

# Corporate Governance

## Basic Approach

MGC strives to operate effective corporate governance systems, and continuously reinforce and enhance those systems, in order to meet the expectations of all stakeholders, beginning with our shareholders.

### Basic Policies

- (1) Ensure the rights of and equality among shareholders.
- (2) Engage in appropriate collaboration with shareholders and other stakeholders.
- (3) Conduct appropriate information disclosures and maintain transparency.
- (4) Properly carry out the responsibilities of the Board of Directors and other bodies.
- (5) Engage in constructive dialogue with shareholders.

## Corporate Governance System

As a company with an Audit & Supervisory Board, MGC has, for the purpose of business execution, established an executive officer system that clearly separates management decision-making and supervisory functions from the business execution function. The Board of Directors decides basic management policies, matters relating to items stipulated by law and the Company's Articles of Incorporation, and other important management matters. The Board of Directors oversees the execution of business, while executive officers are responsible for directly managing business affairs. For matters arising in the course of business execution that may have a significant effect on the Company, the Board of Directors makes its decisions on the basis of multifaceted deliberations, including deliberations on management policies by the Management Council and deliberations on plans for executing specific policies by the Operations Council. The Board of Directors receives advice from attorneys and other experts when necessary in the course of its decision making and supervision of business execution.

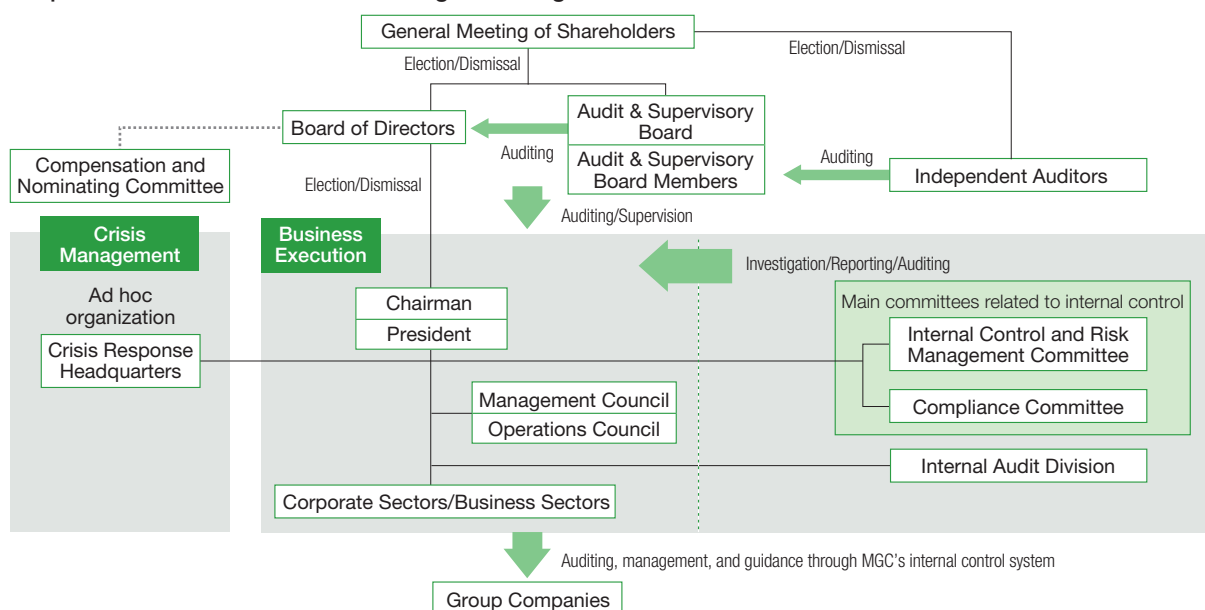
Matters to be discussed by the Board of Directors are stipulated in the Regulations of the Board of Directors. These include matters relating to the General Meeting of Shareholders; matters relating to Directors, other executive officers and the Board of Directors; matters relating to calculations, etc.; matters relating to shares, etc.; matters related to the execution of important business; other matters as stipulated by laws, regulations, and the Articles of Incorporation; and matters deemed necessary by the Board of Directors. Under the supervision of the Board of Directors, the management team conducts business in line with the company's management policies.

The Audit & Supervisory Board members also attend important meetings, such as those held by the Board of Directors and the Operations Council, conduct audits of each division and surveys of subsidiaries, and audit the execution of business. The members also monitor important decision-making processes and business execution in order to ensure reasonable decision making and compliance with the law and corporate norms.

