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(Securities Code 1518)

May 31, 2018

Tsuneo Amano, Representative Director and President

**Mitsui Matsushima Co., Ltd.**

1-1-12 Otemon, Chuo-ku, Fukuoka City

Dear Shareholders,

**Convocation Notice of the 162<sup>nd</sup> Annual General Meeting of Shareholders**

We are pleased to inform you that the 162<sup>nd</sup> Annual General Meeting of Shareholders will be held as shown on the following page. You are respectfully requested to attend the meeting.

**If you are unable to attend the meeting, you may exercise your voting rights in writing or via the Internet. Please examine the Reference Material for the General Meeting of Shareholders enclosed herewith, and exercise your voting rights no later than 5:30 p.m. on June 21, 2018 (Thursday).**

Yours Faithfully,

Tsuneo Amano

Representative Director and President

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## PARTICULARS

1. **Time and date:** 10:00 a.m., June 22, 2018 (Friday)
2. **Place:** Conference Room on the 2<sup>nd</sup> floor of Otemon Pine Building, 1-1-12 Otemon, Chuo-ku, Fukuoka City
3. **Agenda:**

### **Matters to be reported:**

- 1 The business report, consolidated financial statements for the 162<sup>nd</sup> fiscal year (from April 1, 2017 to March 31, 2018), and results of the audit of the consolidated financial statements by the accounting auditors and the Audit and Supervisory Committee
- 2 The non-consolidated financial statements for the 162<sup>nd</sup> fiscal year (from April 1, 2017 to March 31, 2018)

### **Matters to be resolved:**

- |                         |   |
|-------------------------|---|
| <b>First Proposal:</b>  | Partial Amendments to the Articles of Incorporation   |
| <b>Second Proposal:</b> | Election of Four (4) Directors (excluding Directors who are Audit and Supervisory Committee Members)                        |
| <b>Third Proposal:</b>  | Election of Three (3) Directors who are Audit and Supervisory Committee Members   |
| <b>Fourth Proposal:</b> | Election of One (1) Substitute Director who is an Audit and Supervisory Committee Member                                    |
| <b>Fifth Proposal:</b>  | Introduction of Stock Compensation Plan for Directors (excluding Directors who are Audit and Supervisory Committee Members) |
| <b>Sixth Proposal:</b>  | Introduction of Stock Compensation Plan for Directors who are Audit and Supervisory Committee Members                       |

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## Matters to be resolved and Reference Information

### First Proposal: Partial Amendments to the Articles of Incorporation

#### 1. Reasons for the Proposal

As set forth in the “Notice Concerning Transition to Holding Company System through Company Split and Partial Amendments to the Articles of Incorporation (Changes in Trade Name and Purpose)” released on May 11, 2018, the Company will transition to a holding company system on October 1, 2018 (planned) (the trade name is planned to be changed to Mitsui Matsushima Holdings Co., Ltd. on the same day) through a company split of its coal sales business.

In this connection, the Company is amending Article 1 (Trade Name) and Article 2 (Purposes) of the current Articles of Incorporation on the condition that the company split above becomes effective, and will establish supplementary provisions to the effect that the amendments become effective on the effective date of the company split.

#### 2. Details of the Amendments

Details of the amendments are as follows:

(Underlined parts are amended.)

Current Articles of Incorporation		Proposed amendments	
(Trade Name) Article 1	The name of the Company shall be <u>Mitsui Matsushima Co., Ltd.</u>	(Trade Name) Article 1	The name of the Company shall be <u>Mitsui Matsushima Holdings Co., Ltd.</u>
(Purpose) Article 2	The Company shall engage in the following businesses:	(Purpose) Article 2	The Company shall <u>engage in the control and management of business activities performed by companies (including foreign companies), associations (including counterparts in foreign countries), and other entities engaged in the following businesses by holding their shares or equities, and itself also</u> engage in the following businesses.
1. to 25.	<Provisions omitted>	1. to 25.	<Not amended>
Article 3 to 44 Supplementary Provisions	<Provisions omitted>	Article 3 to 44 Supplementary Provisions	<Not amended>
1.	<Provisions omitted> <Newly established>	1. <u>2.</u>	<Not amended> <u>The amendments to the provisions in Article 1 and Article 2 become effective on the effective date of the company split from the Company on the condition that the company split approved at the meeting of the Board of Directors held on May 11, 2018 becomes effective. This supplementary provision shall be deleted after the amendments to the Articles of Incorporation above become effective.</u>

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**Second Proposal: Election of Four (4) Directors (excluding Directors who are Audit and Supervisory Committee Members)**

The terms of office of all four (4) Directors (excluding Directors who are Audit and Supervisory Committee Members) will expire at the close of this general meeting of shareholders. Therefore, the shareholders are asked to elect four (4) Directors (excluding Directors who are Audit and Supervisory Committee Members). Director (excluding Directors who are Audit and Supervisory Committee Members) candidates are presented below:

No.	Name	Attendance at meetings of the Board of Directors	Title and responsibility at the Company or other organizations currently assumed
1	Shinichiro Kushima <span style="border: 1px solid black; padding: 2px;">Re-nominated</span>	100% (15 out of 15)	Representative Director and Chairman Director, Mitsui Matsushima International Pty. Ltd.
2	Tsuneo Amano <span style="border: 1px solid black; padding: 2px;">Re-nominated</span>	100% (15 out of 15)	Representative Director and President Director, Mitsui Matsushima International Pty. Ltd.
3	Shinji Koyanagi <span style="border: 1px solid black; padding: 2px;">Re-nominated</span>	100% (15 out of 15)	Director and Senior Managing Executive Officer General Manager of Energy Business Division CEO, Mitsui Matsushima International Pty. Ltd. Director , Mitsui Matsushima Australia Pty. Ltd.
4	Toshihiro Nomoto <span style="border: 1px solid black; padding: 2px;">Re-nominated</span>	100% (15 out of 15)	Director and Senior Managing Executive Officer General Manager of Consumer Goods and Services Business Division Director, Clean Surface Technology Co. Director, Nippon Straw Co., Ltd. Director, Hanabishi Sewing Co., Ltd.

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company
1	Shinichiro Kushima (June 4, 1951)	April 1975	Joined Mitsui Bank, Ltd. (presently Sumitomo Mitsui Banking Corporation) (the "Bank")	16,100 shares
		Feb. 1995	In charge of International Planning Department of the Bank and Vice President of Bank Sakura Swadharma	
		Oct. 1999	General Manager of Kagoshima Branch of the Bank	
		April 2004	Director and General Manager of Administration Division of Verde Kyushu Co., Ltd.	
		June 2005	Joined the Company as Director and Managing Executive Officer	
		June 2007	Director and Senior Managing Executive Officer	
		April 2008	Director, Executive Vice President and Executive Officer	
		Oct. 2008	Representative Director, President and Executive Officer	
		June 2014	Representative Director and Chairman (to present)	
		(Important positions at other organizations concurrently assumed) Director, Mitsui Matsushima International Pty. Ltd.		
<p>(Reasons for nominating the candidate for Director)</p> <p>Mr. Shinichiro Kushima was the Representative Director and President of the Company and is now the Representative Director and Chairman of the Company. As a manager of an enterprise, he has contributed to stabilizing and diversifying revenues by promoting an improved and strengthened financial base, and aggressively launching new businesses through corporate acquisitions, etc., and has accomplished more effective corporate governance of the Group by leading and managing the Board of Directors of the Company.</p> <p>The Company will ask the shareholders to reelect him as Director because it believes that he has the experience and knowledge to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill a decision-making role on important matters and oversee operations and their execution for the Group.</p>				

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company		
2	Tsuneo Amano (July 8, 1958)	April 1981	Joined Kawasho Corporation (presently JFE Shoji Trade Corporation)	11,400 shares		
		April 2001	General Manager of Raw Materials Division of Kawasho Corporation			
		Jan. 2004	Joined Corning International KK, General Manager of Optical Communication System Sales Department			
		Aug. 2008	Joined the Company, temporarily transferred to Mitsui Matsushima International Pty. Ltd.			
		June 2009	Executive Officer and General Manager of Fuel and Energy Business Division			
		June 2010	Director and Managing Executive Officer, General Manager of Fuel and Energy Business Division			
		April 2013	Director and Managing Executive Officer, General Manager of Fuel and Energy Business Division, in charge of Real Estate Business Division and Overseas Business Department			
		June 2014	Representative Director and President (to present)			
		(Important positions at other organizations concurrently assumed)			Director, Mitsui Matsushima International Pty. Ltd.	
		<p>(Reasons for nominating the candidate for Director)</p> <p>Mr. Tsuneo Amano has long-term experience in coal sales, having led the Energy Business of the Group since he joined the Company. After assuming the position of the Representative Director and President of the Company in June 2014, he has led and managed the Board of Directors of the Company and promoted the stabilization and diversification of the revenues of the Group as Chief Operating Officer.</p> <p>The Company will ask the shareholders to reelect him as Director because it believes that he has the experience and knowledge to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill a decision-making role on important matters and oversee operations and their execution for the Group.</p>				

