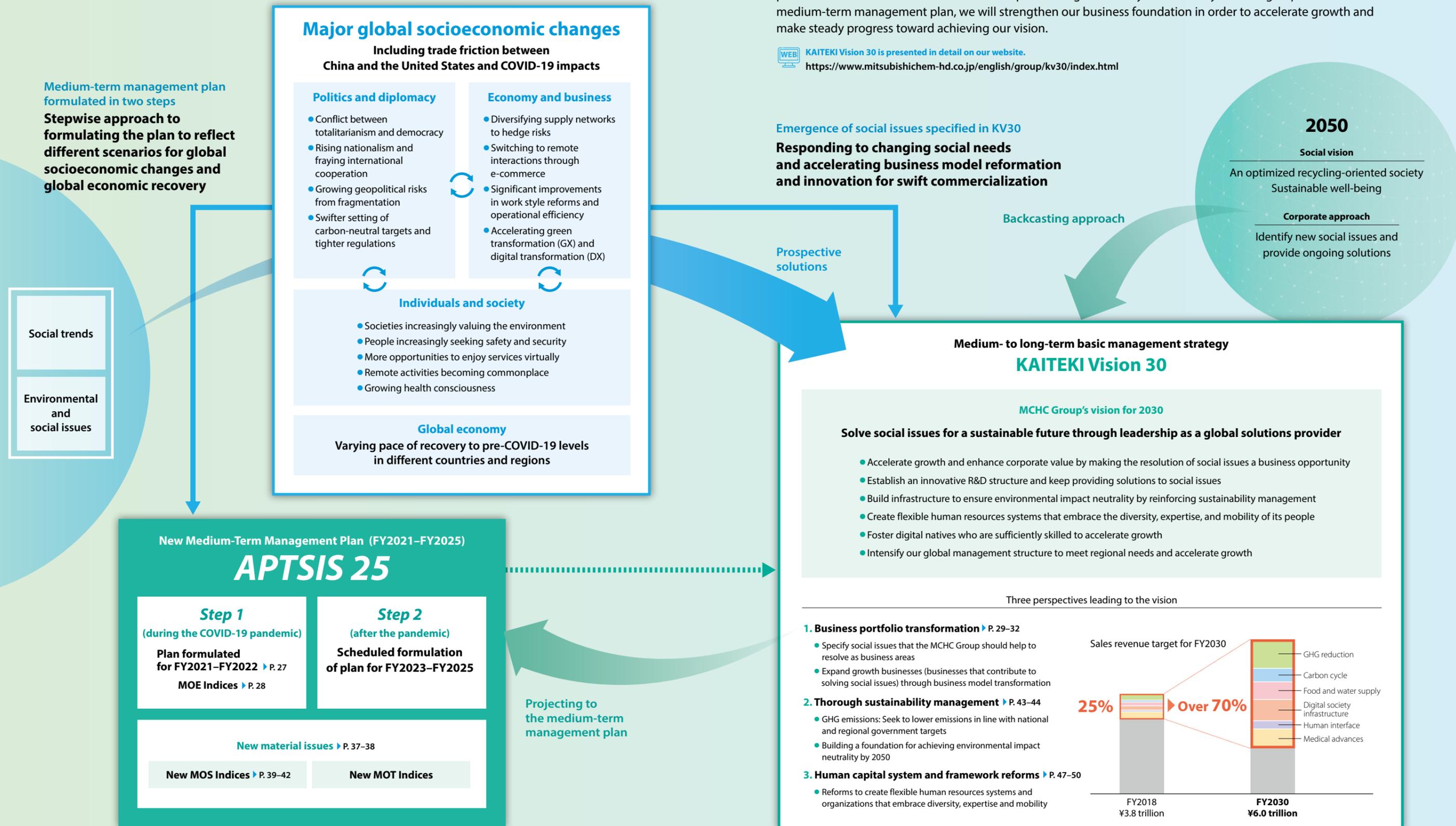


Formulating a New Medium-Term Management Plan to Realize KAITEKI Vision 30



KAITEKI Vision 30 (KV30) is our medium- to long-term basic management strategy, formulated by backcasting from our vision for 2050 in order for the MCHC Group to achieve sustainable growth. With the COVID-19 pandemic, risks related to social issues specified in KV30 are starting to emerge, so the MCHC Group is responding to changing social needs and accelerating business model reformation and innovation in order to swiftly commercialize growth businesses (see P. 31). We have taken a stepwise approach to the formulation of the medium-term management plan based on KV30 in order to reflect the impacts brought about by COVID-19. By executing *Step 1* of the APTSIS 25 medium-term management plan, we will strengthen our business foundation in order to accelerate growth and make steady progress toward achieving our vision.

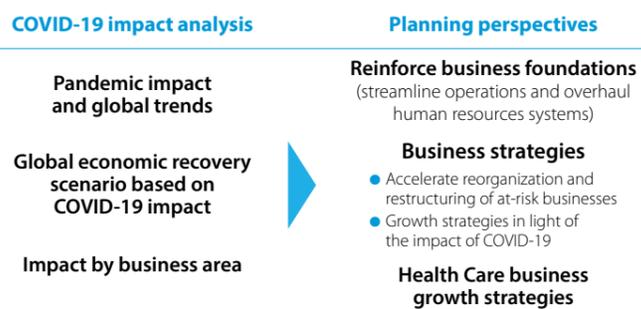
[KAITEKI Vision 30 is presented in detail on our website.](https://www.mitsubishichem-hd.co.jp/english/group/kv30/index.html)
<https://www.mitsubishichem-hd.co.jp/english/group/kv30/index.html>

Emergence of social issues specified in KV30
Responding to changing social needs and accelerating business model reformation and innovation for swift commercialization

Toward a Rapid Recovery from COVID-19 Impacts and Strengthening of the Business Foundation

Formulating a two-step plan in light of COVID-19 impacts

We have taken a two-step approach to the formulation of APTSIS 25, creating Step 1 and Step 2 plans in light of future uncertainties brought about by COVID-19. In Step 1, we prioritize a swift business recovery, strengthened business foundation and footholds for growth. In Step 2, we focus on growth acceleration.



Principle Management Measures in APTSIS 25 Step 1

Management foundations

Streamline management and rationalization

- Save ¥22 billion by rationalizing the business infrastructure
- Pare assets by ¥180 billion through asset efficiency measures

Human resources system and work style reforms

- Attract diverse talent through job-specific and performance-based pay [▶ P. 47](#)
- Embrace new world of work [▶ P. 47-48](#)

Organizational restructuring and global management

- Reorganize MCC (build an organizational structure matching growth business areas in KAITEKI Vision 30)
- Realize the "One MCC" structure (build a regional headquarters-based management structure that drives global growth)

Business foundations

Business model reform [▶ P. 29](#)

Next-generation businesses initiatives and CVC [▶ P. 55](#)

Business strategies

Business portfolio strategies

1 Accelerate reorganization and restructuring of at-risk businesses [▶ P. 30](#)

2 Secure footholds in fields where growth is accelerating amid changing social needs [▶ P. 31](#)

3 Health Care business growth strategies [▶ P. 32](#)

Financial strategies

Financial strategies, improved financial position, financial target, resource allocation policy

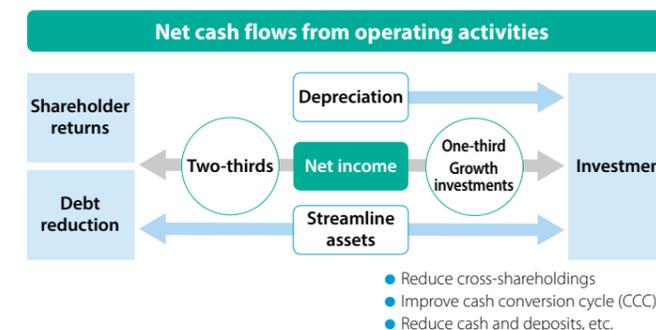
Sustainability management [▶ P. 43](#)

Financial strategies

Increase corporate value by balancing shareholder returns, financial position improvements, and growth business investments

Pursue ROE of at least 8% under Step 1

- Shareholder returns:** The initial fiscal 2021 dividend forecast of ¥24 per share is consistent with basic policy (a medium-term consolidated dividend payout ratio of 30%)
- Growth investments:** Allocate one-third of net income to growth investments



Improved financial position

Keep improving the financial position and aim to restore the net debt-to-equity (D/E) ratio to under 1.0x level by fiscal 2023

Undertake ¥180 billion in financial structural reforms during APTSIS 25 Step 1 through measures to improve asset efficiency (improve cash conversion cycle (CCC), reduce cross-shareholdings, etc.)

Steadily reduce net interest-bearing debt

¥2,132.8 billion

	APTSIS 25 Step 1 (FY2021–FY2022)
Lower cross-shareholdings	65
Improve CCC	40
Lower cash and deposits and sell assets, etc.	75
Total asset efficiency improvements	180

Financial target

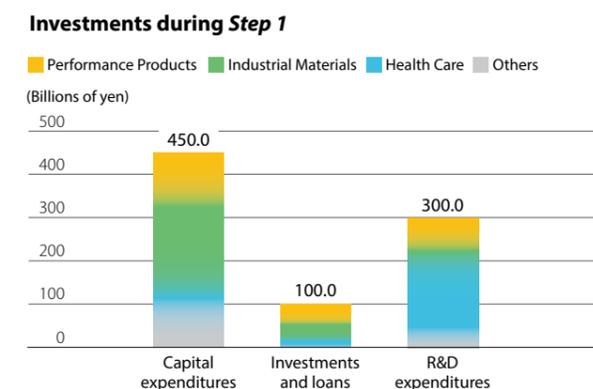
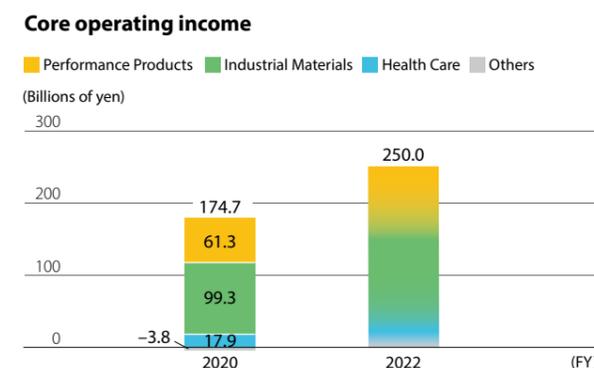
Core operating income	¥250 billion
Net income attributable to owners of the parent	¥120 billion
ROE	10%

Resource allocation policy

Capital expenditures: Maximize within the scope of depreciation and amortization

Investments and loans: Prioritize areas with growth acceleration prospects

R&D expenditures: Strengthen Performance Products and Health Care R&D



Business model reform

Reform business models in line with changes to the business environment

During this period of major global socioeconomic change, it is essential to be in step with social developments and fundamentally transform business models in order to achieve sustainable growth. Rather than simply supplying industrial materials, the MCHC Group will transform business models with the goal of broadening the scope of our solutions and optimization services across all social systems and creating higher-level solutions and social value.

Strengthen the solution provision structure

Further expand carbon fiber composite materials business in the mobility field and provide total solutions including in chemical and material recycling

Strengthen carbon fiber composite materials business **Step 1**

- Strengthen business centered on PCM*1 and CF-SMC*2
- Build new CF-SMC manufacturing facilities in Italy to create a structure for providing integrated solutions for parts design, molding, painting and assembly

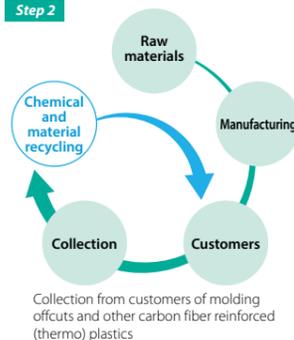


Toyota's GR Yaris employs CF-SMC
 (Photo provided by Toyota Motor Corporation)

*1 PCM: Prepreg Compression Molding
 *2 CF-SMC: Carbon Fiber-Sheet Molding Compound

Build recycling business model **Step 2**

- In addition to existing technologies, cultivate technologies from acquired European recycling companies to build a recycling business model for carbon fiber composite materials and engineering plastics that help lower CO₂ emissions



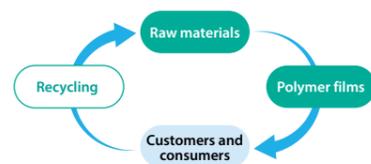
Promote chemical materials recycling

Help create a circular economy for plastics by managing the supply chain with customers and consumers

Engage in PIR*1 and PCR*2

- Reduce environmental impact through chemical and material recycling technologies
- Build a chemical refinery
- Create a waste plastics collection system

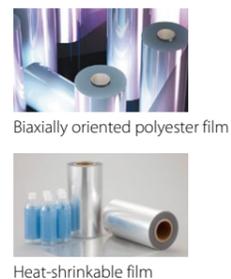
*1 PIR: Post Industrial Recycling
 *2 PCR: Post Consumer Recycling



Design easily recyclable products

- Use materials informatics*
- Develop advanced monomaterial films
- Apply multilayer separation techniques

* Materials informatics (MI): AI-based method to design new materials and explore alternative materials rapidly and efficiently.



Develop chemical recycling technology

- Chemically recycle PET bottles
- Seek innovative startup partners (corporate venture capital activities)

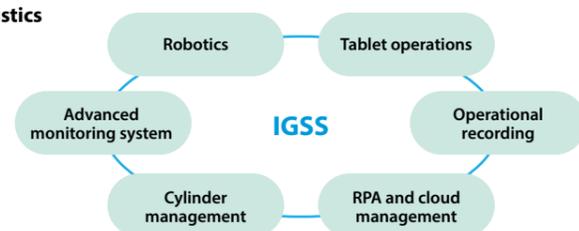


Developing an Intelligent Gas Supplying System (IGSS)

Develop an innovative next-generation gas supplying system that materializes smart factories and cultivate diverse applications through customization and packaged services

Drive DX among customers and through production sites and logistics

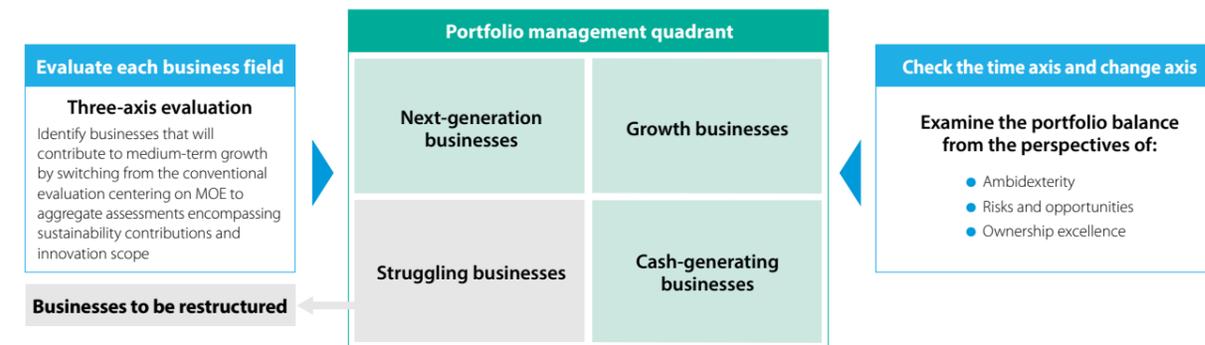
- Build an Intelligent Gas Supplying System (IGSS) that integrates cylinder transportation and management, routine inspections and gas monitoring system
- Drive DX to run plants remotely and optimize operations to cut costs by improving efficiency and saving labor
- Make order receipt processes more efficient and less labor intensive by promoting online ordering



Business portfolio strategies

Basic policy on portfolio reform—Shift to quadrant portfolio management based on three-axis evaluation (MOS, MOT and MOE)

Aim to foster growth businesses that have been identified as areas with growth potential from among our business areas that address social issues. We will conduct aggregate assessments encompassing MOS perspectives (can the business reduce environmental impacts in the future or help address social issues) and MOT perspectives (is there scope for technological innovation or technological applications for other solutions) as well as MOE perspectives (profitability or market growth potential) in order to identify those businesses that will contribute to medium-term growth.



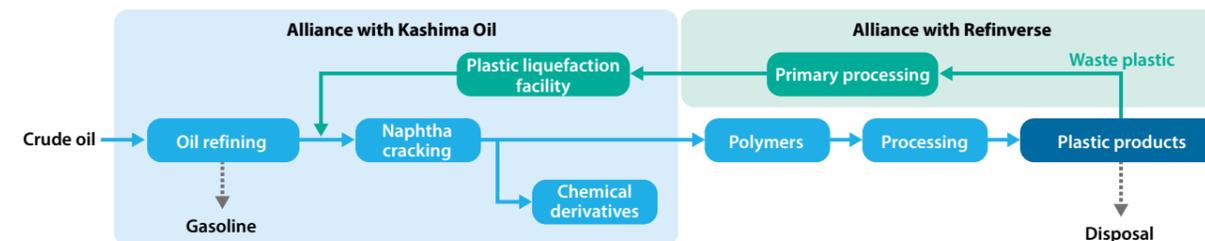
1 Accelerate reorganization and restructuring of at-risk businesses

We will restructure businesses with the goal of creating more resilient operations versus external factors and more stable earnings structures. We will pursue business model transformation to increase our competitive edge through even stronger ties with oil refining in the petrochemicals business and to respond to changing demand structures for coke. We will work to stabilize MMA business profits through a number of measures, including globalizing business infrastructure and finalizing our decision on a U.S. project using MCC's new proprietary ethylene method (Alpha technology).

