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Outline of MGC Corporate Governance

[I. Corporate governance policy, capital structure, key company type descriptors, other basic information](#)

1. Corporate governance policy

At Mitsubishi Gas Chemical Company, Inc., ("MGC"), the establishment and maintenance of a sound and transparent management system is a key management issue, and a number of measures are being pursued with the aim of improving transparency, ensuring fairness, and accelerating decision-making.

The Company has adopted an executive officer system and positioned the Board of Directors as the organization responsible for deciding important management issues, including basic policies, and for overseeing business execution. This has strengthened governance and enhanced the operational framework by clarifying functions and responsibilities. MGC has also adopted an internal company system for its business divisions, which has clarified responsibility and improved management performance.

MGC aims to enhance the transparency and fairness of management through internal audits performed by the Company's Board of Corporate Auditors and will develop effective corporate governance through appropriate disclosure of management information.

MGC Group works to achieve sustainable growth while contributing to society in every aspect of its highly profitable, research-driven operations.

2. Capital structure

Percentage of foreign shareholders:	Between 20% and 30%
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Principal shareholders

Name	Number of shares held	Percentage of total shares outstanding
The Master Trust Bank of Japan, Ltd. (Trust Account)	35,984,000	7.4
Japan Trustee Services Bank, Ltd. (Trust Account)	30,627,000	6.3
Nippon Life Insurance Company	21,452,648	4.4
Meiji Yasuda Life Insurance Company	16,795,443	3.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	16,403,414	3.4
Mitsubishi UFJ Trust and Banking Corporation	11,686,680	2.4
Trust and Custody Services Bank, Ltd. (Trust Account B)	10,535,000	2.2
The Norinchukin Bank	10,053,091	2.1
Asahi Glass Co., Ltd.	9,671,163	2.0
Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,008,059	1.9

3. Key company type descriptors

Stock exchange listings	Tokyo Stock Exchange: 1 st Section Osaka Stock Exchange: 1 st Section Nagoya Stock Exchange: 1 st Section
Fiscal year-end	March
Industry type	Chemicals
Number of employees (consolidated)	More than 1,000 people
Net sales (consolidated)	Between ¥100 billion and ¥1 trillion
Parent company	None
Number of subsidiaries	Between 10 and 50

4. Other matters having a significant bearing on corporate governance

II. Status of corporate governance system in managerial decision making; management control system regarding enforcement and supervision; other items

1. Matters regarding type of organizational structure and operation, etc.

Type of organization	Company with corporate auditors
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Board structure

Head of the Board Of Directors	Chairman (except in cases where role is jointly held by the President)
Number of directors	10
Outside directors appointed	No

Reasons for adopting the current system

MGC has appointed outside corporate auditors with no special interest in the Company. MGC is confident that it can ensure impartial management supervision by carrying out external audits of directors and including outside corporate auditors in the Company's decision-making process for important matters.

Corporate auditors

Board of Corporate Auditors in place	Yes
Number of corporate auditors	5

Cooperation between corporate auditors and accounting auditors

Pursuant to the Companies Act, the Company has appointed Toyo Horwath as its independent auditor, and delegates auditing responsibilities to it pursuant to the Financial Instruments and Exchange Law. The auditing team for fiscal 2006 consisted of Tamotsu Kinjo (four years as an auditor for the Company) and Chisato Kitayama (one year as an auditor for the Company), who are partners of Toyo Horwath, and eleven other certified public accountants.

The corporate auditors and independent auditors cooperate in the execution of audit duties, providing regular reporting and attending meeting sessions.

MGC and its subsidiaries paid a fee of ¥53 million to Toyo Horwath, for audits performed in fiscal 2006 as stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Law.

Cooperation between corporate auditors and Internal Audit Division

The Internal Audit Division was established to enhance internal controls and to raise business management efficiencies. In order to confirm the proper execution of business, internal audits are conducted based on an annual plan.

The Corporate Auditors and the Internal Audit Division cooperate in the execution of audit duties, providing regular reporting and attending meeting sessions.