## Basic Information about Corporate Governance System

<b>Organizational Format</b>	Company with an Audit & Supervisory Board
<b>Composition of the Board of Directors</b>	Twelve (of which four are outside directors)
<b>Directors' term of office</b>	One year
<b>Chair of the Board of Directors</b>	Chairman
<b>Establishment of a voluntary advisory committee</b>	Compensation and Nominating Committee: six (Chairman, President, four outside directors)
<b>Composition of the Audit &amp; Supervisory Board</b>	Four (of which two are outside Audit & Supervisory Board members)
<b>Number of Independent Officers</b>	Six
<b>Business Execution System</b>	Executive officer system
<b>Composition of the Management Council</b>	Eight (Chairman, President, six managing executive officers)
<b>Composition of the Operations Council</b>	Twenty-two (All executive officers including the Chairman and President)
<b>Introduction of a Hostile Takeover Defense Plan</b>	None

## Corporate Governance and Risk Management Organization Chart



### Assessing the Effectiveness of the Board of Directors

To assess the effectiveness of the Board of Directors in fiscal year 2020, we conducted a survey of the directors and Audit & Supervisory Board members regarding the Board of Directors as a meeting, as an organization, and from an overall perspective. The Board of Directors then held discussions based on the aggregate results and opinions that were received.

The final assessment was that lively discussions of important management and other issues, including matters related to CSR, are being held; that full reports on the status of execution of duties are being provided appropriately; and lastly, that effective supervision and sharing of information are taking place. While we recognize that the Board of Directors is performing at a certain level, we will continue to consider strategies to further improve the understanding of the outside directors and outside Audit & Supervisory Board members, as well as to encourage deeper discussion.

Going forward, we will also move ahead with any needed reviews, focusing on items where room for improvement has been identified.

### Compensation and Nominating Committee

The Compensation and Nominating Committee functions both to determine executive officer compensation and to nominate and appoint key members of the management team. The majority of the committee is comprised of independent outside directors. The Board of Directors is responsible for appointing and dismissing key members of management, including the Chairman and President, and for nominating directors and Audit & Supervisory Board members. The Compensation and Nominating Committee is consulted prior to those matters being put before the Board of Directors for discussion, as is the case with decisions on policies regarding executive officer compensation and total annual amounts, and in determining allocation of those amounts.

Note that the appointment, dismissal and nomination of said officers are judged in light of certain selection criteria that include whether they have the appropriate internal and external work experience and knowledge for the position; whether they have the dignity and ethical values appropriate to their responsibilities; and whether they have violated any laws, the Articles of Incorporation, or company rules.

### Training of Directors and Audit & Supervisory Board Members

MGC has newly-appointed directors and audit & supervisory board members attend mandatory seminars outside the Company covering legal-related matters, particularly in connection with the Companies Act of Japan, in order to enhance their understanding of the roles, responsibilities, and duties of their respective positions. When deemed necessary, MGC gives directors, audit & supervisory board members, and other officers opportunities to attend external seminars covering various topics, including compliance, risk management, internal control, and legal issues, and provides them with relevant books and other materials.

Furthermore, all executive officers and directors overseeing business execution participate in workshops held each year, in which they discuss challenges and tasks for management in group settings. When appropriate, experts from outside the Company are invited to give informative lectures on current topics, such as revisions to laws.

In addition, MGC works to improve the efficacy and quality of its auditing by organizing study meetings for members of the Audit & Supervisory Board and by providing opportunities for them to attend external seminars of their choosing in order to gain additional knowledge of relevant laws, auditing techniques, financial accounting, and other matters.

### Information Sharing and Support Network for Audit & Supervisory Board Members

An employee not subject to instructions from directors is assigned to assist Audit & Supervisory Board members with their duties. In addition to providing practical support for conducting audits, the employee facilitates communication between the Audit & Supervisory Board members and coordinates their activities as the administrative staff of the Audit & Supervisory Board. Audit & Supervisory Board members regularly exchange views with directors, periodically and promptly receive reports on the status of business execution and other important matters from directors and office staff, request

explanations whenever necessary, and express opinions. These members also inspect important documents related to the execution of business and request explanations from directors and the office staff. They can also make use of specialists who are independent from the Company, such as attorneys, for the purpose of making proper decisions related to auditing.

In addition, outside directors and Audit & Supervisory Board members are encouraged to share opinions and information regularly in an effort to promote cooperation between the outside directors and members of the Audit & Supervisory Board.

### Introduction of Diverse Perspectives

MGC has developed a global business that ranges widely from basic chemicals to high-performance materials. Because our management decisions require a high degree of expertise, the Board of Directors as a whole strives to maintain a well-balanced diversity of knowledge, experience, and abilities, centered on those from within the Company who are deeply familiar with our business and management, with the addition of multiple independent directors who, representing the perspectives of shareholders and other stakeholders, provide advice and supervision.

