Our Approach to Value Creation

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Representative Director, President and CEO
Nagase & Co., Ltd.

Developing a sustainable business in the global market while fostering our NAGASE people

In my first year, I focused on business restructuring to set a firm foundation for the Ideal NAGASE.

Fiscal 2023, my first year as president, was largely spent responding to changes in our business environment, which ranged from broadening geopolitical risk to persistently high raw material prices and widely fluctuating foreign exchange rates. In fact, 9 of our 10 business fields faced extremely harsh conditions during the year. The strongest impacts on our business performance came from the stagnant Chinese economy, downward price pressure on food ingredients and functional materials due to cut-rate prices at Chinese companies, and a spike in costs owing to delays installing automation equipment at the Prinova Group plant in Utah of the United States. The conditions forced us to lower our consolidated earnings forecast in November 2023 when we reported a profit decline for the second quarter, which was a direct reflection of shortcomings in our capabilities.

In that environment, we focused on laying the foundation for growth by continuing to advance the key measures of the Medium-Term Management Plan **ACE 2.0** and by implementing our QUICK WINS initiative to maximize and optimize the use of our core management resources of people, finances, and time as we develop our business and financial portfolios, enhance governance of management processes, and rebuild our human resources portfolio. These efforts, in fact, produced some positive results as, despite the decline in operating income for the year, strong performances by our highly profitable manufacturing subsidiaries helped lift gross profit to an all-time high. I view my first year as one in which we continued the **ACE 2.0** plan's core drive for the "Pursuit of Quality," progressed with our business restructuring, and laid the foundation to foster the mindset of the Ideal NAGASE.

In fiscal 2024, we will continue to strengthen ROIC management and address the factors that led to our profit decline while aiming to raise operating income to a record high. We will continue developing our businesses as we seek to fulfill the performance expectations of our shareholders and investors.

Using our trading, manufacturing, and R&D functions for the well-being of people and the planet

I spent a lot of time last year pondering the questions of who are we as NAGASE? and Why do we exist? The answer that came to me is that our purpose is to use materials to overcome challenges for manufacturers. Our business is founded on our ability to use our materials to provide solutions for our clients, which in turn provides solutions for issues being faced by industry and society. Therefore, the NAGASE Group's businesses reduce environmental impacts and support manufacturing activities that are directly connected to people's health, safety, and comfort. Although we have little direct contact with the end users, NAGASE is proud that our BtoB transactions provide materials that support the well-being of people and the planet.

During the year, when I met with the top executives of our business partners, I always asked, "What do you consider to be NAGASE's strengths?" Most of the answers boiled down to: NAGASE's strength is that it encompasses the three functions of a trading company, manufacturer, and an R&D company. This perception of NAGASE gave us the idea for recasting our framework, and last year we reorganized the four quadrants of the Group's growth strategy from being divided along business lines to being delineated by function. However, when we look at how the Group works internally, it seems that not many employees conduct their daily activities with an awareness of how unique and powerful it is to have the three functions of a trading company, manufacturer, and R&D. In addition, employees seem to underestimate their abilities. At every opportunity, I remind them that "The skills you use at the worksites and your ability to generate profits are greater than you think. We need to have more confidence in ourselves."

Of the three functions, the trading function is our greatest strength. As a trading house, we provide the materials and solutions that match our clients' needs, which become a key source of information for directions to create new businesses. The uncertain times we are living in are presenting a growing number and variety of risks, including risk of changes to environmental regulations and risk of supply chain disruption. Our business partners and society are facing a growing number of problems that will have to be overcome. For NAGASE, however, this is a business opportunity. We are perfectly positioned to use our direct dialogue with our business partners to quickly identify their issues and apply our three functions as trading company, manufacturer, and R&D to deliver a wide variety of value. What we ask of our employees is not to wade into a market that is already overrun with players but to look for little gems that the world has not found yet and where we can get excited about their uniqueness. We have an exceptional uniqueness and ability to win in the global market by providing manufacturers with the materials to overcome their challenges. I want to raise the quality of our management to a higher level so NAGASE is the company that companies turn to for solutions.

Fiscal 2024 growth strategies in the Foundation, Focus, and Development domains

I would now like to provide an overview of the growth strategy we are implementing in fiscal 2024. For our trading function, which we set as a foundation in the four quadrants, we are examining our business prospects in each country and will shift our global resource investment to countries and regions with the highest growth potential.

In the manufacturing function in specific areas, which are in the focus quadrant, we will advance the stages of planned investments in the food, semiconductor, and life sciences fields. In the semiconductor field, this will mean continuing our original plan for fiscal 2024 to start a wafer bumping business in Malaysia and a recovery and recycling business for photographic developer fluids used in the manufacturing process. In the development area, which includes our R&D function, we will accelerate development of businesses being groomed as future revenue sources, including preparing to commercialize businesses for the rare amino acid ergothioneine and for biodegradable superabsorbent polymers.

In the areas for improvement, we have a specific action plan that includes reviewing unprofitable businesses and subsidiaries and other steps to reduce losses to under ¥1 billion in fiscal 2025.

Laying the foundation for our transformation with QUICK WINS

I would also like to talk more about the QUICK WINS measures we launched in June 2023 to set a foundation for our transformation. QUICK WINS has specific measures aimed at the three objectives to develop our business and financial portfolios, enhance governance of management processes, and rebuild our human resources portfolio. As shown in the QUICK WINS status in fiscal 2023 diagram at the bottom of the right page, we track our progress with each measure using green markers on five levels. Within the Group, we also distribute our *Quarterly Paper* with its easy-to-understand summaries of only a few pages so all employees can apply the measures in their daily work. I bring copies of the *Quarterly Paper* with me when I visit business sites and Group companies in Japan and overseas so I can talk directly with employees about the measures.

