

We will launch a new "fourth pillar" and promote ESG management with a business portfolio that is resilient to change.

Reaffirming the strength of business development based on the "Three Pillars"

As the COVID-19 infection has been moved to Category 5 and economic activities continue to be normalized, the business environment surrounding the Toho Titanium Group remains uncertain, with factors such as heightened geopolitical risks associated with the conflict in Ukraine and the rising cost of global energy and raw materials. However, given the rapidly changing business environment, we believe that FY2022 was a good opportunity to examine the foundations for our Group to demonstrate resilience, such as reevaluating country risks and rebuilding our procurement network.

In our Titanium Metal Business, in which we possess the manufacturing technology for titanium sponges that only a few companies in the world have, sales volume to the aircraft industry is steadily turning bullish as the number of airline passengers recovers. Also, in response to the Ukraine conflict, the world's two largest aircraft manufacturers have announced plans to suspend or reduce purchases from Russia's VSMPO-AVISMA, which holds the largest share of titanium sponge production for aircrafts. As a result, the demand for substitute providers has surged. That is why our three production sites in Chigasaki, Wakamatsu, and Saudi Arabia are in full operation. Under this tight supply and demand situation, we are implementing recovery measures, such as passing on the increase in costs due to soaring prices of imported raw materials and electricity, to the sales price, as we ask for the understanding of our customers in order to improve profitability. Against this backdrop, we plan to improve the facilities at our domestic production sites and increase capacity by approximately 3,000 tons per year by FY2025. Demand for aircrafts is expected to continue to grow at an annual rate of 4%, so we are considering further investment to increase capacity, assuming a reliable return on investment.

On the other hand, the market environment for the Catalyst Business and Chemicals Business is currently sluggish due to the slowing economic growth rate of China, the largest consumer country. Given that both businesses have a structure in which the profits are influenced by the ups

and downs of the Chinese economy, as well as geopolitical risks, we believe it is time to reconsider our strategies. We can say that now is the time to set our sights on India and other Southeast Asian countries, where high growth is expected in the future, and consider whether to invest management resources for market development.

The Medium-term Management Plan over the past three years (FY2020-2022) have been a period of continuous change that far exceeded our expectations. First, the COVID-19 pandemic caused a significant drop in aircraft demand, leading to a slump in the Titanium Business. However, this significant decline in sales was offset by the Catalyst Business, which responded to increased demand for medical and sanitary products such as masks, as well as the Chemicals Business, which responded to increased demand for PCs and other items from consumers staying at home. Next, in 2022, special demand for titanium stemming from the conflict in Ukraine covered the slump in the Catalyst and Chemicals Businesses due to the slowdown of the Chinese economy. As a result, net sales and operating profit for the three-year cumulative period were 122% and 155% of the planned figures, respectively, resulting in significant increases in income and profit. We were also able to clear all of the issues regarding the "Five Basic Strategies" set forth in the previous medium-term plan, with the exception of early profitability of the joint venture in Saudi Arabia (ATTM). ATTM will be fully operational by the end of this year, and I feel that the time is approaching when we can contribute to profitability.

Looking back on these results, we are reminded once again of the utmost importance for our company to develop our business based on the "Three Pillars" of Titanium, Catalyst, and Chemicals. The proof that management based on these Three Pillars is functioning is the fact that the financial stability of the Group as a whole is ensured, in that if one business faces difficulties, another business can compensate. Moving forward, our theme will be conglomerate premium, which means increasing the synergistic effects obtained through the collaboration of multiple businesses, and linking this to further improvements in competitiveness and resilience.



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Yasuji Yamao

President and Representative Director

Rebuilding "Vision for 2030"

In 2022, our company has set the "promotion of ESG management" as a basic policy. The aim of formulating this policy is for the entire company to share the will to contribute to the creation of a sustainable society while solving social issues by leveraging our unique business characteristics. As we celebrate our 70th anniversary in August 2023, we would like to pursue sustainability by working on corporate management and contributing to society from a longer-term perspective.

As a milestone for the future, we have decided to update the long-term vision we announced in 2020, "Vision for 2030". First, we convened young and mid-career employees who will be responsible for our company in the 2030s, and held training camps where they freely exchanged opinions about what their ideal future self would be like. The resulting vision for 2030 is to "create advanced materials and technologies, become a highly profitable company that is flexible to environmental changes, and contribute to the development of a highly recycling-oriented society." (p.13). With regards to the "Promotion of ESG Management" basic policy, we have established quantitative and qualitative targets and measures with 2030 to 2040 as the goal period in order to unify the entire Group's vector and promote it while fostering a sense of unity.

