



Mitsubishi Materials Corporation
Chief Executive Officer
Naoki Ono



Towards Creating Corporate Value

Creating both social and economic values and ensuring sustainable business continuity

From a Review of the Previous Medium-term Management Strategy to the New Medium-term Management Strategy

The Company formulated a new Medium-term Management Strategy (FY2023 Strategy) for the three years from fiscal 2021, which was published on March 25, 2020.

Our previous Medium-term Management Strategy (FY2020 Strategy) for the period from fiscal 2018 to fiscal 2020 focused on the execution of the key strategies of “Achieve growth through innovation,” “Create value by building a recycling-oriented society,” “Increase the company’s market presence through investment for growth,” and “Increase efficiency through continuous improvement,” based on the Group-wide policy of “Optimization of business portfolio,” “Comprehensive efforts to increase business competitiveness,” and “Creation of new products and businesses.”

However, due to the quality control problems that occurred in November 2017, we prioritized “Restructuring Measures of the Governance Framework for Quality Control in the MMC Group” and “MMC Group Governance Framework Enhancement Measures” as pressing issues, while confirming product safety with the cooperation of our customers.

We cannot deny that delays occurred in some key strategies due to internal factors and inadequate handling of changes in the external environment, such as the deceleration of the Chinese economy, slowdown in economic growth in the regions of Thailand and Indonesia, reduced demand related to automobiles and semiconductor products, and reduced domestic demand for cement.

As a result, our consolidated operating profit, consolidated ordinary income, return on asset (ROA), and net D/E ratio failed to reach the estimated values for fiscal 2020 at the time of formulating the FY2020 Strategy.

As a result of analyzing this situation in the previous strategy, we have identified factors for improvement as “Insufficient marketing activities,” “Insufficient gathering of customer information,” and “Insufficient ability to solve manufacturing problems on site,” and will position “Strengthen marketing,” “Promote digitalization,” and “Fortify manufacturing excellence” as key strategies in the FY2023 Strategy in order to achieve those improvements as their countermeasures, and thereby reinforce our management foundation.

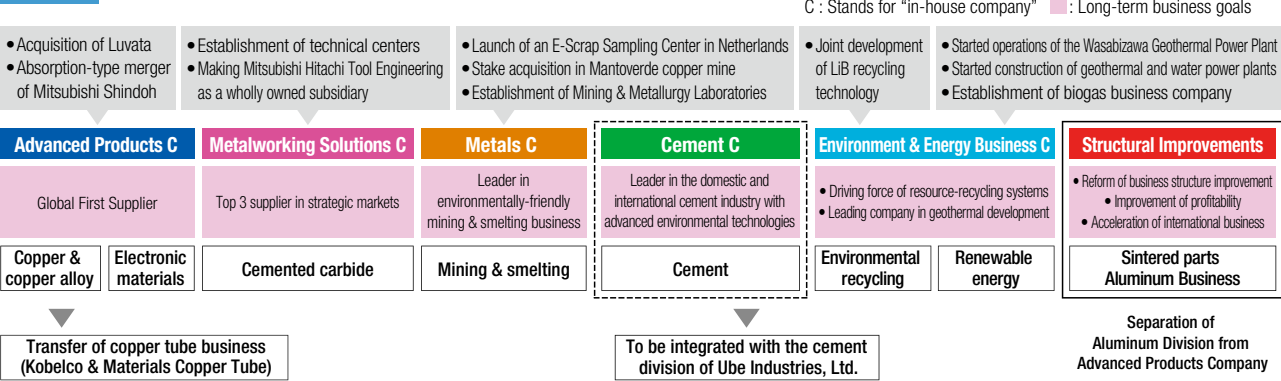
To strengthen our governance system including quality control, we positioned 2018 as the first year for governance enhancement, based on a recognition of the issues regarding “Quality and quantity of communication,” “Compliance framework and awareness,” and “Resource allocation,” and as a result of actively working on these issues, we have made continuous improvements. In these efforts, SCQDE (see p.46 and the back cover) is positioned as the order of priority in business decisions when conducting routine work. SCQDE is the entry point to considering various aspects of management, and is reflected in the priority of resource allocation and the priority of reporting at meetings.

We have also promoted a bad-news-first policy. The number of reports on incidents dramatically increased in fiscal 2020, due to our promotion of the bad-news-first policy. Our foundation is stronger than before and we will continue these efforts to contribute to the future progress of the Company.

The three items given as the Group-wide policy will continue in the FY2023 Strategy. Although our strategy is formulated every three years, our business activities are conducted seamlessly, without being interrupted every three years. Therefore, basic concepts like the Group-wide Policy are not subject to major change, but the tactics to use must adapt to the environment.

