

Message from the President



KINOSHITA Kojiro

President & CEO

Looking Back at FY2019

Despite difficult business environments, including the impact of the global spread of COVID-19, we achieved record high profits.

In FY2019, Japan's domestic economy continued to show a moderate recovery trend against a background of improving employment and income conditions. However, in addition to sluggish exports due to slowdowns of overseas economies, the impact of COVID-19 toward the latter half of the fiscal year has led to a stagnation of the global economy, having a significant negative impact on the Japanese economy.

Under these difficult circumstances, the results for the current fiscal year are as follows: Sales: 206.8 billion yen, Operating income: 38.6 billion yen, Ordinary income: 40 billion yen, Net income: 30.8 billion yen. Operating income and ordinary income reached record highs for six consecutive years with net income reaching a record high for seven consecutive years.

While the impact of COVID-19 was clearly visible in the fourth quarter of FY2019, I thought that the Company fared well, given the circumstances and again recognized the importance of building a business portfolio that is not easily affected by changes in the external environment. In particular, new agrochemicals and performance materials, our niche-top

products, have contributed significantly to our business results. This made me recognize that products that meet customer needs can be sold in any environment. At the same time, I also keenly feel the importance of early planning and implementation of measures for changes in the business environment.

Looking back at each segment in FY2019: As for the Chemicals Division, high-purity sulfuric acid and AdBlue® created increased revenue due to favorable customer operations. However, profit of ammonia-based products, our main products declined due to a large amount of China-made melamine (such as adhesive materials for plywood), which became surplus because of a slowdown in the Chinese economy, flowing into the market, and the impact of price competition.

As for sales of display materials from the Performance Materials Division, revenue greatly increased due to an increase in demand for photo-alignment material for IPS liquid crystal (IPS) corresponding high-resolution of display, not only for smartphones, but also notebook PCs and in-vehicle devices. Since IPS is relatively low costs compared to an



Creating a new corporate image to respond to rapidly changing business environments

expensive OLED, I predict that more photo-alignment material for IPS will be used in LCD smartphone. In addition, I expect demand for use of IPS in other devices, such as tablets and in-vehicle devices. As for sales of semiconductor materials, sales for memory devices recovered from the third quarter and sales for logic devices remained strong, leading to higher revenue. In regard to inorganic materials, sales of oilfield materials stagnated due to a slump in oil prices which reduced the willingness of users to invest, leading to continued cost control.

As for the Agricultural Chemicals Division, sales of Fluralaner, an active ingredient for veterinary pharmaceuticals, decreased due to customer inventory adjustment. In contrast, our insecticide GRACIA[®], which was launched in May 2019, has shown good results expanding sales. Our acquisition of the fungicide Quintec[®] in third quarter also contributed to sales, significantly increasing overall sales.

In the Pharmaceuticals Division, sales of the active ingredient of the leading product LIVALO[®], an anti-cholesterol agent, increased due to completion of an inventory adjustment in Japan. Although sales also increased for US and Europe bound exports, sales in South Korea decreased due to price stagnation.

During latter half of FY2019, business environments surrounding our company have changed greatly. Causative factors include fear of economic stagnation at a level not

witnessed since the Great Depression due to the spread of COVID-19.

Under these circumstances, the Nissan Chemical Group has taken measures to prevent COVID-19 infection, including maximizing the amount of home-based work performed by our employees. Such efforts are taken so that we can continue to provide products and services to customers based on our BCP (Business Continuity Plan). We will further strengthen our BCP based on the view that new type of viruses will appear after COVID-19 as endemic disease particular to East Asia in the future.

It is important to be aware that even if the spread of COVID-19 comes to an end, nothing will return to how it once was, including work styles. Mankind and society always evolves after major crises. How we overcome this unprecedented crisis and create a “New Normal” for Nissan Chemical shall be the key to controlling the future growth of the Group.

We are quickly working to make changes to our company culture, including the promotion of telework, elimination of overtime work at night and promotion of early morning work for actively working during morning hours. For that purpose, we will promote various systems, such as rotation work, core work day, staggered work, and develop a digital work environment.

