February 10, 2023

Company name: **Toagosei Co., Ltd.**
Code number: 4045
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Toagosei Co., Ltd. Announces Reception of a Letter Regarding Shareholder's Proposals and Opinions of Its Board of Directors on the Proposals

Toagosei Co., Ltd. (the "Company") had received a letter from its shareholder, THE KILTEARN GLOBAL EQUITY FUND (the "Proposing Shareholder"), stating that the Proposing Shareholder would submit shareholder's proposals regarding agenda items for the 110th Ordinary General Meeting of Shareholders (the "Meeting") of the Company to be held on March 30, 2023 (the "Shareholder's Proposal Letter). The Company hereby announces that it has resolved at its Board of Directors meeting held today to oppose the shareholder's proposals. The details are as below.

I. Details of the Shareholder's Proposals
1. Agenda
(1) Appropriation of Surplus
(2) Buyback of Own Shares
2. Summary of and Reasons for the Proposals
Summary of and reasons for the proposals are as described in the attachment. They are the original text of the relevant statement in the Shareholder's Proposal Letter submitted by the Proposing Shareholder.

II. Opinions of the Board of Directors of the Company on the Shareholder's Proposals
1. Appropriation of Surplus
(1) Opinion of the Board of Directors of the Company
The Board of Directors of the Company opposes the shareholder's proposal.

(2) Reasons for opposition
The Toagosei Group aims to achieve sustained growth by expanding existing businesses and creating new products and businesses set to become future earnings pillars, based on its corporate philosophy of "through the endless possibilities of chemistry, we bring happiness created by highly functional materials."
With this corporate philosophy at its core, we announced our new three-year Medium-Term Management Plan 2025 spanning from 2023 to 2025 (the "Plan") on January 31, 2023. Under the Plan, with three basic policies of "strengthen development capabilities for new products and novel technologies," "increase overseas net sales," and "contribute to a sustainable society," we will invest additional management resources in reinforcing our R&D capabilities and strengthening our production base, as well as develop infrastructure and conduct sustainability-related investments, including development of logistics facilities at each of our

locations, reduction of greenhouse gas emissions, and active introduction of green energy generation, in order to strengthen our business base.

As a result of these initiatives, we will seek to further expand our unique and high value-added businesses and build a business base resilient to intense changes in the business environment.

Furthermore, in order for our Group to achieve sustained development, we need to address geopolitical risks such as the conflict in Ukraine, rapid changes in the business environment including exchange rates and monetary policies, and long-term issues including reduction of greenhouse gas emissions. Accordingly, we believe that it is necessary to reserve a certain level of funds on hand that can be flexibly utilized.

Based on the above, our policy for shareholder returns shall be decided through a comprehensive consideration of investments for growth, earnings trend, and internal reserves to prepare for business risks, etc., with shareholder returns through dividends (the "Dividend Pay-out Ratio") targeted at around 30% of net income attributable to owners of parent and shareholder returns through dividends and buyback of own shares (the "Total Return Ratio") targeted at around 50% of net income attributable to owners of parent.

In particular, for dividends, which are direct return of profits to our shareholders, we have a policy of "stable and continuous return of profits," and have increased dividends seven times since 2009, while not reducing dividends even when our performance deteriorated. As for annual dividends in 2022, although our performance decreased from the previous year, we will not reduce dividends and maintain the same amount as the previous year, and will propose the year-end dividend of 18 yen per share (annual dividend of 36 yen per share) as a proposal for appropriation of surplus at the Meeting. In addition, we conducted share buyback of 4.3 billion yen in 2022, resulting in the Dividend Pay-out Ratio of 35.5% and Total Return Ratio of 69.7% for FY2022.

