

Mitsubishi Chemical Group

KAKUSHIN-Phase1

November 14, 2002

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- 1. Management Issues and Policies**
 - 2. Gist of “KAKUSHIN - Phase 1” Plan**
 - (1) Portfolio Reform**
 - (2) Improvement of Financial Position**
 - (3) R&TD Policy**
 - (4) Strengthening Group’s Comprehensive Competencies**
 - 3. Change of Corporate Culture**
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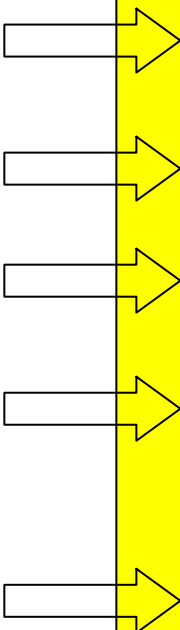
1. Management Issues and Policies

Management Issues

Present

- 1) Dispersed Business Structure
- 2) Weak Financial Position
- 3) Low Level Profit and
Reduced Profitability
- 4) Decentralized and Subdivided
Affiliates
- 5) Conservative Corporate Culture

Issues

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- Portfolio Reform
(Selection and Focus)
 - Reduction of Debt
 - Shift for High Value Added
& Cost Reduction
 - Strengthening Group's
Comprehensive
Competencies
 - Challenging & Much Faster
Corporate Ethics

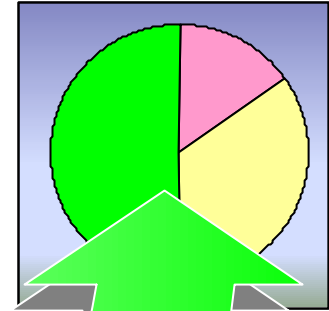
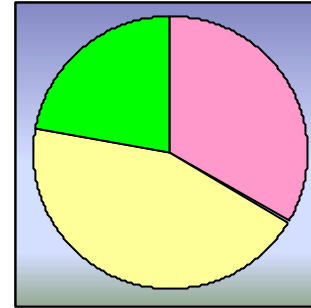
Review of former Mid-term Plan

	Original Target: (FY 2002)	Prospected: (FY2002)
Recurring Profit	JPY120 bn	JPY 65 bn
D/E Ratio	1.8	2.8

- 1) More than expected changes of business and market
- 2) More Selection and Focus Required
- 3) Closer Cash Flow Management Needed
- 4) Large Amount of Extraordinary Losses Unexpected in the Plan

Positioning of KAKUSHIN-Phase1 (Rebuilding the Foundation)

MCC Group - 5 year ahead



FY2005 - 2007

**KAKUSHIN-Phase 2
Taking a Leap**

FY 2003 - 2004

KAKUSHIN-Phase1

Prepare for Phase-2

Thorough Foundation Reform

MCC Group - 5 Year Ahead

1. MCC Group - 5 Years Ahead

	Sales	Operating Income
Petrochemicals	30%(35%)	10-20%
Performance Products/ Functional Materials	40%(45%)	30-35%
Health Care	30%(20%)	50%
	(FY2002 forecast)	

- (1) While three pillars of Petrochemicals, Performance Products/Functional Materials, and Health Care are maintained,
- (2) through quality improvement in Petrochemicals, selection and growth in Performance Products/Functional Materials and growth including alliances in Health care, the above transformation shall be achieved.

KAKUSHIN-Phase1

Plan Gist 1

(1) Thorough Execution of Portfolio Reform

- **Steady execution of restructuring**
- **Concentrated investment into the core business areas where profit and growth can be expected**

(2) Improvement of Financial Position

- **Reduction of interest-bearing liabilities by JPY 180 billion within 3 years (from March 2002 to March 2005)**
- **Investment control by thorough cash flow management**

(3) R&TD for sustainable growth

- **Maintain resource allocation onto R&TD based on long-term viewpoint**
- **Focused and accelerated R&TD**

KAKUSHIN-Phase1

Plan Gist 2

(4) Thorough Cost Reduction

- **Plant site cost reduction activity named “Production KAKUSHIN”
(Reduction by JPY 18 billion in FY 2004)**
- **Further study overall cost reduction including but not limited to plant site and incorporate it in the execution plan in April 2003.**

