

Message from the President

Creating unique Asahi Kasei value through
maximum use of diverse intangible assets
to transform our business portfolio
without delay

Koshiro Kudo

President



No Growth Without Transformation

We adopted the key concept of “Be a Trailblazer” in our medium-term management plan (MTP) launched in April 2022. The heritage passed on since our founding is the “A-Spirit,” which the plan aims to spur among all employees. “A-Spirit” comprises ambitious motivation, a healthy sense of urgency, quick decisions, and a spirit of advancement, and represents the source of the transformative power that has brought about the Asahi Kasei Group’s growth. Our history of growth is a sequence of tackling challenges to create new value. I became concerned, however, that stable management over many years and increased recognition of the Asahi Kasei Group in society has fostered a corporate culture that accepts the status quo. Celebrating our centenary, I harbored a sense of foreboding as I looked over our history from founding to present day.

Why do I place such an emphasis on tackling challenges? Because just as we have thrived through the transformation of our business portfolio, we would cease to grow if we stop transforming. We must never forget this. Our growth will stagnate and eventually decline if we maintain the status quo instead of taking on new challenges. To continue to grow without falling into such circumstances, we must continuously push ourselves, never letting up on our transformation. With this in mind, upon unveiling the MTP in fiscal 2022, we set forth the key concept of “Be a Trailblazer” to awaken the “A-Spirit” among all employees.

Continuing to Grow with People by Contributing to Life and Living through Innovation

If I were asked to describe Asahi Kasei, I would first share our Group Mission of contributing to life and living for people around the world. Our customers and society at large expect us to create new value while spurring innovation with our original technologies, to improve the quality of life and living for people around the world with such value, and to continuously contribute to society through value creation. Our business activities are based on the belief that our growth is maintained by facilitating the development of society through the consistent pursuit of value that contributes to realizing the Group Vision of living in health and comfort and harmony with the natural environment. The two mutually reinforcing aspects of sustainability—contributing to a sustainable society and achieving sustainable growth of corporate value—embodying our ideal for the future, refer exactly to this state. Transforming our business portfolio through repeated trial and error

on the basis of this belief led to a three-sector management configuration—Material, Homes, and Health Care—which enables us to seek steady growth into the future. Based on our experience of transformation, I am convinced such a configuration represents the most suitable form of management for Asahi Kasei today.

With that said, managing a large number of businesses can lead to abstract aims among each of those businesses, so we must avoid losing sight of our goals. Meanwhile, accelerating the pace of innovation requires continuous investment and R&D, and ensuring and expanding a stable earnings base to fund such activities is indispensable. In the MTP, we have clarified the roles of the three sectors and established targets and measures to address these two challenges. The roles for each of the sectors are defined and built on their distinctive characteristics while focusing on

technological development and innovation based in the aforementioned belief. We will continue to improve the corporate value of the Asahi Kasei

Group by steadfastly promoting growth strategies through the respective roles of the three sectors.

Material

The Material sector pursues the creation of new business models to improve profitability and capital efficiency through R&D and innovation of materials technology that contributes to a sustainable society.

Homes

The Homes sector raises cash-generating capabilities by accelerating growth in Japan, North America, and Australia through continuous efforts to underpin people's safe and comfortable daily lives.

Health Care

The Health Care sector drives the Asahi Kasei Group's profit growth through the provision of innovative pharmaceuticals and medical devices that satisfy unmet needs, in pursuit of its mission to improve and save patients' lives.

Progress on the Medium-Term Management Plan

Fiscal 2022: a year in which we further firmly solidified our commitment to transformation

Fiscal 2022 was the first year of the new MTP, and we vigorously implemented and worked on specific measures. From the perspective of business portfolio transformation, publicly announced measures in fiscal 2022 included the transfer of our photomask pellicles business and the establishment of a joint venture for our spunbond nonwoven business. We also recorded an impairment loss on Polypore International, LP, following a change of strategy in our lithium-ion battery (LIB) separator business. Although our photomask pellicles business held a strong industry position and enjoyed sufficiently high profitability, we decided to transfer it to a company capable of further leveraging the potential of the business from a best-owner perspective. While the impairment loss on Polypore entailed a painful outcome, we set forth a strategy for the future of the separator business by establishing a clear strategic position of focusing resources on Hipore™ wet-process LIB separators, which have the potential for significant growth in the automotive market going forward. As I will expand on shortly, we also established an internal team to advance full-fledged discussions on the

direction of future structural transformation of petrochemical chain-related businesses. At the same time, we proactively implemented M&A and investment focused on the “10 Growth Gears” (GG10) businesses that are to drive our future growth. To give an example, we obtained a new growth driver in the bioprocess business through the acquisition of Bionova Scientific, LLC, a contract development and manufacturing organization (CDMO) for next-generation antibody drugs, which are expected to enjoy significant growth into the future. We also began increasing production capacity for Pimel™ photosensitive polyimide to address growing demand of cutting-edge semiconductor applications in the Digital Solutions business, which comprises the electronic components and electronic materials businesses. Furthermore, in our North American housing business, we were able to expand our business model—which is currently beginning to bear fruit centered on Arizona—by acquiring Focus Companies, a construction work supplier in Nevada.

