

Governance

Director and Officer Remuneration

Director and officer remuneration policy

Method for deciding the director and officer remuneration policy

The policy for determining the individual remuneration of directors and officers is decided in each fiscal year by the Compensation Committee following a discussion within the committee of the appropriateness of the policy. In addition to taking account of changes in the business environment, the opinions of shareholders and investors, and other factors, the discussions of the Compensation Committee are supported by the provision of necessary information and other assistance from the external remuneration consultant Wills Towers Watson, which has a wealth of global experience and knowledge.

Changes to the director and officer remuneration policy from fiscal 2023

To drive a further sustainable increase in corporate value and shareholder value, it has been decided to make an allocation of restricted transfer stock (RS) to outside directors from fiscal 2023. The additional amount of RS to be allocated will be decided with reference to the role expected of the outside director and trends among other companies, but with fiscal 2023 RS to be no greater than 10% of the basic remuneration. There were no other significant changes to the director remuneration policy in fiscal 2023.

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 chiefly be the basic remuneration (fixed

remuneration). To promote an increase in corporate value and shareholder value, the outside directors, who are expected to supervise and assist management from the shareholder and investor perspective, shall receive stock-based remuneration that is not linked to performance in addition to the basic remuneration.

- 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., for corporate executive officers

- The remuneration system shall be such as to promote in corporate executive officers an awareness of the integrated practice of the three axes for the realization of the MCG Group Purpose (MOS, MOT, and 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 MCG 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 internal 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.

The remuneration of outside directors shall consist of the basic remuneration (fixed remuneration) and stock-based remuneration (RS).

■ Corporate executive officers

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

Type of remuneration		Description
Fixed	Basic remuneration	<ul style="list-style-type: none"> Basic remuneration paid for the execution of responsibilities and duties Determined by the role and degree of responsibility of each corporate executive officer
	Short-term / Cash Annual bonus	<ul style="list-style-type: none"> Monetary remuneration in line with the results for each fiscal year of the Company-wide performance evaluation (progress toward realizing the Group Purpose based on the three axes) and the individual appraisal (degree of achievement of initiative targets under the medium-term management plan, leadership quality, etc.)
Variable	Long-term / Stock Performance share unit (PSU)	<ul style="list-style-type: none"> Stock allocation based on Company share price growth* over a three-year period * Relative to JPX-Nikkei Index 400 and peer group (domestic and overseas chemical/healthcare companies with global operational presence)
	Restricted transfer stock (RS)	<ul style="list-style-type: none"> 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 corporate executive officers of non-Japanese nationality, 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.

3	Chapter 1 Our Vision
22	Chapter 2 Sustainable Growth Strategy
56	Chapter 3 Strengthening ESG Activities
57	Message from the Chief Officer Supervising Corporate Sustainability Management
58	Implementing Sustainability
59	Sustainability Indices
	Environment
62	Reporting in Line with the TCFD Recommendations
64	Progress toward Carbon Neutrality and a Circular Economy
	Society
66	Message from the CHRO
67	Human Resources Strategy
72	Building Sustainable Supply Chains
73	Employee-Led Development of Our Way
	Governance
74	Message from the Officer Supervising Governance and Legal Affairs
75	Corporate Governance System
80	Assessment of Effectiveness
81	Director and Officer Remuneration
86	Risk Management
88	Compliance
90	Directors
92	Outside Directors' Discussion Meeting
95	Chapter 4 Financial/Non-Financial Information

Governance

Director and Officer Remuneration

- 3 Chapter 1 Our Vision
- 22 Chapter 2 Sustainable Growth Strategy
- 56 Chapter 3 Strengthening ESG Activities
- 57 Message from the Chief Officer Supervising Corporate Sustainability Management
- 58 Implementing Sustainability
- 59 Sustainability Indices
 - Environment
- 62 Reporting in Line with the TCFD Recommendations
- 64 Progress toward Carbon Neutrality and a Circular Economy
 - Society
- 66 Message from the CHRO
- 67 Human Resources Strategy
- 72 Building Sustainable Supply Chains
- 73 Employee-Led Development of Our Way
 - Governance
- 74 Message from the Officer Supervising Governance and Legal Affairs
- 75 Corporate Governance System
- 80 Assessment of Effectiveness
- 81 Director and Officer Remuneration**
- 86 Risk Management
- 88 Compliance
- 90 Directors
- 92 Outside Directors' Discussion Meeting
- 95 Chapter 4 Financial/Non-Financial Information

