

Management Policy

Sustainability Management

As "contribute to solving the social and environmental issues, and realize the sustainable growth" is mentioned in our Management Policy, we understand that active engagement in social and environmental issues is required in our business activities. Specifically, we set KGI goals, such as achieving our goals (Scope 1 and 2) of carbon neutrality by 2030, and specified them in our mid-term management plan. Toward these goals, we have worked on solving climate change issues, promoting human capital management, and reducing emissions.

ESG Policy In all aspects of our business activities, we promote environmental conservation and contribute to solving social and environmental issues, aiming to achieve sustainable growth.

ESG promotion organization

We set up the ESG Committee in December 2021 to take the initiative on climate change issues. Director and Senior Managing Operating Officer was appointed the chairperson, and Executive Officers and Division Managers were appointed the committee members to promote the activities. The ESG Committee holds four meetings a year to raise awareness and promote sustainability-conscious management and discuss such themes as a response to climate change, realization of a decarbonized society, respect for human rights, consideration for work conditions, and fair and appropriate transactions with clients.

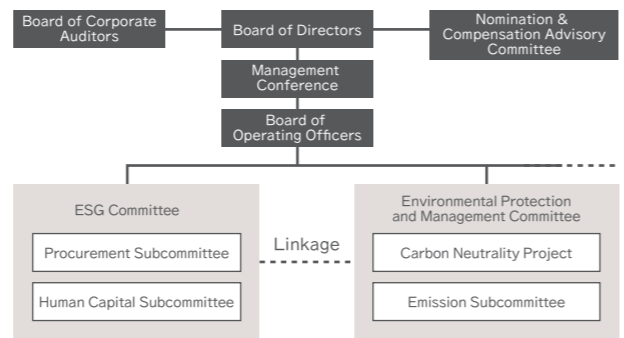
Regarding environmental conservation activities, the Environmental Protection and Management Committee, which works with the ESG Committee, supervises the progress of activities conducted by the Carbon Neutrality Project and the Emission Subcommittee and continuously improves them.

The Procurement Subcommittee sets up the CSR Procurement Policy under the supply chain management and promotes CSR activities with suppliers.

Under the concept of human capital management contributing to corporate value improvement, the Human Capital Subcommittee was established in March 2023 to link management strategy to human resource strategy. It holds a monthly meeting to discuss such matters as setting up a human resource strategy.

Each committee periodically reports important agenda

items and activity status to the Board of Operating Officers, the Management Conference, and the Board of Directors, and the Board of Directors makes final decisions. The Board of Directors checks the progress of the mid-term management plan, discusses measures for issues, and reflects the results in the management strategy and risk management and assessment based on the periodic reports. As shown above, the Board of Directors is responsible for debating ESG-related agendas and supervising the goal-setting and the progress of initiatives.



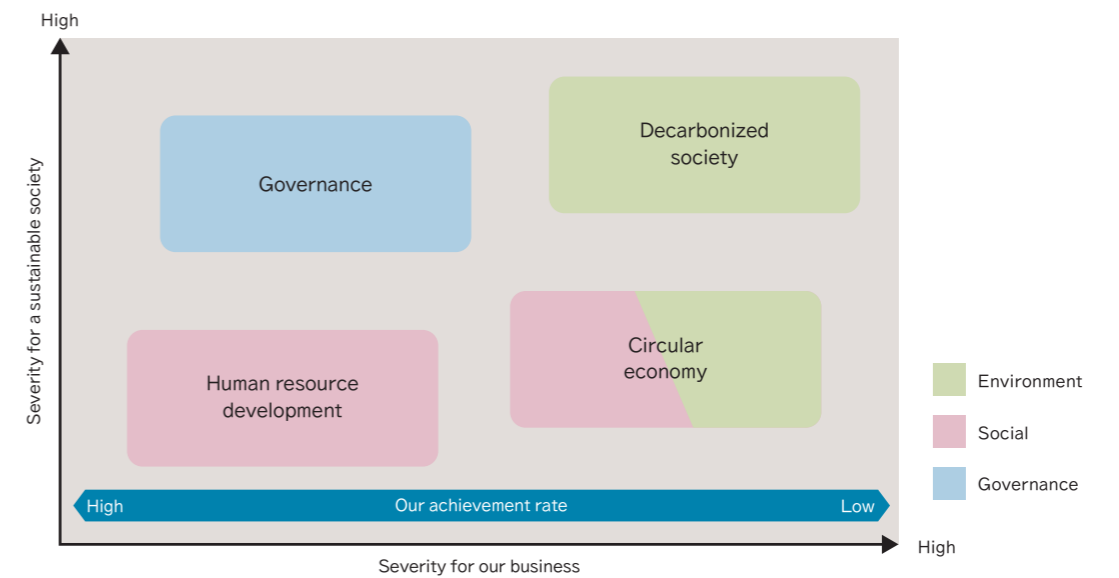
Board of Directors	- Supervise the entire sustainability
ESG Committee	- Promote the entire activities to overcome challenges for sustainability, such as establishing a general sustainability policy, coordinating to set division goals, and managing their progress
Procurement Subcommittee	- Procure eco-friendly materials, provide suppliers with training on human rights, labor rights, safety and health, and corporate ethics in accordance with the CSR Procurement Policy, and establish a socially acceptable supply chain
Human Capital Subcommittee	- Develop human resources who can implement CIC and promote human resource development by linking management strategy to human resource strategy - Develop future leader candidates who can achieve diversity and ensure equal opportunities
Environmental Protection and Management Committee	- Manage budgets and conduct company-wide coordination for activities to reduce environmental loads, such as setting goals for the Carbon Neutrality Project and the Emission Subcommittee and managing their progress
Carbon Neutrality Project	- Establish and implement measures to achieve carbon neutrality by 2030, such as capital investment, technological innovation, use of renewable energy, and improvement in energy use efficiency
Emission Subcommittee	- Take the initiative in reducing, removing, and recycling emissions and waste generated in business activities - Research the technology trend toward the realization of zero emissions in 2050

Materiality (key issue) identification

We discussed how to respond to changes in external environments due to environmental issues and how to contribute to international Sustainable Development Goals (SDGs) at the ESG Committee meetings. Consequently, we designated the following four items as materiality to be tackled in our mid-term management plan: "Contribution to a decarbonized society", "development of diversified human resources and improvement in job

satisfaction", "promotion of circular economy", and "enhancement of governance". To solve these issues, we make company-wide efforts.