The objective of developing our business and financial portfolios is to establish the optimal resource allocation and business structure to be resilient to changes in market conditions and the external environment. In this direction, we continued to consolidate unprofitable transactions and clarified our growth strategy by thoroughly applying ROIC management to each business unit. I believe the ROIC management is gaining traction as we are already seeing its effects, including better inventory turnover rates and improving gross profit margins. Another area where we are making steady progress is in introducing digital marketing in countries and regions with specific challenges for travel time, cost, and other conditions. The necessary digital technologies and infrastructure are now in place, and in the second half of fiscal 2024, the business units and DX department will begin using a fully integrated analysis platform of all Group data related to sales.

Our measures to enhance governance of our management processes include the major step of consolidating the number of business divisions from 11 to 7 in October 2023. The expanded divisional umbrellas covering more business units allow us to select and focus resources more quickly and delegate authority more effectively. We also reorganized the Group Management Committee and other management groups targeted at various issues to give us more opportunities to discuss and deliberate on agenda items related to important management decisions.

The first steps for rebuilding our human resources portfolio were to incorporate succession planning into the structure and create more opportunities and mechanisms for developing management talent. In fiscal 2024, we added liberal arts-type training to our management development programs. To maximize the value of our human capital, in April 2024 we introduced a performance-based evaluation system with a clear concept of fairness and transparency. As a result, for example, we now have younger employees in their 20s and 30s in supervisory positions. We are continuing to modify the system so it will provide visualization of the evaluation criteria and enable more dynamic promotion of employee talent. We are testing a new "15% rule" to promote employee development where we assess an individual's current abilities and set a goal of improving by 15% each year. At that pace, an employee will double their capabilities in five years. To support this new approach to employee development, we are modifying our personnel systems and mechanisms and creating an environment that encourages our employees' steady growth.

A growth strategy for the future

Reorganizing each of our business domains along the lines of our trading, manufacturing, and R&D functions

Foundation — Trading function
Generate the cash flow and data that will allow us to strengthen our manufacturing function in focus and development areas

Development — Future revenue sources
Pursue new challenges in areas that will be future sources of revenue

Focus — Manufacturing function in specific areas
Leverage our unique products and technologies to increase overall profitability

Improvement
Reduce operating losses, equity-method losses, impairment losses, and unprofitable transactions at operating subsidiaries

Potential investments for focus and development areas from FY2024 (approximately ¥80 billion)

Development — Future revenue sources
- R&D (biotechnologies)
- New businesses (new products, etc.)
- New regions (Global South)

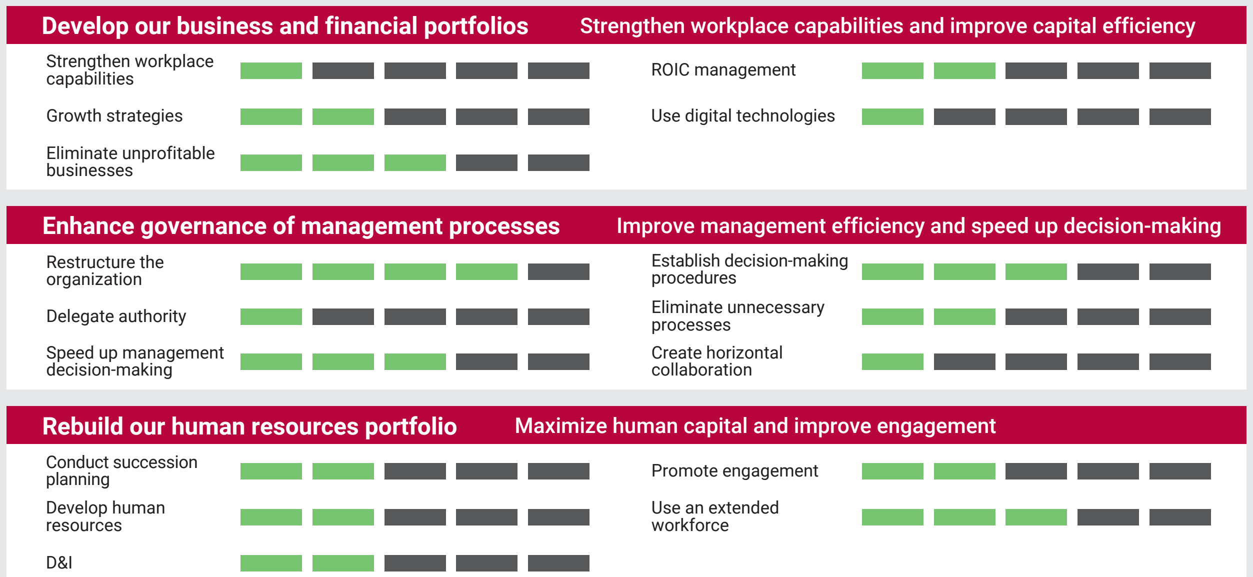
Focus — Manufacturing function in specific areas
- Food
- Semiconductors
- Life sciences

Improvement
- Unprofitable businesses
- Businesses at risk of impairment

Foundation — Trading function
- Semiconductors
- Electrical appliances
- Food
- Mobility
- Chemical industry
- Life sciences

QUICK WINS status in fiscal 2023

QUICK WINS is an initiative launched in June 2023 to maximize and optimize the use of our management resources of people, finances, and time as we develop our business and financial portfolios, enhance governance of management processes, and rebuild our human resources portfolio.



