Financial Capital Strategy

Initiatives for improving PBR

In February 2025, we renewed our initiatives for improving PBR (price book-value ratio) as a means of achieving management with a focus on capital costs and share price.

The Toagosei Group's PBR has stagnated below 1.0x since 2018, despite our efforts to improve it. Upon analysis, we believe that this has resulted from our ROE slumping due to the imbalance between our operating income and net worth. While we have been actively focusing capital investments in high-performance products, it has taken time to monetize these investments through operating income.

Meanwhile, we are using shareholder returns to control net worth, and the delayed monetization of our investments has impacted return on capital.

Therefore, to achieve our growth strategy, we will enhance our R&D capabilities and further strengthen our expansion into overseas markets, thus increasing sales of our highly profitable high-performance products. Meanwhile, we will continue to execute our financial strategy, controlling the level of shareholders' equity and improving capital efficiency. At the same time, through the balanced implementation of a non-financial strategy that contributes to a sustainable society, we aim to achieve operating income of 24.0 billion yen and ROE of 8% by 2027, thus improving our PBR to 1.0x or more.

Aim to achieve PBR of 1.0x or more by achieving an ROE of 8% by 2027

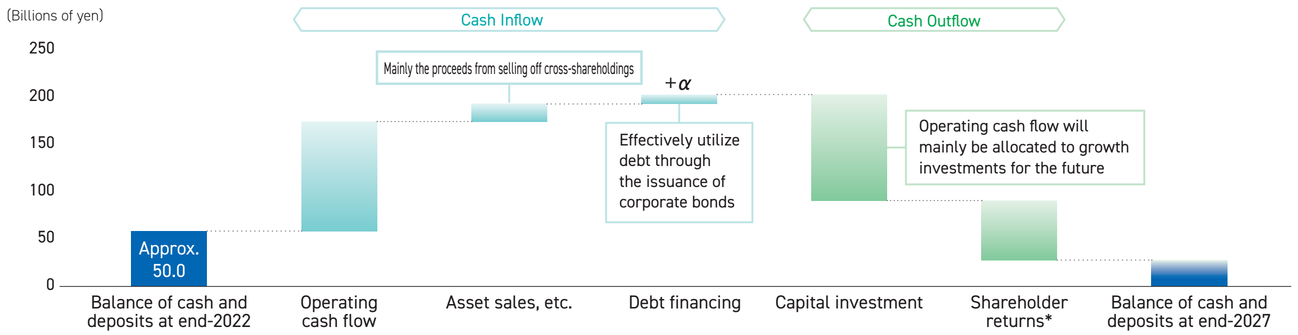
Growth Strategy	1 Strengthening profitability Consolidated operating income target 15.0 billion yen by 2025 24.0 billion yen by 2027	Strengthen development capabilities and overseas expansion of the mobility, semiconductor and medical care fields ● Accelerate development of high-performance products by strengthening R&D capabilities (strengthen development capabilities in the mobility, semiconductor and medical care fields with newly established research center in Kawasaki) ● Expand overseas sales by expanding overseas sales bases and production bases (development base in Shanghai, China, production base in North America for polymers for automotive batteries, sales bases for flocculants and adhesives in Southeast Asia and the Middle East) ● Monetization of growth investments during previous Medium-Term Management Plan (reinforce product supply system for polymers for automotive batteries and for semiconductors)
Financial Strategy	2 Improving capital efficiency	Shareholders' equity control ● Strengthen shareholder returns (target 100% consolidated total return ratio during 2025 Medium-Term Management Plan) ● Sell off cross-shareholdings (under 10% ratio of net assets at end-2025)
Non-Financial Strategy	3 Contributing to a sustainable society	Achieve human resources development and sustainability supporting sustainable growth ● Improve engagement (achieve a virtuous cycle of growth and distribution) ● GHG emission reduction (2025: -35% vs. 2013)

Cash allocation (illustration)

Previously, we implemented capital investments and shareholder returns primarily using cash on hand and operating cash flow. However, in order to achieve our 2027 targets (ROE of 8% and PBR of 1.0x or more), we have decided to issue corporate bonds, given anticipated interest rate increases going forward. We aim to effectively utilize debt as we continue to implement aggressive capital investments and ongoing shareholder returns. We envisage our cash allocation until 2027, based on these factors, as follows. To achieve future growth, we plan to allocate an amount equivalent to our expected operating cash flow from 2023 to 2027, primarily for capital investments focused on growth.