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company
3	Shinji Koyanagi (September 19, 1958)	April 1982	Joined the Company	9,000 shares
		July 2003	Executive Secretary	
		June 2006	Manager of Corporate Planning Office	
		June 2007	Executive Officer and Manager of Corporate Planning Office and General Manager of Overseas Business Department	
		June 2010	Managing Executive Officer, General Manager of Business Planning Department, in charge of Overseas Business Department	
		June 2011	Director and Managing Executive Officer, General Manager of Business Planning Department, in charge of Overseas Business Department	
		June 2014	Director and Senior Managing Executive Officer, in charge of General Affairs Department, Human Resources Department, Domestic-Related Business Department, Internal Audit Department and Real Estate Business Division	
		June 2016	Director and Senior Managing Executive Officer, General Manager of Energy Business Division, in charge of Consumer Goods and Services Business Division	
		April 2017	Director and Senior Managing Executive Officer, General Manager of Energy Business Division (to present)	
		(Important positions at other organizations concurrently assumed) CEO, Mitsui Matsushima International Pty. Ltd. Director, Mitsui Matsushima Australia Pty. Ltd.		
<p>(Reasons for nominating the candidate for Director)</p> <p>Mr. Shinji Koyanagi has assumed the managerial positions in the coal business and corporate planning since he joined the Company. After having assumed the position of Director in June 2011, he has obtained experience in management of the administrative departments, including General Affairs, Human Resources, and Internal Audit, in addition to the above, demonstrating a wide range of knowledge and broad experience of the overall management of the Group.</p> <p>The Company will ask the shareholders to reelect him as Director because it believes that he has the experience and knowledge to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill a decision-making role on important matters and oversee operations and their execution for the Group.</p>				

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company
4	Toshihiro Nomoto (March 11, 1958)	April 1982	Joined Mitsui Bank, Ltd. (presently Sumitomo Mitsui Banking Corporation) (the "Bank")	5,500 shares
		April 2004	General Manager, Kawaguchi Corporate Business Office of the Bank	
		April 2006	General Manager, Jiyugaoka Corporate Business Office of the Bank	
		April 2009	General Manager, Omori Corporate Business Office of the Bank	
		May 2011	Temporarily transferred to the Company, General Manager of Corporate Planning Department	
		May 2012	Joined the Company, Administration Officer, General Manager of Corporate Planning Department	
		April 2013	Executive Officer, General Manager of Corporate Planning Department, in charge of Accounting Department and Information System Department	
		June 2014	Director and Managing Executive Officer, General Manager of Corporate Planning Department, in charge of Accounting Department and Information System Department	
		June 2015	Director and Managing Executive Officer, General Manager of Corporate Planning Department and Accounting Department, in charge of System Planning Development Office	
		April 2017	Director and Managing Executive Officer, General Manager of and Accounting Department, in charge of Corporate Planning Department	
		April 2018	Director and Senior Managing Executive Officer General Manager of Consumer Goods and Services Business Division (to present)	
		(Important positions at other organizations concurrently assumed) Director, Clean Surface Technology Co., Ltd. Director, Nippon Straw Co., Ltd. Director, Hanabishi Sewing Co., Ltd.		
<p>(Reasons for nominating the candidate for Director)</p> <p>Mr. Toshihiro Nomoto, utilizing his long-term work experience in financial institutions, has contributed to improving and strengthening the financial standing of the Company, as well as accomplishing the stabilization and diversification of revenues of the Group, since joining the Company as the person mainly responsible for the corporate planning department, followed by assuming the position of Director in June 2014.</p> <p>The Company will ask the shareholders to reelect him as Director because it believes that he has the experience and knowledge to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill a decision-making role on important matters and oversee operations and their execution for the Group.</p>				

(Note) There is no special interest between the Company and any of the candidates.

The election and compensation of candidates for Directors (excluding Audit and Supervisory Committee Members) were determined to be appropriate as a result of deliberations of the Audit and Supervisory Committee.



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### Third Proposal: Election of Three (3) Directors who are Audit and Supervisory Committee Members

The terms of office of all three (3) Directors who are Audit and Supervisory Committee Members will expire at the close of this general meeting of shareholders. Therefore, the shareholders are asked to elect three (3) Directors who are Audit and Supervisory Committee Members.

The consent of the Audit and Supervisory Committee has been obtained with regard to this proposal.

The Directors who are Audit and Supervisory Committee Members candidates are presented below:

No.	Name	Attendance at meetings of the Board of Directors		Title and responsibility, etc. at the Company or other organizations currently assumed
		Attendance at meetings of the Audit and Supervisory Committee		
1	Yoshio Takata <span style="border: 1px solid black; padding: 2px;">Re-nominated</span>	100% (15 out of 15)		Director (Full-time Audit and Supervisory Committee Member) Audit & Supervisory Board Member of Nippon Straw Co., Ltd. Audit & Supervisory Board Member of M&M Services Co., Ltd.
		100% (14 out of 14)		
2	Takashige Araki <span style="border: 1px solid black; padding: 2px;">Re-nominated</span> <span style="border: 1px solid black; padding: 2px;">External</span> <span style="border: 1px solid black; padding: 2px;">Independent</span>	100% (15 out of 15)		External Director (Full-time Audit and Supervisory Committee Member) Audit & Supervisory Board Member of Clean Surface Technology Co., Ltd. Audit & Supervisory Board Member of Hanabishi Sewing Co., Ltd.
		100% (14 out of 14)		
3	Tetsuya Notabe <span style="border: 1px solid black; padding: 2px;">Re-nominated</span> <span style="border: 1px solid black; padding: 2px;">External</span> <span style="border: 1px solid black; padding: 2px;">Independent</span>	100% (15 out of 15)		External Director (Audit and Supervisory Committee Member) Representative Partner of Kawano & Notabe Law Office Representative of the House of Delegates of Fukuoka Bar Association
		100% (14 out of 14)		

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company
1	Yoshio Takata (April 16, 1956)	April 1975	Joined Mitsui Mining Co., Ltd. (presently Nippon Coke & Engineering Co., Ltd.)	3,900 shares
		Oct. 1981	Temporarily transferred to Mitsui Mining Kenzai Hanbai Co., Ltd.	
		Oct. 1984	Joined the Company	
		July 2003	General Manager of Accounting Department, Finance and Accounting Division	
		June 2006	Executive Officer and General Manager of Accounting Department, Manager of Internal Audit Department	
		June 2010	Managing Executive Officer and General Manager of Accounting Department, in charge of Information Systems Department	
		April 2013	Advisor	
		June 2013	Full-time Audit & Supervisory Board Member	
		June 2016	Director (Full-time Audit and Supervisory Committee Member) (to present)	
		(Important position at other organizations concurrently assumed) Audit & Supervisory Board Member, Nippon Straw Co., Ltd. Audit & Supervisory Board Member, M&M Services Co., Ltd.		
<p>(Reasons for nominating the candidate for Director)</p> <p>Mr. Yoshio Takata has broad, long-term work experience in the Finance and Accounting department. He has been in charge of auditing and overseeing the overall management of the Group since he assumed the positions of full-time Audit &amp; Supervisory Board Member and Director (a full-time Audit and Supervisory Committee Member) in June 2013 and June 2016, respectively, and has contributed to reinforcing the effectiveness of the corporate governance of the Company.</p> <p>The Company will ask the shareholders to reelect him as Director who is an Audit and Supervisory Committee Member because it believes that he has the experience and knowledge that to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill a decision-making role on important matters and oversee operations and their execution for the Group.</p>				