(5) Strengthen Group’s Comprehensive Competencies

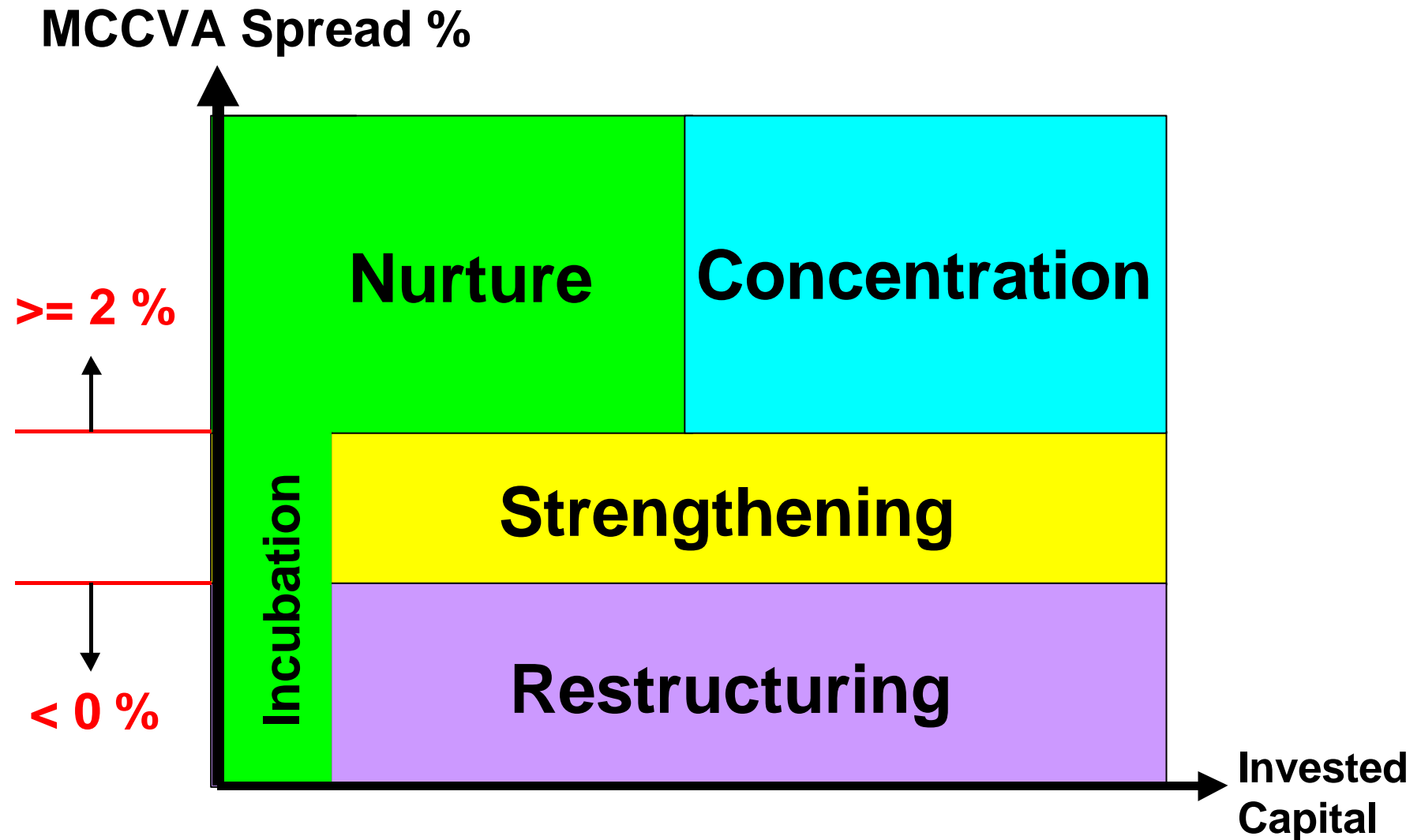
- **Strengthen business cooperation in and among Group companies by deepening the segment management**
- **Execute the actions to support consolidating competencies of related group companies and organizations to better provide solutions for our customers**

2. Gist of “KAKUSHIN - Phase 1” Plan

(1) Portfolio Reformation

- By evaluating from profitability, growth potential and strategy alignment viewpoints, all of our businesses are categorized into and positioned in 4 strategy boxes.
- Steadily execute “Selection and Focus” and endeavor to be highly profitable satisfying the below conditions
 - Improve financial position (reduction of interest-bearing debts)
 - Secure dividend source
 - Index of profitability : *ROIC, MCCVA spread*
ROIC : Return On Invested Capital
MCCVA Spread (%) = ROIC - WACC

Business Valuation (Profitability)



Definition of Categories

- **Concentration**

- Businesses with technological superiority, scale to have market competitiveness, and expected continuing profitability improvement
- Allocate the resources intensively to expand the scale and profitability in domestic and overseas market

- **Nurture**

- Businesses to intensively foster with expectations of both high growth and high profitability potential
- Execute its growth strategy according to market trend
- Incubation businesses (*)

- **Strengthening**

- Businesses where expansion cannot be expected due to limited market competitiveness and growth but improvement of profit is possible for the time being
- With limited resources to aim the improvement of efficiency of invested capital and profitability

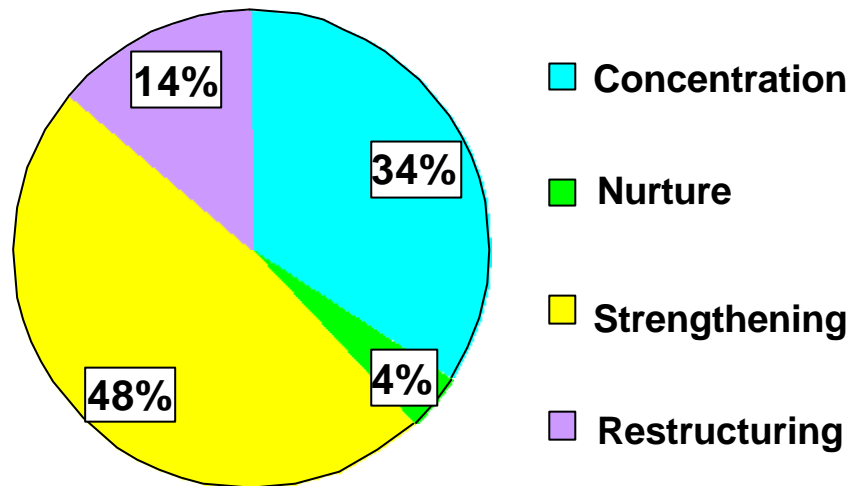
- **Restructuring**

- Businesses which require drastic reformation from viewpoints of its efficiency in invested capital and profitability or to which no focus is given by the segment even with certain level of profit
- Accelerate reformation and restructuring

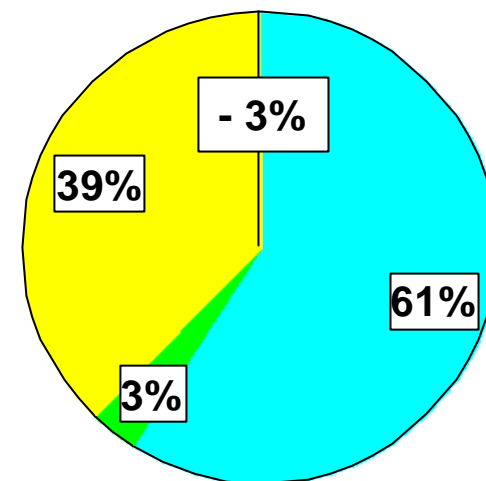
(*)Incubation businesses: Deficit for the time being but possible future high profit and growth. Decide Go or No Go by setting clear milestones.

