Financial and Capital Strategies

Scale and Profitability to be a Company that can Compete on the World Stage

Numerical Targets for 2025 under the Long-Term Vision

Resonac believes that management strength in both quantitative and qualitative terms is essential for competing on the world stage. In addition to qualitative evaluation of the company's ability to contribute to society, especially from the perspective of sustainability, we consider quantitative evaluation of the company's scale and profitability to be important.

Our numerical targets for the scale and profitability for 2025 under the long-term vision, namely, net sales of ¥1 trillion or more and an EBITDA margin of 20% or more, are "entry tickets" to be a company that can compete on the world stage. We aim to maximize corporate value by achieving the numerical targets in pursuit of a solid revenue base. Moreover, whereas we had been using ROE as a key performance indicator (KPI) for some time, we introduced return on invested capital (ROIC) to replace ROE at the time of revision of the long-term vision in fiscal 2022.

To more accurately highlight our strategic intent and our efforts to improve portfolio management, we changed disclosure segments in fiscal 2022. With the segment reclassifications, we will aim to show more clearly the effects of the strategic allocation of management resources and continuous revision and replacement of our business portfolio, of which the most obvious example is our focused investment on semiconductor materials.

Key financial KPI targets

	2022 (results)	2025 (targets under the long-term vision)
Net sales	¥1.4 trillion	Over ¥1 trillion
EBITDA margin	12.2%	20%
ROIC	3.3%	10% over the medium to long term
Net D/E ratio	1.07	Aim to achieve 1.0

Segments for disclosure in line with the new business portfolio strategy

New segments	Subsegments				EBITDA margin (2025 target)
Semiconductor and Electronic Materials	Semiconductor Materials (front-end/back-end processes)	Device Solutions (HD)	Device Solutions (SiC)		30% or more
Mobility	Automotive Products	Lithium-ion Battery Materials			20% or more
Innovation Enabling Materials	Ceramics	Functional Chemicals (resins, etc.)	Aluminum Specialty Components	Coating Materials	15% or more
Chemicals	Olefins and Derivatives	Basic Chemicals and Industrial Gases	Graphite Electrodes		15% or more
Others	Life Science				Achieve critical mass

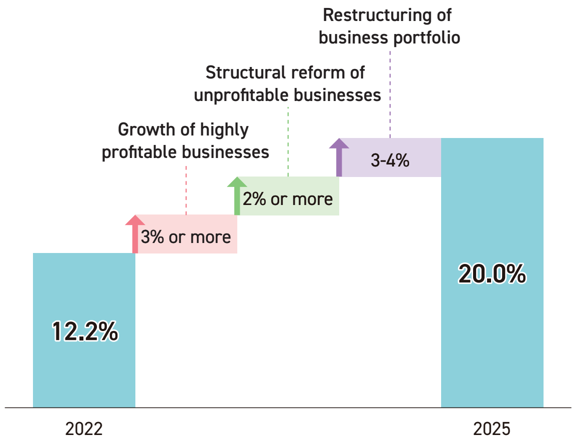
Attribute of the business portfolio: Core Growth, Fundamental Technologies/Materials, Stable Earnings, Next-Generation

To Achieve EBITDA Margin of 20%

Whereas our target of EBITDA margin for 2025 is 20%, the result for 2022 was 12%, 8 percentage points lower than the 2025 target. We are implementing various measures to achieve the target, including growth of highly profitable businesses (P52 Strategic Allocation of Management Resources), structural reform of unprofitable businesses (P50 Elimination of Unprofitable Products), and restructuring of business portfolio (P52 Direction of and Progress in Portfolio Reform).

The scope of improvements required will vary in line with changes in the business environment. We will aim to achieve the target by quickly adjusting the scope and allocation of resources for improvement in accordance with the situation.