In terms of the Group-wide Policy, we have been successfully proceeding with activities that will lead into the FY2023 Strategy, as indicated in [Figure 1](#): Reformation of business structure. Major efforts for business portfolio optimization include our absorption of fully-owned subsidiary Mitsubishi Shindoh Co., Ltd., making Mitsubishi Hitachi Tool Engineering, Ltd. (company name changed to MOLDINO Tool Engineering, Ltd. on April 1, 2020) a wholly owned subsidiary, and the signing of a letter of intent to start discussions on integrating our cement business with Ube Industries, Ltd. Efforts such as starting the joint development of lithium-ion battery recycling, obtaining the rights for new copper mines, and establishing a technical center in the metalworking solutions business, as well as investing in the geothermal/hydroelectric/biogas business, are based on the ideas of “Comprehensive efforts to increase business competitiveness” and “Creation of new products and businesses,” and we will consolidate these results in the FY2023 Strategy and beyond.

Figure 1 Reformation of business structure



FY2023 Strategy

Overview of FY2023 Strategy

The FY2023 Strategy indicates our goal for the end of fiscal 2023 on our way to achieve our mission for 2030 to 2050, based on the idea of creating both social and economic values and our corporate philosophy of “For People, Society and the Earth.”

Following the left side of [Figure 2](#): Overview of FY2023 Strategy from top to bottom, we find the Corporate Philosophy, Vision, Group-Wide Policy, long-term business goals and strategy, and then further down in the FY2023

Strategy, we find the Business Strategies, Corporate Strategies, and Governance Approach. Our vision is “We will become the leading business group committed to creating a sustainable society through materials innovation, with use of our unique and distinctive technologies, for People, Society and the Earth” and we will further realize this vision and clarify our “Mission,” including what we consider to be the relationship between our vision and our material issues (materiality).

The idea underpinning this is “Create both social and economic values.” Our mission for 2030 to 2050 is summed up as three points for working to create economic value by solving social issues that we recognize as material issues.

Material issues are social issues solved via business, and since business that solves social issues needs to be ongoing rather than temporary, it is also necessary to take a standpoint of viewing material issues necessary for ensuring business sustainability.

The company identifies issues from the two viewpoints indicated above, organizes them according to their importance for stakeholders and the Group, and defines high priority issues as the final material issues. The term “stakeholders” covers a wide range of parties, so we analyze stakeholders by different levels in our discussions, and then bring together the results at the end. We also added the relationship with the SCQDE order of priority of the Group. As a result, we categorized material issues as either “issues for solving social issues through the Group’s businesses” or “issues for strengthening the management base and core,” and consider the former to be elements for our “Mission” in the FY2023 Strategy, and the latter to be elements for our “Corporate Strategies” and “Governance and organizations for supporting management strategy and ensuring business sustainability.”

We believe that indicating how the elements in [Figure 2](#) organically connect and integrate, and how their relationships are structured is extremely important to promote the sharing, understanding, and penetration of the FY2023 Strategy within the Group. An understanding of the overall structure will clarify the meaning of the details in the Business Strategies, Corporate Strategies, and Governance, which are its constituent elements.

Group-wide Policy

The Group-wide Policy of the FY2023 Strategy is “Optimization of business portfolio,” “Comprehensive efforts to increase business competitiveness,” and “Creation of new products and businesses,” which is the same as that of the FY2020 Strategy

When aiming to optimize our business portfolio, We must think about what businesses the Group needs to take ownership of, and focus our management resources on those businesses. “Ownership” is normally used when talking about an individual, and refers to when someone considers a job their own, and autonomously tackling issues in that job with a strong passion and sense of responsibility. We believe that a company should take the same stance, and that is why we use the term “ownership.”

The four characteristics of businesses that the company should take ownership of are as follows: [Figure 3](#)

- 1) Businesses that are consistent with the Group’s vision and mission
- 2) Businesses that are governable by the Group
- 3) Businesses that are capable of earning a leadership role in a specific region or the world
- 4) Businesses that can deliver stable returns over capital costs on a medium- to long-term basis

I believe that 1) comes naturally, because our vision is the highest concept of the Group, and our mission was defined in terms of how we can realize our corporate philosophy.

The idea of 2) is a matter that I really feel the need for from the experience of confronting quality issues. I believe that a business being governable means that we must have an adequate understanding of every nook and cranny of that business, and be able to share that understanding.

