

Message from the President



Representative Director and President

朝倉 研二

Kenji Asakura

July 2019

Fiscal 2019 will be a decisive year for the NAGASE Group. I will steer management while striking a balance between the short term and the mid to long term.

My Vision and Management Policies

Transitioning to a New Business Model

NAGASE CO., LTD. was founded 187 years ago as a sole proprietor in the Nishijin area of Kyoto that dealt with functional products, such as safflower dye. By anticipating overarching and technological trends, the Group has worked to grow its business.

We have since built a network as a distributor for many global companies. This began in 1900 with imports of synthetic dyestuffs from a chemical company based in Basel, Switzerland currently known as BASF. Our network with these global companies remains NAGASE's major strength. It has enabled our dramatic growth as a trading company specializing in chemicals in the past, present and, assuredly, into the future.

Around 1900, this network allowed NAGASE to escape a domestic market essentially monopolized by foreign trading houses. Since then, we have been singularly committed to realizing direct trade. This led to a forward-looking

move to establish an office in Lyon, France, then center of the silk industry. The purpose was to sharpen our expert judgment on technology. The driving force of commitment, backed by action, has been firmly passed down, animating the current spirit of the NAGASE Group.

However, there is a life cycle in the functions of trading houses too. Major trends are gaining speed, including the globalization of markets, diversification of people's values, digitization, and increasing value of data. The value that our stakeholders seek from us is always changing. My vision for the NAGASE Group going forward is to not only perform trading house functions but to also be a corporate group that provides value over the mid to long term as a business designer.

▶ See P.4, "Evolving Our Business Model"

As a Business Designer

I came up with the concept of a Business Designer after becoming president. We will align the six functions of the NAGASE Group (Trading, R&D, Investment, Logistics, Global Network, Manufacturing) and swiftly establish them as an integrated business. Although I fully comprehend the challenge of this task, I think this concept is quite

important. This particular combination of functions leverages the unique aspects of our businesses to realize the value being sought from the NAGASE Group. We can provide value to various markets by Identifying, Developing, and Expanding the seeds of business, as stated in the NAGASE Group vision.

Message from the President

Technological capabilities are clearly another strength of the NAGASE Group and these underpin the business designer concept. Our technological capabilities include expert judgment and commercialization ability. In addition, one of our strengths is our proven ability to create business with our partners. As alluded to before, our domestic and overseas network is robust in its breadth and depth. NAGASE's technically competent human resources and R&D capabilities further enhance the value of this network.

For example, we are currently developing a materials informatics (MI) platform using AI and the latest data processing systems. We expect this platform to enhance collaboration with the NAGASE Group's R&D department and also strengthen collaboration with our business partners. We aim for the service to begin in fiscal 2020.

- ▶ See P.12, "Our Value Creation Process and Long-Term Management Policy"
- ▶ See P.14, "Business Designer: 8 Case Studies"
- ▶ See P.58-63, Manufacturing and Research Functions

Rolling Ahead with ACE-2020

The NAGASE Group is currently in the first of three stages in the long-term management policy, which will conclude in fiscal 2032. Under the medium-term management plan **ACE-2020**, we are promoting business activities to reform both our profit structure and our corporate culture.

ACE-2020 is the first five-year medium-term management plan, and we decided in advance to roll it over for reassessment in the third year. Our intention is to raise the likelihood of achieving our targets by carefully assessing our analysis of the external environment and our measures

for a new earnings model (hereinafter called inorganic).

Various inorganic themes have come up in each of the measures taken to reform our profit structure, but we are aware that it will take time before we have racked up some achievements. As we strive to spur such growth, we need to balance the human resources we invest in aggressive inorganic activities with each year's figures, with an eye toward fiscal 2020 and beyond.

As for reforming our corporate culture, I feel that we have carefully stuck to the numbers, and I mean that in a

good way. In particular, we have made progress on independently operating manufacturing processes and ingraining independent management mindsets. I think this is connected to our numerical results. In addition, we took a survey of over 600 managers throughout the Group and were able to confirm that we have made progress on increasing their understanding of **ACE-2020** and the importance of taking qualitative measures.

