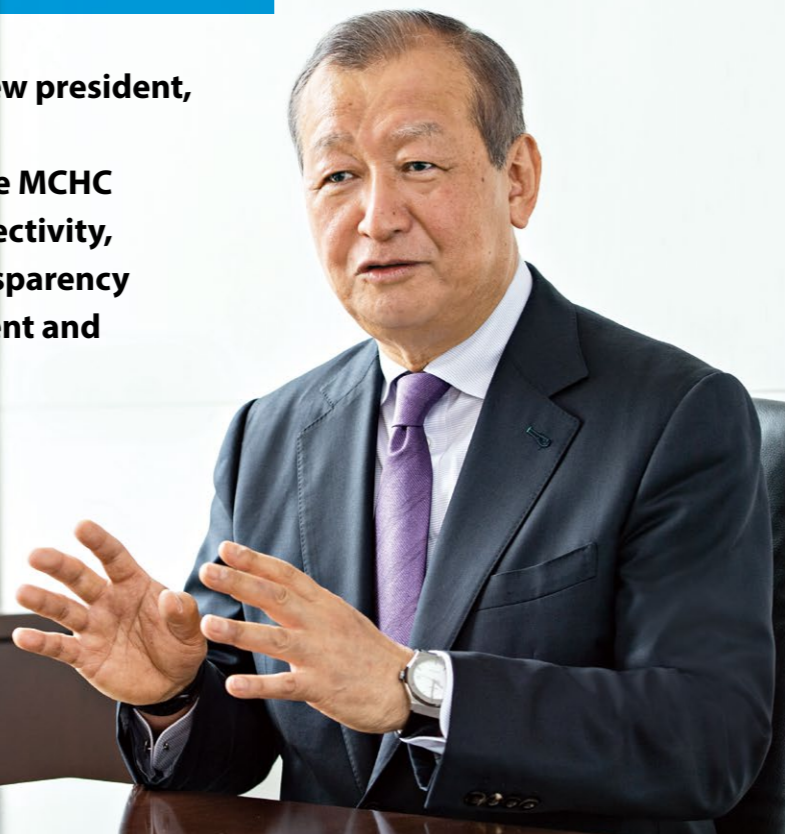


Special Feature: Selection Process for the New President

In the appointment of our new president, our concerns were to secure the sustainable growth of the MCHC Group and to ensure the objectivity, appropriate timing and transparency of the process for appointment and dismissal of the president.

Takayuki Hashimoto

Outside Director of the Board
Chairperson of the Nominating Committee



Emphasis on the objectives of the Corporate Governance Code

As MCHC has now appointed its first non-Japanese president, interest has focused on the Nominating Committee's thinking. However, in June 2015, following the publication earlier in the year of Japan's Corporate Governance Code, MCHC became one of the first in the industry to transition to the structure of a company with a nominating committee, etc., and to appoint an outside director as committee chairperson. MCHC has thus long been a pioneer in governance reform. Seen in this light, the new president's appointment can be understood as resulting from the emphasis we placed on the Code's main objectives: to secure sustainable growth and to ensure the objectivity, appropriate timing and transparency of the process for appointment and dismissal of a president.

Defining a leadership profile in anticipation of MCHC 2.0

I was first appointed in 2016 as an outside director and member of the Nominating Committee. Subsequently, following the revision of the Corporate Governance Code in 2018, the ratio of inside to outside directors on the Nominating Committee was adjusted from 2:3 to 1:4 to strengthen the committee's independence.

It was around that time that I, having been appointed chairperson of the committee in 2019, introduced

performance evaluation for the president. I considered this evaluation necessary to the appointment and dismissal of a president based on my understanding of the main objectives targeted by the revision of the Code. Taking as my reference point the medium-term management plan *APTSIS 20*, whose final year was fiscal 2020, I set the criteria for the appointment of the next president by holding interviews with the directors and corporate executive officers and by using questionnaires and other methods to gather opinions from the corporate executive officer level and below. In this way, I worked to define the profile of a leader to guide the transition from what I have named MCHC 1.0 to MCHC 2.0.

Setting out three missions

MCHC 1.0 refers to the evolutionary phase from the Company's establishment in 2005 under former president and retiring chairperson Yoshimitsu Kobayashi and retiring president Hitoshi Ochi, in which a large number of companies with similar aims came together under the holding company umbrella and, following various intermediate developments, created the present corporate group through the recent integration of the three chemical operating companies and consolidation of Mitsubishi Tanabe Pharma Corporation as a wholly owned subsidiary. MCHC 2.0 represents a vision for the post-COVID era in which the constituent operating companies, leveraging their distinctive

characteristics to respond to the rapidly changing social environment and social challenges, grow together as a corporate group that delivers new value.

I believe that our mission on the Nominating Committee is to select the leader most suited to guiding the Company toward the realization of its target future profile based on the principles of fairness and transparency. What kind of person could realize this vision? After countless discussions around this question, we set out three main criteria, or missions, for the candidate.

The first was to grasp the need for evolution toward MCHC 2.0 and possess the ability to create and explain the road map and see it through to its final destination. This would mean being strongly committed to the KAITEKI philosophy but at the same time being able to synergize the Group's management resources in chemicals, healthcare, regenerative medicine and industrial gases to create new value and promote the corporate brand.

The second was to have a strong commitment to steadily incorporating the corporate mission and the creation of social value into MCHC's business activities from an investor perspective.

The third was to have the practical ability to carry out the business portfolio reform that was vital to achieving an increase in corporate value, without feeling restrained by past loyalties and without sacrificing employee motivation.

Emphasis on commitment to reform and communicative ability

Having set out these criteria, in the spring of 2020 I learned that President Ochi intended to retire at the end of the final year of *APTSIS 20*. I therefore set about the process of selecting the next president. For the candidate interviews, in addition to the three criteria outlined above, I specified six competencies as characteristic behaviors required of a leader: (1) Ability to change, (2) Ethical standards, (3) Conceptual thinking ability, (4) Results orientation, (5) Long-term perspective, (6) Ability to communicate a vision

Our final selection based on these three criteria and six competencies was Jean-Marc, but I was gratified to find that more than 30 people nominated as candidates had expressed interest.

Eventually, seven finalists were interviewed by the members of the Nominating Committee. The choice was among a group of professionals who were all outstanding, but as long as leaders are human, there is no such thing as one who can function in any and every management environment. To identify the individual most suited to executing the missions indicated above, the members of the Nominating Committee carried on interviewing and discussing throughout the week-long August holiday period.

The deciding factor was whether the candidate, irrespective of their past successes, had the character and the determination to carry through innovative reform. On this point, the internal candidates, who were familiar with the past growth of the business and the hard work put in by employees, might have made ideal leaders of the Group operating companies, but would have been lacking in some

respects as the leader of the holding company. Although that is a great pity, it is my honest assessment.

The non-Japanese candidates meanwhile fell into two main groups. The first group comprised noted business managers who had built up extensive experience and a strong track record in major enterprises. The other group was younger and therefore did not have senior managerial experience in a company on the scale of MCHC, but had been successful in achieving results by driving steady reform. After discussing which among these candidates we should appoint, we came to the conclusion that we should ask Jean-Marc to accept.

The reasons for Jean-Marc's appointment: The four Ps

The first P is for Performance. After beginning his career at the U.S. chemical company Dow Corning, Jean-Marc became president of a company financed by an investment firm and pushed through business reform to achieve enhanced financial performance. Most recently, he transformed Roquette's commodity business into a high-value-added operation and doubled the profit margin in the space of around seven years, a success to which we gave strong positive recognition.

The second P is for Potential. The new president has wide-ranging knowledge of the global market in areas from chemicals and foods to drug discovery, which made him highly attractive to MCHC.

The third P is for Passion. None of the other candidates had prepared so thoroughly for the interview by researching the Company in advance or showed a resulting level of commitment to reform. We were highly impressed by Jean-Marc's ability to explain the importance of KAITEKI Management in his own words and by his declared commitment to enhancing financial performance.

The last P is for Personality. A remote interview provides less information than a face-to-face meeting, so we tried to compensate by giving weight to references from managers at previous employers and consultation with former colleagues. Those around Jean-Marc remembered, for instance, that he had emphasized communication and teamwork and that his approach to reform was not to simply draft in human resources from outside but to start by changing the attitudes of the existing staff. Here and on other points, their evaluations closely matched his own self-evaluation.

We continue to have high expectations of Jean-Marc, the new president appointed as a result of this process. However, our mission on the Nominating Committee is not only to support him but also to work on refining the succession plan, which is designed to continuously select and cultivate the executive human resources of the next and subsequent generations. Rather than seeking only to defend the choice made by the Nominating Committee, I am committed to strengthening the system to select the next generation of senior executives through continuous evaluation based on objectivity, appropriate timing and transparency.