For "E = Environment," we will not only accelerate the development of existing products, but also the development of new materials and technological improvements that reduce environmental impact. In the production process, we are developing a new titanium smelting technology that saves resources and energy, as well as promoting the introduction of CO₂-free electricity and carbon-neutral LNG, with the aim of quickly achieving decarbonized management.

With regards to "S = Society", we have begun activities in line with our policy to improve our contribution to society and create an attractive workplace. "Aim to become a company that is compassionate and kind to people by promoting new values within the organization that are directly linked to productivity, diversity and inclusion, and a pleasant work environment" -- Based on this goal, we will promote

various measures while being conscious of our contribution to society as we strive to create a more attractive workplace. In June 2023, we became the first company to be selected as a constituent of the FTSE Blossom Japan Index, a representative ESG index. Receiving this kind of evaluation gives us confidence and pride in our employees who provide support to the workplace on a daily basis.

Major measures of the FY2023-2025 Medium-term Management Plan

Moving towards "Vision for 2030", we have identified the gaps between our goal and the current situation and have devised a catch-up strategy to fill them. The 2023-2025 Medium-term Management Plan we have recently formulated is positioned as an action plan to be implemented over the first three years to achieve this strategy (p.15).

Under the new Medium-term Management Plan, we will promote carbon neutrality in the production processes of our three existing business divisions, and polish our functions and quality that will further contribute to our customers' businesses. We will also make timely investment decisions and aim to expand production capabilities in order to fulfill our responsibility to supply to markets that are expected to grow, such as ultrafine nickel powder, which we have already started investing in to increase capacity, as well as titanium sponge and polypropylene.

In the future business environment, we will need to anticipate the emergence of more volatile changes and uncertainties than we have experienced in the past. Based on this assumption, we would like to further diversify our business items by developing and applying our proprietary technologies in order to further increase the potential for business continuity. During this medium-term plan period, we are drawing up a strategy to add one new pillar to the current Three Pillars and establish it as a new business.

I will also touch on the main policies for each business segment. First, in the Titanium Metal Business, we will increase production at our sponge production joint venture in Saudi Arabia towards full operation, in order to respond to the strong demand for titanium which is mainly used in aircrafts.

At our domestic Wakamatsu and Chigasaki plants, we aim to increase production capacity by a total of approximately 3,000 tons per year. We will also continue to work to achieve appropriate sales prices that reflect these factors, amid a situation where the prices of raw materials remain high, and electricity and fuel prices continue to soar. We are aiming to capture the world's top share in global sales of titanium sponge for aircrafts by 2030.

With regards to the Catalyst Business, we will improve the efficiency of catalyst production by improving production technology at our Kurobe and Chigasaki plants, and increase production through capital investment in the medium to long term, since demand for polypropylene, which is the main application field for our products, is expected to increase. At the same time, we will begin considering the next capacity expansion plan with a focus on future sales expansion. In 2030, we aim to be in the top 3 global market share of catalysts for polypropylene production.

In the Chemicals Business, we will deploy measures in anticipation of a recovery and subsequent expansion in the demand for multilayer ceramic capacitors (MLCC), which is the application of our main product, ultra-fine nickel powder. During the three-year period of the new medium-term business plan, we expect that telecommunication equipment and telecommunication base station applications, as well as automotive applications that use MLCC, will return to a growth trajectory. In particular, automotive applications are expected to see high growth as the global market accelerates the shift towards the use of electronics in equipment. Currently, the demand for MLCC is expected to grow at an annual rate of about 7%. However, we are aiming for growth that exceeds this level. We will be building a nickel powder supply system that can support small, large-capacity MLCC that meet the technical requirements of next-generation telecommunications and next-generation EV. Based on this goal, we have begun construction of the fifth plant at the Wakamatsu Plant, which is scheduled to be completed in FY2025. Through these capital investments, we will increase our current production capacity by approximately 20% over the next three years, aiming to become the top company in the domestic market share of nickel powder by 2030. Since it is necessary to decentralize our production bases from a BCP perspective, we will flesh out plans for a sixth plant during this medium-term plan period.