3) refers to the fact that attaining a leading position in a scope or field of business means becoming essential for the customers in that field, and I believe that means that we can gather more information and swiftly and efficiently identify the products and business fields we must develop in the future. The long-term business goals indicated in the FY2023 Strategy are aligned with this concept.

The idea of 4) is that outperforming capital costs leads to the creation of corporate value. Adopting ROIC as an index for visualizing profitability when building a business portfolio enables comparisons with capital costs and thereby provides easy-to-understand assessments of corporate value creation.

In order to ensure returns that exceed capital costs, it is necessary to maintain and continue a state where the ROIC value is above capital costs, even when the ROIC value varies (the ROIC spread increases or decreases).

I personally believe that in addition to the conventional concept focused on the flow, we must also aim to ensure that the ROIC continuously exceeds capital costs. Therefore, as indicated in our Group-wide Policy, it is necessary for us to incorporate the appropriate reshuffling of our business portfolio, polishing of our business competitiveness, and creation of new products and businesses in concrete strategies and measures for execution.

Figure 2 Overview of FY2023 Strategy

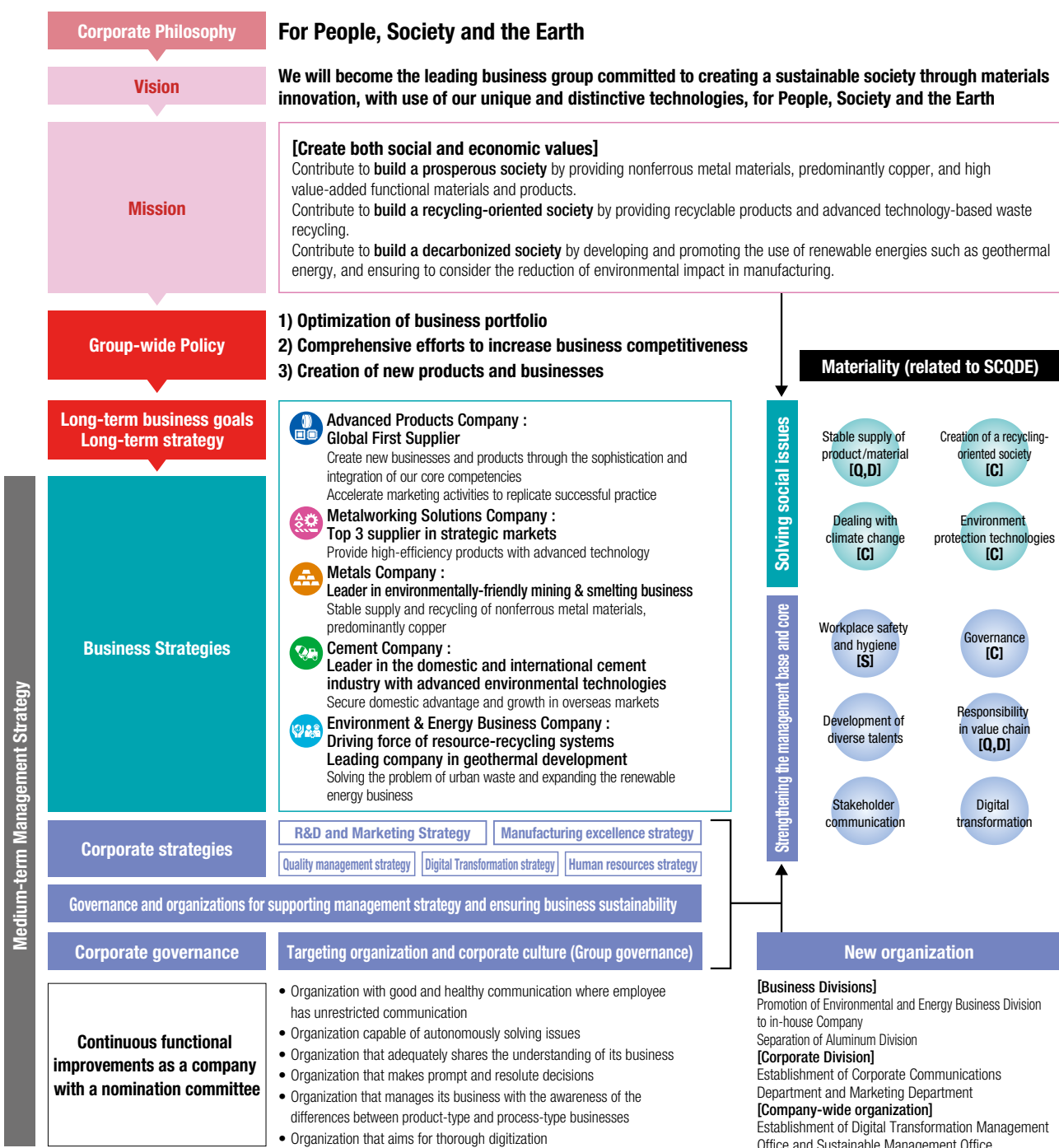
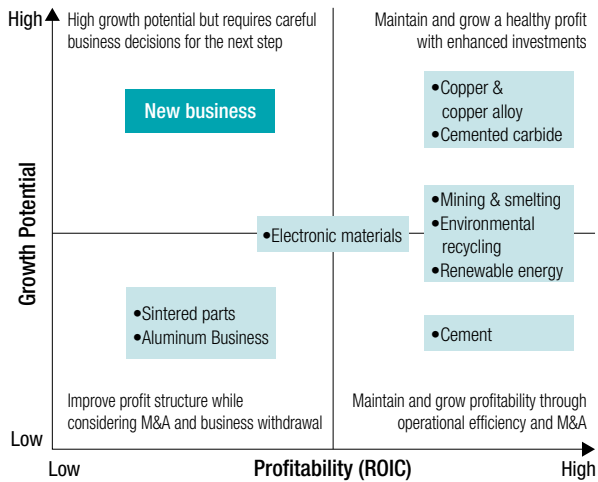


