

Message from the President



Akinori Higuchi
Representative Director,
President and CEO

Aiming to achieve the sustainable growth of the Sanyo Chemical Group by promoting businesses that contribute to a sustainable society

FY2023, the first year of the MTP 2025, was a turbulent year for the Sanyo Chemical Group. Facing the unexpected situation of a large influx of Chinese chemical products into the Japanese market despite the sharp depreciation of the yen, we have been subject to drastic changes in the business environment over the past year.

Business environment for FY2023

Japanese chemical companies, which import raw materials, faced fierce price competition from Chinese companies with access to their own oil resources. Japanese companies' production and sales in 2023 fell about 12 to 13% year on year. Since May 2022, Japan's ethylene production rate, which is an indicator of the economic status of the chemical industry, has remained below 90% and temporarily dropped below 80%, reflecting the ongoing challenges faced by the entire chemical industry. The impact is reaching not only fields in which products have been commoditized and are less competitive but also the surfactant field, which is our specialty. In the face of China's improved technological capabilities and price competitiveness, Japan's chemical industry has no choice but to accelerate the transformation of its industrial structure and business model.

Although I do not know whether this major change in the chemical industry just happened to coincide with the timing of our decision to withdraw from the superabsorbent polymer business ("SAP business"), which accounted for about 25% of our total net sales, this supports the validity of our decision to implement painful structural reforms.

Direction in which the Sanyo Chemical Group is heading

Our business environment will remain the same in some areas while changing in others. With a focus on fields based on values that will remain unchanged in the future, the Group plans to develop new businesses that contribute to carbon neutrality and improved quality of life (QOL) into pillars of its business beyond 2030 as the Group's growth driver.

As an approach to commercialization, in order to quickly respond to changes in the business environment, we are considering ways to keep our assets as light as possible, such as licensing agreements, outsourcing manufacturing and sales, and collaborating with other companies. As for new businesses, three products that are already being commercialized - Silk-Elastin, peptide agriculture, and the electric nose - are introduced on the special feature pages (P21-22), from which I hope you will gain a sense of our direction and future potential.

Carbon neutrality

I believe that companies will increasingly need to adapt to climate change in the future. As a promising business, we work on commercializing a chemical that absorbs carbon dioxide (CCU).* Moreover, naturally derived peptides for agriculture, as alternatives to chemical fertilizers and pesticides, are an agricultural solution effective in improving the quality of agricultural products and increasing yields. We are considering establishing a new production site for them.

* Carbon dioxide Capture and Utilization

Improvement of QOL

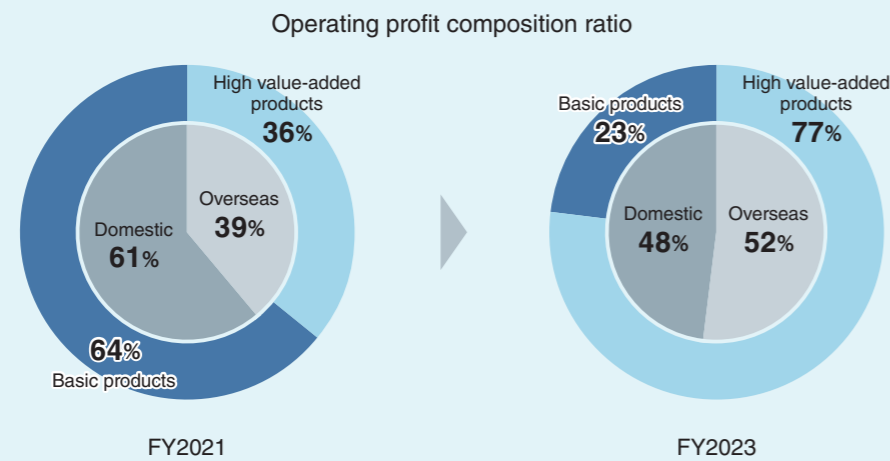
The other business is one that contributes to improving QOL. While average life expectancy continues to increase, healthy life expectancy is more than 10 years shorter than average life expectancy, hence we are focusing on product development that will close this gap. With promising new products at the starting line, the business is just about to get under way.

