice (a condensed version of a convocation notice and reference document) was posted on the Tokyo Stock Exchange and on the Company's websites.   |
| Other   | Beginning with the 150th Annual General Meeting of Shareholders held on June 17, 2016, the notice of convocation was posted on the websites of the Tokyo Stock Exchange and the Company before the scheduled mailing date for the notice.  |

#### 2. IR Activities (Updated)

|   | Supplementary Explanations   |
|---|--|
| Preparation and Publication of Disclosure Policy                    | The Company website ( <a href="https://www.daicel.com/en/">https://www.daicel.com/en/</a> ) displays the policy on information disclosure stipulated in the Information Disclosure Regulations, specifically, that information be disclosed (1) voluntarily and proactively, (2) with continuity and consistency, (3) quickly and in a timely manner, (4) accurately and in a useful and easy-to-understand manner, and (5) while ensuring fair information disclosure by the Company.   |
| Regular Investor Briefings for Analysts and Institutional Investors | On November 5, 2019, the President & CEO held a briefing session on the financial results for the first half of fiscal year ended March 31, 2020. The Company had planned that the President & CEO held a briefing session on the financial results for the fiscal year ended March 31, 2019 on May 2020, but the Company canceled this event because of COVID-19. Instead of this event, the Company held a conference call by the department in charge of IR. And for the release of the first-quarter and third-quarter results, a conference call was held by the department in charge of IR. On June 10, 2020, the President & CEO held a briefing session on medium-term strategy at a web conference. |
| Posting of IR Materials on Website                                  | The Company posts its Annual Report, shareholder correspondence, medium-term business plan briefing materials, and other documents on its website ( <a href="https://www.daicel.com/en/">https://www.daicel.com/en/</a> ).   |
| Establishment of Department and/or Manager in Charge of IR          | The Company has established the Investor Relations and Public Relations as its dedicated IR department.  |

#### 3. Measures to Ensure Due Respect for Stakeholders (Updated)

|  | Supplementary Explanations |
|--|----------------------------|
|--|----------------------------|

|   |  |
|---|--|
| Stipulation of Internal Rules for Respecting the Position of Stakeholders | We stipulate respect for stakeholders' viewpoints in the Daicel Group Conduct Policy and the Daicel Code of Conduct, which embodies that idea. The Daicel Group Conduct Policy and the Daicel Code of Conduct are also posted on the Company website ( <a href="https://www.daicel.com/en/">https://www.daicel.com/en/</a> ).  |
| Implementation of Environmental Activities, CSR Activities etc.           | <p>The Group has basic principle of "The company making lives better by co-creating value –Sustainable Value Together". The Company has developed "Sustainable management policy" in the midst of a change of value of people toward the realization of a sustainable society. And the Company prioritizes safety, quality, and compliance as most important for our foundation, and seeks to establish a sustainable society and achieve the Group's business expansion by maintaining our integrity, steadfast efforts, and self-transformation, based on this policy.</p> <p>Sustainable Management Policy</p> <ul style="list-style-type: none"> <li>• We create provide people with new values to achieve better quality of life</li> <li>• We construct a circular process with all our stakeholders to make harmonious coexistence with the environment</li> <li>• We promote "human-centered business management" that enables to grow while establishing their own presence and achieving fulfillment.</li> </ul> <p>Details of the Company's initiatives are disclosed in the Daicel Report (Annual Report) and on the Company website (<a href="https://www.daicel.com/en/">https://www.daicel.com/en/</a>) in detail. Daicel Reports (Annual reports) are also available on the Company website.</p>   |
| Development of Policies on Information Provision to Stakeholders          | According to the Information Disclosure Regulations, information is to be disclosed (1) voluntarily and proactively, (2) with continuity and consistency, (3) quickly and in a timely manner, (4) accurately and in a useful and easy-to-understand manner, and (5) while ensuring fair information disclosure by the Company.   |
| Other   | <p>Daicel Group respects the diversity, personality, and individuality of all Stakeholders of the Group in accordance with the "Daicel Group Conduct Policy" and is actively working to ensure and maintain a healthy, comfortable working environment free of discrimination and harassment. Daicel has formulated an action plan to encourage women seeking to take on challenges and grow to work energetically and play an even more active role. We are steadily promoting initiatives in the Check-Action- Plan-Do cycle.</p> <p>The Company is taking on work style reforms and, to this end, proactively making changes in the ways we process our tasks, with the aim of securing greater productivity, while also promoting the establishment of new systems to support work-life balance and the review of existing systems.</p> <p>The main measures we have taken through above initiatives are as follows.</p> <ol style="list-style-type: none"> <li>1. Measures to Support Work-Life Balance <ul style="list-style-type: none"> <li>• Encouraging child-rearing leave for male employees</li> <li>• Active promotion of telework (utilization of telecommuting systems and satellite offices)</li> <li>• Establishment of a new flextime system</li> </ul> </li> <li>2. Fostering female leaders (administrative post) candidates and creating an environment where they can play an active role <ul style="list-style-type: none"> <li>• Implementation of training to raise awareness among all male leaders and all female employees</li> <li>• Implement of training for female leaders "Nadeshiko" seminar to provide opportunities for leadership development</li> <li>• Promoting the action based on guideline of diversity 2.0 as a Nadeshiko challenge company.</li> </ul> </li> </ol> |

