

Transformation-Oriented Human Resources Strategy



Message from the Corporate Officer Supervising HR Management

Diverse individuals collaborating to create new value

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Reforming human resources systems to increase our global competitive edge

The MCHC Group believes that human resources are a key management resource for value creation. We drive transformation and sustainable growth at the Group by promoting challenge, creativity and self-actualization through work, and by making the most of the skills brought to the table by a diverse array of individuals.

Under our medium- to long-term basic management strategy KAITEKI Vision 30, we have embarked upon HR reforms that are founded on the five pillars shown below and are aiming to create highly accommodating human resources systems that embrace the diversity, expertise, and mobility of our people. One area targeted for reform is the HR system at MCC (see P. 49). Leveraging the concept of creating a corporate culture of continuous mutual growth based on the Company and its employees actively choosing and benefiting each other, we have put forward the three measures of self-directed career development, transparent working conditions and remuneration, and promotion and support for diversity. MCC will support employees to take on new challenges through ongoing communication between supervisors and their subordinates. We have also introduced a job-based setup where employee remuneration is determined according to job descriptions and outcomes. This way of working is considered mainstream in Europe and North America, but represents a significant change for a Japanese company. We think these are vital reforms if we are to provide fulfilling work for our employees and increase our global competitive edge.

Five pillars that form the foundation for highly accommodating human resources systems

1. Ensuring pay for job/performance
2. Human resources systems designed according to each type of operation/job
3. Strengthening functions to create skills and minds that can meet global needs
4. The right jobs for the right people globally by using a common platform of talent management
5. Cluster-type organizations that enable complex problem solving

Enhancing diversity

Diversity is a source of innovation. I believe companies that lack diversity are not capable of growth. There is room for improvement at the MCHC Group when compared with highly competitive global companies. The new MOS Indices

now include diversity among management as a KPI at the main Group companies. We will initially promote diversity in a top-down fashion to foster a corporate culture that respects diverse values and backgrounds, allows individuals to make the most of their skills and promotes collaboration toward a common goal.

Embrace new world of work

For some time, we have promoted the KAITEKI Health and Productivity Management initiative that aims to support employee health and implement work style reforms to create fulfilling workplace environments (see P. 48). We are working to change work processes to fit with the New Normal, including switching to paperless procedures, using digital tools and improving administrative processes for greater efficiency, in order to embrace remote working and various other approaches thrust upon us during the pandemic (see P. 48 for details of actual initiatives). We are also reviewing our office setups. Refurbishments have been implemented for our Tokyo and Osaka head office buildings and our Yokohama Research Laboratories, and we are expanding our satellite office network with the goal of improving creativity and productivity. We are also looking at fostering cross-organization communication and collaboration and promoting innovation by consolidating MCC, MTPC, and other Group company offices scattered around the Tokyo metropolitan area into our Tokyo Head Office building.

Transformation through communication

Mindsets and behavior also need to change if we are to successfully transform HR systems and workplaces. Implementing these changes can have an enormous impact on individual motivation, and it can be difficult to get every single employee on board. As someone responsible for managing these changes, I believe I have to be aware of these issues and confront them head-on. I need to think through how the changes will be seen by those affected and how I can be inventive and build up expectations for the changes, and then communicate proactively with our employees while we implement the reforms. Through these changes, the MCHC Group will evolve into a company where people with the aspiration to create new value can take on the challenge of transformation and find fulfillment.

KAITEKI Health and Productivity Management Initiatives

The MCHC Group is promoting KAITEKI Health and Productivity Management*, pursuing health support and work style reforms for each employee and at workplaces in order to support employees flourish from a health perspective.

*Kenkōkeiei, which means Health and Productivity Management in Japanese, is a registered trademark of the Workshop for the Management of Health on Company and Employee, an NPO. In terms of using KAITEKI Health and Productivity Management, the trademark is authorized to be used by the NPO.

KAITEKI Health and Productivity Management targets (KPIs) and results

Review

Steady improvement in work style awareness and behavior

In fiscal 2020, the Vitality Index was up 6 points (40% achievement rate), the Work Style Index was up 6 points (60% achievement rate) and the Wellness Index was up 2 points (20% achievement rate). For the Work Style Index, we are seeing steady change in awareness and behavior for both workplaces and individual employees following a review of work style issues at the organizational and team level. For the Wellness Index, measures to encourage remote working have improved self-rated health assessments and sleep habits, but activity levels (daily number of steps) for all job categories declined during the first state of emergency declaration (April–May 2020) in Japan. Significant impacts were seen because of employees refraining from going out and working remotely, although the degree of impact differed among job categories. We continue communicating on the value of regular exercise in daily lives and the importance of making it a habit.

Groups with a high Work Style Index and Wellness Index tend to have a higher Vitality Index. We aim to improve creativity and productivity through measures for health support and work style reforms, the twin pillars of KAITEKI Health and Productivity Management, and by promoting the use of the PDCA cycle with the i² Healthcare^{*1}.