Method of setting the levels/percentage of remuneration

■ Directors

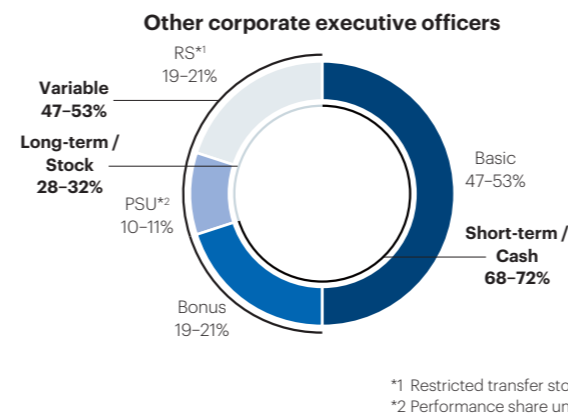
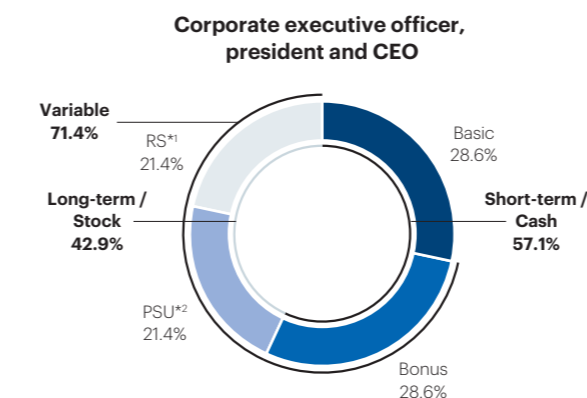
The remuneration level for directors shall be determined by considering the remuneration level for non-executive directors and outside directors at other companies of similar size in terms of domestic sales, market capitalization and other indicators, the role and functions of the director (e.g., lead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

The proportion of stock-based remuneration in the remuneration of outside directors shall be set with reference to the role of the outside director and trends at other companies. The proportion of stock-based remuneration for fiscal 2023 shall be no greater than 10% of the basic remuneration.

■ Corporate executive officers

The remuneration, etc., of corporate executive officers 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 officers of non-Japanese nationality, however, of similar size in terms of market capitalization and sales in the officer's place or country of origin or residence or in another region relevant when considering recruitment of talent).

Fiscal 2023 composition of standard remuneration for corporate executive officers (Example)



Note: The ratio of basic remuneration to bonus to stock-based remuneration for fiscal 2023 is set at 1:1:1.5 for the corporate executive officer, president and CEO, and at 1:0.35-0.45:0.53-0.68 for the 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 line with the results of the Company-wide performance evaluation (achievement of targets for each fiscal year based on the three axes for realizing the Group Purpose) and the individual appraisal (achievement of initiative targets set individually under the medium-term management plan, leadership quality, etc.).

$$\text{Individual bonus amount} = \text{Base amount for office title} \times \left(\begin{array}{c} \text{Result of} \\ \text{Company-wide} \\ \text{performance} \\ \text{evaluation} \\ + \\ \text{Result of individual} \\ \text{appraisal} \\ \text{(0-200\%)} \end{array} \right) \times \text{Final adjusting assessment (80-120\%)}$$

■ Company-wide performance evaluation

The management indicators of each of the three axes for the realization of the MCG Group Purpose (MOS, MOT, and MOE) are used as direct metrics for determining the bonus. The specific metrics for each fiscal year are selected primarily from the items below.

Three axes for realizing the Group Purpose	Major management indicators of each axis = Company-wide performance evaluation metrics	% weight in assessment
MOS	Indicators associated with preventive and other measures against safety incidents and lost-time injuries, reduction of GHG emissions, and improvement of employee engagement	20%
MOT	Indicators associated with R&D, intellectual property activities, DX, and other initiatives to fulfill the management plan	10%
MOE	Indicators associated with core operating income, ROE, ROIC, free cash flow, etc.	70%

- 3 Chapter 1 Our Vision
- 22 Chapter 2 Sustainable Growth Strategy
- 56 Chapter 3 Strengthening ESG Activities
- 57 Message from the Chief Officer Supervising Corporate Sustainability Management
- 58 Implementing Sustainability
- 59 Sustainability Indices
 - Environment
 - 62 Reporting in Line with the TCFD Recommendations
 - 64 Progress toward Carbon Neutrality and a Circular Economy
 - Society
 - 66 Message from the CHRO
 - 67 Human Resources Strategy
 - 72 Building Sustainable Supply Chains
 - 73 Employee-Led Development of Our Way
 - Governance
 - 74 Message from the Officer Supervising Governance and Legal Affairs
 - 75 Corporate Governance System
 - 80 Assessment of Effectiveness
 - 81 Director and Officer Remuneration**
 - 86 Risk Management
 - 88 Compliance
 - 90 Directors
 - 92 Outside Directors' Discussion Meeting
- 95 Chapter 4 Financial/Non-Financial Information

Governance

Director and Officer Remuneration

Individual appraisal

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

Regarding targets and assessment for the other corporate executive officers, these are determined through an 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 assessments for each corporate executive officer.