Figure 3 Portfolio matrix



[Characteristics of businesses that the company should take ownership of]

- Businesses that are consistent with the Group's vision and mission
- Businesses that are governable by the Group
- Businesses that are capable of earning a leadership role in a specific region or the world
- Businesses that can deliver stable returns over capital costs on a medium- to long-term basis

[Building business portfolio]

- Profitability and growth potential determine the business direction
- Profitability is measured by ROIC (spread)
- Growth potential is measured by EBITDA growth rate, etc.

The Portfolio Matrix [Figure 3](#) indicates where each business is located in terms of profitability and growth potential. The horizontal axis indicates profitability and the vertical axis indicates the growth potential for the business or market. The measures to implement differ according to the position, and can be either “Maintain and grow a healthy profit with enhanced investments,” “Maintain and grow profitability through operational efficiency and M&A,” “High growth potential but requires careful business decisions for the next step,” or “Improve profit structure while considering M&A and business withdrawal.” This can be used as a guide for what measures each business currently requires.

The current position may change as a result of implementation. Optimization of the business portfolio is nothing more than changing the current portfolio to pursue what we are aiming for. I believe that there are two perspectives to consider when doing so.

1) Profitability

Ensure that the various businesses exceed the capital costs (WACC) as a result of implementing the measures that must be taken and reshuffling our businesses as required, upon understanding the current situation.

2) Growth potential

Possessing a combination of businesses with high potential for growth.

In this case, we must possess businesses with a high growth potential even if they have inferior short-term profitability, have the management ability to support and accelerate the growth of those businesses, and our other

businesses must generate the capital required. Comprehensive efforts to increase business competitiveness involves polishing core technologies and knowledge that can be provided to the market and acquiring things that we lack or that need supplementation via M&A and collaboration. It is important that our Manufacturing Excellence Strategy, Quality Management Strategy, and Digital Transformation Strategy support this. The R&D and Marketing Strategy is positioned to support the creation of new products and businesses.

Business Strategies (p.16-17, [Figure 4](#))

In the FY2023 Strategy, I believe it is important that we express our long-term business goals of where we want our business divisions to be in the year 2030, in light of our Mission. This is because having business goals enables us to recognize what is currently lacking, and enables us to think deeper about the path to solve that problem. Of course, there is more than one path to long-term business goals and it is necessary to change course according to the environment we face, but long-term business goals are essential to ensure that we do not get lost along the way.

Furthermore, I feel that these long-term business goals express the passion of each business division, and that in itself has meaning. I believe this is because the key to success in business management lies in having a market with customers, possessing technology or products that can be supplied to that market, and having passion for that business. This also applies to the concept of “ownership,” which was mentioned above.

The table on p.16-17 indicates the long-term business goals/strategy of each business and their relationships with ESG/SDGs, and how business strategies can help solve social issues in the long term and in the FY2023 Strategy. I believe that a future challenge we will face is to further accelerate and promote the relationships between business divisions so that they can head towards common goals, without becoming separated.

