

Governance

Corporate Governance System

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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.

Composition of the Board of Directors

To enable the MCG Group to formulate basic management policy and supervise management appropriately, we seek to appoint directors based on multifaceted considerations by defining two sets of skills: universally required skills in corporate management, global business, and risk management; and skills required from a medium- to long-term perspective in legal and compliance, finance, industry and related business, and technology, science, and digital.

To strengthen the supervisory function of the Board of Directors, we stipulate that the majority of the directors should not serve concurrently as corporate executive officers.

Name	Skills Matrix						
	General skills*			Specialty skills*			
	Corporate management	Global business	Risk management	Legal/compliance	Finance	Industry and related business	Technology, science, and digital
Jean-Marc Gilson ◆	●	●	●		●	●	
Ken Fujiwara ◆		●	●	●		●	
Glenn H. Fredrickson		●	●			●	●
Nobuo Fukuda		●	●			●	
Takayuki Hashimoto	●	●	●				●
Chikatomo Hodo	●	●	●				●
Kiyomi Kikuchi		●	●	●			
Tatsumi Yamada		●	●		●		

Note: Directors indicated with the symbol (◆) act in an executive function.

* General skills are those universally required of directors, with global business and risk management defined as common skills required of all directors. Specialty skills are those required from a medium- to long-term perspective and are defined as professional skills where each director will have particular strengths.

Main agenda items discussed at the Board of Directors' meeting during fiscal 2022

- New Group Concept
- Medium-term management plan, annual budget, and investment plan
- Effectiveness of internal control system
- Rationale for cross-shareholdings
- Engagement activities with institutional investors
- Results of the employee awareness survey
- Regular reports from each committee and each corporate executive officer

Lead Independent Outside Director

With the aim of enhancing the independence of the Board of Directors and strengthening cooperation between corporate executive officers and outside directors, the outside directors elect a lead independent outside director from among themselves. The lead independent outside director gathers opinions from the outside directors and holds discussions with the chairman of the Board of Directors and the president & CEO, and presides as chairperson over a meeting body composed solely of the outside directors.

Director Liaison Committee and related meetings

As a forum for sharing of important management-related information and for the frank exchange of opinions on management issues, the Director Liaison Committee has been established that includes all directors as members.

Separate from this committee, regular meetings are held exclusively for outside directors, at which they can exchange information and establish a common understanding based on an independent and objective viewpoint.

Main agenda items of the Director Liaison Committee during fiscal 2022

- Capital market expectations and portfolio management
- Growth strategy
- Issues relating to management strategy

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Framework and roles of the committees (As of June 27, 2023)

	Nominating Committee	Audit Committee	Compensation Committee
Chairperson	Outside director	Outside director	Outside director
Composition (including chairperson)	Outside directors—3 Internal director—1	Outside directors—2 Internal director (full-time)—1	Outside directors—3
Purpose	The Nominating Committee nominates candidates for directors and corporate executive officers.	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.
Fiscal 2022	The committee met a total of 13 times and undertook individual appraisals of the president and CEO and the other corporate executive officers, selection of corporate executive officer candidates, and discussion of the presidential succession plan. The committee also discussed the skills matrix and succession plan for directors and revised the skills matrix.	The committee met a total of 15 times and undertook key point audits of the status of development and operation of governance and the internal control systems, and the status of business execution regarding the management foundation, the business strategy, and other items. These audits focused particularly on the response of the new management system, which was designed to reflect changes in the business environment.	The committee met a total of 11 times and, based on the director remuneration policy, discussed and decided on the appropriate system and level of remuneration for directors and corporate executive officers. With the aim of further raising the level of commitment to a medium- to long-term increase in corporate value and shareholder value, the committee decided to introduce a restricted transfer stock remuneration that is not linked to performance for outside directors from fiscal 2023.

Assessment of the CEO

The Nominating Committee assesses the performance of the CEO from multiple perspectives using indices based on the three axes for the realization of the MCG Group Purpose (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 Auditing Division 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.

Corporate executive officers

The corporate executive officers decide on the operational execution and are in charge of its implementation based on basic management policies developed by the Board. Regarding important matters in the management of the MCG 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 MCG and the MCG Group, and also monitors the Group's business based on the medium-term management plan, the annual budget, and other relevant factors.

Cross-shareholdings

MCG and major subsidiaries acquire and hold shares of client companies, etc., if the shareholding contributes to medium- to long-term improvement in corporate value. The Board of Directors reviews the grounds for such cross-shareholdings on a regular basis. Taking account of the effect on the market, we make efforts to sell such cross-shareholdings as assessed to be insufficiently justified. On November 8, 2022, the Board of Directors reviewed all Group cross-shareholdings as of the end of March 2022 in terms of the economic rationale as measured by ROIC, their necessity for business, and other considerations. As a result of the review, we found some cross-shareholdings to be insufficiently justified and will proceed with their sale, taking account of the effect on the market.

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Policies on the nomination of director candidates

The Nominating Committee nominates as director candidates persons who fulfill the following criteria:

- Possess deep insight, as well as objective and fair judgment, which 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;
- Are healthy enough to fulfill the responsibilities of a director.
- For outside directors: Fulfill the standards for independence of outside directors, are able to secure enough time to execute business, and, additionally, are able to contribute to diversity among the outside directors.

Training for directors

Outside directors are constantly briefed on the MCG 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.