Governance

Directors

(As of July 1, 2021)

MCHC: Mitsubishi Chemical Holdings Corporation
MCC: Mitsubishi Chemical Corporation
MPI: Mitsubishi Plastics, Inc.
MTPC: Mitsubishi Tanabe Pharma Corporation
LSII: Life Science Institute, Inc.
TNSC: Taiyo Nippon Sanso Corporation
NSHD: Nippon Sanso Holdings Corporation

- Lead Independent Outside Director
- Independent Director
- ◆ Chairperson of the Nominating Committee
- ◆ Member of the Nominating Committee
- Chairperson of the Audit Committee
- Member of the Audit Committee
- ▲ Chairperson of the Compensation Committee
- ▲ Member of the Compensation Committee



Director of the Board,
Corporate Executive Officer,
President and Chief Executive Officer

Jean-Marc Gilson

Aug. 1989 Joined Dow Corning Corp.
Jun. 2005 Corporate Vice President & General Manager of Specialty Chemicals Business, President Asian Area of Dow Corning Corp. (until Jun. 2009)
Jun. 2009 Executive Vice President & General Manager of Specialty Chemicals Business of Dow Corning Toray Co., Ltd. (until Dec. 2010)
Feb. 2011 Chief Executive Officer of Avantor Performance Materials, Inc. (until Dec. 2011)

Feb. 2012 Vice Chairman & Chief Operating Officer of NuSil Technology LLC (until Jun. 2014)
Sep. 2014 Chief Executive Officer of Roquette Frères S.A. (until Dec. 2020)
Feb. 2021 Executive Advisor of MCHC
Apr. 2021 Corporate Executive Officer, President and CEO of MCHC
Jun. 2021 Director of the Board, Corporate Executive Officer, President and CEO of MCHC (to present)



Director of the Board, Managing Corporate Executive Officer,
Chief Financial Officer

Hidefumi Date

Apr. 1982 Joined Mitsubishi Chemical Industries Limited
Apr. 2013 Executive Officer of MCC (until Mar. 2015)
Apr. 2015 Executive Officer of MCHC
Apr. 2018 Managing Corporate Executive Officer of MCHC
Jun. 2019 Director of the Board, Managing Corporate Executive Officer of MCHC (to present)
Director of the Board, TNSC (currently NSHD) (to present)



Director of the Board, Managing Corporate Executive Officer,
Chief Group Compliance Officer

Ken Fujiwara

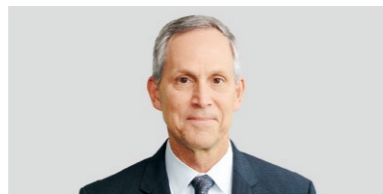
Apr. 1984 Joined Mitsubishi Chemical Industries Limited
Apr. 2015 Executive Officer of MCHC
Apr. 2017 Executive Officer of MCC (until Mar. 2018)
Apr. 2018 Managing Corporate Executive Officer of MCHC
Jun. 2018 Director of the Board, Managing Corporate Executive Officer of MCHC (to present)
Jun. 2020 Director of the Board of MTPC (to present)



Director of the Board

Yoshimitsu Kobayashi

Dec. 1974 Joined Mitsubishi Chemical Industries Limited
Jun. 2003 Executive Officer of MCC
Apr. 2005 Managing Executive Officer of MCC
Jun. 2006 Director of the Board of MCHC (to present)
Feb. 2007 Director of the Board, Managing Executive Officer of MCC
Apr. 2007 Director of the Board, President and CEO of MCHC
Director of the Board, President and CEO of MCC
Apr. 2012 Director of the Board, Chairperson of MCC (until Mar. 2017)
Apr. 2015 Director of the Board, Chairperson of MCHC (until Jun. 2021)



Director of the Board

Glenn H. Fredrickson

Jan. 1990 Associate Professor, Departments of Chemical Engineering and Materials, University of California, Santa Barbara (UCSB)
Jul. 1991 Distinguished Professor, Departments of Chemical Engineering and Materials, UCSB (to present)
May 1998 Chairperson, Department of Chemical Engineering, UCSB (until Jul. 2001)
Mar. 2001 Director of Mitsubishi Chemical Center for Advanced Materials at UCSB (to present)
Apr. 2014 Managing Executive Officer of MCHC
Jun. 2014 Director of the Board, Managing Executive Officer of MCHC
Jun. 2015 Director of the Board, Managing Corporate Executive Officer of MCHC
Apr. 2017 Director of the Board of MCHC (to present)



Director of the Board

Shigeru Kobayashi

Apr. 1980 Joined Mitsubishi Chemical Industries Limited
Apr. 2013 Executive Officer of MPI
Apr. 2015 Director of the Board, Executive Officer of MPI
Apr. 2016 Director of the Board, Managing Executive Officer of MPI
Apr. 2017 Managing Executive Officer of MCC (until Mar. 2019)
Jun. 2019 Director of the Board of MCHC (to present)
Corporate Auditor of LSII (until Jun. 2020)
Jun. 2020 Corporate Auditor of MCC (to present)



Director of the Board

Hiroshi Katayama

Apr. 1983 Joined Mitsubishi Chemical Industries Limited
Apr. 2014 Executive Officer of MCC
Apr. 2017 Executive Officer of MCC
Apr. 2018 Managing Executive Officer of MCC (until Mar. 2020)
Jun. 2020 Director of the Board of MCHC (to present)
Corporate Auditor of LSII (to present)



Outside Director of the Board

Takayuki Hashimoto

Apr. 1978 Joined IBM Japan, Ltd.
Apr. 2000 Director of the Board of IBM Japan, Ltd.
Apr. 2003 Managing Executive Officer of IBM Japan, Ltd.
Jan. 2007 Senior Managing Executive Officer of IBM Japan, Ltd.
Apr. 2008 Director of the Board, Senior Managing Officer of IBM Japan, Ltd.
Jan. 2009 Director of the Board, President of IBM Japan, Ltd.
May 2012 Director of the Board, Chairperson of IBM Japan, Ltd.
Apr. 2014 Chairperson of IBM Japan, Ltd.
Jan. 2015 Vice Chairperson of IBM Japan, Ltd.
Jun. 2016 Outside Director of MCHC (to present)
May 2017 Honorary Executive Advisor of IBM Japan, Ltd. (to present)



Outside Director of the Board

Chikatomo Hodo

Sep. 1982 Joined Accenture Japan Ltd
Sep. 2005 Representative Director of Accenture Japan Ltd
Apr. 2006 Representative Director and President of Accenture Japan Ltd
Sep. 2015 Director and Chairperson of Accenture Japan Ltd
Sep. 2017 Director and Senior Corporate Advisor of Accenture Japan Ltd
Jul. 2018 Senior Corporate Advisor of Accenture Japan Ltd (to present)
Jun. 2019 Outside Director of MCHC (to present)



Outside Director of the Board

Kiyomi Kikuchi

Apr. 1986 Joined The Dai-ichi Kangyo Bank, Ltd. (currently Mizuho Bank, Ltd.) (until Dec. 1990)
Apr. 1999 Registered as a lawyer
Asahi Law Offices
Sep. 2002 Allen & Overy LLP (London)
May 2003 Admitted to the bar of the State of New York
Oct. 2003 Asahi Law Offices
Sep. 2004 Taiyo Law Office (currently Paul Hastings LLP/Gaikokuho Kyodo Jigyō)
Sep. 2006 JPMorgan Securities Japan Co., Ltd.
Apr. 2008 TMI Associates (to present)
Jun. 2019 Outside Director of MCHC (to present)



Outside Director of the Board

Tatsumi Yamada

Apr. 1976 Joined Sumitomo Corporation (until Jun. 1993)
Mar. 1980 Registered as a Certified Public Accountant
Jul. 1993 Chuo Audit Corporation (until Mar. 2001)
Apr. 2001 Board Member of The International Accounting Standards Board (until Jun. 2011)
Sep. 2011 KPMG AZSA LLC (until Jun. 2018)
Jan. 2012 Board Member of KPMG AZSA LLC (until Jun. 2015)
Feb. 2014 Founding member of International Integrated Reporting Council (to present)
Oct. 2014 Trustee of International Valuation Standards Council (until Oct. 2020)
Sep. 2015 Specially Appointed Professor of Faculty of Commerce, Chuo University (to present)
Apr. 2016 Member of the Certified Public Accountants and Auditing Oversight Board for FSA (to present)
Jun. 2020 Outside Director of MCHC (to present)