The NAGASE Group companies overseas enjoy workforces with a wide variety of nationalities, religions, and values. Unfortunately, we cannot say the same for the parent company, Nagase & Co., Ltd., in Japan. We are taking steps to improve diversity and inclusion (D&I) at the parent company, but we understand that progress will require changing our awareness of D&I concepts. One of our areas of weakness has been our management training programs, which are critical to advancing women's empowerment in the workplace. One step we took to address this weakness in fiscal 2023 was to invite Reiko Shiota, former member of the Japanese national badminton team and representative of the Woman's Ways organization promoting awareness of women's issues, to present a management seminar on physical and mental issues that affect women. The response to the seminar was tremendous. I look forward to hosting more events and introducing ideas that will spark changes in our way of thinking and consciousness.

Improving employee engagement is particularly crucial to increasing our human capital, and I intend to use the results of our regular employee surveys to increase and strengthen our engagement initiatives. We will create opportunities for executives and employees to share their perspectives and engage in small meeting discussions about ways to solve any issues. This will be the first step to creating an environment where executives and employees fully appreciate each other's perspectives and work together as equals for mutual improvement.

Cultivating younger employees through experiences and learning opportunities

Since becoming president, I have tried to create as much time as possible to talk with employees and outside directors. I regularly meet outside directors for lunch meetings where we engage in open discussions with a frankness that is at a different level than at Board of Directors meetings. I also make it a point to bring different young employees with me on each business trip overseas. When I myself first joined the Company, I was given many opportunities to listen to all types of discussions while sitting right beside the Company president. Hearing what managers think and how they approach things was eye-opening, and it greatly influenced me in both my life and how I set goals.

Around 1994, when I was in my twenties, I drafted an investment project proposal that was submitted to then-President Hideo Nagase for final approval. One day, I received a telephone call from the secretary's office calling my general manager and me to the president's office. The president surprised me by asking, "Mr. Ueshima, for this proposal, how much money would you have to lose before you stopped the project?" This was the exact opposite of the question I was expecting–"How much do you expect to make?" After taking a few seconds to think about it, I said, "If it loses ¥100 million, I'll stop it." He agreed and signed his approval right then. The lesson I learned that day was that managers are not looking just at profits; they're also considering business continuity. The time to decide when to exit a business is not when it starts drawing losses, it's when the business is started. At the time, exit strategies were not yet common in the business world, so it was a great learning experience. I want our younger employees to have as many experiences and learning opportunities as possible because they are invaluable to their growth.

Increasing our profitability and instilling management centered on the cost of capital and stock value

ACE 2.0 targets raising ROE to 8.0% by fiscal 2025, the plan's final year. Achieving that level will require that we continue improving our capital efficiency. As announced in May 2024, in addition to our current policy to consistently increase our dividend distribution, we decided to provide a total shareholder return ratio of 100% as a limited measure for two years.

Currently, our ROE is below 8.0%; the price-to-book ratio (PBR) is less than 1x; and the ratio of strategic cross-shareholdings to net assets is above 15%. We recognize each of these as important issues for management to address and will continue to focus on increasing profitability, considering the cost of capital and the share price in management decisions, and enhancing corporate value.

We will also place more emphasis on dialogue with shareholders and investors. In fiscal 2024, we will increase the number of financial results briefings from two to four and hold more small meetings so we have more opportunities to hear investor opinions and recommendations. As president, it is my responsibility to present the Company so that our investors see that NAGASE is seeking further transformation and that they can expect further growth.

Throughout its 190-year history, NAGASE has expanded its business based on the philosophy of "We recognize our responsibility to society and offer beneficial products and services while maintaining the highest standards of integrity." Our efforts to fulfill this philosophy have accumulated into one of our biggest assets—stakeholder trust in our company. We comply with laws and regulations as a matter of course, and we have an ingrained culture of "doing the right thing, the right way" in accordance with the common sense and ethics of society. At the same time, laws and regulations are becoming increasingly complex, so we are constantly strengthening our structure for compliance monitoring. This structure includes an internal reporting (whistleblowing) system centered on the Compliance Consultation and Reporting Desk, where all Group executives and employees in Japan and overseas can seek counsel and report concerns anonymously and with strict confidentiality.

I often tell our employees that society sees more of what we do than we may realize. We always comply with the law, but we should also always be asking ourselves, "is it the right thing for NAGASE to be doing?" Keeping that in mind is how we can pass on the NAGASE Group philosophy and positive corporate culture to the next generation.

Steadily reforming our profit structure and corporate culture

The objective of the QUICK WINS initiative discussed above is to drive rapid progress in all measures toward four or five on the five-point scale shown on page 16. For the remainder of the **ACE 2.0** plan, we will continue reforming our profit structure and corporate culture while paying close attention to the rapidly changing external environment. We will also concentrate management resources in our core trading function, which is in the Foundation quadrant, and in the food, semiconductors, and life sciences, which are in the Focus quadrant, with the aim of generating momentum for continuing growth through fiscal 2026 and beyond.

I believe our business, using sustainable materials to solve client issues, contributes to the well-being of people and the planet and helps pass on a clean Earth to future generations. In April last year, we introduced "Delivering next." as the NAGASE Group slogan. Group companies, business divisions, and employees in Japan and around the world have each found their own "next" that they are pursuing to create a new future. NAGASE is using its three functions of trading company, manufacturing, and R&D to create new and unique materials that will open new possibilities for the future. We look forward to your support as we advance to our next challenge.

September 2024

Hiroyuki Ueshima
Representative Director, President and CEO
Nagase & Co., Ltd.

