



Osaka Head Office:

1-1-17, Shinmachi, Nishi-ku, Osaka City,
Osaka 550-8668, Japan
Tel: (81) 6-6535-2114

Tokyo Head Office:

5-1, Nihonbashi-Kobunacho, Chuo-ku,
Tokyo 103-8355, Japan
Tel: (81) 3-3665-3021

Nagoya Branch Office:

3-14-18, Marunouchi, Naka-ku, Nagoya City,
Aichi 460-8560, Japan
Tel: (81) 52-963-5615

<https://www.nagase.co.jp/english/>



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NAGASE & CO., LTD.

20
21

Integrated Report
Integrated Report 2021

Identify - Develop - Expand Shaping Value



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The red side of the new motif symbolizes the NAGASE Group's value creation. It is a visual expression of our drive to create new value by flexibly proposing solutions to our customers' issues.

About this Report

The NAGASE Group has created this integrated report to help our diverse stakeholders better understand the Group's wide-ranging business fields and business activities, as well as its unique value creation process. Going forward, we will continue to improve this report as a communication tool for conveying the Group's corporate value enhancement activities in an easy-to-understand manner.

Referenced Guidelines

- International Integrated Reporting Council
- International Integrated Reporting Framework
- Ministry of Economy, Trade and Industry's Guidance for Collaborative Value Creation



Period Covered

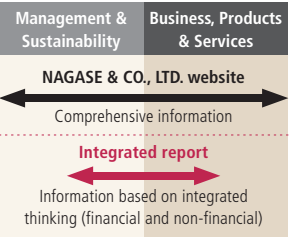
April 2020–March 2021 (FY2020). Some information after March 2021 is also included.

Organizations Covered

NAGASE & CO., LTD. and the NAGASE Group

Positioning of this Report

This integrated report organizes information on Management & Sustainability and Business, Products & Services based on "integrated thinking." Please refer to NAGASE's website for more detailed information.



Identify - Develop - Expand Shaping Value

The NAGASE Group pursues “Quality” in everything it does, working together with stakeholders to create new value with an eye to our vision for the future.

Forward-Looking Statements Non-historic information contained in this integrated report related to the NAGASE Group revenue and profit plans, strategies, assumptions, etc., are forward-looking statements that entail elements of risk and uncertainty. Actual earnings may differ significantly from forecasts due to changes in these elements. Accordingly, the reader is cautioned to refrain from placing undue reliance on such future forecasts contained in this document. Elements that could impact earnings results are not necessarily limited to those explicitly noted in this document.

Overview of Our Value Creation Story

Our *raison d'être* is to contribute to society and enrich the lives of our employees by maintaining the highest standards of integrity, which is a cornerstone of our management philosophy. We aim to help realize a sustainable world where people live with peace of mind through activities rooted in our process for value creation, "Identify, Develop and Expand." To that end, we set the "Ideal NAGASE" for 2032, our 200th anniversary, as a Business Designer that creates a sustainable future. The

concept of a Business Designer is working with partners to bring together trading, R&D, investment, global network, manufacturing, logistics, and other functions to create new businesses. By responding flexibly to the external environment and constantly evolving business, we will promptly identify issues facing our customers and society and generate value that leads to solutions. The NAGASE Group will contribute to the development of sustainable society by enhancing economic and social value.

Evolve Business to be the "Ideal NAGASE"

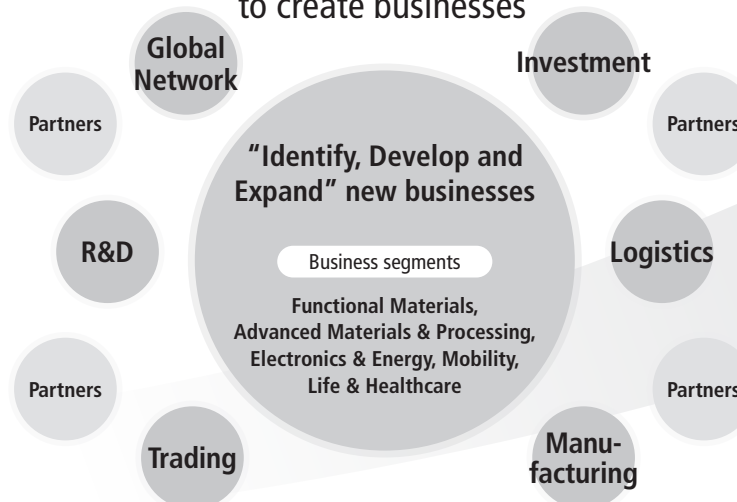
Medium-Term Management Plan ACE 2.0 = Pursuit of Quality

Reform of
Our Profit Structure »P32

Reform of
Our Corporate Culture »P35

Corporate Functions Supporting Reform »P37

Business model for
working with partners
to create businesses



Various Functions in the Value Chain

»See P8–9, "Our Business Model"

Our Risks and Opportunities

- Technological innovation
- Climate change and resource shortages
- Demographic changes
- Industrial reorganization

»See P14–15, "Our Risks and Opportunities"

Contribute to Realize
a Sustainable World
Where People Live
with Peace of Mind

Employees

Business
Partners

Society/
Consumers

Shareholders

Providing Values to
Stakeholders

Backcasting

"Ideal NAGSE" for 2032 (200th Anniversary)

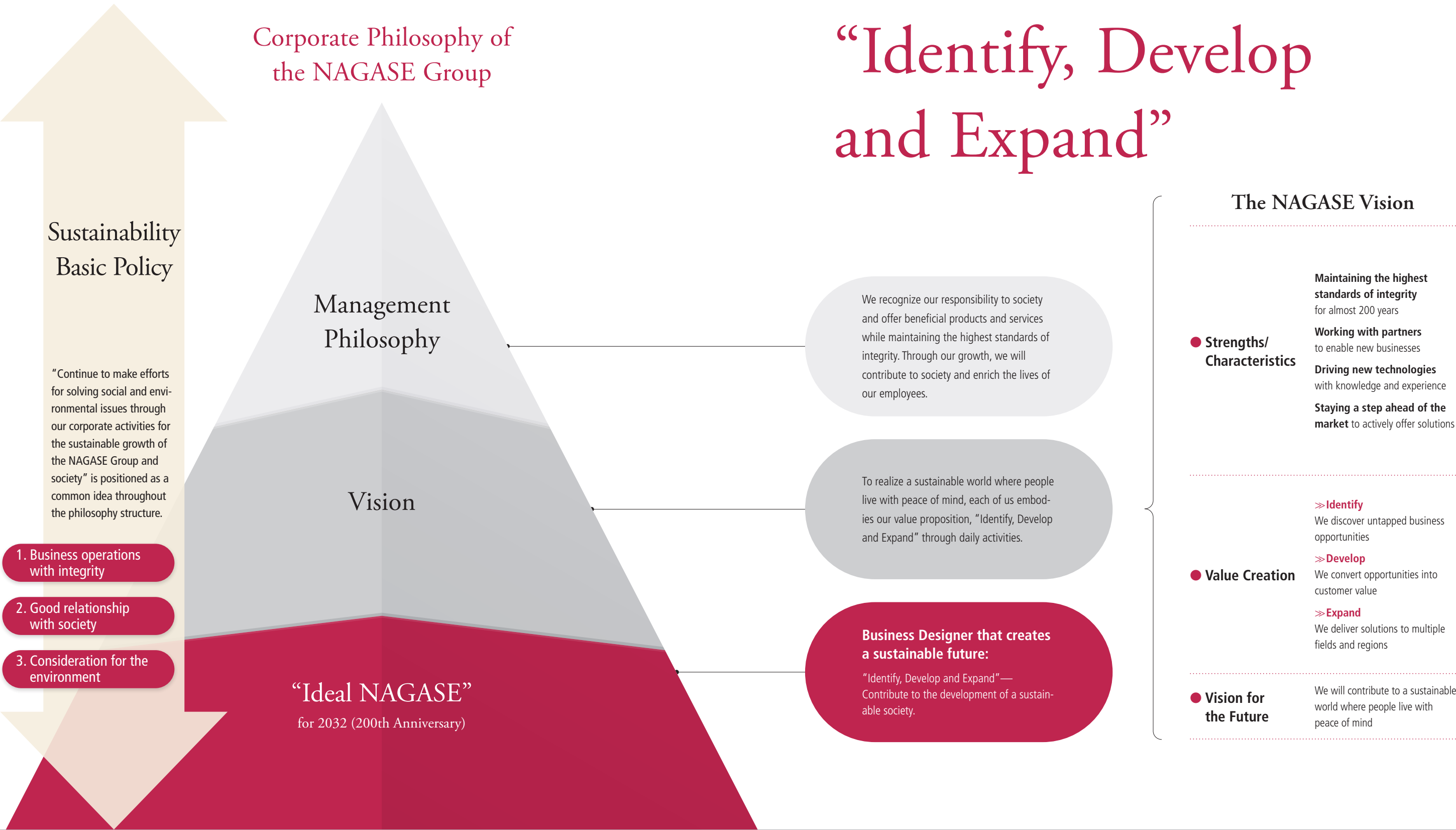
Business Designer that Creates a Sustainable Future

Enhance Economic Value

Enhance Social Value

»See P30–31, "Business Model Evolution Looking to the Future"

Our Social Significance



History of Value Creation

1832—

Founding



Founder Denbei Nagase

The NAGASE Group traces its roots to 1832 when founder Denbei Nagase established Urokogataya, a dyestuffs wholesale business that handled safflower, *funori* seaweed and starches in Nishijin, Kyoto. Later on, we established a foothold in the chemical industry by starting to handle synthetic dyes.

1901—

Forging Ties with Leading Overseas Manufacturers



General Electric Co. (GE)

Entering the 1900s, the NAGASE Group started doing business with overseas manufacturers to pursue the possibilities of chemicals. As it expanded its import business, NAGASE established an office in Lyon, France in 1901. That spurred the expansion of partnerships with overseas manufacturers, including Basel Chemical Co. of Switzerland (at that time called Ciba), as well as Eastman Kodak Co. (now Kodak) and DuPont of the United States. While importing state-of-the-art products from overseas, including technology not yet available in Japan, and making great strides as a trading company specializing in chemical products, the NAGASE Group delivered new value.

1970—

Enhancing Functions as a Manufacturer



Panoramic view of Ciba in 1893

Since its founding, the NAGASE Group has engaged in diverse operations. In 1970, it established Nagase-CIBA Ltd. (now Nagase ChemteX Corporation) as a joint venture with Ciba for manufacturing epoxy resins. The following year, it established Engineering Plastics, Ltd. (EPL) in a 50-50 joint venture with GE. It also built several new plants as part of steps to strengthen and expand its manufacturing, processing, and other functions as a manufacturer.

1990—

Demonstrating Advantages in R&D Functions



Nagase R&D Center

From the 1990s, the NAGASE Group began enhancing its R&D functions in earnest. In 1990, it established the Nagase R&D Center as a base for R&D into bio-related materials. In the 2000s, it established Nagase ChemteX (Wuxi) Corporation in China as an epoxy resin plant for Nagase ChemteX Corporation. It also made Pac Tech-Packaging Technologies GmbH of Germany a subsidiary. In 2007, it opened the Nagase Application Workshop, an open innovation laboratory, in a push to also secure an advantage in R&D functions.

2010—

Gearing Up the Food Ingredients Business



Prinova Group

In the 2010s, biotechnology also started to gain more attention. In 2012, the NAGASE Group made the biotechnology specialist Hayashibara Co., Ltd. a subsidiary to strengthen its food ingredients business. In 2019, it made Prinova Group LLC, a U.S.-based company that sells and processes food ingredients and has a global sales network, a subsidiary. By generating synergies among the new Group companies, NAGASE brought its food ingredients business into full swing and global development.

2015—

Promoting Sustainability as a Business Designer



The NAGASE Group has grown into a corporate entity with diverse functions, including trading, manufacturing, processing, and R&D. While leveraging and adding on to those functions, it strives to create an array of value. It has also been focusing on sustainability management in recent years. NAGASE aims to help solve social and environmental issues for the sustainable growth of society and the Group.

Fiscal year ended March 31, 1967
(Non-consolidated)

Net Sales: **65.0** billion yen
Total Assets: **27.5** billion yen
Operating Income: **1.8** billion yen

Fiscal year ended March 31, 1987
(Non-consolidated)

Net Sales: **430.5** billion yen
Total Assets: **193.6** billion yen
Operating Income: **6.4** billion yen

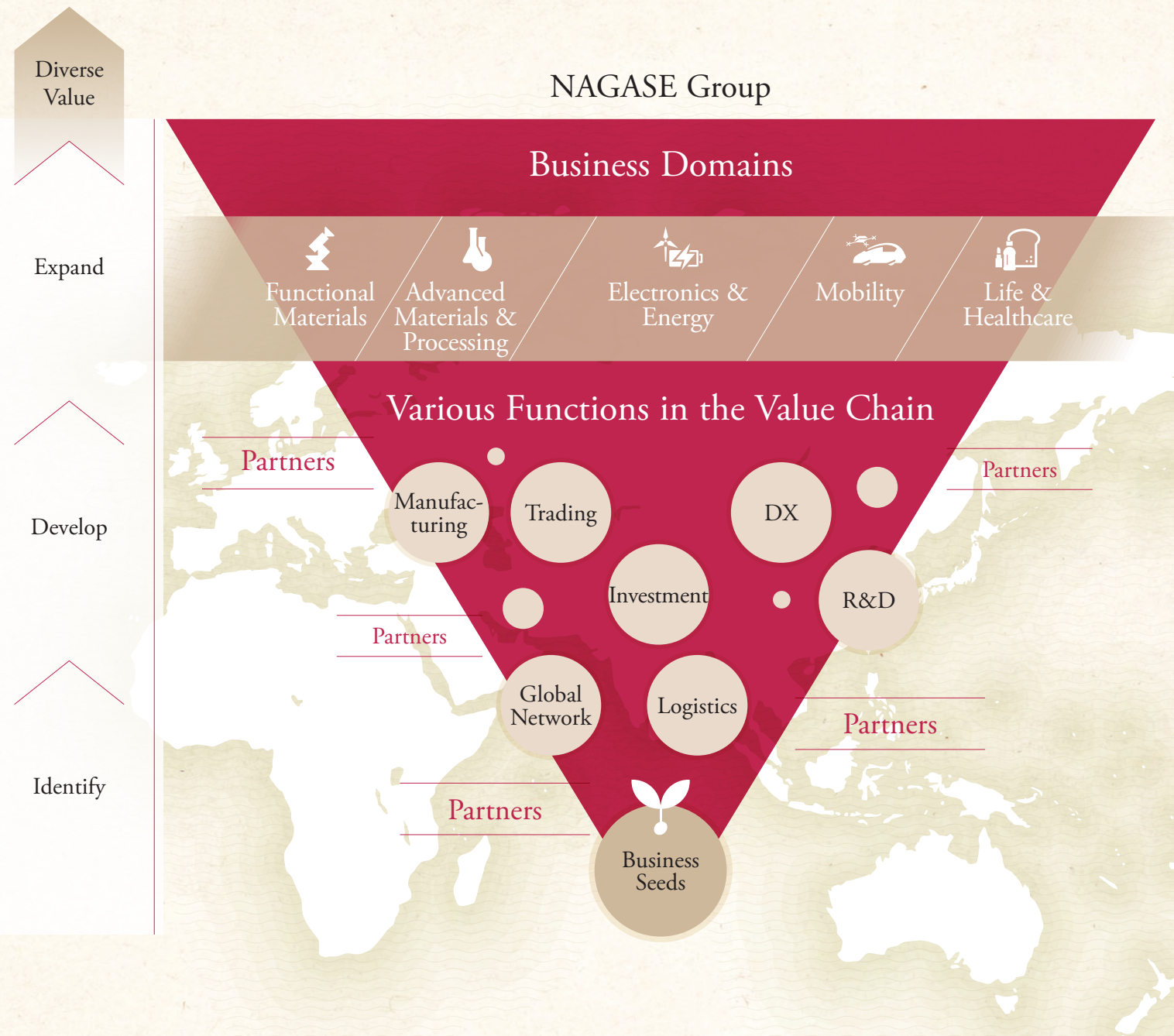
Fiscal year ended March 31, 2007
(Consolidated)

Net Sales: **701.3** billion yen
Total Assets: **422.8** billion yen
Operating Income: **21.6** billion yen

Fiscal year ended March 31, 2021
(Consolidated)

Net Sales: **830.2** billion yen
Total Assets: **640.5** billion yen
Operating Income: **21.9** billion yen

Our Business Model



A Business Designer Working with Partners to Create an Array of Value through “Identify, Develop, and Expand”

The technologies that the NAGASE Group has cultivated over its 189-year history are one of its strengths. In addition to trading capabilities with a wide array of business domains and an extensive global network, it has enhanced its manufacturing, R&D, and other capabilities. In addition, it has strengthened new functions such as digital transformation (DX) to evolve into a corporate group that creates a myriad of value.

The NAGASE Group brings together those capabilities in working with partners to identify the seeds of technologies and businesses, develop them into new value, and expand that through business development that goes beyond borders and domains. Delivering an array of value to society and customers as a Business Designer developing unique businesses that set us apart from competitors is our current business model.

Our Strengths



Global Network



Consolidated Net Sales		Overseas Sales to Net Sales		Number of Bases	
830.2 billion yen		56.3 %		30	117
Overseas 467.0 billion yen				Countries and Areas	Companies
Number of Manufacturing Companies		Number of Sales and Servicing Companies		Number of Employees (Consolidated)	
14	56	22	61	6,940	
Countries and Areas	Companies	Countries and Areas	Companies	Overseas 3,139	

» See P52–53, “Regional Strategy”

Important Management Resources

Here, we introduce important management resources supporting the NAGASE Group’s sustainable growth.

Financial Capital

The NAGASE Group has sufficient financial capital to handle its various financial needs. Specifically, it recognizes the importance of steadily and flexibly securing funds to meet its capital requirements, including for working capital, capital investments, M&A, DX, and other investments in new growth. Its main source of capital is funds provided by operating activities. It also uses loans from financial institutions as a means of procuring funds, and obtains funds from the capital market by flexibly issuing corporate bonds and commercial paper. It takes a diversified and well-balanced approach to fund procurement.

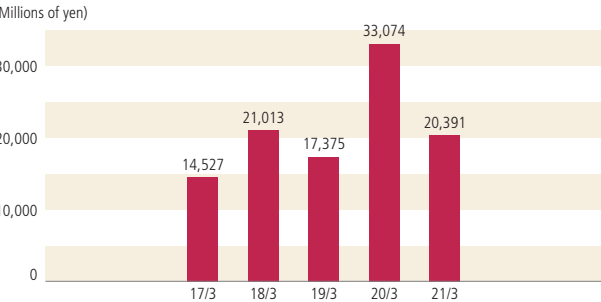
In addition, the new medium-term management plan ACE 2.0 pursues capital efficiency, and the NAGASE Group is working to that end. Specifically, it is proactively allocating funds to investments in R&D and new businesses targeting new growth upon generating cash flows through sustainable growth and portfolio improvements and securing financial soundness.

There are also functions that cut across the organization to improve productivity. A good example of that is Nagase Business Expert Co., Ltd., which was launched in 2017.

Credit Rating

Name of Credit Rating Agency	Issuer Rating	Commercial Paper Rating
Rating and Investment Information, Inc. (R&I)	A	a-1

Operating Cash Flows



»See P26–29, “CFO Message”

Nagase Business Expert Co., Ltd.

Helping Group Companies Raise Productivity and Profitability

Nagase Business Expert Co., Ltd. is a shared services company. By standardizing and streamlining intra-Group operations such as logistics, trade, payroll services, receipts and payments, credit management general affairs, account settlements, and tax services, it is helping increase productivity and profitability. It also supports the Group by developing human resources. Going forward, it will continue to contribute to the Group’s

sustainable growth on the human resources front and by enhancing governance and making intra-Group operations even more efficient.

Launched: 2017
Number of employees: About 240
(Fiscal year ended March 31, 2021)

Human Capital

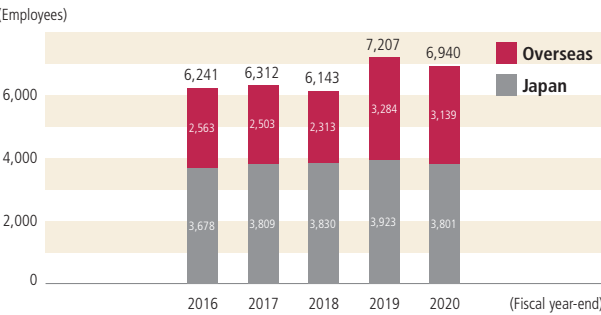
The NAGASE Group has robust human capital. Of its 6,940 employees in total, 3,139 reside overseas. It aims to build a strong organization from both fronts to strengthen human resources to drive reforms and to bolster compliance.

Human resources are a source of sustainable growth. The new medium-term management plan ACE 2.0 advocates to strengthen human resources to drive reforms as part of corporate culture reform. Specifically, it sets out to achieve sustainable growth for employees and the company by cultivating global talent who are innovative and advance change, promoting safe, comfortable, and inspirational work styles and workplaces to provide support for taking on challenges, building a corporate culture that embraces diverse personalities, and raising employee engagement.

The NAGASE Group also regards respect for employee personality and individuality and human rights in general as a prerequisite for maintaining and enhancing human resources’ capabilities. It has accordingly released a

Group Code of Conduct, and conducts compliance training as needed to improve awareness among all Group employees in Japan and overseas.

Number of Employees (Consolidated)



»See P66–67, “Human Resource Development to Drive Innovation”

Intellectual Capital

The NAGASE Group’s intellectual capital is distinctive in that it is not limited to chemicals, but extends to various domains, including electronics, automobiles, and healthcare. Another feature of the Group’s intellectual capital is that it often applies for patents jointly with an array of partners such as universities and corporations as a trading company. To harness its total

capabilities and create new businesses, the Group undertakes R&D for the purpose of providing technical information and developing new technologies and products based on marketing activities. Expediting the mobilization of such expertise serves to enhance intellectual capital, which is a fount of innovative business activities.

Nagase R&D Center

Combining Biotechnological Expertise with Frontier Technologies

The Nagase R&D Center aims to create new value that contributes to society, including with regard to people’s health and solving environmental issues, through R&D in the biotechnology field. It also aims for process innovation utilizing biotechnology, in line with its philosophy, “Unavailable Made Available in a Sustainable Way.” To advance the NAGASE Group’s bio-related business from the research stage, the Nagase R&D Center also coordinates with the Group companies’ roughly 250 researchers. The Nagase R&D Center is putting its technologies, the marketing capabilities of each organization, and the product development and manufacturing

capabilities of Hayashibara Co., Ltd. and Nagase ChemteX Corporation to use in developing new enzymes, biochemicals, and more.

Developments harnessing and linking together our expertise

- Fermentation production of Trehangelin, which is expected to have antiaging effects
- Fermentation production of the so-called longevity vitamin ergothioneine

Established: 1990
Location: Kobe City, Hyogo Prefecture



Nagase Application Workshop (NAW)

Providing Customers with a Place for Innovation

The Nagase Application Workshop is an open innovation laboratory for plastics and coatings. As a reliable development partner to the NAGASE Group’s customers, NAW provides evaluation and analysis of unique new technologies and materials, advances the development of new applications and more in an ongoing pursuit of function and design in the fields of plastics and coatings. In addition to enriching open laboratory capabilities, NAW targets global collaboration among laboratory functions within the Group. It is promoting information sharing among domestic and overseas business bases, including Nagase ChemteX

Corporation, Hayashibara Co., Ltd., and Interfacial Consultants LLC of the United States. It is also working to build systems for global cooperation in Japan, Asia, and the United States.

Developments harnessing and linking together our expertise

- Development of various biodegradable coating and plastic materials derived from biomass
- Color design proposals according to customer needs

Established: 2007
Location: Amagasaki City, Hyogo Prefecture



New Value Creation (NVC) Office

Create the Core of Future Business

The NVC Office advances the NAGASE Group’s innovation. It forms the core of business looking 5 to 10 years down the line through cross-sectional collaboration among business divisions. It leads the Group in coming up with ideas and strategies in the materials, semiconductor, IoT, and healthcare domains revolving around the slogan “Creating new value from big data.”

Developments harnessing and linking together our expertise

- Launched TABRASA™, a SaaS service for materials informatics
»See P16–17, “[Feature] New Business Looking to the Future”
- Developed Axonerve™, an IP core for FPGA (Field-Programmable Gate Arrays) specializing in high-speed, low-latency key search, and developed application for global 5G carriers

Established: 2017

Manufacturing Capital

The NAGASE Group encompasses about 60 manufacturing subsidiaries, including Nagase ChemteX Corporation, Hayashibara Co., Ltd., and Prinova Group LLC. It combines its trading and manufacturing functions to offer a wide range of solutions to customers.

This manufacturing capital is an important management resource for the NAGASE Group. As part of profit structure reform, the new medium-term management plan ACE 2.0 looks to strengthen existing businesses by

expanding added value through technological innovations and improvements in manufacturing productivity.

In addition, the Group Manufacturers' Collaboration Committee, which was launched in 2019 to bolster the foundation of domestic manufacturing companies in the NAGASE Group, is working to raise productivity and strengthen cooperation in manufacturing operations within the Group.



Nagase ChemteX Corporation

Building an Abundant Future with Chemistry



Nagase ChemteX Corporation is a core manufacturing subsidiary of the NAGASE Group and possesses creative technologies in a variety of areas including electronics and biotechnology. It uses its core technologies in synthesis, formulation, and biotechnology to develop materials that are completely new to the world and create products with No. 1 market share. As a value-creating manufacturing company capable of meeting the needs of customers around the world, it will continue to embrace the challenge of developing new technologies and products.



Photo provided by ASICS Corporation

● Topics: Contributing to Completion of Industry's First Spikeless Track Shoe

ASICS Corporation's METASPRINT™ sprinters do not have spikes. Their spikeless soles use Nagase ChemteX Corporation's thermoplastic epoxy resin technology. This cutting-edge technology supports the performance of sprinters competing within 0.01 second of time.



Functional Resins

Epoxy adhesives, encapsulants (sheets, liquids)



Precision Process Materials

Photolithography materials, 3D printing materials, silver nano ink



Functional Chemicals

Special epoxy resins, transparent conductive coating materials, low-endotoxin materials



Biochemicals

Food enzymes, industrial enzymes, phospholipids

Established: 1970 Location: Osaka City, Osaka Prefecture

Sales: About 26 billion yen

Number of employees: About 590 (Fiscal year ended March 31, 2021)



Hayashibara Co., Ltd.

Smart Biotechnology for Better Living



Hayashibara Co., Ltd. is a core business in the NAGASE Group's life sciences field. It develops and provides ingredients for food and health foods, personal-care products, pharmaceuticals, and functional dyes. It continues to work on developing innovative new materials using its advanced biotechnology capabilities, and is increasing its presence in the global market.



● Topics: Sponsoring an International Academic Event

Hayashibara Co., Ltd. sponsored the online event "Nature Café on Environmental Stress and Food Crisis" organized by the multidisciplinary science journal *Nature*. Over 360 people from 85 countries around the world registered to participate in the event. There was also an exclusive meeting following the event for researchers from Hayashibara and experts in Japan and overseas. It was a meaningful event for Hayashibara as it has designated stable food security as one of its priority issues.



Food Ingredients

TREHA™, SUNMALT™, PULLULAN



Health Food Ingredients

HAYASHIBARA HESPERIDIN™ S, Fibryxa™, Ascofresh™



Personal Care Ingredients

AA2G™, MG-60, Alpha Glucosyl Hesperidin



Pharmaceutical Ingredients

MALTOSE PH, TREHALOSE SG, PULLULAN



Functional Dyes

Dyes for information recording, information displays, and diagnostic agents

Established: 1932 Location: Okayama City, Okayama Prefecture

Sales: About 24 billion yen

Number of employees: About 670 (Fiscal year ended March 31, 2021)



Prinova Group LLC

Global Development of Food Ingredients



Prinova Group sells food ingredients, manufactures premixes, and undertakes contract manufacturing of final products, mainly in North America and Europe. It has an edge in terms of ingredient sourcing, blending and flavor-related R&D capabilities, sports nutrition experience, and its network. Moving ahead, it looks to accelerate synergies with the Group and develop business in the Southeast Asian market.



● Topics: New Global Website

In June 2021, Prinova launched its new website with extensive information on about 400 different ingredients, including nutritional materials and aroma chemicals. Going forward, Prinova plans to make the website available in more languages, including German and Spanish, and otherwise expand its functions globally. <https://www.prinovaglobal.com/>



Ingredients

Distribution Over 2,000 ingredients



Aromas

Distribution Aroma chemicals, essential oils



Premixes & Solutions

Premixes, OEM, beverages, tablets, food applications



Flavors

Manufacturing Beverages, functional food applications



Armada

Nutritional food development, manufacturing solutions, sports nutrition

Founded: 1978 Location: Illinois, USA

Sales: About 87 billion yen

Number of employees: About 1,000
(Fiscal year ended December 31, 2020)

Group Manufacturers' Collaboration Committee

Charged with Reinforcing the Domestic Manufacturing Foundation

The Group Manufacturers' Collaboration Committee's (MCC) role is to promote cooperation among manufacturing companies within the Group, independent growth at each company, and sustainable growth and enhancement of corporate value for the Group overall. In the fiscal year ended March 31, 2021, the MCC held committee, secretariat, activity briefing, and other meetings. In particular, discussions were held among 11 MCC member companies to set shared KPIs pertaining to safety, quality, and the environment. In the fiscal year ending March 31, 2022, the MCC plans to increase committee and secretariat members and enhance subcommittees, and will bolster the Group's

manufacturing collaboration through various activities, including promoting DX in manufacturing, addressing environmental needs, improving quality, and raising safety and health standards.

● Topics: Engaging Advisors to Accelerate Personnel Development

The MCC engages advisors with management experience that have worked in manufacturing for a long time, and plans and carries out various human resource development initiatives. In addition to periodically releasing to Group employees videos of interviews based on the theme of manufacturing and symposiums where employees of MCC member companies exchange opinions, the MCC plans events such as manufacturing site tours and lectures.

Social Capital

Solid relationships of trust with diverse stakeholders are very important social capital for the NAGASE Group. The Group operates globally in a wide range of business domains. It has 117 business bases in 30 countries and

regions around the world, and roughly 18,000 business partners in total in Japan and overseas.

Natural Capital

The NAGASE Group believes that a sustainable global environment is a prerequisite for continuing our business operations. To maintain and enrich such natural capital, the NAGASE Group helps realize a sustainable society by actively working to solve environmental problems. That includes striving

for a carbon-neutral and recycling-oriented society, preventing pollution, preserving biodiversity, and efficiently using water.

»See P68–69, "Creating Environmental Value"

Our Risks and Opportunities

Technological Innovation

In this age where global competition is increasingly fierce, it is difficult to survive by maintaining conventional business models alone. Since the digital technological revolution is bringing especially dramatic changes to all sorts of industry structures, taking the initiative to drive innovation and create new business opportunities is vital.



Risks and Opportunities for the NAGASE Group

Risks

The NAGASE Group could become unable to put its value into full play as the evolution of digital marketing and emergence of digital platforms shrink the information gap between customers and suppliers.

Opportunities

We are actively investing in DX. Through that, we will increase our points of contact with markets and cultivate new business opportunities to establish business advantages.

Demographic Changes

According to the *2019 Revision of World Population Prospects* released by the United Nations, the world population could reach nearly 11 billion people by the end of this century. While the population is increasing, demographics are also changing significantly, mainly in developed countries, due to longer life expectancy and declining birthrates. Such changes in the global population's scale, composition, and distribution greatly affect business activities.



Risks and Opportunities for the NAGASE Group

Risks

Factors such as rising populations in emerging countries could accelerate changes in production and consumption behavior on a global basis. Also, the declining birthrate and aging population in Japan reducing the Japanese market's relative status in industry is a concern.

Opportunities

In regions that are yet to be fully developed, there is potential for capturing new business opportunities by building and enhancing supply chains in part by utilizing DX.

NAGASE Group

Climate Change and Resource Scarcity

We are already seeing many forms of impact from climate change. With the move to a carbon neutral society gaining steam, we are being called upon to reduce not just our own emissions but emissions throughout supply chains. Energy and food resource shortages are also becoming more severe, partly reflecting growth of the global population. Society is looking to industries to work to solve these problems.



Risks and Opportunities for the NAGASE Group

Risks

We recognize a risk of a decline in business for products with high environmental impact due to changes in customers' and business partners' needs.

Opportunities

Amid a shift to sustainable products, the NAGASE Group will leverage its unique technological expertise, including cutting-edge information and knowledge in the industry, biotechnology, and materials informatics, to create new markets that lead to solutions for social problems.

Industry Reorganization

The reshuffling of alliances is underway in an array of business domains, and sales channels hitherto could change markedly. Furthermore, scope for collaboration with business partners could expand as things like an increase in open innovation cutting across business sector, industry, government, and academia borders bring about new developments.



Risks and Opportunities for the NAGASE Group

Risks

The risk of supply chain revisions proceeding due to changes in sales channels and the NAGASE Group losing business opportunities is a concern. Also, heightened interest in sustainability and faster digitalization is expected to accelerate technological progress and intensify competition.

Opportunities

As sales channels undergo revisions and customers consolidate business partners, the NAGASE Group's business opportunities are likely to expand as its ability to solve problems, expertise, and technologies in various industries are recognized. Additionally, there is potential for the Group to deliver value that demonstrates a genuine understanding of customers' new needs by addressing sustainability, investing ahead of time in digitalization, and so forth.

[Feature] New Business Looking to the Future

NAGASE's Biotechnology

Harnessing the Group's Underlying Technologies to Create Eco-Friendly Sustainable Businesses

Bio-related business is under the spotlight now from the perspective of environmental consideration. The NAGASE Group is working to harness the biotechnology of Group companies to develop new sustainable materials that are in tune with the times. It established the NAGASE Biotech Office in April 2021 as an intra-Group organization to promote such initiatives.

The NAGASE Group has a wealth of underlying technologies related to R&D and production of microorganisms, fermentation products, enzymes, and products of enzyme reactions. The Nagase R&D Center (NAGASE & CO., LTD.), Nagase ChemteX Corporation, and Hayashibara Co., Ltd. previously worked individually to develop technologies. However, that held them back from making dramatic developments as they inevitably focused on their respective technologies.

NAGASE had the idea that it would be able to deliver new technological value not found elsewhere and powerfully embark on developing new materials meeting customers' and business partners' needs if it could mobilize such biotechnology as a Group. Based on that belief, it launched the NAGASE Biotech Office bringing together members from the Nagase R&D Center, Nagase ChemteX, and Hayashibara.

Combining Biotechnology with Unique Technological Value

The NAGASE Group's biotechnology, including that pertaining to fermentation products, enzymes, and products of enzyme reactions, can be used to provide a wide array of solutions. That is a unique feature of its biotechnology not found at other companies. The NAGASE Biotech Office has been charged with two missions. One is to create themes for developing new materials that bring together the Group's underlying technologies. Another is to devise business concepts across the Group to commercialize those themes.

As for domains, the NAGASE Biotech Office will develop new materials with higher added value in health food, cosmetics, pharmaceuticals, and medicine, along with food ingredients, which the three member entities have mainly targeted to date. It also aims to propose new sustainable materials with more added value in the chemicals and electronics fields going forward.

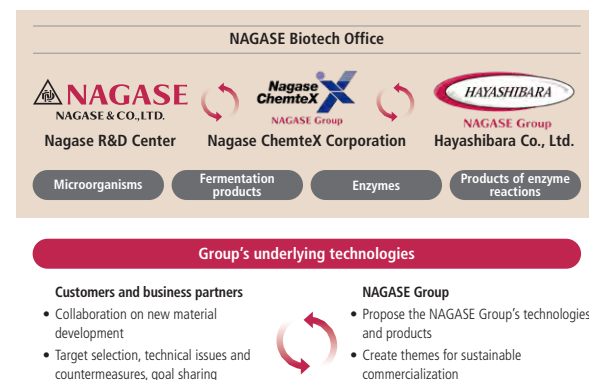
On the technology front, we will roll out the NAGASE Integration Technology (NIT) strategy. NIT classifies the three member entities' biotechnology strengths into four categories: screening, improvement

Naoki Shirasaka

Manager
NAGASE Biotech Office

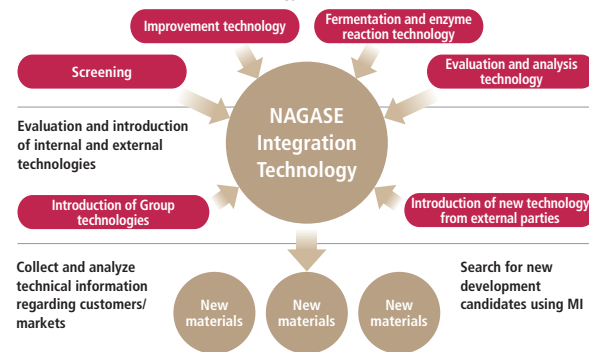


NAGASE Biotech Office's Framework for Specialized Creation



R&D via NIT

Utilization of the NAGASE Biotech Technology Platform



technology, fermentation and enzyme reaction technology, and evaluation and analysis technology. By selecting and integrating technologies based on that framework, NAGASE will develop new biotechnology that only it can. NAGASE will also work with the service utilizing the TABRASA™ new material search platform employing AI that it launched in November 2020 to offer the possibilities and value of new materials to the market since there are strong synergies between biotechnology and digital tools.

Concrete development themes and steps towards commercialization are already underway. NAGASE will speed up initiatives to use its biotechnology to generate value that is aligned with customer needs and helps to solve environmental and social issues.

How does the NAGASE Group view its external environment and how will it create opportunities for future growth? This feature explores NAGASE's biotechnology and TABRASA™, keys to the Group's growth moving forward.

TABRASA™

Contributing to the Sustainable Development of Japan's Materials and Chemical Industries by Supporting Companies' MI

Natsuki Morishita

Project Leader
Materials Informatics
Promotion Team
New Value Creation (NVC) Office



The NAGASE Group jointly developed the TABRASA™ platform for materials informatics (MI), which utilizes AI to revolutionize new material development, with International Business Machines Corporation (IBM), and started providing it to external parties as a SaaS service in November 2020.

The social environment is changing at a dizzying rate, and materials development is becoming tougher as its pace and functional requirements are also increasing each year. MI has advanced mainly in Europe and the United States, while Japanese companies have been slow to take initiatives on this front. Notably, medium-sized companies are finally just starting to invest in MI, and they must overcome major obstacles in terms of costs and specialist personnel to do so.

NAGASE has provided TABRASA™ as a service to other companies instead of only using it in-house because it has customer networks covering an expensive range of industries and wants to contribute to the sustainable development of Japan's materials and chemical industries by supporting medium-sized companies' MI initiatives. At the same time, NAGASE believes this is likely to raise its status as a solutions provider.

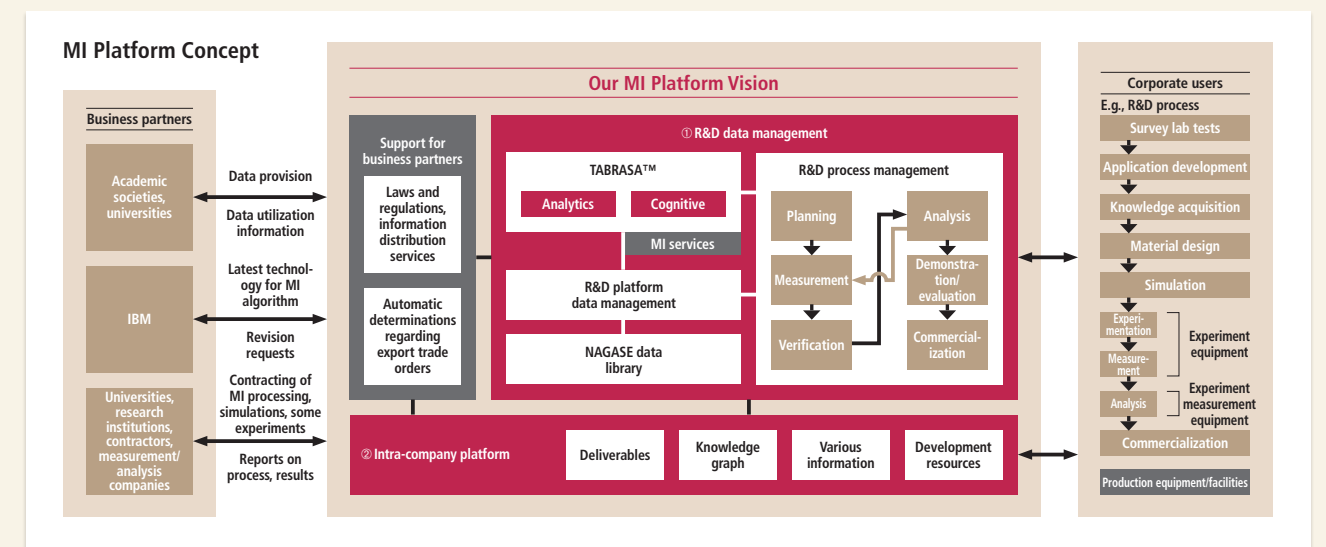
Aiming for a Platform to Support Value Creation in R&D

TABRASA™ features two different engines. One takes an analytics approach and the other a cognitive approach. MI generally entails using

machine learning based on a certain volume of data to making projections about things like physical characteristics and molecular structure. That corresponds to TABRASA™'s analytics approach. Using that approach requires preparing a large volume of data and inputting it. In contrast, the cognitive approach can reduce the work entailed in preparing data by using AI to read data from documents such as theses, and structure that data to generate new knowledge. TABRASA™'s unique strength is that it has both an analytics and a cognitive engine.

Of course, customers can freely utilize the results of materials searches obtained using MI. We have currently received feedback from over 100 corporate customers, and plan to continue to gradually add new functions to the platform moving forward. Our target for the future is a MI platform for resolving various issues, including provision of a matching forum for trading data and resources that will become sources of value (diagram below).

Using TABRASA™ will dramatically change the way R&D is done in materials development. Naturally, it will make development more efficient. It should also enhance creativity and innovativeness, and speed up innovation overall. The NAGASE Group envisions a future where faster innovation wields great influence in solving social issues.



Our Sustainability Management

The NAGASE Group identified priority issues (materiality) for sustainability based on providing value to stakeholders. Through the establishment of the Sustainability Basic Policy as a way of thinking shared throughout our value system along with the pursuit of activities to “Identify, Develop, and Expand” espoused in the NAGASE Vision, we will contribute to the realization of a sustainable society.

Sustainability Basic Policy

The measures for sustainability-related issues lead to the highest standards of integrity that the NAGASE Group pursues as its management philosophy and the world in our vision for the future. We acknowledge that continuing corporate activities that contribute to the solution for social and environmental issues enables sustainable growth, and thus we make proactive efforts by developing a policy for sustainability activities.

1. Integrity in Business Activities

- We shall conduct our corporate activities in compliance with all applicable national and regional laws and regulations, and in keeping with societal norms and common sense.
- We shall strive to prevent corruption of all kinds and maintain healthy and proper relations with our partners and government entities.
- We shall strive to provide safe, high-quality products and services, and seek to maintain and improve the value to our customers and business partners.
- We shall safeguard the benefit to the consumer through maintaining and promoting fair and free competition.
- We shall strive toward rigorous management and protection of information about our customers and our company.

2. Positive Relations with Society

- We respect human rights and do not permit any sort of discriminatory conduct. We absolutely refuse to accept infringements of human rights such as forced labor or child labor.
- We respect the cultures and practices of national and regional societies, and maintain positive relations with society.

- We shall strive to ensure health, safety, and appropriate communication with our diverse stakeholders.
- We shall constantly pay detailed attention to sustainability among our suppliers, and shall work to make corrections should there be any doubt to their sustainability.
- We shall proactively disclose corporate information as appropriate.

3. Consideration for the Environment

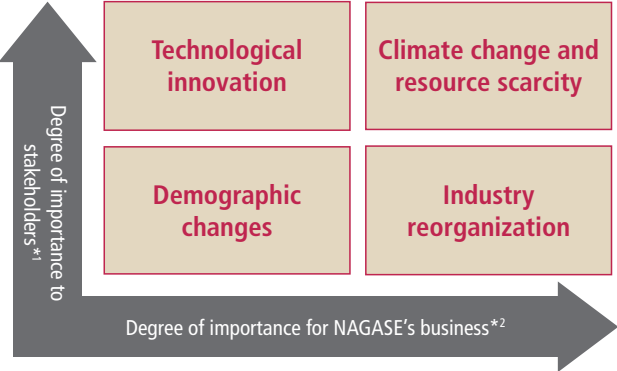
- We shall comply with national and regional environmental regulations.
- We shall contribute to the maintenance of the global environment, including limiting climate change, preventing contamination, promoting reduction in the environmental footprint of our business activities through suppression of greenhouse gas emissions and energy consumption.
- We shall, through environmentally conscious products and services, provide information to our customers about appropriate product usage, recycling, and disposal methods.
- We shall contribute broadly to society through environmental conservation activities in various countries and regions.
- We recognize the importance of biodiversity and shall strive to conserve ecosystems.

Note: Information about sustainability management is also available on our website. <https://www.nagase.co.jp/english/sustainability/about/>

Process for Identifying Materiality and Targets for Fiscal 2021

Management identified four issues of utmost importance to both the NAGASE Group and its shareholders, and priority issues (materiality) for sustainability based on providing value to stakeholders. We will work on these important issues through our business activities to contribute to a sustainable society. We will also set key performance indicators (KPIs) in fiscal 2021, and further advance sustainability management.

*1: Assessed as important matters that significantly change the needs of employees, business partners, society and consumers, and shareholders.
 *2: Assessed as important matters presenting opportunities for new and existing businesses as well as threats to existing businesses and business continuity.



Delivering Value to Important Stakeholders and Materiality (Priority Issues)

	Value Proposition	Materiality (Priority Issues)	Related SDGs
Employees	<ul style="list-style-type: none"> ● Provide a safe and friendly work environment. ● Provide a cheerful, happy, and engaging workplace. ● Create a corporate Group that is a sense of pride for employees and their families. 	<p>Use diverse human resources; offer a workplace environment and corporate culture</p> <ul style="list-style-type: none"> ● Use advanced technologies to improve productivity and leverage diverse human resources. ● Provide a workplace environment and foster a corporate culture as a Group where employees with diverse backgrounds have mutual respect and motivate each other. 	
Business Partners	<ul style="list-style-type: none"> ● Establish a cooperative relationship by gaining deep understanding of business partners, which enables pursuit of a wide range of possibilities. ● Provide solutions to issues that need to be tackled throughout the value chain as well as social issues. 	<p>Use of state-of-the-art technology to create new value</p> <ul style="list-style-type: none"> ● Create new value leveraging advanced technologies and a network of business partners. ● Provide a wide range of solutions based on understanding the true causes of the increasingly complex problems of business partners. 	
Society and Consumers	<ul style="list-style-type: none"> ● Contribute to the development of the local community through legal compliance and ethical management. ● Consider the rights, health and comfort of everyone involved in the supply chain. ● Provide products and services towards realization of a sustainable world. 	<p>Solving social and environmental issues, and globalization</p> <ul style="list-style-type: none"> ● Solve problems that threaten safety and security, e.g., climate change and food and water shortage. ● Contribute to securing and improving food safety by utilizing biotech, AI and other advanced technologies. ● Fulfill health maintenance demands due to increasingly aging societies in advanced countries. ● Contribute to the acceleration of globalization and solve social issues in each region. 	
Share-holders	<ul style="list-style-type: none"> ● Foster trust and a sense of security through a highly transparent management structure and timely and reasonable information disclosure. ● Maximize enterprise value by increasing both economic and social value and through continuous business creation. 	<p>Corporate Governance</p> <ul style="list-style-type: none"> ● Establish a highly transparent corporate governance system. ● Make sustainable improvement of enterprise value by balancing economic value and social value. 	