Outside Director of the Board

Takako Masai

Nov. 1988 Joined Tokyo Branch, The Bank of Nova Scotia
May 2007 Head of Capital Markets Division, Shinsei Bank, Limited
Oct. 2011 Head of Markets Sub-Group, Shinsei Bank, Limited
Apr. 2013 Executive Officer, Head of Markets Research Department, Markets Sub-Group, Shinsei Bank, Limited
Jul. 2015 Executive Officer, General Manager of Markets Research Division, Shinsei Bank, Limited
Apr. 2016 Executive Officer, General Manager of Financial Research Division, Shinsei Bank, Limited
Jun. 2016 Member of the Policy Board, Bank of Japan
Jul. 2021 Outside Director of MCHC (to present)

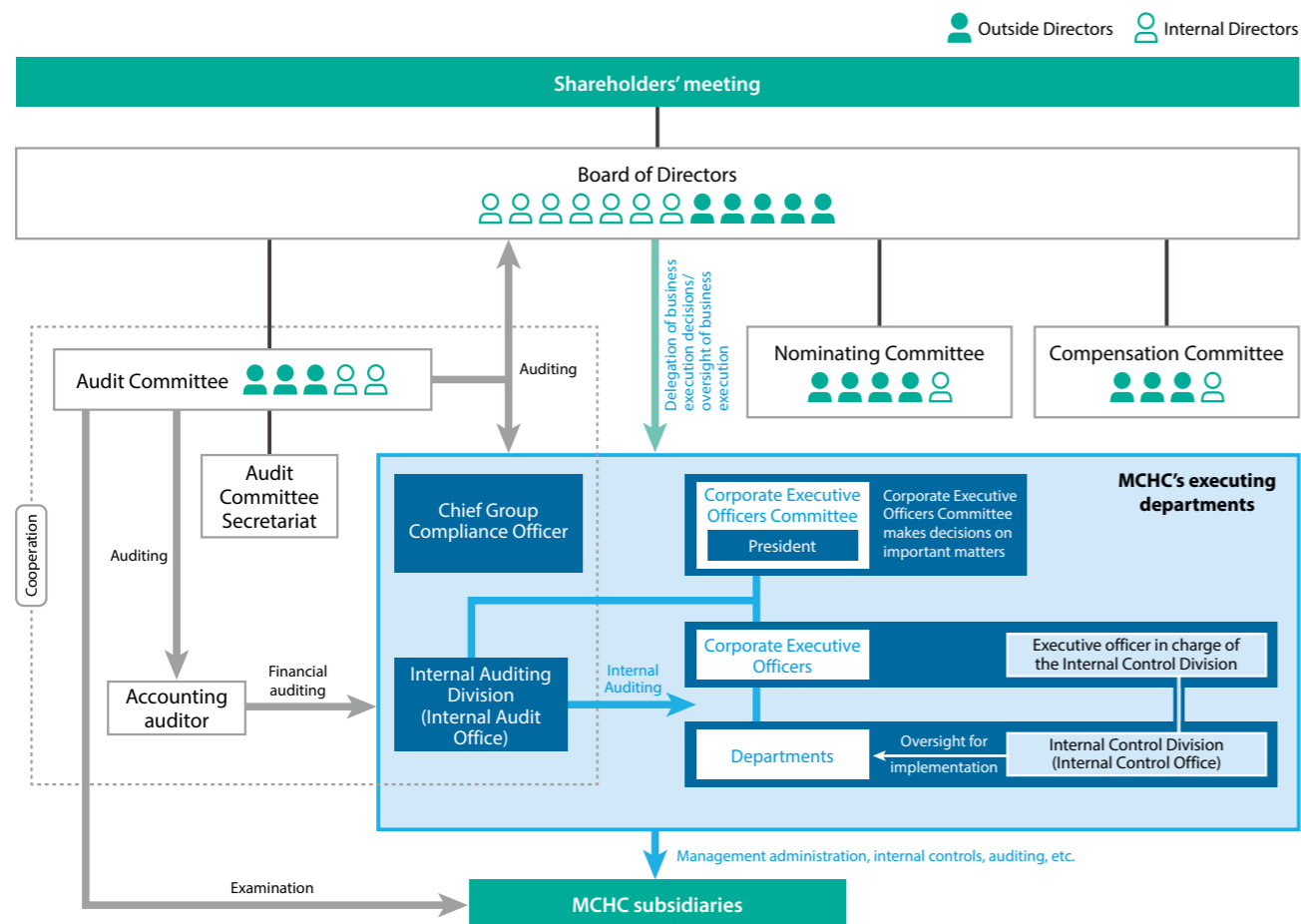
Governance

Corporate Governance

MCHC aims to contribute to the sustainable development of people, society and the Earth, in addition to solving environmental and social issues through corporate activities for the realization of KAITEKI. With our eyes on these objectives, we are focusing on establishing a better corporate governance structure by improving management transparency through proper disclosure and dialogue with stakeholders, while enhancing both the soundness and efficiency of management.

Corporate governance structure for sound management and greater efficiency (As of July 1, 2021)

MCHC is a company with a nominating committee, etc. As such, we are enhancing our supervision functions and speedy decision-making for greater management agility with the aim of improving the transparency and fairness of our management. Under this governance system, the Board of Directors and the three committees (Nominating, Audit and Compensation Committees) oversee business management while the corporate executive officers are responsible for making decisions and operating our business.



Corporate governance history

| Category | June 2013 | June 2014 | June 2015 | June 2016 | June 2019 | June 2021 |
|---|---|--|--|---|--|---|
| Initiatives | Appointment and inauguration of an outside director | Appointment and inauguration of a foreign director | Appointment and inauguration of a female director Transition to a company with a nominating committee, etc. | Increase the number of outside directors | Increase the number of female directors | Appoint a lead independent outside director |
| Medium- to long-term targets (including those already achieved) | Strengthen management supervision functions | Increase diversity of the Board of Directors | Increase diversity of the Board of Directors Improve management transparency and fairness as well as management supervision functions | Strengthen management supervision functions | Increase diversity of the Board of Directors | Enhance the independence of the Board of Directors and strengthening of cooperation between executive and outside directors |

Roles of the Board of Directors

The Board of Directors determines basic management policies, such as medium-term business strategies and annual budgets. As a general rule, corporate executive officers are entrusted with the responsibility of executing operations in accordance with these basic policies, excluding matters that must be legally resolved by the Board of Directors. The Board of Directors primarily supervises the execution of duties by the corporate executive officers.

Framework and roles of the committees (As of July 1, 2021)

| | Nominating Committee | Audit Committee | Compensation Committee |
|-------------------------------------|--|---|---|
| Chairperson | Outside director | Internal director (full-time) | Outside director |
| Composition (including chairperson) | Outside directors—4 Internal director—1 | Outside directors—3 Internal directors (full-time)—2 | Outside directors—3 Internal director—1 |
| Purpose | The Nominating Committee nominates candidates for directors and corporate executive officers as well as potential successors for the presidents of the major directly owned subsidiaries that are not listed companies (MCC, MTPC and LSII). | The Audit Committee audits the execution of duties by corporate executive officers and directors and reviews the Group's internal control systems, etc. | The Compensation Committee determines the design of the remuneration system and the amount of remuneration to be paid to individuals as well as to the presidents of the major directly owned subsidiaries that are not listed companies (MCC, MTPC and LCII). |
| Activities in FY2020 | The committee met a total of 10 times and, after reviewing the succession plan and considering the competencies required of the CEO (character, abilities, experience, etc.), selected the successor candidates for the post of corporate executive officer, president and CEO. It also selected the successor candidates for posts as director, including outside director. The committee further considered the question of how to improve the systems for business oversight and execution to further enhance governance. | The committee met a total of 13 times and undertook key point audits of the status of development and operation of the internal control system and the status of progress of the medium-term management plan APTSIS 20. The audits focused on the impact of COVID-19 and the status of the Company's response, and made proactive use of remote meeting systems and other tools to ensure that they could proceed unhindered. | The committee met a total of 8 times, and, in accordance with the basic policy on director remuneration, discussed and decided the remuneration level for the next corporate executive officer, president & CEO. Among the other matters it addressed was a review of the system of performance-linked stock-based remuneration for corporate executive officers. |

Corporate executive officers

The corporate executive officers decide on and implement the operational execution based on basic management policies developed by the Board. Regarding important matters in the management of the MCHC Group, deliberations are made at the Corporate Executive Officers Committee, which is a council formed of corporate executive officers. In addition to determining the division of duties of each corporate executive officer for other matters, appropriate and efficient decision-making is made possible by clarifying the decision-making authority of the corporate executive officer in charge.