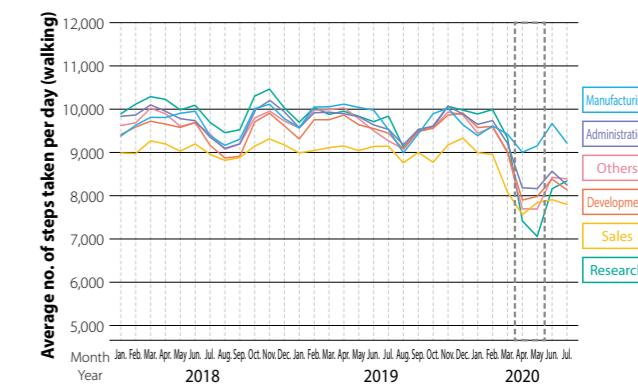
*1 A proprietary system that enables each employee to see personal health data on their devices, integrating health data collected daily via wearable devices, health checkup results and work style-related information.

*2 We conduct the health survey to assess each employee's awareness and approach to KAITEKI Health and Productivity Management.

*3 The MCHC Group distributes wearable devices to those who wish to use them and, having obtained individual employee consent and Ethics Review Committee approval, we analyze the wearable device data as part of analyses related to KAITEKI Health and Productivity Management. The fiscal 2020 analysis was conducted using data through to July 2020.

Description	FY2020 results	FY2020 targets
Vitality Index Index for employees' job satisfaction, enthusiasm, trust and growth	69 pts (Base year +6 pts)	+15 pts Increase positive choices by 15 points or more in the health survey*2.
Work Style Index Index for levels of work style awareness, behavior and initiatives	74 pts (Base year +6 pts)	+10 pts Increase positive choices by 10 points or more in the health survey.
Wellness Index Index for health checkup items, lifestyle quality and level of life satisfaction	48 pts (Base year +2 pts)	+10 pts For the 10 health criteria items, increase the number of items met by each employee by one item (= 10 points) or more.

Average number of steps by job category^{*3}



Changing the way we work to produce an autonomous organization where creativity can flourish

Since COVID-19 started to spread, the MCHC Group has adapted to various new ways of working, including promotion of teleworking and establishment of satellite offices.

With the rapid take-up of remote working, MCHC initiated a project in October 2020 to reform operational processes under the motto "Transformation for the New Normal." The project objectives are to eliminate obstacles to remote work efficiency and find ways for employees to do their jobs productively and flexibly, regardless of the setting or distant location. So far, the project team has produced a guide to using digital applications and has recommended

tools and ideas to create a comfortable work environment in the home or at satellite offices. The team is progressing a range of improvements in the workplace and exploring paperless procedures, electronic submission and approval systems (using digital signatures), and tools to optimize communication from remote work settings.

New team members are selected from applicants responding to in-house notices posted every six months. This project is helping the MCHC Group to become an autonomous organization where creativity can flourish and individual employees are adaptable to change.

Transformation-Oriented Human Resources Strategy

ACTION

Initiatives for Human Resources and Organizations

To strengthen the human resources base, the MCHC Group companies are pursuing the initiatives presented below.

Reform of the personnel system for mutual growth of the Company and employees

Around the keywords of diversity, mobility and expertise, the MCHC Group is moving ahead with the personnel system reform outlined in the medium- to long-term basic management strategy KAITEKI Vision 30, which emphasizes “respect for individuals,” “flexibility” and “compensation and treatment in line with market value and performance.”

Taking its cue from there, MCC is implementing reform with a new personnel system launched in 2021 to realize its vision. The new system is based on the three concepts of self-directed career development, transparent working conditions and remuneration, and promotion and support for diversity. In restructuring the system for deciding employee compensation and treatment as part of this reform, MCC gave foremost attention to supporting employees in their efforts to take on challenges and drive innovation on their own initiative. The emphasis was therefore on a system that was fair, clearly understandable and transparent. Taking a job-based approach, the system

determines employee compensation and treatment based not on age or experience but on the duties of the job. A change in work duties is accompanied by a timely adjustment of raising or lowering the salary.

Company's Vision

- Faced with a dramatically changing environment that is bound to strongly impact existing businesses, MCC aims to respond with a new spirit of challenge and creativity to **realize the KAITEKI vision and achieve corporate growth.**
- With that in mind, we want all employees to work in **a positive and energized atmosphere.**
- We want to be **a company that attracts diverse human resources.**

We want to create a culture where company and employees **choose and utilize each other, and mutually grow**



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Three key policies of the MCC personnel system

Self-directed career development	Transparent working conditions and remuneration	Promotion and support for diversity
<ul style="list-style-type: none"> • Each employee can realize what they want to do through their work and contribute to society. • Each employee has opportunities to actively acquire needed specialization, knowledge and experience. • Superiors understand the ideas and feelings of subordinates and support them in taking on challenges and developing. 	<ul style="list-style-type: none"> • Transparent working conditions based on results, performance, and market value to support employees in taking on challenges • Remuneration is determined based on the duties performed, not on age, gender or years of service. 	<ul style="list-style-type: none"> • Respect for the diverse values of individuals. • Support individuals to take on challenges based on their needs and life plans.