»For more about sustainability management, see P54–72

Sustainability Committee Establishment

In June 2020, the NAGASE Group established the Sustainability Committee. This committee is headed by the Representative Director, President and CEO and comprised of executive officers and senior management from Group companies. Its main activities include formulating policies for promoting sustainability throughout the Group, establishing and maintaining the system for promoting sustainability, monitoring various measures and policies including the status of materiality progress and dialogue with stakeholders, and conducting educational activities within the Group.

»For more about the sustainability promotion structure, see P37, “Corporate Functions Supporting Reform”

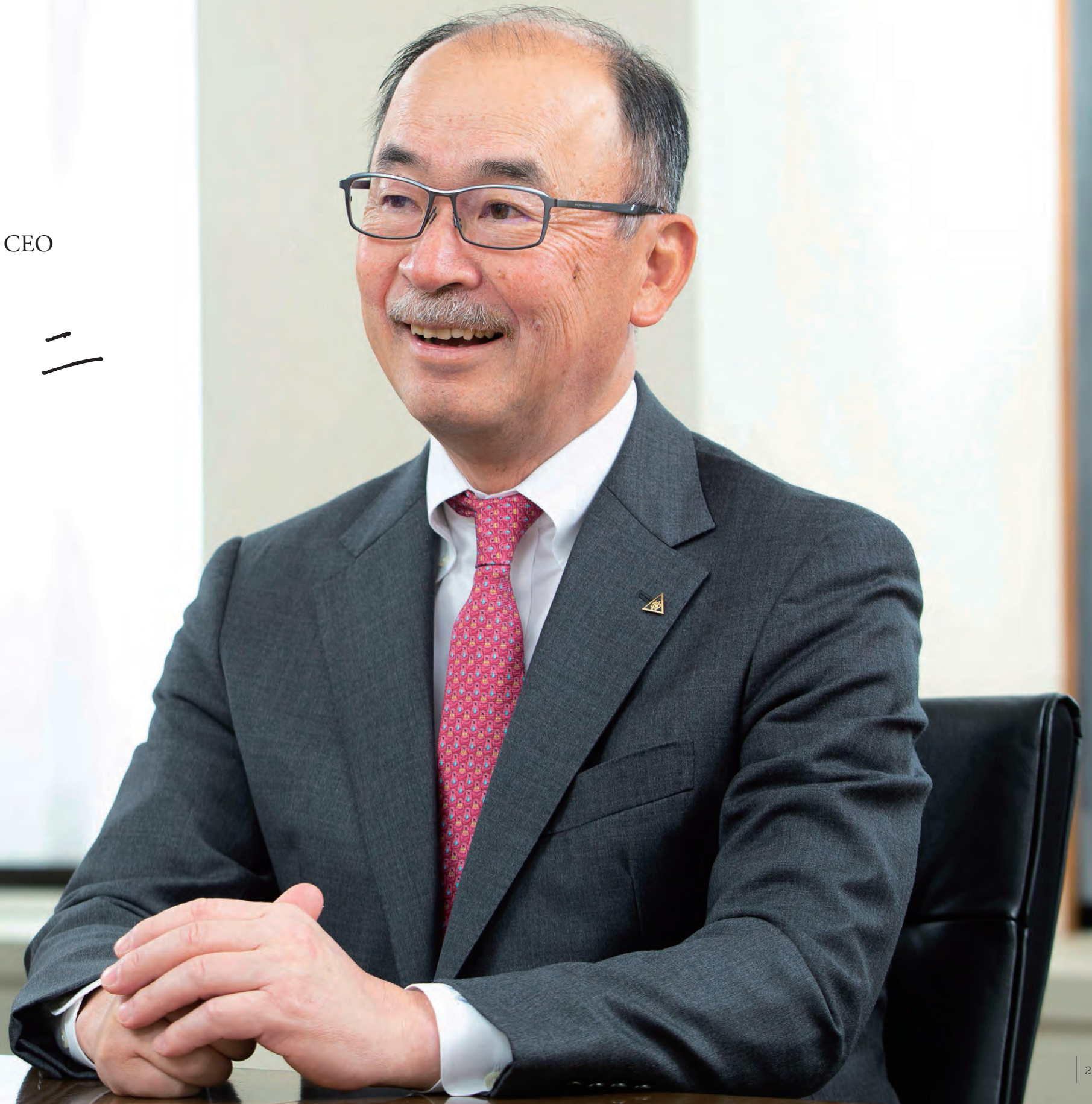
CEO Message

Representative Director, President and CEO

朝倉 研二

Kenji Asakura

We will achieve
sustainable growth by
balancing economic
and social value,
with the aim of creating
a sustainable world
where people live with
peace of mind.



The Best Way to Ensure Sustainable Growth Is to Help Solve Social Issues through Our Business Activities

I would be remiss if I did not discuss fiscal 2020 without reflecting on the impact of COVID-19. There was a dramatic transformation in the social and economic environment. However, I do not think the whole story of this transformation can be explained by COVID-19. Rather, it seems to me that changes that were supposed to happen a little further ahead in the future were brought forward to the present and occurred all at once. Conditions were uncertain across the board in the first quarter of the fiscal year. However, economic activity in China started to rebound at an early stage, and the NAGASE Group's business performance also returned to a recovery path.

Currently, the pace of economic recovery varies from region to region. I expect economic activity to gradually return to normal from the second half of fiscal 2021. There has been a lot of talk about the semiconductor shortage in the automobile-related business, which has a large impact on the NAGASE Group. However, automobile production volume is likely to recover on a full-year basis. I expect performance in the electronics-related business to hold firm, despite concerns about friction between the U.S. and China. This firm performance will likely be underpinned by demand in the semiconductor- and information/communications-related sectors.

In the business environment that lies ahead, the best way to assure our success will surely be to solve social issues. Our customers' points of view and requests have been changing dramatically. We take the importance of these changes very seriously in our single-year plan and five-year new medium-term management plan. It is imperative that we develop businesses that pave the way for solving social issues. The key issue will be how to make these businesses commercially

viable. NAGASE is limited in what it can accomplish alone. I believe that partnerships in various shapes and forms will only continue to increase in importance.

Looking Back on the Previous Medium-Term Management Plan

Paved the Way for Growth, while Falling Short of Quantitative Targets

The NAGASE Group defined the five-year period covered by the medium-term management plan ACE-2020 as a period of "Reform." In this sense, I believe that we succeeded in initiating reform.

I would now like to discuss each of the core themes we laid out in the previous medium-term management plan—"Reform of Profit Structure" and "Reform of Corporate Culture"—in order. First, we delivered a measure of success on the reform of our profit structure. Here, we had two policies: portfolio optimization and expand and strengthen the revenue base. Under the former policy of portfolio optimization, we executed growth investments centered on Life & Healthcare and Electronics, which were classified as focus areas, and steadily expanded the size of those businesses. Our acquisition of U.S.-based company Prinova Group in 2019 was a major M&A deal that significantly transformed our business portfolio. The acquisition of Prinova Group also improved our geographic portfolio, which had previously been concentrated on Asia. We now have a larger presence in North America and Europe.

Meanwhile, we were unable to achieve our quantitative targets in relation to our policy to expand and strengthen the revenue base, because inorganic growth was insufficient

to contribute to our quantitative benchmarks. As top management, I feel deeply responsible for this outcome. Additionally, I commend the Group's attempts to develop many new businesses over the plan's five-year period. However, we learned important lessons. We fell short of targets because of a lack of feasibility for growth investments at the planning stage. On the other hand, we laid the groundwork for businesses that could become core drivers of our business in the future, such as the environment-related business and materials informatics (MI). I see these achievements as positive developments.

The second core theme of the plan was reform of our corporate culture. Here, I highly commend the fact that our younger employees and Group companies centered on manufacturing have taken greater ownership of their duties. In addition, I believe that we managed to shed our former corporate culture, which lacked the tenacity of purpose we need to achieve our goals. I would like to continue to harness these early signs of progress on reforms in the next medium-term management plan.

Our Aspirations for ACE 2.0

Pursuing Quality to Realize the Ideal NAGASE in 2032

We have formulated a vision for 2032, which marks the 200th anniversary of our founding. It is to become "A Business Designer that Creates a Sustainable Future." Since my appointment as president, I have continuously used the words "Business Designer" to describe our vision. It expresses our aspirations to become an enterprise that can design businesses with customers through R&D, DX (digital transformation) and manufacturing. We are determined to have NAGASE create new business models without being constrained by the traditional boundaries of a chemicals trading firm or imitating anybody else.

To realize the Ideal NAGASE, we have formulated the new medium-term management plan ACE 2.0, which covers the five-year period from fiscal 2021. The previous medium-term management plan also covered a period of five years. Over the past few years in the latter half of the plan, expectations for companies to create social value have increased rapidly. In these circumstances, we considered whether we should describe the next five years as a "Growth Period" as we had done previously. After careful consideration of the

matter, we decided to define the next five years as a period for advancing the "Pursuit of Quality." Economic and social value is not necessarily completely aligned in the same direction. I believe that one major challenge will be how we will balance economic and social value as we move forward with the plan.

Reforming Our Corporate Culture by Enhancing the "Quality" of Business Activities and Creating Economic and Social Value

We have once again set the core themes of the new medium-term management plan as reform of our profit structure and corporate culture. This is to ensure that we continue to build on the signs of progress on reforms we saw during the previous medium-term management plan without interrupting these efforts.

Under reform of our corporate culture, we have formulated three policies. The first policy is the pursuit of economic and social value. As the realization of a sustainable society becomes urgently needed globally, my awareness as a business leader is that companies must not merely strive to grow the top line and expand the size of their businesses. Of course, the NAGASE Group has so far provided value to society through its business activities and worked to realize a sustainable world where people live with peace of mind. Going forward, I believe that, as our future direction, we need to build up an organization and foster a mindset that pursues sustainability even further.

The second policy is to pursue efficiency. We will pursue efficiency in each business activity, including improving capital efficiency and raising the profitability of each business. ROIC (Return on Invested Capital) has been adopted as our indicator of capital efficiency. Based on ROIC calculated in each business, we will analyze and classify businesses into four quadrants defined as the "Improve," "Base," "Develop" and "Focus" areas and reconsider our business strategies accordingly. Naturally, if a large number of businesses can be classified as "Develop" and "Focus" area businesses, the Group's condition will be sounder. However, such an outcome would be unrealistic. In the NAGASE Group's businesses, the "Base" area businesses are generally strong, and they have allowed the Group to build a stable business portfolio. Meanwhile, the lessons from the previous medium-term management plan have given us a strong sense of urgency—we must work to develop inorganic businesses.

Creating Economic Value and Social Value as a Business Designer

ROIC will be employed as one indicator we will consider when we decide whether to shift existing businesses to “Focus” area businesses.

The third policy is to strengthen human resources to drive reforms. The NAGASE Group views employees as important stakeholders. One of the crucial missions of managers is to raise the quality of the workplace environment so that employees can work positively and enjoyably. If employees can enjoy their work, that enjoyment will be the starting point for providing solutions to customers and growing businesses. I am convinced that this process will ultimately lead to the creation of economic and social value through our business activities.

Drive Reform of Our Profit Structure through Expansion of N-Sustainable Businesses

As part of the reform of our profit structure, we will carry out the pursuit of profitability and efficiency by implementing company-wide asset replacement and reallocation of resources. Another priority is to strengthen existing businesses. In addition, we will strive to create sustainable businesses (N-Sustainable Businesses).

With N-Sustainable Businesses, our goal is to provide solutions to generate profits through innovative services and technologies, thereby leaving a sustainable future for future generations. Under the previous medium-term management plan, we adopted the growth of inorganic businesses as a major theme and have been developing new businesses based on this theme. Under ACE 2.0, we have clearly stated our intention to develop new businesses by providing new value that solves social and environmental issues with a particularly strong focus on sustainability. Our operating income target for N-Sustainable Businesses in five years is ¥5.0 billion, which represents around 15% of total operating income. This target will not be easy to achieve. However, I believe that achieving it will lay a crucial foundation for realizing the Ideal NAGASE.

We have established the three N-Sustainable Business fields: Environment and Energy, Next-generation Communications, and Life & Healthcare. We are not starting any of these fields completely from scratch. For example, Life & Healthcare includes continuous activities and businesses that have newly started, such as initiatives in the food ingredients business and the biotechnology field. Each field offers opportunities for the NAGASE Group to work as an

agency or do work that involves manufacturing. There are also opportunities to introduce XaaS (X as a Service) business models, which provide what is known as the consumption of experience. An example of this is TABRASA™, which is a new materials search platform using AI. NAGASE possesses a global network that it has developed through its business in the chemical industry, and it is also well versed in technology. I believe it is crucial for NAGASE to maximize these strengths and contribute to society.

Looking ahead, we will strengthen our investment in businesses positioned in the three N-Sustainable Business fields. A wide range of investment decision-making criteria other than ROIC are conceivable, including prospects for the future and relevance to social and environmental issues. On the investment front, I believe that our awareness will change markedly compared with our traditional approaches to investing.

Supporting Our Two Reforms with Acceleration of Digital Transformation (DX) and Promotion of Sustainability

We will work to strengthen three functions supporting our two reforms. The three functions are (1) Accelerate DX further, (2) Promote sustainability, and (3) Strengthen corporate functions.

Looking at DX, we will not make DX itself the goal. Instead, we see it as a tool that will ensure that we conduct sustainable corporate business activities into the future. With that said, our priority is to build a unique DX platform for NAGASE, instead of merely introducing ordinary digital technology available anywhere.

One of these initiatives is digital marketing. Agency business, which has been NAGASE’s core operation, will certainly decline going forward. I believe that digital marketing is the essential measure we must implement to address this crisis. Digital marketing refers to more than just e-commerce, where people buy and sell goods online. Digital marketing will serve as a basis for expanding our interfaces with markets in supply chains, identifying needs, and providing solutions that are unique to NAGASE.

From this perspective too, I believe that TABRASA™ has a pivotal role to play. I have high hopes that TABRASA™ will help to expand our solution proposals by allowing NAGASE to do things such as find and manufacture new materials needed by customers. As for future DX, we can expect to propose DX

as a service, as we have done with TABRASA™, and to provide DX to realize safe and secure supply chains using blockchain technology. By collaborating with partner companies through such initiatives, I believe that we can make an immense contribution to the solution of social and environmental issues.

We see our efforts to promote sustainability as a long road that will continue indefinitely without ending during the period covered by ACE 2.0. NAGASE newly formulated the Sustainability Basic Policy in February 2021. In June 2020, we launched a Sustainability Committee, on which I serve as Chair. Within the committee, we have been conducting lively discussions with the leaders of Group companies in Japan and overseas and research organizations. The process of clearly identifying stakeholders and defining materiality for each type of stakeholder was a major learning opportunity. Specific non-financial targets will be formulated within the current fiscal year. I believe that it is crucial to make steady strides on this priority, including raising awareness within the Group, without hastily rushing through the discussions.

It Is Precisely Because We Are in a Fast-Changing Business Environment that We Must Always Maintain the Highest Standards of Integrity

The COVID-19 pandemic has been causing unprecedented changes. Under these conditions, I now keenly appreciate the importance of reaffirming our Management Philosophy—maintain the highest standards of integrity. Even in these trying circumstances, if we put this philosophy at the heart of our business activities and communication with stakeholders, I am convinced that things are sure to eventually head in the right direction. It is precisely because of these circumstances that I would like NAGASE to make a company-wide effort to cherish our management philosophy of maintaining the highest standards of integrity.

Looking ahead, guided by this universal management philosophy, all Group employees will make a concerted effort to realize a sustainable world where people live with peace of mind. I cordially ask for your continued understanding and support as we endeavor to reach our goals.



CFO Message

Enhancing Capital Efficiency and Achieving a Sustainable Corporate Structure



Masaya Ikemoto

Representative Director and Managing Executive Officer

Review of Fiscal 2020 and Outlook for Fiscal 2021

I would like to open this message by summarizing the highlights of the fiscal year ended March 31, 2021. The NAGASE Group experienced a downturn in coating raw materials, plastics, automotive components and certain other products both in Japan and overseas. This downturn was caused by the sizable impact of the COVID-19 pandemic on the automobile industry, which is involved with many different businesses of the Group. Meanwhile, from the second quarter onward, electronics and plastics businesses performed favorably against the backdrop of working from home and stay-at-home demands. Combining these factors with rising health awareness, pharmaceutical- and food ingredient-related business trended firmly.

By region, business in Greater China made a tough start in the first quarter, but returned to a recovery path from June, driving Group-wide business performance. This recovery paved the way for NAGASE to upwardly revise its forecasts in the third quarter. The pace of recovery in the U.S. has also been faster than anticipated, and we made a strong start in fiscal 2021. However, regional differences in the pace of economic recovery have begun to emerge. Japan's

economic recovery could fall behind that of Europe, the U.S. and China. The key factor will be how we develop our businesses in regions outside Japan.

Risks and Opportunities

Closely Monitoring Semiconductor- and Food Ingredients-Related Businesses

The NAGASE Group's business has been increasingly exposed to geopolitical risk, with overseas sales currently surpassing 50% of net sales. We are closely monitoring the whereabouts of the semiconductor regulated business, which is susceptible to the ebb and flow of the U.S.-China trade conflict, and the food ingredients-related business, which is highly reliant on Chinese products. Moreover, we believe that trends in society such as environmental measures and changes in the industrial structure in the automobile-related and chemical and resin businesses could present risks.

However, risk factors naturally harbor the possibility of being transformed into opportunities. For example, in the automobile-related business, where the semiconductor shortage is causing concerns over a contraction in production, the Group has business foundations both in the U.S. and China, and we believe that we can achieve robust overall growth in these countries. We will not simply look on idly at changes in the external environment. One of NAGASE's

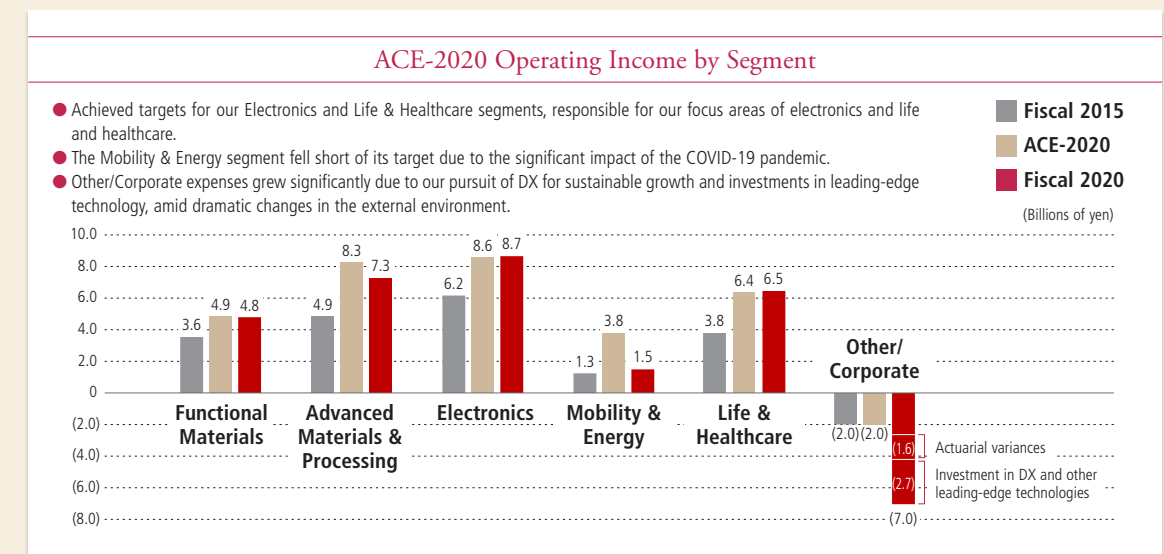
strengths is that it has a solid financial base that allows it to take decisive action at the right time when needed. Therefore, we will carefully assess risks and opportunities and make the investment decisions needed to achieve growth.

Summary of ACE-2020

Reforms to Reduce Our Dependence on the External Environment Are Still in Progress

Under ACE-2020, our previous medium-term management plan, we set the following targets: consolidated net sales of ¥1.0 trillion or more, consolidated operating income of ¥30.0 billion or more, and ROE (Return on Equity) of 6.0% or more. These ambitious targets reflected our hopes to realize reform of our profit structure and corporate culture, which would be needed to attain our targeted business scale. Ultimately, the NAGASE Group posted consolidated net sales of ¥830.2 billion and consolidated operating income of ¥21.9 billion. Given the conditions faced in the plan's final year, I do not think the Group posted subpar results. However, I deeply regret the fact that we were unable to achieve our targets, and I felt responsibility for this outcome. Notably, I believe that we could have accomplished much more in terms of reforming our traditional profit structure.

I believe that the real reason why we fell short of our targets was that we did not generate as much growth as we



had expected in inorganic businesses that are not easily affected by the external environment. During the fiscal year, while there were periods when our results were encouraging, we were ultimately supported by organic businesses that rise and fall considerably with the external environment. Under ACE 2.0, our new medium-term management plan launched in April 2021, we will continue to work on reform of our business model and profit structure.

ROE, an indicator of our earning capability, was 5.9%, almost reaching our target of 6%. Although I see this result as commendable, I believe it is still very far from meeting the standard expected by investors. Under ACE 2.0, we aim to achieve further improvement in ROE as well.

Goals for ACE 2.0

Pursuing Profitability and Efficiency through Full-Scale Utilization of ROIC

Under ACE 2.0, we have continued to adopt the theme of reform of our profit structure from the previous medium-term management plan. Through the pursuit of profitability and efficiency, we will work to implement company-wide asset replacement and reallocation of resources.

Specifically, we have classified our business portfolio into four domains, specifically the focus, growth, improvement and base areas based on the two criteria of growth potential and cost of capital. Capital will be intensively allocated to the focus areas and growth areas. We envision shifting around 10% of all invested capital to the focus areas and growth areas. Return on invested capital (ROIC) will be employed in earnest as an indicator of our earning capability, taking into account the cost of capital. We will actively invest in businesses that can generate returns in excess of the cost of capital, which is our standard.

ROIC is an indicator of investment efficiency that measures the amount of returns generated by funds invested in a business. I believe that ROIC sends a clear message not only to investors but also to staff within the company. It is natural to find a wide range of decision-making criteria for evaluating businesses given that staff in each business have their own unique ideas. That is exactly why it is crucial to objectively identify business value as a company from the perspective of ROIC. We will divide our business into more

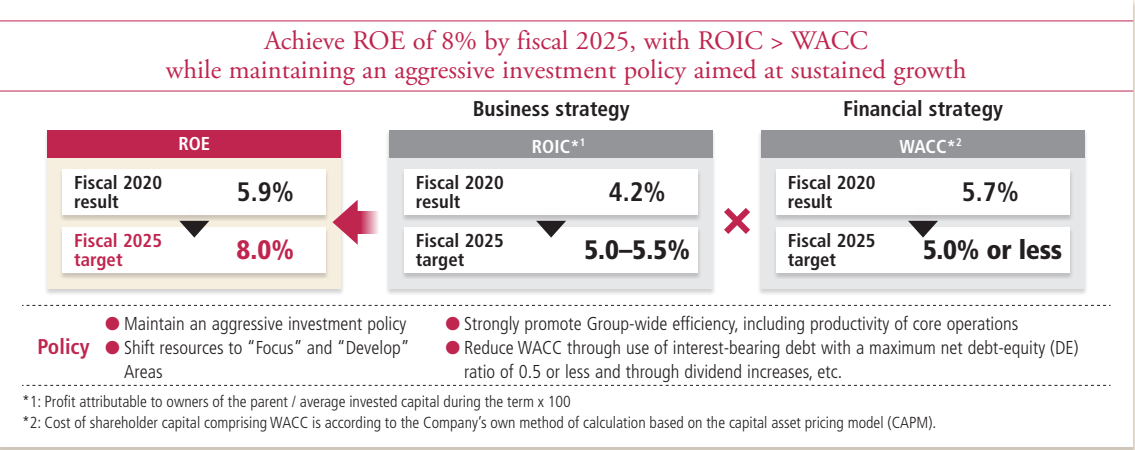
than 100 categories, calculate the ROIC of each business, and carry out PDCA cycles. In the process, we will operate an internal system for monitoring activities and holding discussions to make investment decisions and evaluate businesses.

I am sometimes asked by shareholders and other investors whether we will withdraw from businesses that have a negative ROIC. We will not necessarily evaluate businesses using only short-term ROIC. The ultimate goal is to achieve sustainable growth in corporate value, so we have set the evaluation period for ROIC not as a single fiscal year but as a period spanning several years to a medium-term horizon. My job is to allocate capital while adroitly maintaining balance by taking care of our organic businesses, which are our backbone, along with allocating the cash generated by our existing business foundation to the focus areas and growth areas.

In the case of the NAGASE Group, working capital inevitably accounts for a large share of invested capital, partly due to the features of the traditional trading business and market characteristics. Another issue is low profitability. If we only increase the number of businesses with small profit margins, our prospects for sustained growth will be limited. The most important priorities for realizing high profitability will be to increase the number of high-value-added businesses based on reliable technologies and build a foundation for technological innovation that spurs the development of that added value further. In this sense, I believe that the NAGASE Group’s unique DX (Digital Transformation) initiatives will provide an important mechanism for creating even more added value.

Improving ROE by Pursuing Top-Line Growth

The NAGASE Group seeks to achieve an ROE target of 8.0%. In order to consistently and continuously increase ROE, we must pursue top-line growth, meaning that we must increase our earning capability. I believe that our top line will steadily grow as we invest in businesses with a positive ROIC, and our ROE will also increase. Even if our WACC (Weighted Average Cost of Capital) were reduced through technical factors and ROE were to increase as a result, questions would remain about the sustainability of the outcome. We need to reshape our capital structure so that ROE increases sustainably. We will control WACC steadily at low levels, increase earnings further, and



sustainably improve ROE. These efforts will lead to sustainable growth in corporate value.

Investors often tell me that the NAGASE Group must improve the soundness of its capital structure further. One issue that they often point out is control of financial assets such as treasury shares and cross-shareholdings. The Group will successively review cross-shareholdings and allocate the funds generated through this process to new strategic investments and the repayment of debt. In parallel, we will implement financial strategies such as returning profits to shareholders through share buybacks. By continuing these activities, I am confident that the NAGASE Group can achieve its ROE target of 8.0%.

Pushing Forward with “Reforms of Profit Structure” and “Reform of Corporate Culture” with a Focus on Sustainability

ACE 2.0 states that improving the productivity of the manufacturing business is also essential to the sustainable growth of the Group. In the NAGASE Group’s manufacturing business, Nagase ChemteX Corporation and Hayashibara Co., Ltd. have so far served as the core companies. In August 2019, Prinova Group joined the NAGASE Group. In addition, the Group Manufacturers’ Collaboration Committee (hereinafter MCC) was set up in 2019 to provide cross-company coordination for Group manufacturing companies in Japan. In the health and safety, quality, and environmental fields, MCC is working to improve the quality of the NAGASE Group’s manufacturing business. Moreover, MCC is working to differentiate the NAGASE Group in the areas of distribution,

production and R&D by harnessing DX further.

Furthermore, I believe that the key to the NAGASE Group’s future growth lies in developing our technology development capabilities, or, in other words, developing our R&D operations. On this front, we will achieve our goals through efforts both within and outside the company. R&D efforts within the company refer to the NAGASE Group’s internal efforts to develop technologies. Developing R&D outside the company refers to activities to support and develop the technology development capabilities of our business partners. For the latter, I believe that TABRASA™ will have a pivotal role to play. TABRASA™ is a new materials search platform that will assist with the development of new materials by chemicals and biomaterials manufacturers through the use of AI and digital technology. We will harness and develop TABRASA™ as a DX tool that increases the NAGASE Group’s added value by supplying needs that customers and business partners have not yet realized that they have. If the entire industry becomes healthy and vibrant, I believe that this will come back to benefit the NAGASE Group.

In closing, the promotion of sustainability, which has now become a global priority, is one of the key issues of ACE 2.0. Addressing sustainability is now an urgent task that cannot be delayed. Unless we face the issue of the sustainability of society in earnest, the Group’s social value will be diminished, and the Group will fall behind the most important trends of the times. I have a strong sense of urgency because I feel that this threat is imminent right now. I intend to continuously push ahead with reforms of our profit structure and corporate culture with a focus on sustainability, with the aim of achieving sustained growth in the NAGASE Group’s corporate value.

Business Model Evolution Looking to the Future

Becoming a Business Designer that Creates a Sustainable Future

The NAGASE Group has upheld a Business Designer that creates a sustainable future as part of the Ideal NAGASE for 2032, the 200th anniversary of its founding. The new medium-term management plan ACE 2.0 started in fiscal 2021 will continue through to fiscal 2025. ACE 2.0 was named to signify its intention to continue with the basic concept of ACE-2020, the previous five-year medium-term management plan that had run from fiscal 2016, while making further improvements. This section describes the NAGASE Group’s management strategy, which aims for a sustainable society with an eye on the future.

Review of the Previous Medium-Term Management Plan ACE-2020

In the quest to achieve the Ideal NAGASE for 2032, we positioned the first stage as “Reform,” focusing on “reform the profit structure” and “reform the corporate culture.” While we made some improvements, such as optimizing the portfolio through solid advancement toward strengthening focus areas and sowing seeds in growth areas, the transformation of reforming a profit structure dependent on external conditions is still underway. And execution of a highly achievable strategy for sustainable growth, including improving capital efficiency, is a challenge. In regard to the reforming the corporate culture, we saw progress in improving efficiency, fostering accountability and strengthening corporate governance.

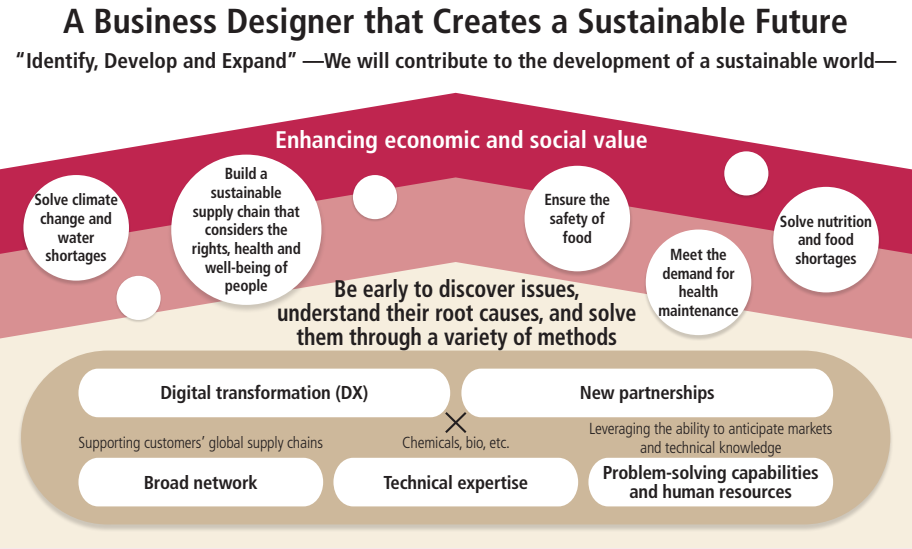
KGI (Key Goal Indicator)					
KGI	FY2015 Actual	FY2020 Goal	FY2020 Actual	Degree Achieved	Versus FY2015
Consolidated net sales	742.1 billion yen	1.0 trillion yen or more	830.2 billion yen	83%	112%
Consolidated operating income	18.0 billion yen	30.0 billion yen or more	21.9 billion yen	73%	122%
ROE	4.4%	6.0% or more	5.9%	−0.1 pt	+1.5 pt

“Pursuit of Quality” Goal and Index (KGI: Key Goal Indicator)							
Reform/Strategy	Measures	KPI	FY2015 Actual	FY2020 Goal	FY2020 Actual	Degree Achieved	Versus FY2015
Profit structure reform indicators	Increase focused business (portfolio optimization)	Operating income in focus areas*1	10.3 billion yen	16.9 billion yen	18.2 billion yen	108%	177%
		Growing investment distribution ratio in focus areas	To be determined	35% or more	85%	+50 pt	—
	Accelerate globalization (expand and strengthen profit structure)	Overseas Group sales*1	424.7 billion yen	600.0 billion yen	482.0 billion yen	80%	113%
		Sales growth rate in the Americas	To be determined	170%	332%	+162 pt	—
	Increase manufacturing profitability (expand and strengthen profit structure)	Operating income from manufacturing*1	8.3 billion yen	14.4 billion yen	8.6 billion yen	60%	104%
Corporate culture reform indicator	Pursue efficiency (strengthen management platform)	Break-even point sales ratio*1	82%	73%	77%	−4 pt	+5 pt
		Consolidated selling, general and administrative ratio	9.9%	9.4%	11.2%	−1.8 pt	−1.3 pt
Financial strategy indicators	Investment	Growth investment	To be determined	100.0 billion yen*2	122.6 billion yen*2	123%	—
	Financial structure	Rating (R&I)	A	A or better	A	100%	100%

*1. The figures in this chart are all simple management accounting data, which is different from the figures disclosed in the consolidated financial statements
*2. Total during the medium-term management plan

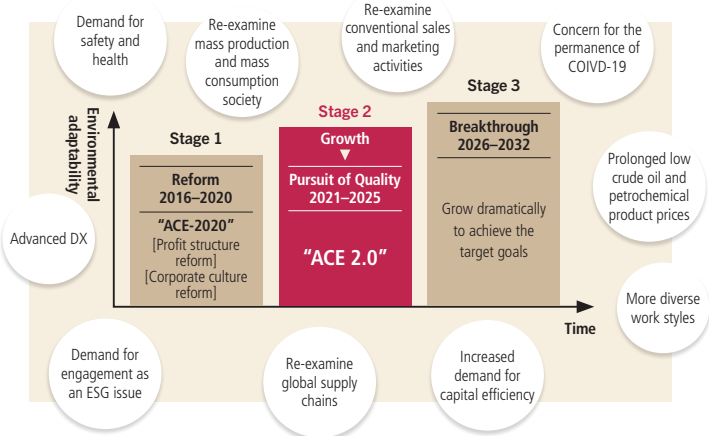
Toward the Ideal NAGASE in 2032, Our 200th Anniversary of Founding

By combining the strengths of the NAGASE Group, such as its broad network, technological expertise, problem-solving capabilities and human resources, with DX, sustainability and partnerships within and outside the Group, we will quickly identify the problems of our customers and society and create value that leads to solutions. We will enhance economic and social value by designing business through “Identify, Develop and Expand,” and aim to contribute to the development of a sustainable world.

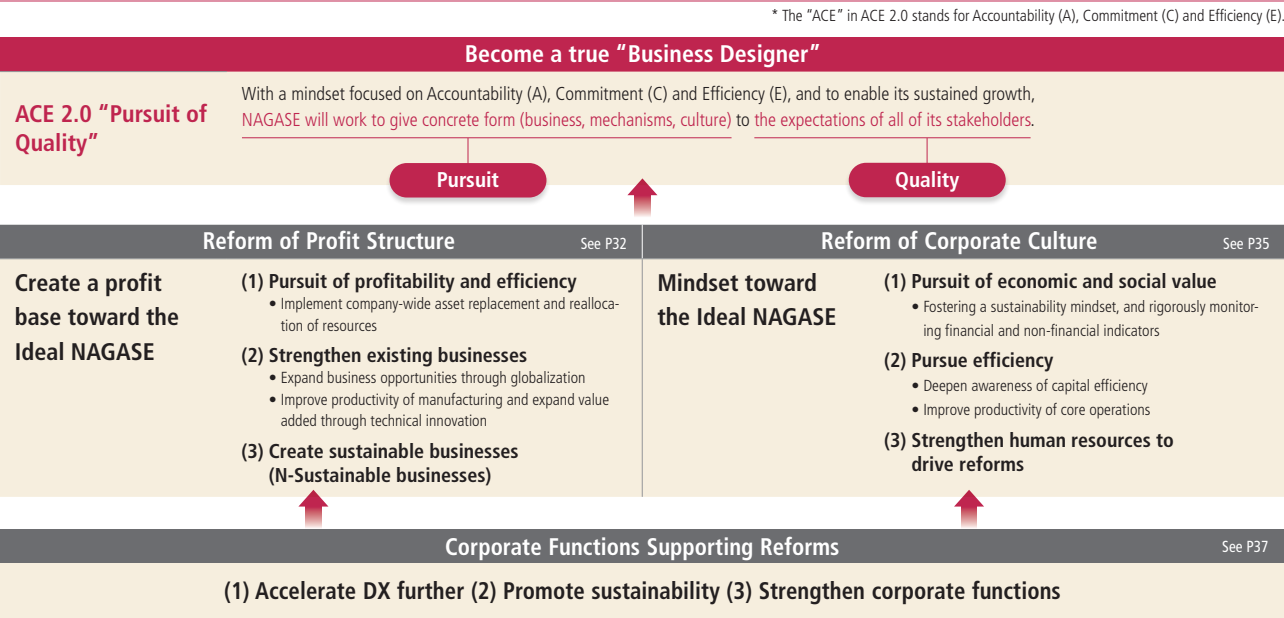


New Medium-Term Management Plan ACE 2.0

With the rapid changes in the external environment, expectations for the creation of social value by corporations are rising. In response to this, we have positioned the second stage toward the realization of NAGASE as a period of “Pursuit of Quality” rather than a period of growth as originally envisioned. Continuing the mindset of Accountability (A), Commitment (C) and Efficiency (E), ACE 2.0 was named with the meaning of following on with the basic concept yet being an improved version of ACE-2020. To enable the sustainable growth of the NAGASE Group, we aim to create (= pursue) concrete forms (= business, mechanisms, culture) that meet the expectations (= quality) of all our stakeholders.



ACE 2.0* Basic Policies



Quantitative Goals

“Pursuit of Quality” KGIs			
Measures	Indicators	FY2020	FY2025*
Improvement in capital efficiency	ROE	5.9%	8.0% or more
Increased profitability	Operating income	21.9 billion yen	35.0 billion yen

Key Performance Indicators (KPIs) for Achieving the “Pursuit of Quality” (KPI: Key Performance Indicator)

Reform/Function	Measures	Indicators	FY2020	FY2025*
Reform of profit structure	Company-wide asset replacement and reallocation of resources	Growth investments*1	—	150.0 billion yen or more*2
		Secure 10% of company-wide invested capital and reinvest in focus and development areas	—	10% or more
	Create “N-Sustainable businesses”	Operating income	—	5.0 billion yen or more*3
	Improve productivity of manufacturing and expand value added through technical innovation	Manufacturing business operating income*4	13.8 billion yen*5	20.0 billion yen or more
Reform of corporate culture	Improve productivity of core operations	Ratio of gross profit to general administrative expenses*6	57.1%*7	52.1%
	Deepen awareness of capital efficiency	Net DE ratio	0.23 times	0.5 times or less
Corporate functions supporting reforms	Accelerate DX further	Invested capital (including expenses)*8	2.4 billion yen	10.0 billion yen*2

*1 N-Sustainable investment, new business investment, DX-related investment, R&D expenses, working capital *2 Five-year cumulative total *3 Figure based on internal management *4 Simple sum calculation
*5 Manufacturing classifications were reviewed, and Prinova Group was reclassified as a manufacturing business from FY2021; FY2020 results shown are also based on that reclassification. *6 Excludes R&D expenses, amortization of goodwill and other acquisition-related intangible assets, and profit and loss due to amortization of actuarial differences *7 Five-year average (FY2016–FY2020) *8 Five-year cumulative total of 10.0 billion yen in DX-related investments is included in growth investments of 150.0 billion yen

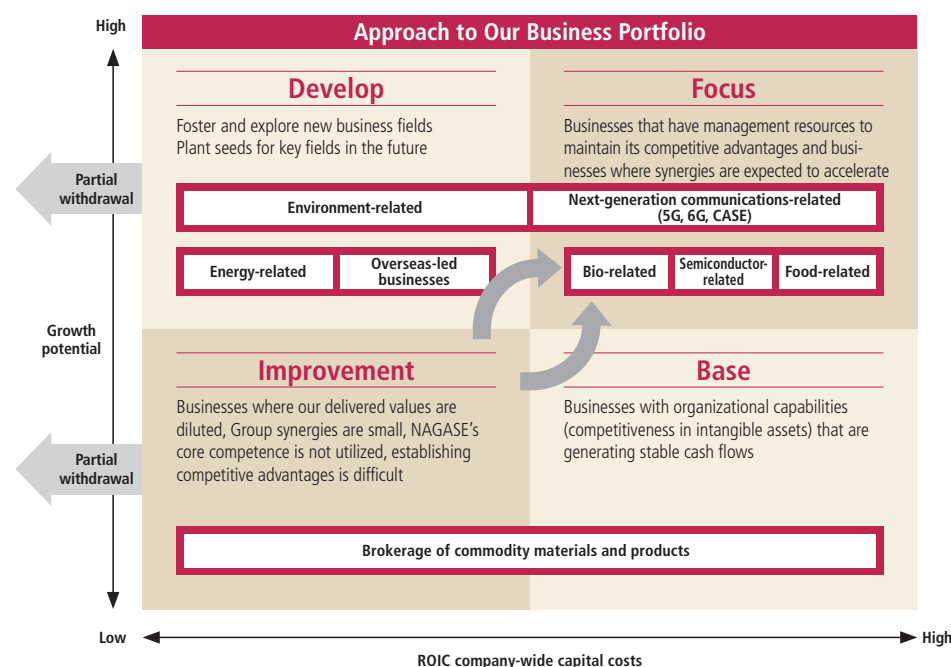
Shaping Value 1

Reform of Profit Structure

Continuing on from ACE-2020, reforming the profit structure remains a pillar of the plan. Efforts are made for the pursuit of profitability and efficiency through company-wide asset replacement and reallocation of resources, and to strengthen existing businesses by expanding business opportunities through globalization and value-added manufacturing. In addition to the above, we will create sustainable businesses (N-Sustainable businesses).

Pursuit of Profitability and Efficiency

To move forward on company-wide asset replacement and reallocation of resources, we will reconsider and secure our business strategy and secured management resources from businesses with low capital efficiency by thoroughly classifying and monitoring the quadrants of improvement, base, development and focus using ROIC as an indicator for each business. To further improve our profit structure, we will reinvest the management resources we secured into businesses with the potential for future earnings growth, such as energy-related businesses, and businesses with high growth potential and capital efficiency, such as biotechnology, semiconductors and food-related businesses. We will secure 10% of company-wide invested capital and reinvest in focus and development areas and set this as a KPI.