Corporate Executive Officers Committee

The Corporate Executive Officers Committee is composed of all corporate executive officers. It deliberates and decides on important matters concerning the management of MCHC and the MCHC Group, and also monitors the Group's business based on basic management policies.

Assessment of the CEO

The Nominating Committee assesses the performance of the CEO from multiple perspectives using indices (see P. 67) based on the three axes of KAITEKI Management (MOS, MOT, and MOE), and also discusses the appropriateness of the continuation of duties by the CEO, using metrics such as 360-degree feedback. The Nominating Committee provides feedback on the results of discussions to the individuals involved to improve the quality of management.

Audit system (trilateral audits)

The Audit Committee cooperates with the Internal Auditing Division and the accounting auditor to enhance the trilateral audits (conducted by the Audit Committee, accounting auditor and the internal audit departments).

The committee holds discussions in advance with the Internal Audit Office on the internal audit plans made by the office and has regular meetings with the office to exchange opinions and receive information on the results of internal audits and other issues. The committee also cooperates closely with the accounting auditor. It receives reports on the audit process, plans, progress status on audit work and the results of audits, and exchanges information and opinions with the auditor.

Governance

Diversity of directors

Regarding the composition of the Board of Directors, the Board of Directors decides on the MCHC Group's basic management policies, which set the expected skill areas using a skills matrix so that useful oversight and advice can be obtained on management issues, and ensure that the Board of Directors consists of diverse directors with a high level of expertise.

| | Management experience | Finance and accounting | Science and technology, IT and production | Risk management | Business strategy and marketing | Laws and regulations, etc. | Globality and diversity |
|----------------------|-----------------------|------------------------|---|-----------------|---------------------------------|----------------------------|-------------------------|
| Jean-Marc Gilson ◆ | ● | | | | ● | | ● |
| Hidefumi Date ◆ | | ● | | ● | | | ● |
| Ken Fujiwara ◆ | | | | ● | | ● | ● |
| Yoshimitsu Kobayashi | ● | | ● | | | | ● |
| Glenn H. Fredrickson | | | ● | | ● | | ● |
| Shigeru Kobayashi | ● | | | ● | ● | | |
| Hiroshi Katayama | | | | ● | | ● | ● |
| Takayuki Hashimoto | ● | | | | ● | | ● |
| Chikatomo Hodo | ● | | ● | | | | ● |
| Kiyomi Kikuchi | | | | ● | | ● | ● |
| Tatsumi Yamada | | ● | | ● | | | ● |
| Takako Masai | | ● | | ● | | | ● |

Notes: 1. Up to three prospective areas of special expertise for each director are indicated.
2. In order to enhance the supervisory function, a majority of the Board of Directors are non-executive directors. (Directors indicated with the symbol ◆ act in an executive function.)

Policies on the nomination of director candidates

For the nomination of outside and internal director candidates, the specified appointment process is implemented following interview of the candidates by the Nominating Committee, on which outside directors form a majority. The individuals nominated by the Nominating Committee as director candidates must meet the following criteria:

- Possess the deep insight and ability to make objective and fair judgments that are necessary to fulfill the responsibilities of a director of a company with a nominating committee, etc.
- Possess high ethical standards and a law-abiding spirit.
- Be in sufficient health to fulfill the responsibilities of a director.
- For outside directors, fulfill the standards for independence of outside directors (see below), be able to secure enough time to carry out the duties, and contribute to diversity among the outside directors.

Standards for independence of outside directors

The individuals appointed as outside directors shall not fall under any of the items listed below so as to be capable of overseeing the Company's management from a fair and neutral standpoint free of conflict of interest with general shareholders.

1. Related party of the Company

- (1) An executive director, corporate executive officer, executive officer, manager, employee, partner, etc., of the MCHC Group (hereinafter referred to as a "person engaged in the execution of operations")
- (2) A person who has been engaged in the execution of operations of the MCHC Group in the past 10 years

2. Major shareholder

A person who directly or indirectly holds 10% or more of MCHC's total voting rights or a person engaged in the execution of operations of a company that directly or indirectly holds 10% or more of MCHC's total voting rights

3. Major business partner

- (1) A person engaged in the execution of operations of a company*1 whose major business partners include MCHC, MCC, MTPC, LSII or NSHD (hereinafter referred to as "major subsidiaries of the MCHC Group")
- (2) A person engaged in the execution of operations of a major business partner*2 of MCHC or a major subsidiary of the MCHC Group

4. Accounting auditor

An accounting Auditor of the MCHC Group or an employee thereof

5. Person engaged in transaction as an individual

A person who receives money or other financial benefits of ¥10 million or more per year from MCHC or a major subsidiary of the MCHC Group

6. Donation recipient

A person who receives a donation or financial assistance of ¥10 million or more per year from MCHC or a major subsidiary of the MCHC Group or a person engaged in the execution of operations of a company that receives such donation or financial assistance

7. Reciprocal holder of the position of director

A person engaged in the execution of operations of a company that has appointed as director an MCHC Group director or employee

8. Close relative, etc.

- (1) A spouse, relative within the second degree of kinship, or any person who shares the livelihood, of a person engaged in the execution of important operations of the MCHC Group (hereinafter referred to as a "close relative")
- (2) A close relative of any person who meets the definition in any of items 3 to 7 above

*1 If the said business partner has received from MCHC or a major subsidiary of the MCHC Group an amount equivalent to 2% or more of its annual consolidated sales revenue in the latest fiscal year, it shall be considered as having MCHC as a major business partner.

*2 If MCHC or a major subsidiary of the MCHC Group has received from the said business partner an amount equivalent to 2% or more of MCHC's annual consolidated sales revenue in the latest fiscal year or the said business partner has lent to the MCHC Group an amount equivalent to 2% or more of MCHC's total consolidated assets, the said business partner shall be considered as a major business partner of MCHC.

Note: The party is deemed to fall under one of items 3 to 7 if the relevant condition has been met at any time in the past three years.

Main agenda items discussed at the Board of Directors' meeting during fiscal 2020

- Next medium-term management plan
- Budgeting and planning of investments for the next fiscal year
- Assessment of the effectiveness of the Board of Directors
- Selection and appointment of corporate executive officers
- Report from each of the committees
- Main agenda reported at the Board of Directors' meeting
- Business monitoring
- Effectiveness of internal control system
- Report from the Risk Management Committee
- Review of the meaningfulness of strategic shareholdings
- Outcomes of engagement activities with institutional investors

Fiscal 2020 assessment of the Board's effectiveness

From March to April 2021, an assessment of the effectiveness of the Board of Directors was carried out by a third-party organization. The Board of Directors discussed the results before deciding on initiatives to improve its effectiveness.

| Assessment by a third-party organization | Summary of evaluation results | Initiatives to improve effectiveness |
|---|--|---|
| <p>March to April 2021 Assessment carried out by Board Advisors Japan, Inc.</p> <ul style="list-style-type: none"> ● Inspection of the minutes of the Board of Directors, Corporate Executive Officers Committee and each of the Nominating, Audit and Compensation committees ● Questionnaire survey of all directors, including the chairperson of the Board of Directors, covering the following items: <ul style="list-style-type: none"> • Overall assessment • Efforts to address the problems identified in the previous fiscal year's assessment • Composition of the Board of Directors • Preparations for Board meetings and support system for Board members • Discussions at Board of Directors' meetings • Contribution of directors • Ideal profile of each committee • Ways of monitoring business execution ● Survey consisting of interview of approximately one hour with each director | <p>The effectiveness of the Board of Directors is secured in terms of the structural framework, as shown for instance by the adoption of the institutional design of a company with a nominating committee, etc. as defined in Japan's Companies Act. In practical terms, however, a number of critical issues remain.</p> <ul style="list-style-type: none"> ● Many directors have pointed out that effectiveness as the board of directors of a holding company is not sufficiently ensured, and have advocated the need to clarify the role of the Board and review the agenda. ● Efforts to address the issues identified in the previous fiscal year's effectiveness assessment have brought improvements in some issues. Other issues however have not been sufficiently addressed, as is clear from the harsh comments of some outside directors on issues including discussion of the role of the holding company and prior distribution of Board meeting materials. ● Since the mission of increasing the Company's corporate value is to be entrusted to a new CEO recruited from outside, enhancing the effectiveness of the Board of Directors, as the supervisory body of the CEO, is a critical and urgent issue. In connection, the Company is expected to address the following four issues: <ul style="list-style-type: none"> • Redefining the role of the Board of Directors and reviewing the agenda • Encouraging the directors to display leadership • Reviewing the composition of the Board of Directors • Reinforcing the function of director nomination | <p>Based on the assessment findings described above and the ensuing discussions by the Board of Directors, it has been decided to take action on the following challenges:</p> <ul style="list-style-type: none"> ● Redefining the roles of the Board of Directors and the agenda <ul style="list-style-type: none"> • Recast the role and functions of the Board of Directors and review the agenda • Monitor business execution through the use of key performance indicators (KPIs) • Increase all directors' awareness of their duty to effectively supervise business execution ● Reviewing the composition of the Board of Directors <ul style="list-style-type: none"> • Devise a skills matrix reflecting the role the Board of Directors should fulfill in supervising the new CEO's execution of duties • Review the ratio of internal to outside directors ● Further reinforcing the function of director nomination <ul style="list-style-type: none"> • Plan management succession and identify and list persons with leadership potential at an early stage |

Lead independent outside director

In June 2021, with the aim of enhancing the independence of the Board of Directors and strengthening cooperation between executive and outside directors, it was decided to appoint a lead independent outside director to be elected by the outside directors from among themselves. The lead independent outside director will hold discussions with the corporate executive officer, president & CEO, after gathering the opinions of the outside directors, and will preside as chairperson over a meeting body composed solely of the outside directors.

