Message from the Officer in Charge of Finance

We will move ahead in building a more sophisticated business portfolio and boost capital efficiency, communicating a clear growth narrative. We will take advantage of valuable opportunities to engage in dialogue with our stakeholders to promote constructive exchanges of opinion.

Keiji Taga
Representative Director and Senior Managing Executive Officer
Officer responsible for Corporate Management Planning Office; Corporate Sustainability Division; DX-IT Division; and Accounting and Finance Division

"PASSION 2026": Two Years Out

Demand in fiscal 2023 recovered more slowly than expected and sales volume was sluggish across many businesses and applications. Although demand in the automotive sector picked up in the second half of the year, it remained lackluster in the electric and electronics sector. We forecast a rebound in demand in the second half of 2024. In the second half of fiscal 2023, we reined in production in many of our lines to adjust inventory to demand trends. Under these conditions, performance came in below both initial targets for the year and the forecasts we announced with our third-quarter business results, with net sales of ¥780.9 billion, operating income of ¥75.5 billion, and net income attributable to owners of the parent of ¥42.4 billion.

Nevertheless, we made headway in putting in place the key measures announced under our Medium-Term Management Plan "PASSION 2026." We expanded production capacity to drive growth, including the start of operation of a new plant for the isoprene business in Thailand in the first half of fiscal 2023. In the first and second quarters of fiscal 2024, operations also went on line at a new activated carbon production line in the United States, a new plant for water-soluble PVOH film in Poland, and a production facility for optical-use poval film in Japan. We also decided to newly invest in expanding our production capacity for dental materials and VECTRAN™ liquid crystal polymer fiber.

Meanwhile, a civil lawsuit filed in connection with a 2018 fire incident at a U.S. subsidiary, which had been a concern to stakeholders, was resolved after five years. Although this led us to record a major accounting loss, it also resolved a source of concern that had threatened to undermine future profits.

We now continue our efforts as we look for a rebound in performance in fiscal 2024 and prepare to achieve our targets for fiscal 2026, the final year of the current management plan.

Trust in our stable supply framework is a major competitive strength

The costs of raw materials and fuel have risen over the past few years on a scale that we cannot absorb through internal corporate efforts alone. We have thus been obliged to pass on an appropriate share of the burden to our customers in the form of price revisions. This process has more than ever clarified the contrast between products in the Kuraray Group lineup that have competitive resilience and those that do not. With the former, customers recognize value that corresponds to or exceeds the price. We have traditionally considered product performance and associated technologies and services to be our strengths: We now recognize that, as evidenced by the vinyl acetate segment, our ability to offer a stable supply—made possible by our integrated production systems starting from the raw material stage as well as our global supply chain—represents part of the value we provide.

We will continue capitalizing on these strengths to ensure that we can provide the value customers demand in a stable manner.

¥120 billion capital investment plan, including new plant for EVAL™ in Asia

Over the five-year period of "PASSION 2026," the Kuraray Group plans cumulative capital investment of ¥380 billion (decision basis), roughly equivalent to the ¥350 billion in depreciation costs for the same period (annual average of ¥70 billion), plus a ¥30 billion investment in greenhouse gas (GHG) emission reductions.

Capital investment (decision basis) totaled roughly ¥66 billion in fiscal 2022 and roughly ¥60 billion in fiscal 2023, but our plan for fiscal 2024 is ¥120 billion. We have allocated money to various projects, the largest of which is the construction of a new plant for EVAL™ EVOH resin in Asia. Other projects include investments in GHG emission reductions, as well as in facilities in Europe and the United States to manufacture reactivated carbon and in manufacturing facilities for vessels that are filled with activated carbon. We will make decisions on capital investment following a rigorous examination of likely returns on investment and associated GHG emissions.

It goes without saying that we are committed to making the ongoing capital investments needed to secure and improve safety and quality and to maintain and enhance the stable global supply framework that is one of our strengths. We have earmarked a cumulative total of ¥100 billion over five years for acquisitions, with several projects now under consideration. Our decisions in this area will stress the contribution to our vision for the business portfolio and the likely return on investment.