In the process of identifying materiality, we had the ESG Committee narrow the items down to four based on the severity for a sustainable society and the severity for our business.



Initiatives on materiality

We set KGIs (key goal indicators) to achieve in each materiality to increase our corporate value.

Materiality	KGI (Key Goal Indicator)	Promising global goals
Contribution to a decarbonized society	- Achieve carbon neutrality by 2030 - Replace with renewable energy	- Promote energy and resource saving - Offer low environmental load materials
Development of diversified human resources Improvement in job satisfaction	- Develop next-generation human resources - Be a company where all employees can work lively	
Promotion of circular economy	- Reduce emissions - Establish a sustainable supply chain	
Enhancement of governance	- Be an organization with a strong sense of ethics - Build an organizational structure with an open-door policy	

Management Policy

Mid-Term Management Plan

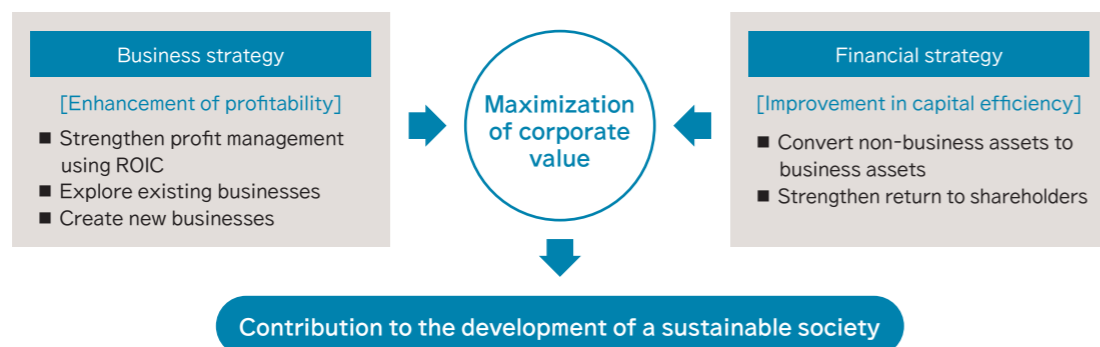
Background of formulating a mid-term management plan and its basic policy

The environment surrounding us has the following various types of issues: Climate change, resource depletion, ecosystem collapse, tightening of regulations, diversification of values and lifestyles, aging society, divisions of the supply chain, exposure of human rights issues, mobility of workplaces, exposure of geopolitics and cyber risks, and progress of innovation. While being strongly requested to tackle these issues by stakeholders, including investors, companies must produce benefits to continue business.

Our group formulated a mid-term management policy based on the management policy (see page 3) with the motto of "Create, Innovate, and Challenge" and released it in October 2020. By maximizing our corporate value with both business strategy and financial strategy, we aim to achieve an ROIC goal of

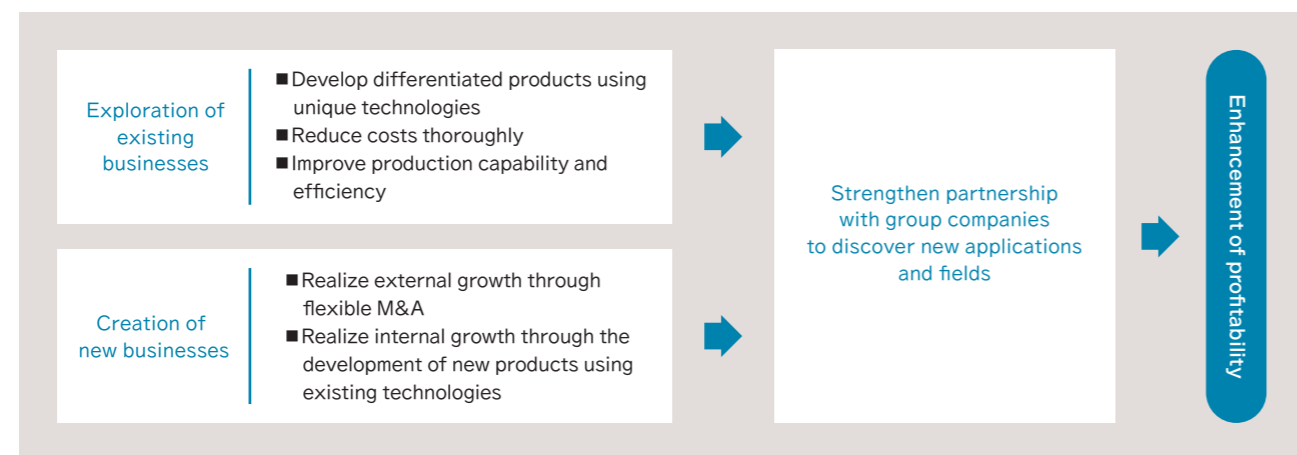
6 % in FY2024 (fiscal year ending March 2025).

Our group strives to work on technological innovation and product development while fulfilling users' needs and realize its sound survival and sustainable growth, thereby increasing its mid- to long-term corporate value. Specifically, to maintain or expand the revenue base of existing businesses, we implement strategic investments in a new business that maximizes the synergy effect with existing businesses and has high profitability of capital, as well as improving and expanding production capability and investing in the development of new products that anticipates users' needs. We also select themes that have impacts on society and the environment and aim to address their issues through business.



