

DAICEL GROUP'S STRENGTHS

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Y. Ogawa

Yoshimi Ogawa
President and CEO, Daicel Corporation

Aiming to Align Ecology and Economy, and Building Organically Connected Value Chains

With an eye on the creation of a circular society and sustainable growth,
we will expand the scope of value co-creation from the Daicel Group to our partners.

■ Turning Point for Bold Reforms

Daicel is currently implementing its Mid-Term Management Strategy "Accelerate 2025," and FY2024/3 was the turning point for the reforms we have advanced up to now. Looking back on our business performance, we achieved increased sales and profits, posting record net sales and EBITDA, despite a longer-than-expected stagnation in electronic materials.

Under the current Mid-Term Management Strategy, we have made a major shift from conventional targets focusing on the growth of sales and profits to management with an emphasis on speed and flexibility in response to sudden changes in society, enhanced agility with a transformation to asset-light, and awareness on the profit ratio and capital efficiency. A succession of speedy and bold reforms thus far—including our response to the COVID-19 pandemic at the very beginning of the Mid-Term Management Strategy period, withdrawal from the defense industry, consolidation of production bases in the Safety Business, acquisition of Polyplastics Co., Ltd. (hereinafter "Polyplastics") as a wholly owned subsidiary, narrowing down of research themes, and the first major human resource system reforms in two decades—has exerted pressure on a large number of employees, even causing strains in the organization. Nevertheless, we recognize that we cannot change the Company without going that far, so we have deliberately chosen a line that tests our limits. Our good business performance in FY2024/3, partly boosted by the tailwind of the weak yen, is the result of company-wide reforms, and I am grateful for the hard work of our employees.

On the other hand, when considering these measures and

reforms as well as on-site efforts to tackle them, I, as a chief executive officer, also believe they should result in better figures and that the Company's true strength is much greater. Hence, we must more steadily draw out those results throughout the second half of the Mid-Term Management Strategy period.

■ Prospects for the Second Half of the Mid-Term Management Strategy Period

Up to now, we have implemented corporate culture reforms, such as a transformation to market-oriented organizational and business structures, selection and concentration of the business through portfolio management, transformation to asset-light, and drastic review of existing joint ventures. In addition, as we have passed the halfway mark of the current Mid-Term Management Strategy, we started the operation of the raw material plant for acetic acid, a large-scale investment project, in FY2024/3, and also a plant for increased production in the Engineering Plastics Business, a growth investment, is scheduled to go online in FY2025/3.

With regard to our current financial position, we are approaching the targets set forth in the Mid-Term Management Strategy. Our projections suggest that net sales, operating income, and EBITDA will hit record highs in FY2025/3, and EBITDA is expected to exceed 100 billion yen one year earlier than anticipated in the Mid-Term Management Strategy. However, most of this recent business growth stems from the growth of existing businesses. Our unique existing businesses and product lineup are some of our strengths; nevertheless, Daicel will become a more exciting manufacturer only by

creating new businesses and products, and not just relying on existing businesses that serve as the base for its profitability. Although many of our products have long life cycles, mature businesses will eventually decline someday. In this environment, if new business ventures emerge, and our employees succeed in overcoming the birth pains and get those businesses on track, they will gain solid confidence. The sense of fulfillment from finally creating or completing something despite any hardships will be engraved as the Company's new DNA, which in turn will serve as a catalyst for the next generation of new businesses—unless we become a company with such DNA, we will not be able to provide value in a sustainable manner. A major aim of ours is the creation of new businesses, which was also the case for the restructuring of our R&D organization in April 2024. By dividing our R&D themes into short-term and medium- to long-term ones and swiftly connecting the former to commercialization and profitability, we will nurture an environment where our employees can gain experience and confidence and more ambitiously tackle their next development projects.

