

Aiming to Be a Leading Global Specialty Chemical Company

KH Neochem Report 2025

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The power of chemistry has been passed down through the generations.

At the same time, we have also faced many changes.

We are a company with diverse values, where tradition and innovation coexist.

We put those values into action and carry those actions into the future, ensuring that our technologies and endeavors lead to a brighter tomorrow.

Corporate Policy

- Corporate Mission Realizing a brighter tomorrow for society through the power of chemistry.
- Management Approach Making our dream a reality through reliable technology and new inventions.
- Basic Behavior Taking the first step to overcoming barriers and issues we face.
- Safety Guidelines Protecting ourselves and our colleagues.





We aim to be a leading global specialty chemical company by contributing to the resolution of social issues and achieving growth through our distinctive chemical materials.

“Realizing a brighter tomorrow for society through the power of chemistry” is the corporate mission of the KH Neochem Group. We are a chemical manufacturer that supplies distinctive materials to various industrial fields. Refrigeration lubricant raw materials used in environmentally friendly air conditioners, cosmetic ingredients that help improve quality of life, high-purity solvents essential for the manufacture of semiconductors, basic chemicals that are raw materials in products such as coatings and plastics, and other such products all play vital roles across a wide range of industries, supporting the global environment and enriching people's lives.

KH Neochem Report 2025 presents our business activities along with the unique characteristics and corporate culture that we have built up over our 77-year history. It also describes our medium- to long-term growth story toward realizing our vision for 2030 as a leading global specialty chemical company, as well as the values and practices held dear by our employees as they strive to achieve this goal, and it gives voice to many of our employees.

Your honest opinions will serve as a driving force to further enhance the corporate value of the KH Neochem Group. I hope that this report will help our shareholders, investors, and other stakeholders better understand the Group, and that it will lead to constructive dialogue and the development of mutual understanding.

Michio Takahashi
Representative Director, President & CEO

Highlights of KH Neochem Report 2025

1. Aiming to be a leading global specialty chemical company

This feature presents our management strategies for sustainable growth based on our long-term vision and medium-term business plan. It also describes our current position and our vision for the future, along with our awareness of changes and challenges in the market environment.

Message from the CEO	P.16
Looking Back on Our 4th Medium-Term Business Plan and Presenting Our 5th Medium-Term Business Plan	P.28

2. “Connections” between our value system and practices

Our corporate culture and values have been cultivated over a 77-year history. This feature illustrates how these are connected to the actions of each of our employees, supporting the competitiveness and growth of our businesses. It also shares our Company's unique characteristics, including input and real-life anecdotes from frontline employees.

Employee Roundtable Discussion: Expectations for Our 77th Year	P.55
Our Manufacturing DNA	P.50

3. Changing society through “the power of chemistry”

This feature highlights our unique products and technologies that contribute to the protection of the global environment and the enrichment of people's lives. It also showcases our efforts as a chemical manufacturer to realize a sustainable society.

Aiming for a Sustainable Society	P.40
KH Neochem's Value Creation	P.46

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Editorial Policy	
The KH Neochem Report is published with the aim of promoting constructive dialogue with shareholders, investors, and other stakeholders, and deepening mutual understanding by providing an integrated report on the Group's performance, growth story, efforts to resolve social issues, and the values held dear by employees from both financial and non-financial perspectives. In producing this report, we referred to guidelines such as the International Financial Reporting Standards (IFRS) Foundation's "International Integrated Reporting Framework" and the Ministry of Economy, Trade and Industry's "Guidance for Collaborative Value Creation."	
Scope of Report	
Coverage Period	January 1 to December 31, 2024
However, legally required environmental reporting data covers April 1, 2024 to March 31, 2025. Some activities in 2025 are also included.	
Coverage Organization	KH Neochem Co., Ltd. (non-consolidated) (including some consolidated information)
Date of Publication	October 2025
Caution Regarding Forward-Looking Statements	
Information contained in this report, other than historical facts, consists of forward-looking statements based on certain assumptions and reflects judgments made using currently available information. Therefore, actual business performance and other such outcomes may differ materially due to various factors.	

What Is KH Neochem?

Our manufacturing supports the global supply chain

We contribute to the resolution of social issues through our chemical materials products, which hold top global market shares.

Performance Materials

Refrigeration lubricant raw materials
No. 1 global share

Contributing to the spread of air conditioners and the curbing of global warming

Air conditioners are an essential part of our lives. The compressor, which is the heart of the air conditioner, uses a special refrigeration lubricant. KH Neochem supports this special refrigeration lubricant from the raw material level and, notably, contributes to curbing global warming through environmentally friendly air conditioners.



Cosmetic ingredients
No. 3 global share

Moisturizing that contributes to higher quality of life

Moisturizing ingredients are employed in skincare cosmetics, and KH Neochem manufactures these essential cosmetic ingredients. KH Neochem's cosmetic ingredients possess high moisturizing properties, and they are also odorless and gentle on the skin. The result of our outstanding manufacturing technologies and expertise, these products contribute to a higher quality of life for people all over the world.



Electronic Materials

High-purity solvents
No. 1 global share

An essential material for the semiconductor manufacturing process

The semiconductor manufacturing process is becoming increasingly sophisticated. KH Neochem's high-purity solvents are used as raw materials for photoresists and other applications. In response to market needs, we have accumulated advanced high-purity and quality control technologies. By utilizing these, we are taking on the challenge of achieving the world's most advanced level of impurity management—at the parts-per-trillion level.



Basic Chemicals

Oxo alcohol
No. 1 share in Japan

Supporting various industries and contributing to a richer life

Automobiles and homes enrich our lives, and KH Neochem products are used in a wide range of applications. Our products—such as solvents used in colorants and raw materials for plasticizers that soften plastics—are transformed into paints, inks, resin products, and more, contributing to enriched lives for people.



Note: Share values are KH Neochem estimates.

What Is KH Neochem?

Our own unique capital generates new value

This is made possible because we have accumulated unique capital over many years that underpins the foundation of our manufacturing capabilities.



Human capital

Highly specialized personnel who earnestly take on challenges

Our strength lies in the fact that our highly specialized and broad-based human resources earnestly take on the challenges of society and our customers, and create valuable technologies and products. We continue to take on challenges, flexibly accepting change, and work to create new value.



Manufacturing capital

Production facilities with a long history of evolution

We have facilities using both low- and high-pressure oxo technologies to meet diverse market needs. We support the global supply chain at the materials level through our environmentally friendly circular production system that uses CO₂ as a raw material and by evolving our manufacturing DNA through digital transformation (DX).



Intellectual capital

Refining our unique technology and creating value from intangible assets

While earnestly responding to market demands, we have cultivated a wide range of synthesis, purification, and quality control technologies over many years, which are being passed down to our current staff and facilities. By combining these intellectual assets with external intangible assets, we are taking on the challenge of creating new value to help resolve social issues.



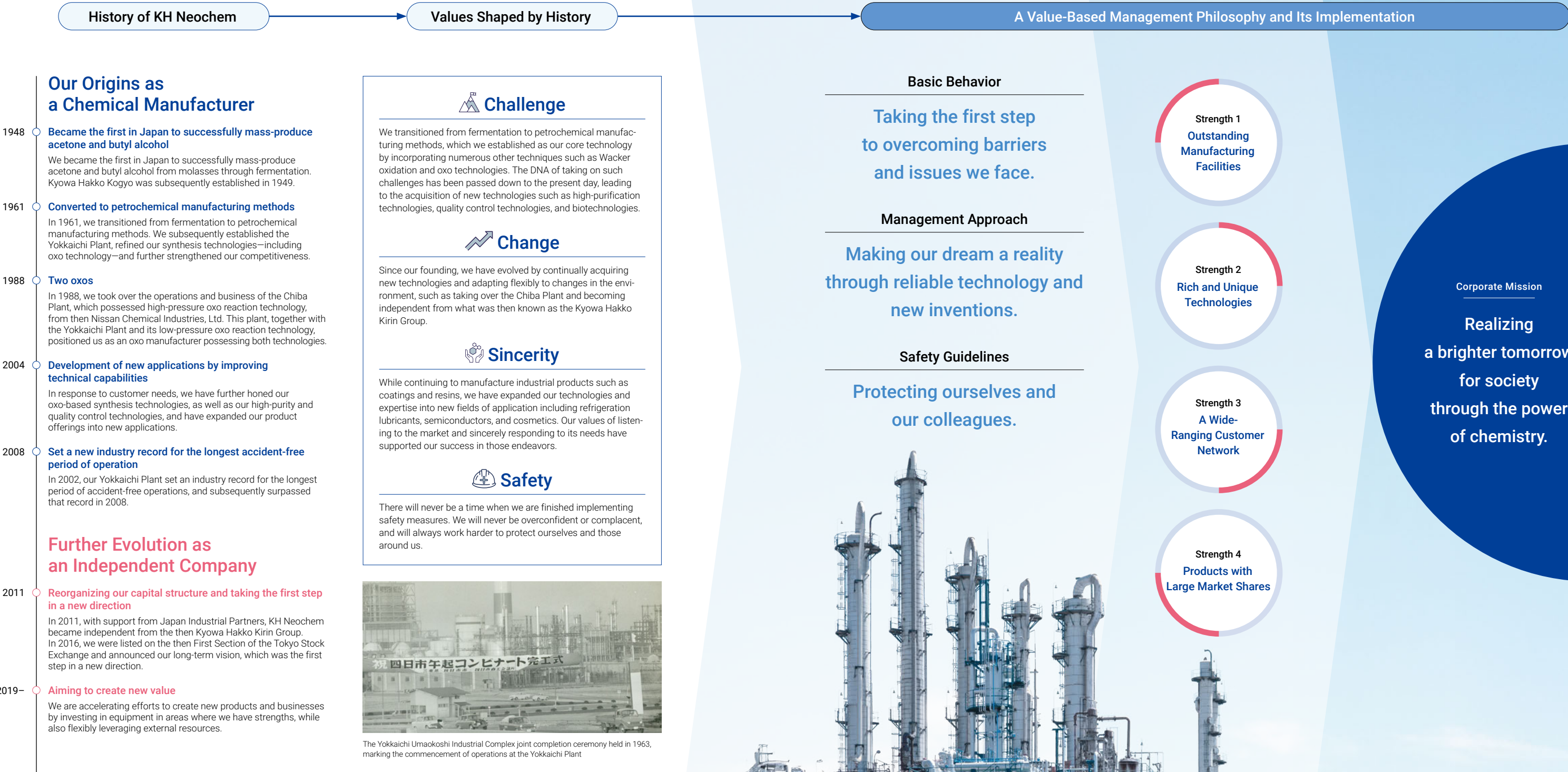
Natural capital

Aiming for harmony with the environment

Our core technology, oxo synthesis, uses approximately 60,000 tons of CO₂ per year as a raw material. As a chemical company that consumes large amounts of resources and energy, we believe it is our responsibility to emphasize coexistence with nature, and are constantly working to reduce our environmental impact.



This unique strength is rooted in the values we have developed over our 77-year history—values that are embodied in our management philosophy.



Our values and strengths have driven the development of technologies and products that contribute to resolving social issues.

KH Neochem's Strengths

Strength 1

Outstanding
Manufacturing
Facilities

We are the only manufacturer in Japan, and one of very few globally, with both low- and high-pressure oxo reaction facilities. Utilizing these enables us to transform a wide variety of raw materials into value, leading to a more expansive product lineup and the ability to more flexibly respond to market needs.



Yokkaichi Plant



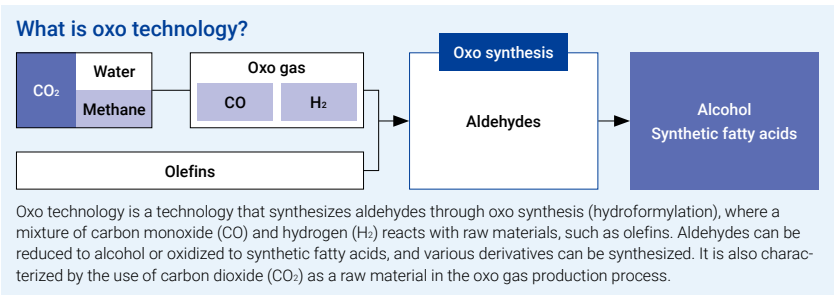
Chiba Plant

Strength 2

Rich and Unique
Technologies

In addition to a variety of synthesis technologies, such as oxo technology, which uses CO₂ as a raw material to create valuable materials, and oxidation/reduction capabilities, we respond to market needs through high-purification, quality control, and facility operations management technologies.

Diverse synthesis technologies: Oxo technology, reduction, oxidation, condensation, esterification, etherification, etc.



Strength 3

A Wide-Ranging
Customer Network

Since our founding, we have provided products to customers in a wide range of industries and have built a solid reputation for reliability. Refrigeration lubricant raw materials and high-purity solvents were developed to meet customer needs and have grown to become our core products today. Our strong presence in this niche field has led to numerous new needs and opportunities for joint development, further driving our growth. We will continue to leverage the strong partnerships we enjoy with our customers to expand and create businesses.



Performance Materials

Helping to curb global warming

We manufacture raw materials for refrigeration lubricants mainly used in air conditioners and sell them to refrigeration lubricant manufacturers, thereby supporting the spread of environmentally friendly air conditioners and helping to curb global warming.

Performance Materials

Helping to improve quality of life

We manufacture 1,3-butylene glycol, which is used as a cosmetic ingredient, and supply it to cosmetics manufacturers and other such customers. We help enhance quality of life through skincare products that provide valuable moisturization to the skin.

Electronic Materials

Contributing to an advanced information society

We manufacture raw materials for photoresists, which are used in the manufacturing processes for semiconductors and liquid crystal displays, and supply them to photoresist manufacturers and other such customers. We thus support the further miniaturization of semiconductors and contribute to an advanced information society.

Basic Chemicals

Contributing to everyday living

We manufacture an extensive lineup of solvents and plasticizer raw materials, which we supply to coatings, inks, and resin additive manufacturers. These products are widely used in everyday items such as automobiles and homes, thereby contributing to everyday living.

Strength 4

Products with
Large Market Shares

Building on the technologies and products we have cultivated, we are advancing our medium-term business plan aimed at sustainable growth.

In 2018, we announced our VISION 2030, as the first step of which we launched our 3rd Medium-Term Business Plan (MTBP) in 2019. To respond to market growth, we proactively engaged in capital investment and focused on strengthening our production and technological foundations. Under our subsequent 4th Medium-Term Business Plan, we pursued sustainable management by addressing social issues such as decarbonization and exploring new products and businesses for the future. We are strengthening our unique Performance Materials and Electronic Materials, which are less susceptible to external environmental influences, and leveraging them to drive the transformation of our business portfolio.

5th Medium-Term Business Plan (FY2025–FY2027)

Toward a New Growth Stage

Issues
As we enter the latter half of our journey toward achieving our VISION 2030, we have now reached the phase of translating our investments into tangible results. In addition to solidifying our facilities, human resources, and other elements of our management foundation, enhancing shareholder returns has also become an important consideration.

Basic Strategy	
Strategy I	Enhancement of Earning Power
Strategy II	Efforts Toward Future Growth
Strategy III	Reinforcing the Corporate Infrastructure

Performance Materials
We will capture growing demand for refrigeration lubricant raw materials by leveraging our world-leading production capacity and global logistics bases. We will also boost productivity by procuring highly competitive raw materials and incorporating new technologies. In cosmetic ingredients, we will work to strengthen domestic sales by expanding our sales of high-quality products and capturing inbound demand, while also seeking to expand sales overseas by utilizing local sales networks.

Electronic Materials
The Company will expand sales of high-purity solvents, primarily targeting the cutting-edge semiconductor field, and aim to enhance added value by meeting quality demands driven by technological advancements. We will leverage our materials facilities for next-generation semiconductors to proactively capitalize on demand for advanced semiconductor technologies.

Basic Chemicals
As one of Japan's leading oxo manufacturers supporting key industries such as automobiles and housing, we will work to strike a healthy balance between stable supply and ensuring profits so as to fulfill our social mission. In addition, we will thoroughly streamline operations by improving productivity, optimizing our logistics system, and strengthening collaboration with raw material manufacturers, while also securing profits through appropriate pricing policies.

Laying the groundwork for the future and strengthening our management foundation
In new products and businesses, we are transitioning from the exploration stage to the business creation stage. In addition to reducing greenhouse gas (GHG) emissions, we are also focusing on contributing to reductions through our business operations so as to achieve carbon neutrality. In addition, we are working to strengthen our plants and reform operations through the development of our human resources and the utilization of DX.

Cumulative Targets

Operating income	44.9 billion yen
EBITDA	65.3 billion yen
ROE	15%

4th Medium-Term Business Plan (FY2022–FY2024)

Driving Sustainable Management

Issues
As the air conditioner market expanded, in addition to the Yokkaichi Plant, we needed to invest in increased capacity for refrigeration lubricant raw materials at the Chiba Plant as well, while in Electronic Materials, we encountered demand for cutting-edge quality and materials. In addition, initiatives to support sustainable management, such as decarbonization, equipment maintenance, and human resource development, have evolved into crucial issues.

Basic Strategy	
Strategy I	Further Growth in the Strategic Domains
Strategy II	Medium- and Long-Term Initiatives to Resolve Social Issues
Strategy III	Improvement of Business Framework

Key Accomplishments	
Strategy I	- Construction was completed to expand production facilities for refrigeration lubricant raw materials at our Chiba Plant, representing the largest investment to date (2024) - In the field of high-purity solvents for electronic materials, a new quality control facility with a state-of-the-art clean room has been established, and statistical process control was implemented - Construction was completed for the expansion of facilities for next-generation semiconductor materials at Kurogane Kasei Co., Ltd. (2024)
Strategy II	- A decision was made to invest in CO₂ recovery equipment at the Chiba Plant (2023) - We made progress on the search for new products and businesses through investments in and collaboration with start-ups
Strategy III	- A predictive diagnostic system was introduced to detect signs of equipment failure - A job-based HR system was introduced for general employees - We became a company with an Audit and Supervisory Committee

Cumulative Results

Operating income	34.6 billion yen
EBITDA	48.5 billion yen
ROE	11–14%

3rd Medium-Term Business Plan (FY2019–FY2021)

Taking on New Challenges

Issues
In 2018, we formulated our VISION 2030. During the 3rd MTBP, which was our first MTBP on the path to achieving that vision, the primary challenge identified was expanding production capacity for refrigeration lubricant raw materials, which was nearing their limits amid a burgeoning air conditioner market. Looking ahead, new business creation also became a major theme.

Basic Strategy	
Strategy I	Profit Increase by New Facilities
Strategy II	Active Investment for the Future Expansion of Performance Chemical Business
Strategy III	Improvement of Business Framework

Key Accomplishments	
Strategy I	- Completed new refrigeration lubricant raw materials facility at the Yokkaichi Plant (2020) - Started operating equipment for next-generation semiconductor materials at Kurogane Kasei Co., Ltd. (2020)
Strategy II	- Made the decision to expand production capacity for refrigeration lubricant raw materials at the Chiba Plant (2021) - Started up new research hub (KH i-Lab) and accelerated activities to create new business through open innovation
Strategy III	- Introduced advanced plant control systems as planned - Introduced job-based HR system for managers - Formulated and implemented the business continuity plans (BCPs) and issued an integrated report

Cumulative Results

Operating income	34.9 billion yen
EBITDA	46.6 billion yen
ROE	10–28%

Strength 1
Outstanding
Manufacturing
Facilities

Strength 2
Rich and Unique
Technologies

Strength 3
A Wide-Ranging
Customer Network

Strength 4
Products with
Large Market Shares

We will steadily implement the strategies of our medium-term business plan and aim to achieve VISION 2030.

Ambitions for VISION 2030

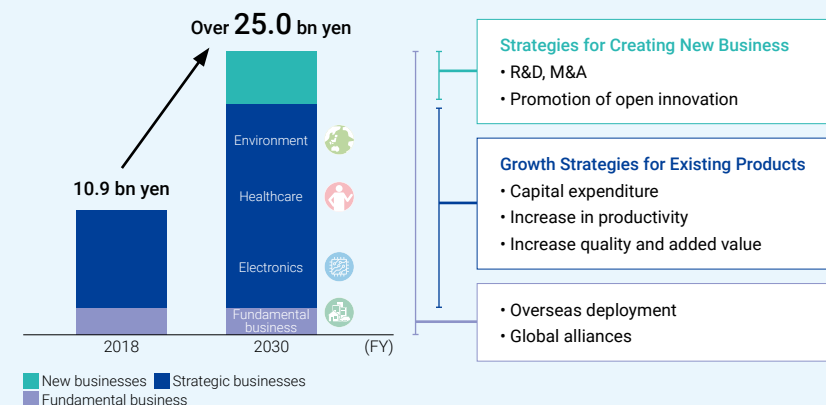
A Leading Global Specialty Chemical Company

Financial Targets

Net sales	180.0 billion yen (Corporate growth at 5% annually on average)
Operating income	Over 25.0 billion yen (Expansion of profits at 7% annually on average)
ROE	Over 12% (Maintaining high capital efficiency)
Equity ratio	50% (Construction of a financial structure that is immune to the external environment)

- Provide specialty chemicals that contribute to the reduction of global warming and a better quality of life
- Expand the lineup of products with the largest global share and new businesses in three strategic domains
- Achieve top-class profitability in the chemical industry

Operating income growth and strategy



Total investment of about **100 bn yen**

	Initiatives in the Environmental Domain	Initiatives in the Healthcare Domain	Initiatives in the Electronics Domain
Creation of New Business	• Promotion of green chemical materials	• Expansion of our product line for personal care and detergent markets	• New development of materials relating to mobility (for sensors and lenses)
Growth of Existing Products	• Strategic investment in refrigeration lubricant raw materials • Increase market share (60% in 2017* → 75% in 2030) • Response to next-generation refrigerant	• Strategic investment in cosmetic ingredients	• Strategic investment in materials for displays and semiconductors

* Estimate of the Company

Find your own personal meaning in our Corporate Policy.
May that be the driving force for each and every employee to achieve VISION 2030.

For me, a "taking the first step" means making decisions quickly in response to changes in the environment. To that end, I aim to gain experience across different duties and departments.

Ma Zhongting
Sales & Marketing
(Joined the Company in 2018)

For me, "taking the first step" means improvements that will make the plant more competitive. I work at the frontline level, where changes in the external environment are not always clearly evident, and precisely because of that, I aim to be quick enough to stay ahead of the competition.

Hikaru Horiuchi
Planning,
Project Management Department,
Yokkaichi Plant
(Joined the Company in 2019)

To me, "overcoming barriers and issues we face" means transcending departmental boundaries. IR connects organizations and people, as well as the interior and exterior elements of the Company. I want to incorporate new changes and outside influences.

Natsuko Arihara
Corporate Communications and
Investor Relations
(Joined the Company in 2013)

To me, "a brighter tomorrow" means that my colleagues can work with pride. I want to use the power of chemistry to create new businesses.

Takuya Saito
Innovation Strategy
(Joined the Company in 2018)



Message from the CEO

**It's been 77 years since our founding.
Throughout this time, we have remained
true to our mission while embracing change.
We are committed to helping resolve social issues
with distinctive chemical material products and
continuously enhancing our corporate value.**

Michio Takahashi

KH Neochem Co., Ltd.
Representative Director, President & CEO

Management that combines inherited technology with new perspectives

KH Neochem is a chemical manufacturer with a history spanning nearly 80 years, whose roots lie in the chemical business of the former Kyowa Hakko Kogyo. Our current core synthesis technologies, notably oxo synthesis, are based on technologies that have been passed down through our history of manufacturing. More recently, in 2011 the Company came under the umbrella of an investment fund. After going public, it has been rebuilding its structure for growth and, in the process, has welcomed numerous new talents with diverse backgrounds. Today, the majority of our employees have no knowledge of the old Kyowa Hakko Kogyo era, but the spirit embodied in our technology and corporate culture has nevertheless been steadily passed down. Today's KH Neochem is a unique organizational culture that combines traditions inherited over a long history, new challenges initiated by its independence, and the diversity of employees who bring fresh sensibilities.

creating new businesses. And third, achieve top-class profitability in the chemical industry. Our current business performance is driven by refrigeration lubricant raw materials for air conditioners and high-purity solvents essential to the semiconductor manufacturing process. Both of these products are highly competitive in the global market and fundamentally support people's lives and cutting-edge technology. We believe that evolving these in line with the changing times and creating new products and businesses is essential to realizing our vision. This will be achieved through the technologies and expertise that have been born, refined, and passed down over such a long history, as well as the skills of the people involved. While cherishing this heritage, we will continue to flexibly embrace change and steadily move toward being a leading global specialty chemical company.

Looking back on our 4th Medium-Term Business Plan (MTBP)

Our 4th MTBP (FY2022–FY2024) started out as the final step in the first six years of our journey to realizing VISION 2030 [P.28](#). However, these past three years have also been a series of challenges for our Company. The business environment has undergone extreme volatility, including sharp fluctuations in demand following the COVID-19 pandemic, a sudden rise in energy prices triggered by geopolitical risks, and a slowdown in the Chinese economy. In response to these changes, we have taken a string of corresponding measures such as streamlining production, optimizing manufacturing costs, fundamentally reviewing sales prices, and making the decision to withdraw from unprofitable product lines.

Concurrently, we have taken numerous decisions from a medium-to long-term perspective on how to implement measures that will lead to future growth even amid an uncertain business environment. We have placed particular emphasis on capital investment aimed at sustained growth. At our Chiba Plant, we completed construction work on the largest-ever expansion of the refrigeration lubricant raw materials

To be a leading global specialty chemical company as outlined in our VISION 2030

In 2018, we repeatedly asked ourselves, "Where do we want to be in 2030?" and set out our goal of being a leading global specialty chemical company as our compass for the future. We have identified the three areas of environment, healthcare, and electronics as our strategic domains, and will focus our management resources on these areas to evolve into a stronger, more profitable structure. And rather than simply seeking to expand in scale, we aim to maximize the uniqueness of our Group and become a company that shines like a beacon on the world stage. That is our Company's vision—our VISION 2030 [P.14](#).

Based on this vision, we have adopted three key policies. First, provide specialty chemicals that contribute to the reduction of global warming and a better quality of life. Second, expand the lineup of products with the largest global share in three strategic domains while also

Message from the CEO

plant in 2024, and at our Yokkaichi Plant, we built a new quality control facility equipped with the industry's highest-standard clean rooms in 2022. Furthermore, at Group company Kurogane Kasei, we expanded facilities for next-generation semiconductor materials in 2024. Through measures such as these, we have been building a framework for future growth. In addition to such production capacity expansion, we have also actively invested in measures to reduce our environmental impact. In one such example, at our Chiba Plant, we constructed facilities to capture CO₂ generated during the manufacturing process and reuse it as a raw material, so as to reduce our environmental footprint. This initiative is unique to KH Neochem, as it balances a stable supply of raw material CO₂ with consideration for the environment.

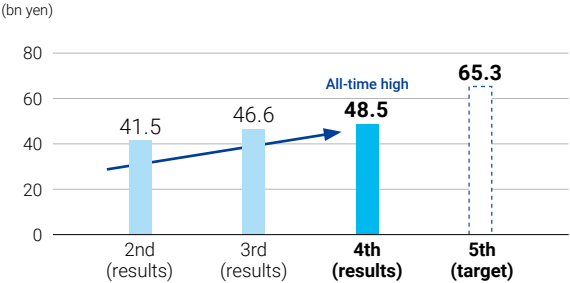
Furthermore, we have also been promoting initiatives aimed at creating new products and new businesses. Based on the strategic domains established in our VISION 2030, as part of our initiatives to resolve social issues, we have focused on several themes, such as marine biodegradable resins and raw materials for biopharmaceuticals, and have strengthened our efforts by actively collaborating with external parties, in part by investing in a number of start-up companies.

In addition to these growth investments, we have also focused on strengthening our business foundations. We took the job-based HR system that we had already adopted for management positions in 2020 and expanded it to general employees during the 4th MTBP period, while at the same time, we revised our salary system to more appropriately evaluate individual performance. In terms of governance, we revised our organizational design in March 2024 and transitioned to

a Company with an Audit and Supervisory Committee. Additionally, we have strengthened management oversight by making the majority of the Board of Directors independent outside directors, and have also transitioned to a structure that enhances management transparency and the effectiveness of business execution, such as by appointing CxO members (Chief Officers) to oversee major operations and functions.

As such, the three years of our 4th MTBP were a period in which we faced major changes in the business environment, but even amid such challenging business conditions, we continued to steadily lay the groundwork for future growth. Although we did not reach our planned performance targets, EBITDA, one of our key management indicators, reached a record high of 48.5 billion yen. ROE also remained at the double-digit level, at 11–14%, and I am confident that we have made steady progress in improving our earning power.

Three-year cumulative consolidated EBITDA



Main strategies for sustainable growth

Category	2019	2020	2021	2022	2023	2024	2025	2026	2027
	3rd MTBP			4th MTBP			5th MTBP		
Refrigeration lubricant raw materials		● Yokkaichi Plant: Expansion of facilities					● Chiba Plant: Expansion of facilities		
Electronic materials			● Construction of new facilities for next-generation semiconductor materials	● Yokkaichi Plant: Construction of quality control facility		● Strengthening of high-purity solvent supply infrastructure	● Expansion of facilities for next-generation semiconductor materials		
Open innovation strategy		● Establishment of an open innovation hub (KH i-Lab)		● Investment in two start-up companies			● Investment in one start-up company		
Improvement of production framework	Introduction and expansion of advanced plant control systems					● Introduction of predictive diagnostic systems			
				● Chiba Plant: Renewal of in-house power generation equipment			● Chiba Plant: Construction of equipment to capture CO ₂		
						● Comprehensive Safety Check Initiative 2022	● Yokkaichi Plant: Recognized as a Certified Advanced Safety Implementer		
Strengthening of governance, and human resource development		● Introduction of job-based HR system for management positions				● Introduction of job-based HR system for general employees			
			● Establishment of Compliance Code and various policies				● Transition to a Company with an Audit and Supervisory Committee		
							● Establishment of CxO structure		

Message from the CEO

Aims of our 5th MTBP

Toward a new growth stage

The 5th MTBP (the “current medium-term plan”), which began in January 2025 and covers the period from FY2025 to FY2027, marks the second half of the roadmap for realizing our VISION 2030. With less than six years remaining to achieve the ideals we have set out in our long-term vision, we are positioning the current medium-term plan as an extremely important period for propelling the Company into the next stage of growth. We aim to steadily reap the benefits of the investments we have made up through our 4th MTBP and further enhance our corporate value.

To that end, we believe we need to place even greater emphasis on management that is conscious of the efficiency of invested capital, rather than simply pursuing sales and profits. While we have always been committed to management that is conscious of capital efficiency, under the current medium-term plan, we will place emphasis on profitability, such as ROE and EBITDA margin, to further raise the level of awareness and behavior of each and every employee. Among our FY2024 results, our ROE was 13%, ranking among the highest of the chemical companies listed on the Tokyo Stock Exchange Prime Market, and we maintained a steady EBITDA margin of 14%. We aim to raise these to 15% and 18%, respectively, by FY2027, the final year of our current medium-term plan. Furthermore, we are pursuing a DX strategy that includes the use of predictive diagnostic systems powered by big data as well as streamlining productivity through AI, while also aiming to improve EBITDA per employee by 30% by maximizing the value of our human resources. Through these efforts, we will aim to achieve “top-class profitability in the chemical industry,” as set out in VISION 2030.

Elevating earning power in existing businesses

To achieve improved capital efficiency, we must first firmly enhance the profitability of our existing businesses. In particular, we will prioritize the allocation of management resources to our strong areas of Performance Materials and Electronic Materials, and further advance our transformation into a more profitable business structure. For our mainstay refrigeration lubricant raw materials business, we will utilize the facilities we expanded in 2024 to steadily capture growing global demand. Concurrently, we will strengthen our overseas logistics bases and solidify our position as a top global supplier. In Electronic Materials, we will proactively address the needs of the cutting-edge semiconductor field through high-purity solvents and materials for next-generation semiconductors, and further improve the added value of our products. As for Basic Chemicals, the market has been sluggish due to a slackening of international supply and demand caused by factors such as increased production capacity in China and other regions. In addition, the business environment remains challenging due to factors such as aging facilities and rising maintenance costs. In light of these circumstances, at the end of 2024 we made the decision to withdraw from the production and sale of certain unprofitable products. We will continue to thoroughly streamline and optimize everything from

raw material procurement to production and logistics systems, but it is our belief that, rather than a mere temporary phenomenon, the current severe business environment is in fact a structural one. Naturally, securing profits is essential for business continuity, and in the absence of decent prospects for improvement, drastic additional measures must be implemented. We will eliminate any complacency—such as the notion that external conditions may improve over time or the tendency to defer to the future—and establish a stable revenue base resilient to environmental changes, without limiting ourselves to independent efforts alone.

Phase for making new products and businesses a reality

While we will strengthen the revenue foundation of our existing businesses, we are also entering a phase in which we will place even greater emphasis on creating new products and businesses to drive future growth. Until now, we have been in the exploration stage, where we have been identifying where the seeds of business lie. However, under the current medium-term plan, we will fully transition to the business creation stage, where we will establish these ideas as actual businesses. For example, we will pursue an open innovation strategy to incorporate external technologies and expertise in areas where we have strengths, such as polyhydroxybutyrate (PHB), a marine biodegradable resin, which contributes to solutions to marine plastic pollution, and functional materials called glycans that contribute to the development of biopharmaceuticals, and thereby build new businesses.

These R&D projects require a certain amount of time, but we must not limit our efforts merely to research for the sake of research. As a company, we are ultimately required to produce results, and for that reason, we believe it is vital not only to continuously monitor investments but also to instill in our organization a business mindset that is conscious of the end goals and future expansion right from the initial stages of R&D. Based on that philosophy, in 2019 we launched our KH i-Lab open innovation hub. We deliberately located the base in the City of Kawasaki, distant from our existing bases, and have continuously welcomed diverse talent from outside the Company, building a system that combines domestic and international technologies and expertise through collaborative creation. With these themes finally beginning to sprout, we will take them to fruition and nurture them into the next pillars of growth.

Toward achieving carbon neutrality

For us as a chemical manufacturer, reducing GHG emissions is an unavoidable and critical management challenge. As a company that consumes a great deal of resources and energy, it goes without saying that we must fulfill our responsibility to the global environment. Furthermore, we see this as an important theme that is deeply connected to our corporate mission of “Realizing a brighter tomorrow for society through the power of chemistry.” Based on this belief, we continue working to contribute to reducing global GHG emissions through our business activities. A prime example of this is our refrigeration lubricant raw materials, for which we hold the world’s top market share.

Message from the CEO

Since the Montreal Protocol came into effect in 1989, the specified chlorofluorocarbons (CFCs) refrigerants used in air conditioners and other appliances have been gradually replaced by alternative CFCs so as to protect the ozone layer. At that time, it was necessary to develop a refrigeration lubricant that was chemically compatible with alternative CFCs, and our products played a major role as raw materials for such lubricants. Subsequently, however, it became clear that alternative CFCs have a significant impact on global warming, and in 2019 the Kigali Amendment to the Montreal Protocol came into effect. As GHG emissions regulations have become even more stringent, the world is shifting to refrigerants with lower global warming potential, and our refrigeration lubricant raw materials have become indispensable in the development of refrigeration lubricants that are compatible with such refrigerants .

Global GHG emissions from refrigerants are estimated at approximately one billion tons per year in CO₂ equivalent, which is comparable to Japan's total emissions. However, as the middle-income classes grow and the use of air conditioners becomes more widespread in emerging markets and other such countries, it is clear that GHG emissions from refrigerants will persist in increasing if things continue as they are. By globally supplying the raw materials for refrigeration lubricants needed for the shift to refrigerants with low global warming potential, we hope to contribute to the curbing of global warming and in so doing achieve our own sustainable growth as well.

We have also been steadily implementing measures to reduce our own GHG emissions. We have long pledged to achieve carbon neutrality by 2050, and as a milestone toward that goal, we have announced a policy of reducing GHG emissions by 30% compared to FY2017 by 2030 . However, given that the measures we have implemented so far have begun to produce steady results, we have decided to bring forward that target date from 2030 to the period of our current medium-term plan (FY2025–FY2027).

The first of these measures is the expanded installation of advanced plant control systems. These systems improve energy efficiency by using digital technology to optimize plant operating conditions. We already adopted them at the majority of our plants, and will continue to maximize the benefits of their incorporation. The second step is the reduction of our environmental impact through the installation of environmentally friendly in-house power generation equipment. We updated that equipment in 2021, at which time we also replaced the fuel used in power generation for one with lower environmental impact. We will continue to use this equipment to reduce GHG emissions. The third is the utilization of our core technology, oxo synthesis. We use this technology to manufacture refrigeration lubricant raw materials, and since we use CO₂ as a raw material, we would

be able to reduce emissions if the CO₂ generated during the manufacturing process could be once again reused as a raw material. In 2025, we also installed this CO₂ capture equipment at our Chiba Plant, which equips us to recycle up to 50% of the CO₂ generated at the plant.

Thus, we will continue to work to reduce GHG emissions both within our Company and through our business operations, and pursue sustainable management that balances the prevention of global warming with the enhancement of corporate value.

Maintaining and improving safe and stable operations

Our responsibility to society is to “continue to provide a stable supply of needed products.” Many of the products we handle are essential materials in a variety of industrial fields and have a high market share both domestically and internationally. Therefore, if production were to be halted, it could have a serious impact on global supply chains. That is why preventing production problems and maintaining stable operations are among our top management priorities.

