Specialty Chemicals Business Strategy

Review by the Director in Charge

We will utilize our diverse range of businesses to continue proposing solutions that support social change in a variety of contexts.

Ryozo Yamaguchi
Senior Managing Executive Officer
In Charge of Specialty Chemicals Business Sector



Managing Businesses While Keeping Pace with Social Changes

In the Specialty Chemicals Business Sector, the earnings mainstays are three ICT businesses: electronics materials, electronic chemicals, and optical materials. The sector is benefiting from a tailwind generated by the recent expansion of the semiconductor and telecommunications markets. This expansion is not the result of economic cycles but rather represents a medium- to long-term shift driven by AI innovation, which is expected to continue for the foreseeable future, until AI becomes firmly embedded in day-to-day life. In this environment, in fiscal 2025 the electronics materials business saw a dramatic increase in sales volume and achieved revenue and profit growth that exceeded expectations. On the other hand, the business sector also faced challenges. In the electronics materials business, procurement, production, and inventory allocation came under pressure due to a steep increase in demand. The electronic chemicals and optical materials businesses saw the emergence of issues such as flagging growth in demand, which were due to supply chain bottlenecks and the concentration of investment on AI.

As data volumes and transmission speeds continue to rise, demand is expected to increase across a wide range of semiconductor-related fields. Therefore, we must prepare the necessary technologies, materials, and supply systems in anticipation of the broadening scope of related industries and emerging customer needs. For example, while our optical materials are currently affected by a slowdown in smartphone production resulting from memory shortages, the importance of these materials is likely to grow over the medium to long term due to the introduction of higher-performance cameras and to a rise in image data volumes accompanying the adoption of AI. Further, since electronic chemicals have long life cycles and competitiveness hinges on quality, production capacity, and location, we are working to secure production capacity in the United States—where future growth is expected—and to prepare for future domestic demand.

Identifying a Winning Strategy for Adaptation to Change

To achieve medium- to long-term growth in a changing society, we must create new businesses by using innovative ideas and the convergence of technology fields, such as photonics–electronics convergence. In the development of new businesses, we are prioritizing resource allocation based on the projected scale of each business. Established in fiscal 2025 through the integration of the oxygen absorbers and environmental and hygiene chemicals businesses, the LivingTech and Hygiene Solutions Division aims to expand in a wide range of fields—including daily life, hygiene, medical, and food—through dialogue with the markets.

Regarding products for which differentiation has become challenging, respective businesses have created working groups tasked with reestablishing uniqueness and competitive advantages. On a cross-divisional basis, personnel engaged in the manufacturing, sales, and research functions of these businesses consider the overall goals of their businesses, identify winning strategies, and then proceed through cycles of strategy design and verification within defined time frames. One result of these efforts is the decision to transition the polycarbonate business from volume to quality, specifically, the discontinuation of polycarbonate production at the Kashima Plant and the shift toward the utilization of products from overseas plants. Going forward, we must ensure the delivery of tangible results during the execution phase. As for optical polymers, we will steadily advance toward high-value-added products by building systems that are difficult to imitate, such as the utilization of geographic advantages and business models that incorporate recycling.

Preparing for Uncertainty and Seeking “Uniqueness & Presence”

We aim to increase our business opportunities while establishing a clear understanding of the external environment and preparing for unexpected risks akin to the dot-com crash. To this end, we are actively seeking out information and intensifying discussions with partners, including customers and the members of industry–academia–government collaborations and consortia in which we participate. We are also taking steps to prepare for uncertainty by avoiding dependence on specific markets or customers, continuously refining our technologies to prevent obsolescence, and constantly monitoring the entire supply chain.

Precisely because the number of major companies in the AI-related market is limited, the strengthening of relationships with partners and customers through our pursuit of “Uniqueness & Presence” is all the more important. By leveraging the distinctive features of our products and adapting their applications to the times and customer needs, we have built a reputation for reliability and a proven track record. We will continue pursuing functionality that broadens the range of possibilities available to customers—in other words, “Uniqueness”—and supplying high-quality products that meet their expectations. In this way, we will establish our “Presence” as an indispensable supplier.





