

Delivering next.

Governance

We recognize our responsibility to society and offer beneficial products and services while maintaining the highest standards of integrity.

Governance Summary

Institutional Format	Company with Audit & Supervisory Board
Number of Directors	8
Outside Directors	3
Outside Audit & Supervisory Board Members	2
Chairperson of the Board	Chairman
Term of office stipulated in Articles of Incorporation	1 year
Separation of Management and Business Execution	Executive officer system
Board Member Appointment	Nomination Committee
Director Compensation	Compensation Committee [1] Basic salary [2] Performance-linked compensation (in cash) [3] Performance-linked compensation (non-monetary)
Compliance/Risk Management	Risk Management & Compliance Committee
Internal Control	Internal Control Committee
Sustainability	Sustainability Committee
Independent Auditor	Ernst & Young ShinNihon LLC

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Interview with the Outside Directors



Ritsuko Nonomiya

Hoping for concrete measures to realize diversity

In 2022, I was lucky enough to have the opportunity to take part in a town-hall meeting with some of NAGASE's female employees, which was a very meaningful experience in terms of being able to learn about the NAGASE Group. I hope that the company will continue to hold this kind of event in the future, and I am looking forward to meeting more NAGASE employees.

To be frank, my impression of NAGASE is that, viewed from a diversity perspective, to some extent it lags behind the average level of diversity achieved by Japanese corporations. As many employees have been with the company for a long time, everyone tends to be "reading from the same hymn-sheet," but on the other hand, it may be more difficult for people to express dissenting views. Going forward, I hope that the company will take concrete steps to address this issue.

Deciding whether to withdraw from certain businesses to achieve future growth is also important

I have come to feel that, while NAGASE has adopted a stance of adapting flexibly to change, it will need to continue transforming itself in order to realize further growth. The challenge will be to realize change from within as early as possible while maintaining the essential features that make NAGASE what it is. In the past, NAGASE has focused on launching new businesses; in the future, I think it will also be important for the company to be resolute about withdrawing from certain businesses.

To provide support for transformation and growth, both the Executive and Outside Directors (myself included) will need to think more deeply and develop an in-depth understanding of what is needed. I believe that it would be good to have an atmosphere in which directors feel comfortable about expressing contrary opinions during Board meetings, and in which such opinions can be discussed freely, including by non-executive employees. But before building consensus and reaching a decision, it is important to look at issues from different perspectives, to present opinions based on differing viewpoints, and to engage in "three-dimensional" decision-making.



Noriaki Horikiri

Balancing long-term development and short-term results

One thing that companies with a long history have in common is that, while valuing their traditions, they are willing to take on the challenge of innovating and transforming themselves to keep pace with changing times. In the manufacturing sector, there is a need for a seemingly contradictory corporate posture of "Move fast but take it steady." For example, the biotech business offers immense potential, but the process of going from basic research to social implementation takes a long time. As I see it, the need to strike the right balance between long-term development and short-term results is a managerial issue that requires a greater degree of resolution and flexibility than ever before.

Discussing where the company should be in the coming century

While milestone of the company's 200th anniversary in 2032 represents an important goal for NAGASE, it is important to think 50 years ahead, or even 100 years ahead, when considering where the company should be in the future. It may be advisable for NAGASE to undertake the building of a system where, rather than each individual business focusing on its own area of specialization, the trading company part of NAGASE's operations and the manufacturing part are closely integrated, and can mutually make effective use of the information and technology that each other possesses.

An organization is formed from people with different personalities. As an organization gets larger, it becomes increasingly difficult to listen to the views of each employee, and to be aware of their situation. This is why the cultivation of first-rate middle managers is so important. Also, I believe that, by building an organization capable of cross-functional approach, and the human talent to support this, it should be possible to develop businesses that make effective use of NAGASE's comprehensive strength, while still maintaining a level of expertise that general trading companies lack.



Toshiaki Mikoshiba

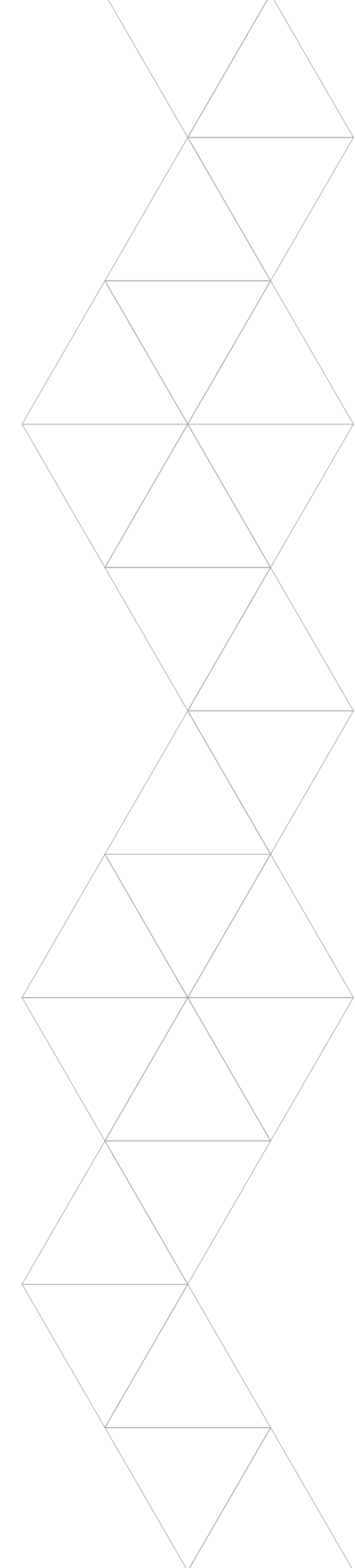
A strong relationship of trust between outside directors and company executives, while maintaining an appropriate level of tension

