

Endeavoring to Enhance Corporate Value From Both the Perspectives of Financial Soundness and Sustainable Growth

Representative Director & Senior Managing Executive Officer

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Doing Everything to Achieve Sustainable Business Growth Following a V-Shaped Recovery

Balancing Financial Soundness and Growth Investment

I have built my career mainly in accounting, finance, and corporate communications, and I have also served as General Manager of Corporate Planning Office from this fiscal year. I am responsible for everything from formulating management strategies to sharing information with external parties. As the person responsible for the supervision of Corporate Communications and Finance, I have

many opportunities to interact with shareholders, investors, and the media, which has allowed me to gain insight into how people outside the company perceive us. Through such communication with market participants, I have developed the ability to see things from the perspective of investors. Drawing on my experience up until now, I will formulate management strategies that will enable the Company to achieve sustainable growth, while remaining sufficiently aware of external evaluations and expectations.

With a long career in accounting and finance, I tend to be more aware of defense, which can lead to a cautious stance toward investment with an emphasis on risk. However, while financial soundness is an urgent issue for our company, investment for future growth is also essential, so I intend to strike a balance between the accelerator and the brakes so as not to stifle growth by focusing too much on the finances, thereby achieving both financial soundness and sustainable growth.

Achieved a V-Shaped Recovery in FY2024 by Overcoming the Crisis

Since FY2022, the performance of Petro Rabigh, a joint venture with Saudi Aramco, and Sumitomo Pharma, a consolidated subsidiary, has deteriorated significantly. In

FY2023, Sumitomo Pharma recorded impairment losses on some of its pharmaceutical patents due to poor sales, and the petrochemical business also recorded impairment losses, resulting in a consolidated net loss of over 300 billion yen. Amid this crisis, we launched immediate-term, concentrated measures to improve business performance and fundamental structural reform from mid-FY2023.

Under former President Iwata's leadership, company-wide efforts for V-shaped recovery delivered a consolidated net profit of 38.6 billion yen in FY2024, an improvement of roughly 350 billion yen from FY2023. In addition, although our balance sheet and business portfolio have improved significantly, they are still not yet at a satisfactory level, and we recognize that further recovery and reinforcement are necessary. Fundamental structural reforms continue, and we will accelerate efforts to return to a growth trajectory.

Reorganized into Four Business Sectors and Clarified Positioning

Despite Increasing Uncertainty, We Will Improve Results with Momentum from a V-shaped Recovery

The world is currently buffeted by U.S. high-tariff policies, and geopolitical risks remain unresolved, resulting in greater uncertainty than ever before. However, we have faced many uncertainties in the past, and I consider it our responsibility to carry out fundamental structural reforms and strive for profit growth, regardless of the circumstances. We will maintain the momentum gained from the V-shaped recovery through immediate-term, concentrated measures to improve business performance and steadily achieve further performance growth.

Concentrating Management Resources on Two Growth Drivers

Under the slogan "Leap Beyond: Return to a growth trajectory," our current Corporate Business Plan sets financial targets for the final fiscal year of FY2027, including core operating income of 200 billion yen, ROE of 8%, ROIC of 6%, and a D/E ratio of 0.8 times. One of the five basic directions for achieving these targets is "upgrading the Company's business portfolio with new growth strategy."

First, we have reorganized our business segments into four business sectors aligned with the themes we have long identified as social challenges: Food, ICT, Healthcare, and Environment. Furthermore, we have clarified the positioning of each business sector, designating Agro & Life Solutions (AGL) and ICT & Mobility Solutions (ICTM) as near-term growth drivers, while developing Advanced

Medical Solutions (ADM) and Essential & Green Materials (EGM) from a long-term perspective.

We will concentrate management resources such as capital investment and R&D investment on these two growth drivers, and allocate approximately 80% of strategic investments to these two segments during the current Corporate Business Plan period. AGL sells biorational products such as naturally-derived microorganism-based protection products in North and South America, and there is significant potential for expanding sales channels in Europe and other regions worldwide. The Company has acquired overseas manufacturers of natural agricultural materials, and we will continue to strengthen the business with M&As in view. We are also developing new crop protection chemicals with lower environmental impact. In addition, ICTM is focusing on expanding its manufacturing facilities for semiconductor-related businesses and expanding business areas. We are building a semiconductor chemical factory in the United States to pursue business development in that country, and we have also begun to move into the growing Indian market.

Furthermore, as part of our portfolio enhancement measures, we plan to establish a Business portfolio review committee. By building a framework under which the committee's deliberations are reported to the Board of Directors on an ongoing basis, we will sustain discussion in light of changes in the external environment and flexibly revise the portfolio. In FY2024, every division across the Group tackled business restructuring with a firm commitment to achieving a V-shaped recovery, but what is essential is that we continue to foster a shared understanding across the company of the need to constantly review our business portfolio. As General Manager of the Corporate Planning Office, I will continue to lead the enhancement of our portfolio.

