

# CORPORATE GOVERNANCE

## BASIC APPROACH TO CORPORATE GOVERNANCE

As set forth in our long-term management vision, the “Declaration of Kaneka United for the Future,” (comprising the Corporate Philosophy, Corporate Ideals and Basic Corporate Social Responsibility Policy noted on page 2), Kaneka considers the achievement of sustained growth and the medium- to long-term improvement of corporate value to be its top management priorities. Kaneka has enacted a Basic Policy on Corporate Governance under the belief that enhancement of corporate governance is essential to achieving these goals.

Kaneka believes that a working corporate governance function is extremely important to realizing its diverse, global business growth, and to maintaining the optimal allocation of corporate resources to the R&D, production and sales activities that support that growth. It is also essential to realizing sustainable growth together with the medium- to long-term improvement of corporate value. From that perspective, Kaneka is working to enhance corporate governance, both to ensure transparency and fairness in decision-making, and to build more dynamic management through swift, bold decisions. The Company believes the following basic items are particularly important in those efforts.

- Respecting and ensuring the equality of shareholder rights.
- Collaborating with other stakeholders in the value-creation process.
- Ensuring transparency through the timely, appropriate disclosure of information.
- Strengthening the oversight and strategic recommendation functions of the Board of Directors by leveraging the independence and insight of its outside officers.
- Appropriately communicating and encouraging understanding of the Company’s corporate philosophy and policies among all stakeholders.
- Conducting a constructive dialogue with shareholders based on an understanding of the Company’s corporate policies.

## 1. CORPORATE GOVERNANCE FRAMEWORK AT KANEKA

### (1) Overview of Corporate Governance at Kaneka Organizational Design under the Companies Act

Corporate governance at Kaneka is underpinned by a Board of Directors and an Audit & Supervisory Board.

#### Business Execution

Important management matters pertaining to management of the Kaneka Group are decided by resolution of the Board of Directors following deliberation at a Management Conference, a body consisting of the President and other executives of the Company.

Meetings of the Board of Directors are convened, in principle, at least once a month. The Board of Directors discusses important matters regulated by laws and regulations, the Articles of Incorporation and Board of Directors regulations, and decides on the execution thereof. In tandem, directors report to the Board of Directors on the status of execution of their prescribed duties, with the Board of Directors monitoring the legality and appropriateness of their actions. The number of directors is capped at 13, and in principle 2 of them are independent outside directors appointed to strengthen the oversight function of the Board of Directors. The terms of office of directors are limited to one year in order to clarify management accountability.

Additionally, Kaneka has introduced an executive officer system with the purpose of promoting swift and flexible responsiveness to changes

in the business environment, as well as to separate and enhance business execution and oversight functions. While division managers, including executive officers selected by the Board of Directors, are given extensive authority over daily business execution, directors are responsible for or in charge of each division to supervise the execution of operations. Division managers hold monthly meetings to report on the status of operations in their respective divisions directly to all directors and Audit & Supervisory Board Members.

The CSR Committee, chaired by the President, has been established to promote activities that contribute to society’s sustainable development, as well as to guide the Company in ensuring legal and regulatory compliance, and fulfilling its accountability to stakeholders.

#### Audits and Oversight

The Audit & Supervisory Board consists in principle of four Audit & Supervisory Board Members, two of which are independent outside Audit & Supervisory Board Members. Audits are conducted in coordination with the accounting auditor and CSR Division Internal Control Department. The Audit & Supervisory Board Members meet periodically to exchange opinions with the Company’s representative directors, and attend meetings of the Board of Directors, Management Conference, division manager meetings and other important meetings where key matters regarding business execution are decided. In this way, the Audit & Supervisory Board Members properly monitor the status of operational execution in the Company.

The Internal Control Department of the CSR Division is responsible for evaluating internal controls and conducting internal audits with regards to the business operations of each division.

#### (2) Reasons for Adopting a Corporate Governance Structure

As noted above, Kaneka has in place two independent outside directors and two independent outside Audit & Supervisory Board members, providing fully functioning oversight of the execution of business by the Board of Directors and audits by the Audit & Supervisory Board. The Company has thus chosen the “company with an Audit & Supervisory Board” format as our organizational design under the Companies Act.

By adopting an executive officer system, Kaneka has also separated the business execution and oversight functions to promote swift decision-making and clarify each of those roles. While the Board of Directors determines important corporate strategy for the Group as a whole and is responsible for the general oversight of business execution, the executive officers have authority over day-to-day business execution in the respective areas under their charge.

To further ensure that its corporate governance initiatives function effectively, Kaneka has also established a Nomination & Compensation Advisory Committee as an advisory committee to the Board of Directors.

### (3) Status of Internal Control System

By resolution of the Board of Directors, the Company has stipulated a basic policy concerning the system to ensure operational appropriateness (internal control system), as outlined below.

