

## Basic Concept

### Management Philosophy

“The UACJ Group strives to offer products and services deserving of our customers’ satisfaction and trust, and believes that sound and sustainable business development is key to making broad-reaching contributions to society.”

At the UACJ Group, we believe that robust corporate governance and sound, transparent management are essential for living up to our management philosophy. By working to strengthen and enhance our corporate governance, we not only enhance our efforts to achieve ongoing increases in corporate value but also advance the interests of shareholders, customers, suppliers, employees, local communities, and other stakeholders.

## Key Objectives and Results

	Fiscal 2017 Objectives	Fiscal 2017 Results	Assessment	Fiscal 2018 Objectives
Strengthen Corporate Governance	Continue efforts to achieve compliance with Japan’s Corporate Governance Code	Resolution calling for compliance with Japan’s Corporate Governance Code adopted by the Board of Directors	○	Continue efforts to achieve compliance with Japan’s Corporate Governance Code
Highlight Compliance	Strengthen Code of Conduct education programs for overseas Group companies  Prepare more foreign-language versions of the Group Code of Conduct	Held study sessions for employees of overseas Group companies. Afterward, had each Group company president pledge to the President of UACJ Corporation that they would uphold the Group Code of Conduct.  Moved forward with production of the Group Code of Conduct in foreign languages for employees of overseas business locations and foreign employees working in Japan. Completed a Malay edition in fiscal 2017, bringing to 10 the number of languages in which the Group Code of Conduct is available.	○	Strengthen Code of Conduct education programs for overseas Group companies  Prepare more foreign-language versions of the Group Code of Conduct

	Fiscal 2017 Objectives	Fiscal 2017 Results	Assessment	Fiscal 2018 Objectives
Highlight Compliance	<p>Further enhance awareness and credibility of the internal hotline</p> <p>Establish a hotline contact for employees on overseas assignments</p>	<p>Responded appropriately to nine hotline reports</p> <p>Used code of conduct education programs and other opportunities to enhance awareness of the hotline</p>	○	<p>Further enhance awareness and credibility of the internal hotline</p> <p>Establish a hotline contact for employees on overseas assignments</p> <p>Establish a hotline contact for overseas subsidiaries</p>
Promote Risk Management	<p>Continue to implement risk management activities for the entire company</p> <p>Consider implementing risk management activities at domestic Group companies</p>	<p>Continue to implement risk management activities for the entire company</p>	○	<p>Continue to implement risk management activities for the entire company</p> <p>Consider implementing risk management activities at domestic Group companies</p>
	<p>Rebuild the organization for promoting BCP</p> <p>Develop a BCP framework</p> <p>Consider implementing at domestic Group companies</p>	<p>Developed rules and manuals</p> <p>Discussed matters concerning a BCP framework</p> <p>Completed implementation of employee safety confirmation systems at UACJ Corporation and all 29 domestic Group companies</p>	○	<p>Rebuild the organization for promoting BCP</p> <p>Develop a BCP framework</p> <p>Consider implementing at domestic Group companies</p>

## Looking toward the Future

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In October and November of every year, UACJ and its 30 subsidiaries in Japan conduct Group Code of Conduct education programs. In fiscal 2017, we will begin to examine conditions at all of our overseas subsidiaries with the intent of conducting similar programs tailored to the needs of these companies, as well. Furthermore, we will begin formulating a common set of rules for the entire Group as part of our effort to establish a Group-wide compliance system.

### Comment by the Executive in Charge

In 2018, UACJ appointed a new president and reformed its management organization, which included increasing the number of outside directors. While these moves marked an important turning point in the Company's corporate governance, UACJ has, in fact, been making steady progress in enhancing its corporate governance for some time. For example, in an effort to increase the diversity of the Board of Directors, the Company appointed a female outside director three years ago and two outside directors this year, one of which has management experience in Asia while the other has served as vice-chairman of advisory committees at a corporation that has been at the forefront of corporate governance in Japan. The Nomination and Remuneration Advisory Committee was also established to raise the transparency and impartiality of the decision-making process for nominating and remunerating members of the Board. From this year, the committee is being chaired by an outside director and the majority of its members are outside directors and auditors. Accordingly, deliberations by management are being held by a more diverse membership with a wide range of perspectives. We believe this will enable management to more effectively deal with the increasingly challenging operating environment confronting the Company and help increase its corporate value.