Meanwhile, we focused efforts on strengthening our business platform, including intangible assets, such as human resources, core technologies, and know-how. Having put forth the maximum use of intangible assets as a

key area for transformation in the MTP, I am glad to see that awareness for leveraging intangible assets has spread considerably within Asahi Kasei. For example, by using IP landscaping when deciding whether to establish a joint venture for our spunbond nonwoven business, we found that a combination of the businesses would yield competitive advantages. Many cases of use for our intangible assets have emerged, such as the construction of a new, data-driven business model for smart electrolyzers in the ion-exchange membrane chlor-alkali electrolysis process, which employs digital technology. In particular, we are seeing concrete results in relation to digital transformation (DX). These include the selection of Asahi Kasei as DX Stock for the third consecutive year by the Ministry of Economy, Trade and Industry (METI), and a profit contribution of ¥2.8 billion from projects manifested in fiscal 2022 alone.

Despite such progress in steadily implementing medium-term measures, operating income in fiscal 2022 came to ¥128.4 billion, significantly lower than the forecast of ¥210.5 billion announced along with fiscal 2021 results in May 2022. The impact of the deteriorating operating environment, including in petrochemical-related Basic Materials and the separator business was extremely significant, while our inability to adequately anticipate accelerating changes in the operating environment is a shortcoming that we must address. With that said, I believe we were right to have a sense of urgency from the outset over the need to transform our business portfolio without delay, centered on the Material sector, a stance we have maintained since the unveiling of the MTP. Fiscal 2022 renewed my strong conviction that we must take the lead in transforming of our own accord, rather than following others, to address irreversible changes occurring throughout the world.

Raising productivity: our foremost challenge

If I may digress slightly, raising productivity has been identified as the greatest challenge facing Japan today, where human capital is in short supply due to serious population decline. Japan cannot expect to address this social issue unless companies work proactively to raise their own productivity. Although discussions on raising productivity tend to focus on improving

the operational efficiency of each employee, the key is to efficiently allocate finite management resources to achieve maximum results. In this light, raising productivity is a quintessential management issue. Low productivity signifies that management resources, including already scarce human resources, are not being properly allocated to high value-creating fields or future growth fields. I believe that organizational leaders must continuously ask themselves if they are allocating management resources optimally from a medium- to long-term perspective.

This issue also applies directly to the Asahi Kasei Group. Return on invested capital (ROIC) indicates the level of productivity relative to capital invested by shareholders and creditors. With profit growth stagnating against an increase in invested capital in recent years, our ROIC in fiscal 2022 was 4.0%, lower than our cost of capital. Fundamentally strengthening our profit structure is an urgent necessity. As a first step toward achieving this goal, we established the Build-up to Trailblaze (BT) Project in fiscal 2023. In addition to streamlining measures that have an immediate effect, the project aims to reduce SG&A expenses by ¥20 billion per year by adopting measures designed to raise productivity, including rethinking our workstyles and organization. We must also advance business portfolio transformation from the perspective of productivity—whether we are allocating management resources properly to businesses with future growth potential—if we are to manage management resources efficiently over the medium to long term.

Transforming our business portfolio without delay

Asahi Kasei promotes the transformation of its business portfolio from a two-pronged approach: increasing the profits of GG10 and advancing structural transformation focused on petrochemical chain-related businesses.

Looking first at our growth strategy, we established GG10 along with the MTP in fiscal 2022. However, I believe that lumping together 10 businesses with different time frames, scales, and growth directions has made GG10 difficult for both internal and external stakeholders to understand. Reflecting on this, we have classified GG10 businesses into three major categories

beginning in fiscal 2023, clearly defining our vision for allocating resources according to business direction.

We have positioned four businesses—critical care, global specialty pharma, and bioprocess in the Health Care sector, and Digital Solutions in the Material sector—as first priority areas. With a focus on globally competitive businesses, we will prioritize the investment of management resources in various businesses in the Health Care sector with the aim of achieving growth over the medium term. At the same time, we intend to reap steady results from the sleep apnea diagnosis and treatment device businesses, bio-CDMO businesses, and other businesses that we have already acquired through M&A and designated as growth drivers. We will also invest proactively, including in pursuit of inorganic growth, in Digital Solutions. In three businesses in the Material sector—hydrogen-related, CO₂ chemistry, and energy storage including separators, which are growth potential areas—we will make upfront investments aimed at future growth. We have also designated another three businesses—car interior material in the Material sector, and environmental homes and construction materials and North American and Australian homes in the Homes sector—as earnings base expansion areas for boosting our cash-generating capabilities. We will make investments based on careful assessment of the ability to maintain steady earnings generation and to expand the scale of earnings. In particular, we are leveraging the know-how and expertise developed in the homes business in Japan to establish new business models in the North American and Australian homes business in accordance with the attributes of each region, and will bolster the earnings base of this business by expanding areas of operation. For GG10, we are making investments of ¥600 billion in total over the three years from fiscal 2022 to fiscal 2024, as initially planned. Through these investments, we aim to enable GG10 to generate operating income totaling ¥150 billion in fiscal 2024, accounting for more than 50% of the profits from our businesses. Although not all of the capital expenditure and M&A focused on GG10 in recent years will necessarily produce results by fiscal 2024, I am confident that these efforts will be a major driver of growth over the medium to long term from fiscal 2025 onward.