Outside corporate auditors appointed:	Yes
Number of outside corporate auditors:	3

Relationship to MGC (1) (updated)

Name	Affiliation	Relationship to MGC*								
		a	b	c	d	e	f	g	h	i
Ichiei Noguchi	Employee of external company								●	
Wataru Taguchi	Employee of external company				●	●			●	
Yoshimasa Nihei	Scholar								●	

*Types of relationship to MGC:

- a) Employee or former employee of holding company
- b) Employee or former employee of affiliated company (other than holding company)
- c) Major shareholder of the Company
- d) Concurrently outside director or outside corporate auditor of another company
- e) Executive officer, corporate officer, etc. at another company
- f) Executive officer, corporate officer, etc. at an affiliated company or business having special partnership with a related company, or spouse of same, or family member of same to the third degree of kinship
- g) Individual having received as an executive compensation or gained other assets from the holding company of an affiliated company or the subsidiary of an affiliated company
- h) Individual having signed a liability limitation contract with an affiliated company
- i) Other

Relationship to MGC (2)

Name	Supplementary information regarding above items a) to i)	Reason for appointment of the outside corporate auditor
Ichiei Noguchi	Based on Article 423, Paragraph 1 of the Companies Act regarding liability for damages of officers, MGC has concluded a limited liability contract with Ichiei Noguchi, with a maximum amount pursuant to Article 427, Paragraph 1 of the same law.	In addition to many years of professional experience in banking, Ichiei Noguchi also has a management background, enabling him to make a valuable contribution as an outside corporate auditor of MGC.
Wataru Taguchi	Wataru Taguchi is concurrently an outside director at Keihin Electric Express Railway	In addition to many years of professional experience working in financial institutions,

	Co., Ltd. and president and CEO of Nissay Asset Management Corporation. Based on Article 423, Paragraph 1 of the Companies Act regarding liability for damages of officers, MGC has concluded a limited liability contract with Wataru Taguchi, with a maximum amount pursuant to Article 427, Paragraph 1 of the same law.	Wataru Taguchi also has a management background, enabling him to make a valuable contribution as an outside corporate auditor of MGC.
Yoshimasa Nihei	Based on Article 423, Paragraph 1 of the Companies Act regarding liability for damages of officers, MGC has concluded a limited liability contract with Yoshimasa Nihei, with a maximum amount pursuant to Article 427, Paragraph 1 of the same law.	Yoshimasa Nihei has a high level of specialist expertise and knowledge in chemical engineering, analysis and the environment, enabling him to make a valuable contribution as an outside corporate auditor of the specialty chemicals manufacturer MGC. Mr. Nihei has no history of previous direct involvement with the management of a company, but has held key positions in a number of academic associations and public committees. His diverse experience will enable him to carry out his duties appropriately as an outside corporate auditor.

Other activities of external auditors

Ichiei Noguchi and Wataru Taguchi attended all meetings of the Board of Corporate Auditors in fiscal 2006. Both stated their opinions on matters relating to the execution of duties by auditors such as auditing methods and other items, discussed audit results, and deliberated over the main items of audits. In addition, both attended all meetings of the Board of Directors in fiscal 2006 and when necessary made statements from an external standpoint to ensure that decision making of the Board of Directors was sound.

Ichiei Noguchi also attended other important meetings, asked questions and provided advice in relation to the soundness of business execution, as appropriate in his role as full-time auditor.

Incentives

Incentives for directors	Other
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Supplementary information (updated)

The nature of the MGC's business is such that each business segment involves a process that takes many years, with a progression from research and development to the construction of manufacturing facilities, and then to market development and profitability. In general, the individual skills and short-term achievements of an individual director do not greatly influence the Company's performance in a given fiscal year. For this reason, the general principle with regard to the compensation paid to directors is that the amount paid should be appropriate to the duties carried out. As a long-term incentive for the management of MGC, retirement benefits are paid upon retirement, the calculation of which is based on length of service and achievements during employment. Therefore there is no retirement benefits system in place for external directors, nor is there a directors pension system. Depending on trends in the Company's performance, following decision at the General Shareholders' Meeting, payments separate from those mentioned above may be awarded, or reductions made to the fixed amounts for compensation.

MGC does not use a system of stock options or related corporate loan. However, MGC has established guidelines for directors and executive officers with the aim of aligning their interests with those of shareholders and thereby encouraging greater efforts by directors and executive officers to improve MGC's corporate value. Having stipulated a minimum number of MGC shares that directors and executive officers are required to hold, part of the compensation that MGC provides to its directors and executive officers is provided by the allotment of MGC shares through an executive officer shareholding system.

Director compensation

Means of disclosure	Securities report, business report
Status of disclosure	Total amount for all directors disclosed

Supplementary information

The total amount of compensation paid to directors in fiscal 2006 was ¥395 million. This includes a ¥90 million increase in provisions for retirement benefits. Note that the compensation was paid in cash.

