

Governance

# Corporate Governance

In addition to helping to solve environmental and social issues through our corporate activities for the realization of KAITEKI, the Mitsubishi Chemical Group Corporation aims to contribute to the sustainable development of society and our planet Earth. 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.

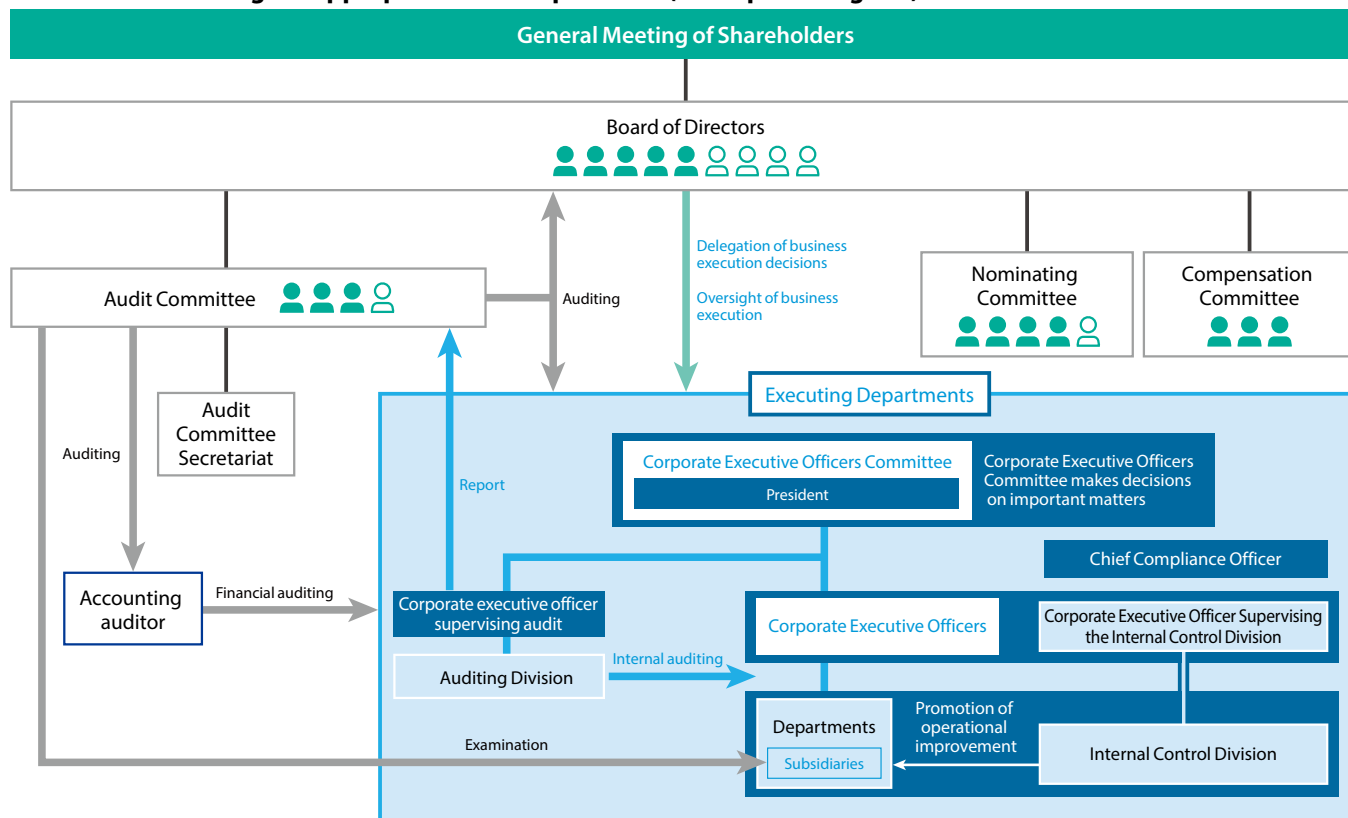
## Corporate governance structure for sound management and greater efficiency (As of June 24, 2022)

To improve the transparency and fairness of our management, strengthen management supervision functions, and increase management agility through accelerated decision-making, MCG has adopted the structure of a company with a nominating committee, etc. 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 the business.