GG10 businesses designated as growth potential areas, such as the hydrogen-related, CO₂ chemistry, and separator businesses, must be managed under strategies that are fundamentally different from those adopted in the past. By focusing on niche domains, we have raised earnings by leveraging our strong technological capabilities. In short, our niche strategy has been successful, resulting in our growth to date. However, I believe that these businesses must shift to a strategy of scaling up operations through continuous investment over the long term in cooperation with a wide range of partners. Businesses classified as growth potential areas are already attracting attention around the world, with technologies and products essential to addressing environmental issues. While these businesses can be expected to continuously spur innovation and achieve growth, our independent operation is insufficient; we need to work in concert with a variety of other companies. Given that heavy capital expenditure will be required, I believe we must consider all funding options, including subsidies, the use of capital of other companies, and joint ventures. Such endeavors represent a new challenge for us, since we have traditionally operated in niche domains, but we aim to steadily increase the profitability of businesses classified as growth potential areas and developing them to contribute to the world.

In addition to growth strategies, we are steadily implementing and integrating the reform of strategic restructuring businesses and fundamental business structure transformation as a business portfolio transformation measure. Beginning with businesses in the Exit category—including the aforementioned business transfer—we are advancing structural transformation with the aim of implementation by fiscal 2024 for businesses that had net sales totaling over ¥100 billion or more in fiscal 2021. The biggest issue we face in advancing fundamental business structure transformation is how to reorganize petrochemical chain-related businesses, which have net sales of approximately ¥600 billion. Looking back, we closed our naphtha cracker in the Mizushima area of Okayama Prefecture in fiscal 2016 and switched to joint operation of a cracker with another company considering the future supply and demand balance in Japan. In addition to

optimizing the balance between supply and demand, petrochemical chain-related businesses are facing the challenge of achieving carbon neutrality. For this reason, we are examining the direction of such businesses to determine whether making investments required to achieve carbon neutrality and bearing costs such as carbon taxes will allow them to make sufficient profits.

There are three major directions for structural transformation. The first is to explore and promote the potential for developing and adding value to technologies in relation to carbon neutrality. In addition to building an appropriate balance between the supply and demand of petrochemical products, we must confront environmental issues head-on. With a focus on our technologies to mitigate environmental impact, such as technology to produce basic feedstocks from bioethanol, we need to explore all possible solutions. To this end, we will proactively conduct verification trials aimed at commercializing such technologies to establish them as the key to reorganization of the petrochemical industry in Japan. In addition to possibility, we are considering operating businesses jointly with other companies or exiting from businesses as our second and third options. I would like to emphasize here that simply detaching petrochemical chain-related businesses from the Asahi Kasei Group would not solve this issue. I believe that companies involved in the petrochemical industry must advance verification trials of outstanding technologies that contribute to achieving carbon neutrality while establishing cooperative relationships that allow them to bring such technologies to capitalize on each other's strengths, to optimize the balance between supply and demand, and to achieve carbon neutrality. We will finalize the direction of each business and steadily implement actions in sequence by the end of fiscal 2024 as we continue to work toward structural transformation.

Strengthening our business platform to accelerate business portfolio transformation

In addition to pursuing growth by capturing business opportunities that have already come to light, to sustainably advance the transformation of our

business portfolio we also need to turn ideas into new businesses by leveraging our sophisticated and diverse technologies for potential business opportunities. When we announced our MTP, I said that we would accelerate such transformation with an emphasis on the three elements of speed, asset-light, and high value-added. This is based on my belief that quickly commercializing technologies and business ideas is indispensable to accelerating transformation.

The way we use our intangible assets is key to commercializing technologies and ideas and offering them to society. It also shapes Asahi Kasei's unique identity. Despite having such an abundance of sophisticated intangible assets, though, we struggle to bring them to commercialization. To me, this indicates that we have not made full use of our intangible assets at the business development and business building stages. Based on this analysis, we have begun developing businesses in fiscal 2023 centered on technology to leverage the Asahi Kasei Group's intangible assets with an emphasis on the elements of speed and asset-light. This approach will make maximum use of core technologies that have yet to be commercialized but can contribute to society. They can also contribute to earnings through a business model whereby Asahi Kasei provides core technologies and receives license fees and royalties from clients that develop them into products. Making extensive use of digital technology, we will also build and promote the use of several frameworks to visualize and integrate our intangible assets.

Since I worked in the textile industry for many years, I will use a weaving analogy. If the business operations of a company are the warp, intangible assets would be the weft. Interweaving the two creates new fabric, in other words new value. For the Asahi Kasei Group, which manages a diverse array of businesses, nurturing an organizational culture that allows us to move freely while strengthening vertical and horizontal coordination is integral to spurring innovation and bringing about transformation. Using terms such as integrate and connect, we have long promoted horizontal practices to achieve close communication and cooperation between sectors as well as internally and externally. Today, the results of such efforts are emerging,

strengthening the Asahi Kasei Group laterally. However, I feel that issues remain to be addressed vertically, in terms of sharing information within organizations. Only by nurturing an organizational culture that allows all employees to think, speak, and act uninhibitedly, without being hampered by superior-subordinate relationships, are we able to unlock their spirit of taking on challenges. While I believe that the Asahi Kasei Group's organization is open, as typified by the culture of referring to one another by name as opposed to by title, I wonder if we have really nurtured an environment in which all employees can speak openly with each other. In fiscal 2023, we will again reform the environment and vision for our organization and work on improvement measures.

Strengthening governance to enhance effectiveness

I believe that we made great progress in strengthening governance and risk management in fiscal 2022 by focusing efforts on enhancing their effectiveness. Holding in-depth discussions and drawing conclusions based on discussions is of the utmost importance to ensure proper, working governance. Although fiscal 2022 saw many changes in Management Council membership, its meetings facilitated free and open discussions taking into account overall optimization, which contributed to in-depth discussions at meetings of the Board of Directors. In addition, Rick Packer, Executive Officer for the Health Care Business Sector, became the first non-Japanese member of the Management Council in 2023. His

participation in meetings has enabled more multi-faceted discussions. Moreover, following the General Meeting of Shareholders in fiscal 2023, the composition of the Board of Directors changed. Inside Directors are now centered on Executive Officers responsible for corporate functions, and a higher proportion of Outside Directors is expected to further enhance the effectiveness of the Board of Directors.