Director Liaison Committee

Following a review of the Outside Director Liaison Committee, which has served hitherto as a forum separate from the Board of Directors for sharing of important management-related information and frank exchange of opinions on management issues, a Director Liaison Committee has been established including all directors as members.

Separate from the new committee, regular meetings will be held for exchange of opinions among the outside directors only.

Main agenda items of the Outside Director Liaison Committee in fiscal 2020

The main agenda items at meetings of the Outside Director Liaison Committee in fiscal 2020 were as follows:

- Review of the business policy for subsidiaries
- Issues relating to management strategy
- Items relating to the next medium-term management plan (basic policy, material issues, portfolio management)
- Items relating to the Nominating Committee
- Business results forecasts/dividends
- Healthcare business-related reports and future plans
- Corporate venture activity and long-term strategy
- Discussion of the draft of the next medium-term management plan
- Review and future outlook for DX activity

Governance

Outside officers' main activities and attendance at Board of Directors' and committee meetings

| Name | Status of activities and summary of duties executed in relation to expected roles | Attendance (FY2020) | | |
|--------------------|---|---------------------------------|-------|------|
| | | Board of Directors' meetings | | |
| Hideko Kunii | At Board of Directors' meetings, Ms. Kunii provided input on matters such as promotion of women's empowerment, science and technology, and IT, drawing on her profound insight into diversity promotion as well as her extensive experience in company management and her expertise in the information processing domain. At Nominating Committee meetings likewise, Ms. Kunii fulfilled her duties, which included commenting appropriately as a member of the committee on the major agenda items, which were management succession planning, the nomination of candidates for various posts including director, corporate executive officer and the next corporate executive officer, president and CEO, and the improvement of the systems for business oversight and execution toward further enhanced governance. At Audit Committee meetings, Ms. Kunii appropriately discharged her assigned duties as an outside member of the committee in relation to the key audit items of the fiscal year under review as set out in the audit plan, which included the development and operation of the internal control system and intensive auditing of the progress of the medium-term management plan, APTSIS 20. | Board of Directors' meetings | 8/8 | 100% |
| | | Nominating Committee meetings | 10/10 | 100% |
| | | Audit Committee meetings | 13/13 | 100% |
| Takayuki Hashimoto | At Board of Directors' meetings, Mr. Hashimoto provided input mainly in relation to global management, business portfolio strategy and risk management, drawing on his extensive experience in company management and profound insights into digital business. At Nominating Committee meetings likewise, Mr. Hashimoto played a leading role as chairperson in fair and transparent decision-making on the main agenda items, which were management succession planning, the nomination of candidates for various posts including director, corporate executive officer and the next corporate executive officer, president and CEO, and the improvement of the systems for business oversight and execution toward further enhanced governance. As a member of the Compensation Committee, Mr. Hashimoto fulfilled his duties, which included providing appropriate input on the major agenda item for the fiscal year under review, which was the design and implementation of the remuneration system for directors and corporate executive officers. | Board of Directors' meetings | 8/8 | 100% |
| | | Nominating Committee meetings | 10/10 | 100% |
| | | Compensation Committee meetings | 8/8 | 100% |
| Chikatomo Hodo | At Board of Directors' meetings, Mr. Hodo provided input on such matters as global management, portfolio management and corporate value enhancement from the perspective of ESG, drawing on his extensive experience in company management and profound insight into management knowhow. At Compensation Committee meetings likewise, Mr. Hodo played a leading role as chairperson in fair and transparent decision-making on the design and implementation of the remuneration system for directors and corporate executive officers. At Nominating Committee meetings, Mr. Hodo also fulfilled his duties, which included commenting appropriately as a member of the committee on the major agenda items, which were management succession planning, the nomination of candidates for various posts including director, corporate executive officer and the next corporate executive officer, president and CEO, and the improvement of the systems for business oversight and execution toward further enhanced governance. | Board of Directors' meetings | 8/8 | 100% |
| | | Nominating Committee meetings | 10/10 | 100% |
| | | Compensation Committee meetings | 8/8 | 100% |
| Kiyomi Kikuchi | At Board of Directors' meetings, Ms. Kikuchi provided input on such matters as the functions and responsibilities of the Board of Directors, assessment of legal risk and global governance, drawing on her experience and profound insight as a lawyer. At Nominating Committee meetings likewise, Ms. Kikuchi fulfilled her duties as a member of the committee, which included commenting appropriately on the major agenda items, which were management succession planning, the nomination of candidates for various posts including director, corporate executive officer and the next corporate executive officer, president and CEO, and the improvement of the systems for business oversight and execution toward further enhanced governance. At Audit Committee meetings, Ms. Kikuchi appropriately fulfilled her assigned duties as an outside member of the committee in relation to the main audit items for the fiscal year under review as set out in the audit plan, which included the development and operation of the internal control system and intensive auditing of the progress of the medium-term management plan, APTSIS 20. | Board of Directors' meetings | 8/8 | 100% |
| | | Nominating Committee meetings | 10/10 | 100% |
| | | Audit Committee meetings | 13/13 | 100% |
| Tatsumi Yamada | At Board of Directors' meetings, Mr. Yamada provided input on such matters as finance and accounting, disclosure and market valuation, drawing on his experience and profound insight as a certified public accountant and an international accounting expert. As a member of the Compensation Committee likewise, Mr. Yamada fulfilled his duties, which included providing appropriate input on the major agenda item for the fiscal year under review, which was the design and implementation of the remuneration system for directors and corporate executive officers. At Audit Committee meetings, Mr. Yamada appropriately fulfilled his assigned duties as an outside member of the committee in relation to the key audit items for the fiscal year under review as set out in the audit plan, which included the development and operation of the internal control system and intensive auditing of the progress of the medium-term management plan, APTSIS 20. | Board of Directors' meetings | 6/6 | 100% |
| | | Nominating Committee meetings | 7/7 | 100% |
| | | Audit Committee meetings | 10/10 | 100% |

Training

Outside directors are constantly briefed on the MCHC Group's business and organizations and are regularly given the opportunity to visit the Group's business locations in Japan and abroad and to discuss with the management team.

Internal directors are also given opportunities to develop the qualities required of directors through training sessions on compliance and internal control and a range of seminars held by external organizations.

Director remuneration

Policy for deciding the remuneration of directors and corporate executive officers for fiscal 2021

Principle of remuneration

The systems for directors and for corporate executive officers are separate, and remuneration is determined by the Compensation Committee based on the concepts outlined below.

Basic policy for deciding remuneration, etc., for directors

- Given their role of overseeing and auditing the management of the Company from an independent and objective standpoint, remuneration for directors shall be basic remuneration (fixed remuneration) only.
- In order to secure personnel suitable for executing the responsibilities of a director of a company with a nominating committee, etc., the level of remuneration shall be determined by considering the levels set by other companies, the expected role and function, the hours required to complete the duties and other factors.

Basic policy for deciding the remuneration, etc., of corporate executive officers

- The remuneration plan shall be such as to make officers conscious of the integrated practice of the three axes of KAITEKI Management toward the MCHC Group's vision, "Realizing KAITEKI" (MOS/MOT/MOE).

- The remuneration plan shall be designed to function effectively as an incentive to enhancing short-term and medium- and long-term performance and improving sustainable corporate value and shareholder value.
- Remuneration shall be set at a level competitive enough to attract and retain high-quality management personnel to lead the sustainable growth of the MCHC Group.
- Remuneration shall be determined through a fair and reasonable decision-making process that fulfills the duty of accountability to all stakeholders including shareholders, customers and employees.