To improve EBITDA margin



Financial and Capital Strategies

Management Cycle for Achieving the Long-Term Vision

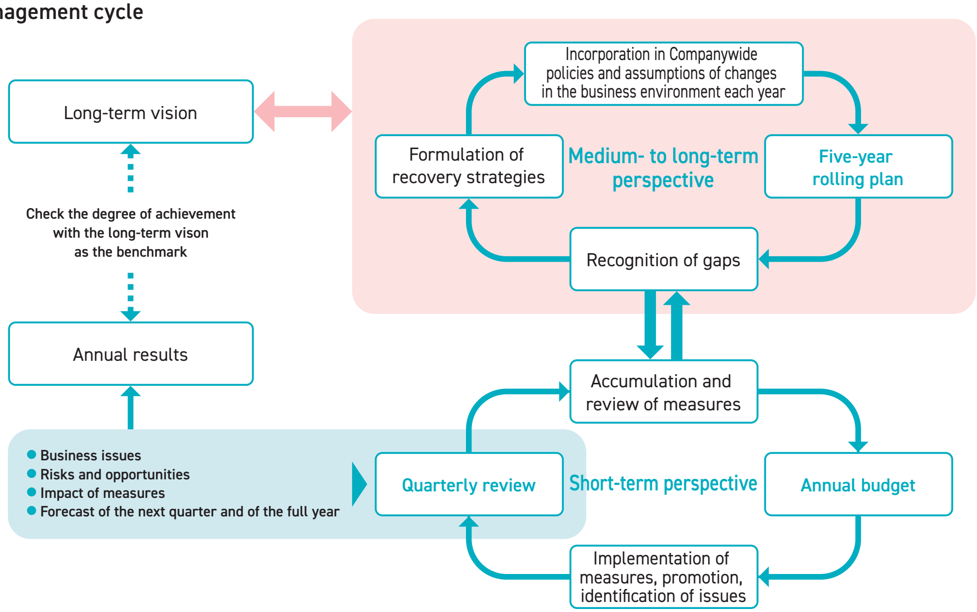
We currently operate a management cycle to achieve the long-term vision and KPIs from medium- to long-term and short-term perspectives. (See the figure below for details.)

From the medium- to long-term perspective, we annually review our business strategies, strategy implementation, and numerical targets for the next five years, in light of the latest market trends and analysis based on the 3Cs model (taking into account customers, competitors, and the Company). The plan formulated is referred to as a "five-year rolling plan." This plan articulates our strategic direction for sustainable growth and maintaining competitiveness, serving as the foundation for the realization of our long-term vision.

From the short-term perspective, we formulate an annual budget based on the first year of the five-year rolling plan. This annual budget allows the five-year rolling plan to be incorporated into a concrete action plan, on which basis the progress of individual measures and achievement of KPIs are monitored quarterly, enabling early detection of problems and implementation of countermeasures.

By organically integrating the management cycle from both medium- to long term and short-term perspectives, while adhering to the long-term vision, we can flexibly respond to changing market conditions in order to achieve sustainable growth and maximize profits.

Management cycle



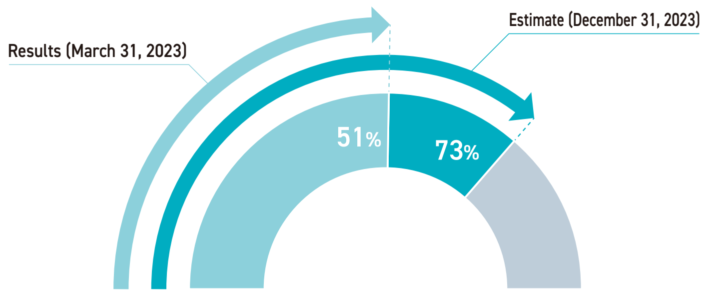
Elimination of Unprofitable Products

As part of our initiatives to improve profitability, each business unit calculates the profit margin for each customer and product and implements specific improvement measures for low-margin products, such as review of raw material suppliers, cost reduction through improved production efficiency, and price revisions in light of market conditions.