Standards for independence of outside directors

The Company appoints as outside directors persons who do not fall under any of the items listed below and are 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) A person engaged in the execution of MCG Group operations (executive director, corporate executive officer, executive officer, manager, employee, partner, etc. The same shall apply hereafter.)
- (2) A person who has been engaged in the execution of MCG Group operations in the last 10 years

2. Major shareholder

A person who directly or indirectly holds 10% or more of MCG'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 MCG'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 MCG or any of its Group operating companies (Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Life Science Institute, Inc., and Nippon Sanso Holdings Corporation. The same shall apply hereafter.)
- (2) A person engaged in the execution of operations of a major business partner*² of MCG or any of its Group operating companies

4. Accounting auditor

An accounting auditor of the MCG Group or an employee thereof

5. Transaction as an individual

A person who receives money or other financial benefits of ¥10 million or more per year from MCG or any of its Group operating companies

6. Donation

A person who receives a donation or financial assistance of ¥10 million or more per year from MCG or any of its Group operating companies or a person engaged in the execution of operations of a company that receives a donation or financial assistance of ¥10 million or more per year from MCG or any of its Group operating companies

7. Reciprocal assumption of the position of director

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

8. Close relative, etc.

- (1) A close relative, etc., of a person engaged in the execution of important MCG Group operations (spouse, relative within the second degree of relationship, or any person who shares the same livelihood. The same shall apply hereafter.)
- (2) A close relative, etc., of any person who meets the definition of any of items 3 to 7 above

*1 If the said business partner received from MCG or any of its Group operating companies an amount equivalent to 2% or more of its annual consolidated net sales in the latest fiscal year, it shall be considered as one whose major business partners include MCG.

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

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

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Outside officers' main activities and attendance at Board of Directors' meetings and committee meetings (FY2022)

Name	Status of activities and summary of duties executed in relation to expected roles	Attendance		
		Meeting	Attendance	Rate
Takayuki Hashimoto	At Board of Directors' meetings, Mr. Hashimoto provided input mainly on global management and portfolio management. As lead independent outside director, he also engaged in dialogue with institutional investors. As chairperson of the Nominating Committee, meanwhile, where the main agenda items during the fiscal year under review were the composition of the Board of Directors, succession plans, and the nomination of candidates for the positions of director and corporate executive officer, he fulfilled his duties by playing a leading role in highly impartial and transparent decision-making. Furthermore, as a member of the Compensation Committee, he executed his duties by providing appropriate input on the major agenda items of the fiscal year under review, such as the consideration of performance-linked remuneration for corporate executive officers and the remuneration system for outside directors.	Board of Directors' meeting	7/7	100%
		Nominating Committee meeting	13/13	100%
		Compensation Committee meeting	10/11	91%
Chikatomo Hodo	At Board of Directors' meetings, Mr. Hodo provided input mainly on global management, portfolio management, and corporate value enhancement from the perspective of ESG. Furthermore, as a member of the Nominating Committee, he executed his duties by providing appropriate input on the major agenda items of the fiscal year under review, such as the composition of the Board of Directors, succession plans, and the nomination of candidates for the positions of director and corporate executive officer. As chairperson of the Compensation Committee, where the main agenda items of the fiscal year under review were the consideration of performance-linked remuneration for corporate executive officers and the remuneration system for outside directors, he fulfilled his duties by playing a leading role in highly impartial and transparent decision-making.	Board of Directors' meeting	7/7	100%
		Nominating Committee meeting	13/13	100%
		Compensation Committee meeting	11/11	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. Furthermore, as a member of the Nominating Committee, she executed her duties by providing appropriate input on the major agenda items of the fiscal year under review, such as the composition of the Board of Directors, succession plans, and the nomination of candidates for the positions of director and corporate executive officer. She also appropriately fulfilled her duties as an outside member of the Audit Committee, where the main agenda items of the fiscal year under review were the development and operation of the internal control system in line with the audit plan, the strengthening of the management foundation and progress with the business strategy as set out in the management policy, "Forging the future," and other matters relating to business execution.	Board of Directors' meeting	7/7	100%
		Nominating Committee meeting	13/13	100%
		Audit Committee meeting	15/15	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. Meanwhile, as chairperson of the Audit Committee, where the main agenda items of the fiscal year under review were the development and operation of the internal control system in line with the audit plan, the strengthening of the management foundation and progress with the business strategy as set out in the management policy, "Forging the future," and other matters relating to business execution, he fulfilled his duties by playing a leading role in ensuring the impartiality and transparency of audit activities. Furthermore, as a member of the Compensation Committee, he executed his duties by providing appropriate input on the major agenda items of the fiscal year under review, such as the consideration of performance-linked remuneration for corporate executive officers and the remuneration system for outside directors.	Board of Directors' meeting	7/7	100%
		Audit Committee meeting	15/15	100%
		Compensation Committee meeting	11/11	100%
Takako Masai	At Board of Directors' meetings, Ms. Masai provided input on such matters as finance and market risk management, drawing on her experience and profound insight in the areas of analysis of financial and economic conditions and the administration of monetary policy. Furthermore, as a member of the Nominating Committee, she executed her duties by providing appropriate input on the major agenda items of the fiscal year under review, such as the composition of the Board of Directors, succession plans, and the nomination of candidates for the positions of director and corporate executive officer. She also appropriately fulfilled her duties as an outside member of the Audit Committee, where the main agenda items of the fiscal year under review were the development and operation of the internal control system in line with the audit plan, the strengthening of the management foundation and progress with the business strategy as set out in the management policy, "Forging the future," and other matters relating to business execution.	Board of Directors' meeting	7/7	100%
		Nominating Committee meeting	13/13	100%
		Audit Committee meeting	15/15	100%

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