In contrast, the shareholder's proposal calls for additional dividend of 16 yen per share to the abovementioned year-end dividend of 18 yen per share (annual dividend of 36 yen per share) proposed by the Company. We have to regard the shareholder's proposal as being based on a short-term perspective that is inconsistent with our policy of return of profits to our stakeholders toward the improvement of our Group's medium-to long-term corporate value. Accordingly, we judge that the shareholder's proposal will not lead to the improvement of our medium-to long-term corporate value.

For the above reasons, the Board of Directors of the Company opposes the shareholder's proposal.

2. Buyback of Own Shares

(1) Opinion of the Board of Directors of the Company

The Board of Directors of the Company opposes the shareholder's proposal.

(2) Reasons for opposition

The Company has announced the Plan as described in the reasons for its opposition to "1. Appropriation of Surplus." Under the Plan, we will accelerate the strengthening of our R&D capabilities through capital investment of 68.0 billion yen over the three years from 2023 to 2025 (an increase of 19.6 billion yen from the results of the previous medium-term management plan period of 48.4 billion yen), investment of 16.0 billion yen in R&D (an increase of 2.9 billion yen from the results of the previous medium-term management plan period of 13.1 billion yen), and capital participation in start-up companies. These activities will be funded by cash flows from operating activities during the period of the Plan, proceeds from the sale of cross-shareholdings, which are targeted to be less than 10% of consolidated net assets, and cash on hand. As a result, net cash balance, which is obtained by deducting interest-bearing debts from the sum of cash and deposits and short-term securities held, is expected to decrease to approximately 25.0 billion yen at the end of 2025 from 47.3 billion yen at the end of 2022.

Based on the recognition that profit growth and capital efficiency improvement based on balance sheet management are essential to improve corporate value and shareholder value, we have set ROE as a KPI (7.3% planned for 2025) and announced on January 31, 2023 that, as a measure to improve capital efficiency, we plan to buy back our own shares with a value of 20.0 billion yen during the three-year period of the Plan, exceeding the 12.2-billion-yen share buybacks during the previous medium-term management plan period. We have decided at the Board of Directors meeting held on February 10, 2023 to buy back our own shares with a value of 6.0 billion yen in 2023.

Furthermore, as we announced on January 31, 2023, we will introduce a stock compensation plan for our employees (ESOP) in April 2023 (plan), utilizing a portion of our own shares held, with the purpose of further promoting the execution of business operations aiming to improve our performance by further increasing the employees' awareness toward the Company's performance and increasing the share price, and of improving the Company's corporate value over the medium- to long-term.

In contrast, the shareholder's proposal is to buy back our own shares totaling 16.0 billion yen within one year from the conclusion of the Meeting. We believe that such large-scale share buyback is inconsistent with our capital investment plan, etc. set out in the Plan above. In addition, it does not take into consideration the average market volume of our shares, etc., and from this standpoint, too, we judge that it will not lead to the improvement of our Group's medium-to long-term corporate value.

For the above reasons, the Board of Directors of the Company opposes the shareholder's proposal.

(Reference)

・Results of shareholder returns from 2017 to 2022

	Medium-term management plan 2019 period			Medium-term management plan 2022 period		
	2017	2018	2019	2020	2021	2022
Dividend amount	¥26	¥28	¥30	¥30	¥36	¥36 (plan)
Dividend Pay-out Ratio	26.5%	28.9%	38.0%	48.1%	33.3%	35.5%
Amount of buyback of own shares	--	--	--	¥3.9 billion	¥4.0 billion	¥4.3 billion
Total Return Ratio	26.5%	28.9%	38.0%	95.4%	62.1%	69.7%

* Dividend Pay-out Ratio and Total Return Ratio for 2022 are calculated with an annual dividend of 36 yen.

[Attachment] Details of the Shareholder's Proposals

1. Matters Concerning the Purpose of the AGM (Proposed Agenda)
   (1) Appropriation of Surplus
   (2) Buyback of Own Shares

2. Summary of and Reasons for the Proposals
   (1) Appropriation of Surplus
      (i) Summary of the Proposal
      Appropriation of the Surplus shall be made as follows.
      If the Board of Directors of the Company proposes the appropriation of surplus to the AGM, this proposal is additionally proposed as a proposal independent of and compatible with such proposal by the Board of Directors.

