CSR Management (ESG)

Contents

CSR Management

Director, Managing Executive Officer
In charge of Compliance, Responsible
for Corporate Planning Division
In charge of Internal Audit Division and
CSR & IR Division

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Explanation of Strategy by Executive Officer in Charge

We will promote socially responsible management from a medium- to long-term perspective, contributing to achieving carbon neutrality

Executing an offensive approach to CSR that enables us to demonstrate the value of our presence in growth areas

Our new medium-term management plan, which started from April 2021, sets forth two targets: The urgent issue of shifting to a profit structure resilient to environmental changes, and a medium- to long-term effort to balance social and economic value. While the timelines to achieving these two goals differ, there is a clear correlation between them. This is because, going forward, it will be essential that we reassess or rebuild those businesses that are either not in harmony with society, or that are deemed by society to be of no value. Meanwhile, there are growing opportunities for new business in areas where social and economic value overlap. With this understanding of today's social conditions and our individual businesses, we are focusing on laying the groundwork to promote socially responsible management on a sustained basis.

As climate change problems come to the fore, and with the "new normal" brought about by the coronavirus pandemic, chemical manufacturers are being pressed to make a major shift. For the MGC Group, adapting to these changing times while fulfilling our social responsibilities in the areas of the environment and safety and working to stabilize our profit structure are constant challenges. Addressing these issues and continuing our pursuit of what makes MGC unique are not contradictory goals, but rather goals that we believe can be balanced. We will boldly execute an offensive approach to CSR over the next three years, bringing a unique perspective to social issues while demonstrating the value of our presence in growth areas such as carbon neutrality, next-generation telecommunications and the mobility revolution.

Taking management risks into account as we create new businesses that lead to solving social issues

We define socially responsible management as aligning MGC's activities with society's path forward, while pursuing business profits based on our Group Mission of "creating values to share with society" and a keen awareness of our responsibilities vis-à-vis the environment, society and corporate governance. Several risk factors are apparent as we take an overhead view of conditions in and outside the Company along the lines of this definition. Examples include the appearance of low-cost alternative materials of unprecedented competitiveness; regulatory changes aimed at decarbonization and the increased cost of responding to those changes; and the broad impact of a decline in the working population. To control these risks, we are striving to create technology from a broader, more long-term perspective and maximize new business opportunities.

One promising business that can leverage the MGC Group's unique technologies and experience, while also controlling management risks, is in solutions that boost achievement of carbon neutrality. Specifically, this applies to areas such as technology for manufacturing methanol and polycarbonates from CO_2; new businesses in methanol and ammonia, which are gaining increased attention as hydrogen carriers; and the geothermal power generation business. By further developing and applying MGC's unique, proprietary technologies, and refining our solutions to a level at which they can be implemented in society, we will embody our goal of "creating values to share with society."

CSR takes on a role like that of an orchestral conductor

These are uncertain times in which unprecedented disruption is taking place in a wide range of industries. To adapt to this business environment, it is essential that we return to our philosophy for being, maintain a firm hold on our core competencies, and craft a sustainable growth strategy. The CSR Department is the leader in this effort, in a sense the section responsible for "conducting the orchestra." Our goal is to look at the Group as a whole while remaining aware of the long-term timeline, encouraging change at the departmental and individual levels as we strive to become an excellent company with uniqueness and a strong presence.

CSR Promotion System

The MGC Group pursues sustainable growth balancing the social and economic value of the Group as "CSR management," based on the Group Mission of "creating value to share with society."

The Company has established the CSR Council, chaired by the President and made up of Directors as members. As an advisory body to the CSR Council, the CSR Committee is convened by the General Manager of the CSR & IR Division and made up of General Managers of the head office's corporate sectors. Through these organizations, the Company has established a system for promoting ongoing advancement of CSR management by applying a companywide PDCA cycle ranging from the identification of materiality to the establishment of KPIs, confirmation of progress and reviews.

The CSR Council deliberates and determines policies and measures that form the basis for CSR management such as identification and management of materiality, and receives reports on the implementation of thereof.