Business strategy

We enhance profitability through "exploration of existing businesses" and "creation of new businesses" and also develop differentiated products with a focus on fields with growth prospects.



Financial strategy

We improve capital efficiency by actively returning surplus to shareholders while managing cash flow effectively and converting non-business assets to business assets.

Capital investment	Return to shareholders	Strategic investment
Exploration of existing businesses <ul style="list-style-type: none"> Maintain and expand the revenue base Develop new applications 	Active return <ul style="list-style-type: none"> Total return ratio: 80% or more Set the dividend payout ratio as 80% and consider share buyback as necessary by taking demand for funds into account. 	M&A and new businesses <ul style="list-style-type: none"> Tap into new markets through external growth Create new businesses using existing technologies



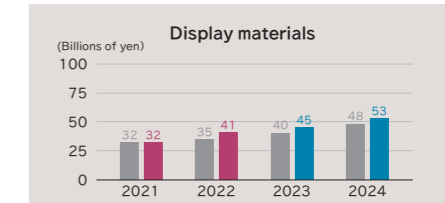
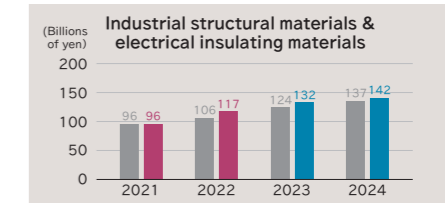
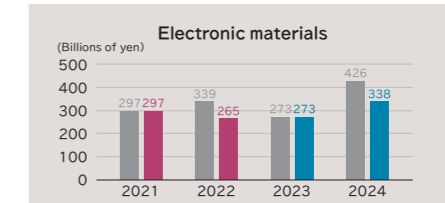
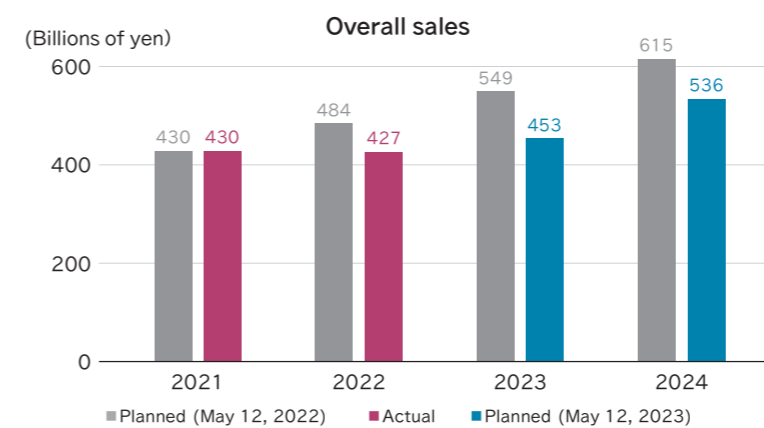
Planned and actual sales

We set an ROIC goal of 6 % by the end of FY2024, which is higher than the capital cost of 5.9 % (as of the end of FY2022).

The actual sales for FY2022 fell short of the planned sales announced on May 12, 2022. The main reasons why we failed to meet the planned sales and revised the estimates downward in the mid-term management plan are the prolonged adjustment of inventories such as smartphones and semiconductors in the electronic material market, one of our main businesses, and the slumping Chinese economy and its slow recovery. The anticipated growth specified in the plan is likely to occur one or two years later than expected due to the rebound of stay-at-home demand

and the delay in market recovery. Meanwhile, the sales of FRP pressure vessels for industrial structural materials showed steady growth due to the increased demand in the seawater desalination business. In addition, the sales of honeycomb sandwich panels for aircraft were recorded higher than expected due to the recovery in demand in the aircraft industry.

Amid the lingering stagnation of the electronic material market, we will attempt to put our business back on track in FY2023 and FY2024 by steadily implementing the business strategy specified in the mid-term management plan.



Changes in ROIC	2021	2022	2023	2024
Value announced on May 12, 2022	4.4%	4.4%	5.6%	6.6%
Value announced on May 12, 2023	4.4% (actual)	2.8% (actual)	2.7%	5.2%

■Planned (May 12, 2022) ■Actual ■Planned (May 12, 2023)

Management Policy

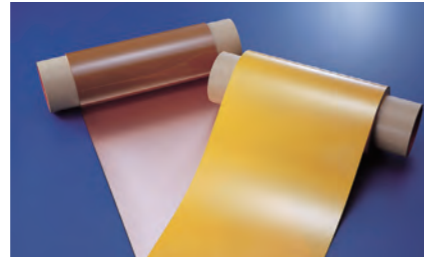
Businesses / Outline of Each Segment

Our group offers various products by leveraging our excellent processing technologies and centralized production system.

Electronics Materials

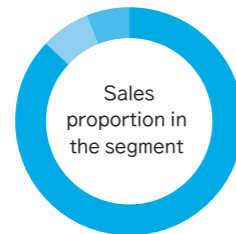
P25-26

This is our group's main business, which accounts for more than 60 percent of our consolidated sales. There are production sites in Japan, Taiwan, and China. This business contributes to the growth of society mainly in the information device field.



Sales and proportion of major products

Sales
265
billion yen



Sales breakdown in the segment

Materials for flexible printed circuit boards & semiconductor-related materials	87%
Rigid printed circuit boards	7%
Glass cloths for printed circuit boards & prepreps for rigid printed circuit boards	6%

Display Materials

P29-30

This is a group of our products that can be recognized by general people. This business contributes to the development of people's rich lives by offering materials for medical and amusement use.