The NAGASE Group is seeking further growth opportunities in its overseas operations and is strengthening its manufacturing function on top of its trading company function. As a new member of the board, I would like to contribute to these efforts by making effective use of my own experience that I acquired through long-standing involvement with overseas business operations and integrated manufacturing-and-sales business at Honda. There are always risks involved in business, therefore, in order to allow the executive side to take on new challenges, it is important for the supervisory side to delegate the authority of decisions and keep monitoring business operations with properly recognizing risks. I believe that one of the most important roles of Outside Directors is to help guide on improving quality of the Board Meetings, while establishing a relationship of solid trust, and keeping an appropriate level of tension.

Close communication based on the "Three Reality Principle."

The NAGASE Group benefits from the high level of trustworthiness that has been built up over 190 years since its foundation and is capable of providing effective business solutions. Today, NAGASE is boldly taking on the challenge of striving for an enhanced level of profitability and the value of the company and solving social issues at the same time. I am very happy and excited about having opportunities to be involved in the process of corporate transformation and leaving a footprint on a page of this rich history of NAGASE.


I feel that the commitment to "maintain the highest standards of integrity" which forms an important part of NAGASE's management philosophy has much in common with the philosophy of "helping people and society" and "working for the benefit of people and the world" at Honda, where I worked for many years. Since I am so accustomed to the "Three Reality Principle" (San Gen Shugi), which emphasizes "going to the actual place", "knowing the actual situation" and "being realistic" from my experience with Honda, as an Outside Director, I hope to be able to engage in visiting actual worksites, examining actual products, and observing actual situations at NAGASE and keep close communications with employees.




Our Board (as of November 1, 2023)

Directors

Note: Number of shares held based on available information as of May 31, 2023. Figures given for the number of shares held include those held in the name of Nagase & Co., Ltd. Officers' Shareholding Association.



Kenji Asakura
Representative Director and Chairman
Number of shares held: 29 thousand



Hiroyuki Ueshima
Representative Director, President and CEO
Number of shares held: 22 thousand




Masaya Ikemoto
Representative Director and Senior Managing Executive Officer
Number of shares held: 11 thousand




Masatoshi Kamada
Director and Senior Managing Executive Officer
Number of shares held: 14 thousand




Hiroshi Nagase
Director and Senior Adviser
Number of shares held: 1,360 thousand



Ritsuko Nonomiya
Outside Director
Number of shares held: 1 thousand



Noriaki Horikiri
Outside Director
Number of shares held: 0 thousand



Toshiaki Mikoshiba
Outside Director
Number of shares held: 0

1987 Joined Peat, Marwick, Mitchell & Company (currently KPMG LLP)
1997 Partner of KPMG Corporate Finance K.K.
2000 Joined UBS Warburg Japan (currently UBS Securities Japan Co., Ltd.)
2005 M&A Advisor and Managing Director, UBS Warburg Japan
2008 Senior Vice President and Business Development Leader, GE Capital Asia Pacific Ltd.
2013 Senior Executive Officer and Business Development Leader, GE Capital Japan, GE Japan Inc.
2013 Managing Director, GCA Savian Corporation (currently GCA Corporation)
2017 Director, GCA Corporation (current position)
2020 Director, Nagase & Co., Ltd. (current position)
2022- Representative Director and CEO, Houlihan Lokey Japan Co., Ltd. (current position)

1974 Joined Kikkoman Shoyu Co., Ltd. (currently Kikkoman Corporation)
2003 Corporate Officer, Kikkoman Corporation
2006 Executive Corporate Officer, Kikkoman Corporation
2008 Director and Executive Corporate Officer, Kikkoman Corporation
2011 Representative Director and Senior Executive Corporate Officer, Kikkoman Corporation
2013 Representative Director, President and CEO, Kikkoman Corporation
2021 Representative Director, Chairman and CEO, Kikkoman Corporation
2022 Director, Nagase & Co., Ltd. (current position)
2023 Representative Director and Chairman, Kikkoman Corporation (current position)

1980 Joined Honda Motor Co., Ltd.
2008 Executive Officer, Honda Motor Co., Ltd., and Director and Vice President, Honda Motor Europe Limited
2011 President, Guangqi Honda Automobile Co., Ltd.
2014 Managing Officer, Chief Officer for Regional Operations (Europe Region), Honda Motor Co., Ltd., and President and Director, Honda Motor Europe Limited
2015 Senior Managing Officer, Honda Motor Co., Ltd.
2016 Chief Officer for Regional Operations (North America), Honda Motor Co., Ltd., and President and CEO, Honda North America, Inc.
2017 Senior Managing Director, Honda Motor Co., Ltd.
2019 Chairman, Honda Motor Co., Ltd.
2023 Director, Nagase & Co., Ltd. (current position)

Audit & Supervisory Board Members

Note: Number of shares held based on available information as of May 31, 2023. Figures given for the number of shares held include those held in the name of Nagase & Co., Ltd. Officers' Shareholding Association and Own Share Investment Association.