In order to translate this awareness and policy into specific actions, we are actively working on a variety of measures to maintain stable operations. One of these is a fundamental review of our plant maintenance strategies. Rather than responding reactively after a problem at the plant has already occurred, we are bolstering preventive maintenance by gradually digitizing equipment, conducting risk assessments, and then systematically carrying out inspections and repairs according to priority. Furthermore, in the area of equipment inspection, in addition to sophisticated inspection technology such as precision measurements using lasers, we have also begun operating a predictive diagnostic system that converts plant operation information into big data and uses AI to detect the risk of malfunction in advance. By combining new technology with data and human knowledge accumulated over the years, we will achieve safe, stable, and efficient manufacturing. We additionally intend to continue evolving these initiatives to further strengthen our plants, which are the wellspring of our value .

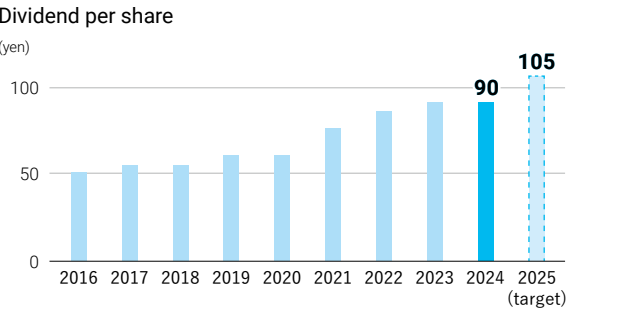
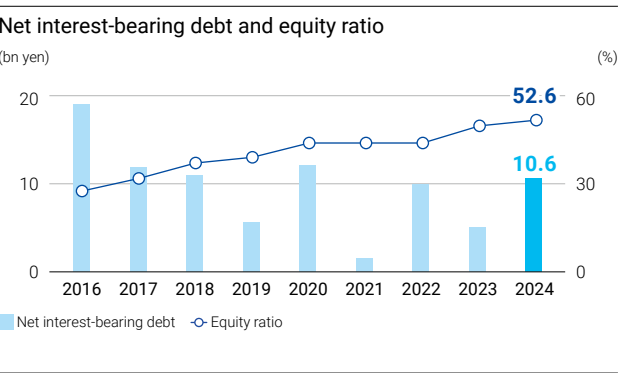
As part of our efforts to ensure safe and stable operations, in 2024 the Yokkaichi Plant became the third plant in Japan to be recognized as a Certified Advanced Safety Implementer under the newly introduced certification system for high-pressure gas safety. This certification is granted to workplaces that meet multiple standards, including not only the commitment of top management but also an advanced risk management system, the use of technology, and cybersecurity measures. Our achievement of this certification is the result of external recognition of our efforts to review our maintenance strategies and establish a smart safety system that incorporates the latest technology, and we believe that this will continue to serve as the foundation for supporting and driving our stable operations.

Message from the CEO

Implementing management that takes human capital and stock prices into consideration

To accomplish our VISION 2030, it is essential to implement human capital management in addition to the efforts described above. We possess products with high global market share as well as products that only we can manufacture, so naturally, we require professional personnel with a strong sense of responsibility. Furthermore, to achieve sustained growth, we must have proper succession plans in place and cultivate core human resources who can take on the responsibility of corporate management. To continually produce human resources who are able to think things through and act with a broad perspective and a keen sense of mission, rather than being limited to a single area of expertise, we are expanding the scope of our training to include not only young executives and division heads but also managers, and are working to cultivate the next generation of human resources through selective training and other such initiatives.

To enhance our corporate value, it is important for us to manage human capital effectively while also conducting business with a keen awareness of stock price performance. When the Company initially listed on the First Section of the Tokyo Stock Exchange in 2016, its equity ratio was 28% and its net interest-bearing debt was 19 billion yen, meaning it was at a stage where it needed to focus on improving its financial position. Since then, however, our financial soundness has steadily improved, with our equity ratio exceeding 50% and our net interest-bearing debt at one time approaching net cash. We were also given an A- (stable) credit rating by Rating and Investment Information, Inc. (R&I) in 2022, which we have maintained to this day. In light of the improvement in our financial base, with our current medium-term plan, we will continue to invest in sustainable growth, while steadily realizing the benefits of investments we have made to date to expand our facilities and strengthen our foundations, aiming for further growth. At the same time, we also have a policy of further strengthening shareholder returns. As a basic policy, we have raised our dividend payout ratio from approximately 30% to approximately 40%. In addition, taking into consideration the chemical industry's unique business performance fluctuations, we have set a new target of 4% or more for dividend on equity (DOE) as an indicator of stable dividends. We have steadily raised our annual dividends from 50 yen per share in our first year of listing to 90 yen per share in FY2024. We plan to increase our dividend to 105 yen in FY2025. In addition, in FY2025 we are implementing a share buyback of up to 5 billion yen. This also serves as a clear message from our management, who believe that the Company's capabilities and future prospects are not yet fully reflected in our stock price. We will continue to steadily make necessary investments while also working to enhance shareholder returns and implementing management practices that will lead to greater corporate value.



As I mentioned at the beginning, KH Neochem is a company that combines tradition with new challenges and diversity. During the five and a half years under the umbrella of the investment fund, we were thoroughly conscious of perspectives such as capital efficiency and increasing corporate value, which had a major impact on the mindset of our management team, including myself.

VISION 2030 was formulated following our IPO, and we now find ourselves at the halfway point in our journey toward achieving that vision. Now, we—the management team—will return to the origins of our listing, view things from the same perspective as our shareholders and investors, and steadily move toward maximizing our corporate value. We sincerely thank you for your continued support.

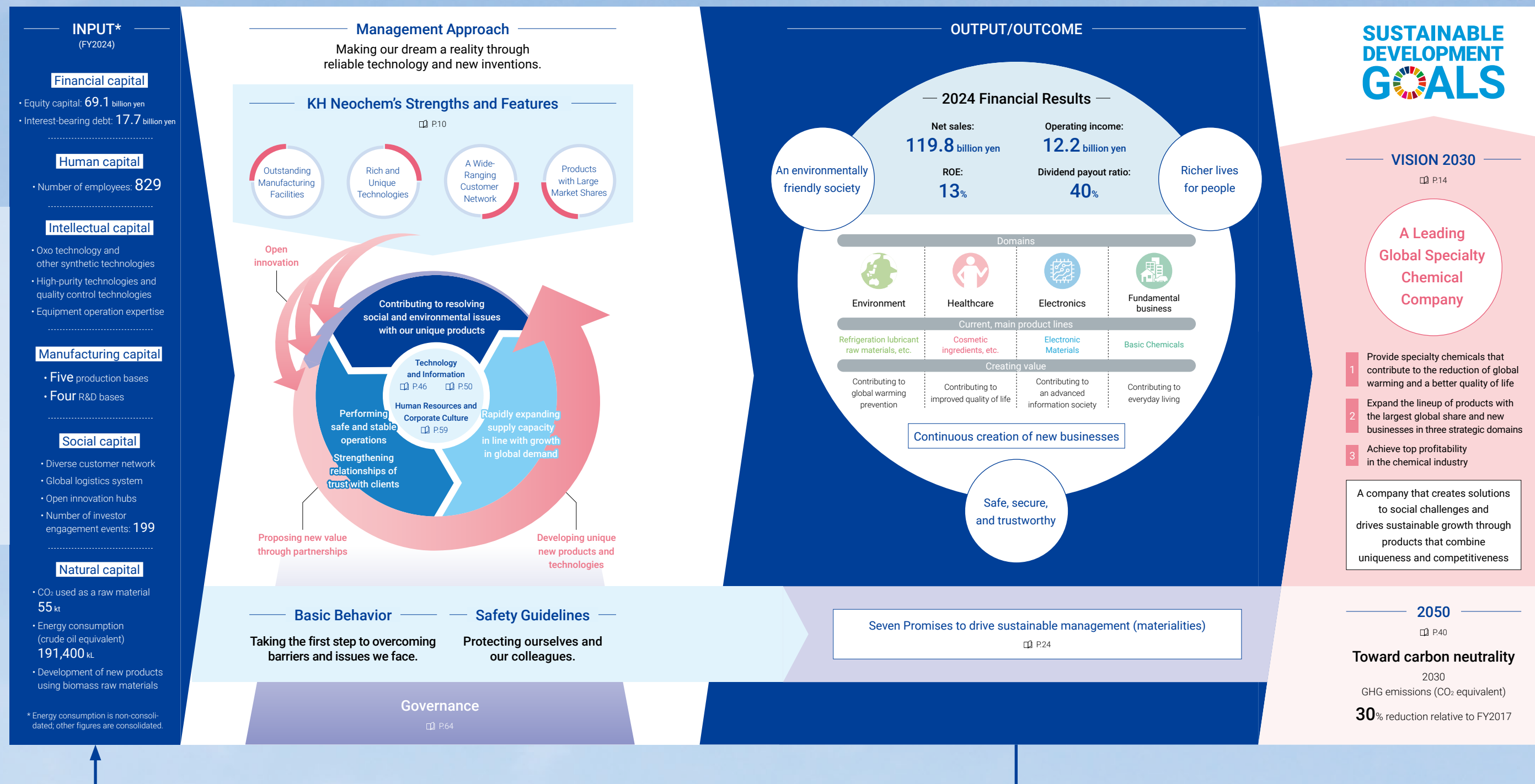


We will drive sustainable management and realize a brighter tomorrow for society through the power of chemistry.

Through our business, we will contribute to a sustainable world by providing value, on the basis of “safe, secure, and trustworthy,” for realizing an environmentally friendly society and richer lives for people, while also ensuring ongoing growth in our own corporate value.

- Corporate Mission

P.1

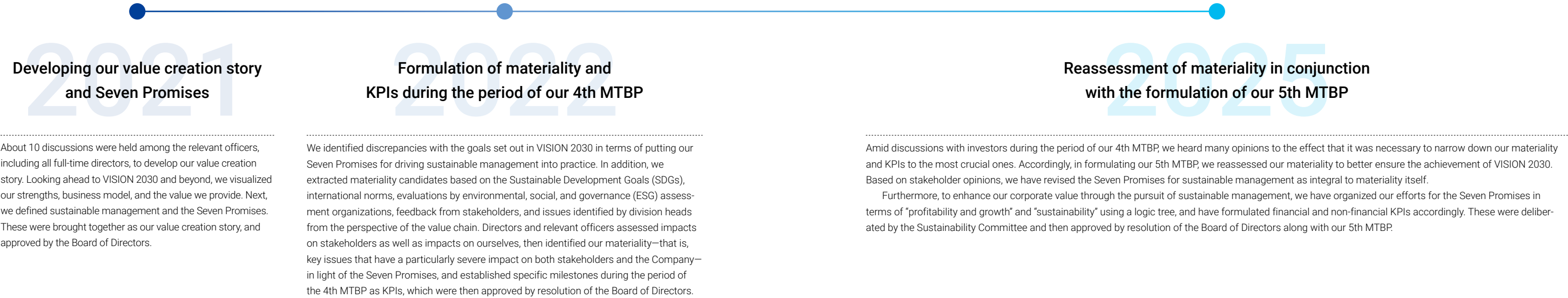


Seven Promises (Materialities) and KPIs

When we formulated our value creation story in 2021, we established the Seven Promises to promote sustainable management.

During the period of our 4th Medium-Term Business Plan (MTBP), we formulated and implemented materiality and KPIs in addition to the Seven Promises. To more rigorously promote sustainable management, in conjunction with the formulation of our 5th MTBP, we have revised our Seven Promises to reflect materiality itself as well as refreshed our KPIs. Based on these Seven Promises and KPIs, we are working to engage in constructive dialogue with all stakeholders.

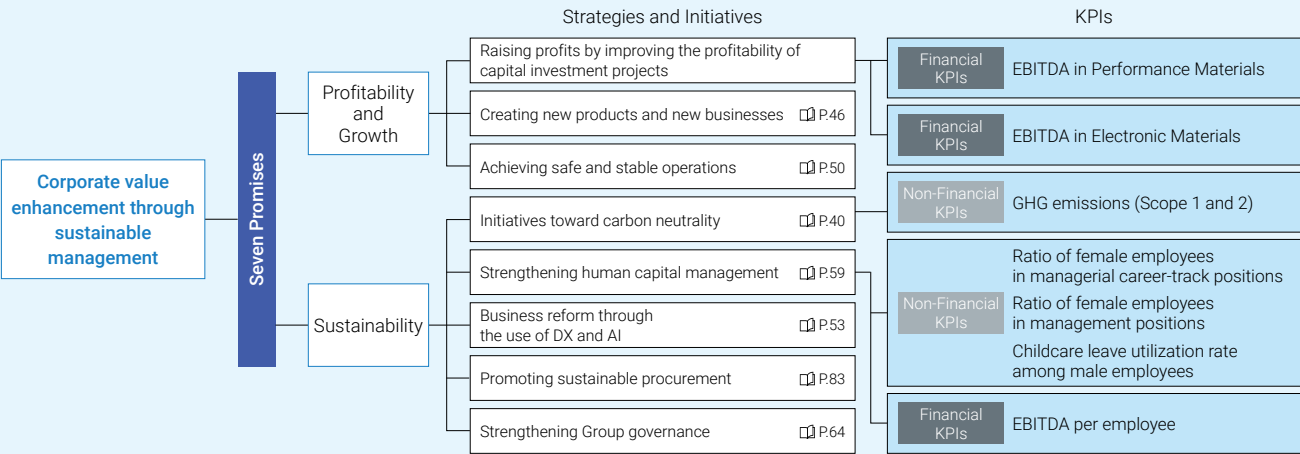
The Identification Process



Seven Promises (Materialities)

No.	Seven Promises
1	We will develop businesses that help resolve social issues.
2	We will conduct business conscious of reducing our impact on the environment.
3	We will strive to secure trust through safe and stable operations.
4	We will practice management transparency with high ethical standards.
5	We will provide a lively work environment that motivates and rewards diverse human resources.
6	We will promote responsible supply chain management.
7	We will strengthen our earning power.

KPI logic tree: Corporate value enhancement under the 5th MTBP



5th MTBP (FY2025–FY2027)

KPIs

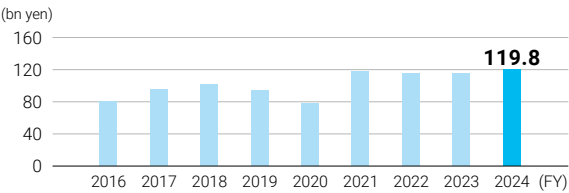
	No.	KPI	4th MTBP (FY2022–FY2024)		5th MTBP (FY2025–FY2027)	
			FY2024 (Final Year)	3-Year Total	FY2027 (Final Year)	3-Year Total
Financial KPIs	1	Operating income	12.2 billion yen	34.6 billion yen	16.5 billion yen	44.9 billion yen
	2	EBITDA	17.2 billion yen	48.5 billion yen	23.6 billion yen	65.3 billion yen
	3	ROE	13%	–	15%	–
	4	ROIC	10%	–	12%	–
	5	EBITDA margin	14%	–	18%	–
	6	EBITDA per capita	21.0 million yen	–	28.0 million yen	–
	7	EBITDA in Performance Materials*1	–	34.5 billion yen	–	48.9 billion yen
	8	EBITDA in Electronic Materials*1	–	9.3 billion yen	–	11.1 billion yen
	9	Dividend policy	Dividend payout ratio: Approx. 30% (During the period of the plan)		Dividend payout ratio: Approx. 40% (During the period of the plan)	
	10	DOE	–		4% or more (During period of the plan)	

	No.	KPI	FY2024	FY2027 Target
Non-Financial KPIs	11	GHG emissions (Scope 1 and 2)*2	30.1% reduction compared to FY2017	30% reduction compared to FY2017 (2030 target accelerated)
	12	Ratio of female employees in managerial career-track positions	14.6%	17% or more
	13	Ratio of female employees in management positions	7.7%	11% or more
	14	Childcare leave utilization rate among male employees*2 (Including leave utilization for childcare purposes)	105.0%*3	80% or more

*1 Does not include Company-wide administrative costs.
*2 Shows results from April 2023 to March 2024
*3 Childcare leave includes childcare leave, childcare leave at birth, and paid leave for childcare purposes. The leave ratio exceeds 100% due to employees who had a child at the end of 2023 taking leave at the beginning of 2024.

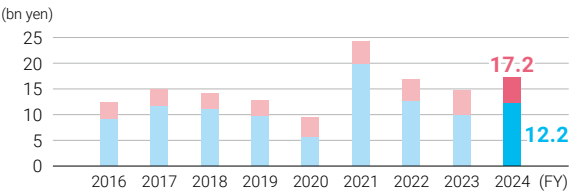
Financial Highlights (Consolidated)

Net sales



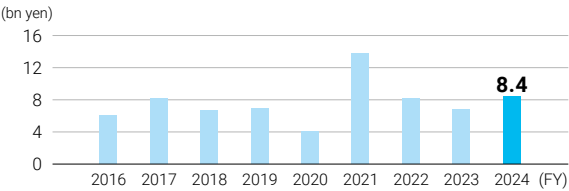
Net sales exceeded 110 billion yen in FY2021, and since then have been continually driven by Performance Materials—primarily refrigeration lubricant raw materials. They reached 119.8 billion yen in FY2024, the highest since the Company's listing in 2016. Furthermore, our business uses EBITDA as a key management indicator because capital investment, which is the source of value creation, is directly linked to competitiveness. Our EBITDA for FY2024 was 17.2 billion yen, an increase of 18% from the previous fiscal year. This is the highest level ever, excluding FY2021, when there was a tailwind from the rebound in demand following the COVID-19 pandemic. Even when examined on the basis of our medium-term business plans (MTBPs; three-year cumulative basis), we are steadily strengthening our earning power, with 41.5 billion yen in the 2nd MTBP, 46.6 billion yen in the 3rd MTBP, and 48.5 billion yen in the 4th MTBP.

EBITDA/Operating income



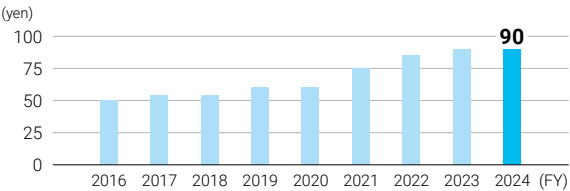
Operating income EBITDA

Net income attributable to owners of the parent



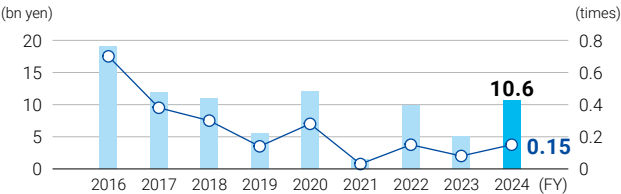
Net income attributable to owners of the parent in FY2024 amounted to 8.4 billion yen, up 22% year on year, mainly due to growth in operating income. This is the result of our bottom line reflecting improved profitability in Performance Materials, in which we have a major global market share. In FY2024, our ROE was 12.6%, and to raise it further we will continue to work to maximize net income by growing our business through the active allocation of resources to growth areas.

Dividend per share



Since our IPO in 2016, we have placed emphasis on stable and continuous shareholder returns and have steadily increased dividends. Our shareholder return policy for the period of our 4th MTBP (FY2022–FY2024) was to deliver flexible shareholder returns with a target dividend payout ratio of approximately 30%, with a minimum dividend of 85 yen per share in FY2022. As a result, our actual results for FY2024 were a dividend of 90 yen per share and a dividend payout ratio of 40%, thus exceeding our initial policy. In our 5th MTBP (FY2025–FY2027), we will aim to further boost shareholder returns by raising our dividend payout ratio to approximately 40%, combining this with a DOE of at least 4% as well as the flexible buyback of stock.

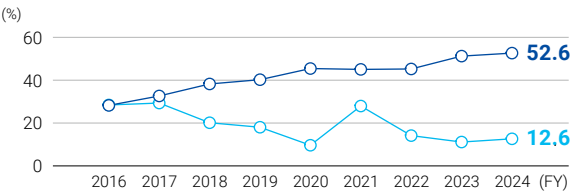
Net interest-bearing debt/Net debt-equity ratio



Net interest-bearing debt (LHS) Net debt equity ratio (RHS)
(Note) Except lease obligations.

When we became independent from the then Kyowa Hakko Kirin Group in 2011, we were left with a large amount of interest-bearing debt. Since then, we have positioned the restoration of our financial health as one of our key priorities and have been steadily working to improve it. We have been working to reduce interest-bearing debt by concentrating resources on growth areas so as to maximize cash flow, as well as by selling off cross-shareholdings, and our net debt-equity ratio in FY2024 improved to 0.15 times. We have obtained a credit rating of A– from R&I.

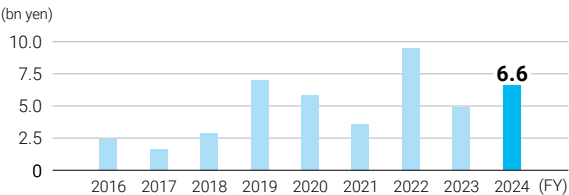
Equity ratio/ROE



Equity ratio ROE

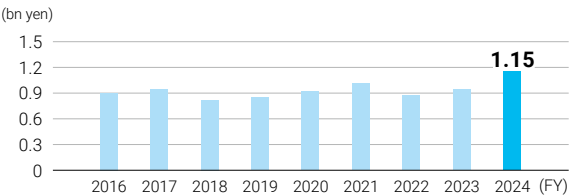
By steadily accumulating profits and managing the balance sheet, our equity ratio has risen from 28% when we listed in 2016 to the 50% range currently, and thus our financial soundness is improving. Additionally, although our ROE, which was in the 20% range when we listed, has been declining, it reached 12.6% in FY2024, thus still maintaining a high level compared to the rest of Japan's chemical industry. Going forward, we will continue to ensure financial soundness while working to further improve our capital efficiency by allocating resources to growth areas and strengthening our balance sheet management. In addition, under our 5th MTBP, which began in FY2025, we are aiming for ROE of 15%.

CAPEX



In recent years, we have been making capital investments to meet rising demand in growth areas, as well as the need for higher quality. Major investments include the expansion of refrigeration lubricant raw material facilities at our Yokkaichi Plant (completed in 2020), the construction of a quality control facility equipped with clean rooms for Electronic Materials (completed in 2022), and the expansion of refrigeration lubricant raw material facilities at our Chiba Plant (completed in 2024). Furthermore, to fortify our safe and stable operations, we are systematically pursuing investments in the maintenance and renewal of our facilities, as well as capital investments to ensure the stable supply of raw materials.

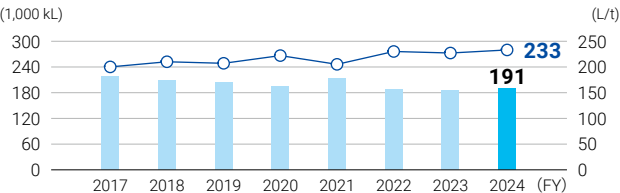
R&D expenses



We opened our innovation hub, KH i-Lab, in 2019 to accelerate our creation of new products and businesses. Since then, we have been working on development themes in cutting-edge fields—such as PHB, a marine biodegradable resin, and functional materials called glycans for biopharmaceutical applications—and R&D expenses have been increasing in line with our progress. During the period of our 5th MTBP (FY2025–FY2027), we will elevate these themes from the exploration stage to the business creation stage, and thus further accelerate our efforts toward commercialization.

Non-Financial Highlights (Non-Consolidated)

Energy consumption and energy intensity

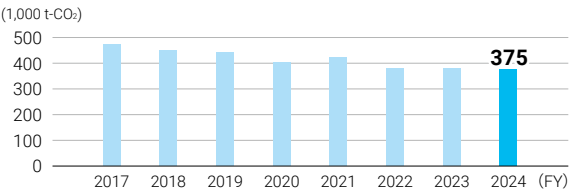


Energy consumption (LHS) Energy intensity (RHS)

(Note) April 1 to March 31, each year

We are currently shifting our business portfolio from a volume-dependent model centered on Basic Chemicals to an added-value one powered by Performance Materials and Electronic Materials. As a result, our energy consumption has continued to decline from 219,000 kL in FY2017 to 191,000 kL in FY2024. Meanwhile, our energy intensity during the same period was on the rise, from 200 L/t to 233 L/t. This is largely due to the growth of businesses with a high degree of manufacturing processing, such as Performance Materials. In response to this, we are proactively adopting advanced plant control systems and working to improve our energy intensity.

Greenhouse gas (GHG) emissions



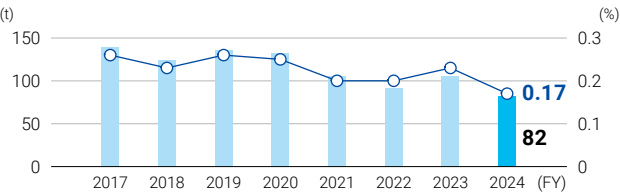
Scope 1+2

(Note 1) April 1 to March 31, each year. Figures reported based on the Act on the Rational Use of Energy.

(Note 2) Starting in FY2021, we have been deducting the amount of CO₂ that was generated in our production processes, captured, and used as raw materials from our GHG emissions. We have confirmed this with the government office for reporting GHG emissions.

To achieve carbon neutrality by 2050, we have set for ourselves the target of reducing emissions by 30% compared to FY2017 by 2030, and aim to achieve this target ahead of schedule during the period of our 5th MTBP. By utilizing advanced plant control systems, upgrading in-house power generation equipment, and introducing CO₂ capture equipment, in FY2024 we achieved a 21% reduction in emissions compared to FY2017 (based on the Act on the Rational Use of Energy). Furthermore, when taking into account the consumption of CO₂ as a raw material, which is one of our strengths, our progress works out to a 29% reduction.

Disposed of as landfill, ratio

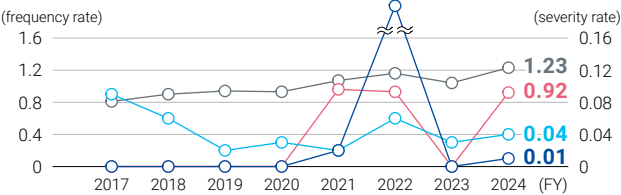


Disposed of as landfill (LHS) Ratio disposed of as landfill (RHS)

(Note) Scope of aggregation: Yokkaichi Plant and Chiba Plant

Both our Yokkaichi Plant and our Chiba Plant have set environmental targets for landfill disposal and are working to reduce disposal volumes. As a result, our landfill disposal ratio for FY2024 was 0.17%, a further reduction from the previous fiscal year.

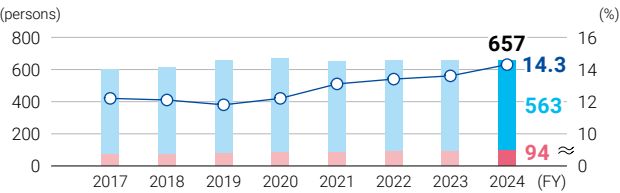
Frequency rate (accidents resulting in lost workdays)/Severity rate



Severity rate: KH Neochem
Severity rate: Chemical industry average (Ministry of Health, Labour and Welfare statistics)
Frequency rate: KH Neochem
Frequency rate: Chemical industry average (Ministry of Health, Labour and Welfare statistics)
(Note) Scope of aggregation: Yokkaichi Plant and Chiba Plant

The high severity rate in FY2022 was due to the occurrence of a serious work-related accident. To prevent a similar accident from happening again, we have added "Protecting ourselves and our colleagues" as a safety guideline to our Corporate Policy and are continuing to work on Comprehensive Safety Check Initiative 2022. As a company that manufactures materials that support critical global supply chains, we are working to thoroughly prevent recurrence and bolster safe operations.

Number of employees and ratio of female employees



Male (LHS) Female (LHS) Ratio of female employees (RHS)

(Note) Full-time workers, contract employees, and seconded staff (all figures as of December 31)

We are working to create a corporate culture in which diverse human resources can thrive independently, regardless of nationality, age, or gender. In addition to promoting the hiring of women, we are also focusing on the active training and hiring of female managers and managerial candidates. While our total number of employees decreased slightly in FY2024 compared to the previous fiscal year, the proportion of female employees increased.

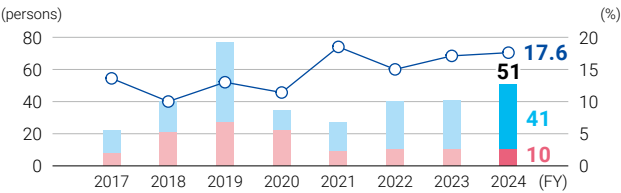
Gender wage gap

FY	2022	2023	2024
All workers	83.4%	85.6%	86.2%
Full-time workers	81.6%	83.2%	83.5%
Part-time or fixed-term workers	67.6%	83.8%	68.4%

(Note) Ratio of female wages to male wages

We have implemented a job-based HR system, and there is no difference in base wages between men and women at the same job or role level. This being the case, factors that contribute to the gender wage gap include the low percentage of women in management positions or as female managerial candidates among our full-time employees, the fact that many of those eligible for short-time work are women, and the relatively low number of women working at manufacturing sites, which results in differences in pay such as shift work allowances. The primary reason is that among part-time and fixed-term employees, few women in reemployed positions after mandatory retirement hold roles equivalent to management positions. At the same time, though, due to systems supporting the return to work after childcare leave, women tend to have longer tenure than men.

Number of new employees



Mid-career (LHS) New graduates (LHS) Ratio of new female employees (RHS)

(Note) Only workers who have signed a labor contract with no fixed term

Years of service and gender differences

FY		2018	2019	2020	2021	2022	2023	2024	2025
Years of service	Male	16.0	14.6	13.5	13.7	14.0	14.2	14.1	14.2
	Female	16.3	14.3	14.3	15.0	15.3	15.1	15.4	15.4
Difference (female – male)		0.3	-0.3	0.8	1.3	1.3	0.9	1.3	1.2

(Note 1) "Number of years difference" is the difference in the number of years of service calculated as "female – male."

(Note 2) Full-time workers only. All figures as of April 1, each year

Looking Back at the 4th Medium-Term Business Plan

As part of our efforts to accomplish VISION 2030, under our 4th Medium-Term Business Plan (MTBP), which we implemented over the three-year period from FY2022 through FY2024, we set “driving sustainable management” as our basic policy, and implemented various measures, including the largest-ever expansion of our refrigeration lubricant raw material production facilities, to accelerate our contribution to the realization of a sustainable society and our own continuous enhancement of corporate value.

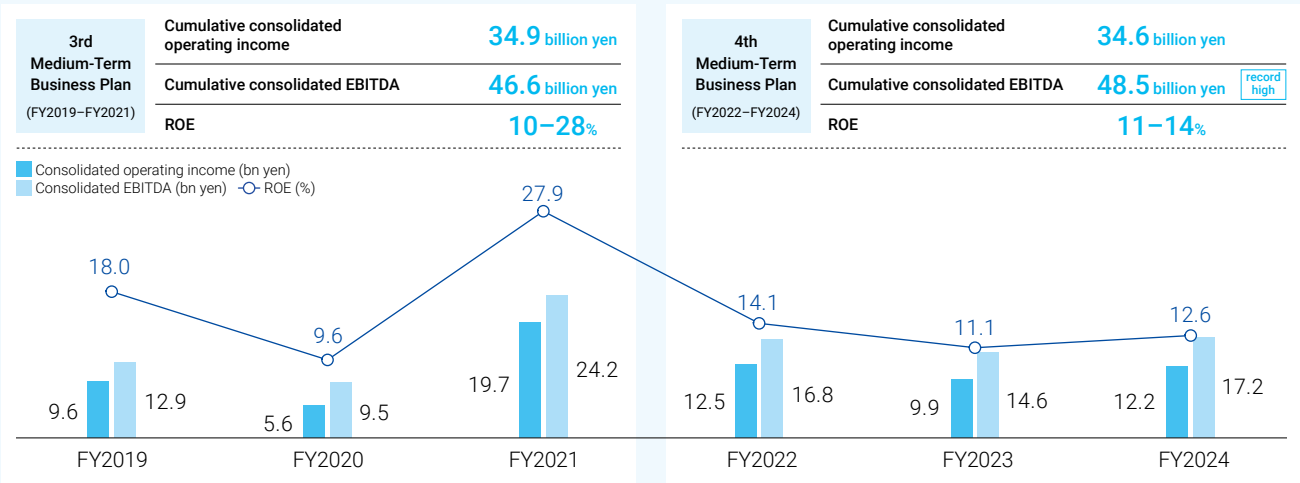
Basic Policy

Driving Sustainable Management

➡ Strengthening our ability to generate steady profits even in a severe business environment

Even amid a persistently severe business environment due to factors such as the prolonged conflict between Russia and Ukraine and the slowdown in the Chinese economy, we have steadily strengthened our earning power, with our three-year cumulative EBITDA exceeding that of our 3rd MTBP period and reaching a new record high.

Results for key management indicators



➡ Steady implementation of medium- to long-term measures that contribute to corporate value enhancement

In addition to completing the largest-scale investment to date in the expansion of refrigeration lubricant raw material facilities at the Chiba Plant in 2024, we have steadily implemented measures that will lead to future growth, such as the construction of a new quality control facility equipped with the industry's highest standard clean rooms in the electronic materials field, and investment in start-up companies to create new businesses.

Key achievements and challenges of the 4th MTBP

	Strategy I Further Growth in the Strategic Domains	Strategy II Medium- and Long-Term Initiatives to Resolve Social Issues	Strategy III Improvement of Business Framework
Key achievements	- Construction was completed to expand production facilities for refrigeration lubricant raw materials at our Chiba Plant (2024) - A new quality control facility for high-purity solvents has been established, and statistical process control was implemented - Construction was completed for the expansion of facilities for next-generation semiconductor materials at Kurogane Kasei Co., Ltd. (2024)	- A decision was made to invest in CO₂ recovery equipment at the Chiba Plant (2023) - We made progress on the search for new products and businesses through investments in and collaboration with start-ups	- A predictive diagnostic system was introduced to detect signs of equipment failure - A job-based HR system was introduced for general employees - We became a Company with an Audit and Supervisory Committee
Challenges	- We further strengthened our global sales framework for refrigeration lubricant raw materials and raised productivity to further enhance our competitiveness - We met the need for even higher quality in high-purity solvents	- We continuously improved productivity toward achieving carbon neutrality - New product and business exploration and creation	- We further fostered a safety culture - We confirmed achievements of our predictive diagnostic system - We improved employee engagement

5th Medium-Term Business Plan

The global economy is facing increasing uncertainty due to protracted geopolitical risks, the expansion of protectionist policies, and concerns about prolonged economic stagnation in China. There are nevertheless solid prospects for stable growth, particularly in emerging Asian countries. In the petrochemical industry, the worsening supply–demand balance caused by the expansion of facilities in China has led to a persistent slump in market conditions, particularly for commodity products, and there is likely to be an industry shakeout in Japan. We view these changes as an opportunity and aim to enhance our corporate value.

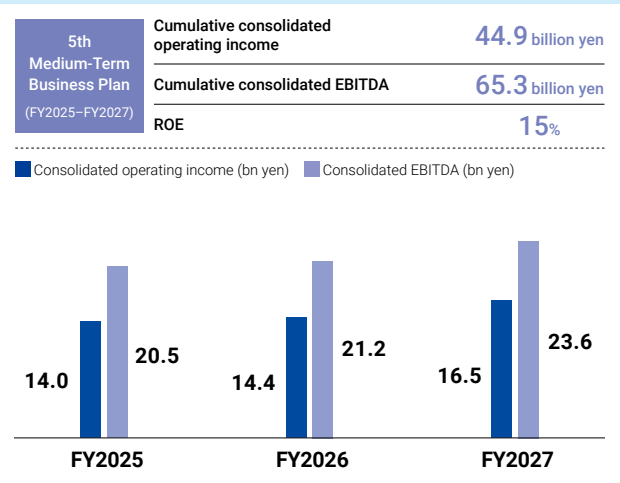
Basic Policy

Toward a New Growth Stage

➡ Aiming for steady growth on a three-year basis

Our business is subject to many factors that can cause fluctuations from year to year, such as changes in the external environment and large-scale periodic maintenance conducted every other year. We have therefore established a three-year cumulative EBITDA target as a key management indicator and are aiming for steady growth over this period.

Key numerical management targets



Single-year numerical targets	FY2024	FY2027
Operating income	12.2 billion yen	16.5 billion yen
EBITDA	17.2 billion yen	23.6 billion yen
ROE	13%	15%
ROIC	10%	12%
EBITDA margin	14%	18%
EBITDA per capita	21.0 million yen	28.0 million yen

Strategy I Enhancement of Earning Power

By strengthening the profitability of performance chemicals, centered on refrigeration lubricant raw materials and Electronic Materials, we will accelerate the transformation of our business portfolio into one that is more resilient to changes in the external environment.

	Key initiatives	Three-year cumulative consolidated EBITDA The 4th MTBP → The 5th MTBP	
Performance Materials	- Capture growing demand for refrigeration lubricant raw materials by leveraging our world-class production capacity and global distribution bases - Procure highly cost-competitive raw materials and incorporate new technologies	34.5 billion yen 48.9 billion yen	 Chiba Plant: Refrigeration lubricant raw material facilities
Electronic Materials	- Expand sales of high-purity solvents, mainly for semiconductors in cutting-edge fields, and respond to growing quality needs by pursuing increased added value - Proactively capture demand for cutting-edge semiconductor materials by utilizing our equipment for next-generation semiconductor materials	9.3 billion yen 11.1 billion yen	 Yokkaichi Plant quality control facility Photo: Ena Mitsui (Kawasumi & Kobayashi Kenji Photography Studio)
Basic Chemicals	- As one of Japan's leading oxo manufacturers supporting key industries such as automobiles and housing, we will strengthen our stable supply framework - Will improve productivity, optimize logistics systems, strengthen collaboration with raw material manufacturers, and implement other streamlining measures, while securing profits through appropriate sales pricing policies	12.9 billion yen 13.6 billion yen	 Next-generation semiconductor materials facilities

(Note) Three-year cumulative EBITDA by business segment does not include Company-wide administrative expenses.