However, for products judged to be unable to achieve expected profit margins or cost reduction targets despite these measures, we formulate plans that include withdrawal from such products or scaling back, and manage progress on a quarterly basis. Through these initiatives, we are concentrating resources on highly profitable products and businesses to achieve qualitative improvement of profit.

Furthermore, the Mobility Segment has formed a team designated for structural reforms to emphasize the initiatives (P52 Direction of Portfolio Reform). Progress in other business units is shown below.

Status of completion of the measures to improve profit



Progress as of March 31, 2023*
Measures to improve profit (Price increase, withdrawal, etc.)
Completed: 51%
Under implementation: 28% (of which 80% is scheduled for completion by December 31, 2023)

*The Mobility Segment, and the Olefins and Derivatives business which is largely affected by market conditions, are excluded.
*Completion of measures and their impact on revenue are not necessarily simultaneous.

Financial and Capital Strategies

Instillation of ROIC-focused Management

We are working to raise and instill awareness of ROIC-focused management throughout Resonac from the management level to frontline employees.

In particular, in order to spread ROIC improvement to frontlines, we are promoting initiatives to link frontline KPIs to ROIC, which is a management KPI, and the ROIC target is set under the long-term vision.

Specifically, we set KGIs, KPIs, and KAIs at each level from the management level to the frontlines. At the frontline level, we set indicators that can be managed by business and product lineup while serving as targets for improvement measures. Frontline personnel set and prioritize targets based on the degree of impact of each indicator on KGIs, and manage milestones, such as who should do what and by when.

In the future, we will promote horizontal deployment of the best practices of businesses, in which ROIC improvement is steadily progressing, to other businesses, thus facilitating Companywide instillation of ROIC-focused management.

Sharing of ROIC ranking by business

ROIC components are measured for each business unit and businesses are ranked by ROIC. The semi-annual ranking results are communicated to the management of each business unit so that highly transparent management is achieved on Companywide. It also contributes to healthy competition among business units.

Incorporation of ROIC as a mandatory item of training for managers

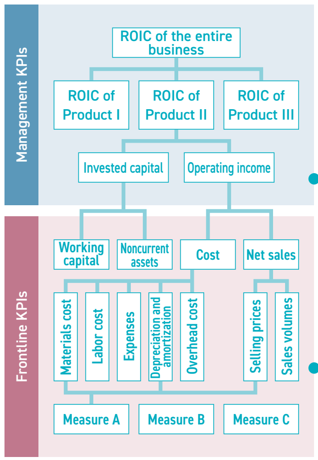
As part of Companywide training for managers, a lecture is provided on the definition of ROIC and why ROIC is important, including actual examples of business profitability improvement by making use of ROIC.

ROIC-linked executive compensation and bonuses for managers

ROIC was introduced as an evaluation indicator for short-term incentives (bonuses) in executive compensation and bonuses for managers.

P126 / Short-Term Incentives

Management KPIs and frontline KPIs (examples)



	Definition of indicators	Key Goal Indicators (KGIs): Most important indicators that must be achieved	Key Performance Indicators (KPIs): Indicators of results of measures and processes for achieving KGIs	Key Action Indicators (KAIs): Indicators of impacts of specific actions for achieving KPIs
Management level	Business unit heads, general managers of business units	ROIC of the entire business	Management KPIs: Operating income ratio by product lineup; Invested capital turnover by product lineup	Net sales, marginal profit ratio, fixed cost to sales ratio, direct labor to sales ratio, working capital turnover
Management level	Department managers	Operating income ratio by product lineup; Invested capital turnover by product lineup	Management KPIs: Net sales, marginal profit ratio, fixed cost to sales ratio, direct labor to sales ratio, working capital turnover	Selling price, sales volume, yield ratio, labor cost, inventory turnover by product, material cost, payment terms
Frontline level	Department managers	Net sales, marginal profit ratio, fixed cost to sales ratio, direct labor to sales ratio, working capital turnover	Frontline KPIs: Selling prices, sales volumes, yield ratio, labor cost, inventory turnover by product, material cost, payment terms	Number of personnel, overtime hours, sales volume by product and customer, unit cost of materials, and material usage by process
Frontline level	Section managers / group leaders	Selling prices, sales volumes, yield ratio, labor cost, inventory turnover by product, material cost, payment terms	Frontline KPIs: Number of personnel, overtime hours, sales volume by product and customer, unit cost of materials, and material usage by process	To be set by each frontline