Yukihiro Kuwamoto  
Executive Officer

**UACJ is working to enhance its corporate governance to earn and maintain the trust of all of our stakeholders and increase our corporate value.**

### **Basic Ideas on Corporate Governance**

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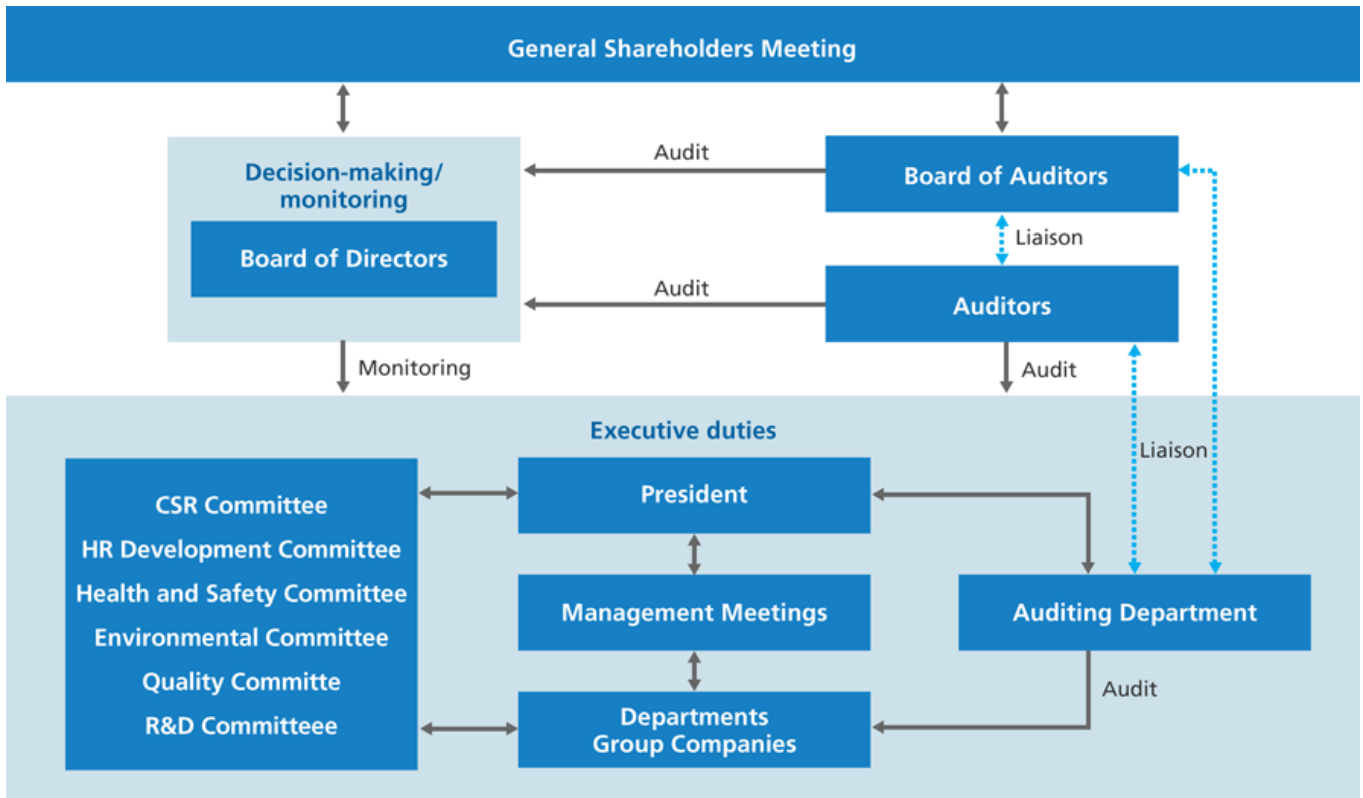
The UACJ Group believes that corporate governance is the basic framework for managing a company amid relationships with shareholders, customers, suppliers, employees, local communities, and all other stakeholders. Our duty is to benefit stakeholders by developing products, technologies, and services that are useful to society and incorporate abundant consideration for safety, and offering them to the market in an effort to continuously increase our corporate value. Toward that end, we practice robust corporate governance and, recognizing the importance of integrity and transparency in management, are committed to doing everything practical to ensure sound management oversight by strengthening Board of Directors functions, enhancing Audit & Supervisory Board functions, properly disclosing financial and management information, ensuring solid corporate ethics, and practicing painstaking compliance and risk management.

### **Corporate Governance System**

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The UACJ has adopted a new executive officer system that separates management decision making from the audit and operations functions. This new system both strengthens the Board of Directors functions and increases the speed with which we execute operations.

## Corporate Governance System



## Board of Directors Meetings

UACJ Board of Directors meetings, which are convened monthly, are attended by 12 Directors (including 4 outside Directors) and 6 Audit & Supervisory Board Members (including 4 outside members)\*, who deliberate important matters and hear reports on the status of business activities, as required by laws and ordinances, and UACJ's Articles of Incorporation and other internal rules.

Director terms have been set at one year in an effort to clarify responsibility.

Of the four outside directors, two are university professors, one a professor emeritus with a wealth of academic experience underpinning his objective perspective and the other also with an extensive academic background, as well as experience as a company director. The remaining two outside directors have broad managerial experience as company directors and play key roles in ensuring proper decision-making by the Board of Directors.