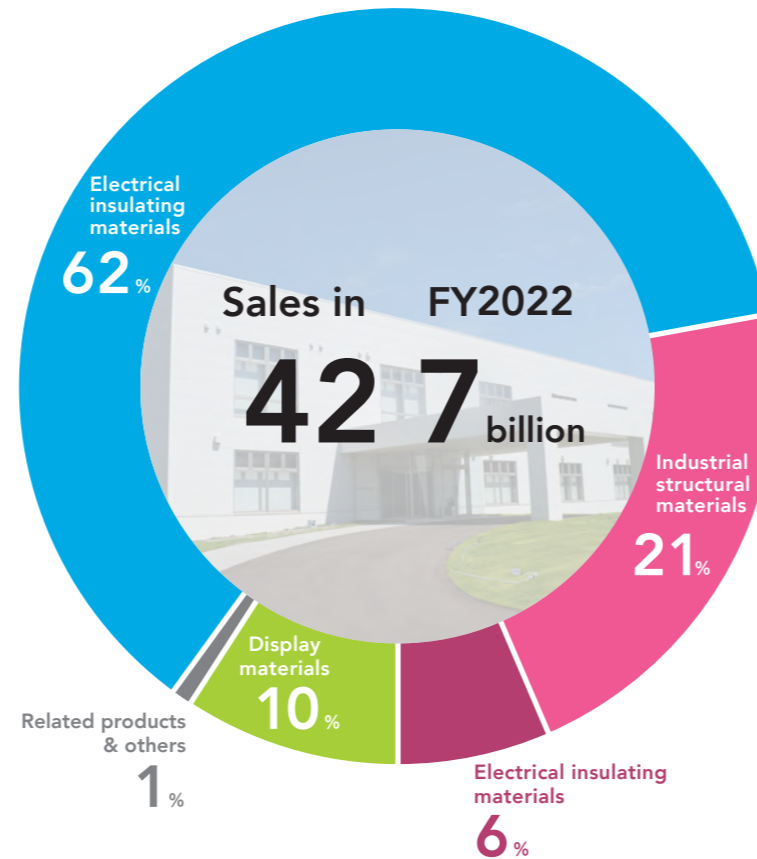
Sales and proportion of major products

Sales
42
billion yen



Sales breakdown in the segment

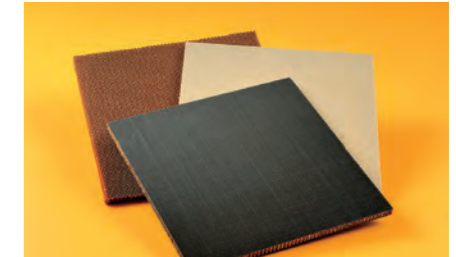
Polarization control optical components	54%
3D display-related materials	38%
Others	8%



Industrial Structural Materials

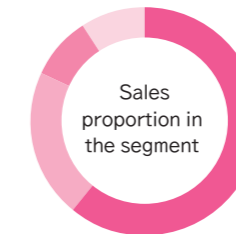
P27-28

This is the second pillar of our group's business. There are production sites in Japan, Spain, and the U.S. This business contributes to society by offering materials to improve fuels for aircraft and vehicles and produce new energy and clean water.



Sales and proportion of major products

Sales
91
billion yen



Sales breakdown in the segment

FRP pressure vessels for water treatment	61%
In-vehicle materials	21%
Honeycomb sandwich panels for aircraft	9%
Others	9%

Electical Insulating Materials

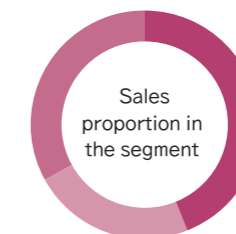
P27-28

This is a group of products with a long history. This business contributes to creating a livable society by offering insulating materials and heat dissipation materials for generators.



Sales and proportion of major products

Sales
26
billion yen



Sales breakdown in the segment

Prepreps for electrical insulation	44%
Glass cloths & glass tapes	23%
Others	33%

Related products & others

The related product and other businesses handle pultrusion molding production, golf driving range operation, and logistics and transport.

Management Policy

Strategy by segment

Electronic Material Segment

In the electronic material field, we develop and manufacture materials for printed circuit boards, semiconductor-related materials, and printed circuit boards, all of which are key devices for information and communication society, using the following four core technologies:

Surface processing technology to maximize the performance of glass cloths

Compounding technology of mixing denaturants and chemicals into thermosetting resins

Resin coating technology

Laminating

Our group's products range from prepregs for rigid printed circuit boards to materials for flexible printed circuit boards (FPC). Especially, our materials for flexible printed circuit boards have gained acclaim for its production process with excellence in flexibility, anti-migration property, and heat resistance at high temperatures and ultra-narrow gaps. With the deep trust of customers, we have retained our position as one of the top manufacturers specializing in electronic materials.

Business locations

[Arisawa]
(Nakadahara Factory, Nakadahara-nishi Factory, Minami-honcho Factory)
Materials for flexible printed circuit boards, prepregs for rigid printed circuit boards, & semiconductor-related materials

[Arisawa Fiber Glass]
Glass cloths for printed circuit boards

[Satosen]
Rigid printed circuit boards

Overseas offices

- [ThinFlex] (Taiwan)**
Materials for flexible printed circuit
- [TopFlex] (China)**
Materials for flexible printed circuit boards

Analysis of the present situations

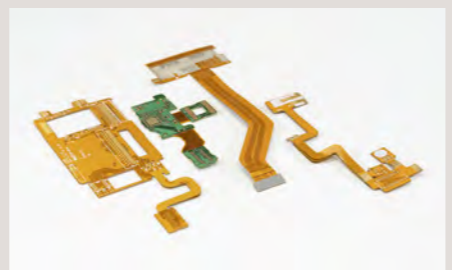
SWOT analysis based on the present business environment is shown below:

S Strengths	W Weaknesses
<ul style="list-style-type: none"> -Design flexibility with in-house resin compounding technology -Support for various types of processing using equipment 	<ul style="list-style-type: none"> -Lower production efficiency due to the production of many models in small quantities -An excessive number of inspectors required to maintain quality
O Opportunities	T Threats
<ul style="list-style-type: none"> -Differentiated products with high functionality and high quality -Flexible proposals, selected from a variety of products 	<ul style="list-style-type: none"> -Low-price strategy of overseas competitors -Slowdown in demand growth for PCs, tablets, and smartphones

Business environment

Electronic devices, such as smartphones, are becoming more highly functional, and electronic circuits have a higher circuit density through refining, accordingly.