Percentage by Categories

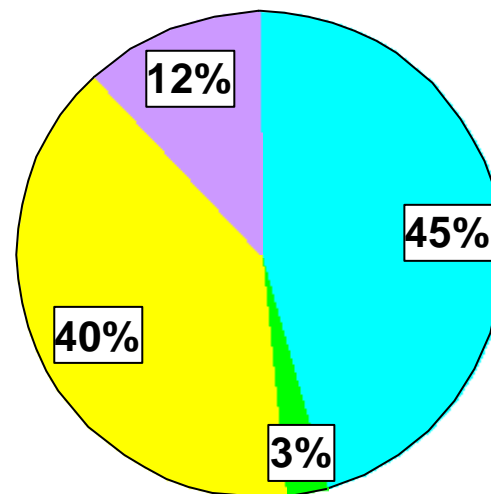
Sales



Operating Income



Invested Capital



Budget of FY2002

**Invested Capital in
Businesses:
JPY 1,370 billion**

Petrochemicals Segment - Policies 1

Change to slim and solid muscular business securing positive bottom line even under harsh environment. Concentrate the resources onto the businesses with superiority which can be utilized to grow globally.

- **Execute "Concentration"**

Study transplant possibility in Asia especially in China by arming and deepening a new production technology for those products such as Telephthalic acids, Polycarbonate/Bis-phenol A, 1-4BG/PTMG with unique technology and predominant competitiveness. Also study to globally develop polypropylene compounds which require proximity to customers.

Petrochemicals Segment - Policies 2

- **Olefin Center**

Thoroughly rationalize and reinforce the competitiveness through self-help and “Renaissance Plan”. Explore the possibility of alliance with other olefin centers.

- **Main derivatives**

Rationalize in every and all aspects such as production, logistics and marketing to change to be slim and solid. Actively pursue the cooperation or alliance if the business requires.

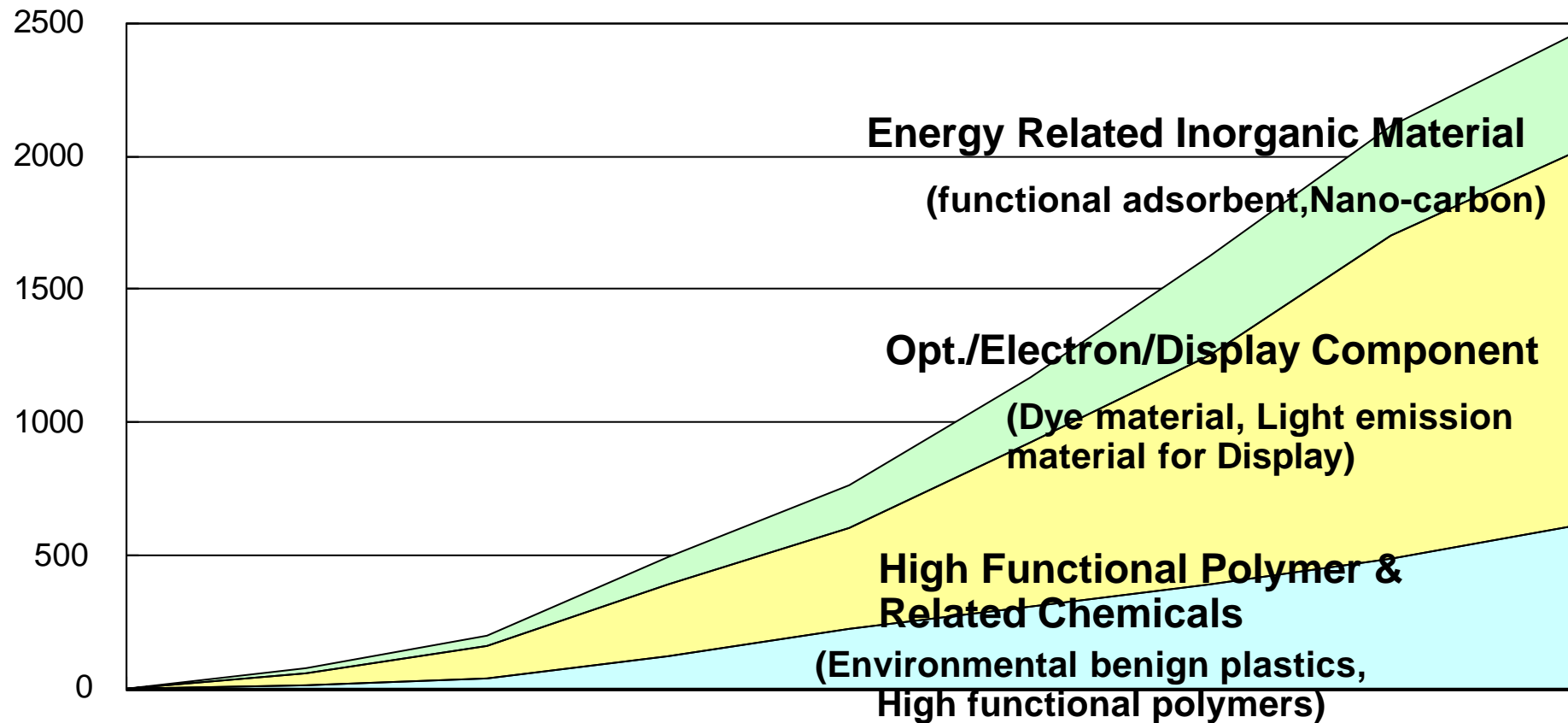
Performance Products Segment - Policies

Pursue the growth emphasizing Specialty business by selection and focus

- **“Information and Electronics”, “Medical care and foods additives”, and “Eco (environment and energy)” shall be enhanced.
(ex: display materials, printer supplies, API)**
- **Insufficient portion of selected business will be reinforced by acquisition or business exchange.**
- **Continue to launch new products in core markets utilizing the platform technology.
(ex. of Incubation: fullerene, battery materials)**
- **By emphasizing the idea from market, continue to supply “materials and parts” together with “services” that our customers value.**

Sales Estimate of Business Development and Product Development of Corporate R&TD Projects

Expected sales(Oku-en)



These projects are selected based on MCC's core competence, strong patent position, and thorough market analysis

Functional Materials Segment - Policies

- **Develop new value creating businesses in ever changing market and establish the management platform.**
- **Improve profitability by maximizing the synergy among group companies.**
- **Group companies continue to contribute to MCC in the sense of consolidated management.**

(Ref: Major group companies)

Mitsubishi Plastics Inc.

Mitsubishi Chemical Functional Products, Inc.

Mitsubishi Chemical MKV Co., Mitsubishi Polyester Film Corp.

