

## Corporate Governance Report

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Mitsubishi Chemical Holdings Corporation

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Securities Code: 4188

<http://www.mitsubishichem-hd.co.jp/english/>

The corporate governance of Mitsubishi Chemical Holdings Corporation (the “Company”) is described below.

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

#### 1. Basic Views

The Company believes that, based on our Group philosophy, “Good Chemistry for Tomorrow—Creating better relationships among people, society, and our plant.”, to contribute to the realization of *KAITEKI* through all corporate activities as well as to the sustainable development of the society and the Earth, in addition to solving environmental and social issues, is to meet the expectations of shareholders, customers and other stakeholders. The term *KAITEKI* signifies achieving true sustainability where we create comfort for people as well as for society and the Earth.

To this end, the Company intends to develop a framework that improves both the soundness and efficiency of management, as well as enhance management transparency through the proper disclosure.

Please refer to our “Mitsubishi Chemical Holdings Corporate Governance Guidelines” on the Company’s website for basic policies concerning corporate governance such as the roles, constitution and appointment criteria of the Board of Directors.

([http://www.mitsubishichem-hd.co.jp/english/pdf/governance\\_guidelines.pdf](http://www.mitsubishichem-hd.co.jp/english/pdf/governance_guidelines.pdf))

#### [Reasons for Non-compliance with the Principles of the Corporate Governance Code]

The company complies with the all principles of the Corporate Governance Code.

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

<Principle 1.4 Cross-Shareholdings>

(Mitsubishi Chemical Holdings Corporate Governance Guidelines[Development of a framework that improves the soundness and efficiency of management])

The Company and operating companies (excluding listed subsidiaries) shall acquire and hold shares of clients, etc. if the shareholding contributes to medium- to long-term improvement in corporate value. We make effort to reduce shareholdings to reasonable balance.

<Principle 1.7 Related Party Transactions>

The Company sets transactions between members of the board or corporate executive officers and the company as a matter to be resolved by the Board of Directors, who confirm the adequacy of the transactions.

<Principle 3.1 Full Disclosure>

(What the company aims for)

The Company Group aims to realize *KAITEKI* through our corporate activities. *KAITEKI* is the Company's original concept that means "a sustainable condition which is comfortable for people, society and the Earth, transcending time and generations." To realize *KAITEKI*, the Company Group promotes *KAITEKI* Management with the objective of increasing corporate value based on our three core management policies of improving capital efficiency, creating innovative technologies, and enhancing sustainability for people, society and the Earth with an emphasis on time.

Please refer to *KAITEKI* Management on the Company's website for details.

([http://www.mitsubishichem-hd.co.jp/english/kaiteki\\_management/kaiteki/](http://www.mitsubishichem-hd.co.jp/english/kaiteki_management/kaiteki/))

(Management plan)

In December 2015, the Company formulated a new five-year medium-term management plan, "APTSIS 20" (running from fiscal 2016 to fiscal 2020). Moving forward with an aim to "remain a high growth/high profit-model company through businesses in the performance products, industrial materials, and health care domains," the Company will steadily implement initiatives to establish the foundation to become THE KAITEKI COMPANY being recognized on a truly global level by increasing profitability, pursuing innovation, and contributing to sustainability.

Please refer to the Medium-Term Management Plan on the Company's website for details.

(<http://www.mitsubishichem-hd.co.jp/english/ir/strategy/>)

(The Company's view on overall corporate governance)

Please refer to our "Mitsubishi Chemical Holdings Corporate Governance Guidelines" on the Company's website for our view on overall corporate governance.

([http://www.mitsubishichem-hd.co.jp/english/pdf/governance\\_guidelines.pdf](http://www.mitsubishichem-hd.co.jp/english/pdf/governance_guidelines.pdf))

(Policy and procedures for deciding compensations of management)

(Mitsubishi Chemical Holdings Corporate Governance Guidelines[Development of a framework that improves the soundness and efficiency of management]3(3), [Enhancement of management transparency]5)

The Compensation Committee determines the individual amount of compensation for each director, corporate executive officer and operating company president (excluding listed subsidiaries).

Policy on Determining Remuneration of senior management is [Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods]

That being said, the level of remuneration and ratio between basic remuneration and performance remuneration are continually discussed in the Compensation Committee.

(Policy and procedures in nominating and appointing senior management)

(Mitsubishi Chemical Holdings Corporate Governance Guidelines[Development of a framework that improves the soundness and efficiency of management]3(1), [Enhancement of management transparency]4)

The Nominating Committee nominates candidates for directors, corporate executive officers and operating company presidents (excluding listed subsidiaries). In consideration of transparency and fairness in the process of nominating candidates, an outside director serves as the head of the committee.

Policy on appointment of senior management is described at [Policy on appointment of senior management].

(Reason for the Appointment of Officers)

The reason for appointment of officers are described at the end of this report[Reason for choosing as candidate for Director ] and [Reason for appointment of the corporate executive officers ].

<Supplementary Principle 4.1.1 Scope and content of the matters delegated from the Board to the management>

The Company delegates authority to corporate executive officers to make all business execution decisions, with the exception of matters that must be legally resolved by the Board of Directors and important matters in terms of portfolio management.

<Principle 4.9 Independence Standards for Independent Directors>

(Mitsubishi Chemical Holdings Corporate Governance Guidelines Attachment 3)

Independence Standards for Independent Directors are described at [Matters relating to Independent Directors].

<Supplementary Principle 4.11.1 View on the constitution of the Board of Directors>

(Mitsubishi Chemical Holdings Corporate Governance Guidelines[Development of a framework that improves the soundness and efficiency of management]2(2))

In order to establish the Group's basic management policies and oversee management appropriately, directors who are well acquainted with the Group's business areas and specialized fields such as corporate planning, finance, administration and personnel, and research and development are appointed from within the company. In addition, outside directors who possess an advanced level of knowledge and great insight in corporate management, social and economic situations, science technology, finance and accounting, compliance and other subjects are appointed in order to oversee the management from an independent and objective position and to reflect more diverse opinions in the management. Furthermore, in a bid to enhance oversight functions, a majority of the Board of Directors shall consist of non-executive directors who do not execute business of MCHC or its operating companies (Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma, Life Science Institute and Taiyo Nippon Sanso. The same shall apply hereafter.).

Please refer to our "Mitsubishi Chemical Holdings Corporate Governance Guidelines" on the Company's website for our view on the constitution of the Board of Directors.

