

## Message from the CFO

Stepping up optimal resource allocation and portfolio management to create both financial value and social value



### Hidefumi Date

Managing Corporate Executive Officer  
Chief Financial Officer

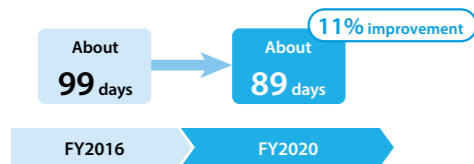
#### Further improving our financial position to swiftly return the net debt-to-equity ratio to under 1.0x

Under the previous medium-term management plan, APTSIS 20 and my role as CFO, we put great emphasis on raising ROE and rigorous ROIC management to improve asset efficiency. We also worked to build agile and profit-focused management systems, including driving greater use of ROIC trees in each division. To strengthen our financial position, we set up a four-region Europe-North America-Japan-Asia cash management system (CMS) as a way to ensure efficient asset use, we shortened the cash conversion cycle (CCC) and we regularly reviewed the purpose of asset holdings and sold unnecessary assets (see P. 19).

However, our net debt-to-equity (D/E) ratio swelled to 1.73x at the end of fiscal 2020 as a result of investments and loans for U.S. and European acquisitions in Industrial Gases

#### Capital efficiency initiatives and results under APTSIS 20

- Shorten the cash conversion cycle (CCC)



- Sell assets with lowered ownership value by regularly verifying their value

and to make Mitsubishi Tanabe Pharma a wholly owned subsidiary in Health Care.

Under the new medium-term management plan, APTSIS 25, we will work to improve our financial position with the goal of bringing the net D/E ratio below 1.0x by the end of fiscal 2023, targeting asset efficiencies worth ¥180 billion and ROE of at least 8% during the two-year Step 1 phase.

#### Accelerating the portfolio transformation to create both economic and social value

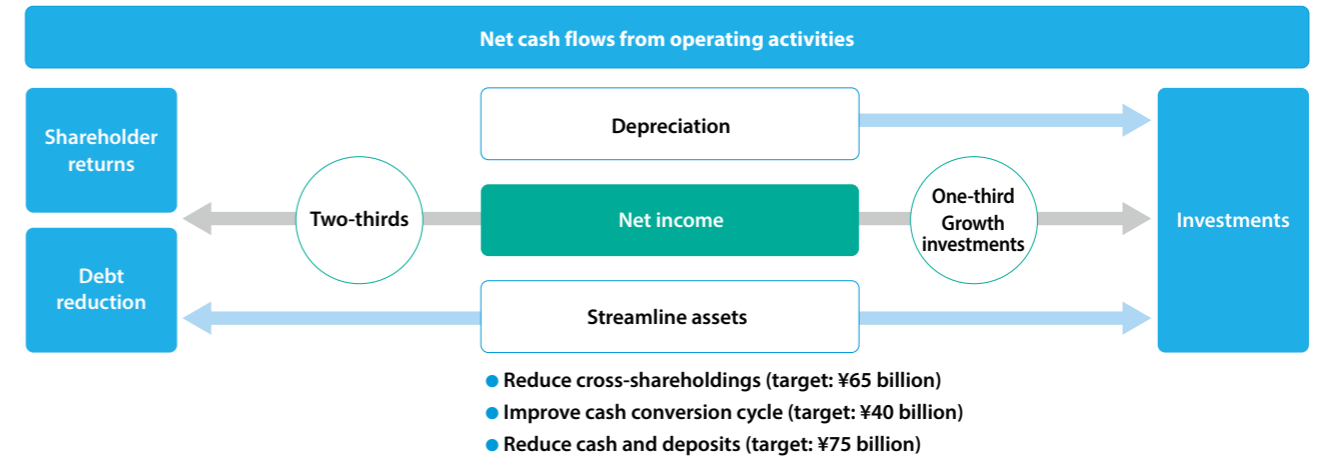
To date, we have managed the business with an awareness of capital costs, setting ROE above cost of equity capital as a management indicator and singling out for review poorly profitable businesses where ROIC is below WACC.

We now aim to manage our portfolio using aggregate assessments that combine MOE\* perspectives on profitability or market growth potential with MOS\* perspectives, such as

- Establish a cash management system (CMS) in four regions (Europe, Americas, Japan and Asia Pacific)



#### Financial strategy under APTSIS 25 Step 1



whether the business can address such social issues as reducing environmental impacts, and MOT\* perspectives, including the scope for technological innovation, in order to identify those businesses that will contribute to medium- and long-term growth.

This approach is simply the execution of KAITEKI Management. It is also consistent with our new president's goal of streamlining through comprehensive evaluations that focus on strengths, growth potential, and low-carbon perspectives. Our management team will work as one on this business portfolio optimization, developing more stable profit structures that are resilient to external change and ensuring appropriate resource allocation.

\* MOE, MOS and MOT are the indices used in KAITEKI Management (see P. 13).

#### Resource allocation and shareholder return policy

Our approach to resource allocation will not change under the APTSIS 25 medium-term management plan, with a continued focus on achieving the right balance between providing shareholder returns, strengthening our financial position, and investing in growth businesses. We plan ¥450 billion in capital expenditures, ¥100 billion in investments and loans, and ¥300 billion in R&D expenditures over the two-year period of Step 1. When executing investments, we will rigorously and prudently investigate the business environment, while also focusing on cutting costs, and implement a financial strategy that aims for ROE of at least 8% (see P. 28).

Our basic policy for shareholder return is to improve shareholder value through increased corporate value. For dividends, we remain committed to maintaining a stable dividend and to providing a medium-term consolidated payout ratio of 30%, while balancing the need to invest for growth and improve our financial position. We plan to keep dividends at the same level as in fiscal 2020, distributing ¥24 per share in fiscal 2021.

After developing the concept of KAITEKI Management more than 10 years ago, we have worked to increase KAITEKI value, which can be defined as corporate value comprising both economic and social value. We report the results of these efforts in our KAITEKI Reports (integrated reports). We have been recognized for our work in this area by multiple external parties in recent years, including through awards for our integrated reports and inclusion in ESG stock indices. With the uncertain outlook in fiscal 2020, I was acutely aware of the difficulties we face in continuing to fulfill our responsibility to provide full accountability. However, I have always believed that improved accountability leads to lower capital costs for the Company, and I consider that my role is to provide appropriate accounts of specific measures relating to both financial and non-financial information. Looking ahead to the future under the new president, we will work to enhance our IR communications and actively create opportunities for two-way dialogue with stakeholders in Japan and overseas.

I will continue fulfilling my duties as CFO by providing full accountability to our shareholders and all stakeholders and by lowering corporate risk and capital costs to enhance our corporate value.

#### Shareholder returns