Progress of the New Medium-Term Management Plan 2025

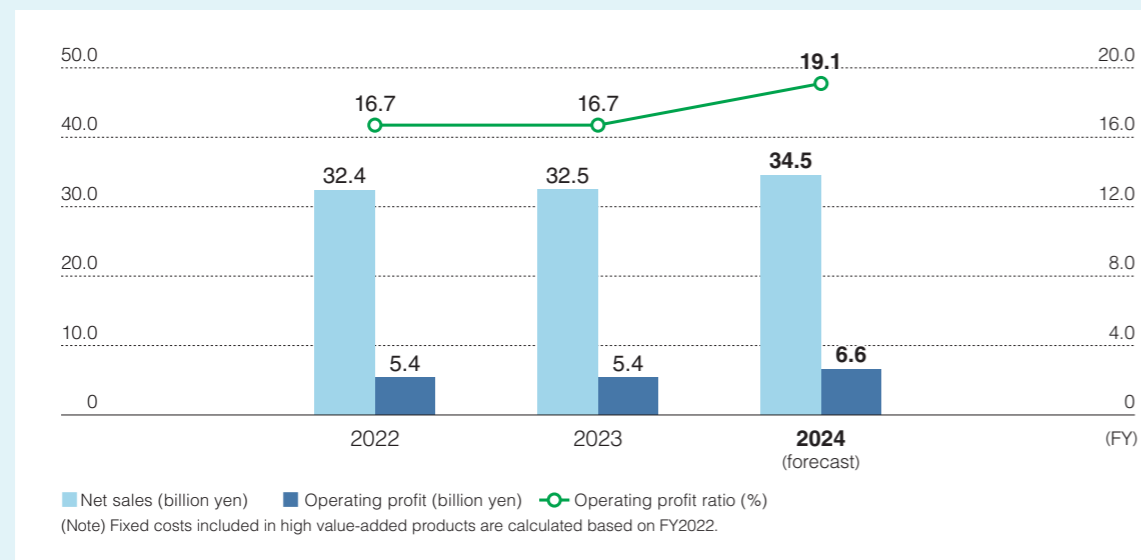
Quantitative targets of the MTP 2025

	(FY)			
	2022 (results)	2023 (results)	2024 (plan)	2025 (targets)
Net sales (billion yen)	174.9	159.5	145.0	200.0
Operating profit (billion yen)	8.1	4.8	8.0	15.0
Operating profit ratio (%)	4.6	3.1	5.5	7.5
ROIC (%)	3.2	2.4	3.9	7.0

Business portfolio



Net sales/operating profit/operating profit ratio of high value-added products



Overview of the first year of the MTP 2025

FY2023, the first year of the MTP 2025, turned out to be a very tough year, contrary to expectations, due to sluggish domestic demand in China and intensifying price competition in the Japanese and Asian markets caused by an oversupply of Chinese products. In response to these changes in the business environment, we implemented structural reforms, including withdrawal from the SAP business, and promoted the transformation of our business portfolio. Consequently, we recorded an extraordinary loss of over 12 billion yen as business structural reform costs, resulting in a net loss of 8.5 billion yen in FY2023. Having secured funds for structural reforms and growth investment for FY2024, we intend to steadily implement the MTP 2025 toward its final year, FY2025.

Transformation of business portfolio

Our withdrawal from the SAP business will significantly change our business portfolio. In FY2023, due to a significant loss in the SAP business and poor performance of automobile-related materials, high value-added products that contribute to carbon neutrality and improved QOL accounted for the majority of our operating profit. However, the proportion of these products will be around 50% in FY2025 due to the recovery of core business other than high value-added products. Although the business portfolio will differ from the one announced in the MTP 2025 due to withdrawal from the SAP business, we would like to maintain our quantitative target of 15 billion yen in operating income.

Global deployment

In contrast to high value-added products, whose proportion has relatively increased due to our withdrawal from the SAP business and the reorganization of our overseas bases, our overseas net sales will decrease significantly. Since the Sanyo Chemical Group has set global growth as its Vision in the MTP 2025, I will explain our future global deployment.

Growth from core business

First, we will increase overseas sales of high value-added products. Although their overseas sales in FY2023 were stagnant due to rapid changes in market conditions, we believe that there will be no change in the medium- to long-term direction.