Discussing the Quarterly Paper with employees

Talking and making connections with stakeholders

Lively meetings with employees at overseas companies

Joining a supervisor D&I training group

Masaya Ikemoto
Representative Director, Senior Managing Executive Officer, and CFO

Pursuing capital and financial strategies with dynamic growth scenarios

ACE 2.0 progress and management focused on capital efficiency

We are continuing to implement the medium-term management plan **ACE 2.0** centered on the core strategies to reform the profit structure and reform our corporate culture. We revised the strategies slightly in November 2023 to reflect the dramatic changes in the business environment and our business content since the plan was formulated. Part of the revision was to clarify the growth strategy by organizing the four quadrants of Foundation, Focus, Development, and Improvement on the three axes of our trading company, manufacturing, and R&D functions rather than into business sectors (page 31). Management now makes profit allocation decisions by considering where the cash and high value-added information generated by the trading function, which is the Foundation quadrant, should be best allocated in the Focus and Development quadrants.

We are also seeking to enhance the "quality" of our management by placing more emphasis on capital costs and returns, including applying return on invested capital (ROIC), to assess each business unit's investment efficiency. We have also set a target weighted average cost of capital (WACC) for each unit and set up a monitoring system. We are currently using the system as a basis for assessing if a business unit, based on its specific characteristics, is generating returns exceeding the cost of capital and for evaluating the level of return that would be required from a new business.

Our management team is currently discussing strategies to achieve the **ACE 2.0** target of 8.0% ROE, which is a management priority. For operating income, our first step is to establish a profit structure that will steadily deliver us to the key goal indicator (KGI) of ¥35 billion set in our medium-term management plan and then to explore measures that will strengthen our earning and growth potential to support ongoing growth into the future. Our aim is to raise ROE through this two-pronged approach of management focus on capital efficiency and an aggressive profit strategy.

To better ensure that we achieve our 8.0% ROE target, we have adopted a special limited-period shareholder return policy. In May 2024, we announced that we plan to improve our capital efficiency by optimizing shareholder equity, specifically through providing a total shareholder return ratio of 100% as a limited measure for two years until 2025, the final year of **ACE 2.0**.

Shareholders and investors have been very clear that they think our targets of 8.0% ROE and ¥35 billion operating income are too low. We are also very aware that these quantitative amounts are not the final goal. Our new business development, M&A, portfolio rebuilding, and the refinement of our existing businesses are all aimed at the longer-term goal of raising ROE above 10%. While these efforts are a start, I also think that the scale of our current measures is insufficient. The next medium-term management plan that will start in fiscal 2026 must envision a NAGASE capable of generating greater economic and social value and must mobilize a full-Group growth strategy to achieve that vision.

Fiscal 2023 performance review

I would like to present an overview of our business performance in the third year of the **ACE 2.0** plan. In fiscal 2023, we produced record-high gross profit on strong business at our highly profitable subsidiaries and with support from a weak yen.

Our performance in fiscal 2023 is largely the result of the effort we put in during the coronavirus pandemic in fiscal 2021 and 2022 when supply chains worldwide were disrupted and the global economy was in disarray. As a trading company with high market shares in the chemical and electronic materials fields, we consider it a top priority to ensure our supply chain is functioning so we can fulfill our responsibility to continue supplying clients. We strategically secured inventories for our supply chain that, I'm proud to say, enabled us to maintain our client base and even expand our market share during the pandemic. Those two outcomes were among the reasons that we were able to boost our revenue in fiscal 2023.

At the same time, operating income and other income categories declined, primarily owing to higher selling, general and administrative expenses, mainly from increased personnel costs in North America, and to our aggressive capital and business investments. High interest rates during the year in the real economy worldwide, including the high interest rate policy in the United States, also impacted profits. One of the central themes in our financial strategy for fiscal 2024 is how to turn our investments in business and human capital into cash.

Evolutionary midpoint for the business and financial portfolios

During the year, we also made progress developing our business and financial portfolios. As I mentioned above, the NAGASE Group is implementing measures to raise ROIC. One step we took in fiscal 2023 was to set WACC targets for each business unit. While this is an important step, we are still only getting started with what we will need to do. Raising ROIC will require the heads of each business unit to incorporate ROIC into making and executing their business decisions. Specific steps they can take will be to increase profit margins by lowering costs or to improve monthly inventory rates. I believe our efforts to raise ROIC awareness are beginning to take hold at our business sites, as evidenced by the discussions between sales and management departments about measures to improve ROIC.

In the four quadrants for improvement, we are continuing to eliminate unprofitable businesses and businesses at risk of impairment. Risk is inherent to taking on a challenge, and we will not stop pursuing a challenge just because concerns arise that a business is at risk of an asset impairment or if a loss actually occurs. Once a new business plan proposed by one of our employees is approved and set into action, I consider it management's mission to increase the probability of success by monitoring the business from the perspective of economic and social value and determining if more investment is warranted.

The focus area for allocating management resources are the manufacturing functions in the three fields of semiconductors, food, and life sciences. The semiconductor industry in Japan has been reviving in recent years, and the Group has been involved in a steadily growing number of projects. We are preparing to add the collection and recycling of photographic developer used in the semiconductor manufacturing process in fiscal 2024. We will be looking for ways to help our clients address various issues, such as a business that formulates raw material supply networks for Rapidus Corporation and other semiconductor clients in Japan. In the food and life sciences fields, Hayashibara Co., Ltd. made a new start by changing its name to Nagase Viita Co., Ltd. in April 2024. With the pandemic under control, the food ingredients, personal care, and other businesses are returning to a growth trajectory.

