

## Message from the President



**YAGI Shinsuke**

President & COO

## Introduction

At first, I would like to share with you my thoughts regarding my new role as President of the Company.

I believe that I have two immediate responsibilities as President. The first is to ensure the completion of our “Vista2021” mid-term business plan, which is now in its final year. We are making steady progress in regard to achieving our numerical targets and will continue to implement various measures to achieve those targets without pause. The Company will also strive to achieve an ROE of 16% and total payout ratio of 75%. Both serve as management indicators of “Vista2021.”

The second is to formulate the new long-term business plan, which provides a broader perspective beyond the next mid-term business plan and well past 2030. The key to the growth of the Group is to create new growth engines by focusing management resources on research and development (R&D), to plan/search for new businesses, products, and technologies, to strengthen our core businesses, and to develop our human resources. We will realize innovation by solving customers’ problems in a way

that will make us irreplaceable and by searching for new future customers.

We are in unprecedented times, as global order is changing due to intense competition for hegemony among large nations, fears of social fragmentation and the spread of COVID-19 infections. In spite of this chaotic situation, these social changes will bring about an expansion of the role of chemicals and provide us with opportunities. We seize such opportunities in a timely manner and continue to take on the challenge of transforming ourselves to become a source of value creation for our stakeholders. While remaining firmly anchored in our current business domains, we will also consider forming alliances with other companies, acquisitions, etc. to incorporate and expand new business domains. In addition, all employees will share a sense of urgency to create the foundations of new businesses for future development. All employees will work together to create a vision for the future of the Company to be with stakeholders over the next 100 years.

# Challenge, change, and move beyond. Toward becoming a future-creating enterprise that continues to take on the challenge of transformation

## Business Environments and Understanding of Current Business Conditions

Adaptation to the changing times will determine our future growth.

In October 2020, the Japanese government declared that it will achieve carbon neutrality by 2050. In line with this, many companies are revising their business activity plans for the future, including accelerating efforts to reduce greenhouse gas (GHG) emissions.

It is expected that materials derived from fossil resources will be replaced by carbon-neutral materials, and energy-related materials will be replaced by decarbonized materials, such as biofuels, hydrogen, and ammonia. I believe that business environments will change rapidly with major shifts expected in the value chain which involves resources, manufacturing, storage, distribution, and consumption.

All along, we have actively worked to reduce GHG emissions. In FY2018, we aimed to reduce our GHG emissions by 20% by FY2021 (compared to FY2011). As a result of our effort, we were able to reduce emissions by 27% a year earlier in FY2020, making our efforts a success.

In addition, as a long-term target, we plan to reduce GHG emissions by 30% by FY2030 (compared to FY2018) and continue to work at achieving the

emissions targets set by the Japanese government.

With regard to contributing to GHG emission reduction through our products, we will aim to seize more business opportunities for the future by promoting R&D through the integration of internal and external knowledge. This will be accomplished through efforts such as participation in national projects, industry-academia collaboration, and the formation of alliances based on the technologies we possess.

In addition, advances in digitalization and peripheral technologies are accelerating due to improvements in the performance of supercomputers, the widespread use of fifth-generation mobile communication systems (5G), the development of artificial intelligence (AI), and penetration of the “new normal” lifestyle as a result of the spread of COVID-19 infections. We will make every effort to build a management foundation in order to respond to the rapid changes in business environments, including conventional development, manufacturing, and sales systems in which various data are used individually.

## Looking Back at FY2020

As our entire society is shifting to the “new normal” lifestyle, making business environments more challenging, we were able to achieve record profits.

In FY2020, the Japanese economy experienced significant negative growth due to the spread of COVID-19 infections. In the second half of the fiscal year, there were signs of a partial recovery in exports. However consumer spending remained sluggish for a prolonged period, resulting in severe economic conditions.

Despite these conditions, we achieved sales of 209.1 billion yen (an increase of 2.3 billion yen year-on-year), operating income of 42.5 billion yen (an increase of 3.9 billion yen), ordinary income of 43.9 billion yen (an increase of 3.9 billion yen), net income of 33.5 billion yen (an increase of 2.7 billion yen), and EPS (earnings per share) of 232 yen (an increase of 22 yen) for FY2020, with operating income and ordinary income reaching record highs for the seven consecutive years and net income reaching a record high for the eight consecutive years.

In FY2020, performance varied greatly depending on the business and industry. I believe that the Group

fared well overall due to its balanced business portfolio. I also believe that our most important task is to build an even stronger business portfolio in the future without relaxing our efforts to do so.

Looking back at our business performance by segment, Chemicals Division experienced diminished performance in the first half of the fiscal year compared to the previous year due to the spread of COVID-19 infections with Basic Chemicals and Fine Chemicals following suit. In particular, the decline in demand from the automobile and housing industries, closures of school swimming pools and bathing facilities as well as other factors had a significant impact on business performance. In the second half of the fiscal year, profits eventually increased due to a recovery in automobile and semiconductor-related demand.

