

Message from the President



Toward Global Leadership in Specialty Materials under a New Group Concept

Jean-Marc Gilson

Representative Corporate Executive Officer,
President and Chief Executive Officer

New Group Concept accelerates “Forging the future” progress

When I took this office, we created a new Group management strategy called “Forging the future.” Step by step, we are transforming Mitsubishi Chemical Group Corporation into a specialty chemical manufacturer offering mostly sustainable products. In February 2023, we updated “Forging the future” for implementation through fiscal 2025, having completed the necessary strategy reformulation, portfolio restructuring, and focus market decisions.

In the previous month, January, we announced our new Group Concept—comprising Purpose, Slogan, and Our Way—as a reformulation of our core KAITEKI philosophy.

While the Japanese word *kaiteki* means comfortable, KAITEKI expresses our Purpose. Nearly 15 years after its

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formulation, KAITEKI was due for a checkup. To determine how well it matched our plans for the future, we asked our employees and other stakeholders to contribute their thoughts.

KAITEKI creates value in a circular path traversing management of economics, sustainability, and technology. The bottom-up exercise revealed that KAITEKI needed a more precise definition.

Our new Slogan, “Science. Value. Life.” is clear, concise, and easy to understand. First, while we are tech innovators, *science* is a more apt word for a chemical company since we solve *scientific* problems. Second, *value* creation is central to everything we do; it is in the middle of the Slogan for this very reason. We sum this up with *life*, the sustainable well-being of people and the global environment—the places where we live and work.

Our Way guides employee decisions to stay aligned with our Purpose by practicing integrity, respect, bravery, collaboration, and persistence.

We have also adopted a visual representation of how KAITEKI creates value in a circular path. This graphic element complements “Science. Value. Life.” and symbolizes what we strive for and respect—a circular economy, the carbon cycle, protecting the earth, and “One Company, One Team.”

The new Group Concept strengthens and renews our commitment to employee development, corporate growth, increased value for stakeholders, and sustainability.

Resilience to rebound from a sluggish market condition

Fiscal 2022 was the most trying time the chemical industry has faced in the last 20 to 30 years. The Ukraine war drove up energy prices, causing raw material cost to skyrocket.

Demand initially stayed firm. But escalating raw material cost compounded by inflation resulted in a perfect storm that devastated the industry.

Now, however, I feel we’ve reached the bottom, and despite continuing inflation I am confident that we have the resilience to rebound.

First up, we transformed costs through business restructuring, supply chain optimization, and Group company integration, as announced in the “Forging the future” management policy.

Our target was to cut costs by about ¥32 billion. We delivered ¥50 billion and expect an additional ¥80 billion reduction in fiscal 2023. This took aggressive measures. We shut down plants and entire activities, including the new COVID-19 vaccine facility in Canada.

Fiscal 2022 was a year of relearning how to raise prices. By tightening working capital management, we generated ¥100 billion in free cash flow. We invested in growth, focusing on gases and specialty materials such as *SoarnoL*, *GOHSENX*, and digital transformation (DX).

These are uncertain times particularly for the chemical industry. I see this as a transitional period. Preparing for the future starts with our own company,



but we also need to reorganize and consolidate the industry as a whole.

The results of our efforts are steadily emerging, and sales revenue for fiscal 2022 reached a record ¥4.6 trillion, while core operating income totaled ¥325.6 billion with the recognition of ¥125.9 billion in royalty revenue from *Gilenya*, under sluggish market conditions. We believe that the return will be significant when the economic environment improves in fiscal 2023 and beyond.

“Forging the future” forms the bedrock of our “One Company, One Team” rallying cry

We have made strides in all five of the pillars targeted by “Forging the future.” By strategically transforming

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costs, we are making MCG into a leaner, digital, and empowered organization. We are also exiting businesses and reallocating strategic capital, all the while pursuing growth, performance, and sustainability.