Strengthen Existing Businesses

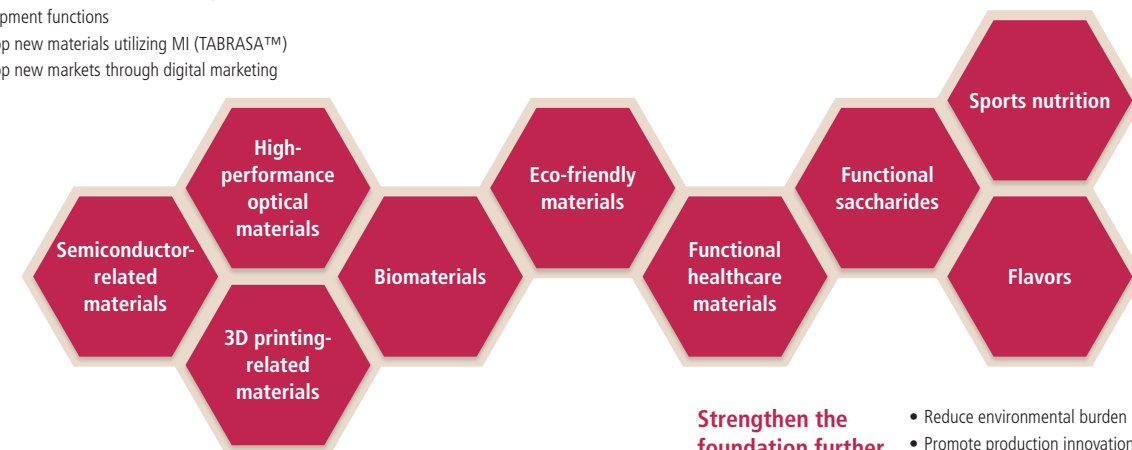
—Improve productivity of manufacturing and expand value added through technical innovation—

Group Manufacturing Companies: Operating Income

	FY2015	FY2020	FY2025
Operating income* ¹	8.3 billion yen	13.8 billion yen* ²	20.0 billion yen or more

Provide new values in businesses in focus and development areas

- Strengthen and expand core technologies and product development functions
- Develop new materials utilizing MI (TABRASA™)
- Develop new markets through digital marketing



Strengthen the foundation further

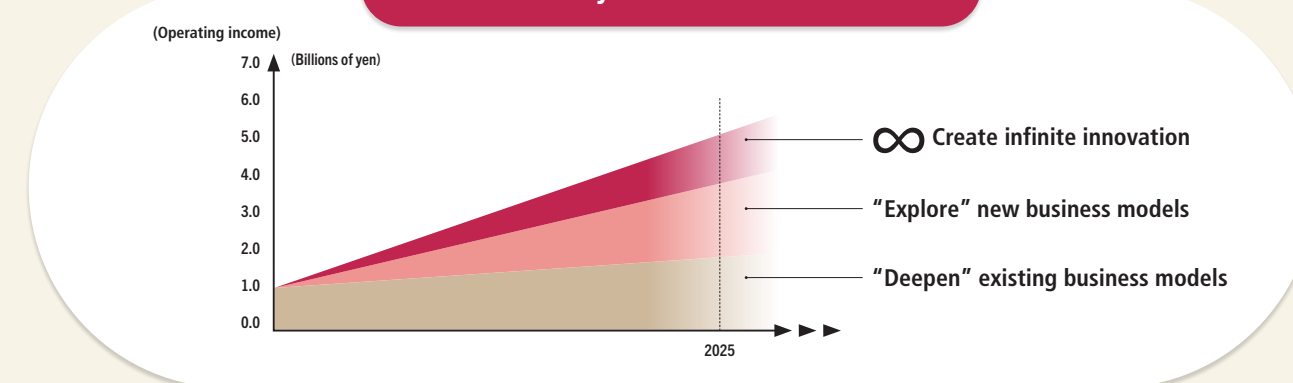
- Reduce environmental burden
- Promote production innovations utilizing DX

Create Sustainable Businesses (= N-Sustainable Businesses)

Identify issues that customers and society have not yet recognized and provide “solutions to generate profits”

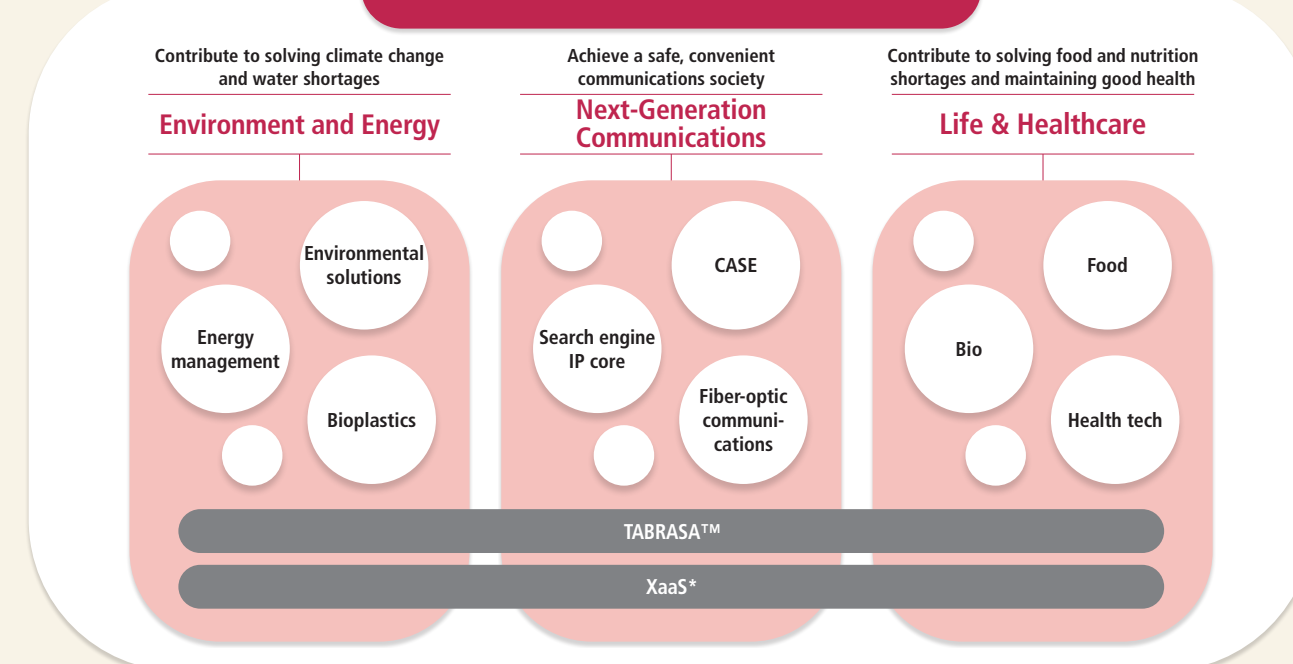
An important measure to realize the Ideal NAGASE is to create sustainable businesses (N-Sustainable businesses). The aim of N-Sustainable businesses is to leave future generations with a sustainable future by helping solve social and environmental issues through our business activities, and to provide solutions that generate profits through innovative services and technologies that utilize the NAGASE Group's connections by quickly recognizing the challenges that customers and society will face in the future. We aim to achieve 15% of total operating income by FY2025.

Value Created by N-Sustainable Businesses



We have defined environment and energy, next-generation communications and life & healthcare as three business fields for N-Sustainable Business. All of these fields have the potential to not only deepen existing businesses, but also to explore new businesses, utilizing the strengths of NAGASE that have been cultivated up to now, and are expected to create sustainable businesses that contribute to society and the environment.

N-Sustainable Business Fields



* X as a Service: Various service-related business models

Specific cases are described on the following page:

Case 1	Aience's wastewater treatment system not reliant on chemical agents	Case 2	PULLULAN, Hayashibara's original plant-based polysaccharide	Case 3	Polylactic acid fiber made from bio-based and biodegradable materials
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N-Sustainable Business Case Studies

This section introduces examples of businesses that have already started.

Case 1

Aquablast[®], Aience’s wastewater treatment system not reliant on chemical agents




Aience Inc., which is involved in the development and design of wastewater and exhaust treatment systems, developed Aquablast, a wastewater treatment system that does not rely on chemical agents. The system is already being used in a broad range of fields, mainly in food processing plants, but also chemical and machinery manufacturing plants.

Aquablast uses a water jet flow created through patented propeller blades in the diffuser tube to activate and maximize the decomposition power of microbes, which reduces the amount of sludge and odor without relying on chemical agents or coagulants, thus significantly reducing treatment costs. As awareness of the environment grows and environmental regulations are strengthened throughout the world, Aquablast can contribute to both environmental regulation measures, which is a major issue for our customers, and cost reduction through process improvement.

Hayashibara Co., Ltd., which takes charge of the bio-related business for the NAGASE Group, has also installed Aquablast to stabilize wastewater treatment and cut costs. We will provide a wide array of solutions to customers’ problems by utilizing the Group’s network to not only provide hardware such as systems and equipment, but also in such ways as labor-saving through 24-hour monitoring systems utilizing IoT.

Case 2

PULLULAN, a plant-based polysaccharide material made using Hayashibara’s original fermentation production technology



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Products are now tending to avoid using conventional chemicals or animal-derived raw materials as nature awareness has risen. In the healthcare field such as supplements, there is a growing demand for raw materials that are plant-derived and produced using green methods such as microbial fermentation.


PULLULAN, produced by Hayashibara, is a plant-based polysaccharide material produced using an original fermentation production technology based on starch degradation products and a type of filamentous fungus. PULLULAN’s features include strong binding properties, outstanding film-forming properties and easy solubility in water. It is used as a coating and binding agent for foods and tablets in addition to being a base material for capsules in the healthcare area.

Hayashibara’s original fermentation technology and strains optimized for PULLULAN production over generations of breeding not only allow for a more outstanding quality PULLULAN to be produced, Hayashibara also owns patents to contribute to higher-quality capsules. For capsule applications, we have been supplying raw materials to Lonza, one of the world’s leading capsule manufacturers, for many years.

Hayashibara will leverage the technologies it has cultivated until now and engage in R&D to deliver new products to consumers seeking organic foods, such as vegans and vegetarians.

Case 3

Polylactic acid fiber made from bio-based and biodegradable materials used as an alternative to fossil-based materials



Source: ONWARD KASHIYAMA Co., Ltd.

The Polymer Global Account Department conducts R&D centered on modification that will lead to the practical application of various biomaterials.

One such example is modified polylactic acid (PLA) resin using cane sugar or corn as a raw material. Cooperating with partner companies, we have improved heat resistance and strength by augmenting the degree of crystallization and are now expanding into the textile industry. The company plans to start mass production of some of the products in 2021, and to increase recognition of PLA fiber by establishing a sales track record in domestic apparel manufacturers’ environmentally friendly clothing. The use of bio-derived and biodegradable materials is expected to contribute to the reduction of textile waste, which is said to be the largest source of marine plastic waste. By applying the technology of Interfacial Consultants, a U.S. Group company, that enables the production of highly-filled masterbatch with various fillers, we will advance business development for use in high-performance food packaging materials. We have also begun to study environmentally friendly formulations based on PLA for various sheet and film applications.

We will continue to promote the practical use of biomaterials in various applications and contribute to a decarbonized society by reducing the use of petrochemical-derived resins.

Reform of Corporate Culture

We are reforming our corporate culture to seek the Ideal NAGASE through the three axes of Pursuing Economic and Social Value, Pursuing Efficiency and Strengthening Human Resources to Drive Reforms.

Pursuing Economic and Social Value —Fostering a sustainability mindset and rigorously monitoring financial and non-financial information—

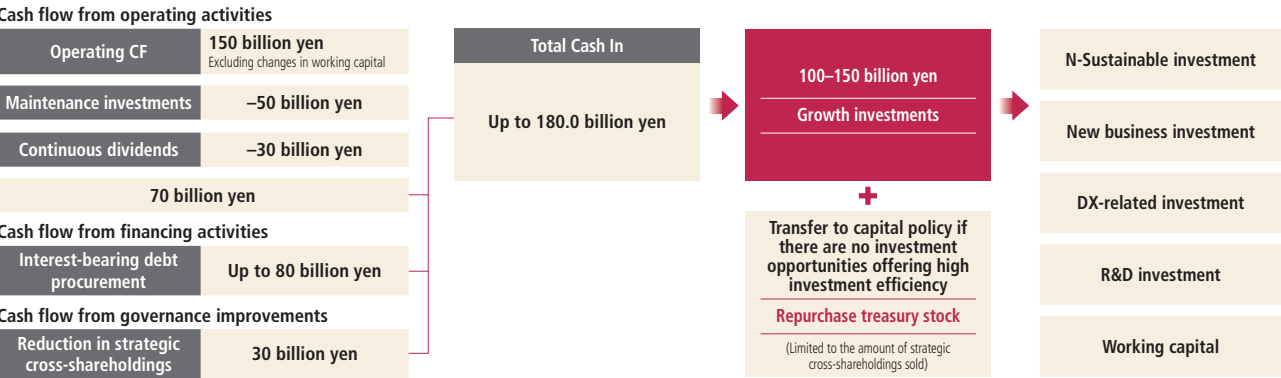
Materiality	Value Proposition Key Words	Envisioned KPIs
Use diverse human resources and offer a workplace environment and corporate culture <ul style="list-style-type: none">Use advanced technologies to improve productivity and leverage diverse human resourcesProvide a workplace environment and foster a corporate culture as a Group where employees with diverse backgrounds have mutual respect and motivate each other	Employee engagement Work styles/Diversity	<ul style="list-style-type: none">Number of women in managementNumber of specialist scientistsShift to local management of overseas entities, etc.
Use state-of-the-art technology to create new value <ul style="list-style-type: none">Create new value leveraging advanced technologies and a network of business partnersProvide a wide range of solutions based on understanding the true causes of the increasingly complex problems of business partners	N-Sustainable businesses GHG emissions reductions Circular economy Food loss	<ul style="list-style-type: none">Number of N-Sustainable business dealsGHG emissionsWater usage and dischargeEnergy usageWaste generated, etc.
Solve social and environmental issues and pursue globalization <ul style="list-style-type: none">Solve problems that threaten safety and security (e.g., climate change and food and water shortage)Contribute to securing and improving food safety by utilizing biotech, AI and other advanced technologiesFulfill health maintenance demands in response to increasingly aging societies in advanced countriesContribute to the acceleration of globalization and solve social issues in each region		
Corporate governance <ul style="list-style-type: none">Establish a highly transparent corporate governance systemMake sustainable improvement of enterprise value by balancing economic and social value	Corporate governance	<ul style="list-style-type: none">Diversity in management ranks, etc.

* KPIs are scheduled to be decided and disclosed in FY2021.

Pursue Efficiency —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.

Cash Flow (Cumulative)	Safety and Efficiency	Shareholder Returns
Operating CF 150.0 billion yen We will basically use interest-bearing debt to finance investments in excess of operating cash flow, but will continue to maintain a sound financial structure as a base for sustainable growth	Net DE ratio 0.5 times or less We will build a financial structure that effectively reflects the results of business strategies by transforming the Company's financial structure to offer both soundness and efficiency	Continued dividend increases, flexible acquisition of treasury stock Dividends will be paid on the basis of continued dividend increases during the ACE 2.0 period. In addition, we will consider flexible repurchases of treasury stock with an awareness of the correlation with our business strategies



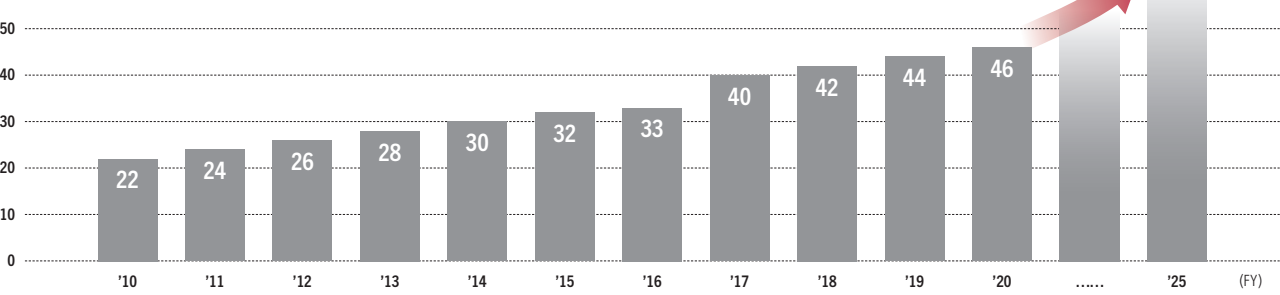
>> Pursue Efficiency

Shareholder Return Policy during ACE 2.0

We will pay dividends based on consolidated cash flow and investment status, with a basic policy of continuously increasing dividends in consideration of consolidated performance and financial structure, while improving profitability and strengthening the corporate structure. Furthermore, we will consider repurchases of treasury stock in a flexible manner, while keeping efficiency in mind.

	Conventional	ACE 2.0
Dividend	Stable dividends	<div><div><div>• We will not consider the dividend payout ratio or total return ratio, and will, in principle, avoid lowering dividends even in the event of single-year performance declines due to one-time factors</div></div><div>Continued dividend increase</div></div>
Acquisition of treasury stock	—	<div><div><div>• Evaluation of company's stock in capital markets</div><div>• Status of financial soundness (Net DE ratio to be 0.5 times or less)</div><div>• Investment capacity for growth</div></div><div>Implement flexibly with overall consideration of the items to the left</div></div>

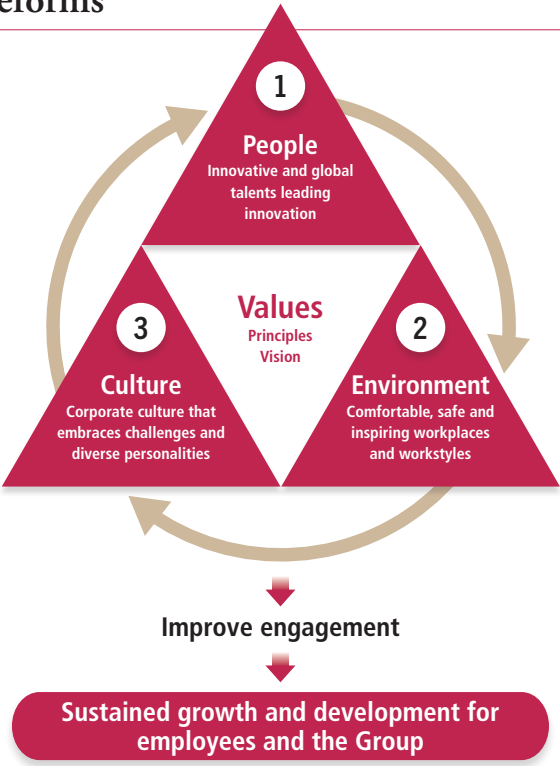
Annual DPS (dividend per share) (Yen)



Strengthen Human Resources to Drive Reforms

Improve engagement between employees and the company through a virtuous cycle of human resources, environment and cultural measures, and drive sustainable growth and development for employees and the company. For human resources, we promote talent management and health management, including the appropriate acquisition and placement of resources. From an environmental aspect, we will create offices that enable employees to display their creating, starting with the renovation of the Tokyo Head Office (see P67), and move ahead on reforming work styles, such as working without time or place constraints. In terms of culture, we aim to foster a culture and climate in which diverse individuals can demonstrate their abilities and continue to take on challenges by promoting diversity and inclusion.

See P66–67, “Human Resource Development to Drive Innovation”



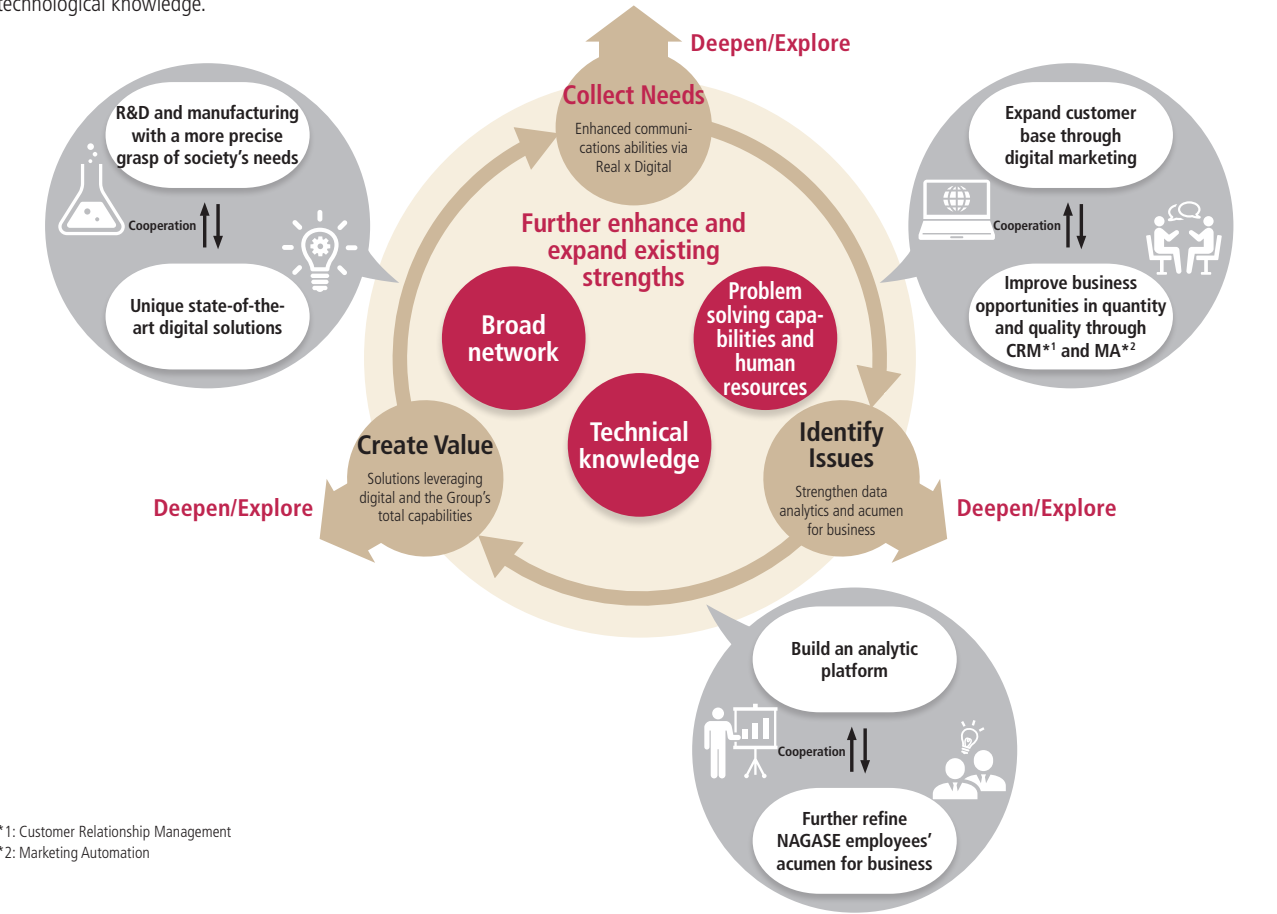
Shaping Value 3

Corporate Functions Supporting Reforms

We are working on further accelerating DX, promoting sustainability, and enhancing corporate functions to support reforming the profit structure and corporate culture.

Accelerate DX Further

By using DX we will bolster the existing strengths of the NAGASE Group, such as our extensive network supporting our customers’ global supply chains; technological expertise in chemicals, bio and other fields; ability to anticipate markets; and problem-solving capabilities and human resources utilizing our technological knowledge.



* 1: Customer Relationship Management
* 2: Marketing Automation

Promote Sustainability

The NAGASE Group is actively promoting sustainability management that leads to the resolution of social and environmental issues. In June 2020 we established the Sustainability Committee chaired by the President and comprised of executive officers and senior management from Group companies. This committee formulates policies for promoting sustainability throughout the Group, establishes and maintains the promotion structure, monitors measures and policies, and conducts enlightenment activities within the Group.

Sustainability Committee	Corporate Sustainability Office/ Sustainability Committee Secretariat	Executing organizations (sales divisions, area, individual companies, corporate organizations)
<ul style="list-style-type: none">Monitors progress of materiality and stakeholder dialogueDefines and updates SDGs materiality shared throughout the GroupProposes measures for sustainability management and a promotion structure	<ul style="list-style-type: none">Support and make proposals to the Sustainability CommitteeAscertain the status of feedback from various stakeholders and report to the committeePromote communication with the Sustainability Committee and executing organizationsSupport executing organizations (evangelist) and promote communication with the executing organizations (skewer)Inner/outer branding activitiesRespond to external assessment organizations	<ul style="list-style-type: none">Promote “shared” and “unique” materialityDialogue with various stakeholders (employees, business partners, society and consumers, shareholders)Promote a sense of ownership within each of our own organizations

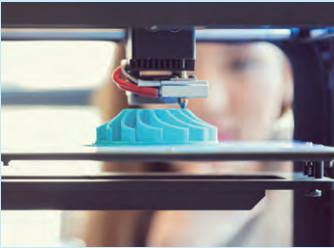
List of Businesses



Functional Materials Segment

»P40

- **Performance Chemicals Dept.:** Provides high-performance materials for the paint, inks and urethane industries. Also focused on developing sustainable products based on the key words “environment” and “bio,” for which demand is quickly increasing.
- **Specialty Chemicals Dept.:** Having established businesses over many years in a diversity of industries, now handles more than 10,000 products. Is also expanding into new fields with a focus on business partners’ elemental technologies.



Main Products and Services

Performance Chemicals Department

- Resin raw materials, resins, pigments, solvents, paint and ink additives, urethane materials, flame retardants, release agents

Specialty Chemicals Department

- Petrochemical products, raw materials for industrial metal-working oil solutions, surfactants and surfactant raw materials, environmental equipment and chemicals (wastewater, exhaust gas, energy conservation)
- Resin raw materials and additives, electronics chemicals, UV curing agent materials, chemical outsourcing coordination



Advanced Materials & Processing Segment

»P42

- **Colors & Advanced Processing Dept.:** Offers high-value-added products and services centered around color and function to a wide range of business fields, including the printing, film and LCD industries. Fully utilizes the Group’s manufacturing, research and processing functions to meet customer needs.
- **Polymer Global Account Dept.:** With a well-developed sales network and national staff in Asia, works with global companies to sell resins for the OA equipment, game, electrical and electronics industries. Also focusing on biomass plastics and other eco-friendly businesses.



Colors & Advanced Processing Department

- Dyestuffs, colorants, pigments, additives, dispersion processing materials, 3D decorative services, conductive materials, functional sheets, films, adhesives, copolyester resins, endotoxin removal services, tempered glass, hygiene materials

Polymer Global Account Department

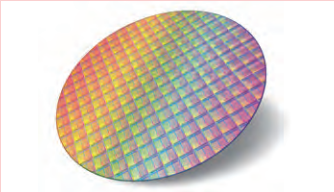
- Engineering plastics, commodity plastics, packaging materials and other plastics-related products



Electronics & Energy Segment

»P44

- **Electronics Dept.:** In addition to providing functional materials and their constituent components to the silicon wafer, semiconductor, electronic components and display industries, is working with partner companies to develop products that align with market and customer needs.
- **Information & Communication · Energy Office:** Provides technologies (materials, processes and equipment) and mechanisms for realizing new information communications and energy infrastructure in a smart society by leveraging the Group’s product development capabilities.
- **Functional Resin Dept.:** Nagase ChemteX’s modified epoxy resins, developed based on its formulation and compounding technologies, are sold in and outside Japan, with key fields including the electrical/electronics industry, mobility, the environment, energy and semiconductors.
- **Precision Process Materials Dept.:** Offers photolithography for displays and semiconductors, and high-performance materials for 3D printing, both in and outside Japan, based on Nagase ChemteX’s formulation technology from the perspectives of precision cleaning, surface treatment, and photosensitive materials design.



Electronics Department

- Fine polishing abrasives, optical materials for displays, touch panel components, functional paints, conductive and insulating materials, adhesive and encapsulating materials, high-heat-resistant films, optical lenses

Information & Communication · Energy Office

- Storage battery systems, energy management systems, optical wireless communication devices, high-frequency devices, low dielectric materials, sensing modules, optical materials for XR, semiconductor and electronic device-related equipment

Functional Resin Department

- Formulated epoxy resins and related materials

Precision Process Materials Department

- Photolithography materials for flat panel displays and semiconductors, 3D printing-related materials



Mobility Segment

»P48

- **Mobility Solutions Dept.:** Will contribute to the realization of a safe, secure and comfortable mobility society by grasping the needs of the mobility industry, including automobiles, agricultural machinery, construction machinery and aircraft, and by pursuing new technological innovations and offering diverse solutions.



Mobility Solutions Department

- Automotive interior/exterior and functional components: Various resins, functional paints, adhesives, lightweight components, decorative components, HMI components
- CASE-related: xEV-related components, heat management components, battery materials, sensors, LiDAR devices, autonomous driving technologies



Life & Healthcare Segment

»P50

- **Life & Healthcare Products Dept.:** In the Life and Healthcare Product Business, we newly embarked upon Medical imaging field along with Pharmaceuticals and in-vitro Diagnostics field. And leveraging the entire NAGASE Group’s capabilities such as R&D and manufacturing functions, we launched a new anti-aging agent to reinforce our product line in the Cosmetics and perfumery field.
- **Food Ingredients Dept.:** Provides a wide range of solutions for the processed foods and nutrition markets globally through the Group’s research, manufacturing, processing, procurement, application development and regulatory functions. Contributes to healthy, enriched lifestyles through food.



Life & Healthcare Products Department

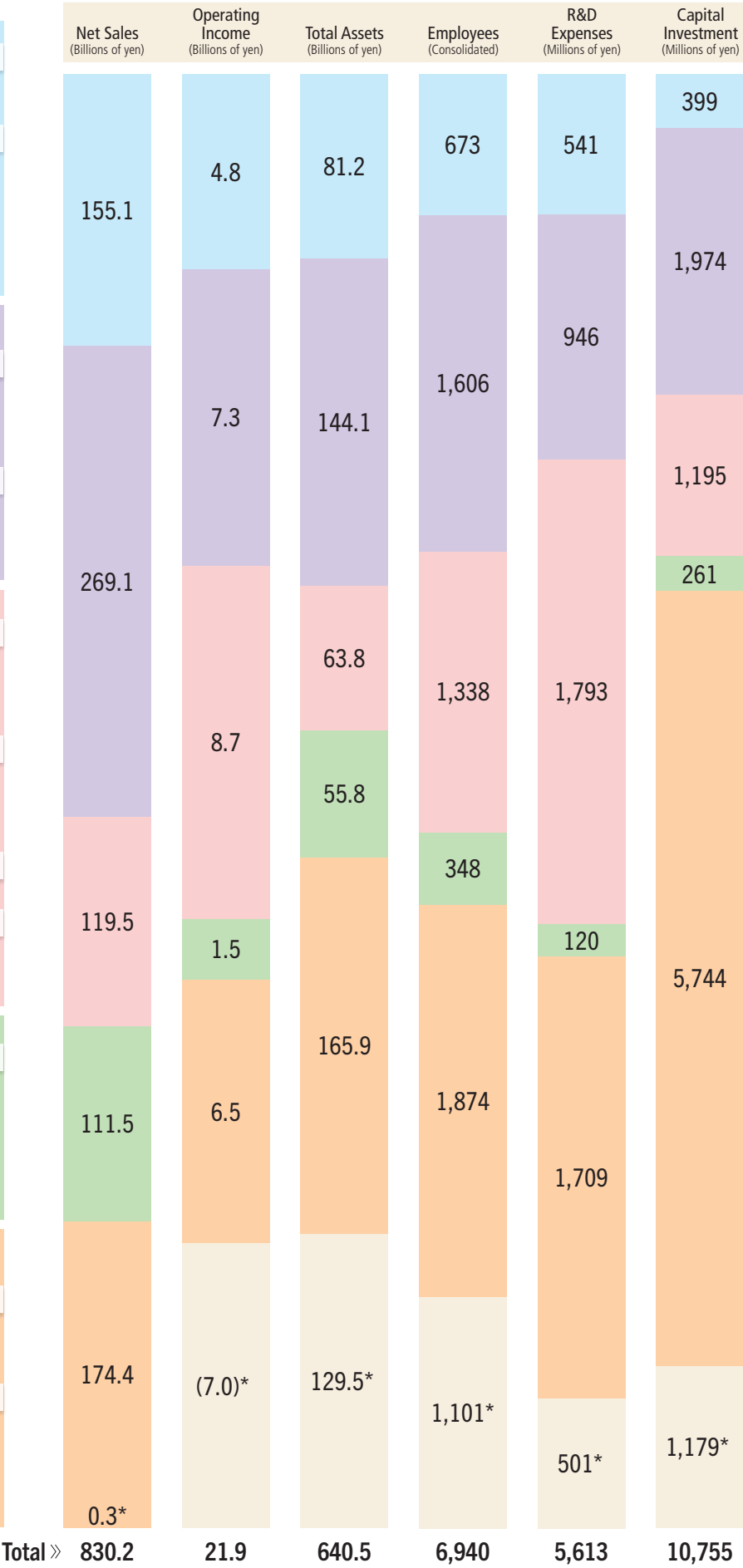
- Fragrances/cosmetics and household product materials, pharmaceutical raw ingredients and intermediates, in-vitro diagnostics, medical materials and equipment

Food Ingredients Department

- Food ingredients (TREHA™ and others, enzymes), functional ingredients, nutritional ingredients, premix (OEM/ODM), materials for agriculture, fisheries and livestock

Key Indices by Segment

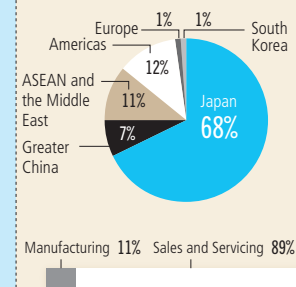
Note: Results below do not reflect changes to the method of classifying business segments as of April 1, 2021.



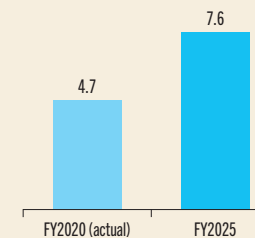
* Other/Corporate: Includes businesses not included in reported segments and eliminated inter-segment transactions, etc.

Functional Materials Segment

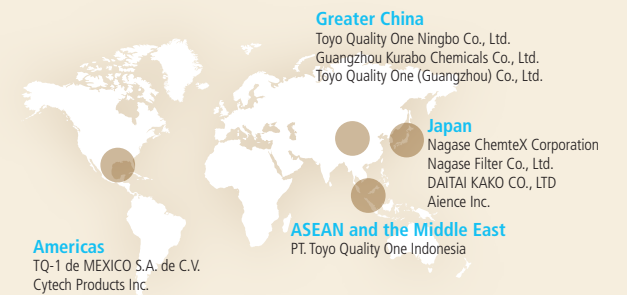
Gross Profit by Region and Field



Operating Income Target (Billions of yen)



Main Manufacturing Bases (Includes equity affiliates)



Note: Reflects organizational changes as of April 1, 2021.

Performance Chemicals Business

Business Opportunities

- Industry restructuring and development of DX, expansion of environment-related businesses
- Growth of markets in ASEAN and India

Business Risks

- Structural changes in Japan's petrochemical industry and move away from chemicals, U.S.-China struggle for supremacy

Strengths

- Strong presence in the paint, ink and urethane industries
- Knowledge of and global network in environmental and bioscience materials

Medium-Term Issues

- Measures for maintaining a supply chain that combine the perspectives of both BCP and environmental considerations

Looking one step ahead at the chemical industry while accelerating development of biomaterials



Tamotsu Isobe

GM, Performance Chemicals Department

Over the five years of ACE-2020, the previous medium-term management plan, the value of information using NAGASE's network saw a relative decline as advances in digitalization made it possible for anyone to quickly obtain a variety of information. Developments in IT have also increased demands for speedy results. In the upstream of the chemical industry, vertical integration of industries is accelerating, and there is a progressive shift from economic priorities to more ESG and SDG-conscious strategies.

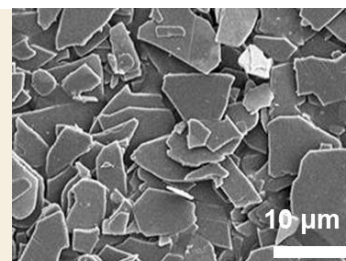
In terms of profit structure reforms, the entire department has adopted a stance of prioritizing high-performance, environmental and bioscience products. We made an acquisition in the U.S. to expand our overseas business, and acquired a platform to develop high-value-added business. Meanwhile, in terms of reforming our corporate culture, I feel we have been successful in fostering a sense of responsibility and autonomy with regards to numbers and results.

During the five years of the new medium-term management plan, ACE 2.0, key points in the Japanese market will be the shift to technologically specialized and eco-friendly products. Addressing increasingly diverse needs, differentiation through the use of AI, and transformation of the business from selling things to selling ideas will all become even more important. Using the three strategies of going deeper, offering true value, and evolving our business, we will actively incorporate new technology while looking one step ahead at the chemical industry. Using both internal and external resources, but also co-creation with our partners, we will focus our efforts on businesses that contribute to society, including the development of bio-specific raw materials.

Topics

Putting Comprehensive Strengths behind the Launch of New Business

We have entered into an agreement to be the exclusive sales agent for an alumina filler developed by DIC Corporation. Added in just small amounts, the company's newly developed flake alumina can achieve high thermal conductivity and high strength, and is expected to be in demand in a wide range of fields, including automotive technology and next-generation telecommunications (5G). We will provide technical support for sales development, expanding business domains through NAGASE's global network and strong sales capabilities.



Specialty Chemicals Business

Business Opportunities

- Addressing investments related to environmental and social issues, including the SDGs
- Growth in 5G/6G and electronics-related demand

Business Risks

- Geopolitical issues, natural disasters and supply stability in the supply chain, and changes in the value offered by trading companies

Strengths

- Business developed around composites, polymers and other technologies
- Unique technology-oriented sales and innovation capabilities

Medium-Term Issues

- Portfolio optimization and acceleration of global expansion
- Operational streamlining and human resource development

Aim for business growth by taking preemptive measures against supply risks and addressing the SDGs



Noriaki Arashima

Executive Officer

GM, Specialty Chemicals Department

The business environment in the petrochemical industry has changed dramatically in the past five years, and domestic petrochemical manufacturers have accelerated their shift from general-purpose to specialty products. The spread of the SDGs and DX are also major topics. Other changes I feel our department should not overlook are the growing demand for 5G/6G and electronics and semiconductor-related products, and the strong response of our business partners to technological innovations such as AI and EVs.

In terms of profit structure reforms, a sense of crisis was fostered regarding the dilution of the value we provide as a trading company, and we launched a number of new challenges in business investment and new business creation. In corporate culture reforms, some issues remained to be addressed in portfolio optimization and consolidated management with overseas bases.

In the next five years, we will continue to bring a sense of urgency to our efforts in business investment and new business creation. In anticipation of geopolitical issues typified by the struggle for supremacy between the U.S. and China, disasters due to climate change, chemical supply risks due to accidents and all other risks, we will work to secure new suppliers and manufacture specialty chemicals as a new challenge for the Group. Another important topic is investment in environmental issues, part of our effort to address the SDGs. Under ACE 2.0, the new medium-term management plan, we will be launching an Environmental Solutions section with the goal of business expansion and growth through helping our business partners solve wastewater, exhaust gas, energy conservation and other issues at their manufacturing sites.

Topics

Launch of Chemical Outsourcing Service

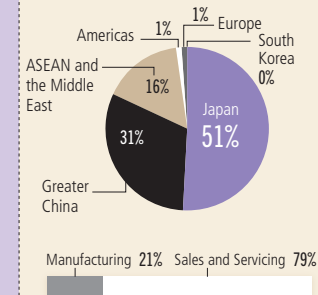
We have begun a service to provide customers with suggestions for optimal subcontractors based on a database of chemical and other product manufacturers. Utilizing the network of manufacturers we have cultivated over nearly 190 years will enable us to quickly propose a subcontractor who meets the customer's most detailed needs. Going forward, we will work with our overseas entities to also focus on developing subcontractors outside of Japan and further enhance our database.



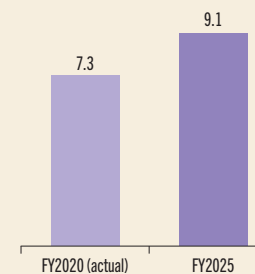


Advanced Materials & Processing Segment

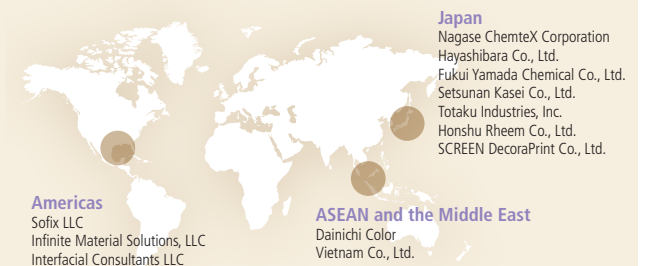
Gross Profit by Region and Field



Operating Income Target (Billions of yen)



Main Manufacturing Bases (Includes equity affiliates)



Note: Reflects organizational changes as of April 1, 2021.

Colors & Advanced Processing Business

Business Opportunities

- Developing a platform-like presence between companies and creating businesses that contribute to the global environment

Business Risks

- Establishing a presence as new technology becomes more widespread
- Instability of commercial rights in the corporate shakeout of the COVID-19 pandemic

Strengths

- Ability to propose technology, products, analyses and services based on our strong collaborative structure with Group manufacturing companies

Medium-Term Issues

- Shifting from selling “things” to selling “ideas”
- Transforming into an organization with initiative (independence and autonomy)

Improve profits through selection and concentration; aim to become a platformer between companies



Hayaki Goto

GM, Colors & Advanced Processing Department

During the five years of ACE-2020, the previous medium-term management plan, alliances, acquisitions, and the cancellation of alliances with business partners occurred at a faster pace than usual. In addition, environmental problems in China have driven a move to reevaluate the emphasis on imports of raw materials and to shift to high-quality domestic products. This trend has also been supported by ESG investing, with a major change being an increase in the number of customers placing greater value on quality rather than price.

In this context, to successfully compete in our fields of expertise, we have weeded out those organizations with no prospect for growth, engaging in a process of business selection and concentration. Our profit structure has improved significantly as a result. In terms of reforming our corporate culture, a sense that we should take pride in the work NAGASE does, and that we should earn a fair profit to contribute to society, has begun to take root. In addition, Group manufacturing companies such as Fukui Yamada Chemical Co., Ltd. have strengthened their sense of collaboration with other Group companies, fostering a new business development mindset.

With DX and blockchain gaining attention and the significance of the traditional trading company business model being called into question, we reorganized our department into teams with the goal of becoming a business-to-business platformer. We will also move ahead to create businesses that contribute to the global environment based on the key words “plastic recycling,” “chemical recycling” and NAGASE biotechnology.

Topics

Reusing Plastic Tableware to Realize a Sustainable Cycle

Working with Ishikawa Jyushi Co., Ltd., manufacturer of plastic tableware made with Tritan™, we have begun working to build a sustainable cycle by recycling Tritan™ tableware and manufacturing and selling products using the recycled material. Until now, restaurants disposed of aged Tritan™ tableware as plastic waste, but we will promote the development of a recycling scheme that will allow them to be used again as fixtures, sundries and dishes.



Polymer Global Account Business

Business Opportunities

- Expanding value provided through the use of digital technology
- In-house development of environmental materials and development of wide-ranging applications
- Medium- to long-term supplier strategy

Business Risks

- Hollowing out of the trading company function and the spreading argument for the move away from petrochemicals
- Lockup of environmental materials by Chinese manufacturers

Strengths

- A wide-reaching base of operations in the Asia-Pacific region
- Strong partnerships with global companies

Medium-Term Issues

- Review of portfolio aimed at improving business profitability

Pursuing quality through portfolio replacement in focus businesses



Koichi Sagawa

Executive Officer

GM, Polymer Global Account Department

Changes in the business environment that we have faced over the past five years include a more prominent presence for Greater China with the rise of Chinese brand owners and EMS; a progressing reevaluation of supply chains due to the prolonging of problems between the U.S. and China and the impact of the COVID-19 pandemic, with an accelerated shift from China to ASEAN + India; and an increasing awareness of eco-friendly materials with the spread of ESG management. Since the department is greatly affected by changes in suppliers, we need to pay careful attention to the recent trend toward specialization and reorganization in the business segments of their competitive advantage. In terms of area strategy, we promoted an expansion of scale in Asia-Pacific, and expanded our business to Australia, South Korea and India. We are also seeing the results of streamlining through a reevaluation of our distribution bases and improvements in inventory management. In addition, with the shift of Chinese-owned businesses to ASEAN, out-out collaboration has become essential; we are working to promote diversity, in part by sending Taiwanese staffs to our ASEAN affiliates, while also building a more differentiated structure.

Looking ahead to the next five years, we believe it is important to promote digitalization to strengthen and reform existing businesses, and to develop sustainable environmental materials with an awareness of contributing to the formation of a decarbonized society. We would like to address these issues as quickly as possible. In addition, we will downsize or withdraw from non-focus areas and low-profit businesses, while on the other hand expanding our high-performance resins and super engineering plastics businesses with the goal of replacing our portfolio in pursuit of quality.

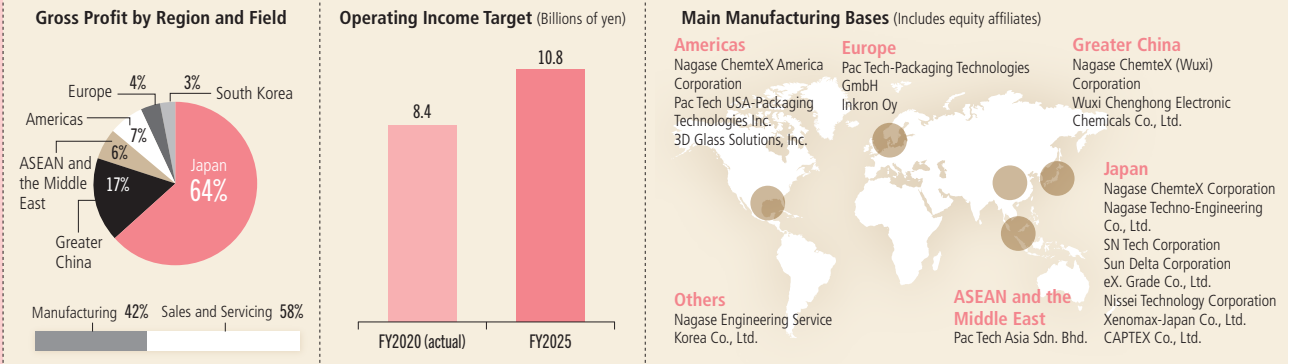
Topics

plaplat™ Communication Platform Opened

In the plastics business, we opened plaplat™, a platform to connect us with our customers. This allows customers to submit multiple requests for environmental surveys, estimates and others in one place, and to verify requests for progress with responses and their request history via a dedicated customer page. The first step will be to promote fast, reliable communication with domestic customers, with the goal of further expanding the services offered and expanding globally.



Electronics & Energy Segment



Note: Reflects organizational changes as of April 1, 2021.

Electronics Business

Business Opportunities

- Build a mechanism utilizing DX unique to a trading company
- Develop functional, unique base materials

Business Risks

- Loss of business opportunities due to delays in development of new products, competitors' efforts to utilize DX

Strengths

- Ability to offer complete solutions to customer needs
- A global network of R&D sites with unique technology

Medium-Term Issues

- Developing and launching new products in conjunction with changes in the business environment

Moving from a mid-stream to an upstream business; rapid product development that also utilizes DX



Hironao Makise

GM, Electronics Department

This department develops and sells materials for smartphones and tablet PCs, important mobile devices in an increasingly IoT-oriented world. Semiconductors and displays, the main components of these devices, continue to evolve day by day. The display industry, in particular, is divided between liquid crystal and organic EL displays, depending on the application. Our mission is to quickly grasp the technical issues behind each.

In semiconductors, we are accelerating development for the Chinese market, which is expected to grow in the future, and also expanding our business in the silicon wafer industry, which is the raw material for semiconductors. We are also strengthening our connections with mobile device manufacturers who produce the final products, and we are moving ahead with sales of functional materials for cases and the development of components. All of these industries require global activity centered on the U.S., South Korea, China and Taiwan, so we promote development in cooperation with our overseas entities.

During the five years of ACE 2.0, the new medium-term management plan, we will work to speed up product development while also utilizing DX. One specific step is our work to develop services utilizing IoT sensors. In addition, to address the sustainability movement, we have set up project teams within the department and are moving to develop measures.

Topics

Participating in an Investment in Nanosys Inc. Will Boost Handling of Advanced Electronic Materials

We invested in and became the distributor for Nanosys Inc. of the U.S., the industry's top manufacturer of Quantum Dots. Quantum Dots are unique semiconductor crystals used in optical films for displays and other materials to increase color performance. It is expected their share in the industry will grow further as a new technology for efficiently reaching the new color range standard being adopted for 4K and 8K broadcasts.



Information & Communication · Energy Business

Business Opportunities

- Needs in diverse high-speed communication-related devices, and expectations for storage battery and other systems in terms of the environment

Business Risks

- Delay in the arrival of the real 5G era
- Ensuring differentiation and competitive advantage against competing technologies

Strengths

- We provide products and services that balance improving customer profitability with social contributions

Medium-Term Issues

- Collaboration with Group companies in the development of proprietary products for the 5G/6G markets

Integrating next-generation information communications and energy businesses that contribute to the environment



Tetsu Iwanaga

GM, Information & Communication · Energy Office

This office was newly established to provide diverse services required by the advent of a smart society by integrating two organizations involved in next-generation information and communication and the energy business, which are expected to grow significantly going forward.

In next-generation information and communication, our main business is related to materials such as low dielectric materials and passive components indispensable in terminals and base stations for high-speed data communications such as 5G and 6G. Not limited to material sales, we will also focus on developing and providing applications that utilize smart glasses (AR/VR) and diverse sensing devices. In the energy business, we are conducting business with a view to contributing to the environmental areas of the SDGs through the development, manufacture, sale and contract assessment of battery modules, packs and energy storage systems at our Group company CAPTEX Co., Ltd. We are also developing applications to meet the needs of a smart society, including surveillance cameras based on optical wireless technology.

