Supported by a sound financial structure that emphasizes *investment efficiency* and *earning power*, we will push forward with the transformation of our portfolio through appropriate investment allocation with a focus on 10 years in the future.

Yoshihisa Sonobe

Senior Executive Officer, Representative Director of the Board
Chief Financial Officer

Key Management Indicators for the Teijin Group

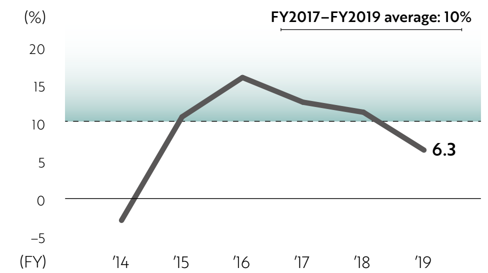
The goal of our management is to increase corporate value on a continuous basis. I believe that corporate value represents the sum of all value attributable to our stakeholders. By exceeding the expectations of our various stakeholders through the enhancement of shareholder value, social value, customer value, and employee value, we are able to realize ongoing improvement in our overall corporate value. Based on this idea, we have established ROE, ROIC based on operating income, and EBITDA as three key management indicators under our new medium-term management plan, which commenced in fiscal 2020. We determined these key management indicators during the period of the previous medium-term management plan, which covered the last three years starting in fiscal 2017. Given that we are now at a stage where we must build a new portfolio focused on the next 10 years, I believe the decision to once again adopt them was appropriate based on the following background.

First, I believe that ROE is an important indicator from a quantitative perspective. We collect capital from investors by listing our shares, and using ROE as an indicator keeps the shareholders in mind as it monitors our Groupwide returns to shareholders' equity. Meanwhile, as we operate a wide range of businesses that cover such fields as Materials, Healthcare, and IT, within our evaluations for each business we need to monitor profit efficiency with regard to the capital invested in our business activities. To do so, we are making use of ROIC based on operating income as an indicator, which will help us improve our individual business activities and enhance our Groupwide profitability. While ROE and ROIC based on operating income are useful indicators that monitor investment efficiency, EBITDA serves as our indicator for earning power as it measures our ability to grow. When we launch a new business, it takes a certain amount of time for that business to contribute to increased profits. Therefore, if we evaluate businesses based only on short-term profitability, we run the risk of giving up on businesses that have temporarily

Results of the Previous Medium-Term Management Plan

Medium-Term Target

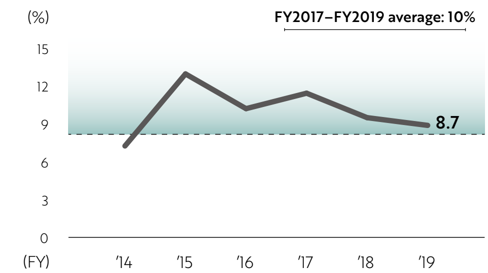
ROE*1 **10% or more**



*1 Return on equity (ROE) is calculated as profit attributable to owners of parent divided by the average shareholders' equity between the beginning and the end of the fiscal year.

Medium-Term Target

ROIC (based on operating income)*2 **8% or more**



*2 Return on invested capital (ROIC) based on operating income is calculated as operating income divided by the average invested capital between the beginning and the end of the fiscal year. Invested capital is calculated as net assets plus interest-bearing debt, minus cash and deposits.

become unprofitable or have potential for growth in the long term as they would not meet the hurdle rate (targeted ROIC) for such evaluations at that given point in time. In turn, we could fall into a diminishing equilibrium. At the Teijin Group, we operate businesses that have a long timeline for growth, including 10 to 20 years in the future, and we believe that we need to monitor growth based on cash generation for businesses that need to be further developed. Based on this belief, we established EBITDA as a financial indicator as it is not impacted by the burden of depreciation and amortization costs following a large-scale investment. In this way, it is important to strike a balance by emphasizing both investment efficiency and earning power.

