

Message from the President



President & CEO

Kojiro Kinoshita

The Results for FY2017 and Forecast for FY2018

In FY2017, the domestic economy continued to recover moderately as corporate earnings improvement, capital investment and consumer spending picked up amid the sustained strength of the global economy.

In Nissan Chemical, the Chemicals Division performed well and the sales of display materials from Performance Materials Division and Fluralaner (active ingredient for veterinary pharmaceuticals) from Agricultural Chemicals Division grew particularly. In the Pharmaceuticals Division, domestic sales of LIVALO® (anti-cholesterol agent) declined due to an increase in generics. However, in the fiscal year under review, net sales was 193.4 billion yen and operating income was 35.0 billion yen, both of which recorded highs. In terms of financial indicators, we improved upon the previous year's figures with an operating margin of 18.1% and return on equity (ROE) of 15.1%. R&D expenses as a percentage of sales accounted for 8.9% of the previous year's level.

In FY2018, we forecast sales of 204.0 billion yen and operating income of 36.8 billion yen, up 10.6 billion yen and 1.8 billion yen, respectively, compared to FY2017, due to the strong performance of all divisions and the sustained strength of the active ingredient for veterinary pharmaceuticals, although there are also factors such as rising fuel and feedstock prices and increased fixed costs associated with capital investment.

Business Plan

In 2016, we launched "Progress2030", a long-term business plan that looks ahead to 2030, and "Vista2021", a six-year mid-term business plan that outlines the ideal state for 2021.

In "Progress2030", we envisioned the corporate vision in 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".

In FY2030, we set numerical targets of 300 billion yen in sales and 50 billion yen in operating income. Based on the five core technologies we have cultivated, "Fine Organic Synthesis", "Functional Polymer Design", "Ultrafine Particle Control", "Biological Evaluation", and "Optical Control", we will contribute to the resolve of global issues in the fields of "Information & Communication", "Life Sciences", "Environment & Energy", and, "Chemicals & Affiliates" and will strive to improve company value along with the development of society.

In "Vista2021", we aim "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."

Progress of “Vista2021 Stage I”

The first three years of the “Vista2021 Stage I” are based on three basic strategies: “Maximizing the profit from existing products”, “Improving marketing power”, and “Enhancing R&D capability”.

With regard to “Maximizing the profit from existing products”, we are accelerating the development of cutting-advanced materials that meet the technological innovations in semiconductors, expanding sales of nanoActiv® HRT, shale oil and gas extraction efficiencies, to other regions and its production facilities, and providing a stable supply of APIs in response to increased demand for Fluralaner.

Regarding “Improving marketing power”, in April 2016, we dispatched a representative to Santa Clara, which is located in Silicon Valley, the United States, to collect and evaluate information on our cutting-edge technologies, in order to create new businesses in the future. We also established subsidiaries in Brazil in 2016 and India in 2017 to expand our business in the growing overseas agrochemical market. In July 2018, subsidiary in Suzhou, China, which was established to provide technical support to the Chinese display materials market and strengthen customer services, started operations. Through these measures, we will realize the development of products that meet market needs in early stage.