Outside directors (outside corporate auditors) support framework

(updated)

MGC has assigned full-time staff not subject to the orders of its directors to aid the outside corporate auditors and all of its corporate auditors in the execution of their duties. As well as providing administrative support for the execution of auditing operations, this staff serves as a secretariat for the Board of Auditors, aiding communication and coordination between auditors. Corporate auditors may also avail of the services of lawyers and other specialists that are independent from MGC in order to exercise appropriate judgement in their audits.

Like other corporate auditors, outside corporate auditors regularly hold discussions with the CEO, receive reports from other directors and staff relating to the status of business execution both on a regular basis and also promptly whenever important matters arise, and can request surveys and reports when necessary. In addition, as well as attending meetings of the Board of Directors and other important meetings, the corporate auditors review important documents pertaining to business execution and can seek explanation from directors and staff when necessary.

MGC pays its outside corporate auditors compensation that is appropriate to and commensurate with their duties and in accordance with MGC corporate auditor compensation regulations. MGC has revised its compensation system to enhance the independence of its corporate auditors from management. Effective from the 80th Ordinary General Shareholders' Meeting held on June 28, 2007, MGC abolished its retirement benefits for corporate auditors (including outside corporate auditors) and established an integrated policy of fixed compensation.

2. Business execution, auditing and supervision, designation, determination of compensation **(updated)**

MGC's Board of Auditors is comprised of five corporate auditors (three full-time) and of these, three are outside corporate auditors. A full-time staff is in place to assist the auditors in the execution of their duties. In the course of auditing the business execution of MGC, each corporate auditor attends meetings of the Board of Directors and other important meetings, audits MGC departments, and carries out surveys of subsidiaries. In doing so, they monitor the process of important decision making in the course of business execution in order to audit business execution and ensure rational decision making as well as compliance with laws and corporate ethics.

To reinforce its auditing functions through an increase in the number of outside corporate auditors, effective from the 80th Ordinary General Shareholders' Meeting held on June 28, 2007, MGC changed the number of corporate auditors from four to five, while the number of

outside corporate auditors increased from two to three.

MGC uses an executive officer system, which clearly separates the decision making of management and supervisory functions from business executions. The Board of Directors decides the basic policies of management, as well as important matters relating to items decreed by law and articles of incorporation. The Board of Directors oversees business execution, while executive officers carry out the functions of business execution. Directors and corporate auditors attend almost all Board of Directors meetings; in 2007 there was 100% attendance by directors and 97% by corporate auditors. In order that directors may fully concentrate on the management of MGC, MGC limits to three the number of non-Group companies at which directors may concurrently serve as directors, auditors or executive officers (even on a temporary basis).

For matters arising in the course of its business execution that may have a significant effect on the company, MGC makes its decisions on the basis of multifaceted deliberations. The Management Council deliberates on management policies and the Operations Council deliberates on specific plans for the implementation of these.

In order to evaluate the business execution of directors and executive officers, reports on the execution of their duties are submitted regularly to the Board of Directors and internal meetings in addition to the reports of profits and losses and other financial matters that are submitted to monthly internal meetings.

In this way, MGC works to achieve swift decision making in its business execution, while improving the transparency and fairness of management through the auditing of the Board of Auditors and the oversight of the Board of the Directors.

Corporate auditors, accounting auditors and the Internal Audit Division all cooperate in the course of their auditing operations, conducting reports and discussions on a regular basis.

MGC receives advice from attorneys, certified public accountants and other experts when necessary in the course of its decision making and business execution.

Candidates are selected for appointment to the position of director based on specific executive candidate selection criteria, which require that each candidate be suitable in terms of achievements and character.

MGC pays its directors compensation that is appropriate to and commensurate with their duties, within the range decided at the General Shareholders' Meeting, and in accordance with MGC executive director compensation regulations.

III Implementation Status of Policies Pertaining to Shareholders and Other Stakeholders

1. Initiatives for revitalizing shareholders' meetings and ensuring smooth exercise of voting rights

	Supplementary information
Early dispatch of shareholders' meeting convocation notice	MGC is endeavoring to send the convocation notice earlier, so that it reaches shareholders more promptly and they can have more time to consider how to vote on resolutions to be tabled at shareholders' meetings.
Exercise of voting rights through electronic methods	In order to further increase convenience with respect to the exercise of voting rights, MGC has adopted an electronic voting system starting from the 80th Ordinary General Shareholders' Meeting held on June 28, 2007. MGC is also using the Electronic Proxy Voting Platform for Institutional Investors operated by ICJ, Inc.
Other	The Electronic Voting Platform for Institutional Investors carries an English language version of the convocation notice for overseas institutional investors.