As for Performance Materials Division, sales of display materials greatly increased due to increase in demand for our photo-alignment agent for IPS liquid crystal (IPS) with the proliferation of high-resolution displays not only for smartphones but also tablets, notebook PCs and in-vehicle devices. As for semiconductor materials, the market in general was strong due to increased demand for PCs and servers in line with the promotion of remote work, leading to a significant increase in sales. Sales of inorganic materials also increased for polishing agents due to the strong semiconductor market.

In the Agricultural Chemicals Division, sales of DITHANE<sup>®</sup>, a fungicide that the Company acquired from the US based Corteva Inc. in December 2020, increased. In addition, new products such as Cygnus<sup>®</sup> and Tenku, the second generation of one-shot herbicides based on the paddy rice herbicide ALTAIR<sup>®</sup>, were launched, resulting in increase in sales. However, sales of the veterinary pharmaceutical Fluralaner decreased due to inventory adjustments by customers. Profits in the Agricultural Chemicals Division decreased due to higher fixed costs of the fungicides Quintec<sup>®</sup> and DITHANE<sup>®</sup>, which were acquired in the previous fiscal year.

In the Pharmaceuticals Division, profits decreased due to a decrease in exports as a result of the expiration of the market exclusivity period for an active ingredient used in LIVALO<sup>®</sup>, an anti-cholesterol drug, in Europe.



## Long- and Mid-term Business Plans

We will formulate the next mid-term business plan and new long-term business plan looking beyond the “Progress2030” long-term business plan.

The current mid-term business plan “Vista2021” Stage II is progressing smoothly, and we will continue to work toward achieving its goals in FY2021, the final year of the plan.

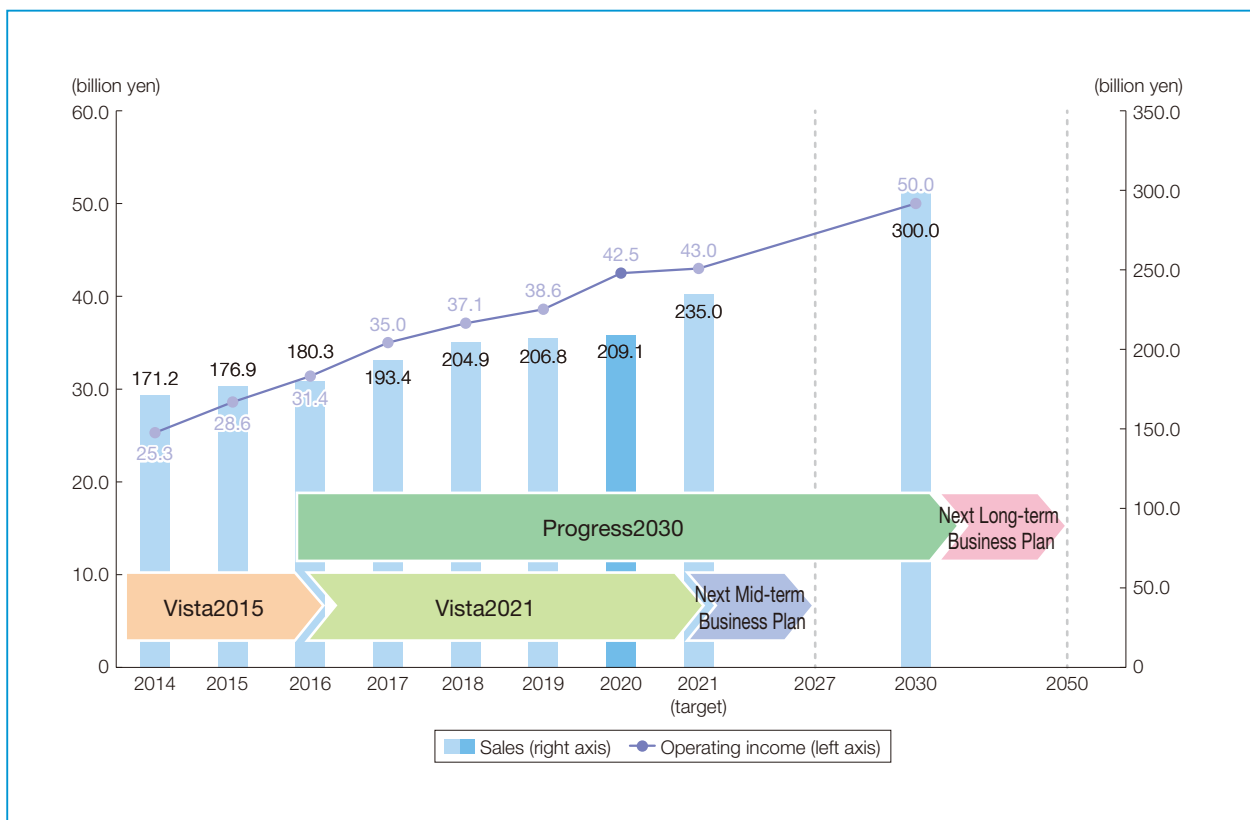
In contrast, five years have passed since the formulation of the “Progress2030” long-term business plan and since the environment has changed significantly, the assumptions made at the time of its formulation have diverged from the plan. In order to accurately respond to the changes, we must calmly analyze the present and future, and reconsider our strategies. Over the course of this year, we will look beyond 2030 to formulate a new long-term business plan for 2050.