In addition to the above Three Pillars, we will establish a New Materials Division with the aim of commercializing porous titanium materials (WEBTi) and other products, in order to make this the Fourth Pillar during the medium-term plan period from FY2023 to 2025, to strengthen our organizational foundation (p.22). Porous titanium is a material used in water electrolysis hydrogen generators, an essential element for building a hydrogen energy based society, which is expected to be a means of reducing CO₂ emissions. Up until now, our Technical Development Center has been playing a central role in promoting R&D of porous titanium materials and handling



samples for our customers. However, in recent years, as we have been receiving increasing requests for mass production, we have decided to establish and operate a new divisional organization with sales and management functions. We predict that the market for water electrolysis hydrogen generators will expand significantly in the future, starting with Europe, which is an advanced carbon-neutral region. By 2030, which is the goal of "Our Vision", we have envisioned a scenario in which the market for porous titanium materials will grow to around 50 billion yen. Based on this assumption, we have set the sales target for the New Materials Division at 10 billion yen for 2030. We also have plans to commercialize several new materials by FY2030 using our group's advanced powder manufacturing technology, such as ultra-fine nickel powder and high-purity titanium dioxide.

Financial strategy that considers the balance between medium- to long-term growth and risk management

Needless to say, our Group's business performance is affected by the market environment of a given year. The impact may be even greater due to the gap between current market conditions and the contract details negotiated with customers, such as sales prices.

Using titanium sponge for aircrafts as an example,

	FY2020-2022 Medium-term Management Plan			FY2023-2025 Medium-term Management Plan			
	FY2020 (results)	FY2021 (results)	FY2022 (results)	FY2023 (forecast)	FY2024 (target)	FY2025 (target)	FY2030 (target)
Net sales	36.2 billion yen	55.5 billion yen	80.4 billion yen	83.2 billion yen	107 billion yen	120 billion yen	170 billion yen
Operating profit	3.1 billion yen	5.2 billion yen	10.7 billion yen	4.6 billion yen	10 billion yen	13 billion yen	25 billion yen
ROS	(1.2%)	9.3%	13.1%	5%	9%	11%	15% or more
ROE	(6.8%)	8.1%	15.0%	5%	11%	13%	10% or more
D/E ratio	0.9	0.9	0.8	1.0	0.9	0.8	Less than 1.0 times



we adjust costs by taking into account factors such as fluctuations in titanium ore prices in the relevant year and the actual unit price of electricity in Japan, based on long-term contracts signed with customers, to determine the annual sales price for the next fiscal year. In other words, the time when manufacturing costs are reflected in sales prices is delayed by one year, resulting in a temporary decrease in profits when costs rise, while on the contrary, there may be an increase in profits during periods when costs go down.

As mentioned above, the supply and demand situation has recently become tighter and the unit price of electricity has increased, so in 2023 the price increased beyond the range stipulated in the long-term contract. Moving forward, we will continue to engage in negotiations to make it easier to reflect cost fluctuations in sales prices, and aim to achieve the ordinary profit to net sales ratio set for each business.

In 2021, we took a decisive step toward company-wide

risk management and strengthened our organization. First, with nickel powder raw materials, fluctuations in the nickel LME price have the greatest impact on our profit and loss, so we engaged in hedging through futures trading. In contrast to the increasing trends in FY2021, there was a downturn in FY2022 when we started futures trading. However, by establishing a hedging system at that time, we were able to minimize the decrease in margin by subtracting the cost of raw materials from the sales price. For currency, we have been using futures transactions for hedging, and we will continue to strive to secure reasonable margins by combining them with commodity futures.

Furthermore, with regards to borrowing interest rates, we are striving to make timely and appropriate judgments, including the timing and method of financing arrangements, while maintaining financial soundness (D/E ratio of less than 1.0). With regards to risk management on the balance sheet, we will individually quantify financial risks due to changes in the business environment for all assets such as accounts receivables, inventories, and fixed assets. We control this by setting quantitative indicators so that the total amount is less than 70% of the total net assets, which is the company's dissolution value.

In order to make a leap forward in 2030, we will need to invest in our Fourth Pillar, the New Materials Business. The scale of investment in each business division will be determined based on the ROIC (return on invested capital) for each business. In order to achieve management that is conscious of capital costs and stock prices, we will accurately understand capital costs and capital returns, and proceed with business operations that promote those improvements.

With regards to shareholder returns, we will continue our previous policy and set the dividend payout ratio at 30% of the current net income. Also, given that our PBR is currently more than double and our PER is more than 40 times, we feel that our shareholders have high expectations regarding the growth of our Titanium Metal Business, Catalyst Business, and Chemicals Business, as well as the potential of our New Materials Business. We will continue to strive to achieve the optimal balance between growth investments and shareholder returns, facilitate improvements in corporate value, and meet the expectations of our shareholders.