\*Numbers of Directors and Audit & Supervisory Board Members are as of June 21, 2018.

Based on assessments of career backgrounds – factors such as professional experience, positions held, and qualifications – and capabilities, UACJ has put together an optimal group of individuals to serve as officers.

## Rationale for Selection of Outside Directors

Name	Independent Officer	Rational for Selection	Activities
Toshio Suzuki	○	<p>Toshio Suzuki is a university professor emeritus. He was asked to join the Board of Directors based on the judgment that his objective perspective stemming from his wealth of academic experience would enable him to properly perform the duties of an outside member.</p> <p>Judging also that Professor Suzuki is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated him an independent officer.</p> <p>None of the descriptions provided in Rule 211.4.6 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange apply to Professor Suzuki.</p>	<p>Attended all 14 of the BOD meetings held during the fiscal year, openly expressing his opinion from an objective viewpoint and confidently supporting his comments based on his rich academic experience as a professor emeritus.</p>
Ryoko Sugiyama	○	<p>Ryoko Sugiyama is a university professor. She was asked to join the Board of Directors based on the judgment that her wealth of academic experience, and management experience as a company director, would allow her to properly perform the duties of an outside member.</p> <p>Judging also that Professor Sugiyama is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated her an independent officer.</p> <p>None of the descriptions provided in Rule 211.4.6 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange apply to Professor Sugiyama.</p>	<p>Attended 12 of 14 BOD meetings held during the fiscal year. Drawing on her experience as a university professor and company director, Professor Sugiyama freely contributed to Board discussions from her objective perspective.</p>
Takahiro Ikeda	○	<p>Takahiro Ikeda is a director of a major chemical manufacturer and has extensive experience in the management of that company and its group companies. He was asked to join the Board of Directors based on the judgment that he will be able to properly perform the duties of an outside member.</p> <p>Judging also that Mr. Ikeda is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated him an independent officer.</p> <p>While Mr. Ikeda has in the past worked for Mitsubishi Chemical Corporation (MCC), a UACJ customer, transactions with MCC make up less than 0.2% of UACJ's consolidated net sales, so it is not a specified related business entity from UACJ's perspective.</p>	<p>Newly appointed (as of June 2018)</p>

Name	Independent Officer	Rational for Selection	Activities
Akio Sakumiya	○	<p>Akio Sakumiya is a director and vice president of a major electrical device manufacturer and has extensive experience in the management of that company and its group companies. At the same time, he is a member and vice-chairman of various advisory bodies dealing with personnel and remuneration matters concerning directors and other personnel at these companies and has accumulated a wealth of experience in other aspects of corporate governance as well. He was asked to join the Board of Directors based on the judgment that he will be able to properly perform the duties of an outside member.</p> <p>Judging also that Mr. Sakumiya is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated him an independent officer.</p> <p>None of the descriptions provided in Rule 211.4.6 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange apply to Mr. Sakumiya.</p>	Newly appointed (as of June 2018)

## The Board of Directors and Executive Officers

At UACJ, the Board of Directors deliberates and renders decisions on important management matters, while the Executive Officers supervise and execute operations. By clearly separating these roles, we have enhanced management transparency and fairness, and created a governance system that clarifies responsibilities for individual business operations. In addition, to help ensure the proper control of operations, management meetings that are separate from the Board of Directors meetings are held on a monthly basis with participation by 8 Directors, 2 full-time Audit & Supervisory Board Members, and 18 Executive Officers (as of June 21, 2018). The purpose of these meetings is to deliberate and consider important management matters, and develop common understanding among those responsible for executing business operations.

The delegation of duties to, and areas of responsibility for, individual Directors are determined in a Board of Directors meeting following the general meeting of shareholders. Management organization rules govern the Executive Officers' execution of their responsibilities in accordance with laws and ordinances, the Articles of Incorporation, and Board of Directors resolutions.

Regarding concurrent service by directors and executive officers as officers of other companies, two outside directors are concurrently serving as outside directors or in other capacities at other listed companies. No other directors or executive officers are concurrently holding positions at other companies.

# Remuneration of Directors and Audit & Supervisory Board Members

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For remuneration of UACJ Directors and Audit & Supervisory Board Members, limits were revised in the fifth regular general shareholders' meeting, held on June 21, 2018. For Directors, it was determined that remuneration for the Directors as a group shall not exceed 650 million yen annually (not including employee salaries), while for Audit & Supervisory Board Members the upper limit on remuneration for the Audit & Supervisory Board Members as a group was set at ¥100 million annually.