As an initiative under ACE 2.0, the new medium-term management plan, we will focus first on the field of next-generation information and communication and the development of original NAGASE products, as we keep an eye on moves in real 5G, which—it has been pointed out—is behind schedule. In the energy business, we will collaborate with CAPTEX Co., Ltd. and other Group companies to address the needs of a decarbonized and recycling-based society through efforts to contribute to the environment by providing storage battery systems, all-solid-state batteries and other products.

Topics

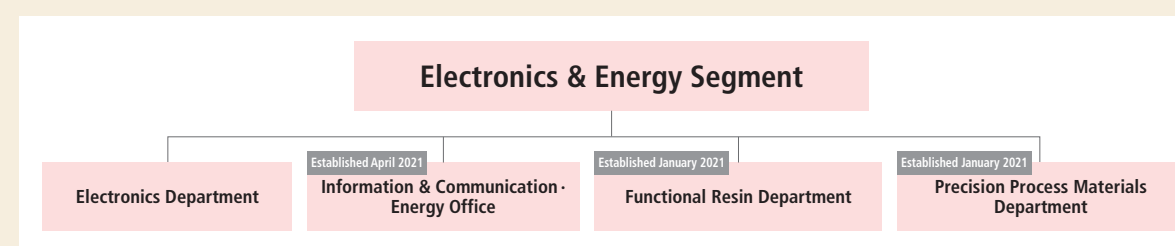
Joint Development of a Battery Panel for Storage Battery Systems for the Captive Consumption Market

We worked with Murata Manufacturing Co., Ltd. to jointly develop a battery panel for battery storage systems aimed at the captive consumption market, to be deployed alongside photovoltaic power generation systems at factories and other locations. This product offers safety, expandability to allow users to set the battery storage capacity, and a compact size for greater flexibility in installation. This will not only reduce costs by lowering electricity bills, and provide a reliable energy supply during disasters, but will also contribute to increasing corporate value by addressing decarbonization.



Organizational Structure Reforms Implemented with the Goal of Developing New Businesses

In April 2021, the Electronics Segment changed to become the Electronics & Energy Segment. In addition to the existing Electronics Department, the Functional Resin and Precision Process Materials Departments were newly established in January of that year, while a new Information & Communication - Energy Office was established to take on the energy-related businesses formerly classified under the Mobility & Energy Segment, resulting in a four-organization structure. In addition to the functions of a trading company, we will further strengthen the Group's development, manufacturing and sales systems to integrate our market orientation and technology base, and develop new businesses from a medium- to long-term perspective.



Functional Resin Business

Business Opportunities

- Business in the expanding fields of communications, the environment, energy, healthcare and others

Business Risks

- Commodification of the business environment and declining information inequality, greater difficulty in differentiation, reduction in new needs

Strengths

- Sales and technical capabilities cultivated in the formulated epoxy resin business
- Integration of market orientation and technology base through an integrated manufacturing and sales system

Medium-Term Issues

- Shrinking needs for formulated epoxy resins, and the difficulty of differentiating in a business with low barriers to entry

A new business format that leverages the strengths of both the manufacturing and trading company functions



Takayuki Hashimoto

GM, Functional Resin Department

The newly established Functional Resin Department was set up to focus primarily on the formulated epoxy resin business within the former Electronics Department, and is an integrated manufacturing and sales department with Nagase ChemteX Corporation. The business originated as a joint venture between the Swiss general chemical manufacturer Ciba (at the time) and NAGASE & CO., LTD. Nagase ChemteX Corporation, whose predecessor was Nagase-CHIBA—set up jointly by the two companies—undertook the manufacturing and development function, while NAGASE & CO., LTD. was responsible for the sales function. The objective for establishing the new department is to expand the business, create new businesses, and further to build a new role model that integrates the trading company and manufacturer with the base technologies of Nagase ChemteX Corporation at its core.

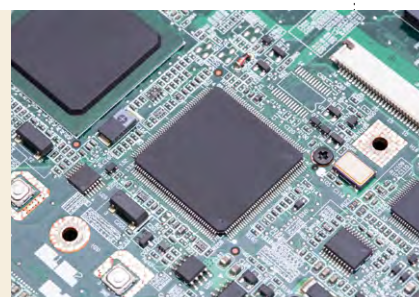
Formulated epoxy resins are used in a wide range of industries, including mobility, communications (ICT and telecommunications), semiconductors, electrical equipment, the environment and energy. Among these, encapsulating materials for semiconductors, for example, is a truly advanced field, while formulated epoxy resins for electrical equipment have had a large share since the days of Nagase-CHIBA. In a sense, the department is characterized by the coexistence of old and new technologies.

As we look to the future, it goes without saying that opportunity lies in the fields in which we excel, but at the same time they are also risks because competitors are looking in the same direction. To achieve our vision for 2032, we will create new businesses with a view to contributing to a sustainable society even as we work to improve the quality of our growth areas.

Topics

High-Performance Encapsulants to Support Advanced Semiconductor Manufacturing

Nagase ChemteX develops and deploys high-performance encapsulants with superior adhesion and heat resistance in both liquid and sheet forms to suit various applications. Most recently, we have been developing a-SMC (Advanced Sheet Molding Compound), a sheet material with new characteristics, by utilizing the NPIC (Nagase ChemteX Process Innovation Center), which was established in 2019 to take advantage of customer feedback in product development. It supports technological innovation in the fields of semiconductors, telecommunications and data processing.



Precision Process Materials Business

Business Opportunities

- Entry into the medical and healthcare fields which require precision processing
- The spread of additive manufacturing

Business Risks

- A shrinking market for LCD displays, difficulty in procuring raw materials, high costs, emergence of local manufacturers in China and elsewhere

Strengths

- Technological capabilities in precision cleaning, corrosion/anticorrosion control, fine patterning, UV curing control, etc.
- Rapid business development through integrated manufacturing and sales system

Medium-Term Issues

- Development of new industrial fields and value provided making full use of advanced technology accumulated to date

Rapid transformation of profit structure with new integrated manufacturing and sales system



Takashi Takeda

GM, Precision Process Materials Department

In the existing photolithography materials business, NAGASE & CO., LTD. was responsible for sales and marketing, while Nagase ChemteX Corporation handled research and development and production management. In contrast, the Precision Process Materials Department, which was newly established this year with the addition of new businesses, has set up a system for centralized management of both the sales function and the manufacturing and development function.

In the past, the mainstay of our business was process materials for the FPD industry, but as the main battlefield for this market shifts to China, the profitability of the business has begun to shrink. This fiscal year, the mission of this department is to diversify its profit structure by moving into new product groups, industrial fields and sales regions, taking advantage of the surface treatment, microfabrication, and high-purity material handling technologies in a clean environment that we have cultivated to date, while moving the business structure away from its focus on the FPD industry. We are increasing the weight placed on higher-value-added materials, and have begun initiatives in new industrial fields such as communications and optical devices, medical-related products and sporting goods. By region, most of our sales have been in Japan, but we will increase the ratio of overseas sales in the future.

Further, we will promote the pursuit of quality through manufacturing innovation via “additive manufacturing,” a process that can contribute to the SDGs, and by enhancing the value we offer with a material converting process that breaks away from our business model of simply selling products in liquid form.

Topics

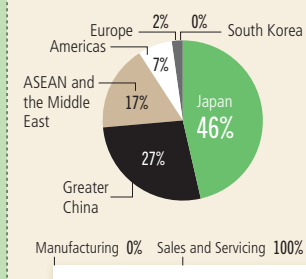
Success in Developing Highly Tough, Highly Resilient Rubber Resin for 3D Optical Molding

In recent years, optical 3D printers, which are capable of high-precision, high-volume production, have been gaining attention from a variety of industries as a new production method. The sports industry requires resins that offer both toughness and resilience. While it is generally considered difficult to achieve both, our department has succeeded in developing a high-performance resin material that balances both properties. We have already begun collaborating on 3D structures with several domestic and foreign sporting goods manufacturers.

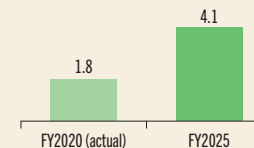


Mobility Segment

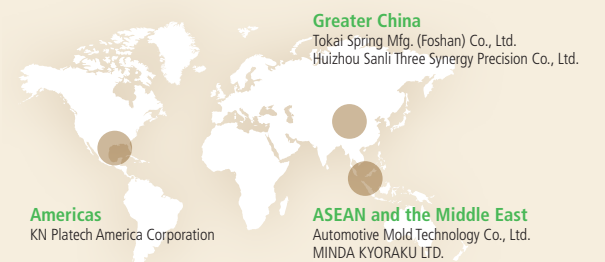
Gross Profit by Region and Field



Operating Income Target (Billions of yen)



Main Manufacturing Bases (Includes equity affiliates)



Note: Reflects organizational changes as of April 1, 2021.

Mobility Solutions Business

Business Opportunities

- Acceleration of electrification, market expansion in China and India, decarbonization, appearance of new mobility and MaaS

Business Risks

- Outflow of customers to overseas mega-suppliers

Strengths

- The ability to utilize our global network to discover high-function materials, products and technologies, and to build a supply chain that can offer a stable supply of those items

Medium-Term Issues

- Addressing changes in the business environment including new market entrants, shrinking of the domestic market, and the shift to light feed

Leading dramatic changes in the business environment to a variety of opportunities



Hiroyuki Ueshima

Executive Officer
GM, Mobility Solutions Department

The most significant change in the business environment over the past five years has been the acceleration of electrification, backed by the spread of CASE*. While automotive markets are growing in China and India, the domestic market is shrinking. The accelerated pace of electrification has led to a shortage of the rare earth raw materials used in batteries and other products, and to the problem of an overemphasis on certain production regions. This has led to an increase in the presence of overseas mega-suppliers and the emergence of platformers typified by GAFA.

The results of our profit structure reforms have included progress in replacing our portfolio, including the addition of electrification products from partner company ATECS Co., Ltd., and a shift from a focus on resins to materials and components. We are also withdrawing from unprofitable businesses. In terms of reforming our corporate culture, results include the cultivation of an atmosphere throughout the department of attempting to grow through friendly rivalry, and the expansion of our vision from automobiles to mobility in general.

Looking out at the next five years, the accelerated development of electrification, along with automation, represent major opportunities, and I believe NAGASE, with its strength in chemicals, will have somewhat of an advantage in the move toward decarbonization. In addition to the expansion of markets in China and India, we are also focusing on new mobility, including drones, agricultural machinery and aircraft. The department has already begun taking on the challenges of MaaS, including the platform business, driver monitoring systems and analysis of public transportation boarding and alighting data. We also intend to pursue quality in initiatives related to automated driving and the SDGs.

* CASE: An acronym for Connected, Autonomous, Shared & Services, and Electric.



Aiming to a Realize Next-Generation Mobility Life

The mobility industry is facing a "once-in-a-century revolution." In addition to offering freedom of movement, this will require the creation of new value in terms of safety and eco-friendliness. Our department will respond to diverse customer needs while focusing on the electrification of mobility, automated driving safety improvements, and the wider use of materials that match the needs of a decarbonized society, all in preparation for a next-generation mobility lifestyle in which people, things and data come and go.

Topics 1

Global Development of Electronic Components that Support Automobile Electrification

The level of attention being given to EV and hybrid vehicles continues to increase year by year in preparation for carbon neutrality by 2050. Under these circumstances, our department will work to globally develop products essential to the electrification of automobiles, including current sensing and power circuit components, through product development by SHT Co., Ltd., which is engaged in the development, manufacture and sale of electronic components. We aim to expand sales in Japan and overseas, focusing on current sensor cores that enable precise current sensing and newly developed choke coils that offer optimal characteristics for power circuits using SiC power semiconductors, which are expected to see more widespread use going forward.



Topics 2

Development of an Automotive Meter Lens Combining the Technologies of Partner Companies

Working with Fukuvi Chemical Industry Co., Ltd. and other partner companies, we developed an automotive meter lens that features both a three-dimensional shape and low reflectivity. In general, automotive meters are installed in the dashboard, but this product has no shade and protrudes above the dashboard to improve the design of the vehicle interior. While it was difficult to balance both a sense of unity with surrounding components and visibility, we were able to achieve this by combining the advanced technologies of the various companies involved.



Topics 3

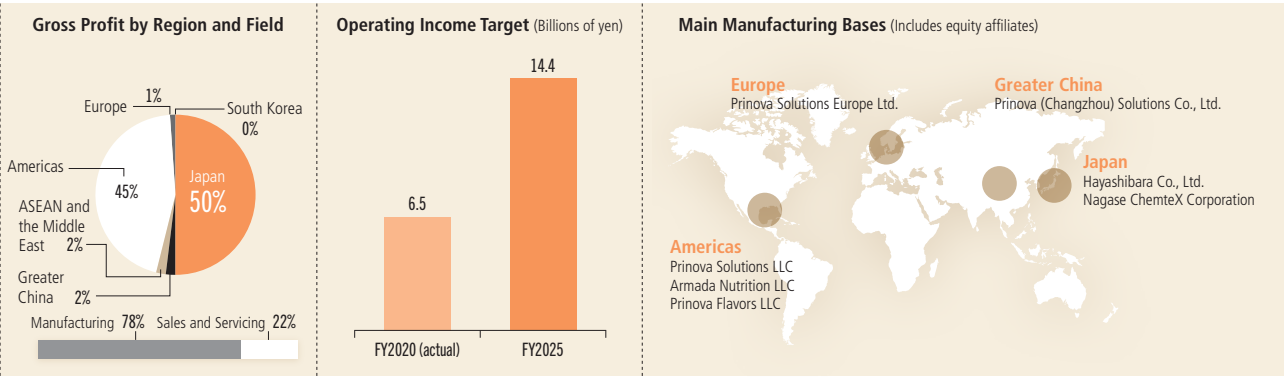
Aiming to Reduce Manpower in Factories by Introducing Automated Cargo Towing Vehicles

Today, many of our customers are facing the issue of labor shortages. To enable our customers to reduce manpower in their factories, we have introduced automated cargo towing vehicles manufactured by EasyMile of France. Going forward, we plan to adjust operational settings and conduct demonstrations on the premises of our Group companies, and beginning in fiscal 2022, to hold demonstrations in customer factories. In addition to vehicle sales, we will work to solve customer issues by offering a service business that includes operational management and maintenance.





Life & Healthcare Segment



Note: Reflects organizational changes as of April 1, 2021.

Life & Healthcare Products Business

Business Opportunities	Strengths
<ul style="list-style-type: none">● Creation of new services in collaboration with IT-related ventures	<ul style="list-style-type: none">● Function to offer development proposals in the medical and pharmaceutical fields● Ability to address and offer proposals regarding global regulatory and pharmaceutical affairs management
Business Risks	Medium-Term Issues
<ul style="list-style-type: none">● Changes in the business environment outpacing the speed of structural reforms	<ul style="list-style-type: none">● An ambidextrous management approach achieved by deepening core businesses while creating new ones● Development of a DX and sustainability-conscious business model

Shifting to a new business model by pursuing DX and sustainability



Bunji Ono
GM, Life & Healthcare Products Department

Sales in the cosmetic industry over the past five years peaked in fiscal 2018, and then began to stagnate due to COVID-19 following the decline in in-bound sales. On the other hand, changes in lifestyles caused by the pandemic boosted sales of household materials such as hygiene products and insecticides.

In the area of pharmaceuticals and diagnostic agents, sales growth of generic APIs was remarkable throughout the period of ACE-2020, the previous medium-term management plan, besides the robust sales of raw materials for original drugs and in-vitro diagnostic products. In addition to the acceleration of business development in the growing market for medium- and high-molecular weight drugs, we also launched a new service to predict drug efficacy and side effects by introducing unique artificial intelligence (AI) through the partnership with Karydo TherapeutiX. And in April 2021, the 3D CG simulation software, GRID, got an authorization for medical devices. We will engage in full-scale efforts to develop the market of medical imaging with our capital and business alliance partner Kompath Inc.

In terms of reforming our profit structure, improvement of efficiency of raw materials business in the cosmetic field is the most urgent issue. Under ACE 2.0, the next medium-term management plan, we will work on the optimization of profitability by installing rigorous inventory controls, reviewing the product portfolio and allocating human resources to the focus areas with thorough awareness of return on invested capital (ROIC).

Topics

Reducing the Burden of Examinations with CapsoCam Plus, a Capsule Endoscope for the Small Intestine

In January 2021, we began offering the CapsoCam Plus, a capsule endoscope developed by CapsoVision, Inc. of the U.S. Four compact cameras are installed in a capsule about three centimeters in length. It reduces blind spots with the world's first 360° panoramic imaging technology and makes it possible to record clear images of the convoluted small intestine. Since the capsule can be swallowed orally, it is said to offer a lower mental and physical burden on the patient compared to tube-type endoscopes.



Food Ingredients Business

Business Opportunities	Strengths
<ul style="list-style-type: none">● Maximizing the business model and use of products of the Prinova Group● Changing business model due to the increasing awareness of the SDGs and DX	<ul style="list-style-type: none">● Comprehensive capabilities to offer proposals in materials, manufacturing, processing and applications● The procurement capabilities and manufacturing and sales network of the Prinova Group
Business Risks	Medium-Term Issues
<ul style="list-style-type: none">● Geopolitical instability in a status quo in which the ratio of food ingredients procured from China is extremely high	<ul style="list-style-type: none">● Creating synergies between Group companies in response to portfolio changes resulting from the acquisition of the Prinova Group

Promoting integration with Group companies to create synergies



Koichiro Kojima
GM, Food Ingredients Department

The biggest change in our department's environment over the five years of ACE-2020, the previous medium-term management plan, was our 2019 acquisition of the Prinova Group, whose strength lies in their expertise in handling and formulating vitamins and amino acids. This has helped NAGASE build a major foothold in the global food ingredients business.

Meanwhile, there have also been changes in the external environment, including an increasing awareness of the SDGs, ESG and other sustainability issues, along with food loss and waste, low-carb, and the trending shift from animal-based to plant-based ingredients. The addition of Prinova, however, has allowed us to enhance our portfolio to align with these markets, and we see this as expanding our business opportunities. As people become more health-conscious, the market for nutrition—Prinova's area of specialty—is beginning to expand. The integration of Prinova and the NAGASE Group's business is steadily moving forward.

Over the five years of ACE 2.0, the new medium-term management plan, one focus will be to expand through innovation of the use of naturally-derived, plant-based food ingredients that can contribute to the SDGs, and to match the functions of the ingredients to local needs. And while we have yet to consider specifics, we will also continue to reform our business model through DX. In addition, as we currently rely heavily on China for procurement of ingredients, we are considering building a network of suppliers outside of China to reduce risk.

Topics

Began Offering DeltaGold, a Super Vitamin E

We began offering DeltaGold, an annatto-derived super vitamin E manufactured by American River Nutrition LLC of the U.S. This is a functional ingredient rich in super vitamin E-delta tocotrienols extracted from annatto seeds, and has already been commercialized as a supplement and other products in the U.S. In Japan, we aim to see the product contribute to care of the frail elderly and improvements in cholesterol.



Regional Strategy

Note: Employees in the consolidated corporate group as of March 31, 2021

Built on a foundation of chemistry the NAGASE Group is engaged in global business across a wide spectrum of industries. Utilizing the wide-ranging expertise accumulated through that network and experience, we provide a fine-tuned response to the needs of each country and region.

Greater China

Base established: 1971/Number of employees: 913

Expanding Our Network Across All of China through Our Businesses

As China's industrial structure and technology level are rapidly changing and becoming more advanced, we have integrated the reporting lines of all of our bases on the mainland and in Hong Kong to cover all of China in the Semiconductor, Mobility, Electronics, Life & Healthcare, Chemicals and Process Materials business segments. We aim to expand our business dynamically through active investments in cooperation with our Taiwan base as well.

- Main Businesses**
- **Semiconductors** Leveraging the supply chain's information gathering expertise and local network resources, we are leading the expansion of Chinese businesses through win-win relationships as an overseas manufacturing business consultant.
 - **Mobility** We will help develop smart mobility in China by quickly responding to technological advances in the industry and providing value-added products and services.
 - **Electronics** In such fields as next-generation displays, 5G and car electronics, we create high-value-added local communication businesses by uncovering needs using our strengths and providing solutions.

Topics In the fast-growing Chinese semiconductor industry, we hold the quarterly NAGASE Forum in collaboration with a local think tank, utilizing the personal connections and information gathering ability we have cultivated through full supply chain business development driven by our localized, specialized organization. The Forum provides information on cutting-edge materials and future trends, and each time is attended by about 100 people from both Japan and China.

ASEAN and the Middle East

Base established: 1975/Number of employees: 716

Expanding Business Targeting Non-Japanese Customers

Supply chains are currently being reviewed on a global scale, triggered by the decoupling of the U.S. and China. In this region, we have been developing our automotive and chemical businesses based around our resin business, which has grown mainly around Japanese customers. Even more than before, however, we will accelerate the expansion of our business targeting non-Japanese customers. Further, in our business domains, we will also focus on Asia's food market, which is expected to expand. As part of our sustainability activities, we will also create regionally relevant businesses that contribute to solving social issues in the region.

- Main Businesses**
- **PGA Business** We will expand our customer base by appointing personnel from Taiwan, South Korea and elsewhere, and promote a shift to sustainable business.
 - **Mobility** Our goal is to create regionally relevant businesses through involvement with regional advanced mobility.

Topics In addition to developing recipes and analyzing physical properties, the R&D base for the food ingredients business, which opened in Singapore in 2020, uses the web and social media to actively promote digital marketing. Even during the COVID-19 pandemic, we have achieved non-contact, efficient business execution by introducing applications via online seminars and by accessing customer issues digitally.

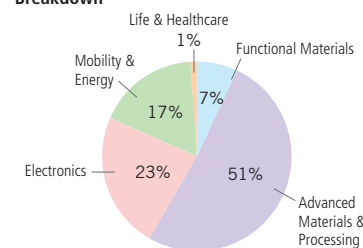


Takahiro Okumura

Director and Executive Officer
In Charge of Overseas Overall
Operations and Business
Development
Greater China CEO
Europe CEO

Net Sales/212.6 billion yen (FY2020)

Breakdown

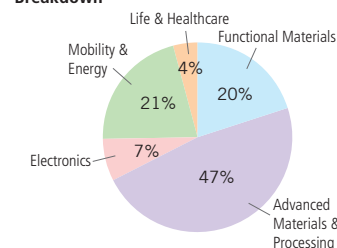


Eiroku Oki

ASEAN and India CEO
Regional Operating
Centre Leader

Net Sales/104.4 billion yen (FY2020)

Breakdown



Europe

Base established: 1980/Number of employees: 260

Working to Participate in Growth Fields While Utilizing Our Resources

As requirements for disclosure of information about chemicals and pharmaceutical raw ingredients become stricter, imports from outside the European region are expected to become even more difficult. At the same time, as a company even greater emphasis is being placed on reducing environmental impact and energy conservation. In order to differentiate ourselves as a solution provider, we will utilize the laboratory functions of our branch in Lyon, France branch for the cosmetics business, while focusing on innovative fields such as bioplastics, energy storage and organic food packaging materials.

- Main Businesses**
- **Pharmaceuticals** We will focus on expanding sales of Hayashibara Co., Ltd. products within Europe, on exporting generic APIs to Japan, and on expanding our in-vitro diagnostic drug business in Europe.
 - **Mobility** We will focus on three businesses: EV battery-related, smart interiors and exterior trim products.
 - **Chemicals** Focus on biodegradable polymers and other recyclable products, while advancing the shift to new thermal paper materials.

Topics In Europe, interest in environmental protection and energy conservation has grown even stronger. Customer focus has shifted to environmentally friendly organic products that can reduce CO₂ emissions, and this is expected to open up demand in the chemicals market, which to date has been dominated by the major players.

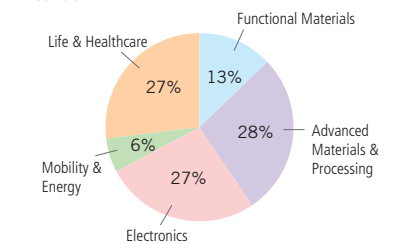


Takahiro Okumura

Director and Executive Officer
In Charge of Overseas Overall
Operations and Business
Development
Greater China CEO
Europe CEO

Net Sales/42.7 billion yen (FY2020)

Breakdown



Americas

Base established: 1971/Number of employees: 1,212

Develop New Businesses that Contribute to Sustainable Growth

During the term of ACE-2020, the previous medium-term management plan, we actively invested in businesses and reevaluated our business portfolio, while promoting activities aimed at discovering the seeds of new, regionally-led businesses. Under ACE 2.0, the new medium-term management plan, our goal is to achieve sustainable growth over the medium to long term by creating new businesses originating in the Americas, utilizing the networks of Nagase Specialty Materials NA LLC and the Prinova Group, as well as the R&D capabilities of Interfacial Consultants LLC. We will also work to enhance Group synergies by expanding existing businesses.

- Main Businesses**
- **Food Ingredients** We will utilize the NAGASE Group network to contribute to realizing a sustainable world where people live with peace of mind.
 - **Mobility** We will offer high-value-added services in response to changes in market conditions.

Topics Infinite Material Solutions, one of the Group's manufacturing bases, has introduced Caverna™, a PP resin with a water-soluble, hollow structure. It can be used as a filament for injection molding and 3D printers. It is expected that the product will be adopted in applications that take advantage of the product's features to achieve filtering performance, cushioning and weight reduction. We also use e-commerce to sell our products around the world, and aim to accelerate it globally utilizing the NAGASE Group network.

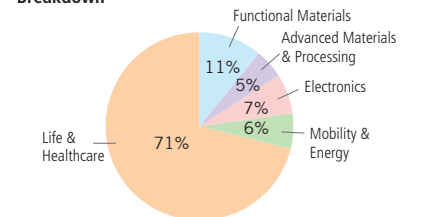


Takayuki Masuda

Executive Officer
Americas CEO
Nagase Holdings America
Corporation CEO

Net Sales/88.4 billion yen (FY2020)

Breakdown



South Korea

Base established: 1985/Number of employees: 38

Investing in the Electronics Field, which Continues to Leap Forward

Based on the sales of materials and components to leading Korean industries, we have been expanding the products of distinctive Korean companies that support the value chain overseas utilizing the Group's network. Under the new five-year plan, we will focus on the semiconductor, display and EV battery businesses. We will invest our resources in areas where Korea's sustainable growth can be expected in the face of global competition, including the materials industries related to these businesses.

- Main Businesses**
- **Electronics** We will connect the value provided by the Group to fields requiring cutting-edge technologies, including semiconductors and next-generation displays.
 - **Electronics Chemicals** We will source distinctive chemicals in the materials industry, which is expected to grow as part of national policy.
 - **Food Ingredients** We aim to develop new applications for the food ingredients and processed products manufactured by the Group.

Topics We have established a new infrastructure for just-in-time delivery to major semiconductor companies, and are playing a role in their supply chain management.

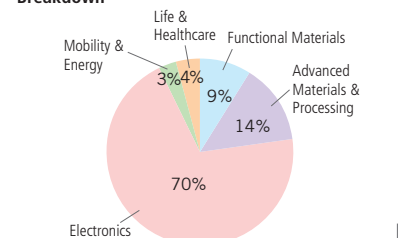


Kenji Sakai

Nagase Korea Corporation CEO
and COO

Net Sales/18.7 billion yen (FY2020)

Breakdown



Our Board

(As of June 23, 2021)



Directors

Note: Number of shares held based on available information on April 30, 2021. Shares held by board members include those held in the name of Officers Stock Ownership Plan and NAGASE & CO., LTD. Own Share Investment Association.

Representative Director and Chairman

Hiroshi Nagase

Number of shares held: 1,356,730

Director and Vice Chairman

Reiji Nagase

Number of shares held: 94,539

Representative Director, President and CEO

Kenji Asakura

Number of shares held: 23,327

Representative Director and Managing Executive Officer

In Charge of Overall Administration and
Affiliated Companies

Masaya Ikemoto

Number of shares held: 8,667

Director and Executive Officer

In Charge of Overall Sales

Masatoshi Kamada

Number of shares held: 11,810

Director and Executive Officer

In Charge of Overseas Overall Operations and
Business Development
Greater China CEO and Europe CEO

Takahiro Okumura

Number of shares held: 13,167

Outside Director

Nobumasa Kemori

Number of shares held: 3,061

1980 Joined Sumitomo Metal Mining Co., Ltd.

2006 Managing Executive Officer and Director,
Sumitomo Metal Mining Co., Ltd.

2007 Representative Director and President,
Sumitomo Metal Mining Co., Ltd.

2013 Representative Director and Chairman,
Sumitomo Metal Mining Co., Ltd.

2016 Director and Chairman, Sumitomo Metal Mining Co., Ltd.
Director, NAGASE & CO., LTD.

2017 Executive Adviser, Sumitomo Metal Mining Co., Ltd.

2021 Honorary Adviser, Sumitomo Metal Mining Co., Ltd.

Outside Director

Takahiko Ijichi

Number of shares held: 1,001

1976 Joined Toyota Motor Co., Ltd.
(currently Toyota Motor Corporation)

2004 Managing Officer of Toyota Motor Corporation

2008 Senior Managing Director of Toyota Motor Corporation

2011 Director and Senior Managing Officer of
Toyota Motor Corporation

2013 President of Towa Real Estate Co., Ltd.

2015 Executive Vice President and Member of the Board of
Directors of Toyota Motor Corporation
Adviser of Towa Real Estate Co., Ltd.

2016 Retired Adviser of Towa Real Estate Co., Ltd.

2017 Senior Adviser of Toyota Motor Corporation
Representative Director and Chairman of the Board of
Aioi Nissay Dowa Insurance Co., Ltd.

2018 Retired Senior Adviser of Toyota Motor Corporation

2019 Retired Representative Director and Chairman of the Board of
Aioi Nissay Dowa Insurance Co., Ltd.

2020 Director, NAGASE & CO., LTD.

Outside Director

Ritsuko Nonomiya

Number of shares held: 500

1987 Joined Peat, Marwick, Mitchell & Company
(currently KPMG LLP)

1997 Partner of KPMG Corporate Finance K.K.

2000 Joined UBS Warburg Japan
(currently UBS Securities Japan Co., Ltd.)

2005 M&A Advisor and Managing Director of UBS Warburg Japan
Senior Vice President and Business Development Leader of
GE Capital Asia Pacific Ltd.

2013 Senior Executive Officer and Business Development Leader of
GE Capital Japan, GE Japan Inc.

2013 Managing Director, GCA Savian Corporation
(currently GCA Corporation)

2015 Member of Executive Management Japan/Asia,
GCA Savian Corporation

2017 Director, GCA Savian Corporation

2020 Director, NAGASE & CO., LTD.

Audit & Supervisory Board Members

Note: Number of shares held based on available information on April 30, 2021

Outside Audit & Supervisory Board Member



Nobuyuki Shirafuji

Number of shares held: 1,640

1984 Joined The Sumitomo Bank, Ltd.
(currently Sumitomo Mitsui Banking Corporation)

2003 Deputy General Manager of Global Corporate Invest-
ment Dept. (London), Sumitomo Mitsui Banking
Corporation and Sumitomo Mitsui Banking Corporation
Europe Limited

2006 General Manager of Credit Dept., Europe, Middle East
and Africa Division (London), Sumitomo Mitsui Banking
Corporation and Sumitomo Mitsui Banking Corporation
Europe Limited

2013 General Manager of Credit Review Dept. of Sumitomo
Mitsui Banking Corporation

2016 Retired from Sumitomo Mitsui Banking Corporation
Audit & Supervisory Board Member, NAGASE & CO., LTD.

Audit & Supervisory Board Member



Masanori Furukawa

Number of shares held: 7,902

Audit & Supervisory Board Member



Mitsuru Kanno

Number of shares held: 7,887

Outside Audit & Supervisory Board Member



Gan Matsui

Number of shares held: 1,571

1980 Prosecutor, Tokyo District Public Prosecutors Office

1990 Prosecutor, Tokyo District Public Prosecutors Office
(Special Investigative Squad)

2005 Director, Special Trial Department,
Tokyo District Public Prosecutors Office

2010 Assistant Public Prosecutor, Osaka High Public
Prosecutors Office

2012 Chief, Criminal Investigations, Supreme Public
Prosecutors Office

2014 Chief Prosecutor, Yokohama District Public
Prosecutors Office

2015 Superintending Prosecutor,
Fukuoka High Public Prosecutors Office

2016 Japan Federation of Bar Associations
(Member, Tokyo Bar Association)

Yaesu Sogo Law Office

2018 Audit & Supervisory Board Member, NAGASE & CO., LTD.

Executive Officers

Naoki Yasuba

Managing Executive Officer

Hayashibara Co., Ltd.
Nagase R&D Center

Takanori Yamauchi

Managing Executive Officer

Nagase Business Expert Co., Ltd.

Satoru Fujii

Managing Executive Officer

Nagase ChemteX Corporation

Yasuhiro Mihara

Executive Officer

GM, Corporate Strategy Department

Kusuo Ota

Executive Officer

Totaku Industries, Inc.

Hiroyuki Ueshima

Executive Officer

GM, Mobility Solutions Department

Koichi Sagawa

Executive Officer

GM, Polymer Global Account Department

Akira Takami

Executive Officer

GM, Audit Office

Takayuki Masuda

Executive Officer

CEO, Americas

Yasumitsu Orii

Executive Officer

GM, New Value Creation Office

Ryuichi Uchida

Executive Officer

GM, Global Marketing Office

Takeshi Takada

Executive Officer

GM, Nagoya Branch

Noriaki Arashima

Executive Officer

GM, Specialty Chemicals Department

Noriyoshi Yamaoka

Executive Officer

GM, Human Resources & General Affairs Division

Yoshihisa Shimizu

Executive Officer

GM, Corporate Management Department

Xiaoli Liu

Executive Officer

GM, Nagase R&D Center

Corporate Governance

Basic Approach

The NAGASE Management Philosophy recognizes its responsibility to society and offers beneficial products and services while maintaining the highest standards of integrity. Through our growth, we will contribute to society and enrich the lives of our employees. Based on this philosophy, NAGASE strives to increase corporate value over the medium to long term in line with the NAGASE Vision, its commitment to stakeholders. We are strengthening our corporate governance, because we believe that rapid decision-making and execution, and ensuring transparency are essential for us to accomplish these objectives.

Note: Our latest Corporate Governance Report is available on our website. <https://www.nagase.co.jp/assetfiles/tekijikaiji/20210624-2.pdf>

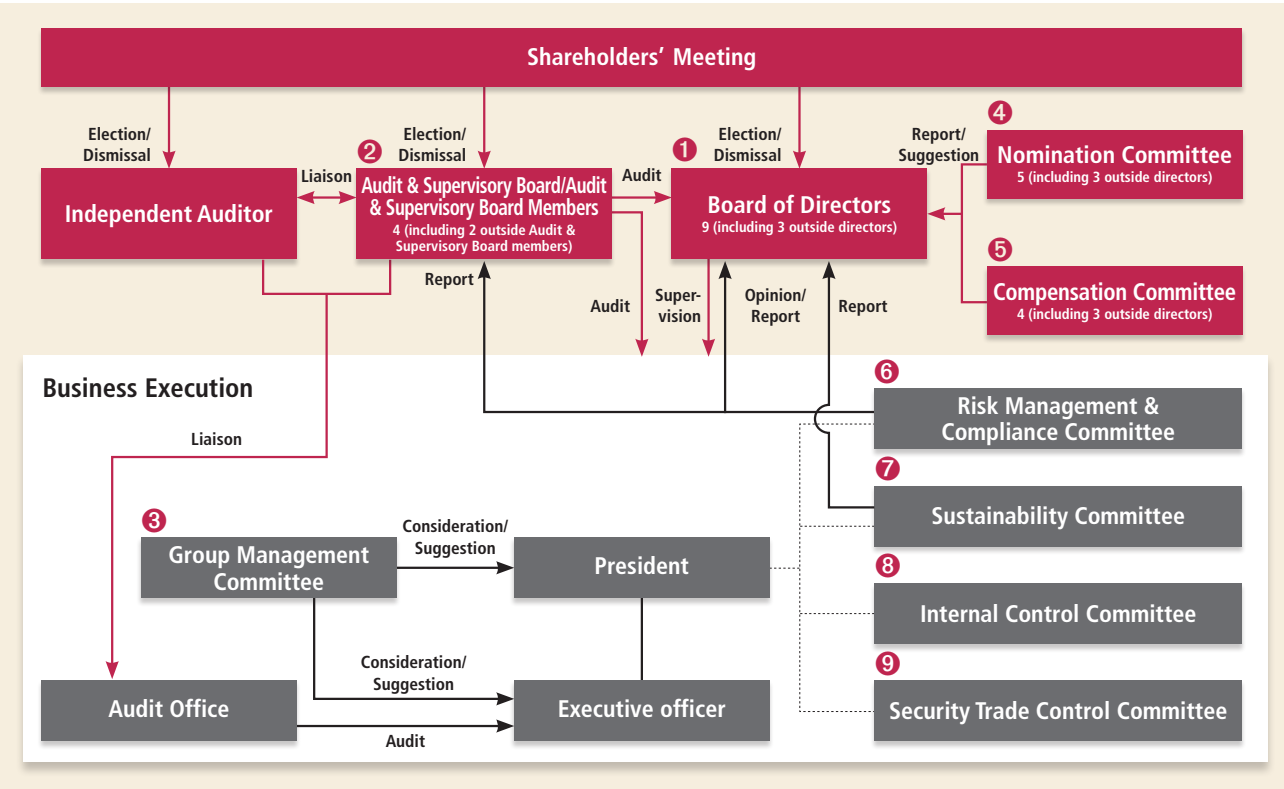
Governance Summary

Institutional Format Company with Audit & Supervisory Board	Effective functioning of neutral and objective audits by the Audit & Supervisory Board providing objective recommendations and advice from multiple independent outside directors with specialist knowledge.	Number of Directors 9	The number of directors has been reduced from 20 in 2000 to 9 in 2021, enabling faster decision-making.
Separation of Management and Business Execution Executive officer system	An executive officer system was introduced in 2001 to accelerate decision-making and enhance business execution.	Outside Directors 3	The first outside director was appointed in 2004. There are currently three outside directors, including one woman.
Outside Audit & Supervisory Board Members 2	Outside Audit & Supervisory Board members have been appointed since 1994. There are currently two outside Audit & Supervisory Board members (two of the total four members).	Director Compensation Compensation Committee	Established in 2010, three of the four members are outside directors. The committee debates the fairness of compensation levels and systems.
Board Member Appointment Nomination Committee	Established in 2018, outside directors form the majority of the committee, which debates proposals for nominating directors and executive officers, and succession plans.	Compliance/ Risk Management Risk Management & Compliance Committee	The Compliance Committee was formed in 2001 and converted to the Risk Management & Compliance Committee in 2008.
Internal Control Internal Control Committee	The Internal Controls Promotion Committee was renamed the Internal Control Committee in 2009.	Sustainability Sustainability Committee	Created in 2020, the Sustainability Committee is chaired by the President and its members are executive officers and senior management from Group companies.

Compliance with the Corporate Governance Code (As of July 1, 2021)

NAGASE has aggressively worked to comply with the Corporate Governance Code, which was applied to Tokyo Stock Exchange listed companies in June 2015, as a way to strengthen Group governance. Starting with the establishment of a nomination committee, appointment of a woman director to fulfill the gender diversity requirement, and revising the section on agenda items in the Board of Directors meeting rules, we have worked on setting standards as required by the Code and revising rules associated with regulatory changes, as well as reviewing how we run Board of Directors' meetings. We disclose in our Corporate Governance Report how we address the Principles and Supplementary Principles that should be disclosed.

Corporate Governance System



- 1 Board of Directors**

The Board of Directors is clearly positioned as the body in charge of making decisions on management policies and strategies, and supervises the execution of operations. It holds a regular monthly meeting to make important decisions, track business performance and formulate measures.
- 2 Audit & Supervisory Board/Audit & Supervisory Board Members**

In accordance with the audit policy and audit plans set at Audit & Supervisory Board meetings, Audit & Supervisory Board members conduct audits of the execution of duties by directors by attending important meetings such as Board of Directors meetings and receiving reports solicited from subsidiaries on an as-needed basis.
- 3 Group Management Committee**

The Group Management Committee comprises executive officers appointed by the Board of Directors, and in principle, meets regularly twice a month to discuss management strategies, investment projects, and other important matters to support business decision-making. This committee serves as an advisory body that discusses matters resolved by the Board of Directors.
- 4 Nomination Committee**

The Nomination Committee has five members, the majority being outside directors. It deliberates on appointment proposals for directors and executive officers and succession plans for the Chief Executive Officer. It then provides reports and recommendations to the Board of Directors with the aim of ensuring objectivity and transparency in nominations of NAGASE's top management.
- 5 Compensation Committee**

The Compensation Committee has four members, the majority being outside directors. It enhances the objectivity and transparency of the decision-making process regarding compensation of directors and executive officers by screening the appropriateness of every compensation level and the compensation system to report and make recommendations to the Board of Directors.
- 6 Risk Management & Compliance Committee**

The Risk Management & Compliance Committee establishes and strengthens risk management and compliance systems that cover not only legal compliance with also corporate ethics.
- 7 Sustainability Committee**

The Sustainability Committee is chaired by the President with executive officers and senior management of Group companies as members. This committee formulates policies for promoting sustainability throughout the Group, establishes and maintains the promotion system, monitors measures, and conducts educational activities within the Group.
- 8 Internal Control Committee**

The Committee deliberates on basic policies for the internal control system, builds frameworks established by the internal control system, and monitors the management of the frameworks to ensure the appropriateness of business operations.
- 9 Security Trade Control Committee**

The Security Trade Control Committee ensures compliance with export-related laws and regulations in relation to foreign currency exchange and foreign trade for the Company's trading of cargoes and technologies covered by such laws and regulations.

Compensation Committee Members 	Nomination Committee Members 	
Chair Kenji Asakura (Representative Director, President and CEO)	Chair Kenji Asakura (Representative Director, President and CEO)	Members Nobumasa Kemori (Outside Director)
Members Nobumasa Kemori (Outside Director)	Members Hiroshi Nagase (Representative Director and Chairman)	Takahiko Ijichi (Outside Director)
Takahiko Ijichi (Outside Director)		Gan Matsui (Outside Audit & Supervisory Board Member)
Ritsuko Nonomiya (Outside Director)		

Policy for Determining Level of Compensation

NAGASE CO., LTD. has established a policy for determining overall board member compensation and methods for calculating the amounts of compensation. We have established the Compensation Committee, with outside directors representing the majority of members. The Committee deliberates on the validity of compensation standards and systems, reporting to, and advising the Board of Directors in the process of determining compensation. Our basic policy is to ensure compensation is appropriate for the role and scope of responsibilities of each board member and motivates them toward sustainable improvement of corporate value. In line with this policy, board member compensation (excluding outside directors and Audit & Supervisory Board members) consists of a fixed compensation (50–70% commensurate

with the position) and performance incentives (bonuses: 30–50%). Compensation for outside directors and Audit & Supervisory Board members consists only of a fixed compensation calculated to reflect their duties. Performance incentives are calculated using a basic amount based on the initial consolidated financial results forecast, multiplied by the ratio of net income of the current fiscal year versus the previous fiscal year and attainment rate versus the initial forecast, and are adjusted according to an individual performance assessment. From fiscal 2021, we have added ROE as an indicator to increase the incentive to improve medium- to long-term capital efficiency.

Total Compensation paid to Directors and Audit & Supervisory Board Members

(Millions of yen)

Status		Number	Total amount of compensation	Breakdown		
				Fixed compensation	Performance-linked compensation, etc.	Performance-linked compensation, etc. (non-monetary comp.)
Director	Inside Director	5	286	192	93	—
	Outside Director	4	28	28	—	—
	Total	9	314	220	93	—
Audit & Supervisory Board Member	Inside Audit & Supervisory Board Member	2	46	46	—	—
	Outside Audit & Supervisory Board Member	2	33	33	—	—
	Total	4	79	79	—	—

Important Matters Regarding Employee Salaries for Directors Also Serving as Employees

Compensation by Type

Total Compensation (Millions of yen)	Number of Eligible Directors	Comments	Compensation Type	Compensation Content	Fixed/ Variable	Payment Method
12	1	Paid in an amount equivalent to employee salary	Basic salary	• A fixed compensation is paid commensurate with each director's position.	Fixed	Cash
			Performance-linked compensation (bonuses)	• A basic payment amount is decided in line with performance for the period. • Incentives reflect individual evaluations based on the Goal Management System.	Variable (by fiscal year)	

Outside Directors

NAGASE has three outside directors, Mr. Nobumasa Kemori, Mr. Takahiko Ijichi, and Ms. Ritsuko Nonomiya. All three are independent outside directors as defined by the Financial Instruments Exchange.

Reason for Appointment of Outside Directors, Concurrent Titles/Responsibilities, and Number of Shares Held in the Company

Name	Reason for Appointment	Concurrent Titles/Responsibilities
Nobumasa Kemori	Nobumasa Kemori has been involved in the management of Sumitomo Metal Mining Co., Ltd. for many years and possesses advanced knowledge and extensive experience of corporate management. He will use this knowledge and experience to make proposals concerning the Company's overall management from a perspective of familiarity with industry and is expected to enhance the Company's corporate governance.	Honorary Adviser, Sumitomo Metal Mining Co., Ltd. Outside Director, JFE Holdings, Inc. Outside Director, Sumitomo Realty & Development Co., Ltd.
Takahiko Ijichi	Takahiko Ijichi has been involved in the management of Toyota Motor Corporation for many years and possesses advanced knowledge and extensive experience of corporate management. He will use this knowledge and experience to make proposals concerning the company's overall management, including manufacturing activities performed by the Company in Japan and overseas, and is expected to enhance the Company's corporate governance.	Outside Director, COMANY INC.
Ritsuko Nonomiya	Ritsuko Nonomiya has accumulated business experience (including auditing) in the KPMG Group and has engaged in M&A and business development in the UBS Group and GE Group. Thus, she has advanced knowledge mainly in the fields of finance and accounting, and also possesses substantial knowledge and experience regarding corporate management. She will use this knowledge and experience to make proposals concerning the company's overall management and is expected to enhance the Company's corporate governance.	Director, GCA Corporation Director, GCA Advisors, LLC External Audit & Supervisory Board Member, Shiseido Company, Limited

Board of Directors Effectiveness Evaluation

The Company regularly analyzes and evaluates the effectiveness of the Board of Directors, believing in the importance of improving board effectiveness on an ongoing basis. Accordingly, the Company conducts surveys of all directors and Audit & Supervisory Board members. Based on the results, the Company confirmed that its Board of Directors functions effectively, conducting appropriate and timely deliberations and decision-making.

At the same time, we confirmed that there is a need to improve discussions regarding optimization of information delivery for review prior to meetings for deeper deliberations, expanding feedback and follow-up, and ensuring diversity in the composition of the Board of Directors in the longer term. The Company intends to continue initiatives to improve the effectiveness of the Board of Directors.