Basic policy for deciding the remuneration, etc., of officers recruited from outside

- The remuneration, etc., of officers recruited from outside shall be determined in accordance with the basic policies outlined above, but with consideration given on a case-by-case basis to the remuneration levels and practices thought to prevail in the place or country of origin or residence of the officer recruited and other relevant factors.

Remuneration system

Directors

The remuneration of directors shall be basic remuneration (fixed remuneration) only. When a director serves concurrently as a corporate executive officer, the remuneration system for corporate executive officers shall apply.

Corporate executive officers

The composition of the remuneration of corporate executive officers shall be as set out in the table below.

| Type of remuneration | | Description |
|----------------------|-------------------|---|
| Fixed | Short-term / Cash | Basic remuneration Basic remuneration paid for the execution of responsibilities and duties Determined by role and size of responsibility (office title, with or without representative right, etc.) |
| | | Annual bonus Monetary remuneration paid in proportion to KAITEKI value assessment and individual appraisal (achievement of initiative targets under medium-term management plan, leadership quality, etc.) for each fiscal year |
| Variable | Long-term / Stock | Performance share unit (PSU) Stock allocation based on Company share price growth* over a three-year period (* Relative to JPX-Nikkei 400 Index and peer group (domestic and overseas chemical/healthcare companies with global operational presence)) |
| | | Restricted transfer stock (RS) Restricted transfer stock is allocated each fiscal year in an amount depending on the office title. The transfer restriction is removed on the officer's retirement. |

Note: For overseas national officers, fringe benefits and severance pay may be paid in addition to the above, to the extent appropriate, based on consideration of the remuneration levels and practices believed to prevail in the place or country of origin or residence of the officer recruited.

Governance

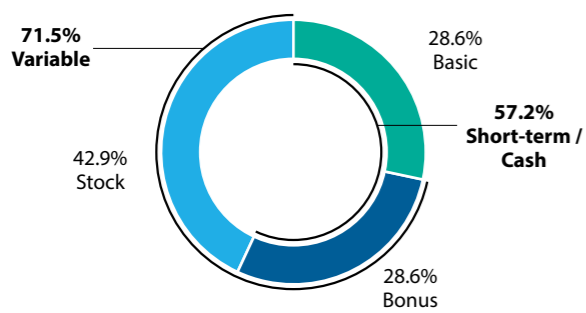
Method of setting the levels / percentage of remuneration Directors

The basic remuneration level for directors shall be determined by considering the remuneration level for non-executive directors and outside directors at other companies of similar size in terms of domestic sales, market capitalization and other indicators, the role and functions of the director (e.g., member/chairperson of Nominating/Compensation/Audit Committee), and the hours required to complete the duties (full-time/part-time distinction).

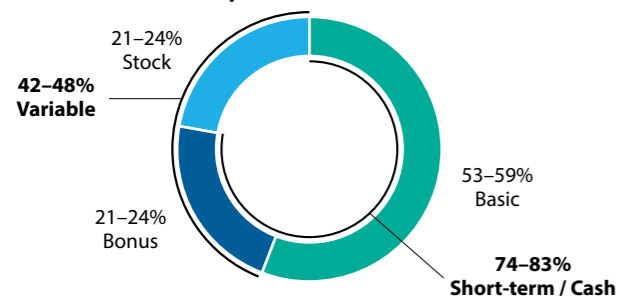
Corporate executive officers

The remuneration, etc., of corporate executive officers shall be set according to the office title and the associated responsibilities and duties and shall be of a level that is competitive, in terms of the amount of remuneration and the degree of performance linkage, based on comparison with the remuneration level and degree of performance linkage set by other companies of similar size in terms of market capitalization and domestic sales (for overseas national officers, however, sales in the officer's place or country of origin or residence or in another region relevant when considering recruitment of talent).

Corporate executive officer, president and CEO



Other corporate executive officers



Composition of stock remuneration



*1 PSU: Performance share unit
*2 RS: Restricted transfer stock
Note: The ratio of basic remuneration to bonus to stock remuneration is set at 1:1:1.5 for the corporate executive officer, president and CEO and at 1:0.35-0.45:0.35-0.45 for other corporate executive officers, with the ratio of variable remuneration increasing with seniority of position.

Annual bonus

The amount of individual bonus for corporate executive officers is determined in proportion to the KAITEKI value assessment (achievement of annual targets under the MCHC Group's three axes of KAITEKI Management) and individual appraisal (achievement of initiative targets set individually under the medium- to long-term management plan, leadership quality, etc.).

$$\text{Individual bonus amount} = \text{Base amount for office title} \times \text{KAITEKI value assessment (0-200\%)} \times \text{Individual appraisal for office title (\pm 20\%)}$$

Basis for assessment

KAITEKI value assessment

To make officers conscious of the practice of KAITEKI Management toward the Company's vision, "Realizing KAITEKI," the Company directly applies management indicators for the three respective axes of KAITEKI Management, MOS, MOT and MOE, as indicators for evaluating bonuses.

Specific indicators for KAITEKI value assessment are selected every fiscal year, primarily from those listed below.

| KAITEKI Management axis | Management indicator for axis = Indicator for determining bonus | % weight in assessment |
|-------------------------|--|------------------------|
| MOS | Indicator associated with reduction of GHG and other environmental impacts, contribution to health/medical treatment and social issues, compliance, accident/fire prevention, etc. | 20% |
| MOT | Indicator associated with R&D efficiency, technological superiority and alignment with social needs | 10% |
| MOE | Indicator associated with core operating income, ROE, ROIC, operating cash flow, etc. | 70% |

For fiscal 2021, the relative weight of the indicators was reviewed, with MOS adjusted from 10% to 20% and MOE from 80% to 70%.

Individual appraisal

For the corporate executive officer, president and CEO, self-set targets declared at the beginning of the fiscal year are reviewed and assessed by the Compensation Committee and the Nominating Committee. For evaluation, a self-assessment is reviewed and evaluated at the end of the fiscal year by the Compensation Committee and the Nominating Committee.

Regarding targets and evaluation for other corporate executive officers, these are determined through interview between the individual officer and the corporate executive officer, president and CEO, then reviewed and approved by the Compensation Committee. In cooperation with the Nominating Committee, the Compensation Committee verifies the fairness and reasonableness of the targets and evaluations for each corporate executive officer.

Performance share unit (PSU)

In fiscal 2021, the Company discontinued the stock remuneration plan using the Board Incentive Plan (BIP) trust and introduced a new PSU-based system. Under this system, which is intended to promote awareness of sustainable improvement in corporate value and shareholder value, common stock of the Company is allocated, in principle annually, in an amount calculated in proportion to the Company's share price growth (total shareholder return (TSR)) over a three-year period. The method of calculating the number of stocks allocated is as follows:

$$\text{Number of individual shares allocated} = \text{Base number of shares for office title} \times \text{Relative TSR assessment (0-200\%)}$$

Stock-based remuneration with restricted transfer stock (RS)

Based on a yearly agreement between the Company and the corporate executive officers on the allocation of restricted transfer stock, an allocation of the Company's common stock is made in line with the base value for the office title. In order to share shareholder value and achieve growth in share price in the medium to long term, the period of transfer restriction shall be from the date of allocation to the date of retirement as a corporate executive officer of the Company.

Remuneration clawback and other important matters

The Company may apply other special remuneration and benefits, where necessary, after a case-by-case review by the Compensation Committee. In addition, if a director or corporate executive officer is found to have committed misconduct or other infringement, the Company may, subject to a review by the Compensation Committee, make a claim against the director or corporate executive officer to withdraw the right to receive remuneration ("malus clause") or to reclaim the remuneration ("clawback clause").

