

# Interview with the President



President & CEO

**Kojiro Kinoshita**

## Could you talk us through your results for FY2016 and forecast for FY2017?

In FY2016, we performed well in the Chemicals, and achieved growth in the Performance Materials and Agricultural Chemicals, from Display Materials and Fluralaner (veterinary pharmaceuticals), respectively. In the Pharmaceuticals, domestic sales of active ingredients for the anti-cholesterol agent LIVALO® fell due to the availability of generic drugs. Overall, however, we achieved sales of 180.3 billion yen, and operating income of 31.4 billion yen, setting new records on both fronts. In terms of financial indicators, we improved upon the previous year's figures across the board too, with an operating margin of 17.4%, return on equity (ROE) of 15.1%, and R&D expenses as a percentage of sales coming in at 8.9%.

Looking ahead to FY2017, we expect to see an increase in raw materials and fuels prices and a sharp rise in fixed costs, given capital investment in the future of our Performance Materials business. Thanks to growth in active ingredients for veterinary pharmaceuticals, and increased sales of Semiconductor and Display Materials, however, we are forecasting sales of 189 billion yen, above 8.7 billion yen from FY2016, and operating income of 32.5 billion yen, an increase of 1.1 billion yen.

## Could you tell us about your business plans?

Last year, we launched a long-term business plan called "Progress2030", accompanied by a mid-term business plan called "Vista2021".

As part of the process of formulating "Progress2030", we set out a definition for the group's business model, as a "Future-Creating Enterprise that responds to social needs with unique, innovative technologies." Our aim is to enhance corporate value hand-in-hand with the development of society around us, while at the same time helping to deal with global challenges such as advances in ICT, food shortages, increasing energy demand, and environmental protection. We will realize this through four domains, "Information & Communication", "Life Sciences", "Environment & Energy" and "Chemicals & Affiliates" with five core technologies adding "Optical Control" to four of "Fine Organic Synthesis", "Functional Polymer Design", "Ultrafine Particle Control" and "Biological Evaluation" that we have developed.

With that in mind, we have also set out a corporate vision for 2030, as "a corporate group which provides new values for helping to enrich people's lives by integrating internal and external knowledge with facing globally-changing society," and "a group of first-class pioneers who blaze a way to the future with enthusiasm by trusts they have built and skills they have cultivated."

We have also mapped out a basic strategy – "entering new fields by evolving, deepening and expanding unique technologies" – and have set ourselves the target of achieving sales of 300 billion yen and operating income of 50 billion yen in FY2030.

"Vista2021" meanwhile outlines our ideal situation for 2021, focusing on "Information & Communication and Life Sciences are the driving force for growth while Chemicals & Affiliates achieve a stable profit" and "establish the foundation of Environment & Energy business and a position as a

promising chemical manufacturer that keeps moving forward with a strong presence.” During Stage I, the three years covered under the first half of the plan, we intend to focus on existing products to drive performance, with the aim of achieving sales of 217 billion yen and operating income of 35 billion yen by the final year in FY2018.

### What specific measures are you planning to take in the future?

To achieve our vision by 2030, we will need to “foray into new business domains”, “development of new products that match market trends”, and “enhancing R&D capability”. To generate new business, it is essential to train resources who could be a connoisseur to find clue. In April 2016, we assigned resident members of staff to Santa Clara in the U.S., to have them gather information on and evaluate the latest technologies, away from practical work, with the aim of translating that into new business in the future.

At the same time, it is important to maintain an accurate picture of trends among existing customers too. We are working to develop new products that respond precisely to users’ needs, and that are always one step ahead of current trends.