Outside Audit & Supervisory Board Members

NAGASE has two outside Audit & Supervisory Board members, Mr. Nobuyuki Shirafuji and Mr. Gan Matsui. Both are independent members as defined by the Financial Instruments Exchange.

Reasons for Appointment of Outside Audit & Supervisory Board Members and Concurrent Titles/Responsibilities

Name	Reason for Appointment	Concurrent Titles/Responsibilities
Nobuyuki Shirafuji	Nobuyuki Shirafuji possesses extensive knowledge based on his many years of overseas experience in financial institutions. He also has many years of experience in credit and audit departments, having considerable knowledge of finance and accounting. We therefore believe that he will perform his duties as an outside Audit & Supervisory Board member.	N/A
Gan Matsui	Gan Matsui has a wealth of experience in, and knowledge of law and legal practice, with substantial expertise in compliance ad governance. We therefore believe that he will perform his duties as an outside Audit & Supervisory Board member.	Attorney, Yaesu Sogo Law Office Outside Audit & Supervisory Board Member, Orient Corporation Outside Audit & Supervisory Board Member, Totetsu Kogyo Co., Ltd. Outside Director and Audit & Supervisory Board Member, GLOBERIDE, Inc. Outside Director, Dentsu Group Inc.

Audit System

● Status of Audit by Audit & Supervisory Board Members

The Audit & Supervisory Board comprises three full-time members (one of whom is an outside member) and one part-time member (who is an outside member). The Audit & Supervisory Board meets once a month in principle and as necessary to discuss matters. In fiscal 2020, it held 17 meetings. Each Audit & Supervisory Board member conducts auditing activities and reports audit results to the other members. The Audit & Supervisory Board exchanges a wide range of opinions and information when forming audit opinions. At the end of each fiscal year, the Audit & Supervisory Board conducts a review of its audit policies and plans, which is reflected in the audit plan in the following fiscal years to enhance the Board's effectiveness. Full-time Audit & Supervisory Board members audit the performance of directors' duties by attending Board of Directors meetings and other important meetings, reviewing important accounting documents, and through hearings with directors, executive officers, and operational departments, including the Audit Office. Full-time members also serve as corporate auditors of major subsidiaries and monitor the status and construction of internal control systems in corporate groups. This is done through information exchanges with corporate auditors of affiliates and on-site audits of domestic and overseas subsidiaries. They also meet regularly with independent auditors to keep abreast of auditing issues and accompany them when they perform on-site audits of subsidiaries and affiliates to monitor and verify whether independent auditors maintain an independent position and appropriate audits are being performed. The part-time member attends meetings of the Board of Directors and the

Audit & Supervisory Board, discusses matters with representative directors, outside directors, and independent auditors, and communicates seamlessly and promptly with full-time members to provide opinions and advice from an objective viewpoint based on specialized knowledge.

● Status of Audit by Internal Auditors

The Audit Office is in charge of internal audits, including audits to assess the appropriateness and efficiency of the Company's business activities including those of subsidiaries, based on internal auditing rules. The Audit Office is staffed by 11 employees, including certified internal auditors (CIA), qualified internal auditors (QIA) and others who possess specialized knowledge of internal audits. In addition, the Audit Office evaluates internal controls as an independent internal auditor and provides reports regarding the status of internal controls to directors, the Audit & Supervisory Board, and independent auditors, as appropriate.

● Status of Audit by the Independent Auditor

Independent audits are performed in a fair and impartial manner by the following specified limited liability partners.

Certified Public Accountants		Auditing Firm
Specified limited liability partners	Yoshifumi Mitsugi	Ernst & Young
Managing partners	Rikio Watanabe	ShinNihon LLC

Note: Neither of the certified public accountants, who have executed the aforementioned duties, have performed audits continuously for more than seven years.

Policies Related to Information Disclosure

Pursuant to the NAGASE Group Compliance Behavior Standards, the NAGASE Group engages in ongoing communication with society through timely disclosure to its stakeholders of truly important information over appropriate channels. We are mindful that all corporate activities remain fair, transparent, and within the bounds of socially accepted norms.

Guided by this basic philosophy, we conduct timely, appropriate, and fair disclosure of information through investor relations activities, public relations programs, and websites for our shareholders and investors to improve management transparency and accountability.

Major Investor Relations Activities

Activity	Supplementary information	Briefing by company representative?
Preparation and Publication of Disclosure Policy	The NAGASE Group Basic Compliance Policy and Code of Conduct stipulate that we must actively disclose corporate information to our stakeholders and ensure transparency.	
Regular briefings for analysts and institutional investors	In May and November every year, the President holds a briefing on financial results and our medium-term management plan attended by approximately 50 analysts and institutional investors.	Yes
IR materials on company website	All types of IR materials are found at https://www.nagase.co.jp/english/ir/	
Establishment of Department and/or Manager in Charge of IR	Department in Charge of Investor Relations: Corporate Management Department Director in Charge of Investor Relations: Director in Charge of the Corporate Management Department	
Other	We hold individual briefings and facility tours for analysts and institutional investors as appropriate.	

Interview with the Outside Directors

A year has passed since Mr. Takahiko Ijichi and Ms. Ritsuko Nonomiya joined Mr. Nobumasa Kemori as outside directors in 2020, bringing the number of outside directors at NAGASE to three. They gathered to talk about their expectations of ACE 2.0 and sustainability for the NAGASE Group.



Nobumasa Kemori

N-Sustainable businesses play a major role in the “Pursuit of Quality” declared as a theme of the medium-term management plan ACE 2.0



Takahiko Ijichi

I would like to see the attitude of every employee embracing and committing to the vision shown in ACE 2.0 as their own mission spreading throughout the company



Ritsuko Nonomiya

I anticipate the growth of N-Sustainable businesses into core businesses for NAGASE over the next 100–200 years, and beyond

What initiatives of the NAGASE Group in the past year were memorable for you?

Kemori For me, it was the Group Manufacturers’ Collaboration Committee. This committee was established to strengthen the non-financial foundations (including safety, hygiene, quality, and environment) of 11 NAGASE Group companies in Japan to enhance the Group’s overall corporate value and stimulate sustained growth. Although some of these 11 companies are small in scale with limited human resources, Nagase ChemteX and Hayashibara have taken

leading roles in the committee to promote sharing of measures and setting/monitoring common KPIs in accordance with its policies. This has shown positive results, which is very encouraging. Challenges going forward are how to help companies that need to catch up through monitoring and how to incorporate overseas manufacturers into the committee.

Ijichi I assumed my position quite recently, so almost everything in the past year has been memorable. What stands out the most is a debate at a Board of Directors Meeting. We were discussing

withdrawal from a particular business and reviewing how we started it in the first place, when someone who had been a member of the management team at the time admitted frankly that he had made an error of judgment. I found that impressive. It isn’t easy for members of the management team to admit that they made a mistake. This honesty relates to the principle of “maintain the highest standards of integrity.” I once again sensed NAGASE’s strength, which is the source of sustainability. Although I am positive on the Company’s aggressive attitude toward starting new businesses, my impression is that we can do better in evaluating and analyzing risk. I believe the corporate culture of respecting people plays a part, but I feel there is room for improvement in appropriate evaluation and awareness of risk in making decisions about new businesses, which always have an element of risk. In my view, it is essential that the management team is aware of the risk and is committed to managing it instead of indulging in optimism that isn’t backed up by management theory.

Nonomiya Many things have been memorable for me too, but what stands out is the tremendous progress with DX investment and initiatives. I was amazed by how employees formulated detailed action plans regarding DX, which is an abstract concept that is difficult to get your head around, and took action by hiring consulting firms, starting up internal project teams, and bringing in specialists from outside the company. The NAGASE Group is way ahead of the pack in DX initiatives and I am confident they will produce good results.

What do you think of ACE 2.0 and what are the key points for putting it into action?

Kemori It’s crucial that we achieve targets of a plan almost 18 months in the making and the result of many discussions by the Board of Directors. To this end we must establish PDCA cycles, but I am somewhat concerned about the reduced number of KPIs that measure the outcome (including the most important reform of our profit structure) compared with ACE-2020. A smaller number of KPIs means fewer departments and subsidiaries being involved. I would like to see the corporate division closely monitoring the PCDA cycles of every department so that employees who are not directly involved in the KPIs do not lose interest and continue to participate.

Nonomiya My impression is that employees have no resistance to change. I saw a glimpse of the NAGASE Group’s DNA and corporate culture in the absence of conservative attitudes to and rejection of change.

Ijichi Determination to change the NAGASE Group is reflected in many aspects of ACE 2.0, which is great. How we translate this impressive management plan into day-to-day business activities will make the difference between success and failure. To this end, all

NAGASE Group employees must embrace the Vision as their own challenge, adjust their course to make it happen, and run their own PDCA cycles. I have been there myself, but many companies announce idealistic visions that do not resonate with employees on the ground. To ensure this does not happen at NAGASE, I would like to see the attitude of every employee embracing and committing to the vision shown in ACE 2.0 as their own mission spread throughout the company.

Regarding the creation of sustainable businesses (N-Sustainable businesses) being sought in ACE 2.0, which parts are you looking forward to and which points do you consider to be important?

Nonomiya To echo Mr. Ijichi, I would like every employee to consider in specific, personal terms what they need to do now and what their goals are in terms of contributing to the company. For the NAGASE Group, which has practiced sustainability for around 190 years, its positive corporate culture to change itself will be the driving force for creating sustainable businesses. I anticipate the growth of N-Sustainable businesses into core businesses for NAGASE over the next 100–200 years, and beyond.

Ijichi N-Sustainable businesses are defined as follows: “Identify issues that customers and society have not yet recognized and provide “solutions to generate profits” [through innovative services and technologies].” This sounds like a big ask, but essentially it means tackling the simple problem of identifying customers’ urgent needs and taking a dedicated and humble attitude toward fulfilling them. What’s important in this process is to ensure that the company as a whole does not become a bureaucracy, which requires constant effort to ensure the impetus for corporate cultural reform is kept alive, including communication between departments.

Kemori N-Sustainable businesses play a major role in the “Pursuit of Quality” declared as a theme of ACE 2.0. The challenge of harnessing digital technologies to transform traditional business models, organizations, and thinking to create new value added is typical NAGASE Group-style DX. We must analyze information and diversify ways to deliver solutions to replace traditional trading company business methods. N-Sustainable businesses require close-knit sales, manufacturing, and research teams to “foresee the issues that customers and society will face in the future.” At least two of the three teams must train capable people into a group able to identify customers’ problems and discover solutions to these problems. As the next step, we must explore how we engage with the solutions we have proposed and grow this into a business. I have expectations of N-Sustainable businesses, including their feasibility.

Profile

Nobumasa Kemori, Outside Director

Nobumasa Kemori was a director of Sumitomo Metal Mining Co., Ltd. for many years and possesses advanced knowledge of corporate management. He has been an outside director of NAGASE since 2016.

Takahiko Ijichi, Outside Director

After a long career in accounting, finance, and human resources with Toyota Motor Corporation, Takahiko Ijichi became an outside director of NAGASE in 2020.

Ritsuko Nonomiya, Outside Director

An M&A advisory specialist whose career has mainly been in the U.S., Ritsuko Nonomiya became an outside director of NAGASE in 2020.

Compliance

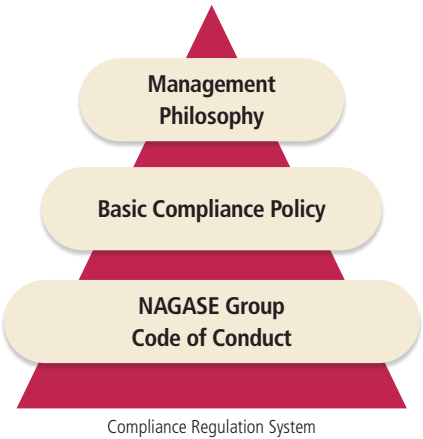
Basic Approach

The NAGASE Group values employee education and business activities that follow socially accepted norms and ethics as well as observing laws and regulations, which are becoming more complex and stringent in an increasingly borderless world. Thus, we are committed to compliance that keeps pace with the changing times. To this end, we have established a Risk Management & Compliance Committee to oversee risk management and compliance, and defined its functions and authority. The Risk Management & Compliance Committee operates as a structure with clearly defined roles and responsibilities.

Compliance Regulation System and Operation

The Risk Management & Compliance Committee, which oversees risk management and compliance, has formulated a Basic Compliance Policy and ensures the Company engages in corporate activities in accordance with the NAGASE Group Code of Conduct.

When an illegal act or other issue is identified at NAGASE & CO., LTD. or a Group company, it must be reported immediately to the Risk Management & Compliance Committee, which must report it without delay to the Board of Directors and Audit & Supervisory Board. In addition, the Company has introduced a compliance hotline that allows directors, officers, employees, and others, including those from Group companies, to report or discuss issues directly.



Basic Compliance Policy Overview

- ❶ Comply with applicable laws and regulations; conform to internal rules

❷ Eliminate anti-social elements

❸ Provide useful products and services
- ❹ Respect employee’s personality and individuality

❺ Disclose information

❻ Protect the global environment

❼ Responsibilities of top management

Note: The Basic Compliance Policy is also available on our website <https://www.nagase.co.jp/english/sustainability/governance/compliance/>

Fair Business Practice Initiatives

Under its Code of Conduct, the NAGASE Group ensures strict compliance with laws, regulations, and rules as well as internal regulations and rules.

The risk of cartel enforcement, particularly surcharges under the Antimonopoly Act can have a major impact on a business. Therefore, the NAGASE Group actively runs education programs, mainly for our manufacturing companies, to ensure that they are not involved in unfair trade. We are also providing bribery education to Group companies in Japan and overseas in the context of strengthening our approach to the prevention of bribery of foreign public officials under Japan’s Unfair Competition Prevention Act and extraterrestrial application of the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act.

Main Education Activities (Fiscal 2020)

■ Compliance training

November 2020	Nagase Techno-Engineering Co., Ltd.
December 2020	Nagase Information Development, Ltd.
November–December 2020	Seven companies in ASEAN and the Middle East
January 2021	DAITAI KAKO CO., LTD.
February 2021	Fukui Yamada Chemical Co., Ltd., Nagase Plastics Co., Ltd.

■ Training on Antimonopoly Act

February 2021	NAGASE & CO., LTD.
	Nagase Holdings America Corporation
	Nagase America LLC

Security Trade Controls

Trade is the foundation of the NAGASE Group’s activities. To conduct appropriate trade in line with laws and regulations as a member of the international society, the Security Trade Control Committee works to understand the export control situation, follows the latest revisions to the Foreign Exchange and Foreign Trade Control Law, and ascertains a detailed picture of export controls across the entire Group, while formulating related Group policies. The Item Compliance Management Council is in charge of directing and educating each business division and Group company in matters and statute updates determined by the Security Trade Control Committee. It is the responsibility of the Item Compliance Management Council to protect the company and affiliates against the risk of illegal acts.

● Specific Import-Export Management Framework

Information about our export products, technologies, and overseas customers is stored in and managed via our proprietary Product Management System. We confirm whether certain products or technologies are subject to restriction under the rules of the Foreign Exchange and Foreign Trade Control Law and the U.S. Export Administration

Regulations. Only those products approved by the Item Compliance Management Section are put into the system as products allowed for export. Going one step beyond mere adherence to the law, we define policies for the entire NAGASE Group associated with security trade controls that, as a rule, prohibit trade of products that are militaryrelated items or that have military applications.

● Efforts to Promote Personnel Development

The practical business of security trade controls changes every year. To keep pace with developments, the NAGASE Group encourages its employees—primarily those involved in export operations—to become Security Trade Control Associates by taking the exam offered by the Center for Information on Security Trade Controls (CISTEC).

Qualified Security Trade Control Associates (cumulative)

Fiscal year ended March 31, 2019	947
Fiscal year ended March 31, 2020	982
Fiscal year ended March 31, 2021	1,033

Regulatory Compliance in Products

The safe handling of chemicals is an important foundation underpinning the NAGASE Group’s businesses. At NAGASE, we continue to improve product-related compliance and centralized information management, including management of chemical products. All the products we deal in are subject to our management system. This allows us to comply properly with any laws or regulations that affect our products.

● Specific Compliance Framework

The NAGASE Group monitors related laws for the chemical components and regulated effects of new products we plan to introduce to the market. We register each chemical component to ensure compliance with every country’s laws and regulations that cover particular components. Information related to these products is registered in the aforementioned Product Management System database in an effort to centralize the Group’s management of said information. By joining relevant industry organizations, we have access to the latest information regarding chemical regulations. We endeavor to pass on accurate information to relevant parties in part through our use of chemSHERPA, a tool for sharing information on chemical substances contained in products across the supply chain.

● Responding to Global Chemical Laws and Regulations

The Strategic Approach to International Chemical Management (SAICM) adopted at the 2002 World Summit on Sustainable Development—also known as the Johannesburg Summit—is aimed at ensuring that, by the year 2020, chemicals are produced and used in ways that minimize significant adverse impacts on the environment and human health. In accordance with this policy, the entire world is adopting more strict and standardized regulations concerning chemical management. Accordingly, we anticipate global regulatory trends related to chemical management, working with our overseas subsidiaries to educate, provide instructions, and adopt product management systems. In this way, we facilitate the global management of information related to chemical substances to provide accurate, up-to-date information to our business partners.

Measures in Various Countries to Implement SAICM

Region/Country	Inventory	GHS
Japan	Chemical Substance Control Law	Industrial Safety and Health Act
United States	TSCA	HCS (OSHA)
EU	REACH	CLP
China	China REACH	Regulations on the Safe Management of Hazardous Chemicals
South Korea	K-REACH	Occupational Safety and Health Act
Taiwan	Toxic and Concerned Chemical Substance Control Act	Occupational Safety and Health Act
ASEAN	Under development in each country	Under development in each country

Inventory: Existing chemical substance lists in each country
GHS: Globally Harmonized System of Classification and Labeling of Chemicals

The Group’s Approved Operations and Products

Manufacture of poisonous and deleterious substances	Handling of stimulants raw materials
Import of poisonous and deleterious substances	Manufacture and sale of Class II medical devices
General sale of poisonous and deleterious substances	Sale of high-pressure gas (type 1)
Manufacture of pharmaceuticals	Sale of high-pressure gas (type 2)
Categories: Packaging, labeling, storage	Sale of agrochemicals
Sale of pharmaceuticals	Sale of fertilizers
Wholesale of veterinary pharmaceuticals	Import of animal feed additives
Export of narcotics, etc.	Sale of animal feed additives
Import of narcotics, etc.	Sale of liquor
Wholesale and retail of specified narcotics, etc.	Import of alcohol
Export of psychotropics	Sale of alcohol
Import of psychotropics	Wholesale of salt
Export of stimulants raw materials	Specified sale of salt (import/export)
Import of stimulants raw materials	Construction (installation of machinery and equipment)

Risk Management

Basic Policy

The NAGASE Group runs a global and diversified operation, being exposed to various risks associated with the nature of its businesses. We therefore endeavor to gain an accurate assessment of risks related to business activities within and outside the company, take appropriate action, and make improvements so that we can achieve sustainable growth while minimizing harm from emerging risks.

Internal Controls

The NAGASE Group established an internal control system to build a stable and sustainable corporate foundation for the Group with the aim of enhancing corporate value through corporate activities. The Internal Control Committee, the main entity for advancing internal controls,

discusses the basic policy of the internal control system, monitors the construction and operation of frameworks defined under the internal control system, and ensures the propriety of operations.

Note: The basic policy related to internal controls is available on our website. https://www.nagase.co.jp/english/sustainability/governance/corporate_governance/

Business Crisis Management

We established Crisis Management Guidelines to prepare for a business crisis that could disrupt business continuity. The guidelines aim to build a system that can swiftly and appropriately initiate, communicate, and ensure on-site first responses as well as a Group-wide organizational

response consisting of an assessment of the situation, status reports, action guidance, and more. In an emergency, we strive to maintain the stability of our business operations and minimize stakeholder losses by following the Crisis Management Guidelines.

Product Safety and Quality Control

The NAGASE Group considers product safety and quality control a major social responsibility to provide customers with safe products and build a safe and secure society. According to the NAGASE Group Product Safety Principles, we strive to ensure the safety of products through Group-wide rules and education. In addition, the Risk Management Division provides

management of vendors and manufacturing contractors, and the Group Manufacturing Company Liaison Committee, within the Corporate Planning Department, provides support to Group manufacturing companies and internal education.

Note: The Product Safety Principles are available on our website. <https://www.nagase.co.jp/english/sustainability/governance/compliance/>

Initiatives in NAGASE Group Companies

Nagase ChemteX Corporation

The Nagase ChemteX Fukuchiyama Plant, which manufactures food additives and health food ingredients, has ISO 9001 (Food Additive Good Manufacturing Practices) and FSSC 22000 (international standard for food safety) certifications. Nagase ChemteX has also adopted Kosher and Halal requirements to ensure safety and security of products supplied globally from acceptance of raw materials to manufacture, quality assurance, and product delivery.



Nagase ChemteX Corporation
Fukuchiyama Plant

Hayashibara Co., Ltd.

In addition to company-wide ISO 9001 certification, Hayashibara has FSSC 22000 certification for its mainstay product TREHA™. In addition, Hayashibara follows applicable GMPs for its active pharmaceutical ingredients and pharmaceutical excipients in the management of the whole process from acceptance of raw materials to manufacture, quality assurance, and product delivery.



Hayashibara's Okayama Plant II

Crisis Prevention and Business Continuity Planning (BCP)

Each NAGASE Group company has taken steps to mitigate such risks as those related to natural disasters that could have an impact on the continuity of business activities as well as the safety and lives of employees. NAGASE has enacted measures for crisis prevention to protect human life and assets as well as business continuity plans (BCPs) to

ensure steady operations. As for crisis prevention activities, we annually conduct one drill that coordinates our major domestic bases of Tokyo, Nagoya, and Osaka, checking the first responses during times of crisis. As for BCPs, each department has formulated a recovery plan to assure delivery to major business partners.

Initiatives to Prevent Risk of COVID-19 Infections

In light of the risks associated with the ongoing COVID-19 pandemic, the NAGASE Group created the COVID-19 Countermeasure Headquarters, headed by the Director, to progress the following initiatives.

① Maintain the health of Group employees

NAGASE requires that steps are taken to ensure the safety of employees stationed overseas and their families and has banned in principle domestic and overseas business travel. Under a state of emergency in Japan, the Company has promoted teleworking with the goal of reducing the number of commuting employees by 70%. Progress toward this goal is published on the Company website.

② Promote teleworking and take specific steps to prevent the spread of COVID-19

- Abolished the limit on the number of days employees can work from home under a state of emergency
- Aggressively utilized shiftwork system that was put in place before COVID-19
- Issued infrastructure and equipment required for teleworking to employees (such as PCs) and transitioned meetings and trainings online
- Prohibited group meals in the office and commuting between group business locations in principle
- Installed acrylic partitions for desks and tables to prevent the spread of aerial droplets and limited office meeting room capacity

③ Communicate with business partners

We are taking steps to prevent infection while actively making use of online meetings and webinars for communication.

④ Initiatives to minimize impact on business operations

The company is striving for business continuity by setting up satellite offices and taking steps to enable continuing operations at Group manufacturing companies while putting safety first.

Response to Environment-Related Risks

● Response to Climate Change Risk

Climate change has come to impose a profound impact on the environment, society, the lives of the general public, and the activities of companies. Expectations are rising on the roles the private sector must play. And the NAGASE Group recognizes the need to take measures against climate change to continue business operations. Going forward, we believe that we must explore the methods for setting and managing climate change scenarios.

● Response to Water Risk

The Sustainable Development Goals (SDGs) include securing a stable supply of water and richer lifestyle, including access to water, for all people. In light of this SDG, the NAGASE Group makes concerted efforts to more efficiently use water, reduce water usage, use appropriate amounts of water, thoroughly reuse water, and recycle water in its business activities.

Responsible Publicity and Marketing

Basic Policy

The NAGASE Group handles food ingredients and additives for the food industry, and pharmaceutical raw materials and medical equipment for the pharmaceutical and healthcare industries, and aims to contribute to the healthy fulfilling life of people.

Consideration for Consumers

As consumers are important stakeholders, and any disadvantages for consumers lead to those for the NAGASE Group and all stakeholders, the Group recognizes the importance of responsible publicity and marketing. As our basic policy, we will never conduct exaggerated advertisements that result in an information disparity with consumers, or

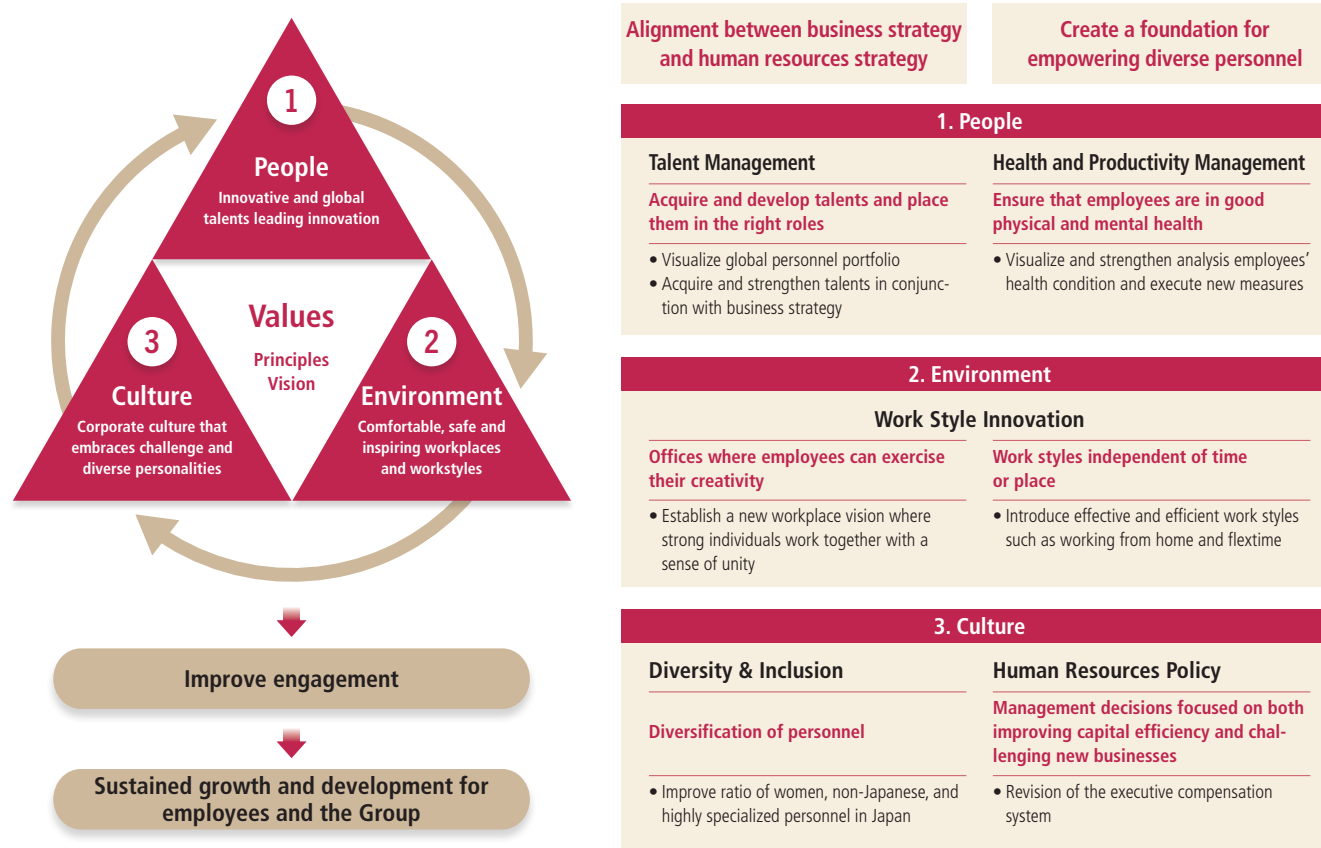
inappropriate publicity or marketing, and we will ensure indications that cause no misunderstanding about the characteristics and efficacy of products and services. We also endeavor to observe laws and standards, and collect information from third parties such as trade organizations, which we actually practice.

Human Resource Development to Drive Innovation

Basic Policy

The NAGASE Group solves various social issues through innovation to help realize a sustainable society. Diversity is vital for developing human resources that drive innovation and provide an agile response to changes in the environment. It is one of our key corporate strategies. We are also implementing cross-departmental initiatives to develop new businesses and advance activities that leads to solutions for social issues and innovation.

Human Resources Strategy

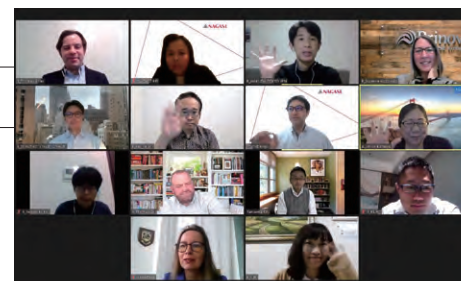


1 People

Global Human Resources

The NAGASE Group seeks to progress an optimal human resources strategy by visualizing its portfolio of global human resources. We hold meetings of the Global HR Council around eight times a year for regions that do business globally to work together to share information and conduct strategic discussions on an ongoing basis. The meetings allow participants to deepen their understanding of themes that we all share, such as engagement, organization development and training programs,

improving processes, and the new normal amid COVID-19, and stimulate collaboration and mutual support in addressing these themes.



2 Environment

Work Style Innovation

Work style reforms proposed in our medium-term management plan ACE 2.0 aspire to create an environment where a diverse work force co-creates as a team. We have also adopted flexible work styles such as working from home and flextime to continue improving our productivity. The NAGASE Group decided to rebuild our Tokyo Head Office building. We aim to enhance the creativity of the Group as a whole by building an exciting new Head Office that provides a vibrant working environment that allows employees to harness their full potential.

Health Management

The Group believes that the most important measure for achieving health and productivity management is ensuring the physical and mental wellness of our employees, which constitute Group assets, as well as their families. To this end, we formulated and unveiled the NAGASE Health Declaration in 2018 in support of improving the health of Group employees. We are currently promoting initiatives in line with the declaration.

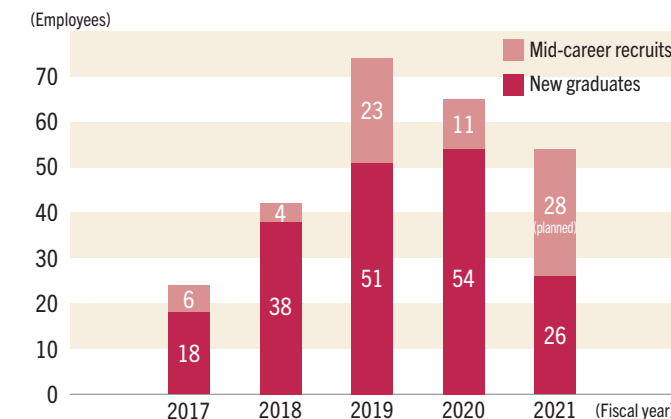


3 Culture

Diversity

The NAGASE Group strives to employ human resources with diverse ideas and perspectives in Japan and overseas, which is reflected in the growing number of National Staff and mid-career recruits. There were 2,441 National Staff in 2017, increasing to 3,021 in 2021. As well, NAGASE & CO., LTD. actively hires mid-career recruits. We believe that the Group's diverse human resources will contribute toward its development.

Trends in number of new graduate and mid-career recruits



Empowering Women in the Workplace

The NAGASE Group believes empowering female employees to be an important initiative for promoting diversity. We have been actively leveraging the power of our female workforce in business, by hiring more women in core roles, promoting more women to management, and expanding their career opportunities. We are also focused on fostering an environment where women can promote work life balance and continue their career, by enhancing the support for employees with child rearing and caregiving needs. Although the number of women in management has improved, it is still an ongoing challenge for us to achieve further increases. The proportion of women among all employees is also not high, so we will continue to improve the situation by increasing the number of women's employment.



NAGASE is recognized by the Ministry of Health, Labour and Welfare as a company that supports employees raising children.

Research and Development

NAGASE Technical Vitality Program

In order to create new business, the NAGASE Group leverages its combined strength in R&D activities for the development of new technologies and products and for the dissemination of technical information.

In 2019, we launched the NAGASE Technical Vitality (NTV) Program (a cross-divisional community program from a technology perspective) to strengthen internal collaboration and maximize group capabilities. In its second year, the program attracted 53 participants, who tackled

leading-edge technology themes including AI, IoT, healthcare, and biomimetics in five working groups.

In August 2021, we began activities for the third year of the NTV Program with a view to sowing the seeds of a nextgeneration business like TABRASA™ (a recently launched SaaS type materials informatics support service).

Creating Environmental Value

Basic Approach

Currently, changes in the global environment are pressuring companies and individuals to make big decisions. The NAGASE Group helps realize a sustainable society by actively working to solve environmental problems, including by promoting a carbon-neutral society, realizing a recycling society, preventing pollution, preserving biodiversity, and efficiently using water.

NAGASE Group Environmental Policy

❶ **Comply with all environmental laws, regulations, and other rules**

We will observe all environmental laws, municipal bylaws, environmental regulations and other rules as we conduct our business activities.

❷ **Develop businesses that give full consideration to environmental issues**

In pursuing business activities, we give consideration to the natural ecosystem, global environment, and the conservation of the global environment, and make efforts for resource saving, including reductions in energy and water consumption, and for the reduction and recycling of waste.

❸ **Fulfill our responsibilities as a good corporate citizen**

As a good corporate citizen, we will work together with public

institutions, industries, and local communities to promote environmental conservation measures that are suitable for the NAGASE Group.

❹ **Establishment of environmental management systems and continuous improvement**

The NAGASE Group has set environmental targets to achieve our environmental policies. Further, we have established and operate an environmental management system, striving for continuous improvement.

❺ **Disclose and make the relevant parties fully aware of our Environmental Policy**

We will disclose our Environmental Policy to the public and make all who work for the NAGASE Group fully aware of its contents.

ISO/Environmental Management Structure and Activities

● **Structure**

The Risk Management & Compliance Committee (Environmental ISO Management General Secretariat) provides advice and support for acquiring certification for ISO 14001, an international standard for environmental management system. Today, NAGASE & CO., LTD. operates an environmental ISO organization that includes seven other Group companies, which will continue activities to improve environmental management systems going forward. Information on Group companies that have obtained ISO 14001 certification is published on our website.

Note: Information about ISO 14001-certified companies is available on our website.
<https://www.nagase.co.jp/english/sustainability/environment/management-system/>

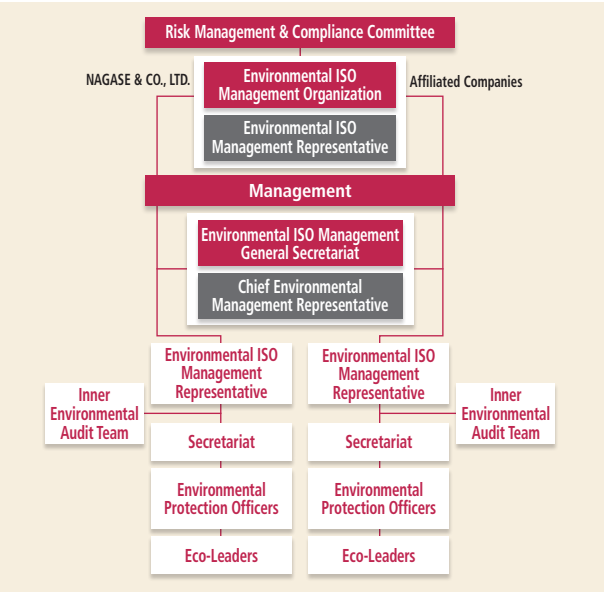
● **Activities**

We incorporate environmental management activities into our daily business. Specific activities include: 1) Promoting environmental businesses, 2) pursuing energy-efficient activities, and 3) improving operational efficiencies.

One example of our environmental businesses is using our environmental and energy technologies to develop and grow related businesses. We are building a system to quickly roll out products and services toward creating recycling-oriented and carbon-neutral society.

One example of energy-efficient activities is the Nagase Energy Calculation Online System, or NECO System. We began operating this system in August 2008. The NECO System uses logistics voucher data to calculate domestic cargo transport volumes, helping reduce our environmental footprint through logistical efficiency. In addition to calculating the Company's annual cargo transport volume and CO₂ emissions, the system analyzes optimal transport routes to reduce CO₂, aiding our efforts to reduce energy used in transportation.

We are also taking action in our company headquarters building to conserve energy and resources. In line with the Revised Act on the Rational



Use of Energy, NAGASE & CO., LTD. has been designated as a specified corporation to report data and plans by the Ministry of Economy, Trade and Industry. Consequently, since fiscal 2011, we have compiled data on the amount of energy consumed at every facility, formulating medium- and long-term energy reduction plans and submitting regular reports to the Ministry of Economy, Trade and Industry.

We adopted and operate a building energy management system (BEMS) at our Tokyo head office building, Nagoya branch office, and NAGASE Global HR Development Center. We automated controls and energy conservation operations during peak usage times particularly in the summer to keep environmental settings within target levels.

For a Carbon-Neutral Society: Reducing Our Environmental Burden

● **Reducing wastewater treatment and power consumption at group companies using products supplied by Aience Inc.**

In the food processing industry, large fluctuations in the volume of factory wastewater and unstable water quality are problems that impact negatively on the environment.

Hayashibara Co., Ltd. installed Aience's Aquablaster wastewater treatment system (see P34) to reduce the environmental impact of its wastewater and to stabilize water quality. Compared with conventional wastewater treatment systems, Aquablaster costs less to run and rarely requires time-consuming maintenance. As a result of using Aquablaster, the recovery of dissolved oxygen (DO) after changes in raw water loading improved due to greater aeration. The cost of power used for wastewater treatment was down 14% year on year in fiscal 2020 as a result of a combination of improvements.

● **Initiatives to produce palm oil sustainably**

Production of palm oil, which is low cost, easy to process, and used in many processed foods, has increased sharply amid global population growth. However, it also causes environmental problems because of increased CO₂ emissions and loss of biodiversity due to deforestation. For

this reason, a sustainable way to produce palm oil that considers the needs of the environment and local communities is urgently sought. The NAGASE Group supports the Roundtable on Sustainable Palm Oil (RSPO) as one of its initiatives to source sustainable raw materials. We completed registration for full membership in March 2020 and began operating an internal system to keep track of handling volume of palm oil-related products. Our goal is for all subsidiaries with a transaction record for palm oil to have supplier certification by 2025 and replace all palm oil-related products with RSPO-approved products by 2030.

● **Established new Environmental Solutions Section to extract and solve environmental problems through our business**

In April 2021, we established the Environmental Solutions section in the Specialty Chemicals Business to accelerate the expansion of our environment-related business. We provide three environmental solutions services that comprehensively address issues such as counteracting global warming, reducing CO₂ emissions, energy efficiency, cost reduction, and recycling to support customers' manufacturing facilities and help to increase their corporate value. Not only do we supply equipment and systems, but through consulting, we also deliver long-term services from extracting problems to solving them.

Sustainability Data at a Glance

Greenhouse gas emissions in our business activities (t-CO₂)

Item		Fiscal 2018	Fiscal 2019	Fiscal 2020
Direct greenhouse gas emissions (Scope 1)		32,896	32,831	30,537
Indirect greenhouse gas emissions (Scope 2)	Location reference	32,554	32,057	30,334
	Market reference	40,922	35,976	33,113
Total		—	3,064,973	2,808,930
Greenhouse gas emissions in the supply chain (Scope 3)	Purchased products and services	—	2,978,809	2,715,209
	Capital goods	—	22,762	30,492
	Activities related to fuel and energy not included in Scopes 1 and 2	—	12,242	11,577
	Transportation/distribution (upstream)	—	39,903	42,927
	Business waste	—	5,250	3,474
	Business travel	—	676	577
	Commuting of employees	—	1,096	717
	Leased assets (upstream)	—	—	—
	Transportation/distribution (downstream)	—	4,070	3,803
	Processing of sold products	—	—	—
	Use of sold products	—	—	—
	Disposal of sold products	—	67	61
	Leased assets (downstream)	—	98	93
	Franchise	—	—	—
	Investment	—	—	—

Participating companies:
NAGASE & CO., LTD.,
Nagase ChemteX Corporation,
Hayashibara Co., Ltd.
Period under review:
April 2018–March 2021

Paper use

(at Tokyo Head Office, Osaka Head Office, and Nagoya Branch Office)

	Fiscal 2018	Fiscal 2019	Fiscal 2020
Paper use (thousand sheets)	4,585	4,382	1,526
Paper use (t)	19.6	18.7	6.5

Waste and recycling rate

	Fiscal 2018	Fiscal 2019	Fiscal 2020
Amount of waste (t)	193	175	118
Amount of recycled waste (t)	158	142	97
Recycling rate	81.8%	81.4%	82.4%

Participating company:
NAGASE & CO., LTD.
Period under review:
April 2018–March 2021

Note: Sustainability-related data is available on our website. <https://www.nagase.co.jp/english/sustainability/data/>

Human Rights and Labor Management

Basic Approach

The NAGASE Group respects the history, culture, and customs of every region and does not engage in harassment or discrimination based on race, religion, gender, age, sexual orientation, disability, or nationality. Specifically, the Group established a Code of Conduct to ensure respect for human rights and individuality. In the event of an incident of discrimination, the Group will take immediate steps to investigate the situation, help the individual(s) affected, discipline the perpetrator(s), and act resolutely to prevent a recurrence.

Respect for Employee Personality and Individuality/Human Rights Education

Our Code of Conduct stipulates the points to the right regarding respect for employee personality and individuality. It is available in Japanese, English, and Chinese through our corporate intranet, and all Group employees worldwide are required to comply with it.

Respect for human rights and prohibition of all forms of discriminatory treatment

Respect for privacy

Establishing an environment to draw out the strengths of employees

Labor-Management Relations

The NAGASE Group supports fundamental guidelines such as the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the four principles on labor of the United Nations Global Compact, and guarantees the basic labor rights of its employees. Further, the Group supports freedom of association, and the three basic labor rights of labor unions (the right to assemble, the right to collective bargaining and the right to collective action).

With respect to management-labor consultation, we have established a forum for discussion between labor and management, seeking to share information on issues related to work conditions, environments, and so forth, and resolving issues in cooperation between both parties.

Overseas locations follow the labor regulations of their respective countries, and build positive management-labor relations with labor unions in these locations as well.

Measures to Prevent Harassment

The NAGASE Group Compliance Code of Conduct, a behavioral guideline for all Group employees and officers, prohibits harassment. We shall take resolute action, including disciplinary action, against any person who is found to have conducted harassing behavior.

The NAGASE Group is also continuing with initiatives in this area, such as compulsory harassment prevention training for Group employees. The Company is addressing issues of harassment in the workplace,

working to prevent harassment regardless of whether it is intentional. We have introduced a harassment hotline so that employees can report and seek advice about harassment directly. This allows us to investigate promptly when an incident occurs, help those affected, and take strong action to prevent a recurrence, including disciplinary action against the harasser.

Vibrant Work Environments

Approach to Occupational Health and Safety

Respect for the individual is a key tenet in all of the NAGASE Group's business activities. We regard occupational health and safety as the key prerequisite for progressing business activities, and by working

proactively on that front, we make ongoing improvements and create a safe, positive, and comfortable work environment.

Basic Occupational Health and Safety Policy

- 1 The NAGASE Group and each of its employees work together to ensure a safety-first work environment without any accidents or incidents.
- 2 We shall strive to eliminate the seeds of injury and illness from the workplace in building an environment where employees may work assured of their health and safety.
We focus particularly on prevention against global health phenomena such as HIV/AIDS, tuberculosis, and malaria.
- 3 We shall comply with all laws and regulations related to occupational health and safety, as well as any concurring requirements.
- 4 This policy shall form the target for activity development and execution, with regular reviews to continuously improve the methods and results of our activities.
- 5 We shall invest management resources appropriately based on resolutions of the Board of Directors in order to effectively leverage occupational health and safety management systems.

Responsible Supply Chain

Basic Approach

Securing a sustainable supply chain is a priority for the NAGASE Group, which supplies diverse products and service around the world. We strive to make the Group's supply chain one that is responsible and mindful of issues such as human rights, labor environment (eradicating child labor, forced labor, and discrimination, and avoidance of conflict between labor and management), health and safety, and the global environment (effective use of energy resources, climate change, and biodiversity).

Basic Policy for Suppliers

The establishment and maintenance of a responsible supply chain requires the cooperation of partner companies. The NAGASE Group strives to be a corporate group that can provide a solution for social

issues to be addressed by the whole value chain. Our suppliers are therefore required to comply with the following policy.

① Legal compliance and quality assurance

- Comply with applicable laws and regulations in the countries and regions where business activities are conducted.
- Provide safe, high-quality products and services

② Protection of human rights of employees

- Prohibit all forms of discriminatory treatment and eliminate human rights infringements such as forced labor and child labor
- Support freedom of association and the right to collective bargaining, and establish good labor-management relations
- Provide safe working conditions and ensure health and safety by eliminating excessive working hours

③ Consideration of the global environment

- Take measures against climate change by promoting GHG emissions control and lower energy consumption.
- Conserve the global environment and prevent pollution by promoting waste reduction and recycling of resources
- Preserve water resources by promoting improved usage efficiency of water.
- Recognize the importance of biodiversity and maintain the natural ecosystem

Social Contribution Activities

Basic Approach

The NAGASE Management Philosophy reminds us that we are a member of society and that, through our growth, we will contribute to society and enrich the lives of our employees. We engage in a variety of social contribution activities under this banner.

Supporting Para Athletes

● Shinya Wada

Shinya Wada is a visually impaired long-distance runner, who participated in the Tokyo 2020 Paralympic Games. We have supported Shinya Wada as an athlete since he joined NAGASE in 2018. We also support the development of blind marathons as a sport by donating to the non-profit Japan Blind Marathon Association.



Training Specialist Human Resources



● Nagase Science and Technology Foundation

To help advance science and technology in Japan, we established the Nagase Science and Technology Foundation in 1989 and made it a public interest foundation in 2011. The foundation strives to advance science and technology by supporting research and development in the fields of organic chemistry and biochemistry with the aim of contributing to socioeconomic progress.

● Supporting the 53rd International Chemistry Olympiad in Japan

We are supporting the 53rd International Chemistry Olympiad to be held in Japan in 2021 with the aim of developing future global leaders of the chemical and material industries.

● Sponsor of the Grand Contest on Chemistry for High School Students

The contest is organized by Osaka City University, Nagoya City University, Yokohama City University, and



the Yomiuri Shimbun. It encourages academic research activities undertaken by high school and technical college students (up to third grade), cultivating scientific creativity while enjoying independent research activities. We sponsor this program, which supports education with an eye to developing personnel who will excel in science in the future.

Community Service

● Hayashibara Museum of Art

The Hayashibara Museum of Art is supported by NAGASE Group company Hayashibara Co., Ltd. The museum houses and preserves a collection of local Japanese and other art works and engages in research, holding public exhibitions with original themes to contribute to research of cultural assets and improve the culture of the region and of Japan.