Strategy II Efforts Toward Future Growth

New products and businesses

P46

We aim to further enhance our corporate value by pursuing the creation of new products and businesses that contribute to solutions for social issues in the strategic domains of environment, healthcare, and electronics.

From the exploration stage to the business creation stage			
	Environment	Healthcare	Electronics
Social issues	- Prevention of global warming - Marine plastic pollution	Provision of high-value-added pharmaceuticals	Enhanced optical functions through the utilization of IoT and AI
New businesses	Marine biodegradable resin (PHB)	Biopharmaceutical raw materials (Glycans)	Next-generation optical lenses (Alicyclic compounds)

Carbon neutrality

P40

We have set for ourselves the goal of reducing GHG emissions by 30% compared to FY2017 levels by 2030, with the aim of achieving carbon neutrality by 2050, and seek to achieve this target ahead of schedule during the period of our 5th MTBP. We will pursue this goal from all angles, including business, technology, and inter-company collaboration.

Business	- Consuming CO₂ as a raw material for products - Contributing to the spread of environmentally friendly air conditioner through refrigeration lubricant raw materials
Technology	Utilizing advanced plant control systems, as well as in-house power generation equipment and a CO₂ capture system, at our Chiba Plant
Inter-company collaboration	Collaboration with local governments and companies in nearby industrial complexes

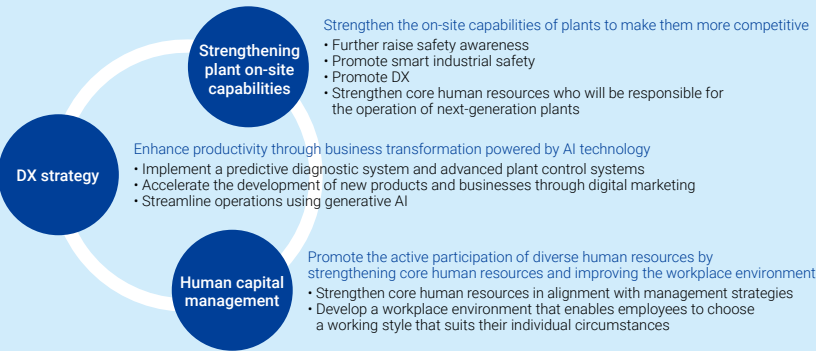


Chiba Plant: CO₂ capture system

Strategy III Reinforcing the Corporate Infrastructure

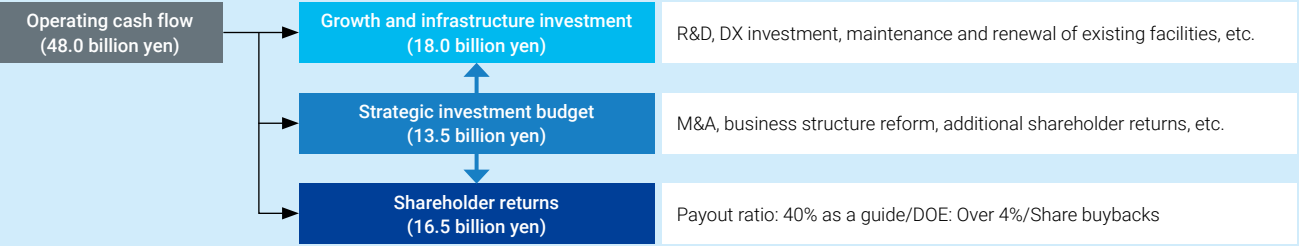
In implementing sustainable management, we have identified three key issues: strengthening plant on-site capabilities to support safe and stable operations, improving productivity through our DX strategy, and enhancing human capital management to maximize the value of our human resources. To that end, we will undertake a range of various measures.

Critical issues and initiatives



Financial and capital strategy

While focusing on investing in future growth through cash generated by strengthening our earning power, we will also work to enhance shareholder returns. We will flexibly allocate our strategic investment budget of 13.5 billion yen to M&A, business restructuring investments, additional shareholder returns, and other measures in response to changes in the business environment.



Message from the CSO

We will elevate our earning power and advance to a new stage of growth.

Toshiaki Fujima

Board Director, Corporate Officer, and Chief Strategy Officer (CSO), Head of Corporate Planning

On assuming the position of CSO

I joined Kyowa Hakko Kogyo Co., Ltd., the predecessor of KH Neochem Co., Ltd., in 1998. After two years in research and nearly 20 years in sales, I transitioned to the Corporate Planning Department and have since been consistently involved in the formulation and implementation of management plans from the Company's 3rd Medium-Term Business Plan (MTBP) to the present day. I have recently taken on the new role of Director and CSO, and am working to advance our current 5th MTBP.

As CSO, I believe that my role is to take a big-picture view toward the realization of VISION 2030, and to construct strategies flexibly by responding to the changing business environment—appropriately applying both acceleration and restraint as needed. Furthermore, KH Neochem's strategies include elements that cannot be completed by the Company on its own, and we therefore need to consider alliances and similar collaborations with other companies from every angle. After assessing the progress of the 5th MTBP and the allocation of management resources, we will prioritize and implement measures for Company-wide optimization.

Initiatives to strengthen our earning power

Performance Materials

Expansion of earnings in refrigeration lubricant raw materials holds the key to profitability

In Performance Materials, we aim for a three-year cumulative consolidated EBITDA of 48.9 billion yen. In particular, the segment's main product—refrigeration lubricant raw materials—will play a central role in significantly boosting our earning power. In anticipation of future demand growth, we made large-scale investments during the past two MTBPs, and completed construction to expand production facilities at both our Yokkaichi and Chiba plants. To capitalize on our world-leading production and supply capabilities and capture global demand, which is expected to grow, we will advance two key measures.

Strengthening our sales and supply framework

In terms of sales and supply, we will enhance our efforts in overseas markets, especially in the two major markets of the United States and China.

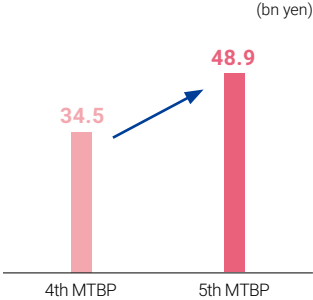
In the United States, the Company already operates a storage base located along the Gulf of Mexico, which is convenient for transport by large ships between Japan and the United States. Leveraging this facility, we will differentiate ourselves from the competition by combining chartered ocean freight from Japan with intermodal transport*1 by rail and truck to interior regions of the United States, thereby expanding our supply network nationwide.

In China as well, we took the pioneering move of setting up storage bases in anticipation of growing demand for refrigeration lubricant raw materials. To respond more flexibly to customer needs, we are working with our customers regarding the development of new storage bases, among other initiatives. Amid rising geopolitical risks to global logistics, Japan's proximity to China and other Asian countries, which are major demand sources, gives us a significant advantage over European competitors. By further expanding our sales network, we will be able to respond flexibly to market trends and capture growth opportunities in China and other Asian markets, including emerging economies.

Furthermore, as sales volumes grow, the cost-competitive and stable procurement of raw materials will become increasingly important. With the ongoing reorganization of upstream supply chains, the need for strategic procurement of raw materials has become more crucial than ever. To secure the necessary raw materials at the right time and at competitive prices, we will strengthen our relationships with existing suppliers as well as seek out new suppliers.

*1 Combining multiple transport methods under a single contract to transport containers without transshipment

Three-year cumulative consolidated EBITDA in the Performance Materials business



(Note) Does not include Company-wide administrative expenses, etc.

Message from the CSO

● Streamlining our production processes

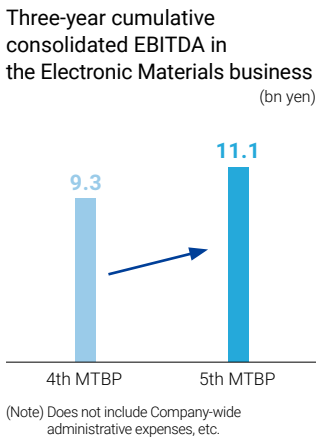
At our Chiba Plant, when we expanded production lines for refrigeration lubricant raw materials, we incorporated proprietary new technology, enabling more efficient production than before. We aim to further boost productivity by optimizing our operational technologies. In addition, we have already introduced advanced plant control systems at most of our facilities, which have contributed to enhanced efficiency and reduced GHG emissions. We plan to expand these systems further while also verifying their effectiveness and maximizing the benefits of their adoption.

Electronic Materials

Growth strategy of quality over quantity

In Electronic Materials, we are targeting a three-year cumulative consolidated EBITDA of 11.1 billion yen. Rather than simply pursuing quantity, the key is to increase added value and ensure pricing reflects that value. High-purity solvents, one of the segment’s core products, are raw materials for photoresists, which are essential in semiconductor manufacturing, and therefore require extremely high purity. In recent years, with the increasing miniaturization of semiconductors, demand for even higher quality and more stable supply has grown. In response, we introduced statistical process control during our previous MTBP. We view the increasing sophistication of customer needs as a business opportunity, and aim to further increase added value through integrated process management from manufacturing through to shipping.

To respond to these growing customer needs, Group company Kurogane Kasei Co., Ltd. has twice expanded its production facilities for the contract manufacturing of next-generation semiconductor materials. While full-scale operations have yet to begin, customer inquiries are steadily rising. We intend to make maximum use of our expanded facilities to meet demand and drive profitability.



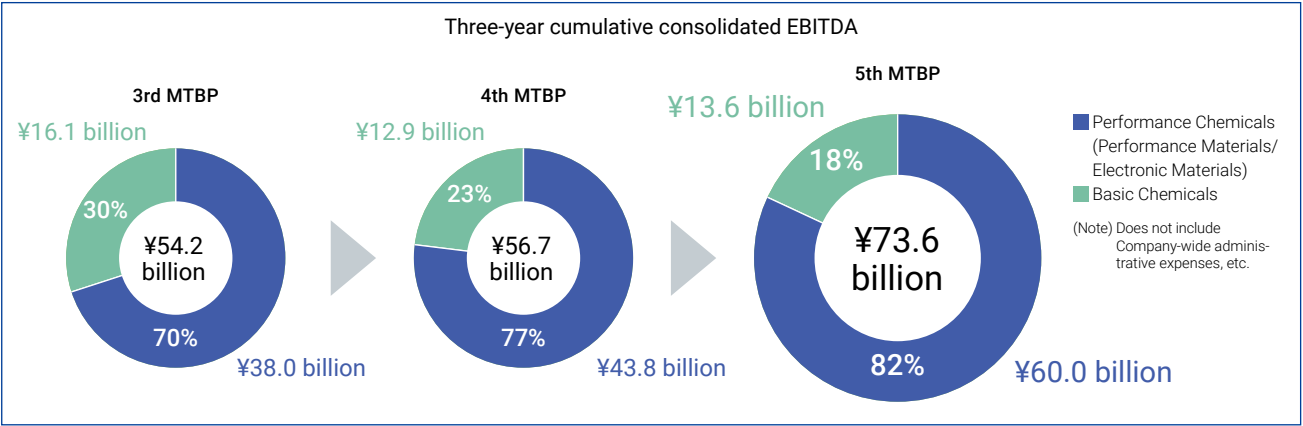
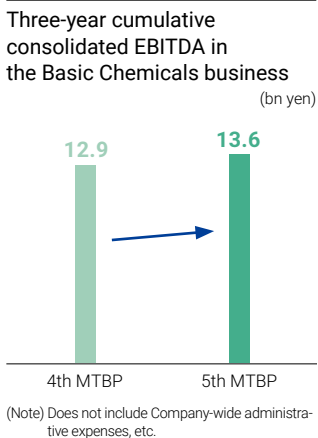
Basic Chemicals

Achieving both stable supply and profitability

In Basic Chemicals, we are pursuing a three-year cumulative consolidated EBITDA of 13.6 billion yen. The ongoing construction of new oxo plants in China and slower demand growth in recent years has worsened the supply–demand balance in the Asian region, and the Asian market for our products has become sluggish. Consequently, the continued inflow of inexpensive products into Japan makes it difficult to envision a scenario in which substantial sales volume growth for the basic chemicals we handle is likely. That said, our products remain essential materials for key industries such as automobiles and housing, and stable domestic demand is expected to continue.

We will therefore continue operations while pursuing rigorous rationalization and streamlining in areas such as production and sales. In addition to exploring cooperative relationships with raw materials suppliers, we will look into restructuring our supply chains—both upstream and downstream—by negotiating with customers to acknowledge the value of a “domestic production premium.” At the same time, we will resolutely withdraw or discontinue products when there are structural impediments to restoring profitability, with examples including the decision to terminate of production of certain solvents announced in December 2024.

Over the past 20 years or so, the Company has steadily shifted its business portfolio from basic chemicals to performance chemicals. This has resulted in the profitability we enjoy today, and we will continue to increase the proportion of performance chemicals even further under our 5th MTBP.



Message from the CSO



Groundwork for the future: Creating new products and new businesses

To strengthen our business portfolio, in addition to our existing businesses, we must create new products and businesses to form the future pillars of business. In VISION 2030, we have established environment, healthcare, and electronics as our strategic domains, and we aim to create products that achieve the top global market share and expand new businesses in these three fields.

During the 3rd MTBP, we focused on generating ideas, while in the 4th MTBP we continued to “explore” the creation of new products and new businesses throughout this period. The current 5th MTBP is timed to advance from the exploration stage to the business creation stage. In particular, for PHB (a marine biodegradable resin) and glycans (biopharmaceutical raw materials), which we are working to commercialize, we aim to bring manufacturing facilities on stream during the current 5th MTBP and advance these projects to the point where they generate meaningful profits.

We have also been actively pursuing external collaborations since our 3rd MTBP. Our investments in the Institute of GlyTech, Inc., Veneno Technologies, and Ac-Planta Inc. are aimed at strengthening collaboration that unlock the potential of new themes. We are also carefully assessing the effectiveness of M&A as a strategy to “buy time” in scaling our business and are continuing to explore various M&A opportunities.

The key to strengthening our management foundation lies in our people

We have established three pillars to bolster our management foundation: human capital management, strengthening plant on-site capabilities, and DX strategy. Of these, we will focus our efforts on enhancing our human capital. With labor shortages caused by Japan’s aging population as well as the increasing mobility of human capital, how a company manages its people has become a key factor in

determining its competitiveness. Failure to address this issue poses a serious business risk. This means providing equal opportunities that allow each individual to utilize their strengths and rewarding them justly for their success. It also means strengthening management skills so that supervisors can properly lead their subordinates. Unless such initiatives are organically linked, rather than treated as mere formalities, the Company will never grow in any meaningful sense.

Accordingly, in addition to the various measures we have already been implementing, starting in 2025, we are introducing a range of new initiatives spearheaded by our Human Resources Department. One such initiative is the Human Resources Business Partner (HRBP) system, which gathers feedback from frontline workers that cannot otherwise be ascertained through conventional interviews and reflects it in policy measures. We have also updated our engagement survey methodology so as to bring to light the fundamental issues facing each division and department, along with their corresponding solutions. I believe that only when each and every employee feels truly motivated in their work, with an elevated level of engagement, can we achieve the “strengthening of plant-level workplace capabilities” that we adopted as part of our goal for strengthening our management foundation.

In terms of strengthening plant-level workplace capabilities, in addition to ongoing efforts such as our Comprehensive Safety Check Initiative 2022 and RAISE (ReliAbility Improvement by Smart Engineering) activities [P51, 52](#), we have positioned the advancement of smart industrial safety as a key initiative. For example, the passing on of technology and skills to the next generation is an urgent issue, but traditional individualistic method of transferring skills through observation and imitation is no longer effective. To address this, we will use generative AI and other technologies to make manuals more intuitive and reduce the number of tasks requiring no human intervention, thereby improving productivity.

We will also introduce a predictive diagnostic system that utilizes big data to promptly detect early signs of equipment problems. We believe that the emergence of generative AI presents a grand opportunity to carry out fundamental business reforms. We will clearly distinguish between areas where AI excels and those that require human input, generate success stories, and roll them out across the Company to promote AI-driven business reform.

Efforts to achieve numerical business targets

A key point on the path ahead will be to maintain profitability in our Basic Chemicals segment, which faces a challenging business environment, while also boosting profitability in refrigeration lubricant raw materials and other areas within Performance Materials and Electronic Materials.

Amid growing uncertainty, we will aim to achieve the numerical management targets of our current 5th MTBP by strengthening our earning power to safeguard against changes in the business environment.

Message from the CFO

Commitment to earning power and capital efficiency

Masaya Hamamoto

Board Director, Senior Corporate Officer, and
Chief Financial Officer (CFO)



In FY2024, we achieved year-on-year profit growth and met our initial operating income target. We also executed strategic large-scale investments aimed at future growth, marking our transition into the phase where we begin to reap the rewards of those investments. By further strengthening our earning power and enhancing capital efficiency, we will steadily advance toward realizing our VISION 2030.

FY2024: A year that confirmed our strengthened earning power

Consolidated operating income for FY2024 reached 12.2 billion yen, exceeding both the previous year's result and our initial target. In addition, over the three years of the 4th Medium-Term Business Plan (MTBP), EBITDA amounted to a record high of 48.5 billion yen, a testament to our improved cash-generating capabilities.

Notably, in Performance Materials, an area in which we have strategically invested capital, we achieved profits well above the record levels of FY2021. Unlike FY2021, which benefited from rebounding demand following the COVID-19 pandemic, FY2024 saw record profits despite headwinds such as a downturn in overseas real estate and rising costs for raw materials, fuel, and logistics. We believe this demonstrates the strength of our business foundation.

In Electronic Materials, we steadily captured demand for cutting-edge semiconductors in fields such as generative AI, and achieved double-digit year-on-year profit growth. This is the result of the market's recognition of the high-purity technology we have cultivated over many years and our initiatives in sophisticated statistical process control, and we aim to fully capitalize on the upsides from the expected recovery in demand for general-purpose semiconductors as well.

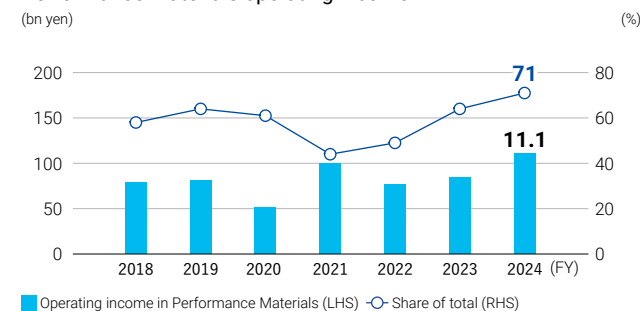
At the same time, however, operating income in Basic Chemicals declined year on year and fell short of our target, reflecting sluggish domestic automobile production and housing starts. We are the leading domestic manufacturer of oxo products, and while a certain amount of

domestic demand is expected to persist, we need to respond accurately to market changes. Currently, the business environment remains challenging due to factors such as the influx of overseas products, and in December 2024 we announced our decision to discontinue the manufacture and sale of certain solvents. However, by constantly reviewing our supply framework to keep it at appropriate levels, we aim to meet customer demand while also generating stable profits.

Numerical management targets: Results and forecasts

(bn yen)	FY2023 results	FY2024 forecasts	FY2024 results	FY2025 forecasts
Net sales	115.2	121.1	119.8	127.4
Operating income	9.9	11.8	12.2	14.0
Operating income ratio	8.6%	9.7%	10.2%	11%
Ordinary income	9.7	11.9	12.1	13.9
Net income	6.8	8.4	8.4	10.0
ROE	11%	13%	13%	14%
Foreign currency (JPY/USD)	141	140	152	150
Domestic naphtha (JPY/kL)	67,600	72,500	75,400	70,000

Performance Materials operating income



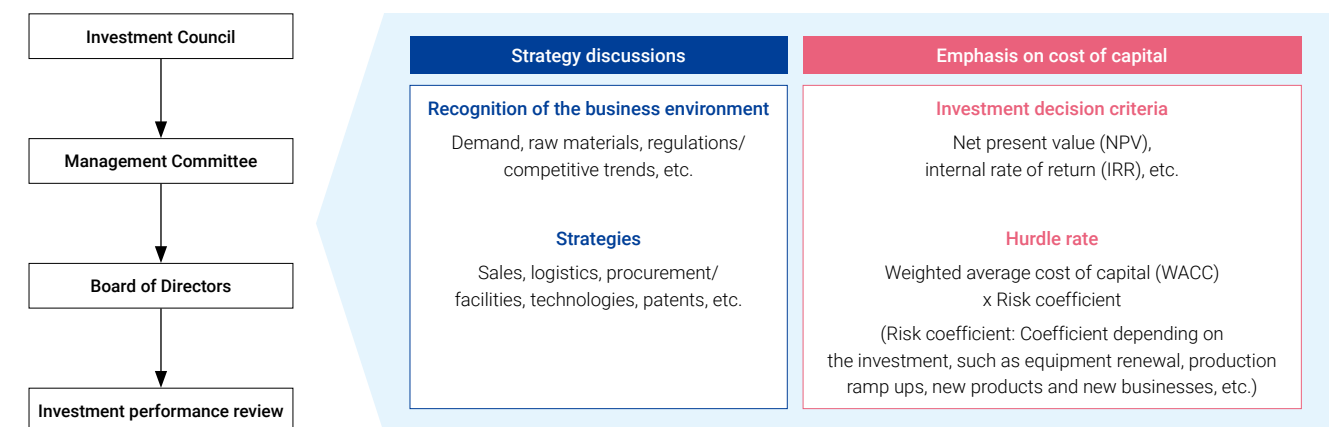
Message from the CFO

Financial discipline with the cost of capital firmly in mind

In FY2024, we completed our largest-ever capital investment in refrigeration lubricant raw materials, and also finalized our expansion of manufacturing capacity for next-generation semiconductor materials. In addition, we constructed facilities to capture CO₂ from within our plants and reuse it as a raw material. With actions such as these, we believe that, despite the challenging business environment, we have made significant investments essential for enhancing our corporate value over the medium to long term.

When making decisions regarding these growth investments, we set a hurdle rate based on the weighted average cost of capital that takes into account a risk coefficient appropriate to the characteristics of each individual project, and have in place a rigorous evaluation process that uses indicators such as net present value and internal rate of return. We also thoroughly discuss the medium-term business environment and competitive conditions, envisioning multiple scenarios, and make investment decisions only after clarifying strategies aimed at maximizing the risk-to-return balance. Even after carrying out investments, we continue to verify their effectiveness, particularly on large-scale projects, and work to flexibly manage investment profitability in response to changes in the environment.

Growth investment decision-making process

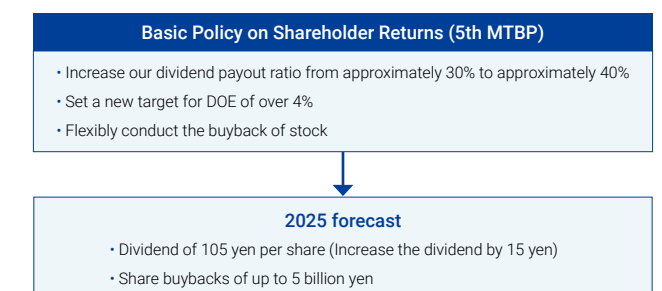
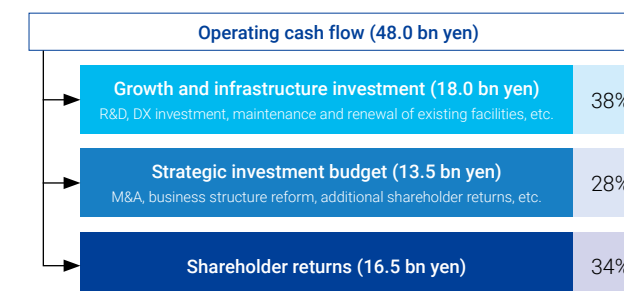


Recouping and redistribution of investments

Under our 5th MTBP, we aim to generate a total of 48 billion yen in operating cash flow over three years. Of this amount, 18 billion yen will be allocated to growth and infrastructure investment, 16.5 billion yen to shareholder returns, and the remaining 13.5 billion yen will be designated as strategic investment budget for M&A, business restructuring, additional shareholder returns, and other such initiatives. With this plan, we have also once again set the goals of strengthening shareholder returns, specifically stating that we will raise our dividend payout ratio, set a DOE target, and implement the buyback of stock. However, this does not represent a fundamental change in our capital allocation

policy. As a company with multiple businesses that hold major global market share in rapidly growing markets, our primary mission is to generate high returns and enhance our corporate value by actively investing in our businesses, and that is what our stakeholders expect from us. This has been a steadfast principle up till now and will continue to guide our growth going forward. At the same time, we remain focused on areas where we have a clear advantage while pursuing strategic investments that will shape the future of our Company. Since 2022, we have invested in three start-up companies and are injecting funds into commercialization-focused investments as the joint research stages progress.

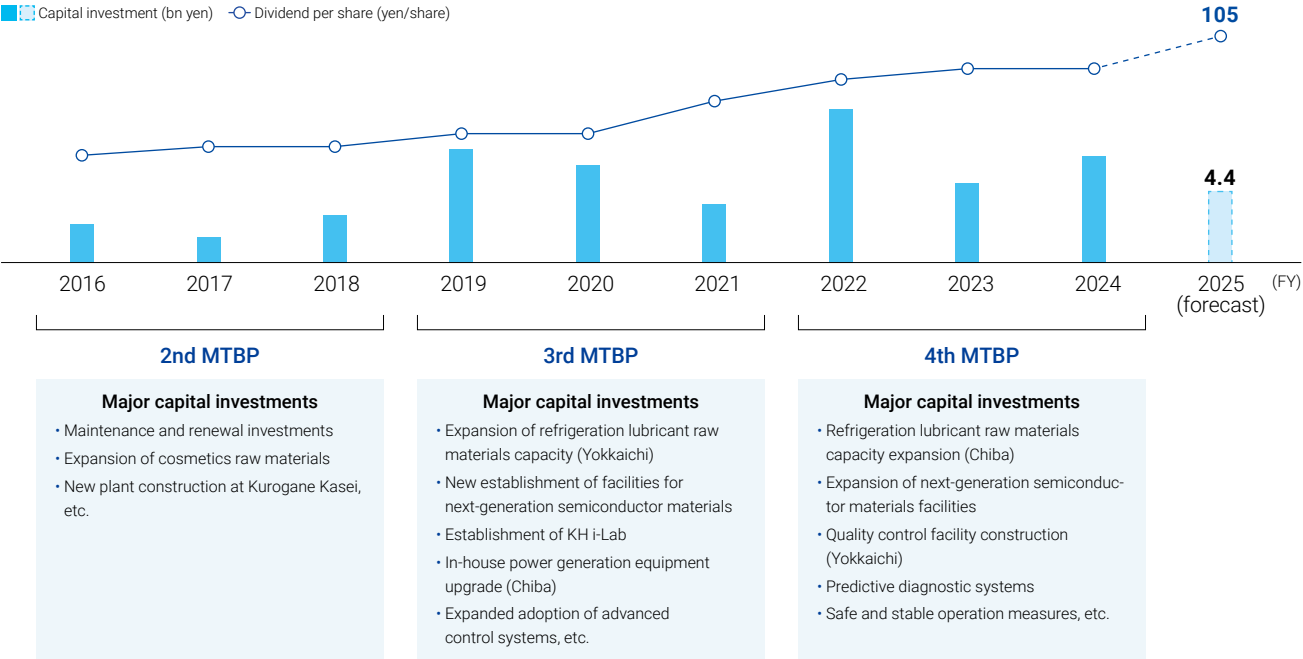
Capital allocation



Additionally, we are actively investing in plant safety, production streamlining, and labor productivity improvements. For example, between 2022 and 2024, we rigorously rooted out potential hazards at our Yokkaichi and Chiba plants and essentially completed the installation of necessary equipment. We also continued to make systematic investments in advanced control systems for production equipment, predictive diagnostic systems that detect signs of equipment abnormalities, and the advancement of smart safety measures. We have now largely completed the long-standing issue of renovating the office wings and control

rooms of the two manufacturing sites (plants), thus instilling a much more inviting work environment in those locations. From 2025, we will also be allocating funds to initiatives aimed at improving business efficiency using generative AI. While it is difficult to quantitatively measure the effects of these investments, we remain steadfast in our belief that streamlining facility structures and management systems, and leveraging digital technology for efficient operations, are essential steps toward achieving safe and stable operations, which remain our top priority.

Strengthening medium- to long-term capital investment and shareholder returns



Reciprocal IR that leverages market feedback

In the nearly 200 dialogue sessions we have with investors each year, we consistently focus on creating a two-way IR process rather than one-way communication. I personally engage in constructive discussions with many investors. The insights and perspectives gleaned are disseminated and discussed internally, incorporated into our strategy and decision-making, and ultimately contribute to the enhancement of our corporate value.

Prompted by frank questions from investors, many valuable topics such as efforts to ensure the safe and stable operation of manufacturing facilities, fluctuations in business performance due to changes in the market environment, and maintaining and strengthening our medium- to long-term competitiveness in our business fields, are discussed at our Board of Directors and management meetings. For the sake of conducting beneficial dialogue, we hope to further enhance our disclosure practices.

To be a leading global specialty chemical company

The evolution of AI is making strides, and in the not-too-distant future, robots are certain to replace many human jobs. Against that backdrop, we will be called upon to demonstrate more professionalism than ever before. What do we mean by "professionalism"? We make all preparations to meet expectations and produce results, and we make no excuses in the process. Our corporate culture is earnest and forthright; we eschew the frivolous pursuit of fame, and we spare no effort. While I believe we possess many of the elements necessary for this definition of professionalism, in my view there are still many more elements we either lack or need to improve upon. I hope we can move beyond being 'dedicated amateurs' and grow into true professionals, aspiring to be a leading global specialty chemical company.

Aiming for a truly market-oriented approach that seamlessly connects market needs with technology and products

Yukihiro Isogai

Senior Corporate Officer and Chief Marketing Officer (CMO)



Strengthening earning power and cultivating human resources

Under our VISION 2030, we aim to enhance the profitability of our existing businesses and create new products and businesses that will become new sources of profit, centered on the three strategic domains of environment, healthcare, and electronics. In our existing businesses, we have responded accurately and quickly to various market needs based on our expertise in oxo synthesis and high-purification technologies. Additionally, we have been proactively conducting capital investment in markets where growth is expected, and believe that it is important to steadily demonstrate to our stakeholders the achievements of these investments in the form of increased earning power. Meanwhile, with regard to the creation of new products and businesses, Innovation Strategy, which was established in 2019, has taken the lead in moving from the exploration stage to the business creation stage on several potential new business themes, meaning that we are now in a position where we can expect to generate cash. Along with these developments, in order to further respond to changes in the market environment and quickly connect market trends to our value creation, we are transitioning to a structure in which the CMO oversees Sales & Marketing, Innovation Strategy, and Business Services and Logistics, which are responsible for planning strategies for existing businesses, new businesses, and logistics. The CMO's role is to develop sales strategies that respond to market changes and logistics strategies to support them, as well as to develop business portfolio strategies that integrate our existing and new businesses by honing our marketing capabilities. The aim of this series of initiatives is not simply to create and sell products, but to comprehensively design and execute plans that take into consideration "what kind of value should be delivered to which markets" and "what products will be needed in light of future market trends." We believe that this will enable us to develop human resources who are well-versed in both technology and business, and that enhancing our human capital will lead to increased earning power for the Company.

Adapting to a changing market

The mainstay of our existing business in the environment domain is refrigeration lubricant raw materials. China accounts for approximately 70% of the world's air conditioner production plants, which is the end use of these materials, and as a result, the Chinese market has also taken the lead in generating and expanding demand for the refrigeration lubricants in which our products are used. However, in recent years, there has been a remarkable increase in demand for air conditioners in India and Southeast Asian countries, and these emerging markets will likely continue to have a growing presence in the future. As a result, air conditioner production bases will become more dispersed, and demand for refrigeration lubricants may become more multipolar. In addition, the refrigerants used are being replaced with alternatives that have lower environmental impact, are safer, and use less electricity. Consequently, from small to large air conditioners, it is now necessary to conduct a comprehensive evaluation of each piece of equipment and select the right refrigerant and refrigeration lubricant for the right purpose. Given this set of circumstances, there is likely to be even greater demand for design technologies and proposal capabilities for refrigeration lubricants and their raw materials that are compatible with a range of different air conditioners and refrigerants.



India's air conditioner market continues to grow at double-digit rates due to the impacts of climate change and a growing middle-income class. Photo: NNA/Kyodo News Images "NAA"

Message from the CMO

In the electronics domain, our main products are high-purity solvents that have grown in tandem with the semiconductor industry. In semiconductors as well, countries are relocating their supply chains in response to geopolitical risks. However, Japan still leads the world in photoresists, which use our products, and we believe that Japan will retain its technological advantage into the future, especially in materials for advanced nodes that are becoming increasingly miniaturized. For this reason, we do not anticipate any large-scale changes to the international supply chain for Electronic Materials, and believe that the world's most cutting-edge functions and quality will continue to be developed and upgraded primarily in Japan.

Defining our strengths that remain steadfast even in a highly uncertain market environment

In this market environment, we will develop strategies that leverage our technological superiority and top-class global market share.

There are many different types of air conditioners, ranging from small household air conditioners to medium- and large-sized units for buildings, commercial facilities, and data centers, as well as refrigeration and freezing equipment, heat pump heating system, and onboard air conditioners for electric vehicles. Naturally, refrigeration lubricants are required to meet a variety of performance requirements and specifications depending on the application, size, and even compatibility with the refrigerant. The key to meeting these needs is the selection of refrigeration lubricant raw materials, which is the core of refrigeration lubricant composition design.

In this regard, we are developing a business strategy based on our unique product portfolio, the network we have built up over many years, and the comprehensive perspective we have gained through our top-class global market share. For example, we are one of the few manufacturers in the world that can manufacture refrigeration lubricant raw materials using both low- and high-pressure oxo processes. Furthermore, we also offer a range of high-performance products developed using advanced polymerization technology, allowing us to put forward solutions tailored to specific applications and performance requirements. In addition, by leveraging the global network we have built up and the wealth of market insight we have gained as an industry vanguard, we will respond to market needs not merely as a supplier of raw materials, but as a proposal-based materials manufacturer.

Types of air conditioners that use refrigeration lubricants



Other uses for refrigeration lubricants



In Electronic Materials, we will maximize the quality of high-purity solvents, which are essential in the semiconductor manufacturing process, and pursue a differentiation strategy by strengthening controls to reduce inconsistencies in quality. As cutting-edge semiconductors become increasingly miniaturized, our high-purity solvents, which are used as photoresist materials and cleaning agents in the manufacturing process, need to be ultra-purified, and they must be continuously supplied with consistent, stable quality. To address this, at our Yokkaichi Plant we have constructed a quality control facility equipped with the industry's highest-standard clean rooms, and are also expanding the incorporation of statistical process control. By meeting the market's quality demands in this way, we aim to further increase sales.

Message from the CMO

In addition, Group company Kurogane Kasei will utilize its precision synthesis technology and the next-generation semiconductor materials facilities that were expanded in 2024 to provide consistent support to our customers from initial R&D through to the scale-up stage, and will work with our partners to develop and industrialize materials for next-generation semiconductors, thereby strengthening our marketing strategy with a more thoroughly market-focused approach.

Through these strategies, we aim to increase operating income in Performance Materials, the main product of which is refrigeration lubricant raw materials, by 10% year on year in 2025, and in Electronic Materials by 12% year on year. In both business areas, we have now completed production facility expansions for the time being, and have also strengthened our global logistics network for refrigeration lubricant raw materials, while enhancing our quality control systems and establishing infrastructure for shipping electronic materials. We will leverage these advancements and translate them into further growth.

Toward a new growth stage in three strategic domains

In each of our strategic domains, we are working to create new businesses that help resolve social issues. During our 4th MTBP, we focused on exploratory activities, and during our current 5th MTBP, we are finally advancing into the commercialization phase. We currently have market evaluations underway for multiple projects. Through repeated hypothesis testing and verification, we are deepening our contact with the market, providing value firmly rooted in needs, and enhancing customer satisfaction, thereby strengthening our engagement with the market.

In our existing businesses, we are pursuing continuous growth by leveraging their competitive advantages in their areas of strength and addressing clear, existing market needs. At the same time, for new businesses, we aim for discrete growth by taking stock of our strengths and acquiring resources that we lack, such as technologies and human resources, through external collaboration. We are examining whether the business environment will afford us a competitive advantage, particularly in the target markets that will serve as our first foothold. Although our existing and new businesses thus have different approaches, they are connected by commonalities such as strengths and areas, and by sharing a market-oriented approach, they are advancing the feasibility of business expansion and market creation. Different departments inevitably have different perspectives and KPIs, which creates challenges, but by raising awareness of building a business portfolio through internal collaborative creation under the CMO coordinating organization, we believe that we can raise awareness of value creation across the Company and properly engage with the market. Based on this approach, we are currently

working on projects such as PHB, a marine biodegradable resin. Not only are we bringing together the strengths of individual departments but we are also linking continuous and discrete growth and moving forward with projects emphasizing cross-departmental co-creational communication aimed at a common goal.