|  |  |
|--|--|
|  | <ul style="list-style-type: none"> <li>• Establishment of diversity promotion project, and promoting initiatives to change employee behavior and awareness.</li> </ul> <p>3. Creating Attractive Working Conditions and a Comfortable Working Environment</p> <ul style="list-style-type: none"> <li>• Set paid vacation encouragement days of 5 days a year for each business site Promotion of initiatives to increase the paid day off utilization rate (The paid day off utilization rate was 73.4% in FY2020/3: company-wide average)</li> <li>• Active promotion of health care initiatives (Mental health and physical health)</li> </ul> <p>The Company will continue to work to foster a corporate culture that takes advantage of diverse individuality and characteristics, regardless of gender and disabilities, and will work on further diversity promotion activities. As of the end of March 2020, women hold 3.7% of administrative post in Our Company and 9.5% of senior positions (Candidates for an administrative post). As of the filing date of this report, 1 of the 10 Directors is female.</p> |
|--|--|

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development (Updated)

The Company's Basic Policy for Structuring Internal Control System is outlined below.

- 1. System for ensuring that the Directors and employees of the Company and Group Companies (the "Daicel Group") execute their duties in compliance with laws and regulations and the Company's Articles of Incorporation**
  - a. In addition to complying with laws and regulations, the Company will respect the social norms and broad ethical standards required of companies, seek to practice fair and appropriate management, establish the Daicel Group Conduct Policy, and formulate the Daicel Code of Conduct as a concrete action guideline. We will formulate specific action guidelines for Group Companies and confirm their status of implementation.
  - b. We will establish a Corporate Compliance Program Division as an organization promoting the implementation of compliance within the Daicel Group.
  - c. The Corporate Compliance Program Division provides compliance education and enlightenment for raises awareness of Directors and employees of the Daicel Group in keeping with Management Regulations on Corporate Compliance. Additionally, the Division will establish the activity plans of each division and Group companies, track the results of these plans and report it to the Board of the Directors every year.
  - d. The Corporate Compliance Program Division periodically conducts interviews with Group Companies in an effort to monitor the status of compliance among these companies.
  - e. Should a serious compliance issue be discovered, such as a serious violation of laws and regulations, Directors and employees of the Daicel Group would immediately report to the Corporate Compliance Program Division and, in accordance with the report, the officer in charge of the Corporate Compliance Program Division will investigate and take necessary measures in consultation with the President & CEO.
  - f. The Company will establish a whistle-blowing system both inside and outside the Company as a system to detect violations of laws and regulations in the Daicel Group at an early stage and ensure that whistle-blowers do not suffer any negative consequences.
  - g. In order to ensure the reliability of financial reporting, the Company will comply with relevant laws and regulations and establish the necessary system.
  - h. The Daicel Group will adopt a firm stance against anti-social forces, establish a concrete conduct policy to ensure that absolutely no such relationships are formed and ensure this policy is fully disseminated to all employees. The Company will also establish a mechanism for eliminating any contact with anti-social forces by collecting and compiling relevant information.
- 2. System for preserving and managing information related to the execution of duties by Directors**
  - a. The Company will properly manage and preserve the following important documents (including records on electronic media) related to the duties of Directors and maintain these documents in a readable form:
    - i. Minutes of General Meeting of Shareholders
    - ii. Minutes of Board of Directors
    - iii. Financial documents
    - iv. Other important documents related to the execution of duties
  - b. In keeping with the various regulations applicable to information management, the Company will properly manage information by type.
  - c. In keeping with the various regulations applicable to document management, the Company will properly manage and preserve the document specified in 2a. above and other documents, including minutes of various other conferences, and important documents from each department.
- 3. Regulations and other systems concerning risk management in the Daicel Group**
  - a. The Company will establish a Risk Management Committee in order to implement a system capable of appropriate responses to risks to the Daicel Group's corporate activities.
  - b. The Company will adopt various regulations related to risk management in the Daicel Group.
  - c. The Risk Management Committee will conduct annual surveys and evaluations of the state of risk management by the Daicel Group with respect to the various risk management regulations, report to