This basic policy is confirmed periodically and revised as necessary in an effort to maintain the effectiveness of the internal control system. The policy was resolved for the fiscal year ending March 31, 2017 by the Board of Directors meeting held on March 23, 2016.

#### 1) System to Ensure that Duties Performed by Directors and Employees Comply With Laws, Regulations and the Articles of Incorporation

- a. Strengthen the supervisory function of the Board of Directors by naming at least two independent outside directors.
- b. Ensure the effective functioning of corporate governance initiatives by establishing a Nomination & Compensation Advisory Committee as an advisory committee to the Board of Directors.
- c. Establish an Independent Outside Officers Meeting, comprising the independent outside directors and independent outside Audit & Supervisory Board members, to discuss matters related to the Company's corporate governance and to report to the Chairman of the Board of Directors regarding any issues and measures for improvement.
- d. To implement initiatives aimed at fulfilling our corporate social responsibility, we have established the CSR Committee, chaired by the President. The committee will promote responsible care and take overall charge of CSR activities.
- e. Regarding corporate ethics and compliance with laws and regulations, the Compliance Committee, which is subordinate to the CSR Committee, supervises the promotion and auditing of essential activities, such as overseeing plans on a Companywide scale, tracking rates of progress, confirming the status of compliance and establishing and maintaining appropriate inquiry and notification functions.
- f. Concerning companywide cross-divisional issues, the Company has established organizations with specific missions to oversee the promotion of plans and related matters. Such organizations, which are subordinate to the CSR Committee, include the Global Environment Committee, the Central Committee on Environment, and the Product Safety Examination Committee.
- g. The Company develops internal regulations in regards to compliance, and rigorously confirms the dissemination and compliance with these regulations through such activities as education and training programs, self-assessments, and audits.
- h. We maintain absolutely no relationships with antisocial forces, and we take a firm Companywide stand to thoroughly counter any illegal or inappropriate demands from such forces. We have also established an internal department to take overall charge of gathering and managing information related to such forces, and communicating and cooperating with police and other outside organizations and foundations. Through these efforts, we are enhancing the in-house structure for eliminating antisocial forces.
- i. To ensure the reliability of our financial reporting, we are operating, internal controls related to such financial reporting. These activities are supervised by the Internal Control Department.

#### 2) Regulations and Other Systems to Manage Risk of Loss

- a. As regards risk management, fundamentally, individual operating divisions estimate the risks that may be generated in the course of performing their work and take appropriate preventive measures. In the unlikely event of a risk being realized, they will deal with the situation appropriately while obtaining the support of related divisions.
- b. Regarding measures to prevent the realization of potential risks,

including corporate ethics and compliance with laws and regulations, the Compliance Committee, which is subordinate to the CSR Committee, oversees the formulation and promotion of company-wide plans.

- c. As regards risks that have been realized and risks that are specifically deemed likely to be realized, the Risk Management Committee works with the division concerned in a timely fashion to mitigate the risks.
- d. The Company regularly conducts inspections to confirm that the above three actions have been precisely carried out, and works to prevent the system becoming a mere façade and to maintain and improve its effectiveness.

#### 3) System to Ensure Efficient Performance by Directors

- a. Through the introduction of an executive officer system, Kaneka has separated director oversight and business execution functions, with the view to speeding up decision-making and clarifying roles and responsibilities.
- b. Dynamic execution is ensured by giving division managers, including executive officers appointed by the Board of Directors, extensive authority over daily business operations, while a director remains in charge of each division and supervises the execution of operations.
- c. The Board of Directors convenes a regular meeting once a month, at which important issues are decided and the status of the performance of the directors' duties and related matters are reported.
- d. Important issues are first discussed at a Management Conference in accordance with internal proposal and decision-making procedures based on the decision-making standards, and then are resolved and implemented by the Board of Directors.
- e. Division managers hold monthly meetings at which management policies, corporate performance and other matters are announced and business plans and status of progress are reported by designated division managers.

#### 4) System to Store and Manage Information on Directors' Performance of Duties

Information on decision-making and execution of operations in the Company is stored and managed pursuant to the provisions of laws, regulations and internal rules.

#### 5) System to Ensure Appropriate Operations Within the Enterprise Group Consisting of the Company and Its Subsidiaries

- a. The organization and business operations of domestic and overseas subsidiaries as well as risk management are performed in accordance with the "Guidelines for the Organization Building and Operation of Affiliates."
- b. To promote the establishment of a Compliance Committee at subsidiaries and to rigorously prepare and disseminate the basic CSR policy and internal company regulations such as Ethical Behavior Standards, the Company's relevant divisions will provide the necessary support. Furthermore, the Compliance Committee will confirm the status of compliance at each subsidiary.
- c. The Company will appoint Audit & Supervisory Board Members at each domestic subsidiary, and the Company's related divisions will instruct and support the Audit & Supervisory Board Members in conducting effective audits. At the same time, the Kaneka Group will ensure operational appropriateness at domestic and overseas subsidiaries by means of the Company's internal control divisions that conduct internal audits and internal control evaluations.
- d. The Company will regularly hold meetings and similar assemblies to report about each domestic subsidiary and communicate the Kaneka Group's management policy and other relevant matters. At the same time, each president will submit reports on their management policy, achievement status, and relevant matters. At the global plant manager

meeting, which includes overseas subsidiaries, we strive to raise functional business efficiency through such means as sharing plant safety measures.