Continuous and discrete growth strategies that leverage our strengths

	Continuous growth (existing businesses)	Discrete growth (new businesses)	
Areas of strength	Environment, Healthcare, Electronics		Shared
Strategic approach	Market-driven (market-oriented approach)		
Resources utilized	Deeper utilization of in-house assets	Integration of in-house and external assets	Individual

Developing human resources who can connect the market with our technologies and products

Currently, our revenue is supported by Performance Materials and Electronic Materials, including refrigeration lubricant raw materials. However, success was by no means guaranteed when these businesses first started out. In the early days of market creation, we had much greater concerns and anxieties, such as “no one has ever made such a product before,” “even if we could make it, would it actually sell?” and “it will be difficult for a petrochemical company to achieve high purity levels.” Even so, we continued to squarely and earnestly face the market in front of us, and looking back now, I believe that the key to our success was our market-oriented approach. Going forward, I see my role as going beyond short-term sales strategies to deepen my understanding of market trends from a medium- to long-term perspective, so as to methodically strengthen our business strategies and cultivate human capital that is well-versed in the market, understands technology, and has a good sense for business. We have a network of customers and partners that we have built over our more than 80-year history, and possess our own technological capabilities as well. However, within the framework of an organization, networks tend to be separated into divisions, such as Sales & Marketing and technology divisions, as well as divisions between “markets and technologies/products,” “existing businesses and new businesses,” and “internal and external.” I aim to fulfill my responsibility as CMO to connect these elements, make KH Neochem a truly market-oriented company, and cultivate as many human resources as possible who can foster these connections.

Special Feature

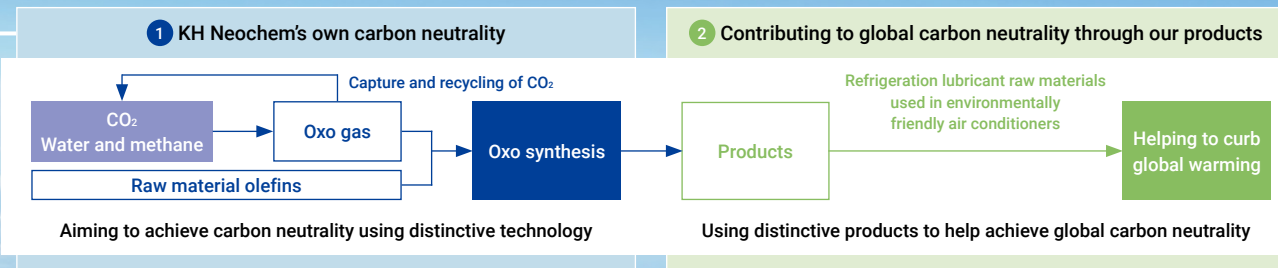
Changing Society Through “The Power of Chemistry”

—KH Neochem's Carbon Neutral Declaration

We at KH Neochem have declared our goal of achieving carbon neutrality by 2050 and are working to fulfill our social responsibility as a corporation. This goal is based not only on reducing our own GHG emissions but also our ambition to contribute to the decarbonization of society as a whole through our unique technologies and products.

In addition to capital investment aimed at reducing GHG emissions, we manufacture products using CO₂ as a raw material by leveraging oxo synthesis, our core technology. Through these products, we also contribute to curbing global warming and enriching people's lives.

Turning CO₂ into valuable chemical materials—the sustainable future envisioned by KH Neochem.



1 KH Neochem's own carbon neutrality

Aiming to achieve our 2030 target ahead of schedule during our 5th Medium-Term Business Plan (MTBP)

We have set for ourselves the goal of reducing GHG emissions by 30% compared to FY2017 levels by 2030, with the aim of achieving carbon neutrality by 2050. We plan to realize this 2030 target ahead of schedule, during the period of our current 5th MTBP.

Current progress

As a result of our shift to a business structure that emphasizes added value over quantity, such as strengthening Performance Materials, production volumes have decreased and therefore so have GHG emissions. In addition, by fortifying energy-saving measures, including upgrading our in-house power generation equipment and expanding the adoption of advanced plant control systems, we achieved a 29% reduction in GHG emissions in FY2024 compared to FY2017.

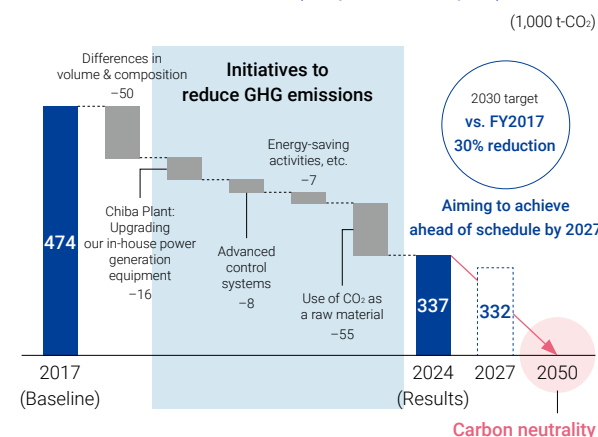
Policy (strategy) for the path ahead

In 2025, we commissioned new CO₂ capture equipment at our Chiba Plant, and by pursuing energy-saving initiatives through further utilization of advanced control systems, we aim to achieve a 30% reduction in CO₂ emissions by FY2027 compared to FY2017.

Aiming to reduce environmental impact throughout the supply chain

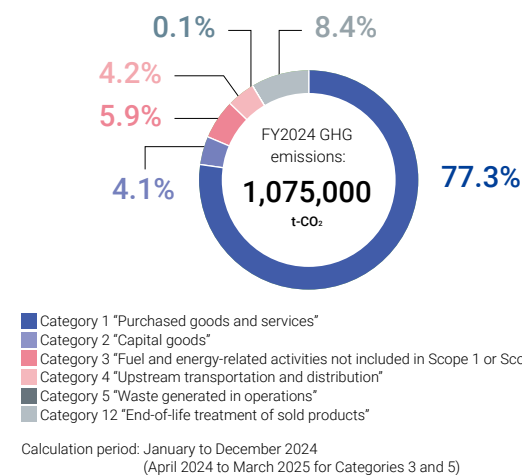
Approximately 80% of our Scope 3 GHG emissions come from Category 1, “Purchased goods and services.” As the majority of these emissions relate to procured raw materials, we are working to reduce the environmental impact throughout our supply chain by deepening cooperation with industrial complexes and other suppliers.

KH Neochem GHG emissions (Scope 1 and Scope 2)



(Note) See P27 for 2024 GHG emissions based on the Act on the Rational Use of Energy

KH Neochem GHG emissions (Scope 3)



2 Contributing to global carbon neutrality through our products

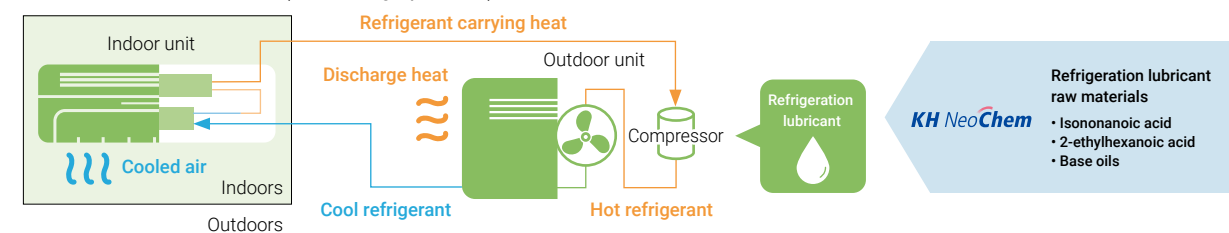
What is refrigeration lubricant?

Air conditioners cool rooms by taking in indoor air and moving only the heat outside. During this process, the refrigerant that carries the heat is compressed by the compressor inside the outdoor unit. Refrigeration lubricant is essential for keeping the compressor running smoothly and efficiently over the long term. These refrigeration lubricants require inherent lubrication capabilities, as well as additional properties.

Lubricity	Durability	Electrical insulation	Compatibility
Ability to maintain appropriate viscosity and reduce friction for smooth compressor operation	Capability to sustain reliable performance over long-term air conditioner use	Resistance to electricity to help prevent short circuits in electrical components inside the air conditioner	Easily dissolves in the refrigerant

Refrigeration lubricants require especially high performance compared to other lubricants. The key to achieving this performance lies in the raw materials. KH Neochem uses its unique technologies to manufacture raw materials for refrigeration lubricants and supplies them worldwide.

Air conditioner mechanism (for cooling operation)

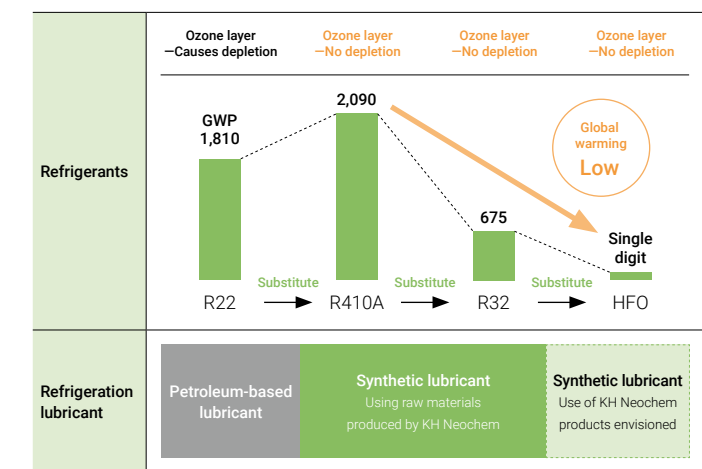


KH Neochem refrigeration lubricant raw materials compatible with environmentally friendly refrigerants

KH Neochem's refrigeration lubricant raw materials not only add high performance to refrigeration lubricants but also play a critical role in curbing global warming. A major contributing factor to this is the shift in international environmental regulations governing refrigerants.

The Montreal Protocol of 1989 targeted gradual reductions and eventual elimination of ozone-depleting CFCs such as R22, and promoted the shift to alternative CFCs such as R410A, which do not affect the ozone layer. At that time, given the growing need for synthetic refrigeration lubricants to meet these needs, KH Neochem's refrigeration lubricant raw materials began to be used as ingredients for those lubricants.

Combined refrigerants and refrigeration lubricants



Furthermore, the 2019 Kigali Amendment to the Montreal Protocol led to an international agreement to gradually reduce the use of alternative refrigerants with high global warming potential (GWP). In response to this trend, there has been a shift to refrigerants with low GWP such as R32, but KH Neochem's products are compatible with these refrigerants as well and continue to be widely used worldwide.

Kigali Amendment HFC phase-down schedule

	Baseline year	2036	2045	2047
Developed countries	2011–2013	–85%		
First group of emerging nations	2020–2022		–80%	
Second group of emerging nations	2024–2026			–85%

(Note) First group of emerging nations: Countries that do not belong to Group 2
Second group of emerging nations: India, Pakistan, Iran, Iraq, and the Gulf Countries
(Note) The above are final deadlines and reduction amounts, and gradual reductions are planned toward these targets.

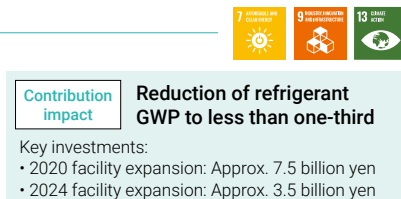
Thus, we have responded to social demands by providing raw materials that adapt to changes in environmental regulations and the evolution of refrigerants, while at the same time expanding our business. Even as next-generation refrigerants such as hydrofluoroolefin (HFO) become more widespread going forward, our refrigeration lubricant raw materials continue to play a crucial role.

Contributing to solutions to society's challenges using distinctive KH Neochem materials

KH Neochem contributes to solutions to society's challenges through its business, while concurrently pursuing sustainable management that ensures the Company itself continues to grow. In particular, we view global issues such as climate change and marine plastic pollution as opportunities for both social contribution and business growth, and have positioned the achievement of both problem-solving and business growth through the provision of our products as a crucial management strategy.

Refrigeration lubricant raw materials

Our refrigeration lubricant raw materials are products that truly embody sustainable management, contributing to the prevention of global warming while also driving business growth. GHG emissions caused by refrigerants are estimated to total approximately 1 billion tons per year worldwide, but as international environmental regulations on refrigerants become more stringent, refrigerants such as R32, which has a GWP that is one-third that of R410A, are becoming more widely used. Our products are essential raw materials for refrigeration lubricants compatible with such refrigerants, thus supporting the global spread of low-GWP refrigerants.



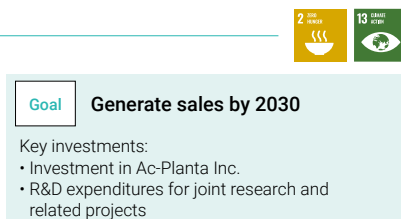
Marine biodegradable resin (PHB: Polyhydroxybutyrate)

The problem of marine plastics is a social problem that has a serious impact on the natural environment and ecosystems. A major contributing factor is that many general-purpose plastics do not decompose in the natural environment. To help solve this problem, we are working on the development of PHB, a 100% bio-derived marine biodegradable resin that decomposes naturally in both soil and marine environments. Our PHB is a next-generation material with high elasticity and durability that can be used in applications that were difficult to handle with conventional biodegradable plastics.



Developing agricultural solutions to adapt to climate change

All over the world, challenges such as the impact of climate change on food production and how to respond to increasing food demand are coming into sharp relief. To help resolve these challenges, we have invested in Ac-Planta Inc. and are conducting field trials to put new biostimulants into practical use. We are also strengthening our collaboration with external organizations to create new agricultural solutions in the hybrid field of “agriculture and chemicals.”



Contributing to a sustainable society with KH Neochem's value creation —Realizing a brighter tomorrow for society through the power of chemistry—

KH Neochem believes that continuing to tackle environmental issues through its business activities will lead to both social responsibility and sustainable growth for the Company. Based on this philosophy, in addition to reducing the environmental impact of our production activities, we are also actively pursuing partnerships with local and industrial complex-related companies. Furthermore, we are focusing on product strengthening and research and development that contribute to the environment, such as refrigeration lubricant raw materials, marine biodegradable resins, and biostimulants, and are working to reduce the environmental impact of our entire supply chain. Going forward, we will continue to contribute to the realization of a sustainable society by converting the power of chemistry into environmental value and spreading it throughout society.

Business Segment Overview

Performance Materials

Refrigeration lubricant raw materials

Refrigeration lubricants are special lubricants used in air conditioners and freezers, and KH Neochem manufactures the key raw materials that significantly affect the performance of those lubricants. Our raw materials are widely used all over the world because they enable the production of refrigeration lubricants that are highly compatible with environmentally friendly refrigerants such as hydrofluorocarbons (HFCs) and hydrofluoroolefins (HFOs).

Contributing to the SDGs



(Note) In addition to refrigeration lubricant raw materials, Performance Materials also include materials for cosmetics used in high-end skincare cosmetics.

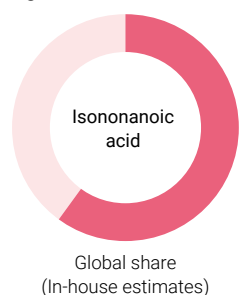
Main products

Synthetic fatty acids
Base oils, etc.

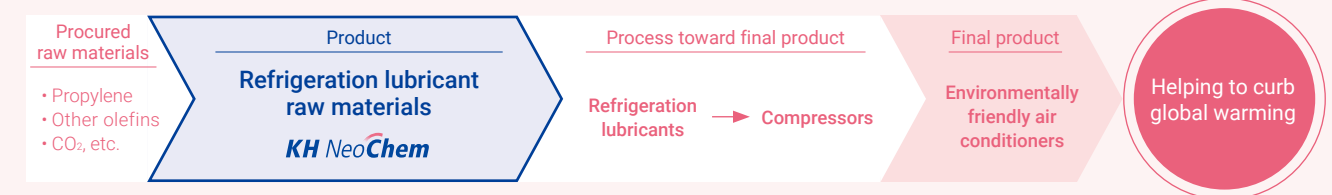
End-use examples

Air conditioners
Electric vehicles
Data centers

Products with top global market share



Value chain and value creation



Competitive advantages, growth opportunities and risks

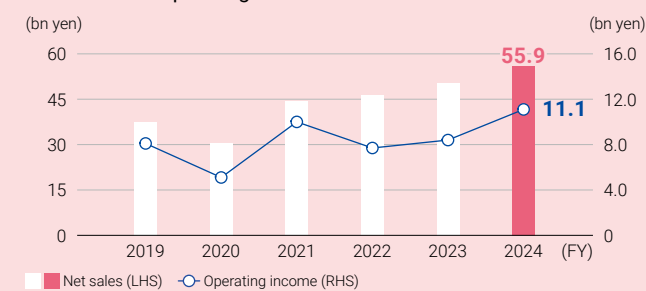
Market environment: Global expansion of the environmentally friendly air conditioner market

Competitive advantages	Opportunities/Risks
• Panoramic view of related industries backed by top global market share • Production bases located in Asia, where most of the world's demand is concentrated • Unique products utilizing both low- and high-pressure oxo processes • R&D and marketing in collaboration with customers	• Sustained growth in the global air conditioning market • Medium- to long-term market expansion for electric vehicles and data centers • Shift from combustion-based heating to heat pump-based heating • Refrigerant regulations related to ozone layer protection and GHG emissions reduction

Initiatives and accomplishments of the 4th Medium-Term Business Plan

Since 2022, the global air conditioner market has been hindered by the stagnation of real estate markets in regions such as China, and has only seen modest growth of around 2–3% per year. However, the market gradually started to recover, owing to growing demand and other factors in emerging countries such as India. Additionally, costs of all kinds, including raw material prices, energy prices, and facility maintenance costs, increased and remained stubbornly high. We responded by taking steps to appropriately reflect these increases in product prices, thereby maintaining and improving profitability. Then, in 2024 we expanded production capacity for refrigeration lubricant raw materials at our Chiba Plant by 50%. Thus, we bolstered our configuration to enable us to contribute to the environment while also achieving business growth.

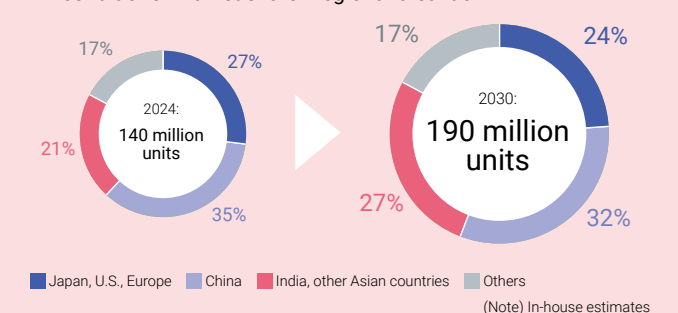
Net sales and operating income



Strategies under the 5th Medium-Term Business Plan

In recent years, we have expanded our production capacity for refrigeration lubricant raw materials in 2020 and 2024, and we will continue to maximize the benefits of these capital investments. The air conditioner market is expected to grow steadily, driven by solid demand in developed countries and China, as well as further expansion in emerging market countries. Based on an accurate assessment of various market changes, we will work to ensure reliable procurement of raw materials and stable operations, advance our manufacturing technologies, and build an efficient global logistics system, thereby capturing that demand and further solidifying our position as the global market leader.

Air conditioner market share: Regional breakdown



Electronic Materials

KH Neochem manufactures high-purity solvents that are essential for semiconductor manufacturing. These products are widely used as raw materials, cleaning agents and stripping agents for photoresists, and are crucial materials that support cutting-edge semiconductor processes. Our high-purity solvents are of extremely high quality, achieved through our technology and expertise in controlling impurities to an extraordinary degree—at the parts-per-trillion level.

Contributing to the SDGs



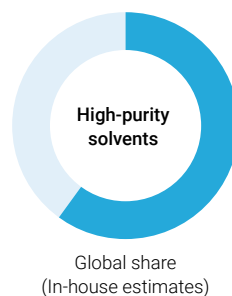
Main products

Esters (electronic materials grade)
Glycol ethers (electronic materials grade) etc.

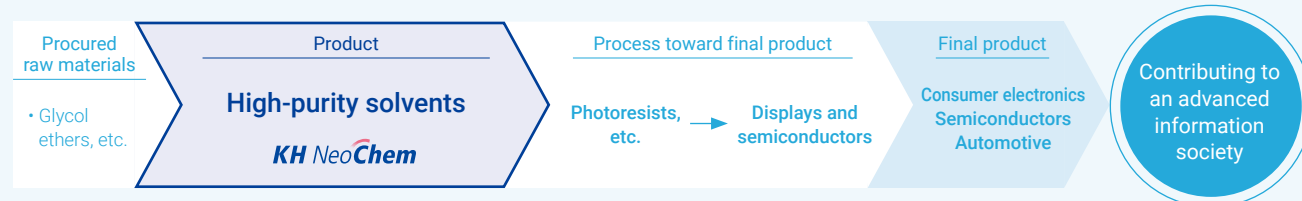
End-use examples

Consumer electronics
Semiconductors
Automotive

Products with top global market share



Value chain and value creation



Competitive advantages, growth opportunities and risks

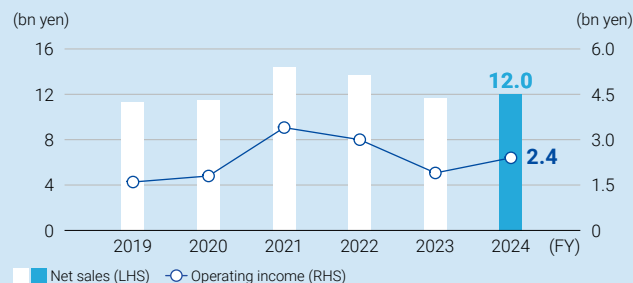
Market environment: Expanding electronic materials market accompanying the evolution of the electronics industry

Competitive advantages - Synthesis and high-purification technologies accumulated over many years - Advanced quality control technology and expertise that meet market needs - Facilities for next-generation semiconductors that meet cutting-edge needs - Production bases located in Japan with particular acumen in the field of electronic materials	Opportunities/Risks - Sustained growth in the semiconductor market - Burgeoning demand for high-quality products, particularly for cutting-edge semiconductors - The international advantages possessed by Japanese semiconductor component manufacturers - The trend toward local production and consumption of electronic materials
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Initiatives and accomplishments of the 4th Medium-Term Business Plan

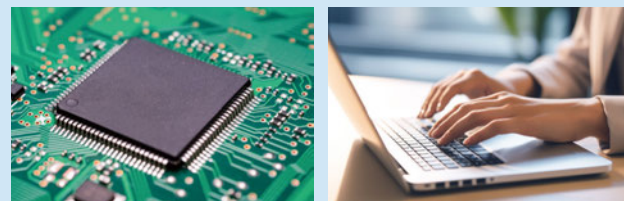
Due in part to a fallback from the special demand spurred by COVID-19, demand remained sluggish in the semiconductor and display-related fields. However, with the expansion of the market for advanced semiconductors for AI, positive signs are beginning to appear for our high-purity solvents. In anticipation of such market changes, in 2022 we established a new quality control facility equipped with state-of-the-art clean rooms, strengthened our supply infrastructure for high-purity solvents, and expanded our facilities for next-generation semiconductors.

Net sales and operating income



Strategies under the 5th Medium-Term Business Plan

In the cutting-edge semiconductor field, the level of quality control required is the highest in the world, and the need for new materials is also on the rise. An important challenge for us is how to leverage the accomplishments of the series of investments we have made in anticipation of these expanding needs. We will continue to hone our technological capabilities through collaboration with our customers and partner companies, and accelerate quality improvements and product development to meet market needs.



Basic Chemicals

KH Neochem's basic chemical products lineup consists primarily of solvents and plasticizer raw materials. Our solvents are used in paints and inks, and plasticizer raw materials are used as additives to give plastics flexibility. Ultimately, they are used in a wide range of industrial fields, including automotive, housing, and everyday items, and help enrich people's lives. Many of our products are produced using our core technology, oxo synthesis, and a great number of our products hold a top domestic market share.

Contributing to the SDGs



Main products

Oxo alcohols
Esters
Glycol ethers etc.

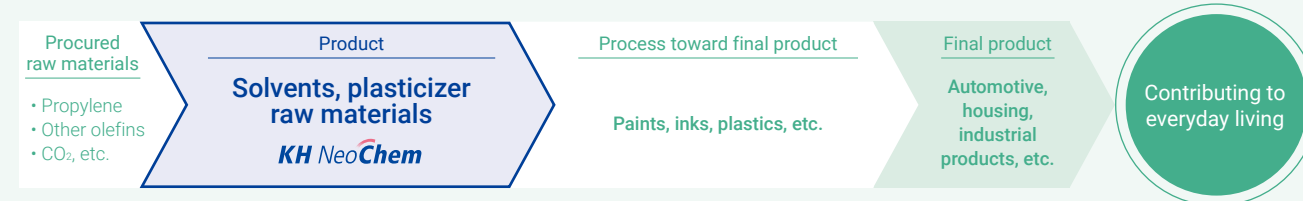
End-use examples

Automotive
Housing
Industrial products

Products with top domestic market share



Value chain and value creation



Competitive advantages, growth opportunities and risks

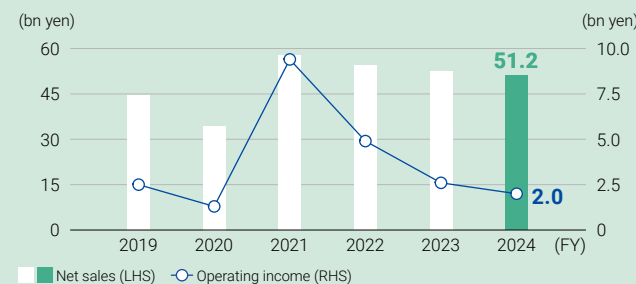
Market environment: Domestic market with good prospects for solid demand

Competitive advantages - Largest oxo alcohol production capacity in Japan - Extensive range of product lineup produced using both low- and high-pressure oxo processes - Optimized production system leveraging multiple derivatives - Stable business relationships and trust with top-tier manufactures	Opportunities/Risks - Solid domestic demand supported by a wide range of end uses - Fluctuations in the supply and demand in Asian markets - Changes in the supply chain due to industry shakeouts - Rising costs for maintaining and upgrading manufacturing facilities
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Initiatives and accomplishments of the 4th Medium-Term Business Plan

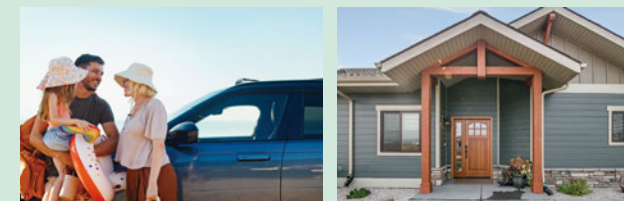
Domestic automobile production temporarily stagnated due to factors such as a shortage of semiconductors, but the impact gradually subsided. At the same time, though, domestic housing starts remained sluggish after pandemic-related special demand faded, and the business environment remained severe due to factors such as the influx of competing products from overseas where supply-demand imbalances had occurred, as well as increases in raw materials and other costs. Although we have suitably passed on those increased costs, the decline in sales volume strained our business performance. In light of this, we also implemented additional structural reforms, such as deciding to withdraw from products with little promise for future profit improvement.

Net sales and operating income



Strategies under the 5th Medium-Term Business Plan

We will work to strengthen our basic chemicals business in anticipation that supply and demand will remain relaxed, particularly in China, costs such as manufacturing expenses will increase and remain high, and the shakeup in the domestic petrochemical industry will continue. Our products have a high share of the domestic market and play an important role in supporting the domestic core industries, such as the automotive industry, at the materials level. To ensure a continuous stable supply of materials to these industries, we will thoroughly streamline our manufacturing, raw material procurement, and logistics processes, while also implementing appropriate sales price policies, thereby enhancing our earning power.



KH Neochem's Value Creation

► Deepening and creating business through the power of chemistry

KH Neochem is working to achieve both social value and sustainable corporate growth by addressing social issues with the power of chemistry, while deepening its existing businesses as well as creating new ones.

KH Neochem's value creation contributes to solutions for social issues —Continuous growth and discrete growth—

In existing business areas, our business divisions are promoting continuous growth by developing products driven by customer needs. Meanwhile, in new business areas, Innovation Strategy takes the lead, working to achieve discrete growth by addressing social issues and unmet market needs through combining externally acquired intangible assets with our own technologies. Once the new themes engaged in at this stage show a certain degree of promise for practical application and marketability, they move on to the market development phase for commercialization through collaboration with our business divisions. Technology Development Center then takes on the design and scale-up of manufacturing processes, thus increasing the likelihood of realization. Intellectual Property is also involved across the board in both existing and new business areas.

As a result of this collaborative trinity between market, technology, and intellectual property (IP), we have been able to elevate the precision of our business creation efforts. We are currently seeing multiple new product and business themes moving from the exploration stage to the business creation stage.

Growth strategies for strategic domains

To achieve our VISION 2030, we are working to enhance our corporate value by positioning environment, healthcare, and electronics as three strategic domains. By leveraging the chemical technologies and product reliability that we have cultivated over many years, as well as the provision of unique products and solutions, we are taking on the challenge of further deepening our existing businesses as well as creating new ones.

Domain		5th Medium-Term Business Plan	6th Medium-Term Business Plan	VISION 2030
Environment	Deploy materials that contribute to reducing environmental impact	Refrigeration lubricant raw materials	Contribute to the spread of environmentally friendly air conditioners	
		Marine biodegradable resin	Contribute to solutions to the marine plastics problem	
			Biostimulants	Contribute to solutions to food problems caused by climate change
Healthcare	Add functionality to healthcare products to boost their added value	1,3-butylene glycol	Add moisturizing and hypoallergenic properties to skincare cosmetics	
		Glycans	Add target delivery and in-vivo stability to biopharmaceuticals	
Electronics	Support the evolution of cutting-edge semiconductors and electronic devices	High-purity solvents	Contribute to the miniaturization of semiconductor devices	
		Alicyclic compounds	Contribute to advances in mobility and sensing via high-performance optical materials	

Environment domain Using materials to alter the future of the earth —The challenge of reducing environmental impact—

In the environment domain, we develop materials that contribute to the reduction of environmental impact. Our core business, refrigeration lubricant raw materials, is the raw material for special lubricants (refrigeration oils) that are essential for environmentally friendly air conditioners and contribute to the prevention of global warming. With annual sales of air conditioners expected to increase from approximately 140 million units to nearly 200 million units by 2030, we are working to accurately grasp changes both in the market and among our customers, strengthen our production facilities, and build global logistics bases so as to capture expanding demand.

Additionally, as a new future-oriented business, we are focusing on the development of PHB, a marine biodegradable resin that will help resolve the marine plastics problem. This product combines biotechnologies with our chemical technologies, and we are pursuing development with the aim of achieving a competitive edge in terms of market deployment. The product is not only biodegradable in the ocean but also has unique physical properties, such as high elasticity and high heat resistance, which differentiate it from other competing products. Furthermore, as environmental stresses increase due to climate change, we have invested in Ac-Planta Inc., with the aim of contributing to solutions for food problems and ensuring a stable supply of biomass raw materials by adapting to such environmental changes. We are also working on developing new biostimulants.

Healthcare domain The power of materials that meet the demand for “effectiveness” —From cosmetics to biopharmaceuticals, the future of healthcare supported by functionality—

In the healthcare domain, we deploy materials that add value to healthcare products by imparting functionality. For example, the cosmetic ingredient 1,3-butylene glycol can deliver healthcare products with a good balance of superb moisturizing and antibacterial properties. Our refining and quality control technologies that enable this functionality have earned us broad recognition and the trust of the global skincare market. Leveraging these strengths, we aim to drive growth through further development of the domestic market, including inbound demand, in the short term, as well as proactively capturing expanding markets overseas.

Meanwhile, in terms of medium- to long-term initiatives, we are pursuing the development of glycans in the form of high-performance materials that control the solubility and metabolism time of biopharmaceuticals such as antibody drugs and peptide drugs, thereby maximizing the therapeutic effects of biopharmaceuticals. Glycans have good prospects as essential materials for the widespread adoption of biopharmaceuticals, offering both targeted delivery to facilitate the transport of drug components to specific sites and biocompatibility. By integrating the highly controlled glycan manufacturing technology of GlyTech, Inc. with our mass production expertise, we are advancing the establishment of commercial production processes. Furthermore, through collaborative research with drug discovery ventures and academia, we are working to contribute to new therapeutic modalities. Drug discovery support leveraging glycans is a core strategy driving discrete growth for KH Neochem, and we position it as one of the pillars of our future healthcare business.

Electronics domain Materials open up new possibilities for electronics —Addressing social issues with technological capabilities—

In the electronics domain, KH Neochem provides materials that support the evolution of cutting-edge semiconductors and electronic devices. In recent years, with the proliferation of generative AI and high-performance digital devices, the high-purity solvents used in semiconductor manufacturing processes demand extremely high levels of purity. In response to this, we are leveraging our unique refining and quality control technologies and expertise, while at the same time further strengthening our trace impurity management systems and quality analysis technologies with an eye toward next-generation semiconductors. Furthermore, Group company Kurogane Kasei has not only established manufacturing technology for materials for next-generation semiconductors but has also been expanding its production facilities. In these ways, we are leveraging our advanced technological capabilities to create value that will help resolve social issues.

— New products and business development examples



Environment domain Marine biodegradable resin (PHB)

- **Anticipated social issues:**
Environmental pollution and negative impacts on ecosystems caused by marine plastics
- **Problem-solving methods using developed products:**
Provide a 100% bio-based marine biodegradable resin (PHB) that decomposes in the ocean (Leverage unique properties such as high elasticity to develop competitive markets)
- **Goals for the 5th Medium-Term Business Plan (FY2025–FY2027):**
 1. Commence sales to multiple promising customers and applications, thereby contributing to sales
 2. Consider establishing a supply system aimed at expanding applications and full-scale sales during the 6th Medium-Term Business Plan

VOICE Development of marine biodegradable resin with high durability and heat resistance

There are several types of marine biodegradable plastics that can be decomposed in the ocean and soil, but our PHB is particularly notable for its high durability and heat resistance. I am confident that this material will contribute to numerous fields, including food containers, cosmetics, and marine industrial materials. In preparation for bringing this product to market, we are currently working on large-scale manufacturing, and I am in charge of one of the processes involved. The process requires setting many conditions, and at the beginning of development it was sometimes difficult to see what the future might hold. It is by repeating the trial-and-error process without ever giving up that we finally obtain positive measurement results that meet market needs, and it is at that time that I get a genuine feeling that something real is taking shape, which gives me a great sense of accomplishment. We aim to continue honing our technology so as to make it available for use by all as soon as possible.



Hiroya Sugiyama Innovation Strategy



Healthcare domain High-performance materials for biopharmaceuticals (glycans)

- **Anticipated social issues:**
Addressing unmet medical needs (medical areas where treatments have not been established or are ineffective)
- **Problem-solving methods using developed products:**
Pursuing clinical trials by maximizing the efficacy of biopharmaceuticals and building a glycan supply system for new drug launches
- **Goals for the 5th Medium-Term Business Plan (FY2025–FY2027):**
Establish a scaled-up framework, reduce manufacturing costs by deepening proprietary technology, strengthen collaboration with external companies that have advanced modalities, and strengthen business viability through IP strategies

VOICE We aim to establish a mass production system for glycans and help address unmet medical needs.

Glycans are also known as the “third chain of life” and are attracting attention in fields such as new drug development. We aim to contribute to the development of future industries and medical treatment through the establishment of glycan manufacturing technologies and a stable supply system. I am in charge of producing samples of our GlyMuch® proprietary glycan and scaling it up for further mass production. We are constantly testing and improving the complex glycan manufacturing process for improved efficiency and stability. Although I frequently face difficulties, I feel a great sense of accomplishment in being able to utilize my knowledge and experience to be involved in manufacturing from the very beginning stages. I would like to continue working with the marketing team to contribute in various ways to the social implementation of glycans.



Runo Usami Innovation Strategy

COLUMN What are glycans? –KH Neochem’s endeavor to develop new drug discovery solutions–

Glycans are present on the surfaces of cells and proteins and are important molecules that play a role in intercellular communication. They are referred to as the “third chain of life” after nucleic acids and proteins, and are involved in various biological phenomena. KH Neochem hopes to contribute to people’s healthier and more fulfilling lives by further enhancing the performance of pharmaceuticals through the power of these glycans. So, what kind of functional improvements can be expected by utilizing glycans? Below are some of the major benefits.

► Glycans for pharmaceuticals

By adding glycans to target molecules (i.e., modifying them), it is possible to improve their performance in the following ways:

Improved biocompatibility

Because glycans are naturally present in the body, adding them to pharmaceuticals improves the compatibility of integrated molecules and enhances safety in use. This is expected to reduce the occurrence of side effects and inflammation.

Improved water solubility

The high water solubility of glycans significantly improves the water solubility of poorly soluble compounds. Making drugs more readily soluble is expected to help them take effect more quickly in the body.

Improved blood retention

This allows the drug to remain in the bloodstream for a longer period of time, potentially reducing the frequency of drug administrations.

In addition to the functional enhancements provided by these glycans, combining them with pharmaceutical approaches and technologies such as antibody drugs, peptide drugs, and drug delivery systems enables the creation of more advanced functions. The application of glycans opens up new opportunities in drug discovery..

