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# “KAKUSHIN” Plan: Phase – 1

## Rebuilding of Business Foundation

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May 14, 2003

 MITSUBISHI CHEMICAL CORPORATION

# Background of "KAKUSHIN" Plan

- ◆ ***"KAKUSHIN" is our slogan representing our determination to make a quantum leap through continuous innovation and renovation.***

## Issues

- (1) Dispersed businesses
- (2) Weakened financial position
- (3) Low profitability
- (4) Decentralized business structure
- (5) Conservative corporate culture

## Solutions

- (1) Accelerate selection and focus process
- (2) Reduce interest-bearing debt
- (3) Greater emphasis on higher value-added businesses and more concerted efforts to reduce costs
- (4) Integrate competencies of the group companies to reinforce our group strength
- (5) Rejuvenate corporate culture; Develop a more dynamic and entrepreneurial environment

# Mitsubishi Chemical Group in FY2007

	Net Sales	Operating Income
Petrochemicals	30% (36%)	10—20%
Performance Products/ Functional Products	40% (41%)	30—35%
Health Care	30%(17%) (Results of FY2002)	50%

## ◆ *Maintain the three key segments:*

- ✓ *Petrochemicals*
- ✓ *Performance Products/Functional Products*
- ✓ *Health Care*

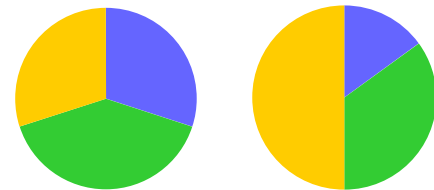
## ◆ *Basic Segment Policies*

- ✓ *Petrochemicals:*  
*Rationalization, Alliancing, and Strengthening*
- ✓ *Performance and Functional Products :*  
*Shift to higher value-added products and businesses*
- ✓ *Health Care:*  
*Boost earnings through organic growth and alliance*

# "KAKUSHIN" Plan is a Two-Step Approach

## Phase-1 & Phase-2

Mitsubishi Chemical  
Group in FY 2007



Phase-2: FY2005-2007

✓ Consolidation of  
strengths and building  
momentum

Phase-1: FY2003-2004

✓ Preparation for Phase-2  
through rebuilding of  
our business foundation

# Action Items in Phase-1 (1)

## 1. Business Portfolio Management

- ✓ Accelerate selection and focus process
- ✓ Categorize businesses in accordance with the MCCVA concept

## 2. Improvement of Financial Position

- ✓ Reduce debt by JPY 180 Billion during FY2002-2004
- ✓ Stricter cash flow management and control of investments

## 3. R&TD for Sustainable Growth

- ✓ Allocate resources steadily to R&TD consistent with our long-term strategy
- ✓ Accelerated and prioritized R&TD process
- ✓ Foundation of a new R&TD company to enhance entrepreneurial spirit

## Action Items in Phase-1 (2)

### 4. Cost Reduction

- ✓ Accelerate "Production KAKUSHIN":  
Comprehensive cost reduction activities at plant sites
- ✓ Seek further cost reduction in administrative and operation expenses

### 5. Integration of Group Strengths

- ✓ Stimulate collaboration amongst our group companies within each business segment
- ✓ Leverage strengths and capabilities of our group companies and organizations to maximize customer satisfaction

### Additional Measures

- ✓ Reorganization of Group Companies
- ✓ Reduction of operating funds

## Phase-1 Target Measures

### Target Measures

- **Interest-bearing Debts**                      **Reduce by 180 billion yen  
(Top Priority)**
- **Operating Income**                              **More than 100 billion yen**
- **ROA**    **More than 4%**  
(= income before tax / total assets)

