

Dialog between the Director and Outside Directors

Roles of the Audit Committee for realizing KAITEKI

Is the concept of KAITEKI reflected and realized in the course of business execution?
Confirming this is one of the goals of the audits by the Audit Committee.



Outside Director
Taigi Ito

Umeha I would like to start by focusing on the roles of audits by the Audit Committee for the MCHC Group, which has set the realizing KAITEKI as its vision. The concept of KAITEKI is the foundation of our business execution and I think we always need to consider it while taking measures to improve the quality of our audits.

Ito With respect to the audits by the Audit Committee, audits on business execution, excluding accounting audits, usually aim to verify compliance with laws, regulations and in-house rules as well as the appropriateness and efficiency of business execution. Recently, we are required to proactively meet the expectations of stakeholders from a broader perspective. Because the MCHC Group has set the realizing KAITEKI as its vision, we have also made it an audit goal to see whether business is executed in consideration of KAITEKI, in order to realize it at each operating site, in addition to the aforementioned audit goals. Therefore, we conduct audits by confirming that specific actions are taken to realize KAITEKI on the front lines, remaining aware of consistency with the vision. I think one of the roles of the Audit Committee is to point out our findings and encourage improvements as needed.

Umeha In the MCHC Group, there are approximately 80 Audit Committee members and corporate auditors (hereinafter collectively referred to as the “Audit Committee Members, Etc.”). We provide newly appointed Audit Committee Members, Etc. with training every year so

We are required to attentively identify changing social attitudes toward compliance and accurately respond to them.

Umeha Based on the recognition that appropriate corporate governance is essential for sustainable growth, MCHC has been working to strengthen its corporate governance to comply beyond the scope of laws and regulations. Please describe your opinion about what will be required in the future for MCHC to promote KAITEKI Management based on your experience as a prosecutor and lawyer.

Watanabe It is no exaggeration to say that the philosophy of KAITEKI Management is a pioneer of management—or it anticipates management—that is conscious of ESG, in which great importance has been attached in recent years. Compliance is an important foundation for KAITEKI Management. If an issue with compliance occurs, the philosophy of KAITEKI Management itself will be impaired. I think it is important to always keep this perspective in mind. As you pointed out, recently a growing emphasis has been placed on what is known as code (norms) in Japan and overseas. It is said that the scope of compliance has expanded to the realm of social norms and common sense, not to mention compliance with laws and regulations, which also includes a sincere response to stakeholders. As described, social attitudes toward compliance are changing over time. The longer a company’s history, the more customs and practices it tends to have established in-house, and the more it may be inclined to think that all it has to do is to conform to these customs and practices. However, it is necessary to always consider the possibility that these customs and practices will lose their strength or deviate from society’s awareness

and norms over time. In the future, compliance must be attentive to these changes and accurately respond to them. I suppose what makes this possible is a sense of values and ethics of each employee, including management, although it is somewhat spiritual. Also, it is important for the employees to mutually share the sense of values and ethics as an organization.

Umeha You said that for the systems of an organization to improve, the awareness of each employee is important, right? I believe that to secure the effectiveness of corporate governance as a system, it is important that the development of rules and their monitoring will operate harmoniously, similar to two wheels on a cart. A current challenge for the MCHC Group is to develop a mechanism to efficiently and functionally monitor compliance at more than 700 Group companies. Because overseas Group companies in many countries do not yet have a corporate auditor system, we are trying to strengthen the checking system through internal audits and internal control, which are functions on the execution side. What do you think is necessary to efficiently practice management and supervision?

Watanabe I think that there are no wrong measures being taken for. First, you need to comprehensively prepare rules as well as management and supervisory systems as MCHC. With respect to their effectiveness, you should work to share awareness about issues and compliance with local areas and those on the front lines that are actually handling practical work through two-way dialogs, keeping

For a company to grow sustainably and enhance its corporate value in the medium- to long-term, not only firm decision-making by the management, but the development of a supportive risk management system is required.

In this dialog, Chairperson of the Audit Committee Umeha listened extensively to Outside Directors Ito and Watanabe, who are also Audit Committee members, about the roles of the Audit Committee, risk management and compliance.



that each Audit Committee member and corporate auditor will have a correct understanding of the concept of KAITEKI, as well as their required roles under the Companies Act and the Financial Instruments and Exchange Act, and recognize that they are fulfilling an important function to support the realizing KAITEKI in the entire Group.

Ito The role of outside Audit Committee members is to maintain their independence and conduct fair and objective audits. It is important for them to understand the mechanism and contents of the Company's operations in detail, as well as its philosophy and visions to fulfill the role appropriately. Moreover, to respond to recent social trends requiring increasingly higher standards for audits year after year, it is very important to facilitate communication between the internal Audit Committee members and outside Audit Committee members regarding information about the business environment surrounding the Company.

Umeha I think that the internal Audit Committee members with seasoned knowledge of the Company's operations have an advantage in risk prevention. Misconduct is similar to issues at plants. For rational business operation, it is important to learn how to prevent an unexpected issue. Similarly in compliance cases, it is important to learn how to prevent misconduct, not to mention correcting misconduct if it has already occurred. Those who are familiar with the business contents have their own distinctive audit perspective. On the

other hand, the independent point of view of the outside Audit Committee members is crucial to fulfill an appropriate audit (monitoring) function for the execution of business. You took on the role of an outside corporate auditor of Mitsubishi Chemical after engaging in accounting audits for many years as a certified public accountant. Based on such experience, how do you see the effectiveness of the Audit Committee?

Ito The outside Audit Committee members receive the required company information during their audits, including an overview of the Corporate Executive Officers Committee meetings and the reports on cooperation with the Accounting Auditor, in addition to monthly activity reports about standing internal Audit Committee members, the Internal Audit Office and the Internal Control Office. I feel that information inside the Group and the knowledge thereof are shared in a timely and appropriate manner. Thus, collaboration is strong on trilateral audits (audits by the Audit Committee, accounting audits and internal audits) and has resulted in a situation where the determination of the appropriateness and adequacy and identification of problems is facilitated. In addition, the outside Audit Committee members participate in audit planning and spend sufficient time discussing them. In that sense, I think we are able to conduct advanced and well-balanced audits as Audit Committee members.



communication in mind. The effectiveness and efficiency of management and supervision will only be achieved if both top-down and bottom-up communications are made. In terms of relationships with overseas bases and overseas Group companies, while it is important to solidly transmit the viewpoints of MCHC, I suppose that there are many cases in which more effective and efficient audits will be possible if you have secured persons with a detailed knowledge of the regional legal systems, institutions, culture and languages, and utilize them as audit personnel, given the differences and geographical distances. You must have these persons in local areas. It is also important to try to enhance the management and supervisory systems in local areas.

Umeha You mean we should build a system through which we are able to respond to the circumstances and situation of each region, while properly transmitting MCHC's policies, right? Finally, what expectations do you have for the MCHC Group?

Watanabe As I mentioned earlier, the MCHC Group has been working on ESG management, which other companies have also begun to address in recent years, as KAITEKI Management. I think this vision was edgy not only as an internal norm, but also as a commitment to stakeholders. I want the MCHC Group to evolve KAITEKI Management in the future by recognizing diverse problems from a global perspective, with officers and employees working together and considering an urgent response to them.