Business Overview

Specialty Chemicals Business

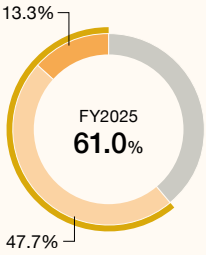
Business Lines | Inorganic chemicals, engineering plastics, optical materials, electronics materials, oxygen absorbers

Number of Employees | 5,090

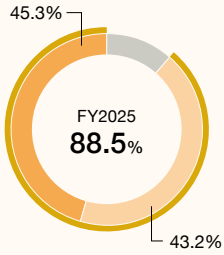
We handle many products that are close to the end user, such as products in the electronics and automotive fields. Through the development, production, and sale of cutting-edge products that support social innovation, we are making wide-ranging contributions to people's lifestyles.

Our ability to achieve longevity in the business of cutting-edge products with comparatively short product life cycles is supported by a culture of sensitively observing changes in markets and technologies and continuing to boldly pioneer new markets. Our approach is to identify niche fields where we can establish a competitive edge in the market and develop products that resolve issues that our customers will face in the future. In this way, we aim to become a de facto standard for the industry, having built up a position as a supplier of materials that form an essential foundation for our customers. To achieve this, we emphasize dialogue with customers and create the value that they require, in an effort to strategically increase the cost to customers of switching to other suppliers. Moreover, we are also striving to secure a competitive advantage on the patent front to underpin long-term business growth.

Consolidated Net Sales by Major Product Group



Operating Profit by Major Product Group

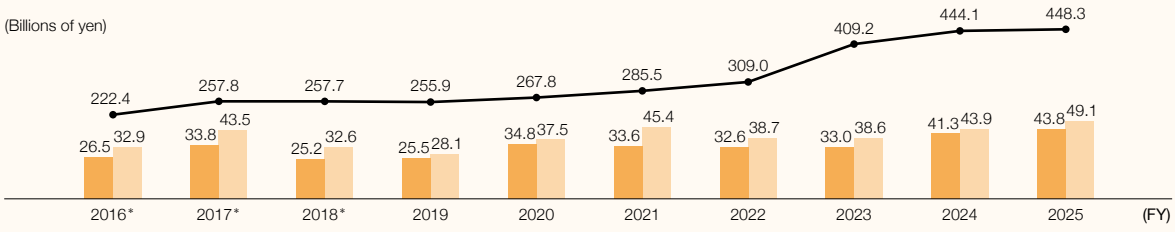


Specialty chemicals
Electronic chemicals, optical materials, engineering plastics (PC, POM, etc.)
Information and advanced materials
BT materials for IC plastic packaging, OPE™, LivingTech and Hygiene Solutions products

Note: The compositional ratios are calculated excluding "Other and Adjustment."

Fiscal 2025 Performance

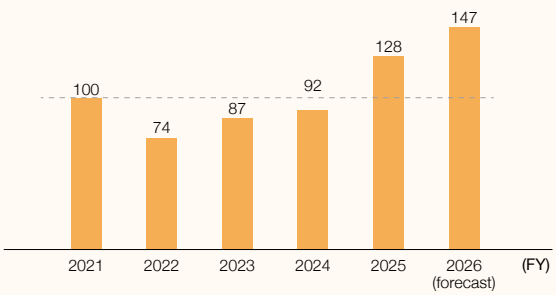
Net Sales / Operating Profit / Ordinary Profit



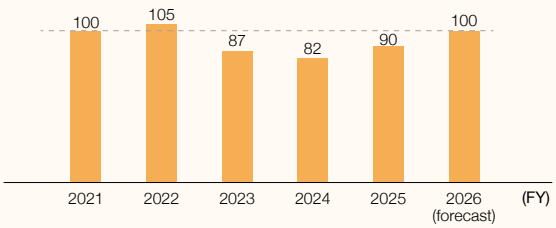
Net sales Operating profit Ordinary profit