The CSR Committee checks the state of implementation of various activities pertaining to CSR management in each division, and promotes CSR activities such as consulting with the CSR Council on necessary measures through periodic reviews. The CSR Committee also establishes various CSR Expert Committees as needed to consider specialized and important matters in CSR activities.

The CSR Department of the CSR & IR Division has been established to serve as the secretariat for the CSR Council and the CSR Committee. The CSR Department is responsible for administrative tasks such as overseeing non-financial information within the Company, considering policies and strategies on CSR management, and engagement within and outside the Company.

We aim to obtain the trust and congruity of a variety of stakeholders and realize ever greater corporate value by contributing to the resolution of issues for the realization of a sustainable society through our business more than ever before.

CSR Promotion System
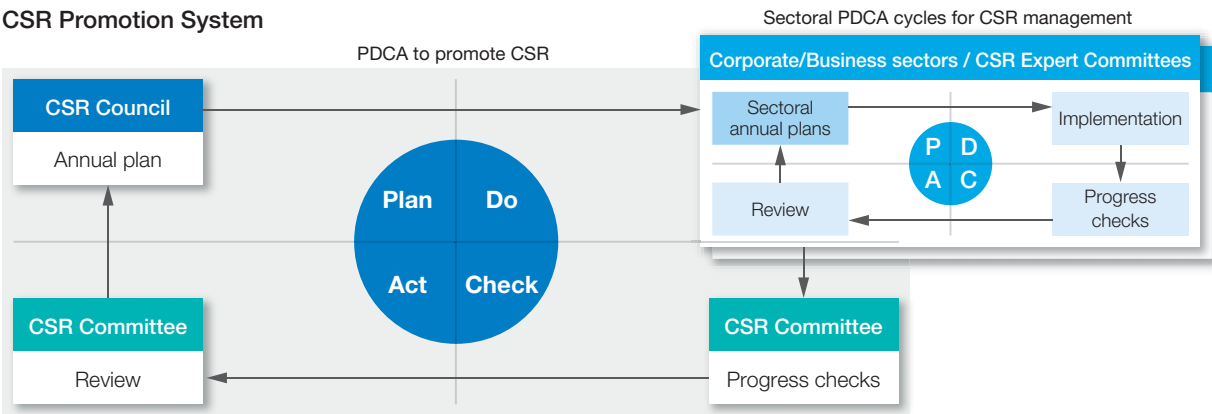
Materiality and Evaluation Indicators (KPIs)

The MGC Group identified priority issues (materiality) to be addressed by management in April 2020 with the aim of conducting CSR management. Evaluation indicators (KPIs) for materiality were specified in the Medium-Term Management Plan announced in April 2021, and the PDCA cycle for improvement will be applied through their management.

The materiality of the MGC Group is composed of four categories: creating shared value (CSV), foundation for shared-value creation (S), harmonization of shared-value creation with environmental protection (E), and value-creative discipline (G). These are also associated with the 17 goals and 169 targets set forth in the SDGs, with the aim of achieving the SDGs and contributing to the realization of a sustainable society.
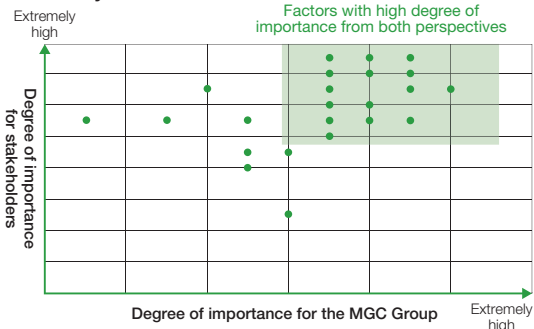
Furthermore, materiality is revised around every three years in conjunction with the Medium-Term Management Plan.

📖 For further details, please refer to "Materiality KPI" on page 27.