## 1-a. Reduction Plan of Interest-bearing Debts

*Figures in the table are based on cash outflow*

Unit: billion yen

	FY2002	FY2003	FY2004	Total	Phase-1
<b>Profit in FY2002</b>	<b>21.4</b>	<b>24</b>	<b>30</b>	<b>75</b>	<b>60</b>
<b>Depreciation</b>	<b>103.2</b>	<b>102</b>	<b>97</b>	<b>302</b>	<b>300</b>
<b>Restructuring</b>	<b>36.2</b>	<b>45</b>	<b>9</b>	<b>90</b>	<b>90</b>
<b>Other Non-cash</b>	<b>18.9</b>	<b>1</b>	<b>19</b>	<b>39</b>	<b>60</b>
<b>Working Capital</b>	<b>(18.8)</b>	<b>0</b>	<b>0</b>	<b>(19.0)</b>	<b>0</b>
<b>Investment</b>	<b>109.1</b>	<b>111</b>	<b>103</b>	<b>323</b>	<b>310</b>
<b>Dividends</b>	<b>0</b>	<b>7</b>	<b>9</b>	<b>16</b>	<b>20</b>
<b>Net Reduction</b>	<b>89.4</b>	<b>54</b>	<b>43</b>	<b>186</b>	<b>180</b>

Interest-bearing Debt	1051.6	962.2	908.0	865.0
D/E Ratio	3.1	2.7	2.5	2.2
	(March '02)	(March '03)	(March '04)	(March '05)

## 1-b. Restructuring Items

Period	Amount (billion ¥)	Items
FY2002	36.2	<ul style="list-style-type: none"> <li>• <b>Advanced Colortech, Inc. (Color Filter)</b></li> <li>• <b>Mitsubishi Chemical Foam Plastic Corp.</b></li> <li>• <b>Agrochemical Business</b></li> <li>• <b>Offset Printing Plate Business</b></li> </ul> <p style="text-align: right;">etc.</p>
FY2003	45.0	<ul style="list-style-type: none"> <li>• <b>Alpha Therapeutic Corp. (plasma fractionation business)</b></li> <li>• <b>Industrial Separate Gas Business</b></li> <li>• <b>Hard Disk Business</b></li> <li>• <b>A&amp;M Styrene Co., Ltd. (Polystyrene)</b></li> </ul> <p style="text-align: right;">etc.</p>
FY2004	9.0	<ul style="list-style-type: none"> <li>• <b>Mitsubishi Chemical Bio-Clinical Laboratories, Inc.</b> (planned to be listed on the stock exchange market)</li> </ul>
<b>Estimated Total:</b>	90.0	

## 1-c. Capital Expenditures for FY2003-FY2004

Segments	Amount (billion JPY)	Expansion of current business and reinforcement of foundation	New locations, New businesses, Acquisitions etc.
Petrochemicals	50	<ul style="list-style-type: none"> <li>• Reinforcement of facilities (domestic &amp; overseas)</li> </ul>	<ul style="list-style-type: none"> <li>• China (several)</li> <li>• PP Compounds</li> </ul>
Performance Products	40	<ul style="list-style-type: none"> <li>• Expansion in imaging supply business</li> </ul>	<ul style="list-style-type: none"> <li>• Performance polymers</li> <li>• Food ingredients</li> <li>• Battery materials</li> </ul>
Performance Products	25	<ul style="list-style-type: none"> <li>• Focus on higher value-added products</li> </ul>	
Health Care	55	<ul style="list-style-type: none"> <li>• Restructuring of MPC's plants &amp; research centers</li> <li>• Expansion of diagnostics and clinical testing business</li> </ul>	
Others	25	<ul style="list-style-type: none"> <li>• Rationalization of utilities</li> <li>• "Production KAKUSHIN"</li> </ul>	<ul style="list-style-type: none"> <li>• Nanotechnology</li> </ul>
<b>Estimated Total:</b>	<b>200</b>		