2. IR activities

	Explanation provided by representative himself	Supplementary information
Holding of regular meetings for analysts and institutional investors	Yes	MGC holds results presentations for securities analysts and institutional investors following the announcement of its interim and year-end financial results, at which members of senior management including the President explain about our financial results and future business development. Furthermore, MGC publishes webcasts of the meetings and the meeting materials on its website, in order to also provide the same information to general investors.
IR materials provided on website	Yes	MGC publishes IR materials such as financial statements, analyst meeting materials, Timely Disclosure Materials, Annual Reports and Business Reports on the Investor Relations section of its website.
Establishment of IR department and appointment of IR staff	--	MGC has established the Corporate Communications Division as the division in charge of IR and appointed dedicated IR staff to actively pursue IR activities under the direction of the corporate officer responsible for IR.

3. Initiatives to respect the position of stakeholders (updated)

Supplementary information	
Provisions regarding respect for the position of stakeholders in in-house regulations, etc.	<p>MGC has enacted the MGC Corporate Behavior Guidelines, and aims to respect consumers and customers, shareholders and investors, local communities, employees and other stakeholders, in order to maintain their trust and understanding.</p>
Implementation of environmental conservation initiatives, CSR activities, etc.	<p>MGC's basic policy is to fulfill its corporate social responsibility through pursuing fair, transparent and open business activities. Particularly with respect to environmental conservation, MGC takes part in the Responsible Care initiative as a voluntary means of ensuring safety and environmental conservation throughout the entire product life cycle from production to disposal, and widely reports the status of its initiatives to society through its Responsible Care Report published every fiscal year.</p>
Formulation of policies regarding disclosure of information to stakeholders	<p>MGC has formulated its Disclosure Policy and discloses information in accordance with it, in order to disclose information to shareholders, investors and other stakeholders in a timely manner, with due consideration of transparency, fairness and continuity.</p>

IV Policy about Internal control systems and status of establishment of the system

(updated)

【Policy about Internal control systems and status of establishment of the system】

MGC resolved as follows at the Board of Directors meeting with respect to the establishment of internal control systems and controls the group in accordance with it.

(Resolve of the Board of Directors meeting)

(Basic Policy)

In all matters relating to its internal control framework, MGC shall ensure that MGC and its Group companies construct, maintain and operate internal controls appropriately , while

correctly and appropriately fulfilling the internal control reporting system requirements stipulated by the Financial Instruments and Exchange Law. In this way, MGC shall achieve its four objectives of effective and efficient operations, reliable financial reporting, compliance with MGC business-related and other laws and regulations, and preservation of its assets.

(1) Systems for Ensuring Duties of Directors and Employees Are Executed in Compliance with Laws, Regulations, and Articles of Incorporation

- 1) MGC shall view "compliance" as broadly encompassing conformity with laws, regulations, Articles of Incorporation, and internal rules, as well as the conduct of fair, transparent, and free business based on an awareness of corporate responsibility to society, and shall establish the Directives for Corporate Actions, Compliance Rules, and MGC Code of Conduct.
- 2) Administrative Management of Compliance shall be appointed and a Compliance Advisory Committee chaired by said Officer shall be established as an organization directly under the President. The Compliance Advisory Committee shall examine and implement measures to enhance MGC's compliance systems, as well as provide instructions and oversight regarding compliance.
- 3) In order to detect internal compliance violations and take corrective measures promptly, a Compliance Counseling shall be established as a means of receiving internal reports from officers, employees, their families, contractors, business partners, and the like.
- 4) In order to eliminate anti-social forces, in addition to clarifying its firm stance against such forces in the MGC Corporate Behavior Guidelines and the MGC Code of Conduct, MGC shall promote its policies in each relevant department.
- 5) An Internal Audit Division shall be established to conduct internal audits pursuant to the Internal Audit Rules in addition to auditing Corporate Auditors and Independent Auditors.
- 6) In order to ensure that MGC and its Group companies construct, maintain and operate internal controls appropriately, while correctly and appropriately fulfilling the internal control reporting system requirements stipulated by the Financial Instruments and Exchange Law,, MGC shall establish an Internal Control Promotion Committee headed by the director responsible for the Internal Audit Division.
- 7) MGC shall create a pamphlet "MGC Compliance Handbook" and distribute to officers and employees to ensure their understanding of the compliance system, as well as cultivate awareness on compliance through education and training.