We will consider shareholder returns in conjunction with our next medium-term management plan. Through these efforts, we will strive to enhance corporate value over the medium and long term by improving both profitability and capital efficiency.

◆ Cash allocation (illustration)



Note: We will consider shareholder returns for 2026 onward in conjunction with our next medium-term management plan. The shareholder returns in this illustration are assumed to stay at the same level as under the 2025 Medium-Term Management Plan through 2026 and beyond.

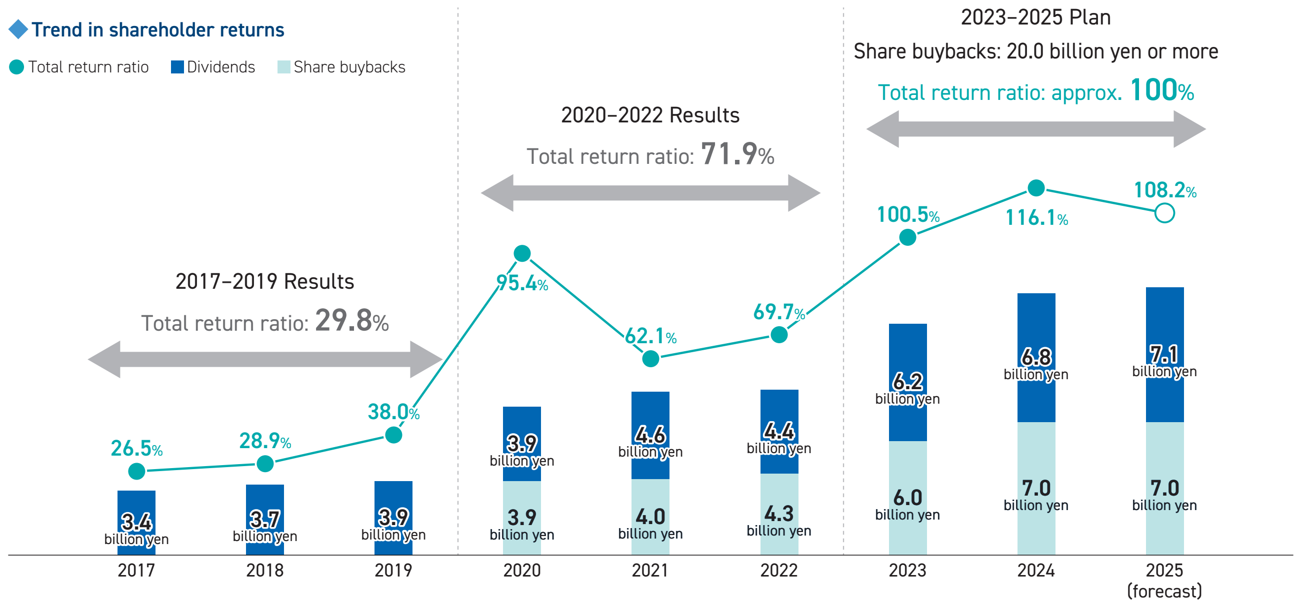
Improving capital efficiency

Strengthening shareholder returns

The Toagosei Group's basic policy for shareholder returns is to maintain stable dividends and increase the consolidated total return ratio, aiming for a consolidated payout ratio of approximately 30% and a consolidated total return ratio of approximately 50%. A target of approximately 100% consolidated total return ratio has been set as shareholder returns during the 2025 Medium-Term Management Plan.

In 2024, the Group increased the annual dividend per share based on this policy to 60 yen per share (+7 yen year-on-year), and bought back approximately 7.0 billion yen of its own shares. As a result, the consolidated payout ratio was 57.5% (51.6% in 2023) and the consolidated total return ratio was 116.1% (100.5% in 2023).