In the development areas, we strengthened our R&D capabilities to create future revenue sources by integrating the Nagase ChemteX Corporation's biochemicals business and Nagase Viita in April 2023. We are now preparing to further refine our product development and new business creation capabilities by integrating Nagase Viita's basic research functions and Nagase Bio-Innovation Center in 2027.

Capital investment in the focus and development areas will include M&A and will be aimed at further expanding our future earning potential.

We have a system for NAGASE Group companies to share their expertise and strengthen their collaborative efforts in the manufacturing industry, which accounts for roughly 30% of the Group's total operating income. The Group Manufacturers' Collaboration Committee, which comprises Group manufacturing divisions in Japan, shares non-financial information on safety, quality, and the environment and works together to address issues. The Group Manufacturing Management Innovation Office created in April 2022 provides a comprehensive overview of the Group's production technology, R&D, quality control, investment evaluations, and other activities. The office identifies and coordinates technologies for synergy effects and makes efforts to fill in technological gaps with the aim of raising the Group's overall manufacturing capabilities.

Building a governance system for today's NAGASE

We raised our governance system to the next level during President Ueshima's first year by swiftly integrating our organization and changing our decision-making processes. While the previous processes had been generally working well, we revised them to better fit NAGASE as we are today by adjusting some details on regular meetings involving the sales and management departments to enable faster execution. These first steps shored up the governance foundation in Japan, and next, we will broaden the management structure overseas for faster decision-making and more effective governance. Overseas, we merged Nagase America and Nagase Specialty Materials in the United States in April 2024. As a single entity, they will be able to make decisions more quickly, manage more efficiently, and provide stronger governance.

100% total shareholder returns will bring us closer to lifting our PBR ratio above 1x

As of August 15, the Company's price-to-book ratio (PBR) stood at 0.85. A PBR below 1x has been a point of concern for our shareholders, and raising PBR is a high-priority issue for management. Our growth strategy aimed at increasing profits and improving profitability should help raise ROE. Additionally, we are advancing capital and financing strategies to raise the company's share price. In May 2024, we introduced a new shareholder return policy including the limited measure of providing a 100% total shareholder return ratio in fiscal 2024 and 2025. The new policy also eliminated the restriction in the previous policy that limited the amount of share buybacks to the amount of strategic cross-shareholdings sold. Our policy to continuously increase dividends has not changed, in principle. We recognize that raising the total shareholder return ratio itself does not directly bring us closer to rectifying the low PBR. However, shareholders and investors have responded positively to the move, which we believe puts us in a better position to raise PBR to an acceptable level.

We have been placing greater emphasis on dialogue with the capital markets in recent years. In addition to the regular financial results briefings and meetings with individual investors, we also hold small meetings at appropriate times with analysts and institutional investors to discuss our business and other matters. Until a few years ago, our investor relations activities mainly consisted of standard comments on management issues, but recently the focus has been on what will be NAGASE's next driver of business growth. I've noticed growing interest in and expectations for our three focus areas of semiconductors, food, and life sciences. This prompted us to hold our first small meeting dedicated to the semiconductor field in fiscal 2023, which was very well received.

Another clear change that I have felt when talking with shareholders and investors has been the growing interest in hearing how NAGASE will fulfill its responsibility to society. This tells me that they are looking very closely at a company's sustainability, and they want to be certain that our strategies will lead to continuous growth. Ensuring the sustainability of our business in the future requires not only creating economic value, but also using our business to help create a sustainable world. Shareholders and investors will only support us if we are benefiting society. We are constantly looking for ways to improve our management policies, strategies, and measures to ensure we are disclosing information understandable and acceptable from the perspective of creating social value.

Strengthening our earning power for sustainable growth, our pursuit of capital efficiency, and our new shareholder return policy are bringing us closer to the scenario of our PBR exceeding 1x. The financial and capital strategies in our next medium-term management plan will continue to focus on capital costs and our share price and will be designed to ensure lasting results. We intend to put forward strategies that will be even more impressive to our stakeholders.

Forecast for record-high operating income in fiscal 2024

Since the end of the pandemic, we have been decreasing inventories that we had strategically secured to ensure we could maintain our supply chain, and our level of working capital is coming down. In fiscal 2024, the central management theme will be to allocate the funds we accumulate to initiatives aimed at building profits in the focus and development areas. We expect improving financial efficiency from our ROIC management, a growing gross profit margin, and other positive trends to result in record-high operating income for the year.

We will first raise the quality of our trading functions in Japan and overseas while making our Foundation quadrant more solid. In the NAGASE growth driver fields of semiconductors, food, and life sciences, we will draw up dynamic growth scenarios that include M&A to show to shareholders and investors.

While carefully controlling the scale of our investments and maintaining our financial soundness, we will use the cash we generate for business investments, including M&A, and for shareholder returns. We will also use debt while keeping our net debt-to-equity ratio under 0.5 and maintaining our current credit rating.

The **ACE 2.0** business investments and M&A will be primed to fully blossom during the next medium-term management plan. We are ardent that in 2032, when we celebrate the Company's 200th anniversary, we want our stakeholders to be saying that NAGASE's management has evolved significantly in the past five years. We will continue enhancing our corporate value by providing solutions for social issues and establishing sustainable growth for the Group.

