

Ideal Future

NAGASE's Ideal Future
—What We Envision for the Future, and How We Aim to Achieve It

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Value Creation Process

— Solving Manufacturing Challenges through Materials

By making effective use of our management resources (i.e., the strengths, functions and business areas that we have cultivated), and by addressing the issues affecting our customers, industry and society as a whole, the NAGASE Group solves manufacturing challenges through materials. We aim to achieve our vision of “realizing a sustainable world where people live with peace of mind” not only by generating ‘economic value’ but also fostering new ‘social value.’ By returning this value to the society of the future, we are striving to achieve this vision.”



Functions

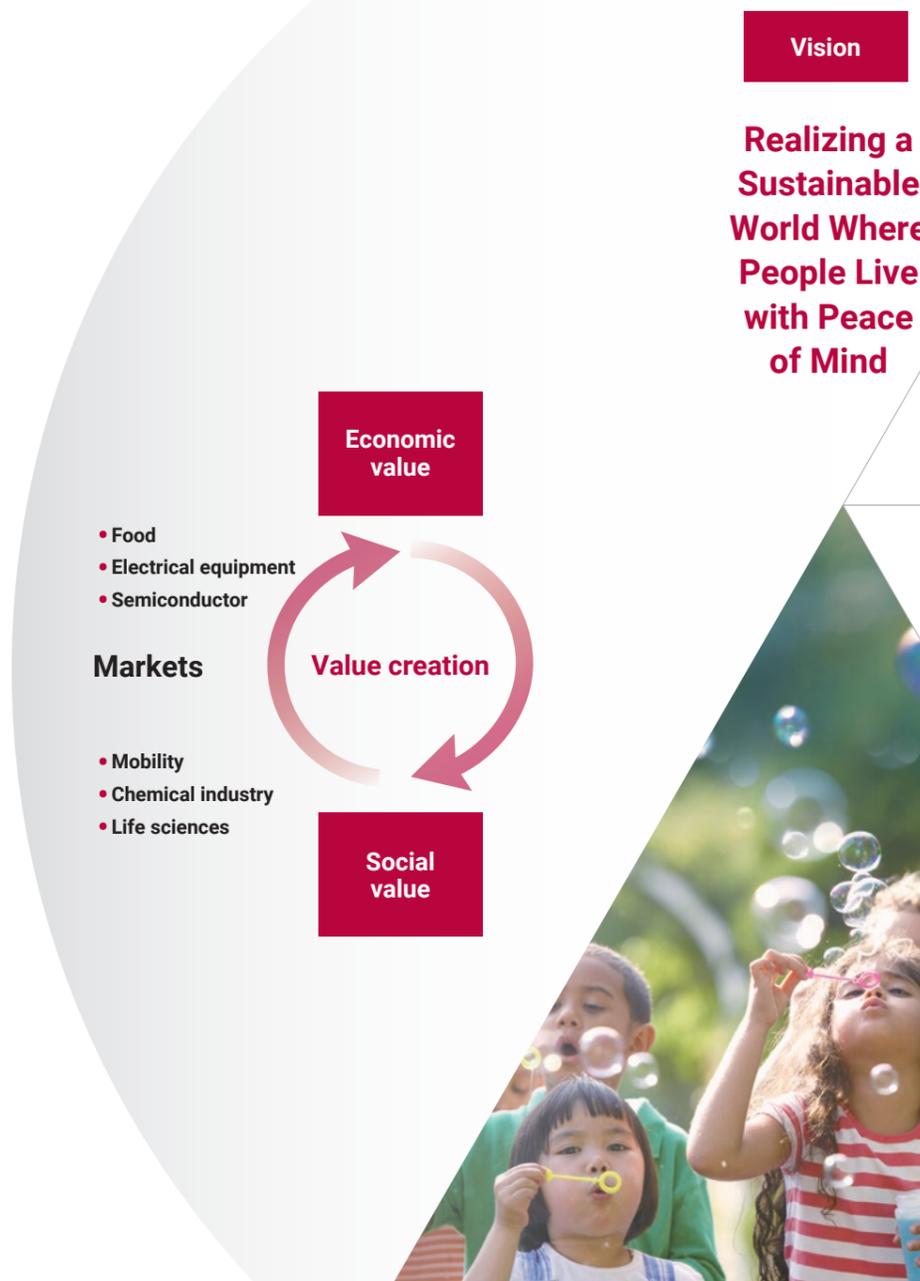
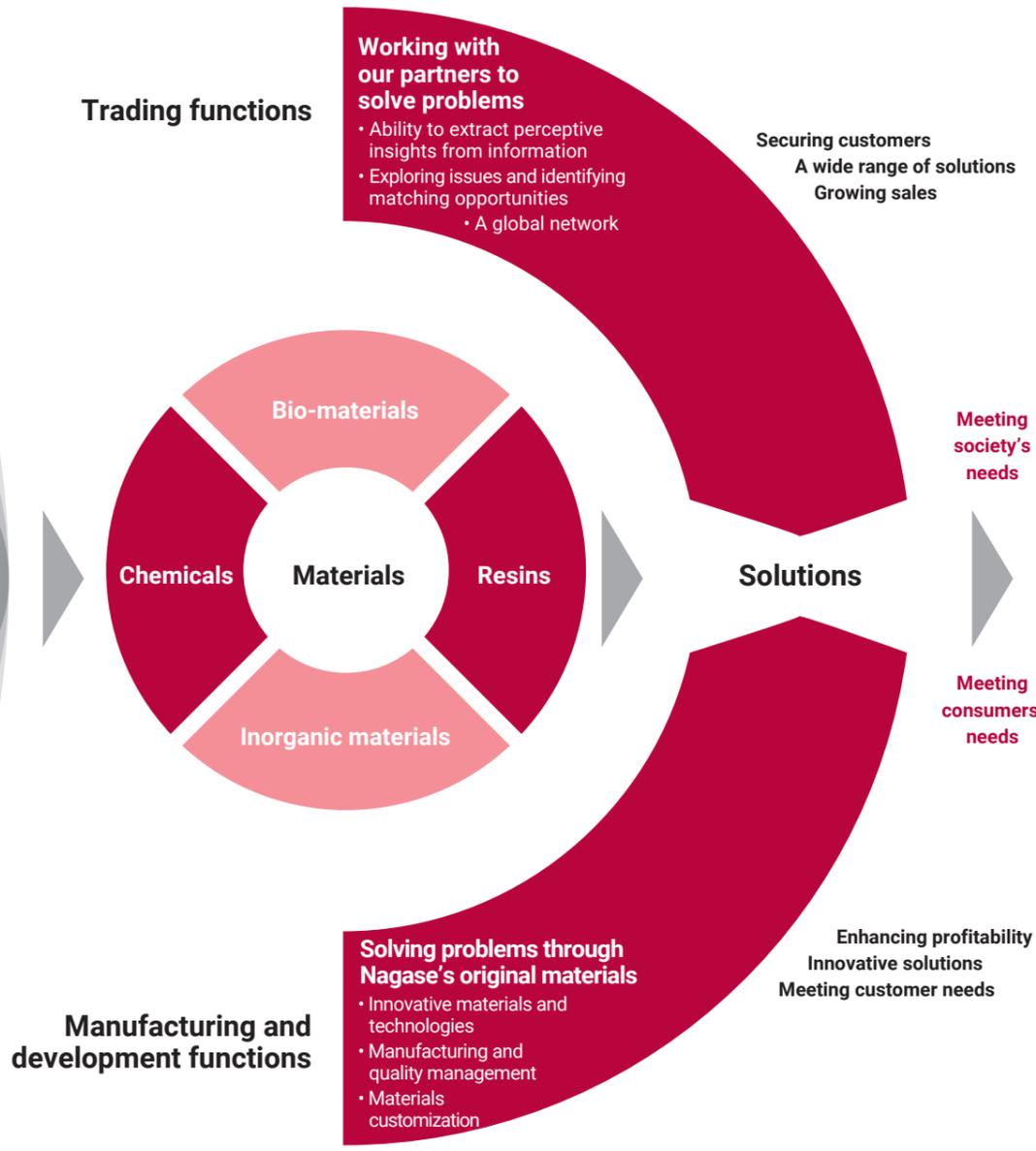
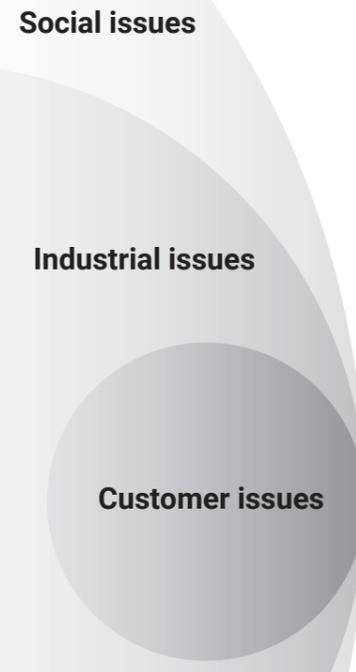
Trading, Manufacturing, R&D, DX, Business investment