Yupo Corporation

Health Care Segment - Policies

- **Position Pharmaceutical as “Concentration”**

MPC to aim for Global Specialty Pharma and to target the size of JPY 500 bn sales and JPY 100 bn RD by FY2006 through alliance etc.

- **Position Diagnostic business as “Nurture” and aim for the 2nd pillar**

Focus on genomic diagnostic RD

Re-examine the growth potential by the end of FY2004

(Incubation ex.: Zoegene)

Services Segment - Policies

- **By providing our customers with cost competitive and high-quality services, play a part of offering customer solution from MCC group.**
- **Further aim for a self-support by improving productivity and customer satisfactions taking good and competitive quality into the consideration.**
- **Study to explore IPO possibility where applicable.**

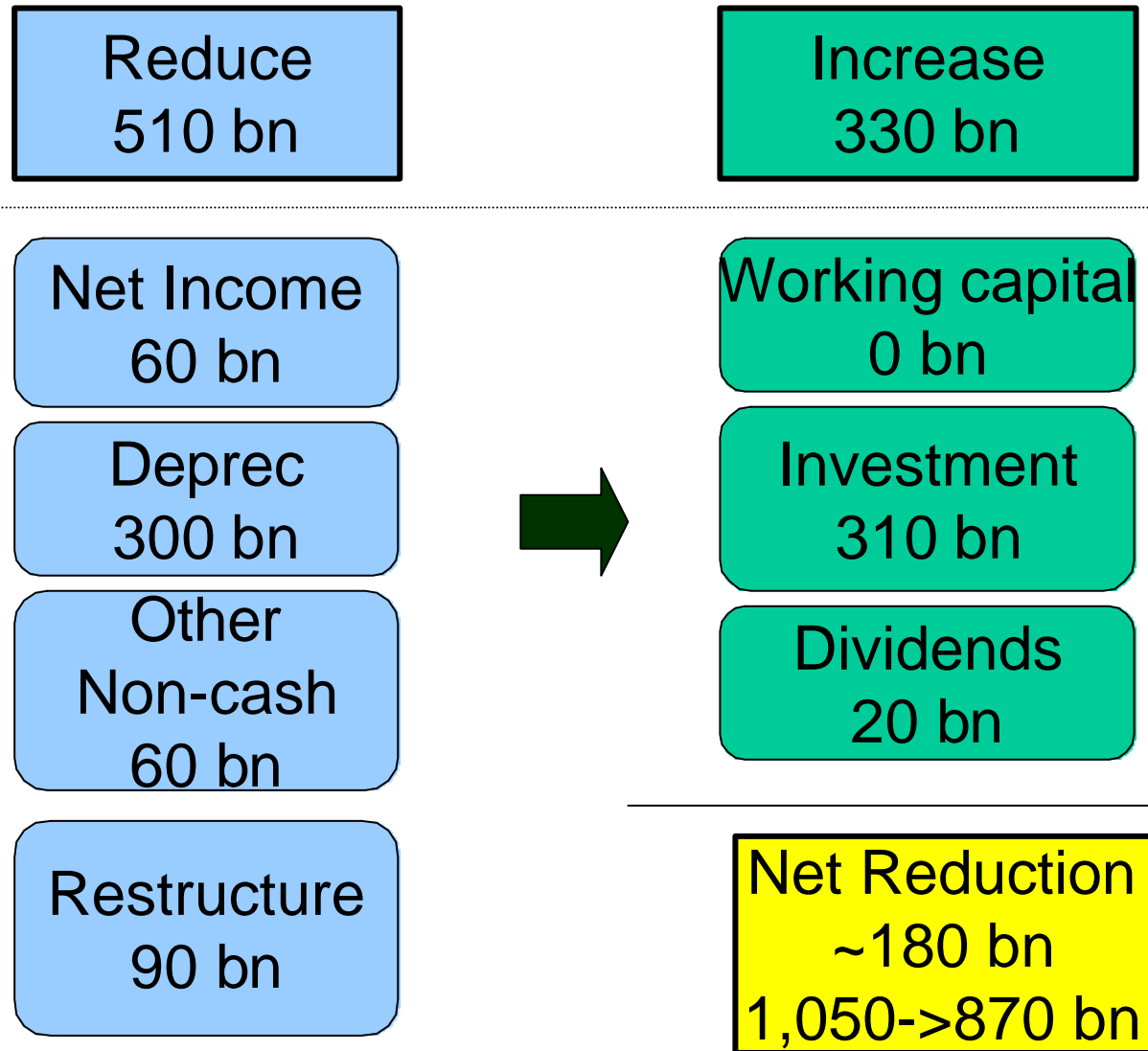
(2) Improvement of Financial Position

< Target of interest-bearing debts as Phase 1 >
JPY 180 billion

	(March 2002)	(March 2005)
	JPY 1,050 bn	JPY 870 bn
(D/E Ratio)	3.1	2.2

- **First priority target during this 2-year rebuilding period shall be curtailing the debts.**

Curtailing Interest-bearing Debts (March 2002 - March 2005)