There are growing needs for materials supporting fast transmission, high heat dissipation, high heat resistance, and large current in a wide range of application areas, from home appliances to in-vehicle parts, and we work on developing highly functional products in response to these needs.

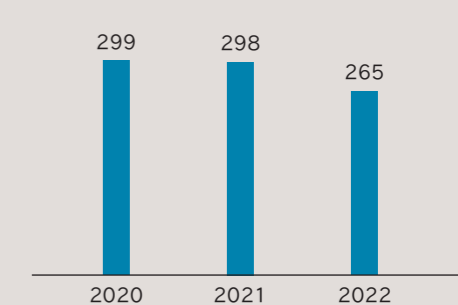


Business strategy

To enhance profitability according to the mid-term management plan, we work on "exploration of existing businesses" and "creation of new businesses".

Regarding electronic materials, we aim to grow them as our primary business with two strategies. We develop new products mainly in the mobile, semiconductor, and in-vehicle fields for business expansion. We also deepen ties with our group companies to strengthen the business foundation in the Asian markets.

Sales transition (Billions of yen)



Business summary for FY2022 and measures and outlook for FY2023

The sales of materials for flexible printed circuit boards and glass cloths for printed circuit boards experienced a significant decline from the previous year due to the downturn in demand for PCs and smartphones, especially in the Chinese market, since the latter half of FY2022. Regarding materials for smartphones, deliveries of materials for flexible printed circuit boards began for new domestic users and in cooperation with ThinFlex for Chinese users.

The semiconductor and in-vehicle markets are expected to grow in the long term, so we have developed differentiated products to be used in these markets.

In FY2023, there is still an uncertain outlook for the econo-

my due to the continued high prices of energy and raw materials amid the prolonged Ukrainian crisis, global inflation, and demand decline in the Chinese market.

Inventory adjustments continue due to the decrease in demand for PCs and smartphones, and it is assumed that it will take a while for the sales of materials for flexible printed circuit boards and glass cloths for printed circuit boards to recover.

Amid fierce competition in products and costs with overseas competitors, we will boost our competitiveness by offering differentiated products and establishing global ties with our affiliates.

	Exploration of existing businesses	Creation of new businesses
Business strategy	<p>Business enhancement in the mobile field</p> <ul style="list-style-type: none"> ■ Create value for customers and continue growth by offering products with originality ■ Develop new products and strengthen the business foundation in the Asian markets by establishing ties with our group companies 	<p>Commercialization in the semiconductor and in-vehicle fields</p> <ul style="list-style-type: none"> ■ Develop new products and enter new fields ■ Expand business in growing fields by strengthening competitiveness in production and technology
Goals for FY2023	<p>Higher functionality for application to circuit boards</p> <ul style="list-style-type: none"> ■ Higher density, extra-fine line, and tiering of mobile circuits ■ Fast-transmission, high-frequency, and 5G/6G millimeter-wave compatible circuits ■ In-vehicle: High heat-resistant, large-current, and longer circuits 	<p>Development in preparation for versatile application</p> <ul style="list-style-type: none"> ■ Enter new fields (Explore the needs for application to other than circuits) ■ Offer environmentally sound products ■ Co-develop products by strengthening partnership with customers, material manufacturers, and private research institutes

TOPICS

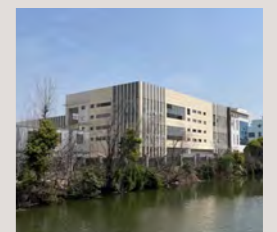
Start operation of new coating machine ai-coater in September 2023

We started operating a new small experimental coating machine known as ai-coater in September 2023. It helps us reduce the product development period. We will also use this machine to promote open innovation to win over co-development projects and new OEM projects.



Set up a new production line in TopFlex

To capture business opportunities in the growing market of flexible printed circuit boards in Asia, mainly Greater China, we set up a new production line in TopFlex (wholly owned by ThinFlex) and will begin the operation in the first half of FY2024.



Management Policy

Strategy by segment

Industrial Structural Material and Electrical Insulating Material Segment

In the industrial structural material and electrical insulating material fields, we pursue FRP (Fiber Reinforced Plastic) molding technology based on our core technologies of weaving and resin impregnation technology. FRP molded products are made by laminating prepregs, which are semi-cured through the impregnation of resin into the fiber, turning them into a desired shape, and applying heat and pressure to it.

Using glass fiber with insulation capability and heat resistance and carbon fiber with lightweight, high strength, and a high module of elasticity as main materials and leveraging FRP-specific anisotropy generated by the orientation of fiber optimizes FRP materials to bring out desired mechanical and thermal properties. With these characteristics, they are used in electrical insulating materials for such devices as generators and motors, materials for aircraft interiors, primary structural materials, general industrial structural materials, materials in the in-vehicle and new energy fields, and materials for sports equipment.