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company
	Takashige Araki (October 13, 1951)	April 1975	Joined Shinwa Bank, Ltd.	1,000 shares
June 2005		President and Representative Director of Shinwa Bank, Ltd. Director of Kyushu-Shinwa Holdings Inc.		
June 2006		President and Representative Director of Kyushu-Shinwa Holdings Inc.		
June 2008		Audit & Supervisory Board Member of the Company (External)		
Aug. 2008		President and Representative Director of FFG Business Consulting Co., Ltd.		
June 2012		Full-time Audit & Supervisory Board Member of the Company (External)		
June 2016		External Director of the Company (Full-time Audit and Supervisory Committee Member) (to present)		
(Important position at other organizations concurrently assumed)		Audit & Supervisory Board Member, Clean Surface Technology Co., Ltd. Audit & Supervisory Board Member, Hanabishi Sewing Co., Ltd.		
2	<p>(Reasons for nominating the candidate for External Director)</p> <p>Mr. Takashige Araki has top-management experience cultivated through his long-term experience in financial institutions as Representative Director and President of The Shinwa Bank, Ltd. and as a manager of an enterprise. In addition, he has been an External Audit &amp; Supervisory Board Member of the Company and an External Director of the Company (an Audit and Supervisory Committee Member) since June 2008 and June 2016, respectively, and has contributed to reinforcing the corporate governance of the Group by giving appropriate advice and recommendations on the management of the Company from an objective point of view, while concurrently assuming the position of an Audit &amp; Supervisory Board Member of the company, which recently joined the Group.</p> <p>The Company will ask the shareholders to reelect him as Director who is an Audit and Supervisory Committee Member because it believes that he has the experience and knowledge to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill the a decision-making role on important matters and oversee operations and their execution for the Group.</p> <p>(Matters concerning independence)</p> <p>Mr. Takashige Araki was Representative Director and President of The Shinwa Bank, Ltd., one of the main banks of the Company, until October 2007. However, Mr. Takashige Araki does not currently hold any position at, or receive any compensation from, The Shinwa Bank, Ltd.. Therefore, he has no conflicts of interest with the bank. In addition, the Company is substantially free of debt, thus it is affected much less by the involvement and influence of financial institutions. For these reasons, the Company believes that conflicts of interest with general shareholders will not arise.</p> <p>Because Mr. Takashige Araki meets the requirements of Independent Officers as stipulated in the regulations of the TSE and the FSE, the Company will register him as an Independent Officer with the TSE and the FSE upon his election.</p>			

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No.	Name (Date of birth)	Summary of career, title and responsibility, and important position at other organizations concurrently assumed		Candidate's shareholding in the Company
3	Tetsuya Notabe (August 10, 1958)	April 1991	Registered as Attorney-at-Law	2,200 shares
		April 1991	Joined Yoshiaki Kawano Law Office	
		April 1997	Opened Kawano & Notabe Law Office	
		June 2013	Audit & Supervisory Board Member of the Company (External)	
		April 2015	Representative Partner of Kawano & Notabe Law Office (to present)	
		June 2016	External Director of the Company (Full-time Audit and Supervisory Committee Member) (to present)	
		(Important position at other organizations concurrently assumed) Representative Partner of Kawano & Notabe Law Office Representative of the House of Delegates of Fukuoka Bar Association		
<p>(Reasons for nominating the candidate for External Director)</p> <p>Mr. Tetsuya Notabe has not been directly involved in corporate management other than through his position as an external officer; however, using expertise and broad practical experience as an attorney, as an Audit &amp; Supervisory Board Member of the Company and a Director who is an Audit and Supervisory Committee Member of the Company since June 2013 and June 2016, respectively, he has provided appropriate multi-dimensional advice and recommendations about corporate legal affairs and compliance from a technical point of view at meetings of the Board of Directors.</p> <p>The Company will ask the shareholders to reelect him as Director who is an Audit and Supervisory Committee Member because it believes that he has the experience and knowledge to enable precise and fair supervision of the overall management of the Group, and he has sufficient capabilities to fulfill a decision-making role on important matters and oversee operations and their execution for the Group.</p> <p>(Matters concerning independence)</p> <p>Because Mr. Tetsuya Notabe meets the requirements of independent officers provided for by the TSE and the FSE, the Company will register him as an Independent Officer with the TSE and the FSE upon his election.</p>				

(Notes)

1. There is no special interest between the Company and any of the Director candidates.
2. Mr. Takashige Araki and Mr. Tetsuya Notabe are candidates for External Directors. The Company has designated Mr. Takashige Araki and Mr. Tetsuya Notabe as Independent Officers as provided for by the TSE and the FSE and registered them with the TSE and the FSE.
3. At the close of this General Meeting of Shareholders, Mr. Takashige Araki and Tetsuya Notabe will have been in office of External Directors who are Audit and Supervisory Committee Members for two (2) years. Mr. Araki and Mr. Notabe were External Audit & Supervisory Board Members of the Company in the past.
4. The Company has set forth the provision in the Articles of Incorporation that the Company may, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, enter into an Agreement for Limitation of Liability with the Directors (excluding those who are Executive Directors), which limits the liability for damages provided for in Article 423, Paragraph 1 of the Companies Act to the minimum liability stipulated by relevant laws and regulations. The Company has entered into the above Agreement for Limitation of Liability with Mr. Yoshio Takata, Mr. Takashige Araki, and Mr. Tetsuya

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Notabe. If the nominations of Mr. Yoshio Takata, Mr. Takashige Araki, and Mr. Tetsuya Notabe are approved, the Company is scheduled to enter into an Agreement for Limitation of Liability with each of them.

5. Independence as External Director

- (1) Mr. Takashige Araki was an Audit & Supervisory Board Member of Nippon Straw Co., Ltd., which is a wholly-owned subsidiary of the Company; however, he resigned from that position as of April 1, 2018.
- (2) Mr. Tetsuya Notabe has neither been a Business Executor nor Board Member of the subsidiaries of the Company in the past.
- (3) Neither Mr. Takashige Araki nor Mr. Tetsuya Notabe is a parent company, etc. of the Company and neither has been a parent company, etc. of the Company in the last five years.
- (4) Mr. Takashige Araki is an Audit & Supervisory Board Member of Clean Surface Technology Co., Ltd. and Hanabishi Sewing Co., Ltd., which are business entities that have a special relationship with the Company. Both entities are wholly-owned subsidiaries of the Company.
- (5) Neither Mr. Tetsuya Notabe is a business executor nor a board member of a business entity that has a special relationship with the Company, nor has been so in the last five years.
- (6) Neither Mr. Takashige Araki nor Mr. Tetsuya Notabe is scheduled to receive a large amount of money or other property from the Company or a business entity that has a special relationship with the Company, nor has received any such money or property in the last two years.
- (7) Neither Mr. Takashige Araki nor Mr. Tetsuya Notabe is a spouse or family member within the third degree of kinship of a business executor or a board member of the Company or a business entity that has a special relationship with the Company or a person equivalent to any of the foregoing.
- (8) Neither Mr. Takashige Araki nor Mr. Tetsuya Notabe was a business executor of any company the rights and obligations of which were transferred to the Company by a merger, absorption-type split, incorporation-type split or business transfer in the last two years, immediately before such merger, absorption-type split, incorporation-type split or business transfer.

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**Fourth Proposal: Election of One (1) Substitute Director who is an Audit and Supervisory Committee Member**

The effect of the election of Mr. Takashi Shinohara to the position of Substitute Director who is an Audit and Supervisory Committee Member, which was approved at the 160th Annual General Meeting of Shareholders held on June 24, 2016, will expire at the opening of this Annual General Meeting of Shareholders. Therefore, the Company requests the election of one (1) Substitute Director who is an Audit and Supervisory Committee Member as a substitute for all Directors who are Audit and Supervisory Committee Members in advance to prepare for a case where the number of Directors who are Audit and Supervisory Committee Members falls below the number stipulated by laws and regulations.

The consent of the Audit and Supervisory Committee has been obtained with regard to this proposal.

The candidate for Director who is a Substitute Audit and Supervisory Committee Member is as follows.

Name (Date of birth)	Summary of career, title and responsibility, and important position at other organization concurrently assumed		Candidate's shareholding in the Company
Takashi Shinohara (December 7, 1954)	March 1980	Registered as Certified Public Accountant	None
	Jan. 1982	Opened CPA Shinohara Takashi Office (to present)	
	May 1984	Registered as Certified Public Tax Accountant	
	Jan. 2010	Representative Partner of Shinohara and Ueda Tax Corporation (to present)	
	June 2010	External Director of the Company	
	(Important position at other organizations concurrently assumed) None		
<p>(Reasons for nominating the candidate as Substitute External Director) Mr. Takashi Shinohara has not been involved in corporate management directly other than by assuming the position of an external officer; however, using not only expertise and broad practical experience as a certified public accountant and a certified public tax accountant, but also extensive experience developed through involvement in the overall management of the Company as an External Director of the Company between June 2010 and June 2016, he has contributed to the management of the Company with his extensive experience and advanced technical knowledge of corporate accounting and tax affairs obtained as a certified public accountant and a certified public tax accountant from a technical point of view at meetings of the Board of Directors. Taking account of these accomplishments, the Company will ask the shareholders to reelect him as a candidate for a Substitute Director who is an Audit and Supervisory Committee Member because it believes that he can supervise the management of the Company from an independent and objective perspective based on the experience, knowledge, and insights he has developed.</p> <p>(Matters concerning independence) Because Mr. Takashi Shinohara meets the requirements of Independent Officers as stipulated in the regulations of the TSE and the FSE, the Company will register him as an Independent Officer with the TSE and the FSE upon his election.</p>			

(Notes)

1. There is no special interest between the Company and the candidate.
2. Upon Mr. Shinohara's assumption of office as External Director, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act and the provisions of the Articles of Incorporation of the Company, the Company will enter into an Agreement for Limitation of Liability with him. The limited amount of liability under the Agreement for Limitation of Liability pursuant to the provisions of Article 423, Paragraph 1 of the Companies Act will be the minimum limited amount of liability stipulated by

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applicable laws and regulations.