Pages 26-27: Mid-Term Management Strategy

Pages 28-31: Financial Strategy

Vertical Integration M&A

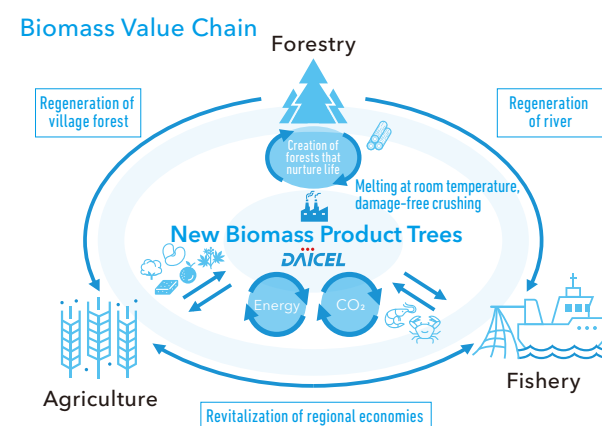
M&A is also an important strategy for sustainable growth. It provides opportunities to incorporate external knowledge and ideas we lack and to stimulate R&D activities. I believe that vertical integration M&A suits the current situation of the Company. For example, integration with companies upstream or downstream in the supply chain will definitely generate synergistic effects. In OP-II* of the current Mid-Term Management Strategy, we acquired all the shares held by our joint venture partner and made Polyplastics a wholly owned subsidiary in 2020. Some argued at the time that this was an overvalued acquisition, but I made my decision prioritizing speed. I believe that the acquisition has already sufficiently shown positive results. In this M&A, both Polyplastics and Daicel incorporate each other's differing corporate cultures and respective strong points, and the two companies are united to enhance the Group's strength. As both had previous contact with each other as Group companies for some time, in a way, it felt like we welcomed Polyplastics into a compatible organization. Going forward, we will endeavor to conduct M&As with

impacts significant enough to provide greater impetus within the Company.

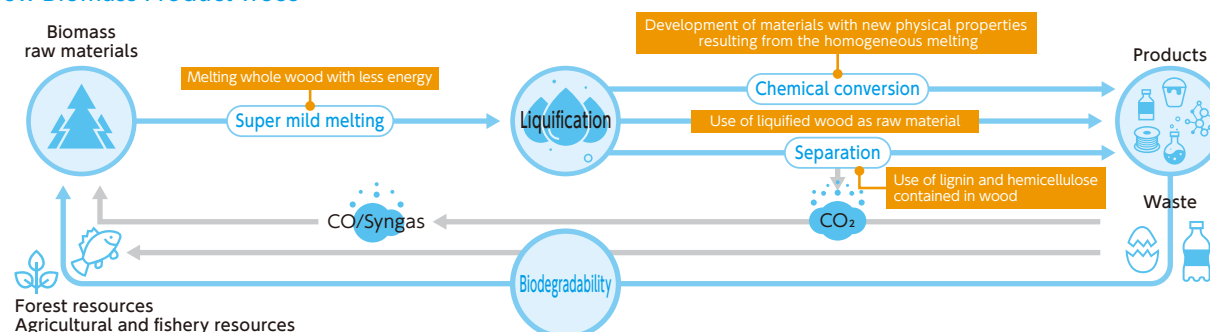
Technological Innovations That Help Align Ecology and Economy

The direction of our research and technical development activities, which lead to the creation of new businesses, vividly illustrates the ideal company we are aiming for in the medium to long term. We are oriented toward providing value while striking a balance between ecology and economy that is not only environment- or nature-friendly but also economically viable, and we are promoting technological innovation to this end. Examples of this include our "Biomass Value Chain Concept," "Ultra Solar-reduction with Nanodiamonds," and "microfluidic device plant." The Biomass Value Chain Concept aims to achieve the circulation of forests, which cover 70% of Japan's land area, as a renewable resource with New Biomass Product Trees at the core, using a technology jointly developed with universities for gently melting wood. We are advancing research toward real world implementation under industry-academia collaboration, centered on Kanazawa University's Biomass Green Innovation Center, which started full-scale operations in April 2023.