In fiscal 2022, we revised risk management as a whole from two perspectives: clarification of the risk management framework and roles of involved parties, and enhancement of the risk management PDCA cycle. In my view, thoroughly pursuing and confirming the effectiveness of established rules through an ongoing process of trial and error strengthens and refines risk management. Although confusion may result regardless of how well the infrastructure has been developed for addressing risk, we pursue enhanced risk management by making modifications each time an issue occurs. There is risk of a delay when everyone thinks that someone else will respond, so we are striving to raise awareness to ensure that all involved parties take ownership of risk response to improve its effectiveness. In view of fires, accidents, and other incidents in recent years, we endeavor in particular to deepen mutual understanding through dialogue between members of management, including myself, and employees on matters that are fundamental to what we do, such as workplace safety, quality assurance, and employee well-being.

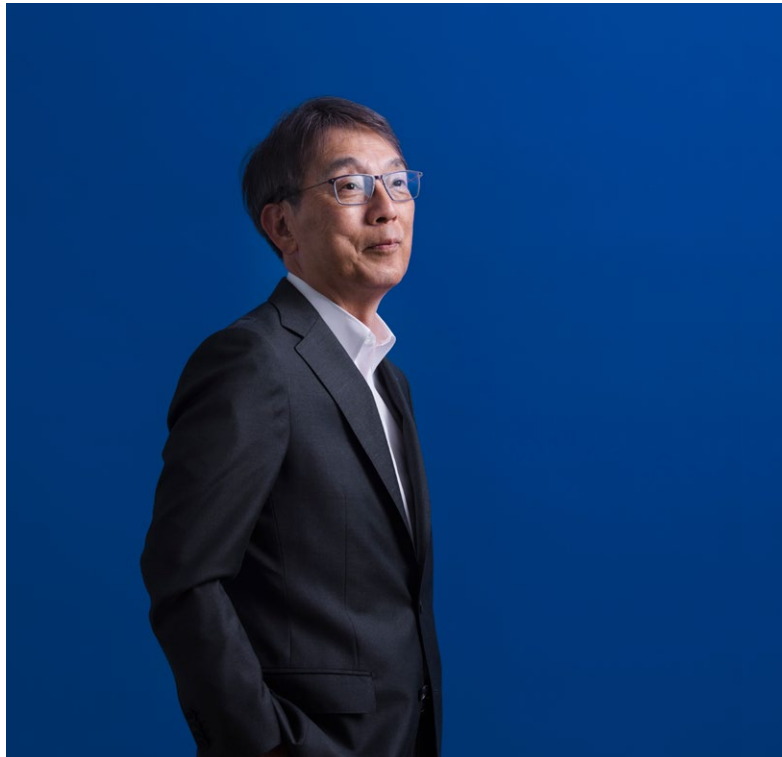
Making Steady Progress Toward Increasing Corporate Value

At present, and since May 2022, Asahi Kasei's price-to-book (P/B) ratio—the ratio of our market capitalization to our net assets—remains less than one. I deeply regret not being able to receive a more appropriate evaluation in the stock market. In addition to improving our business results, we will do everything in our power to raise the expectations of shareholders and

investors to increase corporate value. Since we are advancing business portfolio transformation without delay and accelerating initiatives designed to raise productivity, I am convinced of our ability to improve profitability and capital efficiency. We are considering all possible shareholder return options, including dividend increases and share buybacks. Going beyond mere

temporary improvement in return on equity (ROE), we aim to realize operating income of ¥200 billion, ROIC of 6%, and ROE of 9% or higher in fiscal 2024 by continuously increasing our earnings power.

I believe that we are underrated because many of our growth initiatives are still in progress, and have yet to be fully reflected in business results. Another factor is that the stock market fails to appreciate the Asahi Kasei Group's potential. As I have stated, we are determined to tackle the



challenge of transformation to accelerate growth. In terms of future outlook, in addition to the globally competitive critical care, global specialty pharma, and bioprocess businesses in the Health Care sector, we are investing proactively in the growth of Digital Solutions and car interior material as niche and high value-added businesses, and businesses making a major social contribution, such as the energy storage (separator business) business and hydrogen-related business in the Material sector. I strongly believe that we have exceptionally high potential to increase our corporate value going forward. Meanwhile, our inability to fully and precisely emphasize our growth prospects and future outlook to capital markets is something I consider to be a major challenge confronting me as President.

We will implement our growth strategies with a greater sense of urgency to quickly achieve results that specifically demonstrate the Asahi Kasei Group's growth prospects and potential. I believe that initiatives currently underway can demonstrate our future growth. By clearly defining points to emphasize, such as the way in which we will develop technologies and businesses that contribute to future growth, though they have yet to be reflected in business results, I will continue to provide straightforward explanations to shareholders and investors as we strive to earn proper evaluation of the Group.

A handwritten signature in black ink, appearing to read 'Koshiro Kudo', written in a cursive style.