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Structure for ensuring the appropriateness of operations (Conceptual diagram)

Outside directors Internal directors



## Corporate governance history

Category	June 2013	June 2014	June 2015	June 2016	June 2021	June 2022
Initiatives	Appointment of an outside director	Appointment of a director of overseas nationality	Appointment of a female director Transition to a company with a nominating committee, etc.	Increase in the number of outside directors	Selection of a lead independent outside director	Realization of an outside director majority on the Board of Directors
Medium- to long-term targets (including those already achieved)	Strengthening of management supervision functions	Increased diversity of the Board of Directors	Increased diversity of the Board of Directors Improvement of management transparency and fairness as well as management supervision functions	Strengthening of management supervision functions	Enhancement of the independence of the Board of Directors and strengthening of cooperation between executive and outside directors	Strengthening of management supervision functions

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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.

#### Framework and roles of the committees (As of June 24, 2022)

	Nominating Committee	Audit Committee	Compensation Committee
Chairperson	Outside director	Outside director	Outside director
Composition (including chairperson)	Outside directors—4 Internal director—1	Outside directors—3 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 2021	The committee met a total of eight times and held active discussions on the building of a new management structure for the transition to a "One Company" system and on the allocation of corporate executive officers, based on which it selected the successor candidates for the post of corporate executive officer.	The committee met a total of 14 times and undertook key point audits of the status of development and operation of governance and the internal control system, and the status of progress of the medium-term management plan, <i>APTSIS 25</i> . In the above audits, emphasis was placed on responding in line with the new management structure to take account of COVID-19 and other changes in the business environment.	The committee met a total of seven times and, in accordance with the basic policy on director remuneration, engaged in discussions whose main subject was an examination of the appropriate composition and level for the remuneration of corporate executive officers. On this basis, the committee determined the amount of remuneration to be paid to individuals.

#### Main agenda items discussed at the Board of Directors' meeting during fiscal 2021

- New management policy
- Investment planning, budgeting
- Report from each of the committees and the executives
- Effectiveness of internal control system
- Review of the meaningfulness of cross-shareholdings
- Outcomes of engagement activities with institutional investors
- Introduction of enterprise risk management (ERM)
- Assessment of the effectiveness of the Board of Directors
- Selection of new market segments on the Tokyo Stock Exchange
- Response to revision of Japan's Corporate Governance Code
- Abolition of the advisor system
- Issues relating to management strategy

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#### 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.

#### Assessment of the CEO

The Nominating Committee assesses the performance of the CEO from multiple perspectives using indices (▶ Page 59) 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 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.

#### 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, 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 in fiscal 2021

- New management policy
- Issues relating to management strategy
- Introduction of ERM
- Optimal information provision from corporate executive officers to the Board of Directors
- Decision-making authority under the new organizational structure
- Report on assessment results of corporate value including ESG

#### 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 September 16, 2021, the Board of Directors reviewed all Group cross-shareholdings as of the end of March 2021 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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#### Diversity of directors

Our policy is for the Board of Directors to have a diverse composition ensuring a sufficiently high level of expertise to formulate basic Group management policies and provide appropriate oversight and valuable advice on management issues. We use a skills matrix to set out the areas where particular expertise is expected.

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

Notes: 1. For each director, up to three areas where MCG expects particular expertise are indicated.

2. 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 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 (▶ Page 55), 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.

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### 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\*<sup>1</sup> 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 Taiyo Nippon Sanso Corporation. The same shall apply hereafter.)
- (2) A person engaged in the execution of operations of a major business partner\*<sup>2</sup> 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.