UACJ's remuneration system for Directors and Audit & Supervisory Board Members is designed to provide incentives for directors to respond to stakeholder expectations by contributing broadly to society through sound, wholesome business development and by helping the Company to continue generating as much profit as it can. The system is also intended to encourage directors to help enhance the Company's corporate value and medium-to-long-term performance. To ensure the proper functioning of the system and enhance objectivity and transparency, decisions on details concerning the design of the remuneration system and its operation are made by the Board of Directors based on input from the Nomination & Remuneration Advisory Committee, which consists of at least three members (at least half of whom are independent outside Directors or independent outside Audit & Supervisory Board Members) selected via Board of Directors resolution.

Policies on remuneration of UACJ Directors and Audit & Supervisory Board Members are as described below. This information reflects revisions based on resolutions approved at the fifth regular general shareholders' meeting, held on June 21, 2018.

## a. Basic Concepts for Officer Remuneration

- The remuneration system will provide incentives to achieve performance objectives (short-term and medium-to-long-term) for the Company's business strategies.
- The remuneration system will offer remuneration levels that are sufficiently competitive for attracting outstanding human resources to lead the Company's growth and for encouraging their desire to contribute thereto.
- The remuneration system's decision-making process will be characterized by high levels of objectivity and transparency.
- The remuneration system will promote commonality of interests with shareholders and increases in shareholder value.

## b. Remuneration Structure

- Remuneration for the Company's Directors consists of basic remuneration, which is fixed; short-term performance-based remuneration that varies with annual Company performance; and medium-to-long-term performance-based remuneration that varies with medium-to-long-term Company performance.  
Remuneration for outside Directors shall consist of only fixed remuneration in light of their principal duty to oversee decision-making from an objective, independent perspective.
- For each eligible Director, short-term performance-based remuneration shall be approximately 25% (The standard amount assuming payment of 100% of the potential amount. Same applies below.) of basic remuneration.
- For each eligible Director, medium-to-long-term performance-based remuneration shall be approximately 25% (the standard amount) of basic remuneration.



### **c. Performance-based Remuneration**

1) Short-term performance-based remuneration shall consist of three elements – one based on an assessment of overall Group performance, a second based on an assessment of department-level performance, and a third based on an assessment of individual performance. Amounts paid will vary depending on annual performance and payments will be made once a year.

- Remuneration based on an assessment of overall Group performance shall use consolidated net income, consolidated ROIC, and consolidated ordinary income before the impact of inventory valuations as performance indicators. With a payment ratio of 100% for 100% achievement of objectives, payments may vary from 0% to 200% depending on performance.
- Remuneration based on an assessment of department-level performance shall use department-level ordinary income, department-level ROIC, and department-level ordinary income before the impact of inventory valuations as performance indicators. With a payment ratio of 100% for 100% achievement of objectives, payments may vary from 0% to 200% depending on performance.
- Remuneration based on an assessment of individual performance shall be based mainly on a qualitative assessment of important initiatives not reflected in annual group or department-level performance. This portion of remuneration shall approximate 10% of overall short-term performance-based remuneration.

2) Medium-to-long-term performance-based remuneration shall be paid with performance share units (PSUs) using actual equity shares. Payments in equity shares and cash will be made in accordance with achievement of medium-to-long term Group performance objectives. Payments shall be made once every three years based on three-year performance assessments.

- Using three-year average consolidated ROIC and cumulative consolidated adjusted EBITDA for each three-year period as performance indicators, performance objectives will be set at the beginning of each three-year assessment period. With a payment ratio of 100% for 100% achievement of objectives, payments may vary from 0% to 200% depending on performance.
- At the end of each assessment period, half of the calculated PSUs shall be paid in equity shares, with the remaining half paid in cash.

### **d. Remuneration Levels and Decision-Making Process**

- Remuneration levels are decided by using corporate officer remuneration survey data provided by an external expert organization to make comparisons to companies similar to UACJ in size and industry.
- Officer remuneration policies and details are deliberated by the Nomination & Remuneration Advisory Committee, which then provides information the Board of Directors uses to make final decisions.
- Independent outside Directors and independent outside Audit & Supervisory Board Members make up over half of the membership of the Nomination & Remuneration Advisory Committee. To provide the committee members with information needed for their work, steps such as obtaining input from external experts are taken as necessary.
- Director remuneration amounts are set by Board of Directors resolutions at levels within limits approved in general shareholders' meetings.
- Audit & Supervisory Board Member remuneration amounts are set based on discussions by the Audit & Supervisory Board Members at levels within limits approved in general shareholders' meetings.

# Audit Function

## Audit & Supervisory Board

UACJ is organized as “a company with a board of Statutory Auditors” under Japanese law. Within UACJ, the “board of Statutory Auditors” is referred to as the “Audit & Supervisory Board” and, as an independent element of the Company’s corporate governance, monitors the Directors as they perform their duties.