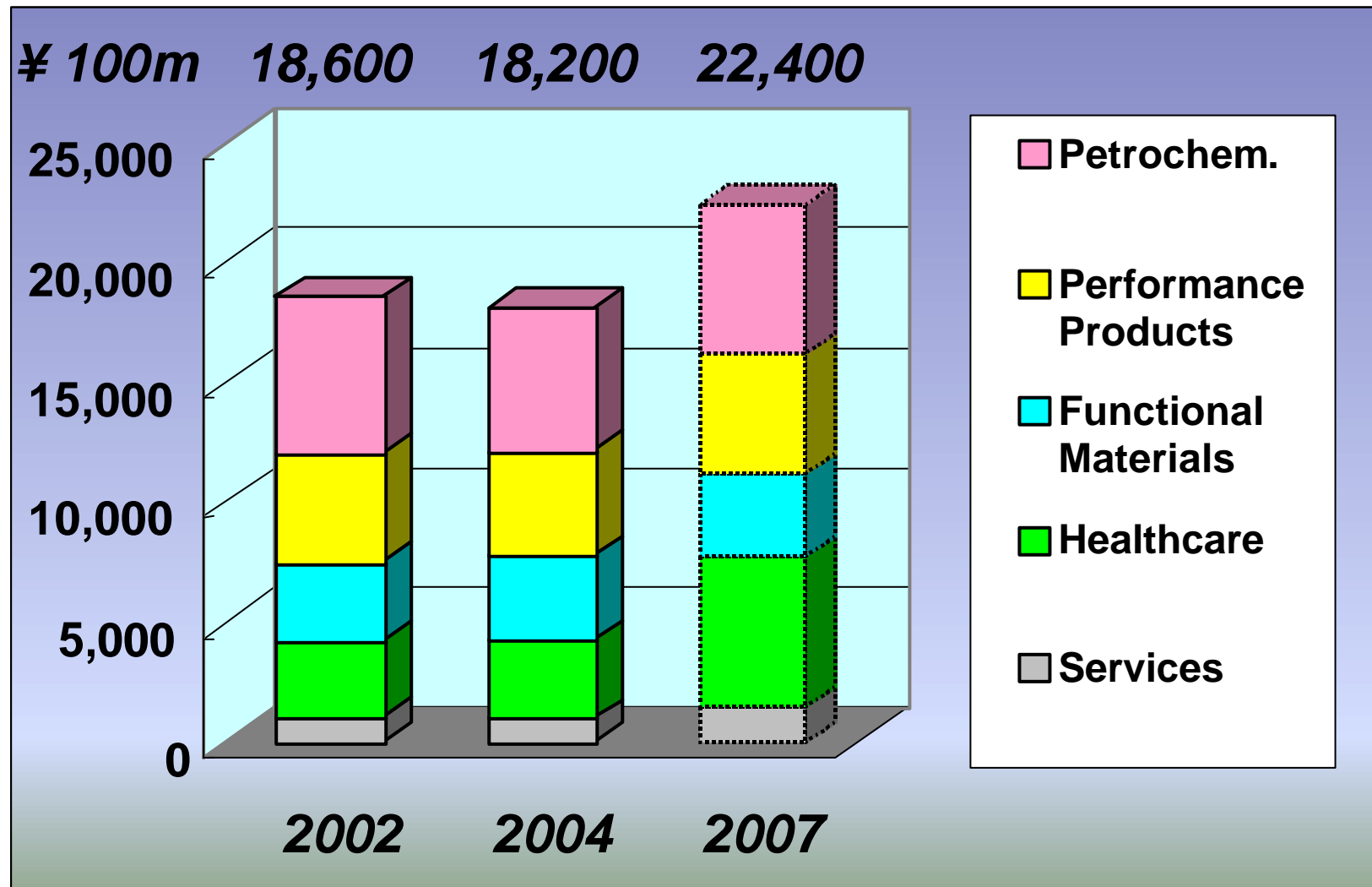
Investment Plan

- **Each of FY 2003 and 2004 JPY 100 billion
(2-year total JPY 200 billion)**

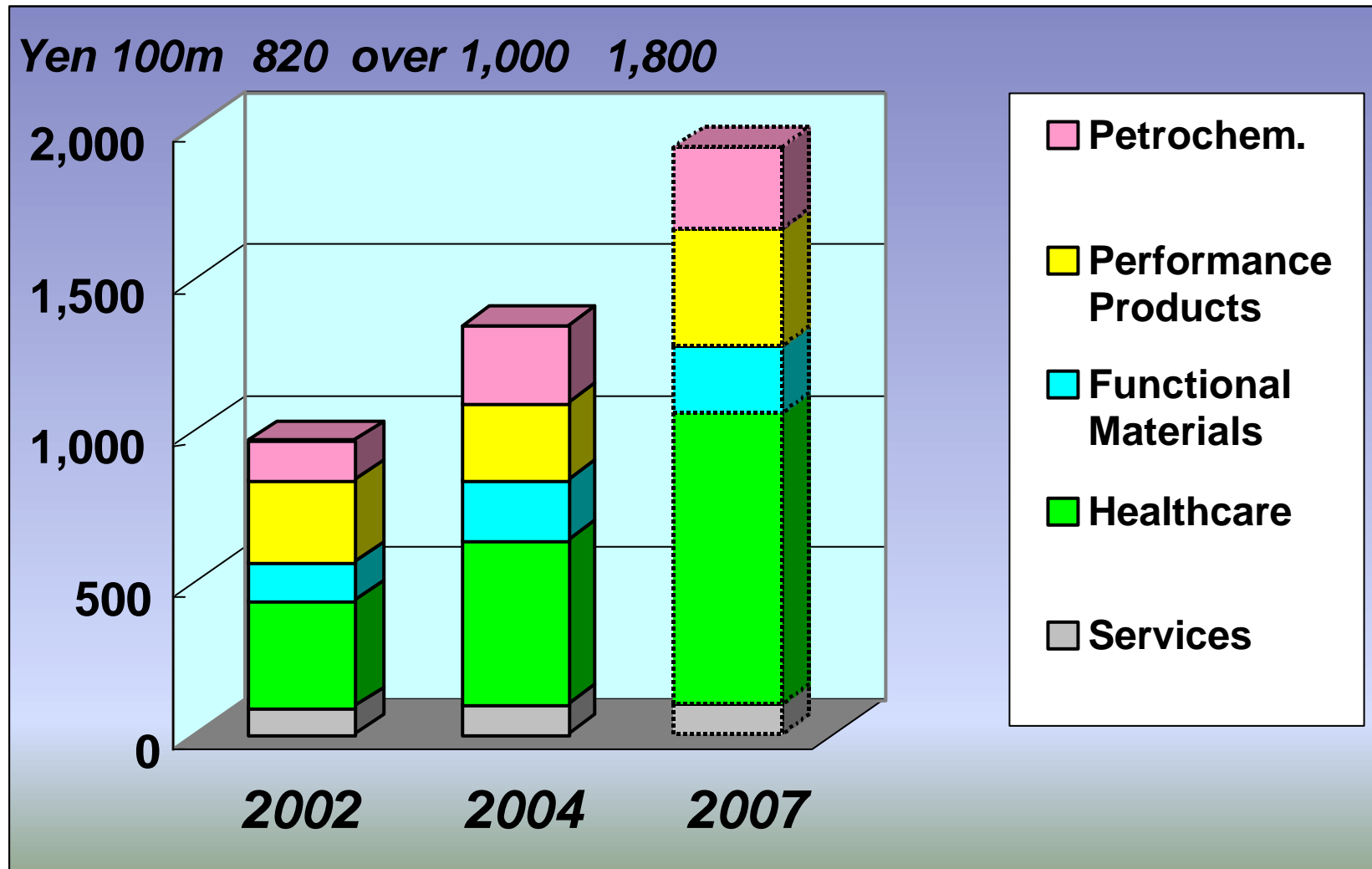
Based on the below principles, deliberate the investment weighing the business environment