Corporate Strategies

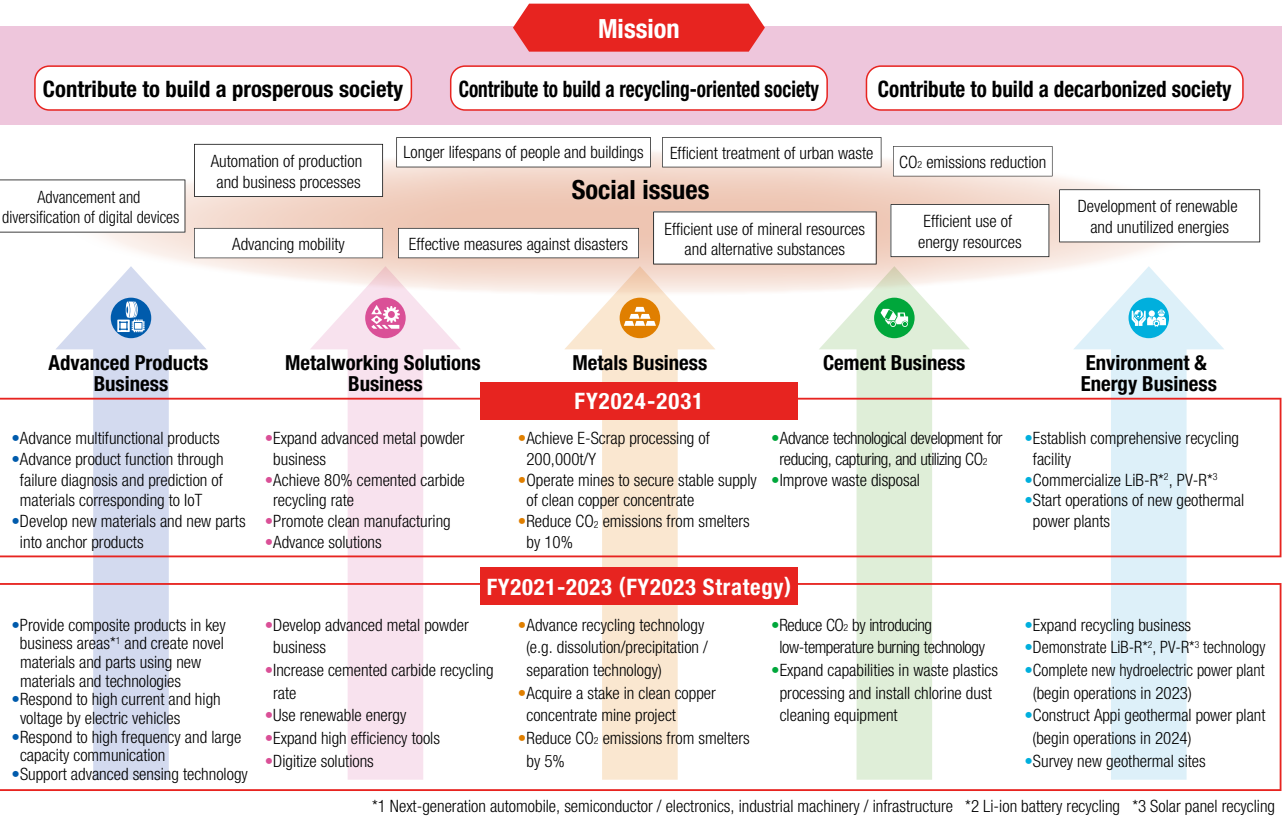
Our corporate strategies include a R&D and Marketing Strategy, Manufacturing Excellence Strategy, Quality Management Strategy, Digital Transformation Strategy, and Human Resources Strategy.

The R&D and Marketing Strategy is positioned as supporting the creation of new products and businesses in the Group-wide Policy, and the Manufacturing Excellence Strategy, Quality Management Strategy, and Digital Transformation Strategy are positioned as supporting comprehensive efforts to increase business competitiveness.

In regard to the research and development in our R&D and Marketing Strategy, we identify fields to focus on and other important fields, determine mega trends connected to our mission, and thereby narrow down the key targets. In terms of marketing, business divisions are in charge of fields surrounding existing fields of business, and a new Marketing Department established in corporate divisions is in charge of new fields more distant from existing fields of business.

The key to our Manufacturing Excellence Strategy

Figure 4 Business strategy for solving social issues



is formulating a vision for each business site based on relationships with each business strategy, performing self ability evaluations based on a management framework, setting items for improvement, and voluntarily implementing internal reform.

The slogan of our Quality Management Strategy is “From reactive quality management to proactive quality management.” We will transition from a system that prevents non-conforming products from leaking to a system that achieves design, equipment, and processes that prevent non-conforming products from being produced in the first place.