* Aggregate of former segments (Specialty Chemicals and Information and Advanced Materials)

Net Sales of BT Materials (FY2021 = 100)



Net Sales of Electronic Chemicals (FY2021 = 100)



Specialty Chemicals Business Strategy

Scenario for Increasing Value by 2030

- Continue to strengthen our business in high-growth, cutting-edge fields (semiconductors, communication devices, etc.) while expanding our business in the highly stable lifestyle-related areas (medical and food, etc.)
- Increase the economic value of the PC-related business, which requires intensive management, aiming to transition it to a U&P business
- Promote increase in business competitiveness by making eco-friendly businesses profitable

Progress on Numerical Targets

		MTMP 2026	
	FY2025 result	FY2026 forecast	FY2026 target
Net sales	¥448.3 billion	¥481.9 billion	¥490.0 billion
Operating profit	¥43.8 billion	¥51.7 billion	¥65.0 billion
Ordinary profit	¥49.1 billion	¥52.6 billion	¥65.0 billion

Note: In fiscal 2026, we expect to fall short of the targets of the current medium-term management plan (MTMP 2026), mainly due to lower semiconductor-related demand for electronic chemicals, excluding AI-related demand.

Classification of Product Lines and Main Action Plan Under MTMP 2026

Business segment	Classification of product lines	Main action plan
U&P businesses	Inorganic chemicals	Increase production capacity worldwide as semiconductor manufacturers build and augment production sites and supply high-quality products
	Optical polymers	Aim for further expansion of applications beyond smartphones
	BT materials for IC plastic packaging	Aim to expand share further by entering new fields
	Polyacetal	Pursue global expansion through a double-brand strategy (Iupital™ and Kepital™)
	Ultra-high refractive lens monomers	Install new manufacturing facilities to meet growing demand and steadily promote the use of biomass in products
Foundation businesses	Oxygen absorbers	Aim to increase profitability through a change in business structure, such as expanding sales into fields beyond food
New/Next-generation businesses (main development products)	Recycled EP	Reduce environmental impact while also securing profitability
	New BT laminate materials	Lead the semiconductor substrate materials market by meeting customers' increasingly sophisticated needs
	New semiconductor cleaning solutions	Contribute to the evolution of semiconductors through the development of products that respond to new materials and structures
Businesses requiring intensive management	Polycarbonate/sheet film	Aim to improve profitability through thorough implementation of a high-value-added strategy and rationalization of production, sales, and R&D systems

U&P Businesses In Focus

Expansion of the Electronics Materials Business Based on Customer Trust and Collaboration Among Bases

For more than 20 years, the electronics materials business has focused on the provision of copper-clad laminates and prepreg for IC plastic packaging substrates. During this time, we have become involved with a wide range of application areas and supply chains. The large volume and timeliness of information obtained as a result of this involvement contribute to the competitive superiority of the business. In addition, we have built long-standing relationships of trust with customers through the provision of in-depth technical support that is enabled by regular meetings, information sharing, and other forms of collaboration among head office, research laboratories, and plants.

To ensure appropriate decisions on new product development, a system has been established in which the electronics materials business closely collaborates with the Planning & Development Division and shares information on customer trends and the progress of development at each stage, from research and development through to mass production. Since completing the expansion of our plant in Thailand at the end of 2025, we have dispatched research and development personnel from Japan, who are working closely with their local counterparts to transfer production to the plant and increase its product lineup.

Currently, we are seeing growing sales of products designed to meet AI-related demand, specifically, RS materials, which is a new BT-based product, and OPE™. This growth is a testament to efforts to explore resin compositions in light of discussions with both direct and indirect customers and to constantly make preparations and develop markets with an eye on the future. Building on the trust we have cultivated with customers over many years, we will continue valuing their feedback and fostering close collaboration and mutual trust with them to achieve further business expansion based on a "market-out" approach.



Toru Harada
Executive Officer
Division Director,
Electronics Materials Division,
Specialty Chemicals
Business Sector

Review by the Director in Charge

Given the irreversible changes in the external environment, we will move forward with medium- to long-term structural reforms.