(2) Systems for Ensuring Efficient Execution of Duties by Directors

- 1) MGC shall use an executive officer system, which separates the decision making of management and supervisory functions from business executions, thereby ensuring expeditious decision-making and business execution. At the same time, the company system shall be adopted in the operating divisions to achieve efficient business management by clarifying accountability for performance.
- 2) In order to make decisions on matters that have material effect on MGC based on multifaceted considerations, Management Council shall be established to deliberate on management policies and Operations Council shall be established to deliberate on specific execution plans, with Directors to attend meetings of both Boards as a rule.
- 3) Organization Regulations, Separation of Duties Rules, and Rules Defining Extent of Authority shall be established to clarify the duties and authorities of Directors to ensure efficient and appropriate execution of duties.
- 4) Performance shall be monitored based on numerical targets clarified through the Group's medium-term management plan, annual budget, and the like.

(3) System for Archiving and Managing Information on Execution of Duties by Directors

Information pertaining to the execution of duties by Directors shall be archived and managed as documents in accordance with the Document Control Procedures and other internal rules.

(4) Rules and Other Systems for Managing Risk of Loss

- 1) MGC shall establish Risk Management Rules in order to understand and appropriately manage business risks.
- 2) Risk Management Committee chaired by the Administrative Management of Risk Management and shall be established as an organization directly under the President to identify the status of risk management and provide oversight and instructions on prioritizing risks and devising reduction measures.
- 3) Being a chemical manufacturer, MGC shall engage in responsible care (RC) activities as a voluntary undertaking to ensure environmental protection and safety through the life cycle of chemicals from production to disposal.

(5) System for Ensuring Appropriate Execution of Business by MGC Group

- 1) While valuing the autonomous management of subsidiaries and affiliates and clarifying the managerial accountability of their Board of Directors, MGC shall establish Rules on Subsidiaries and Affiliates and provide for regular reports on business conditions and prior consultations on important matters, so that it may carry out its business operations as a corporate group in an appropriate and efficient manner.
- 2) In addition to having MGC Corporate Auditors conduct investigation and Internal Audit Division conduct internal audits and the like as necessary with respect to subsidiaries, appropriate execution of business by subsidiaries and affiliates shall be ensured through the assignment of Directors and exercise of voting rights to the companies.
- 3) MGC's compliance system and risk management system shall, as a rule, be applied to subsidiaries and affiliates. Further, MGC's Compliance Counseling is also available to the officers, employees, their families, contractors, business partners, and the like.

(6) Matters Related to Employees Assisting with Corporate Auditors' Duties

Employees shall be assigned to aid Corporate Auditors in the execution of their duties.

(7) Matters Related to Independence from Directors of Employees Assisting with Corporate Auditors' Duties

Employees assigned to assist with the duties of Corporate Auditors shall engage full time in said assignment and shall not be subject to orders and instructions from Directors. The prior consent of the Board of Corporate Auditors is required for their transfer, appraisal, and disciplinary punishment.

(8) Matters Related to Reports from Directors and Employees to Corporate Auditors

- 1) In the event Directors or employees find violations of laws and regulations or facts and the like that may cause significant damage to MGC, they must report said violations, facts, and the like to the Board of Corporate Auditors in accordance with laws, regulations, Compliance Rules, and other internal rules.
- 2) Directors and employees must report regularly, and promptly in the case of important matters, on the execution status of business operations, risk management, and implementation of compliance, as well as promptly conduct investigations and provide reports in the event Corporate Auditors request investigations and reports concerning the execution status of business operations.

(9) Other Systems for Ensuring Effective Auditing of Corporate Auditors

- 1) Representative Directors shall arrange for regular exchange of views with Corporate Auditors. Further, the Internal Audit Division and the Independent Auditor shall communicate and deliberate with Corporate Auditors to ensure the effectiveness of Corporate Auditors' operations.
- 2) Corporate Auditors may attend Board of Directors Meetings and other important meetings in order to understand the decision making status regarding important matters and the execution status of business operations, in addition to reviewing important documents and requesting explanations of Directors and employees on the execution of business operations.

【Basic approach and procedure toward eliminating anti-social forces】

In addition to renewing, at meetings of the Board of Directors, its resolve to adopt a firm stance against anti-social forces, MGC clarifies its stance in the MGC Corporate Behavior Guidelines and the MGC Code of Conduct, which are available to the public as well as internally.

In terms of specific procedures, MGC has positioned the General Affairs Department as the division responsible for measures to eliminate anti-social forces, and assigned a manager in charge of MGC's measures against anti-social forces. In addition to working to cooperate with police and specialized agencies through appropriate notification and consultation, this division gathers information concerning anti-social forces, conveying this information and providing cautionary notices to the relevant parties, which include MGC Group companies as necessary.

V Other

1. Takeover defense-related items

2. Other items pertaining to the corporate governance system, etc.

Reference: Corporate Governance Framework