Since demand for chemicals for special fibers is expected to increase for wind power generation, we will establish new production facilities at the Kashima Factory to increase production capacity by about 50%. Among the chemicals for special electronic parts, electrolytes for aluminum electrolytic capacitors are industry-standard, long-running products. To respond to the shift to electric vehicles and accelerated vehicle electrification, we plan to increase our production capacity by about 60%. Our lubricant additives are effective in improving vehicle fuel efficiency, with global demand expected to grow worldwide, and we have already established of a production site in South Korea. We will also expand into the marine market. Permanent antistatic agents are high-performance products mainly for the semiconductor industry. We established new production facilities in Thailand in 2022 with further expansion in sight. Since the global deployment of major medical and pharmaceutical products is accelerating, we are working to increase our production capacity to meet growing global demand.

New growth path

Next, we will develop new markets with innovative new products and technologies. As mentioned earlier, we have already identified several promising products in our product group positioned as a new growth path, such as Silk-Elastin, peptide agriculture, and the electric nose. There are also some products for which we expect to see a certain amount of domestic sales during the MTP 2025 period. This achievement will provide momentum for global deployment.

Redevelopment of overseas base network

Finally, for our overseas base network, I view the streamlining of our overseas bases as a good opportunity to start from scratch and redevelop our global base network. Returning to our basic ideas, we are considering how to advance our global strategy, including how to manufacture and sell products and how to divide the roles of factories around the world.

Reformation of Existing Business

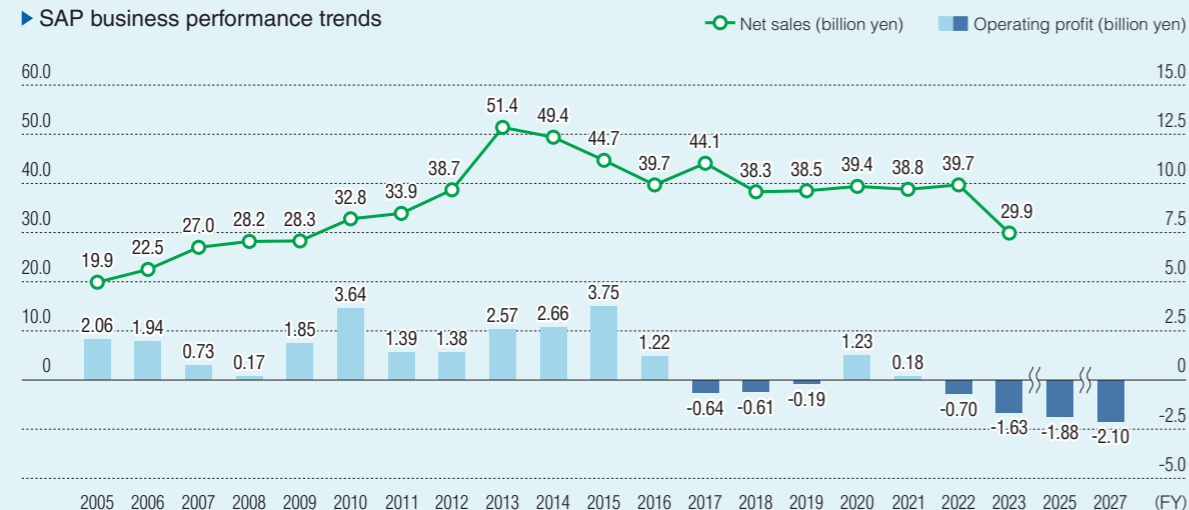
Structural reforms

Withdrawal from the SAP business

SDP Global Co., Ltd.	Production planned to be suspended during FY2024
SDP GLOBAL (MALAYSIA) SDN. BHD.	Production suspended
San-Dia Polymers (Nantong) Co., Ltd.	Under consideration for sale