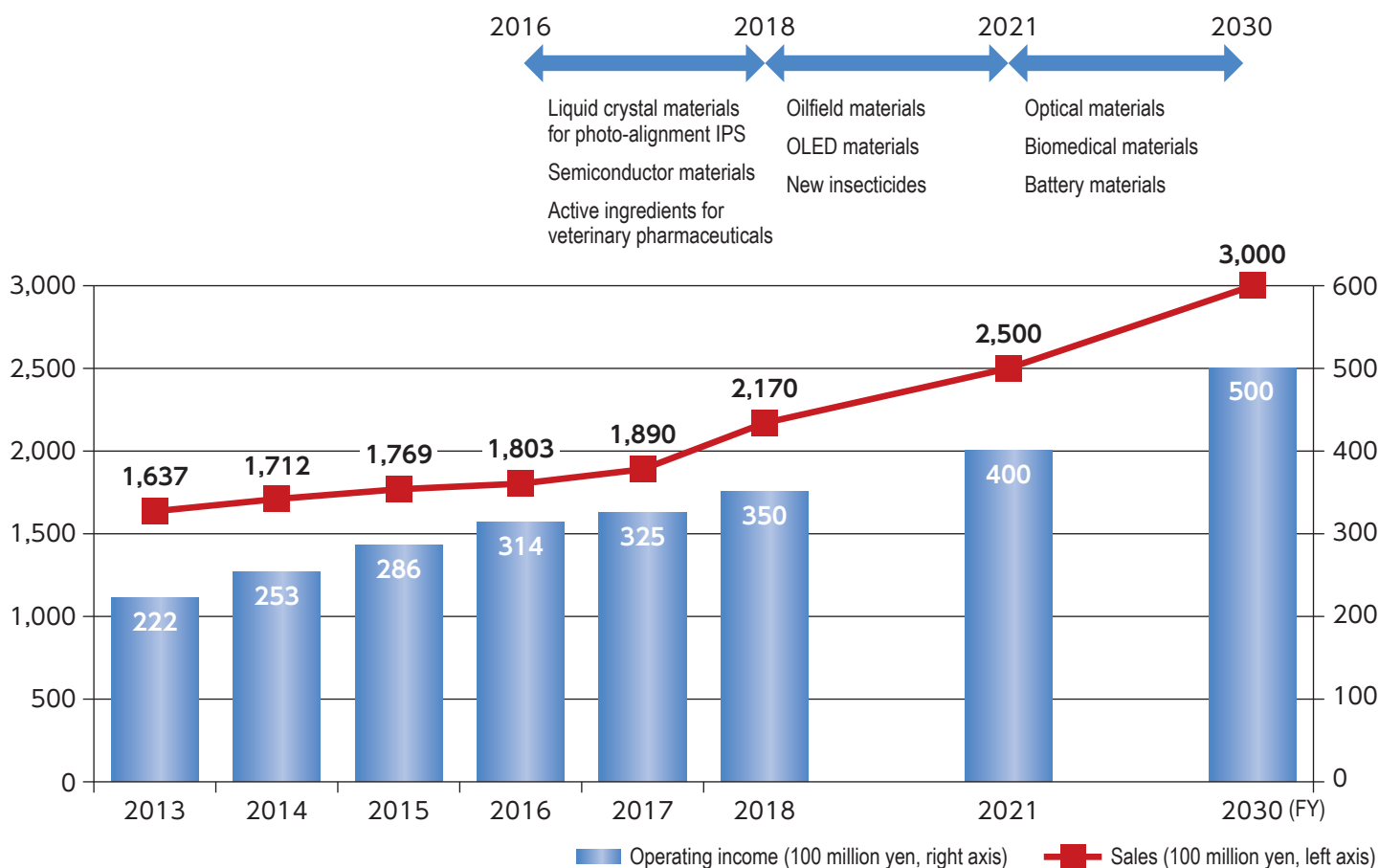
All of this depends on R&D. We have always invested management resources on R&D, and will continue to do so in the future, while also working in closer cooperation with outside parties, as well as in-house initiatives, so that we can continue to refine and improve our technologies.

Accelerate overseas expansion is also essential for us to develop. We established an overseas subsidiary in Brazil last year, and have established

another in India this year. The aim is to increase sales volumes by establishing a stronger presence in the overseas agrochemicals market, which is experiencing rapid growth at present. To secure the key human resources to expand our operations globally in other segments too, in 2014 we introduced an overseas study program, which has provided experience for a number of employees every year since then.

### What is your policy on shareholder returns?

In May last year, when we announced “Vista2021”, we set out a policy of incrementally increasing our dividend payout ratio to 40% by FY2018, with a total payout ratio of 70%. While we maintained a dividend payout ratio around the 30% mark up until FY2015, we have set ourselves a numerical target so that we can live up to the expectations of our shareholders. Having previously repurchased shares on a flexible basis, we have now announced our total payout ratio alongside dividends, clearly signaling that we will continue to do so in the future too.