◆ Trend in shareholder returns



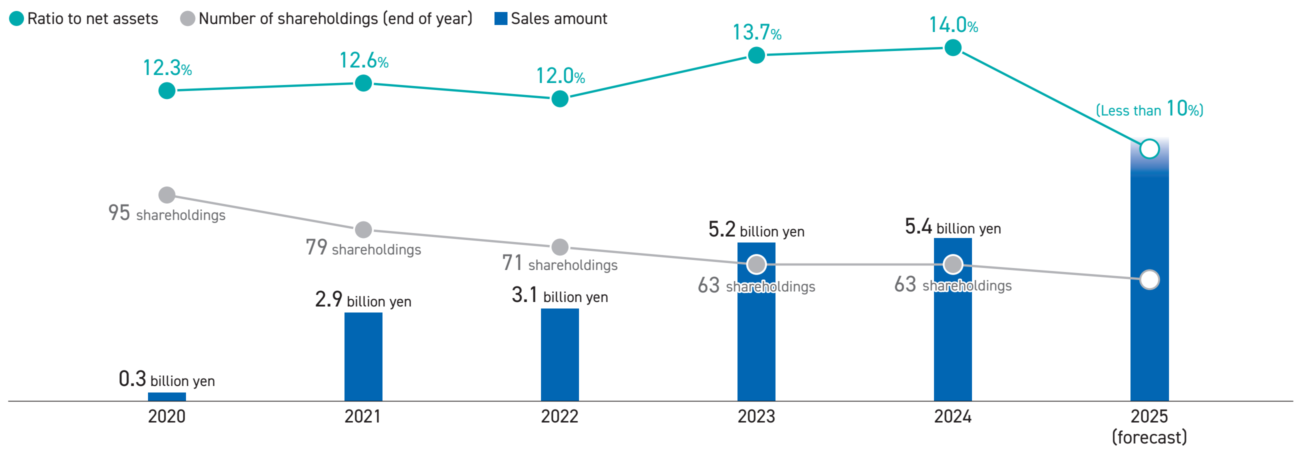
Selling off cross-shareholdings

Cross-shareholdings have been sold off to ensure that the amount of shares owned through cross-shareholding is less than 10% of the consolidated net assets on the balance sheet at the end of 2025.

The Company acquires and owns shares of its business partners if it has determined that they contribute to increasing the medium- to long-term corporate value of the Company from the perspective of factors such as maintaining better relationships with those business partners or building up business alliances. We annually review the effectiveness of our holdings, taking into consideration whether the benefits and risks associated with maintaining and strengthening the overall relationship with the relevant counterparty and holding shares are commensurate with the cost of capital.

We sold off a total of 5.4 billion yen of cross-shareholdings with lower holding effectiveness in 2024. We will continue to sell off shares of brands determined to have diminished effectiveness in the future.

◆ Sell-off state of cross-shareholdings



Financial Capital Strategy

Message from the CFO

We will diversify our funding sources to control the level of shareholders' equity and improve ROE.
At the same time, we will actively engage in IR activities to enhance recognition and valuation of the Toagosei Group, aiming for a PBR of over 1.0x.

Director, CFO and General Manager, Group Corporate Strategy and Administration Division **Akihiko Matsuda**

Dialogue with shareholders and investors

We actively engage in dialogue with shareholders and investors, providing us with a range of different views as reference points for management as we aim to enhance corporate value over the medium- to long-term.

The themes of this dialogue often revolve around our vision for the products that will drive growth in the future, as well as management indicators such as PBR and ROE. We will continue to engage in constructive dialogue while earnestly considering the opinions and advice we obtain from our shareholders and investors.

Initiatives for improving PBR

We are striving to improve our PBR, and have set a PBR target of 1.0x or more, which we aim to achieve through an ROE of 8% by 2027. A plan was created in August 2023, and we announced its progress at the financial results briefing held in February this year (2025).

To improve ROE, it is necessary to grow our profit, which is the numerator, while controlling the level of shareholders' equity, which is the denominator, without letting it become bloated.