The Company currently has 12 directors (of whom four are independent outside directors), which we believe to be

generally appropriate in size and effectiveness.

In order to ensure the fair and objective oversight of management, particular attention is paid to the independence of outside officers (outside directors and outside Audit & Supervisory Board members), in accordance with criteria set by the Tokyo Stock Exchange regarding independence. MGC appoints only candidates who have no conflict of interest with general shareholders.

The Company nominates as independent all outside officers who satisfy the requirements for being an independent officer.

#### Criteria Regarding Independence of Outside Officers

Candidates are deemed to qualify as an independent officer as long as none of the following apply:

**1. If any of the following applies to the candidate:**

- Has been a business execution manager<sup>\*1</sup> of the Group<sup>\*2</sup>.
- Is a major shareholder<sup>\*3</sup> of MGC or is or has been a business execution manager for a major shareholder company within the previous five years.
- Is or has been a business execution manager of an important business partner<sup>\*4</sup> within the previous five years.
- Has been dispatched from a company or organization that has established a relationship with the Group through the reciprocal appointment of outside officers.
- Works for or has worked for an auditing firm within the previous five years that has conducted a statutory audit of MGC.
- Provides or has provided consulting services other than statutory auditing to the Group within the previous three years, for which he or she has received high compensation.<sup>\*5</sup>

**2. If any of the following applies to a close relation<sup>\*6</sup> of the candidate:**

- Is or has been an important business execution manager<sup>\*7</sup> of the Group within the previous five years.
- Is a major shareholder of MGC or a business execution manager for a major shareholder company.
- Is or has been a business execution manager within the previous five years of an important business partner.
- Works for or has worked for an auditing firm within the previous five years that has conducted a statutory audit of MGC.
- Provides or has provided consulting services other than statutory auditing to the Group within the previous three years, for which he or she has received high compensation.

**3. The candidate has another important vested interest in the Group and has been reasonably deemed to be unable to fulfill his or her duties as an independent officer.**

<sup>\*1</sup> Business execution manager: Either a director overseeing business execution, an executive officer, other officer involved in business execution, or an employee

<sup>\*2</sup> The Group: MGC or one of its subsidiaries

<sup>\*3</sup> Major shareholder of MGC: A shareholder currently holding, either directly or indirectly, 10% or more of total shares issued and outstanding

<sup>\*4</sup> Important business partner: A business partner that has made transactions, including buying and selling, amounting to 2% or more of consolidated net sales over the previous three consecutive years. Consolidated net sales pertain to the Group in the event the Group is the seller, or to the partner in the event the Group is the buyer.

<sup>\*5</sup> High compensation: In the case of an individual, an annual amount of 10 million yen or more, or in the case of a member of company or organization, compensation exceeding 2% of its consolidated net sales or total revenue

<sup>\*6</sup> Close relation: Either a spouse, first- or second-degree relative, or financial dependent

<sup>\*7</sup> Important business execution manager: Either a director overseeing business execution, an executive officer, or other officer involved in business execution

## Compensation of Directors and Audit & Supervisory Board Members

### Policies and Methods for Determining Compensation to Directors

Compensation to directors of MGC (excluding outside directors) consists of annual compensation and restricted stock compensation.

Annual compensation consists of a fixed basic compensation based on the individual's position and responsibilities, and performance-based compensation that takes into account various indicators of the Company's performance. Compensation is divided into monthly installments and paid monthly, and a certain percentage is accumulated annually as a reserved retirement benefit to be paid at the time of retirement. This amount may be subject to reduction based on the individual's performance and other factors. Performance-based compensation is intended to be an incentive for overall Company performance, and is determined using indicators such as ordinary income, based on actual results, level of achievement, and so on. In addition, given the nature of the Company's business, in which each business reaches profitability through a variety of processes over many years — including research and development, manufacturing process development and market development — annual compensation consists primarily of basic compensation, with a general guideline of about 30% for performance-based compensation.

Restricted stock compensation is compensation paid to directors once each fiscal year in the form of grants of MGC stock; directors are granted a certain number of shares based on their positions and responsibilities. The purpose of restricting transfers of these shares and having recipients hold them for a certain period of time is to provide an incentive for sharing value with shareholders

and for working toward sustained growth of corporate value.

In addition to these forms of compensation, an amount that is considered appropriate may be paid as a bonus upon resolution of the General Meeting of Shareholders.

Note that outside directors, whose position is independent of business execution, are paid only fixed basic compensation.

