



**We pursue sustainable growth as we actively transform ourselves to better create value that helps address global challenges.**

### **Masashi Fujii**

President and  
Representative Director

#### **Direction of Group Management**

**We take on structural changes in society with a positive mindset for creating new value**

The social and economic activities that were interrupted by the pandemic are gradually returning to normal. In fiscal 2022, however, the operations of the MGC Group were substantially affected by steep rises in prices for fuels and raw materials, as well as worldwide economic slowing triggered by the Russian invasion of Ukraine.

To continue producing solid results in this unpredictable business environment, we have to think positively in taking on environmental changes. Looking back, the Group has gone through major changes several times. During the oil crisis a half century ago, we overcame the sharp rise in oil prices and other inconveniences, took advantage of the changes and turned an idea into an unprecedented project to expand our methanol business abroad. Rather than deal passively with external conditions and applying the “common sense” of the old days, it has become more important than ever for us to analyze our past, envision the large structural

shifts to come within 10 or 20 years, and actively transform ourselves. We can think of chemical manufacturers as future forerunners as we develop and commercialize the materials and ingredients that industry will need, ahead of others. By reading the signs of changing times, I'm proud to say that the MGC Group contributes to industry around the world.

The structural changes in society that I am particularly interested in as a president of a chemical company are the energy revolution in a broad sense and progress in information technology. For the former, the idea of a society based on hydrogen as a primary fuel has been discussed worldwide. To help make that happen, it's essential that we establish renewable fuels as a main power source for society, and produce and widely supply "green" hydrogen extracted using renewable energy. If renewable energy is reliably available at low cost, it will trigger all sorts of social change, including boosting the advancement of electric vehicles. The MGC Group is the only chemical manufacturer that owns technologies for natural gas prospecting and development, operating businesses that are generating energy from geothermal, biomass and LNG resources, all of which are highly compatible with our proprietary mining technologies. We

understand that an important theme for us is to help address energy-related challenges through our fields of strength, as I've mentioned.

As for progress in information technology, we see major business opportunities in the near future as society advances towards 5G and 6G telecom networks and quantum computing. We must continue building new value into what we make while anticipating customer needs for lighter, thinner, shorter, smaller and less energy-intensive products. We must also carefully monitor factors causing change in society, and turn what we learn into business opportunities.

Addressing social challenges through the chemical business will not be an easy path for the MGC Group to travel alone. Therefore, we have gathered knowledge from various companies and through that collaboration gradually expanded our value chain, with the aim of creating value that helps address global challenges. In implementing these initiatives, I've come to freshly realize the importance of our Mission to "create value to share with society." I hope to give the MGC Group a larger presence in areas where it can maximize its strengths, serve as a starting point for social development, and grow with business partners and local communities.

## Differentiation Strategy

### **We build our competitive advantage through differentiation and higher added value**

Since its founding, the MGC Group has grown sustainably by operating diverse businesses based on unique technologies. Intrapreneurship has been passed down for generations within the organizations of the MGC Group, giving each employee the ambition to be a leader in a given chemical field and driving market transformation by honing technologies within our forte. A good example of this is how we rose to the challenge during the oil crisis I mentioned in the beginning.

Constrained by sharply rising prices for raw materials and fuels, some within the Company believed that domestic production of methanol would become increasingly hard to maintain, and began thinking about moving our operations abroad. As the circle of people in support of that idea grew,

management decided on an investment project that was exceptionally large relative to sales at that time, and our operation in Saudi Arabia began. I think of this as a symbolic episode representing the Company's DNA. This project positively raised competitive consciousness for the first time among MGC personnel. What followed was a stream of ambitious proposals from other divisions as well, leading to a string of new projects starting in Japan and abroad. These became the foundations for many of our operations today, including those abroad. Recently, our business structure has been shifting more toward products that differentiate us from the rest. This was made possible by employees who take the initiative in growing their respective fields of expertise, noting the markets

that are most compatible with our fundamental technologies and propagating successful practices across the board.

A case in point is the world's thinnest lenses for smartphones and small cameras, realized using an optical polymer with an extremely high refractive index. Our employees take pride in the world-leading functions they create, in turn motivating them to move projects forward proactively. To demonstrate this, I could mention various cases in which our researchers developed new business abroad through direct contact with prospective clients, and this fueled their ambition to explore higher levels of demand. It usually takes a decade to develop a precision part for smartphones, requiring advanced skills to design production plants and manage operational phases. This is why our clients judge our parts to be the best in the world and adopt them as their smartphone products evolve. As a result, our employees experience greater job satisfaction and personal growth. This positive cycle

powers our differentiation strategy.