Our strengths

Financial capital, Human capital, Intellectual capital, Manufacturing capital, Social capital, Natural capital

Business domains

Functional Materials, Advanced Materials & Processing, Electronics & Energy, Mobility, Life & Healthcare





Hiroyuki Ueshima

Representative Director,
President and CEO
Nagase & Co., Ltd.

Accelerating our transformation as a corporate group with exceptional uniqueness

Transformation while maintaining the NAGASE highest standards of integrity

It is a pleasure to introduce myself as the president of Nagase & Co., Ltd., to which I was appointed on April 1, 2023. As a representative of the NAGASE Group, I would like to extend our greetings and tell you about the business objectives and strategies that we will be pursuing in the year ahead.

We are in a time of unprecedented change. In the past, a company could remake itself once and expect to flourish for a decade. Those days are gone, however. In today's environment, companies must be constantly evolving or they will not survive. My appointment as president to lead our management in this environment comes with one vital directive—to transform the NAGASE Group. In my inaugural message to everyone in the NAGASE Group, I emphasized the importance of achieving our transformation. I also said that there are two things that we absolutely must not change: (1) our management philosophy of maintaining the highest standards of integrity and (2) our relationship of trust with stakeholders.

NAGASE is a company with a history of over 190 years. I believe the reason we have survived for so long is that we have maintained the highest standards of integrity as we have built businesses that help our customers and society thrive. In doing so, we have created a network connecting us to people and companies around the world and gained the major asset of trust from our stakeholders. This proven integrity cannot be matched by new start-up companies and is the very source of our value creation. When employees are unsure about a decision, I tell them to remember our management philosophy and ask themselves: will this decision be following the highest standard of integrity? This philosophy is also the reason for our existence—our purpose—and it will never change. While continuing the heritage of NAGASE's outstanding corporate culture, I will advance reforms that will enable the Group to remain an essential part of society for another 100 years.

Solving manufacturing challenges with materials

We are entering the third year of the five-year medium-term management plan **ACE 2.0**. In this plan, we reform our profit structure and corporate culture in our "Pursuit of Quality." Our employees fully understand the plan's objectives and strategies, and the efforts they are putting in their work are starting to produce results. At the same time, the environment surrounding the NAGASE Group has changed substantially

since the plan was formed, and this has caused several challenges and discrepancies to emerge. We now see, for example, that the current decision-making system needs to keep up more with the speed of change in the external environment; that although we have a culture of taking on new challenges, we need to be more aware that management resources for investment are finite; and that we need to further eliminate inefficiency. We are therefore reexamining and revising the strategic details of **ACE 2.0** while maintaining its fundamental objectives.

The new normal is rapidly redefining what we think of as common sense. As we scrutinize the strategies, we also have been asking ourselves—who is NAGASE? and why we exist? My answer is that NAGASE is a company that solves manufacturing challenges with materials. The fundamental strength in our business is our ability to work closely with our customers to accurately understand their issues and to harness our network of some 18,000 partners worldwide to offer materials that provide solutions and that meet our customers' needs. If we need a material that no one else makes, we also have the ability to use the Group's manufacturing and processing functions to make the material ourselves. The combination of our expertise in chemical, electronics, and biotechnology, the network we have cultivated in our more than 190-year history, and the Group's manufacturing and R&D functions give us unmatched capability to meet very specific customer needs. Under the **ACE 2.0** plan, we will further refine our superior business model to raise the quality of management.

