

CEO Message

朝倉 研二

Kenji Asakura

We will advance the “Pursuit of Quality”
with unwavering resolve.

We are determined to deliver value
that is unique to
the NAGASE Group to society.



We Will Engage in the “Pursuit of Quality” by Leveraging Our Current Strengths and a Sustainability Perspective

Deepen the “Pursuit of Quality,” Without Resting on Our Laurels

I’m pleased to report that we delivered solid results in the first year of the medium-term management plan **ACE 2.0**, which embraces the “Pursuit of Quality.”

In fiscal 2021, we faced a challenging earnings environment mainly because of factors such as the impact of the semiconductor shortage and logistics disruptions, as well as surging raw materials prices. Even in this challenging business environment, the NAGASE Group met its supply obligations as a key distributor. We retained and enhanced customer trust by helping to maintain supply chains in relevant industries.

“If we ask NAGASE, they will come through for us.” I can confidently state that this type of feedback from our customers reflects the true strength of the NAGASE Group. I believe it is one of the reasons we have increased our market share in a variety of fields. Consequently, our results have grown, resulting in higher earnings across all of our segments. We delivered record-high earnings at all profit levels, from gross profit on down. Automobile, resins, electronics-related and food-related businesses performed particularly well.

That said, our analysis shows that our recent strong results were partly attributable to a tailwind from the impact of market conditions, such as soaring materials prices. While closely monitoring future market conditions, we will continue to expand in areas where we are performing well to achieve robust growth unaffected by market conditions.

We are still only halfway to achieving the “Pursuit of Quality” laid out in **ACE 2.0**. Without becoming complacent with our strong results, we have strengthened our resolve by reminding ourselves of the importance of steadily implementing the plan’s measures. Of course, we delivered major achievements in the first year of working on the “Pursuit of Quality.” We made steady progress on improving efficiency in areas such as replacing assets in our business portfolio. We invested in outstanding technologies such as new materials development, and in startups with expertise in fields where new businesses are expected to emerge. Employees’ mindsets have also started to shift dramatically. We have undoubtedly started to move forward.

Meanwhile, in terms of recent issues, supply chain disruptions are expected to persist for some time. We will continue to closely monitor developments closely as we work to maintain supply chains.

Awareness of the External Environment Surrounding NAGASE’s Businesses

We believe that the current business environment has not changed significantly since the development of **ACE 2.0**. The change in the situation in Ukraine, on the other hand, was unexpected. In the face of geopolitical risks, economic activities have become powerless. In response to the issue of Russian energy supplies, our relevant policies have also been drastically altered.

NAGASE does not always do a lot of work that is directly related to energy. However, soaring prices could reduce consumer purchasing sentiment for consumer goods in the future, so we must keep a close eye on trends, particularly in the Life & Healthcare segment. Another source of concern is rising energy costs in the NAGASE Group’s manufacturing.

We are also keeping a close eye on events in China. The world relies heavily on China for goods such as pharmaceuticals and food. Against this backdrop, rising tensions between the U.S. and China and Taiwan and China could have an impact on all of NAGASE’s businesses—an impact that we would be unable to avoid. To prepare for this risk, we have started to consider diversifying our sourcing activities. Other issues include extended shipping congestion and strikes on North America’s West Coast, as well as the 2024 problem* in Japan. The NAGASE Group intends to address these issues and advance the “Pursuit of Quality” by leveraging its strengths as a trading company and its sustainability perspective.

Paving the Way for the Future Through Both Focus Businesses and Core Businesses

The external environment is undergoing rapid changes as described above. Nonetheless, we have a number of highly promising businesses that are expected to drive the NAGASE Group’s growth.

The bio-related business is one that we are most excited about for future business expansion. The three companies, NAGASE & CO., LTD., Nagase ChemteX Corporation, and Hayashibara Co., Ltd. each work on biotechnology research and development at the NAGASE Group. We have consolidated their activities on a single platform and are applying biotechnologies to a wide range of fields. We expect that many accomplishments will result from these activities during the time period covered by **ACE 2.0**.