Annual officer compensation is determined by the Board of Directors upon comprehensive consideration of Company performance, common standards and employee salary trends, and so forth, and after consultation with the Compensation and Nominating Committee. In addition, allocation of individual compensation is entrusted to the President by the Board of Directors, based on the determination that the President is the most suitable person to evaluate each director while having a high-level view of the Company as a whole. The President makes these decisions based on discussions regarding the allocation of compensation by the Compensation and Nominating Committee.

The above policies are decided upon by the Board of Directors after consultation with the Compensation and Nominating Committee, comprised of a majority of outside directors.

### Compensation to Audit & Supervisory Board Members

Compensation to Audit & Supervisory Board members consists only of a fixed basic compensation amount within a range stipulated by the General Meeting of Shareholders, which is determined through deliberations by the Audit & Supervisory Board members.

### Total Officer Compensation in Fiscal 2020

Position	Total Amount of Compensation (millions of yen)	Total Amount of Compensation by Type (millions of yen)			Number of People Receiving Compensation
		Basic	Performance	Restricted Stock	
Directors (excluding outside directors)	444	294	120	29	11
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board members)	53	53	—	—	3
Outside Officers	70	70	—	—	6
<b>Total</b>	<b>567</b>	<b>418</b>	<b>120</b>	<b>29</b>	<b>20</b>

Note: The amount of restricted stock compensation for directors indicated above is the amount reported as an expense relating to restricted stock compensation for the current fiscal year.

# Members of the Board of Directors and Audit & Supervisory Board (As of June 25, 2021)

## Directors



**Toshikiyo Kurai**

Representative Director, Chairman



**Masashi Fujii**

Representative Director, President



**Masato Inari**

Director, Managing Executive Officer  
Responsible for Production  
Technology  
In charge of Environment Safety  
& Quality Assurance Division,  
Purchasing & Logistics Division



**Nobuhisa Ariyoshi**

Director, Managing Executive Officer  
In charge of Internal Control &  
Risk Management  
Responsible for Administrative &  
Personnel, Finance & Accounting  
In charge of Information Systems  
Division



**Kenji Kato**

Director, Managing Executive Officer  
Responsible for Research &  
Development  
In charge of Intellectual Infrastructure  
Center



**Yasushi Kosaka**

Director, Managing Executive Officer  
In charge of Specialty Chemicals  
Business Sector



**Naruyuki Nagaoka**

Director, Managing Executive Officer  
In charge of Basic Chemicals  
Business Sector



**Motoyasu Kitagawa**

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



**Tsugio Sato**

Outside Director  
**Independent**



**Haruko Hirose**

Outside Director  
**Independent**



**Toru Suzuki**

Outside Director  
**Independent**



**Yasushi Manabe**

Outside Director  
**Independent**

## Audit & Supervisory Board Members



**Takashi Kimura**

Outside Audit & Supervisory  
Board Member  
**Independent**



**Masamichi Mizukami**

Audit & Supervisory Board Member



**Kenji Inamasa**

Audit & Supervisory Board Member



**Yasuomi Matsuyama**

Outside Audit & Supervisory  
Board Member  
**Independent**

**Independent** Independent officer as stipulated in Rule 436-2 of the Securities Listing Regulations of the Tokyo Stock Exchange



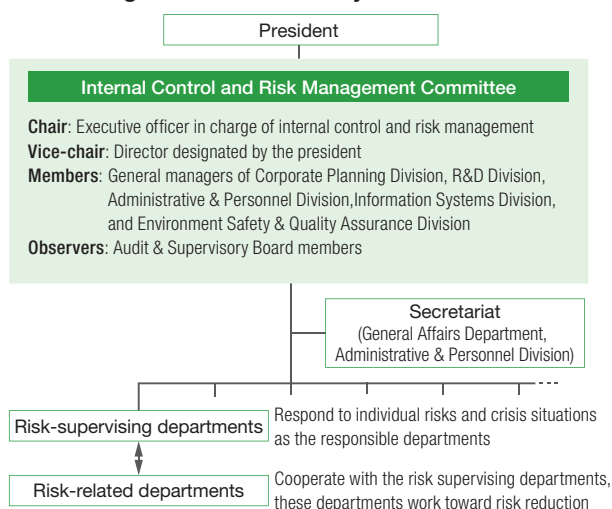
# Risk Management

## Basic Approach

At MGC, all business divisions actively assess and prioritize risk situations and devise risk reduction measures. The Internal Control and Risk Management Committee, chaired by the executive officer in charge of internal control and risk management, provides direction and supervision for each department and deliberates on problems that require a Company-wide response.

While MGC's business primarily centers on manufacturing, we identify and evaluate risks associated with business execution beyond just manufacturing inherent in our operations and internal control systems. We then take appropriate measures. In the event that a serious risk is identified, we set up a special group (Crisis Response Headquarters) to address it according to internal rules.

