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May 23, 2025

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Notice Concerning Opinion of the Company's Board of Directors on Shareholder Proposal

NIPPON FINE CHEMICAL CO., LTD. (the "Company") hereby announces that it has received a document (the "Shareholder Proposal Document") from its shareholder containing a shareholder proposal (the "Shareholder Proposal") that is to constitute a proposal on the agenda of the Company's 157th Annual General Meeting of Shareholders to be held on June 24, 2025. Accordingly, the Company resolved to oppose the Shareholder Proposal at its meeting of the Board of Directors held on this date.

I. Proposing Shareholder

Name of shareholder: Nippon Active Value Fund plc

II. Description of the Shareholder Proposal

1. Agenda item

(1) Purchase of Treasury Shares
(2) Amendment of Articles of Incorporation Regarding Number of Outside Directors
(3) Approval of Amount of Remuneration for Restricted Share-Based Remuneration Plan

2. Details of the Proposal

The content is presented in the attachment, "Description of Shareholder Proposal."
The attachment "Description of Shareholder Proposal" is provided as written on the Shareholder Proposal Document submitted by the shareholder who submitted the proposal.

III. Opinion of the Company's Board of Directors on the Shareholder Proposal

1. "(1) Purchase of Treasury Shares"

(1) Opinion of the Board of Directors of the Company

The Board of Directors of the Company opposes this shareholder proposal.

(2) Reasons for Opposition

The Company recognizes that the purchase of treasury shares is effective for enhancing capital efficiency and shareholder returns, as well as the execution of flexible capital policies in response to changes in the management environment. Recently, pursuant to a resolution at a meeting of the Board of Directors held on April 30, 2025, the Company is purchasing treasury shares for a total purchase amount of maximum ¥2,000,000,000 on the Tokyo Stock Exchange between May 7, 2025, and April 28, 2026. In addition, we have continued to work to improve shareholder returns as follows.

Trend of shareholder returns

Classification	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024	Fiscal year ended March 31, 2025	Fiscal year ending March 31, 2026 Forecast
Annual dividends per share	¥54	¥57	¥70	*1 ¥74	*2 ¥94
Purchase of treasury shares	¥0.27 billion	¥1.89 billion	¥0.99 billion	–	*3 ¥2.00 billion
Dividend payout ratio	37%	33%	48%	43%	*2 58%
Total return ratio	45%	79%	77%	43%	–

*1 The annual dividends per share for the fiscal year ended March 31, 2025, is subject to approval of the Company Proposal at the 157th Annual General Meeting of Shareholders.

*2 The annual dividends per share and dividend payout ratio for the fiscal year ending March 31, 2026, are forecasts.

*3 At the meeting of the Board of Directors held on April 30, 2025, the Company has resolved the purchase of treasury shares for a total purchase amount of maximum ¥2,000,000,000 between May 7, 2025, and April 28, 2026.

The Company has set the highest priority on continuing to contribute to the creation of a sustainable society and has set ROIC (return on invested capital) of 8.0% (FY2022: 7.9%) as a target indicator for the final year of the medium-term management plan (FY2026) starting in April 2023. In the medium-term management plan, we plan to make more aggressive investments in human capital, fixed assets and R&D for further growth, and by setting an ROIC target, we will also aim at growth that emphasizes capital efficiency. As stated in the "Notice Concerning Revision of Medium-term Management Plan" published on April 30, 2025, in capital investment, we have changed the plan into construct a new plant for around 8.6 billion yen for “functional esters for cosmetics,” which are expected to see a further increase in demand in overseas markets going forward. As a result, we have revised our forecast for total capital investment during the Medium-term Management Plan period (FY2023 to FY2026) from the initial plan of 12 billion yen to 16 billion yen. We have also revised our DOE target from the initial plan of "approx. 3.5%" to "approx. 4.3%," thereby further strengthening shareholder returns. Furthermore, setting a goal of reducing the ratio of cross-shareholdings to 17% or less by the end of FY2026 (FY2022: about 25%), we will meet the expectations of our stakeholders by securing the funds obtained from the sale of cross-shareholdings to maintain financial stability, while also allocating in a well-balanced manner to growth investments and shareholder returns.