(1) Growth investment

Ongoing research and development activities are essential for the continued expansion of the high-performance product business: the core of our growth strategy. Last year (2024), we opened the Kawasaki Frontience R&D Center and invested 5.8 billion yen as R&D expense to strengthen our R&D capabilities. This exceeded our target of 5.6 billion under the 2025 Medium-Term Management Plan. Going forward, we will promote the early launch of development themes to secure returns on our R&D activities, while continuing to explore new development themes and seeking ongoing returns. We also plan 68.0 billion yen in capital investment under the 2025 Medium-Term Management Plan. We are actively making capital investments in areas such as mobility, semiconductors, and electronic materials. Recent years have seen a spate of events that have rocked the economy on a global scale, but we will strive to strengthen relationships with customers and develop new customers to achieve the early monetization of our capital investments, while also increasing the operating rate of the facilities we invest in.

We will review our portfolio based on metrics such as ROIC and continue to take appropriate measures to address unprofitable products and businesses, including withdrawal and business sales.

TOPICS

Strengthening portfolio management

In January 2025, we announced the "end of PVC resin contract manufacturing and the shutdown of related production facilities."

We had been engaged in the manufacture and sale of PVC resin for over half a century since 1952. Since 2011, we had continued contract manufacturing at our Kawasaki plant amid a decrease in domestic demand. We ceased these contract manufacturing operations in December 2025 and shut down the related production facilities.

We have consistently focused on R&D and capital investment aimed at expanding our highly profitable high-performance products, as well as working to strengthen portfolio management. Our recent withdrawal from the contract manufacturing of PVC resin is part of these efforts. To improve ROE, we will reassess unprofitable products and businesses and optimize the allocation of management resources, focusing on the expansion of new high-performance products.

(2) Capital relationships and cash allocation

(1) Capital relationships

We are working to control the level of shareholders' equity by strengthening shareholder returns and progressively selling our cross-shareholdings. We are progressively selling cross-shareholdings to reduce them to a level of less than 10% of net assets by the end of 2025. We are allocating the proceeds of these sales to growth investments and shareholder returns. We actively proceeded with the sale of these shares in 2024 (with sales totaling approximately 5.4 billion yen), but rising share prices have resulted in cross-shareholdings equivalent to 14.0% of net assets (as of the end of 2024). We will further advance our efforts to achieve a level of less than 10% of net assets by the end of 2025 and effectively utilize the cash generated from the sale of these shares.

(2) Cash allocation

We have set a plan for 68.0 billion yen in capital investment over the three years of the 2025 Medium-Term Management Plan. Our current forecast is for capital investments of 67.7 billion yen over the three years to 2025.

In 2025, we plan shareholder returns including an annual dividend of 65 yen per share, representing a year-on-year increase of 5 yen per share, as well as share buybacks totaling 7.0 billion yen. With this, we expect to achieve total share buybacks of 20.0 billion yen and a consolidated total return ratio of 100% for the three years from 2023 to 2025, our targets under the Medium-Term Management Plan. We will consider shareholder returns for 2026 onward in conjunction with the investment plan and capital structure under our next medium-term management plan.

TOPICS

Shareholders' equity control

In April 2025, we announced the issuance of corporate bonds.

These bonds were issued to fund capital investments in growth areas such as mobility and semiconductor-related products with the aim of improving medium- to long-term earnings.

The issuance of these bonds also aims to diversify financing methods to ensure financial stability and improve capital efficiency by reducing the weighted average cost of capital.

To improve ROE, we will control the level of shareholders' equity to optimize the capital structure.

In closing

While steadily advancing these measures, we will control the level of shareholders' equity through the diversification of funding to ensure a healthy cash flow in the long term. We will also engage in strategic investments aimed at future cost reductions. For example, we are considering ways to support the Group, not only by holding shares but also purchasing corporate bonds and providing long-term loans, taking into account economic trends and balance.

We also plan to engage in activities to enhance the recognition and valuation of the Group more actively than ever before. We will increase business briefing sessions and other opportunities to encourage understanding our future growth potential and substantial shareholder returns. By boosting the Group's valuation, as well as improving ROE, we aim to achieve a PBR of over 1.0x.

I hope that all investors will be looking forward to the Group's efforts and future growth.