KH Neochem will utilize its proprietary glycan GlyMuch® to provide solutions that meet the diverse technical needs of the drug discovery field. To date, we have been working to ensure a stable supply of glycans by improving and scaling up manufacturing technologies, and to enhance their functionality following the development of original glycans at KH i-Lab. These efforts are carried out through collaborations with a wide range of partners, including pharmaceutical ventures with which we have capital and business alliances, such as GlyTech and Veneno Technologies, as well as leading academic institutions. We will expand these activities globally, aiming to generate sales during the 5th MTBP and profits during the next MTBP.



For more information on KH Neochem Glycan Solutions, please visit our website.
<https://www.khneochem.co.jp/en/solution/glycan/>

► Intellectual Property

Creation and utilization of intangible assets

KH Neochem is enhancing the competitiveness of its existing businesses and creating new ones based on the intangible assets it has accumulated over the past 77 years, including technology, human resources, and organizational strength. Furthermore, we aim to accelerate the value creation of intangible assets through the use of AI, achieving both social problem-solving and corporate growth.

Our intangible assets consist of a multilayered value base centered on the technologies we have accumulated since our founding. The oxo technology we inherited from the Kyowa Hakko Kogyo era is the source of our competitive edge, allowing us to hold over half of the global market share for refrigeration lubricant raw materials. Our unique intangible assets comprise long-term fiduciary relationships with our customers, on-site skills that support the continuous operation of our plants, wide-ranging R&D knowledge, and diverse human capital that combines personnel who have inherited this DNA since our founding with mid-career hires who hold a variety of perspectives.

Against this backdrop, the Intellectual Property department has adopted the mission of “creating and utilizing intangible assets” and is pursuing the improvement of corporate value through strategic collaboration with related departments. When considering new businesses, Sales & Marketing, Innovation Strategy, and Intellectual Property work together to develop strategies for marketing, M&A, and the IP landscape. Furthermore, we have set our sights on Company-wide optimization, such as promoting DX in collaboration with the planning and IT functions, and establishing new methods through digital marketing in collaboration with the business and Corporate Communications functions. In these efforts, we actively utilize AI to systematically integrate our intangible assets—namely technology seeds, with market needs, thereby simultaneously strengthening the competitiveness of our existing businesses while also creating new ones.

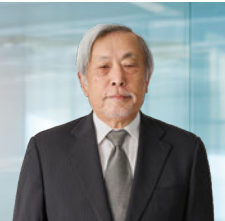
Promoting IP activities through strategic use of generative AI

Intellectual Property has positioned generative AI as a strategic partner and is working to create value beyond the scope of traditional IP operations. When considering new business ventures, we collaborate with AI through a systematic process. We uncover business opportunities from social issues and technological trends, and when conceiving innovative business models that utilize our technological assets, we use AI as a “sparring partner” to promote creative thinking. AI also rapidly integrates multifaceted information such as market trends, competitive analysis, and regulatory environments to discover novel combinations of technology seeds and market needs, thereby enabling the objective evaluations required for investment decisions.

Meanwhile, in terms of discovering new inventions, we are focusing our activities on the valuable intangible assets accumulated at our frontline manufacturing sites. We not only organize various manuals using AI but also formalize tacit knowledge by talking to our employees to gather on-site experience and key insights, then corroborating the data with AI-powered multidimensional analysis. The new knowledge discovered through such analysis is shared with our plants and Technology Development Center, leading to a continuous knowledge cycle.

Through these efforts, the Intellectual Property department, which tends to be technology-oriented, is able to make business proposals from a management perspective and maximize the value of intangible assets.

— Outside Director’s Perspective —



Jun Tsuchiya
Independent Outside Director

It is essential for companies to create “new things,” and they must also make continuous efforts to do so. Chemical products are an amalgamation of technologies. Their development often starts with technological innovation, and is considered an opportunity for many technical employees to thrive. Technological development, being scientifically based, inherently values evidence, logic, and rigor. It therefore tends to focus on details. As someone with a technical background, I can’t help but look at the interesting aspects of a product from a technical standpoint first. Unfortunately, just because something is “interesting” does not necessarily make it a product that will be useful to the world. Therefore, when judging a business’ viability as an outside director, I pay particular attention to three things: (1) Are we overly focused on the technology?, (2) Is the supply chain and business model, i.e., profitability, taken into consideration from the initial stages of development?, and (3) Is its “social implementation” possible?

The value of technology is only realized when it finds use in society. Many successful chemical products have not only technical but non-technical advantages as well. What is required of future engineers is the ability to tell success stories that include the non-technical aspects of product development.

Rigorous Safety Assurance and Stable Operations

Message from the CTO

Working to realize robust manufacturing plants

Toshihiro Matsuoka

Executive Corporate Officer and Chief Technical Officer (CTO)



Trust: The foundation of a safety culture

Launched in 2022 as a result of lessons learned from the accident that occurred at our Yokkaichi Plant, Comprehensive Safety Check Initiative 2022 will enter its third year in 2025. To incorporate the Safety Guidelines of “protecting ourselves and our colleagues” into our daily actions, each and every frontline employee must have relationships of mutual trust. We believe that the foundation of safety lies in a culture where people can frankly share their opinions, regardless of their position or role, not only with colleagues but also between superiors and subordinates, and between departments and workplaces.

We therefore actively promote dialogue at all levels, including executives, managers, and general employees, with a focus on our manufacturing plants. I myself have had many discussions with plant executives and managers, and I also hold direct conversations with shift leaders and other frontline workers to listen to their opinions. By strengthening relationships of trust through such dialogue and building an environment in which diverse members can share the same goals and take the initiative, we will enhance the organizational culture of our plants and embed safety at the core of our culture.

Comprehensive Safety Check Initiative 2022

- Establishment of Safety Guidelines, and revision of the Principles of Corporate Behavior, and their implementation
- Understanding fall risk and executing measures
- Comprehensive work safety check (identifying and executing measures for other high risks)

The essence of stable operations lies in the inheritance and evolution of our manufacturing DNA

We are a chemical manufacturer that provides refrigeration lubricant raw materials, electronic materials, and other essential materials that support the foundations of society. That is why ensuring stable product supply is both a social responsibility and a highly crucial management issue.

Our manufacturing plants, which are the source of our value creation, have been in operation since the 1960s, and much of their equipment is still in use today. It is essential to conduct preventive maintenance on such aging facilities so as to prevent unexpected malfunctions from occurring. At KH Neochem, we set priorities based on the level of impact such equipment malfunctions would have, draw up and implement maintenance plans, and continue to steadily implement the plan-do-check-act (PDCA) cycle to assess the effectiveness of those plans and make further improvements.

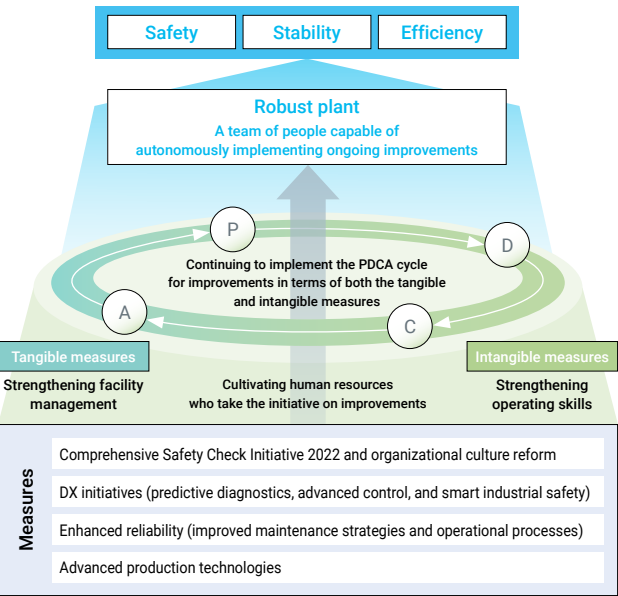
However, simply making equipment more reliable is not enough to achieve stable operations. In addition to enhancing our plant equipment (tangible measures), it is also essential to refine our operational processes (intangible measures). From 2025, we will step up our measures to strengthen these operational processes and boost overall plant reliability even further. To that end, we will also proactively utilize ever-evolving digital technology. We are working to improve both stability and efficiency by introducing predictive diagnostic systems that accumulate and analyze equipment operation data converted into big data to detect signs of anomalies, as well as advanced plant control systems that utilize digital technology. However, simply adopting these systems will not bring about automatic problem solving. To make use of data and AI, it is essential to have personnel with both chemical and engineering perspectives.

KH Neochem has a manufacturing DNA spanning nearly 80 years since its founding, and since the background and expertise that lie behind the establishment of technology tend to fade over time, it is crucial that the current generation firmly inherits those elements, and redefines and reconfigures them to suit the modern era. That is where our Technology Development Center comes in, as it brings together human resources with knowledge of production technology. The members of the Technology Development Center are, in a manner of speaking, restorers of manufacturing DNA, who verify the techniques and expertise accumulated on the front lines and evolve them into scientifically based logical, systematic technologies. Rather than the simple inheritance of tradition, we restore and evolve our DNA to achieve manufacturing plants that combine safety, stability, and efficiency.

My commitment as CTO: Building robust plants for the future

Safe and stable operations, as well as efficient production—these are my responsibilities as CTO. By ensuring adherence to and strengthening of these principles, which form the foundation of the Company's credibility and performance, I aim to enhance our corporate value and live up to the expectations of our shareholders and other stakeholders. This requires the further advancement of our facility management and operation technologies, and cultivation of the human resources who will take on these responsibilities. As a former plant manager, I spearheaded factory floor improvements, and through that experience I became convinced that a truly “robust plant” consists of a team of people capable of autonomously implementing ongoing improvements.

Such people identify issues, propose solutions, take action, reflect on their findings, and move on to the next step. They are a group of talented individuals who can keep this improvement cycle going on the front lines. Talented individuals with deep expertise in equipment and processes grow through dialogue and improvement, enabling the entire frontline workplace to evolve autonomously. I will devote my full efforts to building such a team of human resources. I firmly believe that this strength is the driving force that will propel KH Neochem's manufacturing forward into the future.



Thoroughly Ensuring Safety

Our Company is undertaking Comprehensive Safety Check Initiative 2022 with the full commitment of the entire organization, ensuring that the major disaster that occurred in 2022 is never forgotten. Based on the “safety first” concept, we will continue to ensure safety by instilling safety awareness and taking rigorous measures against serious risks.

Comprehensive Safety Check Initiative 2022

• Implementing our Safety Guidelines and Principles of Corporate Behavior

In 2022, we added the Safety Guidelines of “protecting ourselves and our colleagues” to our Corporate Policy and further established our Principles of Corporate Behavior for safety. Far from mere slogans, these are principles that all executives and employees are committed to implementing in their daily actions. To that end, as part of our ongoing efforts to foster and establish a safety culture, we set aside a Safety Day every year, during which management directly speaks to all employees about the importance of safety, and the CTO, department heads, and superiors also hold dialogue sessions at their respective workplaces.

• Both tangible and intangible safety measures

To date, we have conducted comprehensive work safety inspections to identify and address not just areas with fall risks but all work-related risks that could lead to serious accidents, and have completed all tangible measures for high-priority areas. Nevertheless, plant repair work and other such tasks require working at height, which makes preventing falls a crucial issue. In addition to tangible measures such as studying the incorporation of drones for high-altitude inspections, ensuring that employees wear full harnesses and other fall prevention gear, and installing fall prevention equipment, we are also implementing intangible measures such as strengthening education and training and reviewing and improving related regulations and procedures. For example, in training programs, we are actively pursuing more practical education by utilizing virtual reality equipment that allows trainees to simulate the risks of a fall accident, as well as fall arrest device training equipment. In 2024, following on from our Yokkaichi Plant, we also partially installed such equipment and devices at our Chiba Plant, thus establishing a system where all employees working at height can receive repeated training, thereby further solidifying and strengthening our safety measures.

VOICE Building trust through dialogue: The Macaron organizational culture reform project

We launched *Macaron* in 2023—a series of discussion sessions named after the Japanese phrase “*majime-ni, kazarazu, ronji-au*” (“seriously, unpretentiously, and through open dialogue”). These sessions are designed to foster trust, share the plant’s vision and values, and empower employees to take initiative. So far, we have held dialogue sessions at each individual level on themes such as “the Mission of the Yokkaichi Plant.” As part of the secretariat involved in planning and operations, I can truly feel the positive mindset of the participants. We expect that further dialogue will enhance not only relationships but also the way we share information and ideas. Looking ahead, in addition to horizontal connections at the individual level, we will also focus on vertical connections at the department level, with more colleagues joining the *Macaron* sessions. I want people to understand the importance of dialogue and to foster an atmosphere where colleagues can easily approach one another and say, “Let’s talk.”



Eri Tsuzaka Yokkaichi Plant

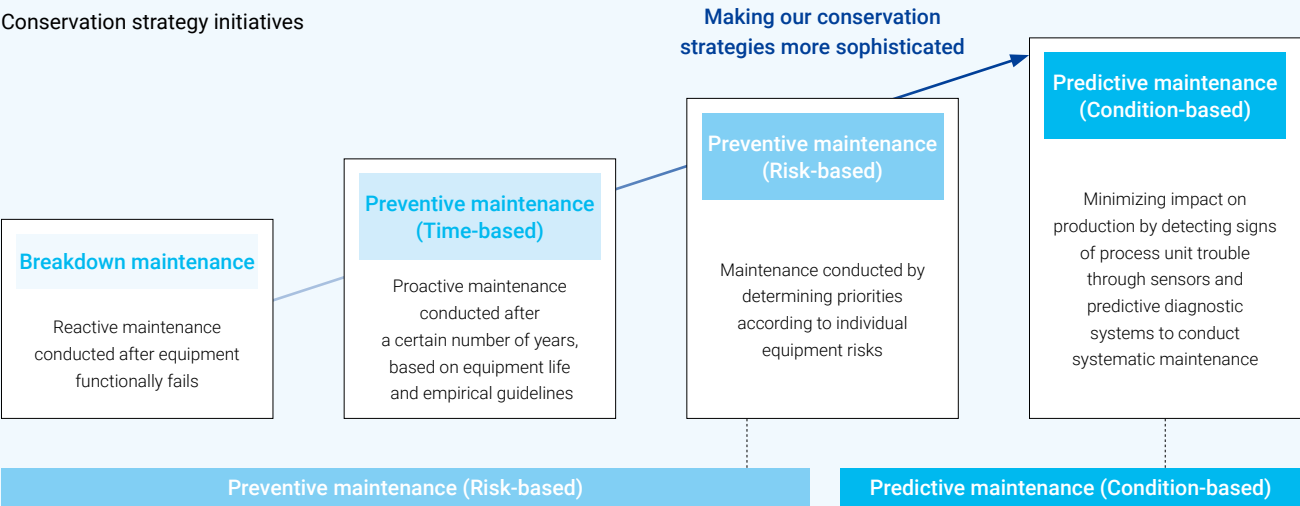
Stable Operations

Along with ensuring safety, stable operations are also a highly crucial issue. KH Neochem’s distinctive products are produced through chemical reactions under severe conditions of high temperature and pressure, and our manufacturing facilities are continuously exposed to harsh chemical reaction environments day and night. To ensure the safe and stable operation of these manufacturing facilities, we conduct large-scale periodic maintenance (turnaround) every two years, during which we shut down the facilities and carry out the necessary inspections and repairs. As the risk of unexpected equipment problems increases due to aging, we are working on various countermeasures involving both tangible and intangible measures.

Initiatives to enhance maintenance: Strategies for eliminating serious equipment failure

The biggest obstacle to stable operations is unplanned shutdowns due to sudden and serious process unit trouble. We have traditionally implemented “time-based” maintenance, maintaining equipment that has been in operation for a certain number of years based on factors such as the equipment’s service life. However, in recent years, we have shifted our strategy to “risk-based” maintenance, which focuses on factors such as the failure probability of each equipment component and the impact of such failure, quantitatively assessing risks, and then addressing them according to priority. Recently, we have also begun to use big data based on historical equipment operation information to detect signs of equipment malfunction and take appropriate measures, combining this with “condition-based” maintenance in an effort to eliminate sudden and serious equipment failure.

Conservation strategy initiatives



The RAISE (Reliability Improvement by Smart Engineering) initiative that we have been implementing ensures consistent, high-level operation of our plants. This is a risk-based maintenance strategy under which we quantitatively evaluate the probability of failure and the impact of failure on each of the thousands of equipment components, and perform maintenance in accordance with priority. Starting in 2025, we have been expanding the application of the management system for facilities (tangible measures) adopted in our RAISE activities to operational processes (intangible measures) as well, and have established the Reliability Improvement Committee to continuously pursue more comprehensive reliability improvements. We will continue to steadily implement the PDCA cycle in both tangible and intangible measures, which, in conjunction with predictive diagnostics and other such condition-based maintenance strategies, will improve overall plant reliability and empower stable operations.

In 2024, we introduced predictive diagnostic systems that detect signs of anomalies in plants based on operating data that has been converted into big data. We are working to improve the accuracy of our diagnostic models by conducting trial runs of these systems on a portion of our critical equipment and checking and verifying the actual status of the detected signs during times such as regular maintenance periods. We will continue to refine this model and add more sensors to our facilities, aiming to further improve the accuracy of our predictions.

Transforming the frontline workplace with plant DX

We are proactively pursuing DX to rapidly enhance our plants, which are the source of our value. Specifically, our plants are composed of numerous pieces of equipment, and complex operating conditions such as temperature, pressure, and flow rates must be constantly optimized. This requires not only advanced specialized knowledge but also a wealth of experience and expertise. Therefore, we have been introducing advanced plant control systems that capture and model the expertise of skilled operators, model them using digital technology, and then make them reproducible. This allows us to achieve optimal operating conditions, thus maximizing profits and reducing CO₂ emissions by improving energy efficiency. In 2024, we installed these systems in over 80% of our plants as planned. We will continue to further adopt these systems, while aiming to maximize their effectiveness. We are also pursuing the digitalization of inspection records and operational management tasks. For instance, we are working to make operations smoother by using tablets so employees can quickly access operating records and inspection results in real time. In addition, we are also working on using drones to replace manual inspections at high altitudes. Implementing operation and equipment management through this kind of proactive use of IT aligns with the “smart industrial safety” approach advocated by the Ministry of Economy, Trade and Industry and the High Pressure Gas Safety Institute of Japan. Our Yokkaichi Plant has been recognized for its smart industrial safety initiatives, earning it the title of Certified Advanced Safety Implementer from the Minister of Economy, Trade and Industry. We aim to obtain that certification at our Chiba Plant as well during 2025.

Main DX initiatives

Equipment maintenance	Predictive diagnostic systems	Operating data is constantly monitored, and AI detects signs of anomalies based on historical operating data converted into big data.
Operation management	Advanced control systems	Systematizing the skills and knowledge of experienced operators and enabling their inheritance and reproduction through digital technology.
Daily checks	Utilization of tablets	Inspection records that have traditionally been recorded on paper and transcribed at the office can now be entered on tablets, thus streamlining operations and putting information to use in real time.



Daily checks using tablets



Concept image of drone inspection

Reliable turnaround management based on our turnaround planning and execution guidelines

In order to maintain plants with safe and stable operations, a turnaround is an extremely important opportunity for inspection, maintenance, replacement, and modification of equipment, as well as installation of facilities. Therefore, to ensure that turnarounds are thoroughly carried out, advanced project management skills are required to ensure that the work is conducted in accordance with detailed planning.

For that reason, KH Neochem has clearly defined the execution organization, workflow, and milestones for planning and executing turnarounds and related maintenance, as well as plant startup, in its turnaround planning and execution guidelines. We appoint mid-career and young employees as turnaround coordinators, who lead the process from planning to execution. By giving them experience in managing an overall plant, we are also cultivating the next generation of human resources who will be responsible for plant management.

VOICE Actively utilizing turnaround to achieve stable operations and foster a culture of continuous improvement

Chemical plants operate around the clock to ensure a stable supply of high-quality products. KH Neochem handles high-pressure gases, making it essential to shut down its plants every two years for turnaround in accordance with legal requirements. As a turnaround coordinator, I work closely with the many people involved to ensure that work proceeds safely and according to plan. My mission is to properly carry out maintenance that goes beyond legal requirements, and to enable stable operations for the next two years. The formulation of the turnaround planning and execution guidelines has further increased awareness of the need to proactively make improvements so as to ensure safe and stable operations. My next improvement theme is to create a system that can reduce the burden on frontline operators while ensuring safe and reliable execution, such as by conducting safety checks before work begins and visualizing progress. I hope to see turnaround take root as a culture that will support future plant operations, and pass it on to the next generation.



Keita Kajiwara Chiba Plant

Rigorous Safety Assurance and Stable Operations

Achieving stable operation and greater competitiveness by integrating simulation and experimentation technology

To ensure a stable product supply, it is essential not only to prevent equipment failures before they occur but also to have a stable materials procurement strategy. This requires us to make supply chains more resilient by evaluating whether a variety of raw materials and catalysts are suitable for use in a timely and appropriate manner. We have established an evaluation technology that integrates simulation with experimentation. For example, we utilize digital technologies to perform process simulations, then conduct repeated lab-scale experiments based on the results obtained, and then refine simulations based on the results of those experiments. This evaluation technology is also applied to optimize the operating conditions of existing manufacturing processes and explore the introduction of new technologies, leading to stable plant operations and boosting our competitiveness.

Responding to market needs and creating value through manufacturing technology

We are one of the very few manufacturers in the world that possess large-scale oxo technologies and Wacker oxidation technologies. Utilizing these technologies, we have not only developed the synthesis capabilities to create targeted derivatives from the unique intermediates obtained but also acquired advanced separation technologies (distillation, extraction) and advanced trace metal control techniques. We also have the expertise to rapidly scale up processes and modify facilities while ensuring that safety and quality are maintained. We have developed and provided a wide variety of products by making maximum use of such wide-ranging technologies and expertise to respond quickly to the increasingly sophisticated needs of the market. In addition, we are also leveraging this manufacturing technology base to explore the scaling up and commercialization of products that have been developed through our open innovation strategy for R&D, such as the marine biodegradable resin PHB. We will continue to meet diversifying market needs through our unique manufacturing technologies.

VOICE By upgrading and optimizing our entire process, we aim to support the evolution of semiconductors with high-purity solvents.

The increasing miniaturization of cutting-edge semiconductors demands even greater purity and quality from the solvents essential to their production. The key is not just to make "clean products," but to "deliver them to customers with guaranteed cleanliness." Hence, we have established a system to prevent contamination by impurities not only in the manufacturing process but throughout all processes—from storage to shipping. We have reorganized the techniques cultivated by our predecessors, incorporated the latest technologies, and compiled them into manuals. We also thoroughly inspect all consumables and have strengthened our system to identify the root cause of any issues that may arise. High-purity solvents are primarily used as raw materials for photoresists and cleaning agents, playing more of a supporting role. However, depending on how they are used, they can contribute to improving semiconductor manufacturing yield. We have presented this mechanism at academic conferences and continue to work to further enhance quality and offer new value through technical exchanges.



Kouji Kuramoto Technology Development Center

Outside Director's Perspective



Yuji Kikuchi
Independent Outside Director

Plant executives and employees are expected to be professionals in their respective roles, ensuring efficient, safe, and stable operations—and they must be capable of doing so. To that end, Comprehensive Safety Check Initiative 2022 plays a vital role. Equally important are preventive maintenance to avoid sudden failures, predictive diagnostic systems that leverage big data to detect early signs of anomalies, advanced control systems utilizing digital technology, and professionals with expertise in both chemistry and engineering.

While it is impossible to eliminate all problems entirely, from an investor's point of view, consistent performance—that is, maintaining safety, stability, and efficiency—is paramount. To prevent incidents that could lead to prolonged plant shutdowns, it is essential to anticipate worst-case scenarios and prepare not only in-house measures but also multilayered contingency plans that take a holistic view of the entire supply chain. As an outside director, I believe it is my responsibility to closely monitor and oversee the Company in terms of its ability to sustain such performance.

Employee Roundtable Discussion

Expectations for our 77th year

KH Neochem was founded 77 years ago. Previously a division within a listed company, in 2011 we came under the umbrella of an investment fund. Since then, we have gone through a process of selectivity and concentration in our business portfolio, relisting, and redefining our Corporate Policy. Through the course of our lengthy history, as well as these major changes, we have become a company where tradition coexists side by side with modern sensibilities. Amid these changes, what are employees seeing and thinking, and what meaning do they find in their work? Is our Corporate Policy truly relevant to them? Four of our employees with different backgrounds and career paths spoke frankly about whether the Company's Corporate Policy truly applies to them.



Kohei Tokumoto

Facilitator/Corporate Communications and Investor Relations

A company like a veranda, connected by the power of chemistry

Tokumoto: Let me start by asking everyone if you are familiar with our Corporate Policy?

Saito: It's the one that goes "through the power of chemistry."

Tokumoto: That's right. Now, what's the next phrase?

Arihara: "Realizing a brighter tomorrow for society." Right?

Tokumoto: That's correct. There are three more phrases. Does anyone know what they are?

Horiuchi: Um..." Taking the first step..."

Tokumoto: Okay, time's up. Here's the answer.

(Photo from left)

Ma Zhongting

Sales & Marketing

(Joined the Company in 2018)

Hikaru Horiuchi

Planning, Project Management Department,

Yokkaichi Plant

(Joined the Company in 2019)

Natsuko Arihara

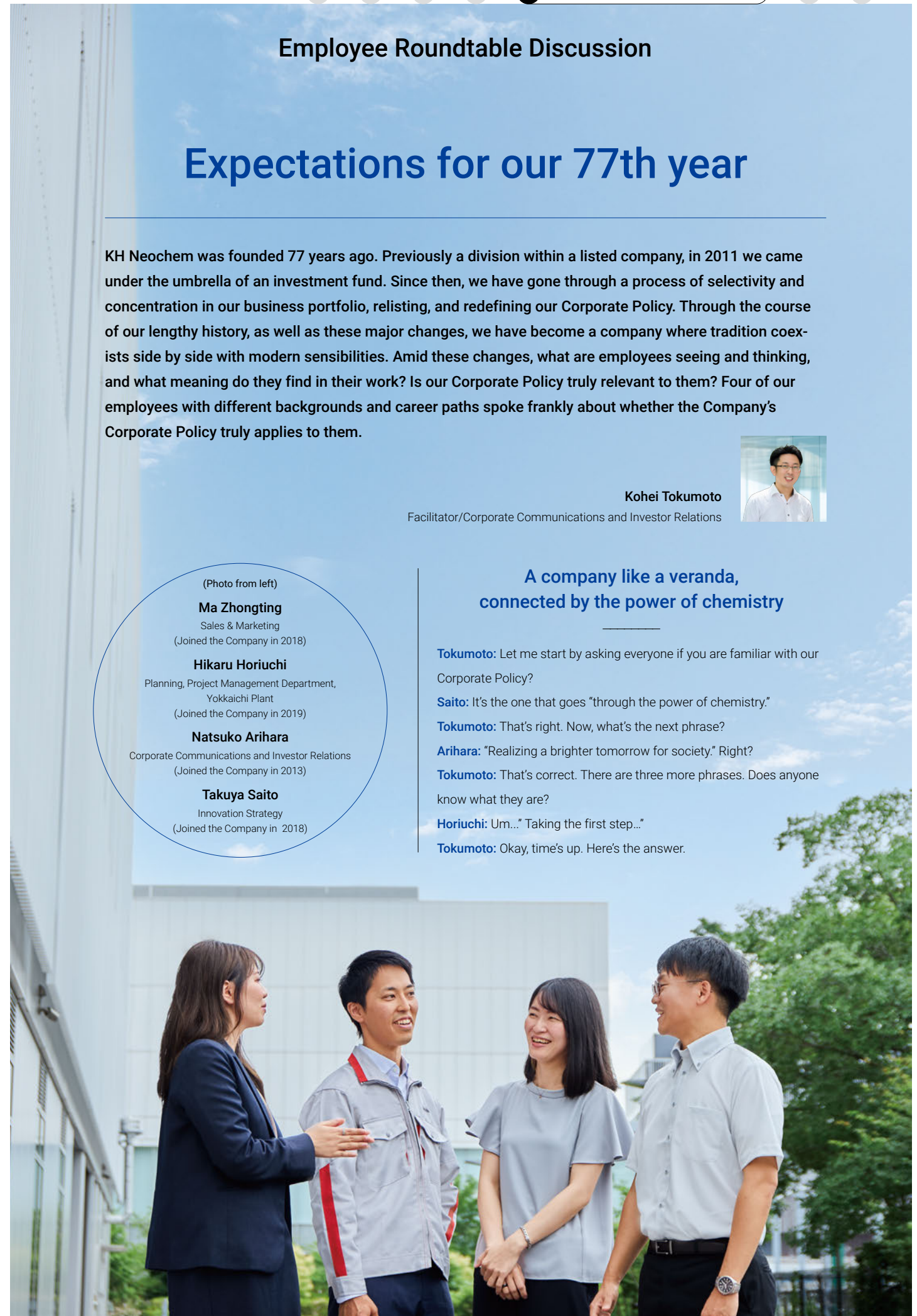
Corporate Communications and Investor Relations

(Joined the Company in 2013)

Takuya Saito

Innovation Strategy

(Joined the Company in 2018)



Employee Roundtable Discussion

Corporate Policy

Corporate Mission	Realizing a brighter tomorrow for society through the power of chemistry.
Management Approach	Making our dream a reality through reliable technology and new inventions.
Basic Behavior	Taking the first step to overcoming barriers and issues we face.
Safety Guidelines	Protecting ourselves and our colleagues.

Tokumoto: So, everyone, have you ever thought about our Corporate Policy? Please tell us about the moments when you feel, “Ah, this is the kind of atmosphere my company has.” Based on such everyday experiences, I would like to reflect on what makes KH Neochem unique.

Saito: In Innovation Strategy, we use the Corporate Policy of “the power of chemistry” as a guideline for determining our policies. This means that new businesses in completely different fields are not what we are aiming for. After all, we’re talking about how the power of chemistry is our mission.

Ma: The same goes for Sales & Marketing. Our company has products that only our technologies can provide, so we confidently talk about taking on the competition! I think the underlying belief is that our strength lies in the power of chemistry.

Horiuchi: I joined the Company mid-career, but if I had to sum up our corporate culture, I would say it is diligent and reliable. Our scale enables close connections among people, so I feel a strong sense of community.

Saito: I agree. The way we work at KH Neochem, I get the sense that, rather than merely relying on the mechanisms and systems, most of us also try to get a grasp of the back story and ask, “what are the reasons for this task?” That may be what makes our company unique.

Tokumoto: Rather than being driven solely by systems, it is the individuality and relationships of the employees that drive the Company.

Saito: That’s right. Organizations that have established efficient systems tend to lose flexibility, but in our case, I think the advantage is that we can be flexible because it is the people who are running the system.

Ma: Speaking from a sales perspective, our company is well known as an oxo technology-based chemical manufacturer, and our customers often say “KH Neochem remains the company you can trust for quality.” Like Mr. Horiuchi said, we are all diligent, and that’s why I think we are able to consistently provide high-quality products. I also think our company has a culture where we take every project seriously and carefully think things through until we can be fully confident of the sales pitches we make.

Arihara: I have never worked at another company, but if I had to compare our company to something, I would say it feels like an *engawa*—a traditional Japanese veranda that connects the inside and outside of a house.

Tokumoto: What do you mean by that?

Arihara: An *engawa* is a space between the inside and outside of a house, where you can easily go out and feel the breeze. Our company was carved out of the Kyowa Hakko Kirin Group, and as our name changed and we were relisted, people and ways of thinking have gradually mixed together, so I think you can sense an atmosphere that lies somewhere between inside and outside, between tradition and modern sensibilities.

Tokumoto: The word “*engawa*” might be a good way to describe us as a company.

Arihara: In terms of a sense of community as well, the Company at times provides generous support and listens attentively to even minor concerns. I feel that those aspects too are kind of like an *engawa*.

How does your daily work contribute to the Company?

Tokumoto: Your comments have given me some hints for contemplating what it is that makes our company unique. I think this uniqueness shows up in some form or another in our daily work. So, I'd like to ask you, have you ever felt like you've truly contributed to the Company in your work? If it's related to our Corporate Policy, please tell us about that also.

Saito: For me it's open innovation. Rather than insisting on doing everything ourselves, we actively worked to boost our company's value by incorporating external technologies, and I think I have been able to contribute to laying the foundations for the current Innovation Strategy. I think this was truly “taking the first step.” Of course it was challenging. Even if we have promising technology, how are we supposed to turn it into new value? The most difficult part was fusing the knowledge of our company and our partner companies. That said, it did force us to constantly revisit the question, “What is our core?”

Horiuchi: I have been working in plant maintenance for about three years, and improving equipment reliability has been a major theme. It is an extremely rewarding job, as it involves thinking about how to maintain aging equipment and where to prioritize resources to ensure stable operation.



Employee Roundtable Discussion



Tokumoto: Equipment gets old, which can cause problems. But it's not as simple as just fixing everything, is it?

Horiuchi: Yes, completely overhauling everything would require an enormous amount of money and time. Furthermore, you can't judge the condition of the equipment solely by its appearance or age; you also need to determine optimum maintenance methods based on inspection results and how the equipment is being used. Recently, we've also been working to dig deeper into both the equipment and its operation to find the root causes of problems P1 P52. This is a job that requires “reliable technology and new inventions.”

Arihara: When I was in sales, I think that I really contributed during price revisions. It was a major customer we were dealing with, and honestly, I was prepared for rejection when I went into those price hike negotiations. We had already done all that we could with our company's own efforts, and since demand for the products was quite high at the time, the price hikes turned out to be quite significant. I put enormous effort into getting ready to convince the customer, but to my surprise, they said, “we'll buy it anyway.” Rather than basing prices solely on cost, we were able to convey the true value of our products to the market, which I think contributed to our profits. For me, it may have been about taking on the challenge of reaching new heights. Afterward, a leader—who was not my direct supervisor—said to me, “This kind of experience will be very beneficial for you,” and I remember feeling really happy, thinking this was something unique to our company.

Tokumoto: Like an *engawa*, of course... Ms. Ma, you were nodding as well, weren't you?

Ma: Two years after I joined the Company, the COVID-19 pandemic struck, and sales continued to struggle. However, I think I was able to contribute by balancing the sales of main products and by-products. When chemical plants manufacture the target product, by-products are always produced at the same time, so those need to be sold too. When the balance between main products and by-products was in tough shape, I worked hard to develop new sales channels, including

overseas. At the same time, I have been constantly checking the latest production plans and adjusting sales policies flexibly. Our main products keep our plants going, so we need to ensure stable sales. And, as Ms. Arihara mentioned, we also need to price them in a way that reflects their value. In recent years, unprecedented changes in cost structures have arisen, and we have to keep up with them. We are engaged in such efforts in the belief that completing them will lead to the next investment—“taking the first step” as it were.

Horiuchi: What you just said makes sense to me now. Plants are more efficient when they have constant operating rates, so when the production balance between the main product and by-products is adjusted frequently, it's easy to wonder, “Why are they changing production plans all the time?” But I see now that such adjustments are made in response to those difficulties and circumstances.

Tokumoto: From the plant's perspective, it can be difficult to see the market and our customers' circumstances. Conversely, the sales side may not be aware of production considerations and constraints. That is why it is necessary to understand each other and align our goals. Our Corporate Policy and corporate culture may be what supports such connections.

Our Corporate Policy is truly reflected in our actions.

Tokumoto: After listening to what you've said so far, I get the feeling that your work is truly connected to our Corporate Policy, even if you may not be consciously aware of it. Now, let's talk about the future. I'd like to hear about the challenges you'd like to take on and your aspirations for the future as you work to realize our VISION 2030.

Ma: I would like to be proactively involved in the launch of new products. I also want to take part in marketing in general and closely collaborate with our R&D functions based on the results of discussions with our customers. Additionally, I aim to take the initiative in ensuring that the market correctly understands the value of not only our new products but also our existing products.

Saito: Impact investing has been gaining attention in recent years. Our company is actively investing in start-up companies, and when considering investments, I think it would be good to consider the idea of evaluating not only business expansion but also social contribution. When considering what we should do to “realize a brighter tomorrow for society,” I believe that we can further enhance the value of our company by contributing to society. At the same time, I think we need to instill in our employees a sense of how our company contributes to society. If we can do that, I believe it will further boost employee motivation.

Horiuchi: For us on the plant side, we have a mission to ensure stable operations day to day, and it's true that there are times when it's difficult to detect changes in the external environment. However, speed is extremely important for strengthening our competitiveness. I feel that we need to shorten the time from decision-making to execution, especially when it comes to capital investment. I would like to work on improvements that will make our plants more competitive, including reviewing the considerations, decisions, and procedures related to capital investment.

Arihara: I think that in today's world, response to changes in the environment translates directly to competitiveness. Corporate Communications and Investor Relations reports the latest information and findings obtained through interviews with institutional investors at Board meetings and other such occasions, but after listening to Mr. Horiuchi's comments, I believe that we should provide such communication more proactively and promptly to the relevant departments, rather than just to management, so that our plants can also gain a proper understanding of the situation. So, my goal is to hone my expertise and ability to take action. I would like to gain deeper knowledge of finance and sustainability and not only have better dialogue with investors but also become able to influence changes within the Company.

Tokumoto: Although our approaches may differ, I find it impressive that they all share the common goal of "enhancing the value of the Company." I hope we all continue to cherish our Corporate Policy and corporate culture.