Masanori Furukawa
Audit & Supervisory Board Member
Number of shares held: 9 thousand



Nobuyuki Shirafuji
Outside Audit & Supervisory Board Member
Number of shares held: 2 thousand



Akira Takami
Audit & Supervisory Board Member
Number of shares held: 16 thousand



Gan Matsui
Outside Audit & Supervisory Board Member
Number of shares held: 2 thousand

1984 Joined The Sumitomo Bank, Ltd. (currently Sumitomo Mitsui Banking Corporation)
2003 Deputy General Manager of Global Corporate Investment Dept. (London), Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Banking Corporation Europe Limited
2006 General Manager of Credit Dept., Europe, Middle East and Africa Division (London), Sumitomo Mitsui Banking Corporation and Sumitomo Mitsui Banking Corporation Europe Limited
2013 General Manager of Credit Review Dept. of Sumitomo Mitsui Banking Corporation
2016 Retired from Sumitomo Mitsui Banking Corporation
Audit & Supervisory Board Member, Nagase & Co., Ltd. (current position)

1980 Prosecutor, Tokyo District Public Prosecutors Office
1990 Prosecutor, Tokyo District Public Prosecutors Office (Special Investigative Squad)
2005 Director, Special Trial Department, Tokyo District Public Prosecutors Office
2010 Assistant Public Prosecutor, Osaka High Public Prosecutors Office
2012 Chief, Criminal Investigations, Supreme Public Prosecutors Office
2014 Chief Prosecutor, Yokohama District Public Prosecutors Office
2015 Superintending Prosecutor, Fukuoka High Public Prosecutors Office
2016 Japan Federation of Bar Associations (Member, Tokyo Bar Association) Yaesu Sogo Law Office (current position)
2018 Audit & Supervisory Board Member, Nagase & Co., Ltd. (current position)

Executive Officers

Managing Executive Officer

Naoki Yasuba In charge of Hayashibara Co., Ltd.	Takanori Yamauchi In charge of Nagase Business Expert Co., Ltd.	Satoru Fujii In charge of Nagase ChemteX Corporation	Donald K. Thorp In charge of Prinova Group LLC, Food Business	Kusuo Ota In charge of Group Companies, Greater China (CEO), and Europe (CEO)
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Executive Officer

Koichi Sagawa GM, Corporate Planning Department	Ryuichi Uchida In charge of Marketing DX	Takeshi Takada Manager, Nagoya Branch Office	Noriaki Arashima GM, Specialty Chemicals Department	Noriyoshi Yamaoka GM, Human Resources & General Affairs Department
Yoshihisa Shimizu GM, Corporate Management Department	Xiaoli Liu GM, Nagase Bio-Innovation Center	Eiroku Oki ASEAN and India CEO, Regional Operating Centre Leader	Toru Araki GM, Risk Management Department	Tamotsu Isobe GM, Performance Chemicals Department
Kenntaro Nagase GM, Global Communication Department				

Board of Directors and Audit & Supervisory Board Skill Matrix

We have identified the skills that members of the Board of Directors need to possess, and the roles that members of the Board of Directors and of the Audit & Supervisory Board play, and the specialist knowledge that they possess, as shown to the right.

Position in the Company	Name	Corporate Management/ Management Strategy	Global Management	Sustainability	Marketing/Sales	DX	Manufacturing/R&D	Finance and Accounting	Legal Affairs/ Risk Management	Human Resources/ Labor Affairs
Representative Director and Chairman	Kenji Asakura	●	●	●	●	●				●
Representative Director and President	Hiroyuki Ueshima	●	●	●	●	●	●			●
Represent Director	Masaya Ikemoto	●	●	●			●	●		●
Director	Masatoshi Kamada	●	●	●	●	●			●	
Director and Senior Adviser	Hiroshi Nagase	●	●	●	●					●
Outside Director	Ritsuko Nonomiya	●	●	●				●	●	●
Outside Director	Noriaki Horikiri	●	●	●			●		●	●
Outside Director	Toshiaki Mikoshiba	●	●	●	●				●	●
Audit & Supervisory Board Member	Masanori Furukawa			●				●	●	
Outside Audit & Supervisory Board Member	Nobuyuki Shirafuji			●				●	●	
Audit & Supervisory Board Member	Akira Takami			●				●	●	
Outside Audit & Supervisory Board Member	Gan Matsui			●					●	●

Corporate Governance

Basic approach

The NAGASE Management Philosophy recognizes its responsibility to society and offers beneficial products and services while maintaining the highest standards of integrity. Through our growth, we will contribute to society and enrich the lives of our employees.

