



Corporate Governance

Basic Concept

Based on the basic mission of the sustainable improvement of shareholder value, the Teijin Group has been strengthening its governance to fulfill its responsibilities to various stakeholders. The basics of corporate governance are “improving transparency,” “ensuring fairness,” “accelerating decision-making,” and “ensuring the independence of monitoring and supervision,” and we are working to establish and strengthen an effective corporate governance system through items such as an “Advisory Board,” a “Board of Directors including Independent Outside Directors and a Corporate Officer System,” and a “Board of Statutory Auditors System including Independent Outside Statutory Auditors.” Furthermore, the Group has established and published the Teijin Group Corporate Governance Guide, which serves as its corporate governance guidelines.

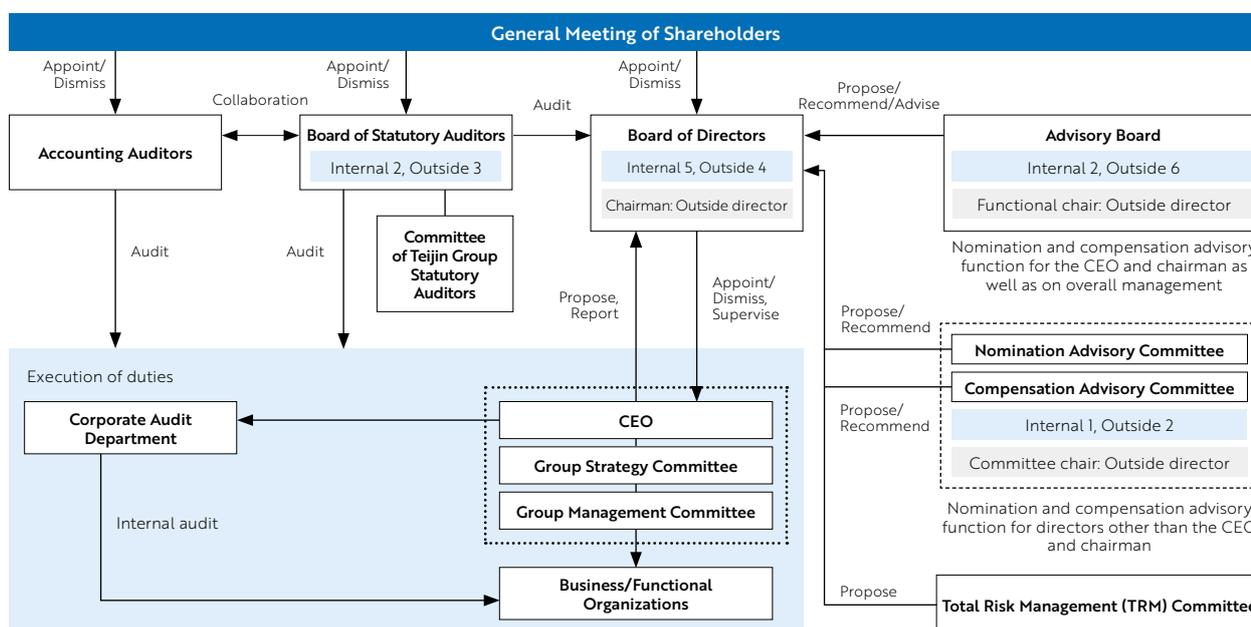
Initiatives for Strengthening Governance

	1999	2003	2012	2018
Separation of management and execution	24 directors	1999: 9 directors	2009: 10 directors	2018: 9 directors
Advisory committees	1999: Established Advisory Board (thereby enhancing management transparency)		2015: Established Nomination Advisory Committee and Compensation Advisory Committee	
Outside directors and statutory auditors	1999: 3 outside statutory auditors (comprising the majority of the Board of Statutory Auditors)		2003: Introduced 3 outside directors	2012: 4 outside directors
Corporate philosophy	Formulated in 1993			
Code of Conduct	1993: Formulated Corporate Code of Conduct and Standards of Conduct	1998: Formulated Corporate Standards of Conduct		2018: Revised the Code of Conduct

Corporate Governance System (As of June 2020)

Organization structure Company with Board of Statutory Auditors

The Company deems that a corporate governance system based on two core functions—(1) the execution of business led by the Company’s inside directors (limited executive directors) and (2) management oversight and supervision focused on by outside directors and carried out by statutory auditors and the Board of Statutory Auditors—is appropriate. Therefore, the Company has decided to continue to be a company with a Board of Statutory Auditors for the time being.