Horiuchi: Yes, I agree. I would like to focus on "taking the first step" and, first and foremost, on being proactive. It is difficult to act proactively in a plant environment, but in a sense, this is unavoidable given the importance of ensuring safety and maintaining stable operations. There have been recent moves for change though, such as the *Macaron* meetings [P52](#), where people from various departments gather to discuss things sincerely and frankly, and because they feel psychologically safe discussing personal concerns and the like, relationships have deepened significantly. I get a genuine sense that the workplace culture is changing little by little.



Ma: I feel the need to make decisions quickly in response to changes in the external environment, and to do that, I think we need to figure out how to make the most of each individual's strengths. I would like to see many young people, including myself, experience a variety of jobs and departments so that they can make decisions quickly when the time comes. That's why I think "taking the first step" is important.

Arihara: Today's discussion has made me realize how important it is to respect other departments and turn that into organizational strength. There is a concept known as a "boundary spanner" that refers to someone who connects people with different perspectives. I would like to play that role by sharing investors' perspectives with everyone and connecting everyone's activities to stakeholders through PR and IR. I believe that across all our departments, there are various connections between our plants and headquarters, markets and new products, and so on. By connecting these elements, we can go beyond departmental boundaries and work together on overcoming the barriers and issues we face.

Saito: Thanks to today's roundtable discussion, I get the sense that even small initiatives are linked to our Corporate Policy through daily actions. I believe that each of these initiatives contributes to the formation of a community and the cultivation of a corporate culture that is unique to KH Neochem. What I want to emphasize once again is "realizing a brighter tomorrow for society through the power of chemistry." To me, "a brighter tomorrow" means that my colleagues can live their lives with pride. To achieve this, I have once again come to understand that it is important for me to help launch new businesses and contribute to the Company.

Tokumoto: While listening to what you have all said today, I realized that each of our thoughts and actions has naturally overlapped with the trajectory of the Company. It isn't something that we were conscious of from the beginning, but rather something that we have naturally acquired without realizing it. I believe that the accumulation of these experiences has created the unique character of KH Neochem. I hope that the realization that the work we do every day actually overlaps with our management philosophy will serve as a stepping stone for future challenges for you and your teams to undertake. Thank you for taking part in this discussion today.



Message from the CHRO

Working to achieve VISION 2030

Building on the foundation of developing professional human resources who continue to take on challenges

Takatoshi Fujii

Corporate Officer, Chief Human Resources Officer (CHRO),
Head of Human Resources

KH Neochem is a leading global niche manufacturer of high-performance materials, holding top-class global market share in fields such as refrigeration lubricant raw materials and electronic materials. To meet the increasingly sophisticated and diverse needs of society and customers, expand our No. 1 global market share products in strategic domains, and create new businesses, as laid out in our VISION 2030, it is essential to further enhance the capabilities of our human resources, which are the source of our competitive advantage.

We take pride in—and feel a strong responsibility for—supplying world-class products, and we aim to contribute to resolving social issues such as global warming and improving the safety and comfort of people's lives. As such, KH Neochem makes it a priority to pursue the cultivation of professional human resources who continue to take on challenges, and to create an environment conducive to that aim.

Deploying a human resources strategy based on the concept of rewarding those who take on challenges and work to achieve them

Under the motto "rewarding those who take on challenges and work to achieve them," the Company is working to encourage each individual employee to act autonomously and take on new challenges, improve organizational resilience, and create an environment that empowers

diverse human resources to thrive. To that end, we are implementing a range of measures based on the following five pillars of our human resources strategy: 1) "Pay for Job, Pay for Performance" (compensation based on job value and results), 2) Support for career autonomy, 3) Strengthening the human resources pipeline (apprenticing successors), 4) Promoting diversity, equity, and inclusion and work-life balance, and 5) Improving engagement. (Chart: Overview of our human resources strategy)

In terms of HR systems, we have introduced a job-based HR system that ensures fair treatment based on job value and performance, regardless of age or seniority. In addition, we have also introduced the Meister^{*1} and MS (Master of Specialist) systems^{*2} for employees with advanced skills and expertise. In conjunction with our utilization of systems that support the growth and career choices of individual employees, such as Career Development Support and an internal job posting system, we also provide a variety of career path options and have a system in place to support each employee's undertakings and growth. We will continue to improve our HR systems to create a virtuous cycle in which each individual employee takes the initiative and works autonomously on their own path to growth.

^{*1} Possesses advanced skills and plays a central role in passing down skills to the next generation

^{*2} Provides and implements highly specialized solutions for achieving goals and solving issues that are totally new to us

Overview of our human resources strategy



Message from the CHRO

Strengthening our human resources pipeline, and building a resilient organization supported by strong engagement

To achieve VISION 2030 as well as ongoing growth beyond that, it is essential that we continuously develop the human resources who will take on management and business responsibilities in the future. In other words, it is crucial for us to strengthen our human resources pipeline. We encourage each individual employee to take charge of their own careers while also systematically cultivating their successors. To date, we have continually held succession meetings, and have supported selected candidates’ future growth by providing them with training, job rotation, and opportunities for dialogue with outside directors, thereby broadening their management perspectives and deepening their expertise.

We also recognize that creating a work environment that empowers individual employees to take on challenges with a high level of motivation and satisfaction and achieve independent growth is the foundation of our human capital strategy. In particular, improving engagement is a key theme that supports safe and stable operations in the factory division while also increasing corporate value. Currently, the entire Company is working on new measures to break the stagnation in score growth. In addition, we are committed to promoting diversity, equity, and inclusion and improving work-life balance, aiming to create a diverse, resilient organization that can learn and grow from adversity and difficulties.

Human resources business partner placement and human resources DX promotion to support enhancement of frontline power

As a manufacturer, strengthening the human resources and management that support our factories and on-site departments is an important issue that is key to our sustained growth. Beginning in 2025, we have assigned a new human resources business partner to each of our plants, and have established a system to work closely with our plants to tackle issues related to advancing our human resources strategy, such as operating human resources systems, improving engagement, and cultivating successors.

We are also focusing on pursuing human resources DX, such as by introducing a system that visualizes and analyzes human resources data including personnel, working hours, wages, and engagement scores in real time, thereby enabling rapid decision-making and implementation. Through these efforts, we will improve the execution and speed of our human resources strategies, leading to ongoing enhancement of corporate value.

Human Resources Strategy

Multifaceted support for autonomous career development

KH Neochem implements a variety of measures to foster a sense of career ownership among its employees and support each individual’s pursuit of challenges and growth.

For general employees, we have switched from a one-size-fits-all training program based on the year the employee joined the Company to a system where employees can choose from a wide range of job-specific programs, and have also introduced career training tailored to different age groups. We are expanding the scope of support, including offering consultations with external career consultants for those who wish to utilize them. We have also established mechanisms that enable employees to proactively engage in their own skill development. This is achieved through Career Development Support discussions shared between supervisors and subordinates, during which we identify challenges and concrete initiatives required to realize the career paths employees aspire to pursue.

Furthermore, in 2025 we introduced an internal job posting system as an option for employees to realize their desired career path. We will continue to develop these initiatives and promote the balance between human resources cultivation and individual employees’ career realization.

We offer a wide range of job-specific programs, including training that employees can choose for themselves.

	Managers	Leaders	Practitioners	New employees
Rank-specific training	Executive training course (selected)	Playing manager training course		New employee training
	Strengthening management skills	Next generation leader training course		Follow-up training
	New managers	Ability development plan		
Specialized training		Common competency development training for all positions		
		Position-specific training		
Career development support	Self-development support (e-learning)			
	Age-specific and career-specific training			
		New employee trainer workshop		New employee trainer program
		Internal job posting system		

Strengthening our human resources pipeline to support growth

As a means of achieving VISION 2030, we are strengthening our cultivation of human resources who will take on the responsibility of corporate management from a long-term perspective. Our personnel meetings, which are aimed at systematically training and deploying successors, began with core positions such as department heads, but are now being held on an ongoing basis with an expanded scope that includes the next generation of executive candidates.

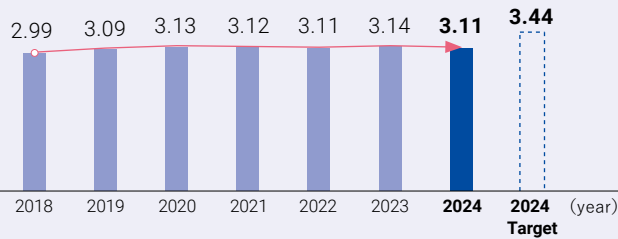
To address the issue of cultivating mid to long-term successors and fleshing out human resource allocation plans, we are gradually implementing initiatives to cultivate and enhance future successors from a Company-wide perspective, such as having outside directors interview division heads and senior managers, and dispatching promising young talent to the Globis Management School. Additionally, in preparation for a potential shortage of successors, we are continuing to take various steps to strengthen our human resources pipeline, including reviewing our reemployment system, which allows employees to continue to hold management positions for a certain period after retirement.

2 Cultivating a culture that respects diverse values

Taking a more proactive approach to improve engagement

We have positioned “creating a highly productive workplace for energetic employees” as a critical management task and are continuously working to improve engagement. However, Company-wide engagement scores have remained generally flat since 2020, with our Company-wide average for 2024 remaining at 3.11, roughly the same level as the previous year. Notably, in our plant divisions, there was no significant improvement in the scores among general employees and the middle management level responsible for training and supporting them, which suggests there are underlying issues to be addressed.

Engagement score trends and target values



1 Strengthening human resources for the enhancement of corporate value

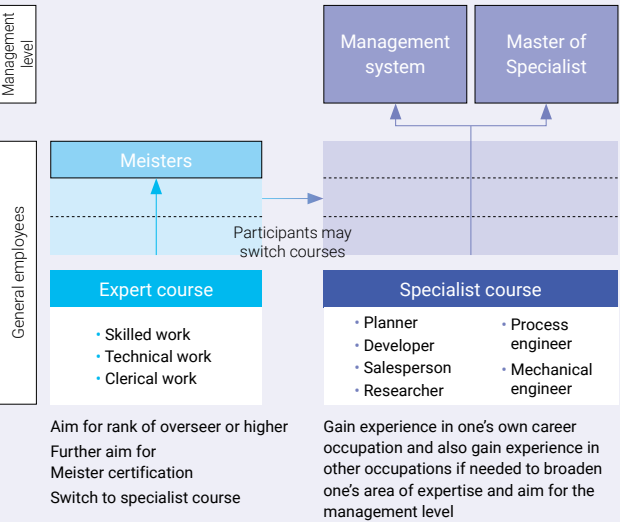
An HR system that supports the growth of professional human resources

We aim to cultivate professional human resources with a deep understanding of the roles expected of them and a commitment to achieving results, and to encourage the success of such human resources, we have introduced a job-based HR system for certain general employees, in addition to the system we have had in place for management positions. We aim to realize a cogent, merit-based system that allows for optimal allocation of human resources based on job duties and roles, encourages independent career development, and commends the achievements of those who undertake challenging goals, reflecting those achievements in compensation.

For general employees, we offer two courses—expert and specialist—depending on the characteristics of their working style. Additionally, as we unite in Company-wide efforts to strengthen our system for taking on new challenges with advanced levels of expertise, we are implementing measures to boost employee motivation and support their professional growth, such as introducing the Meister and MS (Master of Specialist) certifications, which will act as new career goals for human resources with advanced skills.

Career overview

Aiming to acquire advanced expertise through two courses



Human Resources Strategy

Given this state of affairs, we have implemented a variety of measures, including support for the acquisition of expertise on motivation and delegation of authority, rank-specific off-site meetings, management study sessions, and labor-management meetings that provide opportunities for dialogue between management and employees. However, we have not yet succeeded in raising overall levels. Hence, from 2025 onward, we will focus on two key initiatives: (1) Revamping survey methodologies and (2) Deploying human resources business partners. By deeply understanding the structural factors hindering greater engagement, we will advance measures aimed at addressing more fundamental challenges.

Identifying issues at each organizational level and implementing improvement actions based on actual circumstances

We have come to realize that conventional surveys have limitations when it comes to digging deeper into the issues facing individual organizations or analyzing the factors contributing to them. As such, they do little more than measure engagement scores, and it is hard to translate them into improvement. In light of such introspection, we have introduced a new method that focuses on the employee experience—i.e., the experiences and emotions employees go through in the performance of their daily duties and the use of systems—and can provide a visual representation of the “expectation gap” in our engagement scores. Based on these results, we will clarify the location and importance of issues on an organizational basis and establish a system that allows each individual organization to autonomously explore specific responses. In addition, our Human Resources department will hold briefing sessions and support the implementation of measures, thereby supporting more fundamental and ongoing problem-solving rather than merely responding to superficial issues.

In addition, the new human resources business partners deployed in our plant divisions from 2025 will not simply act as agents for human resources operations, but will also serve as hubs for implementing human resources strategies tailored to frontline workplaces. They work closely with plant management to accurately grasp the organizational culture and issues at our plants, and then plan and implement measures on the basis of that information. Specifically, they act as a bridge between systems and the frontline workplace in areas such as HR systems, support for the implementation of HR systems, design and implementation of measures to prevent employee turnover, and prevention of labor problems, and promote the cultivation of an environment that empowers each individual employee to grow with peace of mind. These practical initiatives will improve engagement in our plant divisions and ultimately strengthen our frontline power.

Promoting diversity, equity, and inclusion, and work-life balance, and cultivating a corporate culture where everyone can flourish

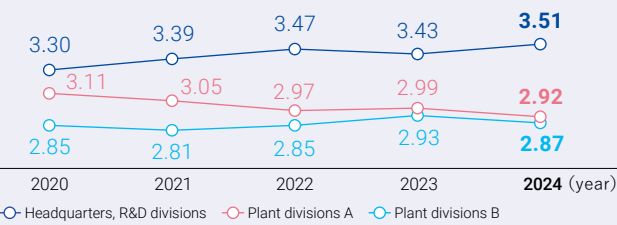
We aim to “realize a corporate culture where diverse human resources can thrive independently, regardless of nationality, age, or gender,” and are working to promote diversity, equity, and inclusion as well as work-life balance. We have already established a support system that goes beyond legal requirements to help employees who are raising children or caring for the elderly balance their work with their family responsibilities, and in 2025 we introduced a new system to support employees in balancing work with long-term outpatient and medical treatment, such as cancer and infertility treatment.

Major support systems for childcare, nursing care, and medical treatment that exceed legal requirements

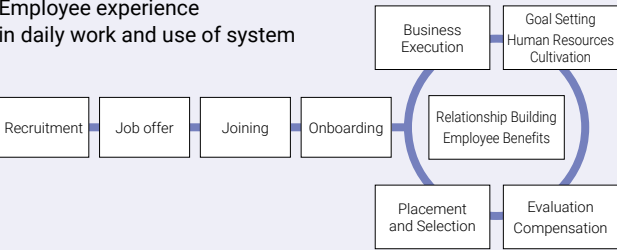
Category	Handling
Childcare	Paid leave for caring for children under one year of age and for maternal health checkups
Nursing care	Caregiving leave available for up to 365 days in total Caregiving leave available for family members who require support
Medical treatment	Salary paid for a certain period of time during leave taken for personal injury or illness Accumulated annual paid leave can be used if frequent medical visits are required
Working from home	Employees with children up to the age of third grade Employees caring for family members who require assistance or nursing care Employees undergoing treatment for personal illness

Full remote work is available

Engagement score by division



Employee experience in daily work and use of system



We also promote paternity leave among male employees, and in recent years our rate of leave taken has been nearly 100%. We are also focusing on promoting the active participation of women, and the ratio of female managers and female career-track employees has steadily increased. However, we have not yet achieved our internal targets for 2024. We will therefore work to further promote and retain female talent by expanding open career recruitment that is free from position restrictions, providing opportunities for consultation with external career consultants, and supporting transition to career-track employment.

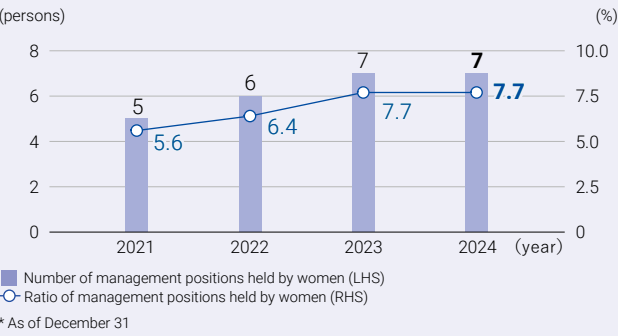
We are also working to promote flexible working styles by introducing a flextime system with no core time, working from home, and no-overtime days, and our paid leave utilization rate remained at a very high level of 88.7% in 2024. Going forward, we will translate this into sustained corporate value creation by building a work environment that enables employee to work flexibly and sustainably.

Paternity leave ratio

	2022	2023	2024
Childcare leave ratio	90%	105%	105%
Number of employees	19	21	21

* Childcare leave includes childcare leave, childcare leave at birth, and paid leave for childcare purposes. The leave ratio exceeds 100% due to employees who had a child at the end of 2023 taking leave at the beginning of 2024.

Number and ratio of management positions held by women



■ Number of management positions held by women (LHS)
○ Ratio of management positions held by women (RHS)
* As of December 31

3 Maintenance and improvement of a comfortable workplace environment

Our Seven Promises include the declaration of our commitment to providing a lively and comfortable working environment. We are actively taking measures to improve the working environment so that employees can work safely and maintain both physical and mental well-being. Based on the Safety Guidelines of “protecting ourselves and our colleagues,” we are rolling out Comprehensive Safety Check Initiative 2022 Company-wide. Each employee takes the initiative to identify hazardous areas in the workplace and promotes improvement activities. We also work with industrial physicians and health insurance associations to focus on mental health care and hold walking events, among other activities.

To improve the working environment, we relocated our head office in 2019, renovated our Yokkaichi Plant’s Kasumigaura Plant office in 2022, and refurbished the Technology Development Center (Yokkaichi) Research Building No. 1 in 2023. We also completed office renovations at our Chiba Plant in February 2025, and refurbished the quality control facility in July of the same year.

Outside Director’s Perspective



Sayoko Miyairi
Independent Outside Director

The key concept of our human resources strategy, “rewarding those who take on challenges and work to achieve them,” shows that, far from resting on our laurels, we will work to increase the number of people who undertake new challenges, and reward them through their compensation.

To achieve VISION 2030, we must develop the potential of each individual, create an environment that empowers them to take on new challenges, enhance productivity across our organization, and further evolve our advanced technologies and IP. To that end, we have incorporated a comprehensive range of personnel policies, but it is crucial that our policies work together to generate synergy, rather than acting alone.

Furthermore, to be able to take on new challenges without fear of failure, it is important to migrate our organizational environment and personal attitudes away from “maintaining the status quo,” and the key issue is whether people understand the intent of our human resources strategy and how each initiative contributes to the shift. To that end, it is essential to improve communication skills, including among management, and update our management approach to one that shares new values that connect and motivate diverse capabilities.

From my perspective as an outside director, I will keep a close eye on these points and see whether the Company is discovering and nurturing the next generation of leaders and progressing in line with its overall medium- to long-term trajectory.

Message from an Outside Director



Evolution of decision-making and supervision to enhance corporate value as a result of the transition to a Company with an Audit and Supervisory Committee

Yuji Kikuchi
Independent Outside Director

Intense discussions, forward-looking decision-making, and investor-oriented monitoring and supervision

It has been approximately 10 years since Japan's Corporate Governance Code was formulated, and the governance of listed companies certainly seems to have undergone significant changes. KH Neochem has also been steadily strengthening its governance through its Board of Directors, such as by appointing and increasing the number of independent outside directors, transitioning to a company with an audit and supervisory committee structure in 2024, and making the majority of its directors independent outside directors. Unlike the statements of auditors, who have no voting rights, statements at Board meetings by directors who are Audit and Supervisory Committee members carry greater weight. When discussions become heated, tension builds up around voting.

The Board of Directors is entrusted with the crucial mission of making resolutions and monitoring and supervising reporting. When it comes to formulating the Company's medium- to long-term vision and medium-term business plans, we, the outside directors, offer our opinions from diverse perspectives based on our respective knowledge and experience, and hold repeated discussions to make the vision and plans as effective as possible. Decisions unique to petrochemical industry manufacturers such as KH Neochem involve heavy capital investments in anticipation of long-term future profits, as well as the maintenance and management of aging equipment. These are quite technical matters, and as an outside director, it can be difficult to keep up with the discussions. However, first and foremost, from an investor's perspective, I thoroughly scrutinize whether the executive division is making reasonable forecasts regarding future supply and demand and the circumstances regarding competitors, and whether there is an objective basis for those forecasts. I also verify whether such decisions will truly contribute to improving the Company's earning power.

At the same time, when it comes to the monitoring and supervising of reporting, it is important that reports are submitted properly. An important daily mission of the Board of Directors is to receive reports on business operations and immediately correct any inappropriate actions. There is no point in reporting on something after it is all over. When something happens, it is important to report it immediately, and this is a point that I have repeatedly conveyed to the executive division.

Essential discussion of succession plans at the Nomination and Compensation Advisory Committee

The Nomination and Compensation Advisory Committee's primary missions are: (1) to verify the appropriateness of the nominations of directors and corporate officers, (2) to assess the appropriateness of the compensation of directors and corporate officers, and (3) to consider succession plans. Regarding the first two items, the Nomination and Compensation Advisory Committee has been conducting thorough discussions on verification over the past few years, and we will continue to conduct rigorous evaluations.

The biggest challenge in FY2025 is (3) to consider succession plans. Emotionally based appointments or appointing someone simply because "it's their turn" are completely unacceptable. Given our current situation, we will first specifically articulate what the external and internal roles of our President & Chief Executive Officer will be over the next 10 years, what role investors expect them to play, and what skills that individual will need to fulfill those roles. We will then hold repeated discussions in a manner that can also be verified retroactively, such as whether we have personnel within the Company who fit those roles, and if not, what kind of personnel we should bring in from outside the Company.

Basic stance on corporate governance

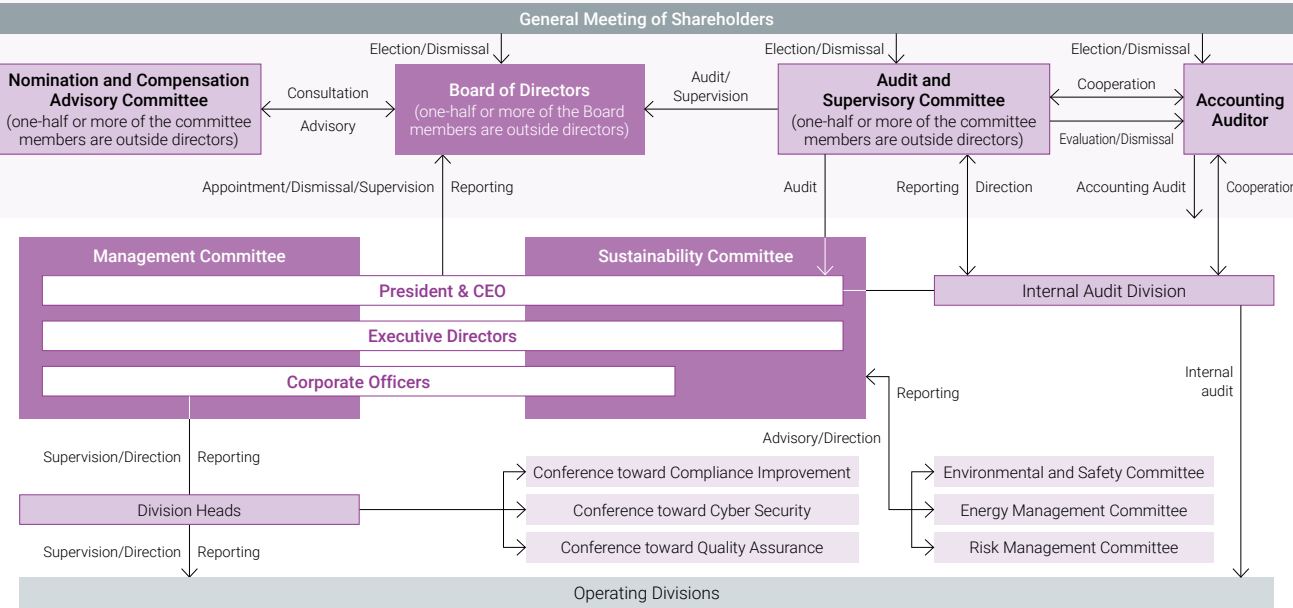
In line with KH Neochem's corporate mission of "Realizing a brighter tomorrow for society through the power of chemistry," we strive to achieve sustainable growth, improve our corporate value for the mid-to-long term and realize sound management with secured transparency and fairness. As such, we have established a corporate governance system to make ongoing efforts toward its enhancement.



To view our Corporate Governance Report, please visit our website.
<https://www.khneochem.co.jp/en/sustainability/governance/corporate-governance/>

Overview of corporate governance structure

KH Neochem has transitioned to a company with an audit and supervisory committee pursuant to a resolution of the 14th Ordinary General Meeting of Shareholders held on March 26, 2024. While the separation of management oversight and execution has been promoted to date, we intend to accelerate management decision-making and further enhance the supervisory function of the Board of Directors by electing to become a company with an audit and supervisory committee, which will enable the delegation of a substantial portion of the Board of Directors' decision-making authority for business execution to the executive directors.



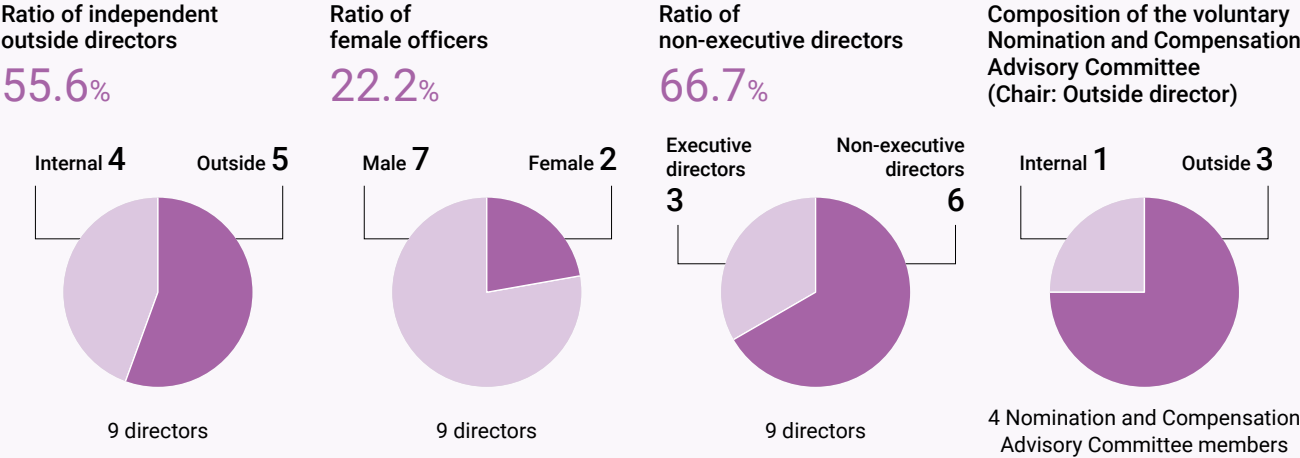
Descriptions of organizations

Board of Directors	The Board of Directors exists to promote sustainable growth of the Company and improvement of its corporate value over the medium and long term and, to strive for proper structuring and management of a corporate control system. The Board of Directors makes decisions based on matters set out in laws, regulations, and the Company's Articles of Incorporation and other critical management matters as the Company's key executive decision-making body in addition to serving as a supervisory body over the directors' performance of duties.
Audit and Supervisory Committee	Based on the Company's audit plan, Audit and Supervisory Committee members attend important meetings and meet with CxOs and corporate officers, as well as work closely with the Internal Audit Division to conduct effective audits that utilize the expertise of independent outside directors and the knowledge of full-time directors. They also engage in exchanges of opinions with representative directors and accounting auditors.
Nomination and Compensation Advisory Committee	As an advisory body to the Board of Directors, the Nomination and Compensation Advisory Committee formulates annual plans for matters consulted by the Board of Directors, carries out activities, and reports to the Board of Directors. The committee strengthens the independence, objectivity, and accountability of the Board of Directors' functions regarding the nomination and compensation of directors and corporate officers.
Management Committee	The Management Committee decides on important matters regarding the execution of the Company's business as delegated by the Board of Directors, and also deliberates in advance on matters to be submitted to the Board of Directors.
Sustainability Committee	As an advisory body to the Board of Directors, the Sustainability Committee deliberates, reports, and monitors matters related to sustainability, including those to be resolved by the Board of Directors or the Management Committee, those to be approved by the President, as well as other important matters related to sustainability.
Expert committees and conferences	The Company has established expert committees (Environmental and Safety Committee, Energy Management Committee, and Risk Management Committee) and conferences (Conference toward Compliance Improvement, Conference toward Cyber Security, and Conference toward Quality Assurance) as important governance bodies that complement and reinforce Company-wide decision-making.

Progress in strengthening corporate governance

	2013	2015	2017	2019	2021	2023
Event organization and design		2016 Listed on the First Section of the Tokyo Stock Exchange			2022 Moved to the Tokyo Stock Exchange Prime Market	
	Company with an Audit & Supervisory Board					Company with an Audit and Supervisory Committee
Separation of execution and management	2013 Introduced corporate officer system				2021 - Expanded the scope of transfer of operational execution authority - Transitioned corporate officers from hired to delegated positions	2024 Transitioned to a company with an audit and supervisory committee
Structure regarding nomination and compensation	2014 Established a voluntary Compensation Committee		2016 Established a voluntary Nomination and Compensation Advisory Committee		2021 Applied performance-linked share-based compensation to corporate officers as well	
			2018 - Terminated the retirement benefit plan - Introduced performance-linked share-based compensation system			
Policy initiatives to strengthen governance		2016 - Established the Corporate Policy - Filed our Corporate Governance Report	2017 Started the evaluation of effectiveness of the Board of Directors		2022 Revised the Basic Policy for the Internal Control System	
			2018 Formulated VISION 2030		2023 - Established the Sustainability Committee - Made alterations to expert committees and conferences	
				2020 Established the Compliance Code and various policies		
Board of Directors		2016 Appointed an independent outside director	2017 Added an independent outside director	2020 Added an independent outside director	2019 Appointed an independent outside director (female)	2024 - Majority of independent outside directors - Added two independent outside directors (one of whom is female)

2025 Overview



Board of Directors

The Board of Directors exists to promote sustainable growth of the Company and improvement of its corporate value over the medium and long term, and to strive for proper structuring and management of a corporate governance system. The Board of Directors makes decisions based on matters set out in laws, regulations, and the Company's Articles of Incorporation and other critical management matters as the Company's key executive decision-making body in addition to serving as a supervisory body over the directors' performance of duties. The Board of Directors, in principle, holds ordinary Board of Directors' meetings on a monthly basis in addition to extraordinary Board of Directors' meetings as needed, forming the Company's system for swift decision-making in management.

Main agenda items for Board of Directors' meetings in 2024

Deliberation topics	Number of agenda items	Percentage	Main issues
Management strategy	22	23%	Establishment of a medium-term business plan, annual management policy, and budget Critical investment projects and monitoring
Sustainability	5	5%	Report of Sustainability Committee activities and discussion of issues Policy for human capital disclosure
Corporate governance and risk management	22	23%	Board of Directors' effectiveness evaluation Discussions on strengthening the supervisory function of the Board of Directors and the operational execution system Consideration for achieving cost of capital and stock price conscious management Progress in addressing material risks Report on the status of Group compliance Activity report of the Nomination and Compensation Advisory Committee

Evaluation of effectiveness of the Board of Directors

The effectiveness of the Board of Directors is evaluated once a year. The Board of Directors deliberates and considers specific improvements based on the results, and ongoing efforts are made to improve the functioning of the Board by implementing those measures.

Issues in the 2023 Board of Directors' effectiveness evaluation and initiatives in 2024

Issues identified in the 2023 effectiveness evaluation		Results of initiatives in 2024
Issue 1	Need to improve the effectiveness of the monitoring of important investment projects, and other such matters	The Board of Directors of Directors will continue to work on more effective monitoring by creating a list of important investment projects that need to be monitored, properly ascertaining their circumstances, and ensuring timely and appropriate reporting.
Issue 2	Need to set the agenda for Board of Directors' meetings in line with the objectives of transitioning to a company with an audit and supervisory committee	The Board of Directors will work to enhance discussions by setting agendas in line with the objectives of the transition to a company with an audit and supervisory committee and by holding discussions at each phase toward formulating the 5th Medium-Term Business Plan.
Issue 3	Need to revise the formulation process for the next medium-term business plan and enhance discussions	

2024 Board of Directors' effectiveness evaluation

- Implementation period: December 2024 - Method of evaluation of effectiveness: Survey (named/multiple choice/descriptive) - Target: All directors (9 persons)	The effectiveness of the Board of Directors has been recognized as being secured, as the role, composition, and operation, etc., of the Board of Directors have all received positive evaluations in the 2024 Board of Directors' effectiveness evaluation.
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Issues identified in the 2024 effectiveness evaluation		Efforts to make in 2025
Issue 1	Need for enhanced discussions of medium- to long-term strategies	Establish a new strategic discussion forum chaired by an outside director for medium- to long-term discussions
Issue 2	Need for improved information exchange among directors	Establish additional informal meetings for outside directors to provide information
Issue 3	Need for further improvements to the operating format of the Board of Directors	Expand the content of pre-meeting briefings for outside directors on the content of Board of Directors' meeting proposals and other important matters Ensure adequate time is allocated at Board of Directors' meetings

Steps toward more active discussions at Board of Directors' meetings

As part of our efforts to stimulate discussion at Board of Directors' meetings, we have established informal discussion forums outside of Board of Directors' meetings. Specifically, after setting various management themes that contribute to improving corporate value in light of changes in the external environment and social conditions, we hold an off-site meeting that lasts about half a day, during which we engage in frank and lively discussions on a variety of issues. Additionally, forums for exchange of information called "Roundtable Meetings" are held after Board of Directors' meetings as necessary to provide an opportunity for free and vigorous discussions on topics related to the Board of Directors' proposals and other issues. In 2025, we plan to increase the number of informal meetings to further enhance information exchange among directors, as well as to establish a new framework for strategic discussions chaired by an outside director to focus on medium- to long-term strategies.

Audit and Supervisory Committee

The Audit and Supervisory Committee consists of three directors that are Audit and Supervisory Committee members (two of whom are independent outside directors; hereinafter collectively referred to as "Audit and Supervisory Committee members"). The Audit and Supervisory Committee, chaired by a full-time Audit and Supervisory Committee member, meets once a month in principle for the purpose of discussing and resolving important audit-related matters, and reports any important matters to the Board of Directors.

In addition to attending Board of Directors' meetings, where they express necessary opinions and participate in decision-making, directors serving as Audit and Supervisory Committee members also fulfill their management oversight functions by, among other things, checking the status of activities of the Nomination and Compensation Advisory Committee. In addition, the Audit and Supervisory Committee, led by a full-time Audit and Supervisory Committee member, attends important meetings such as the Management Committee, regularly exchanges opinions with the representative director, and interviews CxO members, corporate officers, and other business executors to audit the status of directors' execution of duties. Furthermore, the Audit and Supervisory Committee strives to collect necessary information and improve the auditing environment through daily and flexible cooperation with the Internal Audit Division, communication with the accounting auditors, and by inspecting important documents.

Key Audit and Supervisory Committee items for 2025

- Status of efforts to "strengthen earning power"
- Status of implementation of personnel measures
- Status of efforts to strengthen plant on-site capabilities (including response regarding safe and stable production)
- Status of efforts to improve DX (including business efficiency and productivity)
- Status of efforts to improve compliance and risk management (including expansion into Group governance), etc.

A Message from Directors Serving as Audit and Supervisory Committee Members: Aiming to Further Strengthen Supervisory Functions



Isao Takahashi
Board Director
Audit and Supervisory Committee Member

I believe that Board of Directors' meetings are one of the most important occasions for Audit and Supervisory Committee members to fulfill their roles. When attending Board of Directors' meetings, I always pay close attention to whether lively discussions are taking place based on sufficient and necessary information. I also make sure to remain keenly aware of whether the discussions will help to enhance corporate value and whether I myself am contributing to them. In auditing activities, the Audit and Supervisory Committee and the Internal Audit Division work closely together to carry out systematic activities, thereby strengthening the auditing function of the entire Company. I am aware that Audit and Supervisory Committee members bear important responsibilities in the Company's efforts to achieve enhanced corporate value, and I intend to thoroughly fulfill my duties.



Kazuhiro Kawai
Independent Outside Director
Audit and Supervisory Committee Member

KH Neochem transitioned to a company with an audit and supervisory committee in March 2024. A division that serves to perform checks is indispensable for sustainable growth of a company. Through meetings with the operating divisions and other such measures, we will reconfirm that the Company is being managed appropriately, and will also recognize and confirm any issues the Company may have. A defining characteristic of the Audit and Supervisory Committee is that it conducts systematic audits. In the previous fiscal year, with an eye on organizational audits, we exchanged information closely with the Internal Audit Division, and all members visited the Yokkaichi and Chiba plants as well as Kurogane Kasei to exchange opinions with employees. In the second half of the year, we also had meetings and exchanged opinions with all department heads. We will continue to work energetically this year as well.



Keiko Tamura
Independent Outside Director
Audit and Supervisory Committee Member

Since being appointed a director serving as an Audit and Supervisory Committee member in March 2024, I have become more conscious of the long-term future of the Company than when I was an Outside Audit & Supervisory Board member—not just the future over the next three or five years but also the future vision of the Company for mid-career employees and even younger employees as they grow into veterans. While remaining mindful of whether KH Neochem is making steady progress toward becoming the kind of company its various stakeholders, including shareholders, business partners, and employees, expect it to be, I aim to leverage my knowledge and experience as an attorney as well as my experience as an outside director at other companies to participate in discussions and decision-making at Board of Directors' meetings and to devote myself to the audits and other activities of the Audit and Supervisory Committee.

