

To Our Stakeholders

The new organizational structure will allow us to continue optimizing our business portfolio and accelerate the creation of products and businesses providing solutions to social issues.



Masashi Fujii

President and
Representative Director

Opening

New discoveries during measures to respond to COVID-19 are opening new paths for growth

First of all, I would like to extend my deepest sympathies to the many people affected by COVID-19. I also wish to once again pay tribute to the many professionals and others at medical sites on the front lines of battling the infection.

The MGC Group immediately formed the Crisis Response Headquarters when the disease started to spread and put top priority on ensuring the safety of its employees and their families, including enabling non-manufacturing employees to work from home from early March so work could continue. We incorporated information and communication technology (ICT) deeper into our operations and by mid-March about 80% of the head office employees were working from home. As a product manufacturer, our manufacturing sites are fundamentally essential to our business. Although some of our Group companies overseas halted operations temporarily, our manufacturing sites were able to continue their operations while taking full precautions for employee safety.

We have a corporate social responsibility to protect our employees and to do all in our power to assist all people who are directly confronting the COVID-19 pandemic. When the virus started rapidly spreading in Japan in April, Group company MGC Filsheet began producing polycarbonate sheet for medical face shields and donating it to medical institutions in Tokorozawa in Saitama Prefecture and to the city of Toyonaka in Osaka Prefecture. When news reports appeared saying that there was a shortage of face shields for workers on the front lines fighting the virus, we met with MGC Filsheet to figure out a way to use our transparent and durable polycarbonate, and we quickly shifted to producing shields. We also donated supplies from our stockpiles at our research centers of protective clothing and N95-grade masks certified by the National Institute for Occupational Safety and Health of the United States, while preserving only the amount needed for our immediate research activities.

As we responded to the COVID-19 situation, we found ourselves putting into place various things that we had previously thought would have been too problematic, such as enabling new workstyles and business operations. I believe we should continue using these “discoveries” in the future. Society would have made no progress if it merely returns to how it was prior to the pandemic.

Pushing forward with digital transformation is essential for us as a chemical manufacturer, and we must take it as an opportunity for growth. We also need to make sure that our Company and the way we work are improving in the right direction. In fact, I want to use this situation as a catalyst to aggressively invest in transforming our Company by incorporating AI and IoT to create smart factories that have fewer production troubles, better quality control, and safer and more stable operations. We also need to use marketing intelligence (MI) and ICT to accelerate development at our research sites.

As we tried the new working format, many employees at the head office were able to fulfill their duties from home without significant difficulties. We learned that we did not need to have all employees physically present, so at the head office and research centers we adopted a system for people to work at home about three days a week. I am hoping to introduce changes like these to how we treat employee attendance and how and where we carry out our business throughout the Group.

At the same time, if we increase telework and remote meetings, we will need to give more care to communicate clearly and support each other as we get used to using the new medium. One such effort I made was to send personal letters to employees who were new to the Company but were immediately asked to work from home to assure them not to worry that the Company was fine, and if they were having any difficulties to please contact me. Even with our new workstyles, I would ask all of our employees to continue being considerate to their fellow workers just like we were all working together inside the Company.

Fiscal 2019 Review

Sales of high value-added products for IoT applications grew steadily while market conditions led to weak profits for general-purpose products

The MGC Group continued executing the MGC Advance2020 medium-term management plan launched in April 2018, under which we are pursuing five strategies aimed at fulfilling two fundamental objectives of “enhancing the corporate value of the MGC Group” and “deepening the trust of MGC Group stakeholders.” (For details, please see [Progress of the Medium-term Management Plan on page 13](#))

In fiscal 2019, the second year of the three-year plan, we recorded consolidated sales of ¥613.3 billion (-5.5% from the previous fiscal year). We likewise reported declines in operating income to ¥34.2 billion (-17.2%),

ordinary income to ¥31.1 billion (-55.0%), and net income attributable to owners of the parent to ¥21.1 billion (-61.5%).