Petrochemicals Stronger ties with oil refining

Optimizing the integrated operations at Kashima Oil and MCC

- Crack butane and other fuels to create petrochemical raw materials
- Optimize naphtha quality and explore exchanges of utilities and infrastructure



Explore chemical recycling of waste plastics

- Set up plastic liquefaction facilities for waste plastics ▶ P. 81
- Invest in Refinerve to secure waste plastic materials

Coke Business model reform to shift to overseas export business

Trends in domestic steel industry consolidation

- Cease operations at five of 25 blast furnaces in Japan by 2023 (reduction of 9 million metric tons in annual crude steel production leading to a decrease of 4 million metric tons in annual coke demand)

MCHC coke business reforms

- Reduce the number of coke ovens at the Kagawa Plant from 323 to 250 to optimize operations
- Double export shipping lines to two

MMA Globalize business infrastructure and stabilize earnings ▶ P. 82

Globalize business infrastructure

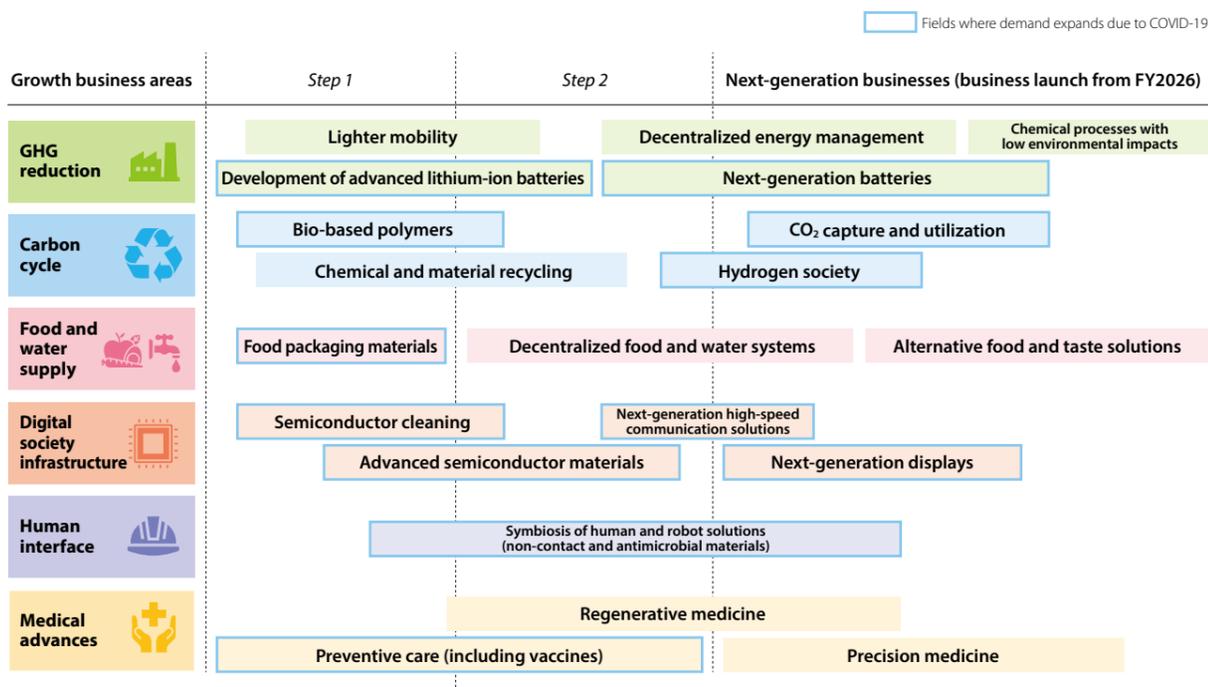
- Maintain the global supply chain management system using DX
- Move relevant headquarter functions to Singapore

Push ahead with the U.S. project

- Acquired land in Geismar, Louisiana for plant construction, with goal of starting operations in 2025

2 Secure footholds in fields where growth is accelerating amid changing social needs

Looking ahead to 2050, we have analyzed trends in the market and technological evolution from today through 2030 to identify candidate businesses and then selected out growth business areas based on market growth potential, scope for technological innovation and market size. We are working to progress business model transformation and technological innovation, with a focus on the various changes underway, including social needs, which have been accelerated by the COVID-19 pandemic.



Business strategies in Step 1 and Step 2

GHG reduction	<p>Help popularize EVs and expand adoption of renewable energy</p> <p>Lithium-ion battery materials Step 1</p> <ul style="list-style-type: none"> Joint electrolyte venture in Japan with Ube Industries Expanding sales of new anode materials <p>Next-generation battery materials Step 2</p> <ul style="list-style-type: none"> Accelerate development through open innovation
Carbon cycle	<p>Help materialize low-environmental impact cycles and reach beyond-zero emissions targets through biodegradable polymers and artificial photosynthesis technology</p> <p>Focus on biomass and biodegradable polymers Step 1 Step 2</p> <ul style="list-style-type: none"> Expand biomass polymer products for consumer durables Focus on biomass and biodegradability for medical and single-use tableware applications requiring plastics <p>Artificial photosynthesis Next-generation businesses</p> <ul style="list-style-type: none"> Develop new photocatalysts for efficient hydrogen production (Schedule: Large-scale verification tests in 2030, social implementation in 2040) Studying energy saving in the CO₂ resource recovery reaction process Pilot testing a new methanol synthesis technique
Food and water supply	<p>Reduce food losses and contribute to circular economies</p> <p>Respond to increased demand Step 1</p> <ul style="list-style-type: none"> Cater to rising pandemic-driven demand for high-barrier, light, easy peel and other high-performance products Looking to expand production capacity of the ethylene vinyl alcohol copolymer <i>Soarnol</i> and biodegradable polymer <i>BioPBS</i> <p>Boost recycling and reduction technologies Step 2</p> <ul style="list-style-type: none"> Enhance chemical and material recycling technologies, as well as raw material conversion and processing and molding technologies
Digital society infrastructure	<p>Expansion of the semiconductor-related solutions business through combination of advanced materials development with services to reduce environmental impact P. 78</p>

3 Health Care business growth strategies Medical advances

For pharmaceuticals, we aim to develop precision medicine*, particularly in the fields of the central nervous system and immuno-inflammation, and launch more products from fiscal 2025. We are also focusing on the vaccine business and aim to generate more than ¥100 billion in vaccine sales by fiscal 2025. We are advancing the development and commercialization of Muse cell-based regenerative medicine products and aim to file in fiscal 2021 and obtain approval in fiscal 2022.

* Precision medicine: Providing the right treatment at the right time to the right patient by taking into account differences between patients' genes, environments and lifestyles.

Preventive care **Generate more than ¥100 billion in vaccine business sales by fiscal 2025** Step 1 Step 2 P. 86

Help prevent infectious diseases by developing VLP vaccines and adjuvants **Continue efforts to prevent infectious diseases in children and adults and maintain stable vaccine supplies in Japan**

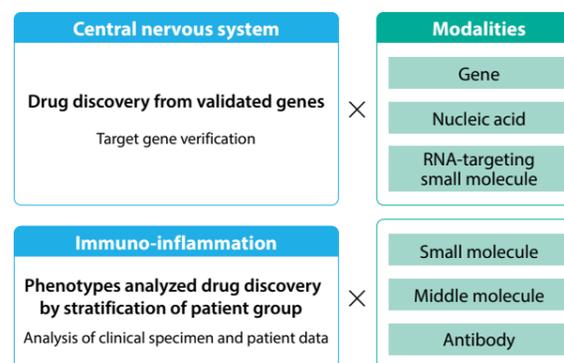
- Medicago Inc. (Canada) initiatives
 - VLP vaccine for COVID-19 (MT-2766)
 - Seasonal flu VLP vaccine (MT-2654)
- Collaboration with the BIKEN Group
 - Pediatric 5-in-1 combined vaccine (MT-2355)
 - Varicella vaccine: Raise awareness of shingles

Regenerative medicine **Advance development and commercialization of Muse cell-based regenerative medicine products, aiming to file in fiscal 2021 and obtain approval in fiscal 2022** Step 1 Step 2 Next-generation businesses P. 86

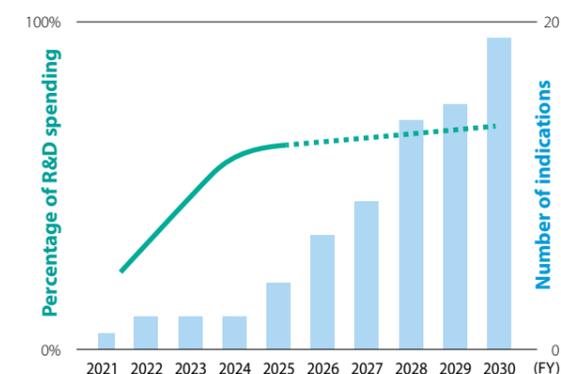
- Initiatives for multiple indications**
 - Clinical trials underway in six diseases
- Collaborations for commercialization**
 - Establish a collaborative structure to drive commercialization using proprietary cell manufacturing technologies and alliances with Group companies and research institutions
- Overseas expansion**
 - Start consultations with U.S. authorities to prepare for clinical trials. At the same time, seek development and other partners

Precision medicine **Expand the pipeline** Next-generation businesses

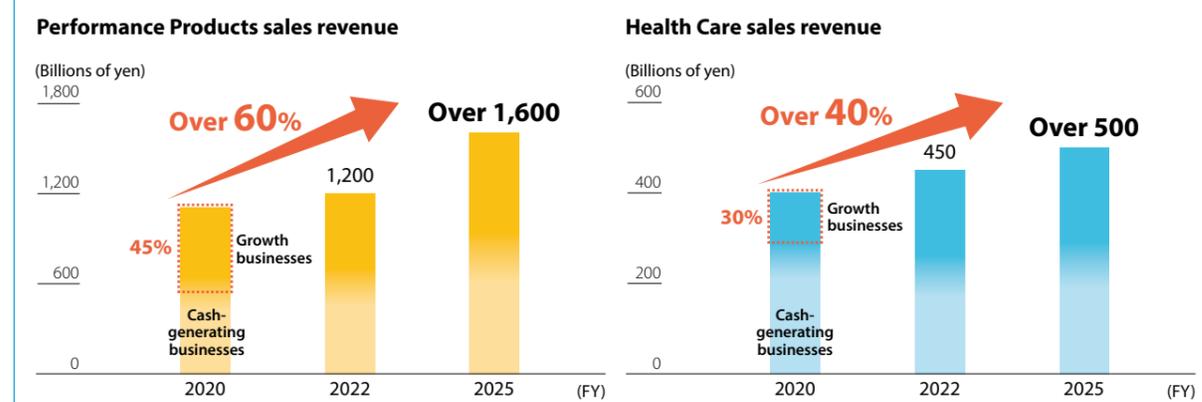
Expand the portfolio by combining the central nervous system and immuno-inflammation research infrastructure and modalities



Aim to increase precision medicine R&D spending and launch more products after fiscal 2025



Performance Products and Health Care business expansion goals



Message from the CFO

Stepping up optimal resource allocation and portfolio management to create both financial value and social value



Hidefumi Date

Managing Corporate Executive Officer
Chief Financial Officer

Further improving our financial position to swiftly return the net debt-to-equity ratio to under 1.0x

Under the previous medium-term management plan, APTSIS 20 and my role as CFO, we put great emphasis on raising ROE and rigorous ROIC management to improve asset efficiency. We also worked to build agile and profit-focused management systems, including driving greater use of ROIC trees in each division. To strengthen our financial position, we set up a four-region Europe-North America-Japan-Asia cash management system (CMS) as a way to ensure efficient asset use, we shortened the cash conversion cycle (CCC) and we regularly reviewed the purpose of asset holdings and sold unnecessary assets (see P. 19).

However, our net debt-to-equity (D/E) ratio swelled to 1.73x at the end of fiscal 2020 as a result of investments and loans for U.S. and European acquisitions in Industrial Gases

Capital efficiency initiatives and results under APTSIS 20

- Shorten the cash conversion cycle (CCC)



- Sell assets with lowered ownership value by regularly verifying their value

and to make Mitsubishi Tanabe Pharma a wholly owned subsidiary in Health Care.

Under the new medium-term management plan, APTSIS 25, we will work to improve our financial position with the goal of bringing the net D/E ratio below 1.0x by the end of fiscal 2023, targeting asset efficiencies worth ¥180 billion and ROE of at least 8% during the two-year Step 1 phase.

Accelerating the portfolio transformation to create both economic and social value

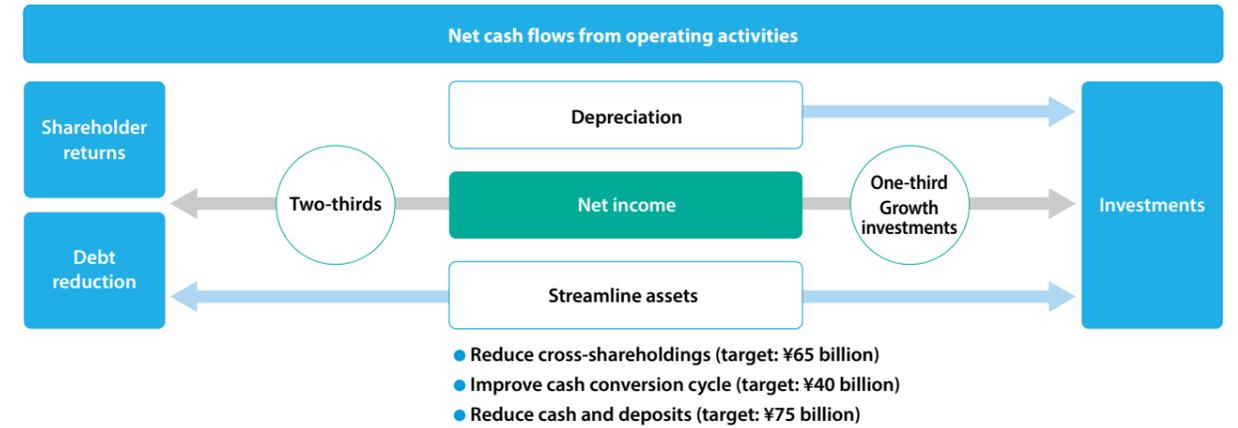
To date, we have managed the business with an awareness of capital costs, setting ROE above cost of equity capital as a management indicator and singling out for review poorly profitable businesses where ROIC is below WACC.

We now aim to manage our portfolio using aggregate assessments that combine MOE* perspectives on profitability or market growth potential with MOS* perspectives, such as

- Establish a cash management system (CMS) in four regions (Europe, Americas, Japan and Asia Pacific)



Financial strategy under APTSIS 25 Step 1



whether the business can address such social issues as reducing environmental impacts, and MOT* perspectives, including the scope for technological innovation, in order to identify those businesses that will contribute to medium- and long-term growth.

This approach is simply the execution of KAITEKI Management. It is also consistent with our new president's goal of streamlining through comprehensive evaluations that focus on strengths, growth potential, and low-carbon perspectives. Our management team will work as one on this business portfolio optimization, developing more stable profit structures that are resilient to external change and ensuring appropriate resource allocation.

* MOE, MOS and MOT are the indices used in KAITEKI Management (see P. 13).

Resource allocation and shareholder return policy

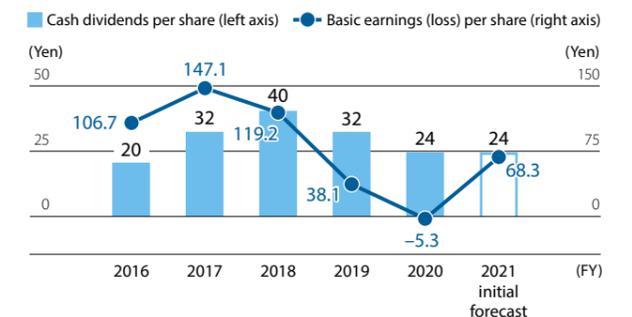
Our approach to resource allocation will not change under the APTSIS 25 medium-term management plan, with a continued focus on achieving the right balance between providing shareholder returns, strengthening our financial position, and investing in growth businesses. We plan ¥450 billion in capital expenditures, ¥100 billion in investments and loans, and ¥300 billion in R&D expenditures over the two-year period of Step 1. When executing investments, we will rigorously and prudently investigate the business environment, while also focusing on cutting costs, and implement a financial strategy that aims for ROE of at least 8% (see P. 28).

Our basic policy for shareholder return is to improve shareholder value through increased corporate value. For dividends, we remain committed to maintaining a stable dividend and to providing a medium-term consolidated payout ratio of 30%, while balancing the need to invest for growth and improve our financial position. We plan to keep dividends at the same level as in fiscal 2020, distributing ¥24 per share in fiscal 2021.