As of June 21, 2018, the Audit & Supervisory Board consists of 6 Audit & Supervisory Board Members, including 4 outside members and three members with knowledge of financial and accounting matters. Audit policies and plans are prepared by the Audit & Supervisory Board annually based on the Code of Kansayaku Auditing Standards (“Kansayaku” is the Japanese term for “corporate auditor” and means Audit & Supervisory Board Member at the UACJ Group.) and the rules governing the Audit & Supervisory Board. Each Audit & Supervisory Board Member, in accordance with the audit policies and plans determined by the Audit & Supervisory Board, is engaged primarily in monitoring the implementation and operation of internal control systems, conditions with regard to risk prevention and responses to management issues, and other matters to determine whether the Directors are properly fulfilling their duties. Audit & Supervisory Board Members also attend Board of Directors and other important meetings, and express their opinions as necessary.

As a rule, the Audit & Supervisory Board comes together in monthly meetings during which audit reports presented by the full-time members serve as a principal means for close communication, and the sharing of information among all Audit & Supervisory Board Members.

Regarding concurrent service by Audit & Supervisory Board members as officers of other companies, one outside member is concurrently serving in the capacity of an outside director at another listed company. No other Audit & Supervisory Board members are concurrently holding positions at other companies.

### Rationale for Selection of Outside Audit & Supervisory Board Members

Name	Independent Officer	Rationale for Selection	Activities
Akari Asano	○	<p>Akari Asano has been a senior executive in charge of general affairs and performed other management roles at a manufacturing firm and within that firm’s corporate group. He was asked to join the Audit &amp; Supervisory Board based on the judgment that the knowledge and experience he has acquired throughout his career would enable him to properly perform the duties of an outside member.</p> <p>Judging also that Mr. Asano is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated him an independent officer.</p> <p>None of the descriptions provided in Rule 211.4.6 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange apply to Mr. Asano.</p>	<p>Attended all 14 BOD meetings and 13 Board of Auditors meetings throughout the fiscal year. Openly commented and expressed his opinions backed by his years of experience accumulated as a company executive.</p>

Name	Independent Officer	Rationale for Selection	Activities
Yuki Iriyama	-	Yuki Iriyama has served as a managing executive officer of a major steel manufacturer. He was asked to join the Audit & Supervisory Board based on the judgment that his wealth of management expertise and the sophisticated knowledge he has attained as an attorney familiar with corporate legal affairs would enable him to properly perform the duties of an outside member.	Newly appointed (as of June 2018)
Hiroyuki Yamasaki	○	Hiroyuki Yamasaki is a certified public accountant. He is an expert in corporate accounting and has deep experience with financial and accounting matters. He was asked to join the Audit & Supervisory Board based on the judgment that the high level of accounting expertise he has acquired through his career would enable him to properly perform the duties of an outside member. Judging also that Mr. Yamasaki is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated him an independent officer. None of the descriptions provided in Rule 211.4.6 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange apply to Mr. Yamasaki.	Newly appointed (as of June 2018)
Yoshiro Motoyama	○	Yoshiro Motoyama has served as a director and vice president of a major automobile manufacturer and has a wealth of experience in corporate management. He was asked to join the Audit & Supervisory Board based on the judgment that the broad management perspective he has acquired through his career would enable him to properly perform the duties of an outside member. Judging also that Mr. Motoyama is not in a position that would give rise to a conflict of interest with general shareholders, UACJ has designated him an independent officer. None of the descriptions provided in Rule 211.4.6 of the Enforcement Rules for Securities Listing Regulations of the Tokyo Stock Exchange apply to Mr. Motoyama.	Newly appointed (as of June 2018)

## **| Audits by Audit & Supervisory Board Members**

To help ensure the full functionality of UACJ's Audit & Supervisory Board, two employees have been assigned to assist the Audit & Supervisory Board Members with their work. To enhance the quality of audits, audit work is performed in a three-pronged scheme consisting of audits by the Audit & Supervisory Board Members, audits by internal auditors, and audits by independent auditors. For audits by Audit & Supervisory Board Members and audits by internal auditors, on-site audit plans are developed in accordance with respective annual policies and plans. Audit & Supervisory Board Members and internal auditors freely share these plans, the results obtained, and opinions with each other. They also freely share their audit results and opinions with the independent auditors, and follow up on audit findings.

## **| Internal Audit System**

At the UACJ Group, internal audits are performed by the 12-member (9 full-time internal auditors and 3 internal auditors with other job responsibilities as well) Internal Auditing Department, which reports directly to the president of UACJ Corporation. Internal audits are performed in accordance with annual audit policies and plans prepared based on the Internal Audit Rules. Their purpose is to objectively examine and assess the business activities of individual Group companies to determine whether they are being pursued within the law, and with rationality and propriety. Audit results are reported to the president of UACJ Corporation, together with recommendations and suggestions for improvements.