Review of the Previous Medium-Term Management Plan

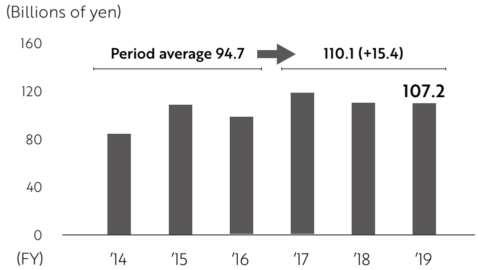
Under the previous medium-term management plan, ROIC based on operating income was the only management indicator among the three for which we were able to accomplish our targets in the plan's final year. While it is no doubt a good thing that we were able to achieve a certain degree of results in terms of realizing profit efficiency from the capital we invested, we unfortunately concluded the plan without reaching our targets for ROE and EBITDA. ROE declined to 6.3% in fiscal 2019 but performed steadily in fiscal 2017 and fiscal 2018, exceeding 10% in both years. Accordingly, we are continuing to aim for ROE of 10% or more under the new medium-term management plan. In addition, we secured a certain level of earning power as EBITDA reached ¥107.2 billion in fiscal 2019, up ¥11.3 billion compared with its level in fiscal 2016, the year before the start of the previous medium-term management plan. However, this result fell short of our EBITDA target of over ¥120.0 billion. Breaking this down in detail, we were unable to accomplish our target due to the mixed results we achieved with our businesses. While aramid, domestic pharmaceutical and home healthcare, and IT businesses performed mostly in line with our plans and contributed significantly to profits, operating income in the Materials Business Field excluding aramid fell below our target. There were major disruptions to the supply–demand balance for materials overall due in part to the trade conflict between the United States and China. The market for polycarbonate resins, in particular, rapidly deteriorated midway through 2018. At the same time, in the composites business, although Continental Structural Plastics Holdings Corporation (CSP) saw a rise in sales due to a steady increase in orders received, the company was unable to reach its profit target as productivity declined due to worsening yield rates and soaring labor costs. All of these factors contributed to our inability to reach our target for EBITDA. For ROE, in addition to these factors, our result was impacted by an impairment loss on goodwill related to the subsidiary J.H. Ziegler GmbH, a supplier of automotive interior materials in Europe, as well as the recording of an extraordinary loss due to the temporary expenses that accompanied the transfer of subsidiaries that operate the film business.

Cash Allocation under the Previous Medium-Term Management Plan

Under the three-year period of the previous medium-term management plan, we planned for growth investments, including capital expenditures and M&As, totaling ¥300.0 billion. However, as we postponed large-scale M&As of new healthcare businesses, our total investment amount over this three-year period came to approximately ¥230.0 billion. Meanwhile, total cash flows from operating activities over this period stood at ¥255.2 billion, which was largely in line with our plans. In addition, we generated ¥71.5 billion through such means as the sale of cross-shareholdings in KYORIN Holdings, Inc., with which we concluded our strategic capital alliance, and other companies and the sale of the headquarters building in Osaka and other assets. Of the unused portion of the ¥300.0

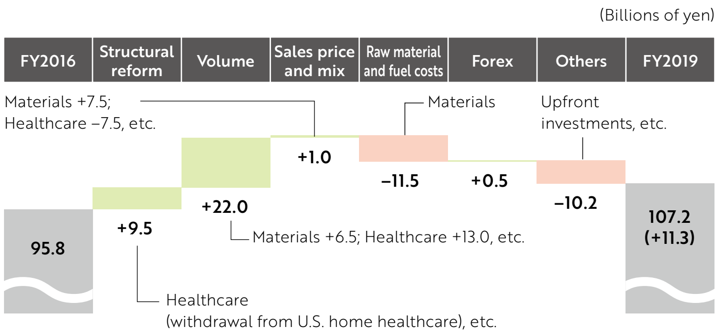
Medium-Term Target

EBITDA*3 Over ¥120.0 billion in FY2019



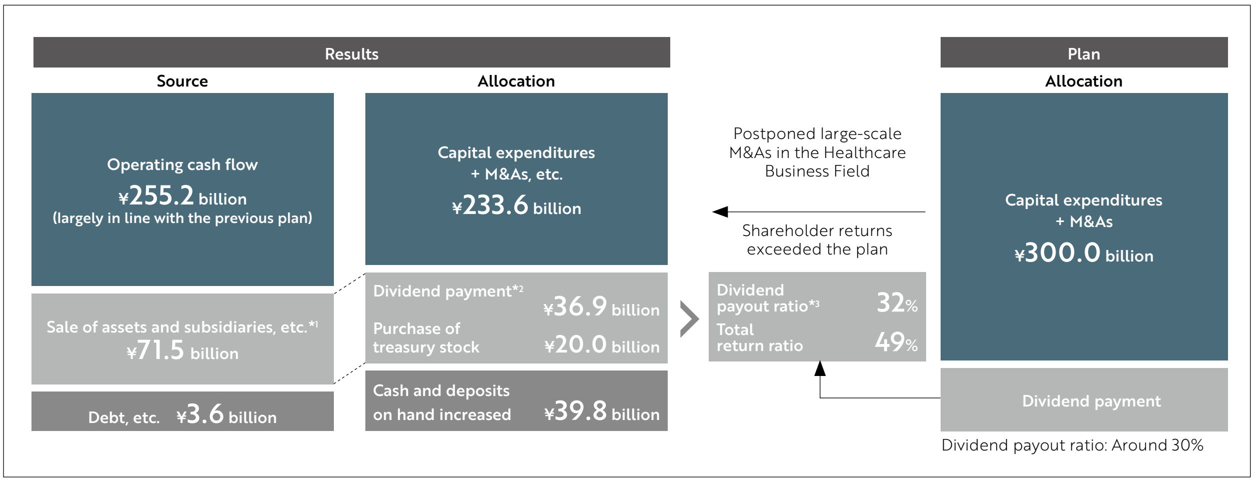
*3 Earnings before interest, tax, depreciation and amortization (EBITDA) is calculated as operating income plus depreciation and amortization.