([http://www.mitsubishichem-hd.co.jp/english/pdf/governance\\_guidelines.pdf](http://www.mitsubishichem-hd.co.jp/english/pdf/governance_guidelines.pdf))

<Supplementary Principle 4.11.2 Directors' concurrent positions>

Yoshimitsu Kobayashi, Directors of the Board and Chairperson, is concurrent with Toshiba Corporation.

Also, the Outside Directors of the Board's concurrent positions are described at [Outside Directors' Relationship with the Company (2)]

<Principle 4.11.3 Analysis and Evaluation of Effectiveness of the Board of Directors>

The Company conducts an evaluation of the effectiveness of the Board of Directors and discloses the result of it.

This year, the Company analyzed and evaluated the effectiveness of our Board of Directors with "use of outside directors" as a main theme.

The Company's Board of Directors is being properly operated. The evaluation indicates that the Company has secured a reasonable level of efficacy and efficiency, mainly for management oversight functions.

Meanwhile, the Company believes (1) and (2) require further improvements to achieve extensive discussions on the direction of medium-to-long term corporate management policies.

(1) Extensive provision of information to outside directors

(2) Efficient operation of the Board of Directors

[Outline of results of the Evaluation on the Effectiveness of the Board of Directors in fiscal 2016] is described at the end of this report.

<Supplementary Principle 4.14.2 Training policy for directors>

(Mitsubishi Chemical Holdings Corporate Governance Guidelines[Development of a framework that improves the soundness and efficiency of management]4(1))

MCHC shall explain to outside directors the Group's business contents and organization on a continuing basis, and provide opportunities to visit domestic and overseas business sites as well

as opportunities for dialogue with the management on a regular basis.  
For internal directors, opportunities to develop qualities suitable for directors shall be provided through external seminars held by various organizations, in addition to trainings on compliance and internal control.

<Principle 5.1 Policy on Dialogue with Shareholders>

(Mitsubishi Chemical Holdings Corporate Governance Guidelines Attachment 2)

MCHC will ensure appropriate disclosure so as to gain the trust of our shareholders and encourage long-term holding of MCHC's shares. MCHC also intends to engage in active dialogue with shareholders and reflect it in our corporate activities.

(Policy on Dialogue with Shareholders)

Disclosure to and dialogue with shareholders shall be implemented by each relevant department, in cooperation with each other, under the supervision of the President, officer in charge of IR and officer in charge of administration. Opinions obtained through the dialogue will be reported to the Board of Directors, etc., and shared by the management.

Please refer to our "Mitsubishi Chemical Holdings Corporate Governance Guidelines" on the Company's website for our Policy on Dialogue with Shareholders.

([http://www.mitsubishichem-hd.co.jp/english/pdf/governance\\_guidelines.pdf](http://www.mitsubishichem-hd.co.jp/english/pdf/governance_guidelines.pdf))

## 2. Capital Structure

Percentage of Foreign Shareholders	more than 30%
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### [Status of Major Shareholders]

Name / Company Name	Number of Shares Owned	Percentage (%)
The Master Trust Bank of Japan, Ltd.(Trust account)	90,090,000	5.98
Japan Trustee Services Bank, Ltd. (Trust account)	69,593,300	4.62
Meiji Yasuda Life Insurance Company	64,388,743	4.27
Nippon Life Insurance Company	42,509,594	2.82
Japan Trustee Services Bank, Ltd. (Trust account 5)	25,927,500	1.72
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,149,376	1.60
Tokio Marine & Nichido Fire Insurance Co., Ltd.	23,337,933	1.55
State Street Bank West Client - Treaty 505234	21,779,692	1.45
Japan Trustee Services Bank, Ltd. (Trust account 4)	21,410,500	1.42
State Street Bank West Client - Treaty 505225	21,036,539	1.40

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

Supplementary Explanation

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## 3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-End	March

Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	More than 1000
Sales (consolidated) as of the End of the Previous Fiscal Year	More than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	More than 300

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

None
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#### 5. Other Special Circumstances which may have Material Impact on Corporate Governance

Of our consolidated subsidiaries, Mitsubishi Tanabe Pharma Corporation and Taiyo Nippon Sanso Corporation, list their shares on the Tokyo Stock Exchange.

These listed subsidiaries report decisions they make on important management matters to the Company when necessary. These listed subsidiaries work in alliance with the Company while setting their own management goals and challenges and take responsibility for executing business operations.

## 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 Three Committees (Nomination, Audit and Remuneration)
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#### [Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	20
Term of Office Stipulated in Articles of Incorporation	1
Chairperson of the Board	Company Chairperson
Number of Directors (Updated)	13

#### [Outside Directors]

Number of Outside Directors	5
Number of Independent Directors	5

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

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	G	h	i	j	k
Takeo Kikkawa	Academic											
Taigi Ito	CPA											
Kazuhiro Watanabe	Lawyer											
Hideko Kunii	From another company											
Takayuki Hashimoto	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/*kansayaku*
- 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/*kansayaku* 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
Takeo Kikkawa	○	Holds concurrent position as a professor at the Department of Management Technology (MOT), Graduate School of Innovation Studies, Tokyo University of Science and outside director at Idemitsu Kosan Co., Ltd.	<p>Mr. Kikkawa was elected as an outside director as he currently plays appropriate roles as an Outside Director of the Company by utilizing his profound insight into company management from the perspective of business history and his experience as an expert in theories on the energy industry.</p> <p>In addition, Mr. Kikkawa satisfies our standards for director independence. We thereby designated Mr. Kikkawa as an independent director in accordance with the regulations stipulated by the Tokyo</p>