Expected Role and Status of Activities of Directors, Statutory Auditors, and Non-Japanese Experts

	Name	Expected role	Advisory Board	Nomination Advisory Committee/ Compensation Advisory Committee	Attendance at meetings of the Board of Directors and Board of Statutory Auditors in fiscal 2019
Directors	Jun Suzuki	Promote strategies to enhance corporate value in the future based on the medium-term management plan formulated in February 2020	✓	✓	Attended 12 out of 12 Board of Directors' meetings
	Yoshihisa Sonobe	Promote management strategies alongside efforts to maintain a sound financial base by leveraging his knowledge and insight cultivated in the finance and accounting fields and the management strategies field			Attended 12 out of 12 Board of Directors' meetings
	Akihisa Nabeshima	Increase profitability of the Healthcare Business and grow new healthcare businesses by leveraging his knowledge and insight cultivated in the Healthcare Business Field			Attended 9 out of 9 Board of Directors' meetings
	Toshiya Koyama	Increase profitability of the Material Business and promote future development in prioritized business areas by leveraging his experience and insight cultivated in the Materials Business Field			Assumed the post in June 2020
	Eiji Ogawa	Formulate strategies as Chief Officer (Corporate Strategy) to achieve the important tasks of business portfolio transformation and strengthening of management base for creating growth platforms			Assumed the post in June 2020
Independent Outside Directors	Fumio Ohtsubo	Provide advice and suggestions on business management based on his experience as president and chairman of a listed company as well as his abundance of business experience and high level of insight	✓	✓	Attended 12 out of 12 Board of Directors' meetings
	Yukako Uchinaga	Provide advice and suggestions on business management based on her experience as vice president of a listed company as well as her abundance of business experience and deep knowledge of diversity	✓		Attended 12 out of 12 Board of Directors' meetings
	Yoichi Suzuki	Provide advice and suggestions on business management based on his experience as a diplomat, which includes a background in negotiations and international economic and trade issues, as well as his wealth of knowledge and high level of insight from a global perspective	✓		Attended 12 out of 12 Board of Directors' meetings
	Masaru Onishi	Provide advice and suggestions on business management based on his experience as president and chairman of a listed company as well as his abundance of business experience and high level of insight	✓	✓	Attended 9 out of 9 Board of Directors' meetings
Statutory Auditors	Masanori Shimai	Monitor overall management and provide effective advice based on his experience in the administration and accounting departments, his considerable knowledge of accounting and finance, and his familiarity with the Company's business			Attended 9 out of 9 Board of Directors' meetings Attended 9 out of 9 Board of Statutory Auditors' meetings
	Akio Nakaishi	Monitor overall management and provide effective advice by leveraging his knowledge regarding technology in the Material Business and wealth of practical experience			Assumed the post in June 2020
Independent Outside Statutory Auditors	Gen Ikegami	Contribute to maintaining and improving the Company's compliance, monitor overall management, and provide effective advice based on his deep insight and extensive experience as a certified public accountant			Attended 12 out of 12 Board of Directors' meetings Attended 12 out of 12 Board of Statutory Auditors' meetings
	Hitomi Nakayama	Contribute to maintaining and improving the Company's compliance, monitor overall management, and provide effective advice based on her deep insight and wealth of experience as a lawyer			Attended 12 out of 12 Board of Directors' meetings Attended 12 out of 12 Board of Statutory Auditors' meetings
	Jun Arima	Contribute to maintaining and improving the Company's compliance, provide monitoring and effective advice for overall management, and offer advice and suggestions regarding environmental management and other matters based on his wealth of knowledge and experience related to global environmental and economic issues			Assumed the post in June 2020
Non-Japanese Experts	Alexander H.G. Rinnooy Kan* ¹	Provide advice and suggestions regarding corporate management and governance based on his wealth of knowledge related to the economies and businesses of the Netherlands and other countries in Europe as well as his high level of insight from a global perspective	✓		—
	Thomas M. Connelly, Jr.* ²	Provide advice and suggestions that help enhance corporate value based on his experience as vice president of a major U.S. chemical company, as well as his abundance of experience in corporate and business management and high level of insight from a global perspective	✓		—

*1 Professor, University of Amsterdam, the Netherlands *2 Executive Director and CEO, American Chemical Society

