KH Neochem Co., Ltd.
2-3-1 Nihonbashi-Muromachi, Chuo-ku, Tokyo 103-0022, Japan
Public Relations Tel: +81-3-3510-3579
URL: www.khneochem.co.jp/en/

CORPORATE REPORT

KH Neochem Co., Ltd.

2020

"Taking on *New Challenges*"

Realizing a brighter tomorrow for society through the power of chemistry.

Our Basic Principles

—Corporate Mission—

Realizing a brighter tomorrow for society through the power of chemistry.

—Management Approach—

Making our dream a reality through reliable technology and new inventions.

—VISION 2030—

A Leading Global Specialty Chemical Company

—3rd Medium-Term Business Plan—

Taking on New Challenges

—Basic Behavior—

Taking the first step to overcoming barriers and issues we face.

—5C Credo—

Challenge Curiosity Communication Courtesy Compliance

Editorial Policy

In this report, by demonstrating our medium- to long-term value, vision, strengths and drivers, and the foundation of our value creation, we aim to engage in dialogue with our stakeholders to further advance our value creation activities.
We referred to the Ministry of Economy, Trade and Industry's Guidance for Value Co-creation in preparing this document.

Scope of Report

Reporting period: January 1 to December 31, 2019
* However, environmental report data and other statutory information is for the period from April 1, 2019 to March 31, 2020. Some portions of the report also include activities for 2020.

Organization covered: KH Neochem Co., Ltd. (nonconsolidated) (Some portions also include consolidated information.)

Date of publication: July 2020

Note on Forecasts

Among the information contained in this report, information aside from historical facts includes forecasts that are based on certain assumptions and rely on judgments made by KH Neochem's management using the information available at that time. For this reason, actual business results may differ, depending on various factors.

Index

Value Creation by KH Neochem

Based on our Corporate Mission of *Realizing a brighter tomorrow for society through the power of chemistry.*, KH Neochem will contribute to building a more prosperous and sustainable society by providing added value, primarily in three strategic domains: the environment, healthcare, and electronics.

Sources of Competitive Advantage

1 **Global niche technical capabilities** ▸ p. 04

Drivers
Technology and Information ▸ p. 24
Human Resources and Corporate Culture ▸ p. 28

2 **Production facilities ranking among the world's foremost** ▸ p. 04

3 **Co-creation with customers** ▸ p. 06

Global Environment | **Local Community** | **Safety and Stability** | **Corporate Governance**

Foundation for Value Creation

Business Activities for Our Ambitions

Our Ambitions

VISION 2030

A Leading Global Specialty Chemical Company ▸ p. 07

Strategic Domains

Environment | Healthcare | Electronics

Businesses

▸ p. 16

Performance Materials

Providing highly functional and environmentally friendly materials that have unique structures and physical properties

- Raw materials for refrigeration lubricants
- Cosmetic ingredients
- Raw materials for water borne coatings

▸ p. 22

Electronic Materials

Selling high-purity solvents for evolving electronic materials

- High-purity solvents (for semiconductors and displays)

▸ p. 23

Basic Chemicals

A range of applications in industrial fields with varied product lineups and high quality

- Solvents
- Resin raw materials
- Plasticizer raw materials

Added value in strategic fields

Environment

Providing specialty chemicals that contribute to tackling environmental issues such as global warming

Changes in society	Added value
• Worsening global warming	• Contributing to the reduction of global warming with raw materials for refrigeration lubricants for environmentally friendly air conditioners
• Growing global awareness of environment issues	
• Increasing demand for air conditioners, especially in Asia	• Promoting green chemicals and helping reduce the impact on the environment

Healthcare

Providing value-added specialty chemicals to accommodate diverse lifestyles and the needs of people worldwide

Changes in society	Added value
• Increasing health and beauty consciousness due to population growth and the rise of income levels in Asia	• Supporting the realization of beauty by providing high-quality cosmetic ingredients
• Diverse lifestyles and needs	• Contributing to improve QOL* by providing raw materials for detergents and toiletry products

*Quality of life

Electronics

Providing specialty chemicals that contribute to the spread of AI and IoT, the mobility revolution, and next-generation technologies in the electronics industry

Changes in society	Added value
• Rapid improvements in computing technologies for the ICT society (information age)	• Contributing to technology improvements in semiconductors and displays by consistently supplying high-purity solvents and further improving their quality
• Mobility revolution due to the development of AI and IoT	• Contributing to the development of electronics by creating new materials and by providing solutions using state-of-the-art technologies

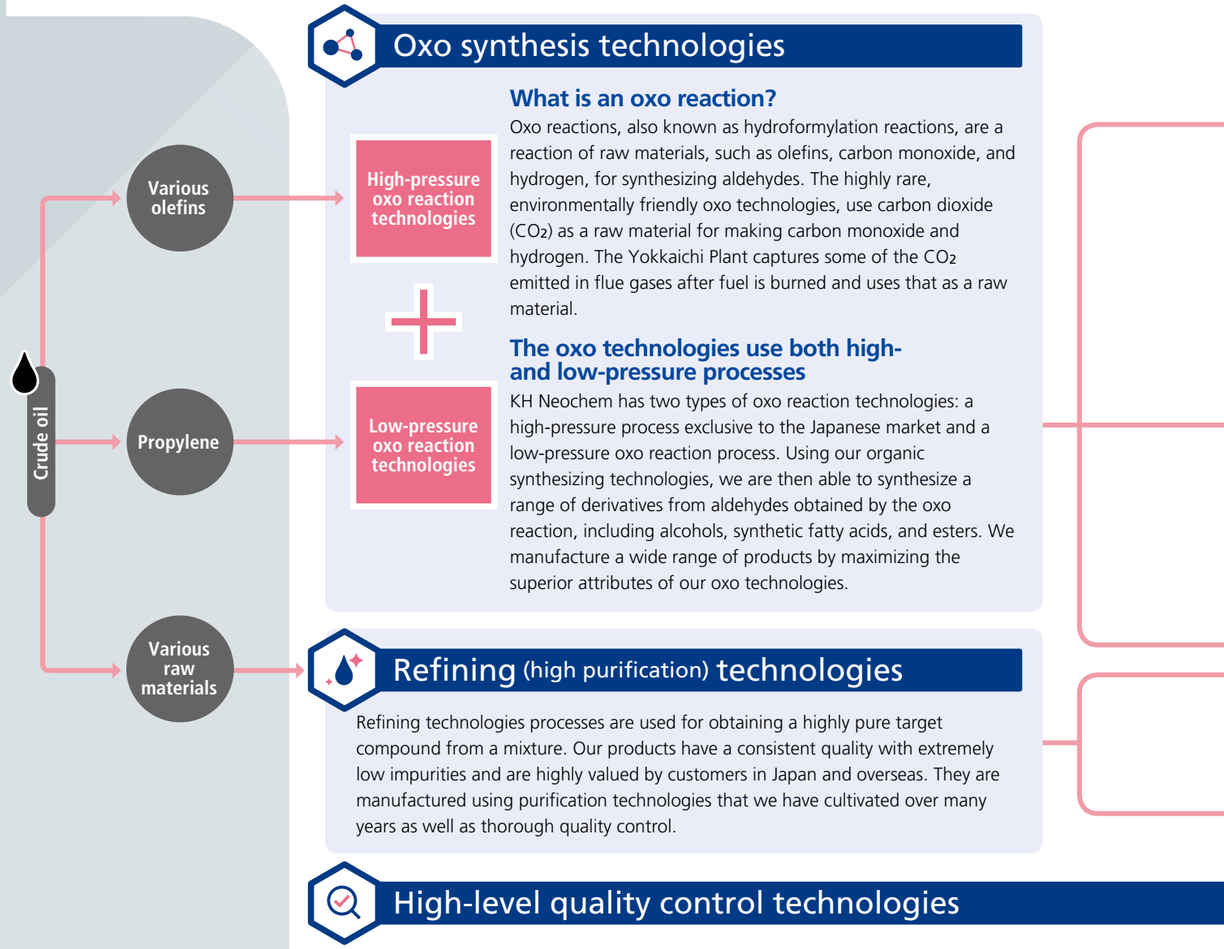
Realizing a brighter tomorrow for society through the power of chemistry

CORPORATE MISSION

STRENGTH 1

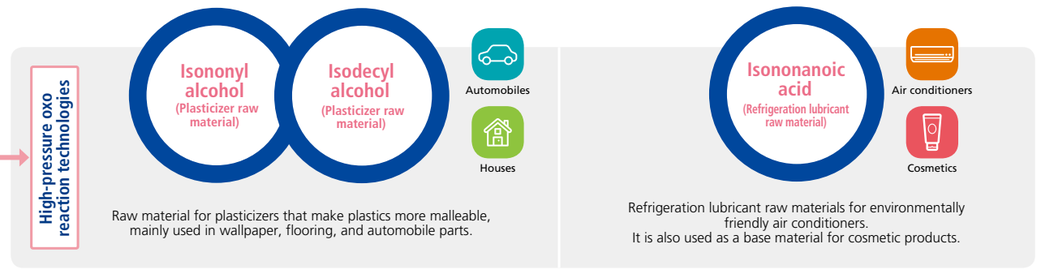
Global niche technical capabilities

KH Neochem has products that in Japan are solely manufactured by us, and even in the world are only manufactured by a few companies. With our unique approach based on oxo, our core technology, we help provide many of the materials that are essential for people's lives.



KH NeoChem

Market Share and Areas of Use of KH Neochem Products in Japan



STRENGTH 2

Production facilities ranking among the world's foremost

KH Neochem has plants in Yokkaichi and Chiba. The Yokkaichi Plant has two sections for oxo-related products with a production scale and product lineup at a high level domestically. Our Chiba Plant has a high-pressure oxo reaction process capable of supplying specialty alcohols and synthetic fatty acids, such as isononyl alcohol, isodecyl alcohol, and isononanoic acid. In VISION 2030, we have plans for large-scale investments in production plants, with the aim of further increasing our production capacity and improving productivity.


Yokkaichi Plant


Chiba Plant

STRENGTH 3

Co-creation with customers

Our main customers are leading companies in their industries and companies with a unique presence, and we have created new value through long-standing, strong relationships of trust.

Our policy is to establish face-to-face relationship with customers, whether they are in Japan or overseas. Strengthening the relationship of trust with our customers allows us to quickly and precisely grasp industry trends, such as market demand, helping to develop our businesses.

Expansion of our businesses

Began basic chemical business

Our startup businesses provide products for fields close to our daily lives, such as houses, automobiles, and food packaging

Began performance materials businesses

Entering the markets of high-value-added products that are more friendly to people and the environment. Providing products used for environmentally friendly air conditioners and cosmetics.

Began electronic materials businesses

Developing the products that meet the demands of the advanced electronics industry, such as high-purity solvents with extremely low impurities (dust and metal fragments).

Aiming to create new businesses

We intend to create innovation from non-conventional perspectives by working on collaborative technical innovation with external partners using cross-industry exchanges, business matching, and other approaches.