The businesses of the MGC Group follow two models: the market-oriented model, focusing on specific industries and markets, and the product-oriented model, where business develops based on raw materials like methanol. By balancing these models, MGC has been able to grow continuously for over half a century. Today, in response to changes in the market environment, we have begun optimizing our business portfolio. Specifically, we are applying a strategy to bolster competitiveness across the board by increasing the effectiveness of both functional and basic parts of our businesses. We will let go of products that have lost competitiveness and become more like commodities, and shift emphasis toward areas of higher added value. By effectively meeting new market needs while motivating employees and raising job satisfaction, I believe we are accelerating our shift to a profit structure resilient to environmental changes.

#### Progress with the Medium-Term Management Plan

### Reorganizing the engineering plastics business and pursuing monetization of decarbonization solutions

In fiscal 2022, the second year of the Medium-Term Management Plan, we brought in ¥781.2 billion in sales and reported ¥49.0 billion in operating profit. Our optical materials and products related to automobiles struggled in their recovery, but I think we made fairly good results overall for the year, sustained by our better performing polyacetal business and the positive effects of the weaker yen.

The business environment will remain difficult to predict, so we will not restrain investment toward achieving ¥1.0 trillion in sales and ¥100.0 billion or higher in operating profit in fiscal 2030. We project coming close to achieving our targeted ¥240.0 billion in investment over a three-year period. In fiscal 2022, we invested in growth businesses, including the MXDA plan in Europe and new electronic chemical plants in the U.S., Taiwan and China. We will continue investing in fields where we have a competitive advantage and unique strengths over the medium and long terms.

Due to the high level of investment, fixed and amortization costs have been rising for the entire Group. This means investment can help

compress operating profit by a larger margin if the market environment deteriorates. That said, we in management place highest priority on sustainable business growth, and make investment decisions with medium- and long-term market growth in mind. I strongly believe that funds we have invested in enhancing our differentiated businesses and new and next-generation businesses will bear fruit. At the same time, we are withdrawing from unprofitable businesses. We have decided to stop producing formalin and polyol products and streamline that operation, and have shifted to highly profitable high-functioning products, such as adhesives used in construction of all-wood buildings.

A top-priority theme for fiscal 2023 is the reorganization of our engineering plastics business. In April, we made Mitsubishi Engineering-Plastics Corporation a consolidated subsidiary and began working to increase its percentage of high-value-added products among polycarbonates and raise profitability by unifying certain grades.

Our long-term theme is accelerating to achieve carbon neutrality with the power of chemistry. For



the MGC Group, decarbonization presents an opportunity to build earnings as well. We already have about 30 research projects in progress. Two of those have been selected as Green Innovation Fund Projects by NEDO\*. With our unique technologies and specialists holding the key to decarbonization, I believe we can achieve a level of results worthy of social implementation. Because atmospheric carbon

dioxide, the major contributor to global warming, has future potential as a chemical ingredient, we have been discussing the underground construction of CO<sub>2</sub> capture-and-storage (CCS) facilities in the Group's natural gas field.

\* New Energy and Industrial Technology Development Organization

#### Promotion of Sustainability Management

### As a Group, we work continuously to create more functional value than ever

The sustainability management practices of the MGC Group are meant to ensure that we generate functional value while helping address social issues to the best of our ability as a chemical company. Toward realizing this, I told all employees at the beginning of the year, "The conventional view of market trends no longer works. Think with the new standard of value and act accordingly." Meaning embracing the paradigm shift currently under way rather than denying it. In doing so, it's important that we add new value to chemical products and follow through on our resolve to help customers and society address their challenges. By always reminding ourselves to "create value to share with society," we will naturally see our organization through irreversible changes in economies.

The most important capital we can tap in realizing this kind of value creation is our human resources. The great majority of MGC Group employees are career-minded individuals pursuing

higher-level job skills. So the Company focuses on supporting their ambitions by providing opportunities to enhance their skills and improving work environments to nurture personal growth. Management has always valued the well-being of each employee, acknowledging and making the most of their desire to grow. We have assigned the MGC Commons, our new innovation center opening in October 2023, the role of promoting collaboration and synergy among Group employees, and even with outside partners.

I will continue to work to ensure that this unique chemical group is valued highly by all stakeholders in terms of both financial aspects, such as business performance, and non-financial aspects, specifically sustainability matters including advanced proprietary technologies and health and productivity management.