

# 2

## Toward Sustainable Growth

13 | Message from the President

20 | Value Creation Model

# Message from the President



## One Company, One Team for Global Market Focus That Grows Corporate Value

### Jean-Marc Gilson

President & CEO

I took this office just over a year ago in April 2021, but the changes we have made are earthshaking. In December, I announced our new management policy, “Forging the future,” and in April we began transforming the Company. The most impactful reform is our shift from a holding company structure to the lean and flat organization and structure we call “One Company, One Team.” It’s about removing all kinds of barriers and intermediate layers so we can work as one to unlock the growth potential of our businesses, capture growth opportunities, and lead innovation.

Symbolizing this transformation is our new name, Mitsubishi Chemical Group Corporation, effective July 1, 2022.

Under this new policy, we will dynamically manage our portfolio to focus on attractive markets where the Mitsubishi Chemical Group is positioned to win. This is the realistic and effective way to deliver on our potential, build competitiveness, and reach our sustainability targets, with the overarching aim of maximizing value for all stakeholders.

## Message from the President

### A good first year showing a strong rebound from fiscal 2020

I am happy to report that, while making progress in our transformation, we have fully met the financial targets set at the start of the fiscal year. We showed a strong rebound from fiscal 2020 with good year-on-year growth of 22%, a core operating income of about 56%, which is 19% over our initial target. EPS and ROE also showed significant improvement. To cap a good year, we deleveraged to improve our net D/E ratio, and restored the full-year dividend to ¥30 per share.

The performance products segment forecast in our “Forging the future” strategy—semiconductors, displays, EV components, sustainable polymers, and food

ingredients—all demonstrated solid growth that I see continuing along with firm performance in the Industrial Gases segment.

On the pharma front, we spent heavily on R&D, which helped deliver positive outcomes for two strategic products. In February 2022, our COVID-19 vaccine *COVIFENZ* gained approval in Canada. In June 2022, we began marketing our *RADICAVA ORS* oral treatment for amyotrophic lateral sclerosis (ALS) in the U.S. These successes indicate our return to solid and sustained profitability going forward.

### Formulating a new management policy and laying the groundwork for transformation

After joining the Company, I worked with the team for nearly eight months, examining every piece of the puzzle

to gain on-the-ground insight into what’s happening. This revealed the kind of portfolio streamlining and management changes we would need to make.

We asked three questions of each business: Is there growth and profit in its future? Does it have a key skill that gives competitive advantage? And third, does the business fit with our environmental vision of a carbon-neutral future? Regarding carbon neutrality, the equation is extremely complicated, and we need to solve it outside the context of what we’re trying to build in the Company.

The picture of ourselves that emerged is a collection of diverse, generalist businesses operating in a mostly uncoordinated fashion, although the global MMA business and domestic petrochemicals business have high shares of the market. Compared to their sectors globally, they could be more profitable. So, regarding the critical question of future growth, we knew what had to be done.

That’s what’s behind the “Forging the future” management policy that was rolled out in December 2021 (▶ Page 23). Since then, we have been eliminating internal barriers and reshaping the organization to be truly One Company, One Team. We have been putting into place all the business processes a new organization needs to get up and running.

Our fiscal 2022 forecast includes all the initiatives described in “Forging the future.” We will pursue increased profits by strengthening our effort in our selected markets. We expect the coming year to validate the soundness and enhanced resilience of our new strategies, despite challenges impacting us across the globe.

### Financial targets for fiscal 2025

	FY2020 Results	FY2021 Results	FY2022 Initial Forecasts	FY2025 Targets
Sales revenue	¥3,257.5 billion	¥3,976.9 billion	¥4,436 billion	¥3,000 billion
Core operating income	¥174.7 billion	¥272.3 billion	¥ 275 billion	¥350–370 billion
EPS	¥-5.3	¥124.7	¥107.7	¥125–145
ROE	-0.6%	13.2%	10.4%	≥10%
Net D/E ratio	1.73	1.40	1.29	0.50–1.00

## Message from the President

### Our new name, Mitsubishi Chemical Group Corporation, symbolizes a fresh start as One Company, One Team

This company was structured like a holding company managed on the legal-entity basis, giving subsidiaries considerable autonomy. Inter-business cross-sharing had room to improve. The Company was, after all, built through acquisitions. But these diverse entities were not truly integrated into One Company, One Team.