History of KH Neochem

1948
Began as Japan's first mass-producer of acetone and butyl alcohol by fermentation
Provided new value by looking beyond the times


Benzaburo Kato, founder of our business

1961
Converted to petrochemical manufacturing methods
Transformed the Company to meet the changing times

1988
Established a two-plant system: the Yokkaichi and Chiba Plants
Expanded our product lineup, creating a system that can cope with diverse needs

2008
Extended accident-free record: the Yokkaichi Plant
Our proud safety and stability record: accident free for 23.95 million man-hours

2011-2012
Became independent and changed name to KH Neochem
Became independent from Kyowa Hakko Kirin Group (at that time), marking the start of KH Neochem

2016
Listed on the First Section of the Tokyo Stock Exchange
Took new steps forward as a listed company

2018
Announced VISION 2030
The vision of KH Neochem for continuing to create new value and striving for sustainable growth

VISION 2030

The vision of KH Neochem for continuing to create new value and striving for sustainable growth.
We aim to achieve sustainable growth and increase corporate value by making strategic investments to meet the demands of society.

Our Ambitions

A Leading Global Specialty Chemical Company

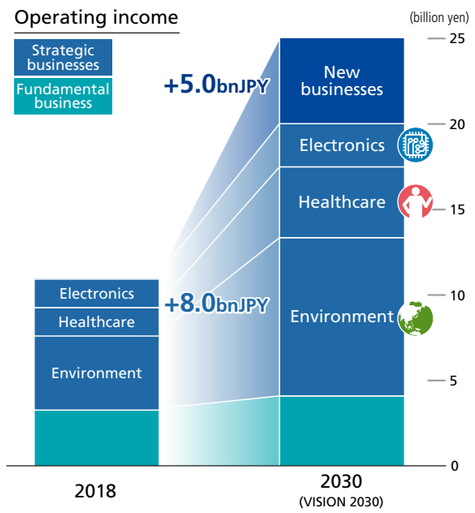
- Providing specialty chemicals that contribute to the reduction of global warming and a better quality of life
- Expansion of products with the largest global share and new businesses in three strategic domains
- Top-class profitability in the chemical industry

Financial Targets*

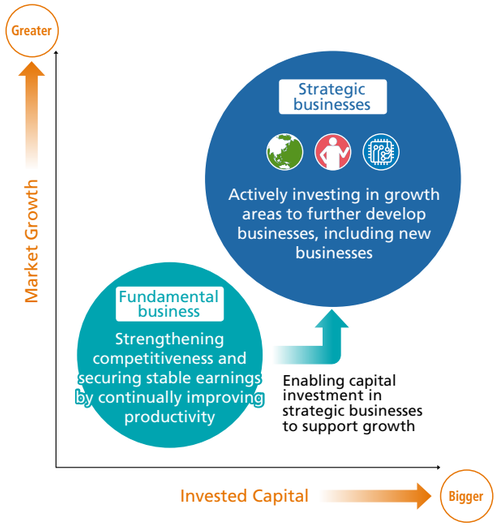
Net sales	Operating income	ROE	Equity ratio
180.0bnJPY	**Over 25.0bnJPY**	**Over 12%**	**50%**
Corporate growth at 5% annually on average	Expansion of profits at 7% annually on average	Maintaining high capital efficiency	Construction of a financial structure that is immune to the external environment

(Consolidated basis)

Growth Image



Strategy Overview



Take steady action to achieve VISION 2030 goals amid changes in the business environment

I would like to express my sincere sympathy to those who have contracted COVID-19 and my deep condolences to those who have lost friends or family members.

We find ourselves in a challenging situation in 2020 due mainly to the global economic stagnation caused by the COVID-19 pandemic. However, we have a distinctive and promising product lineup, so we will make every effort to meet society's needs, realize sustainable growth, and take steady action to achieve our VISION 2030 goals, amid these changes.

Michio Takahashi
Representative Director
President & CEO
KH Neochem Co., Ltd.

Addressing major changes in the environment

More than a year has passed since I became president and CEO in March 2019. The Japanese petrochemical industry flourished in the five years before that, but 2019 turned out to be a year of turbulence in the business environment. Things began relatively smoothly, but in the second half of the year, basic chemical products especially took a hit due to slow demand from China, primarily reflecting trade friction with the United States. Most recently, the situation has grown increasingly complex due to the added stress of the global COVID-19 pandemic.

VISION 2030 and the Third Medium-Term Business Plan were launched in fiscal year 2019 (ended December 31, 2019). The numerical targets were based on the assumption that a solid growth rate would be maintained in the market, primarily in Asia. For that reason, unfortunately we are facing changes in the business environment that make it significantly different than we anticipated.

At the same time, history shows us that in certain periods the petrochemical industry will perform slowly due to economic cycles. This is a pattern that has repeated over the past several decades, so a downturn should not be surprising. It is usual that material manufacturers are impacted by other industries. As a manager, it is important for me to take the best course of action for sustainable growth while basing decisions on a long-term outlook and implementing resourceful measures that consider changes in the environment.

Moving forward steadily to achieve VISION 2030

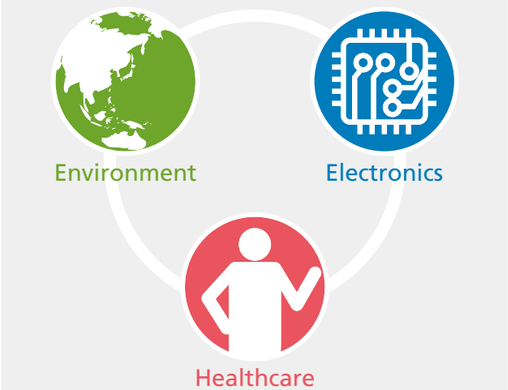
In fiscal year 2020, we expect a substantial year-on-year decline in both sales and profit. This is mainly because the Yokkaichi and Chiba Plants will undergo large-scale periodic maintenance this year and because of the global economic downturn associated with the spread of COVID-19.

On the other hand, over the medium to long term, we expect demand to gradually pick up, and we are confident that demand will grow for our main products. We continue to develop as we identify the needs that lead to solutions to social issues, so that our products can contribute to society.

The concept of VISION 2030 is to become a leading global specialty chemical company. This remains unchanged, despite the harsh business environment. We have positioned three fields—the environment, healthcare, and electronics—as our strategic domains, where we will maximize our competitive advantages and prioritize the allocation of management resources. We aim to capture the top global share with our products and to create new businesses. We look to provide specialty chemicals that contribute to the reduction of global warming and to a better quality of life through many industries around the world.

Due to the nature of business in the equipment industry, we must anticipate demand and make precede capital investments. Our management team will make effective investment decisions to achieve VISION 2030.

Strategic domains



Progress on taking on new challenges in our third Medium-Term Business Plan

Our Third Medium-Term Business Plan defines a three-year period for taking on new challenges setting us on the road to our goals under VISION 2030. The main strategy is to implement initiatives for long-term growth, and we have made steady progress up to this point. The key will be to accurately determine our capital investments based on long-term demand forecasts. Over the past few years, our refrigeration lubricant raw materials performed well. This was thanks to large-scale investment in anticipation of demand amid the harsh business environment resulting from the 2008 global financial crisis. Our production plants built between 2011 and 2014 succeeded in meeting increased global demand. Of course, we must carefully assess the market growth rate and the feasibility of expanding our market share, but we recognize the importance of building up our plants for the future.

In addition, there is Strategy I: Profit increase by new facilities. The goal is to complete construction of new facilities during the period of the third Medium-Term Business Plan and to tie that into higher earnings. Construction of the new plant for refrigeration lubricant raw materials at the Yokkaichi Plant was completed on schedule, January 2020. There are depreciation costs up front, but I believe the new plant will contribute to earnings during the period of the current mid-term plan.

Regarding electronic materials, at our subsidiary Kurogane Kasei we are investing in facilities for extreme ultraviolet (EUV) photoresist material, essential for the next generation of semiconductor manufacturing. EUV improves the micro-fabrication technology for circuits when manufacturing semiconductors. EUV is expected to bring about a generational change that happens once every 10 years, and it is a major business opportunity in the materials field. Kurogane Kasei focuses on flexible business development, so this investment decision was made ahead of similar-sized competitors. The company plans to start operation of the new equipment by the end of 2020.

For cosmetic ingredients, we are working on debottlenecking via small investments based on demand for skin care products in Asian markets and in response to competitors' expansion plans. We completed some of the planned investments in 2019 and will make the remaining investments in 2021.

Third Medium-Term Business Plan: taking on new challenges

Strategy I	Strategy II	Strategy III
Profit Increase by New Facilities	**Active Investment for the Future Expansion of Performance Chemical Business***	**Improvement of business framework**
• Start up of new facilities for refrigeration lubricant raw materials and marketing of new products	• Further increase in production capacity for performance chemicals	• Further introduction of facility control system with latest technologies (AI and IoT)
• Operate new facilities for next generation semiconductor materials	• Creation of new business through the new research hub	• Improvement of work environment and encouragement of diverse work styles

*Performance materials and electronic materials

Boldly making decision of large investments that will create a future pillar for earnings

Strategy II is active investment for the future expansion of performance chemical business. We will study the business feasibility and make decisions for large investments in performance chemicals that will create a future pillar for earnings.

Construction of a new plant for refrigeration lubricant raw materials was completed at the Yokkaichi Plant at the beginning of 2020, but we will need to investigate expanding the Chiba Plant as well to address growing demand. We have already begun a feasibility study, but plant construction costs have risen well above what was initially anticipated, so we will continue improving the reinforcement plan to make sure that it results outweigh the investment.

In the area of research and development, we are accelerating open innovation. Our new KH Neochem innovation hub (KH i-Lab) in Kawasaki City, Kanagawa Prefecture, is where we engage in open innovation with companies from other industries, research institutes, and other organizations. We hope to create new businesses in strategic domains that will become new pillars for earnings (see the special feature on pages 24 to 26 for details).

From the standpoint of risk control, it is very important to reduce inventory risk. Reflecting on the enormous inventory we were stuck with during the 2008 global financial crisis and the resulting losses, we have been working on creating a system for adjusting inventory and

believe that we have been able to maintain effective levels, to some extent, during this difficult time. Further, at the end of 2019 we issued our first straight bonds. This allowed us to raise 5 billion yen to increase our liquidity. We have improved our financial standing so that we can withstand even extreme changes in the external environment, for a period of time, by closely managing inventory and other initiatives within our normal business operations. We will continue to make bold decisions on large investments while carefully monitoring the business environment and market trends.

Improving our operations

For Strategy III, improvement of business framework, we are taking on initiatives in both technology and information, human resources and corporate culture, which are the drivers for achieving VISION 2030.

For technology and information, we are promoting restructuring plant operations using AI and IoT. Adding elements such as AI enables more efficient operations and contributes to energy savings and lower manufacturing costs. We call this the Advanced Process Control system and have already introduced it at several plants. By 2023, we plan to introduce this system at most production lines in the Yokkaichi and Chiba Plants.

Fostering a corporate culture that has diverse human resources and that maximizes results

When it comes to human resources, we believe that people who work with speed, aiming for innovations, professionalism, and enhancing their network are essential for long-term growth. For this reason, we are hiring mid-career workers. Since becoming independent of the Kyowa Hakko Kirin (now Kyowa Kirin) Group in 2011, we have hired specialists in corporate adminstrations, finance, human resources, and other areas to strengthen our corporate staff function. As our business has grown, we have also hired additional engineers, sales representatives, and R&D staff.

Today, nearly half of all our employees joined us after we became independent. We anticipate that bringing in employees who have worked in different environments and a younger generation will breathe new culture into the Company and create an innovative working environment.