However, as a result of the reassessment of the plan, we uncovered the following issues that we realized were

of more importance. We are now moving ahead with measures to address them.

- Supply issues arising from stricter environmental regulations around the world
- Global governance responding to a rise in overseas business opportunities
- Further strengthening of compliance systems in the manufacturing business

Reviewing Fiscal 2018 and Looking Ahead

Changing Business Environment and Stable Business Portfolio

We have entered the fourth year since the start of **ACE-2020**. Reflecting on this, what strikes me most is that the speed of all the external changes is now much faster than we originally assumed.

The dynamic trend toward strategic alliances around the world is proceeding rapidly, even if you only look at the chemicals industry. In upstream businesses, the position of the Middle East is changing with the growing presence of U.S. shale gas, and we are also paying close attention to trends involving Chinese companies. In addition, environmental and safety regulations are growing stricter in China, and some chemical plants have suspended operations due to accidents. The business environment surrounding the NAGASE Group has rapidly changed. This includes the wide-ranging impacts, confronting the entire industry, that stem from a shortage of basic and intermediate chemical feedstock.

Despite this situation, we were able to once again achieve record high earnings, with consolidated net sales of ¥807,755 million (up 3.0% year on year) and profit attributable to owners of the parent of ¥20,136 million (up 17.2% year on year). Unlike fiscal 2017, when every segment had firm results, fiscal 2018 brought more variation. Some segments had higher profit and others lower. As a result, the weak performance of one of our focus areas, electronics, was offset by the strength of other segments.

In regard to the stability of our business portfolio, I think we can confirm that the capability of the NAGASE Group to adapt to the external environment has indeed improved.

- ▶ See P.22, "Message from the Executive Officer in Charge of Corporate Administration and Affiliates"
- ▶ See P.26, "Mid-Term Management Plan ACE-2020"
- ▶ See P.46, "Business Portfolio"
- ▶ See P.64, "Management's Discussion and Analysis of Operations and Finances"

The NAGASE Group's Fiscal 2019 Materiality

We positioned fiscal 2019 as a decisive year for the Group. During this year, I think that the NAGASE Group's growth opportunities will arise from the emergence of 5G and AI technologies that will cause a paradigm shift. Over the

next few years, the technology platform of the next era will likely be established. During this pivotal transformation, designing business will be of the utmost importance to ensure the next level of growth for the NAGASE Group.



Message from the President

The fiscal 2019 slogan, “Do It!” captures that sense of urgency and was chosen to help raise awareness. The slogan conveys our intent: “First we must act!” I and the other top management will actively “Do” things. To continue fostering an environment where everyone will unhesitatingly be able to attempt new things, we will also evaluate the responsibility individuals take by “Doing” things. The strong drive and initiative shown in the early period after

our founding was steadily passed down to the current NAGASE Group. I want 2019 to be a year where we fully demonstrate that initiative.

For fiscal 2019, we forecast* consolidated net sales of ¥850.0 billion (+5.2% year on year) and profit attributable to owners of the parent of ¥20.5 billion (+1.8% year on year).

*Assuming an exchange rate of ¥110 per U.S. dollar

Sustainability Management

Positioning ESG at the Core of Management

The NAGASE Group vision states that we realize a sustainable world where people live with peace of mind.

As a trading company specializing in chemicals, we are aware that one of the ways we provide value is by ensuring that our business partners, local and international communities, governments and other stakeholders feel safe and secure, with thoroughgoing compliance in our business activities that extends from procurement and purchasing through to sales and disposal.

To cement an environmental, social and governance (ESG) mindset into the core of the Group’s management, we set fiscal 2018 as the new phase of ESG. We held internal study sessions, worked to familiarize employees with basic terminology, and conducted an overall

assessment of ESG-related activities. We also gradually began to take measures aimed at achieving the United Nations Sustainable Development Goals (SDGs). These include mitigating water-related risks, addressing climate change, and protecting biodiversity.