**6) System for Directors and Employees of Kaneka and Its Subsidiaries to Report to the Audit & Supervisory Board Members, Other Systems to Report to the Audit & Supervisory Board Members, and System to Ensure That They Do Not Receive Unfavorable Treatment Because They Made the Report**

- a. Persons who have received reports from directors and employees of Kaneka and its subsidiaries, and from directors and employees of subsidiaries, shall report the following items without delay to the Audit & Supervisory Board Members.
  - (i) Items that could cause considerable damage or potential damage to the Company or its subsidiaries.
  - (ii) The execution status of internal audits and internal control assessments.
  - (iii) Important items of compliance.
  - (iv) Other important items related to management.
- b. Important decision-related documents are passed on to the Audit & Supervisory Board.
- c. Kaneka shall ensure that persons who reported a. above do not receive unfavorable treatment because they made the report.

**7) Matters Concerning Employees Assigned to Aid Audit & Supervisory Board Members in Performing Their Duties, Matters Concerning the Independence of These Employees From Directors, and Matters Concerning Ensuring the Execution of Instructions for These Employees**

- a. A secretariat will be established within the Audit & Supervisory Board to allocate assistants to aid Audit & Supervisory Board Members in performing their duties.
- b. The appointment, transfer and evaluation of such assistants are decided with the approval of the Audit & Supervisory Board Members to ensure the independence of such assistants from the directors.
- c. Candidates for Audit & Supervisory Board Members shall follow the directions and orders of Audit & Supervisory Board Members.

**8) Other Systems to Ensure That Audits Are Conducted Effectively by the Audit & Supervisory Board Members**

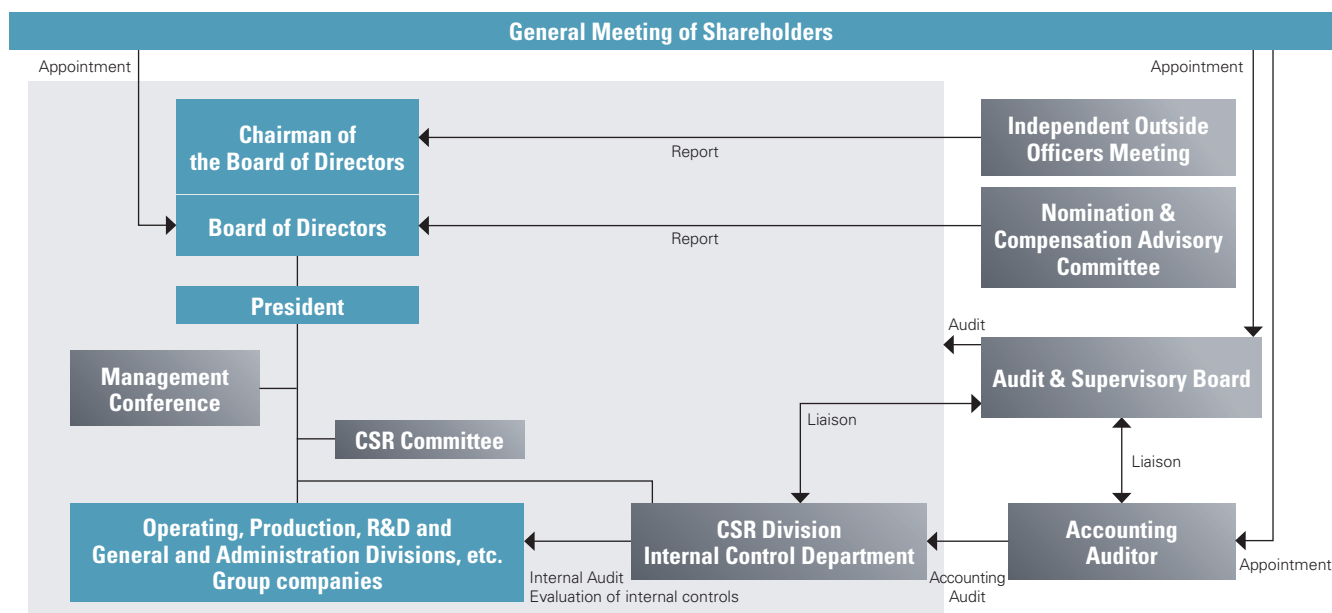
- a. The representative directors and the Audit & Supervisory Board Members periodically meet to exchange opinions.
- b. The Audit & Supervisory Board Members interview directors about the execution status of operations whenever necessary.
- c. The Audit & Supervisory Board Members attend meetings of the Board of Directors, division manager meetings, Management Conferences and other important meetings.
- d. The Audit & Supervisory Board Members periodically receive reports, such as the results of accounting audits, from and exchange opinions with the accounting auditor.
- e. The Audit & Supervisory Board Members investigate the execution status of operations and the asset management status whenever necessary at Kaneka’s places of business, including its head office and plants, as well as at its subsidiaries.
- f. The Audit & Supervisory Board Members may, if necessary, consult with a certified public accountant, an attorney or other expert and the cost shall be borne by the Company.