In our corporate culture, we hope to maximize results by recognizing a wide range of values and by promoting diversity. As mentioned, our lineup of human resources has grown significantly more diverse. At the same time, however, we recognize the importance of improving employee engagement so that everyone can exert his or her full potential while heading in the same direction. For that goal, we carried out new training as well as training to boost employee engagement as part of our corporate culture reform. The aim is to deepen understanding of VISION 2030 in every workplace, especially among the managers who are key to promoting the business. I have a solid belief that encouraging the people at every workplace to put their dedication into their own words is, step by step, leading to increased commitment. These are steady measures, and we will implement them as necessary to promote reforming our corporate culture.

Toward continuous improvement of corporate value

ESG initiatives have gained attention in recent years. I believe that it is highly important for us to ensure sustainable business growth by contributing to society through business. Up to now, we have contributed to society by providing high-value-added materials, which includes improvements to our lineup of low environmental impact products. Our refrigeration lubricant raw materials used in environmentally friendly air conditioners are a good example of something directly linked to addressing a social issue.

We have also steadily strengthened ways to improve the effectiveness of corporate governance and to ensure thorough compliance during our journey as an independent listed company.

Moreover, we have been working on social contributions at the Yokkaichi Plant (Yokkaichi City, Mie Prefecture) and the Chiba Plant (Ichihara City, Chiba Prefecture), while reducing the environmental impact during production, cooperating with local governments and asking the local people about their needs.

Although we are already working on initiatives that tie into ESG, we recognize that a challenge for the future will be communicating what we are doing to those outside the Company while systematically organizing the information, establishing targets, and implementing a PDCA cycle.

We are currently facing a challenging business environment impacted by COVID-19 Pandemic, but we have a distinctive and promising product lineup. Thank you very much for your continued support as we pursue medium-to long-term growth.

Financial and Capital Strategy

Solid financial base

Under our VISION 2030, we aim to build a balanced financial base that is less susceptible to changes in the external environment while maintaining a high level of capital efficiency. Our targets for 2030 are an ROE of over 12% and an equity ratio of 50%.

Investment strategy

We plan to invest 23 billion yen over the three-year period of the current Medium-Term Business Plan (fiscal years 2019 to 2021). Specifically, these investments are 12.5 billion yen in strategic investments centered on performance materials, a pillar of our growth, and 10.5 billion yen to strengthen our business framework such as reinforce existing production and improving the workplace environment. In fiscal year 2019, we built a new plant for refrigeration lubricant raw materials at the Yokkaichi Plant and opened our open innovation hub (KH i-Lab in Kawasaki City). With these investments, we are putting together a system capable of supporting medium- to long-term growth centered on the environmental field, one of our strategic domains.

At the same time, we will continually monitor demand trends and judge the right timing for large investments so that we do not take on too much financial burden from fixed costs while plant construction costs remain high.

Fiscal year 2019 results and fiscal year 2020 outlook

Fiscal year 2019 brought with it a difficult business environment. Demand slowed going into the second half amid economic uncertainty, particularly in China, against the backdrop of trade friction between the United States and China.

In fiscal year 2020, there is uncertainty over the business environment due to lower corporate production and stalled consumer spending associated with the rapid decline in the global economy reflecting COVID-19 pandemic. Given this situation, we are steadily moving forward with full-scale operation of the new plant for refrigeration lubricant raw materials and facilities for semiconductor materials at our subsidiary, Kurogane Kasei.

Shareholder return policy

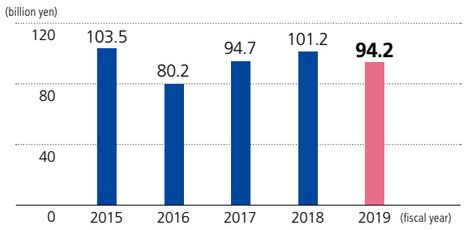
Our basic policy is to provide stable shareholder returns in proportion to corporate growth. We set dividend payout ratio of 30% as a guide, while considering an effective balance between investment for the future growth, and financial soundness. In fiscal year 2019, we provided interim and year-end dividends of 30 yen per share, for a full-year dividend of 60 yen per share. We plan to provide a dividend of a same amount in fiscal year 2020.

We will continue working to further improve corporate and shareholder value through medium- to long-term profit growth, investments that support this growth, shareholder returns, as well as dialogue with shareholders and investors.

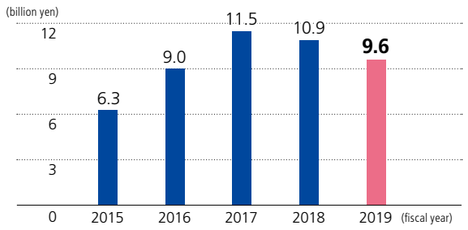
Financial and Non-Financial Highlights

The figures on page 14 are consolidated and those on page 15 are non-consolidated.
Data with no explanatory notes indicate the period from January 1 to December 31, each year.

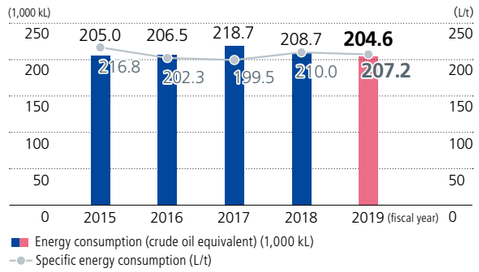
Net sales



Operating income

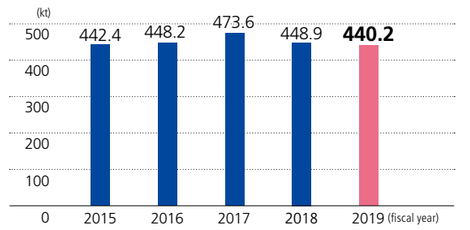


Energy consumption and specific consumption



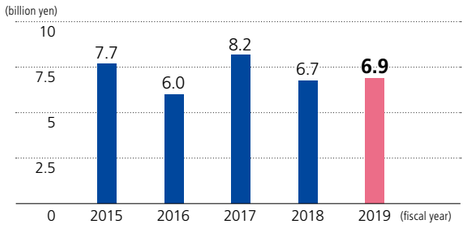
*April 1st to March 31, each year

CO_2 emissions volume

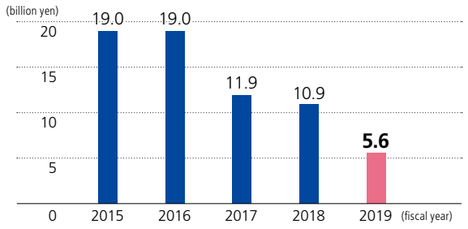


*April 1st to March 31, each year

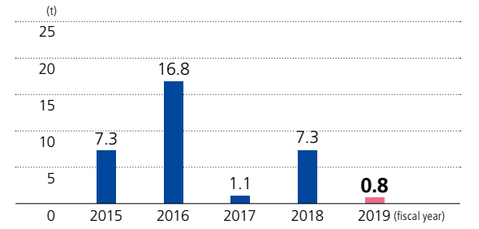
Profit attributable to owners of parent



Net interest-bearing debt

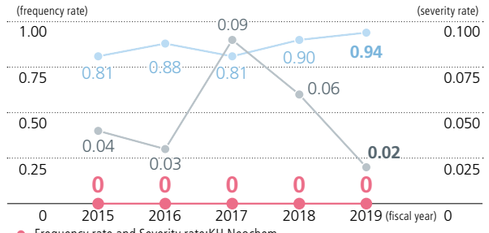


Disposed of as landfill

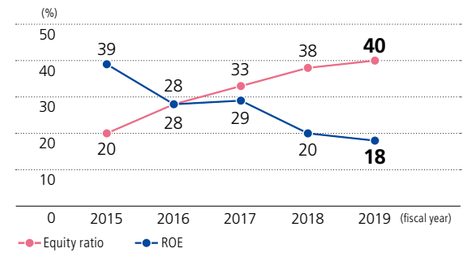


*April 1st to March 31, each year

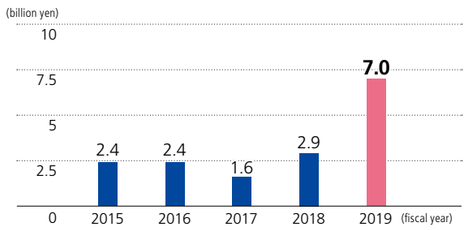
Frequency rate (accidents resulting in lost workdays)/ Severity rate



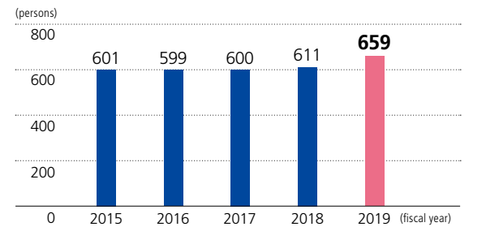
Equity ratio/ROE



CAPEX



Number of employees



*As of December 31, each year

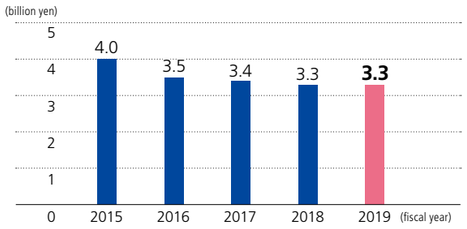
Number of new employees

(fiscal year)

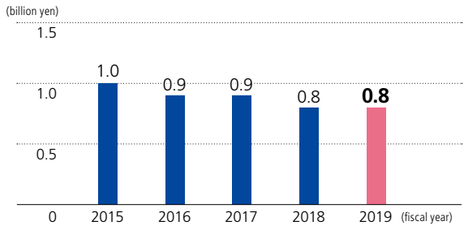
	2015	2016	2017	2018	2019
New graduates	14	18	8	21	27
Mid-career	8	5	14	19	50
Total	22	23	22	40	77

*Only workers who have signed a labor contract with no fixed term

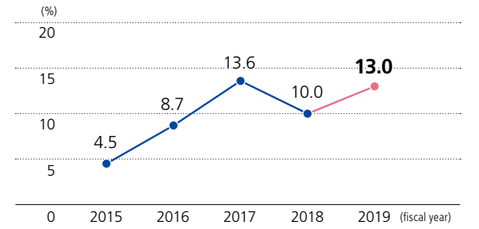
Depreciation



R&D expenses



New female employees (%)



*Only full-time workers

Years of service and gender differences

(fiscal year)

	2016	2017	2018	2019	2020
Years of service (male)	17.1	16.5	16.0	14.6	13.5
Years of service (female)	16.9	16.9	16.3	14.3	14.3
Year difference (male and female)	−0.2	0.4	0.3	−0.3	0.8

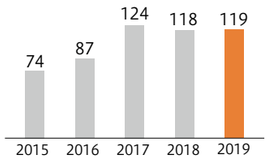
*As of April 1, each year

Business Overview

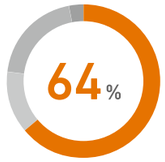
Performance Materials

Refrigeration lubricant raw materials, Cosmetic Ingredients

Gross profit
(consolidated, hundred million yen)



Proportion of total operating profit
(2019)



Note: In the Business Overview section, when calculating operating profit in results by business field, administrative expenses, etc., which are common to the entire company, are not allocated.

In the three strategic domains that we have established, Performance Materials supports two strategic domains: the environment and healthcare.

Refrigeration lubricant raw materials used in environmentally friendly air conditioners have contributed to global warming prevention. Cosmetic ingredients, used in high-end skincare cosmetics such as skin toner, have helped improve the quality of life (QOL) of people all over the world.