Ultra Solar-reduction with Nanodiamonds is a technology that reduces CO₂ into CO and recycles it using only sunlight, which contributes to carbon neutrality and carbon negativity. In collaboration with Kanazawa University, we are making strides toward implementing it at our Aboshi Plant. Microfluidic devices are a technology that



New Biomass Product Trees



produces the target substance under ideal chemical reaction conditions in channels on a glass substrate, the size of a business card. They will eliminate the need for refining processes, which consume approximately 80% of the energy in conventional plants. We aim to implement it in the resist polymer manufacturing plant at the Arai Plant from the end of FY2025/3 and throughout FY2026/3.

Technological innovations like this cannot be achieved with the efforts of the Company alone. In order to achieve our major goal of contributing to circular creation while aligning ecology and economy, value co-creation with like-minded partners is essential. As the alignment of ecology and economy is not limited to research and technical development, we will establish the Virtual Value Chain Control Center (VWCC) and aspire to realize the overall optimization of production across the supply chain.

Pages 44-45: Technological Innovation toward Carbon Neutrality

Evolution of DAICEL Production Innovation

The Company established "DAICEL Production Innovation" in 2000, to which AI was subsequently incorporated, leading to its evolved version, the "Autonomous Production System," in 2020. This manufacturing system is one of the Company's major strengths. DAICEL Production Innovation is an ever-evolving system. As the next step, we will build on this and set up the VWCC as a measure to improve added value across the supply chain. The VWCC is an integrated management base that regards the supply chain, consisting of multiple manufacturers, as one virtual corporate entity. Linking the

supply chain via DAICEL Production Innovation makes it possible to visualize information across companies and derive optimal solutions in the chain. Specifically, we have learned that it will lead to a reduction in energy consumption, excess inventory, and production and logistics costs, in addition to improved production efficiency and product quality. The Company has already linked together the production information at both the Aboshi Plant in Hyogo Prefecture and the Ohtake Plant in Hiroshima Prefecture in real time and realized a virtual factory that controls production plans according to the balance of energy as if they were a single virtual plant. We plan to expand the scope to the supply chain by establishing the VWCC and to equip the center with various functions.

We have been steadily making preparations for a shift to a new kind of manufacturing that harnesses DAICEL Production Innovation to improve added value across the supply chain in our OP-III*. We already finished designing the content to be introduced in the VWCC, and we are checking for any effects through trials at each base. The VWCC will be established adjacent to the Integrated Production Center at the Aboshi Plant. What comes to mind first is the optimization of the acetyl chain, and we will incorporate the Aboshi Plant, Ohtake Plant, and production bases of other companies into a single virtual corporate entity. We will then monitor safety and quality in the entity and operate it such that it presents optimal solutions across a wide range of areas, such as production planning, logistics, regular maintenance and repairs, and labor.

Pages 38-39: Next-Generation Manufacturing and Human Resource Development in the Chemical Industry

* Mid-Term Management Strategy is divided into three operations (OP) that expand the scope of co-creation from Daicel alone to the Daicel Group to partners. Page 24: Long-Term Vision "DAICEL VISION 4.0"

While the Mid-Term Management Strategy only covers five years, it does not exist in a vacuum. It builds on what our predecessors accumulated and left behind throughout our more than 100 years of history. Our employees are the ones who will pass down and develop the history of the Daicel Group. Whether we can create a future of promise falls on the shoulders of our current employees. While AI use and DX are important, we cannot create such a future without the power of people.

■ Our Philosophy That Has Lasted Since Our Foundation

Daicel's Basic Philosophy is "the company making lives better by co-creating value." Based on this philosophy, the Company's current Long-Term Vision describes our initiatives to realize earth- and people-friendly manufacturing. Without being confined to the limits of the company framework, we plan to become a new business group by pursuing value chains. Such ideas have been continuously fostered by the Company. Since our foundation, we have had the idea of co-existing with forests and of creating value through working collaboratively across the

supply chain. Before the foundation of Dainippon Celluloid Co., Ltd. (the predecessor to today's Daicel Corporation) in 1919, there were too many celluloid manufacturers and processing plants. This led to a shortage of camphor, a raw material used in plasticizers, and the excessive felling of camphor trees in Taiwan. Concerned by the situation, our first president, Mokichi Morita, preached nature conservation through the managed felling of trees and improved international competitiveness through quality stability, leading to the foundation of the Company through a merger of eight celluloid manufacturers. From early on after our foundation, we conducted management with an emphasis on creating value while striking a balance along the supply chain. In particular, the Company pays attention to nurturing and supporting sales agencies and processing companies and has conducted the "maintenance of orderly marketing" several times.

