In order to improve capital efficiency and enhance corporate value, we will focus on thorough ROIC management and strengthening business portfolio management.

Koji Suzuki, Executive Officer

Current Market Environment and Progress in Medium-term Management Plan

We have finished the third year of our Medium-term Management Plan, which started in FY2021, and are approaching the final fiscal year. Looking back on the business environment over the past three years, the global economy and supply chain disruption triggered by the COVID-19 pandemic and the shortage of semiconductors have had an impact. In addition, the external environment continues to be challenging, such as the surge in raw material prices and worsening inflation from the second half of FY2023.

Despite these circumstances, the Group was able to achieve record highs in both revenue and operating income in FY2023, continuing from the previous fiscal year. It is true that the continued depreciation of the yen provided a tailwind, but we were able to steadily pass on price changes from inflation, and even excluding foreign exchange factors, we were able to increase profits. Thanks to this strong performance, we were able to achieve the performance targets set in the Medium-term Management Plan one year ahead of schedule without waiting for the final fiscal year of the plan. There was also an effort in the field to pass on price changes. The soaring prices of raw materials such as precious metals have been noticeable since about two years ago, but we believe that the significant results have been achieved by striving for global consensus and persistently negotiating to pass on price changes. As a result, we acknowledge that there was an increase in profit of about 15 billion yen in monetary terms compared to FY2022.

Strengthening Strategic Investments and Business Portfolio Management

Our Medium-term Management Plan states the direction of determining the appropriate business scale and maximizing cash generation through ultra-efficiency improvements in the ICE business. If there are business opportunities, we will make appropriate investments to generate and expand cash. As an example of a strategy in the aftermarket plug business, we are steadily progressing with the replacement to environmentally friendly high value-added precious metal plugs, taking into account regional characteristics. In addition, in order to ensure a stable supply in the medium to long term for the ICE business, we signed a memorandum of understanding with DENSO CORPORATION in July 2023 to start discussions and considerations regarding the acquisition of the Spark Plug business and the Exhaust Gas Oxygen Sensor business. Through the realization of this initiative, further contributions to solving social issues such as reducing environmental impact across the industry in the production process can also be expected.

On the other hand, there are still challenges to launch and expand non-ICE businesses. For new businesses, we have made a wide range of investments, including those from a long-term perspective, but we regret that these investments have not led to tangible results. In light of this situation, we are considering narrowing down the investment areas of new businesses with an eye to the next Medium-term Management Plan. Specifically, we will invest in areas that are more closely compatible with our assets, such as the core competencies of the Group, including silicon nitride-related businesses, the semiconductor manufacturing equipment business, and the ICE business, as well as areas adjacent to them. At the same time, we will increase new investments in the Group's core competence areas with the aim of further expanding the scale of operations. In particular, we intend to make generous investments in the ceramics field, which is expected to grow in the future. In addition to these business investments, we will also focus on investing in human capital to support future business growth.

To strengthen the management of our business portfolio, we have established business portfolio management based on the setting of hurdle rates for each business segment in the Medium-term Management Plan, and are operating with financial discipline. If we see a business where ROIC and growth potential are declining, we consider it as a target for our structural reform business, formulate a plan including selection and focus, form partnerships with external parties, and repeat the review. For example, in the medical business, the dissolution of the capital and business alliance with Japan Medical Dynamic Marketing, INC. and the associated share transfer conducted in January 2022, and the withdrawal from the implant (artificial bone) business, as well as the business capital alliance with IMC in the machine tool business, fall into this category.

Improved Capital Efficiency and Better Cash Allocation

In terms of improving capital efficiency, we have set a target of 13% for ROE in the Medium-term Management Plan, but in FY2023, ROE was 13.8% due to strong performance. We recognize that our cost of shareholder equity is around 8.5% to 10%, and that ROE during the period of the Medium-term Management Plan has remained at a level of 12% or more, so we believe that we have been able to maintain a positive equity spread. In order to improve ROIC, we are working on various priority measures to improve the operating income ratio and the invested capital turnover ratio based on the ROIC tree. To improve the operating income ratio, we are working to increase our share of high-value-added products, improve equipment and labor productivity, and reduce costs in indirect departments. On the other hand, we are focusing on reducing inventories by optimizing the supply chain.