the Management Meeting and other conferences, and other aspects and will discuss the required response measures. It will also report the results of its work to the Board of Directors.

- d. We will establish, maintain, and improve a reporting system for use in time of crisis and mechanisms that can respond promptly and appropriately, such as setting the Daicel Group's policies in the event of a disaster or accident.
- e. The Daicel Group will formulate a business continuity plan and endeavor to maintain business continuity promptly in the aftermath of a disaster.

**4. 4. System for ensuring efficient execution of duties by the Directors of the Daicel Group**

- a. We will introduce an Executive Officer System to reinforce corporate management through strengthening the business execution system by clarifying the separation of management decision-making and supervisory functions from the Company's business execution functions. The Board of Directors will make decisions on important matters concerning management and supervise the execution of duties by Directors and Executive Officers.
- b. The Company will appoint multiple Outside Directors to ensure the appropriateness of the Board of Directors' decision-making. Of these, Directors with high independence are specified as so-called Independent Directors.
- c. The Board of Directors will receive the report from the Nomination and Compensation Committee that is chaired by an Outside Director, to name candidates for the Directors, to select Chairperson, President and Executive Officers who execute business operations, and to decide the segregation of duties of the Directors.
- d. The Board of Directors determines the scope of division of duties of the Executive Officers who will execute business operations, and the Directors supervise the execution of efficient operations based on the division-of-business rules that determine the segregation of duties for each important division.
- e. The Company will promote clarification of authority and decision-making procedures for organizations of the Daicel Group and improve the efficiency of execution of duties.
- f. In accordance with the basic philosophy of the Daicel Group, the Company will formulate long-term goals and establish a medium-term plan that sets forth the objectives and targets to be achieved and, through budget management in each fiscal year, will aim to streamline its management toward their steady achievement.
- g. The Company will review the adequacy of the organization and the division of duties as appropriate and will endeavor to conduct business efficiently by organizing projects for the entire Company or issues that extend across the Group.
- h. The Company will regularly convene the Subsidiary and Internal Company Presidents' Meetings, where the Directors and the Executive Officers who execute business operations, including the President and representatives of key Group Companies attend and share management issues and important information.