			Stock Exchange.
Taigi Ito	○	Holds concurrent positions as an outside auditor at TIS Corporation and Idemitsu Kosan Co., Ltd.	<p>Mr. Ito was elected as an outside director as he currently plays appropriate roles as an Outside Director of the Company by making the best of his experience and profound insight as a certified public accountant.</p> <p>In addition, Mr. Ito satisfies our standards for director independence. We thereby designated Mr. Ito as an independent director in accordance with the regulations stipulated by the Tokyo Stock Exchange.</p>
Kazuhiro Watanabe	○		<p>Mr. Watanabe was elected as an outside director as he currently plays appropriate roles as an Outside Director of the Company by making the best of his experience and profound insight as a prosecutor and lawyer.</p> <p>In addition, Mr. Watanabe satisfies our standards for director independence. We thereby designated Mr. Watanabe as an independent director in accordance with the regulations stipulated by the Tokyo Stock Exchange.</p>
Hideko Kunii	○	Holds concurrent positions as advisor to the president at Shibaura Institute of Technology (SIT), professor of Technology at SIT, and director of the Center for the Promotion of Educational Innovation Gender Equality Promotion Office. Also serves as an outside director of Innovation Network Corporation of Japan and an outside director at Tokyo Electric Power Holdings Company, Inc., and Honda Motor Co., Ltd.	<p>Ms. Kunii was elected as an outside director as she currently plays appropriate roles as an Outside Director of the Company by making the best of her extensive experience in company management and as an expert in the information processing domain, as well as her profound insight in diversity promotion as a member of the Cabinet Office Gender Equality Promotion Joint Meeting.</p> <p>In addition, Ms. Kunii satisfies our standards for director independence. We thereby designated Ms. Kunii as an independent director in accordance with the regulations stipulated by the Tokyo Stock Exchange.</p>
Takayauki Hashimoto	○	Holds concurrent positions as a Honorary Executive Advisor at IBM Japan, Ltd. , an outside director at KAGOME Co., Ltd. and Chubu Electric Power Company, Incorporated, and an outside auditor at IHI CORPORATION	<p>Given Mr. Hashimoto's extensive experience in corporate management as a president and CEO of a Japanese subsidiary of a global corporation and his profound insight in ICT (information and communication technology), Mr. Hashimoto would contribute to proper decision-making and fair oversight of the Board of Directors of the Company.</p> <p>In addition, Mr. Hashimoto satisfies our standards for director independence. We thereby designated Mr. Hashimoto</p>

			as an independent director in accordance with the regulations stipulated by the Tokyo Stock Exchange.
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## [Committees]

### Committee's Composition and Attributes of Chairperson (Updated)

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Nomination Committee	5	0	2	3	Outside Director
Remuneration Committee	5	0	2	3	Outside Director
Audit Committee	5	2	2	3	Inside Director

## [Executive Officers (Shikkoyaku)]

Number of Executive Officers (Shikkoyaku)	5
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### Status of Additional Duties

Name	Representative Authority	Additional Duties as Director			Additional Duties as Employee
			Nomination Committee Member	Remuneration Committee Member	
Hitoshi Ochi	Yes	Yes	Yes	No	No
Noriyoshi Oohira	Yes	Yes	No	Yes	No
Kenkichi Kosakai	Yes	Yes	No	Yes	No
Shuushichi Yoshimura	No	Yes	No	No	No
Larry Meixner	No	No	No	No	No

## [Auditing Structure]

Appointment of Directors and/or Staff to Support the Audit Committee	Appointed
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### Matters Related to the Independence of Such Directors and/or Staff from Executive Officers (Shikkoyaku)

The Office of Audit Committee was established as an organization to assist the Audit Committee in its duties. This office supports the committee in its duties following the instructions provided by the Audit Committee. In addition, personnel (transfers, evaluations, etc.) decisions on employees in the Office of Audit Committee and the office budget must be approved by the Audit Committee.

### Cooperation among Audit Committee, Accounting Auditors and Internal Audit Departments

The Company has appointed Ernst & Young ShinNihon LLC as our accounting auditor. The Audit Committee regularly exchanges information and receives reports, including those from the accounting auditor, and on audit plans and results. In addition, the Audit Committee works with the Audit Office, an Internal

Control Office, which is the internal control division, to efficiently implement audits.

The Audit Office conducts audits of the Company's operations in accordance with an annual internal audit plan, collaborates with the internal audit departments of Group business companies, and improves and administers a system designed to ensure that internal audits of the Group are carried out appropriately.

Moreover, the Audit Office proposes an annual internal audit plan after prior consultation with the Audit Committee, and then formulates the plan with approval from the President and the Audit Committee. In addition, the Audit Office reports to the Audit Committee on internal audit plans, their implementation status, and audit results. The Audit Office also cooperates with audits conducted by the Audit Committee, including reporting on the status of audits by the Audit Committee at meetings attended by the head of the Audit Office. In addition, we are working to strengthen our cooperation with our accounting auditor, including regular information exchanges on mutual audit policies and audit results.

## [Independent Directors]

Number of Independent Directors	5
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## Matters relating to Independent Directors

The Company shall elect those as Outside Directors who do not fall under any of the following and are capable of overseeing the Company's management from a fair and neutral standpoint, free of a conflict of interest with general shareholders.

### [Standards for Independence of Outside Directors]

#### 1.Related party of the Company

- (1)Person engaged in execution of operation of the Company Group (executive director, corporate executive officer, executive officer, manager, employee, partner, etc. The same shall apply hereafter.)
- (2)Person who was engaged in execution of operation of the Company Group over the last 10 years

#### 2.Major shareholder

A person who directly or indirectly holds 10% or more of the Company's total voting rights or a person engaged in execution of operation of a company that directly or indirectly holds 10% or more of the Company's total voting rights

#### 3.Major business partner

- (1)A person engaged in execution of operation of a company<sup>\*1</sup> whose major business partner includes the Company and Group Operating Companies (Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Life Science Institute, Inc., and Taiyo Nippon Sanso Corporation. The same shall apply hereafter.)
- (2)A person engaged in execution of operation of a major business partner<sup>\*2</sup> of the Company and Group Operating Companies

#### 4.Accounting Auditor

Accounting Auditor of the MCHC Group or an employee thereof

#### 5.Transaction as an individual

A person who receives money and other financial benefits of 10 million yen or more per year from any of MCHC and Group Operating Companies

#### 6.Donation

A person who receives a donation or financial assistance of 10 million yen or more per year from any of MCHC and Group Operating Companies or a person engaged in execution of operation of a company that receives a donation or financial assistance of 10 million yen or more per year from any of MCHC and Group Operating Companies

#### 7.Reciprocal assumption of the position of Director

A person engaged in execution of operation of a company that has elected any of the Directors and employees of the MCHC Group as its Director

#### 8.Close relatives, etc.

- (1)Close relatives, etc. of a person engaged in execution of important operations of the MCHC Group (spouse, relatives within the second degree of relationship or any person who shares the same livelihood. The same shall apply hereafter.)
- (2)Close relatives, etc. of any person who meets the definition of items 3 through 7 above

(3)A person who met the definition of items 3 through 7 above over the last three years

- \*1 If the said business partner receives from MCHC and Group Operating Companies an amount equivalent to 2% or more of its annual consolidated net sales in the latest fiscal year, this company shall be considered as the one whose major business partner includes MCHC.
- \*2 If MCHC and Group Operating Companies receives from the said business partner an amount equivalent to 2% or more of MCHC's annual consolidated net sales in the latest fiscal year or the said business partner loans to the MCHC Group an amount equivalent to 2% or more of MCHC's total consolidated assets, the said business partner shall be considered as a major business partner of MCHC.