## Risk Management Promotion System



## Business and Other Risks (as of June 25, 2021)

MGC Group defines “risk” as possibilities or hazards that, if they were to manifest, could inflict economic losses on MGC due to human casualties, property damage, reputational damage, opportunity losses or other such detriments. The Group has built a risk management regime designed for both routine and exigent circumstances. Specifically, it has established Basic Rules on Internal Control & Risk Management, formulated risk management/mitigation policies and established an Internal Control & Risk Management Committee chaired by the officer in charge of internal control and risk management as a decision-making body that reports directly to the president. The committee makes decisions on matters related to risk management policies, initiatives and plans; matters related to business and operational risk management and guidance, direction and oversight incidental thereto; and matters related to guidance, direction and oversight related to business continuity planning. Additionally, it periodically reports to the Board of Directors on the state of risk management.

The main foreseeable risks that could affect the Group's business results, share price, or financial condition are enumerated from 1) through 11) below. They are all

## Risk Management of Group Companies

While MGC's approach is based on having Group companies autonomously manage their own risk management activities, MGC also surveys and exchanges information on the status of each company's efforts, while asking them to further enhance their risk management. Further, MGC divisions in charge of each company share information and address any issues when necessary. Risks that may have a significant impact are also reviewed by the Internal Control and Risk Management Committee.

## Formulating and Implementing Business Continuity Plans

Business divisions responsible for important products and projects at MGC formulate business continuity plans (BCP).

To fulfill their obligation to supply core materials that have a significant impact on customers, each business division implements disaster prevention and mitigation countermeasures to ensure business is not suspended in the event of a risk arising, or that the impact of such suspension is kept to a minimum. They also develop manuals and other materials to ensure a reliable, prompt recovery in the event that the requirements for business continuity are lost, regardless of the cause. Specifically, these include implementing plans according to the nature of each product and business for developing multiple manufacturing sites (which, depending on the product, may include sites in other countries), buildup of inventory, and reduction of equipment stoppage risk.

risks that the Group deems to be a realistic possibility, though specifics such as the degree and timing of their manifestation and their impacts are impossible to estimate as of the company's annual securities report's filing date (June 25, 2021) (however, they do not necessarily include every risk to which the Group is exposed).

From a medium-term perspective, MGC Group considers mitigation of risks stemming from climate change to be a key management issue with business-continuity implications. Climate-change-induced amplification of the magnitude of natural disasters such as anomalous weather events, typhoons and flooding may disrupt MGC Group manufacturing sites' operations and/or adversely affect product distribution or supply chains. The Group may have to globally deal with fuel or raw material cost inflation, imposition of carbon taxes as a climate-change mitigation measure and/or demands to install additional equipment to reduce environmental impacts.

Initiatives launched by MGC Group to address climate change include the following. In May 2019, the Group endorsed the Task Force on Climate-Related Financial Disclosure's recommendations. It has established an

internal Climate change Action Technical committee that discusses and assesses risks and opportunities posed to the Group by climate change. The committee's assessments are reviewed and approved by a CSR Council comprised of directors and chaired by MGC's president. In addition to mitigating risks due to climate change through analyses based on +2°C and +4°C scenarios, the Group will strengthen its resilience to be better able to transform risks into business opportunities.

Issues around disposal and reuse of post-use plastics, most notably marine plastic pollution, are gaining recognition globally. MGC Group places priority on recycling and circularity. It is developing recycling technologies, easily recyclable materials and compostable bioplastics. Other such initiatives include collecting and recycling waste materials generated when customers use its products and actively participating in similar initiatives led by industry organizations.

## ① Endogenous Business Risks

<b>Nature of Risk</b>	<p>MGC Group is mainly a manufacturer. With many of its products used as raw materials, intermediate goods or pharmaceutical inputs in customers' business activities, its sales are sensitive to economic conditions in the countries and regions where its customers' products are sold. In particular, market-priced commodities such as methanol, methanol derivatives, general-purpose aromatic chemicals and polycarbonate resins are generally prone to declines in unit sales and sales prices during economic downturns. Such products' economic sensitivity could adversely affect the Group's operating results and/or financial condition.</p> <p>In specialty and high-value-added product markets, the Group competes on multiple dimensions, including price, quality, functionality, delivery time and customer service. Intensification of competition due to, for example, the advent</p>	<p>of products offering alternative functionality, could adversely affect the Group's operating results and/or financial condition. For example, electronic materials supplied mainly to the electronics industry typically have a short product lifecycle and are constantly exposed to competition through technological innovation. The Group's sales consequently could decline as a result of existing products' obsolescence or product development delays. Additionally, some of the Group's products are sold to only a limited number of customers. If one customer stops using such a product, the Group's sales could decrease.</p> <p>MGC Group externally sources electric power and raw materials like xylene. Its manufacturing operations could be disrupted if a required input were to become unavailable. Its operating results and/or financial condition could be adversely affected by a sharp rise in input prices also.</p>
<b>Main Risk Mitigation Measures</b>	<p>MGC Group endeavors to develop new markets and businesses in addition to conducting basic and applied research to develop new products and manufacturing processes and improve existing ones. Other risk mitigation measures include close communication and collaboration, inclusive of R&amp;D, with customers, use of long-term supply contracts with both suppliers and customers, and sourcing of raw materials and other inputs from multiple suppliers.</p>	