\* total capital expenditures approved in Phase-1 is 200 billion JPY

\* FY2002 result was 80 billion JPY

## 2-a. Operating Income and ROA

Units: billion JPY; ( ): net sales

	FY2002 results	FY2003 estimate	FY2004 estimate
<b>Total Operating Profits</b>	<b>92.0 (1887.5)</b>	<b>92.0 (1930.0)</b>	<b>105.0 (2000.0)</b>
Petrochemicals	20.6 (679.1)	18.0 (735.0)	30.0 (750.0)
Performance Products	30.5 (451.8)	25.0 (432.0)	27.0 (450.0)
Functional Products	10.8 (320.7)	14.0 (329.0)	17.0 (350.0)
Health Care	30.5 (320.0)	38.0 (294.0)	44.0 (300.0)
Services	9.9 (115.9)	9.0 (140.0)	9.0 (150.0)
Corporate	- 10.3	- 12.0	- 12.0
Allowance	0	0	- 10.0
<b>ROA</b>	<b>2.0 %</b>	<b>3.1 %</b>	<b>4.1 %</b>

ROA = income before tax / total asset

## 2-b. Additional Explanation on ROA and D/E Ratio

Units: billion JPY

	FY2002	FY2003	FY2004	Phase-1
(1) Net Sales	1887.5	1930.0	2000.0	
(2) Operating Income	92.0	92.0	105.0	$\geq 100$
(3) Recurring Profit	75.6	77.0	95.0	
(4) Income before tax	43.8	65.0	85.0	
(5) Total Assets	2117.0	2084.0	2070.0	
(6) ROA = (4)/(5)	2.0%	3.1%	4.1%	$\geq 4\%$
(7) Interest-bearing Debts	962.2	908.0	865.0	870
(8) Assets	350.3	368.0	389.0	
(9) D/E Ratio=(7)/(8)	2.7	2.5	2.2	2.2

## 3. Petrochemicals: Action Plan

### Policy:

**Transform business structure to secure profit even under harsh business environments**

**Greater allocation of resources to business units which offer global business opportunities using our group's competitive advantages**

### Action Plan:

- 1) **Restructure: PS, Foamed PS, Polyolefin, etc.**
- 2) **Concentrate: Terephthalic acid, Polycarbonate/Bisphenol A, 1,4-BD/PTMG, PP compounds**
- 3) **Olefin Centers' comprehensive rationalization and reinforcement of competitiveness**
  - a) **Kashima Plant**
  - b) **Complex Renaissance plan / Phase II**
- 4) **Main derivatives: Rationalize production, logistics and marketing to enhance competitive structure**
- 5) **Activate Knowledge business**

## 4. Performance Products: Action Plan

### Policy:

- Focus on three markets: **“information & electronics”**, **“medical care & food additives”**, and **“environment & energy”**

### Action Plan:

- Emphasize on value creation for our customers and invest management resources to **“concentrate”** businesses

#### ***“information & electronics”***

printer supply, compound semiconductors, optical media

#### ***“medical care & food additives”***

active pharmaceutical ingredients, performance polymers, food additives

#### ***“environment & energy”***

enforce ecology business by integrating group ecological businesses

promote development of energy related materials, e.g. nano-carbons, battery materials

- Focus on future business development, e.g. optoelectronics & display materials, high performance polymers, and energy related materials.

## 5. Health Care: Action Plan

### Policy:

- **Maximize segment value by value chain management of pharmaceuticals, diagnostics and clinical testing, and drug discovery businesses**

### Action Plan:

#### 1) **Pharmaceuticals (Mitsubishi Pharma Corp.)**

- a. withdrawal from plasma fractionation business in the US
- b. develop alliance strategy to reach critical mass
- c. improve profit structure and sales efficiency

