Governance
Risk Management
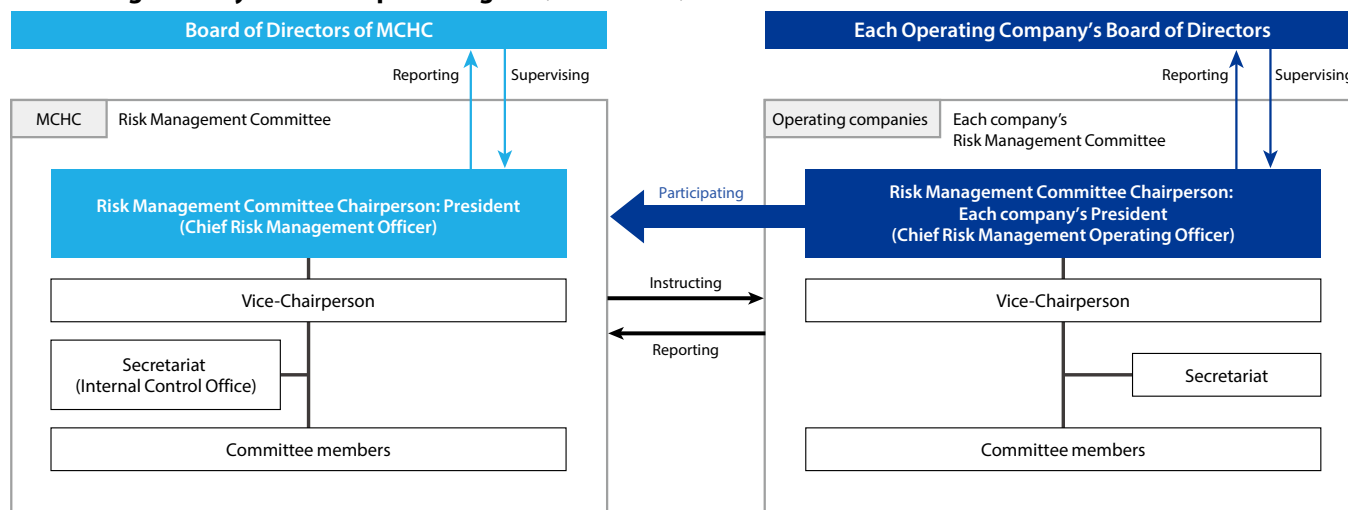
Risk management system

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

Until fiscal 2021, we operated a risk management system in which the president of the former Mitsubishi Chemical Holdings Corporation (MCHC) acted as Chief Risk Management Officer for the entire Group in accordance with risk-related regulations. The status of the management of significant risks and risk management policies that affect the entire Group were deliberated on and decided by the Group's Risk Management Committee and reported as appropriate to the Board of Directors.

The presidents of operating companies established their company group's risk management system as Chief Risk Management Operating Officers for their group and conducted management through each company's Risk Management Committee. In our risk management system, all of our executives, managers, and employees in general were involved in risk management from their own standpoints, as we see the importance of fostering an awareness of risk management among them.

Risk management system conceptual diagram (As of March 2022)

Risk management process (As of March 2022)

1 Identification of risks

All operating companies of the Group regularly identify both internal risks associated with business types and models, and external risks such as country specific risks and economic risks.

2 Risk assessment and measures

Each operating company assesses the impact and frequency of each of the risks identified and establishes an order of priority using a uniform framework. Senior managers specify risks with significant impacts on the Group management as major risks. The relevant departments then implement appropriate risk mitigation measures as instructed.

3 Detailed examination of risk measures

Risk measures are periodically scrutinized. Countermeasures against the major risks, in particular, are reported to each Chief Risk Management Officer at operating companies.

4 Auditing

To ensure the proper administration of these risk management systems, the Internal Audit Office periodically conducts audits and reports to the Chief Risk Management Officers.

Governance

Risk Management

Measures against major risks

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

Accidents, work injuries, and large-scale natural disasters

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

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

Compliance

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

Human rights issues

In line with the commitments set out in our Global Policy on Respecting Human Rights, Employment and Labor, we work through dialogue with stakeholders and other activities based on the approach of human rights due diligence to monitor the value chain for human rights violations and high-risk situations. Where a high-risk workplace or other situation of concern is identified, we seek improvement to prevent adverse human rights outcomes. In the rare event of a human rights violation occurring, we take steps to resolve the issue at an early stage.

Group governance

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

Information security

To protect information assets, we have established information security-related regulations and are working to strengthen the maintenance and management of information security at business sites in Japan and overseas. We are also promoting awareness of strict compliance with the Group Information Security Policy among all employees by providing special training, including practical drills in response to targeted attack emails or other training via an e-learning system.

ACTION

MCG Group Policy with COVID-19

In January 2022, the MCG Group announced the COVID-19-related guidelines set out below. These were rolled out Group-wide, with flexible adjustment to changing conditions.

MCG Group Policy with COVID-19

1. We will give foremost priority to employee safety and health.

2. Each Group company will make provisions to allow diverse work styles in line with the characteristics of its operations.

3. Each workplace, meeting venue, etc., will pay close attention to infection prevention, for example, through social distancing, ventilation, mask wearing, hand hygiene, and monitoring of physical condition.

4. We will strongly encourage COVID-19 vaccination.

However, where this policy differs from practice under local law or regulation, the latter takes precedence.

Governance

Risk Management

Measures against future risks

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

Climate change

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

Digital technologies

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

ERM initiatives

Introduction of ERM for more advanced risk management

To move toward more advanced risk management in line with the new system introduced in April 2022, we have decided to introduce enterprise risk management (ERM).* Currently, preparations for its introduction are in progress.

* Risk management based on the entire organization

ERM at the MCG Group

Unlike the previous system, where each Group operating company took charge of its own risk management, this system will achieve optimization across the Group. It works to manage and visualize the wide-ranging risks and opportunities in a company's environment, enabling management to take on healthy risk in order to maximize corporate value.

Key points of introduction

ERM will visualize uncertain factors with an impact on the strategic and financial targets of the MCG Group as a whole, allowing a Group-wide response.
- By expanding the scope of risk management, it will not only identify risk in the form of potential loss but also opportunities.
- Based on identification of risk connected with the Group's material issues, we will be able to select risks to be addressed as a priority.

Expected effects

More accurate planning based on risks and opportunities	• Taking account of risk in the external and internal environment will lead to **more accurate business planning**. • A more clearly defined policy in response to risks and opportunities will **contribute to fulfillment of business plans**.
Strengthened response to risks and opportunities	• The process of selecting risks and opportunities to be addressed as a priority will become more clearly defined, as will **responsibility for individual risks and opportunities**.
Stronger accountability	• ERM will bring greater clarity and improvement in information disclosure to stakeholders **(disclosure on the status of response to risks and opportunities)**.