Strengthening employee engagement in the ASEAN region

The MCHC Group believes that cultivating a conducive work environment in which every employee can derive a sense of satisfaction from their work is the driving force for continuous value creation of corporate activities. Based on this approach, we are rolling out a range of Group-wide policies to enhance employee engagement.

Nippon Sanso Holdings Singapore Pte. Ltd., a member of the Nippon Sanso Holdings Group, launched the “Unity in Diversity” campaign in the ASEAN region in August 2018 to lay the foundation for implementing the employee engagement strategy. This strategy has resulted in the active rollout of employee engagement initiatives such as the production of the internal video titled “Unity in Diversity Starts with Us,” the hosting of a monthly webinar series on

promoting cross-cultural awareness and the conduct of a region-wide employee engagement survey. These employee engagement initiatives won recognition at the Annual Loyalty & Engagement Awards 2020, held in November 2020 in Singapore, whereby the company received the regional Bronze award for Best Employee Engagement

Strategy for the Asia Pacific region. Going forward, it will continue to put structures in place to enhance employee capabilities and motivation.



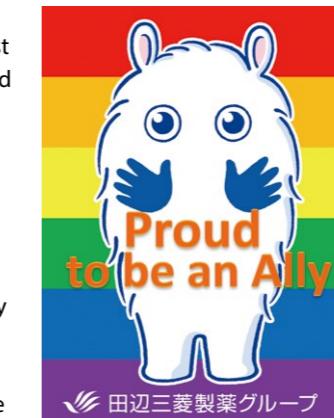
At the award ceremony of the Annual Loyalty & Engagement Awards 2020

- The Group's Material Issues**
- Upgrading of the work environment and health and productivity management
 - HR development and training
 - Diversity and inclusion
 - Stakeholder engagement

Initiatives to support respect for employee diversity

MCHC has identified diversity and inclusion as a material issue and supports Group-wide action for the participation of diverse human resources.

MTPC is engaged in initiatives that aim to maximize achievement by cultivating the strengths of each individual based on mutual respect for individual differences. This includes not only conspicuous diversity (such as gender, gender identity, sexual orientation, age, employment background, nationality, disability status or time restrictions due to child-rearing and nursing care duties) but also invisible diversity (such as knowledge, skills, experience, values and ways of thinking). In November 2020, for the second consecutive year, MTPC received the highest distinction of a Gold award in the PRIDE Index 2020, which recognizes the LGBT-related initiatives of enterprises and other organizations. Going forward, by deepening understanding of diversity including LGBT and adjusting our systems accordingly, we will create a corporate ethos that



MTPC sticker expressing LGBT support

enables diverse human resources to develop their abilities to the full for enhanced productivity and growth.

Main LGBT-related initiatives at MTPC

2017

- The Compliance Guidebook states that employees will not be treated unfairly on the grounds of sexual orientation, gender identity (including LGBT) or any similar reason, and makes clear that discrimination and bullying based on LGBT-related sexual orientation or gender identity is counted as a form of sexual harassment subject to disciplinary measures under employment regulations.
- Removal of the gender entry from the registration sheet for graduate recruits

2018

- MTPC-branded “ally” stickers are distributed to employees who understand LGBT and would like to take some action of their own to show support.
- Establishment of a contact point for LGBT-related inquiries and advice

2020

- Same-sex partners are added to the eligible range of family members for nursing care leave under the nursing care system.
- Joint sponsorship of advertising for the LGBT event Rainbow Festa 2020
- Change in the system of spouse benefits to award common-law marriage and same-sex partners equal treatment with spouses

Establishment of “Digital University” to enhance digital human resources development

To accelerate transformation and create new value using digital technology, MCHC is focusing on Group-wide digital human resources development. In January 2020, we established a “Digital University” as part of our digital human resources development program and instituted three training courses as a foundation for data-driven management. The goal is to develop human resources who can take the initiative in utilizing data analysis and AI-based technologies and also in introducing practical improvements to existing businesses and field operations.

In fiscal 2020, approximately 5,000 employees participated in basic courses, creating better digital awareness throughout the Group. Further, we issued a book entitled *Basics for DX* on the content of the basic course. By not only promoting DX in-house, but also sharing our know-how with outside organizations, we aim to contribute to the widespread adoption of digital technology and the development of a data-driven society.

Going forward, we have committed to working with each of our operating companies to enhance digital human resources development through two strategies: expanding basic training and cultivating data scientists. In this way, we will achieve “ambidextrous DX” by progressing simultaneously with the resolution of existing business issues through DX and the realization of DX for the future vision of KV30.

Three Digital University courses