Koshiro Kudo
President

Message from the CFO

Aiming for ongoing growth in corporate value
through efficient capital allocation and dialogue
with capital markets



Toshiyasu Horie, CFO

Representative Director,
Senior Executive Officer

Review of Earnings Performance in Fiscal 2022

In fiscal 2022, the Asahi Kasei Group saw solid performance in the Homes sector, but it was a challenging year for the Material and Health Care sectors, which were impacted by a worsening business environment. In Material, business was significantly impacted by decline in demand due to economic slowdown in Asia, especially China, while in Health Care, the critical care business, which had seen steady growth until now, was impacted by supply chain disruption, which hindered parts and materials procurement.

Consequently, we were unable to generate profits in a well-balanced manner in these three sectors, and as a result, operating income fell by 36.7% year on year, and ROIC decreased from 6.6% to 4.0%.

A major lesson learned from these results is that we did not act quickly enough to improve productivity and inventory control in the face of a rapidly deteriorating business environment, and we hope to make significant improvement in that regard in fiscal 2023.

Additionally, in fiscal 2022, we recorded an impairment loss of ¥186.4 billion on the goodwill and other intangible assets related to

Primary Financial Metrics

	FY2018	FY2019	FY2020	FY2021	FY2022	
Profitability	Net sales (¥ billion)	2,170.4	2,151.6	2,106.1	2,461.3	2,726.5
	Operating income (¥ billion)	209.6	177.3	171.8	202.6	128.4
	Operating margin	9.7%	8.2%	8.2%	8.2%	4.7%
	EBITDA (¥ billion)	313.6	295.6	305.1	350.8	305.0
	EBITDA margin	14.5%	13.7%	14.5%	14.3%	11.2%
	Net income (loss) (¥ billion)	147.5	103.9	79.8	161.9	(91.3)
	EPS	¥106	¥75	¥57	¥117	¥(66)
Capital efficiency	ROIC	8.8%	6.6%	4.9%	6.6%	4.0%
	ROE	11.1%	7.6%	5.6%	10.3%	(5.5)%
Financial health	D/E ratio	0.31	0.52	0.45	0.45	0.57
	Net D/E ratio	0.17	0.36	0.30	0.31	0.41
	Capital ratio	53.6%	48.2%	50.3%	50.4%	48.1%

Polypore International, LP, in the U.S. While apologizing to our stakeholders for recording this large impairment, I would like to explain the causes behind it.

In the lithium-ion battery (LIB) separator business, to prepare for future expansion of the automotive market and to respond to trends and technical issues in the environment-friendly vehicle market, we acquired Polypore in 2015, thus obtaining the Celgard™ dry-process LIB separator business and the Daramic™ lead-acid battery separator business. We integrated these with our Hipore™ wet-process LIB separator business, but changes in the automotive market unexpectedly accelerated, causing earnings to fall far short of the original plan. However, the Hipore™ separator business holds good prospects for growing business opportunities in the automotive market, and we have therefore decided to dissolve the Hipore-Polypore asset grouping and concentrate resources on the Hipore™ separator business. By doing so, we will pour our efforts into further improving the future growth and profitability of the separator business and quickly recovering corporate value.

■ Progress of the Medium-Term Management Plan Initiatives for business portfolio transformation

As part of the MTP launched in fiscal 2022 focused on the theme “Be a Trailblazer,” we consider business portfolio transformation our top priority, and will proceed with the restructuring of petrochemical chain-related businesses. Not only our business divisions, but also corporate divisions, including Corporate Strategy, which I am responsible for, are actively involved. Having worked for many years in the petrochemical business that now faces major challenges, I feel a sense of responsibility to see this restructuring through to completion. Petrochemical chain-related businesses have a diverse range of stakeholders, including raw material suppliers, customers, business partners, and employees. While building consensus through careful discussions with these various stakeholders, we will also take into account the outlook for profitability and capital efficiency based on the costs and investments required to achieve carbon neutrality, and solidify our plans by fiscal 2024 year-end.

Meanwhile, in terms of growth strategies, we will focus investments on the GG10 businesses to drive our future growth, and thereby achieve sustained growth. Our traditional pattern of success consists of a business model that generates high profits by leveraging technologies honed in niche fields and making appropriate investments. GG10 include some fields in which that pattern remains viable, and some in which it does not. In particular, the businesses with growth potential such as LIB separators and hydrogen-related are expected to see substantial market expansion in the future, and we believe that maintaining and enhancing competitiveness will require a much higher level of investment than has been conventional for us. We are therefore considering various options, including financing from other companies.

■ Working to improve capital efficiency and productivity

Starting in fiscal 2021, we have been evaluating our business portfolio, including the ROIC of each individual business, and reviewing the business strategies based on these evaluations. The most important and difficult point in promoting ROIC management is to fully instill an ROIC mindset among on-site personnel involved in the business. Through the company intranet, internal magazine, etc., we share perspectives on management considerations using ROIC as an indicator with business unit members, and management and business unit members regularly discuss the ROIC status of each business and measures for improvement. As a result of these discussions, business unit members' awareness of ROIC is also changing. In fiscal 2023, in addition to proceeding with the transformation of our business portfolio, we will work closely with business unit members and on-site personnel to speed up management decisions and improve capital efficiency.

In addition, in response to our fiscal 2022 results, starting in fiscal 2023 we are implementing the BT Project, which aims to improve productivity group-wide in order to quickly improve profitability. This is a company-wide project with the President as the project owner and me as the management team leader. We are moving forward on two trajectories: in the short term we will review indirect costs within our group and reduce duplication to cut costs,

and in the medium term we will efficiently increase productivity by reviewing workstyles and organizations. In fiscal 2023, we will focus on cost reduction and have commenced some initiatives to improve productivity over the medium term, aiming for an annual cost reduction effect of ¥20 billion in fiscal 2024.