Materiality Identification Process

A list of over 600 terms related to social issues/changes was compiled from various sources, including requirements in GRI and SASB standards, ISO26000 and SDGs, and trends among other companies. These were classified by theme and narrowed down to 39 materiality elements. Priority was assessed from the standpoint of both stakeholders and the MGC Group. Finally, materiality and priority were considered in the CSR Committee, and deliberated and approved in the CSR Council.

Materiality Matrix

Materiality Risks and Opportunities

Materiality		Why it is material	Risks	
Category	Elements			
Creating Shared Value CSV	**Contribution through business operations** • Contribute to development of ICT/mobility society • Solve energy and climate change problems • Solve medical and food problems	Pursuing creation of value to share with society leads to improvement in corporate value from economic, social and environmental standpoints.	• Increasing difficulty of development with intensifying competition; lengthening lead times • Shift in share of low-cost alternative materials • Existing product obsolescence	
Foundation for shared-value creation S	**Cultivating a corporate culture of job satisfaction**	An organizational culture that enables all employees to confidently give full play to their abilities over the long term while finding individualized meaning in their jobs is the foundation of corporate value creation.	• Declining labor productivity and outflow of personnel • Declining quality of stakeholder engagement	
	Promotion of diversity and inclusion	A culture of collaboration among individuals with diverse values is conducive to new ideas and technological innovation.	• Uniform thinking and loss of new business opportunities due to imbalance in personnel attributes and skills	
	Stakeholder engagement	Corporate value creation is a result of stakeholders' contributions, including the resources they provide.	• Loss of credibility among stakeholders, damage to corporate value due to inappropriate responses	
	Promotion of socially responsible sourcing	Companies have a societal responsibility to upgrade CSR compliance throughout their supply chains with respect to the environment, working conditions, human rights, etc.	• Negative impacts on business activity due to illegal actions and compliance violations by suppliers	
	Occupational safety and health / Process safety and disaster prevention	Safety is the foundation of business activities. Companies have a societal duty to ensure safety.	• Risk of disasters or other problems due to insufficient education and training • Loss of societal trust due to accidents or scandals	
	Highly energy-and resource-efficient production	Companies have a duty to harmonize their operations with global environmental protection in accord with the principle of sustainable development.	• Cost of responding to regulations and societal demands • Cost of deploying high-efficiency equipment	
	Chemical/product quality and safety assurance	Quality assurance is the basis of stakeholders' trust. Companies have a duty to provide highly safe and reliable products and services.	• Loss of societal trust due to inaccurate data handling and shipping of inappropriate products • Strengthened chemical substance regulations in each country	
	Promotion of innovative R&D	Developing valuable new products and technologies that help to move society forward and solve problems is the pursuit of creation of value to share with society.	• Discontinuous change in social and industrial structures • Securing and developing personnel competent in cutting-edge technology fields	
Harmonization of shared-value creation with environmental protection E	**Proactive response to environmental problems** • Air quality control • Water and biodiversity conservation • Reduction of industrial waste	Addressing environmental problems is imperative for all of humanity. Companies must proactively do so as a prerequisite for their existence and activities.	• Increased cost of responding to stronger environmental regulations • Decline in competitive advantage due to delays in technological response to resource and energy conservation needs • Reputational risks regarding environmental protection	
Value-creative discipline G	**Strengthen systems** • Corporate governance • Compliance • Internal controls • Risk management	Developing disciplined ways steadily execute strategies to bring business models to fruition and to sustainably grow corporate value.	• Slumping business activity, loss of societal trust and damage to corporate value due to compliance violations	