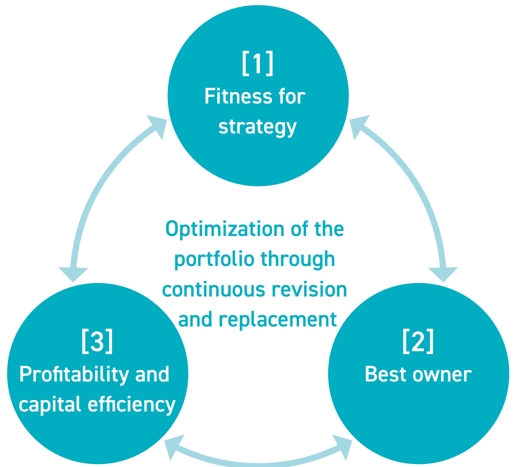
Improvement in Portfolio Management

Resonac's Portfolio Management Policy

We have adopted three criteria as the portfolio management policy, as follows. (1) Fitness for strategy: Whether a business matches the strategies of Resonac's overall strategies and the strategies reflecting the roles of each business unit in accordance with the attributes of the portfolio, with sustainability as a prerequisite. (2) Best owner: Who the best management authority is to maximize the value of a business. (3) Profitability and capital efficiency: Whether a business or investment will satisfy expectations in terms of profitability and capital efficiency.

There is no final form of Resonac's portfolio management. We strive to further improve portfolio management by continuously revising and replacing the business portfolio.

Portfolio management policy

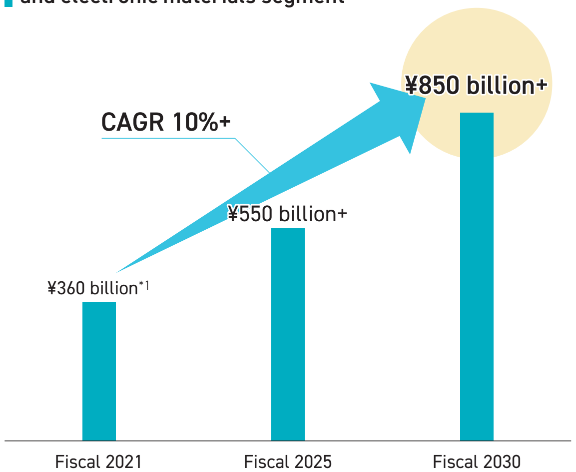


Financial and Capital Strategies

Strategic Allocation of Management Resources

By concentrating management resources on Core Growth businesses, we expect the Core Growth businesses to drive Companywide profit growth, rather than uniform growth of all businesses. In particular, the semiconductor materials business is expected to outperform the high growth of the market. By focusing on investments in the Semiconductor and Electronic M-aterials segment, we aim to achieve sales growth and EBITDA growth as shown in the figure. From 2022 onward, we have engaged in major capital expenditures focused on CMP slurries, copper clad laminates, and dicing die bonding films, and we are considering further investments in these areas in the future.