As we transform the way we think and our business structure, we will maximize the use of our key resources of people, money, and time as we restructure our business to make it more rational and efficient. One of the changes we made was realigning the Group businesses within the four areas of Improvement, Foundation, Development, and Focus. The new alignment allocates the businesses based on their functions, which better represents the strengths of NAGASE so we can enhance our profitability and generate further growth in the future. In addition, each business project will be comprehensively managed using return on invested capital (ROIC), and unprofitable businesses, including those with impairment risks, will be swiftly rebuilt and reorganized.



Delegating authority and accelerating decision-making

We are taking steps to restructure our organization for greater management efficiency. In October 2023, for example, we consolidated our businesses from 11 to 7 divisions. We are also establishing a new system for the delegation of authority with the aim of speeding up decision-making. During my 35 years at the Company, I have worked in most of the business divisions, and that experience will be very useful in helping determine to who, what, and how to delegate authority so it can have the maximum effect at each worksite. We are also reviewing the process the Board of Directors uses for making decisions. The objective is to delegate authority to the executive side so the Board can better focus on the longer-term view when it discusses themes for maximizing NAGASE's value in the future.

Another change we will make is in our system for developing and promoting the next generation of management personnel who will lead NAGASE in the future. The first step will be made in April 2024, when we will introduce a personnel system created to be "fair and impartial." The system will be designed to actively and dynamically promote employees without consideration of age or gender. I believe that our employee evaluations and promotions must be in line with public perceptions. Having a system designed with that as its main objective should ensure

we hire outstanding human resources and have clearer evaluation criteria. These changes will undoubtedly give us a more robust succession plan as well. I intend to continue strengthening our governance and making efficient use of our capital to raise the NAGASE Group to a higher level.

Employee potential is what drives NAGASE's growth

The NAGASE Group currently has 108 subsidiaries in 25 countries and regions with a workforce of diverse genders, nationalities, ages, religions, and values. Nagase & Co., Ltd. itself, however, still has some way to go with diversity and inclusion (D&I). Particularly in times when it is difficult to predict the future, D&I is vital for providing the different perspectives, experiences, and values needed for innovation and is also indispensable for risk management. Therefore, we are improving our work environments and enhancing our work systems. One improvement we are making, while listening to opinions from employees, is expanding our educational programs that support the active participation of female employees and enhancing our systems accommodating various life events, including childbirth.

After spending time in various business divisions in my career, I know very well that there are many talented people with huge latent potential working in NAGASE. It is not an exaggeration to say that their potential is what drives the growth of the NAGASE Group. I ask the managers to do three things to stimulate the potential of people working in NAGASE. The first is to create opportunities for learning and taking on challenges. The second is to actively engage in dialogue with subordinates and set goals appropriate to each individual. The third is, after delegating a task, do not micromanage it. NAGASE has always had a culture that tolerates failure. When a challenge to attain a rational goal ends in failure but then leads to setting a better goal, that is valuable. Talking with subordinates to thoroughly analyze the cause of the failure and sharing what you learn with others in the organization. This turns that failure into an asset that will increase our chance of success in the future.

A person can grow at any age. In the months since I became president, I myself have grown by learning on my own as well as by asking senior employees within the Company and external managers to teach me. I want our employees to take on bigger challenges, and as I mentioned earlier, we want to create a company that correctly recognizes people who take on challenges and put in consistent effort. I also recognize that my mission is also to foster a system and organizational culture that encourages and supports people throughout the Company to take on challenges.

"The Earth is borrowed from future generations"

Industry used to consider social value and economic value as a "trade-off" in which one came at the cost of the other. This view has changed in recent years and we are entering an age of "trade-on" in which social value and environmental value are prerequisites for economic value. We recognize that sustainability is important, and that the NAGASE Group must contribute to the development of society as we seek to generate sustaining growth for our business. We established the Sustainability Committee in fiscal 2020 to formulate our Sustainability Basic Policy and strengthen our sustainability initiatives.