Management aware of cost of capital and the share price

Current Issue Recognition

- PBR has been below 1x since FY2007
- Cost of equity is more than 8.0% based on dialogue with investors
- Strategic cross-shareholdings of approx. 15% of net assets

Matters to be Addressed

Profitability and efficiency	• Permeation of ROIC management: Improve gross profit margins and capital turnover • Reduce unprofitable businesses and unprofitable transactions in business targeted for improvement • Reduce strategic cross-shareholdings in phases
Capital Costs	• Increase in shareholder returns: limited 100% total return ratio for two years • Leverage debt in growth investments
Investor relations activities	• Make active disclosures of and expand dialogue with investors

Increasing shareholder returns

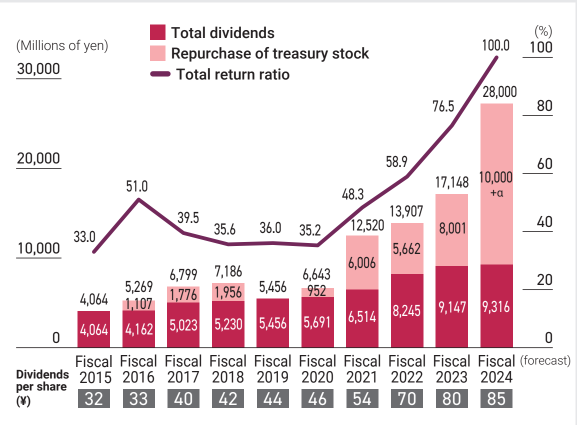
Previous Policy

Total return ratio	–
Dividend	In principle, continuously increase dividends
Repurchase of treasury stock	Implement flexibly with the repurchase amount limited to the amount of strategic cross-shareholdings sold

New Policy (for fiscal 2025)

Total return ratio	100%
Dividend	In principle, continuously increase dividends
Repurchase of treasury stock	Implement flexibly

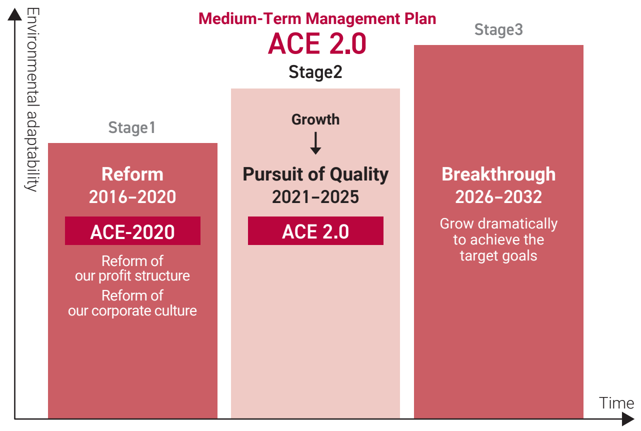
Dividends per share / Total dividends / Repurchase of treasury stock / Total return ratio



Medium-Term Management Plan

The "Transformational Period" from fiscal 2016 to fiscal 2020 was the first stage toward the "Ideal NAGASE" in 2032. During this time, we optimized our portfolio by steadily strengthening focus areas and planting seeds in development areas. However, reforms in profit structure that were dependent on external factors stagnated, leaving some issues unresolved.

Medium-Term Management Plan **ACE 2.0** is the second stage of our campaign toward achieving "Ideal NAGASE," and we have dedicated the five-year period it covers—from fiscal 2021 to fiscal 2025—to the pursuit of quality. To us, pursuit of quality means giving concrete form (in our business, our systems, and our corporate culture) to the expectations of our shareholders. We are aiming to achieve this, all while maintaining an ACE (Accountability, Commitment, and Efficiency) approach, in order to facilitate the NAGASE Group's sustainable growth.



Medium-Term Management Plan ACE 2.0 Basic Policies

Become a true "Business Designer"

ACE 2.0 "Pursuit of Quality"

With an ACE (Accountability, Commitment, and Efficiency) mindset and in order to facilitate the NAGASE Group's sustainable growth, **we are giving concrete form (in our business, our systems, and our corporate culture)** to **the consideration that our stakeholders expect from us**

(pursuit) (quality)

Reform of our profit structure

Create a profit base toward the "Ideal NAGASE"

1. Pursuing profitability and efficiency
   - Company-wide businesses replacement and reallocation of resources
2. Strengthening existing businesses
   - Expand our business opportunities through globalization
   - Increase value added through manufacturing productivity improvements and technical innovation
3. Creating sustainable businesses

Reform of our corporate culture

Mindset toward the "Ideal NAGASE"

1. Pursuing economic and social value
   - Cultivating sustainability-related mindsets and thoroughly monitoring financial and non-financial data
2. Pursuing efficiency
   - Deepen awareness of capital efficiency
   - Improve productivity of core operations
3. Strengthening human resources to drive reform

Functions supporting reforms

1. Accelerating digital transformation further
2. Promoting sustainability
3. Strengthening corporate functions

Maximizing the effective utilization of resources (people, money, and time), and responding to changes in the external environment

Launch of QUICK WINS (April 2023 onwards)

- Developing our business and financial portfolio
- Enhancing governance of management processes
- Rebuilding our human resources portfolio

ACE 2.0 - Financial and non-financial objectives

To realize the "Pursuit of Quality" that is a goal of the **ACE 2.0** Medium-Term Management Plan, we have set financial and non-financial objectives, and we are working to achieve progress in relation to these objectives. As regards financial objectives, we have set Key Goal Indicators (KGIs) and also Key Performance Indicators (KPIs) in regard to profit structure reform, corporate culture reform and corporate functions supporting reforms. With regard to non-financial objectives, we have set improving employee engagement and realizing carbon neutrality as KPIs.