Medium- to long-term sales forecast for semiconductor and electronic materials segment[*2]



*1 A rough estimate based on internal management figures and taking into account the impact of the sale of a business, etc.
*2 The above forecast is based on the information currently available and does not consider the impact of short-term market fluctuations. Actual results may differ materially from the forecast due to a variety of risk factors and uncertainties in the future.
(Source: Our Policy toward Realization of a "Co-Creative Chemical Company," material for presentation on February 14, 2022)

Moreover, as a means for concentrating management resources on Core Growth businesses, we have established investment policies for businesses according to their respective portfolio attributes (Core Growth/Fundamental/Stable Earnings/Next-Generation). With this in mind, we will raise investment funds on a Companywide basis by stably generating cash through Stable Earnings businesses such as Olefins and Derivatives and Graphite Electrodes.

Investment policies according to portfolio attributes

Core Growth businesses	Growth investment appropriate for market expansion and sales expansion
Stable Earnings and Fundamental businesses	Investment within the scope of depreciation and amortization centering on investment for maintenance, BCP, and profit improvement
Next-Generation businesses	Upfront investment to ensure sales potential in addition to market expansion

In order to achieve optimal allocation of management resources from a Companywide and long-term perspective, in 2022 we reviewed the investment decision-making process.

As part of this revision, a new framework was introduced to centralize information and increase transparency so that the CFO, CSO, CMEO, and other executives can evaluate investment risks and returns multifacetedly at investment meetings where major investments are discussed.

As a result, information asymmetry between departments proposing investment and screening departments has been greatly reduced and active discussions are held, resulting in more rational and speedy investment decision-making based on the characteristics of individual businesses.

Moreover, whereas previously we used the same discount rate for investments throughout the Company, in 2023 we introduced a risk premium by business segment and by country for investment, in order to address investment risk more appropriately. This change enables more accurate assessment of investment risk and will lead to higher investment efficiency and more sophisticated portfolio management.

Direction of and Progress in Portfolio Reform

We are accelerating portfolio reform through business divestitures, in addition to organic growth of existing businesses as described in the previous section. Following the acquisition of the former Hitachi Chemical in 2020, we carried out the following business divestitures.

Fiscal 2021: Sold aluminum cans, aluminum rolled products, food wrap films, printed wiring boards, energy storage devices businesses

Fiscal 2022: Sold ISOLITE GmbH, a manufacturer/distributor of thermal insulations for automobiles, aircraft and other industrial applications, which was part of the mobility business

Fiscal 2023: Sold the diagnostic reagent business in July

We are working to optimize the allocation of management resources, review and replace the business portfolio to realize continuous growth, and spur innovation through the integration of the technologies of the two predecessors of Resonac. Regarding business divestitures, we meticulously examined each of the businesses for sale in advance and transferred them in a state with value to the best owners, who can fully utilize the technological capabilities and strengths of these businesses, including solid relationships with customers, to facilitate their further development.

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Positioning of Each Business in Fiscal 2023

Regarding the positioning of existing businesses within the Company, existing businesses are classified and measures are implemented as shown in the table below, taking into consideration changes in the business environment. For businesses that have not achieved the profitability required by the portfolio to which they belong, in addition to the management cycle described above, individual restructuring projects are being promoted, and business units and the organization under the CFO are working together to improve profitability. In particular, for the automotive products business, for which a fundamental review of the business model and business transformation are required, a team designated for structural reforms has been formed in the Mobility Business Headquarters, and the resources of the organization under the CFO have been allocated to this business to promote reform.

Semiconductor materials / SiC epitaxial wafers
Allocate resources to increase production capacity mainly of businesses with high profitability, ahead of high market growth
Olefins and Derivatives / Basic Chemicals and Industrial Gases / Graphite Electrodes
Implement measures to improve stability of profitability and increase the probability of cash generation. Examine strategic compatibility of the Olefins and Derivatives business with the medium- to long-term portfolio, with a view to industry restructuring
Automotive products / HD media
Implement rationalization measures attuned to changes in the business environment, including product selection and concentration and restructuring of the production system for optimization, to achieve profitability appropriate for portfolio attributes
Life Science
Considering whether we are the best owner, we decided to sell the diagnostic reagent business, while continuing to consider whether to sell the regenerative medicine business.

