

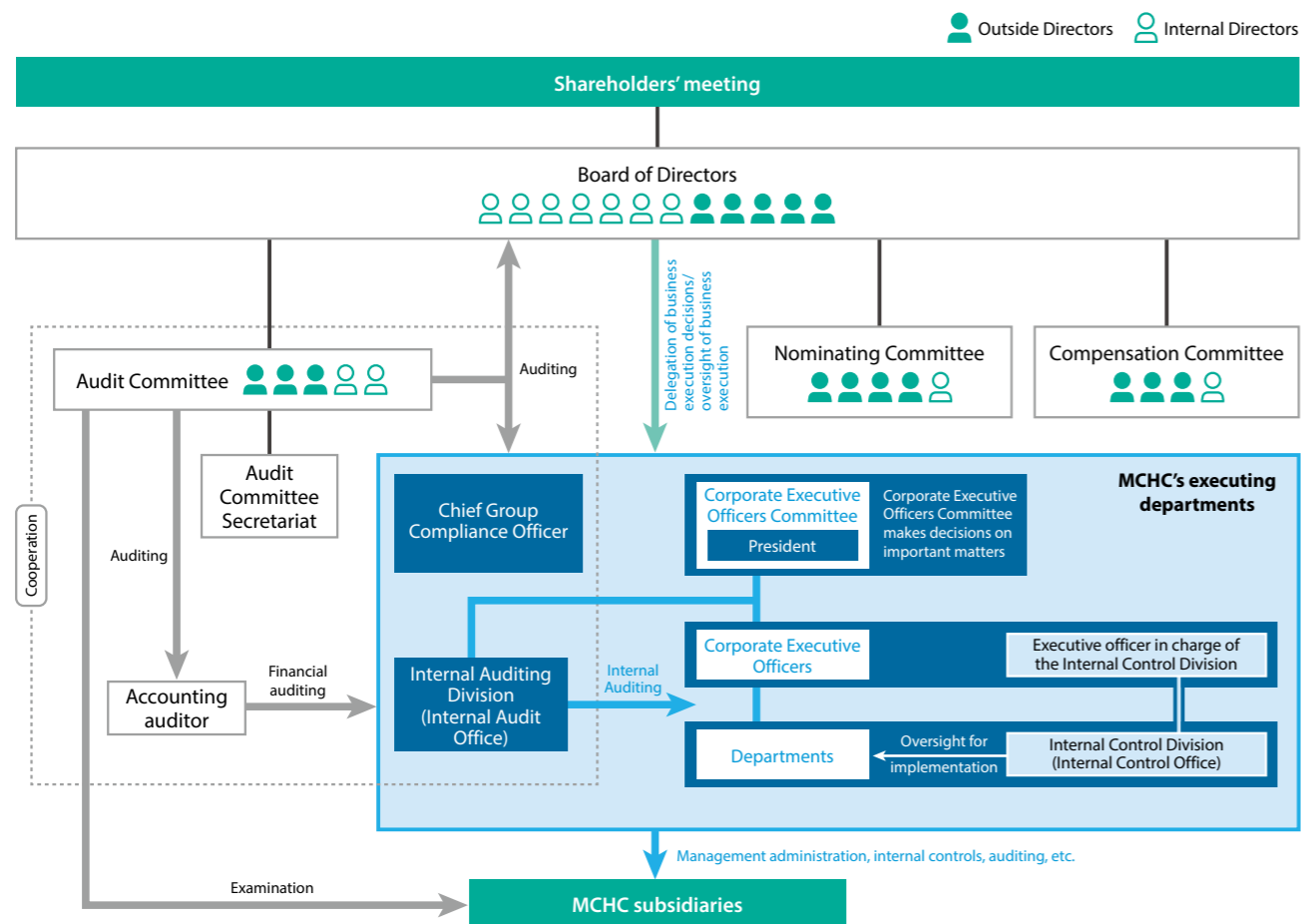
# Governance

## 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
<b>Chairperson</b>	Outside director	Internal director (full-time)	Outside director
<b>Composition (including chairperson)</b>	Outside directors—4 Internal director—1	Outside directors—3 Internal directors (full-time)—2	Outside directors—3 Internal director—1
<b>Purpose</b>	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).
<b>Activities in FY2020</b>	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"> <li>● Inspection of the minutes of the Board of Directors, Corporate Executive Officers Committee and each of the Nominating, Audit and Compensation committees</li> <li>● Questionnaire survey of all directors, including the chairperson of the Board of Directors, covering the following items: <ul style="list-style-type: none"> <li>• Overall assessment</li> <li>• Efforts to address the problems identified in the previous fiscal year's assessment</li> <li>• Composition of the Board of Directors</li> <li>• Preparations for Board meetings and support system for Board members</li> <li>• Discussions at Board of Directors' meetings</li> <li>• Contribution of directors</li> <li>• Ideal profile of each committee</li> <li>• Ways of monitoring business execution</li> </ul> </li> <li>● Survey consisting of interview of approximately one hour with each director</li> </ul>	<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"> <li>● 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.</li> <li>● 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.</li> <li>● 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"> <li>• Redefining the role of the Board of Directors and reviewing the agenda</li> <li>• Encouraging the directors to display leadership</li> <li>• Reviewing the composition of the Board of Directors</li> <li>• Reinforcing the function of director