About Our Mid-term and Long-term Business Plans

While striving to achieve the targets of the “Vista2021” mid-term business plan, we will start to implement rolling forecasts for the “Progress2030” long-term business plan.

Based on the current changes in the business environment, we are working on various long-term and short- to mid-term issues. In April 2016, we initiated the “Progress2030” long-term business plan, which focuses on our business efforts to 2030, and the “Vista2021” six-year mid-term business plan.

During the establishment of “Progress2030”, we held many discussions addressing where we must head as a company, what we can do and contribute to as a company with a global perspective on social and economic changes leading up to 2030. The plan aims to make Nissan Chemical “A corporate group that creates better future for people and the environment by helping to solve social issues” taking into account social issues such as ESG (Environment, Social and Governance) and SDGs (Sustainable Development Goals). For 2030, we set numerical targets of 300 billion yen in sales and 50 billion yen in operating income. Based on our five core technologies we have cultivated, “Fine Organic Synthesis”, “Functional Polymer Design”, “Ultrafine Particle Control”, “Biological Evaluation”, and “Optical Control”, we will contribute to solving global issues in the four fields of “Information & Communication”, “Life Sciences”, “Environment & Energy”, and “Chemicals & Affiliates”, and will strive to improve company value along with the development of society.

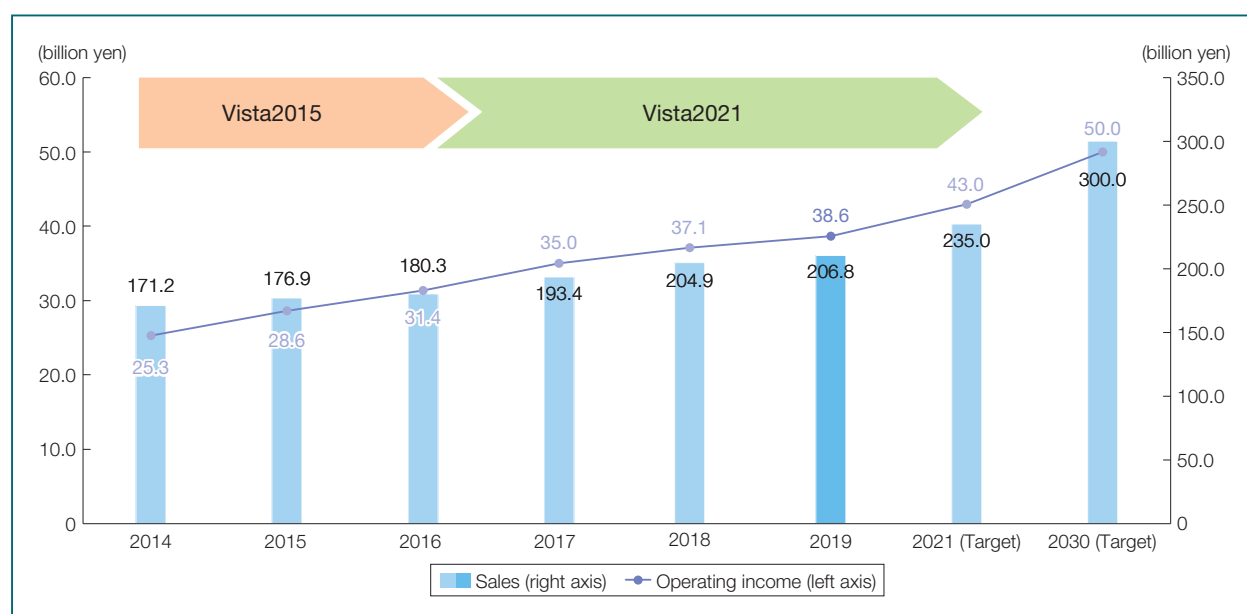
Four-year has passed since “Progress2030” was established, over the next year we will implement rolling

forecasts and work on the establishment of the next mid-term business plan, “Vista2027.” The new long-term business plan will cover a time period to 2050. With a 2050 perspective, I expect that there will be more diversity of creating hypotheses which will improve our strategic capabilities.