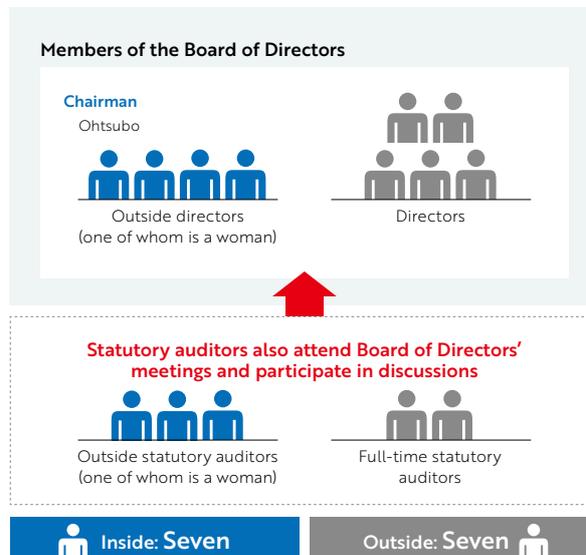
Corporate Governance

Board of Directors

The main goal of the Board of Directors is to maximize shareholder value each fiscal year and over the medium to long term. At the same time, the Board pays close attention to the position of stakeholders other than shareholders. The Board of Directors also deliberates, determines, and approves Groupwide management policies and plans as well as any other items required by law. Furthermore, the Board of Directors is responsible for ensuring accountability. It must also clarify policies on compliance and risk management related to the external environment surrounding the Teijin Group and oversee the implementation of such policies.

Overview of the Board of Directors

- No. of directors stipulated in Articles of Incorporation: Up to 10
- Term: One year
- Chairman of the Board of Directors: Outside director (Fumio Ohtsubo)



Evaluation of Board of Directors' Effectiveness

In order to further ensure the effectiveness and enhance the functions of the Board of Directors, the Company conducts an analysis and evaluation of the effectiveness of the entire Board of Directors once a year. The method of the Board of Directors' effectiveness evaluation for fiscal 2019 and an overview of the results are as follows.

Analysis and Evaluation Method

A self-evaluation questionnaire was conducted for the nine directors and five statutory auditors. The evaluation points in the questionnaire were compiled from eight fields. Respondents evaluated the questionnaire's 35 questions based on a five-step scale and made comments. Based on the results of the questionnaire, deliberations were held by the Board of Directors regarding the Board's effectiveness as well as issues to be addressed and improvement measures.

- | | |
|---|--|
| 1. Strategy and execution thereof | 6. Management team evaluation, compensation, and succession planning |
| 2. Risk and crisis management | 7. Stakeholder dialogue |
| 3. Corporate ethics | 8. Composition and operation of the Board of Directors |
| 4. Performance monitoring | |
| 5. Organization and business restructuring-related transactions | |

Evaluation Results

The results of the Board of Directors' effectiveness evaluation conducted via the above process found that there was no issue with the current corporate governance system and its implementation, and that the Company's Board of Directors was generally functioning properly and its effectiveness was verified. In addition, the questionnaire results indicated that there was a high ratio of positive evaluations for all items.

■ Status of Response to Issues to Be Addressed Continuously
In regard to the issues that have been recognized as needed to be addressed continuously in the Board of Directors' effectiveness evaluations to date, we are carrying out the following response and working to make improvements on an ongoing basis.

Stakeholder Dialogue

Continuously report to the Board of Directors the analysis of stakeholder dialogues and the content of disseminated information

Risk Management System Enhancement

Hold discussions at Board of Directors' meetings on the content of proposals from the TRM Committee, which is conducting comprehensive risk management for the Group, and continuously report to the Board of Directors at regular intervals the results of major business partner surveys and the status of BCP countermeasures

■ Issues Recognized in the Fiscal 2019 Evaluation

- The following issues were recognized for enabling the Company's Board of Directors to perform its original function with greater effectiveness.
- Deepening discussion regarding new business creation
 - Deepening discussion regarding the rationality of public listing of parent and subsidiary companies
 - Deepening discussion regarding the position of advisory bodies

Initiatives Going Forward

In fiscal 2020, the Company will continue its initiatives from fiscal 2019. At the same time, the Company will strengthen efforts with a focus on addressing the newly recognized issues in the fiscal 2019 effectiveness evaluation.

