

## **Mitsubishi Chemical Holdings Corporate Governance Guidelines**

The Mitsubishi Chemical Holdings Corporation (MCHC) Group defines KAITEKI as “the sustainable well-being of people, society and our planet Earth”, and has “realizing KAITEKI” as its vision. The MCHC Group will not stop at providing solutions to environmental and social problems, but also aim to contribute to a sustainability in both through our corporate activities.

For Realizing KAITEKI, in accordance with these guidelines, MCHC shall establish a system to enhance both the soundness and efficiency of business administration, improve the transparency of its business administration through suitable disclosure of information and dialogue with stakeholders, and endeavor to establish a better suitable corporate governance system.

### **[Development of a framework that improves the soundness and efficiency of management]**

#### **1. A holding company system and institutional design**

##### **(1) Holding company system**

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

##### **(2) Institutional design**

MCHC 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.

#### **2. Board of Directors**

##### **(1) Roles**

The Board of Directors determines basic management policies (group philosophy, medium-term management plans, annual budgets, etc.), and supervises the overall management.

In principle, the Board of Directors delegates authority to corporate executive officers to make business execution decisions based on the basic management policies.

##### **(2) Constitution**

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 strategy, finance, compliance and corporate governance, and technology 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 and ICT, 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 not concurrently serve as Corporate Executive Officers.

(3) Outside Director Liaison Committee

An Outside Director Liaison Committee that consists of outside directors, chairperson of the Board of Directors, the President and major corporate executive officers shall be established and held once a month as a place to provide important management information to outside directors as well as a place for a frank exchange of views on management issues.

(4) Evaluation of the Board's effectiveness

The Board of Directors shall evaluate its effectiveness every year and disclose the outline of the results. The method and items of the evaluation shall be set appropriately based on the constitution, administration, etc. of the Board.

### **3. Committees**

(1) Nominating Committee

i. Roles and constitution

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.

ii. Succession planning for the President

MCHC shall appoint a person who is well acquainted with the Group's diverse business activities as successor to the President. The Nominating Committee nominates candidates for corporate executive officers and operating company presidents (excluding listed subsidiaries) also from the perspective of fostering successors to the President.

(2) Audit Committee

The Audit Committee audits the execution of duties by corporate executive officers and directors, and reviews the Group's internal control system, etc.

Full-time members are appointed in order to strengthen the audit system. Full-time members and the head of the audit committee are appointed from within the company to ensure the smooth collection of information from each division of MCHC, internal control, and to forge closer ties with audit divisions and the accounting auditor.

(3) Compensation Committee

The Compensation Committee determines the individual amount of compensation for each director, corporate executive officer and operating company president (excluding listed subsidiaries). In consideration of transparency and fairness in the process of determining

compensation, an outside director serves as the head of the committee.

#### **4. Support system for directors**

##### **(1) Training**

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.

##### **(2) Access to external specialists**

Directors may use, as needed, external specialists such as lawyers and public accountants at the company's cost.

#### **5. Accounting auditor**

With regard to ensuring the reliability of financial reports by the accounting auditor, MCHC shall make appropriate responses in order to establish an adequate supervisory system through the cooperation of the Audit Committee, internal control divisions and audit divisions.

The Audit Committee shall evaluate the effectiveness of audit by the accounting auditor every year and determine the adequacy of re-electing the accounting auditor.

#### **6. Business execution system**

##### **(1) Corporate executive officer**

Corporate executive officers, under the guidance of the President, carries out business management of the Group based on the segregation of duties. In addition, the Corporate Executive Officers Committee which is composed all corporate executive officers shall discuss and make decisions on important matters for the business management of the Group.

##### **(2) Operating company**

Operating companies, under the Group business management by MCHC, shares the Group's business principles and policies in operating business. Important matters are subject to discussion and decision by MCHC's Corporate Executive Officers Committee. Listed subsidiaries report on important matters to the Management Committee beforehand.

##### **(3) Development of an internal control system**

###### **i. Basic policies**

The Board of Directors shall determine basic management policies concerning the establishment of an internal control system in a bid to ensure proper operations at the Group

as a whole, and oversee the situations of establishment and administration of the system concerning matters such as compliance, ensuring adequacy in financial reports and risk management.

ii. Whistleblowing contact centers

MCHC and operating companies shall establish compliance hotlines to receive reports and consultations regarding compliance issues, etc. In addition to within the company, hotline contact centers shall also be established at external agencies for the convenience of whistleblowers. The identity of whistleblowers shall be hidden, and treatments that would cause disadvantage to the whistleblowers shall be prohibited. The operation of the hotline shall be reported to the Board of Directors as needed.