In 2050, the world population will reach 10 billion and quantum computers will be put into practical use. The world will most likely experience major changes and paradigm shifts, such as technological singularity (the timing at which artificial intelligence (AI) exceeds human intelligence) which is predicted to occur shortly before in 2045. It is possible that India and Sub-Saharan Africa (south of the Sahara Desert) will benefit from demographic dividend and may be developing exponentially.

It is necessary to proceed the discussions on the new long-term business plan with doubting established theories and common sense without being caught up in these assumptions by normalcy bias (thinking based on past experience). For this aim, we will form a team of young employees and proceed with the planning process for about one year.

Under the currently implemented “Vista2021” mid-term business plan, we aim to achieve the established numerical targets (sales of 235 billion yen, operating income of 43 billion yen, ordinary income of 44 billion yen, net income of 33 billion yen, and operating margin



of 18.3%) by overcoming the negative impact on business caused by COVID-19. For this, we will focus on further expanding products that drive profits and creating new products designed for the future.

On April 1st of this year, the Planning and Development Division was established for the purpose

of accelerating the development of new materials in the three areas of “Information & Communication,” “Life Sciences,” and “Environment & Energy.” By 2030, which serves as the final year of the current long-term business plan, I believe it will be our greatest mission to create multiple business units from this division.

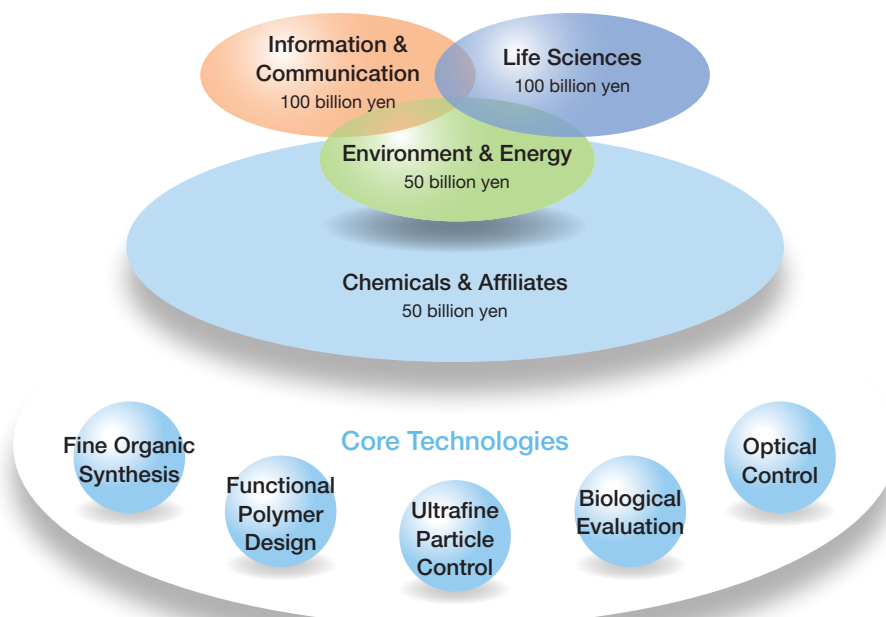
Corporate Vision in 2030

“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”

“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”



Sales Target in 2030 and Our Core Technologies



Toward the Realization of a Corporate Image for a New Era

We will build a business portfolio that is resilient to changes in business environments and review the state of our business units.

One of our long-term challenges moving forward is building a stronger business portfolio. In particular, due to COVID-19, building a business portfolio that is not easily affected by business environmental changes is a very important management issue, a matter that has attracted our attention. Our biggest challenge is to create new businesses and new products, especially products designed to be competitive niche-top products. In that sense, I am looking forward to the incubation function of the newly established Planning and Development Division.