A diagram of Kaneka’s business execution, audit and supervisory structure and the status of its internal control system is as shown below.

**(4) Basic Approach to Rejection of Antisocial Forces and Status of Preparedness**

The Group has established a Basic Policy on Corporate Activities and Ethical Behavior Standards that provide the basic standards the Company’s officers and employees are to adhere to in conducting business activities. These policies require absolutely no relationships with antisocial forces, that demands from antisocial forces are dealt with resolutely, and that unlawful or unjust demands are opposed on an individual level as well. The executive directors and others in top management discipline themselves to set an example in upholding these standards of behavior, working to develop internal structures and increase awareness within the Company.

To address this issue, the Company has established a division to collect and manage information on a daily basis and coordinate with law enforcement and other outside entities and related organizations. The Company is developing and reinforcing its internal structure for eliminating antisocial forces.



### (5) Overview of Contracts for Limitation of Liability

The Company enters into contracts with each of its two outside directors and two outside Audit & Supervisory Board members in order to limit their responsibility as regards the liabilities stipulated in Article 423, Paragraph 1 of the Companies Act.

## 2. INTERNAL AUDITS AND AUDIT & SUPERVISORY BOARD MEMBERS' AUDITS

The Kaneka Group has established an Internal Control Department, staffed by 15 employees, under the CSR Division to develop an internal control system, evaluate the system's operating status and conduct audits of the Company's business operations.

There are four Audit & Supervisory Board members, of whom two are outside members. The standing Audit & Supervisory Board Members are elected based on their years of experience with the Company's accounting and auditing divisions, as well as their formidable insight with respect to financial and accounting matters. A secretariat is established within the Audit & Supervisory Board and staffed by assistants who aid the Audit & Supervisory Board Members in the performance of their duties. One replacement Audit & Supervisory Board Member is also appointed to assume audit duties in cases in which the number of Audit & Supervisory Board Members falls below the minimum number required by law.

The Audit & Supervisory Board periodically requests meetings to receive reports from the CSR Division Internal Control Department regarding the status of internal audits. Similarly, the Audit & Supervisory Board holds meetings to receive regular audit reports from and exchange opinions with the accounting auditor, in an effort to perform audits in mutual cooperation with all audit-related entities.

## 3. RELATIONSHIP WITH OUTSIDE DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

Kaneka has two outside directors, Takeo Inokuchi and Mamoru Mohri, and two outside Audit & Supervisory Board Members, Hiroshi Fujiwara and Yasuhiro Uozumi. The outside directors and outside Audit & Supervisory Board Members have no noteworthy special interest relationships with the Company in terms of personnel, capital, business or other relationships.

Outside Director Takeo Inokuchi has many years of experience in the post of representative director of Mitsui Sumitomo Insurance Co., Ltd., which is a shareholder of Kaneka and has business relationships with the Company. Currently, Mr. Inokuchi is a senior advisor for Mitsui Sumitomo Insurance Co., Ltd. However, given the size and nature of the business transactions between Kaneka and Mitsui Sumitomo Insurance Co., Ltd., there are no material factors that would give rise to any special interest relationship between the two companies.

Outside Director Mamoru Mohri is a director of the Japan Science and Technology Agency of the National Museum of Emerging Science and Innovation. However, there are no material business transactions between this agency and the Company.

Outside Audit & Supervisory Board Members Hiroshi Fujiwara and Yasuhiro Uozumi are attorneys with Hashimoto Law Office and Oh-Ebashi LPC & Partners, respectively, neither of which has any noteworthy special interest relationship with the Company.

Mr. Inokuchi and Mr. Fujiwara are sitting members of the special committee for determining basic policies to prevent any attempted large-scale acquisitions of Kaneka shares.

At Kaneka, the primary role of the outside directors is to express constructive opinions from the viewpoint of the common interests of the Company's shareholders regarding management results and the performance of corporate management, and to provide effective advice

in light of their deep expertise regarding decisions by the Board involving corporate strategies and corporate plans. The outside directors attend meetings of the Board of Directors and offer input as necessary, based on their abundant professional knowledge and experience. They also receive business reports from the directors every month, and exchange opinions with them as necessary. The outside directors also regularly meet with the representative directors to exchange opinions.