In fiscal 2019, to better define the outline of the entire NAGASE Group, we will analyze long-term risks and opportunities in the external environment. Then I would like to move ahead with establishing materiality while holding deeper discussions on what kind of corporate group we should be, what kind of value we should provide, and to whom we should provide it.

▶ See P.40, “Environment”

▶ See P.42, “Society”

Aiming to Enhance the Effectiveness of the Board of Directors

Although we have not deliberated on the separation of management and execution, we are aware of the immense importance of that separation. That is part of the reason we reduced the number of directors from ten to seven. The three former members were internal directors so this reduction will effectively amplify the voices of the two outside directors. In addition, we established a new

Nomination Committee to ensure greater transparency. We think this will further enhance the effectiveness of the Board of Directors and, in turn, improve corporate value.

▶ See P.28, “Our Board”

▶ See P.30, “Corporate Governance Initiatives”

▶ See P.34, “Interview with the Outside Directors”



Global Governance

Since **ACE-2020** began, the NAGASE Group has entered the markets of Izmir, Turkey; Lyon, France; Da Nang, Vietnam; and Karachi, Pakistan. The competition among overseas companies is heating up while customer and market needs in each region are diversifying. Moreover, headquarters’ management and decision making are also changing.

Amid this situation, we will build a system to promote highly responsive management that can rapidly create

new businesses and reach investment decisions. We will do this by establishing local management companies as bases to operate and manage regional businesses. Global governance is an important issue for the NAGASE Group, and we are taking various measures to address it, especially through our director in charge of corporate administration and affiliates.

▶ See P.22, “Message from the Executive Officer in Charge of Corporate Administration and Affiliates”

Returning Profits to Shareholders / Closing Message

“Through the enhancement of its earning power and entrepreneurial structure, NAGASE adheres to an ongoing basic policy of making continuous and secured dividend payouts linked to its consolidated performance, and thus it aims to keep increasing the per-share dividend with due consideration given to the payout ratio and the ratio of dividends to net assets on a consolidated basis. We intend to use the retained funds effectively to support future business activities and to strengthen its management foundation.” This is NAGASE’s dividend policy.

For fiscal 2018 we paid out a total of ¥42 per share. This includes an interim dividend of ¥18 and the year-end dividend of ¥24. With regard to profits, while carefully balancing the need for investment and sustainable business expansion, we strive to enhance comprehensive returns to

shareholders including through dividends, share repurchases, and the disposal of treasury stock. Regarding the latter two methods, we will continue to make determinations in light of trends in capital markets and business performance.

Under **ACE-2020**, the NAGASE Group stated its goal of achieving a new normal, with operating income of ¥30 billion as our new standard. In the focus areas of Life & Healthcare and Electronics, we aim to steadily carry out our slogan of “Do It!” over the remaining two years even as the level of difficulty rises due to a worsening business environment in some current markets.

We thank all our shareholders and investors for their continued understanding and support of the NAGASE Group over the long run.

Message from the Executive Officer in Charge of Corporate Administration and Affiliates



Masaya Ikemoto
Director

We will strongly support the next stage of growth by improving capital efficiency and comprehensively managing risks

Capital Efficiency for Achieving ACE-2020

Measures to Improve Capital Efficiency and Related Issues

Under the mid-term management plan **ACE-2020**, we are working to improve capital efficiency, and, as a result, we have made ROE one of our quantitative targets. ROE improvement can be separated into the pre-tax profit ratio and invested capital turnover ratio, and we are strengthening their correlation with each of the plan's measures.