Next is the semiconductor business. Electronic component demand is increasing in a variety of industries, including automobiles, and is expected to rise further in the future. The NAGASE Group carries many high-performance materials used as process materials in semiconductors, so this is a major plus. Going forward, we will work to share information and promote collaboration throughout the supply chain by establishing an organization that spans the whole Group.

With increased health consciousness around the world, we are also excited about the future of the food ingredients business related to nutrition. As a result of the acquisition of the Prinova Group LLC, the NAGASE Group already has a certain amount of market share, which adds to our expectations for this business. Furthermore, we have set our sights on accelerating initiatives in the Southeast Asia region, and expanding through capital investments or M&A.

Our proactive investments in new businesses in these fields have started to generate current returns, and I expect that they will become key drivers of the NAGASE Group. Of course, the NAGASE Group has more than just these types of focus businesses. It also has core businesses, such as the chemicals and resins businesses. These businesses continue to be NAGASE’s breadwinners. We will continue to advance the “Pursuit of Quality,” not just business volume, in our core businesses by incorporating the element of sustainability.

Furthermore, I have high expectations for environmental businesses further in the future. We are leveraging the NAGASE Group’s diverse spectrum of technological capabilities to contribute to environmental improvement in a variety of ways, including carbon neutrality. For

* The 2024 problem refers to various issues that will arise as a result of the Act on the Arrangement of Related Acts to Promote Work Style Reform imposing upper limits on overtime work hours for motor vehicle driving services and other rules beginning in April 2024.

example, to promote carbon neutrality in the chemicals industry, we are working to develop business in collaboration with Zeroboard, Inc, which has developed cloud services for computing and visualizing greenhouse gases (GHGs). This service provides proposals on initiatives to reduce GHG emissions, encompassing not only Scope 1 and 2 emissions, but also Scope 3 emissions, and we will continue to pursue value that other companies cannot match. The first step will be to work on resolving customer issues. In the future, we hope that these efforts will pave the way for providing solutions that leverage new technologies.

Strongly Determined to Promote Sustainability

The pursuit of sustainability is a critical theme for the NAGASE Group to grow its business and create value. We have made the framework for promoting sustainability stronger. Notably, on April 1, 2022, we changed the name of the Corporate Communication Dept. to the Corporate Sustainability Dept. and made it an organization that reports directly to the president.

My personal approach to sustainability has changed tremendously, even more so than the NAGASE Group's stance on the subject. When I was appointed as president and the SDGs were adopted around 2015, they did not elicit the same level of interest that they do today. Even when I visited Europe and the United States, I don't recall hearing much about the SDGs. However, from around 2018, just a few years later, the attitudes of world-famous manufacturers started to change dramatically. I was filled with a strong sense of urgency. Japan lags far behind the forward-thinking activities of companies in Europe and the United States. We must not fall behind this trend. That sense of urgency motivated me to work to spread the SDGs throughout the organization.

Based on the belief that our sustainability activities are part of the "Pursuit of Quality", we are working to raise sustainability awareness among all NAGASE Group employees in 2022 under the "Green it!" theme. The company's social value will surely increase if each employee takes individual ownership of our sustainability goals.

Improving employee engagement and achieving carbon neutrality have been identified as urgent issues for our sustainability activities. Two corporate projects focused on these issues were launched, and non-financial targets (KPIs) were set in **ACE 2.0** following extensive discussions. We are determined to meet these targets, believing that non-financial targets (KPIs) are just as important as financial goals.

Employee engagement is, of course, essential for sustainable growth. The NAGASE Group defines engagement as the organization and its employees understanding and enhancing one another. People, in my opinion, are a company's most important asset. What NAGASE needs going forward are human resources who are willing to take the initiative in making changes. However, what a single person can accomplish is limited. If we can foster a corporate culture that creates a process where the organization and employees enhance each other, we can energize communication beyond the boundaries of both parties, and make NAGASE a far stronger organization. First, we conducted an employee engagement survey to assess the current situation and identify issues. We will continue to promote two-way communication between the organization and employees.

