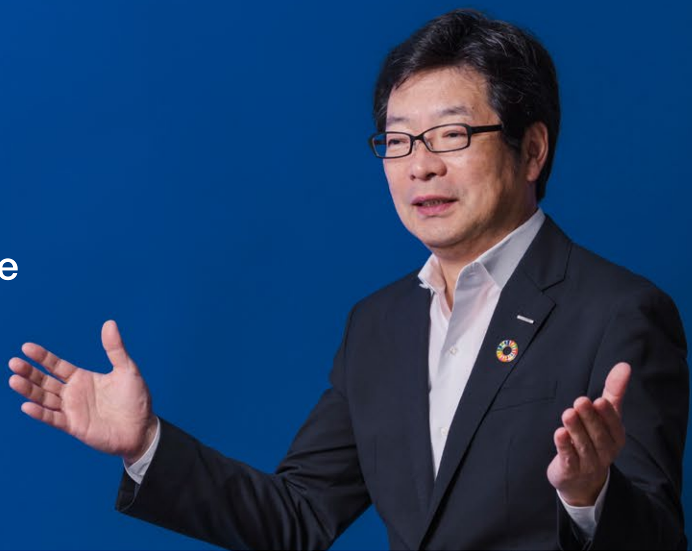
Message from the CFO

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
	Net sales (¥ billion)	2,170.4	2,151.6	2,106.1	2,461.3	2,726.5
Profitability	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

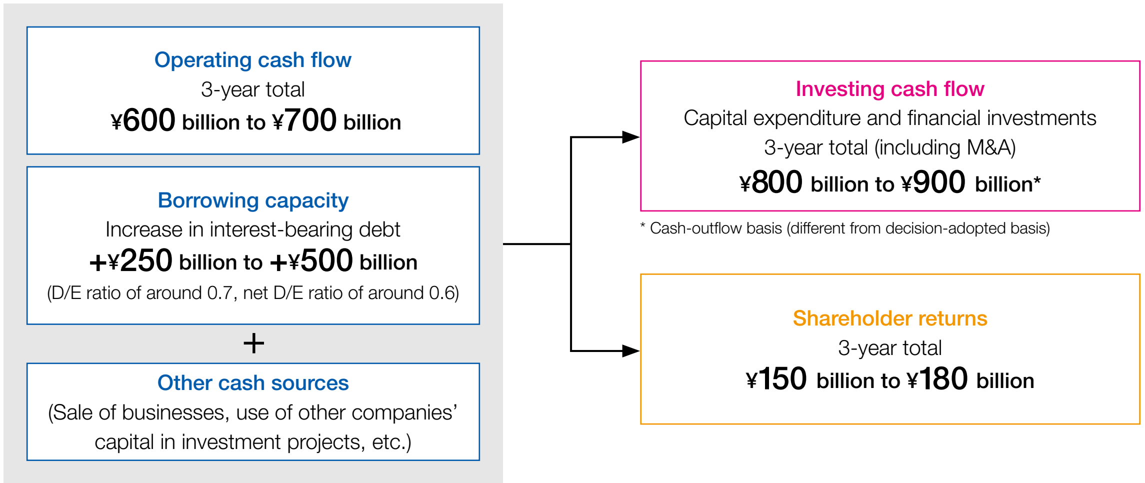
around 0.6, and we believe that we will continue to maintain sufficient financial soundness.

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.

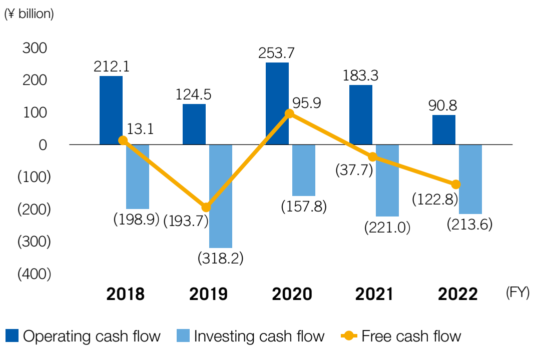
Working Toward Mutual Understanding with Shareholders and Investors

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