Changes in EBITDA over the Period of the Previous Medium-Term Management Plan



billion set aside for growth investments under the previous plan, we allocated ¥56.9 billion to dividend payments based on our policy of issuing stable dividends and executed the purchase of treasury stock in accordance with our flexible capital policies. In these ways, we were able to exceed our target for shareholder returns. As a result of these efforts, cash and deposits on hand rose ¥39.8 billion. Combining this amount with the over ¥100.0 billion initially set aside for M&As, cash and deposits at the end of fiscal 2019 totaled ¥156.5 billion.

Furthermore, we have kept adequate committed lines of credit from financial institutions and have secured liquidity for the foreseeable future, including our authorized limit for commercial paper issuance. While it is still uncertain just how long the impact from the spread of COVID-19 will last, we will be able to sufficiently withstand this impact from the perspective of funding, even if it continues for quite some time.



*1 Sale of cross-shareholdings (KYORIN Holdings, Inc., etc.), transfer of subsidiaries in the film business, sale of headquarters building in Osaka, etc.
*2 FY2017–FY2019 dividend amount increased approximately 1.7 times from FY2014–FY2016 (from ¥21.6 billion to ¥36.9 billion). Dividend payments by Teijin Limited only
*3 Dividend payout ratio calculated based on the Board of Directors' decision-making instead of payment records

A Sound Financial Structure and Initiatives Going Forward

Our ability to have established the stable financial base that we enjoy today comes from our thoughts and reflections following the global financial crisis. At the time, the impact on the Material Business was particularly high, as the business was easily affected by fluctuating marketing conditions, and cash flows declined significantly as demand plummeted. Before the global financial crisis occurred, the Material Business accounted for 77% of our overall EBITDA. Compared to what we are seeing today, the impact from the massive decline in this business during the global financial crisis was far worse. However, since Jun Suzuki was appointed as CEO in 2014, we have been pursuing structural reforms to enhance our core business profitability and portfolio transformation geared toward the future. Today, we have established a business foundation that is able to generate a certain level of operating income in a stable manner. In fiscal 2019, the Material Business accounted for 52% of our overall EBITDA, with the Healthcare and IT businesses making up the other 48%.* In addition to enhancing the Material Business's resistance to fluctuating marketing conditions, we have also steadily grown the Healthcare and IT businesses, which are relatively unaffected by external factors. Although the Material Business will always be somewhat impacted by fluctuating market conditions, and currently the impact of COVID-19 is significantly reducing demand, we now have in place a means to generate cash and procure funds to compensate for this impact.

Under the current challenging conditions in the economic environment, we will carefully determine the timing and scale of investments based on the balance between interest-bearing debt and capital, the status of cash generation, the conditions in each business, and the application of each of our products and services. We will also work to secure the soundness of our financial structure. While doing so, we will remain on course with our aim of achieving our long-term vision. As we will prioritize investment during the three-year period of the new medium-term management plan, we will not necessarily see major growth in terms of our business performance. However, striving for returns over the medium to long term, we will remain vigilant in our pursuit of achieving our vision for the Group in the three years after the new plan, as well as in fiscal 2025 and fiscal 2030.