At the same time, reviewing existing businesses is also an issue, especially for improving the profitability of our ammonia-based chemicals business and rebuilding

our pharmaceutical business. Further effort for smart agriculture, etc. is also a terrific theme. Among them, agrochemicals, which are our main products, are business-to-consumer products which are the closest to the market in our product group. In order to gain a better understanding for the actual conditions of the market as well as the conditions that farmers face, we are considering having primarily young employees stay in agricultural communities to conduct agricultural surveys.

As another long-term challenge, we are reviewing reorganization of our current business units which are categorized by product to by market.

We will proactively promote CSR management and work to solve social issues as well as contribute to local communities while taking ESG and SDGs into consideration.

Another long-term challenge is the active promotion of CSR (corporate social responsibility) management. Contributing to the resolution of social issues based on ESG and SDGs established by the United Nations, it is very important to clearly establish the important issues to tackle in order to realize the corporate vision in 2030 or future corporate vision in 2050. Continuous improvement of Responsible Care (RC) activities is one of those issues in which we work to reduce greenhouse gas (GHG) emissions as a measure for climate change mitigation. The most significant result achieved from

our efforts was the conversion of raw material and fuel from naphtha to natural gas for ammonia production at the Toyama Plant, which resulted in a large improvement in our energy consumption rate. We will continue to promote the reduction of GHG emissions by improving processes while making necessary investments in other plants as well.

In addition, as an initiative aimed at biodiversity, we are participating in Japan Business and Biodiversity Partnership and proactive in related activities. We have been operating a biotope at the Toyama Plant which is opened to the community. In the future, we aim to develop environmental conservation activities, such as biotope operation, in all areas where our plants and research institutes are located.



Nissan Bio-Park Nishi-hongo (Toyama)



While working to maximize profits and cash flow, we will build a BCP system to prepare for all risks.

The biggest challenges in mid- and short-term are maximizing both profits and cash flow. We will concentrate management resources on products that are the source of growth and new products development. At the same time, in the area of research and development (R&D), we will revise/abolish research themes based on market needs and review the allocation of research personnel. During this time, it is also important to reduce assets through means such as business unit cost reduction, close inventory examination, and optimization.

Furthermore, as measures against risks, we will build

a flawless BCP system by taking measures against a wide range of risks that threaten business continuity, including natural disasters such as earthquakes which could occur directly under the Tokyo metropolitan area, and endemics such as COVID-19, climate change, etc. Regarding risk assumptions, I think we are now being questioned for our ability to use our imagination to make various hypotheses. Since last year, when I visited plants and research laboratories, I repeatedly told employees “Be prepared”, before the current spread of COVID-19. Now I think it is the time for each employee to be thoroughly prepared themselves.

We will strive to improve productivity by incorporating cutting-edge digital technology and develop human resources capable of responding to matters.

Another important challenge in the mid- and short-term is productivity improvement. We will actively promote digital transformations that utilize digital technology to respond to drastic changes in the business environments and establish a competitive advantage. How to realize labor savings in preparation for the future decrease in the labor force as well as the stable and safe operation of the plants through the latest digital technology are very important issues. Moreover, in the area of R&D, by accelerating development particularly in materials area and conserving labor from routine office work, we aim to

transform into a corporate group that demonstrates high productivity. For this, I would like to see Nissan Chemical become a company that can utilize not only high-performance computers (supercomputers) as the latest technology but also quantum computers in the future. In addition, the development of human resources who handle such cutting-edge technologies is also a very important challenge. Through verification of telework conducted in order to reduce the risk of COVID-19 infection, we will strive to create and provide an environment in which employees can maximize their potential and improve productivity.

Closing

It is expected that the COVID-19 crisis will not end in just a year's time. This means that we will conduct business in a more unpredictable economic environment more than ever before. Our Group will ensure the grasp of change in any situation and strive to establish a strong business foundation by grasping and steadily implementing measures to tackle various issues, promote environmental awareness and social contribution activities, and will work to become a corporate group that is trusted by all stakeholders. I hope we can rely on your understanding and support in the future.