We believe that the current P/B ratio of less than one is a message from our shareholders and investors that their confidence in our capital efficiency and profitability is waning, and that they have misgivings about our future. In order to regain trust, we will not only improve our business performance in the short term, but also accelerate the transformation of our business portfolio over the medium to long term and increase our ability to generate cash by efficiently investing capital in growth areas.

■ Capital Allocation Policy

When it comes to business portfolio transformation going forward, the importance of capital allocation cannot be overemphasized. Due to diminished earnings, operating cash flow is expected to be ¥600 billion to ¥700 billion over the three years of our MTP. On the other hand, cash flow from investing activities is expected to be ¥800 billion to ¥900 billion, equal to the level anticipated when we formulated the MTP, as it includes cash outflows from projects already decided. When making investment decisions, we of course carefully examine profitability and maintain a rigorous policy of focusing on diligently selected projects. Specifically, we set and then strictly apply a hurdle rate based on the cost of capital and add a risk premium based on circumstances such as the region in which we operate and business characteristics. Furthermore, after making an investment, we continue to conduct monitoring to deliver substantial improvements in investment efficiency, including avenues to recovery when the business environment takes a downturn.

Financing for investments consists primarily of interest-bearing debt, and is expected to increase by ¥250 billion to ¥500 billion. At the same time, in concentrating investment on GG10, for businesses with growth potential we will consider non-traditional funding options, such as utilizing capital from other companies. We anticipate a D/E ratio of around 0.7 and a net D/E ratio of

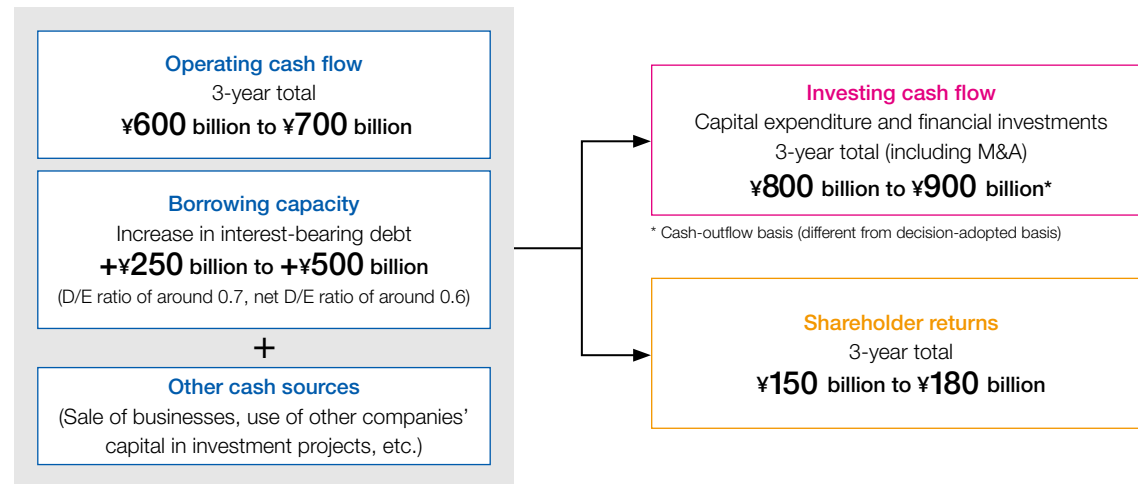
around 0.6, and we believe that we will continue to maintain sufficient financial soundness.

Regarding shareholder returns as well, we maintain the same assumptions that were made at the formulation of the MTP, and target total returns of ¥150 billion to ¥180 billion over the three-year period. We emphasize a policy of achieving stable shareholder returns through dividends, and for fiscal 2022 we paid a dividend of ¥36 per share, an increase of ¥2 per share from fiscal 2021. We will maintain this policy in fiscal 2023 and also study the repurchase of shares based on comprehensive consideration of investment projects and share price levels in addition to capital structure optimization.

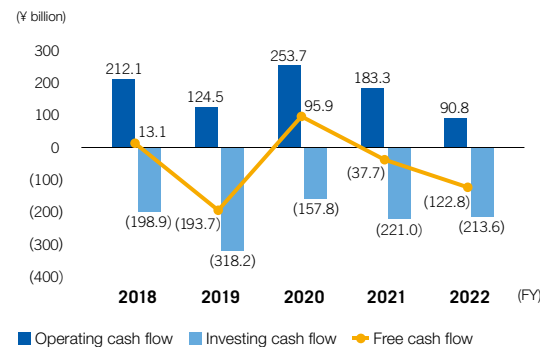
Working Toward Mutual Understanding with Shareholders and Investors

I have gained a renewed sense of how important it is for us to consider our strategies and their execution from the perspective of shareholders and investors, and to act promptly when areas for improvement are identified. We will actively engage in dialogue in order to reflect evaluations from such perspective in our business management. Through recent dialogue with shareholders and investors, it has been brought to our attention that our capital allocation may be skewed, particularly toward capital expenditure and M&A. Our ultimate objective is of course to steadily increase return on investment, but whereas the primary interest of shareholders and investors may be how to efficiently convert funds into cash, we on the company side are concerned with building businesses for future growth and fortifying our management foundation, and the two perspectives can differ in terms of the timeframes involved. To bridge that gap, the Asahi Kasei Group will continue to make every effort to gain the understanding of our shareholders and investors as we improve information disclosure to carefully explain our thinking, and our vision for the future.