At the employee level, people tend to refer to themselves, to their particular subsidiary. They didn't feel they were all employees of one and the same group

working toward shared goals.

Now is the time for us to prioritize Group-wide alignment and coordinate our marketing efforts. This is why our name change has such great symbolism. It represents a key shift in strategy, that we're One Company, One Team. I've been advocating this since last December and we've been implementing it ever since.

One Company, One Team means we do things together. We attack markets together. It's not as if the epoxy business attacks the electronics market, and then the film business follows. No, we take on market challenges together. Everything, we do together. We are One Company, One Team, united, sharing direction, purpose, strategy, and action.

Our new name sends a resounding signal. Not only are we one team with a transformed structure and management that eliminates all intermediate layers, but every single one of us is behind one company. It's the Mitsubishi Chemical Group. That's who we are.

I cannot say this change has been frictionless, but the ease of implementation has amazed me. Communication, open and forthright, is essential for our future and it is this kind of communication and teamwork that has made our transformation possible.

Branding is another dimension of communication. We are repositioning the brand to express the attributes of being one company. To bring us together as one team, we need a distinct brand identity that people can believe in. Repositioning will also benefit corporate value, market

strength, and potential profit margins.

There's more work to be done at a deeper level of selecting key businesses and global markets for the future but our direction is now crystal clear and hard as diamond.

### Long-term focus on market growth, competitive advantage, and sustainability

The best way we can grow and thrive is by shifting to a high-margin model. We must refocus on selected markets where we can multiply our impact through teamwork. Thus, instead of medium-margin, high-cost petrochemical products, or low-margin goods sold through multiple channels in the electronics market, we will concentrate on products where our quality, brand, and IP will demand a premium.

This plays to our strengths and Japan's strengths in education, knowledge, and IP. We have remarkable engineering talent. If we leverage this strength in the key markets that matter, we can have an outsized impact. We can reorganize to create value through a circular economy that enhances the well-being of people, society, and our planet Earth while boosting corporate value. In short, we must work together to win.





## Message from the President

### Carbon neutrality comes with an obligation to lead industry consolidation

In order to achieve carbon neutrality, in the future we will need to make a large environmental-focused investment in our Petrochemicals business, which currently emits a large amount of CO<sub>2</sub>, but it is difficult for one company alone to cover this investment. On the other hand, it is also true that the petrochemicals business is an indispensable industry for Japan from the perspective of social infrastructure and economic security. That is why I believe that we must restructure and consolidate this industry, and we are proceeding with the carve-out process based on this premise.

### Selecting markets where our strengths can shine

As mentioned, we are now in a deeper phase of specifying the five or six markets where we want to be globally. Initially, I was looking at our strengths and opportunities in electronics, healthcare, and life science. Looking further, the EV industry will increasingly welcome our capabilities in technologies from displays and semiconductors to batteries. EV is a model case for our exceptional engineers and scientists to serve a circular economy that enables sustainable well-being for people, society, and our planet Earth.

We will continue to shift out of commodity or generic products and really restructure the Company to be the best organized, the most successful specialty chemical company focusing on electronics, healthcare, and life science. We are now defining more management details and looking forward to announcing these in the next management plan.

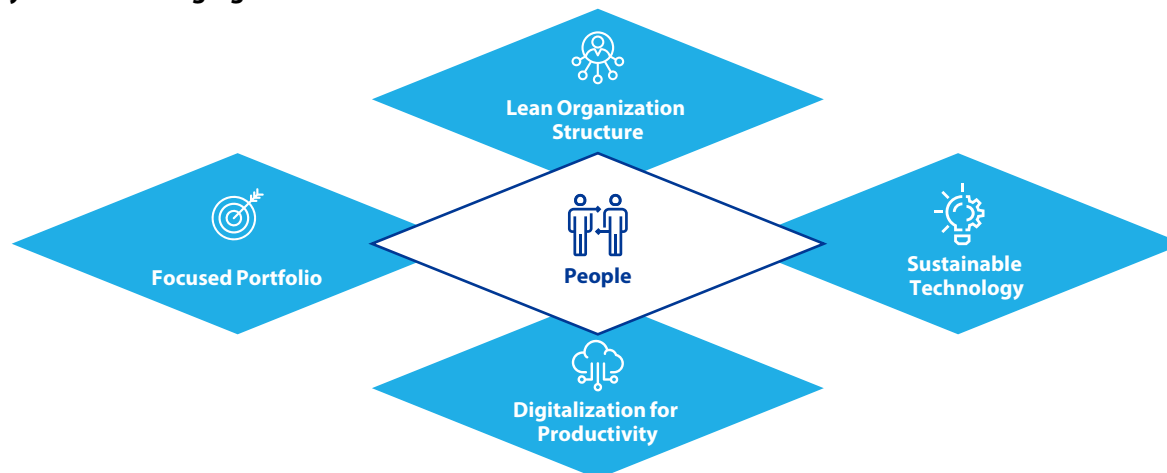
Healthcare has a thrust. In life sciences, I want a sharper focus on the most suitable opportunities from among the multitude on the horizon. This includes the food industry, where my previous job experience was in specialized food ingredients. High-quality food ingredients are critical for feeding the world's nearly 10 billion people.