Hideaki Akase

Managing Executive Officer
In Charge of Green Energy & Chemicals Business Sector

Discontinuation of the MXDA Project in Europe and Future Rebuilding of the Xylene Chain

In recent years, conditions in the basic chemicals market have been challenging. Sluggish domestic demand and surplus production capacity in China have led to aggressive pricing strategies, which have been compounded by the protracted Russia–Ukraine conflict and an economic downturn in Europe. These conditions have significantly impacted the mainstay methanol and meta-xylenediamine (MXDA) businesses of the Green Energy & Chemicals Business Sector. Further, since the beginning of 2026 geopolitical risks such as the closure of the Strait of Hormuz have emerged. We view competition with Chinese companies, the situation in the Middle East, and other rapid changes in the external environment as irreversible trends.

In fiscal 2025, we recorded a substantial impairment loss after making the painful decision to discontinue construction of an MXDA plant in Europe. In 2021, when we originally decided to invest in the project, we had the No. 1 share of the global market for MXDA, which is a highly profitable product. Our strategy was to establish a barrier to entry into the European market—which is the largest market for MXDA—by building production capacity that surpassed market demand. However, as well as delays in reaching the decision to invest, the COVID-19 pandemic and the Russia–Ukraine conflict caused construction and labor costs to far exceed initial estimates. Meanwhile, construction delays encouraged the entry of Chinese manufacturers and aggressive pricing strategies. As the aforementioned factors had led to a rapid deterioration in the project's prospects for achieving profitability, we temporarily suspended construction in September 2025. After the suspension, we explored various options but ultimately determined that recovering our investment would be difficult, leading to our decision in February 2026 to discontinue the project.

This experience has taught us important lessons. From the business sector's viewpoint, we must redefine specialty chemicals given the emergence of competing Chinese manufacturers. Also, we must strengthen the management of engineering, procurement, and construction in overseas projects—specifically, contract management based on risk assessments conducted by professionals conversant with local conditions. Going forward, we must deeply reflect on and utilize these two important lessons.

We have developed a meta-xylene value chain based on proprietary technology. However, we need to rebuild the xylene chain given the discontinuation of the European MXDA project as well as the growth outlook for the purified isophthalic acid business and MXDA derivatives. While taking into consideration the cash flows and profit margins of each business, we will rebuild the xylene chain and utilize the MXDA equipment of our two domestic sites as the basis for further developing markets for derivatives and increasing their added value.

Toward Improved Profitability

Currently, in parallel with rigorous cost reductions, we are advancing the development of materials for carbon fiber-reinforced plastic prepreg and extreme ultra-violet resists with the aim of incorporating new businesses into our portfolio as part of medium- to long-term business structural reforms. These efforts are beginning to yield promising results. The iodine business is expanding steadily by leveraging the advantages of the in-house development of natural gas, used by the business as a raw material. The business will expand and enhance its lineup of high-value-added derivatives, including materials for perovskite solar cells.*1 To further expand this business, we will strengthen collaboration between research and development and sales divisions while accelerating the cycle of identifying customer needs and proposing solutions.

As for carbon-neutrality-related businesses, the GEC Business Planning Division and related business divisions are leading efforts to advance public–private partnerships and build relationships with future customers. Although slowed by a change in U.S. energy policy, the overall trend toward decarbonization remains unchanged. For example, the importance of resource recycling-based green transformation for economic security is increasing. Our policy is to continue low cost-preparations for expansion so that we can act when the time is right.

Going forward, we will proceed with business structural reforms based on the assumption that changes in the external environment are irreversible. At the same time, we will work with external parties to create value through partnerships and collaborations that utilize our resources. Although the situation is challenging, by boldly moving forward with structural reforms, we will once again realize the creation of value that we can share with society.

*1 These are lightweight, flexible solar cells that are expected to increase installation options. The solar cells can be mass-produced through the use of coating and printing technologies.