Stack "Next" on Top of "Next" and Create a Sustainable Future

Over the past 1.5 years or so since 2021, we have been implementing an outward branding project with the goal of globally communicating the value that the NAGASE Group provides. To properly convey our brand's strengths, we conducted customer and employee interviews on our universal values, such as our management philosophy and vision, as well as changes in the internal and external environment, such as the values sought by our customers. We reopened discussions on the value the Group provides and established "Delivering next." as our new Group slogan.

"Delivering next." is an exciting phrase with multiple meanings. The company has a long history, and all stakeholders must remain vital partners in order for the company to progress to the next stage. The phrase

"Delivering next." — Pursuing Sustainability as a Business Designer



"Delivering next." was chosen because it embodies our commitment and aspirations to face whatever may come next with a forward-looking mindset while resolving our current issues. I'm confident that if the NAGASE Group and its partners stack "next" on top of "next," this will pave the way for a brighter future.

We are currently in the midst of a reform of profit structure and reform of corporate culture under **ACE 2.0**. We are determined not to become preoccupied with

short-term results as we continue to advance the "Pursuit of Quality" into the future. Instead, we will work to become a Business Designer that Creates a Sustainable Future, which describes the "Ideal NAGASE" for 2032, our 200th anniversary, and go further beyond. Guided by our universal management philosophy, we will continue to take ambitious initiatives with an unwavering resolve and pursue sustainability to deliver value unique to the NAGASE Group to all stakeholders.

CFO Message

Balancing Base Businesses with Focus and Develop Businesses to Shift to a Robust Profit Structure

Masaya Ikemoto

Representative Director and Managing Executive Officer

Review of the First Year of ACE 2.0 from a Business Portfolio Perspective

The first year of ACE 2.0 was a phase in which we tried to move forward while reassessing our platforms and foundations. In doing so, we sought to augment our fundamental strengths to ensure the NAGASE Group's sustainable growth. Our results grew, but our analysis shows that this growth was primarily due to the impact of tailwinds such as rising market prices. Keeping this in mind, I can proudly state that the source of our profits was that we continued to maintain the highest standards of integrity, which meant that we served our customers with the utmost sincerity in the face of drastic changes in the external environment, and that we firmly kept our promises.