After developing the concept of KAITEKI Management more than 10 years ago, we have worked to increase KAITEKI value, which can be defined as corporate value comprising both economic and social value. We report the results of these efforts in our KAITEKI Reports (integrated reports). We have been recognized for our work in this area by multiple external parties in recent years, including through awards for our integrated reports and inclusion in ESG stock indices. With the uncertain outlook in fiscal 2020, I was acutely aware of the difficulties we face in continuing to fulfill our responsibility to provide full accountability. However, I have always believed that improved accountability leads to lower capital costs for the Company, and I consider that my role is to provide appropriate accounts of specific measures relating to both financial and non-financial information. Looking ahead to the future under the new president, we will work to enhance our IR communications and actively create opportunities for two-way dialogue with stakeholders in Japan and overseas.

I will continue fulfilling my duties as CFO by providing full accountability to our shareholders and all stakeholders and by lowering corporate risk and capital costs to enhance our corporate value.

Shareholder returns



Sustainability

Message from the CSO

Our goal is to continuously increase corporate value by pursuing business activities with a focus on sustainability

Yoshihiro Ikegawa

Representative Managing Corporate Executive Officer
Division Manager, Corporate Strategy Division
Chief Sustainability Officer



Our mission

In the midst of numerous global-scale issues such as climate change and resource depletion, MCHC announced its medium- to long-term basic management strategy KAITEKI Vision 30 (KV30) in February 2020, identifying the Group vision for 2030 and a path to sustainable growth (see P. 25). The spread of COVID-19 has brought about enormous change in how we live and work, but the direction and policies in KV30 remain the same, with sustainability positioned at the center of sustainable growth by the MCHC Group. Our goal is to take a hard look at what society needs and provide a range of solutions to address these social issues. This is our mission at the MCHC Group.

Recover business promptly and consider post-pandemic outlook

In February 2021, we unveiled *Step 1* of MCHC's medium-term management plan APTSIS 25, aimed at realizing KV30. Collaboration with our stakeholders is a key focus for MCHC, so we decided it was important to share our road map that describes how we will further strengthen our business foundation and achieve sustainable growth, even with the uncertain outlook caused by COVID-19.

When formulating the new medium-term management plan, we decided on a two-step approach as a rational way of reflecting the impact of COVID-19 now and in the future after the pandemic. *Step 1* runs through to 2022, when we expect uncertain economic conditions. During this *Step 1*, we will prioritize measures for business recovery, strengthened

business foundation and footholds for growth (see P. 27–32). In *Step 2* from 2023, we will pursue measures to accelerate growth.

Portfolio transformation will be essential if we are to achieve this plan. We will pick up the pace on portfolio transformation, while reflecting on the changes of social needs and future business risks, using aggregate assessments that combine perspectives of sustainability such as reduced environmental impacts, with faster technological innovation, profitability and market growth potential.

Revising material issues

When formulating the new plan, we revised, categorized and ordered the material issues from the perspectives we consider important for the MCHC Group, including our business foundation, environmental and social impacts, and accelerated business portfolio transformation (see P. 37–38). We then set MOS Indices as KPIs to measure our progress in addressing these material issues (P. 39–42). The new MOS Indices also feature indicators that measure the contribution to sustainability through our businesses, including percentage of sales revenue from the growth businesses (businesses that contribute to solving social issues) and percentage of sales revenue from products that contribute to the circular economy or mitigate and adapt to climate change.

Rather than quantifying the results as in the past, the new MOS Indices have been improved to use the numbers to give a readily understandable picture of how we are progressing. With the growing focus on corporate ESG initiatives, information disclosure on sustainability is an important element for management. We aim to disclose information in an appropriate and accessible fashion, and thereby deepen our dialogue with all our stakeholders.

Working to reach our GHG goals in 2030

To address the urgent issue of climate change, national and regional governments have proposed targets through to 2030 and the main industrialized nations, Japan included, have set a target of achieving carbon neutrality by 2050.

Through our global business, the MCHC Group is making every effort to tackle climate change and is striving to lower GHG emissions in line with national and regional government targets. The Japanese government has proposed a 46% reduction in comparison to fiscal 2013 levels by fiscal 2030. To achieve this target, the government needs to develop innovative policies on energy and industry. We will build an action plan for the MCHC Group based on scenarios and specific measures put forward by the Japanese government. At this stage, we are stepping up our initiatives to reduce GHG emissions from manufacturing, including switching fuels on in-house generators, using renewable energy, and pursuing further process rationalization, while preparing to deploy in-house carbon pricing.

Approach to achieving carbon neutrality

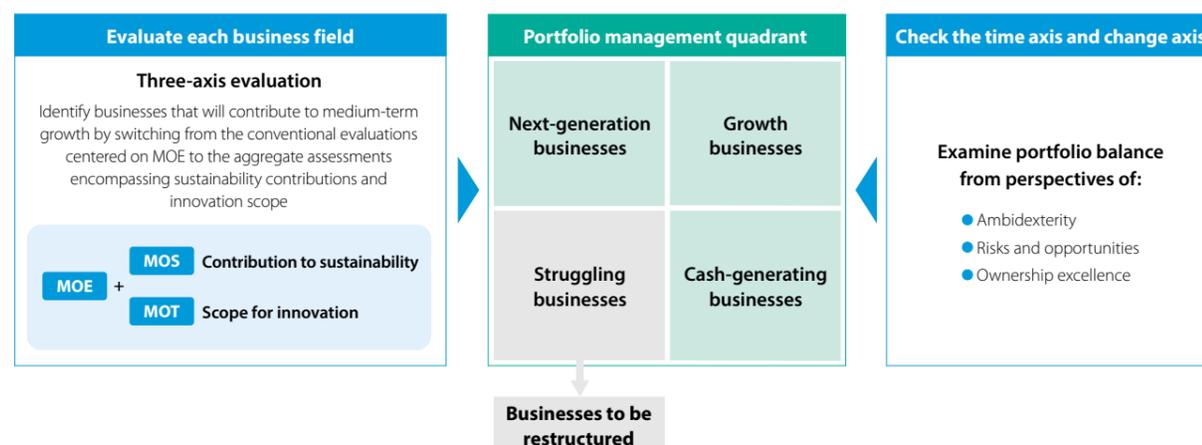
To be carbon neutral by 2050, we need systems to objectively evaluate CO₂ across the entire value chain. We have therefore started to develop life cycle assessment (LCA) systems in a collaboration that goes beyond our industry. Carbon neutrality will require technology development relating to the carbon cycle, where CO₂ can be utilized as a resource, as well as stable energy supplies that are basically carbon-free. The MCHC Group will strengthen partnerships with industry, government and academia, while contributing to the realization of these innovations and striving to create new businesses that provide growth opportunities for the Group.

Toward a sustainable increase in corporate value

In order to steadily make our business activities more sustainable, every single MCHC Group employee needs to hone their own transformational capabilities. To promote the execution of the MCHC Group mission, we started providing workshops for general managers in 2018 and have since expanded this program in a stepwise fashion to younger employees leading the next generation. With these workshops as a starting point, we have widely promoted the KAITEKI concept and KV30 in the Group, fostering a culture to address social challenges through business activities. Three years have passed since we started these workshops, and I am confident that our employees are now taking ownership to create new value, with visible progress in work style reforms or projects at every workplace that aim to address social issues through our business.

The COVID-19 pandemic has accelerated change in social needs. The paradigm shift brought about by the pandemic can also be seen as a great opportunity to build new social systems. We aim to continuously improve corporate value by pursuing a business strategy focused on sustainability, with every single MCHC Group employee responding flexibly to change.

Portfolio management through three-axis evaluation using MOS, MOT and MOE

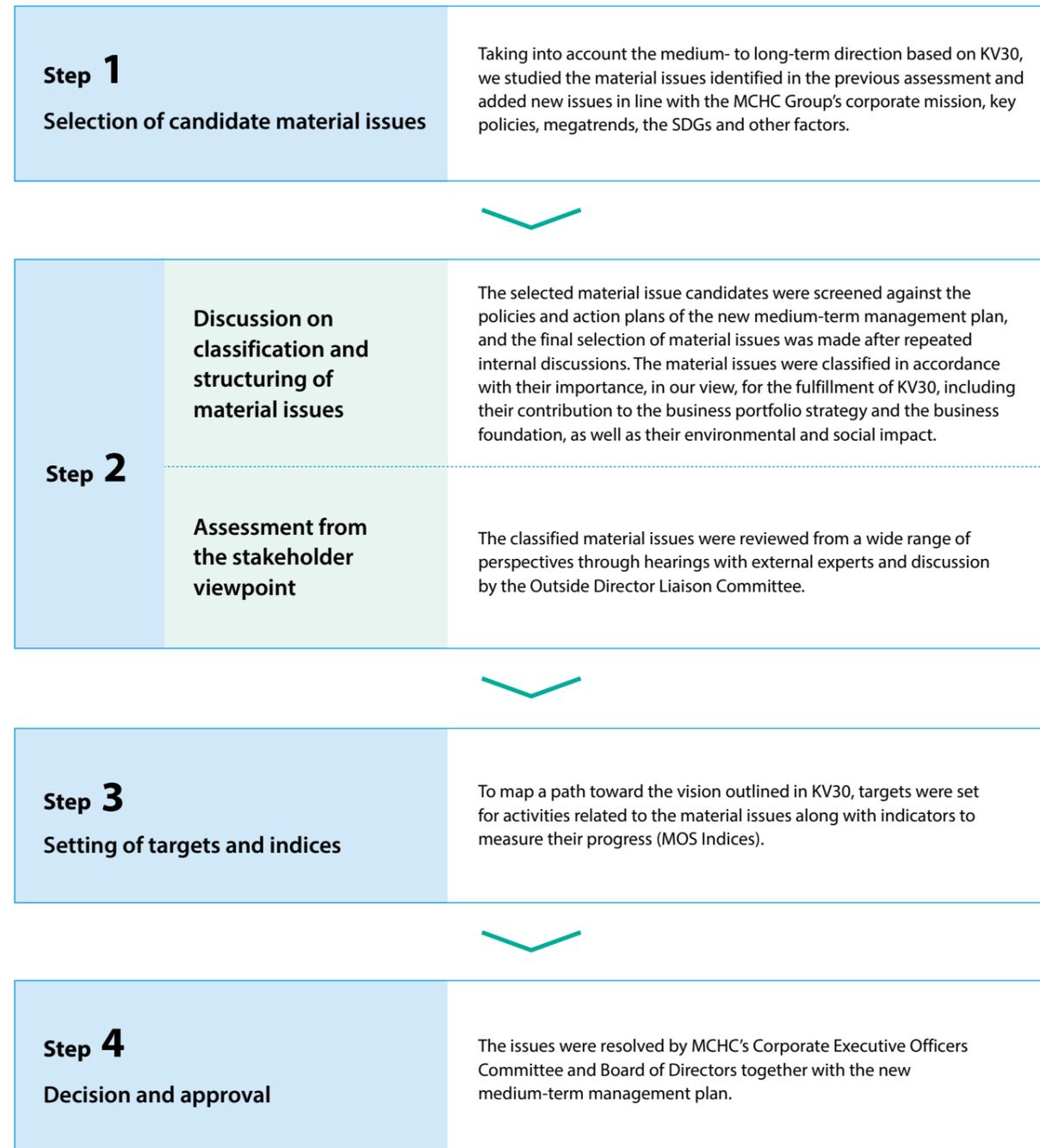


Material Issues Identified in APTSIS 25 and New MOS Indices

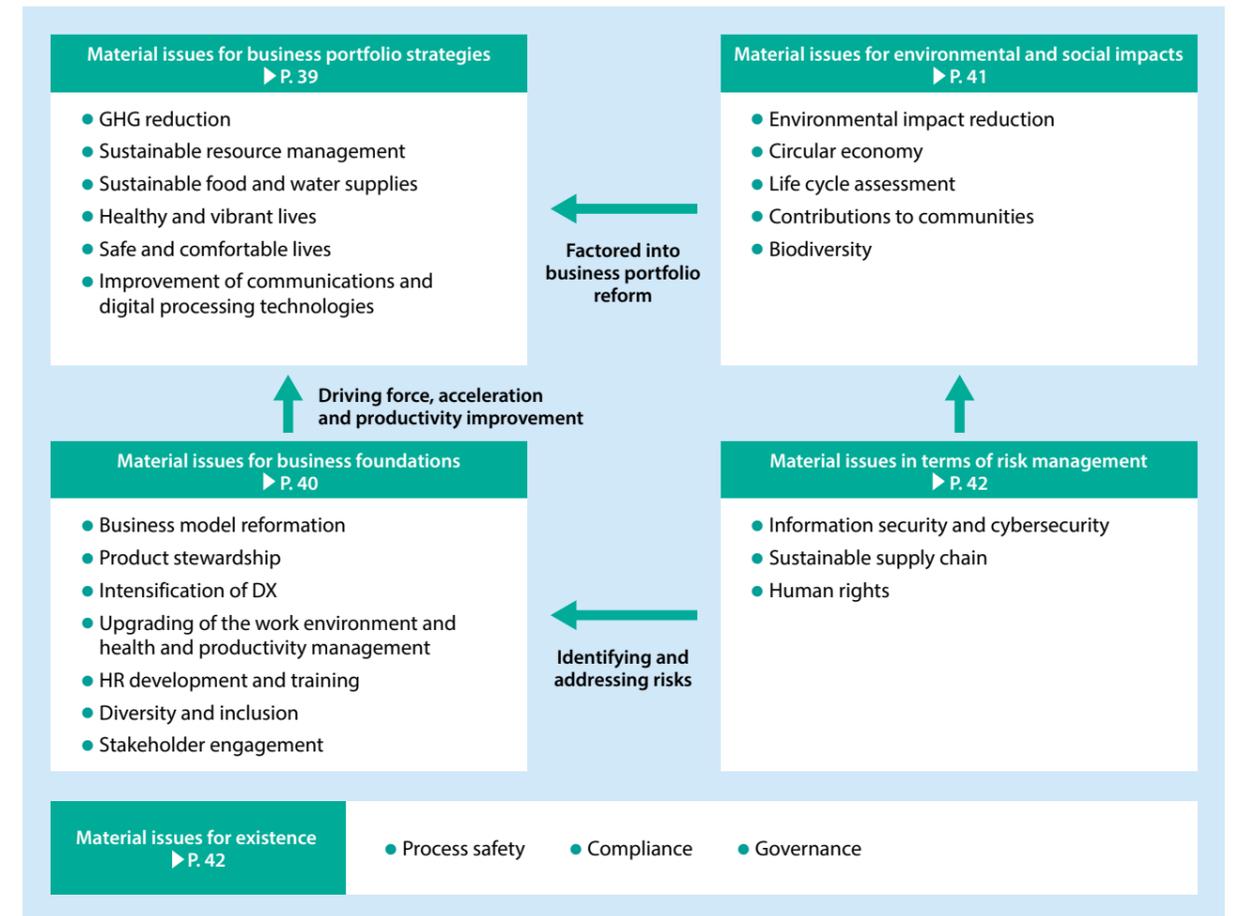
MCHC has identified the material issues to be addressed by the MCHC Group as part of the new medium-term management plan, APTSIS 25, which is based on KAITEKI Vision 30 (KV30), the medium- to long-term basic management strategy. We have set targets for the material issues identified, with indicators (MOS Indices) also set to measure progress.

Going forward, we will monitor progress each year and proceed steadily with initiatives toward the fulfillment of KV30.

Identification process of material issues



Overview of material issues



Comments from an expert

This is a groundbreaking structure that allows the thought process leading to identification of the material issues to be traced logically.

The material issues identified in APTSIS 25 are distinctive on a number of counts. For instance, the backcasting of KV30's long-term vision from the society of 2050 ensures consistency, and since it is based on existing analyses, past experience is included. The structure's unique approach that categorizes the various issues and indicates their mutual connections deserves special mention. Arranged above the material issues for existence are the material issues for business foundations and the material issues in terms of risk management. Opportunities and risks related to the growth strategy are then identified as required by ESG investors. At the top of the diagram are macrolevel social issues and the material issues for business portfolio strategies, which can be understood as representing the impact that MCHC attempts to generate by means of value creation through businesses in the middle of the diagram.

Choosing this systematic diagram rather than an ordinary matrix should have the benefit of allowing the thought process leading to the identification of the issues to be traced logically. Additionally, by avoiding any ranking of the individual issues, I think it establishes a mold-breaking new format able to adapt to dynamic change.

Keisuke Takegahara
Executive Fellow
Research Institute of Capital Formation
Development Bank of Japan Inc.



Sustainability

Material Issues Identified in APTSIS 25 and New MOS Indices

We will proceed steadily with initiatives toward the fulfillment of KV30 by setting targets for the material issues and establishing MOS Indices to measure progress.