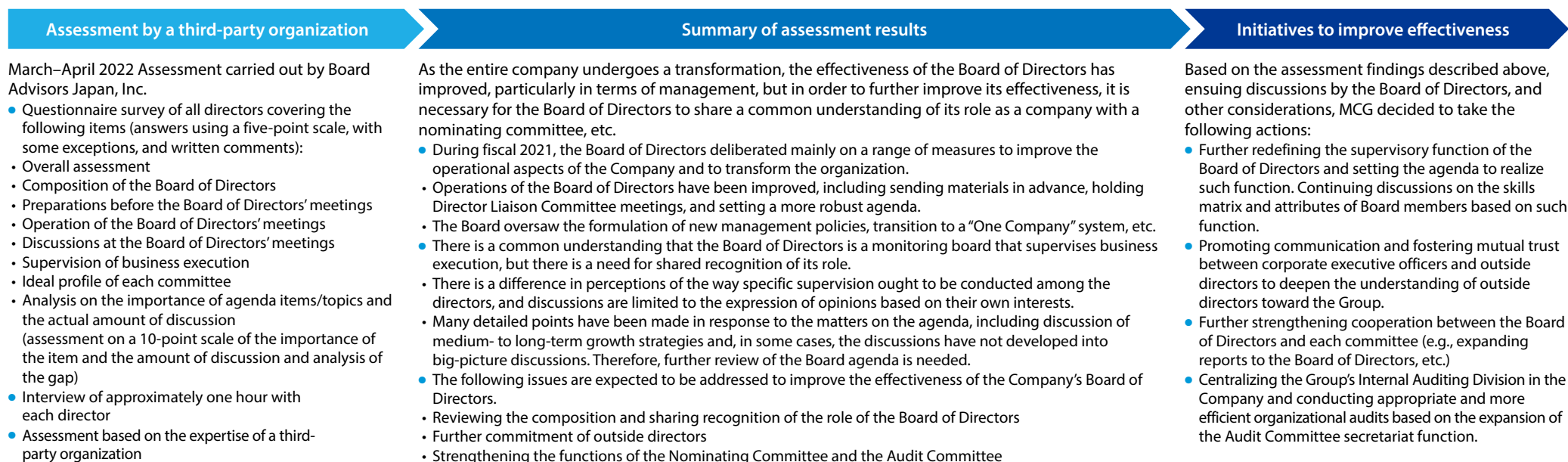
Note: The party is deemed to fall under one of items 3 to 7 above if the relevant condition has been met at any time in the past three years.

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### Fiscal 2021 assessment of the Board's effectiveness

From March to April 2022, an assessment of the effectiveness of the Board of Directors was carried out by a third-party organization. Based on the assessment results, the Board discussed and decided on initiatives to improve effectiveness going forward. MCG will continue working to improve the effectiveness of the Board of Directors, taking due account of the assessment results and the various proposals made by the directors.



### Efforts promoted based on the previous effectiveness assessment

Based on the findings from the effectiveness assessment conducted and directors' suggestions provided in fiscal 2020, MCG implemented the following measures:

- Redefining the roles of the Board of Directors and reviewing the setting of the agenda
  - In addition to enhancing the provision of information to outside directors through Director Liaison Committee and individual meetings, part of the agenda was reviewed in the light of the roles of the Board of Directors.
  - Outside directors selected a lead independent outside director by mutual vote, and the lead independent outside director organized meetings attended only by outside directors and set an effective agenda for the Board of Directors through close cooperation with the chairperson and secretariat.
  - In light of the transition to a "One Company" system, outside directors discussed the role and the ideal state of the Board of Directors at meetings attended only by outside directors and sought a common understanding.
- Reviewing the composition of the Board of Directors
  - From the point of view of strengthening the supervisory function of the Board of Directors, the ratio of internal and outside directors was reviewed, and outside directors became the majority.
- Further strengthening of Nominating Committee functions
  - Lively discussions were held on the establishment of a new management system in conjunction with the transition to a "One Company" system, as well as the allocation of corporate executive officers.