I believe that we need to instill our employees with a deeper understanding of issues related to sustainability. To help raise awareness, I visited various departments in all Group companies and talked with employees. When I talk to people, the first thing I want to share is my own views on sustainability. I tell them, "We borrow the Earth from future generations, and it is important that we give back to them an Earth so they can live better lives than we do. We must use our company's businesses so we can give them a more beautiful Earth." Then I say, "NAGASE can do that and, if we all work together, we can make it happen." Sustainability is fundamental to corporate management, and I plan to continue talking about it with employees.

We are placing particular emphasis on employee engagement and becoming carbon neutral. Both are part of the KPIs of the current medium-term management plan, and we are monitoring our progress. The NAGASE Group defines employee engagement as a relationship between organization and employee built on mutual respect and mutual motivation. The fiscal 2022 engagement survey of Nagase & Co., Ltd. produced a score of 56.5, which was an improvement of 4.1 points from the previous year. During the year, we used the survey findings to hold dialogue meetings between management and mid-level employees and created opportunities for employees to interact.

We also made progress toward achieving carbon neutrality. Increasing the use of renewable energy in business activities reduced the Group's Scope 1 and 2 greenhouse gas emissions (GHG) by 34% in fiscal 2022 compared to fiscal 2013. We are also using the NAGASE Group network to create several businesses in the field of carbon neutrality. In September 2021, we allied with Zeroboard, Inc. to launch a GHG emissions calculation service to support corporate decarbonization management. We are also participating in the Japan's Ministry of Economy, Trade and Industry's GX League to support the creation of forestry credits in cooperation with local governments. In addition, all of our Group companies are engaging in ambitious projects that will address social issues and grow their businesses. We look forward to sharing their successes.

Using NAGASE's unique strengths to solve social issues

I joined Nagase & Co., Ltd. in 1988 and was first assigned to the paint materials division of the chemicals business, where I worked in sales. At my first job in Osaka, I learned the rigors and the joys of the trading company business. I went on to help launch new businesses and work in various departments, and this experience gave me a deep understanding of the NAGASE corporate culture and how each business works. Since being appointed representative director and president, I have been reminded of the unique strengths that NAGASE has accumulated through our long history from the trust we have earned with our customers and the strong network of business partners we have built in Japan and overseas. These strengths are unmatched, and I believe we can use them and build on them to make significant contributions to solving not only issues our customers face but also the complex intertwining issues confronting society. I believe the markets in our focus areas of food- semiconductor-, and life science-related businesses as well as for our biotechnology business, which is a development area that will extend across all of our businesses, each have substantial growth potential. I also believe that bringing together the Group's strengths will give us the ability to provide a wider variety of value to society.

The NAGASE Group will remain true to its philosophy of maintaining the highest standards of integrity and solving manufacturing challenges with materials. Our management and employees are working together to use our exceptional uniqueness to make us a leader in markets around the world where customers will always know NAGASE has solutions. I intend to lead the Group for an even faster transformation and believe that our employees have the power to make it a reality. The transformation will undoubtedly enhance the Group's corporate value, and I look forward to the support of our stakeholders as we "remain unchanged by continuing to change."

December 2023

Hiroyuki Ueshima

Representative Director, President and CEO
Nagase & Co., Ltd..

Masaya Ikemoto

Representative Director and
Senior Managing Executive Officer



Strengthening corporate functions while continuing the “Pursuit of Quality” in business, finance, and human capital

Steady progress reforming the profit structure

The medium-term management plan **ACE 2.0** outlines our growth plan for the “Pursuit of Quality” as we seek to become the “Ideal NAGASE” on the 200th anniversary of our founding in 2032. By backcasting from this vision, we defined issues of materiality to address and set two core strategies of the “reform of our profit structure” and the “reform of our corporate culture” for the five fiscal years of 2021-2025 as we seek to become a “Business Designer creating a sustainable future.”

In the second year of **ACE 2.0**, we recorded earnings declines in both operating income and net income owing to factors including the soaring raw material and logistics costs worldwide and a growing interest burden as many countries raised interest rate hikes. At the same time, we worked to reform the profit structure by advancing our main strategies of reconstructing our business portfolio, strengthening the existing businesses, creating sustainable businesses, and steadily implementing measures in our focus areas.