- **First prioritized target of improving the financial position (Reduction of JPY 180 billion debts)**
- **Based on Portfolio Reform
(Squeeze and restrain investment in “Strengthening”
and “Restructuring”)**
- **Prioritize investment projects by early 2003**

Prospect of Sales 2002 to 2007 After Alliance of Pharma

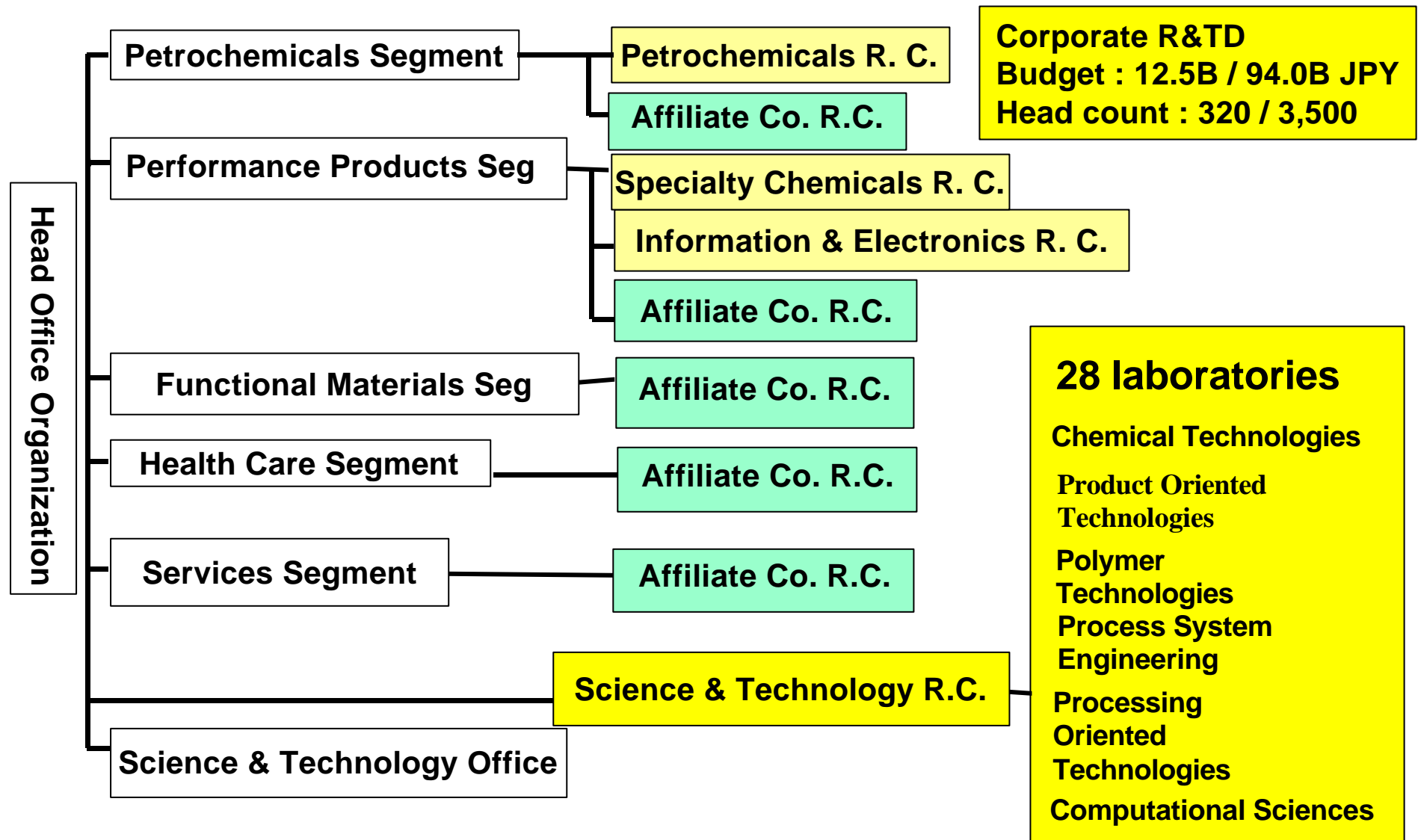


Prospect of Operating income 2002 to 2007



(3) R&TD Policy

R&TD organization of Mitsubishi Chemical Group



Policy for R&TD

- 1) Firmly maintain stable investment to R&TD from the long range viewpoints**
- 2) Integrate dispersed R&TD forces and make comprehensive R&TD forces effectively work**
- 3) Provide “Solution” to customers by generating innovative technology and combining technologies through interacting with customers**
- 4) Make corporate R&TD self-driven organization and link technologies to businesses through “Entrepreneurship”**