### Corporate social responsibility is a key requirement for all companies these days. What are your thoughts on CSR?

In recent years, ESG investment has become increasingly common, as a method of investment with an emphasis on environmental, social and governance initiatives. The Sustainable Development Goals (SDGs) meanwhile have been adopted with the aim of dealing with global issues, and the Paris Agreement has also come into effect. As a result of these and other developments, it is no longer enough for companies to focus on their short-term results. We need to be proactive and make a real effort in areas such as addressing climate change, preserving the environment, ensuring employee health and safety, and reinforcing compliance.

Our business activities are based on our corporate philosophy, "We contribute to society in harmony with the environment, based on our excellent technologies, products and services." We believe that putting that into practice is CSR activities. In recognition of just how important that is, we reviewed our Group Code of Conduct in 2016 and revised our Basic CSR Policy. In April this year, we established a CSR Committee and a CSR & Public Relations Office, in order to plan CSR strategy in line with social trends, raise awareness within the group, and actively provide information for stakeholders. We are also committed to promoting CSR activities throughout the supply chain, including suppliers as well as our own operations.

### What is your position on compliance?

We regard compliance with legislation and social norms to be a prerequisite for our continued survival and development as a company. We have in place a Compliance Committee that is chaired by myself and includes outside experts among its members, and we have also set up a "consultation hotline system" to enable employees to report matters to the Compliance Committee directly. Although we have taken steps to prevent reporting parties being disadvantaged in any way, we have only received zero to two reports per year so far under this system. It therefore feels that we need to improve the system and make more of an effort to raise awareness.

In terms of corporate governance, we introduced an executive officer system in 2014, and have reduced the number of directors on our board, so that we can speed up decision-making, and clarify both managerial and operational responsibilities. We also appoint outside directors in an effort to improve management oversight capabilities, and are constantly working to improve compliance, risk management and internal control systems, so that we can ensure sound and transparent management.

## Corporate Ethos Structure

### Mission Statement (Our Values)

"Contribute to society with excellent technologies and products."

"Promote prosperity and welfare through concerted efforts to constantly develop new areas."

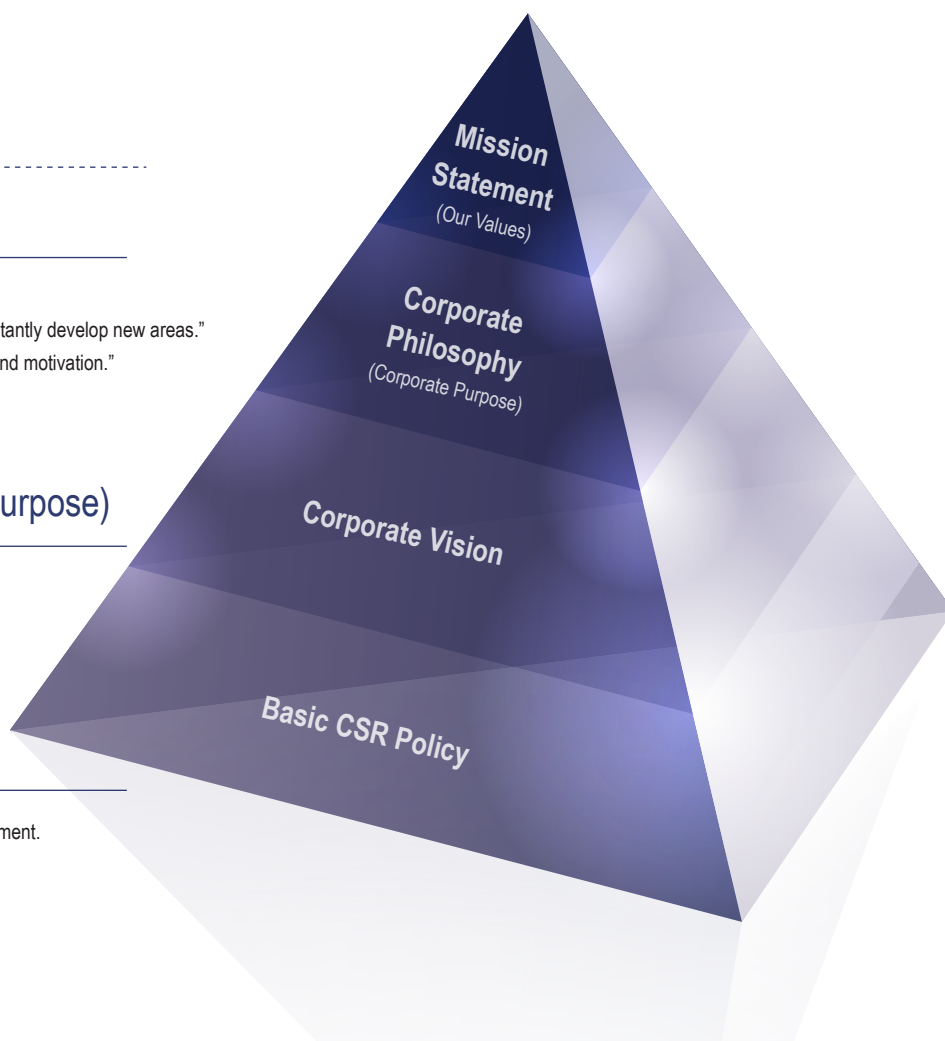
"Respect people who exhibit a sense of responsibility, originality and motivation."