The food-related business, which is a focus area of **ACE 2.0**,

expanded the market share of its trading operations, primarily through the Prinova Group, commenced manufacturing operations at the new plant in the U.S. state of Utah, and stepped up marketing campaigns for products including the water soluble dietary fiber Fibryxa™ products manufactured by Hayashibara Co., Ltd..

In the semiconductor-related business, we delivered solutions to customers by highlighting the features of our products, which cover all areas of the production process. In addition to our business in the China and U.S. markets, we anticipate Taiwanese and Japanese semiconductor manufacturers to increase investment in Japan. The NAGASE Group is accordingly advancing multiple strategies to expand sales, including seeking to establish our products as built-in components in the semiconductor industry.

The NAGASE Bio-Innovation Center and the NAGASE Biotech Office are considering the best configuration for applying biotechnologies for food, healthcare, and industrial products. We integrated the Hayashibara Co., Ltd. and Nagase ChemteX Corporation biochemicals businesses in April 2023

to bring together their biotechnologies and set a foundation for activating synergies. In April 2024, Hayashibara will be renamed Nagase Viita Co., Ltd., and become a growth driver for the Group’s biotechnology. In the second half of the **ACE 2.0** plan, we will bring together the Group’s microbial research, enzymatic reaction, and other technologies to refine our development capabilities and take steps to strengthen the presence of NAGASE as “the Biotechnology Company” in the industrial world.

The NAGASE Group is currently creating “N-Sustainable businesses” that will enhance the social and environmental value that our Group provides and bring us closer to realizing our Group vision. The aim of these businesses is the early recognition of issues that customers and society will face in the future and to combine innovative Group services and technologies to offer solutions that generate profits. We have set a quantitative target for the N-Sustainable businesses to account for 15% of operating income by fiscal 2025.

Responding to the tight supply chains and strengthening group manufacturing

We also made progress with **ACE 2.0** in the area of strengthening our existing businesses. Under the previous **ACE-2020** medium-term management plan, we started working to broaden business opportunity for the NAGASE Group by globalizing our business by building business foundations and acquiring local companies in key regions. These efforts raised the percentage of our gross profit earned overseas to above 50% in fiscal 2022 for the first time in our history. The balance of our overseas gross profit has also improved as the China region, which had previously accounted for roughly half of overseas gross profit, is now better balanced with earnings from the growing businesses in Europe and the United States.

Supply chains around the world were deeply disrupted and very tight in both fiscal 2021 and 2022. Because the NAGASE Group’s business content involves a high percentage of chemicals and electronic materials, not fulfilling our supply responsibilities would disrupt our customers’ businesses and instantly compromise the trust our customers put in us. It would also be very disadvantageous for our business partners. We have therefore invested funds to reinforce the supply chain with a main focus on securing inventory. This raised the value of the Group’s fixed inventory assets above ¥170 billion, which sharply increased the interest burden. Our inventories have been declining rapidly since the worldwide distribution networks began gradually recovering in November 2022 and, even with the depreciation of the yen, our inventory value has declined by tens of billions of yen from the peak. We have also been globalizing our financing activities through worldwide procurement management including foreign exchange risk hedging and reducing interest and interest expenses.

Manufacturing operations account for approximately 30%

of the NAGASE Group’s total operating income. The Group Manufacturers’ Collaboration Committee was created in 2019 to bring together all of our manufacturing companies to help strengthen our existing businesses by sharing primarily non-financial information, such as on safety, quality, and the environment, and by working together to resolve issues. The concerted effort of our companies to share their unique knowledge and know-how has exponentially improved the Group’s overall productivity and technical capabilities.

In April 2022, we added the Group Manufacturing Management Innovation Office as a corporate organization at the head office to oversee the manufacturing companies’ overall business conditions. The office plays a vital role in enhancing the Group’s manufacturing operations by monitoring the overall status of Group production technology, R&D, quality control, and investment evaluations and by identifying and organizing technologies for synergies as well as technological weaknesses.