Aggregate amount of remuneration of company officers

Aggregate amount of remuneration of officers for FY2020

| Category of officer | Aggregate amount of consolidated remuneration, etc. (millions of yen) | | | | No. of persons | |
|------------------------------|---|---------------------------------|--------------------------|---------------------------|----------------|-------|
| | Basic remuneration | Performance-linked remuneration | | Restricted transfer stock | | Total |
| | | Cash bonus | Stock-based remuneration | | | |
| Directors (internal) | 185 (185) | — | — | — | 185 (185) | 5 |
| Directors (outside) | 71 | — | — | — | 71 | 6 |
| Corporate executive officers | 303 (292) | 21 (21) | 33 (33) | 62 (62) | 419 (409) | 7 |
| Total | 560 (549) | 21 (21) | 33 (33) | 62 (62) | 676 (666) | 18 |

Notes: 1. The aggregate amount of remuneration, etc., above is stated as consolidated remuneration, etc. (the sum of remuneration paid or to be paid, or expenses, etc., borne by the Company and its subsidiaries). For directors (inside) and corporate executive officers, the amounts in brackets are the sum of remuneration, etc., paid by the Company. For outside directors, the aggregate amount of consolidated remuneration, etc., is paid fully by the Company.
2. MCHC directors who serve concurrently as corporate executive officers are remunerated as corporate executive officers.
3. The amounts of basic remuneration and cash bonus are the sum of remuneration, etc., paid during the fiscal year under review (all monetary remuneration).
4. The amount of stock-based remuneration above is the sum of relevant expenses recorded for the fiscal year under review (expenses for allocation of common stock, etc., of the Company and for payment of dividends accrued on such stock through the BIP trust on the officer's retirement).
5. The amount stated above for restricted transfer stock is the sum of relevant expenses recorded for the fiscal year under review (expenses for allocation of restricted transfer stock at the base value for the office title whose transfer restriction is removed on the officer's retirement).

Method of calculating performance-linked remuneration paid during the fiscal year under review and results of assessment

The Company's performance-linked remuneration is decided mainly on the basis of the results of the assessment of KAITEKI value for the previous fiscal year.

$$\text{[Cash bonus]} \text{ Individual remuneration amount} = \text{Base amount for office title} \times \text{KAITEKI value assessment (0-200\%)}$$

$$\text{[Stock-based remuneration]} \text{ Number of individual points awarded (for stock allocation)} = \text{Base points for office title} \times \text{KAITEKI value assessment (0-200\%)}$$

Notes: 1. KAITEKI value assessment: Performance is rated on a five-level scale with "A" (100%) as the base value, "SS" (200%) when the target is surpassed by a significant margin, "S" (150%) when the target is surpassed, "B" (50%) when the target is missed, and "C" (0%) when the target is missed by a significant margin (figures in brackets: percentage payout).
2. Stock-based remuneration: Points are awarded each year in proportion to the KAITEKI value assessment. An amount of the Company's common stock, etc., equivalent to the accumulated points together with the dividends accrued on such stocks is paid on the officer's retirement.

The result of the assessment of KAITEKI value for fiscal 2019 was B (50%). The main indicators used in the assessment of KAITEKI value and their relative weights are indicated below.

| | Major indicators | % weight in assessment |
|-----|--|------------------------|
| MOS | Reduction of GHG and other environmental impacts | 10% |
| | Contribution index for pharmaceutical provision | |
| | Employee wellness index | |
| MOT | New product creation rate | 10% |
| | Patent examination request/claims rate | |
| | Core technology evolution rate | |
| MOE | Core operating income | 80% |
| | ROE | |
| | Free cash flow | |

Governance

Message from an outside director of the Board

Focus on “proactive governance” when monitoring the management, to enhance corporate value

Kiyomi Kikuchi
Outside Director of the Board
Lawyer



Role of the Board of Directors in achieving APTSIS 25

In my view, the roles of the Board of Directors in light of the new medium-term management plan are to drive forward the portfolio transformation and to create a management system that enables financial stability and improves the profitability of the entire Group. The medium-term management plan includes numerical targets and detailed measures, but it is the responsibility of the executive team (not the Board) to execute such measures and achieve those targets. The Board of Directors (more specifically, the outside directors based on their individual expertise), on the other hand, takes a broader perspective to monitor and supervise the directors and the executive team to see what actions are taken by the management to achieve portfolio transformation and increase profitability and to review whether appropriate decisions are made and efficient operations are employed to implement such objectives.

As a company with a nominating committee, etc., the MCHC Group has made certain progress in its management system from the perspective of “defensive governance” for example, by having outside directors with various skills sit on the committee to exercise monitoring and control functions. Going forward, we will also focus on “proactive governance” for the Group to achieve portfolio transformation and pursue steady growth in profits.

Fostering lively discussions for creative decision-making

To pursue proactive governance, we need to clarify the authority and duties of the Board of Directors (especially of a company with a nominating committee, etc.) and separate the supervisory role from the execution function to allow speedy and efficient decision making by the management team. While the decisions by the Board of Directors (which is the second supreme decision-making body within a company after the Shareholders’ Meeting) are limited to the most fundamental policies of the Company, the execution and implementation of such basic policies and the day-to-day business decisions are delegated to the executive team. The Board of Directors monitors the processes of such

decision making.

For this system to work well, the Board needs to function as a forum for discussion in the true sense of the term. It is often the case that the Board meeting becomes a place where the management team reports on what it has already determined and the Board provides approval after the fact. But the Board is supposed to be a more creative organ where appropriate agendas are timely selected, key issues are brought to light through full debate and solutions are sought and developed for those issues. To realize this purpose, ensuring the objectiveness of the source of information and data becomes more and more important so that transparency and efficiency of the discussion at the Board level increases. Having objective information and data helps the Board to spot the nature of the underlying issues and set a direction for the solution. I would like to promote discussions based on objective information and data, and help build a system to ensure such discussions.

Making the most of the new CEO’s skillset

We recently welcomed Jean-Marc Gilson as our new CEO. The MCHC Group is a large organization with a long history, and this may mean that the Group is relying on and is still bound by ideas from the old days. I am interested to see how our new CEO will change the mindsets of officers and employees, and together with the team, improve profitability of the Group under his leadership. Meanwhile, we expect to monitor the reasonableness and logicalness of the decisions made by the executive team as well as the processes, and the efficiency and speed with which the team manages the Group.

Strengthening and activating the Board may lead to maximizing the new CEO’s skillset. By ensuring transparent processes and having the CEO and the executive team report actively to the Board, issues surrounding the Company will be highlighted, and more essential and effective discussions can take place there. In such an environment, we hope to monitor the direction in which the management is taking the Company, and together with them, make appropriate decisions for the MCHC Group.

Risk Management

The MCHC Group defines risks as “potential events that could, during the course of corporate activities, undermine public trust or damage the corporate value of the MCHC Group.”

We recognize, analyze and evaluate risks, and prevent the materialization of significant risks. We take measures to minimize the personal, economic and social damage arising if such risks materialize.

Risk management system

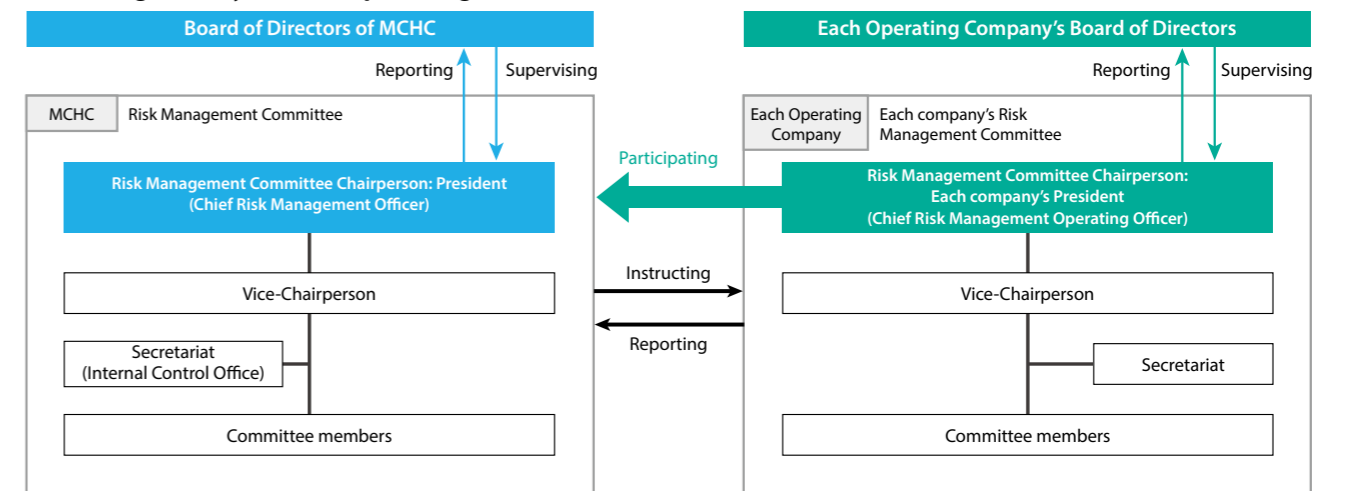
The MCHC Group is engaged in corporate activities with the objective of improving corporate value. These activities are related to social conditions, the global environment and various other externalities, and they involve potential risks.

We have in place a risk management system whereby the MCHC President is responsible for the entire risk management across the Group, in accordance with the MCHC Group Risk Management Basic Rules. The status of the management of significant risks and risk management policies that affect the entire Group are deliberated on and decided by MCHC’s Risk Management Committee. Such

deliberations and decisions are reported to the Board of Directors as needed.