Material issues for business portfolio strategies

Material issues	Our actions
GHG reduction	To contribute to the improvement of energy efficiency by providing thermal management materials and other products that promote lighter mobility and the electrification of society.
Sustainable resource management	To contribute to realizing a recycling-oriented society by providing biodegradable and biologically derived plastics. To optimize the overall social system by promoting chemical and material recycling, and capture and utilization of CO ₂ .
Sustainable food and water supplies	To reduce food losses by providing solutions for long-term food storage and flavor enhancement. To promote R&D to further reduce the environmental impact of food and water supply.
Healthy and vibrant lives	To contribute to preventive medicine through provision of pharmaceuticals including vaccines and to optimize medical treatment for each individual patient through development of Muse cell-based regenerative medicine and precision medicine.
Safe and comfortable lives	To realize high-amenity living and mobility spaces by enabling human-robot symbiosis through lightweight composites, development of artificial joints and limbs, etc.
Improvement of communications and digital processing technologies	To deliver next-generation high-speed telecommunications solutions by developing semiconductor materials with higher processing capacity and other technologies for high-capacity, high-speed telecommunications and digital applications. To provide next-generation display solutions compatible with augmented/virtual reality and hologram technologies.

Switch to a business portfolio centered on growth businesses that contribute to resolving social issues

MOS Indices	FY2022 targets
Percentage of sales revenue from the growth businesses (businesses that contribute to solving social issues)	30%



The Group's Material Issues

- GHG reduction
- Improvement of communications and digital processing technologies

Contributing to a low-energy society through GaN substrates

In May 2021, MCC and The Japan Steel Works, Ltd. completed construction of a pilot facility for mass production of gallium nitride (GaN) single-crystal substrates at the Muroran site of Japan Steel Works M&E, Inc.

GaN is a material that makes it possible for electronic devices to achieve high efficiency with low electric power consumption. The development of more compact and lightweight equipment and devices should also mean a significant reduction in electric power consumption, leading to lower CO₂ emissions and reduction of environmental impact. A wide range of applications for the material is envisaged, from power devices, high-frequency devices and

other electronic equipment to blue and green laser diodes and other light-emitting devices.

The newly constructed large-scale facility will undertake pilot studies aimed at the mass production of 4-inch GaN substrates with a target of early fiscal 2022 for market launch. Based on the results of the pilot studies, we will put in place a stable supply system for GaN substrates and will also work on the development of 6-inch substrates compatible with power device applications, where demand is expected to increase. By supplying high-quality GaN substrates, we will contribute to realizing a low-energy society.

Material issues for business foundations

Material issues	Our actions
Business model reformation	To realize business model reform by enhancing solution levels through integration of products and services and intensifying innovation toward optimization of the overall social system.
Product stewardship	To ensure that customers can use products and services without concern, pursue initiatives to ensure the quality and safety of products throughout their lifecycle and minimize adverse effects on the environment.
Intensification of DX	To achieve operational optimization and at the same time create new businesses and services that continuously offer new value to business enterprises, customers and society by utilizing digital technology in every situation, for instance to improve operating procedures from R&D to manufacturing and to respond to the needs of customers and society.
Upgrading of the work environment and health and productivity management	To create a safe and conducive work environment through the twin approaches of ICT-based work style reform and health support.
HR development and training	To promote continuous self-improvement and personal growth for human resources and provide relevant opportunities in order to adapt to unpredictable changes in the environment and accelerating technological innovation.
Diversity and inclusion	To enhance the diversity of human resources in terms of gender, values, nationality, career background, age and other characteristics and to embed this inclusivity and leverage it for the benefit of corporate activity.
Stakeholder engagement	To be a business enterprise trusted by stakeholders by showing respect for and communicating closely with them and working together to not only benefit corporate activity but also realize a better society.

Contribution to and acceleration of growth by strengthening and enhancing the business foundation

MOS Indices	FY2025 targets
Employee engagement	80%*1
Diversity among management	40%
Wellness awareness	85%*1
Lost time injury frequency rate	0.71 (Approx. 40% reduction from peak figure of FY2016–FY2019)
Level of customer satisfaction	80
Evaluation related to the ESG stock index	Maintain and improve score on DJSI, FTSE4Good, etc.

*1 Percentage of favorable responses to set items in the employee awareness survey

Assessment results of corporate value including ESG (As of June 30, 2021)

<p>Dow Jones Sustainability Indices</p>	<p>Member of Dow Jones Sustainability Indices Powered by the S&P Global C&A</p>	<p>MSCI Japan ESG Select Leaders Index*</p> <p>2021 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX</p>	<p>FTSE4Good Index Series</p> <p>FTSE4Good</p>
<p>S&P Global Sustainability Award Bronze Class</p>	<p>Sustainability Award Bronze Class 2021 S&P Global</p>	<p>MSCI Japan Empowering Women Index*</p> <p>2021 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)</p>	<p>FTSE Blossom Japan Index</p> <p>FTSE Blossom Japan</p>

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Sustainability

Material Issues Identified in APTSIS 25 and New MOS Indices

Material issues for environmental and social impacts

Material issues	Our actions
Environmental impact reduction	To reduce the environmental impact of GHG emissions and water consumption as a step toward resolving climate change and water resource issues and creating a recycling-oriented society.
Circular economy	To achieve smart use of resources, materials, and energy and new value creation through innovation and business model reform for an optimal recycling-oriented society.
Life cycle assessment (LCA)	To carry out and disclose appropriate quantitative assessments of the environmental and social impact of products and services, and their contribution to GHG reductions throughout the value chain.
Contributions to communities	Broadly contribute to society through business activities while deepening understanding of various communities and continually responding to their requests and expectations.
Biodiversity	To identify the effect of business activity on biodiversity and minimize any negative impact. To contribute to conserving biodiversity by promoting environmental protection activities and providing relevant products and services.

Reduction of negative impact, environmental and social contribution, and appropriate evaluation of impact

MOS Indices	FY2025 targets	
Percentage of sales revenue from products*2 that contribute to the circular economy or mitigate and adapt to climate change	FY2022	—
	12%	—
GHG emissions	15% reduction (Compared to FY2013, Japan)	
COD emissions	Maintain current level: Approx. 1,600 tons (FY2019, Japan)	
Progress of LCA activities	100%	
Amount of landfill waste*3	50% reduction (Compared to FY2019, Japan)	

*2 GHG reduction and carbon cycle sectors among growth businesses (businesses that contribute to solving social issues)
*3 Amount of landfill waste regularly generated in the Group's routine production and logistics activity



The Group's Material Issues
● GHG reduction ● Environmental impact reduction

First in the industrial gas sector to use renewable energy certificates, contributing to 160,000 t-CO₂e in yearly emissions reduction

In October 2020, the Spanish and Portuguese group company of Nippon Gases, a European industrial gases business operating company, became the first in the industrial gas sector to use Green Power certificates to convert to 100% renewable energy for the electric power required in the manufacturing process for medical gases, industrial gases and food gases. This measure has resulted in a yearly emissions reduction of 160,000 t-CO₂e. The Company's implementation of the European Union's Green

Deal establishes its position as a business taking an advanced stance on environmental impact reduction. At the same time, the implementation of this project will make a significant and ongoing contribution to carbon footprint* reduction in the Iberian region through both the Company's and its customers' emissions.

* Carbon footprint: A system for converting GHG emissions throughout the lifecycle of products and services, from procurement of raw materials to disposal and recycling, into a CO₂ equivalent, and clearly indicating this value on products and services.

Material issues for existence

Material issues	Our actions
Compliance	To comply with laws, international standards and internal regulations based on high ethical standards and to ensure that corporate activities are consistently fair and equitable and founded on integrity.
Process safety	To prevent security accidents and maintain stable operations based on the recognition that safety is the foundation of our continued corporate existence and that ensuring safety is a corporate social responsibility.
Governance	To achieve greater management agility for enhanced corporate governance by improving the transparency and fairness of operations, strengthening management supervision functions and speeding up decision-making.

Material issues in terms of risk management

Material issues	Our actions
Information security and cybersecurity	To recognize the importance of protecting information assets and our responsibility in corporate activities. To strive to manage information appropriately and raise security awareness in order to guard against leaking of confidential information relating to customers, business partners or our own organization.
Sustainable supply chain	To put in place a sustainable supply chain by deepening business partners' understanding of the MCHC Group's corporate mission and working with them to resolve environmental and social issues.
Human rights	To prevent the occurrence of human rights violations in corporate activity by putting in place a system that respects all individuals and their rights and acts to recognize, prevent and oppose negative impacts on human rights.

Appropriate risk management to avoid threats to continued corporate existence

MOS Indices	FY2025 targets	
Number of serious compliance violations	0	
Number of accidents	Security accidents	16 per year (33% reduction from peak figure of FY2016–FY2019)
	Environmental accidents	0
Participation rate in information security training	95%	



The Group's Material Issues
● Sustainable supply chain ● Human rights

Distribution of a guidebook for business partners on prevention of human rights violations in the supply chain

The MCHC Group has established a Global Policy on Respecting Human Rights, Employment and Labor, which is compliant with international standards such as the Universal Declaration of Human Rights, UN Global Compact and UN Guiding Principles on Business and Human Rights. Based on this policy, we work to ensure respect for the human rights of all people involved in the MCHC Group's business activity.

To prevent human rights violations in the supply chain and fulfill our supply-related responsibilities, we distribute to our business partners a guidebook entitled *Developing Cooperative Business Practices with Suppliers and Business Partners*, which summarizes our standards on matters such as

human rights, employment and labor, the environment and safety. This is designed to deepen their understanding of the MCHC Group's activities as a contribution to creating a sustainable supply chain.

Follow the link below to view the [Global Policy on Respecting Human Rights, Employment and Labor](https://www.mitsubishichem-hd.co.jp/english/sustainability/activities/pdf/globalpolicy.pdf)

Follow the link below to view [Developing Cooperative Business Practices with Suppliers and Business Partners](https://www.mitsubishichem-hd.co.jp/english/sustainability/activities/pdf/guidebook.pdf)

Sustainability

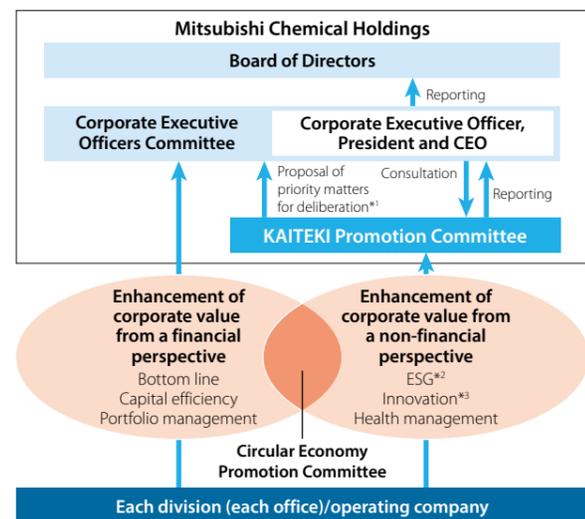
Strengthening of Sustainability Management

By practicing KAITEKI Management, the MCHC Group places sustainability at the center of its business strategy.

One of the key management policies announced under *Step 1* of the new medium-term management plan APTIS 25 is strengthening of sustainability management (see P. 27). This means further strengthening of the business foundation to improve environmental and social sustainability and reform the business model.

The MCHC Group's structure for promoting KAITEKI

MCHC is taking measures to increase long-term corporate value and has established the KAITEKI Promotion Committee to coordinate the increase in corporate value from a non-financial perspective. Meanwhile, the Circular Economy Promotion Committee, established in 2019, is promoting Group-wide measures to advance the circular economy through a crossover between social value and economic value. Within the framework of this KAITEKI promotion structure, we will progress steadily with a range of initiatives to fulfill our medium- to long-term basic management strategy KAITEKI Vision 30 (KV30).



*1 Where necessary
*2 Governance issues are mainly addressed by committees such as the Nominating Committee.
*3 Determination of the direction of technologies, etc.

Discussions by the KAITEKI Promotion Committee in FY2020

July 2020	<ul style="list-style-type: none"> Progress of MOS activities Activities for KAITEKI Health and Productivity Management Circular economy promotion activities Study of new material issues/New MOS Indices Progress of MOT activities
February 2021	<ul style="list-style-type: none"> New MOS Indices New MOT Indices Activities for KAITEKI Health and Productivity Management Report on individual operating company activities

GHG reduction initiatives

The MCHC Group seeks to reduce emissions in line with the target level set by the government of each country or region. With our sights set on the KV30 target of a 26% reduction in Japanese domestic GHG emissions volume by fiscal 2030 compared to fiscal 2013, we are introducing various reduction measures including in-house electric power generation and fuel conversion of boiler facilities. We are now considering stepping up emissions reduction based on policy trends in response to the new emissions target announced by the Japanese government.

We are also accelerating technology development toward the goal of carbon neutrality, to which we aim to contribute through the practical application of artificial photosynthesis technology.

Current initiatives in Japan

GHG reduction in production activities <ul style="list-style-type: none"> Fuel conversion of in-house electric power generation, boiler facilities Process streamlining (DX, energy-saving, etc.) Use of renewable energy and carbon credits Improvement of CO₂ emissions coefficient of purchased electric power 	Acceleration of R&D for CO₂ recycling <ul style="list-style-type: none"> Development of artificial photosynthesis technology* <ul style="list-style-type: none"> 2030: Target date for large-scale verification tests 2040: Target date for social implementation * MCC's participation in NEDO's artificial photosynthesis project and ARPChem 	Contribution to GHG reduction throughout the value chain <ul style="list-style-type: none"> Implementation of chemical recycling Expanded introduction of biomass plastics
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Promote a circular economy

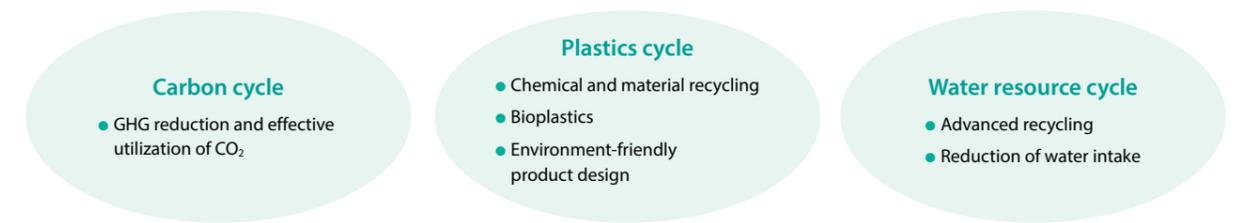
To drive the efficient utilization of resources, materials and energy and the creation of new value toward the goal of an optimal recycling-oriented society, the Circular Economy Promotion Committee is taking action for the cyclical use of carbon (CO₂), plastics and water resources and the evolution of LCA tools.

By participating in initiatives and supporting startup enterprises (see P. 55), we will accelerate the development and its social implementation of technology for innovation throughout the value chain and the reform of our business models.

Initiatives in which the MCHC Group participates

Joined in	Initiative
September 2018	Japan Initiative for Marine Environment (Founding member)
January 2019	Japan Clean Ocean Material Alliance (Chair of Technology WG)
January 2019	Alliance to End Plastic Waste (Founding member/Executive Committee member)
March 2019	Ellen MacArthur Foundation's Circular Economy 100 (The first Japanese chemical company to join the CE100)
August 2019	Carbon Recycling Fund Institute (Chairperson)
December 2019	Value Balancing Alliance (The first Japanese company to join)

Circular Economy Promotion Committee initiatives



Examples of circular economy initiatives

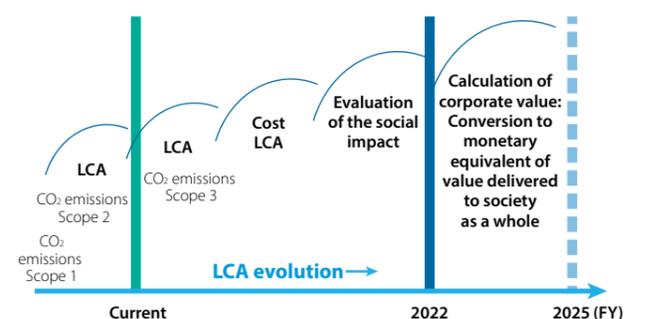
Activities	Description
Carbon cycle	Pilot project on utilization of microalgae selected as a NEDO commissioned project (research into technology for collection and concentration of microalgae using membrane separation technology)
	Launch of studies on offshore hydrogen manufacture using renewable energy, etc., and development of supply infrastructure (participation in a joint project)
	Development of a CO ₂ -free on-site hydrogen refilling system
	Development of artificial photosynthesis technology
Plastics cycle	Launch of a joint project with Kirin Holdings Company, Limited, aimed at PET bottle recycling through chemical recycling technology
	Partnership with Refinerve, Inc. to develop a waste plastic collection system ▶ P. 30
	Creation of a recycling business model for carbon fiber composite materials and engineering plastics through acquisition of a European recycling company ▶ P. 29
	Partnership with ENEOS Corporation to promote development of a chemical refinery ▶ P. 81
	Expansion of biomass and biodegradable plastic products ▶ P. 78

LCA tool evolution

We are progressing with the creation of systems and infrastructure for the use of LCA at an advanced level as a management tool in the chemical industry with a guideline target of fiscal 2025 for its introduction.

We will work to clearly identify the degree of social contribution of the MCHC Group and intensify KAITEKI Management by appropriately quantifying and disclosing the environmental and social impact of products and services and their contribution to environmental impact reduction as well as calculating and disclosing corporate value by converting these non-financial data to a financial equivalent.