Establishment of LLP for the PPG business

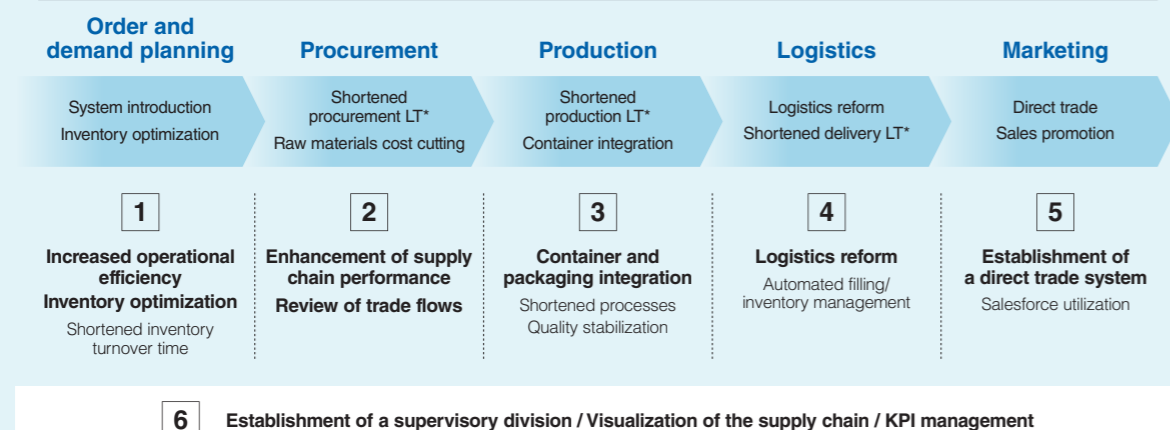
SAP business performance trends



(Note) Forecasts from FY2025 onward are based on the assumption that the business will continue.

Monozukuri Transformation

Transforming business processes throughout the supply chain



* Lead time

Withdrawal from the SAP business

In March 2024, we decided to withdraw from the SAP business, which had once earned the biggest profits since commercial production began in 1978. At the same time, we ceased production at SDP GLOBAL (MALAYSIA) SDN. BHD. in March 2024 and plan to stop production at SDP Global Co., Ltd. during FY2024. We also announced that we had begun to consider transferring all of our equity interests in San-Dia Polymers (Nantong) Co., Ltd. to a Chinese company during FY2024. These are part of our structural reforms under the MTP 2025, which are among the most important measures in this three-year plan.

The management team is currently reorganizing their local operations and negotiating with relevant parties to withdraw from the business as quickly as possible and complete the withdrawal during FY2024. By the time we announce our next medium-term management plan, we will report the details of our business portfolio and investment plans that will give you hope for our future.

Background to withdrawal from the SAP business

Although the SAP business initially continued to expand due to our high-quality products, we soon faced technological catch-up from overseas competitors and price competition. Since we had to purchase main raw materials from outside, the SAP business gradually became a general-purpose product business with lower profit, resulting in an operating loss of about 1.6 billion yen in FY2023.

When I was appointed to the business division in head office 10 years ago after serving as the president of a subsidiary, the SAP business was still generating profit. However, I felt a sense of crisis regarding its future from an outside perspective. However, it was difficult to decide to withdraw from the business due to the sales volume, asset size, relationships with customers, and other factors. Moreover, since the company of those days had a conservative culture that was hesitant to change, it was urgent to first revamp that culture in order to withdraw from the business.

Structural improvement of the polyurethane business

The MTP 2025 also calls for structural reforms of the polyurethane business. Rather than withdrawing from this business, we plan to increase the profit ratio through Monozukuri Transformation to make it a business that contributes to our performance.

Last year, we established Japan Polyol Limited Liability Partnership (LLP) jointly with Mitsui Chemicals, Inc. to streamline production facilities, logistics, and raw materials procurement. By reducing manufacturing costs to expand the spread with sales prices, we aim to increase the profit ratio, thereby rendering the business profitable.

Monozukuri Transformation

There are countless ways for us to reliably generate profits through manufacturing across the supply chain, from purchasing to sales. Focusing on how to achieve efficient, stable production, we promote the visualization of the entire supply chain, from purchasing to sales.

Many issues have already been raised, such as diversifying suppliers, reviewing capacity assessments at manufacturing sites, and reducing inventory, and these are steadily improving. I hope that there will be many more improvements to come in the future.

Inventory visibility

We have had a very complicated inventory due to our 3,000 different products and hundreds of packaging styles, with each product being delivered in multiple containers. However, we have not implemented precise inventory management for a long time. Under Monozukuri Transformation, we work to make our inventory more visible.

This will allow us to avoid having separate inventory of the same product in different containers, and to reduce the number of containers and inventory. We also expect a significant improvement in the cash conversion cycle (CCC), which will enable us to generate a large amount of cash.

Safety and quality

Believing that safety is our lifeline, we always place the highest priority on it.

Business continuity is impossible without safety. Various safety measures are under way in parallel, with Monozukuri Transformation serving as their foundation. Efficient, lean operations reduce the burden on manufacturing sites and improve safety.

