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Environment

Reporting in Line with the TCFD Recommendations

The Mitsubishi Chemical Group is working to enhance its climate change-related measures in areas such as environmental impact reduction, driving energy-saving activities, promoting renewable energy use, and adding to the range of products that contribute to GHG emission reduction. Through these measures and progressive enhancement of information disclosure, we are targeting an increase in our corporate value.

Governance

At the MCG Group, we have identified GHG reduction, environmental impact reduction, and circular economy as the climate change-related material issues (▶ Page 58) to be addressed. We have also set metrics and targets to measure progress with these initiatives (▶ Pages 59–61).

Monitoring of progress toward the target values takes place through routine monitoring and the steady implementation of related measures conducted by the Sustainability Committee, which consists of the MCG president as a chairperson and other members, including MCG corporate executive officers.

Director remuneration

The performance-based remuneration of corporate executive officers is determined and paid based on the degree of achievement of the targets for each fiscal year. In addition to economic efficiency and innovation, the evaluation factors in the KAITEKI Value evaluation, which includes indices relating to improvement in sustainability, and individual performance evaluations. In fiscal 2022, the indices relating to sustainability, which are a part of the evaluation indices for the performance-linked remuneration evaluation, were selected as factors that should receive particular focus by the corporate executive officers from among the KAITEKI Value evaluation, which includes GHG emission reduction. For details, refer to the section titled "Director and Officer Remuneration" under Governance (▶ Page 85).

Strategy and risk management

Climate change-related risk

In accordance with the Company's stance on scenario analysis, MCG is evaluating the impact of climate change that is expected in the years up to 2030.

We evaluated transition risks based mainly on the SDS scenario of the International Energy Agency (IEA) and other factors. As a result, we recognized risks with a particularly high impact, including an increase in the carbon tax burden and a rise in response to climate change in the stock market.

In addition, reflecting the results of evaluations, physical risk is recognized as an operational loss due to abnormal weather, mainly in accordance with the RCP8.5 scenario promoted by the Intergovernmental Panel on Climate Change (IPCC).

MCG plans to take proper measures to deal with these risks and also continue to grasp their conditions.

Overview of risks based on scenarios (Risks with particularly high impact)

Category	Risk recognized	Outline of risk based on the scenario*1		Impact on MCG	Impact*2	Response to potential risk
Policy/ legal regulation	**Rise in carbon prices**	Increase in operating costs due to higher carbon prices.	1.5°C–2°C	Rise in operating costs	++	Reduce GHG emissions in line with our basic policy for achieving carbon neutrality
Market	**Regulation of the usage of plastic products**	Decrease in virgin demand for petrochemicals as plastic recovery rates increase.	1.5°C–2°C	Decreased demand for petrochemical products	+	Focus on businesses that contribute to achieving carbon neutrality
Reputation	**Rise of climate action in stock markets**	As institutional investors focus on climate change, market capitalization declines due to inadequate responses.	1.5°C–2°C	Decrease in market capitalization	+	Enhance disclosure and engagement on sustainability, including climate change
Physical	**Operational losses due to extreme weather**	Increased flood risk in Asia will have a greater impact on factory operations.	4°C	Loss of sales and loss of assets such as manufacturing facilities and inventories due to the shutdown of coastal factories due to disaster damage	+	Measures to prepare for major natural disasters to minimize damage and ensure business continuity

*1 See the WEO SDS scenario, etc., for 1.5°C to 2°C and the IPCC RCP8.5 scenario, etc., for 4°C.
The SDS scenario is consistent with the IEA's Paris Agreement goal of keeping global average temperature increase well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.
The RCP8.5 scenario is a scenario by the IPCC in which no additional mitigation measures for climate change are taken and the average global temperature at the end of the 21st century is likely to increase by about 4°C above pre-industrial levels.
*2 Quantitative evaluation results for impact by "Impact on the MCG" are indicated as large: ++ and medium: +.