Final adjusting assessment

Where a notable success has been achieved or a serious loss incurred that were not foreseeable at the beginning of the fiscal year, and only in such cases, the Compensation Committee and the Nominating Committee examine the details, assess the need to take account thereof, and adjust the final assessment accordingly.

Performance share unit (PSU)

In fiscal 2021, the Company discontinued the stock-based remuneration plan using the Board Incentive Plan (BIP) trust and introduced a 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 individual shares allocated is as shown in the table above right.

TSR assessment period allocation

The amount for fiscal 2023 will be based on assessment of the period from fiscal 2023 to fiscal 2025.

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
FY2023 PSU	TSR assessment period allocation			Stock allocation		
FY2024 PSU		TSR assessment period allocation			Stock allocation	
FY2025 PSU			TSR assessment period allocation			Stock allocation

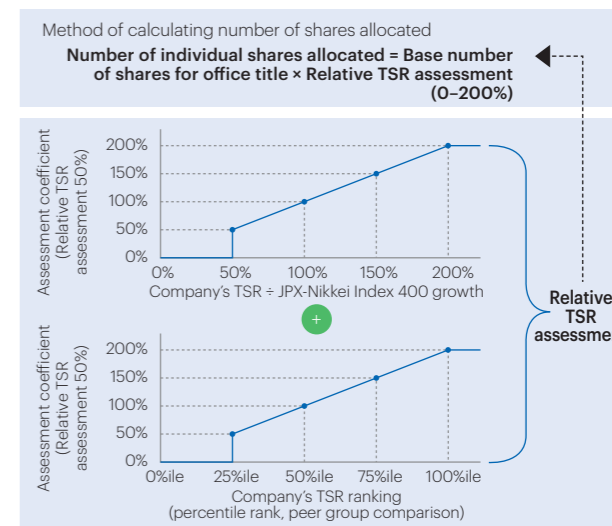
TSR assessment category

The Company's TSR is assessed by comparison with the index growth rate and the peer group TSR.

Assessment category	% weight in assessment	Assessment method
Comparison of index growth	50%	Determination of assessment coefficient reflecting performance of the Company's TSR relative to growth of the JPX-Nikkei Index 400 (incl. dividends)
Comparison with peer group TSR	50%	Determination of assessment coefficient based on ranking of the Company's TSR relative to the peer group (other domestic and overseas chemical/healthcare companies of similar size in terms of sales revenue, market capitalization, etc.)

Stock-based remuneration with restricted transfer stock (RS)

Each year, directors and corporate executive officers shall receive an allocation of shares of the Company's common stock equivalent to the base amount determined separately by position or office title in accordance with the Share Delivery Rules on RS. 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 director or 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").

Governance

Director and Officer Remuneration

Aggregate amount of remuneration of Company officers

Aggregate amount of remuneration of officers for fiscal 2022

Category of officer	Aggregate amount of consolidated remuneration, etc. (millions of yen)				Total	Number of officers
	Basic remuneration, etc.	Performance-linked remuneration		Restricted transfer stock		
		Annual bonus	Stock-based remuneration			
Directors (internal)	102 (99)	—	—	—	102 (99)	5
Directors (outside)	91	—	—	—	91	5
Corporate executive officers	603 (603)	383 (324)	153 (110)	313 (313)	1,451 (1,349)	13
Total	795 (792)	383 (324)	153 (110)	313 (313)	1,643 (1,539)	23

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 (internal) 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. MCG directors who serve concurrently as corporate executive officers are remunerated as corporate executive officers.

3. The amounts shown above for basic remuneration, etc., and annual bonus are the total of the remuneration, etc., paid during fiscal 2022 (total monetary remuneration).

4. The amount shown for basic remuneration, etc., includes fringe benefits for corporate executive officers of overseas nationality (covering costs for short home country visits, children's education, increase in gross fringe benefits, etc.). Furthermore, in the case of such officers, the Company bears expenses of ¥36 million for housing, medical insurance, etc., as fringe benefits, i.e., non-monetary remuneration, in addition to the above remuneration.