The Company believes that, taking into consideration the liquidity of the Company’s shares, the purchase of ¥6,342,000,000 of treasury shares in one year on the market is not realistic, and if a proposal like this is passed, there is not only a risk that the financial resources for growth investment would be harmed and the medium- to long-term growth and enhancement of corporate value of the Company would stall, there is also a risk that financial stability would be harmed, which could harm shareholders' interests as a result. The Company believes that the purchase of treasury shares should be performed at an appropriate time, while taking into consideration the balance with investments in human capital, fixed assets and R&D for future growth, based on the status of trading in the Company's shares and the share price.

2."(2) Amendment of Articles of Incorporation Regarding Number of Outside Directors"

(1) Opinion of the Board of Directors of the Company

The Board of Directors of the Company opposes this shareholder proposal.

(2) Reasons for Opposition

The Company has established a Nomination and Remuneration Committee, in which Independent Outside Directors make up the majority, as an advisory body to the Board of Directors in order to ensure the transparency and fairness of the Company's decision-making regarding the election and dismissal of senior management and the nomination of candidates for Director and Audit & Supervisory Board Member. When appointing directors, the Nomination and Remuneration Committee holds discussions on the number of persons and candidates that the Company considers proper, based on skills and experience that should be emphasized in light of the Company's business environment and business characteristics, then submits these to the Board of Directors for decisions, and then these are submitted to the general meeting of shareholders.

The Company has appointed Outside Directors who have a wealth of knowledge and experience in business areas of the Company, who have been giving us great advice about management overall from broad viewpoints. In addition, they have a high degree of independence in relation to the interests of the Company and are working to strengthen our supervisory functions from the perspective of general shareholder protection.

We believe that the Board of Directors composed of candidates of the Directors proposed by the Company has an optimal composition with expertise in line with the business environment and characteristics of the Company.

On the other hand, we believe that the inclusion of a provision like this shareholder proposal in the Articles of Incorporation may rather restrict the scope of election of Director candidates and hinder the formation of an optimal Board of Directors.

3."(3) Approval of Amount of Remuneration for Restricted Share-Based Remuneration Plan"

(1) Opinion of the Board of Directors of the Company

The Board of Directors of the Company opposes this shareholder proposal.

(2) Reasons for Opposition

Regarding the determination of the amount of remuneration for Directors, based on the policy of increasing the motivation of senior management and Directors to improve business performance, and to contribute to the increase of corporate value over the medium to long term, the Company has held continued discussions through the Nomination and Remuneration Committee, where Independent Outside Directors make up a majority, and submitted a proposal for introduction of a share-based remuneration plan using restricted shares in order to give incentives aiming at sustainable improvement of corporate value and promote sharing of value with shareholders to the Annual General Meeting of Shareholders in June 2022, after passing a resolution at the Board of Directors meeting. In introducing the plan, we examined the appropriateness of introducing the plan by analyzing the overall compensation level and the ratio of each type of compensation, etc., referring to executive compensation survey data from an external research organization.

Remuneration for the Company's Directors (excluding Outside Directors) consists of basic remuneration determined according to position and responsibilities, performance-linked bonuses aimed at increasing awareness of improving business performance each fiscal year, and restricted share-based remuneration that provides incentives for sustained improvement of corporate value.

