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Message from the CFO

Achieving our targets as a Group by balancing invest for growth, debt repayment, and shareholder return

Yuko Nakahira
Executive Vice President
Chief Financial Officer

Executing wide-ranging measures for maximum effect under difficult business conditions

Business conditions were particularly difficult in fiscal 2022 because of rising raw material and fuel prices coupled with falling demand, but by executing the "Forging the future" management policy defined in fiscal 2021 and prioritizing the protection of our existing business, we were able to pass on higher costs across the Mitsubishi Chemical Group and achieve cost savings. On top of this, alarm bells began to ring when free cash flow turned negative in the first-quarter fiscal 2022 results, and this prompted us to focus on reducing working capital as well.

We have had to make difficult but important decisions as we restructure our business portfolio for growth, performance, and sustainability. We have opted to withdraw from the melt-spun fiber and acrylic fiber businesses; close the MMA plant in the United Kingdom; liquidate Medicago Inc., which was developing a COVID-19 vaccine; and discontinue development of regenerative medicine products using Muse cells. Under the "One Company, One Team" concept, we have worked to integrate global organizations and operations for all functions and have also unified the business review process for all businesses (▶Page 51). On top of this, we have reduced the number of affiliates by 32, from 625 to 593 companies, in order to establish more streamlined organizational systems.

In terms of our performance as expressed by earnings, we managed to finish the fiscal year in positive territory

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Message from the CFO

after recognizing earnings from the arbitration award on royalties for multiple sclerosis treatment *Gilenya*. We recorded ¥325.6 billion in core operating income, ¥96.1 billion in net income attributable to owners of the parent, and ¥107.6 billion in free cash flow. However, we also invested for growth and therefore booked capital expenditures in line with our typical level of more than ¥280 billion and kept R&D spending at around the ¥150 billion mark.

We executed wide-ranging measures across the MCG Group and were able to reduce our net debt ratio to a net D/E ratio of 1.33. We paid dividends of ¥30 per share over the full year in fiscal 2022, the same level as in fiscal 2021. Although business conditions were difficult, we ensured that we were in a position to make this dividend payment, while looking to achieve a solid performance during the forthcoming recovery in demand.

Aiming to make further cost savings and increase ROIC through the executable plan for our management policy

The MCG Group's ROIC is currently just over 5%, which is still far too low for our goal of being a world-leading specialty materials group. We are targeting ROIC of approximately 7% by fiscal 2025, but this target is only a waypoint on our transformation journey. The next step is to achieve ROIC of 10% and to further increase invested capital efficiency.

In the executable plan for our management policy, unveiled in February 2023, we have set ROIC targets by business group that take into account the business model and priority issues in each group. To improve ROIC further, we need to capture data from corporate divisions and actively use it to implement a range of measures in the business units, while investing the valuable capital generated to drive our businesses forward. Furthermore, in the future, we need to step up investment in non-financial areas, such as human capital.

As we restructure our portfolio, we will make go/no go decisions on businesses that we do not expect to contribute to future earnings growth or businesses where we think the MCG Group is no longer the best owner. We will then prioritize next steps by taking into account various factors, such as how hard the decision will be to execute and what the real impacts will be.

Our executable plan defines seven focus markets, but we will give particular attention to EV/Mobility, Digital, Food, and Medical. We will then narrow our targets to three focus businesses based on how attractive the market is, whether we have a competitive edge, and sustainability matters. We will prioritize growth potential and our technological strengths when deciding on market attractiveness. We will then define targets and draw up a clear business roadmap that provides a plan not only for

short-term profit creation but also future activities to take the business forward.

For strategic cost transformation, the original management policy announced in fiscal 2021 set a target of ¥100 billion in cost savings by fiscal 2025. We plan to cut

Financial targets for fiscal 2025

Group targets (FY)	2021 results	2022 results	2023 initial forecast	2025 targets
Sales revenue	¥3,976.9 billion	¥4,634.5 billion	¥4,555.0 billion	Approx. ¥3,375 billion
Core operating income	¥272.3 billion	¥325.6 billion	¥250.0 billion	Approx. ¥365 billion
Core operating margin	6.8%	7.0%	5.5%	Approx. 11%
EBITDA	¥502.4 billion	¥583.3 billion	¥513.8 billion	Approx. ¥600 billion
EBITDA margin	12.6%	12.6%	11.3%	Approx. 18%
EPS	¥124.7	¥67.6	¥68.2	Approx. ¥143
Financial leverage (net debt / EBITDA)	4.1x	3.6x	4.1x	<3.0x
ROE	13.2%	6.4%	6.0%	Approx. 11%
ROIC	4.9%	5.7%	4.1%	Approx. 7%