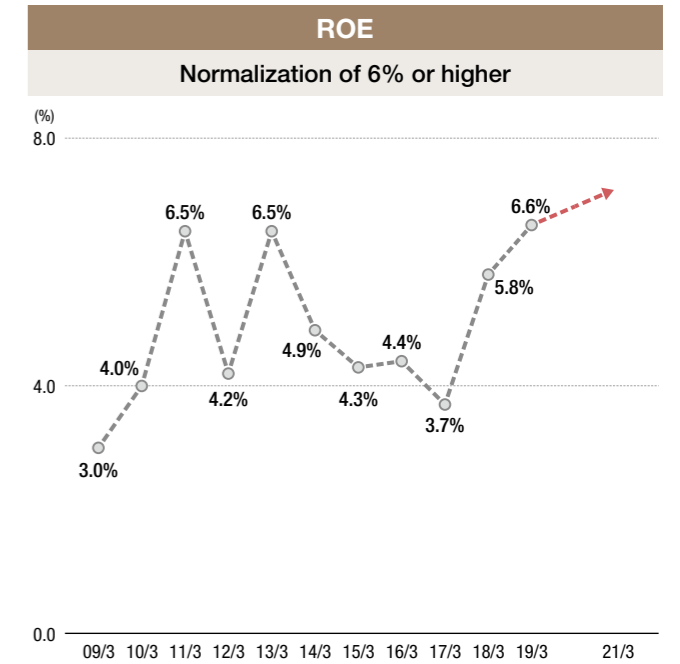
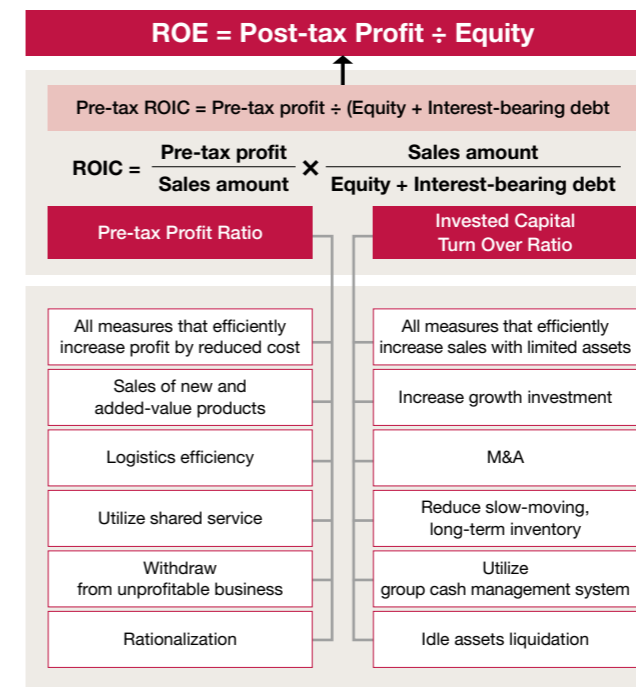
In the fiscal year ended March 31, 2019, ROE was 6.6% (+2.2%), pre-tax profit ratio was 3.5% (+1.4%), and invested capital turnover ratio was 2.1 times (+0.1 times). (Comparison with the fiscal year ended March 31, 2016)

The quantitative target for ROE in **ACE-2020** is more than momentarily exceeding 6.0%; it is to swiftly make that percentage our new normal. We therefore believe our current performance demonstrates the serious progress

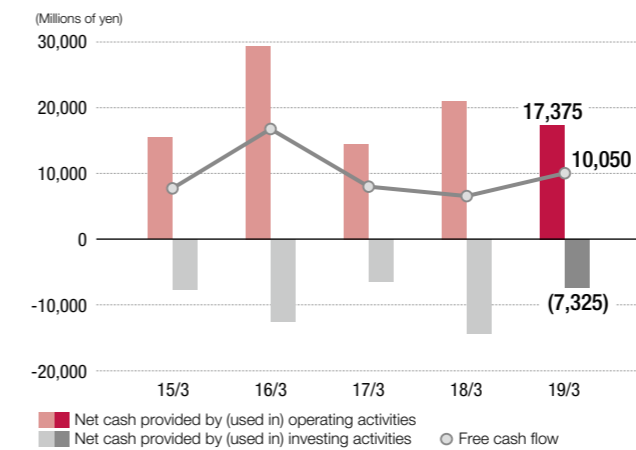
being made toward achieving that new normal. In addition, the five-year duration of the mid-term management plan corresponds with a transformational period in our long-term management policy. Again, I'd like to reiterate that the NAGASE Group is not simply aiming to achieve a 6.0% level for capital efficiency.