Business Overview

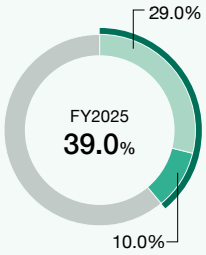
Green Energy & Chemicals Business

Business Lines | Natural gas chemicals, xylene chemicals, energy resources and environment, life science
Number of Employees | 2,632

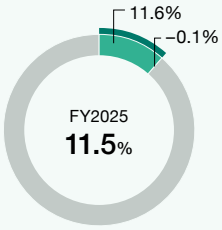
We engage in operations downstream from natural gas and mixed xylene. In the natural gas chain, we have built an environmentally circular carbon platform using C1 chemical technologies, and we are advancing business value transformation aimed at providing completely new value. In the mixed xylene chain, as the only company able to industrially utilize the superacid catalyst, we have developed a lineup of distinctive chemicals centered on meta-xylene derivatives, and we are striving to increase added value tailored to customers' needs. We are expanding our lineup of fine chemicals, which are derivatives with high profit margins. Our goal is to establish robust product chains, extending from resource development through to raw materials and derivatives. At the same time, as a group capable of delivering real-world solutions that help achieve carbon neutrality, we will realize a circular economy through the development of technologies, such as those for the use of CO_2, waste plastic, and other raw materials.

Some of the raw materials for the polyacetal and BT materials of the Specialty Chemicals Business Sector are manufactured in the Green Energy & Chemicals Business Sector's main plants, which helps increase the overall competitive advantages of the Group in terms of quality assurance, technology development, and procurement processes.

Consolidated Net Sales by Major Product Group



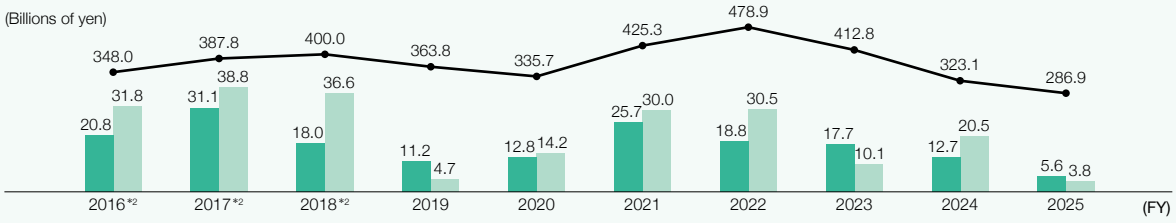
Operating Profit by Major Product Group



Natural gas chemicals
Methanol, methanol/ammonia-based chemicals, energy resources and environment businesses
Aromatic chemicals
MXDA, aromatic aldehydes, polymer materials, xylene separators and derivatives
Note: The compositional ratios are calculated excluding "Other and Adjustment."

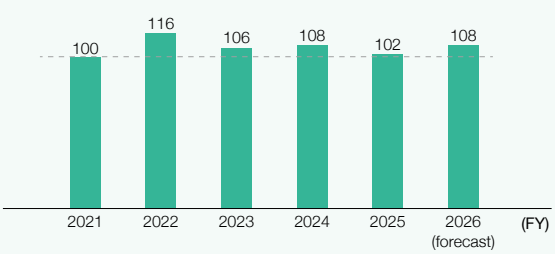
Fiscal 2025 Performance

Net Sales / Operating Profit / Ordinary Profit

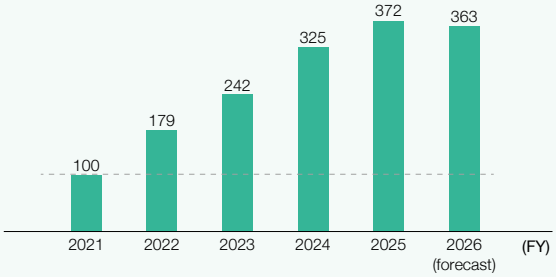


Net sales Operating profit Ordinary profit
*2 Aggregate of former segments (Natural Gas Chemicals and Aromatic Chemicals)

Net Sales of High-Performance Products (FY2021 = 100)



