

## **MCHC Group Global Tax Policy**

The Mitsubishi Chemical Holdings Corporation (MCHC) Group (“the Group”), comprising MCHC and its subsidiaries, understands that it is an important part of its social responsibility to comply with the tax laws of all the countries and regions it operates in and to establish a compliance structure, and that failure to do so may not only cause direct damage such as tax litigation and penalties but also impair business value and shareholders’ value through decline of social confidence.

The Group regards the payment of tax as a significant aspect to carry out its social responsibility. The Group also understands that if any member of the Group fail to appropriately pay the tax in the countries and regions it operates, economic growth and social development in such countries and regions could be adversely affected.

Furthermore, the Group regards that the impact of tax activities that the Group performs have an important consequence for enterprise value and shareholders’ value.

In accordance with the concept above, the Group is committed to address the interests of various stakeholders through legal compliant, timely and appropriate tax payments and proper and highly transparent tax management to ensure such compliance and tax payment.

The Group commits it complies with the following policies in order to achieve this goal.

### **1. Tax governance**

Tax governance for the Group is ultimately the responsibility of the Chief Financial Officer (CFO) of MCHC as a part of a finance function of the Group.

Practical management of tax governance is delegated to each tax department of MCHC and its operational companies. The General Manager Corporate Management Office of MCHC supervises significant tax administration and tax risk management for the entire Group.

The performance of administration of the Group’s tax matters is reported to the CFO

as appropriate and periodically confirmed by the Audit Committee every year.

The Group will ensure an appropriate system of internal controls and properly administrate the preparation of tax related documents such as tax returns. MCHC will make an effort to manage the tax risks through overseeing tax matters for the entire Group.

## **2. Role of the tax function**

In response to the changing business environment and increased globalization, the Group has assigned experienced tax practitioners who have tax related knowledge and skills to the tax department within each Group company including MCHC and thus each Group company has established an organizational structure to manage domestic and foreign tax affairs and to implement tax planning strategies.

The tax department considers measures and tax structures to optimize tax costs and related expenditure in addition to thoroughly minimizing tax risks through compliance with the laws and regulations of each country and the timely response to regulatory changes. In performing such activities the tax department contributes as its role to enhance the Group's return on equity (ROE), free cash flow and shareholder value.

## **3. Transparency**

The Group recognizes its social responsibility to provide transparency into its tax affairs.

By adhering to tax laws and regulations and following international standards such as OECD's guidelines and the Base Erosion and Profit Shifting (BEPS) Action Plan, the Group endeavors to pay the right amount of tax in each country it operates. The Group strives to provide transparency into its tax affairs by disclosing tax related information and its attitude toward taxation in a timely and comprehensible manner.

The Group acknowledges growing interest globally with respect to the transparency of the multinational enterprises' tax affairs, and supports BEPS project, in which governments of the major countries worldwide have initiated steps to prevent from

international tax avoidance and aggressive tax planning as well as to maintain tax transparency through tax related information disclosure.

In accordance with each of the BEPS Actions, the Group is especially addressing matters related to transfer pricing regulations and tax havens rules (i.e. controlled foreign corporation rules) to ensure that profits are taxed where economic activities occur and where value is created.

#### **4. Compliance**

The Group complies with tax laws and regulations and fulfils its tax payment obligations in the countries it operates.

#### **5. Approach to tax planning**

The Group places utmost value on appropriate and reasonable business management. However, a business model without due consideration for taxes may harm the overall business value of the Group. Therefore, the Group considers effective structures and tax planning for managing business activities.

The Group's tax planning activities are intrinsically linked to commercial business activities and performed in accordance with the laws. The Group will not enter into artificial tax arrangements for the purpose of tax avoidance or which lack commercial rationale.

#### **6. Transfer Pricing**

The Group holds the view that international income appropriately allocated in accordance with the contribution of each Group company will result in the payment of proper tax amount in each country it operates.

The Group gives due consideration to the arm's length principle in executing international related party transactions and ensures profits are appropriately allocated according to the functions performed, the risks borne and the assets held by each Group company. The Group endeavors to ensure appropriate distribution of income and prevents shifting the profits through a series of processes of preparing

transfer pricing documentation to verify the appropriateness for the results of income allocation.

The Group complies with the transfer pricing documentation requirements to prepare or, where required, to submit transfer pricing documentation in a lot of the countries it operates.

## **7. Use of Tax Havens**

The Group understands that the use of subsidiaries in countries or regions with no tax or low tax rates (so-called “tax havens”) may erode tax bases and adversely harm the appropriate tax payments. The Group will therefore never use tax havens for the purpose of tax avoidance.

The Group periodically assesses the tax systems including tax reforms in the countries and regions it operates. In case that a country or region is newly deemed to have become a tax haven, the Group will file a tax return and pay tax appropriately in accordance with the tax related laws and regulations of Japan and each country or region.

## **8. Tax incentives**

Tax incentives mainly refer to legitimate incentives provided by taxing jurisdictions such as tax reduction and tax exemption for a specific business activity in a specific region, other tax credits, accelerated depreciation and the application of tax treaties.

The Group will endeavor to maximize business value through enhancement of tax efficiencies based on utilizing applicable tax incentives in the course of normal business activity.

However, the use of such incentives will strictly be in accordance with their intended purpose and in alignment with the Group’s business objectives. Incentives will not be applied based on an unintentional interpretation of the laws and regulations and will not be used for the sole purpose of tax reductions.

## **9. Elimination of double taxation**

The Group seeks to eliminate economic double taxation (where tax is paid two or more times on the same source of economic income) through the use of tax treaties and constructive dialogue between the relevant countries.

#### **10. Uncertain tax positions**

The Group will perform an evaluation of the risks for each case and take appropriate action in the event of uncertainty regarding a tax implication and tax position.

Whilst the Group's internal controls do not prescribe its level of tolerance to tax risks, the Group focuses on low risk approaches in order to secure shareholders' value by paying the right amount of tax in accordance with the appropriate laws and regulations.

The Group endeavors to reduce uncertainty of tax implications and tax positions by seeking the advice of qualified external tax advisors and consulting with the appropriate national tax authorities in advance in dealing with the case with such uncertain tax implication and tax position.

#### **11. Relationship with tax authorities**

The Group aims to establish and maintain long term sound and good cooperation system and relationships of mutual trust through providing tax authorities in the countries and regions it operates with the information as requested by tax authorities in a cooperative and appropriate manner as well as through constructive dialogue.

In the event that a dispute or difference of opinion should arise with a tax authority, the Group will actively communicate with the tax authorities to seek a resolution to the issue.

Enforced as of September 14, 2017