We have made big decisions during the duration of **ACE-2020**, which includes improving the profitability of our manufacturing business, establishing shared service companies, and exiting unprofitable businesses. On the other hand, to improve capital efficiency, there are issues related to the invested capital turnover ratio, and we will continue working to improve that.

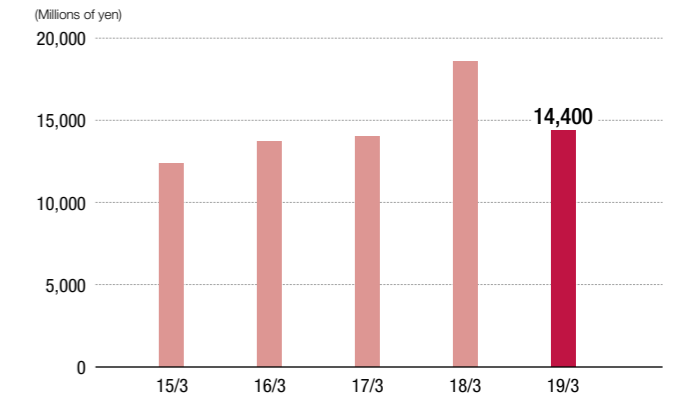
Numerical Targets under ACE-2020



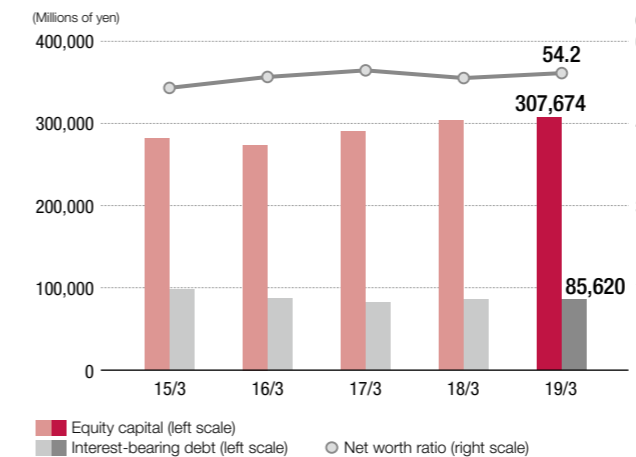
Cash Flows



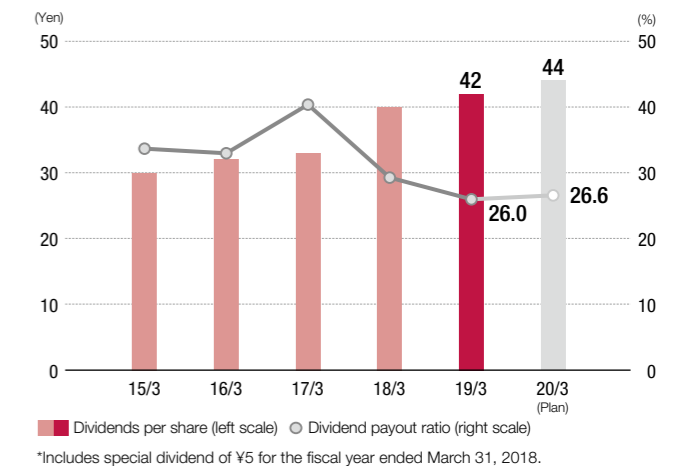
Investment



Equity Capital/Interest-Bearing Debt/Net Worth Ratio



Dividends



Policy on Optimizing Our Portfolio

Under **ACE-2020**, we are constantly taking inorganic growth measures. Many cases involve new business models where it is difficult to use the NAGASE Group's existing experience to chart how we can create a track record of success or how long that might take. We are investing management resources in focus and growth areas while analyzing major trends in the external environment, including 5G, IoT, self-driving technology, and materials informatics, but these efforts might not contribute to results until after the plan concludes. I am aware that one of the important roles of the corporate administrative director is to vigilantly monitor from when and to what degree each measure contributes to results.