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

Name	Status of activities and summary of duties executed in relation to expected roles	Attendance		
Takayuki Hashimoto	At Board of Directors' meetings, Mr. Hashimoto provided input mainly on global management, business portfolio strategy, and risk management, drawing on his extensive experience in company management and profound insights into digital business. As chairperson of the Nominating Committee, 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. 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 an appropriate remuneration structure and levels of remuneration for corporate executive officers.	Board of Directors' meetings	9/9	100%
		Nominating Committee meetings	8/8	100%
		Compensation Committee meetings	7/7	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 in management knowhow. Furthermore, as chairperson of the Compensation Committee, where the main agenda items of the fiscal year under review were the consideration of an appropriate remuneration structure and levels of remuneration for corporate executive officers, he fulfilled his duties by playing a leading role in highly impartial and transparent decision-making. 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.	Board of Directors' meetings	9/9	100%
		Nominating Committee meetings	8/8	100%
		Compensation Committee meetings	7/7	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. 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. On the Audit Committee, she appropriately fulfilled her assigned duties as an outside member in the conduct of audits based on audit plans, which focused in the fiscal year under review on matters such as the development and operation of the internal control system and intensive auditing of progress in the first year of the <i>APTSIS 25 Step 1</i> medium-term management plan.	Board of Directors' meetings	9/9	100%
		Nominating Committee meetings	8/8	100%
		Audit Committee meetings	14/14	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. 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 an appropriate remuneration structure and levels of remuneration for corporate executive officers. On the Audit Committee, he appropriately fulfilled his assigned duties as an outside member in the conduct of audits based on audit plans, which focused in the fiscal year under review on matters such as the development and operation of the internal control system and intensive auditing of progress in the first year of the <i>APTSIS 25 Step 1</i> medium-term management plan. Since April 1, 2022, Mr. Yamada has served as chairperson of the Audit Committee.	Board of Directors' meetings	9/9	100%
		Audit Committee meetings	14/14	100%
		Compensation Committee meetings	7/7	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. On the Audit Committee, she appropriately fulfilled her assigned duties as an outside member in the conduct of audits based on audit plans, which focused in the fiscal year under review on matters such as the development and operation of the internal control system and intensive auditing of progress in the first year of the <i>APTSIS 25 Step 1</i> medium-term management plan.	Board of Directors' meetings	6/6	100%
		Nominating Committee meetings	5/5	100%
		Audit Committee meetings	10/10	100%

Note: After her appointment as director in July 2021, Takako Masai recorded attendance at Board of Directors' and other meetings held during fiscal 2021.

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## Director remuneration

### Policy for deciding the remuneration of directors and corporate executive officers for fiscal 2022

#### 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 MCG Group's vision, "Realizing KAITEKI" (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 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 below.

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

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.



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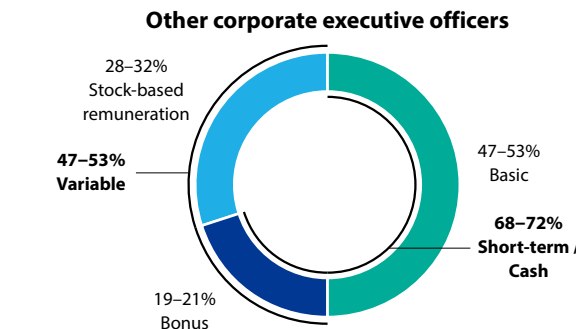
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Method of setting the levels/percentage of remuneration  
Directors

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 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).



\*The ratio of basic remuneration to bonus to stock-based remuneration 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 other corporate executive officers, with the ratio of variable remuneration increasing with seniority of position.

**Composition of stock-based remuneration\*1**

\*1 The composition of stock-based remuneration shown is for the corporate executive officer, president and CEO. For other corporate executive officers, the composition is determined separately for each office title.  
\*2 PSU: Performance share unit  
\*3 RS: Restricted transfer stock

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 MCG Group's three axes of KAITEKI Management: MOS, MOT, and MOE) and individual appraisal (achievement of initiative targets set individually under the medium-term management plan, leadership quality, etc.).

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

Basis for assessment

KAITEKI value assessment

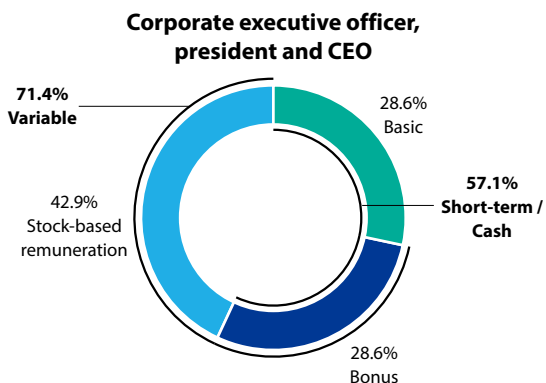
To make officers conscious of the practice of KAITEKI Management to achieve the Company's vision, "Realizing KAITEKI," the Company directly applies indicators for the three axes of KAITEKI Management (MOS, MOT, and MOE) as indicators for assessing bonuses.

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%

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.