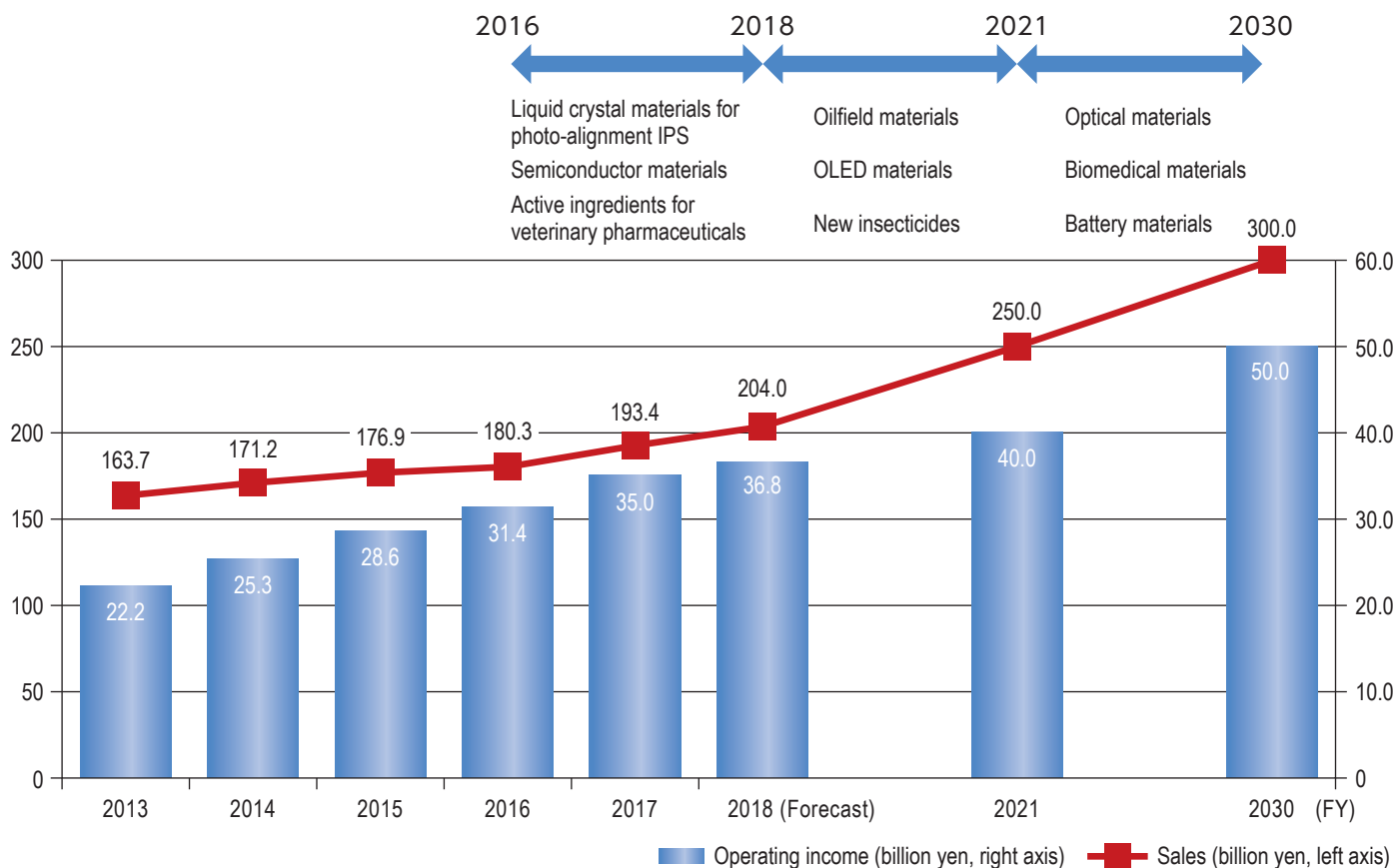
As results of “Enhancing R&D capability”, we have developed a new insecticide, GRACIA® and are scheduled to be launched in South Korea in 2018 and in Japan in 2019. In addition, we aim to expand into new business fields through the introduction of new materials and technologies, and we will reinforce the collaboration with external organizations, such as

through organizational collaboration with Kyushu University. Besides, we are working to early stage establish a synthetic method to reduce the manufacturing cost of active ingredients for medical drugs such as peptides and nucleic acids.

Our numerical targets for FY2018 are net sales of 217.0 billion yen, operating income of 35.0 billion yen, operating margin of 15% or more, and ROE of 14% or more. Although net sales will be lower owing to downturn at affiliate, we expect to achieve the targets in both operating income, operating margin and ROE.

Shareholder Return

In our mid-term business plan, we announced our policy of gradually raising the dividend payout ratio to 40% in FY2018 and achieving a total payout ratio of 70%. In accordance with this policy, we raised the dividend payout ratio from FY2016 onward and plan to raise to 40.6% in FY2018. We have also continued to flexible share repurchase and maintain a total payout ratio of 70%.



Message from the President

For Sustainable Growth

This report describes the process of value creation as an indication of how our group will improve our company value in the future. Recognizing and responding to various social changes and issues, we identified and will strengthen our initiatives on materiality that are indispensable for realizing our corporate vision in 2030.

With regard to materiality, we identified 19 key issues that are divided into three parts, such as “provision of new value for helping to enrich people’s lives”, “strengthening of our business base”, and “continuous improvement of responsible care activities” with underlying the crucial issues for corporate survival that are “strengthening of corporate governance, risk management and compliance”. The materiality we identified takes into account ESG (Environment, Social, Governance) index and several guidelines including SDGs (Sustainable Development Goals), and dialogues with stakeholders.

We will resolve these issues by leveraging our strengths that are “human resources”, “R&D capability”, and “financial base”.

Approach to Crucial Issues

In regard to corporate governance, we have introduced an executive officer system since 2014 and reduced the number of directors to accelerate management decision-making and clarify management responsibility and operational responsibility. Also, we strive to ensure the soundness and transparency of our management by improving management monitoring functions through the appointment of outside directors, strengthening compliance system, risk management system and internal control system in addition to conducting effectiveness evaluation using external organizations every few years that do not have any interest in our company.