### Strategic capital allocation for global growth

As our businesses mature, they generate cash to be reinvested into R&D areas where we have real potential. Cutting costs is part of this, but the effective way is not the comfortable way. Asking everyone to cut back 5% is superficial. In truth, some businesses need to invest to grow and others need to take a 20% cut.

Outside Japan our business is growing rapidly, ready to reach 50% within just a couple of years. But our R&D presence is still restricted to Japan despite the domestic market's shrinking contribution. To keep pace, we will be building R&D centers in North America, Europe, and the Asia-Pacific regions. To complement R&D we have already launched a venture fund that invests in emerging technologies (▶ Page 43).

### Our Keywords for “Forging the future”



## Message from the President

### Making ourselves fantastic is my passion. Showing the world what Japanese companies can do is my dream.

Global growth that leverages our Japanese identity is my aim and our team's challenge. My dream is to show the rest of the world what Japanese companies can do when you give people the freedom to achieve extraordinary things; when you optimize management practices; when you put people first; and when you implement DX as a differentiator. Making ourselves fantastic is my passion. It drives everything we are doing.

### Reshaping for agility and execution in markets matched to capabilities

We are reorganizing our businesses in terms of markets rather than our five categories: Polymers & Compounds, MMA, Advanced Solutions, Pharma, and Industrial Gasses. On the one hand we are leaving the Petrochemicals and Carbon Products business. On the other, we will be looking for synergies to fit actual markets and future opportunities.

We will continue to hire the best people we can find for every job in the organization. As a result of this policy of unbiased assessment we now have women in leadership positions including CFO and CHRO. After interviewing as many women as men we simply picked the most qualified candidates, who happened to be Japanese women.

Another key position, one I have created, is that of CSO. I wanted a person with whom I share experience, someone with a critical eye for business, someone whom I trust and

who is not afraid to contradict me in front of everyone. The CSO has a long history in M&A, with a focus on integration, portfolio management, and restructuring. As we expand in U.S. markets, where we see the most growth potential, the CSO will be the bridge we need between market needs and headquarters.

A year ago, I was cautiously optimistic about transforming the Company. Now, with a shared vision at the top, backed by proven expertise and experience, I am definitely optimistic and confident about our ability to execute for success.

### Diversity—of gender, race, ethnicity, everything—is an equation that results in diversity of thoughts

When you give people permission, they will exceed your expectations. If you provide freedom and the right environment, people will repay your trust by showing their true creativity. That is what I have witnessed and will put into practice.

Freedom requires a shift toward performance-based management where people are permitted to make autonomous decisions in the service of shared goals. Only by letting go of the heritage seniority-based system will people freely give their opinions and build new things heading in the same direction. This calls for a change in mindset.



As an employee, you do not belong to a company. You want to know what you are contributing, not feel like a pawn being moved around a chessboard. That said, a sense of belonging is a valuable strength of Japanese companies that brings commitment. But it must be a balanced relationship, on more equal footing.

To bring out the full potential of our employees, we will set up an internal curriculum, provide training opportunities, and pay for outside business courses. A training budget is an investment that delivers high returns in terms of corporate value.

I'm a firm believer in giving diverse people the freedom to express their diverse thoughts. Greater diversity brings a

## Message from the President

broader range of ideas that translate into captured opportunities and inventive solutions. If you limit diversity, you limit potential.