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Regarding targets and assessment for 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 follows:

TSR assessment period

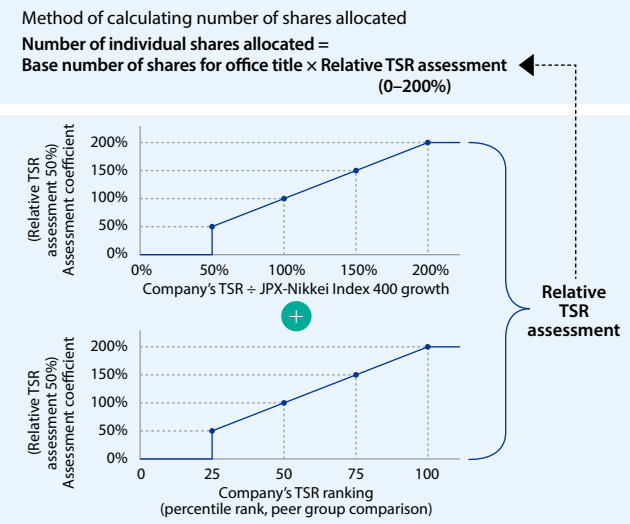
The amount for fiscal 2022 will be based on assessment of the period from fiscal 2022 to fiscal 2024.

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
FY2022 PSU	TSR assessment period			Stock allocation		
FY2023 PSU		TSR assessment period			Stock allocation	
FY2024 PSU			TSR assessment period			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 JPY-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)

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").

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## Aggregate amount of remuneration of company officers

## Aggregate amount of remuneration of officers for fiscal 2021

Category of officer	Aggregate amount of consolidated remuneration, etc. (millions of yen)					Number of officers
	Basic remuneration, etc.	Performance-linked remuneration		Restricted transfer stock	Total	
		Cash bonus	Stock-based remuneration			
Directors (internal)	169 (169)	—	—	—	169 (169)	5
Directors (outside)	86	—	—	—	86	6
Corporate executive officers	366 (355)	67 (67)	80 (80)	267 (267)	780 (769)	8
<b>Total</b>	<b>621</b> <b>(610)</b>	<b>67</b> <b>(67)</b>	<b>80</b> <b>(80)</b>	<b>267</b> <b>(267)</b>	<b>1,034</b> <b>(1,023)</b>	<b>19</b>

- 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 of basic remuneration, etc., and cash bonus are the sum of remuneration, etc., paid during the fiscal year under review (all 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, MCHC bears expenses of ¥33 million for housing, medical insurance, etc., as fringe benefits, i.e., non-monetary remuneration, in addition to the above remuneration.
5. The performance-linked remuneration of corporate executive officers includes amounts paid during the fiscal year under review to corporate executive officers who retired in the previous fiscal year. Moreover, corporate executive officers who retired in the previous fiscal year while remaining in post as directors are classified as directors (internal) for basic remuneration, etc., and as corporate executive officers for performance-linked remuneration.
6. The amount stated above for stock-based remuneration is the sum of relevant expenses recorded for fiscal 2021 (expenses for the performance share units (PSU); ▶ Page 60) introduced in fiscal 2021 and expenses for the BIP trust-based stock-based remuneration that was applied up to fiscal 2020).
7. The amount stated above for restricted transfer stock is the sum of relevant expenses recorded for fiscal 2021 (sum of 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 and expenses for a restricted transfer stock allocation to the corporate executive officer, president and CEO as a sign-on bonus).

## Method of calculating performance-linked remuneration paid during fiscal 2021

The Company's performance-linked remuneration is decided mainly on the basis of the assessment of KAITEKI value (the achievement of annual targets under the MCG Group's three axes of KAITEKI Management: MOS, MOT, and MOE).

## Cash bonus

Individual remuneration amount =  
Base amount for office title × KAITEKI value assessment (0–200%)

## Stock-based remuneration

Number of Individual points awarded for stock allocation =  
Base points for office title × KAITEKI value assessment (0–200%)

## Results of KAITEKI value assessment

The result of the assessment of KAITEKI value for fiscal 2020 was B (50%).

The major indicators used in the assessment of KAITEKI value and their weight in the assessment 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	

- 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. Under the fiscal 2021 plan for the PSU system introduced in fiscal 2021 (▶ Page 60), a number of shares, calculated based on the Company's share price growth in the three-year period to fiscal 2023 and other factors, is due to be allocated in 2024. The result of the assessment and the number of shares to be allocated are thus yet to be decided.