For the portion of the ¥350.0 billion allotted for capital expenditures and M&As that will be allocated to strategic investments under the new medium-term management plan, 60% of this portion will be used for Strategic Focus businesses, which represent key areas, while the remaining 40% will be used for Profitable Growth businesses, which support our overall profits and cash flows. We will work to cultivate our Strategic Focus businesses so that they can become pillars within our business portfolio by fiscal 2025 and fiscal 2030. While we will give the most consideration to ensuring the soundness of our financial structure and preparing ourselves for risks within the ever-changing

Numerical Targets

Final year of the medium-term management plan (FY2022)		Three-year period of the medium-term management plan (FY2020–FY2022)	
ROE	10% or more	Capital expenditures + M&As	¥350.0 billion
ROIC based on operating income	8% or more	R&D expenses	¥110.0 billion
EBITDA	¥150.0 billion	D/E ratio	Around 0.9 times

Strategic Investments

Strategic Focus	Profitable Growth
¥130.0 billion	¥100.0 billion
(60% of strategic investments)	(40% of strategic investments)

Investments for Maintenance

¥120.0 billion

economic environment, we will also strive to discover business opportunities and allocate appropriate resources to invest in such opportunities. I recognize that navigating the way between these two approaches is my duty as the CFO.

* Composition ratio when establishing the total of the Material Business (including Fibers & Products Converting), the Healthcare Business, and the IT Business as 100

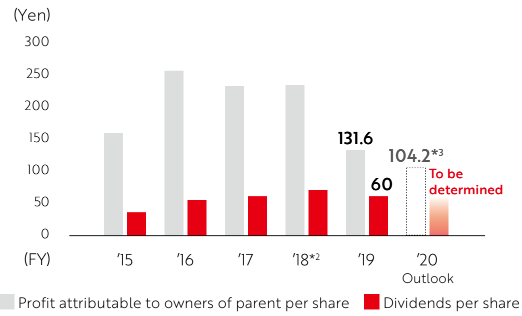
Management with an Awareness of Cost of Shareholders' Equity and Shareholder Return Policy

I believe one of the reasons why our share prices were stagnant in fiscal 2017 and fiscal 2018, despite realizing ROE of 10% or more in those years, was that the market demanded a better performance in terms of cost of shareholders' equity. Historically, the biggest factor boosting our risk premium has been the fact that the Material Business is relatively susceptible to market fluctuations and has high volatility in terms of profits. Additionally, in the Healthcare Business, which we have grown steadily, we have been approaching a period when the generic version of *FEBURIC* (febuxostat), our mainstay pharmaceutical, will enter into the market, while at the same time it has taken a certain amount of time for new healthcare businesses to contribute to profits. This has been another factor that has played into share price stagnation. Accordingly, in order to enhance shareholder value, it is crucial that we not only improve but also stabilize profitability so that we can lower our cost of shareholders' equity. The portfolio transformation we have been pursuing in recent years is a prime example of how we are aiming to realize stable returns over the medium to long term and, as I have mentioned before, we have been steadily producing results with these efforts. Although we are being temporarily impacted by COVID-19, we will strive to fully achieve the targets to which we have committed to ensure that we do not find ourselves in a situation like the past where our profits were greatly impacted by market fluctuations.

Our policy for shareholder returns is based on profit distribution that is linked to consolidated business results, and the targeted consolidated dividend payout ratio over the medium term is set at around 30% of net income. Guided by this policy, we will prioritize the allocation of cash flows to strategic investments for the future while working to maintain a sound financial structure. In addition, giving consideration to stable and continuous dividend payments, we will examine flexible capital policies, such as the purchase of treasury stock at appropriate times, while monitoring the balance between shareholders' equity and debt. While taking into account the impact from COVID-19, we will constantly consider the best ways to allocate cash to ensure future growth. I believe that our current capital structure, in which we have been given an A- credit rating by Rating and Investment Information, Inc., has struck an appropriate balance between financial soundness and capital efficiency. Under this structure, we will continue our aim to boost strategic investments and shareholder returns and further enhance corporate value. I would like to ask our shareholders and other investors for their continued support of the Teijin Group's growth over the medium to long term and to look forward in anticipation of the initiatives we will pursue going forward.

Trend and Plan for Shareholder Returns

Profit Attributable to Owners of Parent per Share*1/
Dividends per Share*1



	Previous medium-term management plan (FY2017–FY2019)	Medium-term management plan (FY2020–FY2022)
Dividend payout ratio*	32%	Around 30%
Purchase of treasury stock	¥20.0 billion	Flexible purchases planned

* Calculated based on the Board of Directors' decision-making instead of payment records

*1 Reflects the impact of changes in share numbers due to the consolidation of shares on October 1, 2016
*2 Dividends per share in fiscal 2018 included a commemorative dividend of ¥10 per share in honor of the centennial celebration of our founding.
*3 Announced on August 5, 2020