Investment Activities under ACE-2020

Investment activities accompany optimization of our business portfolio. After reflecting on past experiences, we revised our monitoring methods, and also revised our investment guidelines under **ACE-2020**. According to the revised standards, we will emphasize numerical results more than ever before and also use these in ranking and managing each project. The decision to exit an unprofit-

In addition, while inorganic growth is certainly important, organic growth is also important in our long-term management policy and to achieve the goals of **ACE-2020**. It might seem mundane to consider how to ensure the basic businesses remain efficient and generate cash over the long term, but we must carefully monitor the situation to optimize our overall business portfolio. For example, Fitz Chem LLC, which is a distributor of specialty chemicals and personal care products in the U.S. Midwest, serves to complement the NAGASE Group's businesses on the East and West coasts, forming a foundation for distributing various products across the entire United States.

able business is made by the NAGASE Group after duly considering the decision criteria of the guidelines and the potential impact of an exit on our business partners and society as a whole. Since the plan commenced, we have formed and severed relationships with around 20 affiliate companies. The decision to replace assets is challenging, so we are constantly revising our guidelines and operations.

Regional Management to Achieve Our Long-Term Management Policy

Restructuring Global Governance: Region-Based Management

The goals laid out in the NAGASE Group's long-term management policy (fiscal 2032) are to achieve a level of profit consistently three times higher than the fiscal year ended March 31, 2015, as well as to expand overseas

operations and restructure global governance with the dual pillars of overcoming challenges for growth and reinforcing the management platform for growth.

Long-Term Management Policy

In the lead up to 2032, the NAGASE Group's 200th anniversary, we formulated a long-term management policy to achieve accelerated growth at a pace that had previously been unachievable with the systems in place. Under this policy, the Group is moving ahead with its transformation with the full participation of everyone.

Challenges for Growth

- Increase growth investment
- Accelerate organic growth
- Expand overseas operations

Reinforce the Management Platform for Growth

- Restructure global governance
- Increase flexibility in HR management
- Enhance safety and assurance
- Consolidate communications infrastructure

The NAGASE Group has 51 overseas manufacturing bases in 14 countries around the world as of March 31, 2019. To further expand the scale of business, we are considering consolidating governance authority based on the idea of moving from local subsidiaries to region-based management.

As one measure toward that end, we established a regional headquarters in China in January 2019 and another in the United States this April. For example, in the case of China, although each of our multiple local subsidiaries are giving their best, each subsidiary varies in size and the potential business creation can be limited by the business scale of each company. By instead scaling governance up to a regional basis, we can expect a more diverse range of potential acquisitions and other growth investments determined on a regional basis, which would

be more suitable for each region.

In addition, a regional platform would also strengthen compliance, checks-and-balances, and other defensive functions. We will construct a regional system that complements and reinforces the management-related specialists spread across each company. This will contribute to our training and auditing systems, as well as the management of investments and risks.

Ultimately, we will accelerate the appointment of local staff into key positions and thoroughly ingrain our newly constructed governance system into the local culture to achieve a new level of growth during this period of transformation.

- ▶ See P.6, "Overview of the NAGASE Group"
- ▶ See P.12, "Our Value Creation Process and Long-Term Management Policy"
- ▶ See P.56, "Global Network"

Constructing a Platform of Our Manufacturing

The NAGASE Group's manufacturing business accounts for over 40% of operating income, and its presence is growing. We are making steady progress toward our goal of improving profitability and autonomous management in the manufacturing business, which is also one of the measures of **ACE-2020**. In our effort to create region-based management for the next stage of growth, we held the Group Manufacturing Managers Meeting, which serves as a basic platform for the NAGASE Group's domestic manufacturing companies.