Pursuit of Capital Efficiency

Reduction of Interest-Bearing Debt

Interest-bearing debt amounted to ¥1,062.6 billion as of December 31, 2022, an increase of ¥212.0 billion compared with the figure as of December 31, 2021, due to execution of subordinated loan financing for the purpose of early purchase of preferred shares in 2022. Despite the increase in interest-bearing debt, the switch from preferred shares, for which a high level of dividends are payable, to subordinated loans will reduce financing costs for the full year from fiscal 2023. The net D/E ratio improved to 1.07 owing to an increase in shareholders' equity and an increase in foreign currency translation adjustments resulting from the yen's depreciation.

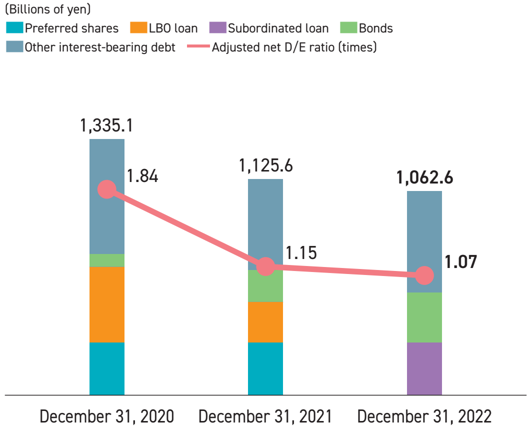
We will continue to reduce interest-bearing debt in order to stabilize finances and cut finance costs.

Efforts to Streamline Assets

Under the long-term vision, we adopted a plan to generate a cumulative total of ¥50 billion in funds by 2021 and worked to improve working capital and sell cross-shareholdings and other assets. We had raised a cumulative total of ¥90.7 billion by 2022, far exceeding the original plan. Regarding cross-shareholdings, at the end of 2021 we determined a policy to sell all of our cross-shareholdings, in principle. Sale of almost all of the listed shares held by Resonac on a non-consolidated basis amounting to ¥46.9 billion had been completed by 2022. To complete sale of all the cross-shareholdings, we will continue to promote sale of shares, including those held by our operating subsidiaries.

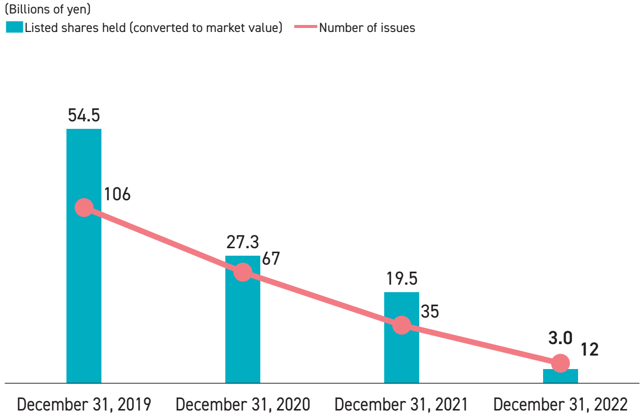
We will continue to promote streamlining and cash conversion of assets, including sale of idle assets and consolidation of sites.

Post-adjustment Net D/E Ratio*, interest-bearing debt, and preferred shares



*December 31, 2020 and 2021: {(Loans payable + Commercial papers + Bonds payable + Lease liabilities) - Cash and deposits + 50% of preferred shares} / (Total shareholders' equity + 50% of preferred shares)
*December 31, 2022: {(Loans payable + Commercial papers + Bonds payable + Lease liabilities) - Cash and deposits - 50% of subordinated loan} / (Total shareholders' equity + 50% of subordinated loan)
50% of preferred shares and 50% of subordinated loan (included in loans payable) are evaluated as equity capital based on the credit rating by Japan Credit Rating Agency, Ltd. on April 21, 2020 and April 27, 2020, respectively.