● Collaborative Event with Local Japanese Confectionery Companies

Hayashibara Co., Ltd., Okayama City, Okayama City FM, and the Youth Division of the Okayama Prefecture Confectionery Cooperative held an event on October 8, 2020 (October 8 is "trehalose day") with the catch copy "Learn about frailty [health condition]: Recover your vitality with correct knowledge." Hayashibara and its partners will continue to contribute toward the local community and wider society by holding events that revitalize the community.



● Sports Sponsorship

We contribute toward the development of sports and local communities by sponsoring sporting organizations and athletes. The headquarters of Nagase ChemteX are in Tatsuno City, Hyogo Prefecture. Nagase ChemteX sponsors Urara Kawaguchi, a mountain biking athlete born in Tatsuno. NAGASE & CO., LTD. and Hayashibara Co., Ltd. also support the activities of professional soccer club Fagiano Okayama, mainly based in the cities of Okayama, Tsuyama, and Kurashiki, Okayama Prefecture.



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Data Section

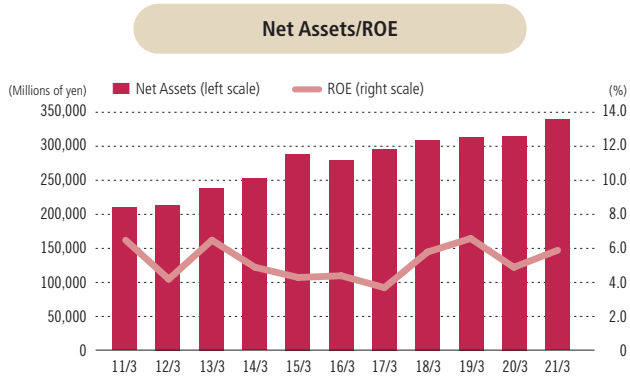
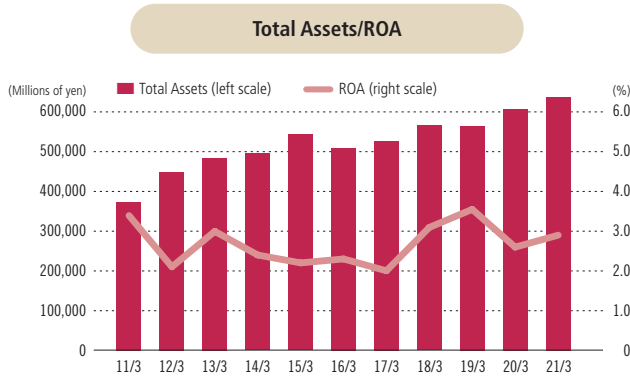
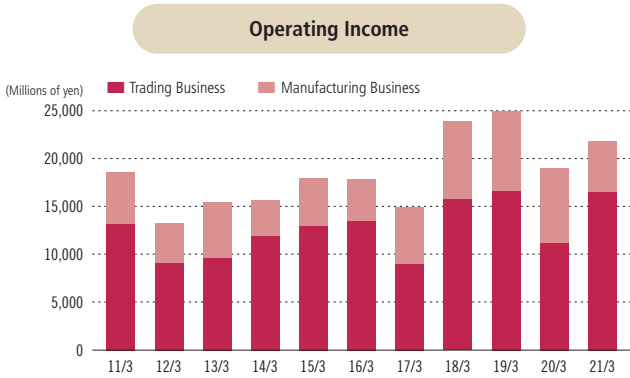
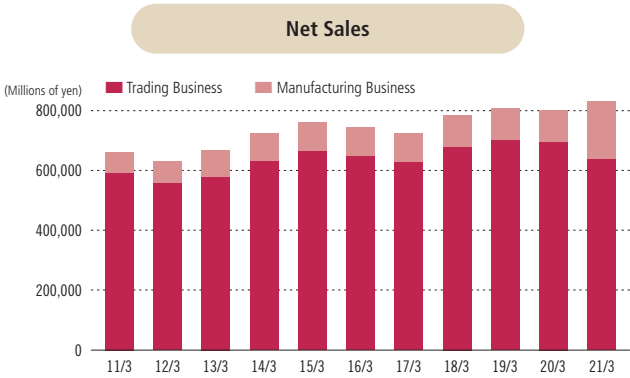
11-Year Financial Highlights

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31)

		2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3
Medium-Term Management Plan		“CHANGE” 11				Change-S2014			ACE-2020			
		Investment Amount: ¥107.4 billion				Investment Amount: ¥41.1 billion			Investment Amount: ¥13.7 billion			Investment Amount: ¥129.1 billion
Performance (Accounting Fiscal Year):		(Millions of yen)										
Net Sales		¥ 660,213	¥ 631,854	¥ 666,272	¥ 723,212	¥ 759,713	¥ 742,194	¥ 722,384	¥ 783,933	¥ 807,755	¥ 799,559	¥ 830,240
Segments	Functional Materials (formerly Chemicals)	253,290	177,126	167,017	169,973	168,238	157,149	153,546	174,922	179,627	169,318	155,166
	Advanced Materials & Processing (formerly Plastics)	222,100	217,929	214,214	239,224	254,165	255,505	242,609	262,831	275,203	267,078	269,151
	Electronics & Energy (formerly Electronics)	133,640	110,495	125,014	137,026	149,947	127,926	127,722	129,324	122,319	115,123	119,590
	Mobility (formerly Mobility & Energy)	—	76,113	83,068	99,441	109,851	115,351	112,956	129,708	139,235	126,000	111,530
	Life & Healthcare (formerly Life Sciences)	50,247	49,170	76,116	76,810	76,609	85,571	84,904	86,517	90,794	121,545	174,452
	Others	934	1,018	841	737	900	689	644	629	574	492	349
Region	Domestic	389,379	366,369	361,971	372,939	374,208	363,038	369,365	395,428	412,617	402,390	363,168
	Overseas	270,833	265,484	304,301	350,272	385,505	379,155	353,019	388,504	395,137	397,169	467,072
Gross Profit		73,008	71,628	82,583	88,936	91,991	91,663	91,503	102,675	105,441	104,901	114,600
Operating Income		18,732	13,427	15,578	15,789	18,153	18,024	15,030	24,118	25,226	19,167	21,916
Profit Attributable to Owners of the Parent		12,823	8,570	14,182	11,663	11,318	12,316	10,331	17,175	20,136	15,144	18,829
Financial Condition:												
Total Assets		¥ 375,336	¥ 450,842	¥ 486,747	¥ 498,141	¥ 546,525	¥ 512,081	¥ 530,775	¥ 569,456	¥ 567,346	¥ 611,477	¥ 640,587
Equity Capital		201,516	204,706	228,505	246,723	281,398	273,963	290,217	303,636	307,674	305,322	329,687
Interest-Bearing Debt		27,125	88,710	98,425	92,828	98,493	87,560	82,046	86,173	85,620	135,974	118,947
Per Share Data:		(Yen)										
Net Income (Basic)		¥ 99.76	¥ 66.69	¥ 111.31	¥ 91.86	¥ 89.10	¥ 96.96	¥ 81.65	¥ 136.34	¥ 161.30	¥ 122.12	¥ 151.91
Net Assets		1,568.04	1,592.87	1,803.31	1,942.20	2,215.18	2,156.67	2,301.10	2,424.97	2,481.01	2,462.04	2,670.09
Cash Dividends		22	24	26	28	30	32	33	40	42	44	46
Payout Ratio (%)		22.1	36.0	23.4	30.5	33.7	33.0	40.4	29.3	26.0	36.0	30.3
Shareholders’ Equity Dividend Rate (%)		1.42	1.52	1.52	1.50	1.44	1.46	1.48	1.69	1.71	1.78	1.79
Ratios:		(%)										
Overseas Sales to Net Sales		41.0	42.0	45.7	48.4	50.7	51.1	48.9	49.6	48.9	49.7	56.3
Manufacturing Ratio (Operating Income)		29.0	31.3	37.3	23.5	27.8	24.3	39.5	34.2	33.5	40.8	24.2
Operating Margin (Operating Income/Net Sales)		2.8	2.1	2.3	2.2	2.4	2.4	2.1	3.1	3.1	2.4	2.6
Return on Equity (ROE)		6.5	4.2	6.5	4.9	4.3	4.4	3.7	5.8	6.6	4.9	5.9
Shareholders’ Equity Ratio		53.7	45.4	46.9	49.5	51.5	53.5	54.7	53.3	54.2	49.9	51.5
Net DE Ratio (Times)		(0.1)	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.3	0.2

(Note 1) At the beginning of fiscal 2012, the NAGASE Group reorganized its then existing four product-based business segments into five business segments (Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare) to more fully reflect the respective positions of each business in the value chain. For comparative purposes, fiscal 2011 figures have been calculated using the new business segments. The Colors & Imaging Department formerly under the Chemicals segment has been moved under the Advanced Materials & Processing segment. The Automotive & Energy segment was organized out of the Automotive Solutions Department (belonging to the Plastics segment) and the Energy Business Office, which was launched as an integrated entity from the Environment & Energy Office (under Others) and the Energy Device Office.

(Note 2) At the beginning of fiscal 2013, abrasives sales business for semiconductors and HDDs was moved to the Electronics segment from the Functional Materials segment, and the raw materials sales business for the cosmetics industry were moved from the Functional Materials segment to the Life & Healthcare segment. Actual fiscal 2012 results have been adjusted to enable comparison with fiscal 2013.
(Note 3) The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued February 16, 2018) were applied from the beginning of fiscal 2018. Following this change, deferred tax assets are now presented under "Investments and other assets," and deferred tax liabilities are presented under "Long-term liabilities."
(Note 4) From April 2019, the name of the Automotive & Energy segment has been changed to the Mobility & Energy segment.
(Note 5) From April 2021, the name of the Electronics segment has been changed to the Electronics & Energy segment, and the Mobility & Energy segment to the Mobility segment.



* Manufacturing business classification has been revised, including classifying Prinova Group LLC as manufacturing business from fiscal 2020. Actual fiscal 2019 results are also shown based on the revised classification.

Six-Year Summary

NAGASE & CO., LTD. and Consolidated Subsidiaries (Fiscal years ended March 31, 2016–2021)

	(Millions of yen)					Thousands of U.S. Dollars (Note 1)	
	2016	2017	2018	2019	2020	2021	2021
For the Fiscal Year:							
Net Sales	¥742,194	722,384	¥783,933	¥807,755	¥799,559	¥830,240	\$7,499,232
Domestic	363,038	369,365	395,428	412,617	402,390	363,168	3,280,354
Overseas	379,155	353,019	388,504	395,137	397,168	467,072	4,218,878
Gross Profit	91,663	91,503	102,675	105,441	104,901	114,600	1,035,137
Operating Income	18,024	15,030	24,118	25,226	19,167	21,916	197,959
Income before Income Taxes and Non-Controlling Interests	15,239	16,100	24,049	28,204	24,200	29,272	264,402
Profit Attributable to Owners of the Parent	12,316	10,331	17,175	20,136	15,144	18,829	170,075
As of the Fiscal Year-End:							
Total Assets	¥512,081	¥530,775	¥569,456	¥567,346	¥611,477	¥640,587	\$5,786,171
Net Assets	279,149	295,198	308,804	312,609	313,243	338,431	3,056,914
Interest-Bearing Debt	87,560	82,046	86,173	85,620	135,974	11,947	107,913
Share Price (Yen/Dollars)	1,237	1,551	1,805	1,589	1,279	1,729	15,617
Market Value	157,604	197,610	229,971	202,451	162,955	215,101	1,942,923
Number of Shares Issued and Outstanding (Thousands of Shares)	127,408	127,408	127,408	127,408	124,408	127,408	—
Number of Shareholders	7,338	10,394	11,357	12,788	22,306	25,934	—
Number of Employees	6,267	6,241	6,312	6,143	7,207	6,940	—

	(Yen)					U.S. Dollars (Note 1)	
Per Share Data							
Profit Attributable to Owners of the Parent	¥ 96.96	¥ 81.65	¥ 136.34	¥ 161.30	¥ 122.12	¥ 151.91	\$ 1.37
Net Assets	2,156.67	2,301.10	2,424.97	2,481.01	2,462.04	2,670.09	24.12
Cash Dividends	32.00	33.00	40.00	42.00	44.00	46.00	0.42
Ratios							
Operating Margin (Operating Income/Net Sales) (%)	2.4	2.1	3.1	3.1	2.4	2.6	—
Ratio of Profit before Income Taxes and Non-Controlling Interests to Net Sales (%)	2.1	2.2	3.1	3.5	3.0	3.5	—
Return on Sales (ROS) (%)	1.7	1.4	2.2	2.5	1.9	2.7	—
Total Assets Turnover (Times)	1.4	1.4	1.4	1.4	1.3	1.3	—
Return on Assets (ROA) (%)	2.3	2.0	3.1	3.5	2.6	3.0	—
Return on Equity (ROE) (%)	4.4	3.7	5.8	6.6	4.9	5.9	—
Shareholders' Equity Ratio (%)	53.5	54.7	53.3	54.2	49.9	51.5	—
Net DE Ratio (Times)	0.2	0.1	0.1	0.1	0.3	0.2	—
Current Ratio (%)	200.1	192.9	183.1	181.2	189.3	194.9	—
Interest Coverage Ratio (Times) (Note: 2)	18.7	16.3	20.0	16.0	15.9	21.8	—

Note: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥110.71 = U.S. \$1.00, the approximate rate of exchange prevailing on March 31, 2021.
Note: 2. Interest coverage ratio is calculated as (operating income + interest income + dividend income) / interest expense.

Management’s Discussion and Analysis of Operations and Finances

Business Lines and Scope of Consolidation

The NAGASE Group is led by NAGASE & CO., LTD. (the “Company” or “NAGASE”). The Company and its consolidated subsidiaries (collectively, the “NAGASE Group”) imports and exports a diverse array of products and engages in domestic transactions. In addition, the NAGASE Group manufactures and sells products and provides services. These businesses are conducted by 117 affiliated companies consisting of 83 subsidiaries and 34 affiliates. The NAGASE scope of consolidation includes 77 companies, as well as 26 affiliates accounted for by the equity method.

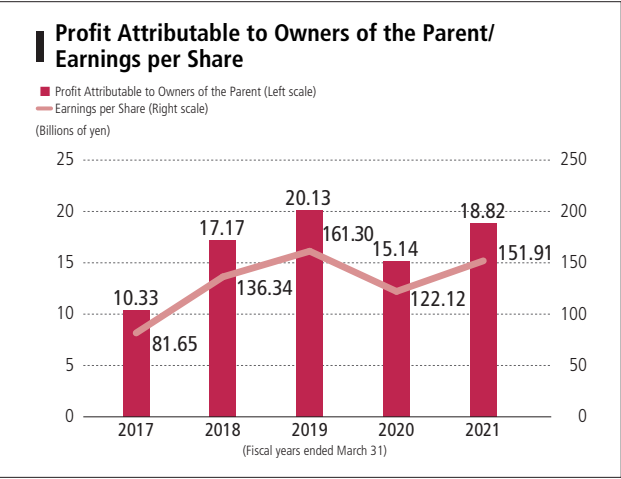
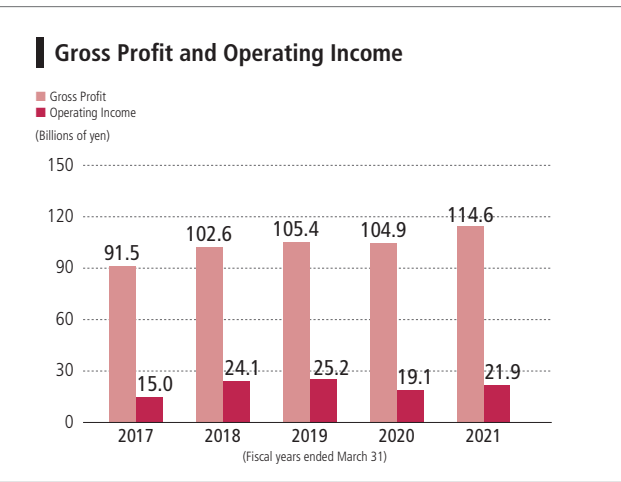
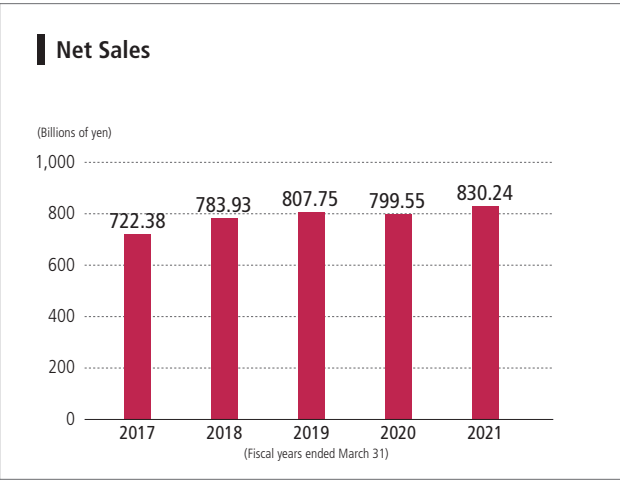
Overview of Consolidated Results

Net sales

During the consolidated fiscal year under review, the global economy slumped due to the global spread of COVID-19. However, it has picked up of late, albeit to varying degrees by region, with economic activities having resumed early on in China, for instance. As for the Japanese economy, industries such as tourism, travel, and restaurants were hit hard by restrictions on activities. Conversely, some industries did well, including those that adapted to changes in the consumption structure due in part to stay-at-home demand.

Among regions where the NAGASE Group operates, conditions have recovered to pre-pandemic levels in Greater China. Also, the gradual resumption of economic activities and economic stimulus are expected to accelerate recovery in the Americas and ASEAN. In contrast, repeated states of emergency have limited the economy's reopening in Japan. While vaccination programs and other measures to prevent the spread of COVID-19 are clearly affecting the extent of economic recovery in each country, the outlook remains uncertain, with infections accelerating in some regions. Overall, impact on the NAGASE Group’s earnings from COVID-19 was limited. Although we experienced considerable impact in the first quarter of the fiscal year, mainly in automobile-related business, that was offset by recoveries in electronics-related business and resins business from the second quarter of the fiscal year on the back of telecommuting demand.

In this environment, the Company recorded domestic sales of ¥363.16 billion (–9.8% year on year) for the consolidated fiscal year. Overseas sales amounted to ¥467.07 billion (+17.6%). In total, the Company recorded ¥830.24 billion in net sales (+3.8%).



Gross Profit and Profit Attributable to Owners of the Parent

The Company recorded gross profit of ¥114.6 billion (+9.2%), reflecting a contribution from the highly profitable Prinova Group. Operating income amounted to ¥21.91 billion (+14.3%), as increased outlays for sustainable growth, including for promoting digital transformation (DX), were offset by cost savings from voluntary curbs on activities in response to COVID-19. Ordinary income totaled ¥22.85 billion (+19.8%), and profit attributable to owners of the parent came to ¥18.82 billion (+24.3%). Earnings per share was ¥151.91, compared to ¥122.12 in the prior year.

Results by Business Segment

Functional Materials		
	(Millions of yen)	
Fiscal years ended March 31	2020	2021
Net Sales	¥169,318	¥155,166
Segment Income	5,364	4,888
Segment Assets	76,936	81,236
Depreciation and Amortization	413	472
Amortization of Goodwill	107	105
Goodwill	1,864	1,787
Investments in Equity Affiliates	1,895	1,981
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	436	399

The Functional Materials segment recorded lower sales in both domestic and overseas markets. Though momentum is currently recovering, this mainly reflects a decrease in automobile production volumes in all regions except for Greater China due to the spread of COVID-19, especially in the first half of the fiscal year.

The Performance Chemicals business recorded lower sales overall. This primarily owes to lower sales of coating raw materials and urethane materials due to reduced automobile production volumes.

The Specialty Chemicals business recorded lower sales overall. Strong sales of electronics chemicals, mainly for semiconductor and other electronics industry applications, were outweighed by lower sales of products such as raw materials for industrial oil solutions and plastic materials that were significantly affected by automotive industry weakness.

As a result, the Functional Materials segment recorded sales of ¥155.16 billion, a ¥14.15 billion (−8.4%) decrease compared to the prior fiscal year. Operating income for the segment was ¥4.88 billion, a decrease of ¥0.47 billion (−8.9%).

Advanced Materials & Processing		
	(Millions of yen)	
Fiscal years ended March 31	2020	2021
Net Sales	¥267,078	¥269,151
Segment Income	8,526	7,311
Segment Assets	135,541	144,135
Depreciation and Amortization	754	1,040
Amortization of Goodwill	—	89
Goodwill	964	720
Investments in Equity Affiliates	1,722	1,728
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	1,845	1,974

The Advanced Materials & Processing segment recorded slightly higher sales overall, as sales declined in Japan but rose overseas.

The Colors & Advanced Processing business recorded lower sales overall. This owes to a sharp decline in sales of digital print processing materials in Japan, the Americas, and Europe, and lower sales of dyes and additives, plastic resins for industrial and packaging applications, and conductive materials.

The Polymer Global Account business mainly sells plastics to the office equipment, appliance, and video game device markets. It recorded higher sales overall, with sales down in Japan but up overseas due to higher prices and brisker demand, mainly in the resins business.

As a result, the Advanced Materials & Processing segment recorded sales of ¥269.15 billion, a ¥2.07 billion (+0.8%) increase compared to the prior fiscal year. Operating income for the segment was ¥7.31 billion, a decrease of ¥1.21 billion (−14.2%). This mainly reflects a decline in profitability, owing to weaker market conditions for the digital print processing materials business.

Electronics		
	(Millions of yen)	
Fiscal years ended March 31	2020	2021
Net Sales	¥115,123	¥119,590
Segment Income	5,396	8,746
Segment Assets	58,879	63,855
Depreciation and Amortization	2,372	1,490
Amortization of Goodwill	132	40
Goodwill	484	451
Investments in Equity Affiliates	3,906	3,170
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	3,235	1,195

The Electronics segment recorded higher sales overall. Growth in sales of modified epoxy resins and precision processing materials for mid-end semiconductor processing outweighed decreases in sales related to displays and equipment.

As a result, sales for the segment amounted to ¥119.59 billion, a ¥4.46 billion (+3.9%) increase compared to the prior consolidated fiscal year. Operating income rose ¥3.35 billion (+62.1%) to ¥8.74 billion. In addition to sales growth, this mainly reflects improved profitability at some manufacturing subsidiaries.

Note: The Electronics Segment was renamed the Electronics & Energy Segment as of April 1, 2021.

Mobility & Energy		
	(Millions of yen)	
Fiscal years ended March 31	2020	2021
Net Sales	¥126,000	¥111,530
Segment Income	1,890	1,543
Segment Assets	48,687	55,899
Depreciation and Amortization	204	285
Amortization of Goodwill	—	—
Goodwill	—	—
Investments in Equity Affiliates	1,242	1,237
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	241	261

The Mobility Solutions business recorded lower sales in Japan and overseas. Amid a decline in automobile production volumes in all regions except for Greater China due to the COVID-19 pandemic, sales decreased for car electronics-related components in Japan and for resins business in all regions except for Greater China.

As a result, sales for the segment amounted to ¥111.53 billion, a ¥14.46 billion (−11.5%) decrease compared to the prior consolidated fiscal year. Operating income fell ¥0.34 billion (−18.4%) to ¥1.54 billion.

Note: The Mobility & Energy Segment was renamed the Mobility Segment as of April 1, 2021.

Life & Healthcare		
	(Millions of yen)	
Fiscal years ended March 31	2020	2021
Net Sales	¥121,545	¥174,452
Segment Income	3,973	6,512
Segment Assets	171,461	165,934
Depreciation and Amortization	4,571	5,788
Amortization of Goodwill	1,796	2,108
Goodwill	29,935	27,257
Investments in Equity Affiliates	3,064	2,995
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	6,035	5,744

The Life & Healthcare segment recorded significantly higher sales overall. Though domestic sales declined, mainly due to less demand in connection with COVID-19, overseas sales increased as sales from the Prinova Group, which was acquired in the second quarter of prior consolidated fiscal year, contributed throughout the fiscal year under review. The newly established Food Ingredients business recorded substantially higher sales overall, with growth in the Prinova Group’s sales offsetting lower sales of TREHA™ and other products in the food ingredients field in Japan.

The Life & Healthcare Products business recorded lower sales overall. In the medical and pharmaceutical field, sales of pharmaceutical raw materials and intermediates and medical materials were higher. In the cosmetics and toiletries field, sales of hygiene product-related raw materials grew. On the other hand, sales of AA2G™ to customers in the skin care sector decreased in Japan and overseas. Also, sales in the formulation business declined to customers in the medical and pharmaceutical sectors, owing to the sale of a manufacturing subsidiary.

As a result, sales for the segment amounted to ¥174.45 billion, a ¥52.9 billion (+43.5%) increase compared to the prior fiscal year. Operating income rose ¥2.53 billion (+63.9%) to ¥6.51 billion.

Others

No special matters to disclose.

Financial Condition

Summary of Consolidated Cash Flows

Cash and cash equivalents (Cash) decreased ¥1.91 billion (−3.8%) compared to the end of the prior consolidated fiscal year, amounting to ¥48.55 billion. Cash from operating activities amounted to ¥20.39 billion and cash from investing activities came to ¥2.64 billion, while cash used in financing activities amounted to ¥25.86 billion. Changes in exchange rates also increased Cash.

Cash Flows from Operating Activities

Cash provided by operating activities for the fiscal year ended March 31, 2021 amounted to ¥20.39 billion. This was mainly due to ¥29.27 billion in income before income taxes, which was partly offset by a ¥10.05 billion decrease in Cash due to an increase in working capital.

Cash Flows from Investing Activities

Cash provided by investing activities for the fiscal year ended March 31, 2021 amounted to ¥2.64 billion. This was mainly due to ¥8.01 billion in proceeds from sale of share of subsidiaries resulting in change of scope of consolidation and ¥6.02 billion in proceeds from sales of investments in securities, which were partly offset by expenditures of ¥8.86 billion for purchases of property, plant and equipment and ¥3.26 billion for purchases of investments in securities.

Cash Flows from Financing Activities

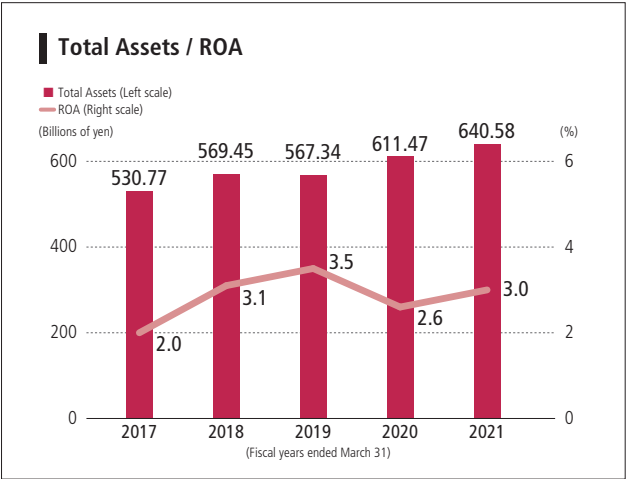
Cash used financing activities for the fiscal year ended March 31, 2021 amounted to ¥25.86 billion. This was mainly due to a ¥22.0 billion decrease in commercial paper, net and ¥5.45 billion in cash dividends paid, despite recording ¥4.35 billion in proceeds from long-term loans.

Cash Flow Summary					
	(Millions of yen)				
Fiscal years ended March 31	2016	2017	2018	2020	2021
Cash Flows from Operating Activities	¥ 14,527	¥ 21,013	¥17,375	¥ 33,074	¥ 20,391
Cash Flows from Investing Activities	(6,518)	(14,442)	(7,325)	(49,208)	2,643
Cash Flows from Financing Activities	(10,592)	(3,161)	(8,909)	24,334	(25,866)

Summary of the Consolidated Balance Sheet

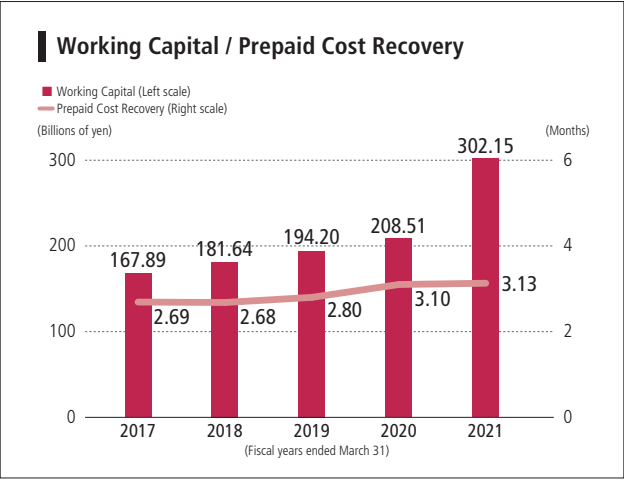
Assets

As of March 31, 2021, current assets amounted to ¥401.75 billion. This represents an increase of ¥22.39 billion compared to the end of the prior consolidated fiscal year, mainly due to increases in accounts receivable and inventories, which were partly offset by a decrease in cash and time deposits. Non-current assets amounted to ¥238.83 billion, up ¥6.71 billion from the end of the prior consolidated fiscal year. This increase mainly reflects an increase in investment in securities due to higher fair values of shares owned, which offset a decrease due to the amortization of intangible fixed assets and a decrease in property, plant and equipment due to the removal of certain domestic subsidiaries from the scope of consolidation. As a result, total assets increased ¥29.1 billion compared to the end of the prior consolidated fiscal year to ¥640.58 billion.



■ Liabilities

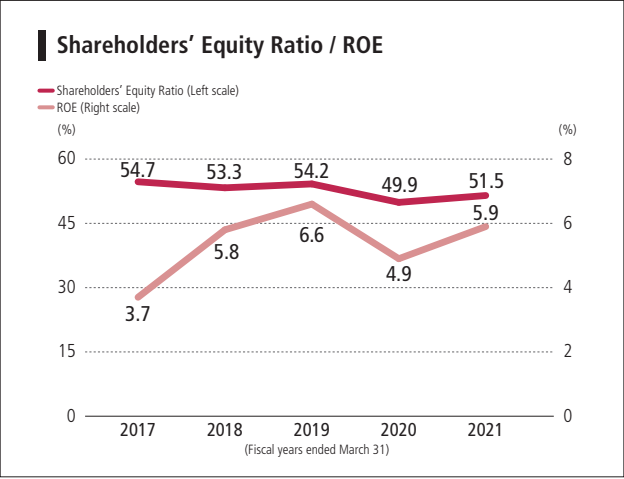
Liabilities amounted to ¥302.15 billion, an increase of ¥3.92 billion compared to the end of the prior consolidated fiscal year. This increase was mainly due to an increase in accounts payable, despite a decrease in commercial paper.



■ Net Assets

Net assets amounted to ¥338.43 billion, up ¥25.18 billion compared to the end of the prior consolidated fiscal year. This increase was mainly due to the recording of profit attributable to owners of the parent in the amount of ¥18.82 billion, and an increase in net unrealized holding gain on securities.

As a result, the Company recorded a shareholders' equity ratio of 51.5%, up 1.6 percentage points from 49.9% at the end of the prior consolidated fiscal year.



Capital Investment

During the consolidated fiscal year ended March 31, 2021, the NAGASE Group recorded ¥10.75 billion in capital investment (including purchases of intangible fixed assets). This included ¥2.71 billion in capital investment related to the new pullulan and enzyme wing of the Okayama No. 2 Plant of Hayashibara Co., Ltd. (Life & Healthcare segment). The NAGASE Group used cash on hand and funds procured from external sources for capital investments.

A breakdown of capital investment by segment is as follows.

Reportable Segments	(Millions of yen)
Functional Materials	¥ 399
Advanced Materials & Processing	1,974
Electronics	1,195
Mobility & Energy	261
Life & Healthcare	5,744
Others	1,179
Total	¥10,755

Research and Development Expenses

The NAGASE Group develops new technologies and products originating from our marketing activities. We also engage in research and development activities for the purpose of communicating technological information. These activities bring the comprehensive power of the NAGASE Group to bear in creating new businesses.

The New Value Creation (NVC) Office aims to build new business cores for the NAGASE Group by creating new value with an eye to trends in domains such as AI, IoT and communication technology. It is working on: the SaaS-based materials informatics service TABRASA™, the Axonerve™ IP core that brings faster processing and low latency to 5G network infrastructure, highly reliable supply chain platforms using block chain technology and portable sensors based on the five senses of humans, underlying technology for next-generation AI hardware, and disease prevention technology using AI.

To realize a sustainable society, the Nagase R&D Center leverages unique core technologies (actinomycete breeding and fermentation technology, NSTePP® (See Note)) and fundamental technologies for highly efficient production of rare animal -derived useful substances and plants that are currently difficult to synthesize in the aim for process innovation (=unavailable made available). Fermentation methods have the feature of being safe, secure and kinder on the environment compared to conventional extraction and chemosynthesis methods. We are currently pressing forward with examination of fermentation production using UV-absorbing substances derived from algae (mycosporine-like amino acids), rare antioxidant amino acids (ergothioneine) contained in mushrooms and barley, and functional substances from bio-dyes peculiar to actinomycetes. We are moving forward on development in the hope these useful substances may be widely used as functional foods, cosmetics, and industrial products. Each year we apply for and register many patents related to fundamental and peripheral technologies. In this way, the Center will leverage original technologies and make its mission leading the NAGASE Group's future business and creating the buds for new business.

Note: Abbreviation of Nagase Streptomyces Technology for Protein/Precious Products, a NAGASE registered trademark in Japan.

The Nagase Application Workshop (NAW) houses specialized technical staff and equipment for the evaluation and analysis of raw materials within the fields of plastics and coating materials, the development of applications, and the development of formulas composed of these raw materials to be used in end products. NAW combines the materials and processing techniques possessed by our partners and NAGASE Group manufacturing companies and proposes solutions in response to market needs captured via our marketing function, which leverages the NAGASE Group's network. In this, NAW supports the NAGASE Group's unique trading differentiation strategy and takes action with the aim of exercising its free thinking only capable in a laboratory operated by a trading company to contribute to development of sustainable new business.

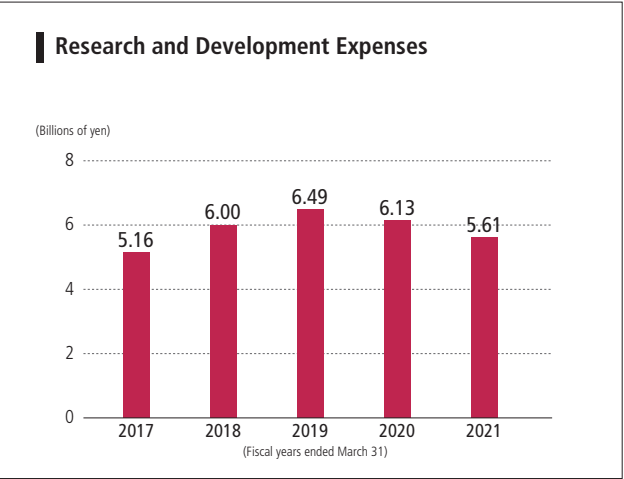
Nagase ChemteX Corporation (NCX) is focusing on cultivating new business in the biomaterials field. NCX is working in particular on developing low-endotoxin materials, which are increasingly in demand in the medical materials and medical device fields, and delving deeper into related technologies. Following the low-endotoxin pullulan using a refined version of pullulan product from Hayashibara Co., Ltd., NCX has been enhancing the lineup with low-endotoxin versions of other polysaccharides, proteins, and so forth. Also, we started operating the pilot plant we set up at its Harima Plant in the previous fiscal year and the freeze dryer NCX introduced in the current fiscal year, in an aim to speed up manufacturing process validation and sample fabrication. Going forward, NCX will work diligently to create products with high added value ahead of full-scale commercialization.

INKRON Oy develops and manufactures functional materials for optical devices and electrical devices using its unique siloxane synthesis technology. It has made particular progress on development of optical components for next-generation augmented reality (AR) and mixed reality (MR) devices for wearable displays and formed a partnership with a glass substrate manufacturer, nanoimprint (NIL) device manufacturer and diffraction waveguide design company to provide innovative solutions using NIL construction methods. Through nanoparticle dispersion technology accumulated over many years at Nagase ChemteX, mass production technology, a quality control system and complementary synergies, INKRON Oy contributes to customer innovation by providing a global supply of advanced materials used for next-generation devices.

Hayashibara Co., Ltd. is conducting research and development activities in a wide variety of areas encompassing fields such as foods, cosmetics, pharmaceuticals and medical treatment though to agriculture and industry in the belief that saccharides including TREHA™ and pullulan should be widely used. Focus products Fibryxa™ and Hayashibara Hesperidin™ S are gaining increasing recognition among consumers and we are bolstering their deployment among more foods with functional claims and engaging in development activities for new applications. In regard to new materials, maltotriose materials for pharmaceutical use were launched onto the market. Continuing on, we are also searching for new enzyme-producing bacteria from microorganisms and pressing forward with R&D into products that can be created using unique enzymes or new materials manufactured through microbial fermentation. Furthermore, in order to develop new materials as main next-generation products, we are considering production methods involving new materials and advancing activities such as market analysis, proposing potential use methods and applications, development all while taking into consideration patent and intellectual property strategies. As research and development activities in functional dyes, we are leveraging our abundant functional dye

library and continuing development activities focused on applied development through improvements to dye durability and the growing pharmaceutical and in-vitro diagnostics in the life sciences field in addition to the commercial field of photo and printing plates.

The total amount spent on R&D in the consolidated fiscal year under review was ¥6.13 billion.



Outlook for the Year Ending March 31, 2022

As for the NAGASE Group's operating environment in the fiscal year ending March 31, 2022, increasing COVID-19 vaccination rates are expected to drive economic reopening, mainly in developed countries, but uncertainty and opacity will probably persist with regard to impact on the Japanese economy from the spread of COVID-19 variants and U.S.-China tensions, among other things. Companies must address the new normal and geopolitical risks. They are also being called upon to continuously work on social and environmental issues.

Against this backdrop, we launched the ACE 2.0 medium-term management plan in April 2021. We drove forward many reforms via initiatives under ACE-2020, but recognize the need to take further steps to solidify those reforms. Also, paradigm shifts are becoming increasingly vital since the external environment continues to rapidly change. With that in mind, we named our new medium-term management plan ACE 2.0 to signify that it adheres to the basic concepts of ACE-2020 but has been upgraded.

While the pandemic's impact on the global economy will remain a concern, we set our earnings forecasts for the fiscal year ending March 31, 2022 as follows, based on the assumptions that vaccination will advance to a certain extent in countries around the world and economic activities will normalize from the second half of the fiscal year.

For automotive business, we expect continuation of the recovery that began in the second half of the fiscal year ending March 31, 2022, though impact from lower automobile production volumes due to semiconductor shortages is a concern. In the Life & Healthcare segment, we expect Prinova Group's sales to grow as the U.S. economy regains steam. We will aggressively invest in digital transformation and R&D with an eye to future growth, but envision expenditures in the first half of the fiscal year as flat from the previous fiscal year due to some ongoing COVID-19 restrictions on activities.

Regarding the outlook for the fiscal year ending March 31, 2022, we have calculated figures based on certain assumptions made on the latest information available and through rational judgment, but actual results may differ significantly depending on various factors such as the timing of convergence of COVID-19, economic trends domestically and overseas or exchange rate movements.

(Announced on May 11, 2021)		(Millions of yen)		
	Gross profit	Operating income	Ordinary income	Profit attributable to owners of the parent
Year ending March 31, 2022 (Projected)	¥120,000	¥23,000	¥24,000	¥18,000
Year ended March 31, 2021 (Actual)	114,600	21,916	22,854	18,829
Change	4.7%	4.9%	5.0%	(4.4)%

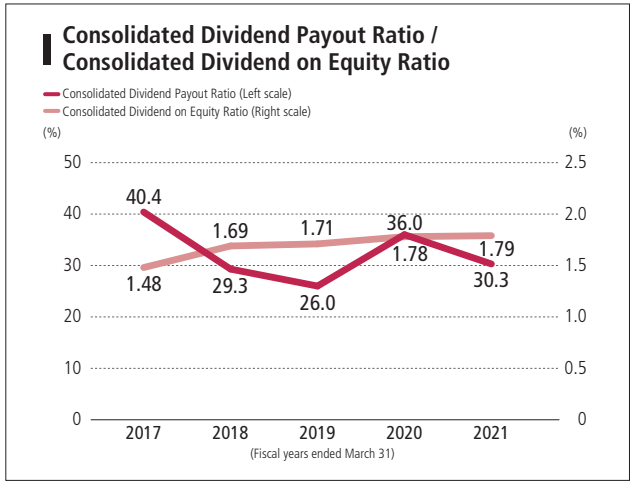
Profit Sharing Policy

■ Dividend Policy

Our basic policy is to continue paying higher dividends in line with our consolidated results and financial structure, while improving profitability and strengthening our management structure. To this end, we also take into account consolidated cash flows and investment status. In addition, we will consider flexibly executing share buybacks with an eye to efficiency.

We announced a year-end dividend of ¥24 per share for the fiscal year ended March 31, 2021. As a result, the scheduled full-year cash dividend amounted to ¥46 per share, including an interim dividend.

The Company's Articles of Incorporation stipulate that an interim dividend can be paid in accordance with Article 454, Paragraph 5 of the Companies Act. As a result, a dividend is paid twice each fiscal year, comprising an interim dividend based on a resolution by the Board of Directors and a year-end divided based on a resolution of the General Shareholders' Meeting.



Operating and Other Risks

The NAGASE Group is engaged in trading, marketing, research and development, manufacturing and processing in six business segments across the world: Functional Materials, Advanced Materials & Processing, Electronics, Mobility & Energy, Life & Healthcare, and Others. The nature of these businesses entails various risks that may have a material effect on investment decisions. We provide a discussion of the major risks below.

Any forward-looking statements are based on management decisions as of the end of the consolidated fiscal year under review.

(1) Overall Operating Risk

The NAGASE Group is engaged in activities that rely on the use of chemicals across a wide spectrum of products and services through our Functional Materials, Advanced Materials & Processing, Electronics, Mobility & Energy and Life & Healthcare businesses. These products and services include dyes/pigments, coating materials/inks, surfactants, OA, electrical equipment, home electronics, automobiles, LCDs, semiconductors, and pharmaceutical/medical applications. Accordingly, significant changes in the domestic or international commercial chemicals industries could affect the NAGASE Group's earnings and financial condition.

(2) Product Market Conditions

The NAGASE Group handles extensive petrochemicals manufactured from naphtha in our Functional Materials, Advanced Materials & Processing, and Mobility & Energy segments. Raw materials markets and demand-supply balance are two factors that result in unique market circumstances for each of our products. Fluctuations in these factors could affect our revenues and profits in related product lines. Also, some products manufactured by the NAGASE Group use raw materials derived from grains. Raw materials costs fluctuate widely due to changes in grain market prices; we may not be able to pass on increased raw materials costs through higher sales prices, which could affect our profits in related product lines.

(3) Impact of Fluctuations in Foreign Currency Exchange Rates

The NAGASE Group conducts import/export as well as non-trade business transactions denominated in foreign currencies. Fluctuations in currency markets have a significant impact when prices are converted to yen. While the NAGASE Group executes exchange contract hedges for these transactions to minimize exchange rate risk to the greatest extent possible, currency exchange rate fluctuations could have a significant impact on NAGASE Group earnings and financial conditions. The NAGASE Group owns foreign-domiciled corporations whose financial statements are prepared using local currencies. The conversion of these currencies to Japanese yen for consolidated reporting purposes entails currency conversion risk due to fluctuating exchange rates.

(4) Impact of Fluctuations in Interest Rates

The NAGASE Group obtains funds for operating and investing activities through loans from financial institutions; some of these loans are interest-bearing debt including variable interest terms. The NAGASE Group reduces interest rate fluctuation risk related to variable interest loans by utilizing interest-rate swap contracts. NAGASE Group earnings and financial conditions may be affected by future interest rate trends.

Interest rate fluctuations cause variations in discount rates used for retirement benefit obligations and plan asset investment income, having an impact on NAGASE Group business performance and financial position.

(5) Risks Involved in Operating Overseas

A significant and increasing percentage of NAGASE Group sales and production takes place overseas in locations such as Greater China, ASEAN, the Americas, and Europe. While NAGASE Group management keeps a close eye on local trends and conditions to respond appropriately, unforeseen events stemming from local government regulations, business customs, or other influences could have an impact on NAGASE Group business performance and financial condition.

(6) Impact of Changes in Stock Prices

The NAGASE Group maintains a portfolio of marketable securities, primarily equity shares of companies doing business with the NAGASE Group. These equity investments are subject to share price fluctuation risks. As a matter of policy, the NAGASE Group reduces risk by continuously reviewing and reorganizing its shareholdings. However, changes in share prices could have an impact on NAGASE Group earnings and financial condition. A decline in share prices could damage the value of pension plan assets managed by the Group, increasing retirement benefit costs and thereby reducing Group profits.

(7) Counterparty Credit Risk

The NAGASE Group extends credit to domestic and overseas purchasers in connection with various transactions. As a matter of policy, the NAGASE Group reduces credit risk by obtaining guarantees, collateral, and insurance, etc. according to the financial condition of the purchaser. Although the NAGASE Group strives to ensure stable, uninterrupted product procurement, financial weakness or bankruptcies among suppliers or others could damage the Group's ability to procure goods. Such circumstances could have an impact on the Group's earnings and financial condition.

(8) Risk of Investments

The NAGASE Group engages in investment activities to establish new companies, to invest in equipment at manufacturing subsidiaries, and to acquire other business entities. These types of investment activities involve certain risks, including the risk of failing to recover investments in cases where the Company is not able to record profits at initially planned levels, the risk that additional funding may be required, and the risk that the NAGASE Group will not be able to withdraw from investments according to the desired timing and method. Decisions to invest in new businesses are made after a careful study of the viability of business plans and profitability. At the same time, the NAGASE Group regularly monitors the performance of existing investments. However, even these management initiatives cannot completely negate potential investment risk, and such risk may have an impact on NAGASE Group earnings and financial condition.

(9) Risk of Asset Impairment

The NAGASE Group owns non-current assets such as business assets in manufacturing subsidiaries and goodwill. These assets entail the risk of impairment loss if asset value declines. The NAGASE Group records impairment losses when deemed necessary. However, even greater impairment losses may be incurred as a result of deteriorating business profits or other factors in the future, which may have an impact on NAGASE Group business performance and financial condition.

(10) Product Quality Risk

The NAGASE Group operates the Nagase R&D Center and manufacturing subsidiaries to offer high-value-added products to our customers. We pay detailed attention to the quality of the technologies and products that bear the name of NAGASE and our affiliates. We also bear manufacturers' liability for imported products, products manufactured on a contract basis, etc. Accordingly, the NAGASE Group treats these products with the same attention to detail and quality as if they were made in our own facilities. However, product defects could result in cessation of sales and/or product recalls, exposing the NAGASE Group to liability for damages, which could have an impact on NAGASE Group earnings and financial conditions.