Evolutionary process of LCA tools



Sustainability

Report in Line with the TCFD Recommendations

In October 2018, MCHC announced its support for the final recommendations prepared by the Task Force on Climate-related Financial Disclosures (TCFD*).

Within the framework of enhanced climate change-related measures, the MCHC Group is working for improved solutions in GHG reduction and the carbon cycle, which are among the growth businesses identified in its medium-to long-term basic management strategy, KAITEKI Vision 30 (KV30), as well as progressing with measures toward achieving the strategy's target for GHG reduction. Progressive enhancement of information disclosure is another initiative which we are targeting to increase our corporate value.

* In June 2017, TCFD announced the final recommendations concerning disclosure of information to encourage companies to voluntarily disclose to investors the impacts of climate change-related risks and business opportunities on corporate finances.

The report based on the TCFD recommendations is also posted on our website.
<https://www.mitsubishichem-hd.co.jp/english/ir/library/tcfd.html>

KAITEKI Vision 30 is presented in detail on our website.
<https://www.mitsubishichem-hd.co.jp/english/group/kv30/index.html>

Governance

At MCHC, we have identified GHG reduction, environmental impact reduction and circular economy as the material issues (see P. 38) to be addressed in our medium-term management plan, APTSIS 25. In parallel, we have set management indicators and targets (see Metrics and targets) to measure progress with these initiatives to mitigate and adapt to climate

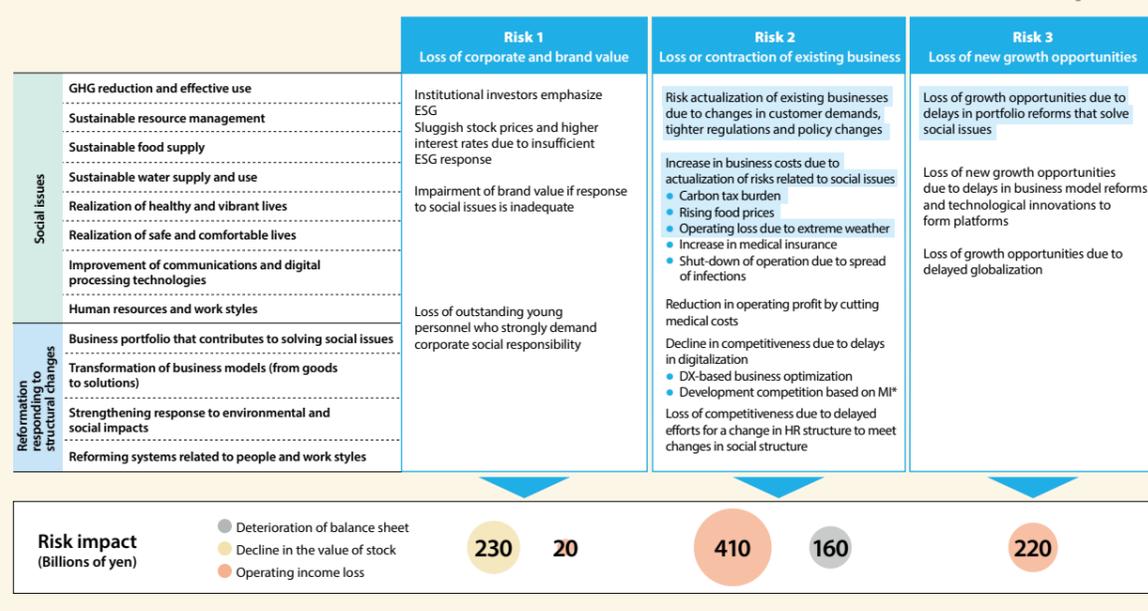
change. Going forward, we will continue to monitor progress against the target values set for each operating company, acting in line with the KAITEKI Initiative Structure (see P. 43), centered on the KAITEKI Promotion Committee, a body under the advisory control of the MCHC president.

Strategy and risk management

Category	Contents of report	Related pages
Business opportunities and risks from perceived social issues	In its formulation of KV30, the MCHC Group identifies the business opportunities and risks relating to social issues that it faces in the period up to 2030. It also quantitatively assesses the risk of leaving social issues unmanaged (see the table below). A climate change-related risk that we recognize as having a particularly large impact is decrease in product demand and profitability due to factors such as increased carbon tax burden and regulation of the use of plastic products. We aim to achieve a safe and secure society by minimizing damage and ensuring business continuity in the event of a large-scale natural disaster while providing solutions that contribute to disaster prevention and mitigation.	<ul style="list-style-type: none"> MCHC Group Material Issues (P. 37–38) Corporate Governance: Risk Management (P. 70–71) <ul style="list-style-type: none"> Measures against major risks

Category	Contents of report	Related pages
Business opportunities and risks from perceived social issues	<p>The MCHC Group recognizes business opportunities in solutions that contribute to resolving social issues, including the climate change-related items below, and has identified a group of relevant businesses as growth businesses, where it intends to progressively expand business scale and strengthen profitability.</p> <p>MCHC Group growth businesses related to climate change</p>	<ul style="list-style-type: none"> Secure footholds in fields where growth is accelerating amid changing social needs (strategy in growth businesses) (P. 31)
Impact on business scale and risks from perceived social issues	<ul style="list-style-type: none"> By fiscal 2030, we aim to expand GHG reduction-related areas and other growth businesses to account for over ¥4 trillion in sales revenue, and over 70% of the total. By fiscal 2022, the target period for Step 1 of the medium-term management plan APTSIS 25, we aim to expand the GHG reduction and carbon cycle areas to account for 12% of total sales revenue. We estimate risk associated with social issues and structural change in 2030 at around ¥1 trillion. 	<ul style="list-style-type: none"> KV30: Sales revenue target for FY2030 (P. 26)
Portfolio management	<ul style="list-style-type: none"> Based on the risk impact evaluation in KV30, we have carried out a review of the basic policy for portfolio reform to switch from the previous MOE-based evaluation to an overall evaluation based on factors including sustainability contribution (MOS) and innovation potential (MOT). Going forward, with a keen eye for businesses that contribute to medium-term growth, we will undertake continuous business portfolio reform using new evaluation criteria that take into account factors such as the scale of the environmental impact. 	<ul style="list-style-type: none"> Basic policy on portfolio reform (P. 30)
Risk management	<ul style="list-style-type: none"> We will strive to avoid the occurrence of major risks and minimize losses when they occur under our risk management system (see P. 70). We are aware that climate change risk is expected to increase further in the medium to long term, and we have factored this prediction into KV30 and the medium-term management plan. We are also exploring additional risk management methods. 	<ul style="list-style-type: none"> Corporate Governance: Risk Management (P. 70–71) <ul style="list-style-type: none"> Risk management system Measures against major risks Measures against future risks

Reference: Evaluation of risk in the case of social issues, including climate change-related issues, being left unmanaged (identified in KV30)



* Materials informatics: AI-based method to design new materials and explore alternative materials rapidly and efficiently.

Metrics and targets

Category	Contents of report	Related pages
Metrics and targets to assess risks and opportunities	<p>Of the management indicators used to measure progress with material issues (MOS Indices), we have set medium-term targets in two selected items: the percentage reduction in GHG emissions and the percentage contribution of the GHG reduction and carbon cycle business areas to total sales revenue. We will carry out annual evaluation of the state of progress.</p> <p>Regarding the percentage reduction in GHG emissions, we will aim for reductions in line with the target levels of the respective national and regional governments. In Japan, we are taking forward concrete measures aimed at meeting the KV30 fiscal 2030 target of a 26% reduction in domestic emissions compared to fiscal 2013. Going forward, we are committed to exploring further emissions reduction in line with the approach adopted by the respective national and regional governments.</p>	<ul style="list-style-type: none"> New MOS Indices (P. 39–42)
Scope 1–3 GHG emissions	<p>Please see GHG emissions in "Non-Financial Highlights" for the performance in fiscal 2020. We have received independent assurance for GHG emissions, and are working to disclose highly reliable information.</p>	<ul style="list-style-type: none"> Non-Financial Highlights (P. 91) Environmental Data/Independent Assurance Report (P. 103–104)
Director remuneration	<p>The performance-based evaluation of the remuneration of corporate executive officers and executive officers is determined based on the degree of achievement of the targets for each fiscal year. The evaluation is determined by using indices* including those associated with the improvement of sustainability in addition to economic and capital efficiencies, such as indices associated with climate change through the promotion of energy-saving activities. For details, please refer to the Securities Report.</p>	<ul style="list-style-type: none"> Corporate Governance: Director remuneration (P. 66–68)

* From fiscal 2021, we will shift to new MOS Indices. For a detailed explanation, please refer to New MOS Indices on P. 39–42.

Transformation-Oriented Human Resources Strategy



Message from the Corporate Officer Supervising HR Management

Diverse individuals
collaborating to create
new value

Ken Fujiwara

Managing Corporate Executive Officer
Chief Group Compliance Officer

Reforming human resources systems to increase our global competitive edge

The MCHC Group believes that human resources are a key management resource for value creation. We drive transformation and sustainable growth at the Group by promoting challenge, creativity and self-actualization through work, and by making the most of the skills brought to the table by a diverse array of individuals.

Under our medium- to long-term basic management strategy KAITEKI Vision 30, we have embarked upon HR reforms that are founded on the five pillars shown below and are aiming to create highly accommodating human resources systems that embrace the diversity, expertise, and mobility of our people. One area targeted for reform is the HR system at MCC (see P. 49). Leveraging the concept of creating a corporate culture of continuous mutual growth based on the Company and its employees actively choosing and benefiting each other, we have put forward the three measures of self-directed career development, transparent working conditions and remuneration, and promotion and support for diversity. MCC will support employees to take on new challenges through ongoing communication between supervisors and their subordinates. We have also introduced a job-based setup where employee remuneration is determined according to job descriptions and outcomes. This way of working is considered mainstream in Europe and North America, but represents a significant change for a Japanese company. We think these are vital reforms if we are to provide fulfilling work for our employees and increase our global competitive edge.

Five pillars that form the foundation for highly accommodating human resources systems

1. Ensuring pay for job/performance
2. Human resources systems designed according to each type of operation/job
3. Strengthening functions to create skills and minds that can meet global needs
4. The right jobs for the right people globally by using a common platform of talent management
5. Cluster-type organizations that enable complex problem solving

Enhancing diversity

Diversity is a source of innovation. I believe companies that lack diversity are not capable of growth. There is room for improvement at the MCHC Group when compared with highly competitive global companies. The new MOS Indices

now include diversity among management as a KPI at the main Group companies. We will initially promote diversity in a top-down fashion to foster a corporate culture that respects diverse values and backgrounds, allows individuals to make the most of their skills and promotes collaboration toward a common goal.

Embrace new world of work

For some time, we have promoted the KAITEKI Health and Productivity Management initiative that aims to support employee health and implement work style reforms to create fulfilling workplace environments (see P. 48). We are working to change work processes to fit with the New Normal, including switching to paperless procedures, using digital tools and improving administrative processes for greater efficiency, in order to embrace remote working and various other approaches thrust upon us during the pandemic (see P. 48 for details of actual initiatives). We are also reviewing our office setups. Refurbishments have been implemented for our Tokyo and Osaka head office buildings and our Yokohama Research Laboratories, and we are expanding our satellite office network with the goal of improving creativity and productivity. We are also looking at fostering cross-organization communication and collaboration and promoting innovation by consolidating MCC, MTPC, and other Group company offices scattered around the Tokyo metropolitan area into our Tokyo Head Office building.

Transformation through communication

Mindsets and behavior also need to change if we are to successfully transform HR systems and workplaces. Implementing these changes can have an enormous impact on individual motivation, and it can be difficult to get every single employee on board. As someone responsible for managing these changes, I believe I have to be aware of these issues and confront them head-on. I need to think through how the changes will be seen by those affected and how I can be inventive and build up expectations for the changes, and then communicate proactively with our employees while we implement the reforms. Through these changes, the MCHC Group will evolve into a company where people with the aspiration to create new value can take on the challenge of transformation and find fulfillment.

KAITEKI Health and Productivity Management Initiatives

The MCHC Group is promoting KAITEKI Health and Productivity Management*, pursuing health support and work style reforms for each employee and at workplaces in order to support employees flourish from a health perspective.

* KenkoKeiei, which means Health and Productivity Management in Japanese, is a registered trademark of the Workshop for the Management of Health on Company and Employee, an NPO. In terms of using KAITEKI Health and Productivity Management, the trademark is authorized to be used by the NPO.

KAITEKI Health and Productivity Management targets (KPIs) and results

Review

Steady improvement in work style awareness and behavior

In fiscal 2020, the Vitality Index was up 6 points (40% achievement rate), the Work Style Index was up 6 points (60% achievement rate) and the Wellness Index was up 2 points (20% achievement rate). For the Work Style Index, we are seeing steady change in awareness and behavior for both workplaces and individual employees following a review of work style issues at the organizational and team level. For the Wellness Index, measures to encourage remote working have improved self-rated health assessments and sleep habits, but activity levels (daily number of steps) for all job categories declined during the first state of emergency declaration (April–May 2020) in Japan. Significant impacts were seen because of employees refraining from going out and working remotely, although the degree of impact differed among job categories. We continue communicating on the value of regular exercise in daily lives and the importance of making it a habit.

Groups with a high Work Style Index and Wellness Index tend to have a higher Vitality Index. We aim to improve creativity and productivity through measures for health support and work style reforms, the twin pillars of KAITEKI Health and Productivity Management, and by promoting the use of the PDCA cycle with the i² Healthcare*1.

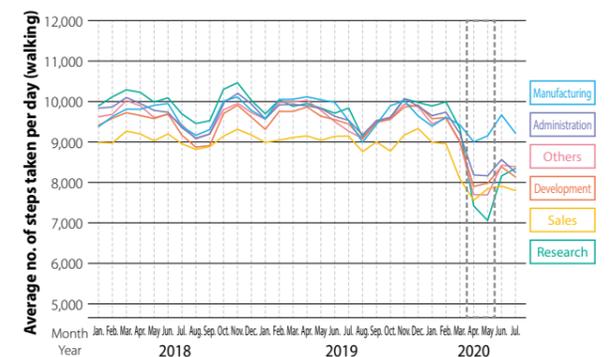
*1 A proprietary system that enables each employee to see personal health data on their devices, integrating health data collected daily via wearable devices, health checkup results and work style-related information.

*2 We conduct the health survey to assess each employee's awareness and approach to KAITEKI Health and Productivity Management.

*3 The MCHC Group distributes wearable devices to those who wish to use them and, having obtained individual employee consent and Ethics Review Committee approval, we analyze the wearable device data as part of analyses related to KAITEKI Health and Productivity Management. The fiscal 2020 analysis was conducted using data through to July 2020.

Description	FY2020 results	FY2020 targets
Vitality Index Index for employees' job satisfaction, enthusiasm, trust and growth	69 pts (Base year +6 pts)	+15 pts Increase positive choices by 15 points or more in the health survey*2.
Work Style Index Index for levels of work style awareness, behavior and initiatives	74 pts (Base year +6 pts)	+10 pts Increase positive choices by 10 points or more in the health survey.
Wellness Index Index for health checkup items, lifestyle quality and level of life satisfaction	48 pts (Base year +2 pts)	+10 pts For the 10 health criteria items, increase the number of items met by each employee by one item (= 10 points) or more.

Average number of steps by job category*3



Changing the way we work to produce an autonomous organization where creativity can flourish

Since COVID-19 started to spread, the MCHC Group has adapted to various new ways of working, including promotion of teleworking and establishment of satellite offices.

With the rapid take-up of remote working, MCHC initiated a project in October 2020 to reform operational processes under the motto "Transformation for the New Normal." The project objectives are to eliminate obstacles to remote work efficiency and find ways for employees to do their jobs productively and flexibly, regardless of the setting or distant location. So far, the project team has produced a guide to using digital applications and has recommended

tools and ideas to create a comfortable work environment in the home or at satellite offices. The team is progressing a range of improvements in the workplace and exploring paperless procedures, electronic submission and approval systems (using digital signatures), and tools to optimize communication from remote work settings.

New team members are selected from applicants responding to in-house notices posted every six months. This project is helping the MCHC Group to become an autonomous organization where creativity can flourish and individual employees are adaptable to change.

Transformation-Oriented Human Resources Strategy

ACTION Initiatives for Human Resources and Organizations

- The Group's Material Issues**
- Upgrading of the work environment and health and productivity management
 - HR development and training
 - Diversity and inclusion
 - Stakeholder engagement

To strengthen the human resources base, the MCHC Group companies are pursuing the initiatives presented below.

Reform of the personnel system for mutual growth of the Company and employees

Around the keywords of diversity, mobility and expertise, the MCHC Group is moving ahead with the personnel system reform outlined in the medium- to long-term basic management strategy KAITEKI Vision 30, which emphasizes "respect for individuals," "flexibility" and "compensation and treatment in line with market value and performance."

Taking its cue from there, MCC is implementing reform with a new personnel system launched in 2021 to realize its vision. The new system is based on the three concepts of self-directed career development, transparent working conditions and remuneration, and promotion and support for diversity. In restructuring the system for deciding employee compensation and treatment as part of this reform, MCC gave foremost attention to supporting employees in their efforts to take on challenges and drive innovation on their own initiative. The emphasis was therefore on a system that was fair, clearly understandable and transparent. Taking a job-based approach, the system

determines employee compensation and treatment based not on age or experience but on the duties of the job. A change in work duties is accompanied by a timely adjustment of raising or lowering the salary.