In light of our ideas since our foundation, the creation of a circular society through the Biomass Value Chain is a very Daicel-esque idea. Actually, even looking at the percentages of raw materials purchased, I believe that the Company would be positioned closest to biomass among the materials industries. Our main raw materials are methanol and wood-derived pulp, while

raw materials derived from crude oil account just for around 20%. The fact that the Company has such an origin is the very reason why I would like to make Daicel more of a leader in the fields of sustainability and Sustainable Development Goals (SDGs). Our unwavering direction is to contribute to the creation of a circular society while striving to align ecology and economy, and our mission is to advance technological innovation to this end.

■ Return to Humanity

Since the 1990s, the Company has improved productivity by digitalizing (DX) production and office work using the IT available at the time. With the establishment of the WVCC in sight, it is now increasingly necessary to promote DX, including AI use. As such, we will create a corporate culture that actively incorporates AI. Nevertheless, the Company's pillar of "People-Centered Management" remains unchanged. I believe that we need a return to humanity to prevent DX efforts from weakening ties between people. DX and humanity are not intrinsically incompatible with each other. We have made designs in the systemization phase of DAICEL Production Innovation in a way that maintains humanity. Rather than digitalizing everything, leaving decision-making to humans will help both people and systems to function well.

No matter how much we promote AI use and DX, humans have creative capabilities that go beyond these tools. Forging ahead with DX and covering tasks traditionally done by humans will leave room for people to think about their next steps, allowing them to do more creative work.

■ Exciting Company That Creates a Future of Promise

Drawing on my past experience, I know that people do not change that easily. In that regard, if people change even a little, that change is significant. What managers can do to have employees change themselves on their own is raise awareness and give inspiration by changing the environment. Since assuming the post of President and CEO in 2019, I have implemented various reforms including organizational changes. In a way, these reforms are measures to have employees realize and think about "what they want to do and what they need to do." I am increasingly sensing that our employees have actually changed, and more and more people outside the Company tell me that Daicel is exciting and that Daicel has changed. For me, an exciting company is the best.

The driving force behind an exciting company lies in having each and every employee think about and act on "what they want to do." For instance, development themes and the creation of related systems are not things that should be bestowed by the

Company; rather, employees should think about and act on "what they want to do." I believe that is the ideal approach. The reason we adopted broad task force structures for our R&D organization is that we wanted to encourage employees to think and act by themselves within those general frameworks. I hear that some projects have fairly intense discussions, but those involved keep them secret and tell me nothing about them. However, I find no problem with that. They should take approaches that they think are exciting.