## ② Overseas Business Risk

<b>Nature of Risk</b>	<p>MGC Group has subsidiaries and manufacturing and sales operations in Asia, North America, South America, the Middle East and elsewhere. Depending on country-specific conditions, such overseas operations and even dividend remittances from overseas subsidiaries could be disrupted by political instability or societal or economic turmoil due to a natural disaster, war, infrastructure</p>	<p>failure, a widespread infectious disease outbreak or other unforeseeable circumstances. Other risks that could adversely affect the Group's operating results and/or financial condition include problems due to differences in legal systems, investment restrictions imposed by foreign governments, nationalization or expropriation of assets, and personnel or labor issues.</p>
<b>Main Risk Mitigation Measures</b>	<p>To respond to overseas risks as effectively and expeditiously as possible, MGC Group endeavors to gather information from various sources, including locally stationed expat personnel, joint venture partners, attorneys and government authorities.</p>	

## ③ Joint Venture Risk

<b>Nature of Risk</b>	<p>MGC Group has numerous manufacturing joint ventures in not only Japan but also foreign countries such as Saudi Arabia, Venezuela, Thailand, China, South Korea, and Trinidad and Tobago. It sources and sells products such as methanol and engineering plastics through its JVs. The Group's joint venture</p>	<p>partners are not under the control of the Group. There is consequently no assurance they will make decisions in the best interests of the Group or even the joint ventures themselves. In the event of a joint venture's dissolution or other such circumstances, the Group's operating results and/or financial condition could be adversely affected.</p>
<b>Main Risk Mitigation Measures</b>	<p>MGC Group seeks to maintain and further improve good communication, share targets and objectives and maintain relationships with its joint venture partners while mitigating risks through joint venture agreements and other operational agreements.</p>	

## ④ Product Quality Risk

<b>Nature of Risk</b>	<p>MGC Group manufactures many products that are used as raw materials, intermediate goods or pharmaceuticals in customers' business activities and that conform to specifications agreed upon with the customer. However, if it sells a qualitatively defective product, it may have to compensate</p>	<p>customers that used the defective product, end-product users and/or other parties for not only direct damages but also opportunity losses. Its societal reputation also may be impaired. In such an event, the Group's operating results and financial condition could be adversely affected.</p>
<b>Main Risk Mitigation Measures</b>	<p>Even though most MGC Group manufacturing sites operate in conformance with globally recognized quality control standards, the Group has liability insurance coverage that includes product liability insurance as a precaution against risk. Other means by which the Group mitigates risk include explicitly limiting the scope of its liability as necessary in agreements with customers.</p>	

## ⑤ Natural Disaster and Accident Risks

<b>Nature of Risks</b>	<p>MGC Group has numerous manufacturing sites in Japan and elsewhere. Their production activities could be disrupted by earthquakes, storms, flooding or other natural disasters, war, terrorism, civil unrest, labor actions, communication infrastructure failures, widespread outbreaks of infectious diseases such as COVID-19, equipment malfunctions, human error or other unforeseeable circumstances. Given that MGC Group handles hazardous chemical substances on a daily basis, it cannot completely eliminate the possibility of explosions, fires, toxic</p>	<p>gas leaks or other accidents that damage production facilities, harm employees, inflict losses on neighboring property owners or customers, pollute the environment or otherwise inflict damages. Additionally, many MGC Group manufacturing sites have multiple production facilities that share utilities such as electricity, water and steam. Interruption of utility service to a manufacturing site consequently could shut down the site's entire production operations. In such an event, the Group's operating results and/or financial condition could be adversely affected.</p>
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**Main Risk Mitigation Measures** While pursuing continuous improvement based on an environmental safety management system, MGC Group diligently strives to upgrade its safety and disaster preparedness regime through better risk assessment and thorough safety training. In addition to of course endeavoring to properly maintain and stably operate its manufacturing facilities, the Group also formulates business continuity plans and builds redundancy into its network of production sites, including overseas. Additionally, the Group mitigates risk with broad insurance coverage that includes fire, business interruption, oil pollution and liability insurance.