Nomination and Compensation Advisory Committee

With the aim of reinforcing the independence, objectivity, and accountability of the Board of Directors' functions related to the nomination and compensation of directors and corporate officers, the Company has established a voluntary Nomination and Compensation Advisory Committee as an advisory body to the Board of Directors. The chair of the committee is an outside director, and outside directors constitute a majority of the members. The Nomination and Compensation Advisory Committee formulates an annual plan and works on matters consulted by the Board of Directors, and reports to the Board of Directors. The chair of the committee is selected by the Nomination and Compensation Advisory Committee from among the outside directors.

Main agenda items and activities of the Nomination and Compensation Advisory Committee in 2024

- Discussion and advice relating to executive staffing
- Discussion and advice relating to compensation for executives
- Consideration and recommendation regarding succession plans (successor plans and training plans)

Director nomination policy and required skills

The Company nominates candidates for director from the perspective of putting the right person in the right place, and of finding an individual who is competent and can contribute to precise and rapid decision-making based on the skills, etc., required of a director. After also taking into account diversity issues such as gender, the voluntary Nomination and Compensation Advisory Committee responds to inquiries from the Board of Directors by conducting a comprehensive consideration, and the Board of Directors decides on the nomination.

In addition, we have selected eight skills that are expected to contribute to the management of the Company and created a skills matrix [P.73](#) to ensure that the Board of Directors as a whole has a well-balanced composition that covers each item and ensures diversity of experience and expertise. In addition, we have created a skills matrix that includes not only directors but also corporate officers with the aim of promoting the development and promotion of the next generation of talent.



To view the overall skills matrix, including for corporate officers, please visit our website.
<https://www.khneochem.co.jp/sustainability/governance/corporate-governance/> (in Japanese only)

Reasons for selecting individual skill areas

Skill areas	Reasons
Corporate management	We believe that experience and a proven track record in corporate management are required for presenting a growth strategy for sustainable enhancement of the Group's corporate value and properly fulfilling the role of overseeing management.
Business strategy	We believe that building a solid revenue base and achieving sustainable growth for the Group amid a rapidly changing business environment requires experience and a proven track record to formulate strategies that enhance corporate value and to build alliances that create new social value.
Finance/Accounting	We believe that financial and accounting knowledge and experience are essential for formulating appropriate financial and capital strategies, assessing business growth potential and profitability, maintaining financial soundness, and achieving high capital efficiency.
Governance/ Compliance/ Risk management	We believe that knowledge and experience in corporate governance, compliance, and risk management are essential to building an appropriate governance system as the foundation of our business, accurately identifying and controlling risks associated with business operations, and making transparent, fair, prompt, and bold decisions.
Organization & Human Resource Development/ Diversity Development/ Diversity	We believe that knowledge and experience in managing diverse human resources and sustained efforts to improve organizational culture are required to strengthen our human capital by ensuring diversity as a management foundation and by building an organization where each employee can demonstrate their individuality and contribute.

Succession and development plans for the next generation of management executives

As part of our succession and development plans for the next generation of management executives, we provide opportunities for all division heads to have interviews with outside directors. We actively communicate with outside directors, leading to the development of succession and development plans for the next generation of management executives in the future.

Corporate Governance

Outside Directors

▶ Criteria for independence of independent outside directors

In selecting candidates for independent outside directors, in addition to the independence standards of the Tokyo Stock Exchange, KH Neochem places importance on abundant business experience and a high level of expertise that enables candid and constructive advice and supervision of the Company's management.

Reasons for appointment of outside directors

Skill areas	Reasons
Sayoko Miyairi Outside Director Nomination and Compensation Advisory Committee Member	She appropriately fulfills such roles as providing opinions and recommendations on human resource training and improving employee engagement, particularly from her expert perspective in organization and human resource development, in order to ensure that decision-making is suitable and appropriate. In addition, as a member of the Nomination and Compensation Advisory Committee, she attended all eight of its meetings held during the fiscal year under review, supervising the process for the selection of candidates and the determination of remuneration, etc., for officers of the Company from an objective and neutral viewpoint.
Jun Tsuchiya Outside Director Nomination and Compensation Advisory Committee Member	He appropriately fulfills such roles as providing opinions and recommendations concerning the Company's business, particularly in the areas of management and technology in order to ensure that decision-making is suitable and appropriate. In addition, as a member of the Nomination and Compensation Advisory Committee, he attended all eight of its meetings held during the fiscal year under review, supervising the process for the selection of candidates and the determination of remuneration, etc., for officers of the Company from an objective and neutral viewpoint.
Yuji Kikuchi Outside Director Nomination and Compensation Advisory Committee Chairperson	He appropriately fulfills such roles as providing opinions and recommendations concerning risk management and strengthening corporate governance, particularly from his professional perspective as an attorney in order to ensure that decision-making is suitable and appropriate. In addition, as the chair of the Nomination and Compensation Advisory Committee, he attended all eight of its meetings held during the fiscal year under review, leading the supervision of the process for the selection of candidates and the determination of remuneration, etc., for officers of the Company from an objective and neutral viewpoint.
Kazuhiro Kawai Outside Director Audit and Supervisory Committee Member	He possesses extensive experience in screening operations and management within financial institutions, along with deep knowledge of accounting and internal controls. He has served as an auditor for the Company since March 2020, and his wealth of experience as a business leader is expected to contribute significantly to the organization.
Keiko Tamura Outside Director Audit and Supervisory Committee Member	As a lawyer, she possesses extensive expertise in the fields of finance and corporate legal affairs. While she has not been directly involved in the Company's management outside of her role as an outside officer, her experience as an auditor for the Company since March 2020, along with her extensive background as a lawyer, is expected to bring valuable insights to the Company.

▶ Support system for outside directors

To enable outside directors to exercise appropriate supervision from an independent standpoint, materials are distributed in advance regarding proposals to be submitted to the Board of Directors, and explanations are provided in advance by the division making the proposal, and others. Furthermore, we have been improving the quality of discussions at Board of Directors' meetings; for example, prior to Board of Directors' meetings, by sharing the internal review process of important matters discussed at the Management Committee and the details of those matters. In addition, to prevent an information gap with full-time directors, important information related to management is shared via email or other means as appropriate, and we also provide regular visits to our plants and subsidiaries as opportunities for interaction and dialogue with employees on the front lines. Furthermore, when new outside directors are appointed, we work to deepen their understanding of the Group by providing them with materials and information as well as holding explanatory meetings.

▶ Efforts to demonstrate the skills of outside directors

To proactively incorporate the diversity and high level of expertise of our outside directors into our management, we hold training sessions for management, with outside directors as instructors. Recently, Director Yuji Kikuchi provided training on trends in insider trading. These sessions provide an opportunity for outside directors to demonstrate their skills and provide input to management, while also providing a forum for the frank exchange of opinions among directors, which helps to stimulate constructive discussions at Board of Directors' meetings.

Additionally, we provide ongoing training opportunities for management, including outside directors, by inviting external experts, lawyers, and other such lecturers. Through these training programs, each of our directors is able to further deepen their own expertise and strengthen their ability to respond to a rapidly changing business environment.



Training session given by an outside director

Officer Compensation, etc.

Policy on determination of Directors' compensation, etc.

The basic policy regarding the compensation for directors (excluding directors that are Audit and Supervisory Committee members and outside directors) are as follows:

Basic policy on executive compensation

- Director compensation is to serve as sufficient incentive for directors to improve business performance and increase corporate value over the medium to long term.
- Director compensation is to give rise to competitive strengths that facilitate capacity to gain diverse and outstanding talent.
- Director compensation is to cause directors to have common interests with shareholders and other stakeholders.

Based on the above basic policy, compensation, etc., consists of monetary compensation comprising fixed compensation and performance-linked compensation, as well as performance-linked share-based compensation involving a trust. Compensation, etc., is to be determined within a compensation range resolved at the General Meeting of Shareholders, and is set at appropriate levels by enlisting third-party surveys on compensation of business managers in Japan.

Regarding compensation, etc., for individuals, for monetary compensation, the Board of Directors must seek the advice of the voluntary Nomination and Compensation Advisory Committee and the Representative Director, President & Chief Executive Officer, and then receive the committee's report and reach a resolution that is the basis for delegating the decision to the Representative Director, President & Chief Executive Officer, who then determines monetary compensation. In pursuit of reasonable levels of compensation and transparency in performance evaluations, the Representative Director, President & Chief Executive Officer must make decisions in line with the details discussed by the Nomination and Compensation Advisory Committee. Performance-linked share-based compensation is determined based on the "Rules for Delivery of Shares to Officers" set out by the Board of Directors in advance.

Moreover, the remuneration of outside directors and directors who serve as Audit and Supervisory Committee members consists solely of monetary remuneration (fixed monthly amounts).

Monetary Compensation

Around 30% of all monetary compensation is performance linked, and it is calculated using the rate at which planned earnings are achieved and the average achievement rate over the past five years.

Performance-linked share-based compensation

Performance-linked share-based compensation is calculated using the rate at which planned earnings are achieved, provided that consolidated operating income is in the black. While placing greater priority on performance, this compensation system clarifies the link with the stock price, providing directors with both the benefit of increases in the stock price and the risk of decreases in the stock price with shareholders, thereby increasing awareness of contributing to the improvement of medium- to long-term performance and increasing corporate value.

Performance-linked compensation indicators

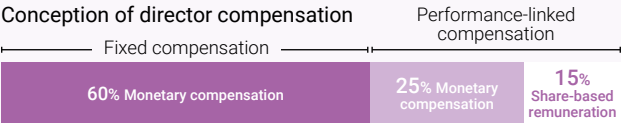
The evaluation index used for performance-linked compensation (both monetary compensation and share-based compensation) is consolidated EBITDA,* taking into account the characteristics of the Company's business and other factors. Because the Company owns a large number of facilities, it considers EBITDA, which includes depreciation and amortization in its calculations, to be a useful indicator.

* EBITDA is calculated using the following formula: EBITDA = Operating income + depreciation + amortization of goodwill (the amount from the consolidated statement of income is used for operating income, while the amounts from the consolidated statement of cash flows are used for depreciation and amortization and amortization of goodwill).

Cross Shareholdings

To improve corporate value, KH Neochem owns shares in companies considered important for maintaining medium- and long-term business connections and synergies that are based on an understanding of the importance of each other's management policies, business lines, and business dealings. Approximately 40% of investment shares on the balance sheet are unlisted shares, and of these approximately 90% are shares in affiliated companies acquired through joint investments in key materials manufacturers and in management companies for joint industrial complexes. Thus, these holdings truly are business investments.

For shares in listed companies, the Board of Directors annually reviews the rationale for each shareholding, including appraisal losses and gains, compliance status, and business dealings with the Company. In 2024, we invested in one start-up company with the aim of creating new businesses.



* The above diagram indicates a target for director compensation, which varies with each fiscal year. The proportion of performance-linked compensation increases with executive rank. Please note that this excludes directors who are Audit and Supervisory Committee members and outside directors.

Total amount of compensation by officer classification, total amount of compensation by category, and number of officers subject to compensation (2024)

Officer classification	Total amount of compensation (Millions of yen)	Total amount of compensation by category (Millions of yen)			Number of officers subject to compensation
		Monetary compensation		Share-based compensation	
		Fixed	Performance-linked	Performance-linked	
Directors (excluding Audit and Supervisory Committee members and outside directors)	150	94	31	25	5
Audit and Supervisory Committee members (excluding outside directors)	16	16	–	–	1
Auditor and Supervisory Board members (excluding outside members)	5	5	–	–	1
Outside officers	58	58	–	–	5

(Note) Based on the resolution of the 14th Ordinary General Meeting of Shareholders held on March 26, 2024, the Company transitioned to a company with an audit and supervisory committee on the same day. The above number of officers and amounts of remuneration include those for two directors and three Audit & Supervisory Board members (two of whom were outside auditors) who retired at the conclusion of the General Meeting of Shareholders. Furthermore, the two officers who were appointed as directors (outside officers) serving as Audit and Supervisory Committee members on the same day after retiring from their positions as Audit & Supervisory Board members (outside officers), as well as the amount of compensation paid to them, are included in the figures for outside officers.

Members of the Board



1 Michio Takahashi : Representative Director
President & Chief Executive Officer

Apr. 1987
July 2011
Mar. 2013
Mar. 2016
Mar. 2017
Mar. 2019
Mar. 2020

Joined Kyowa Hakko Kogyo Co., Ltd.
General Manager of Basic Chemical,
Kyowa Hakko Chemical Co., Ltd.
(now the Company)
Director & Corporate Officer of the Company
Managing Director & Corporate Officer of the Company
Executive Vice President & Corporate Officer
of the Company
Representative Director, President & Corporate
Officer of the Company
Representative Director, President &
Chief Executive Officer of the Company
(to present)

2 Masaya Hamamoto : Board Director
Senior Corporate Officer

Apr. 1985
Apr. 2011
Apr. 2014
Apr. 2015
June 2015
Apr. 2016
June 2019
Sept. 2019
Mar. 2020

Joined the Industrial Bank of Japan, Limited
(now Mizuho Bank, Ltd.)
General Manager of Osaka Corporate Banking
Division No. 1 of Mizuho Corporate Bank, Ltd.
(now Mizuho Bank, Ltd.)
Executive Officer and General Manager of
Corporate Banking Division No. 5 of
Mizuho Bank, Ltd. (retired in March 2015)
Executive Officer of IBJ Leasing Company, Limited
(now Mizuho Leasing Company, Limited)
Director, Executive Officer and General Manager
of Corporate Planning Department of IBJ
Leasing Company, Limited
Managing Director, Managing Executive
Officer and General Manager of Corporate
Planning Department of IBJ Leasing Company,
Limited. (retired in May 2019)
Joined the Company
Senior Corporate Officer of the Company
Board Director & Senior Corporate Officer of
the Company (to present)

3 Toshiaki Fujima : Board Director
Corporate Officer

Apr. 1998
Aug. 2006
Mar. 2011
Aug. 2013
Jan. 2023
Mar. 2024
Mar. 2025

Joined Kyowa Hakko Kogyo Co., Ltd.
Seconded to Kyowa Hakko U.S.A., Inc.
as Director
Seconded to Kyowa Hakko Chemical
Americas, Inc. as Executive Vice President
Group Manager, Sales Group 2, Chemical
Sales Department of the Company
Head of Corporate Planning of
the Company
Board Director, CSO & Head of Corporate
Planning of the Company
Board Director, Corporate Officer,
Head of Corporate Planning of the Company
(to present)

4 Sayoko Miyairi : Independent Outside
Director

Apr. 1979
July 1982
Mar. 1986
Apr. 2000
Apr. 2000
Jan. 2005
Apr. 2008
Mar. 2019
Aug. 2020
Apr. 2022
June 2022

Joined Hitachi, Ltd.
Joined Bank of America, N.A.,
Asia Headquarters
Joined Pasona Inc. and seconded and then
transferred to Edu Consult Co., Ltd. (now
Scholar Consult Co., Ltd.)
Partner of Scholar Consult Co., Ltd.
(to present)
Assistant Professor of Nihonbashi Gakkan
University (now Kaichi International University)
Director of Scholar Consult Co., Ltd.
Professor of Nihonbashi Gakkan University
(now Kaichi International University)
Outside Director of the Company (to present)
Outside Director of Toyo Engineering
Corporation (to present)
Emerita and Guest Professor of Kaichi
International University (to present)
Outside Director of NIHON SEIKAN K.K.
(to present)

5 Jun Tsuchiya : Independent Outside
Director

Apr. 1981
May 1983
Feb. 1984
Jan. 1999
Apr. 2001
Feb. 2002
Jan. 2007
Oct. 2018
June 2019
Mar. 2020

Joined Argonne National Laboratory, U.S.A.
Joined Lawrence Berkeley National
Laboratory, U.S.A.
Joined Mitsubishi Chemical Industries Limited
(now Mitsubishi Chemical Corporation)
Seconded as President to Verbatim
Corporation, U.S.A., a subsidiary of Mitsubishi
Chemical Limited
General Manager of Corporate Planning Office
of Mitsubishi Chemical Industries Limited
(now Mitsubishi Chemical Corporation)
(retired in January 2002)
Director of Rohm & Haas Japan K.K (now Dow
Chemical Japan Limited)
Representative Director & President of
Heraeus K.K.
CEO of Tsuchiya International Consulting
Corp. (to present)
Outside Director of Soken Chemical &
Engineering Co., Ltd. (to present)
Outside Director of the Company
(to present)

6 Yuji Kikuchi : Independent Outside
Director

Apr. 1992
Apr. 2002
Mar. 2003
Mar. 2005
June 2010
June 2014
Mar. 2020

Registered as an attorney at law
Entered Sakano, Seo & Hashimoto
Law Office
(now Tokyo Hatchobori Law Office)
Partner of Tokyo Hatchobori Law Office
Joined the Securities and
Exchange Surveillance Commission
(Coordination and Inspection Division,
Executive Bureau)
Returned to being a partner at Tokyo
Hatchobori Law Office (to present)
Outside Audit & Supervisory Board Member of
Inui Warehouse Co., Ltd.
(now Inui Global Logistics Co., Ltd.)
Outside Audit & Supervisory Board Member of
NEC Networks & System Integration
Corporation
Outside Director of the Company
(to present)

7 Isao Takahashi : Board Director
Audit and Supervisory
Committee Member

Apr. 1988
Oct. 2012
Oct. 2014
Oct. 2017
Jan. 2019
Jan. 2020
Apr. 2021
Apr. 2023
Mar. 2024

Joined Fujisawa Pharmaceutical Co., Ltd.
(now Astellas Pharma Inc.)
General Manager of Corporate Planning
Department of Astellas Business Service
Company Limited
General Manager of Operations Department of
Astellas Business Service Company Limited
Joined the Company
General Manager of General Affairs Division of
the Company
Corporate Officer, Officer in charge of
Corporate Functions (HR, Legal, General
Affairs, IT, and Compliance) & Head of
Corporate Administration, Public Relations,
Legal and Compliance of the Company
Corporate Officer & Head of Corporate
Administration, Public Relations, Legal and
Compliance of the Company
Senior Corporate Officer & Head of Corporate
Administration, Public Relations, Legal and
Compliance of the Company
Board Director & Audit and Supervisory
Committee Member (to present)

8 Kazuhiro Kawai : Independent Outside Director
Audit and Supervisory
Committee Member

Apr. 1983
Apr. 2009
Apr. 2012
May 2014
June 2014
Apr. 2018
May 2018
May 2019
Mar. 2020
Mar. 2024

Joined The Industrial Bank of Japan, Limited
(now Mizuho Bank, Ltd.)
General Manager of Credit Review Division of
Mizuho Corporate Bank, Ltd.
(now Mizuho Bank, Ltd.)
Executive Officer & General Manager of
Corporate Credit Division of Mizuho Corporate
Bank, Ltd. (retired in April 2014)
Managing Executive Officer of Nippon Steel
Kowa Real Estate Co., Ltd.
Managing Director of Nippon Steel Kowa Real
Estate Co., Ltd.
Director of Nippon Steel Kowa Real Estate
Co., Ltd.
Outside Corporate Auditor of Kiraboshi Bank,
Ltd. (to present)
Part-time Audit & Supervisory Board Member of
Japan Management Systems, Inc.
Outside Audit & Supervisory Board Member of
the Company
Outside Director & Audit and Supervisory
Committee Member of the Company
(to present)

9 Keiko Tamura : Independent Outside Director
Audit and Supervisory
Committee Member

Apr. 1992
Apr. 1998
June 2014
June 2016
Mar. 2020
Mar. 2024

Registered as an attorney at law
Joined Tokyo Yaesu Law Offices
(now Asahi Law Offices)
Partner of Asahi Law Offices (to present)
Outside Audit & Supervisory Board Member of
The Norinchukin Trust & Banking Co., Ltd.
(to present)
Outside Director (Audit and Supervisory
Committee Member) of ODELIC CO., LTD.
Outside Audit & Supervisory Board Member of
the Company
Outside Director & Audit and Supervisory
Committee Member of the Company
(to present)

Corporate Officers

President & Chief Executive Officer	Michio Takahashi	Chief Executive Officer (CEO)	Corporate Officer	Atsushi Tokumitsu	President of Kurogane Kasei Co., Ltd.
Executive Corporate Officer	Toshihiro Matsuoka	Chief Technology Officer (CTO)	Corporate Officer	Katsunori Sato	Head of Sales & Marketing
Senior Corporate Officer	Masaya Hamamoto	Chief Financial Officer (CFO)	Corporate Officer	Takatoshi Fujii	Chief Human Resources Officer (CHRO)
Senior Corporate Officer	Yukihiro Isogai	Chief Marketing Officer (CMO)			Head of Human Resources
Senior Corporate Officer	Hideki Shimizu	Chief Procurement Officer (CPO)			Chief Strategy Officer (CSO)
		Head of Procurement	Corporate Officer	Toshiaki Fujima	Head of Corporate Planning
Senior Corporate Officer	Hideo Kurokawa	General Manager, Yokkaichi Plant			Chief Legal Officer (CLO)
Corporate Officer	Toshiaki Ogata	Head of Production Planning and Engineering	Corporate Officer	Maki Sato	Head of Corporate Administration, Legal and Compliance
Corporate Officer	Akio Nakahashi	General Manager, Chiba Plant			
Corporate Officer	Yoshiaki Kondo	Head of Environment, Safety and Quality Assurance			



To view the overall skills matrix, including for corporate officers, please visit our website.
<https://www.khneochem.co.jp/sustainability/governance/corporate-governance/>
(In Japanese only)

Board of Directors' members											Skills matrix				
	Titles	Number of years in office	Independence	Female	Board of Directors	Number of Board meetings attended	Audit and Supervisory Committee	Nomination and Compensation Advisory Committee	Sustainability Committee		Corporate management	Business strategy	Finance/Accounting	Governance/Compliance/ Risk management	Organizational & human resource development/ Diversity
Michio Takahashi	Representative Director	12			○ Chair	18 of 18		○	○		●	●	●	●	●
Masaya Hamamoto	Board Director	5			○	18 of 18			○		●		●	●	
Toshiaki Fujima	Board Director	New			○	—			○ Chair			●			
Sayoko Miyairi	Outside Director	6	○	○	○	18 of 18		○							●
Jun Tsuchiya	Outside Director	5	○		○	18 of 18		○			●	●			
Yuji Kikuchi	Outside Director	5	○		○	18 of 18		○ Chair						●	
Isao Takahashi	Board Director	1			○	18 of 18	○ Chair							●	●
Kazuhiro Kawai	Outside Director	5*	○		○	18 of 18	○						●	●	
Keiko Tamura	Outside Director	5*	○	○	○	18 of 18	○							●	

* Includes years of service as a corporate auditor

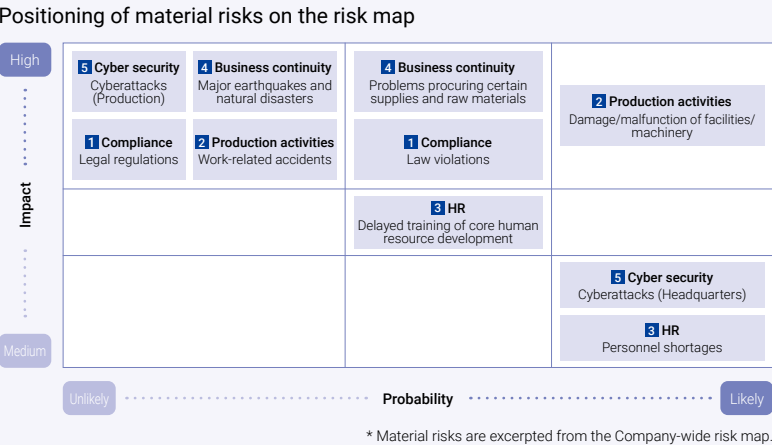
Risk Management

Risk Management Activities and System

To achieve sustainable growth, KH Neochem engages in risk management activities that identify and recognize risks to the greatest extent possible, prevent latent risks from materializing, and manage active risks with organizational, strategic, and continuous controls. To conduct effective risk management, we have established the Risk Management Committee, chaired by the Chief Legal Officer (CLO) and consisting of all division heads as members. This committee examines and deliberates the identification and assessment of critical management risks and the formulation of countermeasure plans, and monitors the progress of these efforts. In principle, the committee meets twice a year and reports the content of its discussions to the Sustainability Committee. After identifying overall management risks and formulating appropriate countermeasures, key matters are reported to the Board of Directors.

Risk Evaluation Process and Material Risk Selection

We identify risks from both external and internal perspectives, taking into account social and environmental conditions, and create a risk map that evaluates their impact and probability of occurrence. From this risk map, we select risks that have an extremely high impact on the Group's management and business activities and that should be prioritized in terms of corporate value and social interest, and designate them as "material risks." A risk owner is appointed from among the CxOs and is responsible for each of these material risks, and these risk owners work closely with the supervising division and relevant divisions to implement risk countermeasures.



Material Risks and Their Countermeasures

Category	Examples	Countermeasures
1 Compliance	Law violations, legal restraints	- Establishment of a compliance code and education of all executives and employees - Legal compliance status checks and other verifications of relevant regulations
2 Production activities	Damage/malfunction of facilities/machinery, work-related accidents	- Development of maintenance plans according to equipment importance - Implementation of Comprehensive Safety Check Initiative 2022 P.51
3 HR	Personnel shortages, delayed training of core human resources	- Reinforcement of hiring activities and systems, holding personnel meetings - Formulation of skill enhancement programs and training systems for core human resources
4 Business continuity	Major earthquakes and natural disasters Problems procuring certain supplies and raw materials	- Formulation of a BCP and conduction of regular exercises - Identification of supply risks for critical raw and auxiliary materials, facilities, and supplies; and formulation of risk countermeasures
5 Cyber security	Cyberattacks	- Strengthen residual risk reduction based on external security assessments - Technical and operational measures and updates, and education for all executives and employees
6 Climate change	Abnormal weather, imposition of carbon tax	See P.80 for TCFD recommendation-based climate-related information disclosure

Business Continuity Management

The Company manufactures and supplies essential products that are indispensable to production activities across a wide range of industries and to enriching people's lives. For that reason, we believe that we have an important responsibility to maintain and continue our business activities and achieve an early recovery in the event of a large-scale disaster, and have therefore formulated the Business Continuity Management (BCM) Basic Policy. Based on this, we have established business continuity plans (BCPs) for our Headquarters and plants, and by conducting regular training, we have built a system for minimizing damage in the event of a disaster and ensuring business continuity and early recovery. In 2024, we conducted role-playing drills, simulating a major earthquake directly beneath the Tokyo metropolitan area, affecting both our Headquarters and Chiba Plant simultaneously, and are advancing discussions and countermeasures based on the challenges identified. Moving forward, we will continue to enhance the effectiveness of our BCM through BCP training and other initiatives.



Role-playing BCP training

Compliance

Compliance Code

The KH Neochem Group believes that compliance not only involves complying with the law but also upholding high ethical standards as a member of society, and meeting the demands and expectations of all stakeholders. In order to clarify this stance, we have formulated our Compliance Code, the Principles of Corporate Behavior common across the KH Neochem Group. Each and every member of the Group is expected to faithfully put the Compliance Code into practice by continuously asking themselves, "is my conduct correct?" and "can I speak about this with pride to others?" as they act.

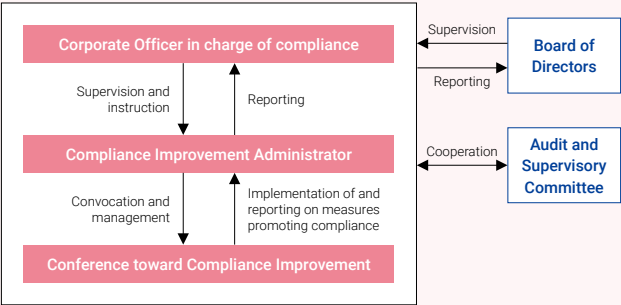


To view the Compliance Code, please visit our website.
<https://www.khneochem.co.jp/en/company/philosophy/principles/compliance.html>

Compliance System

The Board of Directors appoints a Corporate Officer in charge of compliance, and under that officer's supervision, a Compliance Improvement Administrator (Head of Legal and Compliance) is designated. The Compliance Improvement Administrator convenes the Conference toward Compliance Improvement, where progress and results of initiatives are reviewed, current challenges are discussed, and plans for further initiatives are decided. By structuring this flow as a continuous cycle, we strive to consistently strengthen our compliance system. Serious compliance-related issues and the status of activities are reported to the Board of Directors as needed and are also shared with the Audit and Supervisory Committee.

Compliance system chart

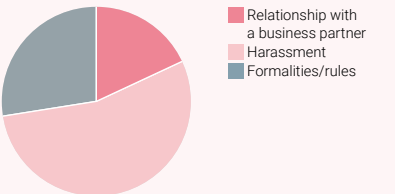


KH Neochem Group Hotline (Internal Whistleblowing/Advice Hotline)

We have established the KH Neochem Group Hotline as a whistleblowing and consulting channel for people to report corruption, bribery, legal violations, improper or illegal conduct, and other breaches or suspected breaches of compliance. Several hotlines operate under the name "KH Neochem Group Hotline." Internally, hotlines are managed by compliance staff, the Corporate Officer in charge of compliance, and members of the Audit and Supervisory Committee. Externally, a hotline is provided through an attorney to ensure independence. All hotlines operate with strict confidentiality, preserving the anonymity and privacy of whistleblowers and callers. We have published contact details for the KH Neochem Group Hotline on the websites of our Company and each Group company to make them easily accessible to our customers, business partners, and other stakeholders.

In 2024, the KH Neochem Group Hotline received 11 calls, none of which concerned any matter serious enough to require public disclosure.

Number of compliance consultations and whistleblowing reports (2024)



* Includes consultations other than on the KH Neochem Group Hotline. All calls were resolved appropriately.

Corruption/Bribery Prevention Efforts

Our Bribery Prevention Policy mandates adherence to all laws relating to the prevention of corruption, bribery, and so forth. All gifts and hospitality, whether offered or received, not only with public officials but also between companies, are subject to a process that requires prior application and approval by the Compliance Improvement Administrator. In 2024, there were no actions suspected of involving corruption, bribery, or similar violations.

Compliance Improvement Activities

▶ Activities of the Conference toward Compliance Improvement

The Conference toward Compliance Improvement, comprising all division heads, general managers, and representatives from Group companies, is held twice a year. In 2024, discussions focused on harassment—a priority measure—and role-playing exercises were conducted where members identified issues from actual harassment cases and explored solutions. These efforts aim to improve problem-solving capabilities at both the Company-wide and division levels, while practical discussions lead to the development of effective measures.

▶ Compliance awareness surveys

To assess the workplace environment and compliance awareness, we conduct an annual survey targeting all executives and employees. Key issues identified through the survey are reported to the Board of Directors and other relevant parties, and countermeasures are implemented by each division.

▶ Compliance leader activities

We are selecting compliance leaders in each workplace with the aim of increasing the number of members who have a deeper understanding of compliance, quickly notice potential issues before they become problems, act with a sense of ownership, and are able to prevent issues from arising. Approximately every two months, we hold a Compliance Leaders' Meeting, where training is provided to enhance awareness and knowledge. Opportunities are also provided to facilitate discussion among compliance leaders to foster inter-division communication and build bonds that enable reciprocal consultation. The knowledge gained is then translated into concrete initiatives, which are implemented in each workplace. In 2024, we held compliance workshops at all workplaces to consider solutions to the issues identified in individual departments through our compliance awareness survey, with compliance leaders serving as facilitators, actively promoting compliance within the workplace.



A Compliance Leaders' Meeting in progress

Main compliance improvement activities

General compliance	Transmitting of compliance messages Conference toward Compliance Improvement (twice a year) Legal Compliance Week (once a year) Conduct compliance workshops at all workplaces (approximately once a year) Compliance awareness surveys (approximately once a year)
Education and training	Compliance Book distribution Compliance education and training sessions at all sites (7 times a year) • Conduct training on occupational safety and health, security export control, subcontracting law, joint research contracts, harassment, etc. • Other training programs for new employees, career hires, new managers, etc.
Other	Posting of information regarding the KH Neochem Group Hotline on the intranet and posters to ensure awareness



Compliance Book

CLO Message



Maki Sato
Corporate Officer
Chief Legal Officer (CLO)
Head of Corporate Administration,
Legal and Compliance

KH Neochem has established the Compliance Code as its code of conduct and regards compliance as a crucial part of its business foundation. Year by year, the laws, regulations, and social demands surrounding corporations are growing more complex and sophisticated, and while compliance with laws and regulations goes without saying, mere compliance alone is not enough. As the CLO, I view compliance not simply as a mechanism for avoiding risk, but as a strategy for enhancing corporate value over the long term. Through compliance workshops and activities conducted by compliance leaders, we are promoting the creation of a corporate culture in which each of our employees thinks and acts independently and feels comfortable speaking up. The crucial point is our ability to recognize the seeds of problems and continue to respond earnestly as an organization. We will continue to practice honest management based on legal compliance and high ethical standards, and aim to remain a company that is universally trusted by all of our stakeholders.

Security, Safety, and Environmental Activities

Environmental Safety Policy

KH Neochem believes that the thorough implementation of security, safety, and environmental conservation—in our business activities and based on our Compliance Code—is critical not only for the sustainable improvement of our corporate value but also for us to fulfill our social responsibilities. We have therefore established our Environmental Safety Policy to ensure security, safety, and environmental conservation.

Responsible Care (RC)

We engage in the following RC in good faith to comply with the Environmental Safety Policy.

1 Maintaining and improving a safe workplace

We will endeavor to maintain and improve a safe workplace by ensuring the attainment of behavior goals and compliance matters that we have established in order to put our Safety Guidelines of "protecting ourselves and our colleagues" into practice.

2 Maintaining and improving safe and stable operations

We constantly strive to identify sources of danger, eliminate risks, and maintain safe and stable operations, while also pursuing further improvement and aiming for zero accidents and zero incidents. Through these efforts, we work to ensure the safety, comfort, and health of the local communities and all executives and employees.

3 Contributing to society and environmental conservation

We strive to realize a sustainable society and environment through corporate activities, gather updated safety information regarding the chemical substances and products to be handled, and provide customers, distribution-related parties, and all executives and employees with appropriate information, thereby striving to reduce the security, safety, and environmental burdens in the entire process from product development through to disposal.

4 Contributing to the local communities

Through dialogue and communication activities with the local communities regarding security, safety, environmental conservation, and health, we cooperate with local communities and thereby contribute to its development.

Management System

The Company designates the environmental safety officer appointed by the Board of Directors as the highest-ranking officer responsible for overseeing environmental safety operations. The environmental safety officer holds full responsibility and authority in this area and oversees the execution of security and environmental management operations across the Company, as well as inspections conducted by the Headquarters. Furthermore, as chair of the Environmental and Safety Committee and the Incident Investigation Committee (Headquarters), the officer is responsible for convening and managing these committees.

Among the matters deliberated by the Environmental and Safety Committee, those requiring approval are resolved by the Management Committee or the Board of Directors in accordance with the approval regulations. The fiscal year's priority measures that are approved are communicated to each division, and their progress is regularly monitored through environmental safety inspections conducted by Environment, Safety and Quality Assurance.

Status of Certification Acquisition

The Yokkaichi Plant and Chiba Plant have acquired certifications for quality management systems (ISO 9001) and environmental management systems (ISO 14001). These plants are maintaining their certification and promoting RC activities in line with those systems.

Plant	Certification acquired	Current certification body
Yokkaichi Plant	ISO 9001 (Jan. 1999)	Japan Chemical Quality Assurance Ltd.
	ISO 14001 (July 2000)	
Chiba Plant	ISO 9001 (Dec. 1998)	
	ISO 14001 (Nov. 2000)	

* 100% of manufacturing sites have acquired certifications.

Inspections and Audits

▶ Environment safety inspections and quality audits

To confirm the progress of the fiscal year's priority measures in RC activities and ensure the proper implementation of safety and environmental management activities, the Head of Environment, Safety and Quality Assurance, under the instructions of the environmental safety officer, organizes an inspection team to conduct environmental safety inspections at specific business sites.

Similarly, to verify the progress of the fiscal year's priority measures in quality management activities and ensure the proper execution of quality management activities, the Head of Environment, Safety and Quality Assurance, under the instructions of the quality assurance officer, organizes an audit team to conduct quality audits in the divisions responsible for quality management activities.

Security, Safety, and Environmental Activities

Plant audits

The Yokkaichi Plant and Chiba Plant conduct internal audits based on safety management systems for ISO 9001 and ISO 14001 as well as in the capacity of a Certified Advanced Safety Implementer under the High Pressure Gas Safety Act. In addition, they also undergo external audits based on ISO 9001 and ISO 14001 (maintenance and renewal audits), through which they maintain their certifications.