In addition to attending meetings of the Board of Directors and the Audit & Supervisory Board and commenting as appropriate, the outside Audit & Supervisory Board members also regularly meet with the representative director to exchange opinions, and receive and comment on audit reports from the Company's statutory corporate auditors.

The Independent Outside Officers Meeting, comprising the Company's independent outside directors and independent outside Audit & Supervisory Board members, meets at least once a year to discuss matters regarding the Company's corporate governance.

Kaneka has established the following criteria regarding the independence of its outside officers.

- Business executives of the Company and its Group companies (hereinafter, "the Group") and their close relatives, etc.
- Any entity that considers the Group to be a principal business partner or any business executives thereof, etc.
- Any principal business partner of the Group or any business executive thereof, etc.
- Major shareholders of the Company (entities that directly or indirectly hold a voting interest of 10% or more) or business executives thereof, etc.
- Directors and other business executives of organizations that have received a certain amount or more of donations or subsidies from the Group.
- Business executives of companies with which there is a mutual secondment of directors and Audit & Supervisory Board Members between the Group, etc.
- Persons belonging or who have belonged in the past to auditing firms conducting a statutory audit of the Company.
- Consultants, certified public accountants and other accounting professionals, and lawyers and other legal professionals who have received a substantial amount of monetary compensation or other consideration other than corporate officer compensation from the Group (In case the entity receiving such consideration is a corporation, association or other group, persons belonging to the said group or persons who have belonged to the said group in the past).

#### Notes:

- A business executive is someone who executes business such as a director (excluding outside director), an executive officer or an employee, and is someone who has worked for the Company in the past.
- A close relative refers to a relative within the second degree or a relative living together with the person who executes important business for a director (excluding outside director), an executive officer, division manager or others.
- A person who is a principal business partner of the Kaneka Group refers to a business partner group (a company that belongs to a consolidated group to which the direct business partner belongs; the same applies below) that provides products or services to the Kaneka Group, and the transaction amount of this business partner group with the Kaneka Group exceeded 2% of consolidated net sales of the business partner group in the immediately preceding fiscal year.
- A principal business partner of the Kaneka Group refers to a person who falls under any of the following:
  - A business partner group to which the Kaneka Group is providing products or services and the transaction amount that this business partner group had with the Kaneka Group exceeded 2% of consolidated net sales of the business partner group in the immediately preceding fiscal year.
  - A financial institution group (a company that belongs to a consolidated group that the direct lender belongs to) that the Kaneka Group borrows from and the total borrowings of the Kaneka Group from the financial institution group exceeded 2% of the consolidated total assets of the Kaneka Group at the end of the immediately preceding fiscal year.

## CORPORATE GOVERNANCE

- An organization that has received donations or subsidies of a certain amount or more from the Kaneka Group refers to an organization such as a public interest incorporated foundation, a public interest incorporated association, or a non-profit corporation that has received donations or subsidies in excess of ¥10 million annually.
- A consultant, an accounting professional such as a certified public accountant, and a legal expert such as an attorney who has obtained a large sum of money or other assets, excluding director compensation, from the Kaneka Group refers to a person who has obtained assets in excess of ¥10 million, excluding director compensation, from the Kaneka Group, or a person who belongs to an organization that has obtained assets in excess of 2% of that organization's consolidated net sales or total income from the Kaneka Group in the immediately preceding fiscal year.

### 4. STATUS OF ACCOUNTING AUDITS

The certified public accountants who provided the Company with accounting audit services during the year are Takashi Yoshida, Teruo Watanuma, and Tsuyoshi Ikeda, all belonging to KPMG AZSA LLC. Other personnel who assisted in accounting audit tasks include 12 certified public accountants and 21 junior certified public accountants.

### 5. BREAKDOWN OF CORPORATE OFFICER COMPENSATION

Corporate officer compensation for the fiscal year under review was as follows:

Position	Total Compensation (Millions of yen)	Breakdown of Compensation by Type (Millions of yen)			Persons Compensated
		Monthly (fixed) Compensation	Stock Option Equity Compensation	Bonuses	
Directors (excluding outside directors)	610	430	70	110	11
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	48	48	–	–	3
Outside directors	64	64	–	–	5

Notes:

- Amounts less than the specified unit have been rounded off.
- Persons compensated and monthly (fixed) compensation for directors include compensation paid to a director who retired from their positions at the close of the 91st Ordinary General Meeting of Shareholders on June 26, 2015.
- Persons compensated and monthly (fixed) compensation include compensation paid to two Audit & Supervisory Board Members who retired from their positions at the close of the 91st Ordinary General Meeting of Shareholders on June 26, 2015.
- Maximum compensation to directors is ¥46 million per month (fixed salary) (resolved at the 76th Ordinary General Meeting of Shareholders on June 29, 2000), and annual stock option equity compensation is ¥75 million (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).
- Maximum compensation to Audit & Supervisory Board Members is ¥78 million per month (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).