#### [Incentives]

Incentive Policies for Directors and/or Executive Officers (Shikkoyaku)	Stock Options
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#### Supplementary Explanation

The Company issues stock acquisition rights (stock options as stock-linked compensation) to its corporate executive officers and executive officers (including those that have retired from the Company) with the aim of sharing the benefits of an increase in the stock price but also the risk of a decline in the stock price with shareholders as well as providing an incentive to further contribute to the enhancement of the Company's business performance and corporate value. This also takes into account corporate earnings performance for each fiscal year (April 1 to March 31), and the status of day-to-day performance and the level of contribution made by each individual corporate executive officer and executive officer.

A total number of 3,108 stock acquisition rights were allotted in FY2016.

Recipients of Stock Options	Executive Officers (Shikkoyaku) / Employee
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#### Supplementary Explanation

This applies to all corporate executive officers and executive officers (including those that have retired from the Company).

#### [Remuneration for Directors and Executive Officers (Shikkoyaku)]

Disclosure of Individual Directors' Remuneration	Selected Directors
Disclosure of Individual Executive Officers' (Shikkoyaku) Remuneration	No Individual Disclosure

#### Supplementary Explanation

In FY2016, the Company paid remuneration to 13 directors. The total amount of this compensation was 265 million yen. In addition to this, remuneration from subsidiaries where directors of the Company server concurrent posts, totaled 341 million yen. In addition, the amounts of remuneration paid to Directors include performance remuneration of ¥6 million utilizing Stock Option. This remuneration was paid to the director who served as Corporate Executive Officer in the previous fiscal year as performance remuneration at the time of standing as a Corporate Executive Officer.

In FY2016, the Company paid remuneration to 8 corporate executive officers. The total amount of this compensation was 297 million yen. In addition to the above remuneration paid to Directors, and Corporate Executive Officers, ¥341 million, and ¥169 million of remuneration were respectively paid by MCHC's subsidiaries to Directors, and Corporate Executive Officers who concurrently served as executive officers of the said subsidiaries. The above-stated total amounts of remuneration paid to Corporate Executive Officers include performance remuneration of ¥29 million utilizing Stock Options.

Also, the Company disclose the individual corporate executive officers' (Shikkoyaku) remunerations whose are over 100 million yen on Annual securities report.

Policy on Determining Remuneration Amounts  
and Calculation Methods

Established

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

Policy on deciding compensation for senior management is below

The compensation system for directors, and that for corporate executive officers shall be different. Compensation is determined by the Compensation Committee based on the following concepts:

(Directors)

- Compensation for directors shall consist only of basic compensation (fixed remuneration).
- Basic compensation shall be based on title and classification such as full-time or part-time.
- The amount of compensation shall be determined such that it would be at a level necessary for securing personnel suitable for carrying out the responsibilities of a director of Company with Nominating Committee, etc., while also taking into consideration the levels of other companies.

\* When a director concurrently serves as a Corporate Executive Officer, compensation as a Corporate Executive Officer shall be applied.

(Corporate executive officers)

- Compensation for Corporate Executive Officers shall consist of basic compensation (fixed remuneration) and performance compensation (variable remuneration).
- Basic compensation shall be based on title and duties such as having the right of representation.
- The amount of compensation shall be determined such that it would be at a level necessary for securing good management personnel and improving the Company's competitiveness, while also taking into consideration the levels of other companies.
- Performance compensation shall utilize Stock Options as stock-linked compensation (1-Yen Stock Options) in order to improve continuously medium- to long-term corporate value as well as create incentive for sharing shareholder value.

#### [Supporting System for Outside Directors]

Secretariats have been set up for the Board of Directors and each of the Company's committees and provide support and assistance to outside directors. When the Board of Directors or one of the committees holds a meeting, the respective secretariat supplies the outside directors with materials and other pertinent information beforehand. In addition, individual explanations are provided to ensure that the outside directors can perform a full review in advance. That being said, the Office of Audit Committee, which was set up as a unit to assist the Audit Committee, has its own independent and exclusive staff.

Furthermore, in addition to the Board of Directors and each committee meetings, a proper environment is being maintained, including the holding of regular meetings that are attended by the outside directors, to ensure the outside directors' oversight functions work effectively.

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

### (1) Oversight

A. Board of Directors (13 members (of which one member is female); five outside directors, chairman; inside director, term of directors; one year)

The Board of Directors determines basic management policies, such as medium-term business strategies and annual budgets. As a general rule, corporate executive officers are entrusted with the responsibility of

executing operations in accordance with these basic policies, excluding matters that must be legally resolved by the Board of Directors. It primarily supervises the execution of duties by the corporate executive officers.

The Company has appointed directors from inside the company that are well-versed in the group's wide range of businesses and the three main segments of the Company—performance products, industrial materials and healthcare, as well as five outside directors — one is experienced in corporate management, one is an expert in socio-economic matters and one is an expert in technology, one is a certified public accountant, one is a lawyer. We aim to factor their diverse opinions into our management decisions and also strengthen our oversight functions. In addition to the outside directors, the Company has chosen four non-executive directors from among those directors appointed from inside the company who are not serving concurrently as a corporate executive officer for the Company and not responsible for the execution of operations at a Business company (Mitsubishi Chemical Corporation., Mitsubishi Tanabe Pharma Corporation., Life Science Institute, Inc., and Taiyo Nippon Sanso Corporation). Consequently, the majority of directors on the Board are non-executive directors to ensure that the oversight of corporate executive officers is carried out properly.

That being said, the Articles of Incorporation stipulate that there shall be no more than 20 directors at one time. As of the date of the submission of this report, there are a total of 13 directors (of which four directors are also corporate executive officer), including the five outside directors. Each director services a term of one year. This is to facilitate the establishment of a management structure that can quickly respond to changes in the business environment, and to further clarify the responsibilities and roles of each director.

B. Nominating Committee (five members (of which one member is female); three outside directors; an outside director serves as chairman)

The Nominating Committee nominates director candidates and corporate executive officers, and also nominates president candidates for key directly-owned subsidiaries that are not listed companies (Mitsubishi Chemical Corporation. and Life Science Institute, Inc.).

An outside director serves as committee chair to enhance the transparency and soundness of the nominating process.

C. Audit Committee (five members (of which one member is female); three outside directors; an inside director serves as chairman)

The Audit Committee is responsible for auditing the execution of duties by the corporate executive officers and directors and reviewing the Group's internal control system. As a general rule, the committee meets once a month. As of the date of the submission of this report, the Audit Committee consists of five members including three outside directors. Together with selecting two full-time members, the Audit Office that performs internal audits and the Internal Control Office that formulates and promotes policies on establishing internal control systems collaborate closely to enhance the audit system administered by the Audit Committee. An inside director who is a full-time member of the Audit Committee serves as the chairman of the committee to ensure the smooth collection of information and sufficient cooperation between divisions.

