



Message from the President

How will Asahi Kasei
achieve growth henceforth?

I will sincerely answer the questions of stakeholders
and describe how we will meet their expectations.

Koshiro Kudo

President

Q1 Why does Asahi Kasei have three-sector management?

“ The most efficient utilization of management assets accumulated across the whole company, with each of the three sectors of Material, Homes, and Health Care fulfilling its role in pursuit of the Group Mission of contributing to life and living for people around the world, ensures a balance between growth and stability, making this the optimum way for Asahi Kasei to achieve the sustainable growth of corporate value. ”

Asahi Kasei’s goals

To answer why Asahi Kasei has three-sector management, I will start by describing our roots in terms of our aims and unique identity.

As the Group Mission of contributing to life and living for people around the world indicates, Asahi Kasei confronts the world’s issues head-on, continuously taking on the challenge of addressing these issues through business activities based on the belief that identifying the key to solutions is certain to lead to business creation. This belief, passed down from founder Shitagau Noguchi for over a century, is embedded in the heritage of Asahi Kasei. We aim to achieve two mutually reinforcing aspects of sustainability: contributing to a sustainable society by transforming our advanced technology into value for society that enables people around the world to live better lives, while achieving the sustainable growth of corporate value through these efforts. We won’t deviate from this approach, no matter how our business portfolio changes going forward.

Of course we don’t chase business opportunities indiscriminately. Rather, we engage in a constant process of trial and error, exploring ways to address issues by leveraging our talented human resources and advanced technology—the sources of our value creation—as efficiently as possible. Our ongoing transformation in pursuit of the optimal business portfolio has led us to the three business sectors of today: Material, Homes, and Health Care. We have also accumulated outstanding intangible assets, such as our human resources and technology, through the continuous efforts of many of our predecessors to create a diverse array of businesses. Exploring all possibilities, taking on challenges, and changing continuously to achieve our value creation goals through the maximum use of these intangible assets—this is the process that Asahi Kasei has repeated for the past century.

Asahi Kasei’s unique identity

In my view, value creation that combines the following three elements epitomizes exactly what we mean by the unique identity of Asahi Kasei. First, seeking ways to enable people to live better lives. Second, achieving transformation by taking on challenges to create value, showcasing the spirit that comprises ambitious motivation, a healthy sense of urgency, quick decisions, and a spirit of advancement, which we call the “A-Spirit.” Third, using finite management resources efficiently to realize a high level of profitability. Seen another way, if a business has declining profitability and sluggish growth, that indicates it no longer reflects the unique identity of Asahi Kasei.

Historically, we maintained our advantage by only entering a business if we were sure we could showcase the unique identity of Asahi Kasei and relentlessly pursue efficiency. Consider the homes business, which we entered 50 years ago. At the time, our business activities centered on fibers and chemicals. We had to launch the new business and raise earnings with severe limitations on the management resources that could be dedicated to it. How is our homes business able to maintain strengths on a par with specialized home builders, even in today’s challenging operating environment? It’s because the homes business achieves value creation that is unique to Asahi Kasei.

When entering the homes business, we focused on the following three points to raise earnings with limited resources. First, we assigned many talented personnel from all across the company; second, we focused on order-built homes for urban markets, attaching paramount importance to efficiency; and third, we promoted the business with customer satisfaction as the highest priority. Outstanding brand value was built as a result, and the Hebel Haus™ business of today still bears the hallmarks of these efforts. Continuously maintaining our value creation approach and our A-Spirit leads to efficiency, and the resulting value reflects the Asahi Kasei’s unique identity. The Hebel Haus™ business model could only have been created by Asahi Kasei.



Striking the right balance

I don't believe there is a binary choice between specialization and diversification. Having the right balance is the key to managing the three sectors created through the pursuit of value that reflects the unique identity of Asahi Kasei. I am sometimes asked why we have three-sector management. The reason is that the most efficient utilization of management assets accumulated across the whole company, with each of the three sectors of Material, Homes, and Health Care fulfilling its role in pursuit of the Group Mission of contributing to life and living for people around the world, ensures a balance between growth and stability, making this the optimum way for Asahi Kasei to achieve the sustainable growth of corporate value. In fiscal 2022, when we formulated the current MTP, we clearly defined the role of each of the three sectors based on their respective characteristics.