Cross-shareholdings (listed shares)*



*Listed shares held by Group companies are included. The figure as of December 31, 2019 includes shares held by former Hitachi Chemical.

Assets streamlining and cash conversion

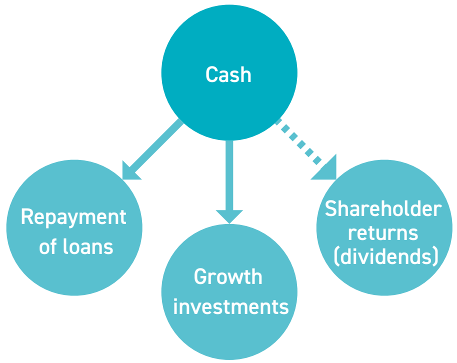
Initiatives	Amount of improvement/sale compared with those before the integration (billions of yen)	
	Long-term vision (forecast)	Update (results for 2022)
Improvement in working capital*1	25.0	13.0
Sale of cross-shareholdings*2	20.0 (cumulative total)	46.9 (cumulative total)
Sale of other assets*2	5.0 (cumulative total)	30.9 (cumulative total)
Companywide total	**50.0**	**90.7**

*1 Calculated by multiplying the difference between working capital turnover days at the end of 2020 and working capital turnover days at the end of 2022 by sales figures of continuing businesses
*2 Cumulative amount of proceeds from sale since 2020. Excluding sale of shares of affiliated companies and divested businesses.

Capital Allocation

We allocate cash flows obtained from business growth and business divestitures to growth investments contributing to profit expansion and to repayment of loans in parallel, taking into consideration the post-integration situation. Specifically, we plan to allocate half to two-thirds of the cash flow generated to capital expenditures, and the remainder to reduction of interest-bearing debt and dividend payments. Moreover, to maximize cash flow, we will generate the necessary cash flow by promoting sale of idle assets, business divestitures, reduction of expenses, and other means.

Cash allocation priorities



In view of the post-integration situation, we must prioritize to a certain degree the repayment of loans and growth investments aimed at expanding profits. Our policy is to allocate half to two-thirds of cash to growth investments.

Shareholder Returns Policy

As for shareholder returns, we aim to achieve total shareholder return (TSR)—a comprehensive indicator for improving corporate value—at a level in the top 25% of the chemical industry over the medium to long term.

To enhance corporate value, as mentioned above, we will actively engage in capital expenditures centering on Core Growth businesses. Distribution of dividends will be determined rationally, taking into consideration the business conditions comprehensively.

Management's Communication with Shareholders and Investors

We emphasize communication with our shareholders and investors, and our management team takes a deep interest in their feedback. Opinions and requests from shareholders and investors, as well as topics related to the stock price, are actively addressed and discussed at Management Committee meetings attended by CXOs and business unit heads, and at forums for exchange of opinions with directors and other executives.

We are also actively engaged in nonfinancial disclosure and dialogue aimed at enhancing corporate value. At the time of the announcement of financial results for the full year of fiscal 2022, in his presentation the CEO articulated his commitment to human capital management, positioning it as a top priority issue, to develop co-creative human resources who can put portfolio strategy into practice to achieve long-term enhancement of corporate value through the multiplier effect of portfolio reform, individual capabilities, and corporate culture. In addition, the CFO is actively engaged in dialogue with major shareholders and institutional investors (people in charge of ESG and exercise of voting rights).

In IR activities, we have been enhancing the quality of communication in English, while also increasing the number of personnel, with the aim of improving the quality of dialogue with investors, especially overseas investors, who are oriented toward long-term holdings. Although communication had centered on online briefings and telephone conferences due to the impact of the COVID-19 pandemic, we resumed overseas IR activities with the participation of the CEO and CFO in fiscal 2022.

Through disclosure on the Group's vision, strategies, and corporate information in an easy-to-understand, timely, and appropriate manner, we will continue proactive dialogue with shareholders and investors and reflect their feedback in management to further enhance corporate value.