D. Compensation Committee (Five members; three outside directors; an outside director services as chairman)

The Compensation Committee determines the individual amount of compensation for each director and corporate executive officer at the Company. The committee also determines the individual amount of compensation for the presidents of key directly-owned subsidiaries that are non-listed companies (Mitsubishi Chemical Corporation. and Life Science Institute, Inc.).

An outside director serves as committee chair to enhance transparency and fairness of the decision-making process.

## (2) Business execution

### A. Corporate Executive officers

The corporate executive officers decide the execution based on basic management policies (medium term business strategies and annual budgets, etc.).

Regarding important matters in the management of the Group, deliberations are made at the corporate executive officers, which is the council by the corporate executive officers. In addition to determining the division of duties of each corporate executive officer for other matters, we make it appropriate and efficient decision-making by clarifying the authority to decide the corporate executive officer in charge,.

#### B. Corporate Executive Officers Committee

The Corporate Executive Officers Committee is composed of all corporate executive officers, deliberates and decides on important matters concerning the management of the Company and the Company group, and also monitors the Group's business based on the medium-term management plan, annual budget etc.

That being said, the Member of the Audit Committee and Business Companies' President and CEO can attend the Corporate Executive Officers Committee at any time to express freely.

#### (3) Audits

We have appointed Ernst & Young ShinNihon LLC as our accounting auditor. The accounting auditor maintains close ties with the Audit Committee and reports on the audit system, audit plans, audit status, and audit results. In addition, we exchange necessary information and opinions with the accounting auditor to ensure that audits are efficiently and effectively carried out.

In FY2015, the following are the names of the certified public accounts that executed accounting audits and the number of personnel that assisted in accounting audit operations.

-Names of the CPS that executed operations (number of continuous audit years)

Kaoru Kashima (1 year), Noriaki Kenmochi (2 years), Takeshi Tarui (6 years)

-Assistants that worked on the accounting audit

19 certified public accounts, and another 19 personnel

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

In order to improve corporate value through agile management based on the Group's comprehensive strengths in the three business areas of functional products, industrial materials and healthcare, the Company adopts a holding company system that separates the Group business management functions and individual business operation functions.

The Company adopts a company with a nominating committee, etc. in a bid to enhance management transparency and openness, strengthen management oversight functions and improve management agility by accelerating decision-making.

## 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
Early Notification of General Shareholder Meeting	The notice of convocation of the general shareholders meeting is being sent out earlier than the legally required date so that shareholders will have ample time to review the resolutions on the agenda. Note that the convocation notice for the 12th Ordinary General Shareholders Meeting that was held on June 27, 2017 was sent out seven days earlier than the legally required date.
Scheduling AGMs Avoiding the Peak Day	The 12th Ordinary General Shareholders Meeting was held on June 27, 2017, thereby avoiding the peak day, and allowing as many shareholders as possible to attend.
Allowing Electronic Exercise of Voting Rights	Shareholders are able to exercise their voting rights using a number of electronic devices (including the Internet). The method for doing so is included in the notice of convocation of the general shareholders meeting.
Participation in Electronic Voting Platform	The Company is participating in the Electronic Voting Platform.
Providing Convocation Notice in English	The convocation notice appears in English on our website. It is also available in English over the Electronic Voting Platform.
Other	In addition to posting our convocation notice on our website in both Japanese and English, we use visuals and audio at the shareholders meeting for our business reports and to explain our resolutions as a way to better convey and thereby give shareholders a better understanding.

## 2. IR Activities

	Personal explanation by representative	Supplementary Explanations
Regular Investor Briefings for Individual Investors	No	We participate in investor briefings for individual investors and explain our business and future business development.
Regular Investor Briefings for Analysts and Institutional Investors	Yes	The following briefings are conducted by the president and supervising director -Quarterly and fiscal year-end earnings results online conference -Business briefings, etc. - Individual visits
Regular Investor Briefings for Overseas Investors	Yes	Each year individual visits are made to investors, rather than having investors gather for a briefing.
Posting of IR Materials on Website		Various materials are uploaded to our website.
Establishment of Department and/or Manager in Charge of IR		An officer is in charge of IR and we have set up an office to handle IR (PR and IR Office).
Other		We issue <i>IR NAVI</i> , a shareholders communication tool, and the <i>KAITEKI</i> Report, a integrated report. Both are available on our website.

## 3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Rules on respecting the position of stakeholders is defined in the Mitsubishi Chemical Holdings Group Charter of Corporate Behavior.
Implementation of Environmental Activities, CSR Activities etc.	We recognize CSR activities as the implementation of our group philosophy. Mitsubishi Chemical Holdings Corporation and its group companies are implementing CSR activities, including responsible care activities.
Development of Policies on Information Provision to Stakeholders	Mitsubishi Chemical Holdings Group Charter of Corporate Behavior also includes rules on proper information disclosure and securing transparency.
Other	-

## IV. Matters Related to the Internal Control System

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

The Company intends to strengthen and thoroughly enforce the internal control system based on the basic policy concerning the internal control system resolved at the Board of Directors. At the end of each fiscal year, the Board of Directors reviews the operational status of the basic policy, and as necessary the Company will review its contents. The contents of the basic policy as of this report present are as follows.

#### 1. System required for execution of duties of the Audit Committee

(1) Management shall set the Office of Audit Committee as a body to assist the Audit Committee's duties and have it assist in auditing based on the instructions thereof. The appointment (transfer, evaluation, etc.) of employees of the Office of Audit Committee and the development of the budget of the Office of Audit Committee shall be subject to approval of the Audit Committee.

(2) Pursuant to regulations such as the Audit Standard of the Audit Committee, Directors,

Corporate Executive Officers, and employees shall inform the Audit Committee of any important management matters to MCHC and a corporate group with MCHC as a parent company under the Companies Act ("MCHC Group") (including any fact or fraudulent act that might do material harm to MCHC or any important fact in violation of laws, regulations or Articles of Incorporation).

(3) Management stipulates that any Director, Corporate Executive Officer, Corporate Auditor, or employee of the MCHC Group who has made a report to the Audit Committee shall not be treated unfavorably because of the report.

(4) Of expenses incurred by the Audit Committee or members of the Audit Committee, those deemed necessary for the execution of their duties shall be borne by MCHC.

(5) In order to ensure that Audit Committee's audits are conducted in an effective manner, Management shall appoint full-time members of the Audit Committee as well as facilitate the Audit Committee's regular meetings with senior executives, including the President, and coordination and information exchange between the Audit Committee and the Internal Audit Office.