3. Mr. Shinohara was an External Director of the Company in the past.

4. Independence as External Director

- (1) Mr. Takashi Shinohara has neither been a business executor nor a board member of any subsidiary of the Company.
- (2) Mr. Takashi Shinohara is not a parent company, etc. of the Company, and neither has he been a parent company, etc. of the Company in the last five years.
- (3) Mr. Takashi Shinohara is not a business executor or a board member of a business entity that has a special relationship with the Company and has not been so in the last five years.
- (4) Mr. Takashi Shinohara is not scheduled to receive a large amount of money or other property (excluding the compensation received as Director) from the Company or a business entity that has a special relationship with the Company, nor has received any such money or property in the last two years.
- (5) Mr. Takashi Shinohara is not a spouse or family member within the third degree of kinship of a business executor or a board member of the Company or a business entity that has a special relationship with the Company or a person equivalent to any of the foregoing.
- (6) Mr. Takashi Shinohara was not a business executor of any company the rights and obligations of which were transferred to the Company by a merger, absorption-type split, incorporation-type split or business transfer in the last two years, immediately before such merger, absorption-type split, incorporation-type split or business transfer.

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**Fifth Proposal: Introduction of Stock Compensation Plan for Directors (excluding Directors who are Audit and Supervisory Committee Members)**

1. Reasons for the Proposal

This proposal asks shareholders to approve the introduction of a new stock compensation plan called the “Board Benefit Trust (BBT)” (hereinafter referred to as the “Plan”) for Directors and Executive Officers, excluding Directors who are Audit and Supervisory Committee Members of the Company (hereinafter collectively referred to as “the Directors, etc.”).

This proposal aims to decrease the amount corresponding to the stock compensation benefit that is currently purchased through the Executive Stock Ownership Plan and introduce stock compensation instead linked to the relative growth rate of the Company’s share price during a certain period compared to the TOPIX growth ratio, in order to improve the Company’s mid- and long-term performance and enhance an awareness of contributing to increasing corporate value among the Directors, etc. by not only sharing with shareholders the benefits of increases in stock prices but also risks of declines in stock prices. The Company believes the particulars of this proposal are appropriate for the said aim.

The Company plans to provide the new share compensation to the Directors, etc. of the Company separately from compensation for the Directors approved at the 160th Annual General Meeting of Shareholders on June 24, 2016 (within 17 million yen a month, excluding the employee-portion of compensation paid as employees to Directors who concurrently serve as employees); therefore, it asks the shareholders to approve the amounts of compensation under the Plan. The Company also requests approval to delegate the decision on details of the Plan within the framework provided in Paragraph 2 below to the Board of Directors.

Currently, four (4) Directors who are not Audit and Supervisory Committee Members are eligible under the Plan and, if the Second Proposal is approved as proposed, there will be no change to the four (4) Directors who are not Audit and Supervisory Committee Members and who will be eligible under the Plan.

The Audit and Supervisory Committee of the Company has expressed its opinion that introducing the Plan is reasonable in terms of purposes, details, etc.

The Plan collectively prescribes not only compensation for Directors, excluding Directors who are Audit and Supervisory Committee Members, but also compensation for Executive Officers, thus the descriptions in “2. Amounts of compensation under the Plan and reference information” and below refer to both.

2. Amounts of compensation under the Plan and reference information

(1) Outline of the Plan

The Plan is a share-based compensation plan, whereby cash contributed by the Company as funds is used to acquire shares of the Company through a trust (the trust established pursuant to the Plan is referred to as the “Trust”) and the Directors, etc. receive benefits through the Trust in the form of shares of the Company and cash equivalents of such shares at market value (hereinafter referred to as the “Company Shares, etc.”). In principle, the Directors, etc. receive delivery of Company Shares, etc. upon their resignation.

(2) Eligible persons

The Directors, etc.

(3) Trust period

From August 2018 (scheduled) until the Trust is terminated (the Trust shall continue without establishing a specific expiry date as long as the Plan exists. The Plan shall be terminated, for example, when the Company’s shares are delisted or when the Officer Stock Benefit Regulations are abolished).



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(4) Trust amount (amount of compensation, etc.)

Subject to approval of this proposal, the Company will introduce the Plan for the three fiscal years from the fiscal year ending March 31, 2019 until the fiscal year ending March 31, 2021 (hereinafter referred to as the “Initial Target Period;” each three-fiscal-year period after the Initial Target Period has elapsed is referred to as the “Subsequent Target Period”) and for each Subsequent Target Period (hereinafter the “Initial Target Period” and the “Subsequent Target Period” are collectively referred to as the “Target Period”), and contribute as funds for acquiring the Company’s shares the following money to the Trust to be established for the purpose of delivering Company Shares, etc. to the Directors, etc.

The Company shall contribute funds to the Trust with an upper limit of ¥102 million (of which, ¥69 million is for Directors excluding Directors who are Audit and Supervisory Committee Members and ¥33 million is for Executive Officers) for each Target Period.

At the time the Company makes additional contributions for the Subsequent Target Period, if the Company’s shares (excluding the Company’s shares that correspond to points granted to the Directors, etc., for each Target Period up to the immediately preceding Target Period and that have not yet been delivered to the Directors, etc.) and money (hereinafter collectively referred to as the “Residual Shares, etc.”) in the trust assets remain, the upper limit of the monetary amount of additional contributions that the Company can make to the Trust for the above Subsequent Target Period shall be the amount of the said upper limit less the amount of the Residual Shares, etc. (for the Company’s shares, the monetary amount of the book value at the final day of the immediately preceding Target Period).

When the Company resolves to make additional contributions, it will disclose the resolution in a timely and appropriate manner.

(5) Method of acquiring the Company’s shares and number of shares to be acquired

The Trust shall acquire the Company’s shares through the stock market or by underwriting the disposal of treasury stock of the Company, using funds contributed as described in Item (4) above.

For the Initial Target Period, up to 108,000 shares shall be acquired soon after establishment of the Trust. If 10,000 shares, the upper limit for acquisition of the Company’s shares that is provided for in the Sixth Proposal, are added, up to 118,000 shares shall be acquired.

Details of acquisitions of the Company’s shares made through the Trust will be disclosed in a timely and appropriate manner.

(6) Method of calculating the number of Company Shares, etc. to be delivered to the Directors, etc.

In each fiscal year, the Directors, etc., are granted points defined by their position and the relative growth rate of the Company’s share price during a certain period compared to the growth rate of TOPIX during the same period in accordance with the Officer Stock Benefit Regulations.

Each point granted to the Directors, etc., is equivalent to one share of the Company’s common shares in delivering the Company Shares, etc., as described in (7) below. (However, if, in regard to the Company’s shares, a stock split, a gratis allotment of shares, or consolidation of shares is carried out after this proposal is approved, the Company will reasonably adjust the number of points already granted or their conversion ratio, in accordance with matters such as the relevant ratios.)

The number of points that forms the basis for delivering the Company Shares, etc., to the Directors, etc., in (7) below is, in principle, the number of points granted to such Directors, etc., up to their resignation (hereinafter, the points computed in this manner are referred to as “Defined Number of Points”).

(7) Delivery of the Company Shares, etc.

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The Directors, etc., who resign and meet the beneficiary requirements provided in the Officer Stock Benefit Regulations will receive from the Trust the Company's shares that correspond to the number of their "Defined Number of Points" in accordance with the description in (6) above, in principle, after their resignation by carrying out specified beneficiary confirmation procedures. However, if the requirements provided in the Officer Stock Benefit Regulations are met, the Directors, etc., will, instead of the Company's shares, receive an amount of money that is equivalent to the market value of such shares in respect of a certain portion of the points. The Trust may sell the Company's shares to make such delivery of money.

(8) Exercise of voting rights

In accordance with instructions from the trust administrator, voting rights in connection with the Company's shares in the Trust's account will not be exercised without exception. This approach intends to ensure neutrality in exercising voting rights for the Company's shares in the Trust's account to the management of the Company.

(9) Dividends

The Trust will receive dividends from the Company's shares held in the Trust's account and allocate them to pay the costs of acquiring the Company's shares or to trust fees for the trustee of the Trust, etc. If the Trust is terminated, residual funds in the Trust, including dividends, will be delivered to incumbent Directors, etc., at that time in proportion to the number of points each of them holds.