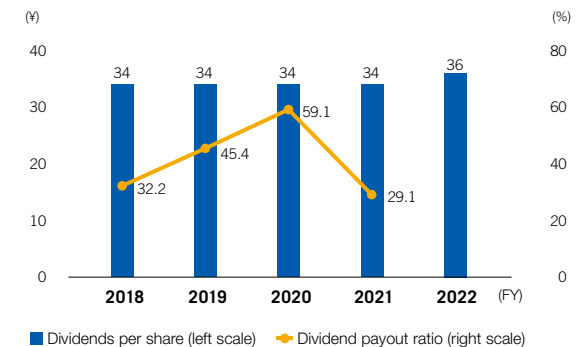
Framework for Capital Allocation (three-year period FY2022–2024)



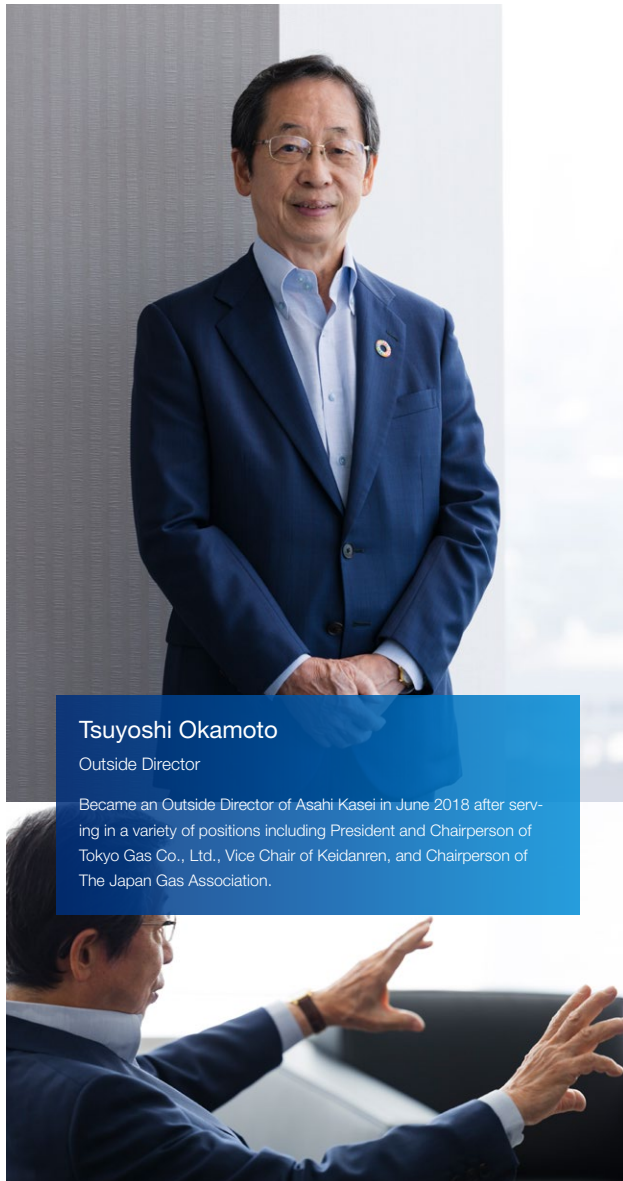
Cash flows



Dividends per share and dividend payout ratio



Message from an Outside Director



Tsuyoshi Okamoto

Outside Director

Became an Outside Director of Asahi Kasei in June 2018 after serving in a variety of positions including President and Chairperson of Tokyo Gas Co., Ltd., Vice Chair of Keidanren, and Chairperson of The Japan Gas Association.



Bolder and faster transformation needed for Asahi Kasei to reach its full potential

Asahi Kasei's Growth Potential

In the five years since becoming an Outside Director of Asahi Kasei in 2018, I have engaged in the supervision and advising of management. I have also served as Chair of the Remuneration Advisory Committee since fiscal 2018 and of the Nomination Advisory Committee since fiscal 2020. In my position as an Outside Director, I am acutely aware of the need to monitor whether risk management is sufficiently implemented as the company works to achieve global sustainable growth. The MTP unveiled by Asahi Kasei in April 2022 aims to realize the growth of businesses that contribute to global development. I believe that the role of Outside Directors is to offer useful advice on promoting the plan from a risk management perspective.

The technologies accumulated by Asahi Kasei since its founding are world class. No matter how much the business environment changes going forward, I am certain that the company can survive by refining its technological capabilities. It must also have the ability to adapt to change while transforming its operations with a focus on technology when navigating an era of volatility. Asahi Kasei, which has grown by transforming its business portfolio, undoubtedly has that ability. If it can leverage this strength, the company can turn the global issue of addressing carbon neutrality to its advantage. I am convinced that Asahi Kasei is richly endowed with the capabilities that companies need to navigate the coming era and achieve growth.

Energizing Human Resources and the Organization as the Key to Growth

I believe that people are a vital key to Asahi Kasei's growth. No matter how outstanding its technological capabilities, a company cannot fully utilize its strengths without the abilities and motivation of the people who use that technology. It is no exaggeration to say that a company's

strength is shaped by the collective motivation of its employees. In the MTP, Asahi Kasei set forth its policy of focusing investment in GG10-related businesses. However, senior management must also pay careful attention to employees working in roles that underpin businesses other than GG10, maintaining and enhancing their motivation through proper appraisal.