### DX strategy: One company, One team, One operating system

In today's world, DX is how a business survives as a going concern. Business and DX are now one and the same thing. They are inseparable.

DX drives business transformation by automating and continuously optimizing all business processes and workflows, but it is meaningless unless the software, hardware, and interfaces that make up each are not integrated into a single system. Many Japanese companies tend to fall into the trap of thinking that by adopting DX they can get a technological solution. However, simply adding computers and applications without integrating the systems and upgrading them will only proliferate flawed systems and will not bring about change.

To ensure DX execution, it is critical to build an integrated core system running on a single operating system. This will ensure seamless efficiency and lean functionality in a variety of operations, from supply chain to human resources.

Our long-term DX strategy is to automate all processes that can be automated. However, I believe that the most value-added activities are best left to the human element.

I am confident that our employees will be free to let their creative juices flow and reach their full potential in the DX environment we are currently promoting.

### Enhanced governance as One Company, One Team

Our Board of Directors is well run and continues to improve. Outside directors will be in the majority as of June 24, 2022, accounting for five of the nine Board members. Governance will benefit as shareholders play an increasing role in keeping management accountable and on track.

Our Compensation and Nominating committees are also on solid ground with these elements of governance firmly in place.



Internal management is the other half of governance. Here, we need a flat organization that removes barriers between businesses and identifies authority at each level so we can maximize our capabilities as One Company, One Team.

This will sharpen and strengthen our focus on safety and compliance, including internal audit control and transparency. We are also inaugurating enterprise risk management (ERM) (▶ Page 67).

Having approximately 600 legal entities makes Group-wide compliance a formidable task. By continuing to pare the number of entities, we will reshape the Group to a manageable scale that supports hands-on compliance everywhere we operate.

### Sustainable management for a carbon-neutral future

Our sustainable management strategy appeals to people worldwide. With Company-wide alignment and understanding of this commitment, we can work as One Company, One Team toward our sustainability goals.

There is a time to think and there is a time to execute. The sustainability clock is ticking. In fiscal 2022, we will take concrete steps: Investing billions of yen to build a pilot plastic recycling facility; investing in renewable energy; and dedicating capital expenditures to still other areas that support sustainable growth. We will set up a green transformation (GX) team and committee instead of the

## Message from the President

Circular Economy Promotion Committee with the single-minded mission of executing the strategy, not rethinking it (▶ Page 75).

For us to make progress toward carbon neutrality by 2050, I want to see quantitative results in CO<sub>2</sub> reduction. We must do better. We can and will do better.

Looking toward 2025, I think we will be well on our way to becoming a high-end specialty chemical manufacturer where most products are designed to be sustainable. It will be a remarkable transformation from our past as a major CO<sub>2</sub> emitter, plastic manufacturer, and commodity producer.

Dedicating our business to the well-being of people, society, and our planet Earth does not detract from profitability or growth. Rather, it's how we will gain profitability and sustain growth. We are selecting the markets where we can invest in technology to have it all—profitability, growth, and well-being. It's one and the same package.

When we look back in 2025, I believe it will be clear that stakeholders have advanced to a better position.

**For our employees**, the Company will become even more attractive. We will create the right environment where people have a sense of purpose, a feeling that they are contributing to something they can believe in.

**Our customers** will have the best products available around the globe: Japanese quality, Japanese service, complemented by a renewed touch and focus on innovation in our key markets.

**Government agencies** will see that they can continue to rely on us to be a faithful partner. Around the world we will demonstrate compliance with the law, cooperation with regulatory bodies, and contribution to social and environmental goals that governments have set for themselves.

**And for our shareholders** our commitment is firm—that we will significantly increase the value of the Company by repositioning it in more attractive sectors with higher multiples created by a combination of growth and performance. In other words, growth and performance combined with the right market segments is a formula for delivering real shareholder value.

We have just begun our journey for “Forging the future.” As we move forward in this endeavor, I look forward to your support and advice in this new journey.

**Jean-Marc Gilson**  
President & CEO



# Value Creation Model

## How we create value at MCG


The Mitsubishi Chemical Group creates value by providing timely materials and solutions valued by our customers that make a positive difference in society.

We do this through extensive knowledge of what our customers value and are willing to reward.


In everything we do, we continuously aim to increase our positive social impact, reduce adverse environmental effects, and maximize shareholder value creation.