We consider the Digital Transformation Strategy to be the core strategy for our FY2023 Strategy and beyond. Since this involves intra-departmental efforts in a diverse range of fields including R&D, marketing, human resource development, and general management, as well as being closely related to manufacturing excellence and quality management, we will launch a new Digital Transformation Management Office, invite external talent to act as our Chief Digital Officer (CDO), and accelerate these efforts. Although digital transformation has been partially proceeding at the Company, we are behind other companies in terms of group-wide activities, and are in danger of perhaps never being able to catch up in several years time if we do nothing now. But if we do act now, we definitely have an opportunity to catch up.

Our Human Resources Strategy is positioned as something that supports the entire foundation, as is the case with governance.

Ensuring Business Sustainability

Ensuring business sustainability is essential for continuously supporting the creation of both social and economic values.

In order to do so, it is important to reinforce corporate governance and group governance upon clarifying the organizational culture to aim for, in addition to having a corporate strategy supporting the execution of business strategy and efforts via our business.

We have already established the following six items as the organizational culture to aim for.

- 1) Organization with good and healthy communication where employees have unrestricted communication
- 2) Organization capable of autonomously solving issues
- 3) Organization that adequately shares the understanding of its business
- 4) Organization that makes prompt and resolute decisions
- 5) Organization that manages its business with the awareness of the differences between product-type and process-type businesses
- 6) Organization that aims for thorough digitalization

1), 2), and 3) are goals of Group governance enhancement. I believe that we can aim for these goals by conducting smooth and autonomous communication at all levels, between the parent company and subsidiaries, between the head office and business sites, and within each business site and group company. In addition to conventional communication work at all levels conducted by Executive Officers including the Chief Executive Officer, the FY2023 Strategy aims to stimulate communication, evaluate the effectiveness of the Board of Directors at the Group companies, implement improvements based on that evaluation, and enrich the Group companies' officer training.

Furthermore, the FY2023 Strategy promotes activities for the heads of corporate divisions to conduct hearings at the various levels of business sites in order to identify issues and promote activities, in addition to the Internal Audit Department.

4) is related to corporate governance, and we plan to evolve it by enhancing and improving the supervisory function and transferring authority to the execution side after our migration to a company with a Nomination Committee.

For 5), I believe that focused management is required, especially in R&D, manufacturing, and human resources exchange.

6) will be accelerated via strategy execution by the Digital Transformation Management Office.

Since we became a company with a Nomination Committee in fiscal 2020, Outside Directors have accounted for the majority of the Board of Directors members, and the debate and investigation at Board of Directors meetings have been from more diverse perspectives than ever before, including the discussions regarding the formulation of our FY2023 Strategy. The composition of Outside Directors will be partially changed from July 2020, and I hope that this will lead to debate based on new diversity. We will continue to pursue improved functionality as a monitoring board and ensure diversity to achieve continuous improvements for the Board of Directors.

Extremely lively discussions were held at the Nomination Committee, Audit Committee, and Remuneration Committee meetings in fiscal 2020. As Chief Executive Officer, I presented proposals for discussion at the Nomination Committee and Remuneration Committee meetings. Colorful debate was had based on the previous knowledge of the various members, and I believe that this led to good results. Looking ahead, we

must implement plans, operate systems, and continuously make improvements based on those results.

On April 1, 2020, we established the Sustainable Management Office, which is led by the Chief Executive Officer, as an organization for promoting business sustainability across the entire Group. In addition to establishing and operating the panels, we will hold management office meetings in order to swiftly perform the required decision-making. When the issues we should tackle change due to social or other factors, we will flexibly change our target issues and panel structure.

I believe that efforts for ensuring business sustainability are like training the core of a human body. This core training will surely make a difference the next time that the Group needs to make a great leap.

Financial Plan and the Impact of COVID-19

In the FY2023 Strategy, we published the financial indicators to adopt and the financial targets for the final year of the FY2023 Strategy (fiscal 2023), as well as our investment plan, shareholder return policy, and policy regarding strategic holdings. [Figure 5](#)

Financial ratios include ROIC for profitability and EBITDA, etc. for growth potential, and ROA also plays a complementary role in the processing business. Group-wide, we plan to adopt a combination of ROIC, ROE, and ROA.

Our investment policy places importance on its balance with the operating cash flow and cash in via the sale of assets, etc., and when there is a large-scale investment project for growth, we proactively execute the project with the net D/E ratio of 1.0 times or less to ensure fiscal discipline.