(11) Risks Related to Product Laws

The NAGASE Group imports, exports, and sells domestically mainly chemicals and other products for a broad range of uses. To maintain international peace and safety, the chemicals and other items we export are subject to different laws, including the Foreign Exchange and Foreign Trade Control Law and the Export Trade Control Order. Imports and domestic sales are subject to the Chemical Substances Control Law and other related statutes, as well as similar regulations in foreign jurisdictions. To ensure compliance, the NAGASE Group has established internal Security Trade Control Regulations and Chemical/Product Control Regulations. However, a violation of such laws and statutes could result in restrictions on NAGASE Group business activities, having an impact on NAGASE Group earnings and financial condition.

(12) Risks Related to Information Systems and Information Security

The NAGASE Group recognizes the importance of ensuring robust information system safety and information security as it fulfils an important role in customers' supply chains. Accordingly, we have established relevant rules and mechanisms as part of a variety of ongoing measures to ensure stable information system operations and enhance information security. Even by taking such countermeasures, however, we cannot completely eliminate risks such as serious problems with information system infrastructure or communication lines, or information leakage, manipulation, or destruction as a result of computer viruses or unauthorized access due to cyberattacks. Such events could have an impact on NAGASE Group earnings and financial conditions by causing the temporary suspension of or otherwise significantly affecting the Group's business activities.

(13) Risks of Natural Disasters

The NAGASE Group has put emergency response systems in place, including the creation of a business contingency plan, the adoption of safety confirmation systems, setting up infrastructure to work from home, the creation of a disaster-response manual, earthquake-response measures, disaster-response training, and other measures to deal with natural disasters. However, as we conduct business across a great number of countries and regions, we are exposed to the risk of major natural disasters, COVID-19, H1N1 influenza and other communicable diseases, and other emergencies that could disrupt our supply chain. Such disruptions could prevent us from selling our products or damage the manufacturing capabilities of important NAGASE Group facilities. Such interruptions would result in opportunity loss, and could have a significant impact on NAGASE Group earnings and financial condition.

Consolidated Balance Sheet

NAGASE & CO., LTD. and Consolidated Subsidiaries (March 31, 2021 and 2020)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Current assets:			
Cash and time deposits (Notes 18 and 24)	¥ 49,254	¥ 51,408	\$ 444,892
Notes and accounts receivable (Note 18)	242,558	221,116	2,190,931
Inventories (Notes 7 and 8)	97,242	95,702	878,349
Other current assets	13,259	11,859	119,763
Less allowance for doubtful accounts	(563)	(732)	(5,085)
Total current assets	401,751	379,354	3,628,859
Property, plant and equipment, at cost (Notes 9 and 10):			
Land	20,054	21,092	181,140
Buildings and structures	59,327	61,970	535,878
Machinery, equipment and vehicles	89,052	87,872	804,372
Leased assets	1,680	1,559	15,175
Construction in progress	2,298	7,855	20,757
	172,413	180,351	1,557,339
Less accumulated depreciation	(101,516)	(105,725)	(916,954)
Property, plant and equipment, net (Note 25)	70,896	74,626	640,376
Investments and other assets:			
Investments in securities (Notes 11 and 18):			
Unconsolidated subsidiaries and affiliates	8,997	9,661	81,266
Other	84,721	66,463	765,252
	93,719	76,124	846,527
Long-term loans receivable	211	391	1,906
Goodwill (Note 25)	30,216	33,230	272,929
Technology-based assets	7,488	9,064	67,636
Retirement benefit asset (Note 14)	2,929	1,754	26,457
Deferred tax assets (Note 15)	1,903	1,850	17,189
Other assets (Note 10)	31,582	35,172	285,268
Less allowance for doubtful accounts	(112)	(91)	(1,012)
Total investments and other assets	167,938	157,496	1,516,918
Total assets (Note 25)	¥ 640,587	¥ 611,477	\$5,786,171

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Current liabilities:			
Notes and accounts payable (Note 18)	¥119,941	¥108,285	\$1,083,380
Short-term loans (Notes 12 and 18)	33,050	30,590	298,528
Current portion of long-term loans and finance lease obligations (Notes 12 and 18)	12,089	1,345	109,195
Commercial papers (Notes 12 and 18)	8,000	30,000	72,261
Accrued income taxes (Note 15)	3,565	4,625	32,201
Accrued expenses	6,317	5,101	57,059
Accrued bonuses for employees	6,042	5,123	54,575
Accrued bonuses for directors and executive officers	203	170	1,834
Other current liabilities	16,928	15,190	152,904
Total current liabilities	206,139	200,434	1,861,973
Long-term liabilities:			
Bonds (Notes 12 and 18)	30,000	30,000	270,978
Long-term loans and finance lease obligations (Notes 12 and 18)	35,807	44,038	323,431
Deferred tax liabilities (Note 15)	16,077	9,280	145,217
Retirement benefit liability (Note 14)	13,292	13,677	120,061
Other long-term liabilities	838	804	7,569
Total long-term liabilities	96,016	97,800	867,275
Contingent liabilities (Note 22)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock:			
Authorized — 346,980,000 shares			
Issued — 124,408,285 shares in 2021 and 127,408,285 shares in 2020	9,699	9,699	87,607
Capital surplus	10,646	10,646	96,161
Retained earnings (Notes 23 and 27)	265,920	257,067	2,401,951
Treasury stock, at cost (Note 17) — 933,995 shares in 2021 and 3,396,695 shares in 2020	(1,503)	(5,071)	(13,576)
Total shareholders' equity	284,763	272,342	2,572,152
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Note 11)	43,576	32,618	393,605
Deferred gain on hedges (Note 19)	72	3	650
Translation adjustments	1,006	1,051	9,087
Retirement benefit liability adjustments (Note 14)	268	(694)	2,421
Total accumulated other comprehensive income	44,924	32,979	405,781
Non-controlling interests	8,743	7,921	78,972
Total net assets	338,431	313,243	3,056,914
Total liabilities and net assets	¥640,587	¥611,477	\$5,786,171

See notes to consolidated financial statements.

Consolidated Statement of Income

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2021 and 2020)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales (Note 25)	¥830,240	¥799,559	\$7,499,232
Cost of sales (Note 8)	715,640	694,657	6,464,095
Gross profit	114,600	104,901	1,035,137
Selling, general and administrative expenses (Notes 20 and 21)	92,683	85,734	837,169
Operating income (Note 25)	21,916	19,167	197,959
Other income (expenses):			
Interest and dividend income	1,312	2,322	11,851
Interest expense	(1,064)	(1,355)	(9,611)
Equity in losses of affiliates	(327)	(538)	(2,954)
Gain on sales of shares of subsidiaries and affiliates	2,657	—	24,000
Gain on sales of investments in securities (Note 11)	5,774	9,723	52,154
Loss on sales of shares of subsidiaries and affiliates	1	—	9
Loss on devaluation of investments in securities (Note 11)	(155)	(1,028)	(1,400)
Gain on sales of property, plant and equipment	86	21	777
Loss on sales of property, plant and equipment	(23)	(46)	(208)
Loss on disposal of property, plant and equipment	(92)	(204)	(831)
Loss on impairment of fixed assets (Notes 10 and 25)	(1,824)	(3,116)	(16,475)
Subsidy income	163	52	1,472
Other, net	846	(796)	7,642
Profit before income taxes	29,272	24,200	264,402
Income taxes (Note 15):			
Current	7,851	7,395	70,915
Deferred	1,775	1,288	16,033
Profit	19,646	15,515	177,455
Profit attributable to:			
Non-controlling interests	(816)	(371)	(7,371)
Owners of parent	¥ 18,829	¥ 15,144	\$ 170,075

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2021 and 2020)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Profit	¥19,646	¥ 15,515	\$177,455
Other comprehensive loss (Note 13):			
Net unrealized holding loss on securities	10,945	(9,231)	98,862
Deferred gain on hedges	69	11	623
Translation adjustments	7	(1,973)	63
Retirement benefit liability adjustments	963	(402)	8,698
Share of other comprehensive loss of affiliates accounted for by the equity method	254	(339)	2,294
	12,241	(11,935)	110,568
Comprehensive income	¥31,887	¥ 3,579	\$288,023
Total comprehensive income attributable to:			
Owners of parent	¥30,774	¥ 3,380	\$277,969
Non-controlling interests	1,112	199	10,044

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2021 and 2020)

	Millions of yen											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments (Note 14)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2019	¥9,699	¥10,647	¥247,617	¥(5,070)	¥262,892	¥41,857	¥ (7)	¥ 3,224	¥(292)	¥ 44,781	¥4,934	¥312,609
Profit attributable to owners of parent	—	—	15,144	—	15,144	—	—	—	—	—	—	15,144
Cash dividends	—	—	(5,704)	—	(5,704)	—	—	—	—	—	—	(5,704)
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	—	—
Changes in parent's ownership interest due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	—
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(93)	—	(93)	—	—	—	—	—	—	(93)
Increase in retained earnings resulting from changes in scope of equity method	—	—	103	—	103	—	—	—	—	—	—	103
Other changes	—	—	—	—	—	(9,238)	11	(2,172)	(402)	(11,802)	2,986	(8,815)
Balance at April 1, 2020	9,699	10,646	257,067	(5,071)	272,342	32,618	3	1,051	(694)	32,979	7,921	313,243
Profit attributable to owners of parent	—	—	18,829	—	18,829	—	—	—	—	—	—	18,829
Cash dividends	—	—	(5,456)	—	(5,456)	—	—	—	—	—	—	(5,456)
Purchases of treasury stock	—	—	—	(952)	(952)	—	—	—	—	—	—	(952)
Disposition of treasury stock	—	0	—	0	0	—	—	—	—	—	—	0
Retirement of treasury stock	—	(0)	(4,520)	4,520	—	—	—	—	—	—	—	—
Changes in parent's ownership interest due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	(0)
Other changes	—	—	—	—	—	10,957	69	(45)	963	11,944	822	12,767
Balance at March 31, 2021	¥9,699	¥10,646	¥265,920	¥(1,503)	¥284,763	¥43,576	¥72	¥ 1,006	¥ 268	¥ 44,924	¥8,743	¥338,431

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments (Note 14)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2020	\$87,607	\$96,161	\$2,321,985	\$(45,804)	\$2,459,958	\$294,626	\$ 27	\$9,493	\$(6,269)	\$297,886	\$71,547	\$2,829,401
Profit attributable to owners of parent	—	—	170,075	—	170,075	—	—	—	—	—	—	170,075
Cash dividends	—	—	(49,282)	—	(49,282)	—	—	—	—	—	—	(49,282)
Purchases of treasury stock	—	—	—	(8,599)	(8,599)	—	—	—	—	—	—	(8,599)
Disposition of treasury stock	—	0	—	0	0	—	—	—	—	—	—	0
Retirement of treasury stock	—	(0)	(40,827)	40,827	—	—	—	—	—	—	—	—
Changes in parent's ownership interest due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	(0)
Other changes	—	—	—	—	—	(98,970)	623	(406)	8,698	107,885	7,425	115,319
Balance at March 31, 2021	\$87,607	\$96,161	\$2,401,951	\$(13,576)	\$2,572,152	\$393,605	\$650	\$9,087	\$ 2,421	\$405,781	\$78,972	\$3,056,914

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2021 and 2020)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Operating activities:			
Profit before income taxes	¥ 29,272	¥ 24,200	\$ 264,402
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization other than amortization of goodwill	11,008	10,089	99,431
Loss on impairment of fixed assets	1,824	3,116	16,475
Amortization of goodwill	2,344	2,037	21,172
Subsidy income	(163)	(52)	(1,472)
Increase in retirement benefit liability	1,395	645	12,600
Increase in retirement benefit asset	(1,174)	(1,645)	(10,604)
Interest and dividend income	(1,312)	(2,322)	(11,851)
Interest expense	1,064	1,355	9,611
Exchange gain, net	(24)	(121)	(217)
Gain on sales of investments in securities, investments in capital, shares of subsidiaries and affiliates, and investments in capital of subsidiaries and affiliates, net	(8,419)	(9,723)	(76,046)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(17,641)	19,452	(159,344)
Inventories	(1,034)	3,187	(9,340)
Notes and accounts payable	8,623	(13,689)	77,888
Other, net	3,036	2,244	27,423
Subtotal	28,797	38,773	260,112
Interest and dividends received	1,950	2,714	17,614
Interest paid	(1,067)	(1,382)	(9,638)
Income taxes paid	(9,288)	(7,031)	(83,895)
Net cash provided by operating activities	20,391	33,074	184,184
Investing activities:			
Purchases of property, plant and equipment	(8,864)	(11,909)	(80,065)
Proceeds from sales of property, plant and equipment	448	87	4,047
Purchases of intangible fixed assets included in other assets	(704)	(464)	(6,359)
Purchases of investments in securities	(3,260)	(1,635)	(29,446)
Proceeds from sales of investments in securities	6,027	10,278	54,440
Purchases of investments in capital	(47)	(54)	(425)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(44,691)	—
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	8,010	—	72,351
Decrease in short-term loans receivable included in other current assets, net	319	404	2,881
Decrease (increase) in time deposits, net	290	(887)	2,619
Subsidy income	163	52	1,472
Other, net	259	(388)	2,339
Net cash provided by (used in) investing activities	2,643	(49,208)	23,873
Financing activities:			
Increase (decrease) in short-term loans, net	658	(21,332)	5,943
(Decrease) Increase in commercial papers, net	(22,000)	18,000	(198,717)
Proceeds from long-term loans	4,350	25,454	39,292
Repayments of long-term loans	(1,891)	(1,131)	(17,081)
Proceeds from issuance of bonds	—	20,000	—
Redemption of bonds	—	(10,000)	—
Purchase of treasury stock	(952)	(0)	(8,599)
Cash dividends paid	(5,456)	(5,704)	(49,282)
Cash dividends paid to non-controlling interests	(290)	(219)	(2,619)
Other, net	(285)	(730)	(2,574)
Net cash (used in) provided by financing activities	(25,866)	24,334	(233,637)
Effect of exchange rate changes on cash and cash equivalents	913	(1,882)	8,247
Net (decrease) increase in cash and cash equivalents	(1,918)	6,317	(17,325)
Cash and cash equivalents at beginning of the year	50,471	44,017	455,885
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	136	—
Cash and cash equivalents at end of the year (Note 24)	¥ 48,553	¥ 50,471	\$ 438,560

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NAGASE & CO., LTD. and Consolidated Subsidiaries (March 31, 2021)

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of NAGASE & CO., LTD. (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the current year’s presentation. Such reclassifications had no effect on consolidated profit or net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and companies that it controls directly or indirectly. Affiliates over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial. The unconsolidated subsidiaries and affiliates not accounted for by the entity method were excluded from the scope of application of the equity method, because their profit or loss and retained earnings attributable to the Company’s interest were not material to the consolidated financial statements.

Of the Company’s subsidiaries, 32 have a December 31 year-end, which is different from that of the Company. The financial statements of 11 subsidiaries have been included in consolidation based on a provisional statement of accounts for a full fiscal year ending March 31. As for the other 21 subsidiaries, adjustments have been made for any significant intercompany transactions that took place during the period between the year-end of these subsidiaries and the year-end of the Company.

Unrealized intercompany gains among the Company and the consolidated subsidiaries have been entirely eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

(b) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests, net unrealized holding gain on securities, and deferred gain or loss

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥110.71 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2021. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen for the years ended March 31, 2021 and 2020 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2021 and 2020 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

on hedges are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as “Translation adjustments” as a component of accumulated other comprehensive income or loss in the accompanying consolidated balance sheet.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments which are readily convertible to cash and subject to an insignificant risk of any change in their value, which were purchased with an original maturity of three months or less.

(d) Inventories

Inventories are stated at the lower of cost or the net selling value, cost being determined primarily by the moving-average method.

(e) Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income or loss. Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

(f) Property, Plant and Equipment and Depreciation (except for leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of the principal assets are as follows:	
Buildings (other than structures attached to the buildings)	15 to 50 years
Machinery and equipment	2 to 20 years

(g) Intangible Assets (except for leased assets)

Technology-based assets recognized upon acquisition are amortized on a straight-line basis over 13 to 17 years.

Costs incurred for computer software obtained for internal use are capitalized and amortized on a straight-line basis over an estimated useful life of 5 years.

(h) Goodwill

Goodwill is amortized over a period not exceeding 20 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leased Assets

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms.

(j) Allowance for Doubtful Accounts

The Company and its consolidated subsidiaries provide allowances for doubtful accounts based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

(k) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred tax assets and liabilities are computed based on the temporary differences between the financial reporting and the tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future. Computations of deferred tax assets and liabilities are based on the tax rates which have been enacted as of the balance sheet date. The Company and certain domestic consolidated subsidiaries have adopted the consolidated taxation system (the Company is the taxable entity), which allows companies to make tax payments on the combined profits of the parent company and its wholly owned domestic subsidiaries.

(l) Accrued Bonuses for Employees

Accrued bonuses for employees are provided based on the estimated amount of bonuses to be paid to employees in the following fiscal year which is attributable to the current fiscal year.

(m) Accrued Bonuses for Directors and Executive Officers

Accrued bonuses for directors and executive officers are provided based on the estimated amount of bonuses to be paid to directors and executive officers in the following fiscal year which is attributable to the current fiscal year.

(n) Retirement Benefit Liability

Retirement benefit liability is provided based on the amount of the retirement benefit obligation less estimated pension plan assets at the end of the fiscal year. The estimated benefit is attributed to each period based on the plan’s benefit formula.

Prior service cost is charged to income in the fiscal year in which such cost is recognized for financial reporting purposes. Actuarial differences are principally credited or charged to income in the fiscal year following the fiscal year in which such differences are recognized for financial reporting purposes.

(o) Derivatives and Hedging Activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets. Foreign currency receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding foreign exchange contract rates (“allocation method”). Interest-rate swaps which meet certain conditions are accounted

3. SIGNIFICANT ACCOUNTING ESTIMATES

Assessment of impairment of property, plant and equipment and intangible fixed assets

(a) Amounts recorded in the consolidated financial statements as of March 31, 2021 and for the year then ended

Property, plant and equipment	¥70,896 million
Intangible fixed assets	¥64,598 million
Impairment losses	¥1,824 million

for as if the interest rates applied to the swaps had originally applied to the underlying loans.

Derivative financial instruments are utilized principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest-rate swaps are also utilized to mitigate the risk of fluctuation in interest rates on loans. Hedging instruments are foreign currency forward exchange contracts, foreign currency deposits, foreign currency loans and interest-rate swaps. Hedged items are foreign currency receivables and payables, forecast transactions and interest rates on loans from financial institutions.

The Company and its consolidated subsidiaries (collectively, the “Group”) manage derivative transactions in accordance with internal management rules. Under these rules, the Group conducts foreign currency forward exchange contracts within a range of actual demand of accounts receivable, accounts payable and actual transactions in foreign currencies. Execution and management of interest-rate swaps are based on internal management rules and hedged items of interest-rate swaps are identified by individual contracts.

The Company and certain consolidated subsidiaries assess the effectiveness of the hedging activities based on a comparison of the accumulated fluctuations of the hedged items and those of the hedging instruments in the period from the start of the hedging activities to the assessment date. However, with regard to interest-rate swaps which meet certain conditions, the evaluation of effectiveness is omitted.

(p) Research and Development Costs

Research and development costs are charged to income when incurred.

(q) Distributions of Retained Earnings

Dividends and other distributions of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which such distributions are applicable. The accompanying consolidated financial statements do not, however, reflect the applicable distributions of retained earnings as approved by the shareholders subsequent to the fiscal year-end. (Refer to Note 27.)

(r) Application of Tax Effect Accounting for Transition from Consolidated Taxation System to Group Tax Sharing System

The Company and certain domestic consolidated subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities in accordance with the provisions of tax laws in Japan prior to the amendments based on the treatments stipulated in Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to group tax sharing system provided for in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020), and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

(b) Information about significant accounting estimates pertaining to identified items

- (i) Method of calculation
If an indication of impairment exists with regard to an asset or asset group, the Company determines whether to recognize an impairment loss based on undiscounted future cash flows. These undiscounted cash flows are calculated in consideration of economic useful lives of the primary assets, etc., under future business plans.

When recognizing an impairment loss for a particular year, the Company calculates the recoverable amount, which is the net selling value or the value in use, whichever is larger, and then reduces the book value to the recoverable amount. The difference is recorded as an impairment loss for the year. The discount rate used for the calculation of the value in use is in general set by linking the relevant business risk to the time value of money.

- (ii) Key assumptions used for amount calculation
The key assumptions are the projected sales and costs of sales included in future business plans, and the discount rate used to calculate the value in use.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Accounting Standard and Implementation Guidance for Revenue Recognition

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued on March 31, 2020)
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued on March 26, 2021)
“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 31, 2020)

(a) Overview

The International Accounting Standards Board (hereinafter referred to as the “IASB”) and the Financial Accounting Standards Board (hereinafter referred to as the “FASB”) in the United States co-developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 by the IASB and Topic 606 by the FASB) in May 2014. The ASBJ developed comprehensive accounting standards on revenue recognition and issued them in conjunction with the implementation guidance based on fact that IFRS 15 is applied from fiscal years starting on or after January 1, 2018 and Topic 606 is applied from fiscal years starting after December 15, 2017.

As the basic policy in developing accounting standards for revenue recognition, the ASBJ defined the accounting standard starting with incorporating the basic principle of IFRS 15 from a standpoint of comparability between financial statements, which is one benefit of ensuring consistency with IFRS 15. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to accounting practices, etc. common in Japan.

(b) Scheduled date of adoption

The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of the adoption of accounting standard and implementation guidance

In accordance with the Accounting Standard for Revenue Recognition and related implementation guidance, the Company will change the disclosure method from gross sales to net sales involving transactions in which the Company acts as an agent. This change decreases the amounts of the net sales and cost of sales recognized on the consolidated financial statements to a certain extent. However, the application of the accounting standard will have a minor impact on each profitability level, including gross profit, or retained earnings.

- (iii) Effects on consolidated financial statements for the next fiscal year
Except the assets for which impairment losses were recognized in the consolidated statement of income for the current fiscal year, the book values of property, plant and equipment and intangible assets were considered recoverable at the end of the current fiscal year. However, due to the inherent uncertainty of accounting estimates, if the said key assumption should change beyond the projectable range, the recoverable amount may fall below the book value, and an impairment loss may arise.

Accounting Standards for Fair Value Measurement, etc.
“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued on July 4, 2019)
“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, revised on July 4, 2019)
“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, revised on July 4, 2019)
“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued on July 4, 2019)
“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, issued on March 31, 2020)

(a) Overview

The ASBJ promoted an initiative to enhance comparability of the requirements between the Japanese generally accepted accounting standards and International Financial Reporting Standards, primarily with regard to guidance on the fair values of financial instruments and their disclosures, and issued “Accounting Standard for Fair Value Measurement,” etc., based on the fact that the IASB and the FASB have prescribed almost the similar detailed guidance (IFRS 13 “Fair Value Measurement” issued by IASB and Accounting Standard Codification Topic 820 “Fair Value Measurement” issued by FASB).

The ASBJ’s fundamental policies adopted for developing “Accounting Standard for Fair Value Measurement,” etc. are, in principle, to implement all the requirements of IFRS 13 from the viewpoint of enhancing the comparability of the financial statements of domestic and overseas companies by prescribing unified measurement methods, but also to prescribe exceptional treatments for individual matters so that comparability would not be impaired in consideration of accounting practices that have conventionally been adopted in Japan.

(b) Scheduled date of adoption

The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of the accounting standards and related implementation guidance on its consolidated financial statements.

5. CHANGES IN PRESENTATION METHOD

Changes associated with the adoption of “Accounting Standard for Disclosure of Accounting Estimates”

From the current fiscal year, the Group adopted the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020). Accordingly, disclosures relating to accounting estimates are included in the notes to the consolidated financial statements.

6. ADDITIONAL INFORMATION

Effects of COVID-19 Pandemic When Making Accounting Estimates

The Group makes accounting estimates relating to impairment loss on non-current assets and recoverability of deferred tax assets, etc., based on information available at the time the consolidated financial statements are prepared.

The impact of the spread of COVID-19 on the Group’s earnings during the current fiscal year has been limited overall. The most prominent impact was on the first quarter results of the automobile-related business. However, since the second quarter, certain business recoveries have been observed (e.g. an electronics business recovery mainly in the Electronics segment supported by demand driven by teleworking and other factors, and a resins business recovery

However, comparative information for the previous fiscal year has not been disclosed in accordance with the transitional provisions set forth in Article 11 of the Accounting Standard for Disclosure of Accounting Estimates.

in the Advanced Materials & Processing segment).

Accounting estimates relating to the impact of the COVID-19 pandemic in and after fiscal 2021 are reflected in the Group’s accounting treatment based on the assumption that the current unstable business environment will continue in the first half of fiscal 2021, and the normalization of economic activities will progress gradually in and after the second half due to the spread of vaccinations.

Many uncertain factors regarding the impact of COVID-19 remain, which may affect the financial position and operating performance of the Group in the next fiscal year and thereafter.

7. INVENTORIES

Inventories at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise and finished goods	¥88,130	¥86,183	\$796,044
Work in process	1,654	1,789	14,940
Raw materials and supplies	7,457	7,730	67,356
Total	¥97,242	¥95,702	\$878,349

8. LOSS ON DEVALUATION OF INVENTORIES INCLUDED IN COST OF SALES

The balance of inventories at the end of the year is the amount after writing down book values due to decline in profitability and following loss on devaluation of inventories is included in cost of sales for the years ended March 31, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loss on devaluation of inventories included in cost of sales	¥1,829	¥1,310	\$16,521

9. REDUCTIONS IN ACQUISITION COSTS DUE TO SUBSIDIES

The amounts of subsidies received from the Japanese national government and deducted from the acquisition costs of property, plant and equipment at March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Land	¥ 190	¥ 190	\$ 1,716
Buildings and structures	401	530	3,622
Machinery, equipment and vehicles	726	652	6,558
Total	¥1,318	¥1,373	\$11,905

10. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the years ended March 31, 2021 and 2020 was as follows:

Major use	Classification	Area	Millions of yen	Thousands of U.S. dollars
			2021	2021
Business-use assets for manufacturing and selling of color formers	Buildings and structures, machinery, equipment and vehicles	Hokuriku	¥ 632	\$ 5,709
Business-use assets for manufacturing and selling of color formers	Buildings and structures, machinery, equipment and vehicles	Tennessee, USA	211	1,906
Business-use assets for polyimide film glass bonding business	Machinery, equipment and vehicles	Taipei, Taiwan	951	8,590
Business-use assets for manufacturing and selling of rechargeable battery systems	Buildings and structures, machinery, equipment and vehicles, and intangible assets included in other assets	Tokai	18	163
Business-use assets for processing of thin glass panels	Buildings and structures, machinery, equipment and vehicles	Fujian, China	2	18
Idle assets	Land	Tokai etc.	7	63
Total			¥1,824	\$16,475

Major use	Classification	Area	Millions of yen
			2020
Business-use assets for processing of thin glass panels	Buildings and structures, machinery, equipment and vehicles, and intangible assets included in other assets	Fujian, China	¥1,639
Business-use assets for manufacturing and selling of pharmaceutical products	Buildings and structures, machinery, equipment and vehicles	Kinki	903
Goodwill related to siloxane materials production and development business	Goodwill	Helsinki, Finland	570
Business-use assets for manufacturing and selling of rechargeable battery systems	Machinery, equipment and vehicles	Tokai	2
Idle assets	Land	Kinki	2
Total			¥3,116

The Company and its consolidated subsidiaries group fixed assets for business use principally based on its business management segment. They also group fixed assets to be disposed of and idle assets at each asset individually as smallest cash-generating units.

For the year ended March 31, 2021, due to decreasing profitability, the carrying values of certain fixed assets for business use were reduced to their recoverable amounts. As for idle assets, due to a declining fair value, the carrying fair values were reduced to their recoverable amounts.

The recoverable amounts were measured at the net selling value or the value in use. The recoverable amounts for business-use assets for the color former manufacturing and polyimide film and glass lamination were measured at the net selling value. The net selling value was calculated based on the appraisal value published by the tax authorities or the real estate appraisers, or estimated sales value.

For the year ended March 31, 2020, due to decreasing profitability, the carrying values of certain fixed assets for business use were reduced to their recoverable amounts. With respect to goodwill related to the siloxane

materials production and development business, the Company has made progress strengthening the foundation of development of optical component materials for the wearables market, but the financial results have not been as good as projected in the initial business plan. The Company wrote down the book value of these assets to their recoverable amounts, recording a loss on impairment of goodwill. As to idle assets, due to a declining fair value, the carrying fair values were reduced to their recoverable amounts.

The recoverable amounts were measured at the net selling value or the value in use. The recoverable amounts for business-use assets for processing of thin glass panels were measured at the net selling value. The recoverable amounts for business-use assets for manufacturing and selling of pharmaceutical products were measured at the value in use based on the present value of the future cash flows with a discount rate of 0.2%. Goodwill related to the siloxane materials production and development business was measured based on the value in use. The net selling value was calculated based on the appraisal value published by the tax authorities or the real estate appraisers, or estimated sales value.

11.INVESTMENTS IN SECURITIES

(a) Marketable securities classified as other securities at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen					
	2021			2020		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥77,661	¥15,838	¥61,822	¥58,734	¥12,090	¥46,643
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	835	1,010	(174)	3,997	4,330	(333)
Total	¥78,496	¥16,848	¥61,648	¥62,731	¥16,421	¥46,310

	Thousands of U.S. dollars					
	2021			2020		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	\$701,481	\$143,058	\$558,414			
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	7,542	9,123	(1,572)			
Total	\$709,024	\$152,181	\$556,842			

“Acquisition costs” in the above table represent the carrying value after recognizing impairment losses.

(b) Securities classified as other securities for which market value was not determinable and not included in the table (a) at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
	Carrying value	Carrying value	Carrying value
Market value not determinable:			
Unlisted equity securities	¥6,225	¥3,731	\$56,228
Total	¥6,225	¥3,731	\$56,228

(c) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Proceeds from sales	¥6,217	¥10,419	\$56,156
Gain on sales	5,774	9,723	52,154
Loss on sales	10	—	90

(d) A breakdown of loss on devaluation of investments in securities for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loss on devaluation of investments in securities*			
Securities classified as other securities	¥155	¥1,023	\$1,400
Unconsolidated subsidiaries and affiliates	—	5	—
Total loss on devaluation of investments in securities	¥155	¥1,028	\$1,400

* Loss on devaluation of investments in securities is recorded on securities with market value whose market value at the end of the fiscal year has declined by 50% or more from its acquisition cost, or whose market value has declined by 30% or more but less than 50% based on the amount deemed unrecoverable.
In addition, loss on devaluation of investments in securities is recorded on securities for which it is extremely difficult to determine the market value by writing down the carrying value to fair value when the decline in fair value is deemed to be unrecoverable considering the financial position of the issuers, etc., of the securities.

12.SHORT-TERM LOANS, BONDS, LONG-TERM LOANS, COMMERCIAL PAPERS AND FINANCE LEASE OBLIGATIONS

Short-term loans at March 31, 2021 and 2020 principally represented loans and commercial papers in the form of deeds at weighted-average annual interest rates of 1.33% and 1.95% per annum, respectively.

Long-term loans, bonds and finance lease obligations at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unsecured loans from banks and insurance companies, payable in Yen, U.S. dollars, and Euros due through 2032, at rates from 0.15% to 10.00%	¥ 46,539	¥43,898	\$ 420,369
Unsecured bonds in Yen, due 2022, at a rate of 0.539%	10,000	10,000	90,326
Unsecured bonds in Yen, due 2024, at a rate of 0.150%	10,000	10,000	90,326
Unsecured bonds in Yen, due 2029, at a rate of 0.290%	10,000	10,000	90,326
Lease obligations	1,357	1,485	12,257
	77,896	75,384	703,604
Less current portion	(12,089)	(1,345)	(109,195)
Total	¥ 65,807	¥74,038	\$ 594,409

The aggregate annual maturities of bonds, long-term loans and finance lease obligations subsequent to March 31, 2021 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2022	¥12,089	\$109,195
2023	19,461	175,784
2024	1,269	11,462
2025	15,170	137,025
2026	4,605	41,595
2027 and thereafter	25,300	228,525
Total	¥77,896	\$703,604

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2021 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Lines of credit	¥20,000	¥20,000	\$180,652
Credit utilized	—	—	—

13. OTHER COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥20,238	¥ (3,391)	\$182,802
Reclassification adjustments for gains and losses realized in the statement of income	(4,760)	(9,706)	(42,995)
Amount before tax effect	15,477	(13,097)	139,798
Tax effect	(4,532)	3,865	(40,936)
Net unrealized holding gain (loss) on securities	10,945	(9,231)	98,862
Deferred gain on hedges:			
Amount arising during the year	92	42	831
Reclassification adjustments for gains and losses realized in the statement of income	7	(25)	63
Amount before tax effect	99	16	894
Tax effect	(30)	(4)	(271)
Deferred gain on hedges	69	11	623
Translation adjustments:			
Amount arising during the year	7	(1,973)	63
Reclassification adjustments for gains and losses realized in the statement of income	—	—	—
Amount before tax effect	7	(1,973)	63
Tax effect	—	—	—
Translation adjustments	7	(1,973)	63
Retirement benefit liability adjustments:			
Amount arising during the year	594	(879)	5,365
Reclassification adjustments for gains and losses realized in the statement of income	796	300	7,190
Amount before tax effect	1,390	(578)	12,555
Tax effect	(427)	175	(3,857)
Retirement benefit liability adjustments	963	(402)	8,698
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	254	(339)	2,294
Total other comprehensive loss	¥12,241	¥(11,935)	\$110,568

14. RETIREMENT BENEFIT PLANS

(a) Outline of retirement benefit plans for employees

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit pension plans and lump-sum payment plans. Certain overseas consolidated subsidiaries also have defined benefit plans. Also, the Company and certain consolidated subsidiaries have defined contribution pension plans. In addition to the retirement benefit plans described above, the Company and its consolidated subsidiaries pay additional retirement benefits under certain conditions.

(b) Defined benefit plans

The changes in the retirement benefit obligation for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥34,228	¥34,440	\$309,168
Service cost	1,288	1,336	11,634
Interest cost	245	225	2,213
Actuarial differences	340	262	3,071
Retirement benefits paid	(1,270)	(1,383)	(11,471)
Changes in retirement benefit plans	—	(644)	—
Changes in scope of consolidation	(408)	—	(3,685)
Other	33	(8)	298
Balance at the end of the year	¥34,457	¥34,228	\$311,237

The changes in plan assets for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at the beginning of the year	¥22,305	¥22,088	\$201,472
Expected return on plan assets	452	436	4,083
Actuarial differences	934	(616)	8,436
Contributions by the Company and its consolidated subsidiaries	1,070	1,699	9,665
Retirement benefits paid	(684)	(692)	(6,178)
Changes in retirement benefit plans	—	(609)	—
Other	15	0	135
Balance at the end of the year	¥24,093	¥22,305	\$217,623

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligation	¥ 21,671	¥ 21,188	\$ 195,746
Plan assets at fair value	(24,093)	(22,305)	(217,623)
	(2,422)	(1,117)	(21,877)
Unfunded retirement benefit obligation	12,786	13,040	115,491
Net retirement benefit liability in the balance sheet	10,363	11,922	93,605
Retirement benefit liability	13,292	13,677	120,061
Retirement benefit asset	(2,929)	(1,754)	(26,457)
Net retirement benefit liability in the balance sheet	¥ 10,363	¥ 11,922	\$ 93,605

The components of retirement benefit expenses for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥1,288	¥1,336	\$11,634
Interest cost	245	225	2,213
Expected return on plan assets	(452)	(436)	(4,083)
Amortization of actuarial differences	796	300	7,190
Retirement benefit expense	¥1,877	¥1,426	\$16,954

Actuarial differences included in other comprehensive income (loss) (before tax effect) for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial differences	¥1,390	¥(578)	\$12,555

Unrecognized actuarial differences included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial differences	¥400	¥(990)	\$3,613

The allocation of plan assets, by major category, as a percentage of total plan assets at fair value as of March 31, 2021 and 2020 is as follows:

	2021	2020
Bonds	59%	63%
Equity securities	23	16
Alternative investments*	9	16
Other	9	5
Total	100%	100%

* "Alternative investments" consist of insurance-linked securities and private REITs.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and expected long-term rate of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the above plans were as follows:

	2021	2020
Discount rate	0.8%	0.8%
Expected long-term rate of return on plan assets	2.0%	2.0%

(c) Defined contribution plans

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Contributions to defined contribution plans by the Company and its consolidated subsidiaries	¥494	¥457	\$4,462

15. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants’ and enterprise taxes, which, in the aggregate, resulted in statutory tax rates of approximately 30.6% for the years ended March 31, 2021 and 2020.

The effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020 differ from the statutory tax rates for the following reasons:

	2021	2020
Statutory tax rates	30.6%	30.6%
Adjustments for:		
Expenses not deductible for income tax purposes	1.2	1.8
Dividends and other income deductible for income tax purposes	(8.9)	(8.4)
Net adjustment resulting from elimination of dividend income upon consolidation	8.6	7.5
Different tax rates applied at overseas subsidiaries	(3.2)	(1.7)
Tax credit	(1.1)	(1.4)
Amortization of goodwill	2.5	2.7
Loss on impairment of goodwill	—	0.7
Adjustment of book value of shares of subsidiaries for consolidated taxation system	2.7	—
Valuation allowance	0.8	3.4
Other, net	(0.3)	0.7
Effective tax rates	32.9%	35.9%

The significant components of the Company’s and its consolidated subsidiaries’ deferred tax assets and liabilities at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Accrued bonuses for employees	¥ 1,492	¥ 1,311	\$ 13,477
Allowance for doubtful accounts	194	180	1,752
Unrealized gain on inventories	609	540	5,501
Accrued enterprise taxes	265	301	2,394
Tax loss carryforwards	3,158	2,829	28,525
Retirement benefit liability	3,069	3,610	27,721
Investments in securities	1,274	1,271	11,508
Loss on impairment of fixed assets	1,027	2,160	9,276
Tax goodwill	—	2,107	—
Other	3,827	3,486	34,568
Gross deferred tax assets	14,919	17,801	134,757
Valuation allowance	(4,867)	(4,910)	(43,962)
Total deferred tax assets	10,052	12,891	90,796
Deferred tax liabilities:			
Technology-based assets	(2,280)	(2,760)	(20,594)
Deferred capital gain on property	(1,139)	(1,226)	(10,288)
Reserve for special depreciation	(150)	(204)	(1,355)
Undistributed earnings of subsidiaries and affiliates	(610)	(558)	(5,510)
Revaluation of land	(290)	(290)	(2,619)
Net unrealized holding gain on securities	(18,292)	(13,753)	(165,224)
Other	(1,462)	(1,527)	(13,206)
Total deferred tax liabilities	(24,226)	(20,321)	(218,824)
Net deferred tax liabilities	¥(14,174)	¥ (7,430)	\$(128,028)

16. SHAREHOLDERS’ EQUITY

The Corporation Law of Japan (the “Law”) provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company’s capital reserve included in capital surplus at March 31,

2021 amounted to ¥9,634 million (\$87,020 thousand). In addition, the Company’s legal reserve included in retained earnings at March 31, 2021 amounted to ¥2,424 million (\$21,895 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding 50% of the proceeds of the sale of new shares as additional paid-in capital.

Movements in common stock during the years ended March 31, 2021 and 2020 are summarized as follows:

	Number of shares			
	2021			
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	127,408,285	—	3,000,000	124,408,285
	2020			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	127,408,285	—	—	127,408,285

17.TREASURY STOCK

Movements in treasury stock during the years ended March 31, 2021 and 2020 are summarized as follows:

	Number of shares			
	2021			
	April 1, 2020	Increase	Decrease	March 31, 2021
Treasury stock	3,396,695	537,380	3,000,080	933,995
	2020			
	April 1, 2019	Increase	Decrease	March 31, 2020
Treasury stock	3,396,352	343	—	3,396,695

The increase in treasury stock includes 537,100 shares resulting from the purchases of treasury stock by resolution of the Board of Directors and 280 shares resulting from the purchase of shares less than one voting unit for the year ended March 31, 2021. The decrease in treasury stock includes 3,000,000 shares resulting from the retirement of treasury stock by resolution of the

Board of Directors and 80 shares resulting from the disposition of shares less than one voting unit for the year ended March 31, 2021.
The increase in treasury stock includes 343 shares resulting from the purchase of shares less than one voting unit for the year ended March 31, 2020.

18.FINANCIAL INSTRUMENTS

(a) Policy for financial instruments

The Group invests excess funds in highly secure and short-term financial assets, whose principal is guaranteed to be recoverable. With regard to financing policy, short-term working funds are raised by bank borrowings or issuance of commercial papers and long-term funds are raised by bank borrowings and the issuance of bonds. The policy for derivative transactions is that those are utilized to mitigate the fluctuation risk related to foreign currency exchange rates arising from the receivables and payables denominated in foreign currencies, and fluctuation risk related to interest rates with respect to loans payable, and derivative transactions are not carried out for speculative purposes.

(b) Types of financial instruments, related risk and risk management for financial instruments

Receivables such as trade notes and accounts receivable are exposed to customers’ credit risks. With regard to this risk, the Group manages the settlement date by each customer, and establishes credit limits by each customer based on the Group’s internal credit rating policy and monitors outstanding balances. The Group establishes system under which the credit status by each customer is reviewed at least once a year and the sales limit amount updated as necessary.
In the cases of notes and accounts receivable or payable denominated in foreign currencies, foreign currency forward exchange contracts are used to hedge the risk of fluctuation. However, for foreign currency transactions

denominated in the same currency involving either payables or receivables, foreign currency forward exchange contracts are used solely for the netted position.
Investments in securities are subject to market price fluctuation risk. However, these are mainly equity securities of other companies with which the Group has business relationships. The Group regularly monitors both their fair value and the financial condition of the issuer. The Group also reviews as needed the condition of its holdings with concern to the status of business and financial transactions.
Short-term loans are raised primarily in connection with business activities. Long-term loans and bonds are taken out principally for the purpose of making capital spending, investments and financing. Loans with variable interest rates are subject to the risk of fluctuating interest rates. However, to reduce such risk, the Group utilizes derivatives (interest-rate swap transactions) as a hedging instrument.
Derivatives include foreign currency forward exchange contracts to manage fluctuation risk in foreign currency exchange rates and interest-rate swaps to manage fluctuation risk of interest rates related to the interest payments for bank loans.
In addition, notes and accounts payable and bank loans are exposed to liquidity risk. However, the Group manages such risk by monitoring the balance of inflow and outflow of cash and establishing liquidity on hand in excess of half of the amount of monthly net sales.

(c) Fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheet, fair value and the differences as of March 31, 2021 and 2020, are shown in the following table. Financial instruments for which fair value is deemed extremely difficult to determine are not included.

	Millions of yen		
	2021		
	Carrying value	Fair value	Difference
Assets:			
Cash and time deposits	¥ 49,254	¥ 49,254	¥ —
Notes and accounts receivable	242,558	242,558	—
Investments in securities			
Other securities	78,496	78,496	—
Total assets	¥370,308	¥370,308	¥ —
Liabilities:			
Notes and accounts payable	¥119,941	¥119,941	¥ —
Short-term loans	33,050	33,050	—
Current portion of long-term loans	12,025	12,025	—
Commercial papers	8,000	8,000	—
Bonds	30,000	29,899	(101)
Long-term loans	34,514	34,528	13
Total liabilities	¥237,531	¥237,443	¥ (87)
Derivatives*:			
Not subject to hedge accounting	¥ (594)	¥ (594)	¥ —
Subject to hedge accounting	56	56	—
Total derivative transactions	¥ (537)	¥ (537)	¥ —

	Millions of yen		
	2020		
	Carrying value	Fair value	Difference
Assets:			
Cash and time deposits	¥ 51,408	¥ 51,408	¥ —
Notes and accounts receivable	221,116	221,116	—
Investments in securities			
Other securities	62,731	62,731	—
Total assets	¥335,256	¥335,256	¥ —
Liabilities:			
Notes and accounts payable	¥108,285	¥108,285	¥ —
Short-term loans	30,590	30,590	—
Current portion of long-term loans	1,277	1,277	—
Commercial papers	30,000	30,000	—
Bonds	30,000	29,879	(121)
Long-term loans	42,621	42,671	50
Total liabilities	¥242,774	¥242,703	¥ (70)
Derivatives*:			
Not subject to hedge accounting	¥ 99	¥ 99	¥ —
Subject to hedge accounting	(0)	(0)	—
Total derivative transactions	¥ 98	¥ 98	¥ —

	Thousands of U.S. dollars		
	2021		
	Carrying value	Fair value	Difference
Assets:			
Cash and time deposits	\$ 444,892	\$ 444,892	\$ —
Notes and accounts receivable	2,190,931	2,190,931	—
Investments in securities			
Other securities	709,024	709,024	—
Total assets	\$3,344,847	\$3,344,847	\$ —
Liabilities:			
Notes and accounts payable	\$1,083,380	\$1,083,380	\$ —
Short-term loans	298,528	298,528	—
Current portion of long-term loans	108,617	108,617	—
Commercial papers	72,261	72,261	—
Bonds	270,978	270,066	(912)
Long-term loans	311,751	311,878	117
Total liabilities	\$2,145,524	\$2,144,729	\$(786)
Derivatives*:			
Not subject to hedge accounting	\$ (5,365)	\$ (5,365)	\$ —
Subject to hedge accounting	506	506	—
Total derivative transactions	\$ (4,851)	\$ (4,851)	\$ —

* Receivables and payables arising from derivative transactions are presented as a net value with the amount in parentheses representing a net liability position.

The calculation methods of fair values of financial instruments and securities and derivative transactions are as follows:

Cash and time deposits

Their carrying value approximates the fair value.

Notes and accounts receivable

The fair value of notes and accounts receivable is based on their present values discounted by the interest rate determined taking into account the remaining period to maturity for each receivable classified by settlement date.

Investments in securities

The fair value of investments in securities is based on quoted market prices. Please refer to Note 11 regarding information on securities by holding purpose.

Notes and accounts payable

The fair value of notes and accounts payable is based on their present values discounted by the interest rate determined taking into account the remaining period to maturity for each payable classified by settlement date.

Short-term loans, current portion of long-term loans and commercial papers

Since these items are settled in a short period of time, their carrying value approximates the fair value.

Bonds

The fair value of bonds is based on the market price.

Long-term loans

The fair value of long-term loans with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming new loans under similar conditions to existing loans are made. Floating interest rates for long-term loans are hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loans is based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates, estimated reasonably, applicable to new loans under similar conditions.

Derivative transactions

Please refer to Note 19.