01 Refrigeration Lubricant Raw Materials

Strategic Domains: Environment

Areas of Use

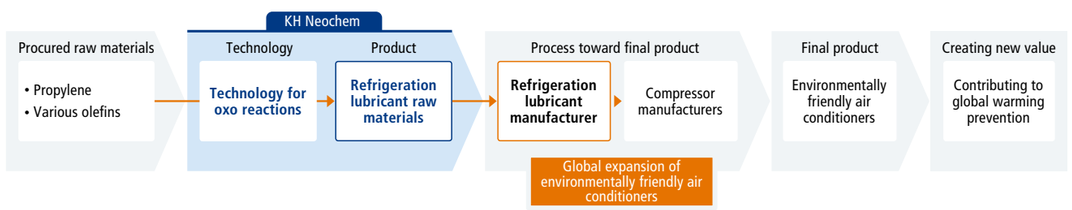
Air conditioners

Representative Products

- 2-ethyl hexanoic acid
- Isononanoic acid

Value chain example

We manufacture and sell lubricant raw materials used for refrigerating equipment in air conditioners based on our oxo reaction technology developed for our basic chemicals.



Strength

- Large share of global market
- Located in Asia, the region with the world's highest demand
- R&D system in cooperation with customers

External Environment

Global expansion in the environmentally friendly air conditioner market

- Population expansion in emerging nations
- Worldwide increase in the size of middle-income groups
- Tightening international environmental regulations for refrigerants

Key Points in the Third Medium-Term Business Plan

1. Start up of new facilities for refrigeration lubricant raw materials and marketing of new products
2. Further increase in production capacity for performance chemicals (refrigeration lubricant raw materials, etc.)

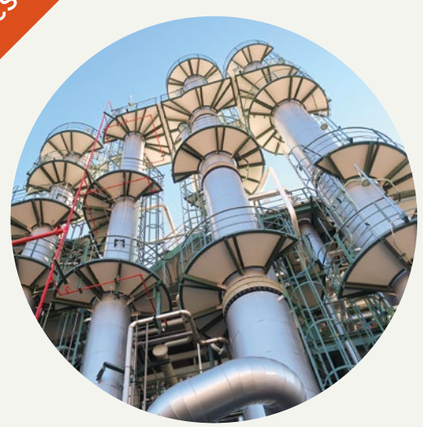
Looking back on activities in 2019 and future initiatives

Regarding 1, we were able to build a new plant for refrigeration lubricant raw materials at the Yokkaichi Plant almost as planned in 2019, and held the completion ceremony in January 2020. For the future, we will continue to make every effort for stabilized operations with effective operational management. In addition, we are planning to develop new products and to implement debottlenecking.

Regarding 2, we have started to conduct a feasibility study for improvements at the Chiba Plant. The plan requires a very difficult investment decision in the face of major changes in the business environment, such as the rising cost of plant construction. However, we will make effective management decisions to meet strict economic constraints, by quickly modifying the plan and after considering all management priorities.

Although there was a short-term sales slowdown because of the impact of COVID-19 in the first half of 2020, growth is expected in global demand for environmentally friendly air conditioners and eventually for our refrigeration lubricant raw materials over the medium to long term. We will make every effort to implement our growth strategy, taking the best course of action for immediate management issues and prioritizing the medium- and long-term perspectives.

TOPICS



New facility for refrigeration lubricant raw materials at the Yokkaichi Plant

Demand for refrigeration lubricant raw materials has been growing due to growth in the air conditioner market in China and other emerging nations, as well as a shift to refrigerants that are effective against ozone layer depletion and global warming. We established a new plant in Yokkaichi Plant in response to these global trends. We completed construction in January 2020, realizing productivity improvements of 50% for each product.

COLUMN Market Prospects for Refrigeration Lubricant Raw Materials

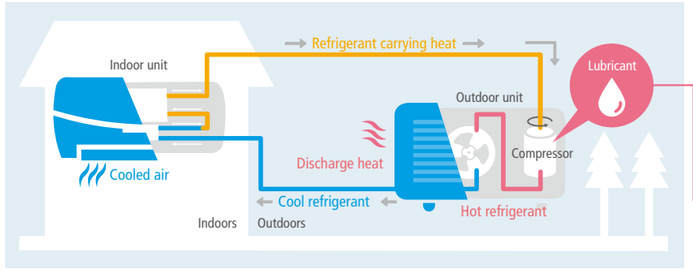
One of KH Neochem's main products is refrigeration lubricant raw materials. In this special feature, we look at the prospects for these ingredients, while reflecting on the global trend for increasing concern for the environment.

What are refrigeration lubricant raw materials?

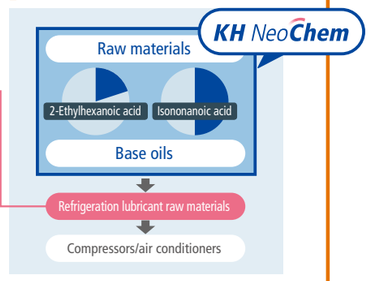
Air conditioners make rooms cool by taking in hot indoor air and moving just the heat to the outside. Moving the heat to the outside is performed by a refrigerant, which functions by being compressed in a compressor inside an air conditioner's outdoor unit. The compressor needs a lubricant, specifically a refrigeration lubricant raw materials to operate efficiently and smoothly, without breaking down over a long working life.

Currently, the shift toward environmentally friendly air conditioners is accelerating, and demand for refrigeration lubricant raw materials that are compatible with the refrigerants used in these air conditioners is also growing rapidly. KH Neochem holds an extremely high share globally for the raw materials used in refrigeration lubricant raw materials.

Air Conditioner Mechanism



Market Position of KH Neochem



Transition to Refrigerants and Refrigeration Lubricants Raw Materials with Low Environmental Impact

From Controlled CFCs to CFC Substitutes

In 1987 the Montreal Protocol was adopted, establishing the regulatory measures for CFCs, including the gradual reduction and ultimate elimination of controlled CFCs, which cause ozone layer depletion. As a result of this Protocol being enacted, a global shift to CFC substitutes that do not harm the ozone layer has developed rapidly since around 2000.

Shift to Low GWP*1 Refrigerants

Since its adoption, the Montreal Protocol has undergone several revisions, as they are required. In the 2016 Kigali Amendment,*2 it was agreed to gradually reduce refrigerants with high GWP to suppress global warming. This is accelerating the shift to new refrigerants such as R32, a CFC substitute with low GWP.

Transition in Refrigerant and the Raw Materials for Refrigeration Lubricant

Global environmental regulations	1987 Montreal Protocol	1997 Kyoto Protocol	2016 Kigali Amendment
Global trends	Requirement to reduce and eliminate controlled CFCs	Greenhouse gas emission regulations	Requirement to reduce CFC substitutes
Transition in refrigerants	**Old refrigerants: R12/R22** (controlled CFCs) Ozone layer - causes depletion Global warming impact – large (GWP – high)	Substitute From around 2000 **Current refrigerant: R410A** (CFC substitute) Ozone layer - no depletion Global warming impact – large (GWP – high)	Substitute From 2012 **New refrigerant: R32** (CFC substitute) Ozone layer - no depletion Global warming impact – low (GWP – low) Substitute From 20XX **Next-generation refrigerant** (currently under development)
Transition in refrigeration lubricant raw materials	**Petroleum-based**	**Synthetic** Using raw materials produced by KH Neochem	**Under development**

*1 GWP (global warming potential): the greenhouse effect of a refrigerant, expressed as a value with carbon dioxide standardized at 1.
*2 Kigali Amendment: A new international agreement reached at the 28th Montreal Protocol Conference (MOP28) held in Kigali, Rwanda on October 15, 2016.

International Regulations on Refrigerants Concerning Climate Change (Kigali Amendment) and the Future of Refrigeration Lubricant Raw Materials

Advanced Nations

Obliged to Reduce the CO_2 Equivalent Value, based on the Kigali Amendment and Growing Demand for Synthetic Refrigeration Lubricant Raw Materials

Although CFC substitutes do not harm the ozone layer, 18 types of CFC substitutes with high GWP were added as regulated substances in the Kigali Amendment, with a view toward preventing global warming.

The gradual reduction of CFC substitutes outlined in the Kigali Amendment uses CO_2 equivalent values obtained by multiplying the quantities of CFC substitutes by GWP as an index. Average values for the production and consumption of CFC substitutes from 2011 to 2013, among other data were used as standard values.*3 For advanced nations, including Japan,*4 a gradual reduction in CO_2 emissions from the standard values is required from 2019 to 2036, with the ultimate target of an 85% reduction by 2036.

As a result, this regulation is expected to further raise demand for air conditioners that use low GWP refrigerants, such as R32.

Emerging Nations

Different Reduction Schedules for Advanced and Emerging Nations

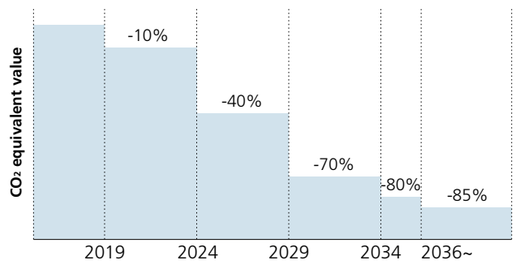
Under the Montreal Protocol, advanced nations are required to eliminate ozone layer-depleting controlled CFCs by 2020, while emerging nations are working on initiatives toward elimination by 2030.

In the measures against global warming laid out in the Kigali Amendment, emerging nations*5 are obliged to reduce the CO_2 equivalent value by 10% of the standard value by 2029. The regulations become stricter in steps, ultimately reaching the requirement for an 80% reduction by 2045.

In addition to the above, as emerging nations grow in economic strength, a significant increase in demand is expected for environmentally friendly air conditioners (see the diagram below).

*5 The standard value is calculated based on the average values for production and consumption of CFC substitutes from 2020 to 2022, among other data. The schedule is more gradual in India, Pakistan, Iran, Iraq, and the Gulf States. For more detail, please see the graph below.

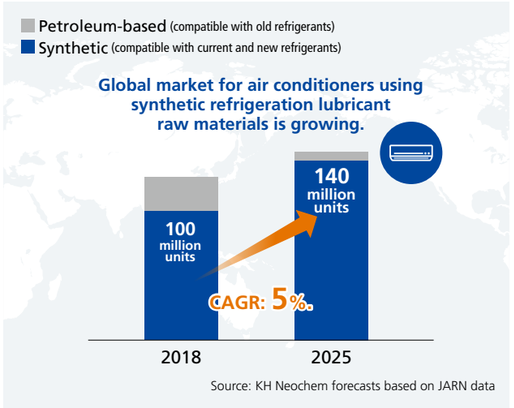
Advanced Nations and Refrigerant GWP Reduction Schedule*3



*3 For more details, please refer to the Montreal Protocol on Substances that Deplete the Ozone Layer on the website of the Ministry of Economy, Trade and Industry. (Japanese documents only)
https://www.meti.go.jp/policy/chemical_management/ozone/law_ozone_laws.html

*4 Regulatory measures differ in some advanced nations, such as Belarus and Russia.

Global Air Conditioner Sales Forecasts



Source: KH Neochem forecasts based on JARN data

KH Neochem's Strategy

Due to the Kigali Amendment and the growing economic strength of emerging nations, we foresee an increase in demand for air conditioners using low GWP refrigerants, such as R32. We will further strengthen our capacity to supply refrigeration lubricant raw materials used in these air conditioners. With an eye on the future, we will also conducting research and development into refrigeration lubricant raw materials that will be compatible with next-generation refrigerants for extremely low GWP.

