Message from the Officer in Charge of Finance

Revisiting management challenges and driving value creation through disciplined financial management and improved capital efficiency

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— FY2025 Results

In 2025, sales volumes in many business segments fell short of expectations, mainly due to indirect effects from tariff policies in various countries. As a result, net sales was ¥808.4 billion and operating income was ¥58.9 billion. Although sales volumes of EVAL™ EVOH resin and activated carbon increased year on year, they did not reach the initial plan due to the challenging business environment. Increased competition in certain products, such as PVB film and elastomers, as well as temporary factors like plant shutdowns caused by cold weather, also weighed on earnings.

In addition to lower operating income, we recorded impairment losses in the fourth quarter. As a result, net income attributable to owners of the parent was limited to ¥7.5 billion.

We recorded an impairment loss in part of the Isoprene segment due to structural changes in the business environment. We take this loss very seriously. The Thailand plant, which began operations in 2023, achieved stable operations in 2025, reducing segment losses. However, the business environment is structurally deteriorating due to oversupply and intensified competition from Asian manufacturers, as well as the prolonged downturn in China's real estate market. Given these circumstances, we recorded impairment losses of ¥15.0 billion in the isoprene chemicals business and ¥10.6 billion in styrenic thermoplastic elastomers within the elastomer business. Some recent capital investments did not fully account for changes in the business environment or increased competition. As a result, some of these projects have not delivered the expected early returns or recovered their investment as planned. We must acknowledge that, in retrospect, assumptions underlying our initial plans and the validity of our investment decisions lacked sufficient rigor. Based on these lessons, we will strengthen discipline in capital investment by conducting more rigorous and comprehensive assessments of market size, supply-demand outlook, competitive sustainability, technological advantages, and feasibility. We will ensure all investment decisions prioritize risk resilience.

Our results for fiscal 2025 were extremely challenging. However, we have largely finished recording major losses associated with enhancing our business portfolio. In addition to our medium-term growth story focusing on EVAL™ and activated carbon, we are also taking steps in the isoprene chemicals and elastomer businesses to shift toward higher value-added products and to develop new business models.

Fiscal 2026 marks the final year of our Medium-Term Management Plan, "PASSION 2026," and our long-term vision, "Kuraray Vision 2026." It is also a milestone year as we mark our 100th anniversary. In an increasingly uncertain business environment, we have reaffirmed our long-term vision and mission, "For people and the planet—to achieve what no one else can." Guided by this mission, we will continue to discuss and implement initiatives that create sustainable value.

— Progress on the Medium-Term Management Plan "PASSION 2026"

Trends in Financial KPIs

In 2025, ROIC was 5.1%, EBITDA reached ¥143.6 billion, and ROE was 1.0%. Due to a challenging business performance, all financial KPIs remain at low levels. Our ROE has fallen below our estimated cost of equity for three consecutive years. We must work earnestly to address this issue.

The main reason for our low ROE is that we have not generated enough net income. In the process of enhancing our business portfolio, we recorded impairment losses and business restructuring losses as extraordinary losses. In addition, a decline in operating income due to the worsening business environment also affected our results. We recognize that restoring profitability is a key management priority.

Message from the Officer in Charge of Finance

Although total asset turnover has remained steady, inventory turnover has declined. The stability of our supply chain—supported by our vertically integrated value chain and global network—was recognized to a certain extent during the logistics disruptions and policy changes in various countries and regions following the COVID-19 pandemic. However, this also led to persistently high inventory levels. We are currently redefining optimal inventory levels and working to reduce inventory. In the isoprene-related business in particular, we will leverage the increased management flexibility gained by raising our equity stake in the Thai joint venture to accelerate inventory optimization globally, including at our facilities in Japan and the United States.

We will manage financial leverage by balancing cost of capital and financial soundness, while taking into account the factors that affect changes in net assets. The shareholder return ratio exceeded 100% in both 2024 and 2025, which reduced net assets. At the same time, the yen's depreciation increased the foreign currency translation adjustment, which in turn boosted net assets. While exchange rate movements are beyond our control, we will continue to manage our overall capital structure to maintain appropriate net asset levels and improve capital efficiency.

Enhancing Our Business Portfolio

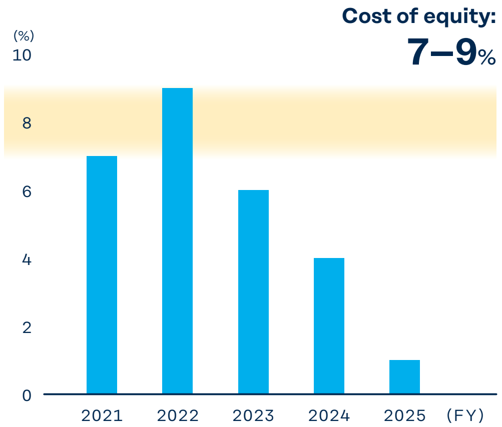
To improve profitability and capital efficiency, we continued to enhance our business portfolio in 2025. Specific investments currently underway include construction of a new EVAL™ plant in Singapore and expansion of optical-use poval film capacity, both aimed at strengthening our foundation for future growth and earnings. We are also accelerating the selection and concentration of the portfolio, having completed the optimization of production capacity in the methacrylate business and advancing the restructuring of the polyester business. We recognize that the enhancement of our business portfolio is not a one-time effort, but requires the ongoing reallocation of management resources.