\* as of June 30, 2018

## **Internal Controls**

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The UACJ Group endeavors to strengthen its internal control system to help ensure that its business activities are in line with management objectives, within the law and rational. Furthermore, as regards the status of internal controls stipulated by the Financial Instruments and Exchange Act, the Internal Auditing Department conducts tests and assessments with the aim of ensuring the reliability of financial reporting.

## **| Status of the Internal Control System**

As described below, the UACJ Group's internal control systems (Systems for ensuring that the execution of duties by the Directors and employees of the Company and the Group complies with laws and ordinances, and the Articles of Incorporation, and for ensuring the propriety of the business activities of the corporation and of the corporate group consisting of the corporation and its subsidiaries) have been established in accordance with Japan's Companies Act and Ordinance for Enforcement of the Companies Act.

**a. Systems for ensuring that the execution of duties by the Directors and employees of the Company and the Group complies with laws and ordinances, and the Articles of Incorporation**

- The Company and the Group act in accordance with the management philosophy and company principles, and aim to be virtuous organizations that abide by laws and ordinances, and the Articles of Incorporation.
- The CSR Committee takes the lead in holding lectures, distributing manuals, and conducting other education activities. It also conducts compliance activities, such as reviews to check for legal and regulatory violations.
- An internal reporting system has been put in place to promote the early detection and correction of compliance violations.
- The Internal Auditing Department, as the internal audit unit, monitors the performance of duties in individual units, conducts audits to determine whether internal control systems are functioning effectively, and reports findings to the Board of Directors.

**b. Systems for the preservation and management of information on the execution of duties by Directors**

- Board of Directors meeting minutes, approval documentation, and other information on the execution of duties by Directors is prepared and retained in accordance with internal rules.
- Information is kept in a state that permits viewing by Directors and Audit & Supervisory Board Members whenever necessary.

**c. Provisions and other systems addressing management of the risk of loss for the Company and the Group**

- The Company and the Group, in accordance with internal rules, properly address environmental, safety and health, quality, information security, export management, and other Company or Group risks. Risks unique to particular units are managed by those units. The CSR Committee advances horizontal risk management.

**d. Systems for ensuring efficient execution of duties by Directors of the Company and the Group**

- Within the Company and the Group, duties are efficiently fulfilled based on the rule-based division of duties and responsibilities, and on other measures as well.
- Mid-term management plans and fiscal year budgets are prepared, and specific targets are established and their achievement is managed by individual units or groups.

**e. Systems for ensuring the propriety of operations by the subject corporation and the corporate group consisting of it and its parent company and/or subsidiaries**

- The UACJ Group has constructed and put in place an internal control system.
- The Internal Auditing Department conducts audits of operations. It then reports results to the Audit & Supervisory Board Members and Representative Director as a measure for promoting compliance throughout the Group. In addition, subsidiaries are obligated by their own internal rules to discuss important management matters with the Company. If necessary, rules concerning the management of subsidiaries will be revised to ensure the propriety of business activities carried out by the Group.

**f. Matters concerning employees to be assigned to assist Audit & Supervisory Board Members at their request**

- An employee has been assigned to assist the Audit & Supervisory Board Members. This employee supports the work of the Audit & Supervisory Board Members in accordance with their instructions.

**g. Matters concerning the independence of the employee referred to in the previous item and the validity of instructions issued to the employee, from Directors**

- The employee referred to above is an employee designated to be outside the direction and supervision of Directors, and personnel decisions concerning that employee require the prior agreement of the Audit & Supervisory Board.

**h. Systems enabling Directors and employees of the Company and the Group to report concerns to Audit & Supervisory Board Members, and systems for other reports to Audit & Supervisory Board Members**

- In connection with the execution of their duties, Directors, Executive Officers, and employees of the Company and the Group report to the Company's Audit & Supervisory Board Members without delay instances of significant violations of laws and ordinances, and the Articles of Incorporation; improprieties; and developments that could result in significant damage to the Company or Group.
- Directors, Executive Officers, and employees, based on the Board of Directors meeting rules and other internal rules, report or settle matters in Board of Directors meetings or other meetings at which Audit & Supervisory Board Members are in attendance.
- Subjecting Directors, Executive Officers, and employees of the Company and the Group, who have reported a matter, such as those described above, to the Company's Audit & Supervisory Board Members, to disadvantageous treatment on account of their having reported the matter is prohibited.

**i. Other systems for ensuring that audits by Audit & Supervisory Board Members can be performed effectively**

- The Board of Directors ensures Audit & Supervisory Board Member attendance at Board of Directors meetings, and management and other important meetings.
- The Audit & Supervisory Board Members and representative Director periodically hold meetings to exchange views.
- When the Audit & Supervisory Board Members make a request concerning the effectiveness of audits performed by the Audit & Supervisory Board Members, the Directors, Executive Officers, and heads of relevant units respond in good faith.
- Expenses covered by Article 388 of the Companies Act are handled in accordance with rules.