"PASSION 2026" Capital Policy and Investment Strategy

Operating Cash Flow

¥600 billion

(Cumulative 5-year period)

+

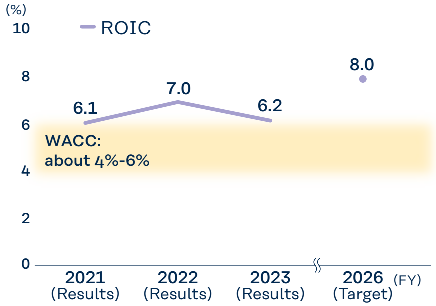
Financing

Capital Investment
- Plan to invest ¥380 billion over a cumulative five-year period (decision base)
- Current investment budget for GHG emission reductions of ¥30 billion; accelerate investment as far as possible after 2027 by applying the latest technological developments

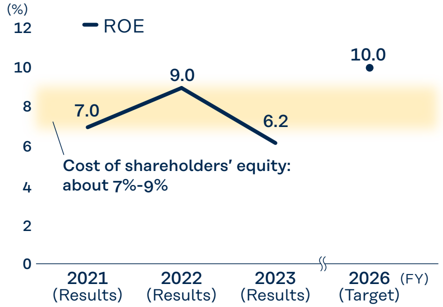
M&A
- Consider M&A in businesses prioritized for resource allocation (high-performance plastics, dental materials, activated carbon, etc.)

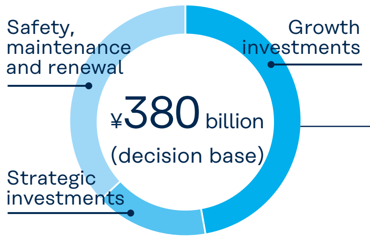
Shareholder Returns
- Enhance shareholder returns by expanding profits.

ROIC vs. WACC



ROE vs. cost of shareholders' equity





Main Items Subject to Growth and Strategic Investments

Growth investments
- Build new plants
  - EVAL™ EVOH resin, liquid rubber
- Expand production capacity
  - Optical-use PVOH film, water-soluble PVOH film, Phase two construction in Thailand for GENESTAR™ heat-resistant polyamide resin, VECSTAR™ liquid crystal polymer film, dental materials, LIB anode materials

Strategic investments
- Invest in GHG emission reductions
- Build a new research center
- Invest in DX-related projects

Targeting increased corporate value with an eye to the cost of capital and stock price

The financial KPIs for fiscal 2026 announced under "PASSION 2026" include ROE of 10%, EBITDA of ¥170 billion, and ROIC of 8%. At ¥152.6 billion, EBITDA in fiscal 2023 was largely in line with the target but at 6.2%, both ROE and ROIC were some way off target. ROIC was slightly above the level of 4%-6% we recognize for the weighted average cost of capital (WACC), while ROE was below the cost of shareholder capital of 7%-9%. In part, these results reflect the inflation of the valuation of capital at overseas Group companies caused by the impact of a weak yen (about ¥100 billion over the two years from 2021 to 2023), which led to a significant increase in shareholders' equity. Still, we recognize that one of our most crucial tasks in the latter three years of "PASSION 2026" is to increase ROE and ROIC by boosting earning power and improving capital efficiency.

We have used ROIC as a key metric in our in-house standards for assessing businesses: where ROIC has failed to reach a certain level for a particular business or core product, we took this as a signal to consider downsizing or withdrawal.

Since fiscal 2022, the first year of "PASSION 2026," we have begun incorporating ROIC into the fiscal year plan of individual businesses, as a tool for monitoring performance and progress, but we cannot claim to have gotten full buy-in for this metric for use across our frontline operations. Underlying this is the fact that, as a chemical manufacturer, many of Kuraray's businesses require sizeable upfront outlays and significant capital investment, which means that the benefits in terms of profit growth and enhanced capital efficiency are slow to be reflected in ROIC. The issue is that individual businesses have not clearly set out concrete measures to boost ROIC.

We announced a Group-wide fiscal 2026 target of 8% for ROIC, but the ROIC level differs depending on the individual business, as does the means for effecting improvements. We thus set target ROIC levels for each business and created an ROIC analysis model, enabling each business to assess for itself where specifically it should concentrate its energies to effectively improve ROIC and to begin setting relevant targets and monitoring progress.

Kuraray's stock price is unfortunately evaluated at a level below what we are aiming for. I believe there are four main factors behind this:

1. We have not successfully communicated a convincing future growth strategy and narrative
2. Our business portfolio is complex and difficult to understand
3. Our GHG emissions are high, raising concerns about a future shift in the business structure and the accompanying economic burden
4. We have not adequately addressed expectations regarding shareholder returns

1. Setting out a clear growth strategy and narrative

It is essential that we clearly show where we will concentrate our energies and how that will lead to growth.

In the first half of "PASSION 2026," to move ahead with the shift to a business portfolio that emphasizes social and environmental value as well as economic value, we looked carefully at the businesses we can expect to expand and grow and those we cannot. Our focus across the Group will be on building a more sophisticated business portfolio as set out below and on generating innovation, to demonstrate the future growth narrative of the Kuraray Group in a way that our stakeholders can readily grasp.