Focused Action Items

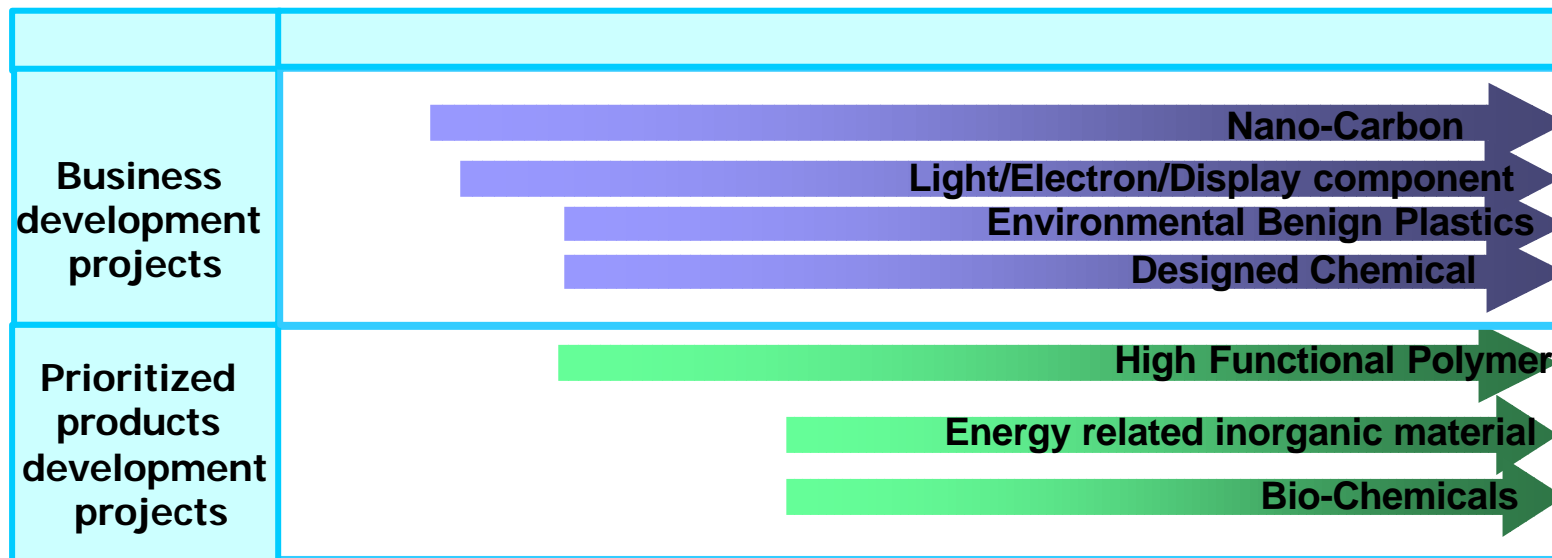
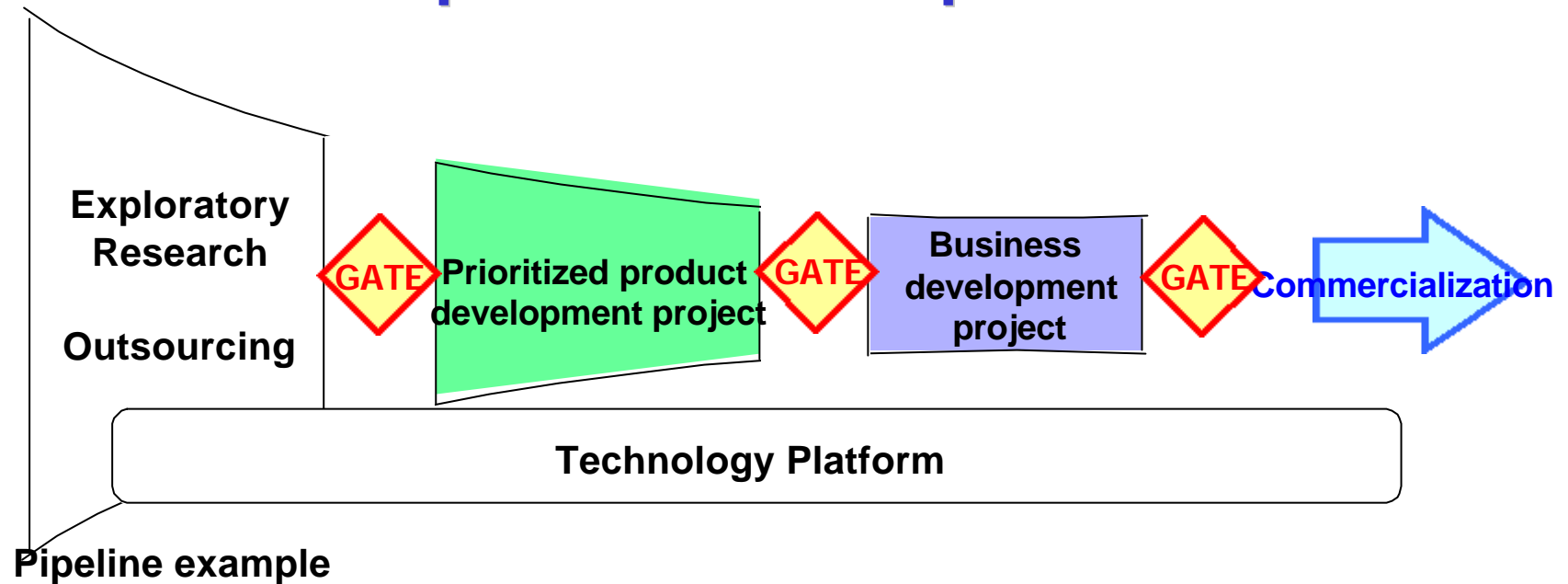
- Will consolidate basic technologies to form the group-wide technology center(e.g. Resin common technology center)
- Will execute R&TD to provide technologies and products in business product pipelines of MCC group selected at CTC
(CTC : Corporate Technology Council)
- Will make Corporate R&TD self-supportive
- Will execute long-term and important exploratory research by outsourcing through alliance with universities and national institutes
- Will execute Go / No Go Stage Gate system by every 4 Months to accelerate of development

Arenas targeted by Corporate R&TD

Market / Business Segment Matrix

		Amenity	Ecology		High Performance	
Petro-chemicals				Bio Chemicals		
Functional Products	Performance Products	Materials and Components for Electronics, Photonics and Display	Functional Polymers	Green Sustainable Plastics	Energy related Materials	Designed Chemicals
	Functional Materials					Nano Carbon
Health Care		Bio related Products				