While scaling back or withdrawing from business operations calls for difficult decisions, we will make the necessary decisions with a view to enhancing long-term corporate value. We will provide clear explanations to each stakeholder and ensure their understanding as we move forward. Management resources freed up through this strategic focus on businesses will be directed primarily toward strengthening the competitiveness of existing businesses and toward new growth areas, including through acquisitions. (P. 22)

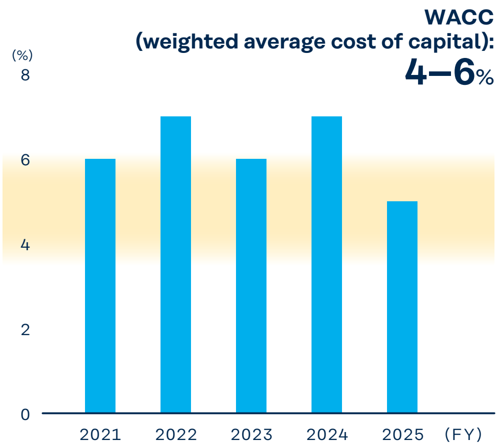
Capital Allocation, Capital Policy

Even in an uncertain economic environment, we manage our funds with a strong sense of financial discipline by avoiding excess cash holdings. From

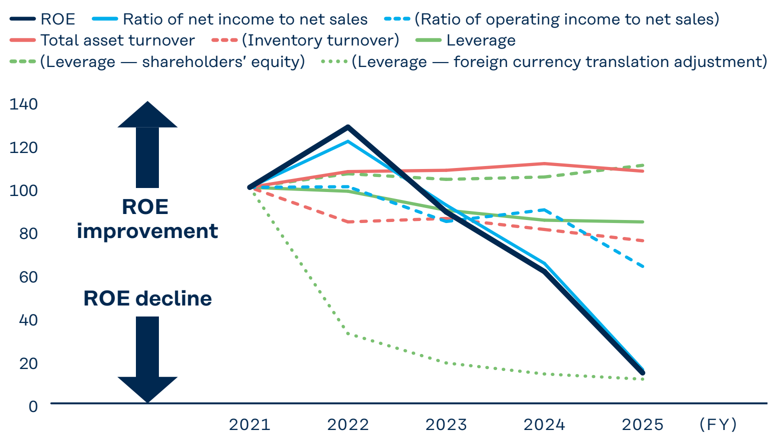
ROE



ROIC



DuPont analysis of ROE*: indexed to 100 for 2021 (dotted lines indicate a further breakdown of the components)



* An analytical framework developed by DuPont in the United States that breaks down ROE into three components: profitability, efficiency, and financial soundness.

Message from the Officer in Charge of Finance

2022 through 2025, we secured the investments needed for growth and maintenance, while returning capital to shareholders at levels exceeding the cash we generated. Operating cash flow has improved since 2023, and the Company now generates a stable ¥100 billion or more annually. Investing cash flow has at times exceeded initial estimates due to the yen's depreciation and inflation. However, over the medium term, we maintain investment discipline by keeping capital expenditures broadly in line with depreciation. In 2025 and 2026, we have tightened the selection of capital expenditure projects in response to the challenging business environment. We make investment decisions after clearly prioritizing projects based on strategic importance, profitability, and capital efficiency.

We regard shareholder returns as a key management priority and revised and expanded our policy in February 2025. We will pay dividends on a stable basis, while determining share buybacks after taking into comprehensive consideration factors such as financial conditions, earnings levels, and stock price. The Company marks its 100th anniversary in 2026, and we plan to pay a commemorative dividend of ¥10 per share (¥5 interim, ¥5 year-end). The total return ratio, including the ¥10 billion share buyback approved in February 2026, is expected to be approximately 74%.

With regard to capital policy, we continue to conduct financial management based on a target equity ratio of 50% to 60% and a debt-to-equity ratio of 0.45 or below. These levels are set in line with our philosophy of maintaining financial soundness while giving due consideration to the cost of capital. While actively utilizing debt, our financial management is premised on maintaining an issuer credit rating of A or higher. This approach takes into account the business characteristics of the chemical manufacturing industry, where investments typically require a certain period of time to generate returns, and is intended to ensure stable access to funding even under unforeseen circumstances.