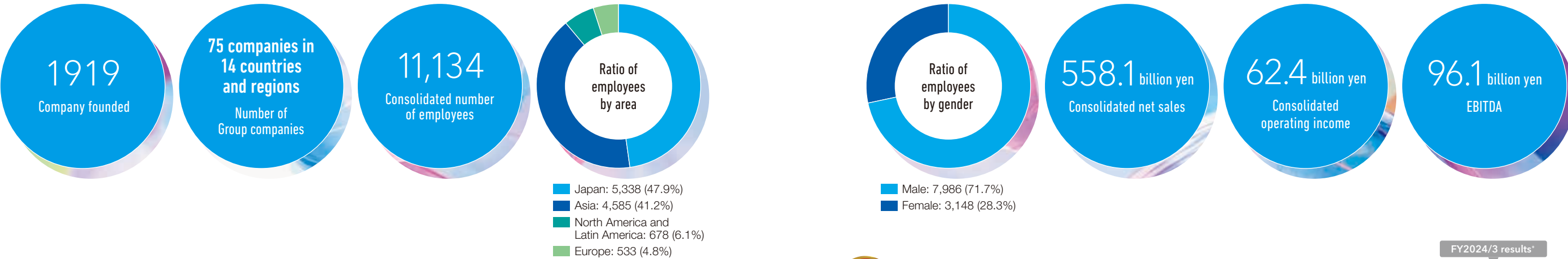
I expect that in the near future, there will be a technological discontinuity; in other words, technologies will emerge that are not extensions of existing ones. Companies that spearhead the next generation of technologies at that time are sure to survive. There is nothing more exciting than promoting technological innovation and creating a future of promise. The Company is working on a large number of revolutionary technologies with an eye on the future, while implementing the Long-Term Vision and Mid-Term Management Strategy. "Ultra Solar-reduction with Nanodiamonds" and the "microfluidic device plant" mentioned above are good examples. Regarding these R&D themes, we have already narrowed down our targets in terms of which processes will be implemented in which plants. By the end of FY2026/3, the final year of the Mid-Term Management Strategy, we will complete as many themes as possible and connect them to commercialization and profitability. There are also long-term themes, and a typical example is the "Biomass Value Chain Concept." We will continue to tackle these long-term themes, too, as stepping stones to lead the next generation of technologies. Moreover, with the establishment of the WVCC, DAICEL Production Innovation, which is one of our strengths, will enter a stage of improving added value across the supply chain.

These technological innovations can already generate good results for a single company, but if we share them within the supply chain, we can expect even greater results. After all, our founding philosophy of co-existence and co-prosperity is important. While working in unison with many people to share knowledge, the Company is in the middle of creating a future of promise through value co-creation.



At a Glance

We support the worldwide monozukuri manufacturing through the power of chemistry. (As of March 31, 2024)



Medical / Healthcare

▶ Page 50

We provide safe, high-quality healthcare materials and solutions for pharmaceutical development to a society that values quality of life.

World market leader

Chiral columns

Chromatographic columns for separation of optical isomers. Contributing to the provision of safe medicine by separating active pharmaceutical components

FY2024/3 results*

Net sales 13.9 billion yen

Composition ratio 2.5%

Smart

▶ Page 52

We provide new solutions to the electronic materials market that makes life more enjoyable and fosters technical innovation.

World market leader

Cycloaliphatic epoxies

The world's only manufacturing process that contains no impurities and no chlorine, so it is widely used in electrical materials applications where reliability and durability are required. It is also attracting a great deal of attention for EV applications

Net sales 33.8 billion yen

Composition ratio 6.1%

Safety

▶ Page 54

We provide safety and security to a wide range of industries with One Time Energy® technology developed through our airbag inflator business, which boasts a high global market share.

Japanese market leader

Automobile airbag inflators

Supplying the key component for automobile airbag systems that protect passengers in the event of a collision

Net sales 95.6 billion yen

Composition ratio 17.1%

Materials

▶ Page 56

We provide value to a wide range of industries on the strength of our diverse product lineup centered on the acetyl chain.

Japanese market leader

Acetic acid

The only manufacturer of acetic acid in Japan. Acetic acid is an environment-friendly ingredient for plastic products, providing solutions as an environment-friendly material

World market leader

Cellulose acetate for LCD optical films (TAC)

Utilizing its superior optical characteristics, transparency, and smoothness, it is used as a protection film for LCDs

Net sales 182.2 billion yen

Composition ratio 32.7%

Engineering Plastics

▶ Page 58

We provide high-function, high-value-added solutions to a wide range of industries with our technological capabilities cultivated over the years as a pioneer in engineering plastics.