Business locations

[Arisawa] (Nakahara Factory & Minami-honcho Factory)
FRP pressure vessels for water treatment (filament winding molded products), honeycomb sandwich panels for aircraft, prepregs, prepregs for electrical insulation)

[Arisawa Fiber Glass]
Glass cloths, glass tapes, special fiber woven products

[Arisawa Sogyo]
FRP (pultrusion moldings), prepregs

[Arisawa Jushi Kogyo]
FRP

Overseas offices

[Protec Arisawa Europe, S.A.] (Spain)
[Protec Arisawa America, Inc.] (U.S.)
FRP pressure vessels for water treatment (filament winding molded products)

Analysis of the present situations

SWOT analysis based on the present business environment is shown below:

<p>S Strengths</p> <ul style="list-style-type: none"> -Consistent development and manufacturing through the integration of core technologies of "weaving, coating, and molding" -Flexible new resin formulation and improvement 	<p>W Weaknesses</p> <ul style="list-style-type: none"> -Easily affected by market changes due to many types of limited products sold to specific customers -Lower production efficiency due to the production of many models in small quantities -Long-term experience required in human resource development
<p>O Opportunities</p> <ul style="list-style-type: none"> -Demand recovery in the aircraft field -An entry to markets requiring high heat resistance, high pressure resistance, and gas resistance 	<p>T Threats</p> <ul style="list-style-type: none"> -Competition in costs with domestic and overseas competitors -Competition in costs with other materials (metal, ceramic, etc.)

Business environment

Amid the shift to a decarbonized society, the demand for FCVs (Fuel Cell Vehicles) and EVs (Electric Vehicles) has been growing, which requires transportation methods, including aircraft, to be lighter weight for improved fuel efficiency. There is also a growing demand for new energy sources that replace fossil fuels.

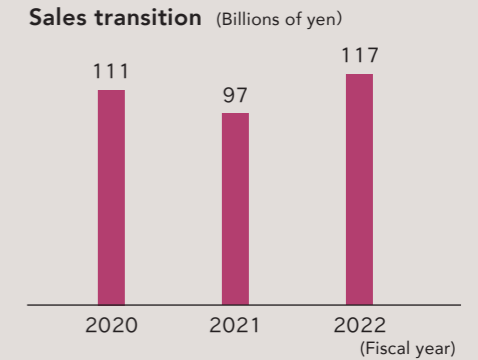
In the life science field, demand is also up for products for water treatment (seawater desalination) and infrastructure reinforcement as measures against disasters. Our group has developed highly functional products to fulfill these needs.



Business strategy

To enhance profitability according to the mid-term management plan, we work on "exploration of existing businesses" and "creation of new businesses".

Regarding industrial structural materials and electrical insulating materials, we develop unique products for further growth, focusing on the transportation infrastructure, water treatment, and new energy fields as our main businesses.



Business summary for FY2022 and measures and outlook for FY2023

The sales of industrial structural materials for FY2022 increased from the previous year due to the steady demand for FRP pressure vessels for water treatment and in-vehicle materials.

The demand for honeycomb sandwich panels for aircraft began to pick up again in the latter half of FY2022. The sales of electrical insulating materials for infrastructure were stably solid. FRP pressure vessels for water treatment saw an increase in sales due to the technical support to Protec and have been considered to be applied to the medical field. Regarding in-vehicle materials, we deepened relationship of trust with users and developed differentiated products in new fields.

In FY2023, the COVID-19 pandemic has finally shown signs of abating after a few years, and the aircraft industry is on a moderate recovery track. It is also expected that there will be continued strong demand in the water treatment field. Meanwhile, the prices of energy and raw materials continue to soar, which will need to be closely watched.

By continuing to produce differentiated products through the expansion of application of our materials into new fields, such as filament winding technology to other fields than water treatment, we will boost competitiveness through global cooperation with our affiliates.

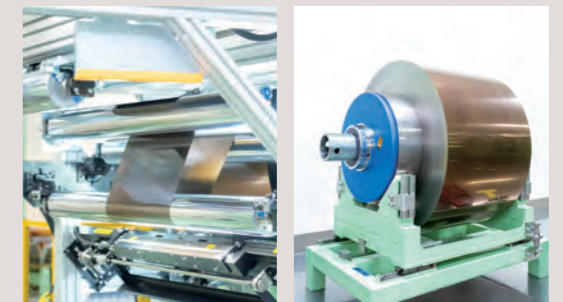
	Exploration of existing businesses	Creation of new businesses
Business strategy	<p>Business enhancement in the transportation infrastructure field and revenue expansion in the water treatment field</p> <ul style="list-style-type: none"> ■ In-vehicle: Make differentiation and enter markets using unique technologies ■ Aircraft: Increase added value through the anticipation of users' needs ■ Water treatment: Create new demand by developing high-performance products 	<p>Commercialization in the hydrogen energy field</p> <ul style="list-style-type: none"> ■ Enter the hydrogen energy and superconductivity fields and promote the development for commercialization
Goals for FY2023	<p>Higher functionality and versatile application</p> <ul style="list-style-type: none"> ■ Aircraft: Increase the production of honeycomb sandwich panels for interiors and develop new materials* ■ Water treatment: Create new demand by developing high-performance products, as well as ultra-high-pressure vessels ■ In-vehicle: Adopt new mechanical components and materials for FCVs and EVs 	<p>Development in preparation for versatile application</p> <ul style="list-style-type: none"> ■ Hydrogen energy: Do a carbon-neutral business mainly for materials and products ■ Superconductivity: Expand the adoption range by grasping needs and developing customized products ■ Offer environmentally sound products ■ Co-develop products by strengthening partnership with customers, material manufacturers, and private research institutes

* High-strength lightweight panels, etc.