Mainstay targets by business group	Specialty Materials	Industrial Gases	Health Care	MMA
EBITDA	¥225 billion	¥240 billion*1	¥55 billion	¥55 billion
EBITDA margin	16%	24%	15%	15%
ROIC	10%	>6%	3%	7%*2

*1 Midpoint of the range as disclosed in the medium-term management plan of Nippon Sanso Holdings Corporation, rounded up
*2 Includes the effect of partially complete large investment in a facility in the United States; ROIC excluding the investment is 9%

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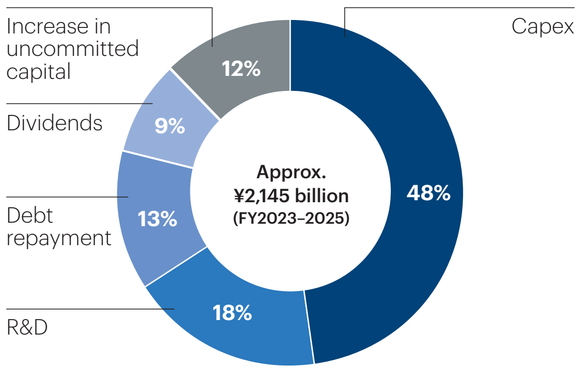
costs by more than ¥80 billion before the end of fiscal 2023 through Health Care restructuring, operational excellence and supply chain optimization, as well as procurement. We now look to achieve cost savings of approximately ¥135 billion by fiscal 2025, more than originally targeted. Cost restructuring across the Group ▶Page 28

Looking at our resources for capital allocation, we estimate a total of ¥2,145 billion in capital over the three-year period between fiscal 2023 and fiscal 2025. We will acquire funds by steadily implementing all of the key measures set forth in our management policy, namely portfolio restructuring, strategic cost transformation, and exit from the petrochemicals and carbon products businesses, while having capital available to invest in organic growth and to improve the EBITDA margin from 13% in fiscal 2021 to 18% in fiscal 2025.

Strategic capital allocation ▶Page 30

Capital allocation



Prioritizing communication with investors and maximizing total shareholder returns

MCG's basic policy on shareholder returns is to improve shareholder value by increasing corporate value. For dividends, the executable plan based on our management policy is to boost dividends year on year, aiming for a target dividend payout ratio of 35% in fiscal 2025. Based on this policy, we plan to raise the interim and year-end dividend payments by ¥1 each. That said, I consider the most important matter to be maximizing total share returns.

Basic earnings (loss) per share and cash dividends per share ▶Page 98

As we manage the company with an eye on capital costs and capital returns, we will continue to communicate our progress with, and results from, the management policy and engage in deeper discussions with shareholders and investors, with the goal of achieving sustainable growth and improving our corporate value over the medium and long term.

Approach to investor relations (IR) activities

Through communications with shareholders and investors in Japan and overseas, we are working to disclose information appropriately and feed back constructive opinions from this active dialogue to the management team for reflection in our business strategy and application in our business activities. We hope this will build trust in our organization and promote long-term shareholdings.

Communication with shareholders and investors (fiscal 2022)

IR events	Target audience	Company representatives
Conference calls, following the financial results announcement Quarterly calls attended by the CEO, timely reporting on progress versus management policy	Domestic and overseas institutional investors, analysts	CEO, CFO
Individual meetings		CEO, CFO, IR managers
Conferences held by securities firms		CFO, IR managers
Performance Products strategy briefings (IR Day 2022) ★ Direct briefing by business unit managers on business strategy to achieve future growth in Performance Products (product summaries and growth strategies), as well as numeric targets, reflecting views of shareholders and investors.		CEO, executive vice-presidents (EVPs) (Performance Products Domain)
Investor Day 2023 ★ Briefing on the executable plan for growth and improved profitability, based on the "Forging the future" management policy, and updated financial targets for fiscal 2025		CEO, CFO
Small meetings with top management		CEO, CFO
Small meetings with outside directors ★ Created opportunities for dialogue between institutional investors and the lead outside director, and used this as an opportunity to confirm the consistency of thinking at the management level		Lead outside director
Small meetings on sustainability		Corporate Sustainability Management managers
Individual investors' briefings	Individual investors	CFO, Director of Corporate Communication Div.
General Meeting of Shareholders	Individual shareholders, corporate shareholders	CEO, Corporate Secretary managers
Dialogue with shareholders	Corporate shareholders (those responsible for exercise of voting rights, responsible investment/ESG)	SR managers, IR managers, Corporate Sustainability Management managers

★ Events marked with a star were given many positive ratings in questionnaires completed by participating shareholders and investors.

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