From here on, we will thoroughly pursue measures to enhance corporate value while creating growth

strategies and responding to the demands of society, with taking into consideration rapidly changing future.

For this, we launched the “Business Planning Project” as a cross-divisional project, and are now in the process of discussing the formulation of the next business plan in earnest with myself and the Vice President serving as project leaders.

In addition, we are formulating “2050 Vision,” which consists of young employees as key members. By exploring the possibilities of new business areas based on our technologies without constrained by thinking based on past experience, and by seeking solutions to various social issues, we will aim to increase our corporate value to our stakeholders and contribute to society.



## Toward Becoming a Future-Creating Enterprise

Aiming to build a business portfolio that is resilient to changes in the business environment, we will strengthen our R&D capabilities and promote the creation of the next growth engine.

We will continue to focus on R&D as a source of competitiveness. To this end, we will continue to invest in R&D having maintained a high sales-to-R&D expenses ratio of 7.9% in FY2020. In order to further improve the quality of research themes and realize efficient R&D, we will promote digital transformation (DX) in addition to our existing system, and strengthen our infrastructure by utilizing AI for R&D themes, promoting automation, utilizing reverse synthesis analysis software, and training digital human resources. In July 2020, we established the Digital Promotion Office, which is working to speed up the DX of the

entire company.

In addition, we are working to build a more robust business portfolio. In particular, due to the spread of COVID-19 infections, we have reaffirmed building a business portfolio that is not easily affected by business environmental changes is an important management issue.

Aiming to build a business portfolio that is resilient to changes in the business environment, we will strengthen our R&D capabilities and promote the creation of the next growth engine.

We will strive to create an organization where diverse human resources can take on challenges toward our goals.

In 2050, the year in which we will attempt to realize the goals of the new long-term business plan, the core of the workforce will be from “Generation Z”, which follows the millennial generation. We believe that human resources with more diverse values than ever before will work together in the Company. For developing human resources in the Company, it is also important to foster an environment where such diverse opinions and talents can be displayed to the fullest.

In April 2021, we released our Diversity Statement. Although we have worked on diversity promotion so far, the Diversity Statement allows us to clearly state where we stand regarding the matter. I would like for us to create an environment where diverse opinions can be expressed in a free and open atmosphere, and where individual strengths can be utilized to achieve high performance as an organization or to become a driving force for innovation.

We have also begun to reform our personnel system. Our goal is to provide opportunities using the personnel system for employees who are motivated and willing to take on new challenges by focusing on their roles, not on what they can do but on what they will accomplish. We will move away from the so-called “mere ability and performance” principle to develop human resources and create an organization that can utilize human

resources who can voluntarily set and solve problems.

### Diversity Statement

At Nissan Chemical, it is important that the individuality and talents of each individual be demonstrated and that the purpose of the individual be connected to society through the Company. We believe that this will nurture a sense of fulfillment in work and a sense of purpose in life, and create a strong force that fulfills the future of people and society with hope and happiness as well as realizing the well-being of people who work.

We regard diversity initiatives as an important theme for achieving both the well-being of our workers and the happiness of society, and aim to achieve our Diversity Vision through all measures.

## We will contribute to the sustainable development of society through our business activities by deepening our commitment to ESG and SDGs.

One of the long-term issues is the active promotion of CSR management, which requires us to contribute to solving social issues based on ESG (Environmental, Social, and Governance) and SDGs (Sustainable Development Goals) established by the United Nations. In order to realize our corporate vision for 2050, it is extremely important to clearly define the key issues to be addressed.

In our next mid-term business plan looking ahead to 2050, we will formulate measures to respond to social demands, including ESG and SDGs, and contribute to the sustainable development of society through our business activities. In addition, we will set KPIs (key performance indicators) in an effort to gain stakeholders' understanding of the Group's business activities.

## Closing

There is still no end in sight for the spread of COVID-19 infections. In the current fiscal year, we will continue to face an uncertain business environment in conducting business activities due to factors including the deepening conflict between the US and China.

In this environment, we believe that the Group will be able to establish an even stronger business foundation by properly grasping changes and steadily implementing measures to address various issues in any phase, based on our corporate philosophy of "We contribute to society in harmony with the environment, based on our excellent technologies, products and services."

In addition, we will make a concerted effort to become a corporate group that is trusted by all our stakeholders by improving the soundness and transparency of our management, ensuring thorough compliance, giving greater consideration to the environment, and promoting social contribution activities more vigorously. I hope we can rely on your understanding and support in the future.