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 sustainability.
Homes	The Homes sector raises cash-generating capabilities by accelerating growth in Japan, North America, and Australia through continuous efforts to support people's safe and comfortable lives.
Health Care	The Health Care sector drives Asahi Kasei's profit growth through the provision of innovative pharmaceuticals and medical devices that address unmet needs, in pursuit of its mission to improve and save patients' lives.

Our ability to raise earnings steadily through the three sectors allows us to proactively take risks and transform our business portfolio before any serious predicament occurs. Especially in today's business climate characterized by dramatic change and unpredictability, having three sectors enables us to capture business opportunities without being bound by industry frameworks. This is a major strength in comparison with specialized manufacturers. Asahi Kasei strives to continuously create new business models that provide solutions to society's ever-changing needs by fully leveraging the intangible assets cultivated throughout our history. This is possible because we achieve both growth and stability through three-sector management. On the other hand, it is also conceivable that we will change the sectors themselves if the optimal balance changes. I believe that having a keen sense of balance in the management team, including me, demonstrates the true value of Asahi Kasei's management.

Q2 How will you raise your persistently low P/B ratio?

“ We will accelerate business portfolio transformation by structural transformation focused on petrochemical chain-related businesses in the Material sector and by proactive investment in growth-driving businesses, while improving profitability which has been inadequate for the past two years. ”

What the market expects of us

Since fiscal 2021, Asahi Kasei's price-to-book (P/B) ratio—the ratio of market capitalization to net worth—has been less than one. To improve our P/B ratio, we will accelerate business portfolio transformation by structural transformation focused on petrochemical chain-related businesses in the Material sector and by proactive investment in growth-driving businesses, while improving profitability which has been inadequate for the past two years. To receive a fair market evaluation, we need asset replacement to achieve a balanced and high level of capital efficiency together with growth and stability.

In the two years since the formulation of the MTP in fiscal 2022, the operating environment has changed more dramatically than we had anticipated, including deterioration in petrochemical market prices. Circumstances in petrochemical-related basic materials changed sharply, with the business recording an operating loss of ¥8 billion in fiscal 2023 compared with operating income of ¥50 billion in fiscal 2018. Although we anticipate performance in the Material sector to recover to a certain extent in fiscal 2024, we do not expect profit levels to reach the record highs of fiscal 2018 as we could not respond flexibly and quickly enough when the operating environment suddenly changed. In addition to sluggish operating income, the recording of significant impairment loss on assets in certain businesses including basic materials in fiscal 2023, following the impairment loss recorded on Polypore International, LP (Polypore) in fiscal 2022, resulted in lower net income, which led to return on equity (ROE) remaining below the assumed cost of equity of 8%. As such, I consider our inability to achieve the level of capital efficiency expected by shareholders and investors to be the primary cause of the P/B ratio remaining below one. This is indicative of our current low productivity, in other words, ineffective creation of value that reflects Asahi Kasei's unique identity, which is to raise earnings efficiently with limited resources. We therefore made a significant downward revision of our operating income target for fiscal 2024, the final year of the current MTP, to ¥180 billion, in contrast with the original target of ¥270 billion.

Today, the market wants to know how we will promote the structural transformation of businesses with low capital efficiency that no longer reflect Asahi Kasei's unique identity, and how we will transform our business portfolio. We will steadily advance structural transformation during fiscal 2024, and then will shift our focus to accelerating growth from fiscal 2025, when the next MTP begins.

How we will promote structural transformation

Although structural transformation efforts initially targeted businesses with sales totaling over ¥100 billion in fiscal 2021 with the aim of generating results during the period of the current MTP, we have already executed projects in businesses with sales of approximately ¥40 billion and are currently studying projects in businesses with net sales of approximately ¥100 billion. We are promoting the transformation of petrochemical chain-related businesses with sales on the scale of ¥600 billion in fiscal 2021, which face the biggest challenges, based on three approaches: structural transformation from a best-owner perspective, optimization through cooperation with other companies, and strengthening of businesses in-house or by collaboration with other companies.