To get everyone on board with our “Forging the future” strategy, we have been taking every opportunity to speak directly with employees. I can sense that this is paying off in self-directed behavior toward simplification, focus, and growth—the three words that summarize “Forging the future.”

I am pleased to confirm, therefore, that the task of transforming MCG’s overly complex organization into a streamlined “One Company, One Team” is 90% complete. We are ready to meet the challenges and take advantage of the opportunities that lie ahead.

Reorienting corporate structure for market-driven growth

MCG, like all commodity companies, was, until recently, pushing product. The manufacturing and supply chain were in control and the commercial team would work hard, selling what was being produced. Even as the company evolved and acquired specialty businesses, it clung to this dated mentality.

As a specialty materials group, we turn this relationship on its head. Market power determines the winner, so the commercial team must take control, exploring the market to find opportunities, and consulting with customers to determine the innovations that would satisfy market needs. In this market-oriented

approach, the commercial team determines what products need to be made, in what quantity, and at what pace.

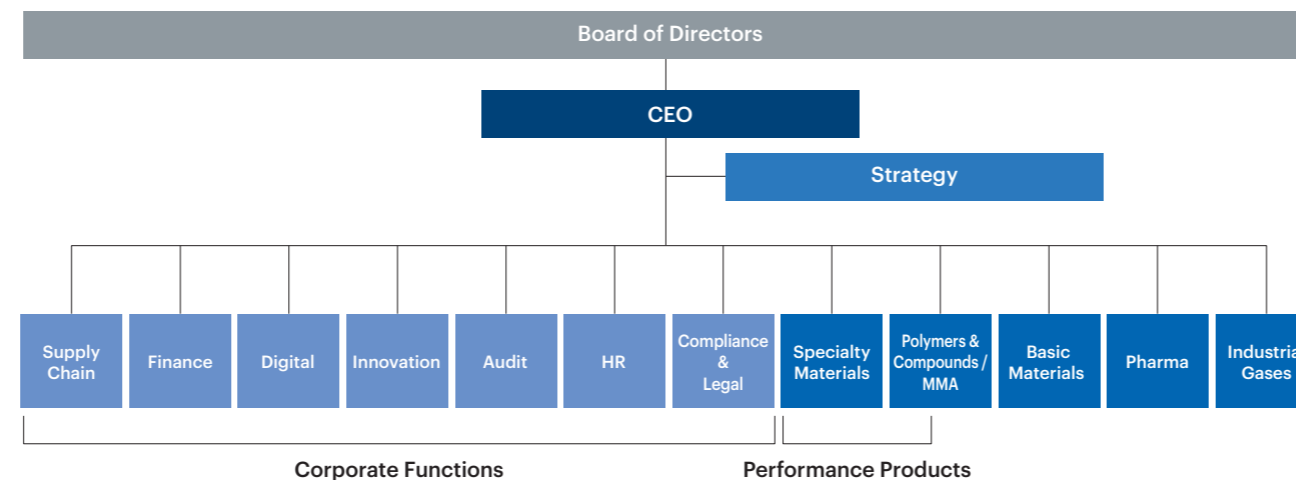
Commodity manufacturers have a global market perspective. But as a specialty materials group we also keep an eye out for local market opportunities and growth companies wherever we go. This multidimensional strategy has a market side and a product side. Success hinges on channel management—market segmentation, customer segmentation, and pricing expertise.

Growth can be achieved in three ways—more sales of existing products, geographic expansion, and innovation. All three call for the commercial team to collaborate closely with R&D for market-targeted innovation, while adhering to our new guidelines. Geographically speaking, overseas sales now constitute nearly half the total. Velocity is key to increasing this ratio.

Specialty materials are the key for the Group’s future

We’re optimizing our portfolio for market growth, competitive advantage, and sustainability. Petrochemicals and carbon are the two areas we are definitely exiting. To get a clearer picture, I’ve asked our business groups to examine their own portfolios in terms of growth in focus markets. Two important factors are regional fit and the potential for synergies by coupling business units.