02 Cosmetic Ingredients

Strategic Domains: Healthcare

Areas of Use

Face masks

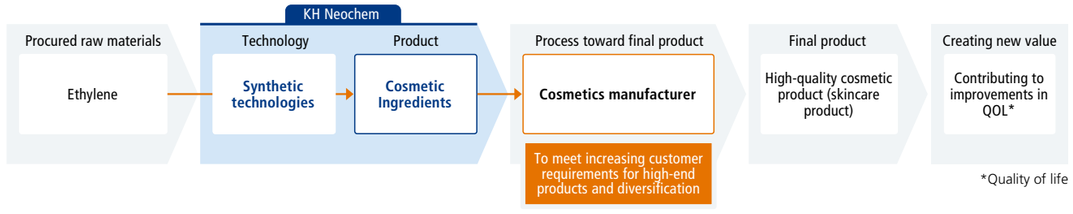
Skin toners / beauty serums

Representative Products

1,3-butylene glycol (1,3-BG)

Value chain example

We manufacture and sell cosmetic ingredients mainly for skincare products and have received a strong reputation for product quality.



*Quality of life

Strength

- Integrated system for production from raw materials
- Located in the promising Asian market

PICK UP!

External Environment

Growth in the skin care market

- Global expansion of middle-income groups
- Spread of e-commerce
- Growth in the men's cosmetics market
- Increasing interest in high-end and natural products

Increasing global sales channels focused on Asian markets

We are selling our 1,3-BG compound in Japan and Korea, where people have high awareness of beauty and skincare, as well as to China, Southeast Asia, and India, markets with rapidly increasing demand.

Source: The Company's estimate (2019)

Key Points in the Third Medium-Term Business Plan

1. Production capacity growth for skincare products (1,3-BG) in response to expanding markets for skincare products in Asia
2. Quality improvement by creating low-odor products, etc. to meet varied customer requirements

Looking back on activities in 2019 and future initiatives

Regarding 1, we began production debottlenecking with a minor investment in 2019. In addition, we plan to implement further debottlenecking (to be completed during periodic repairs in 2021).

Regarding 2, we will do our best to develop low-odor chemicals in collaboration with various research institutes.

It is expected that customer demand for skincare products, mainly in Asia, will increase in the medium to long term, although there were some slowdowns in customer demand in the tourism industry and the retail travel business because of COVID-19 pandemic in the first half of 2020. Recently, it seems that our competitors are building new plants, so we will steadily implement our growth strategy placing value on the medium- and long-term perspectives as well as on cosmetic ingredients.

TOPICS

Rare ingredients with few global suppliers

We are one of a handful of companies worldwide that are capable of manufacturing cosmetic grade 1,3-BG.

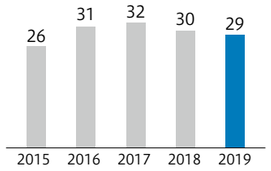
Every cosmetic has an ingredients label. If it says BG or 1,3-butylene glycol, there is a good chance our materials have been used. Our high-quality 1,3-BG which is widely used in high-end skincare cosmetics, has supported beauty and healthy lives all over the world.

Business Overview

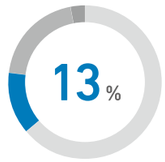
Electronic Materials

Strategic Domains
Electronics

Gross profit
(consolidated, hundred million yen)



Proportion of total operating profit
(2019)

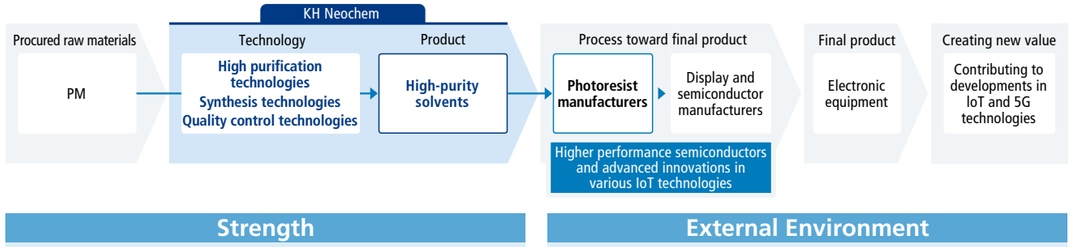


Note: In the Business Overview section, when calculating operating profit in results by business field, administrative expenses, etc., which are common to the entire company, are not allocated.

Areas of Use	Representative Products
Semiconductors, Displays	PMA-P, PM-P

Value chain example

We sell products such as high-purity solvents with an extremely low impurities (contamination and metal fragments) used for the manufacturing process of displays and semiconductors. These solvents are manufactured by utilizing the technologies that we have cultivated over many years, such as high purification, synthesis and quality control technologies.



Strength	External Environment
Technological expertise in high purification technologies accumulated over many years	Growing electronic materials market associated with development of IT and electronics industries
Varied product lineups and supply system	Spread and development of AI & IoT
Advanced quality control systems that accommodate customer requirements	Improvements in the speed and functionality of electronic equipment
	Increased demand for cutting-edge semiconductors due to the spread of 5G technologies

Key Points in the Third Medium-Term Business Plan

1. Operate new facilities for the next generation semiconductor materials
2. Further improvement in the quality of high-purity solvents in response to greater miniaturization of semiconductors

Looking back on activities in 2019 and future initiatives

Regarding 1, in our subsidiary company, Kurogane Kasei Co., Ltd., a commission manufacturer of electronic material products, we began in 2019 setting up a new plant for materials for the next generation of semiconductors. We plan to complete construction and start operations this year. This plant will also produce materials for the current generation of semiconductors, so we will create an effective production and sales strategy that matches market trends based on an in-depth consideration of the growing existing market. As well, we will take into account the growth of the state-of-the-art EUV (extreme ultraviolet) photoresist market.

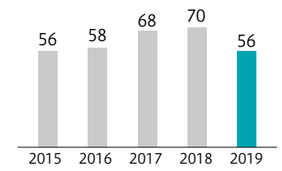
Regarding 2, in an environment where the miniaturization in semiconductors is advancing daily, due to COVID-19 there is a growing need for better product quality in response to changes in people's work and lifestyles. We are making every effort to improve our quality control and supply chain systems to further improve the quality of our high-purity solvents.

Business Overview

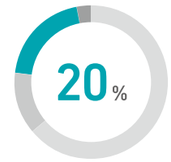
Basic Chemicals

Fundamental business

Gross profit
(consolidated, hundred million yen)



Proportion of total operating profit
(2019)

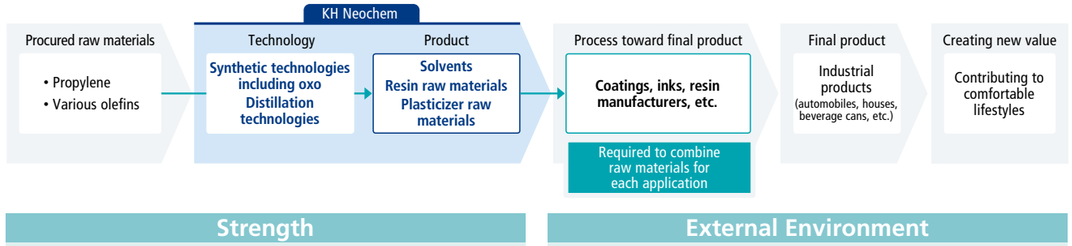


Note: In the Business Overview section, when calculating operating profit in results by business field, administrative expenses, etc., which are common to the entire company, are not allocated.

Areas of Use	Representative Products
Coatings / inks, Wire harnesses	Butyl alcohol, 2-ethyl hexyl alcohol, Isononyl alcohol, Butyl acetate, Ethylene glycol monobutyl ether

Value chain example

These products are manufactured using our core technologies, and are sold for many uses, including coatings, inks, and wire harnesses in industrial fields such as automobiles, houses, and electrical machinery.



Strength	External Environment
The largest production capacity for oxo alcohol in Japan	Stabilized market in Japan and expanding market in the rest of Asia
Extensive range of products supported by an expanded lineup of derivatives	Stable domestic market
Trusting relationship and stable trade with top manufacturers in each market	Population growth in emerging nations
Located close other growing Asian countries	Economic growth centered in Asia

Key Points in the Third Medium-Term Business Plan

1. Operating an effective pricing policy and higher sales figures
2. Further introduction of facility control system with latest technologies (AI and IoT)

Looking back on activities in 2019 and future initiatives

Regarding 1, we faced a difficult situation: there was a slowdown in domestic demand, including for automobiles and houses, as well as softening market conditions. We cannot estimate how long the impact of COVID-19 will last, but we will closely observe the market trends and try to quickly catch any recovering demand to improve our sales.

Regarding 2, we have been introducing the system mainly into plants for Basic Chemicals. As of 2019, we have introduced the system into some 20% of the entire plant, contributing to productivity improvements and reducing workloads. We are trying to introduce this system into most of our plants by 2023.

Special Feature (R&D)

Creating Value through Cultivation of Our Technologies and Innovation

Achieving VISION 2030 will require us to come up with new ideas and engage in new efforts that go beyond a mere extension of our R&D thus far.
We have taken a new step toward improving corporate value in the medium to long term by implementing bold organizational reform, strengthening our human resources capabilities, cultivating our technology, and creating new businesses through collaborative innovation.

Yukihiro Isogai
Board Director
Corporate Officer
R&D office, Innovation Strategy Office
KH Neochem. Co., Ltd.

Organization

Improving the R&D system to achieve VISION 2030

In January 2019, we opened our Innovation Strategy Office and partially integrated the Yokkaichi Research Laboratories with the technology divisions of the Yokkaichi and Chiba Plants to create our new R&D Center. Combined with the existing R&D Department, this makes a three-department system with clearly defined missions for each. In the fields of refrigeration lubricant raw materials and cosmetic ingredients, cultivation of existing technologies is essential to further increase our competitive advantage. That role is fulfilled primarily by the R&D Department and the R&D Center. Meanwhile, the Innovation Strategy Office aims to create new businesses while engaging in collaborative innovation with companies from other industries and venture companies as an independent research hub.

R&D Department	• Exploration of peripheral technologies and new themes which anticipate future
Innovation Strategy Office	• Establishment of a business plan for the realization of VISION 2030
R&D Center	• Strengthening core technologies supporting competitive strategy • Establishment of new technology for the realization of future strategy

Human Resources

Strengthening human resources capabilities to create market-oriented value

Human resources capabilities are the most important element for the foundation of technologies and strategies.

Because of our background of growing while developing strong core businesses, we have excelled at product-oriented R&D. However, to create new businesses requires the generation of new value from a market-oriented approach as well, and we recognize strengthening our human resources capabilities as another pressing issue.

As such, we are hiring experienced mid-career employees, especially for the Innovation Strategy Office, and engaging in more personnel rotations than ever before within the R&D Department and Group company to provide a range of experience and gain a broader perspective. We also actively participate in exchange forums with other industries and have begun cross-company human resources exchanges.

By creating an environment where people from diverse backgrounds and ways of thinking can actively exchange ideas, we hope to make way for new chemistry that go beyond a mere extension of the existing trajectory.

Technology

Oxo brand strategy: Addressing social needs

KH Neochem possesses high-pressure and low-pressure oxo reaction technology and manufacturing expertise that has been accumulated over many years. This oxo technology is one of our strengths, and we will further polish it and work with numerous types of raw materials, including those that are derived from biomasses, to roll out a range of new products in strategic domains. KH Neochem has adopted what we call the Oxo Brand Strategy for implementing this project and considers it one of the key strategies for maintaining our position as a leading global specialty chemical company. Up to now, we have used mostly petrochemical raw materials in our businesses, but in recent years the utilization of chemicals derived from natural raw materials has been increasing rapidly all over the world. Amid this trend, we are pursuing new possibilities for our oxo technology and will address social needs to achieve VISION 2030.