## 2. System for ensuring that Corporate Executive Officers execute their duties efficiently

(1) Except matters that significantly affect the MCHC Group's portfolio management and matters to be resolved by the Board of Directors as required by law (basic management policy, etc.), the Board of Directors allows Corporate Executive Officers to make swift decisions by delegating all the business execution decisions to them in principle.

(2) To make decisions on business execution delegated to Corporate Executive Officers, Management shall develop a system in which the MCHC Group's decisions and execution of business are made properly and efficiently by setting a rule that the MCHC Group's important management matters are decided by the President and Corporate Executive Officer after deliberation at the Executive Management Committee, and by defining the authority of responsible Corporate Executive Officers, responsibilities of each department, and authority assigned to subsidiaries on other matters.

(3) Corporate Executive Officers shall conduct management administration of subsidiaries in accordance with the basic management policy formulated by the Board of Directors (the Group's medium-term management plan, annual budgets, etc.) in an effort to achieve them. In addition, Corporate Executive Officers shall develop a system in which important management matters of subsidiaries are reported to the Company through the Executive Management Committee and medium-term management plans, annual budget control, etc.

## 3. System for ensuring that Corporate Executive Officers' and employees' execution of their duties conform to laws, regulations, and Articles of Incorporation

(1) The MCHC Group shall treat the Group Charter of Corporate Behavior as the basic regulations on compliance matters within the MCHC Group.

(2) Management shall develop, properly operate and manage internal control systems in order to ensure the reliability of financial reporting.

(3) In accordance with the Group Compliance Promotion Regulations and other relevant rules and regulations, Management shall develop a promoting framework for compliance, training and education programs, audit/monitoring systems, hotlines, and other compliance promotion programs of the MCHC Group and properly operate and manage these programs by appointing a Corporate Executive Officer in charge of compliance promotion (Chief Compliance Officer).

## 4. Regulations, structure and systems for managing risks of loss

The President shall be the Chief Risk Management Officer. In accordance with the Group's Basic Regulations on Risk Management and other relevant rules and regulations, the President shall be responsible for preventing serious risks from occurring in connection with or arising from MCHC Group's business activities, and for developing, properly operating and managing risk management systems for minimizing damage if any risk occurs.

5. System for preserving and managing information related to Corporate Executive Officers' execution of their duties

In accordance with the Information Security Policy, Information Management Rules, and other relevant rules and regulations of the MCHC Group, Management shall preserve and manage the minutes of the Executive Management Committee, approval documents, and other documents and electromagnetic records related to Corporate Executive Officers' execution of their duties and develop a system that allows Corporate Executive Officers and Directors to inspect them.

6. System for assuring operational legitimacy within the corporate group

In accordance with the above policy and the Group's Management Regulations and other relevant rules and regulations, Management shall implement the management of the MCHC Group (management of business objectives, reporting and approval of important matters and the Group's internal audits, etc.) and ensure operational legitimacy within the MCHC Group by sharing the Group's internal control policies and systems covering compliance and risk management within the Group.

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

At the Mitsubishi Chemical Holdings Group, fair business practices outlined in the group Charter of Corporate Behavior in the basic policy 3 (1) of the aforementioned internal control system promote the severing of any ties with anti-social forces. To reject any and all unreasonable demands from antisocial forces, the general affairs department, which is in charge of handling these matters, works closely with related administrative organizations, and takes necessary action to ensure that everyone in the group is well-informed.

## V. Other

### 1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not Adopted
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Supplementary Explanation

The Company implements highly efficient and transparent group management to enhance its competitive and earnings strengths through the optimal allocation of management resources. As a group, we aim to further improve our corporate value to respond to the trust placed in us by our shareholders.

We have not introduced anti-takeover measures. In the event of a major purchase of our shares that would erode the group's corporate value or the profits we share with our shareholders, we will implement measures that we believe to be appropriate for addressing the situation.

### 2. Other Matters Concerning to Corporate Governance System

- Summary of timely disclosure system

The following is an outline of the internal system for the timely disclosure of company information.

(1) Decisions on information related to earnings, which is covered under listing regulations for the timely disclosure of company information, is decided upon in resolutions taken up by the Board of Directors and in discussions by the Management Committee. After decisions have been made, the PR and IR offices implement timely disclosure.

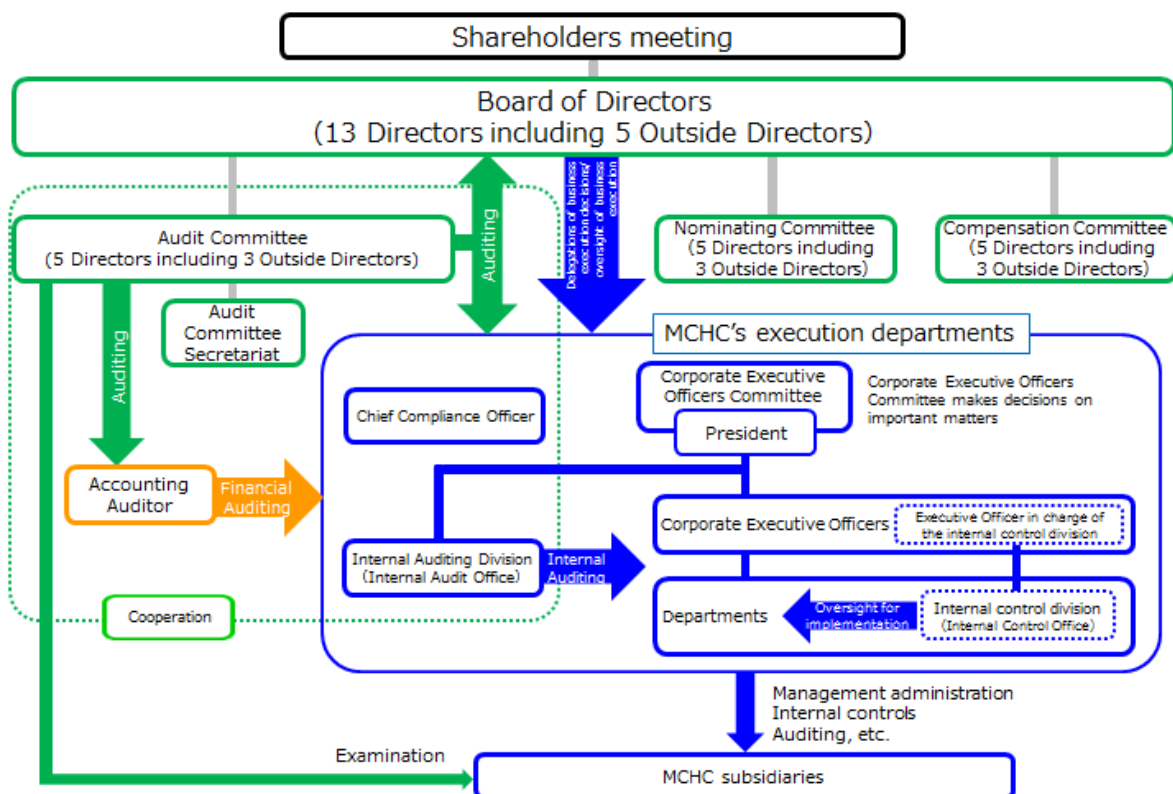
(2) In information related to decisions, which is covered under listing regulations for the timely disclosure of corporate information, matters that require resolutions taken up by the Board of Directors and discussions by the Management Committee are decided once approved by both bodies. For matters that require approval using request forms, are decided once approval is received. In either case, the PR and IR office conducts a survey to determine whether these are matters that require timely disclosure. The result of this survey is reported to the director in charge of IR and the head of the PR and IR office. In addition, timely disclosure is