### Total Amount of Consolidated Compensation per Corporate Officer Paid by the Company

Not applicable, since no one receives consolidated compensation or other compensation totaling ¥100 million or more.

### Policy for Determining Corporate Officer Compensation

Compensation for directors is linked to the medium- to long-term interests of the Company's shareholders and is intended to enhance directors' motivation for maximizing corporate value through a system that is appropriate, fair and balanced. Compensation for directors is comprised of fixed monthly compensation, together with bonuses linked to operating results and stock option equity compensation. Compensation for outside directors comprises fixed compensation. Each of these components is maintained within caps approved by the General Meeting of Shareholders, and is decided after consideration of the Company's operating environment, business results and other factors.

Compensation for individual directors is determined by the authorized representative directors who are delegated by the Board of Directors, following discussion by the Nomination & Compensation Advisory Committee.

Compensation for Audit & Supervisory Board Members consists of fixed compensation maintained within a cap approved by the General Meeting of Shareholders. Compensation for individual Audit & Supervisory Board Members is decided after conferring with the Audit & Supervisory Board Members based on the duties and responsibilities of each individual Audit & Supervisory Board Member.

### 6. STATUS OF STOCKHOLDING

#### Investment Stocks Held for Other Than Purely Investment Purposes

137 different stocks

Total reported balance sheet value: ¥47,939 million

#### Investment Stocks Held for Other Than Purely Investment Purposes by Classification, Stock Name, Number of Shares, Reported Value on the Balance Sheet, and Holding Purpose

(Fiscal year under review)

(Specific investment securities)

Stock Name	No. of Shares	Reported Balance Sheet Value (Millions of yen)	Holding Purpose
Shionogi & Co., Ltd.	672,000	3,559	Stock held to maintain and enhance business relationships.
Kubota Corporation	1,952,966	3,000	Same as above
Nippon Shokubai Co., Ltd.	480,000	2,750	Same as above
Sumitomo Mitsui Financial Group	803,112	2,740	Same as above
Daiwa House Industry Co., Ltd.	767,000	2,428	Same as above
Nitto Denko Corporation	300,000	1,877	Same as above
Mitsubishi UFJ Financial Group, Inc.	3,297,700	1,719	Same as above
FVC Co., Ltd.	1,102,400	1,719	Same as above
NOK Corporation	760,000	1,460	Same as above
JMS Co., Ltd.	4,947,000	1,459	Stock held for business and capital alliance purposes.
Mitsui & Co., Ltd.	1,031,093	1,335	Stock held to maintain and enhance business relationships.
MS&AD Insurance Group Holdings, Inc.	401,990	1,260	Same as above
Nissin Foods Holdings Co., Ltd.	227,074	1,201	Same as above
Ezaki Glico Co., Ltd.	207,258	1,195	Same as above
Morinaga & Co., Ltd.	2,082,528	1,193	Same as above
Konishi Co., Ltd.	684,000	960	Same as above
Mitsubishi Chemical Holdings Corporation	1,384,171	813	Same as above
Mitsui Chemicals, Inc.	2,053,000	769	Same as above
Takiron Co., Ltd.	1,318,201	735	Same as above
Duskin Co., Ltd.	350,000	707	Same as above
Yamazaki Baking Co., Ltd.	296,432	702	Same as above
Ibiden Co., Ltd.	500,000	688	Same as above
Mitsubishi Corporation	259,251	494	Same as above
Ihara Chemical Industry Co., Ltd.	308,000	447	Same as above
Terumo Corporation	99,750	402	Same as above
Okamoto Industries, Inc.	415,000	394	Same as above
Dainichiseika Color & Chemicals Mfg. Co., Ltd.	809,000	364	Same as above
Okaya & Co., Ltd.	52,600	360	Same as above
MEGMILK SNOW BRAND Co., Ltd.	124,000	350	Same as above
Onamba Co., Ltd.	829,212	294	Same as above

### 7. NUMBER OF DIRECTORS

The number of directors is limited to 13, as stipulated by the Company's Articles of Incorporation.

## 8. REQUIREMENTS FOR DETERMINATION OF DIRECTOR APPOINTMENTS

The Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable at the General Meeting of Shareholders shall attend the meeting and determine the appointment of directors based on a majority vote. The Articles of Incorporation further specify that the appointment of directors shall not be resolved by cumulative voting.

## 9. RESOLUTIONS OF THE GENERAL MEETING OF SHAREHOLDERS THAT MAY BE DETERMINED BY THE BOARD OF DIRECTORS

In order to ensure an expeditious capital and profit redistribution policy, the Company has established in its Articles of Incorporation that any of the items provided in Article 459, Paragraph 1 (each item) of the Companies Act, including those concerning payment of dividends from retained earnings, may be determined by a resolution of the Board of Directors and that none of the items provided in Paragraph 1 of the same Article are to be determined by a resolution of the General Meeting of Shareholders.