**5. System to ensure the appropriateness of operations in the Daicel Group**

- a. Daicel will endeavor to ensure the effectiveness of the internal control within the entire Group, through the establishment of the Internal Control Council, as a body to grasp the status of the entire Group accurately and discuss the policies related to internal control.
- b. In order to strengthen Group management, the Company will appropriately implement Group corporate management regulations that set out procedures of important decision-making among Group Companies and reporting of management status, and identify the divisions responsible for Group Companies. In addition, the Company will endeavor to monitor the conditions and risks facing the Daicel Group through the communication or reporting based on these regulations.
- c. The Daicel Group will establish the Daicel Group Conduct Policy as an ethical code of conduct for the entire Group and will aim to raise awareness of ethics and compliance within the Group.
- d. The Daicel Group will ensure thorough information management through standardization of the system infrastructure and ensure the effectiveness of internal control.
- e. The Auditing Office will work with the Responsible Care Division, the Corporate Compliance Program Division, the Quality Management Division, the Audit & Supervisory Board Members, and the External Auditors to ensure the proper operation of the Daicel Group through audits.

**6. Matters related to employees in cases where the Audit & Supervisory Board Member requests the employees to assist with duties, matters concerning the independence of employees from the**

**Directors, and the matters about the effectiveness of instructions to employees of the Audit & Supervisory Board Members.**

- a. The Company will establish the Office of the Audit & Supervisory Board as an organization to support the duties of Audit & Supervisory Board Members and will immediately select suitable persons if members of the Audit & Supervisory Board request an increase in the members of the Office of Audit & Supervisory Board.
- b. The Company will obtain prior approval of the Audit & Supervisory Board Members concerning decisions on matters concerning personnel authorities such as appointments, transfers, evaluations and promotion of members of the Office of Audit & Supervisory Board.
- c. A member of the Office of Audit & Supervisory Board is will be under the command of Audit & Supervisory Board Members.

**7. Systems for enabling Directors and employees of the Daicel Group to report to the Audit & Supervisory Board Members and for ensuring that audits by the Audit & Supervisory Board Members are conducted effectively**

- a. The President & CEO and Directors who execute business shall report on the status of business execution as needed at important meetings such as the Board of Directors. Regarding reports on the status of business execution at important meetings such as Management Meetings, the Standing Audit & Supervisory Board Member attending such important meetings will report to the Audit & Supervisory Board.
- b. Discussing with the Audit & Supervisory Board Members, the President & CEO will establish a system for reporting to the Audit & Supervisory Board Members, including establishing the rule of items to be reported to the Audit & Supervisory Board Members, and Directors and employees will immediately notify the Audit & Supervisory Board Members of any facts they discover that have potential to cause significant damage to the Company.
- c. The President & CEO will receive the presentation for the basic audit plan for the fiscal year specified by the Audit & Supervisory Board, work to improve the system so that audits of each division and Group Company can be implemented effectively in cooperation with the Auditing Office.
- d. Through periodic meetings with the Audit & Supervisory Board Members, the Auditing Office, the Responsible Care Division, the Corporate Compliance Program Division and the Quality Management Office will exchange opinions and report on the status of the Daicel Group as determined during the course of business.
- e. The Company will establish a system in which the Audit & Supervisory Board Members can confirm reports from Group Companies based on various regulations concerning management of Group Companies.
- f. The Company will establish a system through which the Audit & Supervisory Board Members can confirm the expenses required for the performance of their duties, formulate a budget, and review and redeem the content based on requests from the Audit & Supervisory Board Members.
- g. The Corporate Compliance Program Division will periodically report to the Audit & Supervisory Board Members on the status of internal reporting through a whistle-blowing system with internal and external channels.
- h. Regarding reporting to the Audit & Supervisory Board Members, the Company will ensure that informants do not suffer any negative consequences, due to the reporting actions.

The Company conducted surveys and evaluated the effectiveness of specific activities for each item in the Basic Policy for Structuring the Internal Control System described above. From the results, the Internal Control Council has confirmed the operational status of the basic policy and reported it to the Board of Directors. The following is an outline of the operational status of the basic policy, and the Company has confirmed that the operational status of the basic policy for the current business year is appropriate.