Based on this philosophy, NAGASE strives to increase corporate value over the medium to long term in line with the NAGASE Vision, its commitment to stakeholders: "To realize a sustainable world where people live with peace of mind, each of us embodies our value proposition, "Identify, Develop and Expand" through daily activities." We are working to strengthen our corporate governance, because we believe that rapid decision-making and execution, and ensuring transparency are essential for us to accomplish these objectives.

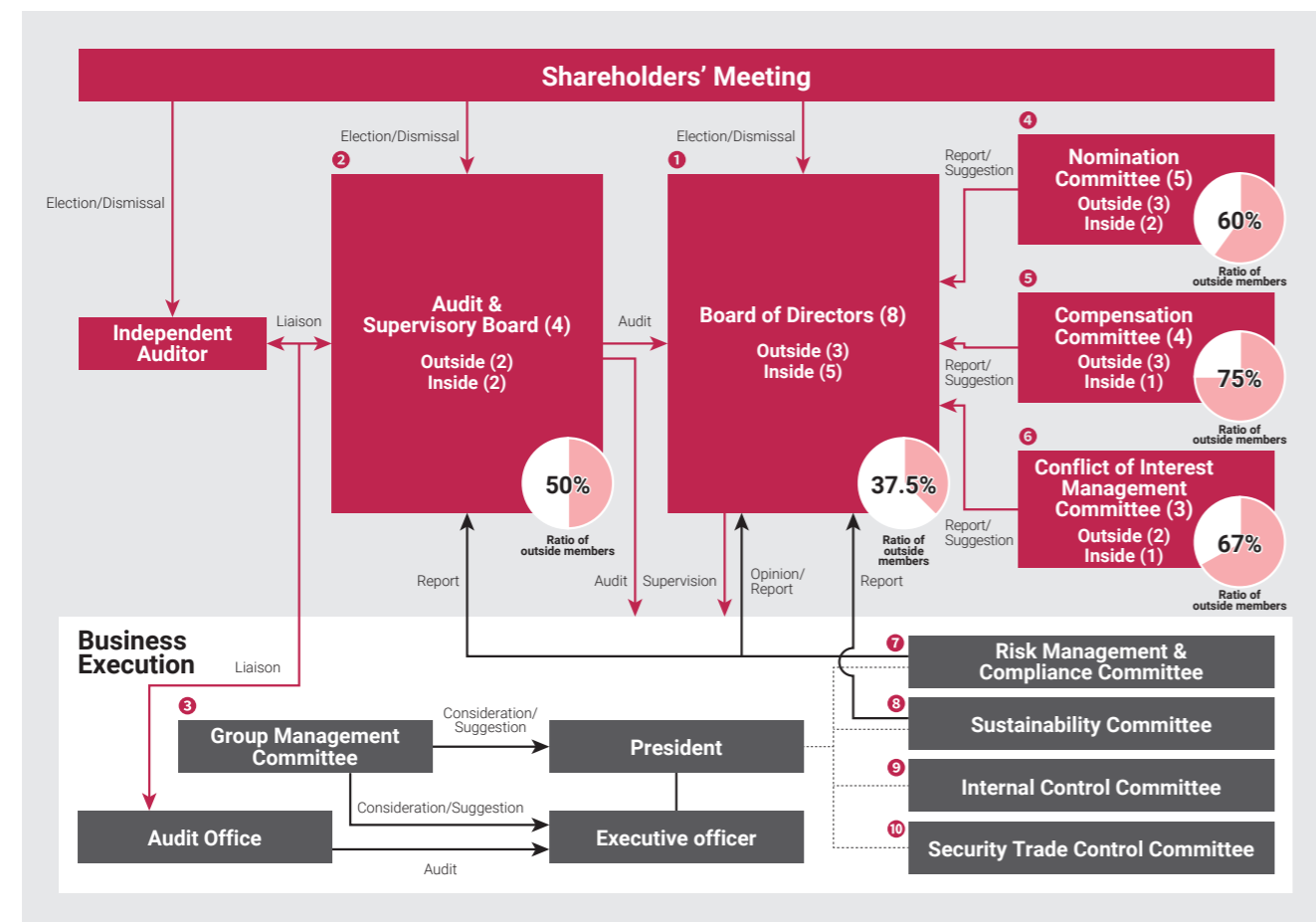
Overview of the corporate governance system

NAGASE has adopted the structure of a company with an Audit & Supervisory Board. We have also adopted an executive officer system that separates management and business execution, with the aim of accelerating decision-making and

enhancing business execution. Our current management system is based on 8 Directors (of which 3 are Outside Directors), 19 executive officers (of which 3 are also Directors), and 4 Audit & Supervisory Board Members (of which 2 are Outside Audit & Supervisory Board Members). To strengthen the corporate governance function, NAGASE has voluntarily established a Compensation Committee, Nomination Committee, and Conflict of Interest Management Committee. Other voluntarily-established committees include the Group Management Committee, Sustainability Committee, Risk Management & Compliance Committee, Internal Control Committee, and Security Trade Control Committee.