Creating value in strategic domains

In the environment domain, we are engaged in R&D to establish a competitive advantage for our refrigeration lubricant raw materials in the refrigerating and air conditioning market, while researching and gathering information on next-generation refrigerant trends in countries around the world. We are also working on the development of a long chain alcohol using plant-derived raw material, which is a first for us, and we plan to roll it out as an environmentally friendly surfactant.

In the healthcare domain, we have begun looking into rolling out 1,3-butylene glycol, a cosmetic ingredient, to bioproduct applications in addition to making quality improvements.

In the electronics domain, we take advantage of our R&D strength in materials such as high performance materials in optical field, utilizing oxo reaction technology on a daily basis.

Collaborative Innovation

Establishing a base for open innovation

We established the KH Neochem innovation Laboratory (KH i-Lab) in Kawasaki City, Kanagawa Prefecture as a base for innovation within AIRBIC, a center for industry-academia exchange and R&D within Shin-Kawasaki Sozo no Mori, and have been promoting innovation there since October 2019. To make it a hub of communication at KH Neochem, we are promoting a range of activities, including cultivation and training of human resources, marketing, and public relations in collaboration with the personnel, sales, public relations and other divisions for internal communication. For external communication, we are disclosing our internal technology in an easy-to-understand way and promoting exchange with companies from other industries and technical collaboration with universities.

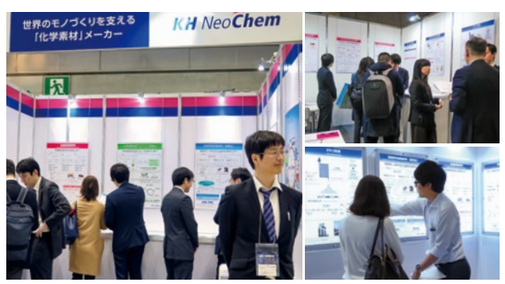
Collaborative innovation with venture companies

Taking advantage of our prime location, we are participating in the Kawasaki Deep Tech Accelerator startup support program of Kawasaki City as a supporter company. In fiscal year 2020, we will also promote collaboration with startups. For example, we have already begun collaborating with startups that have strengths in technologies such as those for utilizing plant-derived raw materials and for materials informatics. Accelerating our new chemical change, we will tie this into our goal of realizing a brighter tomorrow.

The Kawasaki Deep Tech Accelerator
program for supporting the growth of R&D-based startups

Communicating information on our technology

Up to now, our R&D has focused on internal initiatives, but we are also engaged in joint research with universities on topics in our core domains such as refrigeration lubricants, surfactants, and cosmetic ingredients. We are utilizing the knowledge and networks of universities to solve challenges related to a number of research topics, and communicating the results of that research at academic conferences and other events. Moreover, we are introducing development products that are still in the review stage at exhibitions and tying this into acceleration of new product development through exchange of information with users.



Production Technology

Evolution of production technology

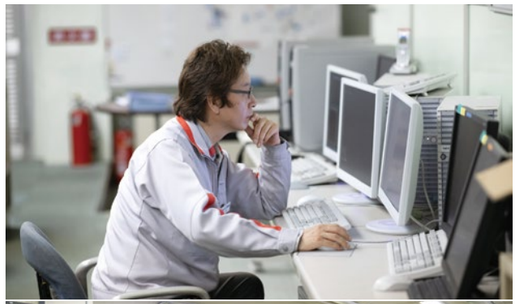
Introduction of an advanced process control system for plants

A chemical plant is a maze of pipework, and safe plant operations are ensured through continual, precise adjustments in the flow rates of raw materials and products. Extensive experience and highly specialized knowledge are necessary to acquire the techniques for operating plants. Furthermore, the manual adjustment of flow rates unavoidably involves manufacturing losses.

To minimize these manufacturing losses, an advanced process control system, or a state-of-the-art system that employs technologies such as AI, controls the plant by automatically estimating the appropriate settings, based on temperature, pressure, and other conditions.

The introduction of this system, which automatically adjusts settings to the right values, has allowed us to minimize manufacturing losses. Reducing the operator workload also makes it possible to further improve operational efficiency.

We will further expand the introduction of this advanced process control system. As of 2020, this system has been introduced at around 30% of our plants, and by 2023 we plan to introduce it at most of our plants. We are applying this system company-wide to dramatically increase our production efficiency.



Restructuring Business Processes Related to Equipment Management

As a petrochemical manufacturer, maintaining safe and stable production is one of our biggest targets. Effectively inspecting, repairing and upgrading our plants and equipment that deteriorate over time is a vital role of our equipment management department. Equipment breakdowns could stop production and lower production efficiency, resulting in missed manufacturing opportunities. For this reason, we are restructuring our business processes for equipment management to prevent potential drops in the quality of equipment management work, such as a rapid generational change of employees due to the retirement of veteran staff.

First, we are focused on maintaining equipment based on risk assessments, regularly obtaining estimates of the frequency rate and impact of breakdowns in advance and performing preventive maintenance. We are also working on standardizing operations and redoing the equipment ledger, so that younger employees can do the same work as more experienced employees. In these ways, we aim to effectively direct our limited management resources, helping to reduce missed manufacturing opportunities as much as possible.

Human Resources and Corporate Culture

Basic policy to realize VISION 2030

Human resources

Strengths of employees

- "High analytical ability"
- "Strong sense of responsibility"
- "High spirit of cooperation"

+

Ideal type of person for 2030

- "Speed" in outperforming competitors
- "Innovations" responding to changes in the environment
- "Professionalism" to gain competitive advantages
- "Networking" to further develop strengths

Corporate culture

Corporate culture to mutually accept various skills and values, promote diversity and maximize achievements

KH Neochem has set Technology and Information, Human Resources, and Corporate Culture as the drivers for becoming a leading global specialty chemical company, our ambition stated in VISION 2030. To develop our human resources and our corporate culture, we will continue to use the current strengths of our employees and we will work to complement their weaknesses to improve the ability of each employee. We will recognize a wide range of skills and values, promote diversity, and create a culture that maximizes results.

Initiatives for Human Resource Development

We are working to enhance our training systems and human resource development as one way to nurture the character described in the figure above. Our training programs are systematized and tailored to the growth stages of our employees, supporting both proactive skill acquisition and career development based on a nurturing policy of raising the base competence in the first five years of employment, giving a hand up to leaders, and identifying future managers.

In fiscal year 2019, we introduced three new education and training programs.

The first is the new employees' training system. This is a two-year system for instructing and training new employees according to a plan prepared by trainers selected by the department in question, to foster a culture throughout the department for training new employees. Training is provided to trainers for the introduction of the system, and subsequently information is provided on a regular basis and follow-up is carried out by interviews. In addition, six months after their appointment, trainers are provided with follow-up training. We work to raise their motivation for the following year by sharing solutions to problems and training expertise. This trainer system is designed to not only help new employees but also offer an opportunity for the trainers themselves to gain experience and grow.

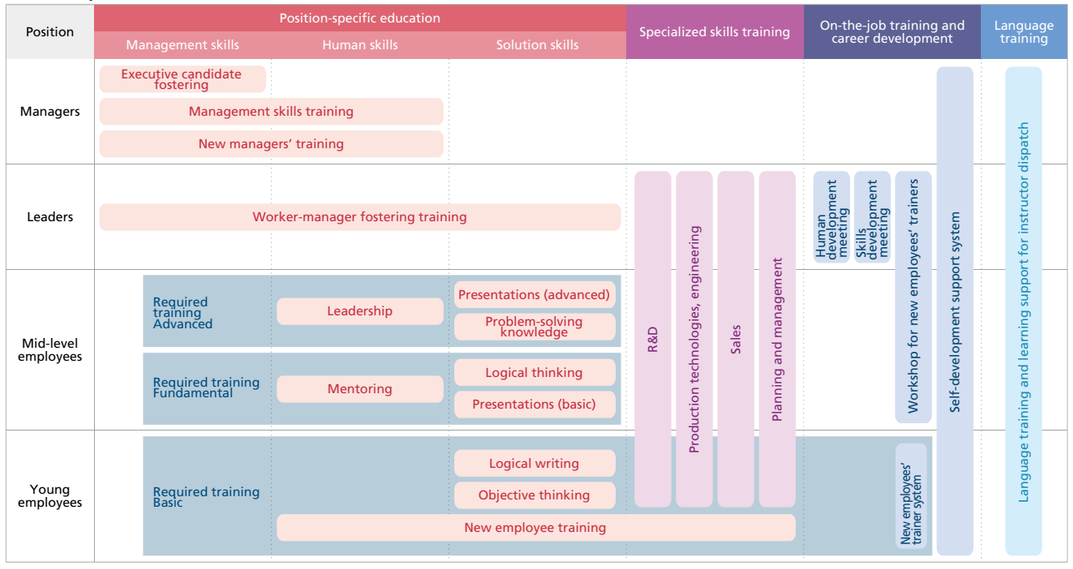
The second education and training program is language learning support. In fiscal year 2019, we offered an online English conversation program as well as group English conversation lessons for employees who were already using English in their work. The program is taught by instructors who visit the office. Each group made up its own schedule to gather before or after work once a week for six months and to participate in a two-hour English conversation lesson.

Training for trainers

The third education and training program is specialized training to increase professionalism, which is one of the character traits we seek to develop.

The targets for this third program are employees who are in their fifth year or less with us. We have organized the skills required by job category and put together a system in which they undergo education and training accordingly. The training is basic for those in their second year or less, and we have required programs by specialty in addition to training by rank. Starting from the third year, the training is intermediate, and we have set it up so that employees can engage in training according to their own duties and challenges, based on interviews with their supervisors under a goal management system. The actual training has been started in 2020. We will continue to plan and implement measures to support our employees in self-directed skill acquisition and career development.

Education System



Initiatives to Improve Engagement

To bolster our strengths in management, we have held teamwork engagement training for managers throughout the Company. In fiscal year 2018, the training was carried out for those in general manager-level positions. In fiscal year 2019, we expanded the scope to include all managerial positions to better spread awareness among team members.

This training program uses the results of an engagement survey held in advance for all employees as themes, and spends time communicating management skills that will increase performance by enhance engagement in the workplace and in the Company as a whole. The second survey was conducted in fiscal year 2019, and the results surpassed those of the first survey for every question.

After the training, they shared what they learned with their respective teams and established action plans to improve engagement. A range of initiatives are being implemented, including one where e-mails saying, "Good job!" are sent to team members who do a good job, with everyone in the department receiving a copy.

We will continue to roll out measures so that each employee will gain a solid sense of the effect of initiatives such as this, resulting in an improved engagement score for the Company.

Engagement training

Engagement survey results

First year (2018)	Second year (2019)
2.99	**3.09** 0.1 points higher

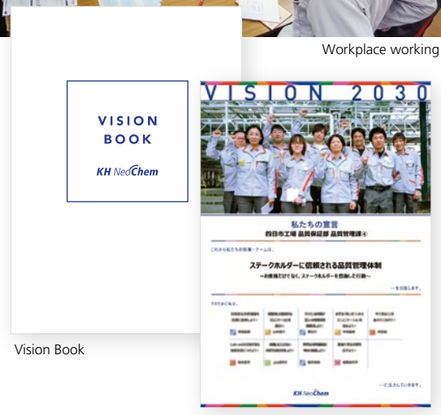
Promoting understanding of VISION 2030

If we are to achieve VISION 2030, each individual employee must deeply understand his or her own role, and everyone must get on the same page as we take up the challenge.