**Compliance**

- Formulation of a corporate compliance fiscal year initiatives plan for each department and Group Company, implementation of the plan, and reporting of the results to the Board of Directors
- Provision of corporate compliance training for executives and other employees and other training related to compliance

- Dissemination of helpline.
- Company's internal whistle-blowing system through helpline works well
- Evaluation of internal controls on financial reporting, and reporting to the Board of Directors

#### **Information Management**

- Reports statutory disclosure to Information Disclosure Committee, confirmation process practice
- Appropriate document storage based on document management regulations

#### **Risk management**

- Review of the risk management status of each department and each Group Company through reporting activities and issuance of a report to the Board of Directors on the management status and risk management at all
- Implementation of comprehensive disaster response drills
- Formulation of business continuity plan and confirmation of the operation status

#### **Efficiency of execution of duties**

- Implementation of resolutions of the Board of Directors and reporting to the Board of Directors according to board regulations
- Provision of advice to the Nomination and Compensation Committee on nominations and compensation and receipt of the report by this committee
- Implementation of effectiveness evaluation of the Board of Directors
- Implementation of various decisions concerning the execution of duties based on consensus

#### **Appropriateness of operations in the Group**

- Surveying specific activities of the Group related to the Basic Policy for Structuring the Internal Control System and monitoring the operational status of the policy
- Involvement in important decision-making activity of Group Companies according to various regulations concerning management of Group Companies, and business management through operation status reports
- Maintenance of core systems in Group Companies
- Implementation of quality management at each business site

#### **Auditing system for the Audit & Supervisory Board Members and effectiveness of audits**

- Confirmation of the independence of members of the Office of Audit & Supervisory Board
- Conducting meetings with the CEO
- Implementation of budget controls and burden of expenses by the Company as necessary
- Implementation of audits based on the Audit & Supervisory Board Audit Plan

## **2. Basic Views on Eliminating Anti-Social Forces**

The Company's basic approach to the elimination of anti-social forces and its state of development are outlined below.

As stipulated in the Basic Policy for Structuring the Internal Control System, the Company has adopted the

Daicel Code of Conduct and has worked to disseminate it as its basic approach to eliminating contacts with anti-social forces as follows:

“We, in cooperation with the police, industrial associations, and regional entities, will take a firm stand against anti-social influences and/or organizations that disturb civil order and safety. We will have no connection with them in any way, either directly or indirectly.” We are gathering and compiling information and are developing a mechanism to eliminate anti-social forces.

In addition, the Company has established a specialized department to deal with anti-social forces, responding to cases where there are approaches from anti-social forces, and maintaining close contact with police, lawyers, regional companies, and other specialized external organizations. Thus, the Company has compiled information on useful countermeasures applicable to anti-social forces and has made Directors and employees thoroughly aware of them.

## V. Other

### 1. Adoption of Anti-Takeover Measures

|   |      |
|---|------|
| Adoption of Anti-Takeover Measures<br>(Updated) | None |
|---|------|

#### Supplementary Explanation (Updated)

The Company had adopted of the takeover defense measures since 2006, however the Company abolished it which expired at annual general meeting of shareholders on June 19, 2020.

The Company ensures the common interests of shareholders and improves corporate value by focusing on the steady implementation of the new long-term vision and medium-term strategy that start in FY 2021/3, regardless of whether the company has takeover defense measures. The Company will request any person who makes or intends to carry out a large-scale purchase of the Company's shares to provide necessary and sufficient information so that shareholders can properly judge the pros and cons of the large-scale purchase. In addition, the Company will disclose the opinion of the Board of Directors and take appropriate measures based on the Financial Instruments and Exchange Act, the Companies Act and other related laws and regulations in order to secure the information and time necessary for the consideration of shareholders.

### 2. Other Matters Concerning to Corporate Governance System (Updated)

The status of the Company's internal system related to the timely disclosure of Company information is outlined below.