Under the current corporate governance framework, the suggestions and advice provided from an objective standpoint by several independent Outside Directors, and the unbiased, objective oversight provided by an Audit & Supervisory Board whose members have a high level of specialist expertise and independence, have proven to be functioning effectively. We believe that, given the effective coordination between the various boards and committees that have been voluntarily established by the Company, this corporate governance framework is the most appropriate for our company.

Corporate governance system



Overview of the main boards and committees

Name	Summary	Composition	No. of Meetings Held in FY2022	Main Issues Addressed in FY2022
1 Board of Directors	The Board of Directors is clearly positioned as the body in charge of making decisions on management policies and strategies, and supervises the execution of operations. It holds a regular monthly meeting to make important decisions, track business performance and formulate measures.	8, including 3 Outside Directors	16	<ul style="list-style-type: none"> Matters relating to management strategy, sustainability, and governance Matters relating to risk management, internal controls, and compliance
2 Audit & Supervisory Board / Audit & Supervisory Board Members	In accordance with the audit policy and audit plans set at Audit & Supervisory Board meetings, Audit & Supervisory Board members conduct audits of the execution of duties by directors by attending important meetings such as Board of Directors meetings and receiving reports solicited from subsidiaries on an as-needed basis.	4, including 2 Outside Audit & Supervisory Board Members	16	<ul style="list-style-type: none"> Issues identified by the Audit & Supervisory Board Members in relation to the internal controls system, and communication regarding these issues Content of important matters submitted to the Board of Directors for deliberation, and the deliberation process Business management status of individual Group companies Appropriateness and transparency of the process used to select key audit matters (KAM) for auditing by the Independent Auditor
3 Group Management Committee	The Group Management Committee comprises executive officers appointed by the Board of Directors, and in principle, meets regularly once a month to discuss management strategies, investment projects, and other important matters to support business decision-making. This committee serves as an advisory body that discusses matters resolved by the Board of Directors.	Executive officers appointed by the Board of Directors	23	<ul style="list-style-type: none"> Matters relating to management strategy, sustainability, and governance Matters relating to risk management, internal controls, and compliance
4 Nomination Committee	The Nomination Committee has five members, the majority being outside directors. It deliberates on appointment proposals for directors and executive officers and succession plans for the Chief Executive Officer. It then provides reports and recommendations to the Board of Directors with the aim of ensuring objectivity and transparency in nominations of NAGASE's top management.	5, including 3 Outside Officers	6	<ul style="list-style-type: none"> Matters relating to the selection of the President's successor Matters relating to the following year's Directors and executive officers
5 Compensation Committee	The Compensation Committee has four members, the majority being outside directors. It enhances the objectivity and transparency of the decision-making process regarding compensation of directors and executive officers by screening the appropriateness of every compensation level and the compensation system to report and make recommendations to the Board of Directors.	4, including 3 Outside Directors	5	<ul style="list-style-type: none"> Matters relating to the share compensation system Matters relating to the compensation system for company officers
6 Conflict of Interest Management Committee	The Conflict of Interest Management Committee has three members, the majority being outside directors. It deliberates on potential conflicts of interest in relation to the Group's business operations with objectivity and transparency, and reports to and makes recommendations to the Board of Directors.	3, including 2 Outside Directors	Meetings held starting from 2023	—

- 7 Risk Management & Compliance Committee: The Risk Management & Compliance Committee establishes and strengthens risk management and compliance systems that cover not only legal compliance but also corporate ethics.
- 8 Sustainability Committee: The Sustainability Committee is chaired by the President with executive officers and Group company managers as members. This committee formulates policies for promoting sustainability throughout the Group, establishes and maintains the promotion system, monitors measures, and conducts educational activities within the Group.
- 9 Internal Control Committee: The Committee deliberates on basic policies for the internal control system, builds frameworks established by the internal control system, and monitors the management of the frameworks to ensure the appropriateness of business operations.
- 10 Security Trade Control Committee: The Security Trade Control Committee ensures compliance with export-related laws and regulations in relation to foreign currency exchange and foreign trade for the Company's trading of cargoes and technologies covered by such laws and regulations.

Main initiatives to strengthen corporate governance

	1990s	2000s	2010s	2020s
Company officer system	1994 Appointment of first Outside Audit & Supervisory Board Member	1998 Appointment of multiple Outside Audit & Supervisory Board Members 2001 Adoption of executive officer system	2005 Appointment of multiple Outside Directors	2020 <ul style="list-style-type: none"> Outside Directors account for at least one-third of Board members Appointment of first female Director
Committees		2001 Establishment of the Compliance Committee 2008 Restructuring of the Compliance Committee as the Risk Management & Compliance Committee	2010 Establishment of the Compensation Committee	2020 Establishment of the Sustainability Committee
Other		2007 Establishment of the Internal Control Promotion Committee 2009 Restructuring of the Internal Control Promotion Committee as the Internal Control Committee	2007 Adoption of anti-takeover measures	2019 Termination of anti-takeover measures

Nomination policy and criteria

Nomination policy and procedures for Directors and Audit & Supervisory Board Members Directors (Internal and Outside)

As a general rule, candidates for Internal Directorships are nominated from among persons who already have experience as an executive officer.

Candidates for Outside Directorships are chosen from persons of integrity who possess a high level of insight and competence, and who are able to raise issues from the standpoint of what stakeholders and society as a whole require.