World market leader

Polyacetal (POM)

Used in a wide range of applications such as automobiles, electronics and electrics, and industrial equipment, contributing to the development of the major industries of each era

Net sales 226.8 billion yen

Composition ratio 40.7%

* Figures for other segments are not included in net sales and composition ratio. FY2024/3 sales reflect the change in segmentation of TAC (Smart to Materials) and Cycloaliphatic epoxies and Caprolactone Derivatives (Materials to Smart) due to organizational changes effective April 1, 2024.

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DAICEL REPORT 2024

DAICEL REPORT 2024

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History of Daicel Group

Value Creation, Past and Present

Ever since its founding in 1919, Daicel has achieved growth by meeting the needs of society as it changes over time and developing and providing products that contribute to sustainability. Let us take a look back at the course of over 100 years of value creation as Daicel has challenged itself to achieve the ideal of *monozukuri* manufacturing.



Photo: Actranza® lab. for experimental animal studies

<https://www.daicel.com/en/business/new-solution/actranza/>

Our Strengths in Terms of Product and Technology Lineage

We will introduce the connections from the early days of the Company to the development of our current products and technologies, as well as the strengths of our Group that we have developed over the years.

Product and Technology Lineage

Since its foundation, Daicel has developed a wide range of products and technologies based on four technological fields: “cellulose chemistry” as its starting point, “organic chemistry” that established the acetyl chain, “high-polymer chemistry” cultivated through the development of various resins, and “pyrotechnics technology” that evolved into One Time Energy®. Based on these core technologies, the Group has developed its current business areas and is moving forward to contribute to the creation of a circular society.