At the beginning of 2019, and during the period from May to June, top management visited our production plants and held briefing sessions on VISION 2030. In July, the Vision Book booklet was distributed to all employees. Along with a message from top management, this booklet explains VISION 2030 and includes the background and aims of establishing VISION 2030, our ambitions and expectations of employees as well as the thoughts of representative employees in various departments and age groups regarding VISION 2030. In addition, from October to November managers and team leaders who are key to connecting the management of each workplace formed workplace working groups where they communicated VISION 2030 to their subordinates in their own words and put together a declaration that includes workplace ideals, the 5C Credo,* and actions to be taken. Digital posters were made for each department and are available on the Company's intranet.

*Please refer to Our Basic Principles at the beginning of this report.

Workplace working group



Vision Book

"Our Declaration" poster

Promoting diversity

We foster a corporate culture in which employees recognize each other's diverse values and everyone is able to play an active role and fulfill his or her potential.

As part of those efforts, we are eagerly rolling out measures to promote active participation by women.

We recognize the importance of increasing the percentage of women in management positions and putting together a system that allows the active participation of diverse employees. For that reason, we have set two goals, which are planned to be acheived by March 31 2022, in the fiscal year 2019 general employer action plan related to promoting active participation by women.

(1) Raise the percentage of female managers to at least 7%
(2) Establish a system for both men and women that allows them to continue working while raising children or taking care of family members

To achieve these goals, we are working to introduce skill development plans and establishing a system to support flexible workstyles. The former is designed to select candidates for management positions at an early stage, to make them aware of the expected role, and to systematically train them. We will foster a climate of providing support for even more active participation by female employees while raising awareness of flexible workstyles and allowing each employee to realize his or her full potential according to their skills, capabilities and experience, and to play an active role in numerous ways. In addition, we are actively promoting hiring mid-career workers, people with disabilities and people from overseas, active participation by reemployed workers, and more.

Creating workplaces where it is easy to work

As part of diversity promotion, we are also working on developing an environment that is easy to work in and respects the work-life balance of each individual.

In addition to days of no overtime, a flextime system and a paid leave system that allows half-days, we have put together systems that allow flexible workstyles according to employees' life stage.

For example, the system of shorter work hours for employees rearing children had been limited to 48 months, but we eliminated that limit. This has allowed more employees to actively take advantage of the system.

We also introduced a telecommuting system for employees rearing children or caring for family members (the scope has currently been expanded as a measure to address COVID-19). We have created an environment that allows employees with limited time to work due to child rearing or caring for family members to easily balance that with work.

In addition, we are implementing physical measures to create an environment that is easy to work in, including the relocation of our headquarters and workplace improvement plans.

Expanded scope of the telecommuting system

As a tentative measure to prevent the spread of COVID-19 and ensure the safety of our employees during the global pandemic, we have expanded the scope of our telecommuting system.

Currently, not only employees rearing children or caring for family members but also all employees to whom the flextime system applies are allowed to work from home. Since the state of emergency was declared in April 2020, in principle all employees working at headquarters and most of the daytime employees at plants have been working from home. Even after the state of emergency was lifted, we continued to allow employees to work from home (as of July 2020, this remains the case). During the period of the tentative measure, we eliminated core hours and allowed employees to work any time between 5 a.m. and 10 p.m. We also loaned our employees mobile phones and Wi-Fi routers and promoted the use of an online meeting system so that they could work from home without any problems. In fact, our employees are utilizing online meetings and other tools for internal meetings and training as they go about their work.

We are aiming to improve the pleasantness of the work environment and sense of job fulfillment through opportunities such as this, and looking for new ways of doing jobs and ways to streamline operations.

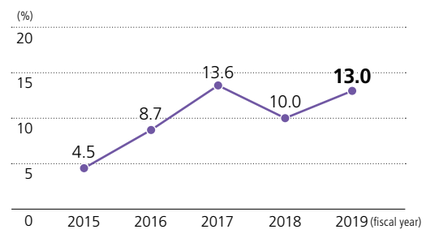
Number of new employees

(fiscal year)

	2015	2016	2017	2018	**2019**
New graduates	14	18	8	21	**27**
Mid-career workers	8	5	14	19	**50**
Total	22	23	22	40	**77**

Note: Only workers whose employment agreements do not have a fixed term.

New female employees (%)



Note: Only workers whose employment agreements do not have a fixed term.

Years of service of male and female employees

(fiscal year)

	2016	2017	2018	2019	**2020**
Years of service (men)	17.1	16.5	16.0	14.6	**13.5**
Years of service (women)	16.9	16.9	16.3	14.3	**14.3**
Difference	-0.2	0.4	0.3	-0.3	**0.8**

Note: All data are as of April 1.

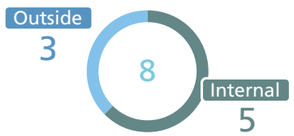
Rate of reinstatement after childbirth/child care leave

100 %

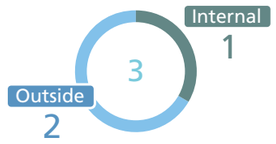
Note: Fiscal years 2015–2019 (No applicants in 2017)

Corporate Governance

Number of Directors



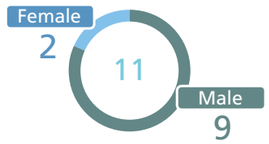
Number of Audit & Supervisory Board Members



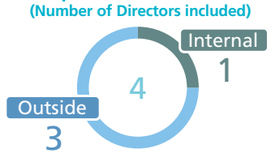
Number of the Board of Directors Meetings Held in Fiscal Year 2019:

17

Number of Directors and Audit & Supervisory Board Members



Nomination and Compensation Committee
(Number of Directors included)



Number of Meetings of Audit & Supervisory Board Meetings Held in Fiscal Year 2019:

13

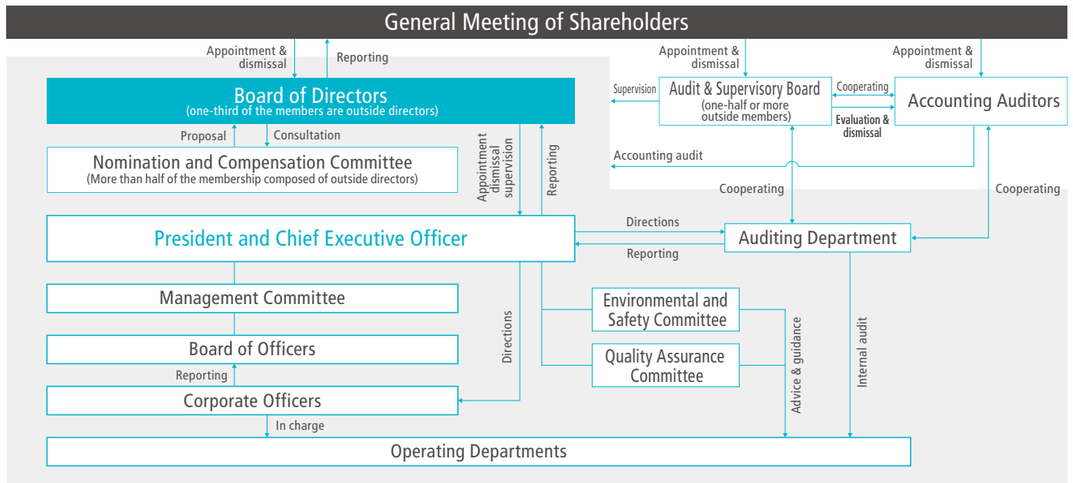
See the KH Neochem website for details on corporate governance and internal control.
http://www.khneochem.co.jp/ir/governance/

*Note: The numbers for the Board of Directors, Audit & Supervisory Board, and Nomination and Compensation Committee are as of July 31, 2020.

Basic conceptual approach

Guided by the Corporate Mission of "Realizing a brighter tomorrow for society through the power of chemistry.", the KH Neochem Group is committed to realizing sustained growth, medium to long-term heightening of corporate value, and sound management that assures transparency and fairness.

Overview of Corporate Governance Structure



Corporate Governance Structure

We are building a corporate governance structure that takes the following points into consideration and we are working to put that system into place:

- To strive for substantive assurance of the rights and equality of our shareholders and engage in constructive dialogue with them.
- To disclose accurate financial information and non-financial information that is useful in constructive dialogues with our shareholders and other similar purposes, with appropriate timing and in a readily understandable format.
- To strive toward appropriate cooperation with stakeholders other than our shareholders.
- For corporate executives and the Board of Directors to provide leadership for building a corporate culture of respect for the rights and perspectives of our various stakeholders and for ethics in business activities.
- For the Board of Directors to the its responsibility to exercise effective supervision from an independent perspective over the execution of duties by corporate executives, to make every effort to develop an environment that supports corporate management risk-taking, and so on.

Board of Directors

The Board of Directors of KH Neochem promotes sustainable growth and improvement of medium- to long-term corporate value and works to build and operate an appropriate corporate governance structure while functioning as an operational decision-making body on items in laws, regulations, and the Articles of Incorporation, as well as important management matters. It also functions as a supervisory body over the execution of duties by the executive directors. As a rule, the Board of Directors meets regularly (once a month). Extraordinary meetings of the Board of Directors can be convened as necessary to deal with urgent management issues.

Composition of the Board of Directors

The Board of Directors at KH Neochem comprises eight executive directors, including three outside directors (one is female) who are independent officers. We believe this is an appropriate size for promoting diversity, including gender issues, and for swift decision-making. There is a balanced composition overall of full-time directors possessing expertise and knowledge in business, production, R&D, management planning, finance and accounting, and other areas. The outside directors actively express their opinions and raise questions based on their broad perspective and experience in corporate management. The term of service of the executive directors is set at one year in order to promote prompt responses to change in the management environment, as well as to make clear that the management responsibility of the executive directors lies within the business year.

Audit & Supervisory Board and Audit & Supervisory Board Members

Audit & Supervisory Board members meet with the Board of Directors, Management Committee, and other important committees, where they audit the execution of duties by executive directors with the performance, including, but not limited to, stating their views as required, examining important documents under consideration for approval. They also take steps for mutual coordination with the Auditing Department and accounting auditors by regularly exchanging views and information, holding discussions with them, and so on.

The KH Neochem Audit & Supervisory Board has three members, including two outside members. As a rule, the Audit & Supervisory Board holds regular meetings once a month and also holds extraordinary meetings as necessary. They take steps for mutual information sharing with Audit & Supervisory Board members, formulating auditing plans, examining audit implementation status and audit results, and engaging in related activities.

Nomination and Compensation Committee

KH Neochem has established a discretionary Nomination and Compensation Committee with an outside director as the chair and more than half of the members are outside directors. This committee acts as an advisory body to the Board of Directors to reinforce the independence, objectivity, and transparency of directors' actions and deliberations on the nomination and compensation of executive directors and executive officers.

In 2019, we established a basic policy on executive director (excluding outside directors) compensation and launched a review for ensuring a more appropriate officer compensation plan to achieve that policy. In 2020, we are continually investigating a compensation system that places more weight on share-based compensation at an appropriate level and that takes general norms into account. We are in serious discussions now to realize this as soon as possible.