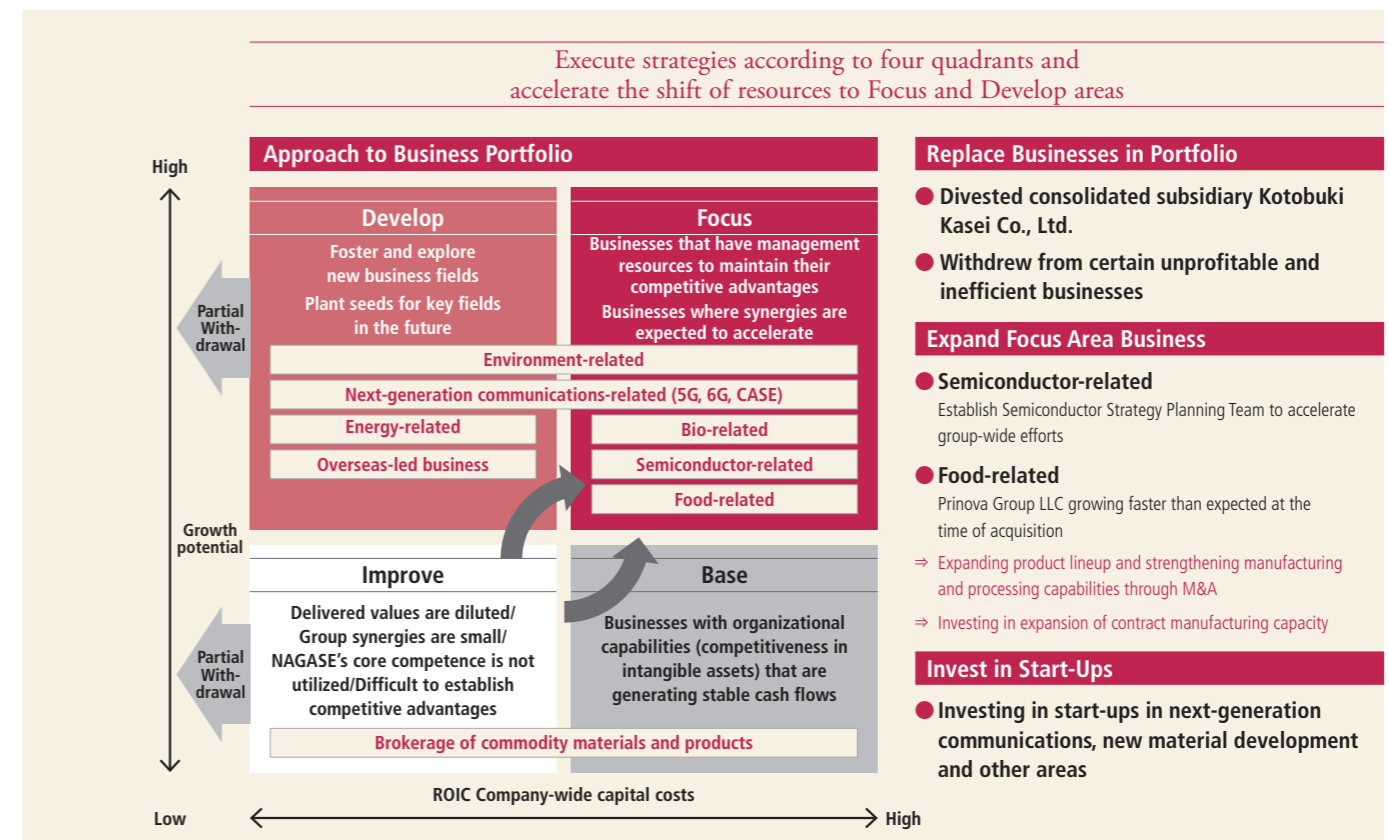
In the past year, we have started to recognize that the next stage of our future lies in the continuation of the steadfast efforts we have continued to make since the previous medium-term management plan ACE 2020. The NAGASE Group has classified its diverse business portfolio into four quadrants, specifically the Improve, Base, Develop, and Focus areas based on the two dimensions of growth potential and capital costs. While the chemical and resins

businesses are carefully managed in the base area, capital will be intensively allocated to the focus and growth areas, with the aim of continuing to drive growth. The focus areas for ACE 2.0 have been defined as the bio-related business, semiconductor business and food ingredients business. The replacement of businesses in the portfolio has been progressing because we have increased capital allocation to those businesses from the plan's first year.

We have long concentrated our efforts in the semiconductor field. Going forward, our main priority in this field will be to turn it into a highly profitable business. The NAGASE Group supplies materials such as epoxy resins, which are deeply embedded in the semiconductor manufacturing process, and we intend to establish a solid business foundation in the semiconductor industry. Notably, China is a massive market on which we should concentrate our efforts. Although conditions are volatile due to factors such as U.S-China friction, we have a strong belief that the semiconductor business that we have worked so hard to develop will finally begin to flourish in China. Meanwhile, Japanese companies

provide 60–70% of the manufacturing process technology in the U.S. semiconductor market. Concerns about China will likely hasten the shift of production to the U.S. Because Japanese companies have strengths in equipment and materials, I believe that demand for Japanese semiconductor equipment and materials will increase further in the U.S. While the company will continue to have high expectations for China, I believe that determining how we will enter the U.S. semiconductor industry will be one of our challenges going forward.