Improving Financial and Capital Efficiency Through ROIC-Oriented Management, Disciplined Growth Investment, and Financial Soundness

Reinforcing ROIC-Oriented Management to Improve Investment Efficiency

In the current Corporate Business Plan, “improving financial and capital efficiency” is also a basic policy, and as a measure to achieve this we will pursue our long-standing ROIC-oriented management more forcefully. In order to reduce interest-bearing debt and strengthen our financial position, we have no choice but to generate profits with less capital investment, and we need to reinforce ROIC-oriented management. Thanks to measures such as immediate-term, concentrated measures to improve business performance, in FY2024 we succeeded in reducing invested capital by about 20% from the end of FY2022, but it remains necessary to institutionalize more efficient business operations.

In the current Corporate Business Plan, we are focusing on two factors: optimizing invested capital and strengthening earning power. For optimizing invested capital, we aim to complete over the next three years the fundamental structural reforms that remain an ongoing task. At the same time, we plan to dispose of low-profit assets and reduce inefficient operations within the headquarters section. Regarding strengthening earning power, we will work to launch and expand sales of new products at AGL, as mentioned earlier, and expand semiconductor-related businesses at ICTM.

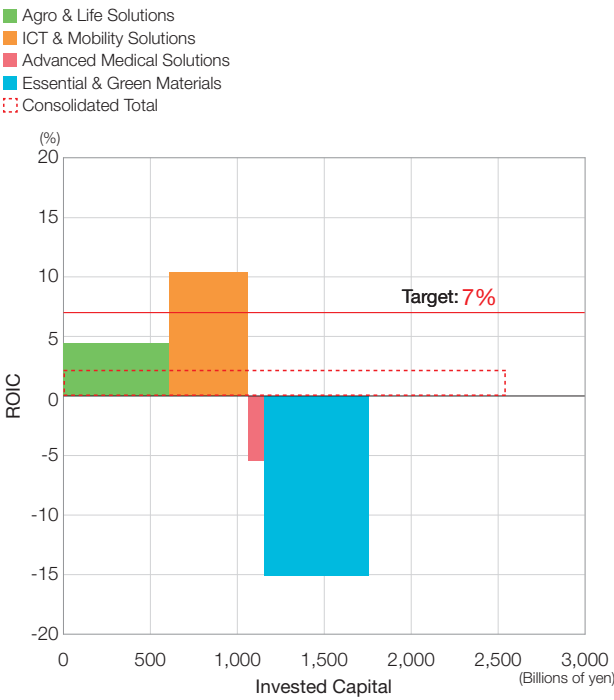
Enhancing Investment Discipline and Achieving Financial Soundness

In pursuing our Corporate Business Plan, we focus on disciplined growth investment. We are also beginning to review our investment review process by analyzing past impairment cases and building a system that can respond swiftly and flexibly when signs emerge that could affect investment assumptions. At the same time, it is important not only to hit the brakes but also to press the accelerator at the appropriate moments, and for investments necessary for future growth, we will provide full support within a range that preserves financial soundness, while taking into account our earnings performance and cash-flow position.

In parallel with disciplined growth investment, we will continue to focus on strengthening our financial position and reducing interest-bearing debt. Under the current Corporate Business Plan, we aim to bring the D/E ratio down to the 0.8 times range by holding capital expenditures and investments to 450 billion yen (within the level of depreciation) and by generating 200 billion yen in cash through business restructuring and working-capital improvements.

The chemical industry requires significant expenditures to maintain and renew facilities, while investment in growth areas is also essential. We also intend to actively pursue shareholder returns from the perspective of distributing profits to our shareholders. Considering these varied uses of funds comprehensively, it is extremely important to maintain flexible funding capacity to respond effectively to changes in the business environment and diverse funding needs, and we will continue working to further strengthen the financial soundness that underpins that capacity.

Invested capital by business sector, ROIC (FY2024 results)



Working to Improve Capital Efficiency in Order to Enhance Corporate Value

Heightening Our Awareness of the Cost of Capital in a World with Interest Rates

Judging from indicators such as PBR, our stock price remains undervalued. I view this as a result of our capital efficiency improvements still being a work in progress, and our performance not yet meeting the expectations of our investors. Even in FY2024, when we achieved a V-shaped recovery in earnings, ROE was only around 4%. It is desirable for investors that ROE exceeds the cost of capital, and to achieve this, it is necessary to implement measures both to improve ROE and to reduce the cost of capital.

We aim to improve ROE by enhancing profitability through the improvement in ROIC described above. Regarding the cost of capital, we consider that fluctuations in performance due to market conditions are having a negative impact, and we will stabilize performance by transforming our business portfolio to reduce the cost of

capital. Moreover, we consider it extremely important to continue constructive dialogue with our stakeholders, including shareholders and investors, and through this dialogue, we will strive to reduce the cost of capital by deepening their understanding of our future vision and management policies. Beyond that, dialogue with external parties helps us recognize issues that internal discussions alone may not fully reveal, which will lead to better management decisions.

We recognize that heightening our awareness of the cost of capital and improving capital efficiency are more important than ever in a world with interest rates. We consider the period from now, following our V-shaped recovery, to be a critical phase, and we will strive to meet the expectations of our shareholders by ensuring the achievement of the Corporate Business Plan starting this fiscal year and realizing sustainable growth in corporate value.