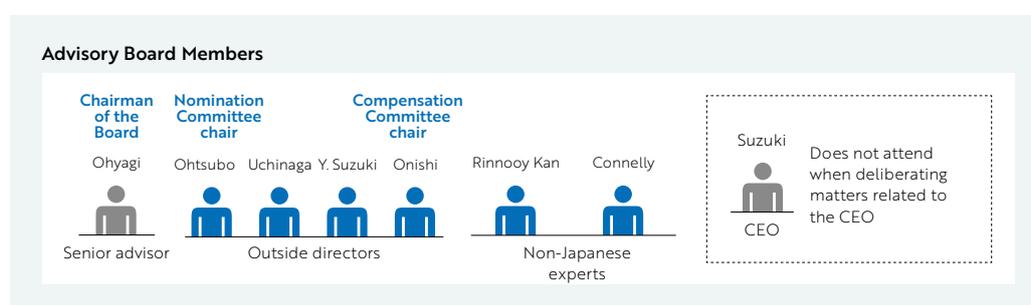
Advisory Board (Consultative Body for Management)

The Advisory Board serves as a consultative body to the Board of Directors. The Advisory Board provides advice and recommendations on the Company's overall management. In addition, the Nomination Committee and the Compensation Committee, which have been established within the Advisory Board, oversee the changing of the CEO and recommend successors. These committees also discuss compensation systems and levels for the CEO and chairman and evaluate the performance of the CEO. As a whole, the Advisory Board comprises five to seven outside advisors (currently comprising four outside directors and two non-Japanese experts), as well as the chairman of the Board (or the senior advisor in the case of a vacancy in the Chairman of the Board post) and the CEO.

The Advisory Board is chaired by the chairman of the Board (or the senior advisor in the case of a vacancy in the Chairman of the Board post), with the Nomination Committee and the Compensation Committee chaired by outside directors. For matters related to the CEO, the CEO shall be absent from the meeting. Also, for matters related to the chairman, the chairman shall be absent from the meeting.

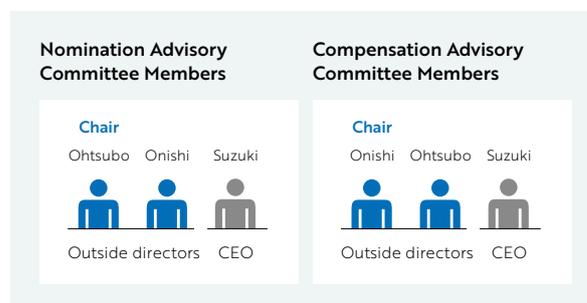


Advisory Board meeting held on November 8, 2019, at the Palace Hotel Tokyo (Meeting in May 2020 was held online)



Nomination Advisory Committee and Compensation Advisory Committee

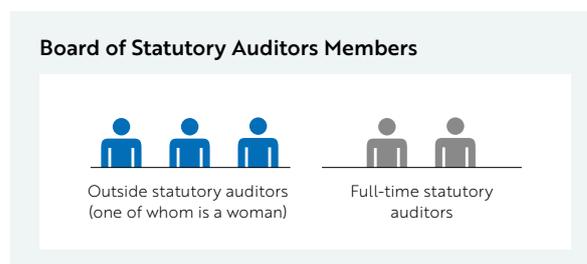
The Nomination Advisory Committee and the Compensation Advisory Committee are operated to further improve the transparency of executive personnel. Two outside directors, the chairman of the Board (in the case of a vacancy in the Chairman of the Board post, this post is left vacant), and the CEO participate as members, and the chairs of both committees are outside directors. Both committees serve as advisory bodies to the Board of Directors. They also possess functions for making proposals to the Board of Directors with regard to the nomination, evaluation, and compensation of directors other than the chairman and the CEO, and management executives, as well as to the nomination of statutory auditors.



Board of Statutory Auditors and Committee of Teijin Group Statutory Auditors

Each statutory auditor attends meetings of the Board of Directors and other important meetings to express their opinions and offer advice on the legality and validity of the Company's business execution and accounting practices. By doing so, the statutory auditors fulfill their role regarding the supervision and auditing of management. As for collaboration with the accounting auditors and Corporate Audit Department, the statutory auditors receive explanations on accounting and internal control issues from the accounting auditors and Corporate Audit Department and hold discussions with them concerning important points in the auditing process. Furthermore, the Committee of Teijin Group Statutory Auditors, which comprises statutory auditors of Group companies and other members, shares auditing policies and audit-related information while working to gain a shared awareness

of risk response cases in each workplace. In these ways, the Committee provides a structure that enhances the effectiveness of Groupwide supervision and audits and enables fair audits.