Meanwhile, the company must of course incorporate diversity to secure talented human resources. We have now entered an era in which Asahi Kasei would not be viable as a global company without ingraining diversity in its organization, to the extent that the company constitutes a harmonious whole in terms of everything from gender and nationality to age, career background, and workstyle. I understand that Asahi Kasei is more advanced than other companies, in that it proactively recruits mid-career hires and adopts a variety of systems designed to increase diversity, such as the Group Masters program. Nevertheless, without greater momentum for further diversity promotion, securing human resources to maintain and grow businesses will likely become more difficult.

Adopting a Bolder and Faster Approach to Business Portfolio Transformation

Measures implemented to evolve Asahi Kasei's business portfolio are gradually beginning to bear fruit. In particular, transformation of the Material sector's business portfolio is advancing steadily, including the transfer of the photomask pellicles business and the establishment of a joint venture for the spunbond nonwoven products business. A recent move by senior management for transforming the business portfolio that I rate highly is their decision regarding expansion of the separator business. The plan to expand the separator business in North America has been the subject of lively discussions since 2022, which resulted in the company scrutinizing

risk factors and pausing the plan to reexamine it. Deciding to apply the brakes to a project once it has gotten underway is easier said than done. Senior management's decision will set an excellent precedent for Asahi Kasei in examining investments going forward. The same can be said of the decision—made at the same time—to record an impairment loss on the goodwill and other intangible assets of Polypore. The fact that senior management agreed to a decision that entailed posting a consolidated loss demonstrates how serious they are about the separator business. I also applaud President Kudo's prudent judgment in personally addressing and explaining these decisions to the public.

In light of unparalleled changes in the external environment in recent years, Asahi Kasei must adopt a bolder and faster approach to business portfolio transformation. By fiscal 2024, the company will discuss further acceleration of reforms to implement structural transformation of businesses with net sales of more than ¥100 billion based on fiscal 2021, and finalize a policy for structural transformation of the approximately ¥600 billion petrochemical-related business with a view to carbon neutrality.

■ Capitalizing on the Unique Advantages of Three-Sector Management

Asahi Kasei has grown by adapting to change and transforming its operations with a focus on technology. However, I feel that aspects of its diversification are perceived negatively by the capital markets. The company currently has three sectors: Material, Homes, and Health Care. The essence of the matter is whether their respective corporate values are maximized under collective management or when operated as individual businesses. I have supervised management as an Outside Director of Asahi Kasei for five years. In that time, I have never felt that the three sectors should be managed individually or that it would be better to separate one and leave its management to another company. Asahi Kasei is more than capable of managing the three sectors, and in-depth discussions to that end also take place at meetings of the Board of Directors. The company pays careful attention to the operation of each sector, maintaining a firm grip on

management. If anything, the earning capabilities of each sector allow the Asahi Kasei Group to achieve stable earnings by diversifying risks. In addition, managing the three sectors has the benefit of enabling group-wide management of their intangible assets, including human resources. Owing to three-sector management, Asahi Kasei has the fundamental strength to drive forward structural transformation of its businesses. For example, one might say that it enabled the company to maintain a sound financial standing even after the recording of the aforementioned impairment loss on Polypore.

Meanwhile, I am convinced that Asahi Kasei's extensive technologies and intellectual property will be increasingly utilized across sectors group-wide, holding the key to the creation of synergies among businesses. Currently, Asahi Kasei is promoting initiatives for bolstering the areas of green (G), digital (D), and people (P) to strengthen its business platform and for maximizing the use of its strengthened intangible assets. Active discussions are taking place at meetings of the Board of Directors on what Asahi Kasei needs to do to make efficient use of its abundant intangible assets.

With the company enhancing management rationality and quality in these ways, I believe it is vital for Asahi Kasei to communicate its future growth potential to the capital markets, as well as steadily improve its business performance, in order to continuously enhance its corporate value going forward. The most effective form of communication with capital markets is messaging from senior management. I believe that Asahi Kasei's share price would be valued properly if the President took the lead in engaging with the capital markets to emphasize Asahi Kasei's strengths.

■ Improved Monitoring Functions for Corporate Governance

As initiatives aimed at strengthening Asahi Kasei's corporate governance make steady progress, I feel that its governance configuration has improved. In fiscal 2023, the company revised the composition of the Board of Directors, rearranging it to comprise the Chairman, President, and four Executive Officers responsible for corporate functions as Inside Directors and adding another Outside Director. With this revision, of the 10 Directors, the number of Executive

Officers and non-Executive Officers came to five each and the number of Inside Directors and Outside Directors came to six and four, respectively, including two female Outside Directors. The Board of Directors is currently transitioning from a management system, whereby it passes a resolution on each agenda item relating to business execution, to a monitoring system that monitors key subjects for Asahi Kasei on a company-wide basis. The latest revision to the membership of the Board of Directors strongly reflects the determination to transition to this system. My own view is that the Board of Directors should aim for a monitoring system, so I rate the revised composition highly.

Asahi Kasei has established the corporate governance configuration of a company with an Audit & Supervisory Board. In such a configuration, the Nomination Advisory Committee and the Remuneration Advisory Committee play important roles. Although fundamentally advisory—they have no authority under the Companies Act—the fact that these committees are voluntary enables flexible operation with open and meaningful discussions. For example, it has given the Remuneration Advisory Committee the authority to decide on performance-linked remuneration. I believe it is appropriate to maintain the current configuration for the time being while continuing to study the company's future governance structure.