2024 Priority Measures (Numerical Targets) and Results, Together with 2025 Priority Measures (Numerical Targets)

RC code	2024				2025	
	Objective		Actual results		Objective	
Environmental Conservation	Environmental accidents	0	Environmental accidents	0	Environmental accidents	0
Safety and Disaster Prevention	Major safety-related accidents*1	0	Major safety-related accidents	0	Major safety-related accidents*1	0
	Safety-related accidents	6 or fewer*2	Safety-related accidents	13	Safety-related accidents	6 or fewer*2
Occupational Safety and Health	Major accidents resulting in lost workdays*3	0	Major accidents resulting in lost workdays	1	Major accidents resulting in lost workdays*3	0
	Work-related accidents	10 or fewer*2	Work-related accidents	18	Work-related accidents	10 or fewer*2

Scope of aggregation: Yokkaichi Plant, Chiba Plant
*1 Safety accidents with 9 points or more in the "Intensity Criteria for Abnormal Phenomena (Accidents)" of the Japan Petrochemical Industry Association (JPCA)
*2 At or below the average of the latest five years
*3 Work-related accidents resulting in more than four lost workdays



For action plans related to industrial safety and data related to Responsible Care at our plants, please visit our website.
<https://www.khneochem.co.jp/en/sustainability/environment/rc>

Safety and Disaster Prevention

Safety and disaster prevention initiatives

In accordance with the Environmental Safety Regulations, the Yokkaichi Plant and Chiba Plant have formulated their safety management policies. They are actively engaged in efforts to ensure that all employees are aware of the policies and are carrying out safety and disaster prevention activities based on the policies.

Safety environmental assessment (SEA)

At KH Neochem, we conduct an SEA in advance to assess the impact on security, safety, environmental conservation, and health when introducing new technology, new processes, new facilities, new machinery, and new chemical substances, or when changing a manufacturing method. By using the SEA results for feedback, we make every effort to enhance the safety of processes and equipment.

Certified Advanced Safety Implementer

The Kasumigaura Plant of our Yokkaichi Plant obtained the new Certified Advanced Safety Implementer system certification (hereinafter referred to as the "new certification") from the Minister of Economy, Trade and Industry on November 28, 2024. In addition to the commitment of our top management, we have met the standards for the new certification's requirements, such as an advanced risk management system, utilization of technology, and cybersecurity measures, and have been recognized as a business that can autonomously ensure a high level of security while utilizing advanced information and communications technology. We are also working toward obtaining this new certification at our Chiba Plant during 2025.

Emergency training

KH Neochem conducts periodic comprehensive disaster prevention drills for emergency scenarios, as well as training in initial firefighting response and emergency reporting. We prepare so that we can respond promptly and appropriately in the event of an emergency.



Scene from the comprehensive disaster prevention drill at the Yokkaichi Plant's Kasumigaura Plant



Scene from the same comprehensive disaster prevention drill

Occupational Safety and Health

Occupational safety and health-related initiatives

KH Neochem conducts education based on the Industrial Safety and Health Act in order to ensure the safety of employees and others working at our plants. We also take preventive actions against disasters, such as risk assessments*1, risk prediction activities using *hiyari hatto* (close call recognition) and *kigakari* memo (notes on matters of concern), improvement suggestion programs, and other everyday health and safety activities. Chemical risk assessments*2 on substances that KH Neochem handles are conducted in accordance with the Industrial Safety and Health Act. For projects defined as high risk, measures to manage the risk are decided through discussions between workers and management at Health and Safety Committee meetings. Additionally, following revisions to the Industrial Safety and Health Act (effective April 1, 2024), to establish a new chemical substance management system based on autonomous control, we are implementing improvements, such as appointing trained chemical substance managers and enhancing risk assessment methods for chemical substances.

*1 Risk assessment: This refers to a series of techniques for identifying the risks and hazards in the workplace, determining the seriousness and likelihood of work-related accidents arising from them, combining that information to estimate the risks, deciding on a priority for countermeasures based on the magnitude of those risks, studying measures to eliminate or reduce the risks, and keeping a record of the results.
*2 Chemical risk assessment: This refers to the identification of the risks and hazards of chemical substances and products, estimation of the likelihood of harm to workers or damage to their health, and studying measures to reduce the risks.

Status of work-related accidents

In 2024, there were 18 work-related accidents, falling short of our target of 10 or fewer. At KH Neochem, there was one major accident resulting in lost workdays and seven accidents not resulting in lost workdays, all of which were caused by carelessness, including during movement. At cooperating companies, there was one accident resulting in lost workdays and nine accidents not resulting in lost workdays. Workplace accidents are particularly common among young people who have been working for less than a year and older workers aged 70 or older, and we will therefore strengthen our guidance to both young and older people, including employees of cooperating companies. Specifically, our main initiatives for 2025 under Comprehensive Safety Check Initiative 2022  include the enhancement of education and dialogue activities to further instill and solidify safety awareness, and we will steadily implement these undertakings.

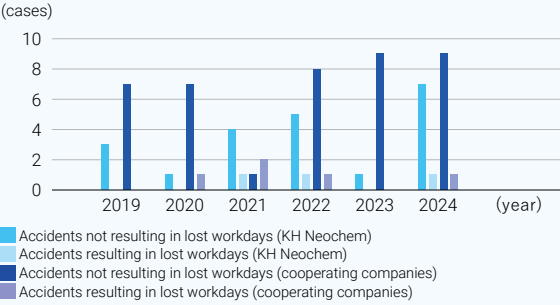
Promoting Compliance Using Legal Checklists

We prepare legal checklists for each relevant law to ensure there are no compliance violations concerning security, safety, and environmental conservation, and each operating facility uses these checklists to perform self-assessments. The results are used by the Head Office in environmental safety inspections to make our legal assessments more comprehensive.

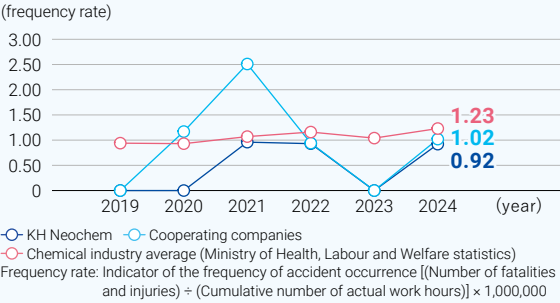
Managing Chemicals with Safety Data Sheets

In an effort to ensure that all of our products are used safely, we prepare and update safety data sheets (SDSs) in accordance with JIS standards and relevant law amendments, and provide them to customers. We also prepare, update, and provide SDSs in customers' native languages in line with our business activities in order to accommodate the international Globally Harmonized System of Classification and Labelling of Chemicals (GHS) guidelines.

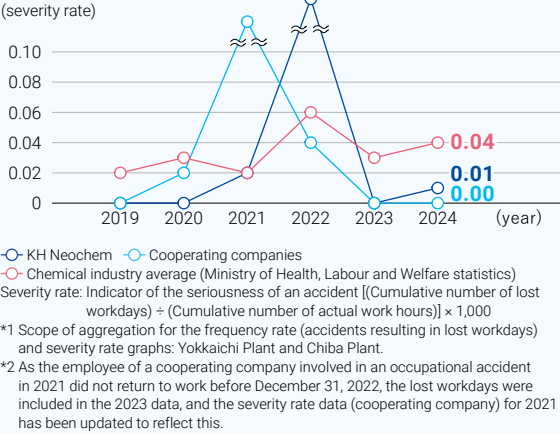
Number of work-related accidents



Frequency rate (accidents resulting in lost workdays)



Severity rate



Climate-Related Disclosures Based on TCFD Recommendations

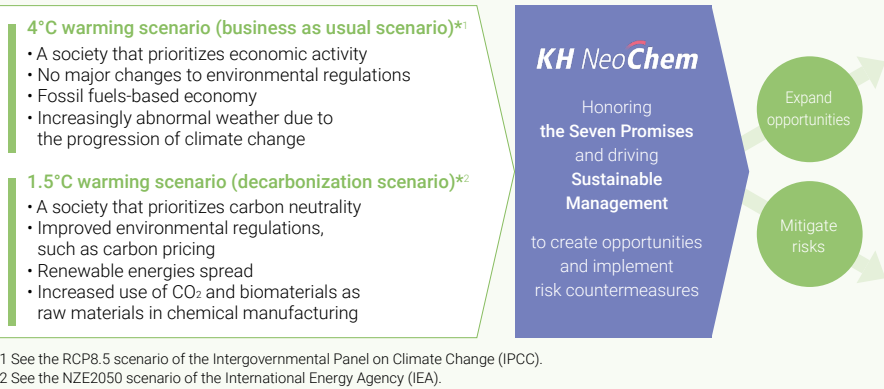
The business environment surrounding KH Neochem is growing increasingly uncertain as cases of heatstroke and natural disasters rise due to climate change, and voices calling for decarbonization and carbon neutrality grow louder and more numerous. In January 2022, we declared our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and have disclosed climate-related information ever since.

Governance and Risk Management

We identify material risks according to the risk evaluation process on [P74](#). The risks arising from climate change have been identified as material risks to our business due to the significant impact they are expected to have on KH Neochem in the future. In addition, we are taking measures to prevent risks from materializing and reduce their impact by continuously conducting risk assessments based on our risk management system and monitoring them at Board meetings when necessary.

Strategy

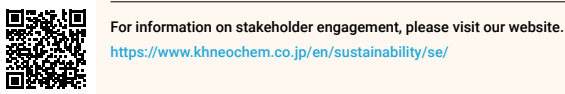
We identify risks and opportunities related to climate change and analyze based on warming scenarios of 4°C and 1.5°C, respectively, to assess the impact of future risks and opportunities heading toward 2030. By engaging in the Seven Promises and driving sustainable management, we seek to expand the climate change-related opportunities while mitigating the risks, thereby increasing our corporate value.



Stakeholder Relations

Stakeholder Engagement

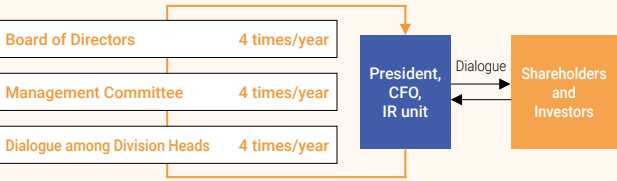
KH Neochem's business is built on relationships of trust with a wide range of individuals, including customers, shareholders, investors, business partners, local residents, and employees. We proactively create numerous opportunities for communication on a daily basis so as to incorporate every-one's opinions into our business activities.



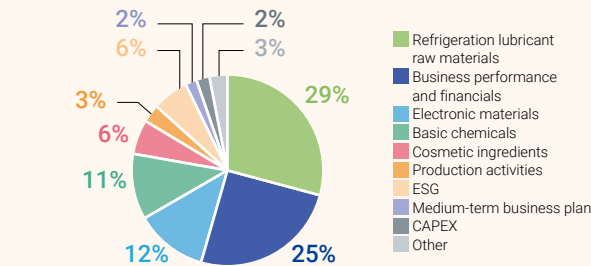
Cyclical IR that Integrates Feedback from Capital Markets into Our Management

We hold nearly 200 dialogue sessions with investors each year, and by reflecting the opinions and suggestions we receive in our management, we promote a cyclical IR approach that fosters further enhanced dialogue. In 2024, in addition to holding financial results briefings quarterly, we provided a wide range of communication opportunities, including proactively holding individual meetings, hosting tours of our plants, and participating in retail investor fairs. The insights gained from these activities are reported and discussed at the Board of Directors and the Management Committee on a quarterly basis, and the results are then utilized in dialogue with investors.

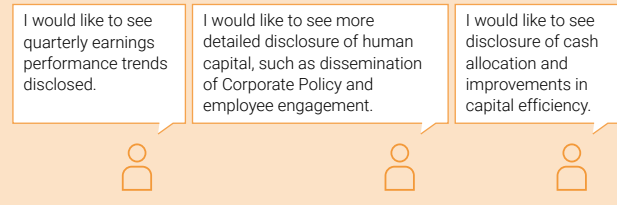
Initiatives for management and employees to discuss and dialogue about feedback from the capital markets and stock prices



Details of dialogue with shareholders, investors, and analysts (2024)



Opinions from shareholders, investors, and analysts (examples)



Key matters identified and reflected through dialogue and feedback

- Quarterly performance trends and analysis of operating income by business segment are now included in financial results briefing materials.
- Employee feedback and roundtable discussions on management policy and human resource strategies are actively disclosed in our integrated reports.
- Cash allocation disclosure and explanations, as well as capital policy discussions, are included in financial results briefings and integrated reports.

Linking individual responsibilities to Company performance

In our view, financial results will contribute to enhanced corporate value only when employees take ownership. To promote this perspective, we publish a special PR brochure called "News Letter" following our financial results announcements, in which division heads explain the results to employees in their own words, using videos and materials from financial results briefings. This is an important opportunity for employees to think about the connection between their own duties and business performance.



"News Letter" Special PR brochure

Opening up our facilities and communicating our growth strategy

In 2024, we completed an expansion project related to refrigeration lubricant raw materials, marking our largest investment to date. This facility will be a driving force behind the Company's further growth, and following its completion, we invited securities analysts and members of the media on a tour to promote understanding of our technological capabilities and growth strategy.



Chiba Plant tour for securities analysts and the media

Community-Rooted Social Contribution Activities

KH Neochem values its relationships of trust with the local communities where it operates, and its basic policy is to contribute to the development of those communities by continually engaging in social contribution activities. At each of our locations, we deepen our interactions with people through cleanup activities, collaboration with schools, and participation in various events.

Installing new benches and repairing paint work at a park near the plant

As part of our social contribution activities utilizing paint related to our business, we alternate annually between Yokkaichi City, Mie Prefecture, and Ichihara City, Chiba Prefecture, to donate and paint wooden benches.

In 2024, we donated benches to the Spolek Park in Ichihara City, Chiba Prefecture, and 56 volunteers, including our employees and their families, painted and repaired previously donated benches. We will continue to conduct this activity as it not only contributes to the creation of an environment where local residents can use the facilities with peace of mind but also allows our employees and their families to feel a connection with the community.



Bench painting in progress

Supporting children and strengthening community ties

We carry out support activities such as youth sports tournaments so that the children, who represent the future of their communities, can thrive. In addition, we continue to engage in a variety of initiatives with local communities, including local cleanup activities, offering facility tours to local residents and educational institutions, and collaborating with NPOs.

Main activities

- Yokkaichi City U-10 Soccer Tournament (KH Neochem Cup)
- Ichihara City Friendly Baseball Tournament (KH Neochem Cup)
- Plant tour



Yokkaichi City U-10 Soccer Tournament (KH Neochem Cup)



Ichihara City Friendly Baseball Tournament (KH Neochem Cup)



Local junior high school students tour the Yokkaichi Plant and conduct experiments (while also wearing KH Neochem work clothes)

Dialogue and Collaboration with Business Partners

CPO Message



Hideki Shimizu
Senior Corporate Officer
Chief Procurement Officer (CPO)
Head of Procurement

KH Neochem manufactures products that are essential to society by using chemical technology to add value to the raw materials it procures. Furthermore, continuous capital investment and daily maintenance are essential for manufacturing. Therefore, our procurement capabilities for raw materials and equipment are fundamentally where our competitive strengths lie and represent an extremely important function that supports the core of our business. In recent years, the procurement environment has become increasingly uncertain due to fluctuations in resource prices and emerging geopolitical risks. Consequently, it has become increasingly important to not only strengthen our capabilities but also to earnestly face up to and appropriately address various risks and social issues, such as sustainability, human rights, and compliance. The Company's mission is to create value throughout the supply chain and continue to steadily deliver materials that are essential to society, based on fiduciary relationships with a variety of partners, including companies participating in industrial complexes. I consider it my responsibility to promote sustainable procurement so as to accomplish that mission.

Stakeholder Relations

Promoting sustainable procurement

We are committed to promoting responsible supply chain management as our materiality (key issue), and are pursuing sustainable procurement activities. The Sustainable Procurement Guidelines we formulated in March 2023 set forth our basic policy for procurement and summarize items that we would like to work on together with our business partners.

To assess the status of our key business partners’ sustainable procurement efforts, we conduct surveys based on the CSR Procurement Self-Assessment Questionnaire (Common SAQ) created by Global Compact Network Japan. In addition to suppliers of main raw materials, in 2024 we expanded the scope of the survey to include suppliers of secondary raw materials for our Chiba Plant, and received responses from 89% of our business partners (on a purchasing basis). Our analysis revealed that there are no major risks to sustainable procurement, but we will nevertheless continue to engage in dialogue and take steps such as risk reduction toward sustainable procurement.

KH Neochem's Basic Procurement Policy
("Procurement Policy")

Basic principles

- Ensuring fairness, equity, and transparency
- Compliance and confidentiality
- Consideration of the environment and safety
- Building partnerships



To view the sustainable procurement guidelines, please visit our website.

https://www.khneochem.co.jp/en/sustainability/se/pdf/sustainable_procurement_guideline_en.pdf

Respect for Human Rights

We recognize respect for human rights as a social responsibility and have established a Respect for Human Rights Policy, which we have made public both internally and externally. In the policy, we commit to respecting international human rights principles and recognize that addressing the Six Human Rights Priorities the Company has identified is crucial to fulfilling our responsibility to respect human rights, and we are actively implementing this. Additionally, we have appointed a Corporate Officer in charge of respect for human rights and established an overarching function responsible for promoting human rights initiatives across the Company and regularly report the progress of these initiatives to the Board of Directors as well as discuss their details.

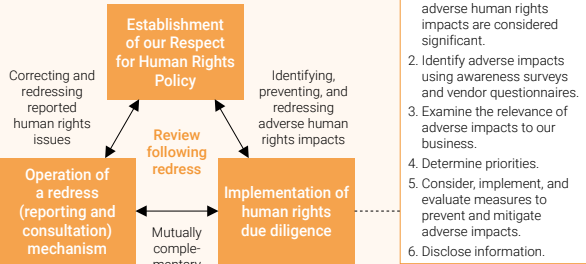


For more on our Respect for Human Rights Policy (including the Six Human Rights Priorities), please visit our website.

https://www.khneochem.co.jp/en/company/philosophy/principles/human_rights_policy.html

To fulfill our responsibility to respect human rights

In accordance with the UN Guiding Principles on Business and Human Rights, we address human rights issues by assessing the impact on human rights through the operation of a redress (reporting and consultation) mechanism and the implementation of human rights due diligence, based on our Respect for Human Rights Policy.



Implementation of human rights due diligence

—Identifying and assessing risks pertaining to business partners—

To ascertain human rights-related risks in our business, including those of our business partners, we have included survey items to identify risks in the common SAQ mentioned above. In the event that any risks are identified as a result of these efforts, we proceed with an assessment of their impact.

Redress (reporting and consultation) mechanism

The KH Neochem Group Hotline P.75 also serves as a contact point for reporting human rights concerns. The hotline is widely available for Company executives and employees, former executives and employees who retired within the past year, customers, business partners, and others.

Education on respecting human rights

We hold workshops to deepen understanding of our Respect for Human Rights Policy and encourage not just knowledge but also practice. We have adopted a participatory program to ensure that attendees are not only given a superficial understanding but are fully convinced and able to apply it to their own actions. In 2024, we conducted a case study on the theme of “The difference between managerial instruction and harassment,” through which we provided deeper education that can be applied to actual workplace responses. We will continue to fully respect the human rights of others and aim to foster a corporate culture that leads to sustainable growth and value creation.

Consolidated Financial Statements

Consolidated Balance Sheet

	(Millions of yen)	
	As of December 31, 2023	As of December 31, 2024
Assets		
Current Assets		
Cash and deposits	9,684	7,158
Notes and accounts receivable–trade, and contract assets	32,699	37,337
Merchandise and finished products	15,966	16,949
Work in process	590	493
Raw materials and supplies	3,532	3,270
Other	3,778	4,162
Allowance for doubtful accounts	(6)	(5)
Total current assets	66,244	69,366
Non-Current Assets		
Property, plant and equipment		
Buildings and structures	34,380	35,468
Accumulated depreciation and impairment	(26,817)	(27,430)
Buildings and structures, net	7,562	8,038
Machinery, equipment and vehicles	100,812	102,826
Accumulated depreciation and impairment	(91,164)	(93,100)
Machinery, equipment and vehicles, net	9,648	9,726
Land	17,549	17,549
Leased assets	1,777	1,880
Accumulated depreciation	(435)	(648)
Leased assets, net	1,341	1,232
Construction in progress	8,431	10,866
Other	7,538	7,941
Accumulated depreciation and impairment	(5,309)	(5,374)
Other, net	2,228	2,567
Net property, plant and equipment	46,762	49,980
Intangible assets		
Goodwill	974	840
Other	560	506
Total intangible assets	1,535	1,346
Investments and other assets		
Investment securities	6,899	7,370
Assets for retirement benefits	2,486	2,857
Deferred tax assets	192	206
Other	379	337
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	9,955	10,769
Total non-current assets	58,253	62,095
Total Assets	124,498	131,462

(Note) Yen amounts are rounded down to millions.

	(Millions of yen)	
	As of December 31, 2023	As of December 31, 2024
Liabilities		
Current Liabilities		
Notes and accounts payable–trade	25,825	24,408
Short-term bank loans	9,820	9,750
Commercial paper	—	2,996
Current portion of corporate bonds	5,000	—
Current portion of long-term lease obligations	118	124
Accounts payable–other	5,536	6,193
Income taxes payable	1,906	2,102
Provision for repairs	2,476	481
Other	648	591
Total current liabilities	51,332	46,649
Long-Term Liabilities		
Corporate bonds	—	5,000
Long-term lease obligations	1,447	1,334
Deferred tax liabilities	2,547	3,111
Liability for retirement benefits	2,358	2,362
Provision for stock-based remuneration plan for directors (and other officers)	164	216
Provision for repairs	—	707
Other	153	161
Total long-term liabilities	6,672	12,893
Total Liabilities	58,004	59,542
Net Assets		
Shareholders' Equity		
Common stock	8,855	8,855
Capital surplus	6,203	6,203
Retained earnings	47,239	52,256
Treasury stock	(267)	(337)
Total shareholders' equity	62,030	66,978
Accumulated Other Comprehensive Income		
Unrealized gain (loss) on available-for sale securities	1,136	1,314
Deferred gain (loss) on hedges	(4)	8
Foreign currency translation adjustments	107	152
Defined retirement benefit plans	474	635
Total accumulated other comprehensive income	1,713	2,110
Noncontrolling Interests	2,748	2,830
Total Net Assets	66,493	71,919
Total Liabilities and Net Assets	124,498	131,462

Consolidated Financial Statements

Consolidated Statement of Income

	(Millions of yen)	
	Fiscal year ended December 31, 2023	Fiscal year ended December 31, 2024
Net Sales	115,217	119,758
Cost of Sales	93,279	94,504
Gross Profit	21,937	25,253
Selling, General and Administrative Expenses		
Freight	4,034	4,174
Container packaging	1,095	1,194
Salary	1,286	1,345
Other	5,575	6,343
Total selling, general and administrative expenses	11,991	13,057
Operating Income	9,946	12,195
Non-Operating Income		
Interest and dividend income	175	186
Equity in earnings of associated company	263	343
Surrender value of insurance policies	103	—
Other	190	159
Total non-operating income	732	689
Non-Operating Expenses		
Interest expenses	81	101
Contribution expenses	108	260
Loss on disposal of non-current assets	610	346
Settlement payments	100	—
Other	53	120
Total non-operating expenses	954	829
Ordinary Income	9,725	12,055
Extraordinary Losses		
Disaster losses	—	137
Total extraordinary losses	—	137
Income before Income Taxes	9,725	11,918
Income taxes—current	3,139	3,046
Income taxes—deferred	(344)	400
Total income taxes	2,795	3,447
Net Income	6,929	8,471
Net Income Attributable to Noncontrolling Interests	103	110
Net Income Attributable to Owners of the Parent	6,826	18,360

(Note) Yen amounts are rounded down to millions.

Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	Fiscal year ended December 31, 2023	Fiscal year ended December 31, 2024
Net Income	6,929	8,471
Other Comprehensive Income		
Unrealized gain (loss) on available-for-sale securities	565	177
Deferred gain (loss) on hedges	21	13
Foreign currency translation adjustments	17	45
Defined retirement benefit plans	245	160
Total other comprehensive income	849	396
Comprehensive Income	7,779	8,867
Comprehensive Income Attributable to		
Owners of the parent	7,675	8,757
Noncontrolling interests	103	110

Consolidated Statement of Changes in Equity

	(Millions of yen)				
	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Fiscal year ended December 31, 2023					
Balance, Jan. 1, 2023	8,855	6,186	43,663	(222)	58,483
Changes during period					
Cash dividends of surplus			(3,250)		(3,250)
Net income attributable to owners of the parent			6,826		6,826
Purchase of treasury stock				(49)	(49)
Disposal of treasury stock				4	4
Change in the parent's ownership interest due to transactions with noncontrolling interests		16			16
Net changes in items other than shareholders' equity					
Total changes during period	—	16	3,575	(45)	3,546
Balance, Dec. 31, 2023	8,855	6,203	47,239	(267)	62,030

	Accumulated Other Comprehensive Income					
	Unrealized gain (loss) on available-for-sale securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income	Noncontrolling Interests
Balance, Jan. 1, 2023	570	(25)	90	229	864	2,718
Changes during period						
Cash dividends of surplus						(3,250)
Net income attributable to owners of the parent						6,826
Purchase of treasury stock						(49)
Disposal of treasury stock						4
Change in the parent's ownership interest due to transactions with noncontrolling interests						16
Net changes in items other than shareholders' equity	565	21	17	245	849	30
Total changes during period	565	21	17	245	849	30
Balance, Dec. 31, 2023	1,136	(4)	107	474	1,713	2,748

	(Millions of yen)				
	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Fiscal year ended December 31, 2024					
Balance, Jan. 1, 2024	8,855	6,203	47,239	(267)	62,030
Changes during period					
Cash dividends of surplus			(3,343)		(3,343)
Net income attributable to owners of the parent			8,360		8,360
Purchase of treasury stock				(69)	(69)
Disposal of treasury stock					
Change in the parent's ownership interest due to transactions with noncontrolling interests					
Net changes in items other than shareholders' equity					
Total changes during period	—	—	5,017	(69)	4,947
Balance, Dec. 31, 2024	8,855	6,203	52,256	(337)	66,978

	Accumulated Other Comprehensive Income					
	Unrealized gain (loss) on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income	Non-controlling Interests
Balance, Jan. 1, 2024	1,136	(4)	107	474	1,713	2,748
Changes during period						
Cash dividends of surplus						(3,343)
Net income attributable to owners of the parent						8,360
Purchase of treasury stock						(69)
Disposal of treasury stock						—
Change in the parent's ownership interest due to transactions with noncontrolling interests						—
Net changes in items other than shareholders' equity	177	13	45	160	396	81
Total changes during period	177	13	45	160	396	81
Balance, Dec. 31, 2024	1,314	8	152	635	2,110	2,830

(Note) Yen amounts are rounded down to millions.

Consolidated Financial Statements

Consolidated Statement of Cash Flows

	(Millions of yen)	
	Fiscal year ended December 31, 2023	Fiscal year ended December 31, 2024
Operating Activities		
Income before income taxes	9,725	11,918
Depreciation	4,517	4,839
Amortization of goodwill	134	134
Increase (decrease) in liability for retirement benefits	49	15
Decrease (increase) in assets for retirement benefits	(163)	(152)
Increase (decrease) in provision for repairs	1,178	(1,288)
Interest and dividend income	(175)	(186)
Interest expenses	81	101
Equity in earnings of associated company	(263)	(343)
Decrease (increase) in notes and accounts receivable	4,629	(4,597)
Decrease (increase) in inventories	1,976	(468)
Increase (decrease) in notes and accounts payable	(4,628)	(1,604)
Loss (gain) on sale of investment securities	(19)	—
Decrease (increase) in other current assets	269	(206)
Increase (decrease) in other current liabilities	(2,600)	1,332
Other	368	58
Subtotal	15,080	9,553
Interest and dividends received	681	364
Interest paid	(83)	(94)
Income taxes paid	(2,477)	(2,841)
Net cash provided by (used in) operating activities	13,201	6,982
Investing Activities		
Purchase of property, plant and equipment	(5,091)	(8,432)
Purchase of intangible assets	(166)	(192)
Purchase of investment securities	(11)	(63)
Proceeds from sale of investment securities	99	—
Other	233	(208)
Net cash provided by (used in) investing activities	(4,937)	(8,897)
Financing Activities		
Increase (decrease) in short-term bank loans and borrowings–net	(50)	(70)
Increase (decrease) in commercial paper–net	(6,001)	2,994
Proceeds from issuance of corporate bonds	—	4,972
Redemption of corporate bonds	—	(5,000)
Purchase of treasury stock	(49)	(69)
Dividends paid	(3,250)	(3,342)
Dividends paid to noncontrolling interests	(51)	(28)
Payment from purchase of investment in subsidiaries that do not result in change in scope of consolidation	(4)	—
Other	(94)	(101)
Net cash provided by (used in) financing activities	(9,501)	(645)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	(3)	34
Net Increase (Decrease) in Cash and Cash Equivalents	(1,241)	(2,526)
Cash and Cash Equivalents, Beginning of Year	10,926	9,684
Cash and Cash Equivalents, End of Year	9,684	7,158

(Note) Yen amounts are rounded down to millions.

Financial and Non-Financial Time Series Data

Financial Data (Consolidated)

	(Unit)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Operating Results*								
Net sales	(millions of yen)	101,199	94,209	77,332	117,110	114,880	115,217	119,758
Operating income	(millions of yen)	10,858	9,559	5,642	19,685	12,456	9,946	12,195
Ordinary income	(millions of yen)	11,197	9,896	5,627	19,809	12,709	9,725	12,055
Net income attributable to owners of the parent	(millions of yen)	6,737	6,917	4,046	13,691	8,073	6,826	8,360
Financial Position*								
Cash and deposits	(millions of yen)	10,126	17,867	9,066	16,934	10,926	9,684	7,158
Total assets	(millions of yen)	94,035	102,261	95,508	122,069	131,247	124,498	131,462
Interest-bearing debt	(millions of yen)	21,040	23,490	21,200	18,460	20,869	14,820	17,747
Equity capital	(millions of yen)	35,903	41,084	43,380	54,917	59,348	63,744	69,088
Net assets	(millions of yen)	38,304	43,522	45,884	57,505	62,066	66,493	71,919
Cash Flows*								
Operating activities	(millions of yen)	7,707	10,962	6,931	17,402	5,131	13,201	6,982
Investing activities	(millions of yen)	(4,009)	(3,512)	(11,182)	(4,395)	(10,082)	(4,937)	(8,897)
Financing activities	(millions of yen)	(6,224)	294	(4,530)	(5,168)	(1,076)	(9,501)	(645)
Others*								
CAPEX	(millions of yen)	2,943	6,995	6,003	3,639	9,470	4,928	6,603
Depreciation (including amortization of goodwill)	(millions of yen)	3,254	3,330	3,871	4,504	4,293	4,652	4,973
R&D expenses	(millions of yen)	822	847	919	1,005	871	939	1,147
Per Share								
Basic net income	(yen)	182.77	187.09	109.12	368.95	217.73	184.23	225.81
Diluted net income	(yen)	181.62	186.44	109.02	—	—	—	—
Net assets	(yen)	971.92	1,109.88	1,168.62	1,480.27	1,601.26	1,720.81	1,866.63
Cash dividends	(yen)	54.00	60.00	60.00	75.00	85.00	90.00	90.00
Key Indicators								
EBITDA	(bn yen)	14.1	12.9	9.5	24.2	16.8	14.6	17.2
ROE	(%)	20.1	18.0	9.6	27.9	14.1	11.1	12.6
Equity ratio	(%)	38.2	40.2	45.4	45.0	45.2	51.2	52.6
Net debt-equity ratio	(times)	0.30	0.14	0.28	0.03	0.17	0.08	0.15
Ratio of operating income to net sales	(%)	10.7	10.1	7.3	16.8	10.8	8.6	10.2
Dividend payout ratio	(%)	29.5	32.1	55.0	20.3	39.0	48.9	39.9

* Yen amounts are rounded down to millions.

Non-Financial Data (Non-Consolidated)

	(Unit)	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Energy consumption	(1,000 kL)	208.7	204.6	194.2	214.4	187.8	186.1	191.4
Energy intensity	(L/t)	210.0	207.2	222.3	204.9	230.4	226.7	232.9
Greenhouse gas (GHG) emissions (CO ₂ equivalent, Scope 1+2)	(1,000t-CO ₂)	448.9	440.2	404.2	422.4	379.1	378.4	374.9
Greenhouse gas (GHG) emissions (CO ₂ equivalent, Scope 3)	(1,000t-CO ₂)	—	—	—	1,332	1,055	1,084	1,074
Disposed of as landfill	(t)	124	136	133	106	92	106	82
Number of employees	(persons)	611	659	673	649	659	660	657
Total number of new employees	(persons)	40	77	35	27	40	41	51
Number of new female employees	(persons)	4	10	4	5	6	7	9
Ratio of new female employees	(%)	10.0	13.0	11.4	18.5	15.0	17.1	17.6
Difference in years of service between genders	(years)	0.3	−0.3	0.8	1.3	1.3	0.9	1.3
Number of accidents resulting in lost workdays	(cases)	0	0	0	1	1	0	1
Paternity leave ratio*	(%)	—	—	—	—	90	105	105

* Results from FY2022 are disclosed based on an amendment to the law.

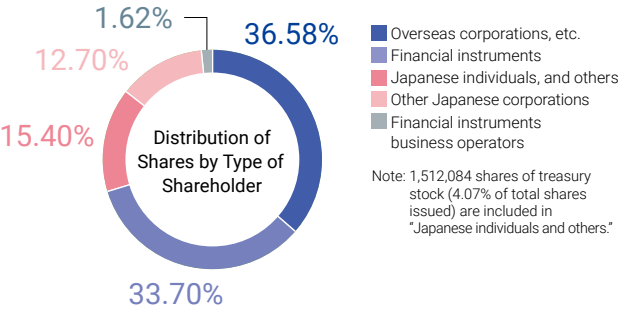
Corporate Overview

Corporate Overview (as of June 30, 2025)

Establishment	December 2010 (Our predecessor Kyowa Yuka was established in November 1966.)
Capital	8.8 billion yen
Corporate Headquarters Head Office	2-3-1 Nihonbashi-Muromachi, Chuo-ku, Tokyo 103-0022, Japan
Group companies and affiliated companies	Kurogane Kasei Co., Ltd. Kurogane Fines Inc. KH Neochem Americas, Inc. Shanghai Seika Trading Co., Ltd. J-Plus Co., Ltd.* * Joint venture with Mitsubishi Chemical Corporation

Stock Overview (as of June 30, 2025)

Total number of shares authorized to be issued	136,200,000
Total number of issued shares	37,149,400
Number of shareholders	9,771



Global Network*



* Only headquarter locations are provided for Group companies and affiliates.

Major Shareholder Information

(as of June 30, 2025)

Shareholder name	Number of shares held	Ratio of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	5,899,300	16.55
Custody Bank of Japan, Ltd. (Trust account)	3,845,400	10.79
Tosoh Corporation	1,852,000	5.20
STATE STREET BANK AND TRUST COMPANY 505001 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	973,019	2.73
Mizuho Bank, Ltd.	733,300	2.06
TVC MATSU FUND (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch, Custody Department)	717,400	2.01
STATE STREET BANK AND TRUST COMPANY 505227 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	700,900	1.97
THE NOMURA TRUST AND BANKING CO., LTD. AS THE TRUSTEE OF REPURCHASE AGREEMENT MOTHER FUND (Standing proxy: Citibank, N.A., Tokyo Branch)	671,900	1.89
THE BANK OF NEW YORK 133652 (Standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	645,800	1.81
Japan Securities Finance Co., Ltd.	616,600	1.73

(Notes) 1. The Company holds 1,512,084 shares of treasury stock, but these are not included in the above list of major shareholders.
2. The above ratio of shares held is calculated excluding treasury stock.

Adoption of External Evaluation and Indexes

JPX-NIKKEI Mid Small

FTSE Blossom Japan Index

FTSE Blossom Japan Sector Relative Index

2025 Somo Sustainability Index

MSCI ESG RATINGS
BBB

In 2025, KH Neochem Co., Ltd. received a rating of BBB in the MSCI ESG Ratings assessment.

SILVER | Top 15%
ecovadis
Sustainability Rating
JUN 2024

FTSE Russell confirms that KH Neochem Co., Ltd. has been independently assessed according to the index criteria, and has satisfied the requirements to become a constituent of the FTSE Blossom Japan Index and FTSE Blossom Japan Sector Relative Index. Created by the global index and data provider FTSE Russell, the FTSE Blossom Japan Index is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE Blossom Japan Index is used by a wide variety of market participants to create and assess responsible investment funds and other products.

TOPICS Sponsorship of Speed Skaters

The Company has sponsored short track speed skater Moemi Kikuchi since 2018 and speed skater Rin Kosaka since 2022.

Since we aim to be a leading global specialty chemical company, we share an affinity with the mindset of athletes who take on the world, and we have a history of supporting their efforts. Both athletes are currently training hard, day by day, in hopes of competing in the Milano Cortina 2026 Winter Olympics. We will continue to fully support both athletes in their endeavors.



Rin Kosaka
Speed skater

- 2021: Beijing Olympics
Japan National Team (Mass Start)
- 2023: Placed second in the All Japan Speed Skating Championships (Mass Start)
- 2024: Winner of the All Japan Speed Skating Championships (Mass Start)

Moemi Kikuchi
Short track speed skater

- 2021: 500 m and 3000 m SF champion at the All Japan Short Track Speed Skating Championships
- 2023: Results include placing third in the 1000 m and 1500 m at the All Japan Speed Skating Single Distances Championships



Rin Kosaka Support Page
<https://www.khneochem.co.jp/kosakarin/>
(in Japanese only)



Moemi Kikuchi Support Page
<https://www.khneochem.co.jp/kikuchimoemi/>
(in Japanese only)