Company's Vision

- Faced with a dramatically changing environment that is bound to strongly impact existing businesses, MCC aims to respond with a new spirit of challenge and creativity to **realize the KAITEKI vision and achieve corporate growth.**
- With that in mind, we want all employees to work in **a positive and energized atmosphere.**
- We want to be **a company that attracts diverse human resources.**

We want to create a culture where company and employees **choose and utilize each other, and mutually grow**

Three key policies of the MCC personnel system

Self-directed career development

- Each employee can realize what they want to do through their work and contribute to society.
- Each employee has opportunities to actively acquire needed specialization, knowledge and experience.
- Superiors understand the ideas and feelings of subordinates and support them in taking on challenges and developing.

Transparent working conditions and remuneration

- Transparent working conditions based on results, performance, and market value to support employees in taking on challenges
- Remuneration is determined based on the duties performed, not on age, gender or years of service.

Promotion and support for diversity

- Respect for the diverse values of individuals.
- Support individuals to take on challenges based on their needs and life plans.

Strengthening employee engagement in the ASEAN region

The MCHC Group believes that cultivating a conducive work environment in which every employee can derive a sense of satisfaction from their work is the driving force for continuous value creation of corporate activities. Based on this approach, we are rolling out a range of Group-wide policies to enhance employee engagement.

Nippon Sanso Holdings Singapore Pte. Ltd., a member of the Nippon Sanso Holdings Group, launched the "Unity in Diversity" campaign in the ASEAN region in August 2018 to lay the foundation for implementing the employee engagement strategy. This strategy has resulted in the active rollout of employee engagement initiatives such as the production of the internal video titled "Unity in Diversity Starts with Us," the hosting of a monthly webinar series on

promoting cross-cultural awareness and the conduct of a region-wide employee engagement survey. These employee engagement initiatives won recognition at the Annual Loyalty & Engagement Awards 2020, held in November 2020 in Singapore, whereby the company received the regional Bronze award for Best Employee Engagement Strategy for the Asia Pacific region. Going forward, it will continue to put structures in place to enhance employee capabilities and motivation.

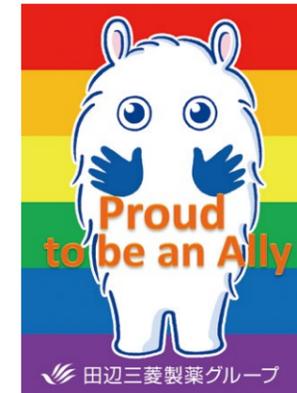


At the award ceremony of the Annual Loyalty & Engagement Awards 2020

Initiatives to support respect for employee diversity

MCHC has identified diversity and inclusion as a material issue and supports Group-wide action for the participation of diverse human resources.

MTPC is engaged in initiatives that aim to maximize achievement by cultivating the strengths of each individual based on mutual respect for individual differences. This includes not only conspicuous diversity (such as gender, gender identity, sexual orientation, age, employment background, nationality, disability status or time restrictions due to child-rearing and nursing care duties) but also invisible diversity (such as knowledge, skills, experience, values and ways of thinking). In November 2020, for the second consecutive year, MTPC received the highest distinction of a Gold award in the PRIDE Index 2020, which recognizes the LGBT-related initiatives of enterprises and other organizations. Going forward, by deepening understanding of diversity including LGBT and adjusting our systems accordingly, we will create a corporate ethos that



MTPC sticker expressing LGBT support

enables diverse human resources to develop their abilities to the full for enhanced productivity and growth.

Main LGBT-related initiatives at MTPC

2017

- The Compliance Guidebook states that employees will not be treated unfairly on the grounds of sexual orientation, gender identity (including LGBT) or any similar reason, and makes clear that discrimination and bullying based on LGBT-related sexual orientation or gender identity is counted as a form of sexual harassment subject to disciplinary measures under employment regulations.

- Removal of the gender entry from the registration sheet for graduate recruits

2018

- MTPC-branded "ally" stickers are distributed to employees who understand LGBT and would like to take some action of their own to show support.

- Establishment of a contact point for LGBT-related inquiries and advice

2020

- Same-sex partners are added to the eligible range of family members for nursing care leave under the nursing care system.
- Joint sponsorship of advertising for the LGBT event Rainbow Festa 2020
- Change in the system of spouse benefits to award common-law marriage and same-sex partners equal treatment with spouses

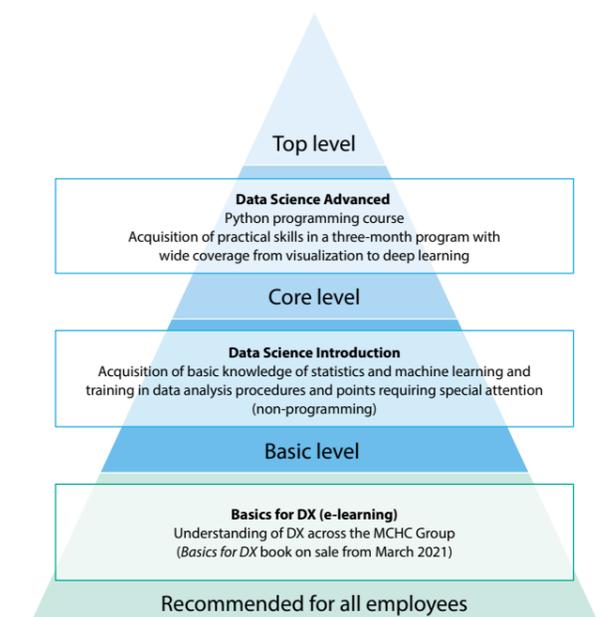
Establishment of "Digital University" to enhance digital human resources development

To accelerate transformation and create new value using digital technology, MCHC is focusing on Group-wide digital human resources development. In January 2020, we established a "Digital University" as part of our digital human resources development program and instituted three training courses as a foundation for data-driven management. The goal is to develop human resources who can take the initiative in utilizing data analysis and AI-based technologies and also in introducing practical improvements to existing businesses and field operations.

In fiscal 2020, approximately 5,000 employees participated in basic courses, creating better digital awareness throughout the Group. Further, we issued a book entitled *Basics for DX* on the content of the basic course. By not only promoting DX in-house, but also sharing our know-how with outside organizations, we aim to contribute to the widespread adoption of digital technology and the development of a data-driven society.

Going forward, we have committed to working with each of our operating companies to enhance digital human resources development through two strategies: expanding basic training and cultivating data scientists. In this way, we will achieve "ambidextrous DX" by progressing simultaneously with the resolution of existing business issues through DX and the realization of DX for the future vision of KV30.

Three Digital University courses



Innovation



Message from the CIO

Innovation is the catalyst to dramatically increase our corporate value.

Larry Meixner

Managing Corporate Executive Officer
Chief Innovation Officer
Chief Technology Officer

Innovation has always been an important driver of economic growth, for companies as well as for nations. But from a practical perspective, how can we, the MCHC Group, reach beyond our established businesses to create differentiation? How can we be first to adapt to market changes and transcend outdated approaches? These questions inspire us as we move into a new era characterized by post-pandemic market shifts and the global imperative to achieve a carbon-neutral society.

R&D as the seed of innovation

R&D is a core element of MCHC Group innovation, contributing to portfolio reform by stimulating development of new businesses (see P. 52). For example, we view GHG reduction not as a burden, but as a significant business opportunity. This drives us to strengthen our R&D capability to create next-generation structural, battery, and thermal management materials, while at the same time exploring new frontiers in material recycling and bio-based polymers. In healthcare, even as we develop new pharmaceuticals including Muse cells, we also emphasize “around the pill” digital solutions to fulfill unmet patient needs. And since completing the acquisition of MTPC in 2020, we have actively promoted synergistic R&D between our materials and healthcare business segments (see P. 54).

Creating the future: DX and venture engagement

Maximizing the business impact of innovation across the MCHC Group requires that we continuously nurture the capabilities and attitude to stimulate new, productive lines of inquiry. We are building this innovation infrastructure through DX, corporate venture capital (CVC) initiatives, and strategic new business development.

Our Digital Transformation Group (see P. 53) provides a central core of digital expertise and drives high-value projects across the MCHC Group. In addition, to foster the “digital mindset” critical to our future success, DXG provides education and training programs (see P. 50) used by thousands of MCHC Group employees and conducts staff exchanges and shared work assignments with the operating companies.

Access to global innovation allows us to leverage our advantages of scale and domain knowledge while overcoming the constraints of conventional thinking and risk-averse processes. We therefore initiated CVC activities and founded Diamond Edge Ventures, Inc., in Silicon Valley in 2018 (see P. 55). With our first five portfolio companies, we are stimulating strategic collaborations in growth areas across the MCHC Group. We are also developing new business models that leverage cross-company strengths, including data-based solutions for customers in the food value chain.

Winning the global race

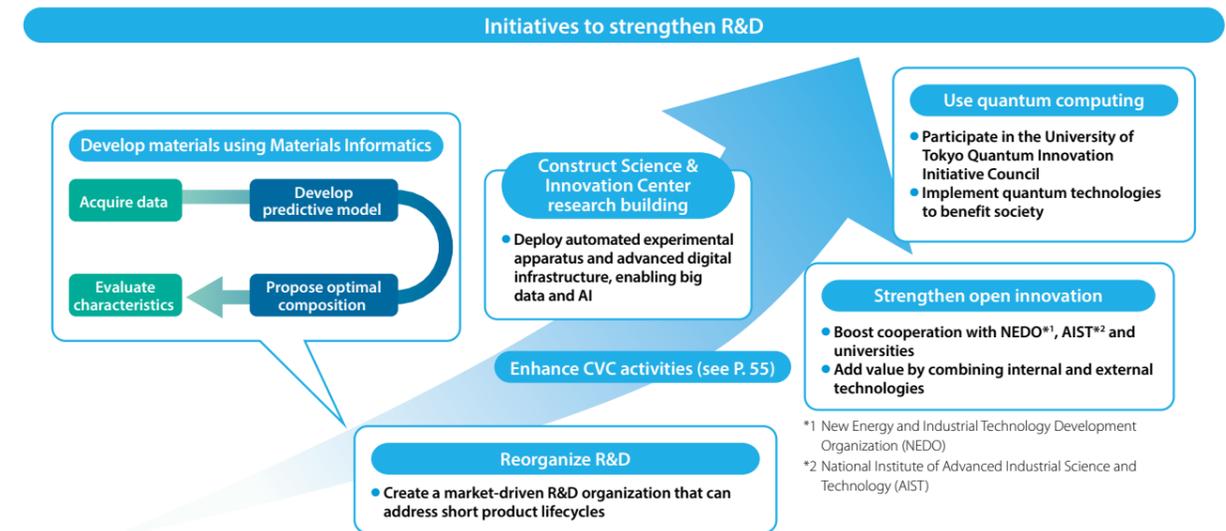
To keep pace in the global innovation race, we emphasize objective benchmarking and measurement (see MOT Indices, P. 24). Only by constantly evaluating our strengths and weaknesses can we develop into a global innovation leader.

We are living in a period of dramatic social change due to the COVID-19 pandemic, transformational developments in digital technology and the biological sciences, and significant geopolitical shifts. In such an era, entire industries may disappear while new ones emerge. This environment does not reward timidity. As we transform our portfolio and our corporation itself over the coming years, innovation will be the catalyst that allows us to dramatically increase our value to our stakeholders and to society.

Advancing R&D and Developing Next-Generation Businesses

R&D lies at the very heart of innovation, and we are improving R&D efficiency by applying materials informatics and expanding open innovation. Advancing innovation in this way will accelerate the creation of next-generation businesses.

Streamlining R&D with digital technology and open innovation



R&D initiatives for next-generation businesses

Noteworthy R&D themes expected to deliver value for growth businesses (Step 2) and next-generation businesses

Growth business areas	Solutions	Examples of R&D themes	Technologies and products
GHG reduction	<ul style="list-style-type: none"> Lighter mobility Electrification solutions Decentralized energy management 	<ul style="list-style-type: none"> Strong, lightweight materials Next-generation battery materials Thermal management materials 	<ul style="list-style-type: none"> Lightweight materials for mobility
Carbon cycle	<ul style="list-style-type: none"> Bio-based polymers Chemical and material recycling CO₂ capture and utilization Hydrogen society 	<ul style="list-style-type: none"> Biomass plastics Plastics recycling technology Artificial photosynthesis Carbon-free hydrogen stations 	<ul style="list-style-type: none"> Carbon-free hydrogen stations
Food and water supply	<ul style="list-style-type: none"> Decentralized food and water systems Alternative food and taste solutions 	<ul style="list-style-type: none"> High-performance packaging materials Food preservation gas 	<ul style="list-style-type: none"> High-performance packaging materials
Digital society infrastructure	<ul style="list-style-type: none"> Next-generation high-speed communication solutions Semiconductors Next-generation displays 	<ul style="list-style-type: none"> Next-generation communication related materials Advanced semiconductor materials Next-generation display materials 	
Human interface	<ul style="list-style-type: none"> Symbiosis of human and robot solutions 	<ul style="list-style-type: none"> Antibacterial and antiviral materials Non-contact materials 	
Medical advances	<ul style="list-style-type: none"> Regenerative medicine Preventive care Precision medicine 	<ul style="list-style-type: none"> Muse cells Cell culture materials VLP vaccine Genetic medicine Phenotype medicine 	<ul style="list-style-type: none"> Muse cells VLP vaccine

Innovation

Value Creation through Digital Transformation

MCHC is applying digital technologies and developing the capabilities to achieve digital transformation (DX), which will allow us to create new value through innovation.

Accelerating digital technology development and deployment

MCHC established the Digital Transformation Group (DXG) in 2017 to promote DX across the broad portfolio of MCHC Group companies. Since then, DXG has served as a central core of digital expertise, a stimulus for operating companies to develop their digital capabilities, and a resource for individual projects. Our overall approach has been to identify high-value initiatives that can be refined and targeted for broad adoption across the MCHC Group.

Engaging with high-value initiatives through digital applications

For example, we are applying digital technologies to improve product quality, optimize and automate business processes, and accelerate R&D. Specifically, we have implemented image-based quality control of specialty chemical products using automated identification of defects. Using data analysis and optimization tools, we have created methods to optimize supply chains to meet customer and market demands in our global markets. And we are exploiting

Materials Informatics to speed up materials discovery R&D, while also deploying the technology for pathfinding applications at relevant business units. These examples illustrate the increasing contribution of DX to strengthen manufacturing, business and R&D processes across the MCHC Group.

Fostering “digital natives”

Ultimately, our purpose in applying these digital innovations is to enable the creation of novel operational, customer, and social value. Now that DX has become well established within the MCHC Group, we are moving beyond our initial focus on operational excellence to initiate projects that create customer and social value. In addition to promoting open innovation beyond industry boundaries, we are laying the foundation for data-driven management by nurturing a new generation of “digital natives” through extensive digital education and the adoption of new ways of working (see P. 50). In this way, even as we execute projects that add value today, we are strengthening our digital foundation to enable continuous advancement in the years ahead.

Comments from the Chief Digital Officer

We generate innovation from change created by each employee, walking together on the path to transformation.

In this time of unpredictable change, innovation plays an increasingly important role in business growth. Digital innovation does not arise from digital technology alone, but rather in combination with the resources of our company and the experience of our employees.

To create business value, it is important for each employee to see change as their own responsibility and to actively promote change. We will continue to promote DX activities across the entire MCHC Group, as a light that illuminates the path for a team that walks together.



Naohiko Uramoto
Executive Officer
Chief Digital Officer



Solutions to environmental and social issues

The Group's Material Issues
• Intensification of DX

Deploying mathematical modeling to optimize company-wide energy costs

MCC has a large number of manufacturing sites, some of which have their own power generation facilities and surplus generation capacity, while others purchase from electric power companies. One major cost reduction opportunity is to minimize energy costs such as electricity (utility) costs at the company level. To address this opportunity, MCC launched the Wide-Area Energy Cooperation Project in September 2017. In response to the Japanese government's liberalization of electricity policy, we needed a system to optimize and efficiently operate our power generation and power purchase plans among multiple locations.

DXG built and verified a large-scale mathematical model, consisting of three million variables, to optimize company-wide utility costs. We then worked closely with the plant teams to adapt this theoretical model for deployment. Coupled with a negotiation of contract terms with power companies, MCC reduced utility costs by 10% in fiscal 2020 compared to fiscal 2017. This significant efficiency improvement was achieved through collaboration between plant personnel, business units and digital scientists. Our current work centers on further refinement of the model and increased automation of demand optimization and decision-making, with the goal of rolling out the model across the entire Group.

Creating Group synergies

Integrating MCHC Group assets to develop next-generation healthcare businesses leveraging the microbiome

When MTPC became a wholly owned subsidiary, MCHC set up a synergy creation committee. This initiative led to a joint project to develop next-generation healthcare businesses leveraging the microbiome (the ensemble of microorganisms in the human body) by MCC, MTPC and the MCHC Group.