2. Building a more sophisticated business portfolio

Building a more sophisticated business portfolio is one of the Kuraray Group's most critical themes. To approach this theme from both proactive and defensive angles, we newly established a new Portfolio Strategy Department in January 2024 within the Corporate Management Planning Office.

The Kuraray Group is engaged in a large number of businesses and products for a company of its size. I suspect this makes it difficult for outside observers to know where we are focusing our energies. Kuraray has set standards for assessing our businesses based on ROIC and operating cash flow. These standards have guided our decisions so far to withdraw from several businesses and products, but we have yet to go far enough with this process. We will move ahead more aggressively in downsizing or withdrawing from loss-making or relatively unprofitable businesses. We will also review businesses and products that may be profitable but make little contribution to the environment, as well as businesses that demonstrate no clear value for us to hold from a best-owner perspective.

Meanwhile, our research and development divisions will collaborate with the Innovation Networking Center on development that corresponds to macrotrends and to our overall Group strategies, helping to address unmet market needs, thereby creating a framework for continuous innovation and new business creation that will help us build a more sophisticated business portfolio.

3. GHG emission reductions

We are taking action to realize net-zero carbon emissions by 2050 and to meet an interim target of reducing GHG emissions by 30% by 2030 against the benchmark year of 2019, including Scope 1 and 2 emissions for both targets. Our plan calls for related capital investment of ¥80 billion up to 2030, including ¥30 billion in outlays through 2026 in energy-saving and production process improvements, and carbon capture, utilization, and storage (CCUS).

In fiscal 2023, overseas Group companies made headway with the shift to renewable energy sources, enabling us to meet our target of no increase in GHG emissions compared to 2019. We aim to formulate a Scope 3 emission reduction plan and obtain SBT (Science Based Targets) certification. Further, through participation in the GX League sponsored by the Ministry of Economy, Trade and Industry of Japan, we will work to cut emissions through measures including conversion to alternative fuels at plants in Japan that account for a third of our total emission volume.

Although GHG emission reductions impose an economic burden in terms of capital investment, higher costs, and other factors, I think we need to gain the understanding of customers by accurately conveying the value of the Kuraray products that contribute to the natural and living environments. Margins on these products, which accounted for approximately 56% of net sales for the year, are higher than on other products. Given this fact, we are confident that expanding the lineup of these environment-friendly products will contribute to growth and accompanying profit.

4. Shareholder returns

Our policy for shareholder returns during the period of "PASSION 2026" calls for a total return ratio of at least 35% and an annual dividend of at least ¥40 per share, which we regard as a bare minimum guideline. While taking continuous dividend increases based on profit growth for granted, we also consider that achieving the financial indicator of 10% ROE will demand a greater focus on shareholder returns, including treasury stock buybacks.

Kuraray's price book-value ratio (PBR) has fallen below the 1. We will work to improve this figure through a two-fold approach of expanding profit by building a more sophisticated business portfolio and enhancing capital efficiency, including shareholder returns.

Dialogue with stakeholders: a valuable opportunity

Dialogue with our shareholders, investors, and other stakeholders is a valuable opportunity that yields numerous insights. I want to create as many occasions as possible for direct meetings with stakeholders to gain an understanding of the growth narrative of the Kuraray Group and engage in frank and constructive exchanges of opinion on progress in our key measures, shareholder returns, and other topics. We ensure the valuable opinions, requests, and advice of stakeholders are fed back regularly internally, including at meetings of the Board of Directors, so that this can inform our efforts to pursue sustainable growth and enhance corporate value. I ask for your continued understanding and support.

FY2023: Status of Dialogue with Shareholders and Investors

Shareholders and investors	Frequency	Kuraray representatives
Securities analysts	47	• President • Officer responsible for Corporate Management Planning Office, and Accounting and Finance Division • Corporate Communications Department
Institutional investors in Japan	87	
Institutional investors outside Japan	94	
Total	228	

Main themes	
Medium-Term Management Plan	– Progress on upgrading business portfolio – Progress of innovation creation activities – Shareholder returns, capital policy – Measures to improve ROIC and ROE
Environment	– Measures to reduce GHG emissions – SBT certification – Net sales ratio of products that contribute to the environment
Social	– Engagement survey – Salary level (wage increase)
Governance	– Summary of fire incident at U.S. subsidiary, measures to prevent recurrence – Composition of Board of Directors, policy for deciding member compensation – Roles of the Corporate Advisory Committee
Other	– Response to PBR below 1x – Disclosure enhancement