However, our financial plan, including our shareholder return policy of an 80 yen dividend per share, is as of the

date of announcement on March 25, 2020, and does not take the subsequent global impact of COVID-19 into account. COVID-19 is causing a drop in demand for the automobile, semiconductor, and construction markets in Japan and abroad, which are deeply related to the business of the Group, and there is concern that the impact on the business of the Group will increase.

Therefore, in the financial results for the fiscal year ended March 2020 published on May 27, 2020, we announced that it is difficult to rationally estimate our earnings forecast for the fiscal year ending March 2021, and that dividends for the fiscal year ending March 2021 will remain undecided.

We will carefully examine our Medium-term Management Strategy that covers our financial plan including our shareholder return policy, based on the changes to the

business environment and the impact on the medium to long-term business forecast caused by COVID-19, and will swiftly publish any decisions made if changes are deemed necessary.

I believe that there is no need to significantly change the direction of our strategies in the FY2023 Strategy other than the financial plan, but the impact that COVID-19 will have on our business and the countermeasures we will implement must focus on the changes that will occur in the business environment in a post-COVID-19 world, including immediate countermeasures. [Figure 6](#)

I believe that we must prepare for the need to add and review the social issues that the Group must tackle and the need for short-term strategic changes and strategies based on structural changes to the industry, according to the extent and nature of those changes.

Figure 5 Investment Policy, Shareholder Return Policy, Strategic Holdings

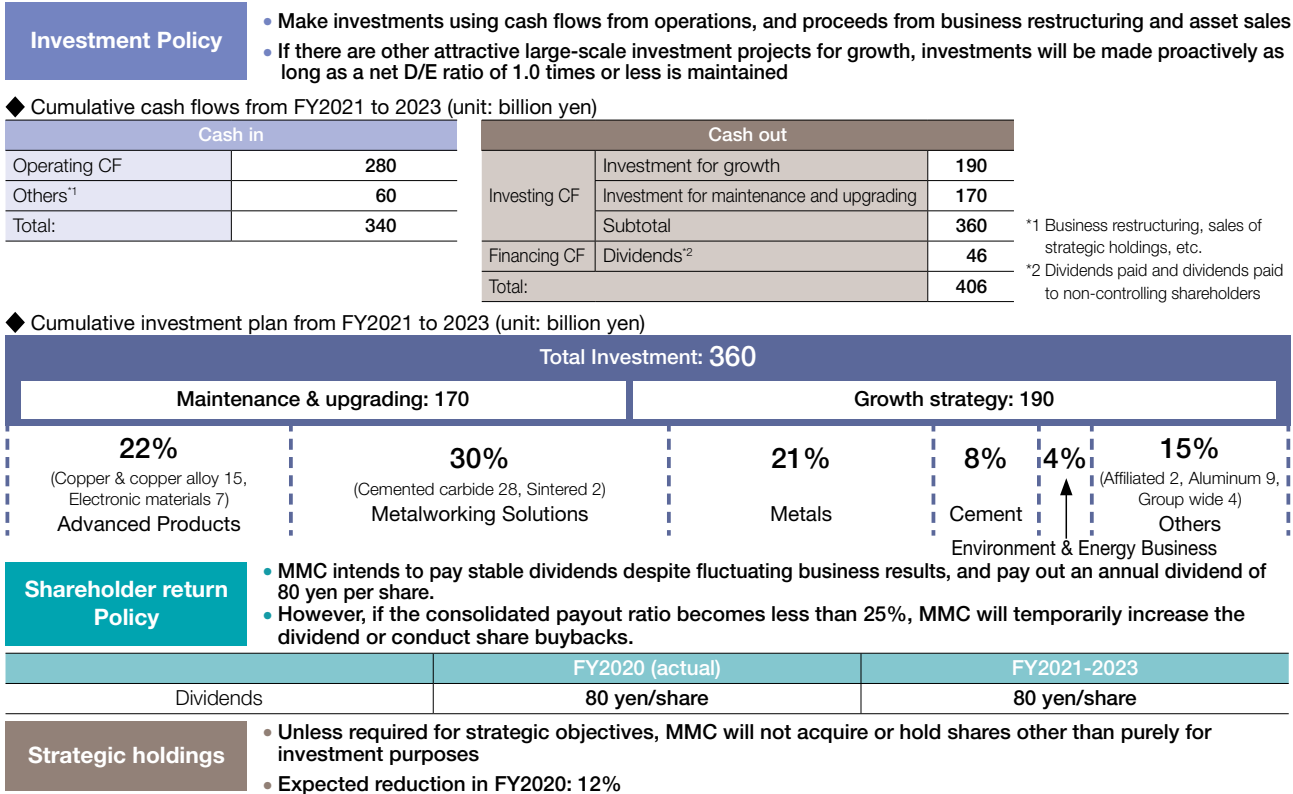
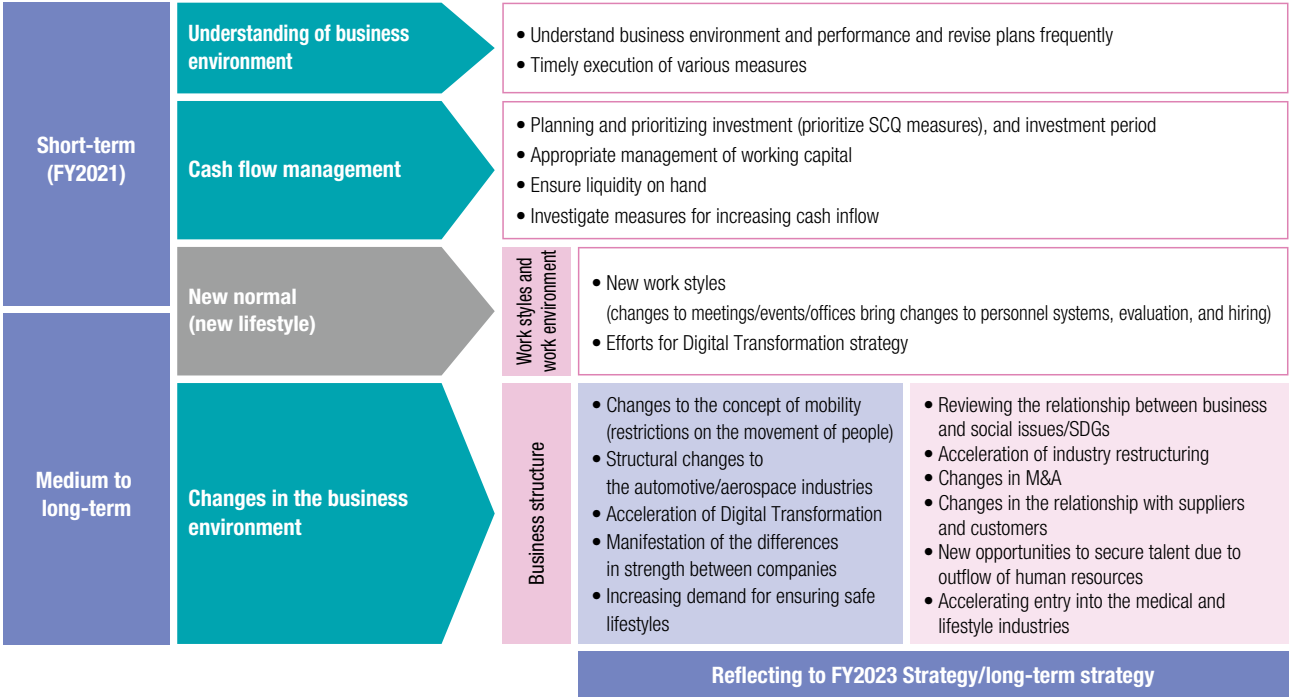