Under this project, data on microbiomes will be collected and market trends analyzed to provide intelligence to inform the development of business models. Decisions on where to focus (in terms of diseases and stages, from prevention to treatment and convalescence) will be made based on business potential.

We aim to provide healthcare services in the future, but over the medium term, we will provide food ingredients that tap into the microbiome. We are also considering the use of the collected data to create health-related service solutions.

Initiatives for microbiome

Mitsubishi Tanabe Pharma
Know-how in drug discovery

Mitsubishi Chemical
Food ingredients and lactic acid bacteria businesses

Developing an infrastructure that integrates the technologies of the companies

Microbiome data | Data analytics | Intervention techniques

Draw on data to develop a comprehensive healthcare business encompassing medicine and food

Food ingredients	Services	Medical care
<ul style="list-style-type: none"> • Ready-made meals • Processed foods • Food for long-term care and hospitals 	<ul style="list-style-type: none"> • Health-related information 	<ul style="list-style-type: none"> • Use in drug target discovery • Precision medicine through biomarkers and patient stratification • Prevention, pre-symptomatic disease care and prognostic interventions

Innovation

Corporate Venture Capital Activity

MCHC launched its corporate venture capital (CVC) activity in 2018 to engage with startups around the world, creating business options for both the Group and its partners. Over the next 10 years, we plan to invest \$150 million to expand our existing business and \$50 million to cultivate new fields.

Engagement to create new business with partners around the world

MCHC CVC activity is in its third year since establishing our Silicon Valley-based subsidiary, Diamond Edge Ventures (DEV), in 2018. With members in Japan, America, and Europe, and deep connections with business units across the entire MCHC Group, we pursue strategic engagements to create business options for both MCHC and our startup partners.

These collaborations extend far beyond the five companies in which we have invested as of April 2021. We have introduced over 1,000 opportunities across the MCHC Group, leading to 200 engagements, including 12 joint development agreements (JDA) and 6 business contracts. MCHC has announced its long-term commitment to CVC activity, comprising a "Platform Fund" to expand current business and a "Frontier Fund" to seed new business areas for the MCHC Group.

	Platform Fund	Frontier Fund
Duration	FY2021–FY2030	
Description	Investment to support the expansion of current business via startup engagement	Investment to cultivate new fields to create a future business pipeline
Investment area	Current and adjacent fields to realize KV30	Frontier fields to expand KV30
Target outcome	New revenue for current businesses	Revenue from new businesses
Fund size	\$150 million (10 years)	\$50 million (10 years)

Mitsubishi Tanabe Pharma	Therapeutics Fund (MP Healthcare)
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Breakthrough technology to enable next-generation semiconductor production

French startup aveni S.A. is the most recent addition to the DEV investment portfolio. aveni has developed breakthrough metallization technologies that enable the next generation of semiconductor devices for memory, logic, and lighting. In conjunction with this investment, MCC entered into a JDA with aveni, reflecting MCHC's strategy to expand our core offerings in the semiconductor sector. "The Diamond Edge Ventures team's professionalism, efficiency and expertise helped us close an incredibly complex deal in record time," said Bruno Morel, president of aveni.

Accelerator program for a circular economy

In 2020, we organized the KAITEKI Challenge, an accelerator program aimed at contributing to a circular economy. This program was in partnership with Greentown Labs, the largest climate-tech incubator in the United States. Our theme of "Reimagining Proteins, Plastics, and Packaging" reflects our concern about global over-consumption of resources and excessive waste generation. Six startups were selected competitively to participate in the KAITEKI Challenge. These startups are working closely with MCHC Group business and technical teams to transform their innovative concepts into commercial reality.

Comment from the DEV President

Continuing along the road to true innovation that will allow us to leapfrog the competition

"You can't manage innovation with a rear-view mirror." This statement still resonates with me, many years after first hearing it. Basing strategy on what your market peers are doing is tempting, as it gives you a direction to competitiveness based on current market knowledge. But true innovation is not about catching up, it is about leapfrogging! Sometimes you need help from the outside to do so. This is true for startups and large corporations alike.

I am proud of the portfolio of investments we have created in less than three years. The road to innovation is seldom straight, but we can help MCHC anticipate curves

and bumps by aggressively creating mutual business value with our startup partners.



Patrick Suel
President, Diamond Edge Ventures, Inc.



Solutions to environmental and social issues

The Group's Material Issues
• GHG reduction

Investment in AddiFab ApS

In June 2019, DEV invested in AddiFab ApS, a Danish startup developing next-generation molding technologies that combine 3D printing with injection molding.

What followed is already a CVC success story. "Diamond Edge Ventures hit the jackpot with AddiFab," says Randy White, Chief Innovation Officer of Mitsubishi Chemical Advanced Materials (MCAM). "This partnership is already a huge win for both AddiFab and MCC within the first two years."

For business growth, AddiFab benefits from the strong commercial and technological support of multiple MCC teams. For example, MCC is developing new dissolvable resins for AddiFab's process, while multiple MCC business units leverage AddiFab capabilities to diversify their injection molding business, enabling them to expand beyond their current customer base. With AddiFab as its partner, MCAM is now the exclusive service provider promoting Freeform Injection Molding, reinforcing MCAM's global solutions provider status.

MCAM became AddiFab's largest customer by installing five sets of AddiFab equipment around the world, starting with MCAM's Innovation and Technology Center in Arizona in early 2020. Additional equipment is now fully operational in

the United States, Belgium and Japan. MCAM plans to add more sites in 2021 in order to keep up with the demand for this fast and affordable prototype business, branded as "MCAM SPRINT."

Through this partnership, AddiFab and MCHC customers around the world are now benefiting from the speed, design freedom and low cost of 3D printing combined with the mechanical strength of injection molded parts.



Technician inspects AddiFab 3D-printed mold at MCAM's Innovation and Technology Center in Arizona



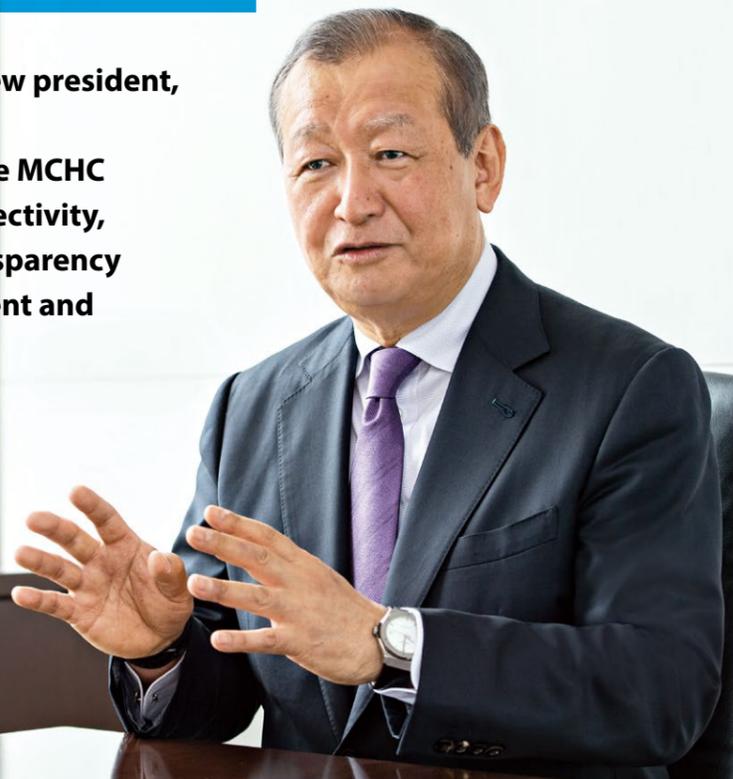
Super-strong injection molded KyronMAX automotive bracket made using the AddiFab process

Special Feature: Selection Process for the New President

In the appointment of our new president, our concerns were to secure the sustainable growth of the MCHC Group and to ensure the objectivity, appropriate timing and transparency of the process for appointment and dismissal of the president.

Takayuki Hashimoto

Outside Director of the Board
Chairperson of the Nominating Committee



Emphasis on the objectives of the Corporate Governance Code

As MCHC has now appointed its first non-Japanese president, interest has focused on the Nominating Committee's thinking. However, in June 2015, following the publication earlier in the year of Japan's Corporate Governance Code, MCHC became one of the first in the industry to transition to the structure of a company with a nominating committee, etc., and to appoint an outside director as committee chairperson. MCHC has thus long been a pioneer in governance reform. Seen in this light, the new president's appointment can be understood as resulting from the emphasis we placed on the Code's main objectives: to secure sustainable growth and to ensure the objectivity, appropriate timing and transparency of the process for appointment and dismissal of a president.

Defining a leadership profile in anticipation of MCHC 2.0

I was first appointed in 2016 as an outside director and member of the Nominating Committee. Subsequently, following the revision of the Corporate Governance Code in 2018, the ratio of inside to outside directors on the Nominating Committee was adjusted from 2:3 to 1:4 to strengthen the committee's independence.

It was around that time that I, having been appointed chairperson of the committee in 2019, introduced

performance evaluation for the president. I considered this evaluation necessary to the appointment and dismissal of a president based on my understanding of the main objectives targeted by the revision of the Code. Taking as my reference point the medium-term management plan *APTSIS 20*, whose final year was fiscal 2020, I set the criteria for the appointment of the next president by holding interviews with the directors and corporate executive officers and by using questionnaires and other methods to gather opinions from the corporate executive officer level and below. In this way, I worked to define the profile of a leader to guide the transition from what I have named MCHC 1.0 to MCHC 2.0.

Setting out three missions

MCHC 1.0 refers to the evolutionary phase from the Company's establishment in 2005 under former president and retiring chairperson Yoshimitsu Kobayashi and retiring president Hitoshi Ochi, in which a large number of companies with similar aims came together under the holding company umbrella and, following various intermediate developments, created the present corporate group through the recent integration of the three chemical operating companies and consolidation of Mitsubishi Tanabe Pharma Corporation as a wholly owned subsidiary. MCHC 2.0 represents a vision for the post-COVID era in which the constituent operating companies, leveraging their distinctive

characteristics to respond to the rapidly changing social environment and social challenges, grow together as a corporate group that delivers new value.

I believe that our mission on the Nominating Committee is to select the leader most suited to guiding the Company toward the realization of its target future profile based on the principles of fairness and transparency. What kind of person could realize this vision? After countless discussions around this question, we set out three main criteria, or missions, for the candidate.

The first was to grasp the need for evolution toward MCHC 2.0 and possess the ability to create and explain the road map and see it through to its final destination. This would mean being strongly committed to the KAITEKI philosophy but at the same time being able to synergize the Group's management resources in chemicals, healthcare, regenerative medicine and industrial gases to create new value and promote the corporate brand.

The second was to have a strong commitment to steadily incorporating the corporate mission and the creation of social value into MCHC's business activities from an investor perspective.

The third was to have the practical ability to carry out the business portfolio reform that was vital to achieving an increase in corporate value, without feeling restrained by past loyalties and without sacrificing employee motivation.

Emphasis on commitment to reform and communicative ability

Having set out these criteria, in the spring of 2020 I learned that President Ochi intended to retire at the end of the final year of *APTSIS 20*. I therefore set about the process of selecting the next president. For the candidate interviews, in addition to the three criteria outlined above, I specified six competencies as characteristic behaviors required of a leader: (1) Ability to change, (2) Ethical standards, (3) Conceptual thinking ability, (4) Results orientation, (5) Long-term perspective, (6) Ability to communicate a vision

Our final selection based on these three criteria and six competencies was Jean-Marc, but I was gratified to find that more than 30 people nominated as candidates had expressed interest.

Eventually, seven finalists were interviewed by the members of the Nominating Committee. The choice was among a group of professionals who were all outstanding, but as long as leaders are human, there is no such thing as one who can function in any and every management environment. To identify the individual most suited to executing the missions indicated above, the members of the Nominating Committee carried on interviewing and discussing throughout the week-long August holiday period.

The deciding factor was whether the candidate, irrespective of their past successes, had the character and the determination to carry through innovative reform. On this point, the internal candidates, who were familiar with the past growth of the business and the hard work put in by employees, might have made ideal leaders of the Group operating companies, but would have been lacking in some

respects as the leader of the holding company. Although that is a great pity, it is my honest assessment.

The non-Japanese candidates meanwhile fell into two main groups. The first group comprised noted business managers who had built up extensive experience and a strong track record in major enterprises. The other group was younger and therefore did not have senior managerial experience in a company on the scale of MCHC, but had been successful in achieving results by driving steady reform. After discussing which among these candidates we should appoint, we came to the conclusion that we should ask Jean-Marc to accept.

The reasons for Jean-Marc's appointment: The four Ps

The first P is for Performance. After beginning his career at the U.S. chemical company Dow Corning, Jean-Marc became president of a company financed by an investment firm and pushed through business reform to achieve enhanced financial performance. Most recently, he transformed Roquette's commodity business into a high-value-added operation and doubled the profit margin in the space of around seven years, a success to which we gave strong positive recognition.

The second P is for Potential. The new president has wide-ranging knowledge of the global market in areas from chemicals and foods to drug discovery, which made him highly attractive to MCHC.

The third P is for Passion. None of the other candidates had prepared so thoroughly for the interview by researching the Company in advance or showed a resulting level of commitment to reform. We were highly impressed by Jean-Marc's ability to explain the importance of KAITEKI Management in his own words and by his declared commitment to enhancing financial performance.

The last P is for Personality. A remote interview provides less information than a face-to-face meeting, so we tried to compensate by giving weight to references from managers at previous employers and consultation with former colleagues. Those around Jean-Marc remembered, for instance, that he had emphasized communication and teamwork and that his approach to reform was not to simply draft in human resources from outside but to start by changing the attitudes of the existing staff. Here and on other points, their evaluations closely matched his own self-evaluation.

We continue to have high expectations of Jean-Marc, the new president appointed as a result of this process. However, our mission on the Nominating Committee is not only to support him but also to work on refining the succession plan, which is designed to continuously select and cultivate the executive human resources of the next and subsequent generations. Rather than seeking only to defend the choice made by the Nominating Committee, I am committed to strengthening the system to select the next generation of senior executives through continuous evaluation based on objectivity, appropriate timing and transparency.

Governance

Directors

(As of July 1, 2021)

MCHC: Mitsubishi Chemical Holdings Corporation
MCC: Mitsubishi Chemical Corporation
MPI: Mitsubishi Plastics, Inc.
MTPC: Mitsubishi Tanabe Pharma Corporation
LSII: Life Science Institute, Inc.
TNSC: Taiyo Nippon Sanso Corporation
NSHD: Nippon Sanso Holdings Corporation

- Lead Independent Outside Director
- Independent Director
- ◆ Chairperson of the Nominating Committee
- ◆ Member of the Nominating Committee
- Chairperson of the Audit Committee
- Member of the Audit Committee
- ▲ Chairperson of the Compensation Committee
- ▲ Member of the Compensation Committee



**Director of the Board,
Corporate Executive Officer,
President and Chief Executive Officer**

Jean-Marc Gilson

Aug. 1989 Joined Dow Corning Corp.
Jun. 2005 Corporate Vice President & General Manager of Specialty Chemicals Business, President Asian Area of Dow Corning Corp. (until Jun. 2009)
Jun. 2009 Executive Vice President & General Manager of Specialty Chemicals Business of Dow Corning Toray Co., Ltd. (until Dec. 2010)
Feb. 2011 Chief Executive Officer of Avantor Performance Materials, Inc. (until Dec. 2011)

Feb. 2012 Vice Chairman & Chief Operating Officer of NuSil Technology LLC (until Jun. 2014)
Sep. 2014 Chief Executive Officer of Roquette Frères S.A. (until Dec. 2020)
Feb. 2021 Executive Advisor of MCHC
Apr. 2021 Corporate Executive Officer, President and CEO of MCHC
Jun. 2021 Director of the Board, Corporate Executive Officer, President and CEO of MCHC (to present)



**Director of the Board, Managing Corporate Executive Officer,
Chief Financial Officer**

Hidefumi Date

Apr. 1982 Joined Mitsubishi Chemical Industries Limited
Apr. 2013 Executive Officer of MCC (until Mar. 2015)
Apr. 2015 Executive Officer of MCHC
Apr. 2018 Managing Corporate Executive Officer of MCHC
Jun. 2019 Director of the Board, Managing Corporate Executive Officer of MCHC (to present)
Director of the Board, TNSC (currently NSHD) (to present)



**Director of the Board, Managing Corporate Executive Officer,
Chief Group Compliance Officer**

Ken Fujiwara

Apr. 1984 Joined Mitsubishi Chemical Industries Limited
Apr. 2015 Executive Officer of MCHC
Apr. 2017 Executive Officer of MCC (until Mar. 2018)
Apr. 2018 Managing Corporate Executive Officer of MCHC
Jun. 2018 Director of the Board, Managing Corporate Executive Officer of MCHC (to present)
Jun. 2020 Director of the Board of MTPC (to present)