## 10. REQUIREMENTS FOR SPECIAL RESOLUTIONS AT THE GENERAL MEETING OF SHAREHOLDERS

To ensure a smooth General Meeting of Shareholders, the Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable shall attend the meeting and determine by a two-thirds majority vote the "requirements for special resolutions at general meetings of shareholders" provided in Article 309, Paragraph 2 of the Companies Act.

## 11. COMPENSATION FOR AUDITS

### 1) Compensation for Audits and Other Activities by Certified Public Accountants

The certified public accountants who provided the Company with accounting audit services during the current fiscal year belonged to KPMG AZSA LLC. Compensation paid by the Company and its consolidated subsidiaries to KPMG AZSA LLC was as follows:

	Fiscal Year Ended March 31, 2015		Fiscal Year Ended March 31, 2016	
	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)
Kaneka	78	2	79	2
Consolidated Subsidiaries	16	0	16	0
Total	94	3	95	2

### 2) Other Significant Compensation

Previous fiscal year

The Company's consolidated overseas subsidiaries paid audit compensation of ¥155 million to KPMG, which belongs to the same network as the certified public accountants who provide auditing services for the Company.

Current fiscal year

The Company's consolidated overseas subsidiaries paid audit compensation of ¥236 million to KPMG, which belongs to the same network as the certified public accountants who provide auditing services for the Company.

### 3) Compensation for Activities Other Than Audits by Certified Public Accountants

Previous fiscal year

Compensation for non-audit services to the certified public accountants consisted of payment for services related to the confirmation procedures required when applying for certification under the Act on Special Measures concerning the Procurement of Renewable Electric Energy by Operators of Electric Utilities, and the procedures requested for obtaining a tax incentive for investment in productivity improving assets.

Current fiscal year

Compensation for non-audit services to the certified public accountants consisted of payment for services related to the confirmation procedures required when applying for certification under the Act on Special Measures concerning the Procurement of Renewable Electric Energy by Operators of Electric Utilities.

### 4) Method of Determining Compensation for Audits

Nothing to report.

## TAKEOVER DEFENSE MEASURES

At its Board of Directors meeting held on April 6, 2007, the Company introduced the Policy Regarding Countermeasures to Large-Scale Acquisitions of Kaneka Shares (hereinafter the "Policy"), and the Policy was approved by the shareholders at the 83rd Ordinary General Meeting of Shareholders held on June 28, 2007. With the aim of protecting and enhancing the corporate value of the Company and the collective interests of its shareholders over the medium- to long-term, the retention of the Policy was approved by the shareholders at the 86th Ordinary General Meeting of Shareholders held on June 25, 2010, the 89th Ordinary General Meeting of Shareholders held on June 27, 2013, and the 92nd Ordinary General Meeting of Shareholders held on June 29, 2016.

An overview is provided as follows:

### 1. BASIC APPROACH OF THE POLICY (THE BASIC POLICY REGARDING PERSONS WHO CONTROL THE COMPANY'S DECISIONS ON FINANCIAL MATTERS AND BUSINESS POLICIES)

As a publicly held corporation, the Company recognizes that its shares should be freely traded. Thus, even in the event of a hostile takeover without the consent of the Board of Directors, the Company will not necessarily resist such an action, provided the takeover promises to enhance the corporate value of the Company and the collective interests of its shareholders. However, we consider it necessary to ensure that adequate information is provided to shareholders when attempts are made to acquire a large number of the Company's shares. We also believe that necessary and proper measures must be taken to protect the corporate value of the Company and the collective interests of its shareholders in the event that the Company is subject to a hostile and abusive takeover bid that threatens to harm corporate value and collective shareholder interests, such as any takeover bid that is intended solely to advance the personal gain of the bidder.

### 2. MEASURES TO EFFECTIVELY UTILIZE THE COMPANY'S RESOURCES, FORM AN APPROPRIATE CORPORATE GROUP AND REALIZE OTHER FUNDAMENTAL POLICIES

#### (1) Long-Term Vision of the KANEKA UNITED declaration

To commemorate its 60th anniversary in 2009, the Company formulated a Long-term management Vision for the fiscal year ending March 31, 2021 called "Declaration of Kaneka United for the Future." Sweeping reform of the Kaneka Group and its continuous growth are key objectives. To this end, the Company is now giving priority to the important strategic domains of "Environment and Energy," "Health Care," "Information and Communications," and "Food Production Support." As key management initiatives, the Company is (1) Moving toward an "R&D-type" company, (2) Growing in a global market, (3) Developing Group strategies, (4) Pursuing alliances, and (5) Prioritizing CSR.

#### (2) Medium-Term Performance Targets

In the fiscal year ending March 31, 2017, the Kaneka Group has entered a new stage of growth, and has formulated a new three-year medium-term plan focusing on its objectives of reform and growth as it works to achieve its long-term management vision.

Key points of the plan are as follows.

#### 1) Accelerate the transformation of the Group's business portfolio with R&D and the shift to global markets serving as drivers of growth.