— Initiatives to enhance corporate value

Efforts to improve ROE

We recognize that our ROE currently remains at a low level, and view improvement in profitability and invested capital efficiency—the underlying factors—as an urgent priority. Because ROE is determined by the combination of ROIC and financial leverage, we have positioned ROIC as the core metric for managing execution toward higher ROE, and use it in business operations and performance evaluation. We are working to achieve an ROE of 10% as soon as possible by steadily

Cash Flow Trends

(Billions of yen)

	FY2022	FY2023	FY2024	FY2025	Total
Net cash provided by (used in) operating activities	51.7	129.3	138.3	98.6	417.9
Net cash provided by (used in) investment activities*	(72.0)	(63.2)	(76.0)	(98.1)	(309.3)
Free cash flow*	(20.2)	66.1	62.3	0.5	108.6
Shareholder return, cash flow basis	(23.9)	(16.1)	(37.3)	(47.4)	(124.6)
Dividends	(13.9)	(16.1)	(17.3)	(17.4)	(64.6)
Share buybacks	(10.0)	(0)	(20.0)	(30.0)	(60.0)
Free cash flow + shareholder return	(44.2)	50.1	25.0	(46.9)	(16.0)
Depreciation and amortization	65.5	77.2	85.3	84.7	312.6

* Exclude net cash used in fund management and M&A.

Shareholder return policy

Total return ratio: **50**% or more

Maintain, increase
dividends per share

Share buybacks:
Aim for continuous implementation

improving ROIC and appropriately controlling financial leverage in line with our capital policy.

We have developed a model that visually maps ROIC to five key drivers: (1) marginal profit rate, (2) fixed costs, (3) working capital index (working capital ÷ net sales), (4) fixed assets, and (5) net sales. We are rolling out this model company-wide. These metrics are directly linked to the breakeven analysis, working capital management, and investment return assessments that the business units have traditionally conducted, providing a framework that clarifies the challenges faced by each business. Also, by factoring in the constraints imposed by existing production capacity, we can visualize whether additional capital investment is necessary and, if so, what level of effect we can expect.

If returns are expected to clear the hurdle rate by a sufficient margin, we move forward with evaluating an investment; otherwise, we pass on the opportunity. Teams from the corporate division work alongside business units to identify issues and manage improvement actions, steadily advancing each unit's understanding and use of the ROIC model. As a result, awareness of invested capital has increased, and business units are making progress in discussions on improvements such as inventory optimization, shortening accounts receivable collection periods, and optimizing production capacity.

Toward EPS Growth and PER Improvement

We believe that achieving sustainable earnings per share (EPS) growth and securing a price-to-earnings ratio (PER) level that appropriately reflects such growth are essential to enhancing corporate value and expanding shareholder value. Current EPS has been trending lower, partly due to business restructuring losses and impairment losses recorded through the enhancement of our business portfolio. To drive medium-term profit growth, we are concentrating resources on areas with high growth certainty and strong profitability. We will allocate management resources to our priority growth and expansion businesses—including EVAL™, GENESTAR™, activated carbon, and dental materials—to achieve steady earnings growth and drive the recovery and expansion of EPS. We have particularly high expectations for EVAL™ and activated carbon. EVAL™ is expected to see increased demand driven by Europe's Packaging and Packaging Waste Regulation (PPWR), while activated carbon is set to benefit from stricter per- and polyfluoroalkyl substances (PFAS) regulations for drinking water in the United States. Both fields are likely to experience demand growth as mandates take effect around 2030, and we consider the next several years a critical phase for growth. (P. 33)

In terms of improving the PER, stronger market recognition of future growth potential is critical. The foundation for that is a concrete growth story backed by proven execution. We are advancing new business development through two complementary organizations: the Research and Development Division and the Innovation Networking Center (INC). The Research and Development Division focuses on themes with long-term earnings potential, such as the commercialization of cell culture carriers and new carbon materials for lithium-ion battery cathode additives. (P. 42) The INC is pursuing commercialization of new business projects in its pipeline, including the acquisition of Nelumbo Inc., a company with surface modification technology applicable to a wide range of substrates. (P. 43)

— Stakeholder Engagement

We believe continuous engagement with stakeholders is essential to gaining understanding of our diverse businesses and distinctive strengths and competitive advantages. Timely and appropriate disclosure, combined with two-way dialogue, can reduce information asymmetry with the market and lower our cost of equity. We currently hold about 300 investor meetings per year, along with management briefings and sessions for individual investors. We aim to further increase these engagement opportunities wherever possible. We will also carefully review the assumptions and sensitivities underlying our earnings forecasts, and work to disclose forecasts with greater accuracy and transparency.

Dialogue with shareholders and investors also provides us with important opportunities to objectively identify management issues. We regularly incorporate the feedback and suggestions we receive into our management practices. As we continue to focus on investor relations and shareholder relations activities (dialogue with those responsible for voting rights), we ask for your continued understanding and support. (P. 67)