The chief factor in the decline were weak prices for the commodity products methanol, polycarbonate, purified isophthalic acid. At the same time, expanding demand in IoT-related fields generated increased sales volume and operating income for high value-added products, such as optical polymers used in smartphone camera lenses and BT materials for semiconductor packages. Meanwhile, profit below the ordinary profit line was strongly impacted by the transition to the new scheme for the methanol joint venture in Saudi Arabia, which caused a ¥29.6 billion drop in equity-method earnings from the previous fiscal year.

The COVID-19 pandemic had limited impact on our business results during the fiscal year, but we do expect some form of negative impact in the future. We are particularly watching for repercussions from the reduced demand in industrial fields related to automobiles, housing, infrastructure, and electrical and electronic equipment. We expect the severe business conditions to persist and will be monitoring the pandemic situation worldwide. While doing everything we can to help minimize the impact from the COVID-19 pandemic, we will continue steadily advancing our strategies with the aim of providing a solid foundation for the next medium-term management plan.

Organizational Reform

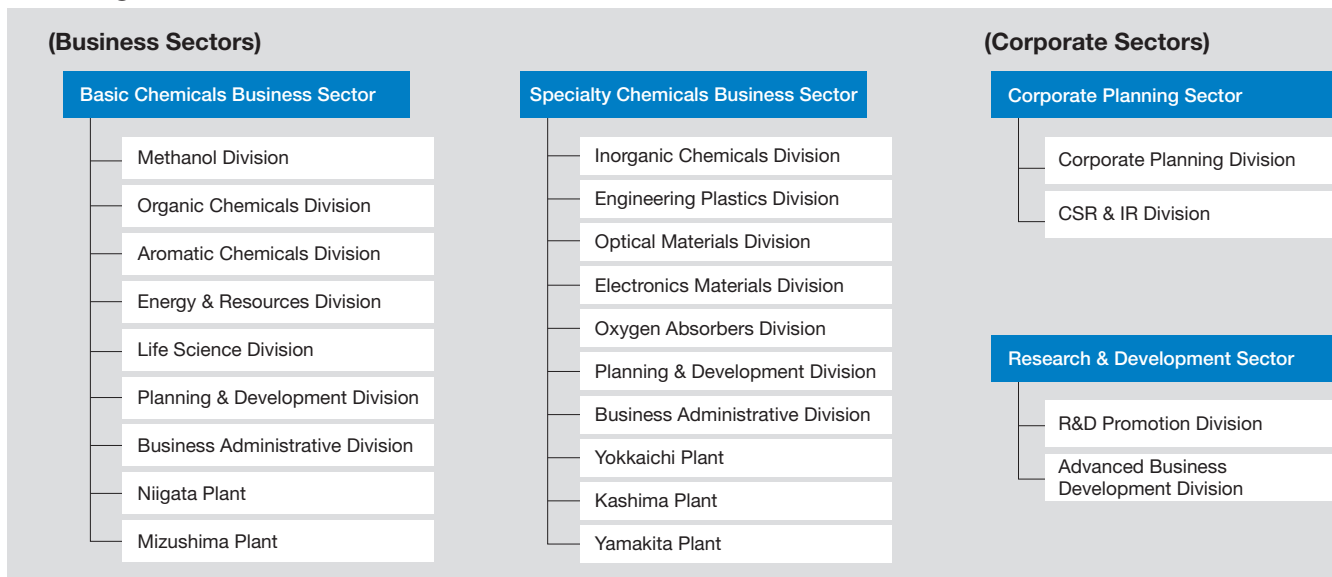
Organizational reforms for overall optimization and accelerated growth as a group

In April 2020, we conducted a major reform of our organization by merging and reorganizing our four-company format into a streamlined structure with two business sectors.

We adopted the company format roughly 20 years ago. We created that format at a time when the whole Company was facing severe financial conditions and our best prospects for growing the business were to give each company responsibility for their capital investment and R&D spending. I believe the company format helped our formerly dispersed management become more disciplined and therefore played a significant role in our organizational development. However, the Group’s growing earnings during the past 10 years have given us a certain degree of flexibility with our cash flow and has brought us to the point where we can invest in ways to accelerate our business growth.

The primary objective of the present organizational reform is to shift from a company system focused on compartmentalized optimization to a large organization format that facilitates approaches for overall optimization. I would like to lower the barriers between the business sectors so they can have a broader view of the Group and have more flexibility to pursue ideas that will give rise to growth strategies.