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Environment

Reporting in Line with the TCFD Recommendations

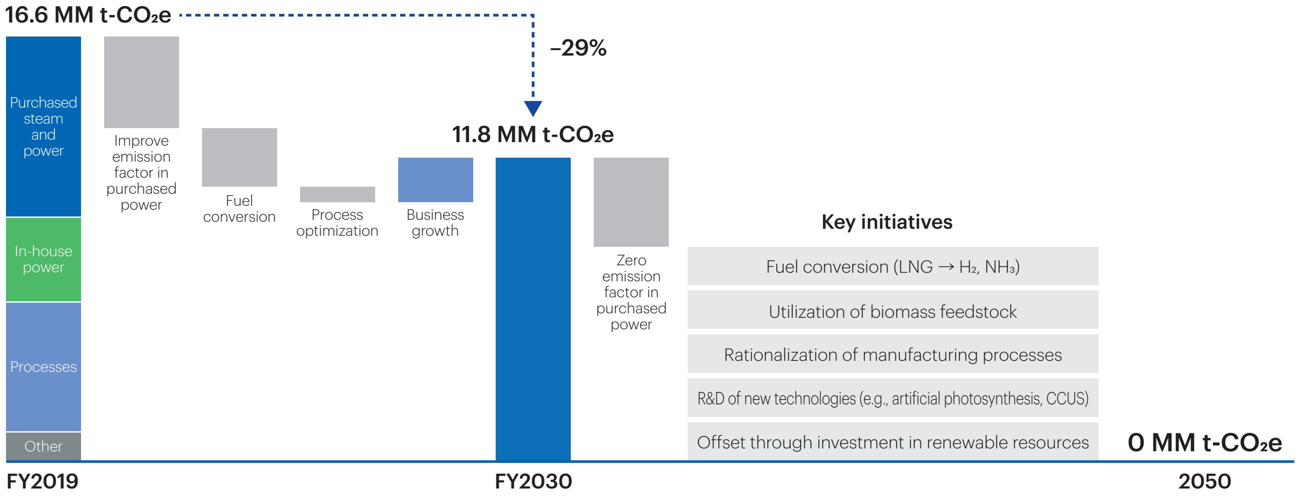
Transition plan

The MCG Group set a new target for a 29% reduction in GHG emissions by fiscal 2030 compared to fiscal 2019, and a further reduction to net zero in 2050 to achieve carbon neutrality. We plan to reduce GHG emissions in line with the roadmap.

In addition to streamlining the manufacturing process and implementing energy conversion, going forward, our portfolio management will include a carbon-neutral perspective, which will enable us to remain competitive in a society that is in transition to carbon neutrality.

Carbon neutrality by 2050

Our GHG emissions (Scope 1 + Scope 2)



Business opportunities related to climate change

As set out in our new management policy, we will also devote resources to businesses that contribute to realizing carbon neutrality based on portfolio management with a focus on growth, performance, and sustainability.

We will progressively expand the business scale and strengthen the profitability of specific focus businesses that offer climate change-related business opportunities, including lighter mobility materials, vehicle-mounted battery materials, bioplastics, and carbon fiber and composite materials.

In the medium-term management plan, announced in February 2023, we aim to raise the percentage of sales revenue from sustainability-related products, including products that contribute to climate change measures, to 20% by fiscal 2025.

Process of risk identification, evaluation, and management

Portfolio management

As announced in the new management policy, MCG has designated carbon neutrality as a selection criterion for its focus businesses. Incorporating a carbon-neutral perspective, our portfolio management will focus on growth markets where we have a competitive advantage.

Risk management

The MCG Group, based on the "One Company, One Team" concept introduced from fiscal 2022, transitioned to a Group-wide integrated management structure, and in tandem with this, introduced enterprise risk management (ERM) (▶ Page 86), as a risk management scheme for integrated risk management pertaining to MCG Group's business activities. Moving ahead, we plan to implement integrated risk management concerning the Group's business activities related to priority issues from the perspective of materiality to promote the minimization of losses and adequate risk-taking from a Company-wide perspective.

Metrics and targets

Among the management indices (MOS Indices) set to measure progress with material issues, we set a medium-term target for the GHG emission reduction rate, and plan to evaluate the progress made annually.

Scope 1–3 GHG emissions

Please see GHG emissions in "Non-Financial Highlights" (▶ Page 99) for the performance in fiscal 2022. We have received independent assurance for GHG emissions, and are working to disclose highly reliable information.

Report in Line with the Recommendations of the TCFD

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Chapter 4