The presidents of operating companies are responsible for establishing each company’s risk management system and conducting management through each Risk Management Committee. As part of our risk management system, we recognize the importance of fostering an awareness of risk management among executives, managers and employees in general. For this reason, all individuals are expected to be involved in risk management from their own standpoints.

Risk management system conceptual diagram



COVID-19-related risk management

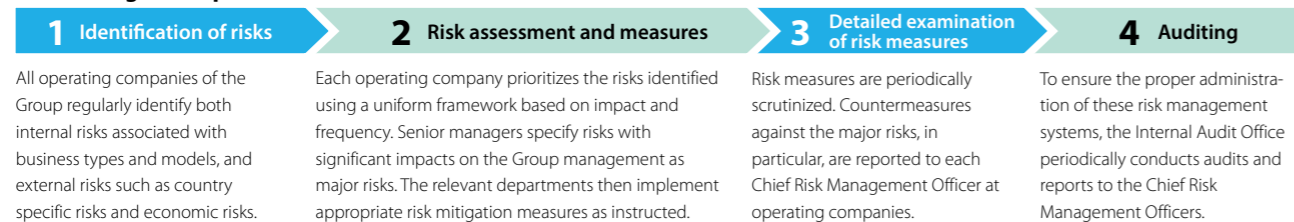
Located in Kawasaki City, Kanagawa Prefecture, LSII’s Tonomachi Cell Processing Center (CPC) is an important base for the culture of Muse cells and the manufacture of related product formulations.

Although we have rolled out teleworking and online meetings, the cell culture operations require the presence of over 80% of the staff. We have therefore stationed body temperature measuring equipment and non-contact alcohol spray dispensers at room entrances and made it standard practice to check body temperature and sanitize the hands before entering. Meeting rooms and similar areas are provided with a permanent supply of sanitizer, and all staff are required to eat in silence as well as wear a mask at all times other than when taking a meal or refreshment.



Governance

Risk management process



Measures against major risks

The MCHC Group has categorized the following risks as high priority. In recognition of these risks, we strive to avoid the occurrence of such risks and minimize damage when they do occur.

Accidents, work injuries and large-scale natural disasters

As a safety measure to prevent any accidents at each operating site, we enhance the quality of training for operators for maintaining appropriate operations and safe facilities. In the event of accidents, we analyze the cause, plan countermeasures and verify the effectiveness of these countermeasures. We also strive toward advance prevention and recurrence prevention of accidents by sharing technical and operational measures among Group companies.

In preparation for large-scale natural disasters, we conduct special training customized based on the conditions for the head offices, branches and offices of each operating company to minimize damages and to secure business continuity under such an event.

Compliance

In order to instill compliance within the Group, we have taken comprehensive necessary actions such as preparing the Group Charter of Corporate Behavior and rules and standards, distributing a compliance guidebook, providing training and seminars, implementing regular audits, as well as operating and maintaining a compliance hotline. We also strengthen compliance at overseas operations, by adjusting codes of conduct and implementation rules in accordance with the rules, regulations, and social norms of the country.

Human rights issues

In line with the commitments set out in our Global Policy on Respecting Human Rights, Employment and Labor, we work through dialogue with stakeholders and other activities based

on the approach of human rights due diligence to monitor the value chain for human rights violations and high-risk situations. Where a high-risk workplace or other situation of concern is identified, we seek improvement to prevent adverse human rights outcomes. In the rare event of a human rights violation occurring, we take steps to resolve the issue at an early stage.

Subsidiary governance

MCHC clarifies the responsibilities of corporate organizations and improves systematic approaches to reduce overall Group risks in the governance of subsidiaries in Japan and overseas. For example, in order to mitigate risks arising from laws and systems specific to the countries in which we operate, we have collected and disseminated cases of significant accidents and violation of laws in each country to raise awareness of those risks at overseas Group companies. Furthermore, in preparation for political or other changes in such countries, we have established a system of communication between the local area, the operating companies and the Company to ensure awareness of governance issues.

Information security

MCHC has developed the Group Information Security Policy, in order to protect information assets and to maintain corporate value as a whole. Also, we continuously reinforce information security capabilities at our global business sites. We are also promoting awareness of strict compliance with the Group Information Security Policy among all employees by providing special training, including practical drills in response to targeted attack mails or other training via an e-learning system.

Measures against future risks

The MCHC Group is also addressing future risks by planning a medium- to long-term strategy.

Climate change

While the chemical industry is an industry with high GHG emissions, it can also contribute to the reduction of GHGs through its products. There is a risk that future earnings may be affected if we are unable to comply with customer requests for products such as automobiles and lighting fixtures, for which environmental standards and energy efficiency are important. The MCHC Group has identified GHG reduction as a material issue under APTSIS 25. As well as promoting products that contribute to improving energy efficiency, we are working on further adaptation and development.

GHG reduction initiatives ▶ P. 43

Digital technologies

The digital technologies represented by artificial intelligence (AI) and the Internet of Things (IoT) are bringing dramatic change to business models and supply chains across the whole of industry. If the MCHC Group fails to adapt appropriately to this change, it risks a decline in competitiveness. To maintain and reinforce competitiveness, we are applying AI and the IoT to digitize the customer interface for an enhanced customer experience, and using these technologies to optimize the supply chain, to automate process control and product analysis and quality inspection, and to promote new material and pharmaceutical development.

Compliance

For the MCHC Group, the word compliance has a broad meaning encompassing not just basic adherence to the law but also observance of corporate ethics and general social norms. We regard compliance as one of the most important management issues and engage in a range of initiatives to instill a culture of compliance throughout the Group.

Charter of Corporate Behavior

The MCHC Group Charter of Corporate Behavior declares explicitly our commitment to applying sound ethics and good common sense to every aspect of our corporate activities.

Among other things, the Charter sets out fundamental principles of conduct for achieving sustainable development in harmony with society and explains our approach to the main issues affecting our contribution to the realization of KAITEKI.

 The full text of the Charter of Corporate Behavior can be viewed on our website.
<https://www.mitsubishichem-hd.co.jp/english/group/charter.html>

Compliance promotion structure

The Chief Group Compliance Officer (Group CCO) is appointed by the Board of Directors, and the Internal Control Office supports the Group CCO, acting as a secretariat for compliance matters.

The secretariat seeks to ensure compliance in accordance with local conditions through the regional headquarters established in the United States, Europe and China. In addition to developing shared educational tools, we provide training to overseas Group companies and help them to set up compliance hotlines. Each operating company has its own Compliance Promotion Committee as well as an Internal Control Department that serves as secretariat. They operate hotline systems and implement training courses and seminars, business audits and compliance awareness surveys based on the MCHC Group Compliance Promotion Rules.

If an actual or potential compliance violation is found, the department with issues will report and consult with the CCO of each company and the Group CCO, receive guidance and directions, and take appropriate corrective actions and measures to prevent recurrence.

Hotline systems

Hotline systems are managed and operated with the Group, operating companies' Internal Control Departments and external lawyers serving as contact points. In fiscal 2020, 116 cases were reported via the hotline systems. We respond to reported issues through our investigation teams, which are headed by the managers of the Internal Control Departments. Corrective measures are taken promptly in line with the relevant regulations under the direction of the CCO.

Measures and results in fiscal 2020

In fiscal 2020, we commissioned an external agency to survey employees' awareness of compliance within the Group in Japan in order to continuously monitor the spread of compliance awareness. The survey results were presented as feedback to all operating companies, who use them to enhance compliance awareness through education and training and other activities. At the same time, we have quantified the responses to questions related to matters such as individual awareness and behavior and the workplace climate as a compliance improvement awareness index and incorporated it into our MOS Indices.

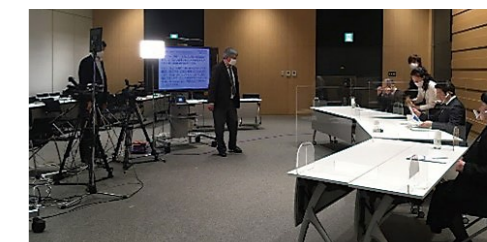


The Group's Material Issues
• Compliance

Compliance training

The MCHC Group provides grade-specific compliance training every year in Japan and overseas. We provide a variety of learning settings, including lecture-style training for large groups and discussion-style training for small groups to enhance the effectiveness of such training.

In fiscal 2020, to reduce the risk of COVID-19 infection, MTPC made video recordings of discussion-style training sessions and made the content available online.



Video recording at a compliance training session at MTPC