Corporate Governance

Director Compensation

The compensation of inside directors consists of basic compensation, which is a fixed amount; performance-linked compensation, which is variable compensation (short-term incentive compensation); and stock compensation-type stock options (medium- to long-term incentive compensation). These compensation components provide an incentive toward working to achieve short-term results and improve medium- to long-term corporate value. Three items adopted as management indicators for the new medium-term management plan have been selected as key performance indicators (KPIs) for variable compensation: ROE, which is a profitability indicator; EBITDA, which is a growth indicator; and ROIC based on operating income, which is an indicator of efficiency of generating profits relative to capital invested. Their selection as indicators

helps motivate each director to improve these key management indicators. The payment ratio of performance-based compensation varies depending on the achievement level of ROE, the results versus the forecasts for EBITDA and ROIC based on operating income, and the individual performance evaluation of the director. In addition, the number of stock options allocated in the compensation-type stock option plan varies depending on the achievement level of ROE and the result versus the forecast for EBITDA. The allocated stock options have a condition that allows the recipient to exercise the options within a five-year period after retiring as a director.

Compensation for outside directors and statutory auditors is only a fixed amount that is not linked to company performance.

Basic Policy on Compensation Systems

- The system should enhance awareness of contributions to the medium- to long-term increase in earnings and corporate value.
- The system should be closely linked to performance of the Company and be highly transparent and objective.
- The system should be primarily focused on enhancing shared awareness of interests with shareholders and shareholder-focused management awareness.
- The system should maintain sufficient compensation levels to secure outstanding managerial personnel.

Officer Compensation Amounts (Fiscal 2019)

Position	Total compensation amount (millions of yen)	Total compensation amount by type (millions of yen)			Number of officers receiving compensation
		Basic compensation	Performance-linked compensation	Stock compensation-type stock options	
Directors (excluding outside directors)	350	266	65	19	6
Statutory auditors (excluding outside statutory auditors)	69	69	—	—	3
Outside directors	66	66	—	—	5
Outside statutory auditors	36	36	—	—	3

Notes: 1. The maximum annual compensation for directors is ¥700 million (as resolved by the 140th Ordinary General Meeting of Shareholders, held on June 23, 2006).
 2. The maximum monthly compensation for statutory auditors is ¥12 million (as resolved by the 133rd Ordinary General Meeting of Shareholders, held on June 25, 1999).

Change in Compensation Composition Ratio as of Fiscal 2020

Following the commencement of Medium-Term Management Plan 2020–2022, we changed the compensation composition ratio for inside directors in an effort to enhance corporate value continuously from a more medium- to long-term perspective.

Compensation Composition Ratio for Inside Directors

		FY2019	FY2020
Fixed compensation	Basic compensation	65%	60%
	Performance-linked compensation	25%	25%
Variable compensation	Stock compensation-type stock options	10%	15%
	Subtotal	35%	40%
Total		100%	100%

Note: This ratio is based on the assumption that the achievement level of performance-linked compensation and stock compensation-type stock options is 100%.

Performance-linked compensation for fiscal 2020 is calculated from the total of (1) and (2) below.

(1) Companywide performance =

$$\text{Standard amount by position} \times \text{Achievement level of Companywide performance}^*1 \times 50\%$$

(2) Companywide/Individual performance =

$$\text{Standard amount by position} \times \text{Achievement level of Companywide performance}^*1 \times 50\% \times \text{Achievement level of individual performance}^*2$$

*1 Achievement level of ROE × 50% + Result versus the forecast for EBITDA × 50%
 *2 Result versus the forecast for ROIC based on operating income × 30% + Result versus the forecast for EBITDA × 30% + Achievement level of individual performance × 40%

Total Risk Management

The Teijin Group has in place a Total Risk Management (TRM) system targeting both strategic and operational risks, as a preventative measure against the uncertainty that the Company may face, and the TRM Committee has been conducting total risk management. Established in fiscal 2003, the TRM Committee, chaired by the CEO, serves under the Board of Directors. The Board of Directors deliberates and decides the basic policy and annual plan related to TRM proposed by the TRM Committee. At the same time, the Board formulates our stance on managing important risks and ensuring business continuity. Also, the statutory auditors conduct audits to

check whether the Board of Directors is appropriately conducting policy decisions, supervising, and monitoring regarding TRM.