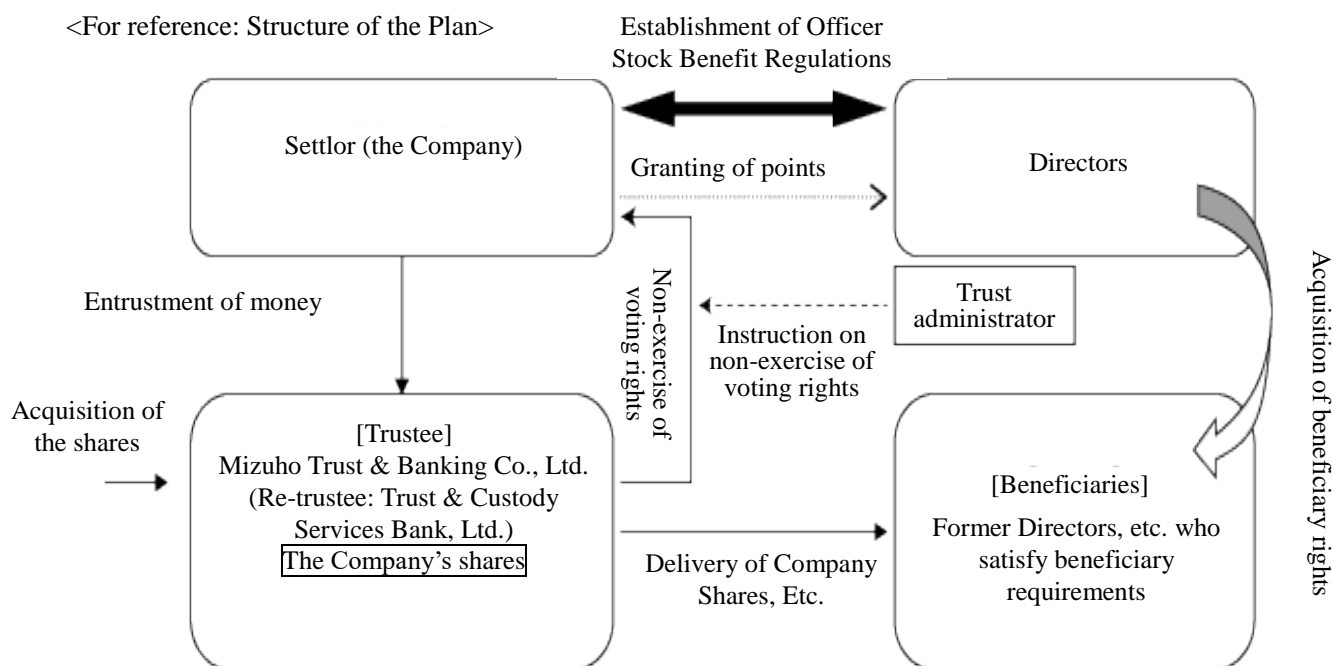
(10) Termination of trust

The Trust will terminate upon the occurrence of events such as the delisting of the Company's shares or abolition of the Officer Stock Benefit Regulations.

The Company's shares among the Trust's residual assets at the termination of the Trust will be acquired by the Company in whole without consideration and be cancelled by a resolution of the Board of Directors. Of the residual assets of the Trust at the termination of the Trust, money will be delivered to the Company, excluding the amount to be delivered to the Directors, etc., in accordance with (9) above.

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<For reference: Structure of the Plan>



- (i) The Company will entrust money within the limit approved in this proposal.
- (ii) The Trust will acquire the Company's shares using the funds entrusted in accordance with (i) through the stock market or by underwriting the disposal of the Company's treasury stock.
- (iii) The Company will grant points to the Directors, etc., under the "Officer Stock Benefit Regulations".
- (iv) In accordance with instructions from a trust administrator, who is independent from the Company, the Trust will not exercise voting rights in connection with the Company's shares in the Trust's account.
- (v) The Trust will provide the Company's shares to former Directors, etc., who meet the beneficiary requirements provided in the "Officer Stock Benefit Regulations" (hereinafter referred to as the "Beneficiaries") corresponding to the number of points granted to the said Beneficiaries. However, the Directors, etc., who meet the requirements provided in the Officer Stock Benefit Regulations will receive an amount of money equivalent to the market value of the Company's shares in respect of a certain portion of the points.

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## **Sixth Proposal: Introduction of Stock Compensation Plan for Directors who are Audit and Supervisory Committee Members**

### 1. Reasons for the Proposal

This proposal asks shareholders to approve the introduction of a new stock compensation plan called the “Board Benefit Trust (BBT)” (hereinafter referred to as the “Plan”) for Directors who are Audit and Supervisory Committee Members (hereinafter referred to as “the Audit and Supervisory Committee Members”).

This proposal aims to decrease the amount of the current compensation by 5% and instead introduce a stock compensation plan that is not linked with the performance and share price of the Company, in order to enhance the motivation to improve the evaluation of the Company by society by ensuring the sound management of the Company and society’s trust in it.

The Company plans to provide the new share compensation to the Audit and Supervisory Committee Members of the Company separately from compensation for Audit and Supervisory Committee Members approved at the 160th Annual General Meeting of Shareholders on June 24, 2016 (within 5 million yen a month); therefore, it asks the shareholders to approve the amounts of compensation under the Plan. The Company also requests approval to delegate the decision on details of the Plan within the framework provided in Paragraph 2 below to a consultation of the Audit and Supervisory Committee Members.

Currently, three (3) Audit and Supervisory Committee Members are eligible under the Plan and, if the Third Proposal is approved as proposed, there will be no change to the three (3) Audit and Supervisory Committee Members who will be eligible under the Plan.

Regarding introduction of the Plan, each of the Directors who are Audit and Supervisory Committee Members has been examined and the Company has reached the conclusion, considering the purposes, details, etc. of the Plan, that there are no particular matters to be disclosed at the Annual General Meeting of Shareholders in accordance with the provisions of the Companies Act.

### 2. Amounts of compensation under the Plan and reference information

#### (1) Outline of the Plan

The Plan is a share-based compensation plan, whereby cash contributed by the Company as funds is used to acquire shares of the Company through a trust (the trust established pursuant to the Plan is referred to as the “Trust”) and the Audit and Supervisory Committee Members receive benefits through the Trust in the form of shares of the Company and cash equivalents of such shares at market value (hereinafter referred to as the “Company Shares, etc.”). In principle, the Audit and Supervisory Committee Members receive delivery of Company Shares, etc. upon their resignation.

#### (2) Eligible persons

The Audit and Supervisory Committee Members

#### (3) Trust period

From August 2018 (scheduled) until the Trust is terminated (the Trust shall continue without establishing a specific expiry date as long as the Plan exists. The Plan shall be terminated, for example, when the Company’s shares are delisted or when the Officer Stock Benefit Regulations are abolished).

#### (4) Trust amount (amount of compensation, etc.)

Subject to approval of this proposal, the Company will introduce the Plan for the three fiscal years from the fiscal year ending March 31, 2019 until the fiscal year ending March 31, 2021 (hereinafter

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referred to as the “Initial Target Period;” each three-fiscal-year period after the Initial Target Period has elapsed is referred to as the “Subsequent Target Period”) and for each Subsequent Target Period (hereinafter the “Initial Target Period” and the “Subsequent Target Period” are collectively referred to as the “Target Period”), and contribute as funds for acquiring the Company’s shares the following money to the Trust to be established for the purpose of delivering Company Shares, etc. to the Audit and Supervisory Committee Members.

The Company shall contribute funds to the Trust with an upper limit of ¥9 million for each Target Period.

At the time the Company makes additional contributions for the Subsequent Target Period, if the Company’s shares (excluding the Company’s shares that correspond to points granted to the Audit and Supervisory Committee Members for each Target Period up to the immediately preceding Target Period and that have not yet been delivered to the Audit and Supervisory Committee Members) and money (hereinafter collectively referred to as the “Residual Shares, etc.”) in the trust assets remain, the upper limit of the monetary amount of additional contributions that the Company can make to the Trust for the above Subsequent Target Period shall be the amount of the said upper limit less the amount of the Residual Shares, etc. (for the Company’s shares, the monetary amount of the book value at the final day of the immediately preceding Target Period).

When the Company resolves to make additional contributions, it will disclose the resolution in a timely and appropriate manner.

(5) Method of acquiring the Company’s shares and number of shares to be acquired

The Trust shall acquire the Company’s shares through the stock market or by underwriting the disposal of treasury stock of the Company, using funds contributed as described in Item (4) above. For the Initial Target Period, up to 10,000 shares shall be acquired soon after establishment of the Trust. If 108,000 shares, the upper limit for acquisition of the Company’s shares that is provided for in the Fifth Proposal, are added, up to 118,000 shares shall be acquired.