nomination</li> </ul> </li> </ul>	<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"> <li>● Redefining the roles of the Board of Directors and the agenda <ul style="list-style-type: none"> <li>• Recast the role and functions of the Board of Directors and review the agenda</li> <li>• Monitor business execution through the use of key performance indicators (KPIs)</li> <li>• Increase all directors' awareness of their duty to effectively supervise business execution</li> </ul> </li> <li>● Reviewing the composition of the Board of Directors <ul style="list-style-type: none"> <li>• Devise a skills matrix reflecting the role the Board of Directors should fulfill in supervising the new CEO's execution of duties</li> <li>• Review the ratio of internal to outside directors</li> </ul> </li> <li>● Further reinforcing the function of director nomination <ul style="list-style-type: none"> <li>• Plan management succession and identify and list persons with leadership potential at an early stage</li> </ul> </li> </ul>

## 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.

- 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 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).

#### 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	<b>Basic remuneration</b> 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.)
		<b>Annual bonus</b> 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	<b>Performance share unit (PSU)</b> 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))
		<b>Restricted transfer stock (RS)</b> 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

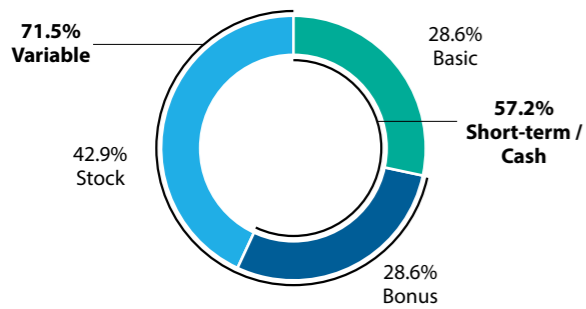
## Method of setting the levels / percentage of remuneration Directors

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).

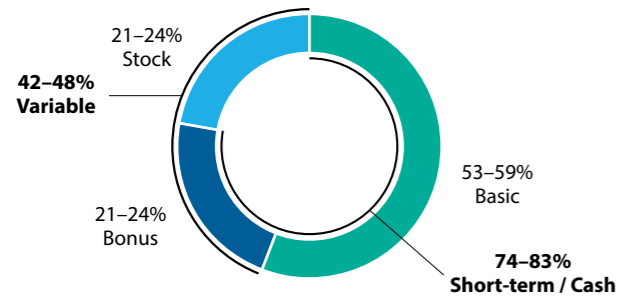
## Corporate executive officers

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	