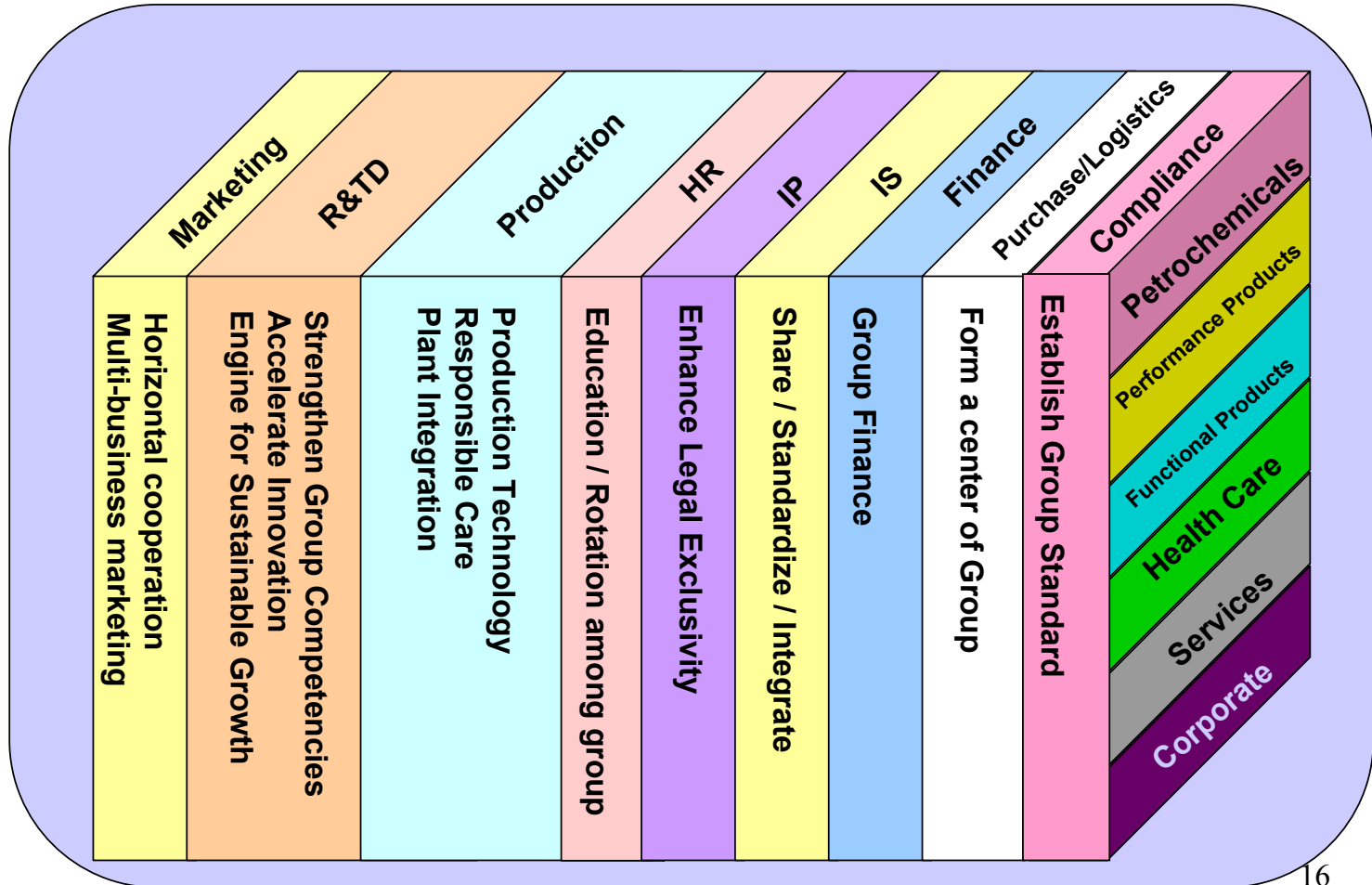
#### 2) **Diagnostics and Clinical Testing**

- a. Mitsubishi Kagaku Bio-Clinical Laboratories, Inc.  
Positive investment for business reinforcement and list on stock exchange
- b. Mitsubishi Kagaku Iatron Inc.  
Materialize "merger effect" and develop strategy for growth

#### **Ventures and others**

- a. milestone management to ensure business incubation

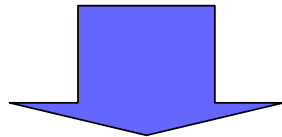
# 6-a. Integration of Group Competencies