The food ingredients business is one of the signature reforms of ACE 2.0. We acquired the Prinova Group at the same time that we were solidifying our base with the acquisition of Hayashibara Co., Ltd. and these actions demonstrated our presence both in Japan and abroad. In Prinova-related areas, besides the two business acquisitions, we established a sports nutrition manufacturing plant in the state of Utah in the U.S., and business is expanding. The addition of sports nutrition as a new category has significantly increased the NAGASE Group's earnings.



Prospects for Achieving ROE Target and ROIC as a Decision-Making Indicator

Under **ACE 2.0**, we set a target for achieving return on equity (ROE) of 8.0% by fiscal 2025, the plan's final year (actual ROE for fiscal 2021: 7.7%). In addition, we intend to achieve a return on invested capital (ROIC) that exceeds the weighted average cost of capital (WACC). While there are many issues that need to be resolved, I am confident that we will meet our ROE target of 8.0%.

Meanwhile, under **ACE 2.0**, we adopted ROIC as one of our indicators for management decisions. We are dividing our existing businesses into smaller pieces with an eye toward ROIC and carefully considering how we will replace businesses in the portfolio. Businesses that can provide high added value, for example, will be transferred from the Base area to the Focus and Develop areas. We will not immediately withdraw from important businesses, such as core businesses that support NAGASE's technologies, simply because they have a low ROIC, but will instead aim to improve their ROIC first.

In fiscal 2021, ROIC improved from 4.2% to 5.3%. Working capital increased, causing an increase in invested capital. We will work to optimize invested

capital by maintaining strict inventory control. In addition, WACC fell from 5.7% to 5.5%. Overall, operating income, one of the quantitative targets of **ACE 2.0**, reached ¥35.0 billion. However, we recognize that we continue to face efficiency issues, so we intend to promote the "Pursuit of Quality" in this area too.

We consider ROIC to be a preliminary indicator for investment decisions such as prioritizing invested capital and replacing businesses. Efforts are being made to raise awareness of this principle throughout the company. We have already established a system for calculating the ROIC of businesses at a certain level, and have begun monitoring operations with BI tools*. As we move forward with **ACE 2.0**, I'm convinced that ROIC-based thinking will gradually permeate our organization.

Honing Businesses Through Asset Replacements

We will continue to increase new investment projects, in part to strengthen the NAGASE Group's ability to generate ideas and its ambitious spirit. Under **ACE 2.0**, we have set a strategic growth investment limit of ¥150.0 billion and intend to make these investments over the next 5 years. We plan to replace 10% of our assets with assets in Focus and Develop areas that offer high ROIC and growth potential.

I'm also aware that M&A will be critical in our efforts to enhance our manufacturing business. While our ROIC is our primary investment criterion, we also have businesses that should not be decided solely based on ROIC, such as specific core businesses that are essential to maintaining and expanding our customer base. I believe that one of my most important roles as CFO is to make appropriate decisions on such businesses, while keeping the NAGASE Group's medium- and long-term growth prospects in mind.

Turning to shareholder return measures, we have conducted share buybacks, which we had not done before, for the past two consecutive years, as part of our efforts to shift away from shareholder returns centered on dividends. The total return ratio, which is the sum of dividends and share buybacks, is expected to surpass 40%. In terms of measures to bolster our capital structure even further, we will seek to reduce strategic cross-shareholdings by ¥6.0 billion per year, with plans to reduce these cross-shareholdings by ¥30.0 billion over the 5 years covered by **ACE 2.0**. We have already begun to steadily reduce strategic cross-shareholdings and will continue to do so.

The Mission of the Group Manufacturing Management Innovation Office

On April 1, 2022, we established the Group Manufacturing Management Innovation Office as a new head office organization. This office grew out of efforts to enhance the Group Manufacturers' Collaboration Committee, which was formed in 2019 to bolster the foundation of manufacturing companies in the NAGASE Group.