Candidates for Directorships are selected by the President and Representative Director, and after review by a separate Nomination Committee, the appointments are deliberated on and decided upon by the Board of Directors, and then submitted to the Shareholders' Meeting for approval.

With regard to Audit & Supervisory Board Members, candidates are selected by the President and Representative Director from among persons who are deemed to meet the criteria specified in the Audit Standards for Audit & Supervisory Board Members, and after obtaining the agreement of the Audit & Supervisory Board through preliminary discussion, the appointments are deliberated on and decided upon by the Board of Directors, and then submitted to the Shareholders' Meeting for approval.

In addition, the reference materials appended to the notice of the Shareholders Meeting disclose the reasons for appointing each candidate for the positions of Director or Audit & Supervisory Board Member.

Regarding the removal of Directors, after the Nomination Committee has deliberated on the appropriateness of removal, the question of removal is then deliberated on and decided upon by the Board of Directors, after which, where necessary, the procedures for removal are followed. When a Director is removed, the grounds for removal are disclosed.

Issues identified in the evaluation of the effectiveness of the Board of Directors, and response measures

Status of the response to items recognized as issues in FY2021

- Re-evaluation of document composition
 - ➡ We have made improvements in this regard, by adopting the inclusion of executive summaries in Board of Directors materials, and by clarifying submission content and discussion points.
- Ensuring opportunities for discussion of overall strategy and management issues
 - ➡ We have canvassed the views of each Director regarding the raising of topics relating to concrete management issues.

Issues recognized in the FY 2022 evaluation results

- The need for further discussion regarding how the Board of Directors operates
- The need for continuous improvement to realize efficient operation
 - ➡ With regard to operational improvement, we are discussing the effective utilization of pre-meeting explanations and adjustment of the criteria for submitting matters for discussion, so as to ensure that there is adequate time for discussion and deliberation on the day of Board meetings.
- The need to improve monitoring of management issues
 - ➡ We are proceeding with consideration of how to select discussion topics and ensure opportunities for discussion, of quantitative and qualitative reflection on the Medium-term Management Plan, and on the next action plan.

Status of audit by Audit & Supervisory Board Members

The Audit & Supervisory Board comprises 3 full-time members (including 1 outside member) and 1 part-time member (including 1 outside member). The Audit & Supervisory Board meets once a month in principle and as necessary to discuss matters. In fiscal 2022, it held 16 meetings.

Board of Directors effectiveness evaluation

Evaluation method

The Company analyzes and evaluates the effectiveness of the Board of Directors every year, believing in the importance of improving board effectiveness. It conducts an anonymous survey of all directors and Audit & Supervisory Board members in order to generate more proactive and honest opinions. The Company also eliminates bias by utilizing third-party organizations to collect, tally and analyze the survey results, thereby ensuring transparency in its evaluation methods.

Evaluation results

Based on the evaluation results, the Company confirmed that its Board of Directors functions effectively, conducting appropriate and timely deliberations and decision-making.

The status of the response to items recognized as issues in fiscal 2021, and the issues recognized in fiscal 2022 based on the evaluation results, and the response strategy for these issues, are as follows.

Company officer compensation policy

Compensation standards are set so that compensation is appropriate for the role and scope of responsibilities for each company officer and motivates them to sustainably enhance corporate value in light of objective external data and the current management situation, etc. The target ratios for each category of compensation are as shown below.

Compensation for Outside Directors and Audit & Supervisory Board Members is limited to basic compensation, a fixed salary, in view of the nature of their duties.

The indicators selected for performance-linked compensation are net income attributable to shareholders of the parent company, which is the final profit, as an incentive to improve business performance, and ROE as an incentive to improve capital efficiency. The method used to calculate performance-linked compensation is as follows. The basic amount of performance-linked compensation based on profit attributable to owners of the parent is determined based on the consolidated performance forecast at the beginning of the fiscal year, and is multiplied by the ratio of net profit for the previous fiscal year and the achievement ratio relative to the consolidated performance forecast at the beginning of the fiscal year, and is adjusted based on individual assessment. With regard to compensation based on ROE, to achieve the ultimate goals set in the Medium-Term Management Plan, targets are set for each fiscal year, and the amount of compensation is determined based on the extent to which the target for that year has been reached. Starting from fiscal 2024, new ESG-related indicators are being added as additional performance-linked indicators.

Share held by each category of company officers' compensation

Fixed compensation	Share of total: 50 – 70%	Paid monthly, in cash
	Annual compensation, paid in equal monthly payments	
Performance-linked compensation (monetary)	Share of total: 25 – 40%	Paid annually, in cash
	Paid in lump sum at the end of June each year	
Performance-linked compensation (non-monetary)	Share of total: 5 – 10%	On retirement, in the form of shares
	A performance-linked share compensation system has been adopted whereby points are awarded based on position and achievement of performance targets, etc., and a number of shares corresponding to the number of points awarded is held in a trust set up by the Company to be paid on retirement.	