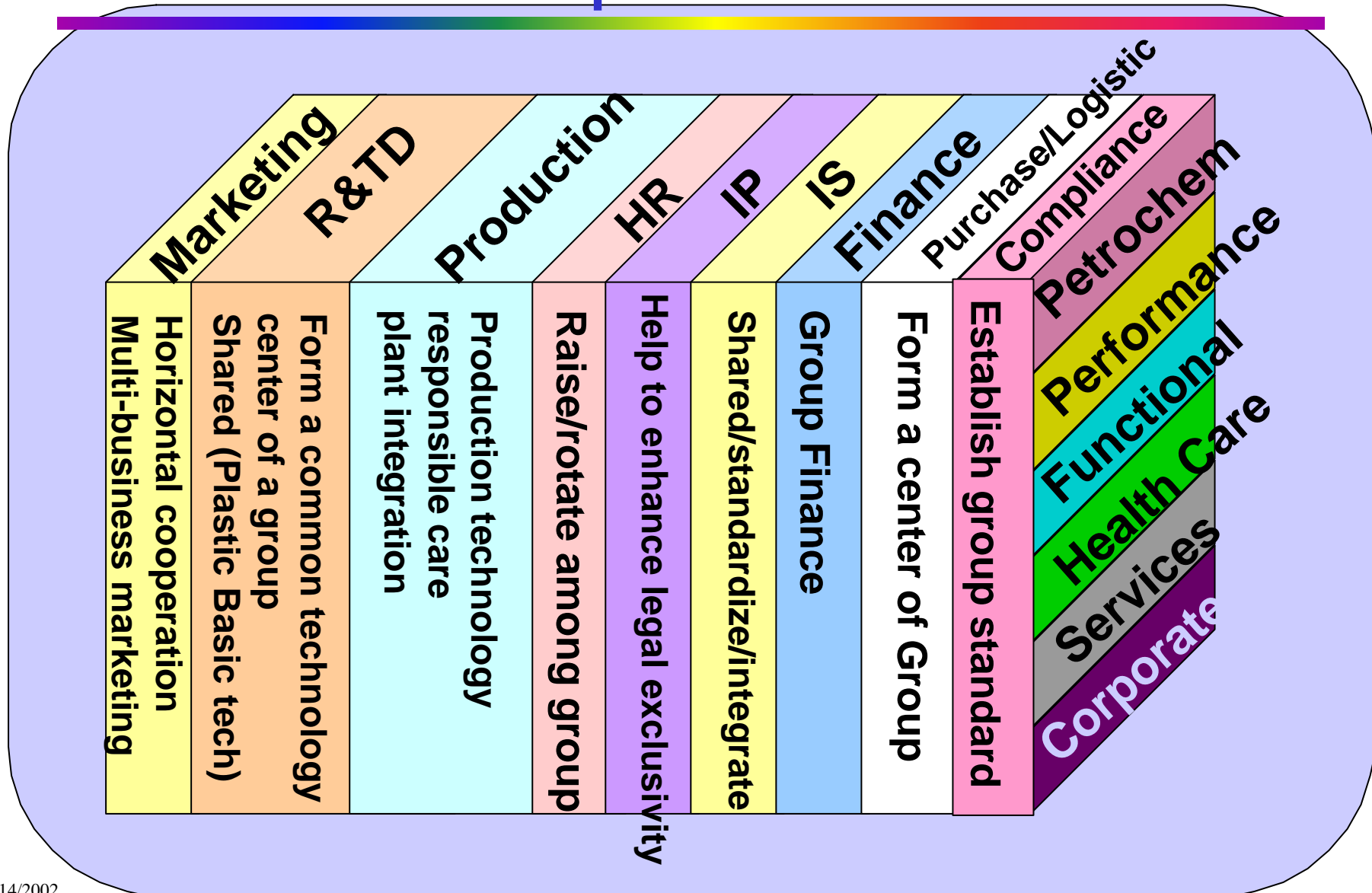
Corporate R&TD Pipeline



(4) Strengthening Group's Comprehensive Competencies - 1

- 1. Encourage healthy and independent businesses and Strengthening Competencies as MCC group**
 - Each of companies and organizations shall principally operate independently to quickly deal with market changes.**
 - However, following functions shall be integrated more to provide customers with solution and to pursue overall efficiency in more comprehensive manner.**

Strengthening Group's Comprehensive Competitiveness



Recent examples of competency synthesizing

- **Creation of “Information Center”**
 - Comprehensive guidance of overall MCC group for our customers and sharing information internally among group
 - Started on July 15
- **Creation of Web-site “MCC plastics site”**
<http://www.plastics-net.com>
 - Solution site of arrays of plastics
 - MCC and 10 group companies
 - Info of 30 plastics and 1,000 grades
 - Started on November 1
 - Follows “MCC film sheet site” (MCC plus 18 group companies) set up on December 2001

(4) Strengthening Group's Comprehensive Competencies - 2

2. Segment Management

- **Since its introduction in April, some developments have been observed in such area as sharing business strategies, making close cooperation and acceleration of decision making.**
- **Further development.**
 - **Revising business evaluation method, performance valuation system, internal audit, etc.**
 - **Introducing salary and wage system which can reflect the difference of industry, business and performance**
 - **Introducing a pension plan that group companies can participate**

Summary

- **Policies and principles mentioned in this presentation are for the first 2-year action Plan(FY2003-2004)**
 - **First 2-year is defined as transformation to the second phase toward new growth of MCC group for the next 3 years(FY2005-2007).**
- **Targets for the first 2 years:**
 - Reduction of Debts JPY 180 billion (by March 2005)**
(1st priority)
 - Operating Income >= JPY 100 billion**
 - ROA (FY2004) >= 4 % (IBT)**

3. Change of Corporate Culture

- **Basic Management Policies**

1)Three Satisfactions

2)Challenge

3)Corporate Ethics

3. Change of Corporate Culture

1) Three Satisfaction (Customers, Shareholders, Employees)

Emphasis among others is on Customer Satisfaction.

Penetrate the idea of “Any business activity starts from being rewarded by customer satisfaction.”

- **Shift to solution type business
(incorporated in Portfolio Reform)**
- **Strengthen group’s comprehensive competencies to offer solutions**

2)Challenge

”Waves of Change”

-Spiritual Climate toward Challenge-

- **Group motto set up in September**
“Waves of Change. Making changes work.”
(initiated by 13 members of age 35 - 44 including group companies employees)
- **Relocation of headquarters in October 2003**
- **Renovation of Budget system**
- **Self-supported Corporate R&TD**

3)Emphasis on Corporate Ethics

- **Set-up of Compliance Hot-line
(December 2002)**
- **Revision of Compliance Program on Anti-Trust (December 2002)**

From guideline to regulation specifying penalties

Regulate attendance to industry member meetings