TOPICS

Our ultra-thin coating technology is applied to Toyota's FCV MIRAI

Our ultra-thin coating technology is applied to the special titanium foil used for MIRAI --hydrogen fuel cell vehicle by Toyota Motor Corporation. Special titanium foil is used in a flow channel (separator) for power generation by combining hydrogen and oxygen. During press molding, the mold heavily wears as titanium is hard. However, we succeeded in applying lubricant to this special titanium foil with a thickness of a few micrometers. Applied lubricant results in less mold wear, reducing the number of mold replacements by half compared to conventional technologies.



Management Policy

Strategy by segment

Display Material Segment

In the display material field, we have expanded our technological areas from front screen molding, UV molding, and thin film coating to 3D images. Xpol® is a 3D image display filter with fine polarizing elements arranged in order. Attaching this filter to a flat panel display, such as an LCD, allows 3D images to be viewable without flickering through polarized glasses. This filter has been used mainly for medical purposes, such as endoscope monitors.

We have developed an optical retardation element (wave plate) that can be a phase difference plate using a photo-alignment layer and a polymerizable liquid crystal and offered it as a product. We not only offer optical materials but also add a bit of contrivance to them to gain the trust of customers. One such example is lamination processing. Our advanced lamination technology has been developed through the experience of handling a wide range of optical materials and has been highly acclaimed. By reconsidering the properties of "light", we will work on further product development.

Business locations



Analysis of the present situations

SWOT analysis based on the present business environment is shown below:

S Strengths -Xpol® brand value -In-house 3D optical design -Mass production factories available for in-house core processing -Flexibility for the production of many models in small quantities	W Weaknesses -Energy costs required to operate mass production facilities (a higher processing cost percentage) -A lower level of compounding technology than molding technology
O Opportunities -Growth opportunities in the Asian markets -Spread of minimally-invasive treatment to the medical field -Acceleration and penetration of remote surgeries due to a shortage of doctors	T Threats -Emergence of different types of 3D displays -Competition in costs with overseas competitors

Business environment

Under circumstances where a shortage of doctors and the concentration of population in urban areas have occurred, the spread of fast communications allows remote surgeries and robotic arm surgeries, hopefully reducing the workload on doctors. As the demand for displays is also expected to rise in the education field due to the progress of digitization, we have developed highly functional products to meet these needs.

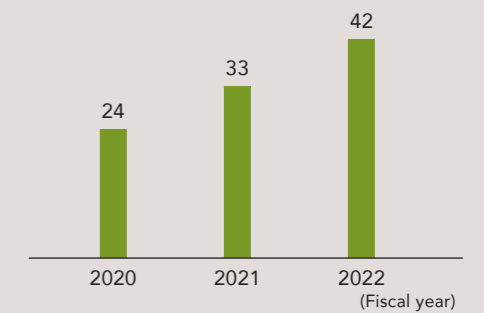


Business strategy

To enhance profitability according to the mid-term management plan, we work on "exploration of existing businesses" and "creation of new businesses".

Regarding display materials, we will expand the sales of new products utilizing our unique technologies mainly in the medical high-definition display field.

Sales transition (Billions of yen)



Business summary for FY2022 and measures and outlook for FY2023

An increase in the sales of 3D-related materials and ColorLink Japan's sales of materials for the use of polarization pushed up the total sales for FY2022 from the previous year.

Regarding 3D-related materials, we are working on reducing costs through process improvement, expanding their application to non-medical purposes, and preparing demonstration content for proposals to companies in the target fields.

In FY2023, we aim to continue growth through the expansion of our businesses, mainly Xpol®, and the development and sales of new products. Regarding 3D displays, we are planning to expand the sales channels for educational and general industries

(non-medical fields) while capturing business opportunities in the medical field in the Chinese market. We will also work on achieving a higher definition.

By offering differentiated products, such as PSA (Pressure Sensitive Adhesive) sheets, and establishing global ties with our affiliates, we will boost our competitiveness.

	Exploration of existing businesses	Creation of new businesses
Business strategy	Business enhancement in the medical high-definition display field ■ Expand the share of endoscopes and microscopes and attract overseas users ■ Expand the sales channels for telemedicine and robotics use ■ Meet the needs for a higher definition	Commercialization in new fields ■ Expand 3D filter application into non-medical fields
Goals for FY2023	Higher functionality and versatile application ■ 3D display: Expand the sales channels in the Chinese market and non-medical fields and achieve a higher definition ■ Screen: Improve the yield rate through technical support to affiliates and expand the application of existing products	Development in preparation for versatile application ■ Offer environmentally sound products ■ Co-develop products by strengthening partnership with customers, material manufacturers, and private research institutes

TOPICS

Begin offering medical 3D monitors for robotic surgeries

Medical 3D monitors, which are designed for endoscopic and microscopic surgeries, have been offered for robotic surgery use since FY2023. They were originally introduced as monitors for assistants around the robotic arm, but we are seeing this opportunity as a chance to apply them as cockpit monitors for operators. As the patent for the major robotic surgery system da Vinci expired, there are many new entries from various manufacturers. The expansion of sales channels by gaining new customers will help expand the needs not only for robotic surgeries but also for the purpose of existing endoscopic and microscopic surgeries.



Management Policy

Financial strategy

Aiming for further growth and corporate value improvement

Our consolidated financial results for FY2022 saw sales and profit declines with net sales of ¥42.7 billion (down 0.9%, year on year) and operating profit of ¥2.2 billion (down 32.9%, year on year). This is because economic activities have been resumed by easing restrictions on people's activities during the spread of COVID-19 infections, but there is still an uncertain outlook for the economy due to the continued high prices of energy and raw materials amid the prolonged Ukrainian crisis, global inflation, and demand decline in the Chinese market.

In FY2023, harsh external environments are likely to continue, such as continued high energy prices and inflation. Even in such business circumstances, we will develop attractive

differentiated products and expand their sales to further improve and enhance profitability.