      (a) Kind of the Dividend Property
      Cash

      (b) Dividend Amount per Share
      34 yen minus the dividend amount per share of common stock of the Company, which was proposed by the Board of Directors of the Company at the AGM and approved by the AGM (or 34 yen, if the Board of Directors of the Company does not propose an appropriation of surplus at the AGM)

      (c) Matters Concerning Assignment of the Dividend Property and Total Amount of Dividends
      Dividend amount per share of common stock of the Company shall be the amount equal to the dividend amount per share set out in (b) above (Total amount of dividends shall be calculated by multiplying the dividend amount per share by the total number of the Company's outstanding common shares (excluding treasury shares) as of December 31, 2022.)

      (d) Effective Date of Dividend of Surplus
      The day following the date of the AGM

      (ii) Outline of Reasons for the Proposal
      The Company's dividend forecast for the fiscal year ended December 31, 2022, is 36 yen per share and net income forecast is currently 105.44 yen per share, for a pay-out ratio of approximately 34.1%, which is below the average pay-out ratio of 42.5% for the companies listed on the Prime Market of Tokyo Stock Exchange. In addition, the Company continues to be significantly overcapitalized, indicating a disregard for shareholders.
      If the Company does not increase the dividend pay-out ratio, the Company's return on equity will be lower than that of its competitors, and the value of the investments in the Company will continue to stagnate. On the other hand, even if the Company implements the proposed appropriation of retained earnings, the Company would continue to be able to generate sufficient funds to invest in its core business, respond to various technological innovations, and expand its business activities in a rational and prudent manner.

For the above reasons, the proposing shareholder (i.e., Kiltearn) proposes to make appropriation of surplus with a year-end dividend with the amount per share of 34 yen (rounded down to the nearest yen), which is the amount equal to 50% of the above-mentioned forecasted net income per share, less 18 yen, which is the interim dividend amount per share of common stock for the fiscal year ended December 31, 2022.

(iii) Reason for the Proposal

According to the Company's most recent summary of financial results at the time of the proposal, the Company's forecasted dividend amount for the fiscal year ended December 31, 2022, is 36 yen per share and the forecasted net income is 105.44 yen per share. The Company's dividend pay-out ratio is approximately 34.1%, which is lower than the average dividend pay-out ratio of 42.5% for the companies listed on the Prime Market of the Tokyo Stock Exchange. (*) The proposing shareholder recognizes that dividend pay-out ratios among listed companies in Japan are on the rise, and believes that the Company's relatively low dividend pay-out ratio in the face of such a trend is an indication that the Company does not prioritize shareholder returns.

In addition, the Company has been consistently generating high levels of free cash flow and its balance sheet is overcapitalized. The total amount of "cash and deposits" and "investment securities" (67,469 million yen) stated in the Company's consolidated balance sheet equaled to 35.2% of the Company's shareholders' equity (191,785 million yen) as of September 30, 2022.

The increase in the Company's dividend pay-out ratio would cause no problems in terms of its financial soundness and business continuity. The proposing shareholder believes that even with the increase in the dividend pay-out ratio, given the Company's strong performance to date, sufficient free cash flows would still be generated in the period to allow the Company to invest in its core business, to prepare for various technology changes and to expand its business activities in a reasonable and prudent manner.

Unless the Company looks to increase its dividend pay-out ratio and sets more ambitious targets for buybacks, its return on equity – a key measure of shareholder value creation – would continue to be depressed relative to its competitors.

For the above reasons, the proposing shareholder proposes to make appropriation of surplus with a year-end dividend with the amount per share of 34 yen (rounded down to the nearest yen), which is the amount equal to 50% of the above-mentioned forecasted net income per share, less 18 yen, which is the interim dividend amount per share of common stock for the fiscal year ended December 31, 2022.