New Organizational Structure (April 1, 2020)



This principle applies to our R&D structure as well, and the R&D departments from all companies are now integrated into the R&D Promotion Division. Likewise, we will be a large organization advancing R&D for the overall optimization of the Group. As we integrate our R&D functions, we plan to increase our R&D personnel from the current 500 to about 700. We are also changing the focus of the Advanced Business Development Division. Where the previous department primarily focused on developing business in areas outside the domains of our existing businesses, the new division will take a wide-ranging view for business opportunities, including in areas of close proximity to existing businesses. We will also seek to make greater use of academic collaborations as well as cross innovation and open innovation with entities outside the Group.

The constitution of the corporate sectors has also been revised. By reorganizing specialized and segmented divisions into a broader functional structure, we are aiming to provide our businesses with more flexibility and speed. The new organization enables us to more easily adapt to changes, as we did with the quick adoption of telecommuting, and will make us more resilient in the post-COVID-19 world.

While revising our internal organization, we also recognized the importance of creating a system for more deeply integrated management of the MGC Group. Our Group is composed of numerous companies that are small but possess highly specialized technology and excellent human resources. Capital investment and R&D spending were previously conducted by the individual

Group companies, but we will build synergies across the Group in various ways, such as through shared strategies and collaborated R&D. This autumn, we plan to combine the Group's three trading companies into a single entity to be called Mitsubishi Gas Chemical Trading, Inc. Although some time will be needed for the full effects of the new structure to emerge, I am confident that clarifying the roles of Mitsubishi Gas Chemical Trading and Mitsubishi Gas Chemical Company and making the new trading company's sales channel the core conduit for sales will lead to expanding profits throughout the Group.

Business Portfolio Reform

Flexibly responding to market environment changes by investing in high value-added products and growth fields

The Group is maintaining the firm earnings base of its existing businesses while creating and nurturing new businesses to optimize its business portfolio. The MGC Advance 2020 plan calls for investing a total of ¥200 billion over three years for future growth, and we will continue to invest in growth in fiscal 2020.

We plan to establish investment priorities for our product and business fields based on analysis in the two areas of "market growth rate and future potential" and "our market share and competitive advantage." Our "shining star" products for which we hold strong shares in high-growth markets include our optical polymers and electronic materials. So these will naturally be focus areas

(Internal Audit Division)

Corporate Management Sector

Administrative & Personnel Division

Finance & Accounting Division

Information Systems Division

Internal Audit Division

Environment & Total Production Sector

Environmental Safety & Quality Assurance Division

Production Technology Division

Purchasing & Logistics Division



for growth investment. We will also invest in basic chemicals, such as hydrogen peroxide and methanol, that are in low growth markets but require a certain amount of continuous investment. These products have firm business foundations and are a key part of our profit base. In addition, we will continue upfront investment aimed at sustainable growth in the future in new business fields that have high growth rates but are still contributing minimally to earnings. This balance of investment for growth will be a fundamental as we reform our business portfolio. We have tended to have a high weight of investment in basic chemical products, but we are now looking to restrain investment in products with high volatility and to focus investment in high value-added products that we can differentiate in the market and in growth fields where we have business growth potential.

The amounts of our fundamental investments in each product area may not appear to reflect our objective for future growth. The reason is that different fields require different levels of investment. For example, building a methanol plant can cost over ¥100 billion, but constructing an optical polymer manufacturing facility can be done at one-tenth or less of the investment. So although the amounts may vary year by year, each move will be made with the objective of optimizing our business portfolio.

While investing in new businesses, we will also continue

carefully examining unprofitable businesses or businesses with a difficult future outlook for potential withdrawal or sale. By formulating a business portfolio able to respond flexibly to severe changes in the business environment, we are creating a base for earnings growth for the entire Group.

Promoting CSR Management and Contributing to a Sustainable Society

Formulating CSR Basic Policy and identifying materiality

We recognize that promoting CSR management is essential to improving the quality of our company. I believe that pursuing economic value, fulfilling our responsibilities to stakeholders, and contributing to realizing a better society are the reasons for the Group's existence in society and are what will enable our sustainable growth.