The CEO is in charge of assessing strategic risk and provides this assessment as materials valuable to the decision-making process to the Board of Directors and other bodies. The Chief Social Responsibility Officer (CSRO) is in charge of establishing a cross-sectional risk management system regarding operational risk, and shall identify and deal with problems and respond to crises when they occur.

Risk Recognition

The details on the recognition of strategic risk and operational risk that the Group manages under the TRM Committee are as follows.

Strategic Risk

Strategic risks are primarily identified from factors that have the potential to significantly impact our business performance and financial position, and these risks are assessed based on the assumption of such impact. For risks related to market and competitive environment fluctuations, in particular, we create contingency plans in advance. At the same time, we conduct monitoring of these risks on an ongoing basis, including signs of potential risk occurrence, and prepare ourselves so that we can swiftly adapt our management strategies and other policies should such risks occur. Amid the current slowdown in the global economy and the decline in demand for automobiles and aircraft, two key markets, due to the impact of COVID-19, we are putting our contingency plans into action and implementing response measures with a focus on the medium to long term.

		Details on risks that impact business performance and financial position	Business primarily impacted by risk
Macroenvironment risk	Economic trends	• Fluctuations in sales due to the economic trends and conditions in each country and region of operation as well as the trends in the automotive and aircraft markets, which are major markets where the Group supplies products and services	Materials/ Fibers & Products Converting
	Fuel prices	• Fluctuations in costs due to changes in the prices of raw materials used for products and fuel used in the production process	
	Foreign exchange rates	• Fluctuations in the exchange rates needed to reflect transactions in foreign currencies in the financial statements and convert the foreign currencies in the financial statements of overseas consolidated subsidiaries into yen (e.g., if the yen appreciates by ¥1 against the US\$, over the year it will push down operating income by approximately ¥0.4 billion)	
	Interest rates	• Fluctuations in interest rates for interest-bearing debt	
Market and competitive environment fluctuation risk	Competitive environment	• Fluctuations in supply–demand structure due to changes in the competitive environment	Overall
	Impact on demand in the supply chain	• Inventory adjustments that exceed the real economy in each stage of the supply chain caused by changes in end-user demand within the materials, intermediate materials, and components supply businesses	Materials/ Fibers & Products Converting
Resource investment risk		• Forgo of or delay in the execution of capital expenditures or M&As due to the inability to find projects compatible with strategies • Major divergence of R&D results from targets against the R&D expenses invested	Overall
Policy change risk		• Tightening of GHG emissions regulations, plastic product regulations, and other regulations to a greater extent than expected • Emergence of global protectionism including the recurrence of trade conflicts between the U.S. and China • Acceleration of domestic drug price revisions and other government policies to curtail medical costs	Overall
Financial soundness risk	Impairment loss on non-current assets	• Occurrence of an impairment loss on non-current assets owned by the Group, owing to such factors as a decline in profitability from an extreme worsening of the economic environment, among other factors	Overall
	Reversal of deferred tax assets	• Occurrence of loss on deferred tax assets in the event some or all deferred tax assets are deemed unrecoverable due to changes in estimated future taxable income	Overall