In response to the COVID-19 pandemic, MGC Group swiftly set up a Crisis Response Headquarters and has been expeditiously implementing anti-pandemic measures. Even now, it continues to refine its plants and other workplaces' anti-pandemic measures customized to specific operations on a workplace-by-workplace basis to ensure the safety of its stakeholders, particularly its employees and their families and its customers. Specific measures include proactively using online videoconferencing throughout the Group to reduce opportunities for contagion, allowing head office staff and other employees to work from home and repeatedly adjusting on-site staffing in response to changing infection rates.

## ⑥ Information Security Risk

**Nature of Risk** MGC Group possesses confidential and personal information required for its business activities and uses various information systems in its operations amid ongoing digitalization of its businesses. In the event of a leak

of such information, an information system failure, a cyberattack, fraud committed by a malicious third-party or other such event, the Group's business activities and/or operating results could be adversely affected.

**Main Risk Mitigation Measures** MGC Group has established an information security regime and internal regulations based on various guidelines and educates its employees to increase their information-security literacy. It also conducts ongoing initiatives to ensure the adequacy of and upgrade its information security.

## ⑦ Investment Risk

**Nature of Risk** MGC Group invests in capital assets and R&D to grow its businesses and increase its competitiveness. In doing so, it focuses its efforts on strengthening existing businesses and developing new businesses aligned with prospective market needs. The Group also invests and intends to continue investing in business expansion in Japan and overseas through such means as establishing or co-

founding new companies, including joint ventures, and acquiring existing companies.

If the Group fails to earn adequate returns on such investments or incurs impairment losses on non-current assets, securities valuation losses or equity-method investment losses, its operating results and/or financial condition could be adversely affected.

**Main Risk Mitigation Measures** MGC Group has established and carries out internal investment screening procedures and performs additional due diligence as warranted by the nature of the prospective investment. Additionally, involved organizational units endeavor to devise appropriate risk mitigation measures.

## ⑧ Currency Risk

**Nature of Risk** Export, import, and other transactions denominated in foreign currencies could adversely affect the Group's operating results and/or financial condition, including by reducing sales revenues or exacerbating losses, as a result of exchange rate movements.

Additionally, financial statement accounts denominated in overseas MGC Group subsidiaries' local currencies are translated into yen to prepare MGC's consolidated financial statements. Such currency translation could adversely affect the Group's operating results and/or financial condition depending on then-prevailing exchange rates.

**Main Risk Mitigation Measures** MGC Group partially hedges currency risk associated with foreign-currency receivables and payables, mainly using currency forward contracts, in accord with internal regulations.

## ⑨ Financing and Interest Rate Risks

**Nature of Risks** MGC Group partially meets its financing needs by borrowing from financial institutions. In the event of a precipitous change in the financial environment, the Group's operating results and/or financial condition could be adversely

affected, including by inability to access funding or increased interest expense due to a rise in interest rates.

**Main Risk Mitigation Measures** MGC Group strives to maintain adequate financial soundness as measured by indicators such as debt/equity ratio and shareholders' equity ratio. It also endeavors to optimize its mix of fixed- and variable-rate debt and maintain healthy, favorable relationships with financial institutions and other sources of capital.

## ⑩ Compliance Risk

**Nature of Risk** MGC Group handles toxic and otherwise hazardous chemical substances, including high-pressure gases, as an inherent aspect of its operations. As such, it is globally subject to various legal and regulatory restrictions at every stage from manufacturing to storage, distribution and sales. If the Group

were to fail to comply with said legal restrictions or any other law or regulation or societal norm, its operating results and/or financial condition could be adversely affected by resultant criminal, civil or administrative liability, remediation costs, social sanctions or reputational damage.

**Main Risk Mitigation Measures** In addition to establishing specialized organizational units to oversee environmental and other regulatory compliance, the Group has built a compliance regime, including an internal whistleblowing system, and endeavors to fully comply with laws and regulations. It also implements various measures to foster a general compliance consciousness among its personnel.

## ⑪ Litigation Risk

**Nature of Risk** In the event of an unfavorable outcome to litigation or other legal proceedings brought against MGC Group in connection with its domestic or overseas operations, the Group's operating results and/or financial condition could be adversely affected. For example, the Group seeks to protect its intellectual

property through such means as applying for and obtaining patents in Japan and overseas. It also endeavors to avoid infringing on other parties' rights. However, if litigation pertaining to intellectual property rights was to be decided against MGC, the Group's operating results and/or growth could be adversely affected.