(4) Ensuring diversity

MCHC aims to become an organization with creativity and resilience to change by developing an environment where diverse personnel of different backgrounds such as gender, race and culture respect each other and can exercise their capabilities.

## **[Enhancement of management transparency]**

### **1. Appropriate disclosure**

MCHC seeks to enhance the understanding of stakeholders including shareholders and customers in MCHC's corporate activities by actively disclosing financial information such as management strategies, financial conditions and operating results, as well as efforts toward the realization of *KAITEKI*.

### **2. Dialogue with stakeholders**

#### (1) Basic stance

MCHC has an active and constructive dialogue with stakeholders such as shareholders and customers through various opportunities, and aims to cooperate for the realization of *KAITEKI* by sharing issues and goals.

#### (2) Dialogue with shareholders

MCHC shall establish systems and undertake efforts to promote constructive dialogue with shareholders in accordance with the "Policies on Dialogue with Shareholders" (Attachment 1).

#### (3) Materiality assessment

MCHC shall identify important issues (materiality) that must be addressed by the Group while bearing in mind the stakeholders' perspective, and prioritize important issues while taking into consideration the impact of corporate activities on stakeholders.

### **3. Policies concerning medium-term management plans, capital policies and cross-shareholdings**

#### (1) Medium-term management plan

MCHC draws up medium-term management plans, sets financial goals to seek capital efficiency (MOE), goals concerning innovative creation of technologies (MOT) and goals concerning the enhancement of sustainability of people, the Earth and society (MOS), and discloses the outline of strategies to achieve each goal.

The Board of Directors receives reports on the progress of the medium-term management plan from corporate executive officers on a regular basis and provides appropriate oversight and recommendations to achieve the plans.

#### (2) Capital policy

Capital policies shall be described in the medium-term management plan, etc. When deciding a capital policy that would lead to a change in control or substantial dilution, MCHC shall disclose information appropriately.

#### (3) Policy on cross-shareholdings

MCHC 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. The Board of Directors shall review the adequacy of such cross-shareholdings on a regular basis.

The exercise of voting rights of the cross-shareholdings shall be determined from the perspective of medium- to long-term improvement in corporate value of clients, etc.

#### **4. Policy on appointment of senior management**

(Directors)

The Nominating Committee nominates persons who fulfill the following criteria as candidates for 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 (Attachment 2), and be able to secure enough time to execute business. In addition, be able to secure diversity among outside directors.

(Corporate executive officers)

The Nominating Committee nominates persons who fulfill the following criteria as candidates for 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.

#### **5. Policy on deciding compensation for senior management**

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 Cash Bonuses and 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.
- The baseline cash amount/number of shares will vary within a range of 0%-200% in accordance with the level of performance attained. In addition, the higher-ranked the executive, the higher will be the ratio of performance compensation to total compensation.

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Attachment 1: *Policy on Dialogue with Shareholders*

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.

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 Legal. Opinions obtained through the dialogue will be reported to the Board of Directors, etc., and shared by the management.

Insider information is managed in accordance with internal regulations such as our information security policy.

Major activities concerning disclosure to and dialogue with shareholders are as follows:

<KAITEKI Report>

MCHC discloses our efforts in *KAITEKI* by issuing an integrated report as the *KAITEKI* Report, which includes information on governance, social contribution and sustainability, in addition to financial information.

<General meeting of shareholders>

MCHC views the general meeting of shareholders as a place for dialogue with shareholders, and strives to actively disclose information through notice of the general meeting of shareholders, etc., as well as offer detailed explanation to questions from our shareholders at the meeting.

<Addressing institutional investors>

In addition to business briefings that are attended by the President and officers in charge, MCHC carries out visits and presentations by the President, CFO, PR and IR Office, etc. to institutional investors in Japan and abroad, as well as responding to individual interviews.

<Presentations for individual investors>

The PR and IR Office participates in presentations for individual investors to explain MCHC's businesses and future business development, etc.



## Attachment 2: **Standards for Independence of Outside 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.

1. Related party of the Company
  - (1) Person engaged in execution of operation of the MCHC 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 MCHC Group over the last 10 years
2. Major shareholder

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