5. The amounts shown for annual bonuses for corporate executive officers include amounts paid in June 2022 to corporate executive officers who retired at the end of March 2022. Meanwhile, for corporate executive officers who served concurrently as directors, the amounts of basic remuneration paid in the period from the end of March 2022, when they retired as corporate executive officers, up to June 2022, when they retired as directors, are classified as remuneration, etc., for (internal) directors.

6. The amount stated above for stock-based remuneration is the sum of relevant expenses recorded for fiscal 2022 (expenses for the PSU system (▶Page 83) introduced in fiscal 2021 and expenses for stock-based remuneration under the BIP trust system applied by subsidiaries).

7. The amount stated above for RS is the sum of relevant expenses recorded for fiscal 2022 (sum of expenses for allocation of RS at the base value for the office title whose transfer restriction is removed on the officer's retirement and expenses for RS allocation to the corporate executive officer, president and CEO as a sign-on bonus).

3	Chapter 1 Our Vision
22	Chapter 2 Sustainable Growth Strategy
56	Chapter 3 Strengthening ESG Activities
57	Message from the Chief Officer Supervising Corporate Sustainability Management
58	Implementing Sustainability
59	Sustainability Indices
	Environment
62	Reporting in Line with the TCFD Recommendations
64	Progress toward Carbon Neutrality and a Circular Economy
	Society
66	Message from the CHRO
67	Human Resources Strategy
72	Building Sustainable Supply Chains
73	Employee-Led Development of Our Way
	Governance
74	Message from the Officer Supervising Governance and Legal Affairs
75	Corporate Governance System
80	Assessment of Effectiveness
81	Director and Officer Remuneration
86	Risk Management
88	Compliance
90	Directors
92	Outside Directors' Discussion Meeting
95	Chapter 4 Financial/Non-Financial Information

Governance

Director and Officer Remuneration

Method of calculating performance-linked remuneration paid during fiscal 2022 and results of evaluation

The amount of the annual bonus paid to each corporate executive officer in fiscal 2022 was determined, within the range of 137.5%–150% of the base amount, in proportion to the results of the KAITEKI Value evaluation (achievement of annual targets under the MCG Group's three key axes: Management of Sustainability [MOS], Management of Technology [MOT], and Management of Economics [MOE]) and individual appraisal (achievement of initiative targets set individually under the medium-term management plan, leadership quality, etc.).

$$\text{Individual bonus amount} = \text{Base amount for office title} \times \frac{\text{[KAITEKI Value evaluation + Individual appraisal]}}{(0-200\%)} \times \frac{\text{Final evaluation adjustment}}{(80-120\%)}$$

The major indicators used in the fiscal 2021 KAITEKI Value evaluation, the reason for their adoption, and the result of the evaluation are as set out below.

	Major indicators	Reason for adoption	% of evaluation
MOS	Safety-related indicators	To ensure the safety of employees and other stakeholders	20%
	Indicators related to environmental impact reduction	To realize carbon neutrality	
	Indicators related to employee engagement	To promote a healthy work environment and society where diverse human resources can participate actively	
MOT	Degree of contribution of new products and services	To measure the ability to create business through innovation	10%
	Patent competitiveness	To measure technological superiority	
	Digital development level	To promote DX	
MOE	Core operating income	To boost core business earning power	70%
	ROE	To promote a sustainable increase in corporate value	
	ROIC	To increase efficiency with the aim of improving core business profits relative to invested capital	

Result of fiscal 2021 KAITEKI Value evaluation (payout rate): S (150%)

Note: KAITEKI Value evaluation: 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 parentheses: Percentage payout).

3	Chapter 1 Our Vision
22	Chapter 2 Sustainable Growth Strategy
56	Chapter 3 Strengthening ESG Activities
57	Message from the Chief Officer Supervising Corporate Sustainability Management
58	Implementing Sustainability
59	Sustainability Indices
	Environment
62	Reporting in Line with the TCFD Recommendations
64	Progress toward Carbon Neutrality and a Circular Economy
	Society
66	Message from the CHRO
67	Human Resources Strategy
72	Building Sustainable Supply Chains
73	Employee-Led Development of Our Way
	Governance
74	Message from the Officer Supervising Governance and Legal Affairs
75	Corporate Governance System
80	Assessment of Effectiveness
81	Director and Officer Remuneration
86	Risk Management
88	Compliance
90	Directors
92	Outside Directors' Discussion Meeting
95	Chapter 4 Financial/Non-Financial Information