Net Sales of Iodine (FY2021 = 100)







Scenario for Increasing Value by 2030

- In U&P businesses, expand sales of the iodine and aromatic aldehyde businesses, where we have made large investments, and steadily recover the investments to maximize profit
- In businesses requiring intensive management, promote measures such as various cost reductions and streamlining of the balance sheet to strengthen their resilience to changes in the business environment
- Reduce carbon intensity in major raw materials such as methanol as a new initiative to realize carbon neutrality and develop the businesses in a revalued form

Progress on Numerical Targets

	MTMP 2026		
	FY2025 result	FY2026 forecast	FY2026 target
Net sales	¥286.9 billion	¥353.4 billion	¥350.0 billion
Operating profit	¥5.6 billion	¥12.3 billion	¥22.0 billion
Ordinary profit	¥3.8 billion	¥17.7 billion	¥32.0 billion

Note: In fiscal 2026, we expect to fall short of the targets of the current medium-term management plan (MTMP 2026), mainly due to a slow recovery in European demand for MXDA, a slump in market conditions, and higher research and development expenses in the life science business.

Classification of Product Lines and Main Action Plan Under MTMP 2026

Business segment	Classification of product lines	Main action plan
U&P businesses	MXDA	Develop new applications to increase sales and enhance the operating profit margin
	Aromatic aldehydes	Aim for growth with expansion into new applications
	MX-Nylon	Expand sales for food packaging material applications and promote response to environmental issues through business activities
	Methanol	Start production and sales of blue/green methanol and create a market for environmentally circular carbon platform Carbopath™
	Energy resources and environmental businesses	Promote creation of CCS business, increase in production of water-dissolved natural gas and iodine within the Group, and expansion of renewable energy
Foundation businesses	Ammonia and methylamines	Expand the green ammonia business.
	Methyl methacrylate (MMA) products	Aim to maximize profit across the MMA chain, including downstream products
	Formalin and polyol-related products	Examine appropriate business management methods and aim to increase profitability
New/Next-generation businesses (main development products)	Carbon fiber composite materials	Develop composite intermediates with characteristics such as gas barrier properties and propose various applications
	CDMO of antibody drug	Obtain a license for the manufacture of drugs and accumulate manufacturing experience under the GMP system*3
Businesses requiring intensive management	Xylene separators and derivatives	Promote further cost reductions and form an infrastructure to support U&P businesses downstream

*3 Good manufacturing practice (GMP) is a system for ensuring the quality of pharmaceuticals by setting requirements that manufacturers and marketing authorization holders must meet.

U&P Businesses In Focus

Business Environment and Future Growth Potential of the Iodine Business

In recent years, the iodine market has seen robust growth, particularly in high-value-added areas such as the medical field and materials with advanced functionality. Group company TOHO EARTHTECH, INC. is increasing its production capacity for iodine and water-dissolved natural gas, a raw material for the manufacture of iodine, and aims to complete construction of a new plant by fiscal 2027.

Further, we are exploring new applications for iodine derivatives. In addition to their use as intermediates for pharmaceuticals and agrochemicals—an area that we have been investigating for some time—we are considering applications including as materials for perovskite solar cells, chemical agents for semiconductor manufacturing processes, and compounds for optical materials. Recently, we have also been focusing on a recovered iodine business, which refines iodine from iodine-containing waste liquids collected from customers. We are advancing this initiative not only to make effective use of limited natural resources but also because it offers benefits to our customers, including reduced industrial waste disposal costs and improved price stability.

Viewing the technologies we have developed in Niigata Prefecture to improve iodine extraction efficiency and address ground subsidence as strengths, we are examining opportunities to expand businesses through initiatives such as partnerships with other companies. We will make the most of the currently favorable business environment by collaborating with in-house planning, development, and research divisions and earnestly endeavoring to pave the way for the rollout of iodine derivatives and other products of the iodine chain.



Takashi Nakase

Executive Officer
Division Director,
Energy Resources &
Environmental Business Division,
Green Energy & Chemicals
Business Sector