Reforming the Group’s profit structure will require a complete reconstruction of our portfolio of businesses. Over the past decade, we have acquired Hayashibara Co., Ltd. and the Prinova Group, while also selling businesses that were struggling to remain profitable and competitive in the evolving industrial structure. We base decisions to sell a business on the best-owner principle and whether selling a business will improve our future value and growth potential.

Achieving ROE targets and individual business ROIC management

I would like to go into a little more detail about our fiscal 2022 earnings performance from a financial perspective. After achieving the **ACE 2.0** quantitative target for ¥35 billion in operating income in fiscal 2021, the plan’s first year, we fell back below target in the second year. As I mentioned at the beginning, the main reasons for the decline in operating income were soaring worldwide costs for raw material and logistics and higher SG&A expenses. Return on equity (ROE) also declined from 7.7% in fiscal 2021 to 6.6% in fiscal 2022. The **ACE 2.0** target is to raise ROE to 8% by fiscal 2025, the plan’s final year. However, considering that the average ROE of listed companies in the United States is 18.4%, which is more than double the average of companies in Japan, we understand that investors want us to aim higher and are seeking ways to further strengthen our earning power. We will continue reforming our profit structure in the “Pursuit of Quality” by strengthening our existing businesses, withdrawing from unprofitable businesses, reorganizing our business portfolio by selling subsidiaries, and investing in businesses with strong competitive advantages.

Along with the need to raise our ROE, we are also aware that the state of our investment returns being below our capital costs is a major issue that must be rectified. We are taking steps to revise our weighted average cost of capital



(WACC) by lowering the cost of capital while maintaining adequate leverage to procure funds. Beginning in fiscal 2020, we have been systematically repurchasing treasury stocks and increasing shareholder return.

We are seeking efficient fund procurement, such as by closely monitoring short- and long-term interest rate movements, as we seek to maintain our leverage for procuring funds while lowering WACC. In June 2022, we tried a new method of procuring funds by issuing our first sustainability-linked bond. While diversifying our financing methods, we also decided to issue corporate bonds to provide additional financing to ensure we will achieve the quantitative targets of the NAGASE Group Carbon Neutral Declaration. The declaration is also our proclamation to the capital markets of the NAGASE Group's commitment to addressing climate change.

Management is also placing additional emphasis on ROIC, which is a key management indicator under **ACE 2.0**. We have in place a system for calculating ROIC not just for a business unit or department, but for more than individual 100 projects. The regular monitoring of ROIC will enable us to take action on investment projects producing inadequate returns.

Approach to investment in growth and human capital

Under **ACE 2.0**, we are ramping up our investments in the food-related, semiconductor-related, and biotechnology businesses along with other business domains with high growth potential and capital efficiency. During the plan's five years, we also created a framework for ¥150 billion in strategic growth investment aimed at supporting the spirit of innovation and taking on challenges that are the DNA of the NAGASE Group. In the past two years, we have allocated investment funds for new businesses, digital transformation, and R&D. Our strict financial discipline is behind every decision to invest, and

the expected ROIC is closely scrutinized for each investment.

A long-term perspective is essential when investing for growth, but during the second half of **ACE 2.0**, we will be emphasizing investments that can start generating profits in the shorter term while seeking to strike a balance of short and long-term investments. Another criteria our investment decisions will consider is sustainability. We are keenly aware that investing in projects that ignore the SDGs or environmental impact or that do not consider sustainability would invite perilous risk for the NAGASE Group in the future. The objective of investing management resources in areas like the N-Sustainable businesses that enhance the social and environmental value we provide is to support the sustainable development of society and the growth of our Group.

The source of the NAGASE Group's sustainable growth is our human resources. That is why we consider investing in human capital as essential and linked directly to strengthening our management foundation. We currently have programs for dispatching personnel to overseas subsidiaries and business schools, subsidizing participation in certifications courses, and monetary rewards for earning qualifications. We plan to increase these programs as a part of our investment in human capital and to attract individuals that will bring new and unique capabilities to the NAGASE Group. We will also continue the reconstruction of the Tokyo Head Office Building and allocate funds to create workplaces that are safe, comfortable and encourage creativity.