## **Strategic Shareholdings**

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UACJ's basic stance on strategic share investments is to maintain shareholdings to the extent that rational purposes, such as maintaining or strengthening business ties, or advancing business collaborations, can be advanced. Questions regarding possible investments in shares not already held, purchases of additional shares, and divestment are addressed with appropriate research considering factors such as necessity for the growth of the UACJ Group and effective use of the Group's capital, before referral to the Board of Directors, as required by Company standards.

Voting rights for shares held are exercised based on an overall consideration of whether resolution approval would have benefits, for example, in terms of supporting the purpose for the shareholding or promoting the sound management and, ultimately, greater corporate value for the issuing company.

## **Takeover Defense Strategy**

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Presently, UACJ has not adopted any takeover defense strategies.

**Viewing strict compliance as indispensable for business survival, we have made compliance education one of our highest priorities.**

### **Group Code of Conduct**

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Based on the Group's management philosophy and company principles, the Group Code of Conduct was established in June 2014 to set forth standards that all Group executives and employees must abide by if the UACJ Group is to be able to move forward as a corporate group that garners even greater trust by society.

Efforts to prepare versions of the Group Code of Conduct in the official languages of the locales of overseas affiliates are moving forward. Including the original Japanese version, the Group Code of Conduct now exists in ten different languages.

The Group Code of Conduct is available online in the various languages in which it has been completed.

The Group Code of Conduct is available in the following languages:

Japanese, English, Chinese, Czech, Indonesian, Thai, Spanish, Vietnamese, Brazilian Portuguese, and Malay.

### **Compliance Education**

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As part of its compliance education endeavors, the UACJ Group has posted the Group Code of Conduct on the intranet and distributes abridged editions that all executives and rank-and-file employees can keep with them at all times. In fiscal 2017, department-level seminars on the Group Code of Conduct were held for employees of UACJ, 30 Group companies in Japan, and 22 of 31 Group companies overseas. Afterward, the president of each company pledged to the President of UACJ in writing that they would uphold the Group Code of Conduct.

In fiscal 2017, compliance education efforts continued to focus on compliance in job-level training and coverage of key points concerning international cartels in seminars held for executives and employees in sales-division or other positions that may entail interacting with representatives of competing companies.

Through regular, ongoing measures such as these, UACJ Group strives to ensure sound compliance awareness and understanding of legal provisions throughout its organization.



# Internal Reporting System (Corporate Ethics Consultation System)

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The UACJ Group operates an internal reporting system (Corporate Ethics Consultation Hotline) the purpose of which is to prevent compliance problems altogether, or discover them early on and swiftly resolve them. This system has internal and external channels that employees can access anonymously. Measures are in place to receive contacts by telephone, postal mail, e-mail, and other means as well. The Anonymous Reporting Board<sup>\*1</sup> is another reporting function that we have established to make it easier for employees to report activity they believe or suspect constitutes a compliance violation. The Corporate Ethics Consultation Hotline oversees and appropriately handles all reports of questionable activity from the selection of a unit to investigate the report, to implementation of a formal response. At the same time, it makes clear to relevant employees that the reporting employee and those who cooperate with the investigation are not to suffer any negative consequences from the mere reporting of suspicious activity or cooperation with the investigation. Furthermore, actions are taken to thoroughly protect the reporting and cooperating employees by, for example, confirming that they actually have not been subjected to negative consequences for their actions.

<sup>\*1</sup> The Anonymous Reporting Board is a system that allows an employee to engage in a dialog anonymously with hotline personnel. The receipt of a report anonymously can make it impossible to adequately investigate the report or provide investigation results and information on problem solutions back to the reporting employee. The UACJ Group has adopted the Anonymous Reporting Board to alleviate such problems.

## Hotline Reports Received and Status of Responses

In fiscal 2017, UACJ Corporation received two reports via the Corporate Ethics Consultation Hotline, while affiliates in Japan received a total of seven. Of the total of nine reports, four concerned human rights and the remaining five pertained to other matters. Reports from employees willing to provide their names were properly handled, and investigation results and information on corrective measures were provided to the reporting employees.

Reports from employees wishing to remain anonymous were investigated to the extent possible. Those engaging in the improper activity identified were instructed on proper approaches and cautioned regarding their conduct going forward.

Reports received by affiliates were properly responded to by the relevant company, with investigative and other types of assistance from the Company, as needed.