Breakdown of company officers' compensation and total amounts (FY2022)

Category of company officer	No. of eligible company officers (persons)	Total amount of compensation (million yen)	Amount of compensation by type (million yen)		
			Basic salary	Performance-linked compensation (monetary)	Performance-linked compensation (non-monetary)
Directors	Internal	6	200	270	31
	Outside	4	34	–	–
	Total	10	235	270	31
Audit & Supervisory Board Members	Internal	2	46	–	–
	Outside	2	33	–	–
	Total	4	80	–	–

Strategic cross-shareholdings

To realize the sustainable enhancement of corporate value, the NAGASE Group holds strategic cross-shareholdings when this is deemed necessary, taking into account a comprehensive range of factors such as those relating to the maintenance and strengthening of relationships with business partners, business strategy, etc. Regarding the appropriateness of these shareholdings, the relevant units scrutinize them to gauge whether the earnings that can be achieved in terms of profits from related transactions and dividends received meet the Company's internal hurdle rate based on capital cost, whether the shareholdings can be expected to support business expansion or the creation of synergy, and whether they can be expected to ensure the stable provision of services that are vital to the NAGASE Group's corporate activities; the results of this scrutiny are then confirmed by the Board of Directors on an annual basis. In cases where the holding of a particular stock is deemed not to be appropriate, the Company will aim to reduce its holdings of these shares by selling them off in a step-by-step process, while taking various factors into account.

In addition, under the ACE 2.0 Medium-Term Management Plan, implementation of which began in fiscal 2021, NAGASE plans to sell off strategic cross-shareholdings valued at a cumulative total of 30 billion yen over a five-year period. As of March 31, 2023, a total of 15.1 billion yen of shareholdings had already been sold off.

Sale of strategic cross-shareholdings

	FY2019	FY2020	ACE 2.0 Medium-Term Management Plan	
			FY2021	FY2022
No. of stocks sold off	7 stocks	5 stocks	49 stocks	13 stocks
Total sale price	10.4 billion yen	6.2 billion yen	7.8 billion yen	7.3 billion yen

Risk Management

Basic approach

The NAGASE Group runs a global and diversified operation, being exposed to various risks associated with the nature of its businesses.

We therefore endeavor to gain an accurate assessment of risks related to business activities within and outside the company, take appropriate action, and make improvements so that we can achieve sustainable growth while minimizing harm from emerging risks.

Strengthening of the risk management system

Responding to concerns about the possibility of failing to identify risks that require monitoring, and to increasing awareness of the need to upgrade risk management systems in response to changes in the external environment as well as growing external demand for disclosure related to these efforts, NAGASE has sought to overhaul the risk management system and rules. We have also implemented a large-scale adjustment of corporate risk management items. The existing 17 risks have been broken down into 102 individual risks. Of these 102 risks,

12 risks that have been assessed to be particularly high have been set as the Group's major risks, based on assessment criteria that utilize the three axes of impact, frequency/potential of occurrence for occurrence and inadequate management. The aim of these measures is to realize the wide-ranging identification of risks and build a framework for sustainable risk management.

Internal control

The NAGASE Group established an internal control system to build a stable and sustainable corporate foundation for the Group with the aim of enhancing corporate value through business activities. The Internal Control Committee, the main entity for advancing internal controls, discusses the basic policy of the internal control system, monitors the construction and operation of frameworks defined under the internal control system, and ensures the propriety of operations.

Crisis prevention and business continuity planning (BCP)

Each NAGASE Group company has taken steps to mitigate such risks as those related to natural disasters that could have an impact on the continuity of business activities as well as the safety and lives of employees. We implement countermeasures through the dual wheels of crisis prevention activities and BCP activities. As for crisis prevention activities, we annually conduct one drill that coordinates our major domestic bases of Tokyo, Nagoya, and Osaka, checking the first responses during times of crisis. As for BCPs, each department has formulated a recovery plan to assure delivery to major business partners.

Product safety and quality control

The NAGASE Group considers product safety and quality control a major social responsibility to provide customers with safe products and build a safe and secure society. According to the NAGASE Group Product Safety Principles, we strive to ensure the safety of products through Group-wide rules and education.

In addition, the Legal and Compliance Department provides management of vendors and manufacturing contractors, and the Group Manufacturers' Collaboration Committee provides support to Group manufacturing companies and internal education.

Occupational safety and health management by Group Manufacturers' Collaboration Committee

With regard to the occupational safety and health of Group manufacturing companies, the Group supports improvements to occupational safety and health activities undertaken by each company at the Occupational Safety Subcommittee within the Group Manufacturers' Collaboration Committee. It also supports solid implementation of activities and conducts occupational safety evaluations and follow-ups on priority target companies to achieve KPIs.

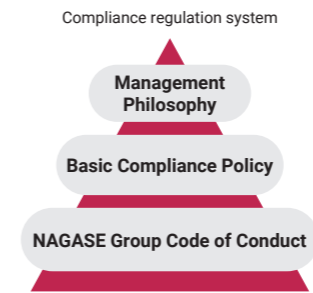
Compliance

Basic approach

The NAGASE Group values employee education and business activities that follow socially accepted norms and ethics as well as observing laws and regulations, which are becoming more complex and stringent in an increasingly borderless world. Thus, we are committed to compliance that keeps pace with the changing times. To this end, we have established a Risk Management & Compliance Committee to oversee risk management and compliance, and defined its functions and authority. The Risk Management & Compliance Committee operates as a structure with clearly defined roles and responsibilities.