Reforming the corporate culture focused on using diverse human resources

The second core strategy of **ACE 2.0** to reform our corporate culture places considerable emphasis on using diverse human resources, which we have also defined as an important sustainability issue (materiality). Our concept for using diverse human resources refers to more than the ratio of male and female employees. At this stage, our goal is to fully incorporate the abilities of employees with various backgrounds, beliefs, and cultures into the Company's growth strategy.

Key to this will be increasing employee engagement, which refers to the level of trust and the strength of the connections between management and employees. Employee engagement scores increase when the management side provides a comfortable working environment and a consummately fair personnel system. High engagement nurtures a positive attitude for contributing to the Company and a corporate organization that can be expected to produce results, such as by achieving departmental goals and training lower-ranked employees. I believe that considering this balance and deepening understanding on both sides of management and employees will lead to improved engagement. We will continue to draw wisdom from various perspectives as we seek to establish a culture within the NAGASE Group in which a workforce of people from different backgrounds treat

each other with respect and work together to generate improving business results.

We are also strengthening our corporate functions to support the **ACE 2.0** plan's core strategies the "reform of our profit structure" and the "reform of our corporate culture" Our culture for the trading business has long been for each business unit to apply their own way of management. This approach allows business division management to become very specialized but at the same time compromised organizational management efficiency, which makes it difficult to fully combine and leverage the NAGASE Group's various functions. In previous medium-term management plan, we started taking steps to strengthen our corporate functions so we could formulate the most effective management and organizational operating structure. Over the past seven years, we have systematically consolidated our back-office departments and created visualization and standardization for our operations. When these were complete, in October 2023, we restructured the organizations and business content of each of our business divisions. This restructuring is not only for NAGASE Corporation, it is also for the dozens of NAGASE Group companies in Japan and around the world, where it will improve the profitability and efficiency and further advance us in our "Pursuit of Quality."

Consistent dividend growth and revising the management plan, including the investment strategy

As I mentioned earlier, we recognize that the top priority for management is to establish the scenario for lifting ROE above 8% by fiscal 2025 by improving our management quality and implementing all measures in accordance with the two main **ACE 2.0** strategies. Investors have a positive impression from our shareholder return efforts to consistently increase the dividend per share payout, and this policy will continue during **ACE 2.0**. However, we know that investor expectations will not be met solely by increasing the dividend payment, which that is why we added flexibly buying treasury stock to our capital policy in fiscal 2021 as a second core form of providing shareholder return. In May 2023, we resolved to repurchase ¥8 billion in treasury stock and project a total shareholder return of 71% in fiscal 2023.

In the spring of 2023, the Tokyo Stock Exchange requested companies with a price-to-book ratio (PBR) of less than 1 to place greater management focus on the cost of capital and stock price. As of end-September 2023, our PBR stood at 0.70. We have no intention of conducting a shareholder return move solely for the sake of lifting the share price or any extraordinary measures to boost our PBR above 1. We intend to create conditions for our stock price and PBR to rise by enhancing our corporate value through investing in the NAGASE Group's core businesses and growth fields to strengthen our earning power, lowering our weighted average cost of capital (WACC), and raise our ROE. We will also increase dialogue with investors.

In fiscal 2023, the third and middle year of **ACE 2.0**, we

also introduced a new president. When the new president's starts his tenure in April 2023, I believe it will be crucial to further accelerate the two reforms dictated by **ACE 2.0**. We have also begun restructuring our business portfolio, which had been organized and optimized during the five years of **ACE-2020**, and partially revised our investment allocation. Normally, upon the appointment of the new president, we would announce revisions to the management plan and investment strategy, but we believe it was prudent to take the time to ensure the revisions were sound and impactful before announcing them. The revisions we are considering are aimed at improving capital and investment efficiency and also at making the strategies more powerful. (See page 23 for details.)

I believe that for a company to grow in the long term, it must have a balance of obtaining economic benefits and providing value to society. Since its founding nearly two centuries ago, NAGASE has a proven history of expanding its business domain amid dizzying changes in the business environment and providing distinct value to society. We will continue applying the unique value that the NAGASE Group offers to address social issues and extend our sustaining growth into the future.