Basic remuneration is calculated in consideration of the required roles and

responsibilities. The performance-linked bonus is calculated based on an assessment of comprehensive contribution to the Company, including the level of achievement against targets and growth rate compared with results in the previous fiscal year for consolidated EBITDA (operating profit before depreciation and amortization) and consolidated profit, results for DOE (dividend on equity), the performance of departments supervised, and the level of progress toward ESG targets. In addition, the total amount of monetary claims to be paid to the target Directors for granting restricted shares shall be up to ¥50 million per year, and the total number of common shares newly issued or sold by the Company shall be up to 100,000 shares per year, which has been approved at the Annual General Meeting of Shareholders held in June 2022.
Under the share-based remuneration plan based on this shareholder proposal, the total amount of remuneration for Directors subject to the restricted share-based remuneration plan is set at up to ¥250 million per year, and designed to grant restricted shares equivalent to three times the fixed remuneration in three years.
In the remuneration system introduced by the Company, when 100% of the evaluation indicators, etc. are achieved, the benchmark ratio is "basic remuneration: performance-linked bonus: stock remuneration = 55:35:10." This benchmark ratio is the result of careful consideration based on the actual circumstances of the Company, in order to achieve a good balance of short-term and medium- to long-term incentives, and as such, it is believed to be appropriate.
On the other hand, the shareholder proposal lacks balance between basic remuneration and performance-linked bonuses, deviates significantly from the Company's basic policy on remuneration for Directors, and is considered an excessive remuneration framework.
In addition, while the shareholder proposal states that a restricted share-based remuneration plan will be introduced for all Directors, including Outside Directors, from the viewpoint that the Company appointed Independent Outside Directors with the aim that the managerial and supervisory functions of the Board of Directors would be reinforced, the policy is thus not to include them in the restricted share-based remuneration plan.

(Attachment "Description of Shareholder Proposal")
*The attachment is provided as written on the Shareholder Proposal Document submitted by the shareholder who submitted the proposal.

I. Agenda items being proposed
1. Purchase of Treasury Shares
2. Revision of Amount of Remuneration for Restricted Share-Based Remuneration Plan
3. Approval of Articles of Incorporation Regarding Number of Outside Directors

II. Summary of the proposal on the agenda and reasons for the Shareholder Proposal
1. Purchase of Treasury Shares
(1) Outline of the Proposal

Pursuant to the provisions of Article 156, paragraph (1) of the Companies Act, the Company shall purchase a total of up to 2,537,000,000 ordinary shares of the Company for a maximum total purchase amount of ¥6,342,000,000 in exchange for the delivery of cash, within one year from the conclusion of this Annual General Meeting of Shareholders.

(2) Reasons for the Proposal

The Company's stock price has been stagnant for the past year, and it can be said that the market perceives the Company's countermeasures as still insufficient. Therefore, in order to enhance shareholder returns and improve capital efficiency further, it is believed that the Company should purchase approximately 10% of the total number of issued shares, and take measures to cancel them pursuant to the provisions of Article 178 of the Companies Act.

2. Amendment of Articles of Incorporation Regarding Number of Outside Directors
(1) Outline of the Proposal

Article 19 of the Company's Articles of Incorporation shall be amended as follows in order to make the Company's Outside Directors a majority.

Before amendment	After amendment
Article 19 (Number of Directors) 1. The Company shall have not more than 9 Directors. <u>2. [Newly established]</u>	Article 19 (Number of Directors) 1. The Company shall have not more than 9 Directors. <u>2. The majority of the Directors of the Company shall be Outside Directors as stipulated in Article 2, paragraph (1), item (xv) of the Companies Act.</u>

(2) Reasons for the Proposal

Principle 4-8 of the Corporate Governance Code states, "Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors that sufficiently have such qualities. Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the company, it should appoint a sufficient number of independent directors." In addition, Principle 4-7 of the Corporate Governance Code states that, one of the roles and responsibilities of an independent outside director is "appropriately representing the views of minority shareholders and other stakeholders in the boardroom from a standpoint independent of the management and controlling shareholders."

Of its five Directors, two are Outside Directors, and thus the Company meets the requirements for a ratio of one-third or greater. However, we believe that we can increase capital efficiency, return profits to shareholders and establish a governance system that contributes to the sustainable growth of the Company and the improvement of corporate value over the medium to long term by assertively appointing a majority of Outside Directors.