Director of the Board

Yoshimitsu Kobayashi

Dec. 1974 Joined Mitsubishi Chemical Industries Limited
Jun. 2003 Executive Officer of MCC
Apr. 2005 Managing Executive Officer of MCC
Jun. 2006 Director of the Board of MCHC (to present)
Feb. 2007 Director of the Board, Managing Executive Officer of MCC
Apr. 2007 Director of the Board, President and CEO of MCHC
Director of the Board, President and CEO of MCC
Apr. 2012 Director of the Board, Chairperson of MCC (until Mar. 2017)
Apr. 2015 Director of the Board, Chairperson of MCHC (until Jun. 2021)



Director of the Board

Glenn H. Fredrickson

Jan. 1990 Associate Professor, Departments of Chemical Engineering and Materials, University of California, Santa Barbara (UCSB)
Jul. 1991 Distinguished Professor, Departments of Chemical Engineering and Materials, UCSB (to present)
May 1998 Chairperson, Department of Chemical Engineering, UCSB (until Jul. 2001)
Mar. 2001 Director of Mitsubishi Chemical Center for Advanced Materials at UCSB (to present)
Apr. 2014 Managing Executive Officer of MCHC
Jun. 2014 Director of the Board, Managing Executive Officer of MCHC
Jun. 2015 Director of the Board, Managing Corporate Executive Officer of MCHC
Apr. 2017 Director of the Board of MCHC (to present)



Director of the Board

Shigeru Kobayashi

Apr. 1980 Joined Mitsubishi Chemical Industries Limited
Apr. 2013 Executive Officer of MPI
Apr. 2015 Director of the Board, Executive Officer of MPI
Apr. 2016 Director of the Board, Managing Executive Officer of MPI
Apr. 2017 Managing Executive Officer of MCC (until Mar. 2019)
Jun. 2019 Director of the Board of MCHC (to present)
Corporate Auditor of LSII (until Jun. 2020)
Jun. 2020 Corporate Auditor of MCC (to present)



Director of the Board

Hiroshi Katayama

Apr. 1983 Joined Mitsubishi Chemical Industries Limited
Apr. 2014 Executive Officer of MCC
Apr. 2017 Executive Officer of MCC
Apr. 2018 Managing Executive Officer of MCC (until Mar. 2020)
Jun. 2020 Director of the Board of MCHC (to present)
Corporate Auditor of LSII (to present)



Outside Director of the Board

Takayuki Hashimoto

Apr. 1978 Joined IBM Japan, Ltd.
Apr. 2000 Director of the Board of IBM Japan, Ltd.
Apr. 2003 Managing Executive Officer of IBM Japan, Ltd.
Jan. 2007 Senior Managing Executive Officer of IBM Japan, Ltd.
Apr. 2008 Director of the Board, Senior Managing Officer of IBM Japan, Ltd.
Jan. 2009 Director of the Board, President of IBM Japan, Ltd.
May 2012 Director of the Board, Chairperson of IBM Japan, Ltd.
Apr. 2014 Chairperson of IBM Japan, Ltd.
Jan. 2015 Vice Chairperson of IBM Japan, Ltd.
Jun. 2016 Outside Director of MCHC (to present)
May 2017 Honorary Executive Advisor of IBM Japan, Ltd. (to present)



Outside Director of the Board

Chikatomo Hodo

Sep. 1982 Joined Accenture Japan Ltd
Sep. 2005 Representative Director of Accenture Japan Ltd
Apr. 2006 Representative Director and President of Accenture Japan Ltd
Sep. 2015 Director and Chairperson of Accenture Japan Ltd
Sep. 2017 Director and Senior Corporate Advisor of Accenture Japan Ltd
Jul. 2018 Senior Corporate Advisor of Accenture Japan Ltd (to present)
Jun. 2019 Outside Director of MCHC (to present)



Outside Director of the Board

Kiyomi Kikuchi

Apr. 1986 Joined The Dai-ichi Kangyo Bank, Ltd. (currently Mizuho Bank, Ltd.) (until Dec. 1990)
Apr. 1999 Registered as a lawyer
Asahi Law Offices
Sep. 2002 Allen & Overy LLP (London)
May 2003 Admitted to the bar of the State of New York
Oct. 2003 Asahi Law Offices
Sep. 2004 Taiyo Law Office (currently Paul Hastings LLP/Gaikokuho Kyodo Jigyō)
Sep. 2006 JPMorgan Securities Japan Co., Ltd.
Apr. 2008 TMI Associates (to present)
Jun. 2019 Outside Director of MCHC (to present)



Outside Director of the Board

Tatsumi Yamada

Apr. 1976 Joined Sumitomo Corporation (until Jun. 1993)
Mar. 1980 Registered as a Certified Public Accountant
Jul. 1993 Chuo Audit Corporation (until Mar. 2001)
Apr. 2001 Board Member of The International Accounting Standards Board (until Jun. 2011)
Sep. 2011 KPMG AZSA LLC (until Jun. 2018)
Jan. 2012 Board Member of KPMG AZSA LLC (until Jun. 2015)
Feb. 2014 Founding member of International Integrated Reporting Council (to present)
Oct. 2014 Trustee of International Valuation Standards Council (until Oct. 2020)
Sep. 2015 Specially Appointed Professor of Faculty of Commerce, Chuo University (to present)
Apr. 2016 Member of the Certified Public Accountants and Auditing Oversight Board for FSA (to present)
Jun. 2020 Outside Director of MCHC (to present)



Outside Director of the Board

Takako Masai

Nov. 1988 Joined Tokyo Branch, The Bank of Nova Scotia
May 2007 Head of Capital Markets Division, Shinsei Bank, Limited
Oct. 2011 Head of Markets Sub-Group, Shinsei Bank, Limited
Apr. 2013 Executive Officer, Head of Markets Research Department, Markets Sub-Group, Shinsei Bank, Limited
Jul. 2015 Executive Officer, General Manager of Markets Research Division, Shinsei Bank, Limited
Apr. 2016 Executive Officer, General Manager of Financial Research Division, Shinsei Bank, Limited
Jun. 2016 Member of the Policy Board, Bank of Japan
Jul. 2021 Outside Director of MCHC (to present)

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

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	Basic remuneration 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.)
		Annual bonus 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	Performance share unit (PSU) 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))
		Restricted transfer stock (RS) 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

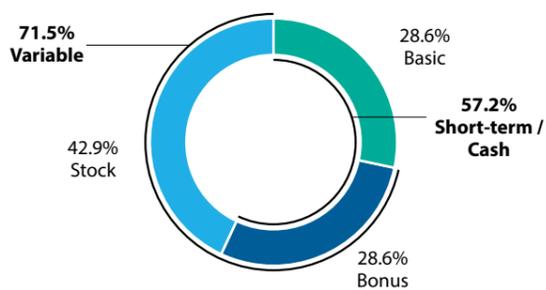
Method of setting the levels / percentage of remuneration Directors

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).

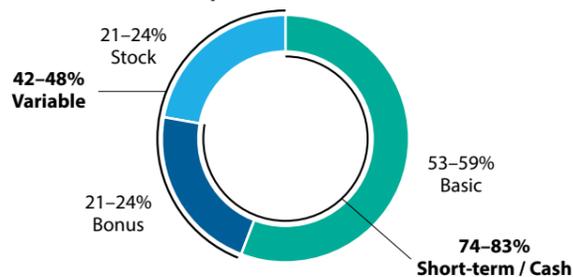
Corporate executive officers

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	

Governance

Message from an outside director of the Board

Focus on “proactive governance” when monitoring the management, to enhance corporate value

Kiyomi Kikuchi
Outside Director of the Board
Lawyer



Role of the Board of Directors in achieving APTSIS 25

In my view, the roles of the Board of Directors in light of the new medium-term management plan are to drive forward the portfolio transformation and to create a management system that enables financial stability and improves the profitability of the entire Group. The medium-term management plan includes numerical targets and detailed measures, but it is the responsibility of the executive team (not the Board) to execute such measures and achieve those targets. The Board of Directors (more specifically, the outside directors based on their individual expertise), on the other hand, takes a broader perspective to monitor and supervise the directors and the executive team to see what actions are taken by the management to achieve portfolio transformation and increase profitability and to review whether appropriate decisions are made and efficient operations are employed to implement such objectives.

As a company with a nominating committee, etc., the MCHC Group has made certain progress in its management system from the perspective of “defensive governance” for example, by having outside directors with various skills sit on the committee to exercise monitoring and control functions. Going forward, we will also focus on “proactive governance” for the Group to achieve portfolio transformation and pursue steady growth in profits.

Fostering lively discussions for creative decision-making

To pursue proactive governance, we need to clarify the authority and duties of the Board of Directors (especially of a company with a nominating committee, etc.) and separate the supervisory role from the execution function to allow speedy and efficient decision making by the management team. While the decisions by the Board of Directors (which is the second supreme decision-making body within a company after the Shareholders’ Meeting) are limited to the most fundamental policies of the Company, the execution and implementation of such basic policies and the day-to-day business decisions are delegated to the executive team. The Board of Directors monitors the processes of such

decision making.

For this system to work well, the Board needs to function as a forum for discussion in the true sense of the term. It is often the case that the Board meeting becomes a place where the management team reports on what it has already determined and the Board provides approval after the fact. But the Board is supposed to be a more creative organ where appropriate agendas are timely selected, key issues are brought to light through full debate and solutions are sought and developed for those issues. To realize this purpose, ensuring the objectiveness of the source of information and data becomes more and more important so that transparency and efficiency of the discussion at the Board level increases. Having objective information and data helps the Board to spot the nature of the underlying issues and set a direction for the solution. I would like to promote discussions based on objective information and data, and help build a system to ensure such discussions.

Making the most of the new CEO’s skillset

We recently welcomed Jean-Marc Gilson as our new CEO. The MCHC Group is a large organization with a long history, and this may mean that the Group is relying on and is still bound by ideas from the old days. I am interested to see how our new CEO will change the mindsets of officers and employees, and together with the team, improve profitability of the Group under his leadership. Meanwhile, we expect to monitor the reasonableness and logicalness of the decisions made by the executive team as well as the processes, and the efficiency and speed with which the team manages the Group.

Strengthening and activating the Board may lead to maximizing the new CEO’s skillset. By ensuring transparent processes and having the CEO and the executive team report actively to the Board, issues surrounding the Company will be highlighted, and more essential and effective discussions can take place there. In such an environment, we hope to monitor the direction in which the management is taking the Company, and together with them, make appropriate decisions for the MCHC Group.

Risk Management

The MCHC Group defines risks as “potential events that could, during the course of corporate activities, undermine public trust or damage the corporate value of the MCHC Group.”

We recognize, analyze and evaluate risks, and prevent the materialization of significant risks. We take measures to minimize the personal, economic and social damage arising if such risks materialize.

Risk management system

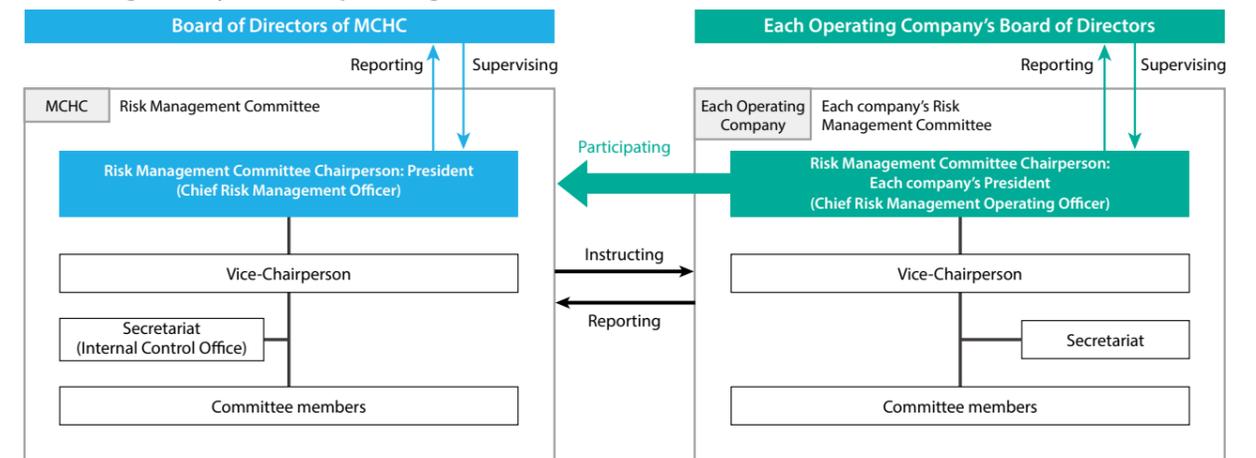
The MCHC Group is engaged in corporate activities with the objective of improving corporate value. These activities are related to social conditions, the global environment and various other externalities, and they involve potential risks.

We have in place a risk management system whereby the MCHC President is responsible for the entire risk management across the Group, in accordance with the MCHC Group Risk Management Basic Rules. The status of the management of significant risks and risk management policies that affect the entire Group are deliberated on and decided by MCHC’s Risk Management Committee. Such

deliberations and decisions are reported to the Board of Directors as needed.

The presidents of operating companies are responsible for establishing each company’s risk management system and conducting management through each Risk Management Committee. As part of our risk management system, we recognize the importance of fostering an awareness of risk management among executives, managers and employees in general. For this reason, all individuals are expected to be involved in risk management from their own standpoints.

Risk management system conceptual diagram



COVID-19-related risk management

Located in Kawasaki City, Kanagawa Prefecture, LSII’s Tonomachi Cell Processing Center (CPC) is an important base for the culture of Muse cells and the manufacture of related product formulations.

Although we have rolled out teleworking and online meetings, the cell culture operations require the presence of over 80% of the staff. We have therefore stationed body temperature measuring equipment and non-contact alcohol spray dispensers at room entrances and made it standard practice to check body temperature and sanitize the hands before entering. Meeting rooms and similar areas are provided with a permanent supply of sanitizer, and all staff are required to eat in silence as well as wear a mask at all times other than when taking a meal or refreshment.



Governance

Risk management process



Measures against major risks

The MCHC 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

In order to instill 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, as well as 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.

Subsidiary governance

MCHC clarifies the responsibilities of corporate organizations and improves systematic approaches to reduce overall Group risks in the governance of subsidiaries in Japan and overseas. For example, in order 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 at overseas Group companies. 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

MCHC has developed the Group Information Security Policy, in order to protect information assets and to maintain corporate value as a whole. Also, we continuously reinforce information security capabilities at our global business sites. 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 mails or other training via an e-learning system.

Measures against future risks

The MCHC 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 for products such as automobiles and lighting fixtures, for which environmental standards and energy efficiency are important. The MCHC 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.

GHG reduction initiatives ▶ P. 43

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 MCHC 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.

Compliance

For the MCHC Group, the word compliance has a broad meaning encompassing not just basic adherence to the law but also observance of corporate ethics and general social norms. We regard compliance as one of the most important management issues and engage in a range of initiatives to instill a culture of compliance throughout the Group.

Charter of Corporate Behavior

The MCHC Group Charter of Corporate Behavior declares explicitly our commitment to applying sound ethics and good common sense to every aspect of our corporate activities.

Among other things, the Charter sets out fundamental principles of conduct for achieving sustainable development in harmony with society and explains our approach to the main issues affecting our contribution to the realization of KAITEKI.

 The full text of the Charter of Corporate Behavior can be viewed on our website.
<https://www.mitsubishichem-hd.co.jp/english/group/charter.html>

Compliance promotion structure

The Chief Group Compliance Officer (Group CCO) is appointed by the Board of Directors, and the Internal Control Office supports the Group CCO, acting as a secretariat for compliance matters.

The secretariat seeks to ensure compliance in accordance with local conditions through the regional headquarters established in the United States, Europe and China. In addition to developing shared educational tools, we provide training to overseas Group companies and help them to set up compliance hotlines. Each operating company has its own Compliance Promotion Committee as well as an Internal Control Department that serves as secretariat. They operate hotline systems and implement training courses and seminars, business audits and compliance awareness surveys based on the MCHC Group Compliance Promotion Rules.

If an actual or potential compliance violation is found, the department with issues will report and consult with the CCO of each company and the Group CCO, receive guidance and directions, and take appropriate corrective actions and measures to prevent recurrence.

Hotline systems

Hotline systems are managed and operated with the Group, operating companies' Internal Control Departments and external lawyers serving as contact points. In fiscal 2020, 116 cases were reported via the hotline systems. We respond to reported issues through our investigation teams, which are headed by the managers of the Internal Control Departments. Corrective measures are taken promptly in line with the relevant regulations under the direction of the CCO.

Measures and results in fiscal 2020

In fiscal 2020, we commissioned an external agency to survey employees' awareness of compliance within the Group in Japan in order to continuously monitor the spread of compliance awareness. The survey results were presented as feedback to all operating companies, who use them to enhance compliance awareness through education and training and other activities. At the same time, we have quantified the responses to questions related to matters such as individual awareness and behavior and the workplace climate as a compliance improvement awareness index and incorporated it into our MOS Indices.



The Group's Material Issues
• Compliance

Compliance training

The MCHC Group provides grade-specific compliance training every year in Japan and overseas. We provide a variety of learning settings, including lecture-style training for large groups and discussion-style training for small groups to enhance the effectiveness of such training.

In fiscal 2020, to reduce the risk of COVID-19 infection, MTPC made video recordings of discussion-style training sessions and made the content available online.



Video recording at a compliance training session at MTPC