The reduction of inventories is generally progressing as planned. While we have accumulated inventories due to the emergence of global geopolitical risks, we are also advancing supply chain reforms. In order to ensure a stable supply, we are aiming to further reduce inventories by centrally managing everything from raw material procurement to sales forecasts, and working on logistics reform and supply-demand reform. Our basic approach to cash allocation is to allocate the cash generated in the ICE business to growth businesses and new businesses in order to transform our business portfolio while maintaining a certain level of financial soundness. While cash-in has progressed roughly as expected, investments have not been made sufficiently, resulting in an increase in equity ratio, and we recognize that there will continue to be issues.

On the other hand, with regard to shareholder returns, we have been working to enhance them based on dividends by considering the optimal balance between investment for future growth and financial soundness. In addition, we will consider the acquisition of treasury stock based on the appropriate capital level in the medium term. Regarding the appropriate capital level, we are aiming to maintain our current credit rating and continuously review the appropriate capital level, considering our medium- to long-term management strategy to enhance sustainable corporate value. Since the start of our Medium-term Management Plan, equity capital has gradually increased, and while financial soundness has been secured, the appropriate capital level has been slightly exceeded. For this reason, we conducted a share buyback of 10 billion yen in FY2023, and we plan to implement another 10 billion yen buyback in FY2024 as well. In principle, we intend to amortize the acquired treasury stock. In addition, in order to realize stable shareholder returns in response to the early achievement of the targets of the Medium-term Management Plan, we have newly adopted dividend on equity (DOE) as a new indicator for the dividend policy, which is less susceptible to the effects of a single fiscal year's performance.

Financial Strategy to Enhance Corporate Value

Our PBR has remained below 1x since FY2019, but is currently at around 1.25x*. I myself do not think that this level is sufficient, and I will continue to make efforts to enhance corporate value continuously and strive to obtain an appropriate evaluation from the capital markets.

To improve PBR, we will focus on improving both ROE and PER. The key to improving ROE is the promotion of ROIC management, and we will accelerate the introduction of segment-specific ROIC and the strengthening of business portfolio management. To improve PER, we will strive to further grow our current businesses and improve the

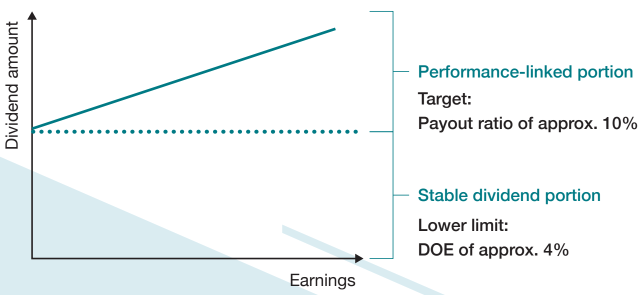
certainty of launching new businesses. We will also work to reduce capital costs by promoting dialogue with investors and strengthening governance. For example, in response to feedback that it was difficult to see the progress of business portfolio transformation, we explained the progress at last year's business briefing. In addition, this change in shareholder return policy reflects the feedback of dialogue with shareholders to management.

Furthermore, regarding tax policies, we consider it as a fundamental social responsibility that companies should fulfill, and we adhere to and properly pay taxes in accordance with the tax laws and regulations of each country and region as a basic principle, and have established a tax governance system for this purpose. We will continue to develop a system for further expansion of information disclosure.

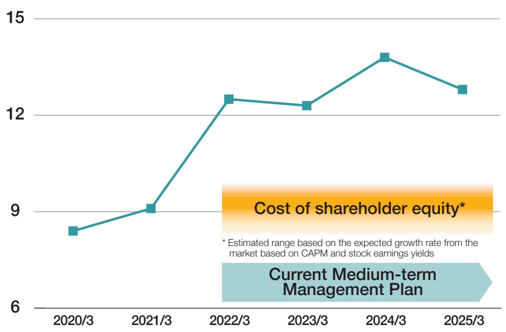
As we continue to work to deepen your understanding of Niterra, we will strive to improve capital efficiency and corporate value while receiving advice from our stakeholders, and we hope you look forward to our Group's future efforts.

* The PBR value is as of August 26, 2024.

Image after revision of shareholder return policy



Change in return on equity (ROE)



Change in price-to-book ratio (PBR)