Details of acquisitions of the Company’s shares made through the Trust will be disclosed in a timely and appropriate manner.

(6) Method of calculating the number of Company Shares, etc. to be delivered to Audit and Supervisory Committee Members

In each fiscal year, the Audit and Supervisory Committee Members are granted points defined by their position in accordance with the Officer Stock Benefit Regulations.

Each point granted to the Audit and Supervisory Committee Members is equivalent to one share of the Company’s common shares in delivering the Company Shares, etc., as described in (7) below. (However, if, in regard to the Company’s shares, a stock split, a gratis allotment of shares, or consolidation of shares is carried out after this proposal is approved, the Company will reasonably adjust the number of points already granted or their conversion ratio, in accordance with matters such as the relevant ratios.)

The number of points that forms the basis for delivering the Company Shares, etc., to the Audit and Supervisory Committee Members in (7) below is, in principle, the number of points granted to such Audit and Supervisory Committee Members up to their resignation (hereinafter, the points computed in this manner are referred to as “Defined Number of Points”).

(7) Delivery of the Company Shares, etc.

Audit and Supervisory Committee Members who resign and meet the beneficiary requirements provided in the Officer Stock Benefit Regulations will receive from the Trust the Company’s shares that correspond to the number of their “Defined Number of Points” in accordance with the

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description in (6) above, in principle, after their resignation by carrying out specified beneficiary confirmation procedures. However, if the requirements provided in the Officer Stock Benefit Regulations are met, the Audit and Supervisory Committee Members will, instead of the Company's shares, receive an amount of money that is equivalent to the market value of such shares in respect of a certain portion of the points. The Trust may sell the Company's shares to make such delivery of money.

(8) Exercise of voting rights

In accordance with instructions from the trust administrator, voting rights in connection with the Company's shares in the Trust's account will not be exercised without exception. This approach intends to ensure neutrality in exercising voting rights for the Company's shares in the Trust's account to the management of the Company.

(9) Dividends

The Trust will receive dividends from the Company's shares held in the Trust's account and allocate them to pay the costs of acquiring the Company's shares or to trust fees for the trustee of the Trust, etc. If the Trust is terminated, residual funds in the Trust, including dividends, will be delivered to incumbent Audit and Supervisory Committee Members at that time in proportion to the number of points each of them holds in accordance with the Officer Stock Benefit Regulations.

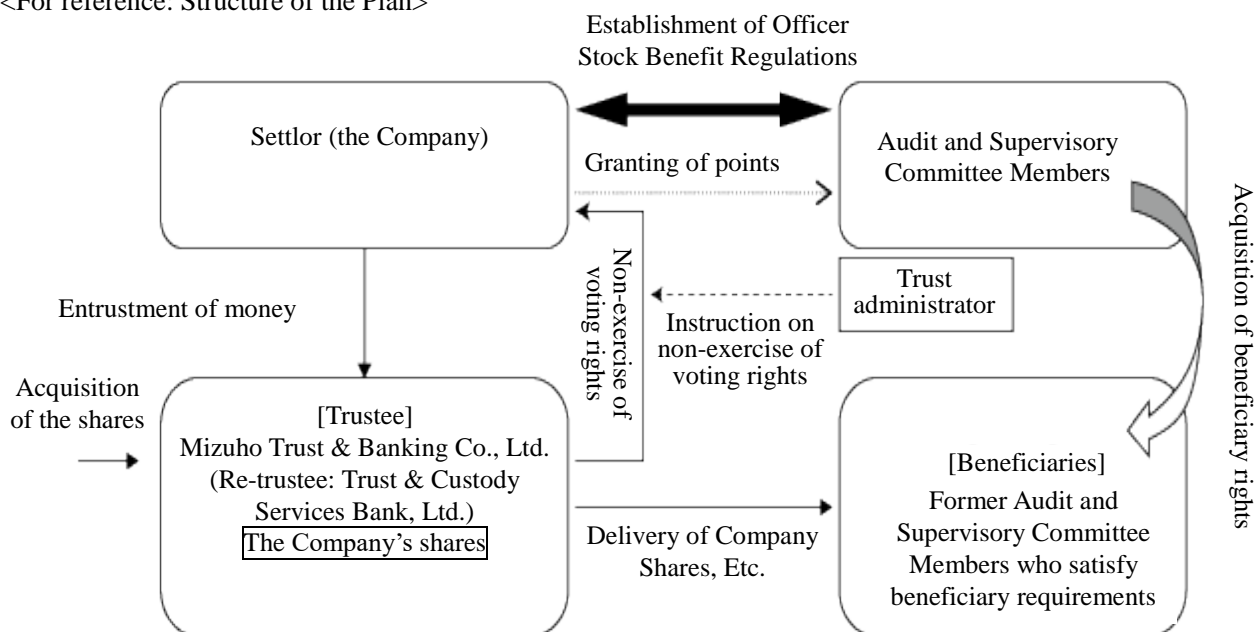
(10) Termination of trust

The Trust will terminate upon the occurrence of events such as the delisting of the Company's shares or abolition of the Officer Stock Benefit Regulations.

The Company's shares among the Trust's residual assets at the termination of the Trust will be acquired by the Company in whole without consideration and be cancelled by a resolution of the Board of Directors. Of the residual assets of the Trust at the termination of the Trust, money will be delivered to the Company, excluding the amount to be delivered to the Audit and Supervisory Committee Members in accordance with (9) above.

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<For reference: Structure of the Plan>



- (i) The Company will entrust money within the limit approved in this proposal.
- (ii) The Trust will acquire the Company's shares using the funds entrusted in accordance with (i) through the stock market or by underwriting the disposal of the Company's treasury stock.
- (iii) The Company will grant points to the Audit and Supervisory Committee Members under the "Officer Stock Benefit Regulations".
- (iv) In accordance with instructions from a trust administrator, who is independent from the Company, the Trust will not exercise voting rights in connection with the Company's shares in the Trust's account.
- (v) The Trust will provide the Company's shares to former Audit and Supervisory Committee Members who meet the beneficiary requirements provided in the "Officer Stock Benefit Regulations" (hereinafter referred to as the "Beneficiaries") corresponding to the number of points granted to the said Beneficiaries. However, Audit and Supervisory Committee Members who meet the requirements provided in the Officer Stock Benefit Regulations will receive an amount of money equivalent to the market value of the Company's shares in respect of a certain portion of the points.

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## **Reference Material**

### **Company Management Systems and Policies**

**(1) Systems to ensure that the directors' performance of their duties is in compliance with laws, regulations and the Articles of Incorporation and other systems to ensure appropriateness of business activities:**

Pursuant to the provisions of the Companies Act and the Companies Act Enforcement Regulations, the Board of Directors of the Company has approved the following basic policies concerning the establishment of internal control systems.

Based on the basic policy, the Company ensures the appropriateness of business activities, and constantly reviews and improves the current systems for the purpose of establishing better internal control systems.

1. System to ensure that the directors' performance of their duties is in compliance with laws, regulations and the Articles of Incorporation:

The Company has established and enforces the Code of Behavior and Compliance Manual as the code of conduct for all members of the Company including directors and employees. With respect to the Board of Directors, the Regulations for the Board of Directors have been established so that its proper activities are ensured. The Board of Directors' meetings are in principle held once a month and at any time necessary. Directors exchange opinions and mutually supervise the business execution, seek the opinions of legal counsel and other professionals as required, and take actions aimed at preventing violations of laws, regulations and the Articles of Incorporation.

The Company has an Audit and Supervisory Committee. The Audit and Supervisory Committee audits the performance of directors in accordance with auditing methods and divisions of responsibilities prescribed by the Audit and Supervisory Committee. If a director discovers a violation of the laws, regulations or the Company's Articles of Incorporation by another director, he or she shall immediately report it to the Audit and Supervisory Committee and the Board of Directors so that corrective measures can be taken.

2. System for the storage and management of information concerning the directors' performance of their duties:

Information and documents concerning the directors' performance of their duties shall be properly stored and managed (including the disposal thereof) in accordance with the Company's internal rules, with the actual conditions of storage and management to be checked and the rules to be reviewed and amended, as necessary.



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3. Regulations and other systems concerning risk management of loss:
  - i. Based on the Risk Management Regulations that set forth the basic framework for risk management for the group of companies consisting of the Company and its subsidiaries (hereinafter referred to as the "Corporate Group"), the Company, mainly the Risk Management Committee, shall collect and assess risk information in an integrated and comprehensive manner, identify critical risks and address such risks according to their materiality.
  - ii. Risks inherent in significant decision-making for business execution shall be considered by each department in advance before further assessment by the Management Meeting and the Board of Directors to prevent losses from occurring.
  - iii. Risks in business activities in each department, such as risks in purchase and sale transactions, foreign exchange and interest rate fluctuations, and credit risks shall be assessed, settled or approved based on the Regulations for Delegating Job Responsibilities to avoid or prevent the risk of loss.
  - iv. The Internal Audit Department shall perform audits of the risk management system. The audited department shall promptly take corrective or improvement measures as needed.
  