In April 2018, we established the Risk Management & Compliance Committee, chaired by the Chief Risk Management Officer to comprehensively manage the risks of our group, improve the effectiveness of risk management, and maintain and improve compliance. At the same time, the Risk Management & Compliance Office was established under the Corporate Planning Department as a specialized organization to promote continuous improvement in all of these activities. We have established the Risk Management Basic Policy and the Compliance Basic Policy. The Committee and the Risk Management & Compliance Office are responsible for identifying group major risks, auditing compliance status, and providing compliance training and guidance. Moreover, we have established the Consultation Hotline to prevent or resolve compliance violations as early stage. In addition to paying attention to ensure whistleblowers do not suffer from any disadvantage, the contact points for reporting are set up as outside attorneys, outside corporate auditors, in addition to the department in charge of internal reporting.

Business Activities and CSR

Our group considers that the corporate philosophy “We contribute to society in harmony with the environment, based on our excellent technologies, products and services.” is the basis of our business activities and putting the philosophy into practice is CSR activities.

Since 1992, our group has been promoting responsible care activities to ensure the environment, health, and safety of our products throughout their entire life cycle as a manufacturing company that handles chemical substances. In particular, climate change countermeasures are one of the most important issues that must be addressed around the world, such as the effect into force of the Paris Agreement. We have switched from heavy oil and naphtha, which are fuel and feedstock for ammonia and melamine, to natural gas, and reduced nitrous oxide (N₂O), which is a by-product of nitric acid manufacture. As a result, we achieved our target for improvement of greenhouse gas emission rate in FY2017 under the responsible care mid-term plan by FY2021, and we revised the target upward in FY2018.

Zero accident and accident-free initiatives are our responsibility as a company and are the foundation of our business activities. Although accidents that require staff time off from work are still occurring, we aim to eliminate occupational accidents by investigating the causes of accidents, taking countermeasures, and sharing information with the entire group.

In order to achieve corporate sustainable growth, it is essential for each employee to play an active role and to revitalize the organization. We are promoting a fair personnel evaluation system, respecting diverse human resources, personalities, and mind set, and introducing various human resource development systems. In addition, based on the belief that the health of employees is a “foundation that supports sound corporate growth”, we have established a Basic Health Policy and systems so that employees can balance their work and life. As a result of these initiatives, we were recognized under the “2018 Certified Health and Productivity Management Organization Recognition Program (White 500)”, following from 2017.

We recognize that CSR elements such as attention to environment, labor practice, human rights and ethic become more important, as well as quality control, performance, cost and trading condition in value chain. We will send out “CSR Procurement Questionnaire” to our business partners and summarize their results. Based on these results, we will work with our business partners to promote CSR procurement, which enhances society sustainability, by developing activities that contribute to social and environmental impact and risk reduction in supply chain.

Participation in United Nations Global Compact

In April 2018, we joined United Nations Global Compact (UNGC) to enhance our CSR activities. UNGC is a voluntary initiative in which corporates and collectives act as good members of the society and participate in the creation of a global framework for achieving sustainable growth by demonstrating responsibility and creative leadership. We support 10 principles advocated by United Nations in four fields in human rights, labor, the environment and anti-corruption, and will continue to make efforts to realize them, thereby contributing to the sustainable development of society.



Human rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
	Principle 2: Make sure that they are not complicit in human rights abuses
Labour	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
	Principle 4: The elimination of all forms of forced and compulsory labour
	Principle 5: The effective abolition of child labour
	Principle 6: The elimination of discrimination in respect of employment and occupation
Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges
	Principle 8: Undertake initiatives to promote greater environmental responsibility
	Principle 9: Encourage the development and diffusion of environmentally friendly technologies
Anti-Corruption	Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery



Closing

We changed our corporate name from “Nissan Chemical Industries, Ltd.” to “Nissan Chemical Corporation” on July 1, 2018. Founded in 1887 as Japan’s first chemical fertilizer manufacturer, Tokyo Jinzo Hiryo, the Company has continued numerous mergers and acquisitions. The Company has continued to take on new challenges by continuing to pursue innovative technologies that promote social progress through the enthusiasms and efforts of its pioneers, whose founding spirit is “to dedicate ourselves to prosperity of the nation by agricultural fertility”.

We have already been transcending the framework of industry in the development of our business and will accelerate this effort toward the future. It made us change the corporate name to adapt to its business content.

In FY2018, we will start formulating a Stage II for the latter three years of the “Vista2021”. While the group’s current performance is strong, we recognize that the products that drive business performance are biased, and that the creation of new products is lagging behind. By accelerating our efforts for materiality, we intend to formulate plans to achieve sustainable social and corporate growth as a future-creating enterprise that responds to social needs with unique, innovative technologies.

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