## 6-b. "Production KAKUSHIN"

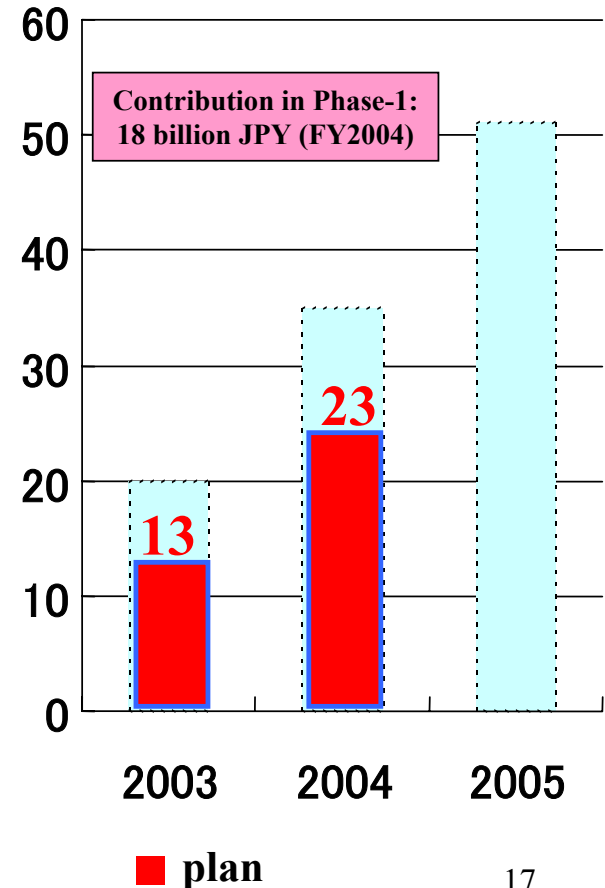
*"Integrating production technologies to realize targeted costs"*

- thorough cost reduction
- ultra stable plant operation
- extend supply chain management



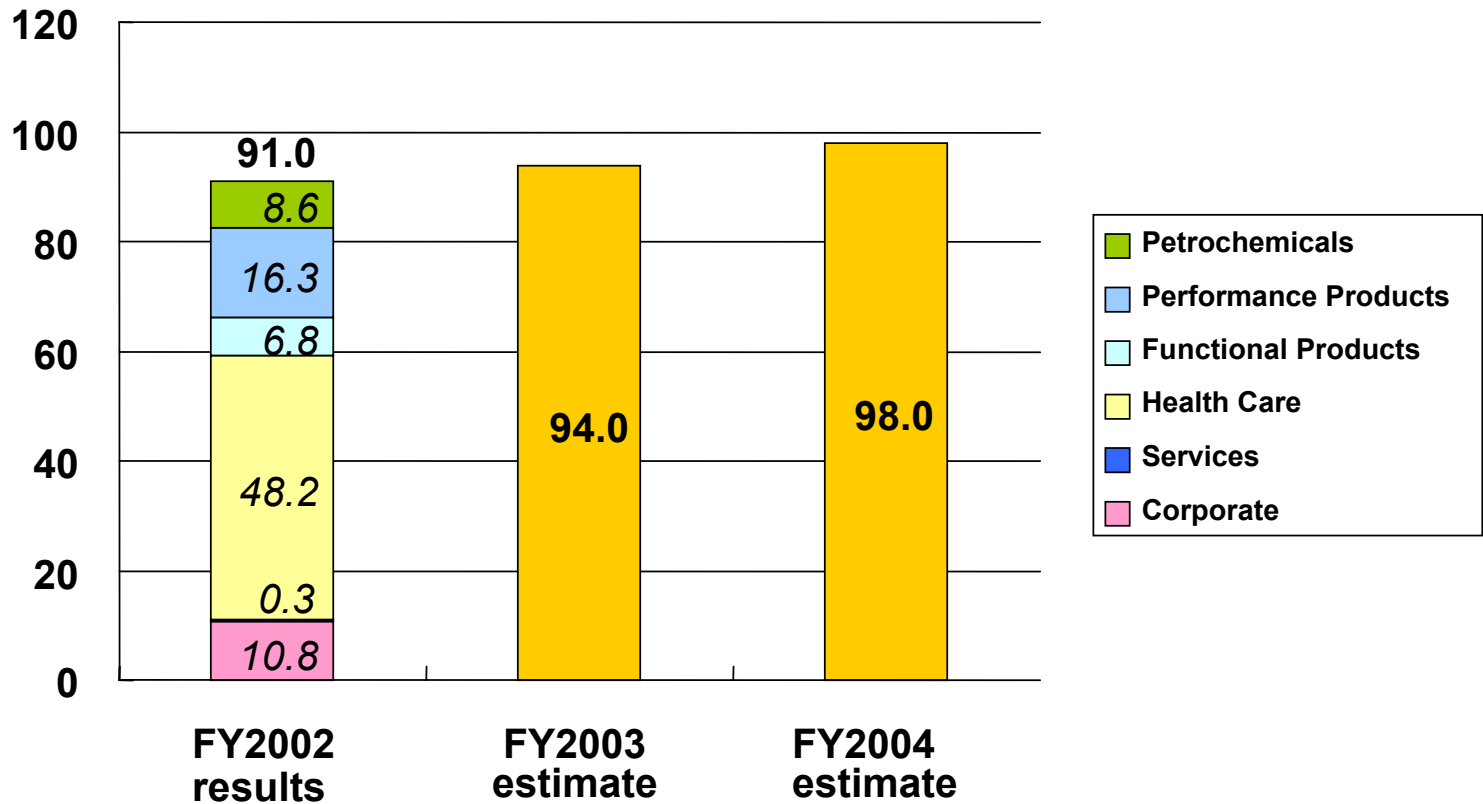
Share technologies and know-how among the Group