implemented should the matter require so.

(3) For information related to an occurring incident, which is covered under listing regulations for the timely disclosure of corporate information, at the time the related department realizes the incident has occurred, it should work with the PR and IR office and conduct a survey of the incident to determine whether the matter requires timely disclosure. The result of this survey is reported to the director in charge of IR and the head of the PR and IR office. When necessary, it should also be reported to the Board of Directors and Management Committee. Timely disclosure should be implemented if the matter requires so.

That being said, rules prohibiting insider trading should be established to govern the handling the important information up to the moment of timely disclosure and to thoroughly prevent insider trading.

System to Ensure that the Company Operates in an Appropriate Manner(Overview) as of June 27, 2017



[Policy on appointment of senior management]

(Directors)

- possesses deep insight as well as objective and fair judgment, which are necessary to fulfill the responsibilities of a director of Company with Nominating Committee, etc.
- possesses high ethical standards and a law-abiding mind.
- healthy enough to fulfill the responsibilities as a director.
- For outside directors, fulfills independence standards that are separately stipulated and be able to secure enough time to execute business. In addition, be able to secure diversity among outside directors.

(Corporate executive officers)

- possesses abundant experience, deep expertise and insight in each responsible area, objective and fair judgment and a high level of business management capability.
- possesses high ethical standards and a law-abiding mind.
- healthy enough to fulfill responsibilities as a Corporate Executive Officer.

[Reason for choosing as candidate for Director ]

Name	Present position and duty at the Company	Reason for choosing as candidate for Director
Yoshimitsu Kobayashi	Director of the Board, Chairperson Member of the Nominating Committee	Yoshimitsu Kobayashi engaged in research and development departments and the performance products business domain and then has served as President & CEO of MCHC and Mitsubishi Chemical Corporation (“MCC”) successively. Also having acted as a member of the Council on Economic and Fiscal Policy and the Council for Industrial Competitiveness, and Chairperson of the Japan Association of Corporate Executives, he has broad experience and profound insight. The Board of Directors believes that Yoshimitsu Kobayashi is qualified for Director and request that he be elected as proposed.
Hitoshi Ochi	Director of the Board, President, CEO Member of the Nominating Committee	After working in manufacturing departments, Hitoshi Ochi engaged in the Corporate Strategy Office and other departments of MCHC and MCC and now serves as President & CEO of MCHC and Director of the Board, President & CEO of MCC. He has abundant experience and profound insight in the businesses of the MCHC Group as well as in corporate management, the Board of Directors believes that he is qualified for Director and request that he be elected as proposed.
Glenn H. Fredrickson	Director of the Board	Glenn H. Fredrickson is a university professor in the U.S. and has profound insight as an international authority in the polymer chemistry domain and abundant experience as a consultant for global corporations. Therefore, the Board of Directors believes that he is qualified for Director and request that he be elected as proposed.
Yoshihiro Umeha	Director of the Board Member of the Audit Committee	Yoshihiro Umeha engaged in accounting and financial departments and the industrial materials business domain before serving as a full-time member of the Audit Committee of MCHC. He has abundant experience and profound insight in the businesses of the MCHC Group as well as in corporate management, the Board of Directors believes that he is qualified for Director and request that he be elected as proposed.
Hisao Urata	Director of the Board Member of the Audit Committee	Hisao Urata engaged in research and development departments and the corporate strategy division of MCC before serving as a full-time member of the Audit Committee of MCHC. He has abundant experience and profound insight in the businesses of the MCHC Group as well as in corporate management, the Board of Directors believes that he is qualified for Director and request that he be elected as proposed.
Noriyoshi Ohira	Deputy CEO and Corporate Executive Officer	Noriyoshi Ohira engaged mainly in human resources and internal control departments and now serves as Deputy CEO and Corporate Executive Officer of MCHC. Having thus engaged in management of MCHC, he has abundant experience and profound insight in the businesses of the MCHC Group. The Board of Directors believes that he is qualified for Director and request that he be elected as proposed.

Kenkichi Kosakai	Deputy CEO and Corporate Executive Officer	Kenkichi Kosakai engaged in accounting and financial departments as well as the corporate strategy and divisions of Mitsubishi Tanabe Pharma Corporation, and now serves as Deputy CEO and Corporate Executive Officer of MCHC. Having thus engaged in management of MCHC, he has abundant experience and profound insight in the businesses of the MCHC Group and also in corporate management. The Board of Directors believes that he is qualified for Director and request that he be elected as proposed.
Shushichi Yoshimura	Senior Management Corporate Executive Officer	Shushichi Yoshimura engaged in the industrial materials business domain as well as the corporate strategy division of MCC, and is now in charge of the corporate strategy division of the MCHC Group. Given his abundant experience and profound insight in the businesses of the MCHC Group and also in corporate management, the Board of Directors believes that he is qualified for Director and request that he be elected as proposed.
Takeo Kikkawa	Director of the Board Member of the Nominating Committee Member of the Compensation Committee	Takeo Kikkawa plays appropriate roles as an Outside Director of the Company by utilizing his profound insight into company management from the perspective of business history and his experience as an expert in theories on the energy industry. Therefore, the Board of Directors concludes that Takeo Kikkawa would be qualified for Outside Director and request that he be elected as proposed. While he has not been involved in corporate management except for serving as Outside Director, the Board of Directors believes that he will properly execute his duties as an Outside Director of the Company.
Taigi Ito	Director of the Board Member of the Audit Committee Member of the Compensation Committee	Making the best of his experience and profound insight as a certified public accountant, Taigi Ito currently fulfills his role as Outside Director of MCHC appropriately. Therefore, the Board of Directors believes that he is qualified for Outside Director and request that he be elected as proposed.
Kazuhiro Watanabe	Director of the Board Member of the Audit Committee Member of the Compensation Committee	Making the best of his experience and profound insight as a prosecutor and lawyer, Kazuhiro Watanabe currently fulfills his role as Outside Director of the Company appropriately. The Board of Directors thus believes that he is qualified for Outside Director and request that he be elected as proposed.