Organizational structure



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The Group's future lies in specialty materials, industrial gases, health care, and MMA. We're funding these growth areas from cost reductions and the sale of non-core assets and businesses. As for petrochemicals, we are on the path to usher in the joint ventures that will rescue Japan's chemical industry from its current state of having too many small companies, too many inefficiencies, and not enough productivity.

Specialty materials are our engine for profitable growth. We count four attractive markets: EV/Mobility, Digital, Food, and Medical. Industrial gases, meanwhile, are feedstock for a wide range of industries. In health care, we are focusing on precision medicine and innovation to answer unmet needs. Regarding MMA, our global dominance and Alpha technology will both

enable and be complemented by an expanded product line offering the sustainability attributes that customers seek.

As progress continues with "Forging the future," we look forward to achieving a strong financial position in fiscal 2025. The capital that is generated will fund organic growth, increase shareholder return, and deliver a balance sheet that reflects vigorous financial health.

Becoming the digital chemical company of tomorrow

Implementing DX is critical to instilling the "One Company, One Team" spirit Group-wide and integrating disparate IT systems so they all speak the same language. This is the key to seamless efficiency and lean functionality for management speed and agility.

This will not only enable smooth sharing of information across the Group. It will also be a tool for working seamlessly with customers. In addition, smart HR system apps and tools will boost employee productivity and human resource management efficiency.

The leaner and simpler we are, the faster we can move. By capturing and analyzing data in real time, we can quickly and confidently make evidence-based decisions that enable a prompt response.

Above all, the best digital platform empowers our people to be their best.

Shrinking our carbon footprint and making specialty materials from sustainable inputs

There are two aspects to sustainability. One is shrinking our carbon footprint. The other is developing products for focus markets that can claim not only sustainability, but also high performance.

To reduce CO₂ output, we will end the use of coal-fired steam turbines by 2030, a task for which we have set aside ¥100 billion. The return on this investment is nothing less than a sustainable future for society and for MCG. This will take time to become visible. We also need to do the right thing as a corporate citizen.

The future is about delivering products that are both sustainable and high performance

The other aspect of sustainability is our commitment to circularity. We start by using more sustainable inputs including bio-sourced raw materials. Our goal is to have sustainable products account for 20% of our product line.

Circularity requires customer buy-in. Sustainable products must have critical technical and practical advantages. People will accept nothing less than sustainable, high-performing, and affordable products that are true alternatives to petrochemicals.

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The success of a company's business and value creation lies not only in the products as such, but also in their contribution to the firm's image and the bottom line. Products that offer both sustainability and high performance can deliver this.

Empowering employees and strengthening governance to spur corporate growth

MCG has great people with brilliant ideas. Hiring really smart talent is the easy part. Bringing out their



excellence requires organizational and cultural change.

Empowerment means employees can do what motivates them and develops their careers. It means a culture where everyone is encouraged to speak up and contribute.

Corporate performance depends on individual performance. We cannot thrive if seniority or other institutional artifacts hinder realization of personal potential.

Regarding governance, we will clarify where responsibility lies by shifting from a legal entity-based holding company to a corporate structure with controls run through business groups and functional divisions. To achieve this, we are using DX to smoothly integrate more than 600 legal entities into one team. The resulting lean and flat structure will support quick decision-making and effective strategy execution.

Realizing our vision of MCG as a global leader in specialty materials

The world's transition to renewables and carbon neutrality will require many chemical products. Chemicals are basic to just about everything—EVs being a prime example. What will change is the way

we make and distribute these products.

MCG's impact in this sea change is significant because intellectual property is a huge growth driver for us. Our people love to solve complex scientific problems.

I keep the door open so that our people know they are understood and supported in applying their potential to achieve great things. In this way, we will create ever-more sustainable value going forward.

I can feel the Group gathering momentum in our transformation to global leadership in specialty materials. To invest in the future we must make money in the present, creating value at every point in time. I am committed to increasing the return for our shareholders, creating value for all stakeholders, and continuously striving to enhance sustainability and well-being for people and the planet.