Manufacturing businesses account for almost half of the NAGASE Group's profits. Manufacturing businesses' scale and influence within the whole Group have grown year after year, as has their share of our consolidated results. Meanwhile, I had the impression that our ability to coordinate our manufacturing businesses was lacking. Our manufacturing businesses did not share a common language or culture, nor did they have common goals. Therefore, we launched this organization with the aim of enhancing our Group's collective capabilities.

Our goal is not to control the Group's manufacturing companies. Instead, it is to encourage each company's

individual growth while also building a common platform to improve our collective capabilities.

First, we will assess current conditions from a management viewpoint so that the manufacturing companies can discuss their diverse values and benchmarks in a common language, ensuring that the Group's manufacturing businesses create new value. Specifically, we started by evaluating the value chains of Group manufacturing businesses, from development to production and quality assurance activities, identifying common management indicators, and attempting to understand and standardize diverse manufacturing processes.

Group companies have already expressed their anticipation and enthusiasm for these initiatives. We see this as a crucial opportunity to strengthen the NAGASE Group further.

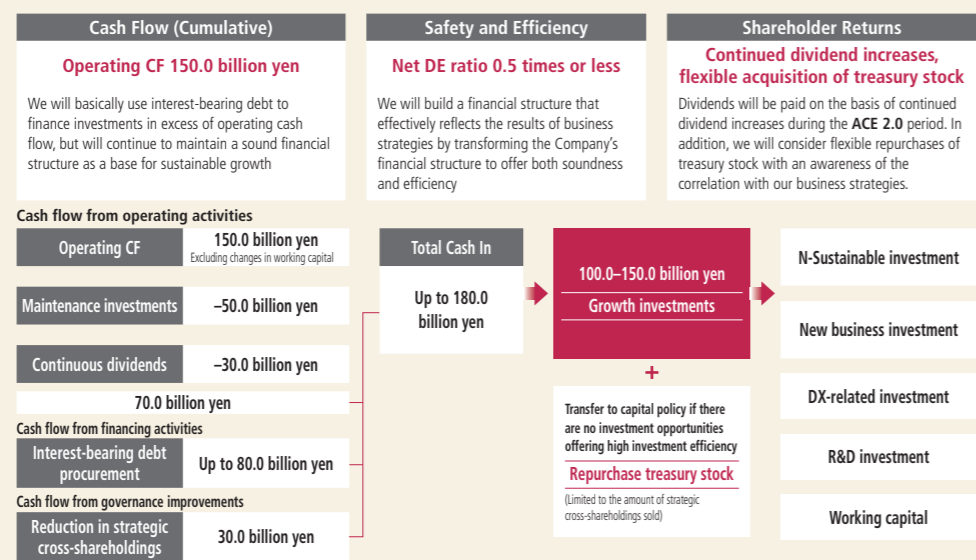
Continue to Maintain the Highest Standards of Integrity and Demonstrate the Value of the NAGASE Group

The NAGASE Group must be a sustainable company if it is to continue to be chosen by its stakeholders. We must continue to promote the businesses that will lead to sustainability that we are currently pursuing, as well as gain the empathy of all stakeholders for the NAGASE Group's *raison d'être*. To achieve these goals, we must also build a robust earnings base while properly replacing assets and continuing to provide sustainable added value to society.

As I said I earlier, I believe that one of the most important things that the NAGASE Group should emphasize is the importance of maintaining the highest standards of integrity in each employee. We would not have been unable to establish a presence within supply chains if we had not acted with the utmost sincerity so far. We would have lost touch with NAGASE's identity if we had not maintained the highest standards of integrity. Without this spirit, we will be unable to celebrate our 200th anniversary in 2032. We must always maintain the highest standards of integrity. Keeping these words close to our hearts, we will continue to demonstrate the NAGASE Group's *raison d'être* to society.

Deepen Awareness of Capital Efficiency

We will generate cash flow through sustained growth and portfolio improvements, ensure financial soundness, and efficiently allocate funds to new business investments and R&D investments for new growth.



* Business Intelligence tools: Software that collects vital information from a company's vast amount of data, and analyzes and visualizes it so that it can be used to help management and business operations