For structural transformation from a best-owner perspective, we are studying structural transformation premised on what's better for the business from a global perspective. With specific projects currently underway in several businesses, we aim to make final decisions during fiscal 2024. For optimization through cooperation with other companies, we are seeking the best way to achieve structural transformation with an emphasis on technology for carbon neutrality, rather than simply streamlining production capacity based on demand trends in Japan and overseas. As for businesses based on the naphtha cracker at the Mizushima Works, we are advancing studies with partner candidates in Western Japan, conducting discussions to determine the direction of reforms during fiscal 2024. Turning to strengthening of businesses in-house or by collaboration with other companies, we aim to operate businesses globally in expanding markets by strengthening our earnings power through the expansion of high value-added products, and by collaborating with other companies.

Our long-term outlook is to achieve operating income of ¥400 billion and ROE of 15% by around fiscal 2030. The steady implementation of structural transformation is a prerequisite for realizing a balanced business portfolio with a high level of capital efficiency, growth, and stability. We are determined to achieve this result in order to meet the expectations of all stakeholders.

Q3 How will you focus resources on growth businesses?

“ We plan to invest approximately ¥700 billion in the 10 Growth Gears (GG10) businesses to drive future growth during the three years of the current MTP, and we have steadily expanded investments and M&A while maintaining strict financial discipline. ”

North American strategy for Hipore™

We will utilize our firm financial foundation to proactively promote investment for future growth, as well as structural transformation, to achieve business portfolio transformation. We plan to invest approximately ¥700 billion in the 10 Growth Gears (GG10) businesses to drive future growth during the three years of the current MTP, and we have steadily expanded investments and M&A while maintaining strict financial discipline. Although the scale of investment in GG10 businesses will be approximately ¥100 billion higher than initially planned, this increase is due to identifying a larger than originally anticipated business opportunity in the Hipore™ wet-process lithium-ion battery (LIB) separator business.

The Hipore™ business has grown in the characteristic Asahi Kasei way, by quickly identifying specific market needs in consumer electronics applications, such as personal computers and cell phones, and capturing market share through value creation efficiently leveraging limited resources. As the market for automotive applications expanded, however, our production capacity inevitably fell behind that of competitors in China and South Korea who made substantial investments to increase capacity by wide margins, while we made successive smaller investments to serve niche markets in consumer electronics applications. Now, with the widespread emergence of electric vehicles, many battery and automobile manufacturers are requesting us to supply large volumes of our high-quality separator. Meeting these requests is directly related to our Group Mission in terms of contributing to the achievement of carbon neutrality. The North American market, in particular, represents a major business opportunity for Asahi Kasei. It is expected to grow significantly going forward, and it allows us to expand our business advantageously from a geopolitical perspective. In April 2024 we decided to invest ¥180 billion to construct a Hipore™ plant in Canada. The planned expansion is clearly distinct from the business model of pursuing a certain degree of business scale, which has been a strong point of ours. We will pursue world-leading production efficiency that capitalizes not only on our technological advantages, but also on our high-level product technology while controlling risk, including through a joint venture with Honda Motor Co., Ltd. and investment from the Development Bank of Japan Inc. (DBJ). Having engaged in repeated discussions, I am convinced that we have reached the most suitable investment decision.

M&A focused on the North American market

Asahi Kasei has proactively conducted overseas M&A with a focus on the North American market to accelerate the expansion of growth businesses, especially GG10 businesses. Through these efforts, overseas sales have grown to over 50% of total net sales. Since joining the Asahi Kasei Group, ZOLL Medical Corporation (ZOLL) has grown its revenue more than sixfold, becoming our largest driver of growth. Recently we have gained steady growth from Sage Automotive Interiors, Inc. (Sage), a car interior materials business, and Synergos Companies LLC (Synergos), the holding company for companies acquired in the North American homes business. In addition, Veloxis Pharmaceuticals, Inc. (Veloxis), which is in the global specialty pharma business, has achieved a compound annual growth rate of over 20% for sales of Envarsus XR™ immunosuppressant for kidney transplant patients since we acquired it. In fiscal 2024, we took the decision to acquire Calliditas Therapeutics AB (Calliditas), which operates a pharmaceuticals business in the United States, to accelerate the growth of our global specialty pharma business. I believe that this company that has extremely close affinity with our assets, and can strengthen our presence in the field of renal diseases in the United States.