#### 1. Basic approach and policy in relation to information disclosure

Under the Daicel Group Conduct Policy, the Company stipulates that it will willingly and justly disclose reliable corporate information. Moreover, under the Daicel Code of Conduct that embodies it, the Company stipulates that it will actively disclose information concerning its corporate finances and the status of its business activities in an appropriate, timely, and clear manner; accurately and properly record and store information on its corporate trading, assets, and expense status using fair accounting procedures based on legal and generally accepted accounting standards; prohibit insider trading; and strive to promote the understanding of its corporate activities by active communication with society.

In addition, under the Company's Information Disclosure Regulations, the Company remains committed to disclosing Company information (1) voluntarily and proactively, (2) with continuity and consistency, (3) quickly and in a timely manner, (4) accurately and in a useful and easy-to-understand manner, and (5) while ensuring fair information disclosure by the Company.

The Company distributes the Daicel Group Conduct Policy and Daicel Code of Conduct in booklet form to all executives and employees, publish its Information Disclosure Regulations on its intranet, and takes steps to disseminate this information extensively through in-house training and the like.

#### 2. Information Disclosure System

##### (1) Summaries of financial results and securities reports and the like (Information on settlement of accounts)

With respect to account settlement information, the Accounting & Finance Group and the Investor Relations & Corporate Communications jointly compile the financial statements using source materials submitted by the respective department heads and presidents of Group Companies.

In preparing securities reports and the like, in addition to undergoing audits by the External Auditor for the financial statements created by the above, the Company also reflects the opinions of the Audit & Supervisory Board Members on other matters.

The details of information disclosure regarding summaries of financial results are decided by the Information Disclosure Committee under the chairmanship of the President & CEO. The Officer in charge of the Corporate Support Headquarter reports to the Board of Directors. The Company then immediately discloses such financial reports following deliberation.

Following deliberation by the Information Disclosure Committee, the Management Confirmation Form is submitted to the External Auditor. After the audit report is received from the External Auditor, the

Company submits the Securities Report and the like within the deadline for submission following the approval of the President & CEO.

**(2) Information on Corporate Decisions**

Regarding material information arising from the decisions of the Company's Board of Directors (or Management Meetings) and decisions of the executive bodies of Group Companies, Information can be grasped in advance by registering matters to be discussed at various meeting bodies held in accordance with the Company's Rules for Approval or Management Regulations for Group Corporate Management in advance. Following sufficient deliberation by each meeting body, the Officer of the Corporate Support Headquarter and the Investor Relations & Corporate Communications will determine whether the information is material and subject to timely disclosure under Securities Listing Regulations ("timely disclosure regulations, etc.").

When determining whether information is material, the Information Disclosure Committee will determine whether to disclose and will deliberate on the content, timing, method, etc., of information disclosure.

With regard to material information being considered for disclosure, the Company will promptly disclose that information after the Board of Directors and executive bodies have come to a decision on the matter.

**(3) Information on Occurrences**

With regard to facts relevant to occurrences at the Company or Group Companies that may be considered material information, the President & CEO, representative Director, officers in charge of relevant departments, and the officer in charge of the Corporate Support Headquarter will disclose such information immediately after the occurrence or their becoming aware of it according to the terms of the Risk Response Rules, PL Accident Response Regulations, and Regulations on Insider Trading.

The officer in charge of the Corporate Support Headquarter and the Investor Relations & Corporate Communications will confirm whether a particular case can be classified as material information subject to timely disclosure rules.

If, after due consideration, the information is deemed useful to investors and falls under the category of material information, the Information Disclosure Committee will deliberate on the matter, determine the need for disclosure, and promptly disclose it.

**3. Management of Material Information**

With respect to the handling of material information prior to timely disclosure, the Officer of the Corporate Support Headquarter, as the administrator, will limit the transmission of such material information according to the Regulations on Insider Trading. In addition to establishing this supervisory method, the Company prohibits the sale and purchase of shares and the like prior to the public disclosure of the material information by the executives and employees possessing this information. The Company is taking steps to prevent insider trading by executives and employees through in-house training and other initiatives intended to raise awareness of the details of its Regulations on Insider Trading.

## Daicel Corporation Corporate Governance System