KPIs (key performance indicators) for the "Pursuit of Quality"

Measures	Indicators	FY2020	FY2025*
Improvement in capital efficiency	ROE	5.9%	8.0% or more
Increase profitability	Operating Income	21.9 billion yen	35.0 billion yen

* FY2025 assumptions: 1 USD = 108.7 yen, 1 RMB = 15.6 yen

Key performance indicators (KPIs) for achieving the "Pursuit of Quality"

Reform / function	Measures	Indicators	FY2020	FY2025
Reform of our profit structure	Company-wide business replacement and reallocation of resources	Growth investments*1	–	150.0 billion yen*2
		Secure 10% of company-wide invested capital and reinvest in focus and development areas	–	At least 10%
	Create "sustainable businesses"	Operating income	–	5.0 billion yen or more*3
	Improve productivity of manufacturing and expand value added through technical innovation	Manufacturing business operating income*4	13.8 billion yen*5	20.0 billion yen or more
Reform of our corporate culture	Improve productivity of core operations	Ratio of general administrative expenses to gross profit*6	57.1%*7	52.1%
	Deepen awareness of capital efficiency	Net DE ratio	0.23 times	0.5 times or less
Functions supporting reforms	Accelerate digital transformation further	Invested capital (including expenses)*8	2.4 billion yen	10.0 billion*2

*1 Investment in sustainable businesses, new business investment, DX-related investment, R&D expenses, working capital *2 Five-year cumulative total *3 Figure based on internal management *4 Simple sum calculation *5 Manufacturing classifications were reviewed, and Prinova Group was reclassified as a manufacturing business from fiscal 2021. This new classification has been retroactively applied to performance figures for fiscal 2020. *6 Excludes R&D expenses, amortization of goodwill and other acquisition-related intangible assets, and profit and loss due to amortization of actuarial differences *7 Average figure for the five-year period from fiscal 2016 to fiscal 2020 *8 Five-year cumulative total of 10.0 billion yen in DX-related investments is included in growth investments of 150.0 billion yen

Non-financial KPIs

Topic	KPI		
Improve employee engagement*	Applies to	Group companies	Share of companies implementing regular engagement surveys: 100%
		Nagase & Co., Ltd. (only)	Engagement survey score: At least 60 points
Realizing carbon neutrality	Applies to	NAGASE Group (consolidated)	Reduction in Scope 1 + 2 emissions: At least 37% (compared to 2013)
			Reduction in emissions through generation or purchase of electricity generated using renewable energy: At least 35,000 tons (cumulative)
		Nagase & Co., Ltd.	Scope 2: Net zero emissions

* Applies to consolidated subsidiaries with the Prinova Group being treated as a single company for calculation purposes

Materiality and the process of defining it

In September 2024, the NAGASE Group revised part of our materiality, in line with the formulation of the **ACE 2.0** Medium-Term Management Plan that we are now implementing. Having undertaken a review in light of changes in the external environment, following discussion by the Sustainability Committee, in addition to the existing "Employee engagement improvement," "Realize a Decarbonization," and "Transparency in corporate governance," we added new materiality which it was felt needed to be recognized by NAGASE as constituting important issues: "Extend a healthy life expectancy," "Driving a Circular Economy," and "Achieve a Sustainable supply chain."

The NAGASE Group's materiality

Changes in the external environment having a major impact

- Diversity of human resources
- Demographic changes
- Climate change and resource shortages
- Food and water scarcity
- Globalization
- Depletion of natural resources
- Geopolitical risk
- Growing awareness of human rights

The NAGASE Group's materiality and related SDGs

- Employee engagement improvement (SDG 8)
- Extend a healthy life expectancy
- Driving a Circular Economy
- Achieve a Sustainable supply chain (SDGs 6, 7, 8, 9, 12)
- Realize a Decarbonization (SDGs 7, 13)
- Transparency in corporate governance (SDG 16)

Promoting Sustainability

The NAGASE Group's sustainability

Yusuke Masui
Office supervisor, Corporate Sustainability Office

Looking back at NAGASE Group's history, one can see how, as a company that solves problems in manufacturing through materials, in addressing customers' needs, we have for many years now contributed toward solving various social and environmental issues. In formulating our **ACE 2.0** Medium-Term Management Plan, we have defined our materiality and further strengthened our initiatives to promote sustainability. We have set ourselves non-financial objectives in relation to improving employee engagement and contributing toward the realization of a decarbonized society, and we are working to achieve these goals. Recently, there have been major changes in the external environment, compared to the situation when we first defined our materiality. In September 2024, we revised part of our materiality to reflect these changes. More specifically, having undertaken a review in light of the changes in the external environment, following discussion by the Sustainability Committee, we added the following as new materiality items: "Extend a healthy life expectancy," "Driving a Circular Economy," and "Achieve a Sustainable supply chain." (See p.24 for more details)

Employee engagement improvement is an indispensable element for NAGASE's continuous growth, and starting in 2024, the Corporate Sustainability Office has been designated as the department in charge, as we proceed with initiatives in cooperation with the Human Resources Department. With regard to contributing toward the realization of a Decarbonization we are in dialogue with various business partners through collaboration with Zeroboard Inc., and we have a renewed awareness of the importance of undertaking efforts across the entire supply chain. In the NAGASE Group Carbon Neutral Declaration, we established reduction goals for not only Scope 1 + 2 emissions, but also Scope 3 emissions (the goal of achieving a 12.3% reduction by fiscal 2030, compared to fiscal 2020). This is because, as a trading company, we believe there is a need to make efforts across the entire supply chain together with our business partners. In aiming for Scope 3 reductions, we intend to move forward with stronger initiatives, including dialogues with all suppliers and the collection of primary data, etc. in the future.