Figure 6 Response to changes in the business environment



Creating a Higher Dimension of Corporate Value

This Integrated Report focuses on the FY2023 Strategy published on March 25, 2020. People inside the company and the Board of Directors spent a large amount of time formulating the Strategy via lively and detailed discussion. As a result of this, our mission for 2030 to 2050 was able to be summed up as working to create economic value by solving social issues that we recognize as material issues. The FY2023 Strategy indicates our activities for the next three years toward achieving that mission.

The business environment is rapidly changing at a bewildering rate. However, since our mission is based on a long-term outlook and fundamental creation of value, it is not so susceptible to occasional changes in the environment.

The creation of corporate value is not possible with the planning and formulation of a strategy alone. The strategy must also be executed. A strategy itself is a concept or an

idea of what we want to be. The key is whether we all really aim to do so. Everyone from top management to on-site workers needs understand and sympathize with the strategy. Therefore, since announcing the FY2023 Strategy, we have been working to ensure the penetration of the strategy at more levels than before, via a wide range of efforts such as remote meetings with representatives in Japan and overseas, the delivery of supplementary materials via intranet, serialized features in our Group newsletter, the delivery of training materials, and sharing in each business division.

This Integrated Report plays a role in conveying our ideas to a wide range of stakeholders both inside and outside the Company, and I hope that it will enable us to receive feedback from many different perspectives and thereby stimulate discussion. I also hope that we can brush up our ideas and mission to create a higher dimension of corporate value via discussions with our stakeholders.