4. System to ensure the efficient execution of directors' duties:
  - i. The Executive Officer system shall be introduced with the aim of prompt and efficient decision-making through the separation of the management function and business execution.
  - ii. As a decision-making body other than the Board of Directors, the Company has established the Management Meeting, which is comprised of the Representative Directors and Executive Officers, and delegate part of the authority to it, leaving only the most important matters for resolution by the Board of Directors, to ensure the efficient execution of directors' duties. The Company shall establish a system to ensure that all board members receive sufficient material in advance on the items on agenda presented to the Board of Directors in accordance with the principle of management decisions.
  - iii. In order to conduct daily business activities, authority shall be delegated to relevant departments based on the Regulations for Delegating Job Responsibilities and Regulations for the Assignment of Business Activities. In addition, the persons responsible for each level shall perform their jobs in accordance with the decision-making rules.
  
5. Systems to ensure that employees perform their duties in compliance with laws, regulations and the Articles of Incorporation:
  - i. In order to ensure that all employees of the Corporate Group thoroughly comply with laws, regulations and the Articles of Incorporation, the Company has established the Compliance

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Committee chaired by the Representative Director and President and a system for all of the employees of the Corporate Group to internally report a violation of the laws, regulations or the Articles of Incorporation under the Compliance Rules and Compliance Manual.

- ii. The Company has established a reporting system whereby the details of a situation related to compliance and proposals for appropriate countermeasures are reported to the Board of Directors and the Audit and Supervisory Committee via the Compliance Committee, in cases where any event with regard to compliance occurs.
  - iii. The Compliance Committee shall appoint a person-in-charge and a promoter in each department in accordance with the provisions of the Compliance Rules, and control and supervise adherence to the Compliance Manual.
  - iv. The Internal Audit Department shall perform audits of the status of compliance with laws, the Articles of Incorporation and internal regulations. The audited department shall promptly take corrective or improvement measures as needed.
6. System to ensure the appropriateness of business operations of the Corporate Group:
- i. The Company has established the Group Companies Management Rules, which specify the policy for the appropriate management of its subsidiaries, and set up the Control Department in the Energy Business Division and the Consumer Goods and Services Business Division, which administer the matters to be reported by the subsidiaries to the Company and the matters to be approved by the Company.
  - ii. Decision-making processes related to business execution of the subsidiaries shall be implemented according to the Regulations for Delegating Job Responsibilities of the Company and the subsidiaries. The Company shall ensure the appropriateness of business operations of the subsidiaries by maintaining certain involvement by the Company in the decision-making of the subsidiaries.
  - iii. The Internal Audit Department of the Company shall enter into an internal auditing agreement with its subsidiaries and shall conduct internal audits for the Corporate Group as a whole. The audit results shall be reported to relevant departments and the Board of Directors of the Company, and corrective and improvement measures shall be taken as needed.
  - iv. As members of society, the Company and the subsidiaries shall not have any relationship with antisocial forces or organizations that threaten the order and safety of civil society, and shall take a firm stance against such forces or organizations.
7. Matters concerning the appointment of employees to assist the Audit and Supervisory Committee in performing its duties:

The Company may assign employees to assist the Audit and Supervisory Committee in performing its duties for required periods of time, if requested by the Audit and Supervisory Committee.

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8. Matters concerning independence from the directors of employees assisting the Audit and Supervisory Committee in performing its duties and matters for ensuring the effectiveness of instructions given to such employees:
  - i. Consent of the Audit and Supervisory Committee is required to appoint or remove employees who assist the Audit and Supervisory Committee in performing its duties.
  - ii. An employee who assists the Audit and Supervisory Committee in performing its duties shall be subject to the direction and orders of the Audit and Supervisory Committee during the period of his or her services in assisting the Audit and Supervisory Committee.
  
9. System for directors and employees of the Corporate Group to report to the Audit and Supervisory Committee and other systems for reporting to the Audit and Supervisory Committee, as well as system to ensure that those who made reports to the Audit and Supervisory Committee do not receive any adverse treatment for having made such reports:
  - i. Directors and employees of the Corporate Group shall make a necessary report or provide necessary information upon an Audit and Supervisory Committee Member's request, in accordance with the decision of the Audit and Supervisory Committee.
  - ii. Matters to be reported or informed under the preceding paragraph shall mainly include the following:
    - Situation of activities of the departments involved in the establishment of the Corporate Group's internal control system
    - Situation of activities of the Audit & Supervisory Board Members and the Internal Audit Department or any equivalent departments of any of the Subsidiaries, etc.
    - The Corporate Group's significant accounting policy, accounting standards and changes thereof
    - Details of the announcement of the operating results of the Corporate Group or forecast thereof and other important disclosure documents of the Corporate Group
    - Operation of the internal reporting system of the Corporate Group and the reported information
    - Obligatory circulation of decision approval forms and minutes of meetings of the Corporate Group requested by Audit and Supervisory Committee Members
  - iii. The Company shall not adversely treat any person of the Corporate Group who made reports to the Audit and Supervisory Committee as described in this paragraph on the grounds that he or she made such reports.
  
10. Matters concerning the procedure for advance payment or reimbursement of expenses incurred in relation to the execution of duties by Audit and Supervisory Committee Members and any other

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policy for settlement of costs and debts to be incurred in relation to the execution of their duties:

- i. The Company shall include in its budget for each fiscal year a certain amount to reimburse expenses to be incurred in relation to the execution of duties by Audit and Supervisory Committee Members.
- ii. If Audit and Supervisory Committee Members make a request for advance payment of expenses to be incurred in relation to the execution of their duties or other similar requests to the Company, then the Company shall settle such expenses or debts in a timely manner upon consideration by the relevant department unless it determines that the expenses or debts pertaining to such request are not necessary for the execution of their duties.

11. Other systems to ensure the effectiveness of audits by the Audit and Supervisory Committee:

The Audit and Supervisory Committee shall meet at least twice a year to hear from the Executive Directors in charge of each business operation and important employees individually (or at any time the Audit and Supervisory Committee deems necessary). In addition, periodic meetings shall be held for the Representative Directors and the accounting auditors to exchange opinions.

12. System to ensure the reliability of financial reports:

In order to ensure the reliability of financial reports, and to effectively and appropriately submit the internal control reports specified in Article 24-4-4 of the Financial Instruments and Exchange Act that was promulgated by the Financial Services Agency in June 2006, the Company, under the direction of the Representative Director and President, has established an internal control system, and along with continuously evaluating and making the necessary adjustments in order to ensure the appropriate functioning of its mechanisms, thereby the Company ensures compliance with the Financial Instruments and Exchange Act as well as other related laws and regulations.

**(2) Outline of the status of operation of the system to ensure appropriateness of business activities**

The Company transitioned to a Company with Audit and Supervisory Committee effective June 24, 2016, and has worked to strengthen the supervisory function of the Board of Directors and strengthen/enhance the Company's corporate governance.

The outline of the status of operation of the system to ensure the appropriateness of the business activities of the Corporate Group is as follows:

1. Directors' performance of their duties:

The Board of Directors of the Company consists of seven (7) Directors (including three (3) Directors who are Audit and Supervisory Committee Members), and held Board of Directors' Meetings fifteen (15) times during the period under review. The Board of Directors deliberates on important business execution and other important matters stipulated in the Regulations for the

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Board of Directors, and oversees the status of business execution.

The Company held the Management Meeting consisting of Representative Directors, Executive Officers and Audit and Supervisory Committee Members (observers) sixteen (16) times during the period under review. At the Management Meeting, matters to be discussed at Board of Directors' Meetings as well as important matters related to business execution delegated by the Board of Directors are deliberated.

2. Risk management:

The Company held the Risk Management Committee Meeting chaired by the President and consisting of Executive Officers and the above persons, Manager of the Internal Audit Department, and Audit and Supervisory Committee Members (observers) two (2) times during the period under review. The Risk Management Committee evaluates all risks reported by all departments and subsidiaries of the Company, identifies critical risks, and then decides policies for measures against such risks, and confirms the progress of the measures. The Internal Audit Department performs audits of the risk management system and reports the audit results to the Risk Management Committee.

3. Compliance:

The Corporate Group has distributed the Compliance Manual to all employees and holds compliance promotion meetings regularly at all departments and subsidiaries of the Company to raise awareness of compliance and confirm adherence to the Compliance Manual.