Our group drew up a new mid-term management plan in 2020 with FY2024 set as the target year to clarify that we will be committed to exploring existing businesses and creating new businesses. We actively return surplus to shareholders and improve capital efficiency by managing cash flow effectively and converting non-business assets to business assets from the financial strategic viewpoint for a stronger revenue base while proceeding with a business strategy targeting fields with prospective future growth.

Aggressive and defensive business management through the introduction and spread of ROIC management

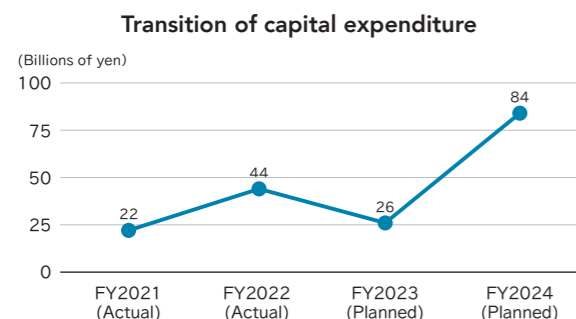
Our group used to set a financial target with operating profit margin and ROE as our KPI goal. To adapt to changes in expectations required in our business environment and by our stakeholders, however, we decided to adopt ROIC as our KPI goal toward the shift to capital cost and corporate value-conscious management based on the mid-term management plan formulated in

FY2020. The set goal is 6% or more, which is higher than our shareholders' cost of capital WACC of 5.9% (as of the end of FY2022, calculated by us based on the value measured by a third-party organization).

In addition, we use ROIC not only for management KPI but also as a judgment tool for investment in facilities.

Investment for growth

Our group allocates funds we have now and will gain during the current fiscal year to production capital expenditure to support the expansion of existing business areas and growth investment to create new business. We also spend capital on quality improvement, research and development, human resource development, and digitization to aim at strengthening the business foundation. Achieving continuous growth while maintaining our competitive advantages through these activities will lead to a virtuous cycle that allows reinvestment for further growth of our group.



Details of capital expenditure for FY2022 to 2024

Increase in production capability	
8.1 billion >	- Production facilities in ThinFlex (Expansion of sales in the Chinese market) - Production facilities for insulating films for semiconductor boards (Expansion of existing businesses)
Improvement in the production process	
1.1 billion >	- A waste heat recovery system - Onsite solar energy generation (Promotion of carbon neutrality) - A production management system and security measures (Promotion of DX)
New product development	
5.9 billion >	- Innovation Center (Establishment of an open innovation base) - A small coating machine and testing facilities (Exploration of existing businesses and creation of new businesses)

Policy of determination on dividends from surplus, etc.

We will proactively return its funds earned during the period to shareholders as well as invest them in the maintenance and expansion of its revenue base for existing businesses and the creation of new businesses. Specifically, the company's basic

policy is a total return ratio of 80% or more for performance-linked dividend and we will respond flexibly to an acquisition of treasury shares in total consideration of demand of funds, financial conditions, etc.

Business overview for the past 5 years

		(Millions of yen)				
		FY2018	FY2019	FY2020	FY2021	FY2022
Operating results						
Net sales		44,728	45,970	46,439	43,089	42,722
Operating profit		3,119	2,762	3,118	3,320	2,228
Ordinary profit		4,297	2,783	3,578	4,204	2,717
Profit attributable to owners of parent		2,861	212	2,160	3,911	2,856
By Segments						
Electronic materials	Net sales	28,770	29,765	31,650	29,768	26,543
	Segment profit	2,620	2,331	2,981	2,907	1,223
Industrial application	Net sales	8,395	8,974	8,842	7,053	9,128
	Segment profit	1,393	1,475	939	872	1,315
structural materials	Net sales	3,127	2,984	2,340	2,604	2,582
	Segment profit	430	366	192	303	184
Electrical insulating materials	Net sales	3,699	3,427	2,820	3,253	4,162
	Segment profit	114	235	221	815	1,024
Display materials	Net sales					
	Segment profit					
Financial Position						
Total assets		73,096	71,709	67,257	68,689	67,659
Net assets		53,462	49,018	47,444	47,965	47,107
Equity ratio (%)		69.3%	64.3%	68.8%	69.6%	69.5%
Return on equity (%)		5.7%	0.4%	4.7%	8.3%	6.0%
Interest-bearing liabilities		7,905	8,356	8,273	9,073	10,240
Return on Invested Capital (%)		3.9%	3.6%	4.2%	4.4%	2.8%
Cash flows						
Cash flows from operating activities		2,893	4,837	610	5,901	3,471
Cash flows from investing activities		(3,304)	6,580	1,567	2,869	508
Cash flows from financing activities		(576)	(4,431)	(5,703)	(4,042)	(2,572)
Cash and cash equivalents at the end of period		7,718	14,725	11,488	16,893	18,535
Per-share Indication						
Basic earnings or loss per share (Yen)		79.15	6.14	64.94	117.40	86.46
Net assets per share (Yen)		1,397.78	1,387.76	1,388.50	1,434.46	1,422.43
Price earnings ratio (Times)		10.0	130.7	15.4	8.2	14.5
Dividend per share (Yen)		30.00	30.00	39.00	95.00	90.00
Consolidated dividend payout ratio (%)		37.9%	488.6%	60.1%	80.9%	104.1%
Number of shares issued and outstanding (Thousands of shares)		36,226	36,381	34,470	33,614	33,541
Other						
Capital expenditure		2,500	2,168	2,144	2,268	4,486
Depreciation		1,901	1,982	2,107	2,170	2,290
Research and development expenses		2,001	2,074	1,905	1,926	1,991
Consolidated number of employees		1,432	1,454	1,433	1,425	1,458

Note: The Accounting Standard for Revenue Recognition, etc. are applied to the figures from FY2021.