### Corporate Philosophy (Corporate Purpose)

We contribute to society in harmony with the environment, based on our excellent technologies, products and services.

### Corporate Vision

A corporate group that contributes to human survival and development.



## What sort of initiatives are you implementing with regard to the SDGs?

Given that the SDGs apply to issues facing advanced nations as well as developing countries, we have an obligation as a company to do our bit to help find solutions. That is why we have been working recently to align our corporate activities with the 17 goals set out under the SDGs. While we are already working hard in areas such as technology and products, responsible care, and social contribution activities, I think that we still need to do more and expand the scope of our activities even further. We are focusing specifically on developing products such as agrochemicals that are essential for growing high quality crops consistently and efficiently, cell culture materials to assist with regenerative medicine, materials for preventing biomolecule adhesion, and other biomedical materials.

## What are your priorities as part of your CSR activities?

We promote responsible care activities as a group, to ensure that all of our products are “environmentally friendly, healthy and safe” throughout their life cycle. Having recently earmarked “countermeasures to address climate change” and “occupational health and safety” as material issues for our responsible care activities, we intend to carry out initiatives in these areas on a priority basis.

Countermeasures to address climate change are a top priority for the entire world, as evidenced by the Paris Agreement coming into effect. Even though we have reduced our greenhouse gas emissions by switching from naphtha to natural gas as the fuel and feedstock for ammonia production, we are nonetheless still working to achieve further reductions through measures such as promoting energy saving technology and alternative fuels. We also work hard to eliminate accidents, as one of our key responsibilities as a company, and the cornerstone of our business activities. While the number of accidents fell last year, accidents that require staff time off from work are still occurring. A fire also broke out at the Onoda Plant last year, although it was fortunately not too serious. We are determined to keep on focusing on occupational health and safety in the future, so that we can eliminate industrial accidents completely.

In the interests of sustainable growth, we also recognize that we need to secure and develop human resources. As well as establishing fair personnel systems, we are working to create more pleasant workplaces at the same time.

We are committed to human resource development based on respect for a diverse range of human resources, personalities and ways of thinking. We also have a number of systems in place to enable employees to strike a balance between their work and personal lives, and make every effort to provide support to maintain mental and physical health. As a result of initiatives such as these, we were recognized under the “2017 Certified Health and Productivity Management Organization Recognition Program (White 500)”.



## Finally, is there anything you would like to say to the group's stakeholders?

I hope you will take time to read through our Annual Report 2017, and that it will help to give you a better understanding of Nissan Chemical Industries.

This year is a momentous year for us as it marks our 130<sup>th</sup> anniversary. Our aim is to be an excellent chemical company with a strong presence, capable of contributing to the survival and development of the entire human race. We intend to effectively implement measures in line with strategies set out in our long-term and mid-term business plans, so that we can build momentum for further growth and development, as we continue to evolve into a Future-Creating Enterprise.

I hope we can rely on the understanding and support of all of our stakeholders in the future.