Further, the Company held the Compliance Committee Meeting that is chaired by the President and consists of Executive Officers and the above persons, Manager of the Internal Audit Department, and Audit and Supervisory Committee Members (observers) two (2) times during the period under review. The Compliance Committee deliberates matters related to compliance or reports on internally reported matters, and confirms the progress of the measures.

The Internal Audit Department performs audits of the status of compliance with laws and regulations, the Articles of Incorporation, and internal rules/regulations, and provides guidance on correction and improvement as needed.

4. Subsidiary management system:

In accordance with the Group Companies Management Rules, the Control Department in the Energy Business Division or the Consumer Goods and Services Business Division in charge of managing subsidiaries receives reports on the business conditions from subsidiaries under control, and manages matters to be reported to the Company and matters to be approved according to the Regulations for Delegating Job Responsibilities of the Company and the subsidiaries.

In order to ensure the appropriateness of the business operations of the subsidiaries, matters related

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to the management of the subsidiaries that are particularly important are deliberated and decided upon at the Board of Directors' or the Management Meeting of the Company. In addition, the Internal Audit Department has entered into an internal auditing agreement with subsidiaries and conducted internal audits for the subsidiaries.

5. Audit system of the Audit and Supervisory Committee:

The Audit and Supervisory Committee consists of three (3) Directors who are Audit and Supervisory Committee Members (including two (2) external directors) and appoints two (2) full-time Audit and Supervisory Committee Members through mutual voting by Audit and Supervisory Committee Members. In addition, the Company assigned one (1) employee to assist the Audit and Supervisory Committee in performing its duties based on a request from the Audit and Supervisory Committee.

The Company held an Audit and Supervisory Committee Meeting fourteen (14) times during the period under review, and all the three (3) Directors who are Audit and Supervisory Committee Members attended all of the meetings.

In accordance with the audit policies established and division of duties specified by the Audit and Supervisory Committee, each Audit and Supervisory Committee Member investigates the status of operations and assets/properties of the Company and subsidiaries, and audits the execution of duties of Directors. Specifically, Audit and Supervisory Committee Members attend important internal meetings including the Board of Directors' Meetings and exchange opinions with Representative Directors in order to ensure the effectiveness of audits. In addition, Audit and Supervisory Committee Members endeavor to work together with accounting auditors, the Internal Audit Department, and Audit & Supervisory Board Members of subsidiaries, as well as conduct interviews to hear from Executive Directors in charge of each business operation, important employees, and all subsidiaries individually.

**(3) Basic policy concerning the control of a stock company:**

1. Outline of basic policy:

The Company as a company whose shares are listed on financial instrument exchanges respects, free transactions of the Company's shares, etc. on markets and does not unconditionally refuse large-scale purchases of the Company's shares, etc. by a particular person, as far as they will facilitate the securement and enhancement of the corporate value of the Corporate Group and, in turn, the common interests of its shareholders. Furthermore, the Company considers that the decisions as to whether to accept a proposal of large-scale purchase by a large-scale purchaser, and agree to such large-scale purchase should ultimately be left to the judgment of shareholders.

However, there are certain proposals of large-scale purchases of shares, etc. that, if implemented, are likely to damage the corporate value of the Corporate Group and, in turn, the common interests

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of its shareholders, including those that could have an adverse effect on the maintenance of good relationships between the Corporate Group and its stakeholders, as well as those that might not fully reflect the value of the Corporate Group, and those that might not provide sufficient information necessary for shareholders to make a final decision.

The view of the Company's Board of Directors, as the directors entrusted with the management of the Company by its shareholders, is that its duty is to, in response to such proposals, secure the time and information necessary for the shareholders, to engage in negotiations with such persons who propose to make a large-scale purchase of shares, etc., and to conduct other necessary acts, thereby securing and enhancing the corporate value of the Corporate Group and, in turn, the common interests of its shareholders.

2. Outline of the effort to realize the basic policy:

Since its establishment in 1913, the Group has developed its business mainly focused on coal production by leveraging the expertise and experience in coal mining operations and sophisticated mining technologies that it has cultivated over the years, thereby contributing to the stable supply of energy in Japan.

Meanwhile, performance in the coal production business is greatly influenced by external factors such as coal prices and foreign exchange rates. And in recent years, we see signs of structural changes relating to energy resources, including the rising presence of renewable energy and shale gas, as well as the expected shrinkage of coal consumption in developed economies due to tightening CO2 emission controls.

In order to adapt to such future changes in the energy resource business and achieve a more stabilized and diversified revenue base, the Group continues to work in the area of coal production and also to develop and cultivate new businesses.

As to the continuous works in the area of coal production, the Group steadily promotes new ongoing projects with our superior coal-related expertise and technical capabilities and improves the profitability of the coal production business through cost-cutting measures for existing projects. As to developing and cultivating new businesses, the Group has consistently promoted entry into new business fields in recent years, including contract services for recreational facilities and training centers, renewable energy, nursing care, beverage & food packages, fashion and electronic parts. These new business achievements undertaken by the Group so far have become increasingly visible in our performance. The Group continues to promote a more stabilized and diversified revenue base by expanding the new businesses that the Group has entered into and investing in new projects including M&As.

As described above, the Group will continuously expand its aggressive investment activities against the backdrop of its robust financial base and promote sustainable growth and development by constructing and expanding a stable business portfolio.

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3. Framework for preventing inappropriate parties, in light of this basic policy, from gaining control of the Company's financial and business policies:

At the Board of Directors' meeting held on December 20, 2007, the Board of Directors of the Company resolved to introduce the "Countermeasures to Large-scale Purchase Actions (Takeover Defense Measures)" (hereinafter referred to as the "Measures"), which were in effect until the close of the 152<sup>nd</sup> Annual General Meeting of Shareholders in consideration of the importance of the Measures.

At the 152<sup>nd</sup> Annual General Meeting of Shareholders held on June 27, 2008, the 155<sup>th</sup> Annual General Meeting of Shareholders held on June 24, 2011, the 158<sup>th</sup> Annual General Meeting of Shareholders held on June 27, 2014, and the 161<sup>st</sup> Annual General Meeting of Shareholders held on June 23, 2017, each time it was proposed to extend the effective period of the Measures for three years, and such proposals were approved by the shareholders.

The Measures aim to require an individual or group that attempts to purchase at least 20% of the Company's shares without prior approval of the Board of Directors of the Company (hereinafter referred to as "Large-scale Purchaser") to abide by the Large-scale Purchase Rules of the Company in order for sufficient time and information to be secured, to allow the shareholders to properly decide whether to sell their shares to the Large-scale Purchaser. If the Large-scale Purchaser does not comply with the Large-scale Purchase Rules, or if it is reasonably decided that such purchase would be highly likely to be detrimental to the Company's corporate value and shareholder value, the Board of Directors may fulfill its obligation to the shareholders by taking countermeasures that are regarded as necessary and appropriate, including an allotment of share acquisition rights without contribution with the terms and conditions of the exercise, acquisition and exercise period thereof to be set taking into account its effectiveness as a defensive measure against such Large-Scale Purchaser.

The outline of the Measures is as described above. The details are published on the website of the Company. Please refer to "Countermeasures to Large-Scale Purchases of the Company's Shares (Takeover Defense Measures)" in "Basic policy concerning the control of a stock company" via the URL below.

(<http://www.mitsui-matsushima.co.jp/news/index.php>)

4. Decision of the Board of Directors on the framework described in Item 3 above:

The Board of Directors of the Company believes that the framework described in Item 3 above aims to ensure the enhancement of the Company's corporate value and shareholder value, as



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formulated in accordance with the basic policy concerning the control of the Company in Item 1 above, and the Board of Directors of the Company believes that the framework does not harm the common interests of the shareholders.

In addition, the Company believes that the framework has a mechanism for preventing arbitrary decisions and use of the defense mechanism solely for the purpose of protecting the positions of current directors for the following reasons. First, the Company has established a system in which the use of defensive measures should be decided taking into consideration the advice of the Independent Committee consisting of external directors or other external expert individuals who are independent from the management team that executes business activities. Second, the Measures can be terminated at any time at an annual general meeting of shareholders or by the Board of Directors, which is composed of directors elected by the shareholders at the annual general meeting of shareholders. Third, there are the requirements of the recommendation of the Independent Committee and reasonable and objective terms and conditions of the resolutions or decisions by the Board of Directors set forth with respect to its decisions about whether to use the defensive measures or to suspend or cease the Measures.

**(4) Policy concerning the determination of dividends, etc. distributed from retained earnings:**

The Company considers the return of profits to the shareholders as an important management priority. The Company has a basic policy of continuing to return profits to the shareholders in proportion to the operating results, retaining the necessary internal reserves for the stable growth of the Company and the financial flexibility necessary for responding to the changing business environment.