**Main Risk Mitigation Measures** MGC Group endeavors to not only comply with all laws and regulations applicable to its operations but also avoid disputes through such means as researching other parties' rights and drafting proper agreements that explicitly delineate rights and obligations with the assistance of attorneys and other expert advisors.



# Compliance

## Basic Approach

MGC has put in place, and is working to strengthen, a system for practicing compliance with the aim of earning the trust and understanding of the community.

MGC takes a broad view of compliance, one that involves not only abiding by laws and Company rules but upholding the fair, transparent, and flexible conduct of business in acknowledgment of its responsibilities to society. Based on this understanding, we have summarized the conduct expected of our executives and employees in the MGC Corporate Behavior Guidelines and the MGC Group Code of Conduct, the contents of which are reviewed and revised from time to time based on developments in society at large.

MGC decides policies, measures, and plans relating to the compliance system in the Internal Control and Risk Management Committee. In addition, as an organization to deal with individual cases of compliance violation, the Compliance Committee has been set up as an independent body reporting directly to the President. The Compliance Committee comprises the executive officer in charge of compliance (who serves as the chair), a director (vice-chair), heads of compliance-related departments, and others.

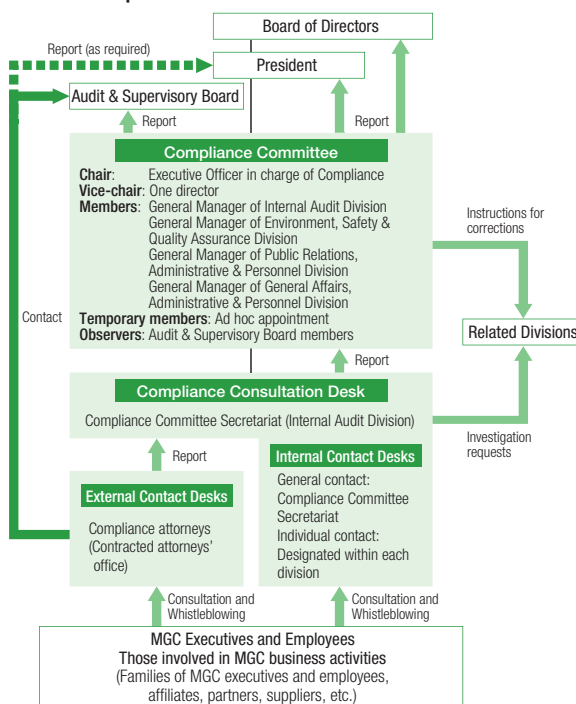
The results of the activities of this committee, which include the investigation and recognition of violations and the formulation, deliberation, and recommendation of corrective and preventive measures, are reported to the President, the Board of Directors, and the Audit & Supervisory Board, with compliance violations being dealt with according to prescribed internal procedures.

In addition, MGC has set up a Compliance Consultation Desk, intended to aid the early detection of unethical practices and implement preventive steps. Our internal contact desks are staffed by the Internal Audit Division, while outside consultation is available through the offices of specialized attorneys, including access to female attorneys. These attorneys also provide advice to the Compliance

Committee and assist with the training of relevant departments.

Consultations and whistleblowing brought to the attention of the Consultation Desk and deemed potentially serious compliance violations are promptly reported to the Compliance Committee chairperson. The Compliance Committee, after investigating the relevant facts, determines any required corrective action or measures to prevent a recurrence. The results of these investigations and the details of said measures are also reported back to the party who submitted the original consultation or whistleblowing.

## MGC Compliance Structure



## Compliance Education

MGC designates every October as “Corporate Ethics Month,” during which we conduct compliance training for all employees using our intranet and the President sends out a notice to all business sites calling for the renewed promotion of compliance.

Compliance education is also included in grade-specific training, and training is provided using educational materials suited to each position.

Given an increasing need to respond to compliance issues, such as cartel involvement and illegal payoffs, at Group companies affiliated with our overseas businesses in emerging countries and elsewhere we are working to enhance the quality of compliance training for staff dispatched as officers to overseas affiliates.

## Security Export Control Initiatives

The MGC Group Code of Conduct stipulates that exacting export screening procedures are to be followed, in part to ensure adherence with laws and international treaties regarding exports, as well as to ensure appropriate control over the export of cargo and provision of technology that may relate to the development of weapons of mass destruction and conventional arms.

Export control subject to screening includes all products exported by MGC, regardless of whether the transaction involves direct, indirect, or brokered trade, as well as all technology related to the design, manufacturing, and use of those products.

Export screening involves multiple checks by business divisions in charge of products and an independent export control division, which screen all exports to determine if cargo and technology restrictions apply, as well as also checking the final customer, destination, and use.

In addition, we endeavor to maintain and enhance the export control setup by implementing internal audits and grade-specific education annually.