To clearly show our employees and the public that CSR is at the core of our management, we created the CSR Department in October 2019 and adopted our CSR Basic Policy in February 2020. Rooted in our Group vision of "creating value to share with society," the CSR Basic Policy demonstrates our dedication to developing businesses with a deep awareness of our responsibilities to each of the environment, society, and corporate



governance (ESG) and to contributing to creating a sustainable society. Based on this policy, we also identified the important CSR issues (materiality) that the Group should focus on. (Please see the Special Feature on Promotion of CSR Management on page 15)

In April 2020, we became a signatory of the United Nations Global Compact. The MGC Group has long been operating numerous businesses aimed at addressing the social issues covered by the United Nations' Social Development Goals (SDGs), and signing the compact reconfirms our commitment to using the SDGs as a guideline for contributing to creating a sustainable and harmonious society.

Comprehensive governance is essential to being a sustainable company. In June 2020, we added two new outside directors, including a female director, bringing the number of outside directors to one-third of the total 12 members. I look forward to the additional input that the outside directors' diverse areas of expertise and experience will bring to enhancing the function of our Board of Directors. (Please see the Corporate Governance information on page 49)

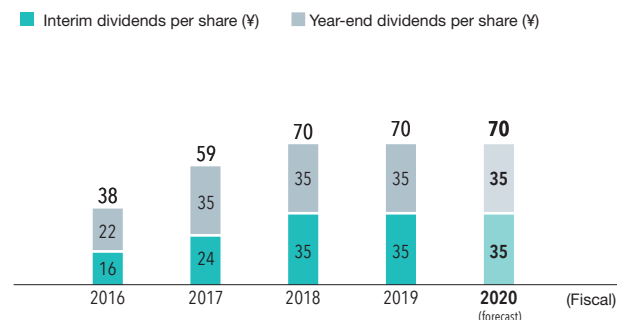
Capital Policy

Continue providing stable shareholder returns as increasing profit improves our capital efficiency

The Group believes that improving corporate value benefits shareholders and all stakeholders. We seek to maintain an optimal balance between shareholder returns and internal reserves from a comprehensive perspective encompassing capital investment and loan plans for future business development, financial soundness, and the outlook for future business performance.

Internal reserves are used for investments and loans for

Shareholder return



* With an effective date of October 1, 2016, MGC conducted a reverse stock split for MGC's ordinary shares on a 2:1 basis. As a result, amounts per share in the above table are calculated assuming that the reverse stock split had been conducted at the beginning of FY2016.

business expansion and growth and to strengthen our corporate structure. While taking into account operating performance and other factors, the Company aims to maintain a stable level of dividend distribution.

In fiscal 2019, although profits declined significantly from the previous fiscal year, in accordance with its initial plan, the Company distributed annual dividends amounting to ¥70 per share. Management plans to distribute annual dividends of ¥70 per share again in fiscal 2020. We will continue balancing internal reserves and profit return to shareholders while striving to further enhance our corporate value.

50th Anniversary of the Company Launch

“Creating value to share with society”

MGC will celebrate the 50th anniversary of its launch in October 2021. Management is currently discussing what the Group needs to do to ensure another half century of continuous growth as an R&D-driven corporation. First, we are defining what we want the MGC Group to be—what value we want to have and what contribution we should be making to society 50 years from now. When we have a clear image, then we will backcast to determine what we need to do now so we can realize that vision. Those measures will become the basis for our next medium-term management plan that we are planning to launch in fiscal 2021.

To mark a fresh start in our 50th year, we plan to implement several improvements and suggestions by workers at our plants and other sites, including introducing redesigned uniforms for plant employees.

Our employees are unquestionably one of our most important stakeholders. Employees are a company's most important management resource and the longest-lasting stakeholders. A company where each employee is proud to work, feels like they are improving every day, and feels satisfied with their job is a company with an essential resource for sustained growth, for contributing to resolving social issues, and for maintaining satisfied shareholders. Our executives and employees are working together to be a distinctive chemicals company seeking to “create value to share with society,” and we will continue steadfastly advancing on our path to the future, the MGC way. (May 2020)

Masashi Fujii

President and Representative Director