Creating a structure that maximizes the ability and value of human resources

Among the companies listed on the TSE Prime Market, our company has a small but elite workforce of around 1,000 employees, and each employee is a driving force behind our growth. Based on the assumption that Japan's declining birthrate and aging population will continue to be an issue, we are promoting work style reforms that will lead to the acquisition of new human resources and improved employee satisfaction.

Nonetheless, there is considerable hard labor in high-temperature environments at our titanium smelting sites, which is the core of our business. All the employees working in the field are doing their best. As the number of older employees increases, we are actively pushing for automation of tasks that can be automated and mechanized with robots and automated equipment in order to reduce the risk of occupational accidents. However, when it comes to handing down expertise and know-how that are difficult to replace digitally, we believe that it is necessary to take sufficient time to provide thorough education for knowledge transfer between personnel. For example, for seasoned employees who have become concerned about their physical strength as they age, we have them take on a new role as advisors, in an effort to raise the level of technology and safety at the workplace, rather than having them leave the workplace.

Furthermore, the major benefits of automation and mechanization are that they can improve the plant's utilization rate and make our operations more efficient by accumulating and analyzing digital data acquired on-site. We are aiming to increase employee labor productivity by around 30%. We are also advancing DX initiatives starting this fiscal year by utilizing digital data obtained from each site.

In order to accelerate these new initiatives that differ from conventional practices, it is important to not only foster a mindset, but also to create a system to increase motivation. In addition to running existing human resource development programs, we have also started implementing an awards system that provides impactful incentives to members working on-site, to increase their motivation for improvement.

It is essential that we swiftly move forward to resolve these current issues while steadily developing the human resources who will lead the future in 2030 and beyond. Based on the succession plan formulated in 2022, we are implementing a training program for executives and core human resources starting this fiscal year. On the other hand, we recognize that there are still many issues to be addressed in terms of diversity and inclusion, which are included in the measures of the medium-term plan. Aside from proactively promoting foreign and female employees to managerial positions, we will also actively recruit and promote digital talent, facility engineers, and other specialized technicians in the future. If such human resources participate in decision-making in the workplace, it will be an opportunity to change the mindset of other members, and it can be expected to have a revitalizing effect on the entire organization. We hope that each and every one of us will change our mindset, graciously let go of the negative practices common to old-fashioned manufacturers, such as a "male-dominated society" and "seniority by length of service", and most of all, promote agile and effective utilization of human resources, with an emphasis on accelerating innovation.

Grow into a company that can deliver value to all stakeholders

In this medium-term plan, we have also launched measures to strengthen the foundation of our management, "G = Corporate Governance", as well as compliance and risk management. Over the next three years, we will solidify our drive and operational structure in line with each measure, starting with appropriate responses to disclosure requests.

The most significant feature of our capital relationships is our parent-subsidiary listing with the ENEOS Group. Regarding this point, from the perspective of protecting minority shareholders, the Group Company Supervisory Committee for Conflicts of Interest, which is comprised of all independent outside directors, meets regularly to check the details of transactions with the parent company group. In light of future risk concerns and the mandatory disclosure of information on human capital, we are also asking our outside directors to attend risk management meetings and various internal meetings as much as possible, for us to receive appropriate advice from them. As a result, discussions at the Board of Directors' Meeting have clearly become more active, with more substantive discussions from the perspective of risk management and compliance inspections. We believe that corporate governance that is conscious of transparency and effectiveness is directly linked to protecting the interests of shareholders and investors, so we would like to continue to work hard to further improve our functionality.

When updating "Vision for 2030", we coined the catchphrase "Beyond Expectations 2030", to help make this a reality. This represents the Toho Titanium Group's determination to "Beyond the Expectations" of all stakeholders. We believe that we have a duty to thoroughly explain BE2030 to everyone for their understanding, and work toward becoming a "100-year Company" 30 years from now.

What I envision as a 100-year company in the future is one in which our technology contributes to the establishment of a completely carbon-neutral world, and in which we flexibly change in response to the changing needs of the world, and I envision a corporate entity with a deep-rooted corporate culture that allows employees of various nationalities to live a secure life with their families while also taking on new challenges. We will continue to aim to maximize corporate value and practice management that is focused on constantly moving quickly and producing results. I hope you will look forward to the further evolution of the Toho Titanium Group.