	Opportunities	Main Initiatives	Related SDGs (targets)
	• Strong in-house development technology capabilities • Customer credibility backed by multiple industry standards • Portfolio of distinctive, differentiated products	• Transform business portfolio • Commercialize products that balance social value with economic value • Engage in new businesses that contribute to solving social issues	3 GOOD HEALTH AND WELL-BEING (3.6 3.8), 4 QUALITY EDUCATION (4.4), 7 AFFORDABLE AND CLEAN ENERGY (7.2 7.3), 8 DECENT WORK AND ECONOMIC GROWTH (8.1) 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE (9.4), 11 SUSTAINABLE CITIES AND COMMUNITIES (11.4), 12 RESPONSIBLE CONSUMPTION AND PRODUCTION (12.2 12.3), 17 PARTNERSHIPS FOR THE GOALS (17.3 17.16)
	• Strengthened foundation for creating innovation • Improved employee engagement in their work	• Respect for human rights, achieving work-life balance • Enhancement of support system in skills development	
	• Nurturing a culture of collaboration among diverse values that is conducive to new ideas and technological innovation	• Strengthen diversity promotion system • Diversity management that leads to results	
	• Forming a fair market valuation • Improved management transparency	• Voluntary, timely and appropriate information disclosure • Ongoing stakeholder communications	
	• Improved sustainability of society and long-term competitiveness	• Encourage understanding among suppliers, strengthen collaboration • Internal communication and education	3 GOOD HEALTH AND WELL-BEING (3.8 3.9), 4 QUALITY EDUCATION (4.2 4.4), 5 GENDER EQUALITY (5.1 5.5), 6 CLEAN WATER AND SANITATION (6.3)
	• Nurturing a culture of safety • Accumulating expertise in preventive maintenance	• Ensure thorough education and training; verify and observe safety rules • Conduct occupational safety and health risk assessment • Promote LINK activities across plants • Promote Company- and Group-wide environmental safety activities	7 AFFORDABLE AND CLEAN ENERGY (7.3), 8 DECENT WORK AND ECONOMIC GROWTH (8.2 8.7), 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE (9.4 9.5), 10 REDUCED INEQUALITIES (10.2)
	• Optimization of production conditions through deployment of AI/IoT; improving productivity by predicting and preventing problems	• Ultra-stable operation of production equipment • Improve outputs through use of high-efficiency equipment • Introduction of remote monitoring and diagnostic technology using smart technology	12 RESPONSIBLE CONSUMPTION AND PRODUCTION (12.2 12.4 12.6), 16 PEACE, JUSTICE AND STRONG INSTITUTIONS (16.2 16.10)
	• Facilitating continuous improvement and ensuring customer satisfaction through Company-and Group-wide quality assurance activities (Q-MGC) • Sharing and centralization of information to enhance customer satisfaction and societal trust	• Promote Q-MGC Company- and Group-wide • Work to improve data management through DX • Ensure thorough safety assessments and provision of product information • Respond to chemical substance regulations in each country	
	• Strengthened technology platform and creation of innovation built on collaboration among Group's own technologies	• Centralize R&D structure; pursue Group synergies • Focus corporate resources on high-priority themes • Collaboration between MGC's creativity and open innovation • Create a communicative research environment	
	• Participation in Fukushima gas power station and geothermal project • Commercial development of methanol and ammonia as hydrogen carriers and CO_2-free fuels • Participation in CCUS proof of concept testing	• Create businesses that balance environmental and economic value • Promote Company-wide responsible care activities • Continuous improvement activities through ISO, RC-MS PDCA cycles • Contribute to environmental protection through business • Promote biodiversity preservation in alignment with stakeholders	3 GOOD HEALTH AND WELL-BEING (3.9), 6 CLEAN WATER AND SANITATION (6.3), 12 RESPONSIBLE CONSUMPTION AND PRODUCTION (12.2 12.4 12.5) 13 CLIMATE ACTION (13.2), 14 LIFE BELOW WATER (14.1 14.3), 15 LIFE ON LAND (15.1)
	• Establish a stable management foundation by improving decision-making transparency and responding appropriately to change • Gain stakeholder trust	• Strengthen risk management in internal controls • Strengthen corporate governance structure	5 GENDER EQUALITY (5.1 5.5), 8 DECENT WORK AND ECONOMIC GROWTH (8.7), 10 REDUCED INEQUALITIES (10.2), 16 PEACE, JUSTICE AND STRONG INSTITUTIONS (16.2 16.5 16.10)