The carrying value of financial instruments without determinable market value at March 31, 2021 and 2020 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unlisted equity securities	¥ 6,225	¥ 3,731	\$ 56,228
Investments in unconsolidated subsidiaries and affiliates	8,997	9,661	81,266
Total	¥15,222	¥13,392	\$137,494

The redemption schedule for time deposits and notes and accounts receivable with maturity dates at March 31, 2021 is summarized as follows:

	Millions of yen	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	¥ 48,933	¥—
Notes and accounts receivable	242,558	—
Total	¥291,491	¥—

	Thousands of U.S. dollars	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	\$ 441,993	\$—
Notes and accounts receivable	2,190,931	—
Total	\$2,632,924	\$—

With respect to the redemption schedule of bonds, long-term loans and finance lease obligations, please refer to Note 12.

19.DERIVATIVES AND HEDGING ACTIVITIES

The currency-related derivatives positions outstanding for which hedge accounting has not been applied at March 31, 2021 and 2020 are as follows:

		Millions of yen			
		2021			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
Over-the-counter transactions	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥ 6,980	¥—	¥(130)	¥(130)
	Yen	2,540	—	(38)	(38)
	Euro	9,977	—	(402)	(402)
	RMB	1,241	—	(48)	(48)
	Others	190	—	(5)	(5)
	Buying:				
	U.S. dollars	1,263	—	(14)	(14)
	Yen	1,616	—	19	19
	Euro	442	—	22	22
	Others	108	—	3	3
Total		¥24,362	¥—	¥(594)	¥(594)

		Millions of yen			
		2020			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
Over-the-counter transactions	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥ 5,486	¥—	¥ 23	¥ 23
	Yen	2,177	—	49	49
	Euro	6,824	—	45	45
	RMB	891	—	7	7
	Others	146	—	2	2
	Buying:				
	U.S. dollars	1,297	—	(25)	(25)
	Yen	799	—	(2)	(2)
	Euro	47	—	0	0
	Others	68	—	(1)	(1)
Total		¥17,738	¥—	¥ 99	¥ 99

		Thousands of U.S. dollars			
		2021			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
Over-the-counter transactions	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	\$ 63,048	\$—	\$(1,174)	\$(1,174)
	Yen	22,943	—	(343)	(343)
	Euro	90,118	—	(3,631)	(3,631)
	RMB	11,209	—	(434)	(434)
	Others	1,716	—	(45)	(45)
	Buying:				
	U.S. dollars	11,408	—	(126)	(126)
	Yen	14,597	—	172	172
	Euro	3,992	—	199	199
	Others	976	—	27	27
	Total	\$220,052	\$—	\$(5,365)	\$(5,365)

The fair value of foreign currency forward exchange contracts is mainly computed using the prices provided by counterparty financial institutions.

The currency-related derivatives positions outstanding for which hedge accounting has been applied at March 31, 2021 and 2020 are as follows:

		Millions of yen			
		2021			
Method for hedge accounting	Transaction	Major hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	Accounts receivable	¥ —	¥—	¥ —
	Euro		299	—	(6)
	RMB		447	—	(17)
	Others		41	—	(1)
	Buying:				
	U.S. dollars	Accounts payable	1,423	—	78
	Euro		149	—	2
	RMB		0	—	0
	Others		118	—	1
Allocation method for foreign currency forward exchange contracts (Note 2(o))	Foreign currency forward exchange contracts:				
	Selling:				
	Euro	Accounts receivable	10	—	(*)
	RMB		0	—	(*)
	Others		4	—	(*)
	Buying:				
	Euro	Accounts payable	155	—	(*)
	RMB		40	—	(*)
	Others		139	—	(*)
	Total		¥2,829	¥—	¥ 56

		Millions of yen			
		2020			
Method for hedge accounting	Transaction	Major hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	Accounts receivable	¥ 12	¥—	¥ 0
	Euro		138	—	0
	RMB		241	—	2
	Others		94	—	1
	Buying:				
	U.S. dollars	Accounts payable	73	—	(0)
	Euro		132	—	(0)
	RMB		103	—	(1)
	Others		165	—	(2)
Allocation method for foreign currency forward exchange contracts (Note 2(o))	Foreign currency forward exchange contracts:				
	Selling:				
	Euro	Accounts receivable	3	—	(*)
	Others		0	—	(*)
	Buying:				
	Euro	Accounts payable	118	—	(*)
	THB		82	—	(*)
	Others		38	—	(*)
	Total		¥1,204	¥—	¥(0)

		Thousands of U.S. dollars			
		2021			
Method for hedge accounting	Transaction	Major hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	Accounts receivable	\$ —	\$—	\$ —
	Euro		2,701	—	(54)
	RMB		4,038	—	(154)
	Others		370	—	(9)
	Buying:				
	U.S. dollars	Accounts payable	12,853	—	705
	Euro		1,346	—	18
	RMB		0	—	0
	Others		1,066	—	9
Allocation method for foreign currency forward exchange contracts (Note 2(o))	Foreign currency forward exchange contracts:				
	Selling				
	Euro	Accounts receivable	90	—	(*)
	RMB		0	—	(*)
	Others		36	—	(*)
	Buying:				
	Euro	Accounts payable	1,400	—	(*)
	RMB		361	—	(*)
	Others		1,256	—	(*)
	Total		\$25,553	\$—	\$ 506

The fair value of foreign currency forward exchange contracts is mainly computed using the prices provided by counterparty financial institutions.

(*): The fair value of foreign currency forward exchange contracts that qualify for the allocation method is included in the fair value of the underlying accounts receivable and payable.

The interest-related derivatives positions outstanding for which hedge accounting has been applied at March 31, 2021 and 2020 are as follows.

Millions of yen					
2021					
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay—fixed, receive—variable)	Long-term loans	¥8,000	¥4,000	(**)

Millions of yen					
2020					
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay—fixed, receive—variable)	Long-term loans	¥8,000	¥8,000	(**)

Thousands of U.S. dollars					
2021					
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay—fixed, receive—variable)	Long-term loans	\$72,261	\$36,130	(**)

(**): Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans, their fair values were included in the fair value of the long-term loans.

20. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2021 and 2020 totaled ¥5,613 million (\$50,700 thousand) and ¥6,133 million, respectively.

21. OPERATING LEASES

Future minimum lease payments subsequent to March 31, 2021 under noncancelable operating leases are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2022	¥ 825	\$ 7,452
2023 and thereafter	4,180	37,756
Total	¥5,006	\$45,217

22. CONTINGENT LIABILITIES

At March 31, 2021, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans of customers and other in the aggregate amount of ¥363 million (\$3,279 thousand), and as guarantors of loans of employees in the amount of ¥0 million (\$0 thousand).

In addition, at March 31, 2021, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed in the amount of ¥174 million (\$1,572 thousand).

23. AMOUNTS PER SHARE

Amounts per share at March 31, 2021 and 2020 and for the years then ended are as follows:

	Yen		U.S. dollars
	2021	2020	2021
Profit attributable to owners of parent:			
Basic	¥ 151.91	¥ 122.12	\$ 1.37
Diluted	—	—	—
Net assets	2,670.09	2,462.04	24.12
Cash dividends applicable to the year	46.00	44.00	0.42

Basic profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of parent per share for the years ended March 31, 2021 and 2020 has not been presented because no potentially dilutive shares of common stock were outstanding.

Net assets per share have been computed based on the number of shares of common stock outstanding at the year-end.
Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of basic profit attributable to owners of parent per share for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Profit attributable to owners of parent	¥18,829	¥15,144	\$170,075
Profit available for distribution to shareholders of common stock	18,829	15,144	170,075
Weighted-average number of shares	123,955,784	124,011,793	

24. CASH AND TIME DEPOSITS

(a) A reconciliation of cash and time deposits in the accompanying consolidated balance sheet at March 31, 2021 and 2020 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and time deposits	¥49,254	¥51,408	\$444,892
Time deposits with maturities of more than three months	(701)	(936)	(6,332)
Cash and cash equivalents	¥48,553	¥50,471	\$438,560

(b) Summary of assets and liabilities of consolidated subsidiaries, which were initially consolidated as a result of acquisition of equity interests during the year ended March 31, 2020

1) Prinova Group, LLC

The following is a summary of assets and liabilities at the time of initial consolidation of 18 subsidiaries in total, including Prinova Group, LLC and its subsidiaries, which were newly included in the scope of consolidation as a result of the acquisition of equity interests of Prinova Group, LLC during the year ended March 31, 2020, and related acquisition costs and net disbursement for the acquisition.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 34,884	\$ 320,537
Non-current assets	28,879	265,359
Goodwill	10,747	98,750
Current liabilities	(26,348)	(242,102)
Non-current liabilities	(988)	(9,078)
Non-controlling interests	(2,427)	(22,301)
Acquisition cost of equity interests	44,747	411,164
Cash and cash equivalents	(2,043)	(18,772)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 42,703	\$ 392,383

2) INTERFACIAL CONSULTANTS LLC

The following is the summary of assets and liabilities at the time of initial consolidation of two subsidiaries in total, including INTERFACIAL CONSULTANTS LLC and its affiliate, which were newly included in the scope of consolidation as a result of acquisition of equity interests of INTERFACIAL CONSULTANTS LLC during the year ended March 31, 2020, and related acquisition costs and net disbursement for the acquisition.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 2,565	\$ 23,569
Non-current assets	3,306	30,378
Goodwill	866	7,957
Current liabilities	(493)	(4,530)
Non-current liabilities	(1,361)	(12,506)
Non-controlling interests	(499)	(4,585)
Acquisition cost of equity interests	4,382	40,265
Cash and cash equivalents	(2,394)	(21,998)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 1,987	\$ 18,258

(c) Summary of assets and liabilities of companies, which were excluded from the scope of consolidation as a result of sales of shares during the year ended March 31, 2021

1) Nagase Medicals Co., Ltd.

The following is the summary of assets and liabilities at the time of sales as well as the cost of selling the shares and income from the sales of shares associated with Nagase Medicals Co., Ltd. no longer being a consolidated subsidiary due to the sales of its shares for the year ended March 31, 2021.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 2,434	\$ 21,985
Non-current assets	1,946	17,577
Current liabilities	(2,335)	(21,091)
Non-current liabilities	(3,010)	(27,188)
Gain on sales of shares	1,314	11,869
Selling price	350	3,161
Collection of loans to subsidiaries	4,014	36,257
Cash and cash equivalents	(0)	0
Proceeds from sales of shares of subsidiaries	¥ 4,364	\$ 39,418

2) Nagase Logistics Co., Ltd.

The following is the summary of assets and liabilities at the time of sales as well as the cost of selling the shares and income from the sales of shares associated with Nagase Logistics Co., Ltd. which became affiliates accounted for by the equity method due to the partial sales of its shares for the year ended March 31, 2021.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 859	\$ 7,759
Non-current assets	1,810	16,349
Current liabilities	(2,068)	(18,679)
Non-current liabilities	(51)	(461)
Investment account after sales of shares	(82)	(741)
Gain on sales of shares	1,342	12,122
Selling price	1,810	16,349
Proceeds from borrowings of subsidiaries	1,870	16,891
Cash and cash equivalents	(34)	(307)
Proceeds from sales of shares of subsidiaries	¥ 3,646	\$ 32,933

25. SEGMENT INFORMATION

(a) Overview of reportable segments

The reportable segments of the Company comprise those entities for which obtaining separate financial reports is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources and assesses their performance.

Reflecting the respective positions of each business in the value chain, as well as identifying the most closely aligned industries, the Company defines five segment categories: Functional Materials (located at the top of the value chain), Advanced Materials & Processing (located in the next stage of the value chain), Electronics, Mobility & Energy, and Life & Healthcare (functioning within the corresponding industries).

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, and adhesives, urethane materials and auxiliary materials, plastic materials, plastic additives, industrial oil solutions, water processing raw materials, surfactant raw materials, fluorochemicals, encapsulant materials, 5G materials, silicone materials, environmental solutions and environment-related commercial products, sintered metal filters, and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, electronics chemicals, communications equipment, water processing, metal processing, plastic and film processing, and other industries.

The Advanced Materials & Processing segment is engaged in the sales of dyestuffs, pigments, functional pigments, digital print processing products, 3D printing products, thermoplastic resins, thermosetting resins, automobile refinish paints, conductive coatings, synthetic rubber, inorganic materials, plastics products, resin molding tools/dies, and more for the dye/additive, digital print processing material, fiber processing, raw resin material, resin molding, 3D printing, functional film and sheet, appliance and office automation device, electronics, packaging material, construction material, and other industries.

The Electronics segment is engaged in the sales of formulated epoxy resins,

precision abrasives, semiconductor assembly materials and devices, adhesives and encapsulant materials, display panel components and devices, chemical management equipment for display manufacturing processing, low-temperature/vacuum equipment, LEDs, and other products for the heavy electrical and light electrical, semiconductor, HDD, electronic component, automotive and aircraft, display, touch panel, environmental energy, and other industries.

The Mobility & Energy segment is engaged in the sales of plastic products in general, materials for secondary batteries, interior and exterior materials and components, materials for functional components, products for electrification, sensor components, in-vehicle electronics products, in-vehicle display-related components, self-driving-related products, design and manufacture of storage battery systems, proposals for energy management systems, solar panels, battery assessment services, optical wireless communication equipment, and other products for the mobility, mobility-related, storage battery, and energy industries.

The Life & Healthcare segment is engaged in the sales of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, food ingredients, sports nutrition products, nutrient premixes, additives for cosmetics, feeds, and surfactants for the pharmaceutical, food and beverage, cosmetics, agricultural, toiletries, and healthcare industries. The segment offers radiation measurement as one of its main services. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

(b) Calculation methods of net sales, income or loss, assets, and other items by reportable segments

The accounting policies of reportable segments are generally identical to those described in Note 2. Reportable segment income corresponds to operating income in the consolidated statement of income. Intersegment internal income and transfers are determined based on the values of transactions at actual market prices.

(c) Information on net sales, income or loss, assets and other items for each reportable segment

Information by reportable segments for the year ended March 31, 2021 is as follows:

	Millions of yen										
	2021										
	Reportable Segments										
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	¥155,166	¥269,151	¥119,590	¥111,530	¥174,452	¥829,891	¥ 349	¥830,240	¥ —	¥ —	¥830,240
Intersegment sales and transfers	2,249	2,113	2,234	3,015	399	10,013	5,059	15,072	—	(15,072)	—
Net sales	157,415	271,265	121,824	114,546	174,852	839,904	5,408	845,312	—	(15,072)	830,240
Segment income	4,888	7,311	8,746	1,543	6,512	29,002	157	29,160	(7,763)	519	21,916
Segment assets	81,236	144,135	63,855	55,899	165,934	511,061	2,738	513,800	161,684	(34,898)	640,587
Other items:											
Depreciation and amortization other than amortization of goodwill	472	1,040	1,490	285	5,788	9,076	104	9,180	1,828	—	11,008
Amortization of goodwill	105	89	40	—	2,108	2,344	—	2,344	—	—	2,344
Unamortized balance of goodwill	1,787	720	451	—	27,257	30,216	—	30,216	—	—	30,216
Investments in affiliates accounted for by the equity method	1,981	1,728	3,170	1,237	2,995	11,113	82	11,196	—	(1)	11,195
Increase in property, plant and equipment, net and intangible assets	399	1,974	1,195	261	5,744	9,576	11	9,588	1,167	—	10,755

Millions of yen											
2020											
Reportable Segments											
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	¥169,318	¥267,078	¥115,123	¥126,000	¥121,545	¥799,066	¥ 492	¥799,559	¥ —	¥ —	¥799,559
Intersegment sales and transfers	1,867	2,180	1,816	2,849	480	9,194	5,374	14,568	—	(14,568)	—
Net sales	171,186	269,259	116,940	128,849	122,025	808,260	5,867	814,128	—	(14,568)	799,559
Segment income	5,364	8,526	5,396	1,890	3,973	25,151	180	25,331	(6,603)	439	19,167
Segment assets	76,936	135,541	58,879	48,687	171,461	491,506	4,699	496,205	152,181	(36,909)	611,477
Other items:											
Depreciation and amortization other than amortization of goodwill	413	754	2,372	204	4,571	8,316	208	8,525	1,563	—	10,089
Amortization of goodwill	107	—	132	—	1,796	2,037	—	2,037	—	—	2,037
Unamortized balance of goodwill	1,864	946	484	—	29,935	33,230	—	33,230	—	—	33,230
Investments in affiliates accounted for by the equity method	1,895	1,722	3,906	1,242	3,064	11,831	—	11,831	—	(2)	11,829
Increase in property, plant and equipment, net and intangible assets	436	1,845	3,235	241	6,035	11,794	24	11,818	1,010	—	12,829

Thousands of U.S. dollars											
2021											
	Reportable Segments						Others	Total	Corporate	Adjustments	Consolidated
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total					
Sales to customers	\$1,401,554	\$2,431,135	\$1,080,210	\$1,007,407	\$1,575,756	\$7,496,080	\$ 3,152	\$7,499,232	\$ —	\$ —	\$7,499,232
Intersegment sales and transfers	20,314	19,086	20,179	27,233	3,604	90,444	45,696	136,139	—	(136,139)	—
Net sales	1,421,868	2,450,230	1,100,388	1,034,649	1,579,370	7,586,523	48,848	7,635,372	—	(136,139)	7,499,232
Segment income	44,151	66,037	78,999	13,937	58,820	261,964	1,418	263,391	(70,120)	4,688	197,959
Segment assets	733,773	1,301,915	576,777	504,914	1,498,817	4,616,214	24,731	4,640,954	1,460,428	(315,220)	5,786,171
Other items:											
Depreciation and amortization other than amortization of goodwill	4,263	9,394	13,459	2,574	52,281	81,980	939	82,919	16,512	—	99,431
Amortization of goodwill	948	804	361	—	19,041	21,172	—	21,172	—	—	21,172
Unamortized balance of goodwill	16,141	6,503	4,074	—	246,202	272,929	—	272,929	—	—	272,929
Investments in affiliates accounted for by the equity method	17,894	15,608	28,633	11,173	27,053	100,379	741	101,129	—	(9)	101,120
Increase in property, plant and equipment, net and intangible assets	3,604	17,830	10,794	2,358	51,883	86,496	99	86,605	10,541	—	97,146

(d) Geographical information

Net sales by country or region for the years ended March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2020	2021
Japan	¥363,168	¥402,390	\$3,280,354
Greater China	212,622	187,554	1,920,531
ASEAN	104,495	110,642	943,862
Americas	88,460	55,420	799,024
Europe	42,787	24,610	386,478
Other	18,705	18,939	168,955
Total	¥830,240	¥799,559	\$7,499,232

Notes:

1. Net sales are categorized by country or region based on the locations of customers.
2. Country or region is determined by geographical proximity.
3. Major countries in each region
(1) Greater China China, Hong Kong, and Taiwan
(2) ASEAN Thailand, and Vietnam
(3) Americas U.S.A., and Mexico
(4) Europe Germany and UK
(5) Other Korea

Property, plant and equipment by country or region as of March 31, 2021 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Japan	¥61,846	¥64,301	\$558,631
Other	9,050	10,324	81,745
Total	¥70,896	¥74,626	\$640,376

(e) Information on loss on impairment of fixed assets per reportable segments

Loss on impairment of fixed assets for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen								
	2021								
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	¥—	¥843	¥954	¥18	¥—	¥1,817	¥—	¥7	¥1,824

Due to decreasing profitability, the carrying values of the assets for the color former manufacturing business in the Advanced Materials & Processing segment were reduced to their recoverable amounts and impairment losses of ¥843 million were recognized.

With respect to the assets for polyimide film glass bonding business in the Electronics segment, which are held by a subsidiary in Taiwan, estimated future cash flows were less than their book values. As a result, the carrying values of these assets were reduced to their recoverable amounts and impairment losses of ¥951 million were recognized.

	Millions of yen								
	2020								
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	¥—	¥—	¥2,209	¥2	¥903	¥3,114	¥—	¥2	¥3,116

Due to decreasing profitability, the carrying values of the assets for processing of thin glass panels business in the Electronics segment were reduced to their recoverable amounts and impairment losses of ¥1,639 million were recognized. With respect to goodwill related to the siloxane materials production and development business in the same segment, the Company has made progress strengthening the foundation of development of optical component materials for the wearables market, but the financial results have not been as good as projected in the initial business plan. Accordingly, the Company wrote down the book value of the goodwill to their recoverable amounts, recording impairment losses of ¥570 million.

Due to decreasing profitability, the carrying values of the assets for manufacturing and selling of pharmaceutical products business in the Life & Healthcare segment were reduced to their recoverable amounts and impairment losses of ¥903 million were recognized.

Thousands of U.S. dollars								
2021								
Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Eliminations or corporate
						Total		Total
Loss on impairment of fixed assets	\$—	\$7,614	\$8,617	\$163	\$—	\$16,412	\$—	\$63
								\$16,475

26.RELATED PARTY TRANSACTION

A consolidated subsidiary of the Company recorded the following transaction with a related party for the years ended March 31, 2021 and 2020:

Name of related party	Relationship with the related party	Description of the transaction	Account	Millions of yen		Thousands of U.S. dollars
				2021	2020	2021
315 Fullerton LLC *	A director of a consolidated subsidiary of the Company owns a majority of the voting rights of the company.	Rental of real estate**	Rent payment for real estate	¥34	¥22	\$307
Total				¥34	¥22	\$307

* Mr. Donald K. Thorp, a director of Prinova Group, LLC, which is a consolidated subsidiary of the Company, owns 77% of the voting rights.
** Rent is determined taking the transactions in the neighboring area into consideration.

27.SUBSEQUENT EVENTS

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2021, was approved at a meeting of the shareholders held on June 23, 2021:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥24.0 = U.S.\$0.22 per share)	¥2,963	\$26,764

Independent Auditor’s Report



Ernst & Young ShinNihon LLC
Hibiya Mitsui Tower, Tokyo Midtown Hibiya
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-0006, Japan
Tel: +81 3 3503 1036
Fax: +81 3 3503 1506
ey.com

Independent Auditor’s Report

The Board of Directors
NAGASE & CO., LTD.

Opinion

We have audited the accompanying consolidated financial statements of NAGASE & CO.,LTD. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters.



Impairment of Property, Plant and Equipment related to Color Former Manufacturing Business of Fukui Yamada Chemical Co., Ltd.

Description of Key Audit Matter	Auditor's Response
<p>As described in "Loss on Impairment of Fixed Assets" in the Notes to the Consolidated Statement of Income and in "Information on Loss on Impairment of Fixed Assets per Reportable Segments" in the Notes to the Segment Information, the Company recorded an impairment loss of ¥632 million on Property, Plant and Equipment related to the Color Former Manufacturing Business of Fukui Yamada Chemical Co., Ltd. ("Fukui Yamada") for the fiscal year ended March 31, 2021.</p> <p>Property, Plant and Equipment are amortized on straight-line basis, but if there exists any indications of impairment, it is required to be determined whether an impairment loss is to be recognized by comparing the carrying amount with the undiscounted future cash flows from the asset or asset group. If, as a result of the assessment, it is determined that an impairment loss is to be recognized, the carrying amount is reduced to the recoverable amount and the reduction in the carrying amount is recognized as an impairment loss.</p> <p>With regard to the assets for the color former manufacturing business of Fukui Yamada, which belongs to Advanced Materials and Processing segment, the balance of supplies and demands for color formers has significantly been deteriorated, and the profit and loss from the future operating activities of this business is expected to become negative. Management believes that this trend will continue and therefore considered that indicators of impairment existed in this asset group as of March 31, 2021 and accordingly assessed whether an impairment loss had to be recognized.</p>	<p>We performed the following procedures, among others, in considering the impairment of Property, Plant and Equipment related to Fukui Yamada's color former manufacturing business.</p> <ul style="list-style-type: none"> To understand the business environment, including the impact of COVID-19, reviewed external information on market trends and future forecasts for thermal paper using color formers; Examined the consistency of future cash flows with the business plan approved by board of directors of Fukui Yamada; Compared the estimated period of future cash flows with the remaining economic useful life of major assets; To evaluate the effectiveness of the estimation process used to develop the business plan, compared the business plan of previous years with actual results and analyzed factors that caused deviations from the plan; Examined whether the factors that caused deviations from the above business plan were taken into account in estimating the future cash flows used to calculate the value in use; Inquired of the relevant departments that developed the business plan for the key assumptions such as unit prices of sales and raw material and reviewed related evidence and information that supported those assumptions; and Performed sensitivity analyses of key assumptions

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The future cash flows used in this assessment were estimated based on the business plan developed by Fukui Yamada and future uncertainties were taken into account.

The key assumptions in this estimate are unit prices of sales and raw materials, both of which are subject to uncertainty and require management's judgment. Therefore, we determined the impairment of the assets for the color former manufacturing business of Fukui Yamada to be a key audit matter.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 24, 2021

三ツ木 最文 
Yoshifumi Mitsugi
Designated Engagement Partner
Certified Public Accountant

渡邊 力夫 
Rikio Watanabe
Designated Engagement Partner
Certified Public Accountant

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Consolidated Subsidiaries, Affiliates and Offices

Category	Company name	Description of business	Location	Year of establishment
Japan				
Manufacturing and Processing				
●	Nagase ChemteX Corporation	Research, manufacture, and sale of enzymes, fermented products, pharmaceutical intermediates, disinfecting agents, functional polymers, epichlorohydrin derivatives, electronics materials, etc.	Osaka Pref.	1970
●	Hayashibara Co., Ltd.	Development, manufacture, and sale of food raw materials, pharmaceutical raw materials, cosmetics raw materials, health foods raw materials, functional dyes, etc.	Okayama Pref.	1932
●	DAITAI KAKO CO., LTD.	Manufacture and sale of special pattern paint, polyester resin-related products and FRP waterproof/anticorrosion-related products	Osaka Pref.	1949
●	Nagase Filter Co., Ltd.	Planning, production, processing, quality testing and sale of metal filters	Osaka Pref.	2006
●	Fukui Yamada Chemical Co., Ltd.	Manufacture of color former	Fukui Pref.	1985
●	Totaku Industries, Inc.	Manufacture and sale of plastic products	Osaka Pref.	1952
●	Setsunan Kasei Co., Ltd.	Coloring and sale of plastics	Osaka Pref.	1966
●	Nagase Techno-Engineering Co., Ltd.	Manufacture, sale and maintenance of low-temperature vacuum equipment, systems for chemical supply management and recycling processes, inspection systems, and the peripheral equipment for each of these	Tokyo Pref.	1989
●	CAPTEX Co., Ltd.	Manufacture and development of battery power source controllers, battery power sources and power source peripheral equipment	Aichi Pref.	2004
●	Honshu Rheem Co., Ltd.	Manufacture and sale of fiber drums, import and sale of food processing machines and materials	Kanagawa Pref.	1968
●	eX. Grade Co., Ltd.	Development, manufacture and sale of components for electronic equipment	Osaka Pref.	2003
●	SN Tech Corporation	Manufacture of developer, recycling business	Osaka Pref.	2008
●	Xenomax-Japan Co., Ltd.	Manufacture and sales of high heat-resistant polyimide film XENOMAX®	Fukui Pref.	2018
●	Sun Delta Corporation	Development of applications for synthetic plastic products and manufacture and sale of processed products	Tokyo Pref.	2005
●	Nissei Technology Corporation	Design, development, and manufacture of ultra-precision plastic lenses and optical units; manufacture of precision mechanical components and units	Hyogo Pref.	1953
●	Toyo Beauty Supply Corporation	Contract manufacture of cosmetics and health foods	Tokyo Pref.	1964
●	SCREEN DecoraPrint Co., Ltd.	Contract manufacturer of decorative printing	Kyoto Pref.	2019
	Aience Inc.	Development and construction of drainage and exhaust treatment systems	Osaka Pref.	2020
Sales and Servicing				
●	Nagase Chemical Co., Ltd.	Sale of dyestuffs, industrial chemicals, chemicals for manufacturing paper, plastics and machinery	Tokyo Pref.	1995
●	Nagase Chemspec Co., Ltd.	Sale and technical servicing of chemicals	Tokyo Pref.	1976
●	Nagase Plastics Co., Ltd.	Sale of raw materials for plastics and plastic products	Osaka Pref.	1975
●	Nagase Techno Service Co., Ltd.	Sales of kitting/logistics services, online catalog sales, recordable media, and RFID	Chiba Pref.	1991
●	Nagase Elex Co., Ltd.	Sale of raw materials for plastics and plastic products	Tokyo Pref.	1979
●	Nagase Abrasive Materials Co., Ltd.	Sale of abrasives, inorganic materials and related equipment	Osaka Pref.	1955
●	Nishinihon Nagase Co., Ltd.	Sale of dyestuffs, auxiliaries, industrial chemicals and plastics	Fukuoka Pref.	1969
●	Nagase Sanbio Co., Ltd.	Sales of medicine for agriculture and additives for fertilizers, feed and food	Tokyo Pref.	1987
●	Nagase Beauty Care Co., Ltd.	Sale of cosmetics and health foods	Tokyo Pref.	1991
●	Nagase Business Expert Co., Ltd.	Import/export and receivables/payables administration; shared services for receipts/disbursements	Tokyo Pref.	1996
●	Nagase Information Development, Ltd.	Software development and maintenance	Tokyo Pref.	1987
●	Senko Nagase Logistics co., Ltd.	Warehousing and distribution	Hyogo Pref.	1982
●	Nagase-OG Colors & Chemicals Co., Ltd.	Purchasing and information services related to dyes, industrial chemicals, etc.	Osaka Pref.	2012
●	Nagase Landauer, Ltd.	Radiation measuring services	Ibaraki Pref.	1974
	Senko Nagase Logistics Support Co., Ltd.	An exclusive stevedore for Senko Nagase Logistics co., Ltd.	Hyogo Pref.	1954
	Choko Co., Ltd.	Insurance agency	Osaka Pref.	1971
● Consolidated subsidiary ● Company accounted for under the equity method (As of July 2021)				

Category	Company name	Description of business	Location	Year of establishment
Greater China and South Korea				
Manufacturing and Processing				
●	Nagase ChemteX (Wuxi) Corporation	Plastic manufacture and sale of adhesives and high-tech chemical products for electronics, technology services	China	2002
●	Nagase Engineering Service Korea Co., Ltd.	Equipment maintenance service and engineering	South Korea	1997
●	Prinova (Changzhou) Solutions Co., Ltd.	Manufacture and processing of premix products	China	2010
●	Guangzhou Kurabo Chemicals Co., Ltd.	Manufacture of molded urethane products for automobiles	China	2001
●	Toyo Quality One (Guangzhou) Co., Ltd.	Research and development, manufacturing, processing, sale, technology consulting, and after-sale service for major automotive parts	China	2004
●	Toyo Quality One Ningbo Co., Ltd.	Manufacture and sale of polyurethane foam	China	1993
●	Wuxi Chenghong Electronic Chemicals Co., Ltd.	Research, development, manufacture, and sales of electronics chemicals including semiconductors and flat panel displays (FPDs)	China	2013
●	Tokai Spring Mfg. (Foshan) Co., Ltd.	Development, manufacture, and sale of precision press products, spring, and standard molds	China	2005
	ON Textile Chemicals (Shanghai) Co., LTD.	Manufacture, sales, and export/import of textile-related products, dyeing processing agents	China	2003
	Mianyang Chenghong Electronic Chemicals Co., Ltd.	Research/development, manufacture and sales of electronics chemicals including of semiconductors and flat panel displays (FPDs)	China	2017
	Huizhou Sanli Three Synergy Precision Co., Ltd.	Manufacture of precision metal insert molding parts for automotive, new energy and power industries	China	2018
Sales and Servicing				
●	Nagase (China) Co., Ltd.	Investment, trade, import/export, processing, logistics, R&D, IT development, and various services	China	2019
●	Nagase (Hong Kong) Ltd.	Import/export, domestic sales, marketing	China	1971
●	Guangzhou Nagase Trading Co., Ltd. · Wuhan Branch Office/Chongqing Branch Office · Zhengzhou Branch Office, Shenzhen Branch Office, Xiamen Branch Office	Import/export, domestic sales, marketing	China China China	2002
●	Shanghai Nagase Trading Co., Ltd.	Import/export, domestic sales, marketing	China	1997
●	Tianjin Nagase International Trading Co., Ltd. · Dalian Branch Office, Qingdao Branch Office, Changchun Branch Office	Import/export, domestic sales, marketing	China China	2003
●	Nagase (Taiwan) Co., Ltd.	Import/export, domestic sales, marketing	Taiwan	1988
●	Nagase Korea Corporation Dongtan Office	General import/export trading, retailing/wholesaling, import/export trade agency	South Korea	2001
●	Nagase Wahlee Plastics Corporation · Taichung Office, Kaohsiung Branch Office, Tainan Branch Office	Sale of resins and related products	Taiwan Taiwan	1990
●	NWP International Trading (Shenzhen) Co., Ltd. · Dongguan Branch Office, Guangzhou Branch Office, Xiamen Branch Office	Sale of plastic products in South China	China China	2004
●	Shanghai Hua Chang Trading Co., Ltd. · Suzhou Branch Office, Ningbo Branch Office · Chengdu Branch Office, Chongqing Branch Office · Nanjing Branch	Sale of resins and related products	China China China China	1998
●	Prinova Solutions Asia Co., Limited	Invest and asset management	Hong Kong	2010
	ON Colors & Chemicals (Shanghai) Co., Ltd.	Sales of textile-related products, dyeing processing agents, related equipment; export/import and technology consulting, technological development of dyeing processing	China	2002
	NW Consultant Service (Shenzhen) Ltd.	Print quality management consultant	China	2008
	Nagase C&G Technology (Shanghai) Co., Ltd.	Construction and maintenance of chemical supply and management equipment	China	2006
	Datai (Shanghai) Chemical Trading Co., Ltd.	Sales of raw materials for paints	China	2013

Consolidated Subsidiaries, Affiliates and Offices

Category	Company name	Description of business	Location	Year of establishment
ASEAN and the Middle East				
Manufacturing and Processing				
●	Pac Tech Asia Sdn. Bhd.	Manufacture and sale of semiconductor manufacturing equipment, semiconductor wafer bumping contract manufacturing	Malaysia	2006
●	PT. Toyo Quality One Indonesia	Manufacture of flame lamination products	Indonesia	2008
●	Dainichi Color Vietnam Co., Ltd.	Manufacture and sale of color masterbatch blend for plastic	Vietnam	2006
●	Automotive Mold Technology Co., Ltd.	Manufacture of automotive molds and dies	Thailand	2000
●	MINDA KYORAKU LTD.	Manufacture of blow-formed automobile components	India	2011
●	Nafuko Co., Ltd.	Manufacture, import/export, and sale of packaging materials and related equipment	Thailand	1996
Sales and Servicing				
●	Nagase Singapore (Pte) Ltd. · Australia Branch · Bangladesh Liaison Office · Middle East Representative Office · Turkey (Izmir) Branch Office · Vietnam Representative Office Branch	Import/export, domestic sales, marketing	Singapore Australia Bangladesh United Arab Emirates Turkey Vietnam	1975
●	Nagase (Thailand) Co., Ltd. · Eastern Office · Yangon Branch · Pakistan Liaison Office	Import/export, domestic sales, marketing	Thailand Thailand Myanmar Pakistan	1989
●	Nagase (Malaysia) Sdn. Bhd. · Johor Bahru Office · Penang Office	Import/export, domestic sales, marketing	Malaysia Malaysia Malaysia	1981
●	PT. Nagase Impor-Ekspor Indonesia · Surabaya Branch	Import/export, domestic sales, marketing	Indonesia Indonesia	1998
●	Nagase Philippines Corporation	Import/export, domestic sales, marketing	Philippines	1997
●	Nagase Philippines International Services Corporation · Makati Office · Cebu Office	Domestic sales, import/export	Philippines Philippines Philippines	2005
●	Nagase Vietnam Co., Ltd. · Ho Chi Minh City Branch · Danang Branch	Import/export, domestic sales, marketing	Vietnam Vietnam Vietnam	2008
●	Nagase India Private Ltd. · North India Branch (Gurgaon) · South India Branch (Chennai)	Import/export, domestic sales, marketing	India India India	2006
●	Prinova Gida ve Kimya Ticareti Limited Sirketi	Sales of functional food ingredients	Turkey	2013
●	Prinova Australia and New Zealand PTY LTD	Sales of functional food ingredients	Australia	2019
	PT. Indonesia Mold Technology	Design changes and maintenance for large-scale plastic automobile component molds	Indonesia	2015

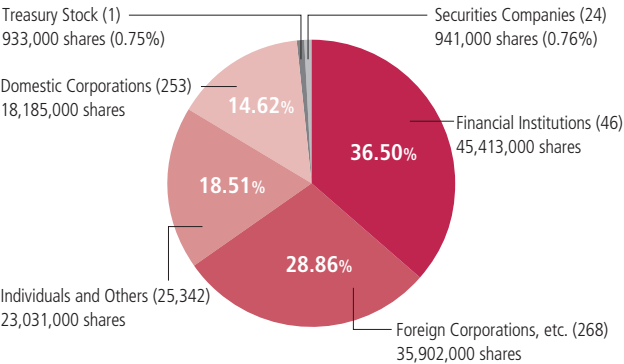
Category	Company name	Description of business	Location	Year of establishment
Americas				
Manufacturing and Processing				
●	Sofix LLC	Manufacture and sale of color formers	America	1990
●	Nagase ChemteX America Corporation	Research and development, manufacture, and sales of materials for commercial adhesives, conductive adhesives	America	1993
●	Pac Tech USA-Packaging Technologies Inc.	Semiconductor wafer bumping, manufacture and sale of semiconductor manufacturing equipment	America	2001
●	Infinite Material Solutions, LLC	Development and manufacture of water-soluble support materials for 3D printing	America	2018
●	Interfacial Consultants LLC	Contract products, manufacturing process development, composite substrate, manufacturing of various masterbatches	America	2014
●	Prinova Solutions LLC	Manufacture and processing of premix products	America	2006
●	Armada Nutrition LLC	Contracted manufacture of sports nutrition products	America	2015
●	Prinova Flavors LLC	Custom formulate and manufacture of food and feed flavors	America	2009
●	TQ-1 de MEXICO S.A. de C.V.	Manufacture and sale of urethane for automotive seat pads and automotive laminated frames and sale of automotive ethane foam	Mexico	2012
●	Cytech Products Inc.	Manufacture and sales of mold release agents for polyurethane resins, thermal paper additives and emulsion dispersing element	America	1988
●	3D Glass Solutions, Inc.	Development, manufacture, and sale of processed 3D glass products and contracting of 3D glass processing	America	2016
●	KN Platech America Corporation	Manufacture and sale of blow-formed plastic molding components and products	America	2010
Sales and Servicing				
●	Nagase Holdings America Corporation	Regional management, investment and asset management, professional service provided	America	2019
●	Nagase America LLC · Michigan Branch · California Branch	Import/export, domestic sales, marketing	America America America	1971
●	Nagase Specialty Materials NA LLC	Sales of raw materials for paints, inks, adhesives, resin compounds, personal care products	America	1985
●	Nagase Enterprise Mexico S.A. de C.V.	Import/export sales, intermediate trade, market development, information collection	Mexico	2010
●	Prinova Group LLC	Management, invest and asset management, professional service provided	America	2002
●	Prinova US LLC	Sales of functional food ingredients	America	2002
●	Prinova Aroma Chemicals LLC	Sales of aroma chemicals and essential oils	America	2002
●	Prinova Canada LLC	Invest and asset management	America	2015
●	Prinova Nutra Corp.	Sales of functional food ingredients	Canada	2008
●	Prinova Mexico S. de R.L. de C.V.	Sales of functional food ingredients	Mexico	2008
	Nagase do Brasil Comércio de Produtos Químicos Ltda.	Import/export sales, intermediate trade, market development, information collection	Brazil	2012
Europe				
Manufacturing and Processing				
●	Pac Tech-Packaging Technologies GmbH	Semiconductor wafer bumping, manufacture and sale of semiconductor manufacturing equipment	Germany	1995
●	Inkron Oy	Development, manufacture of functional materials for semiconductors and electronic devices	Finland	2013
●	Prinova Solutions Europe Limited	Manufacture and processing of premix products	England	1999
Sales and Servicing				
●	Nagase (Europa) GmbH · Hungarian Branch · London Branch · Lyon Branch	Import/export, domestic sales, marketing	Germany Hungary England France	1980
●	Prinova Europe Limited	Sales of functional food ingredients	England	2002
●	Prinova Spain, S.L.	Sales of functional food ingredients	Spain	2011
●	Prinova Benelux and France N.V.	Sales of functional food ingredients	Belgium	2012
●	Prinova Germany GmbH	Sales of functional food ingredients	Germany	2021

Investor Information

(As of March 31, 2021)

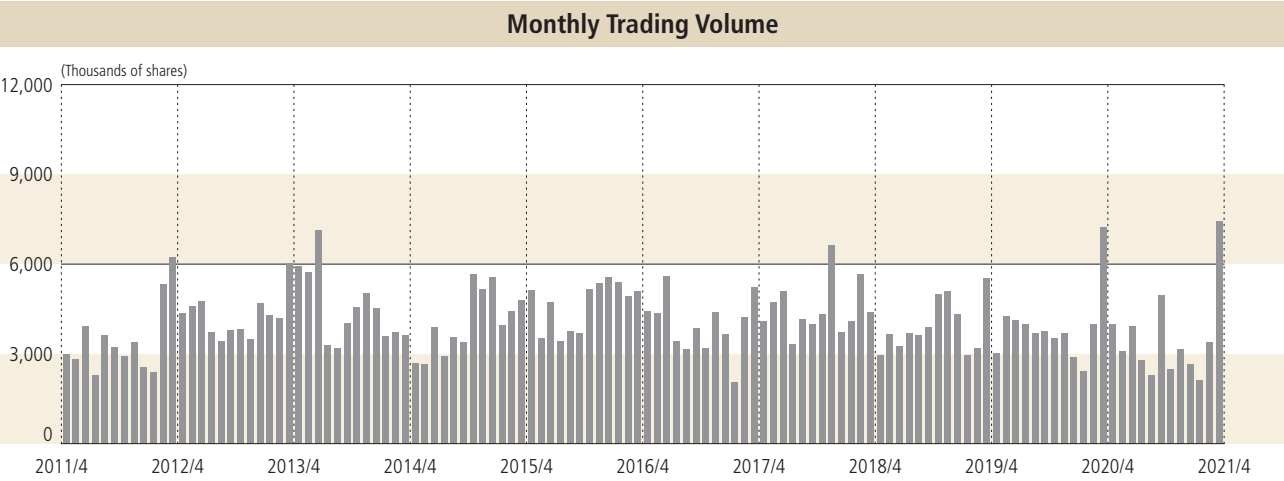
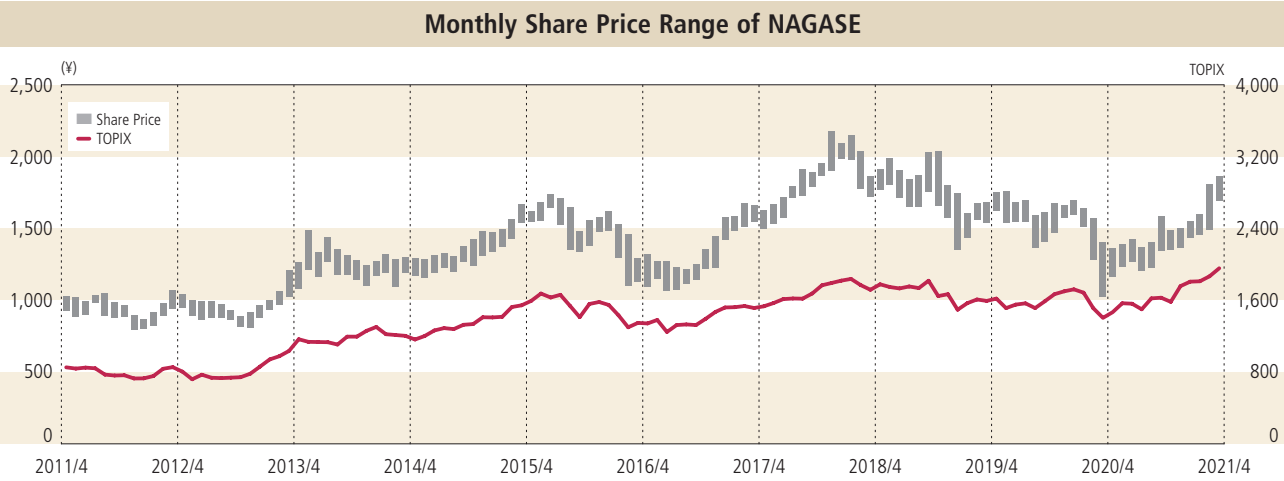
Stock Exchange	Tokyo (First Section)
Code	8012
Stock Status	The total number of shares issuable: 346,980,000 shares Issued Number of Shares: 124,408,285 shares
Number of Shareholders	25,934

Composition of Shareholders



Principal Shareholders		
Name	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,726	7.88
Sumitomo Mitsui Trust Bank, Limited	5,776	4.68
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	5,477	4.44
Custody Bank of Japan, Ltd. (Trust Account)	5,435	4.40
Sumitomo Mitsui Banking Corporation	4,377	3.54
Nippon Life Insurance Company	3,589	2.91
Reiko Nagase	3,519	2.85
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,122	2.53
NAGASE & CO., LTD. Own Share Investment Association	2,927	2.37
Nagase Shunzo Co., Ltd.	2,688	2.18

Note: Percentage of total shares outstanding was computed excluding treasury stock (933 thousand shares).



Corporate Information

(As of March 31, 2021)

Overview	
Company Name	NAGASE & CO., LTD.
Founded	June 18, 1832
Establishment	December 9, 1917
Capital	¥9,699 million
Employees	875 (Consolidated: 6,940)
Main Business	Import/export and domestic sales of chemicals, plastics, electronics materials, cosmetics and health foods
Main Banks	Sumitomo Mitsui Banking Corporation, MUFG Bank, Mizuho Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited



Osaka Head Office Tokyo Head Office

Main Offices	Osaka Head Office:	1-1-17, Shinmachi, Nishi-ku, Osaka City, Osaka 550-8668 Tel: (81) 6-6535-2114
	Tokyo Head Office:	5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo 103-8355 Tel: (81) 3-3665-3021
	Nagoya Branch Office:	3-14-18, Marunouchi, Naka-ku, Nagoya City, Aichi 460-8560 Tel: (81) 52-963-5615
	Nagase R&D Center:	Kobe High Tech Park, 2-2-3, Murotani, Nishi-ku, Kobe City, Hyogo 651-2241 Tel: (81) 78-992-3162
	Nagase Application Workshop:	2-4-45, Higashi Tsukaguchicho, Amagasaki City, Hyogo 661-0011 Tel: (81) 6-4961-6730

Engagement with External Evaluation Organizations

Through engagement with external evaluation organizations such as CDP, EcoVadis, Sedex, and RSPO, we analyze our risks and opportunities, and apply that to creating new value.