Components of the Basic Policy and Code of Conduct

Increasing the effectiveness of compliance requires clarification of our compliance philosophy, a functional system to implement that philosophy, and the demonstration of concrete action guidelines. The NAGASE Group has established a Basic Compliance Policy based on its core Management Philosophy, and has formulated and implemented the NAGASE Group Code of Conduct, which incorporates the Management Philosophy into more concrete actions, as important rules that all Group executives and employees must uphold.



Components of the Basic Compliance Policy and Code of Conduct

- 1 Comply with applicable laws and regulations; conform to internal rules
- 2 Eliminate anti-social elements
- 3 Provide useful products and service
- 4 Respect employee's personality and individuality
- 5 Disclose information
- 6 Protect the global environment
- 7 Responsibilities of top management

Our Basic Policy and Code of Conduct is available on the Sustainability section of our website.

Establishing a compliance system

The NAGASE Group has established consultation and reporting hotlines as well as compliance rules for each Group company and region, and established a system which makes it possible to detect compliance issues that have occurred within the Group in a timely manner and improve and resolve them quickly. It checks to make sure that the system for handling consultations and reports of harassment within the Group is properly functioning, and continually promotes compliance activities that involve taking proactive measures, such as education focused on management and those in administrative positions who lead organizations.

Fair business practice initiatives

In regard to the Antimonopoly Act, the NAGASE Group actively runs education programs, mainly for our manufacturing companies, to ensure that they are not involved in unfair trade. We are also providing bribery education to Group companies in Japan and overseas in the context of strengthening our approach to the prevention of bribery of foreign public officials under Japan's Unfair Competition Prevention Act and extraterrestrial application of the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. In fiscal 2022, as in past years, we implemented related education that included topics of current importance and developments within the NAGASE Group.

Response to security trade controls

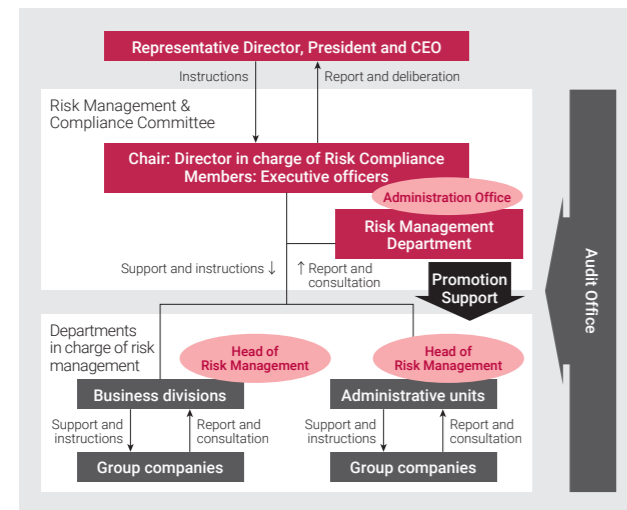
To conduct trade appropriately in line with laws and regulations as a member of the international community, the Security Trade Control Committee works to understand the export control situation, follows the latest revisions to the Foreign Exchange and Foreign Trade Control Law, and ascertains a detailed picture of export controls across the entire Group, while formulating related Group policies. The Item Compliance Management Council is in charge of directing and educating each business division and Group company in matters and statute updates determined by the Security Trade Control Committee. It is the responsibility of the Item Compliance Management Council to protect the company and affiliates against the risk of illegal acts. To be capable of responding to the rapid change in the security trade control field, we encourage our employees, particularly those involved with export business, to take the security trade control certification exam provided by the Center for Information on Security Trade Control (CISTEC) (As of fiscal 2022, a cumulative total of 1,125 employees had obtained this certification).

Compliance with laws and regulations related to products

We are strengthening our management of product-related laws and regulations, including those relating to chemical products. We are also promoting centralized information management and have implemented a management system to appropriately comply with related laws and regulations across all products handled by the NAGASE Group.

- **Specific compliance measures:** We implement centralized management of matters relating to relevant laws and regulations using our comprehensive product management system, based on the chemical composition and specifications of all the chemical products that we handle.
- **Compliance with global chemical substance regulations:** We are promoting the systemization of product management, and providing education and guidance to our overseas subsidiaries so that they can promptly provide their business partners with the latest and most accurate information in response to regulatory changes based on the Strategic Approach to International Chemicals Management (SAICM).

Risk management system



FY2023 Group's major risks – Candidate risks

Broad categories	Risk item
External environment	Tensions between U.S. and China
	Taiwan contingency
	Failure to address diversity, equity, and inclusiveness of human capital
	New technology and service development and technology and service innovation by competitors
	Failure to cope with climate change risk
	Depletion of natural resources
	Growing social demands for human rights, environmental issues, etc. in the supply chain
Internal environment	Failure of overseas strategy
	Losses incurred due to the withdrawal from business
	Workplace harassment
	Cyber-attacks
	Utilization of personal data