Billion JPY 9 plants of MCC



## 6-c. Consolidated R&TD Expenses

Billion JPY



## 6-d. Recent New Products from R&TD

### Polymers and Chemicals

#### Environmental-benign Plastics (GS Pla<sup>®</sup>)

- 2003 pre-marketing
- 2006 30k ton on commercial basis

Joint development to produce succinic acid from biomass resources with Ajinomoto Co., Inc. has started in April 2003.

### Energy Related Inorganic Materials

#### Nano-Carbon

- 2002 pre-marketing
- 2003 40t scale plant operation

#### Secondary Battery Materials

- 2002 Honda FCX (FCEV; ultracapacitor)
- 2003 TOYOTA Vitz (HEV; LIB)

### Optoelectronics & Display Devices

#### PDP Optical Filter

- 2003 product launch expected
- 2007 targeted market share 30%

## 6-e. Foundation of New R&TD Company

### 1. Objectives

- (1) Clarify mission to promote business development for a continuous growth of MCC Group, focus on certain areas of technologies, to accelerate innovation, and encourage entrepreneurial spirit
- (2) Play a key role in strengthening comprehensive competencies of the MCC Group

### 2. Mission for Segment and Corporate R&TD

- (1) R&TD in each Segment pursue enhancement of current businesses
- (2) New R&TD Company pursues new business incubation and strengthen technology platforms for the Group
- (3) New R&TD Company will expand contract research and development from the Segment R&TD

### 3. Corporate Profile

Company name: Mitsubishi Chemical Group Science and Technology Research Center, Inc.

Shareholdings: Mitsubishi Chemical Corp. 90%, other major Group companies 10%

Employees: about 750 personnel

## 6-f. Group Marketing

### Action Plans for Integrating Group Competencies:

1. **Establish Infrastructure for Group Marketing**
  - a. Information Center
  - b. Solution web site (plastics, film sheets, etc.)
  - c. Organizational coordination in China and strengthening of group support function
  
2. **Ensure and Enhance Integrated Group Marketing**
  - a. "Otokuisama" Party
  - b. "Kaizen" activities for trading conditions
  - c. Green purchase programs
  
3. **Coordination for Integrating Technologies**
  - a. Inter-business development
  - b. e.g. automobile industry, composite resins etc.