Currently, each company is using its own standards for occupational safety and hygiene, product design, quality assurance and management, cost of sales management, human resources training, and so on. Regarding these standards, we will visualize the level of improvement and

management achieved by harmonizing these as a Group and we will continue strengthening the monitoring system. Moreover, in regard to the SDGs, including addressing water-related risks and climate change, we will coordinate our efforts as the Group manufacturing business.

Furthermore, as a member of the NAGASE Group, which has a trading business and a manufacturing business, we anticipate an independent and proactive discussion to emerge on what the manufacturing business can do to achieve drastic growth. And then, beyond that, we aim to foster shared values that help us answer the questions of how we can optimally unite the NAGASE Group's manufacturing.

- ▶ See P.34, "Interview with the Outside Directors"



Mid-Term Management Plan ACE-2020

Positioning of ACE-2020

The long-term management policy spans some 17 years (2015 to 2032), which we divided into three stages. Stage 1 began with our ACE-2020 mid-term management plan. In fiscal 2019, the fourth year of ACE-2020, we will continue pushing ahead with transformation aimed at spectacular growth.



ACE-2020 Basic Policy

NAGASE Transforms from “Shosha/Trading” to “Business Designer.”

NAGASE strings all the groups together to create and provide new value to the world through 6 key functions.



Leverage Group functions to achieve the quantitative and qualitative targets.

Reform Profit Structure		Reform Corporate Culture	
Portfolio Optimization <ul style="list-style-type: none"> Categorize business and execute strategies suitable for each category Asset replacement and re-allocation Acceleration in investment that creates core business of group 	Expand and Strengthen Revenue Base <ul style="list-style-type: none"> Accelerate globalization “G6000” Improve manufacturing profitability 	Mindset <ul style="list-style-type: none"> Build accountability, responsibility and risk awareness Share management’s message Thorough monitoring and PDCA 	Strengthen Management Platform <ul style="list-style-type: none"> Pursue efficiency HR development

KGI (Key Goal Indicator)

KGI	FY2016	FY2017	FY2018	FY20219 (planned)	FY2020
Consolidated Net Sales	722.3 Billion Yen	783.9 Billion Yen	807.7 Billion Yen	850.0 Billion Yen	1.0 Trillion Yen or more
Consolidated Operating Income	15.0 Billion Yen	24.1 Billion Yen	25.2 Billion Yen	26.0 Billion Yen	30.0 Billion Yen or more
ROE	3.7%	5.8%	6.6%	6.0% or more	6.0% or more

KPI (Key Performance Indicator) Factor index to achieve KGI

Reform/Strategy	Measures	KPI (Index)	FY2016	FY2017	FY2018	FY2019 (planned)	FY2020
Profit Structure Reform Indicator	Increase Focused Business (Portfolio Optimization)	Operating Income in Focus Area*	11.9 B Yen	13.1 B Yen	12.6 B Yen	13.1 B Yen	16.9 B Yen
		Growing Investment Distribution Ratio in Focus Area	46%	52%	82%	46%	35% or more
	Accelerate Globalization (Expand and Strengthen Profit Structure)	Overseas Group Sales*	350.2 B Yen	389.0 B Yen	405.3 B Yen	420.5 B Yen	600.0 B Yen
		Sales Growth Rate in the Americas	90%	103%	118%	125%	170%
		Increase Manufacturing Profitability (Expand and Strengthen Profit Structure)	Operating Income from Manufacturing*	9.0 B Yen	11.4 B Yen	11.6 B Yen	12.0 B Yen
Break-Even Point Sales Ratio*	76%		76%	76%	76%	73%	
Corporate Culture Reform Indicator	Pursue Efficiency (Strengthen Management Platform)	Consolidated Selling, General and Administrative Ratio	10.6%	10.0%	9.9%	10.0%	9.4%
Financial Strategy Indicator	Investment	Growth Investment	8.2 B Yen	23.5 B Yen**	32.4 B Yen	52.9 B Yen	100.0 B Yen**
	Financial Structure	Rating (R&I)	[A]	[A]	[A]	[A] or more	[A] or more