In 2021, we began our journey of “Forging the future” to accelerate the power of our business model, improve return on invested capital and focus our portfolio on value-adding businesses aligned with global customer and sustainability trends.


**Management foundation and source of competitiveness**

-  **Financial capital**  
Robust financial position


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-  **Manufactured capital**  
Global network to achieve diverse solutions


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-  **Intellectual capital**  
Knowledge and technology driving business model reform


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-  **Human capital**  
Diverse human resources to support value creation

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-  **Social and relationship capital**  
Engagement with stakeholders

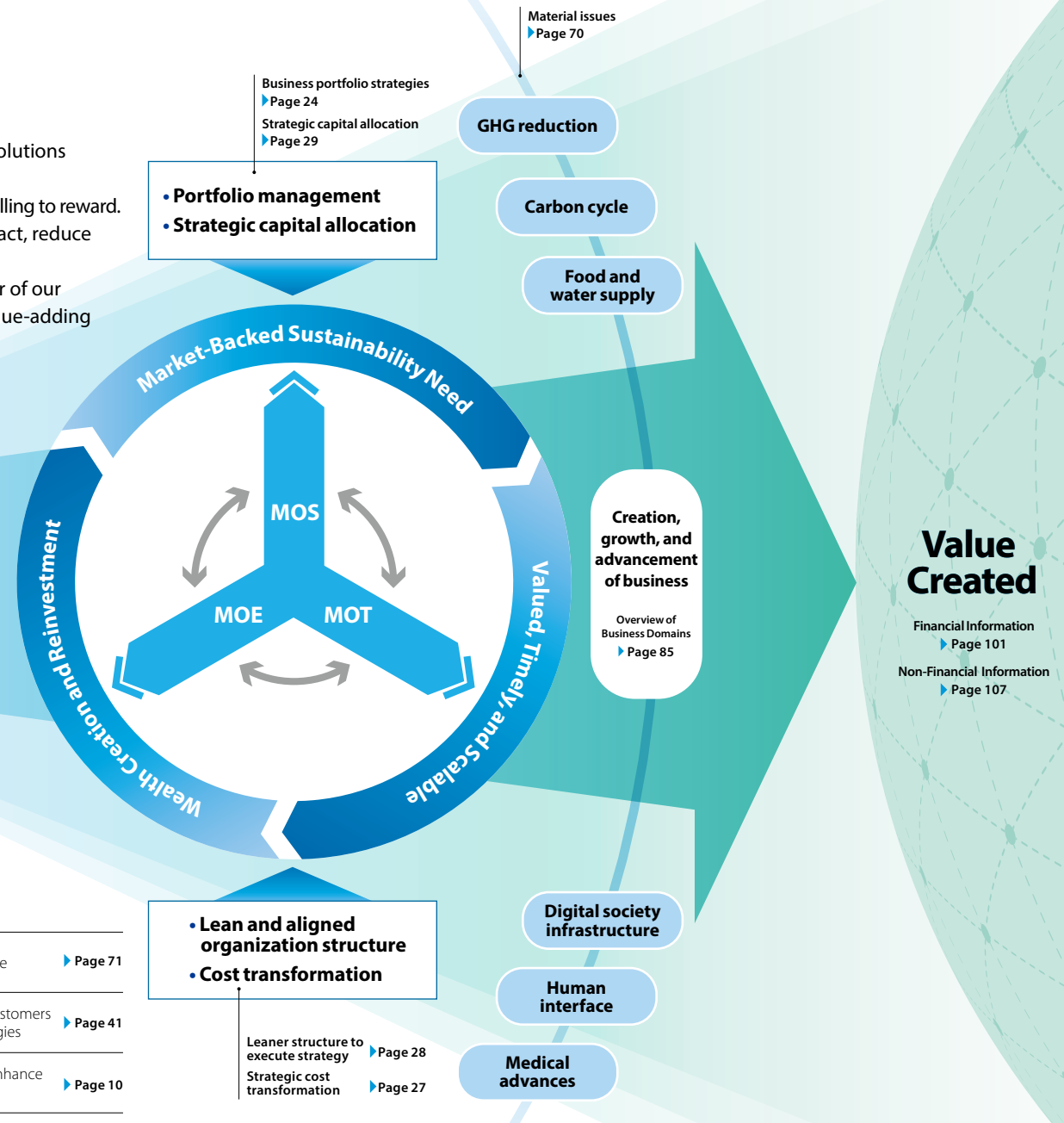
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-  **Natural capital**  
Sustainability management to reduce environmental impact