Additionally, various issues have emerged recently in the global supply chain that are relevant to our new materiality, such as the need for greater emphasis on due diligence regarding human rights and the environment, circular economy and chemicals management. The Corporate Sustainability Office ascertains the latest trends in each field, shares them within the Company, and plans for solutions together with departments. There are many issues common to the different departments, so internal collaboration has increased. Previously, work often proceeded along vertical lines, but different departments can learn a lot from each other by working together to solve issues. Also, we are gaining positive responses in making greater strides to solve issues for our business partners by leveraging NAGASE Group strengths, such as NAGASE's network, and its manufacturing and research and development capabilities.

It is important to simultaneously enhance human resource development and collaboration within the Group in order to strengthen problem-solving capabilities across the entire Group. Moving forward, we will put even more effort into the development of human resources and collaboration, such as through dialogue-based internal promotion activities, sustainability lectures by experts, a system for having a Chief Sustainability Officer (CSuO) for each department, and collaboration with overseas Group companies.

We view environmental changes as constituting a significant opportunity for NAGASE. Actually, we are already receiving inquiries and responding to requests for consultations on various issues from our business partners, which has led to a widening of the range of our partners and solutions. Going forward, the Corporate Sustainability Office intends to enhance its horizontal functions including those relating to overseas businesses, and to leverage them in order to maximize Group potential. We will continue advancing our activities so that we remain a company that our business partners can trust, knowing that if they have a problem, NAGASE can help them find a solution.

Addressing our materiality

Theme	Product solutions	Examples of social issues requiring responses
LCD	Management, collection, and recycling of liquid medicine	● Effective utilization of resources ● Bio economy ● Advancement of innovation by making things ● Maintaining water quality and reduction of waste
Semiconductors	Collection and recycling of high purity film developer	
Functional materials	Bio-based materials (Epoxy) Green Denacol (Adhesive) Green Denatite	
Personal care	Readily biodegradable material groups	● Responding to an aging society -Maintain healthy mentality and looks with anti-aging -Enhance taste and ease of eating
Food ingredients	Suggestion of nursing care foods containing trehalose (TREHA®)	

Sustainability promotion system

Strengthening supply chain initiatives

As a trading company with a network of approximately 18,000 business partners, NAGASE will strengthen initiatives particularly in the following four areas in order to contribute to problem-solving across the entire supply chain.

1. Carbon neutrality

Keywords: Paris Agreement, SBT*1, carbon neutrality goals

The chemical industry is the second biggest*2 industry in terms of greenhouse gas (GHG) emissions, so achieving carbon neutrality is a major issue. We are working on it through a 2-axis 4-quadrant framework of "Trading/Manufacturing" and "Visualization/Reduction." Moving forward, we will focus additional efforts under Scope 3 emission reduction through dialogue with suppliers and utilization of primary data.

	Trading		Manufacturing
	Measures 1 Visualize emissions in the supply chain	Visualization	Measures 2 Life-cycle assessments for strategic products
	Measures 3 Provide low carbon products and reduction solutions and introduce green facilities	Reduction	Measures 4 Improve manufacturing processes and use renewable energy (purchase/in-house generation)

2. Supply chain management

Keywords: Business and human rights, CSDDD,*3 Forced Labour Product Ban

Management across the entire supply chain is a major issue for a global company like NAGASE. In April 2024, we reformed our existing human rights policy to create the NAGASE Group Basic Human Rights Policy, as we first advance human rights response and then will go on strengthening those efforts.

⇒ Corporate website / NAGASE Group Basic Human Rights Policy
https://www.nagase.co.jp/english/sustainability/social/human-rights/

3. Circular economy

Keywords: Eco-design for Sustainable Products Regulation, ELV directives (end-of-life vehicle directives), EU battery regulations

Mostly around Europe, circular economies that aim to both grow their economies and reduce environmental burdens are progressing. Providing materials across the entire supply chain, NAGASE also faces this as a significant issue, and we aim to contribute to society on this front as well.

4. Chemical management

Keywords: GFC,*4 CSS,*5 responsible care

As regulations on chemical substances advance internationally, safe handling of chemical substances is an important base that supports NAGASE's business. In order to contribute to the continuation of that industry as we leverage the knowledge we fostered as an expert trader of chemical products, we are moving forward with a response together with all stakeholders.

*1 Science Based Targets: Greenhouse gas emission reduction targets aligned with the Paris Agreement
*2 From the National Greenhouse Gas Inventory Document of Japan (NID)
*3 EU Corporate Sustainability Due Diligence Directive (CSDDD)
*4 Global Framework on Chemicals (GFC)
*5 Chemicals Strategy for Sustainability - Towards a Toxic-Free Environment (CSS)

Strengthening our sustainability promotion system

1. Strengthening the system domestically

Starting in fiscal 2023, we have introduced a new system in which a Chief Sustainability Officer (CSuO) is appointed for each department, and as we develop sustainability solutions, we are strengthening collaboration between the Corporate Sustainability Office and business departments, and between business departments themselves.

2. Strengthening the system overseas

In addition to collaboration with Zeroboard Inc. in the ASEAN region, we are strengthening collaboration with Group companies in Europe and America, with regular information exchange with the sustainability teams of Nagase (Europa) GmbH, Nagase Holdings America Corporation, and Prinova Group LLC, leading to improved individual and Group efforts on all sides. Starting in fiscal 2024, we have established a Grobal team for the entire overseas area, and we are strengthening our promotion system across the entire Group.

3. Developing human talent with sustainability skills

In December 2023, we began the "Open Dialogue for the Promotion of Sustainability." With a casual dialogue format, it is utilized as a place for deepening participants' understanding of NAGASE's sustainability activities.
Up to this point, it has been held 18 times and we have had a total of over 100 employees participate. We have also offered sustainability training for new employees and employees assigned overseas and LCA (life cycle assessment) training (see p.56 for details) as we work to develop human talent with sustainability skills.