Of course it's important for the acquired companies to grow as businesses, but having the personnel of these companies continue to actively contribute is also highly meaningful, and further stimulates the global mindset of our human resources in Japan. Since we acquire companies that create value consistently with the Asahi Kasei way, I sense that newly joined human resources genuinely care for their businesses, and their spirit of taking on challenges is analogous to the A-Spirit. Opportunities for them to contribute are expanding throughout the Asahi Kasei Group. Personnel of Sage helped the separator business strengthen its relationships with automobile manufacturers, while the Calliditas acquisition was supported by personnel of Veloxis having acumen on renal disease related pharmaceuticals. Inspired by the contributions of these overseas human resources, personnel in Japan are also striving to address issues with a more global viewpoint than before.

Q4 What actions are you taking for carbon neutrality?

“ Rather than trying to commercialize through our independent efforts, we will consider a variety of options, including open innovation, alliances, and out-licensing in order to provide the best solutions for carbon neutrality as quickly as possible. ”

Meeting expectations for innovation

Given that the chemical industry generates significant GHG emissions in the manufacturing process, it's natural to assume that the trend toward carbon neutrality mainly has negative impacts, such as increased development costs for technology to reduce emissions and the cost of purchasing carbon credits. And yet, it is the chemical industry that has the innovative technology for reducing GHG emissions. Given our Group Mission of contributing to life and living for people around the world, we are committed to transforming our business portfolio not only to reduce our own GHG emissions but also to create and operate businesses that contribute to reducing GHG emissions throughout the world.

To reduce our own and the world's GHG emissions entails costs and investments, and to achieve such reductions several technological challenges and other obstacles must be overcome. Giving up for these

reasons, though, would not reflect Asahi Kasei's unique identity. The world eagerly anticipates innovation to address climate change. In keeping with the unique identity of Asahi Kasei, which has continuously faced issues in society for more than a century, we will fully raise our technology and other intangible assets to create new businesses that provide solutions. We need to commercialize our technology quickly, so speed will be of paramount importance. Rather than trying to commercialize through our independent efforts, we will consider a variety of options, including open innovation, alliances, and out-licensing in order to provide the best solutions for carbon neutrality as quickly as possible. By working with other companies, we also gain a better understanding of the position of our technology in comparison with others. This allows us to distinguish which aspects we should continue focusing our own technology on, and where it would be better to use the technology of other companies, providing greater clarity in the allocation of management resources, which accelerates value creation that reflects the unique identity of Asahi Kasei.

Q5 How will you use intangible assets to improve corporate value?

“ With mindsets changing throughout the company, employees are more keenly aware of the value of intangible assets, and business models are increasingly based on intangible assets as the central source of value. ”

A-Spirit at the heart of intangible assets

Asahi Kasei has extensive intangible assets because we repeatedly transformed our diverse business portfolio throughout our history. These intangible assets include human resources capable of operating diverse businesses, relationships with business partners cultivated through connections in various markets, expertise in a

variety of industries, and core technologies and intellectual property accumulated in a wide range of fields. Asahi Kasei's enduring heritage, represented by ambitious motivation, a healthy sense of urgency, quick decisions, and a spirit of advancement demonstrated by the A-Spirit, is at the heart of these intangible assets.

Given the current challenging operating environment, especially in the Material sector, this is truly a time for the tenacity epitomized by the A-Spirit and "Be a Trailblazer," the theme of the current MTP. Faced with

deteriorating business performance, many employees are beginning to have a healthy sense of urgency that we can't regain growth by carrying on with previous approaches. Furthermore, since we adopted ROIC as a KPI, each division is endeavoring not only to improve earnings but also to raise ROIC, including the control of invested capital such as capital expenditure and working capital.

When I talk about A-Spirit and Be a Trailblazer to motivate employees to take on challenges, I am not only speaking to those engaged in growth businesses. For example, when reducing costs in a business whose performance is struggling, rather than simply implementing reduction measures similarly to the past, we should break new ground through ingenuity and take challenges in accordance with the mission of each business. Such efforts include taking on challenges for business process reforms by comprehensive overall processes review, and initiatives for productivity improvement in administrative tasks by adopting completely new and different methods. And as a result, every employee can feel a sense of satisfaction in achieving growth by taking on their own challenges, which ultimately contributes to our general competitiveness. We must never neglect employees working earnestly to overcome difficult situations in struggling businesses. As the top company executive, I intend to continue close communication with frontline employees.