Hideko Kunii	Director of the Board Member of the Nominating Committee Member of the Audit Committee	Making the best of her extensive experience in company management and as an expert in the information processing domain, as well as her profound insight in diversity promotion as a member of the Cabinet Office Gender Equality Promotion Joint Meeting, Hideko Kunii currently fulfills her role as outside director of the Company appropriately. The Board of Directors believes that she is qualified for Outside Director and request that she be elected as proposed.
Takayuki Hashimoto	Director of the Board Member of the Nominating Committee	Takayuki Hashimoto plays appropriate roles as an Outside Director of the Company by utilizing his extensive experience in corporate management as a president and CEO of a Japanese subsidiary of a global corporation and his profound insight in ICT (information and communication technology). The Board of Directors believes that he is qualified for Outside Director and request that he be elected as proposed.

[Reason for appointment of the corporate executive officers ]

Name	Present position and duty at the Company	Reason for appointment of the corporate executive officers
Hitoshi Ochi	Director of the Board, President, CEO Member of the Nominating Committee	After Working in manufacturing departments, Hitoshi Ochi engaged in the Corporate Strategy Office and other departments of MCHC and MCC and now serves as Representative Corporate Executive Officer, President & CEO of MCHC and Member of the Board, President & CEO of MRC. He has abundant experience and profound insight in the businesses of the MCHC Group as well as in corporate management, and thus the Board of Directors believes that he is qualified for the chief officer for business execution of the Company.
Noriyoshi Ohira	Deputy CEO and Corporate Executive Officer	Having engaged in the management of the MCHC Group over many years, Noriyoshi Ohira has abundant experience and profound insight especially in human resources and internal control domains. The Board of Directors thus believes that he is qualified for the chief officer of PR, legal, general affairs, human resources, and internal controls of the Company.
Kenkichi Kosakai	Deputy CEO and Corporate Executive Officer	Having engaged in the management of the MCHC Group over many years, Kenkichi Kosakai has abundant experience and profound insight especially in the accounting and finance domains. The Board of Directors thus believes that he is qualified for the chief officer of corporate management and IR of the Company.
Shushichi Yoshimura	Senior Management Corporate Executive Officer	Having engaged in the management of the MCHC Group over many years, Shushichi Yoshimura has abundant experience and profound insight especially in the industrial materials business domain, performance products business domain and production technologies. The Board of Directors thus believes that he is qualified for the chief officer of corporate strategies and other operations of the Company.
Larry Meixner	Managing Corporate Executive Officer	Larry Meixner has abundant experience in corporate management as an officer of oversea companies and profound insight especially in ICT (information and communication technology). The Board of Directors thus believes that he is qualified for the chief officer of Emerging Technology and Business Development which promotes exploration of advanced technology and creation of new business, and Information system of the Company.

## Outline of results of the Evaluation on the Effectiveness of the Board of Directors in fiscal 2016

### 1. Implementation of the Board of Directors effectiveness evaluation

In accordance with the Mitsubishi Chemical Holdings Corporation (MCHC) Corporate Governance Guidelines, we disclose an outline of results of the evaluation on the effectiveness of the Board of Directors. This year a major theme was the “use of outside directors.” We analyzed and evaluated the effectiveness of our Board of Directors overall.

### 2. Analysis and evaluation method

All directors, including the chairperson of the board, were subject to the evaluation. We implemented an open-ended questionnaire (key questions concerned the (1) role of outside directors, and (2) productive discussions on the direction of medium-to-long term corporate management policies). In accordance with the response, in addition to an analysis of current trends by Directors of the Board (chairperson of the Board, outside director, and in-house auditor) that are not in charge of the business operations, discussions were held on issues and points needing improving. Based on this, the chairperson of the board assessed the effectiveness of the Board of Directors and reported the results to the Board in June 2017.

### 3. Outline of evaluation results

MCHC's Board of Directors is being properly operated. The evaluation indicates that we have secured a reasonable level of efficacy and efficiency, mainly for management oversight functions. Especially, based on our results from last year's evaluations, we implemented the measures in No. 4 below. These measures improved the provision of information to the Board of Directors. In addition, the outside directors accurately posed questions from diverse perspectives and that fundamental and active discussions were carried out as outside directors were able to express their opinions. Accordingly, we saw improvements in the Board of Directors effectiveness compared with last year.

Meanwhile, we believe (1) and (2) require further improvements to achieve extensive discussions on the direction of medium-to-long term corporate management policies.

#### (1) Extensive provision of information to outside directors

Improvement plan: To conduct more extensive discussions at Board of Directors, we plan to alleviate information asymmetry between inside and outside directors. This includes reviewing the operation method of the Outside Director Liaison Committee and sharing information using ICT between outside directors and corporate executive officers that have been held to provide deeper knowledge on the major businesses of the MCHC Group.

#### (2) Efficient operation of the Board of Directors

Improvement plan: To ensure sufficient time for essential discussions at Board of Directors, we plan to review our advanced briefing method. We also aim to improve the efficiency of Board of Directors, in part by using materials that are clear to the point and express the perspective of the holding company.

#### 4. Initiatives reflecting the previous evaluation results

In the effectiveness evaluation conducted in 2016, we recognized the following issues that required improving: i) more extensive discussions on the direction of medium-to-long term corporate management policies; ii) reinforced monitoring of medium-term business plan; and iii) more extensive reporting.

Regarding (i), we set up the corporate executive officers committee, which is a consultation body. We also established a body to supervise the business strategies for the four business domains. The Board of Directors discussions were stimulated by in-depth discussions on the medium-to-long term management policies from the perspective of the holding company. In April 2017, we began using a new approach to monitor progress with the medium-term business plan (ii). Furthermore, we review our reporting guidelines (iii). In addition to reporting for business plans and on progress with business operations, we aim to quickly and accurately communicate negative information, including accidents and compliance violations, to the directors in charge at the holding company and to the Board.

Our goal continues to be to improve the effectiveness of the Board of Directors through reviews and expansion of the operation and management of the Board.