- a. Promote open innovation, and work to expand business in both new and existing fields in the areas of functional plastics, electronic and life sciences.
- b. Focus on the launch of large-scale new businesses in organic EL lighting, biopolymers, opto-electrochemicals, regenerative medicine and cell therapy, biomedicine and other areas, expanding sales of new products.
- c. Strengthen the headquarter functions of the Company's regional umbrella companies in the U.S., Europe and Asia, carrying out regional strategies from a local viewpoint in order to accelerate development of new markets and the utilization of outside resources, and grow overseas sales.

#### 2) Work to become a solution provider by pushing ahead with the development of advanced technology and materials.

- a. Kaneka will move aggressively to promote the development of products and technologies that protect the environment and save energy. By providing systems and solutions that contribute to zero-energy houses through differentiation in solar cells and other housing-related materials and construction methods, the Company will contribute to the creation of a market for high-quality, sustainable homes.
- b. By expanding globally in medical devices and pharmaceutical intermediates, and by expanding its lineup of functional foodstuffs, Kaneka will contribute to the health of people around the world.

#### 3) An important management issue at Kaneka is the development of globally capable human resources who can exert leadership in the Company's efforts at reform and growth, and the Company will work to expand its educational programs.

### 3. THE COMPANY IS IMPLEMENTING THE FOLLOWING TAKEOVER DEFENSE MEASURES TO PREVENT ITS DECISIONS ON FINANCIAL AND BUSINESS POLICIES FROM BEING CONTROLLED BY ENTITIES REGARDED AS INAPPROPRIATE ACCORDING TO THE BASIC POLICY

- a. The Company shall stipulate in advance procedures to be observed in case of an attempted large-scale purchase of the Company's shares and other securities (hereinafter, "Large-Scale Purchase Rules"), demanding disclosure of necessary and adequate information regarding such a purchase, collecting and examining information related to the purchase and securing the opportunity and necessary time for the Board of Directors of the Company to present its opinion and alternative plans to shareholders or to negotiate with the purchaser.
- b. Whether or not the large-scale purchaser observes the Large-Scale Purchase Rules, provisions to protect the corporate value of the Company and the collective interests of its shareholders may be taken against such large-scale purchases if they are deemed to cause irreparable damage to the Company or otherwise significantly harm the corporate value of the Company or the collective interests of its shareholders.

### 4. COMPLIANCE WITH REQUIREMENTS, JUDGMENT AND REASONING OF THE BOARD OF DIRECTORS

The Board of Directors of the Company judges that the measures in the preceding item comply with the following three requirements: they are in line with this Basic Policy, they do not harm the common interests of the Company's shareholders and they do not maintain the positions of the corporate officers of the Company. The reasoning behind this judgment is as follows:

- a. The measures satisfy the requirements of the policies of the Ministry of Economy, Trade and Industry and the Ministry of Justice concerning takeover defense measures.
- b. The measures will be implemented with the aim of securing and improving the common interests of the shareholders.
- c. The measures place emphasis on the will of the shareholders.
- d. The measures place emphasis on the judgment of highly independent external parties.
- e. The measures provide rational and objective requirements.
- f. The measures allow for the procurement of opinions from third-party experts.
- g. The measures are not "dead-hand" or "slow-hand" takeover defense measures.

## BOARD OF DIRECTORS, AUDIT & SUPERVISORY BOARD MEMBERS AND EXECUTIVE OFFICERS

### BOARD OF DIRECTORS

#### Chairman of the Board

Kimikazu Sugawara\*

#### President

Mamoru Kadokura\*

#### Executive Vice Presidents

Hirosaku Nagano

Minoru Tanaka

#### Member of the Board, Senior Managing Executive Officer

Toshio Nakamura

#### Members of the Board, Managing Executive Officers

Akira Iwazawa

Hidesuke Amachi

Shinichirou Kametaka

Shinobu Ishihara

Kazuhiko Fujii

#### Independent Members of the Board

Takeo Inokuchi

Mamoru Mohri

### EXECUTIVE OFFICERS

#### Managing Executive Officers

Shinji Mizusawa

Atsushi Kawakatsu

Ikuo Aoi

Yasuaki Nuri

Kazuo Ochiai

Fuminori Hoya

Masaaki Kimura

#### Executive Officers

Yasuyoshi Ueda

Yoshiki Takeoka

Minetoshi Marufuji

Yasuhiro Sumi

Haruhiko Maki

Jun Enoki

Katsunobu Doro

Riichi Nishimura

Kan Okabe

Toshio Komori

Takamune Yasuda

\* Representative Directors (As of June 29, 2016)

### AUDIT & SUPERVISORY BOARD MEMBERS

#### Standing Audit & Supervisory Board Members

Hideyuki Matsui

Masami Kishine

#### Outside Audit & Supervisory Board Members

Hiroshi Fujiwara

Yasuhiro Uozumi