History of Technologies That Give Us Our Competitive Edge ▶ Page 5  
 Management resources to support value creation ▶ Page 21

### The three axes of KAITEKI Management







	<b>MOS Management of Sustainability</b>	Contributing to the creation of a better sustainability of future	▶ Page 71
	<b>MOT Management of Technology</b>	Creating innovations that are valued and rewarded by our customers through the development of timely differentiation technologies	▶ Page 41
	<b>MOE Management of Economics</b>	Utilizing all our capital and human resources efficiently to enhance economic value added and total shareholder return	▶ Page 10

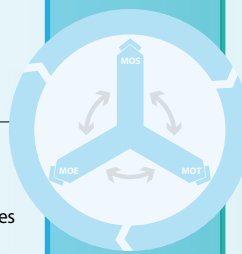


# Value Creation Model

## Strengthen the Driving Force behind Value Creation

Figures on this page are as of March 31, 2022.

Management resources to support value creation (INPUT)	Approach
 <b>Financial capital</b> Robust financial position Total assets <b>¥5,573.9 billion</b>	A robust financial position provides the foundation for sustainable growth. We work to increase corporate value by balancing shareholder distributions, improving our financial position and investing in growth businesses.
 <b>Manufactured capital</b> Global network to achieve diverse solutions Capital expenditures <b>¥254.6 billion</b> Group sites (number of countries & regions) <b>45</b>	Our global network allows us to rapidly provide solutions to regional needs or social issues. We are stepping up the use of digital technologies in our product development and optimizing our plants in order to strengthen our value creation platform.
 <b>Intellectual capital</b> Knowledge and technology driving business model reform R&D expenditures <b>¥156.6 billion</b>	Our core technologies and the knowledge we have built up across a wide range of business domains are intangible assets that underpin business model reformation. We leverage our capabilities across the entire Group to respond to changing social needs in a fast and flexible way, and are creating new businesses to help optimize entire social systems.
 <b>Human capital</b> Diverse human resources to support value creation Number of employees (consolidated) <b>69,784</b>	Human resources are the key management resource for value creation. HR programs allow us to foster creativity and productivity, boost job satisfaction, and create workplaces where employees with diverse values and high-level expertise can flourish, united in our mission. We are also stepping up the development of human resources with digital skills to accelerate innovation through our digital technology platforms.
 <b>Social and relationship capital</b> Engagement with stakeholders Dialogue with stakeholders ▶ Pages 71, 100 More CVC programs ▶ Page 43 Participation in initiatives ▶ Page 75	We are building strong relationships of trust by engaging in active and constructive dialogue with stakeholders and by understanding and responding to expectations and demands. We are also working to build sustainable supply chains, help communities create a better society, and increase brand value.
 <b>Natural capital</b> Sustainability management to reduce environmental impact Energy consumption <b>48.4TWh</b> Non-Financial Highlights ▶ Page 97	Rigorous sustainability management is essential to solve climate change and water shortages/pollution, achieve a recycling-oriented society, and preserve biodiversity. We aim to lower our environmental impact by reducing and making more effective use of GHGs and by promoting a circular economy.



Metrics to manage progress

- MOS ▶ Page 71
- MOT ▶ Page 41
- MOE ▶ Page 10

Value created (OUTCOME)
<b>Improvement in economic value</b> Financial Highlights ▶ Page 95 Sales revenue <b>¥3,976.9 billion</b> Core operating income <b>¥272.3 billion</b>
<b>Business expansion</b> Ratio of overseas revenue <b>47%</b> Acceleration of overseas businesses Innovation output indices <b>78%</b> ▶ Page 41 Advancement of innovation
<b>Improvement in creativity and productivity</b> Employee engagement <b>68%</b> ▶ Page 72 Wellness awareness <b>75%</b> ▶ Page 72 Level of customer satisfaction <b>77 points</b> ▶ Page 71
<b>Contributing to the reduction of environmental impact</b> Percentage of sales revenue from products that contribute to the circular economy or mitigate and adapt to climate change <b>12%</b> ▶ Page 71 Promote a circular economy Respond to climate change

Achieve sustainable well-being and maximize value for all stakeholders