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Toagosei's Medium-Term Management Plan for 2017 to 2019
—The Toagosei Group Medium-Term Management Plan “Trajectory Toward Growth 2019”—

Based on our corporate philosophy of “sharing more happiness with more people through the chemical business,” the Toagosei Group is committed to sustainable growth by creating new products and new businesses, and to increase its corporate value over the medium and long term.

Specifically, we established the Toagosei Group medium-term management plan “Trajectory Toward Growth 2019” to give further emphasis to “new product development” and “qualitative shift in the management base,” which have been implemented under the previous medium-term management plan “All TOA 2016: Strengthen Business Structure then Create New Products,” reaching its final year in FY2016.

We position our new medium-term management plan as a first step toward achieving the Group Vision for 2025 with concerted efforts.

1. Results of Medium-Term Management Plan All TOA 2016 “Strength and Creation”

(1) Achievement status of quantitative targets

The current medium-term management plan All TOA 2016 “Strength and Creation” focuses on “develop new next-generation products,” “strengthen and qualitatively shift the production and sales systems of existing businesses” and “qualitatively shift to an appealing company.” Under this plan, the Group engaged in growth strategy, business reform and management reform. During this period, due to the impact of low fuel prices such as crude oil and slowing growth in the emerging economies, sales volume decreased in commodity products and product prices declined. We are facing a harsh situation in achieving quantitative targets in net sales and operating income.

Table 1. Progress of All TOA 2016 “Strength and Creation”

Items	FY2016 targets	FY2016 forecast
Consolidated net sales	170.0 billion yen	137.0 billion yen
Operating income	18.5 billion yen	15.0 billion yen
Operating income to net sales ratio	11%	10.9%
Net income	13.0 billion yen	13.0 billion yen

(Note) FY2016 forecast is based on December 20, 2016 announcement.

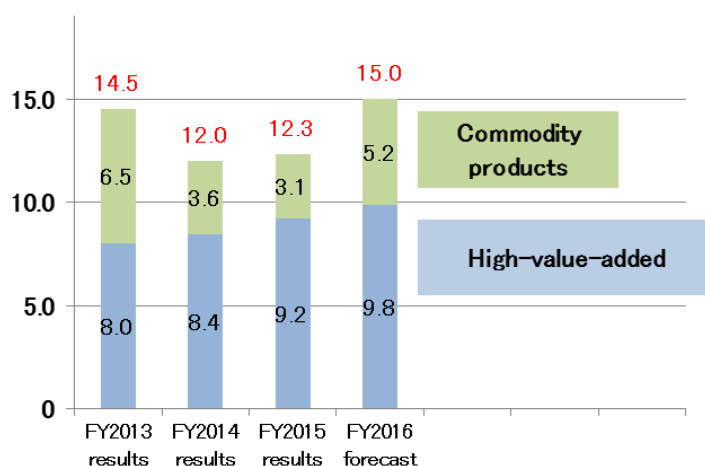
(2) Implementation status of the action plan

High-value-added products, such as acrylic polymers, functional adhesives and high purity inorganic products grew steadily, firmly developing the qualitative shift of the business structure (Graph 1).

As for overseas business development, to expand acrylic polymer products in the ASEAN market, we established a subsidiary in Thailand as a manufacturing and sales base.

In addition, we strengthened our management base by establishing the Toagosei Group Basic Policy on Corporate Governance in February 2016, and shifting to a company with an audit & supervisory committee in March 2016.

Furthermore, we enriched our CSR management by strengthening our Responsible Care activities and enhancing the work-life balance of our employees.



Graph 1. Historical operating income of high-value-added products (Billions of yen)

2. Overview of Medium-Term Management Plan “Trajectory Toward Growth 2019”

To achieve the Group Vision for 2025, we will strengthen our high-value-added products business and promote the growth strategy including overseas business development. In addition, we will ensure the implementation of the action plans by organizational reform responding to strategies, and deployment of project teams when addressing key challenges.

(1) Group Vision for 2025

- A chemical corporate group with a strong presence in technologies and high-value-added products
- A chemical corporate group operating production and sales activities in Japan and overseas, with overseas net sales ratio of over 25%
- A chemical corporate group with abundant talented and motivated employees who drive business expansion
- A chemical corporate group having stable profitable base, with net sales of over 200.0 billion yen

(2) Organizational reform responding to strategies

We classified business units into businesses that play core roles in our growth strategy and the commodity business that forms the base of the Company, and reorganized accordingly. As for affiliates, we will develop strategies that conform to the business policy.

① Classification of the businesses

- Businesses that play core roles in growth strategy
Acrylic polymers, oligomers, functional adhesives, high purity inorganic chemicals, inorganic functional materials, construction materials and civil engineering, nursing care, elastomers, etc.
- Commodity business
Electrolysis products, acrylic monomers, industrial gases, piping equipment, etc.