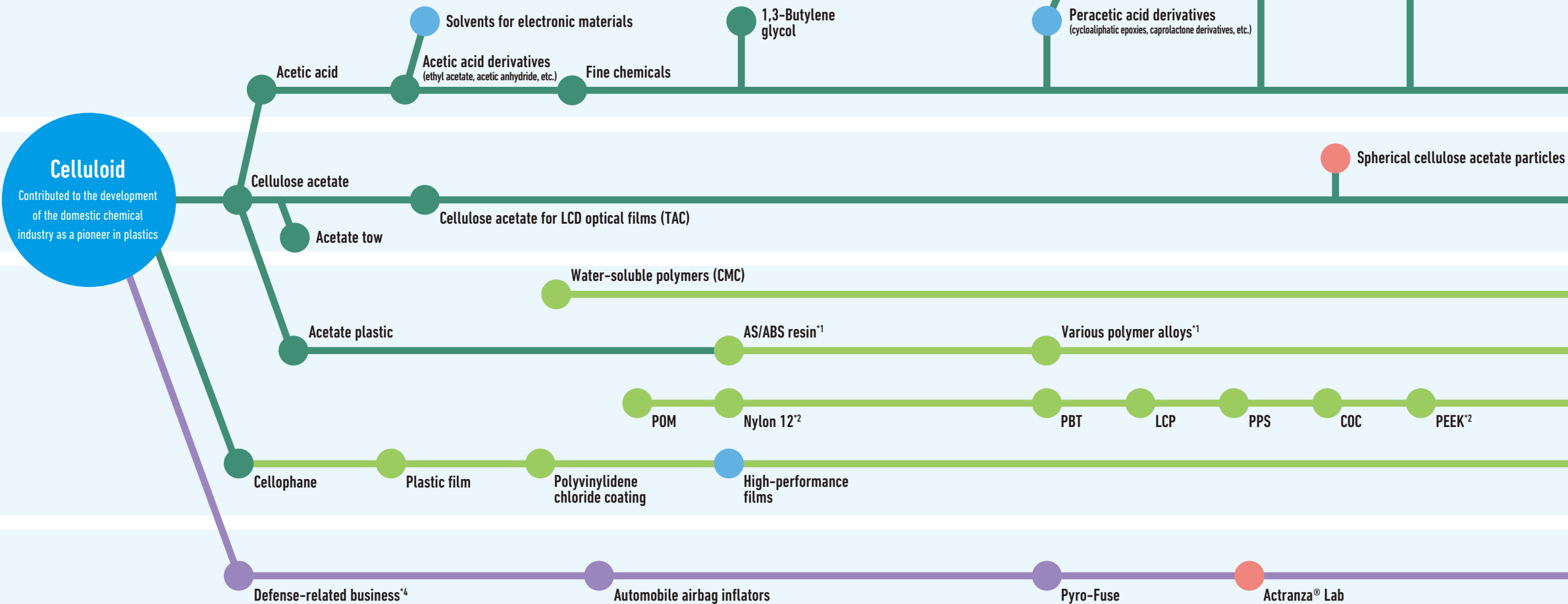
Core areas

Organic chemistry

Cellulose chemistry

High-polymer chemistry

One Time Energy®



Medical / Healthcare

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Smart

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Materials

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Engineering Plastics

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Safety

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*1 The business related to ABS resin and various polymer alloys was transferred to Novacel Co., Ltd. which was established on July 1, 2024. *2 Products of Polyplastics-Evonik Corporation

*3 The pyrotechnic technology developed in the course of producing inflators is defined as One Time Energy®, which produces optimal energy safely, reliably, instantaneously, and only once. *4 Withdrawn from the business

Strengths of Daicel Group

Strength 1 Pioneer in Biomass Chemistry

Since our founding in 1919, we have always been involved in biomass chemistry, the production of chemicals from plant-derived raw materials. The Company's celluloid business, our founding business, is based on cotton and wood pulp, and camphor from camphor trees is used as a plasticizer. Cellulose acetate, for which flammability has been overcome, is still one of our main products. After the oil shock of the 1970s, we were among the first to switch to raw materials that were not rely on petroleum in a national project called C1 Chemistry, which aimed to eliminate the dependence on petroleum. Today, plant-derived chemistry is attracting renewed attention in order to ensure the sustainability of society, including the global environment. Daicel creates products based on renewable resources that contribute to the enrichment of people's lives and the earth.

<https://www.daicel.com/en/cellulose/>

Strength 2 Unique Technology Cultivated Since the Company's Founding

1. Acetyl Chain

We are the only acetic acid manufacturer in Japan and have built a series of distinctive acetyl chains that produce acetyl chemicals, cellulose acetate, and other acetic acid derivatives, giving our business a strong global position.

2. Cellulose

Utilizing the knowledge of handling natural materials and property control technology that we have accumulated over many years, we are developing highly functional products in a wide range of fields, centered on cellulose acetate, such as acetate fiber, filter materials, liquid crystal panel film materials, and cosmetic materials.

3. Engineering Plastics

As a specialized manufacturer of engineering plastics, we maintain a broad product lineup centered on Polyplastics Co., Ltd., and have gained a large global market share by providing solutions to our customers, drawing out the best features of these products.

4. One Time Energy®

The pyrotechnics business developed because cellulose nitrate, the raw material for celluloid, can be used as an explosives raw materials. We have expanded this technology, which began in the defense-related business, to civilian products and are currently contributing to the safety of people's lives by applying it to a wide range of fields, including automobile airbag inflators, Pyro-Fuse, and drug delivery devices.

Strength 3 DAICEL Production Innovation

DAICEL Production Innovation supports the manufacturing foundation we have as a chemical manufacturer. By visualizing the approximately 8.4 million pieces of plant operation know-how possessed by skilled operators and incorporating them into the operation support system, production efficiency has been improved by a factor of three.⁵ Furthermore, in 2020, we developed the Autonomous Production System, an evolution of this system using AI. In addition to safety and quality, the system contributes to the reduction of CO₂ emissions by optimizing energy use, and prevents problems by predicting equipment irregularities in advance in pursuit of the ultimate in production efficiency.

⁵ Results at Daicel's Aboshi Plant

<https://www.daicel.com/en/daicel-production-innovation/>

Value Creation Process

Under its Basic Philosophy and priority foundations of corporate activity (safety, quality, and compliance), the Daicel Group will continue to solve social issues and contribute to the happiness of people and society by expanding the scope of value co-creation based on its Sustainable Management Policy.