## Strict Compliance with the Antimonopoly Act and Protection of Free Competition

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To promote fair, transparent, and free competition, and engagement in legitimate business transactions, the UACJ Group operates in strict compliance with the Antimonopoly Law. In fiscal 2017, we again focused on key points concerning international cartels and held seminars to reinforce proper understanding of them among all executives and employees who are involved in work, at UACJ Corporation and Group companies in Japan, in which understanding of international cartels is relevant. We also conducted compliance training for key compliance personnel at Chinese and Southeast Asian Group companies (17) and for sales personnel at Thai and Chinese Group companies (3). In fiscal 2017, we experienced no violations of either Japan's Antimonopoly Act or the antimonopoly laws of other countries.

## **Anti-Corruption Initiatives**

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The UACJ Group explicitly prohibits actions such as bribery and excessive expenditures for entertainment in its Group Code of Conduct, and thorough understanding of these points is promoted in code of conduct education programs and job-level training. In fiscal 2017, we conducted anti-bribery training for sales and general affairs employees at domestic and overseas Group companies. In all, 21 sessions were held for 310 participants.

There were no instances of the acceptance or offering of a bribe, or any other violations of the Group Code of Conduct, in fiscal 2017.

## **Rejection of Relationships with Antisocial Forces**

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In its company principles, the UACJ Group requires the strict rejection of relationships with antisocial forces and organizations. Furthermore, through our Group Code of Conduct, we strongly emphasize to all executives and employees that they are not to bend to inappropriate demands by antisocial forces, must remain resolute throughout, and must never engage in any relationship with antisocial forces.

UACJ, in accordance with its internal rules, makes donations and joins organizations only after determining that potential recipients, and organizations the company may join, have no connections to antisocial forces.

**We are constructing a comprehensive system for preventing the realization of all types of risks.**

### **Risk Management System**

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At UACJ, individual departments identify business risks, and take measures to avoid or mitigate them. Progress in implementing risk management measures is reported to the CSR Committee, which then assesses the propriety of the measures taken.

### **BCP (Business Continuity Plan)**

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UACJ is working to develop a business continuity plan (BCP) that would allow it to continue to provide products and services, or enable the rapid restoration of these activities, in the event of a major earthquake, widespread emergence of infectious disease, or other emergency situation.

### **| Response System for Major Earthquakes and Other Disasters**

In preparation for an earthquake, fire, or other such disaster, UACJ has built a response system that provides for the safety of employees, minimizes damage by preventing secondary disasters, and speeds recovery.

At a more specific level, we have implemented employee safety confirmation systems, established an emergency contact network, and equipped business locations with emergency radio equipment.

In fiscal 2017, we completed the implementation of safety confirmation systems by installing them at three more companies, bringing the total number of companies where these are in place to the planned total of 29.

In fiscal 2017, emergency radio equipment was installed at five business locations belonging to three domestic Group companies. Installation of this equipment has now been completed for UACJ and key locations (48) of domestic Group companies (20).

To help ensure our ability to act swiftly and reliably in times of emergency, we regularly conduct training exercises at individual business locations. In November 2017, training focused on the establishment of a disaster response headquarters was conducted at the Company's headquarters.

Everyone, including the chairman, president, all other executives working at the headquarters, and all 300 or so rank-and-file employees participated in this exercise, in which we tested skills in setting up, operating, and breaking down a disaster-response headquarters; and fighting fires. Training for responding to a power outage was also conducted.

Disaster response initiatives tailored to circumstances at individual business locations are also being taken. The Nagoya Works provides a particularly good example. Lying in an area specifically addressed by the Large-Scale Earthquake Countermeasures Law, this facility has been steadfast in taking steps such as seismically reinforcing the works' main structure, securing evacuation routes, installing early warning devices, and setting aside disaster supplies. At the same time, it has prepared an earthquake preparedness manual, which serves as the basis for annual comprehensive preparedness training for a possible earthquake and tsunami.



Training for the set-up of a disaster-response headquarters at UACJ's headquarters

## Disaster-Response Training by Business Location

Business Location	Training Conducted
Headquarters	Firefighting, safety confirmation, evacuation, emergency life-saving, setting up a disaster-response headquarters, radio communications
Nagoya Works	Comprehensive training for responding to a major earthquake in the Nankai Trough (Setting up a disaster-response headquarters, evacuation, safety confirmation, radio communications, emergency life-saving, use of firefighting equipment, etc.) Safety confirmation, radio communications
Fukui Works	Comprehensive disaster-response training (Setting up a disaster-response headquarters, evacuation, safety confirmation, radio communications, firefighting, using stretchers to transport injured people, etc.) Safety confirmation, radio communications, AED training class.
Fukaya Works	Comprehensive disaster-response training (Setting up a disaster-response headquarters, evacuation, safety confirmation, firefighting, emergency life-saving, etc.) Safety confirmation, radio communications

<b>Business Location</b>	<b>Training Conducted</b>
Nikko Works	Comprehensive disaster-response training, firefighting at individual worksites, AED instruction, safety confirmation, radio communications