(*) Source: Calculated by Daiwa Securities based on figures published by companies listed on the Prime Market for fiscal years ended between July 2021 and June 2022 (certain companies are excluded, such as those that did not pay dividends or had negative net income).

(2) Buyback of Own Shares

(i) Summary of the Proposal

Pursuant to the provisions of Article 156, Paragraph 1 of the Companies Act, within one (1) year from the conclusion of the AGM, the Company shall acquire its common stock by way of cash payment up to a total number of 12,200,000 shares and a total acquisition price of 16,000,000,000 yen (or if the total amount of the acquisition price permitted under the

Companies Act (the "Distributable Amount" as defined in Article 461 of the Companies Act) is less than such amount, the maximum amount of the total acquisition price permitted under the Companies Act).

(ii) Outline of Reasons for the Proposal

Taking into account its future needs for funds to reinvest in its business, the Company has excess funds. The Company's share buyback program under its medium-term management plan is not sufficient given the magnitude of the overcapitalization of the balance sheet.

Even if the Company performs the share buyback as proposed, sufficient free cash flows would be able to be generated to allow the Company to invest in its core business, to prepare for various technology changes and to expand its business activities in a reasonable and prudent manner.

Accordingly, in order to increase shareholder returns and thereby improve capital efficiency and future corporate value, it is proposed that the Company will buy back approximately 10% of the total number of its issued shares (excluding treasury shares).

(iii) Reason for the Proposal

For the following reasons, the proposing shareholder believes that the Company would be able to make the proposed share buyback without creating any opportunity loss in terms of business, and that it would be in the best interest of all shareholders to perform such shares buyback.

First of all, the Company has excess funds, even after taking into account future capital requirements for reinvestment in the business. In the "Stage up for the Future" in its medium-term management plan (2020-2022), the Company has announced that it will buy back its own shares with a value of approximately 10 billion yen over a three-year cumulative period. However, according to its most recent quarterly report as of the date of the proposal, 10 billion yen is only about 15% of its cash and deposits and investment securities, and given the size of the excess capital on its balance sheet, this level of share buyback is not a sufficient response. Even if the Company were to buy back its own shares equivalent to 10% of the total number of its outstanding shares in one year, it would still remain in the overcapitalized situation.

On the other hand, as of September 30, 2022, the Company held 27,758 million yen in investment securities on its balance sheet. In its "Basic Corporate Governance Policy", the Company states that it will acquire and hold shares of such business partners when it judges that such acquisition and holding will contribute to improving the medium- to long-term corporate value of the Company from the perspective of maintaining and strengthening business relationships, building business alliances, and so forth. However, such acquisition and holding of shares of business partners is not material to the Company's ability to maintain relationships with suppliers, clients, employees or other stakeholders. In addition, such cross-holdings do not allow the Company to exercise day-to-day influence on the underlying business operations of the cross-holding companies. The proposing shareholder believes that the explanation by the Company's management that the above-mentioned investments were performed for a strategic purpose is not reasonable and that such investments have been made solely for the convenience of the Company's management. The proposing shareholder believes that such cross-holdings, for which there is no recognized need, should be dissolved and that shareholder returns should be expanded by using the proceeds from the sale of cross-shareholdings to partially fund the share buyback proposed by us as state above. As stated above, we believe that the Company has sufficient financial resources to conduct the proposed share buyback.

Further, the proposed buyback would cause no problems in terms of the Company's financial soundness and business continuity. The proposing shareholder believes that even if the Company conducts such share buyback, sufficient funds will still be generated in the period to allow the Company to invest in its core business, to prepare for various technology changes and to expand its business activities in a reasonable and prudent manner.

Therefore, in order to increase shareholder returns and thereby improve capital efficiency and future corporate value, we propose that the Company buy back approximately 10% of the total number of its issued shares (excluding treasury shares).

End