Latent potential of our intangible assets

I am confident that we have highly capable human resources, outstanding technology and intellectual property, and advanced digital transformation (DX) initiatives. That said, I am keenly aware that there are doubts as to whether we are able to efficiently gain value from our abundant intangible assets.

We have tended to place emphasis on protecting the continuity of a business, using intangible assets such as human resources, technology, and intellectual property as defensive management infrastructure. A defensive awareness is important and necessary for operating a business. But our fundamental purpose is utilize our intangible assets commercially to create value that contributes to society. We need a new mindset to look for the latent potential value of our intangible assets. In other words, we need to leverage our intangible assets more actively.

The most efficient provision of value

Our human resources, technology, and intellectual property have the power to create value. If they aren't contributing to commercialization, that means we must not be allocating them appropriately. Just as we have



grown by transforming our business portfolio in accordance with the changing needs of society, our intangible assets may cease to create value if we let them stagnate. To convert the power of our intangible assets into value that contributes to life and living for people around the world, we need to leverage them in the way that provides value most efficiently. That means not necessarily by ourselves but also through co-creation with other companies and out-licensing.

Consider our development of high ionic conductive electrolyte for lithium-ion batteries, which enables improved battery performance in the field of energy storage. While we successfully achieved proof of concept in fiscal 2024 and aim to achieve commercialization going forward, we don't intend to build a plant and mass produce it. Instead we will work together with customers for co-creation as we commercialize our intangible assets, including intellectual property, know-how, and data, as a single unified value proposition in the form of licensing and other methods. This is an example of what we call technology-value business creation, our initiative to gain earnings through technology licensing and consulting from the research and development phase. With mindsets changing throughout the company, employees are more keenly aware of the value of intangible assets, and business models are increasingly based on intangible assets as the central source of value.

Q6 How does your corporate governance function?

“ Trusting Outside Directors to make objective judgements and raise penetrating questions regarding proposals encourages bold and challenging proposals by company executives, which leads to active discussions toward the value creation that reflects Asahi Kasei’s unique identity. ”

Discussions enhanced by a healthy tension and sense of trust

Asahi Kasei’s Board of Directors has very constructive discussions. While company executives advocate bold and challenging reforms, Outside Directors guide the discussions forward through dispassionate judgment of risks, occasionally leading to a proposal being amended. It’s essential for the Board of Directors to provide a sound oversight function, with Outside Directors at times offering critical opinions regarding proposals put forward by company executives. We shouldn’t expect every proposal to be approved as is. This function is effective because of a deep sense of mutual trust between the company executives and Outside Directors. Trusting Outside Directors to make objective judgements and raise penetrating questions regarding proposals encourages bold and challenging proposals by company executives, which leads to active discussions toward the value creation that reflects Asahi Kasei’s unique identity.

To give an example, in fiscal 2022 a meeting of the Board of Directors was close to approving a proposal to expand the separator business in North America. An early decision was desired in order to supply

customers as quickly as possible. However, in discussions at a subsequent meeting, it was questioned whether the investment configuration allowed for sufficient control of risks or not. The company executives had not adequately studied that aspect of the proposal at the time, and were unable to provide a convincing explanation, so we decided to pause deliberations and have a new proposal brought to another meeting of the Board of Directors. After further discussions in fiscal 2023, the Board of Directors approved a configuration that would restore the unique identity of Asahi Kasei to value creation in the separator business, as announced in April 2024. This result was possible because of the sound relationship between company executives and Outside Directors at meetings of the Board of Directors.

Both a healthy tension and a sense of trust are needed for constructive discussions at meetings of the Board of Directors, ensuring effective governance. Asahi Kasei is able to incorporate its unique identity into value creation because all Board Directors understand and seriously discuss the company’s circumstances intuitively as well as logically.

Ensuring three years of growth under the next medium-term management plan

In the next MTP to start in fiscal 2025, I am intent on reaching operating income of ¥270 billion, the original fiscal 2024 target adopted when we formulated the current MTP, come what may. The current MTP can effectively be seen as a three-year period of structural transformation. We are already preparing for the next three-year plan to return to a growth trajectory. Although we haven’t decided the theme of the next MTP, I personally hope it will be “We Must Go On!” Even though we faced a challenging business environment over the past few years, in the next MTP I keenly want to convey to stakeholders the Asahi Kasei way of overcoming adversity to solidly forge a future that showcases our unique identity.



Koshiro Kudo
President