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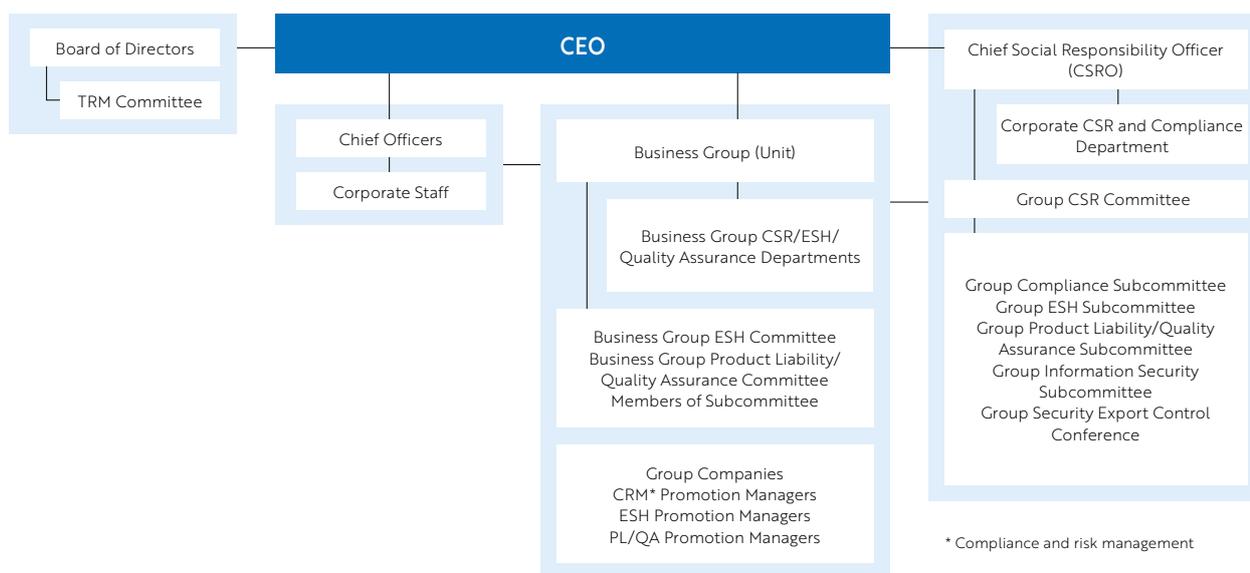
Operational Risk

For operational risk that negatively affects the Company, we plot each specific risk item on a two-axis risk map by the annual occurrence frequency and the estimated amount of damage to identify the major risk items that have a large impact and manage them accordingly. Through this risk identification process, risk trends for the Group and each business group are summarized, and comparisons and analyses are conducted over the years. The risk extraction and evaluation methods are reviewed according to the changes in the business environment and the evolution of risk management methods in society.

	Details on risk that impacts business operations	Main countermeasures
Natural disaster risk	<ul style="list-style-type: none"> Storm and flood damage and landslide damage due to typhoons, heavy rains, etc., stemming from climate change Occurrence of large-scale earthquakes, tsunamis, etc. Rapid spread of infectious diseases 	Aim to minimize damages and promptly recover when a disaster occurs through revisions of BCPs as needed and the implementation of various disaster training programs
Manufacturing risk	<ul style="list-style-type: none"> Burden on the environment from the inappropriate handling of hazardous chemical substances, industrial waste, etc. Explosions, fires, or other major accidents at chemical plants owned by the Group 	Set KPIs and work to manage and reduce hazardous chemical substances and landfill waste. Also, carry out various measures such as disaster-prevention examinations and educational activities and training based on disaster-prevention guidelines
Product and quality risk	<ul style="list-style-type: none"> Occurrence of major quality issues such as product and service defects 	Establish independent divisions dedicated to secure quality and reliability at Teijin Limited and major subsidiaries such as Teijin Pharma Limited, thereby setting up a system to ensure quality assurance across all business activities based on strict quality management standards
Legal and ethical risk	<ul style="list-style-type: none"> Occurrence of scandals such as violations of various laws/regulations, sexual harassment, power harassment, etc. Occurrence of human rights issues within the supply chain 	Amid increasing diversity of employees through M&As and other business activities, utilize Corporate Ethics Handbook to reinforce corporate ethics and the Code of Conduct on a global scale and thoroughly promote compliance. Also, strengthen efforts such as human rights due diligence and CSR procurement
Information security risk	<ul style="list-style-type: none"> External leakage of information due to disasters, cyberattacks, unauthorized access, etc. 	Implement information security measures from both hard and soft perspectives in the handling of important information related to R&D, manufacturing, and sales as well as personal information in the Healthcare Business

Groupwide System for Operational Risk Management

We conduct Groupwide operational risk management including overseas subsidiaries based on the system below. The CSRO and the Corporate CSR and Compliance Department strengthens the risk management system for the entire Group by grasping and confirming the individual risk management conducted by each business group and Group company across the entire Group, and by establishing unified risk response guidelines.



Impact from the Spread of COVID-19

The impact from the spread of COVID-19 on profits in the Healthcare and IT businesses is minimal. However, profits in the Material Business and the Fibers & Products Converting Business have been impacted, mostly in the automotive and aircraft fields. While focusing on minimizing financial risk and maintaining our supply chain, we are placing the utmost importance on ensuring the health and safety of our stakeholders and carrying out business operations that thoroughly reinforce the prevention of spreading the virus.