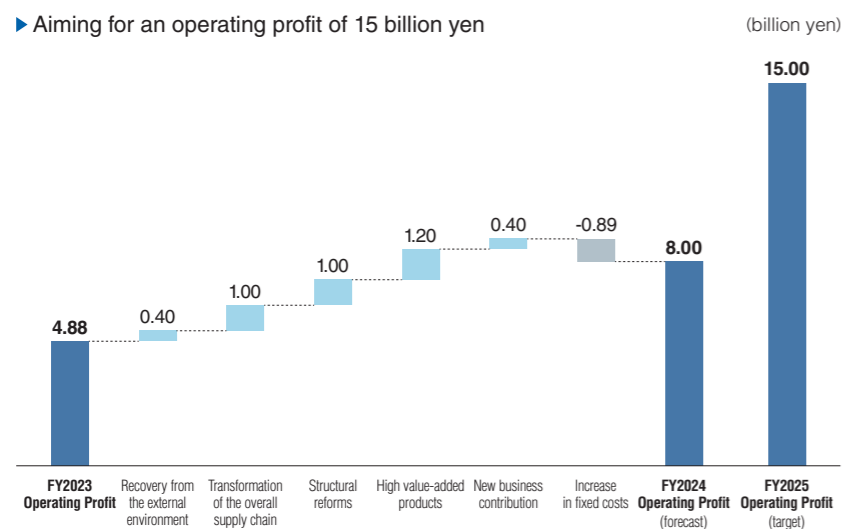
Moreover, a stable supply of high-quality products is essential for the company's future globalization and growth. As part of Monozukuri Transformation, we have made new organizational changes and established a department that thoroughly checks quality within the Responsible Care Division, separate from the Production Division. To improve productivity, reliability, and quality, we have introduced a system that can transfer analytical data for product quality control to our ERP system without human intervention. We also plan to introduce a system that enables those involved to immediately share even minor changes in analysis methods due to revision of the law.

R&D and new businesses

We have many researchers working to "create innovations beyond the boundaries of chemistry with its chemical capabilities" in order to create and develop new businesses. However, given the limited resources of the company, we cannot have too many research topics. We will therefore focus on a few topics from the categories of carbon neutrality and improved QOL to thoroughly improve the value of each topic.

For example, can a certain product be made more valuable worldwide? Or is there another way to use this technology? Thus, we are looking for ways to increase added value from a broad and multifaceted perspective, rather than focusing on each technology and product separately.

▶ Aiming for an operating profit of 15 billion yen



- Sanyo Chemical's Promotion Actions**
- Promotion of Monozukuri Transformation
 - Implementation of structural reforms
 - Expansion of sales of high value-added products
 - Early profit contribution from new businesses

How to achieve our targets

Although we aim for an operating profit of 8 billion yen for FY2024, the full results of our withdrawal from the SAP business and Monozukuri Transformation will not be seen until FY2025 onward. By leveraging these effects, expanding sales of high value-added products, and commercializing products on a growth path, we aim to achieve the operating profit target of 15 billion yen set in the MTP 2025 despite difficulties. As for our operating profit target of 50 billion yen for FY2030, announced in our management policy, we will maintain our determined stance to achieve it.

Outside Director Shirai appointed Chairman of the Board of Directors

In June 2024, Outside Director Aya Shirai was appointed Chairman of the Board of Directors. Director Shirai served as Mayor of Amagasaki City for eight years, and responded to the JR Fukuchiyama Line derailment accident as the mayor. Having also served as an outside director for other companies, she has the insight unique to an outside director regarding the direction our company should take. I believe that stakeholders can expect the Board of Directors to be run in a more transparent manner that incorporates an outside perspective.

To all stakeholders

Since taking up my post at the Head Office as a management member nine years ago, I have worked with the sole desire to make the Sanyo Chemical Group an even better company. I was appointed President in 2021 and announced our long-term management policy, and I am currently leading the implementation of the MTP 2025 as its first stage. Although we are lagging behind our initial plan, demand for our products is improving due to the recovery of the automobile-related industry. We will continue to focus on completing the MTP 2025.

It is not easy to sustainably increase profits and grow a company. With the understanding and cooperation of stakeholders, I hope to put into practice our company mission, "Establish a better society through our corporate activities," by returning the added value and products we create to stakeholders and society, and to help the Sanyo Chemical Group continue to grow into the future.

I want all employees working on the MTP 2025 to continue to think about how their departments should function as profit centers, share their views without hesitation, and act accordingly. It is my sincere hope that everyone in every department will feel "WakuWaku" about their work.

September 2024

Representative Director, President and CEO