② Reorganization of business departments

- Three business departments: “Polymer & Oligomer,” “Adhesive Material” and “Performance Chemicals”
⇒ the core in growth strategy including overseas expansion
- “Commodity Chemicals” business department
⇒ strengthen cost competitiveness as well as solidify and expand the commodity business

(3) Overview of the action plan

① Development of growth strategy

- As a core of the growth strategy, we will put into action new product development, new business development, overseas expansion and M&As. As for new product development and new business development, we will promote development by accurately understanding market needs with focus on each of the growth areas of telecommunications, mobility and energy.
- As Phase 1 of Toagosei (Thailand), we will launch acrylic polymers business (start of production in 2018), strengthen the local marketing system and move onto the Phase 2 business plan.
- We will integrate the operation of three domestic and overseas bases (Japan, China and Taiwan) of oligomers (*Aronix M* and *UV*) and expand by mutual interchange of new product development and M&As.

- As for functional adhesives, we will promote new product development with focus on the areas of electronic parts, automobiles and batteries.
 - As for general-use instant glues, we will strengthen brand strategy by advertising, launching new products and enhancing sales activities in both Japan and the United States, thereby increasing market share.
 - As for high purity inorganic chemicals and inorganic functional materials, we will promote new product development and strengthen the marketing system in Southeast Asia, China, Taiwan, South Korea, and the United States.
 - As for construction materials and civil engineering, Toagosei and Aronkasei will cooperate to boost sales capabilities.
 - As for nursing care, we will continue the launch of new nursing care products, and also expand to the Chinese market.
 - As for elastomers, we will launch products with new function and expand product lineup. Furthermore, we will put into motion production and sales systems in Southeast Asia.
- ② Strengthening of commodity business
- As for the commodity business, which forms the management base of the Group, we will improve productivity and strengthen cost competitiveness.
 - As for electrolysis products, we will renew our production facility and strengthen the production system.
 - As for acrylic monomers, we will improve operation rate in Japan and implement structural reforms in the business in Singapore.
 - As for piping equipment, we will optimize the production system of the three plants and launch new products with focus on the areas of disaster response and public infrastructure.

(4) Quantitative targets for medium-term management plan “Trajectory Toward Growth 2019”

Table 2. Quantitative targets for medium-term management plan “Trajectory Toward Growth 2019”

	FY2016 forecast	FY2019 targets
Consolidated net sales	137.0 billion yen	155.0 billion yen
Operating income	15.0 billion yen	18.0 billion yen
Operating income to net sales ratio	10.9%	11.6%
Net income	13.0 billion yen	12.5 billion yen

(Note) FY2016 forecast is based on December 20, 2016 announcement.

Assumptions for the FY2019 targets: naphtha price: 32,000 Yen/kl,
exchange rate: 105 Yen/USD

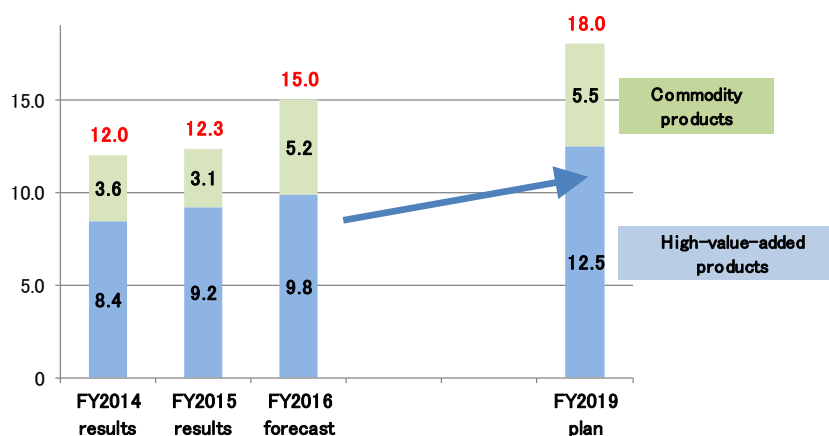
① Investment plan

In order to effectively utilize cash on hand and to facilitate growth, we will plan on investing 60.0 billion yen over three cumulative years. The funds will be financed by the Group’s own funds.

(Breakdown) Growth strategy development: 17.0 billion yen, strengthening of commodity business: 15.0 billion yen, M&As: 18.0 billion yen, infrastructure maintenance and conservation: 10.0 billion yen

② Expansion of high-value-added products

By 2019, we will increase operating income from high-value-added products to over 12.5 billion yen, and further promote the qualitative shift in the management base.



Graph 2. Increase of operating income of high-value-added products (Billions of yen)

(5) Other key challenges for medium-term management plan “Trajectory Toward Growth 2019”

In 2019, the Group will reach its 75th anniversary. With an eye to the future, to further strengthen the management base and to promote growth strategies, we will also address the key challenges below.

① Thorough implementation of corporate governance

As a company with an audit & supervisory committee, we will comply with fair business practices and thoroughly implement corporate governance.

② Acceleration of management decisions

We will accelerate management decisions by promoting the delegation of authority from the Board of Directors to the Management Meeting and Executive Directors.

③ Establishment of environment that enables diverse human resources to play an active role within and outside the Company

In order to establish an environment conducive to diverse working options, especially for women and seniors to play an active role, we will develop a work environment, flexible working styles, individual training programs and others.

④ Human resource development

For the enhancement of management capabilities and operational capabilities as well as securing global human resources, we will bolster human resources development programs.

* Disclaimer

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