*The figures in this chart are all simple management accounting data, which is different from the figures disclosed on the consolidated financial statements.
**Total over five years

Portfolio Optimization

Categorize businesses into four areas (Growth, Focus, Base, Improvement) to drive growth and maximize resource efficiencies

	FY2016	FY2017	FY2018
Focus Areas			
Life & Healthcare	<ul style="list-style-type: none"> Expanded production facilities for TREHA™ Entered the nucleic acids business and concluded a general distributor agreement with Shikoku Nucleic Acids Chemistry Co., Ltd. 	<ul style="list-style-type: none"> Established new branch in Lyon, France to expand cosmetics business in Europe Invested in PeptiStar, Inc. and developed next-generation pharmaceuticals 	<ul style="list-style-type: none"> Hayashibara Co., Ltd. concluded a long-term partnership agreement with Lonza, and construction began on a new pullulan and enzyme plant
Electronics	<ul style="list-style-type: none"> Expanded our scope, mainly in chemical businesses and Chinese joint-venture Wuxi Chenghong Electronic Chemicals Decided to strengthen display and wearable businesses and make Inkron Oy a subsidiary 	<ul style="list-style-type: none"> Established a joint venture with Toyobo Co., Ltd. for the manufacture and sales of polyimide film Invested in Kyulux, Inc., an OLED venture Wuxi Chenghong Electronic Chemicals established a subsidiary in Mianyang, Sichuan Province 	<ul style="list-style-type: none"> Invested in 3D Glass Solutions, Inc., broadening our lineup of 5G products and expanding the semiconductor business

Growth/Emerging Areas

- Invested venture capital, especially in Silicon Valley in the United States
- Established Huizhou Sanli Three Synergy Precision Co., Ltd., a car electronics joint venture company in China
- Provided additional funding for Minda Kyoraku, an automotive parts manufacturer in India
- Began joint development in materials informatics (MI)
- Entered the self-driving technology field (LiDAR-related)
- Established Infinite Material Solutions, aiming to commercialize water-soluble support materials for 3D printers
- Worked on development of Axonerve™ (an FPGA solution for associative memory in the era of 5G and IoT)

Base Areas

- Acquired U.S. speciality chemical distributor Fitz Chem LLC
- Acquired DAITAI KAKO CO., LTD.

Improvement Areas

- Integrated the functions of the Beauty Care Products Department and its subsidiaries
- Withdrew from the plastic hose manufacturing business in China

Expand and Strengthen Revenue Base

- Accelerate global expansion to grow sales overseas
- Improve manufacturing company profitability, develop new businesses

Mindset

- Build accountability, responsibility, and risk awareness
- Share messages from management, engage in consistent monitoring and PDCA

Strengthen Management Platform

- Pursue efficiencies, human resource development

ACE-2020 Aims	FY2016-2018	FY2019
Mindset	Delegate authority and revise the Company-wide organization	
	Strengthen our monitoring system, create a dashboard, and revise our meeting structures	
	ACE-2020: Rolled over the plan, conducted a Company-wide survey, uncovered new issues and responded to them	Strengthen governance of our overseas manufacturing businesses
	Engage in consistent monitoring and PDCA and improve the quality of investments	
Strengthen Management Platform	Share messages from management and create better communication infrastructure	Introduce new investment guidelines and launch projects to promote M&A
		Promote branding activities (Top Management Tours), upload videos of the president, and engage in community dialogue
	Eliminate excess/duplication and increase efficiency of the organization/function	Began considering disclosure policies for ESG activities
	Develop human resource	Establish sustainability management policies and materiality
	Launched a project to make back-office operations more efficient	Consolidate operations and raise efficiency of Nagase Business Expert Co., Ltd.
	Begin operating new HR programs	Develop new technologies through cross-company organizational collaboration