In addition to the aspect of number of Outside Directors, as for the quality thereof, we need personnel capable of contributing to the sustainable growth of the Company and the improvement of corporate value over the medium to long term, and we believe that the hiring of skilled analysts with experience should be considered.

It is believed that the appointment of "personnel with extensive experience and skills as analysts" brings the perspective of outside investors and shareholders to the Board of Directors, and at the same time is an effective means of contributing to the enhancement of corporate value through sound risk-taking. While the board of directors and investors/shareholders of listed companies originally share the same goal of improving corporate value over the long term, unfortunately in Japan they are often seen as being in an adversarial relationship. The participation of Directors with the above experience and skills in the discussions and decision-making of the Board of Directors will contribute to building an inherently positive and constructive relationship between the Board of Directors and the stock market through sound risk-taking, capital allocation, and better communication with the market. The explanation is often given that people with bank backgrounds and accountants are responsible for the finance part of the skills matrix of directors, but from the perspective of encouraging "sound risk-taking," expertise in accounting and debt markets alone is insufficient. We believe this is the significance of appointing equity market experts.

3. Approval of Amount of Remuneration for Restricted Share-Based Remuneration Plan

(1) Outline of the Proposal

The maximum amount of remuneration for Directors of the Company was approved as ¥250 million per year, and separately from this, introduction of a restricted share-based remuneration plan for Directors other than Outside Directors, with the total number of monetary claims provided based on the plan being within ¥50 million per year, and the total number of shares of common stock newly issued or sold by the Company being up to 100,000 shares per year, at the Annual General Meeting of Shareholders held on June 23, 2022.

Now, instead of above-mentioned Restricted Share-Based Remuneration Plan, monetary remuneration claims shall be granted for granting restricted shares up to a maximum of ¥250 million per year or 100,000 shares to all Directors including Outside Directors of the Company.

The specific timing of payment and allocation shall be determined by the Board of Directors, but it shall be designed to function as a performance-linked incentive plan, including ROE and TSR (Total Shareholder Return), if business performance criteria are satisfied, restricted shares equivalent to three times cumulative fixed remuneration shall be granted in three years' time.

(2) Reasons for the Proposal

The biggest weakness of Japanese boards of directors is the small amount of stock held by each director, which results in a lack of a shareholder perspective. At the Company, each Director also holds a small amount of stock, and the most of the directors' economic benefits are basic remuneration as fixed remuneration. Although some remuneration is linked to the business performance results, the purpose of share-based remuneration, which is to share value with shareholders, is insufficient. It is necessary to give directors an economic incentive to continuously increase the corporate value and to share the benefits of increased corporate value with shareholders by integrating their interests with those of shareholders.

The standard for effective share-based remuneration to share value between directors and shareholders is considered to be equivalent to three times fixed remuneration. Although the Company introduced Share-Based Remuneration Plan, in the 156th term (April 1, 2023 to March 31, 2024) of the Company, fixed remuneration of approximately ¥88 million was paid annually to the Company's Directors (excluding Outside Directors). The remuneration under the restricted share-based remuneration plan were ¥24 million, it would only be about 27% of fixed remuneration. At this pace, it will take eleven years to reach the equivalent of three times fixed compensation, which is considered an effective target of share-based compensation for sharing value with directors and shareholders. Restricted share-based compensation is meaningless unless it is granted during the term of office of Directors, so it is necessary to grant a certain amount in a shorter period.

In addition, almost all major listed companies in Europe and the United States have adopted stock ownership guidelines that stipulate a certain period of continuous holding of a certain amount of shares that are considered necessary to share value with shareholders. In most cases, after a grace period of several years, top management receives three to five times their base remuneration, and outside directors receive one time their remuneration. We propose to Directors and other managements that we should aim for a level of ownership that is not less than the global standards, without being bound by past conventions, and demonstrate that commitment through appropriate disclosure, and we believe that stock ownership guidelines should be established.

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