Outside directors and outside Audit & Supervisory Board members

All outside directors and outside Audit & Supervisory Board members satisfy the requirements for independence set out by the Tokyo Stock Exchange. The outside directors make use of their abundant work experience and high level of professionalism to express their views actively and directly from an objective and broad standpoint to ensure that management judgments are not biased by internal points of view. They also offer constructive advice and oversight. Outside Audit & Supervisory Board members have rich experience, broad insight, and considerable expertise, and they conduct audits fairly and objectively.

Board of Directors and Audit & Supervisory Board Members

Initiatives to Increase the Effectiveness of the Board of Directors

Strengthening the governance structure

Separation of management and business execution
February 2013
Introduction of executive officer system
Note: The title of the executive officer has now been changed to corporate officer.

Enhancement of transparency
December 2016
Establishment of Nomination and Compensation Committee
Note: Compensation Committee was established in 2014.

Directors' remuneration review
March 2018
Introduction of performance-linked stock compensation system

Enhancing diversity within the Board of Directors
March 2019
Appointment of a female director
March 2020
Appointment of another female Audit & Supervisory Board member, increasing the percentage of female officers

Evaluation of effectiveness of the Board of Directors

The effectiveness of the Board of Directors is evaluated once a year with advice from an external agency. The members of the Board of Directors consider specific improvements based on the results, and ongoing efforts are made to improve the functioning of the Board by implementing those measures.

Process	1. Conduct questionnaire survey of all members of Board of Directors and Audit & Supervisory Board 2. Outside agency collates results 3. Members of the Board of Directors conduct analysis, discussion, and assessment 4. Brainstorm necessary improvements and implementation of countermeasures
Assessment results and countermeasures for improvements	The roles, composition, and status of operations of the Board of Directors have earned a mostly positive assessment, and we recognize that overall effectiveness has been secured. In particular, the balanced and lively discussions at the meetings have been noted as a strength. On the other hand, the officers discussed countermeasures to address the following three issues from the standpoint of further reinforcing the supervisory function of the Board of Directors: ● Mechanism for continuous monitoring (supervision) by the Board of Directors ● Enhancement of discussions on matters such as medium- to long-term management strategies ● Further utilization of Nomination and Compensation Committee and gathering of information at the Board of Directors meetings The officers made the following operational improvements and amended the Rules of the Board of Directors based on the issues identified: ● Provide regular progress reports on key measures of the medium-term business plan ● Eliminate formal resolutions and discuss important topics in stages

Amendment of rules and regulations

The Rules of the Board of Directors were amended to further enhance discussions on matters such as medium- to long-term management strategies at the Board of Directors meetings, and resolutions based on the Corporate Governance Code, including basic management policies and important matters of corporate governance (e.g. decisions on basic policies related to society, the environment, and sustainability), were added.

Moreover, we reviewed final-approval authority clauses within the Rules of the Management Committee and Rules on Final-Approval and transferred authority as appropriate so that the Board of Directors can focus more on discussing these important management matters.

In 2020, we aim to further strengthen governance through these discussions and make our management foundation even more capable of responding flexibly in highly uncertain environments.

Training members of the Board of Directors/Audit & Supervisory Board

In 2019, we invited a specially appointed professor (at the time), Kunio Ito of Hitotsubashi University. The professor gave a lecture on the topic "The Current Status of Governance Reform and Future Challenges." The lecture topics ranged from the changes required for sustainable growth to improving dialogues with investors, succession plans, and management training. Afterward, Professor Ito engaged in a lively discussion with our officers.

In 2020, we will carry out other intitiatives, including having outside experts give lectures on the topic of ESG, and we will provide opportunities for discussions with our executive officers for further sustainable growth of our corporate value.

Specially appointed professor Kunio Ito giving a lecture

Officers' Compensation

KH Neochem has established a discretionary Nomination and Compensation Committee. This committee deliberates on the policy and standards of officers' compensation, etc. as well as performance evaluation from the standpoint of ensuring the appropriateness of compensation levels and transparency. It also checks everything up to the calculation of individual compensation for each officer.

Compensation for directors (excluding outside directors) includes monetary compensation and performance-linked, share-based compensation, and the basic policy is as follows:

- Provide sufficient incentive to improve medium- to long-term performance and increase corporate value
- Ensure competitiveness to secure diverse and outstanding human resources
- Share interests with shareholders and other stakeholders

Indicator for performance-linked compensation

KH Neochem has introduced performance-linked compensation for directors (excluding outside directors), both monetary and share-based, and uses consolidated EBITDA* as the indicator based on the characteristics of our business.

Monetary compensation

Around 30% of all monetary compensation is performance-linked, and it is calculated using the rate at which planned earnings are achieved and the average achievement rate over the past five years.

Performance-linked, share-based compensation

Performance-linked, share-based compensation is calculated using the rate at which planned earnings are achieved on the condition that consolidated operating income is in the black. While putting more priority on performance, this compensation system clarifies the link with the stock price, providing directors with both benefit from increases in the stock price and the risk of decreases in the stock price with shareholders, thereby increasing awareness of contributing to improvement of medium- to long-term performance and increasing of corporate value. Outside directors and Audit & Supervisory Board members receive only monetary compensation (fixed monthly amount) based on their roles and to ensure independence.

*EBITDA is calculated using the following formula: EBITDA = Operating income + Depreciation and Amortization + amortization of goodwill (the amount from the consolidated statement of income is used for operating income, while the amount from the consolidated statement of cash flows is used for amortization of goodwill).

Total amount of compensation by officer classification, total amount of compensation by category, and number of officers subject to compensation (2019)

Officer classification	Total amount of compensation (million yen)	Total amount of compensation by category (million yen)			Number of officers subject to compensation
		Monetary compensation		Share-based compensation	
		Fixed	Performance-linked	Performance-linked	
Directors (excluding outside directors)	142	73	53	16	6
Audit & Supervisory Board members (excluding outside members)	18	18	-	-	1
Outside directors	11	11	-	-	3
Outside Audit & Supervisory Board members	10	10	-	-	2

Notes: 1. The amount of directors' compensation was resolved at 200 million yen or less annually (excluding the employee portion of salary for directors who are also employees) at the Extraordinary General Meeting of Shareholders on March 31, 2011. In addition to the above compensation limit, a performance-linked, a "Board Benefit Trust (BBT)" share-based compensation plan was introduced for directors (excluding outside directors) at the 8th Ordinary General Meeting of Shareholders on March 27, 2018. The resolution provides that every three fiscal years, a maximum monetary amount of 110 million yen will be contributed to the trust as funds for acquiring the Company's shares paid to eligible directors.
2. The amount of annual compensation for Audit & Supervisory Board members was resolved at 50 million yen or less at the Extraordinary General Meeting of Shareholders on March 31, 2011.
3. The table above does not include unpaid outside directors.
4. The amount of share-based compensation recorded as an expense during the fiscal year is provided based on the BBT plan introduced at the time of the resolution at the 8th Ordinary General Meeting of Shareholders on March 27, 2018.

Compliance

Basic conceptual approach

We formulate our rules and regulations, then inspect our legal compliance on the basis of our Compliance Guiding Principles and compliance regulations, and we make every effort for strict implementation. We also make every effort to ascertain the status of compliance promotion in the KH Neochem Group, and we are taking appropriate measures.

Measures for Compliance

Compliance structure

KH Neochem has revised compliance rules and established the compliance structure shown on the right to both strengthen the structure and further increase the effectiveness of the implementation.

The position of compliance officer has been established to assign responsibility for these matters, including swift investigation and preparing appropriate countermeasures. At compliance promotion meetings, compliance officers encourage compliance, carry out educational activities, and conduct training, etc.

Hotlines

KH Neochem has established hotlines for executives and employees to counsel and talk concerning about compliance. Specifically, the Compliance Hotline, the Compliance Officer Hotline, and the Full-time Corporate Auditor Hotline have all been established within the Company, and the Corporate Attorney Hotline has been established outside the Company.

*A Compliance Secretariat has been established to assist compliance officers

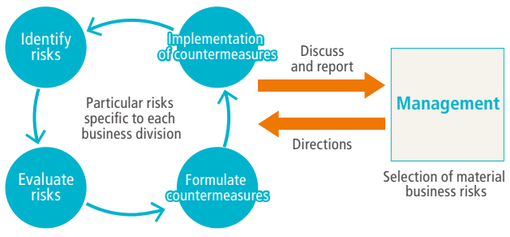
Compliance Structure

Risk Management

Risk Management System

All of our business divisions engage in risk assessment by identifying risks that could affect business activities of the KH Neochem Group as a whole, calculating the risk level based on the impact and probability of occurrence, and conducting an assessment.

Consequently, those business divisions discuss countermeasures to prevent any occurrence and to reduce the impact of risks at the highest level. Meanwhile, management reviews the appropriateness of risk assessments and the countermeasures, and identifies material business risks to discuss and determine what action to take. In these and other ways, we are working to ensure thorough risk management.



Business Continuity Management (BCM)

KH Neochem supplies various customers with products that are essential for production in a wide range of industries and the social lives of citizens.

For that reason, we believe that we have a very important responsibility to maintain and continue our business activities and achieve an early recovery in the event of a large-scale disaster. Each of our workplaces has formulated a business continuity plan (BCP), and we steadily implement advance measures and carry out employee education and training to ensure that these BCPs will function effectively in the event of an emergency. We also inspect and revise the BCPs as part of our business continuity activities.

In the workshop formulating a BCP

Members of the Board (as of July 31, 2020)

Directors

Michio Takahashi
Representative Director
President & CEO

Apr. 1987 Joined Kyowa Hakko Kogyo Co., Ltd.
July 2011 President of Basic Chemicals Division of Kyowa Hakko Chemical Co., Ltd. (now the Company)
Mar. 2013 Director and Executive Officer of the Company
Mar. 2016 Managing Director and Executive Officer of the Company
Mar. 2017 Executive Vice President & Executive Officer of the Company
Mar. 2019 Representative Director, President and Chief Executive Officer of the Company (to present)

Toshihiro Matsuoka
Board Director
Senior Corporate Officer, Production & Technology Office

Apr. 1987 Joined Kyowa Hakko Kogyo Co., Ltd.
Apr. 2008 General Manager of Production Administration Division of Kyowa Hakko Chemical Co., Ltd. (now the Company)
June 2011 General Manager of Yokkaichi Plant of the Company
Apr. 2013 Executive Officer of the Company
Mar. 2014 Director and Executive Officer of the Company
Mar. 2018 Managing Director and Executive Officer of the Company
Mar. 2020 Board Director & Senior Corporate Officer of the Company (to present)

Tatsuro Niiya
Board Director
Senior Corporate Officer, Business Headquarters Office

Apr. 1988 Joined Kyowa Hakko Kogyo Co., Ltd.
July 2013 General Manager of Chemical Sales & Marketing Division, Business Headquarters Office of the Company
Jan. 2016 Executive Officer of the Company
Mar. 2017 Director & Executive Officer of the Company
Mar. 2019 Managing Director & Executive Officer of the Company
Mar. 2020 Board Director & Senior Corporate Officer of the Company (to present)

Masaya Hamamoto
Board Director
Senior Corporate Officer & CFO

Apr. 1985 Joined The Industrial Bank of Japan, Limited. (now Mizuho Bank, Ltd.)
Apr. 2011 General Manager of Osaka Corporate Banking Division No. 1 of Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.)
Apr. 2014 Executive Officer and General Manager of Corporate Banking Division No. 5 of Mizuho Bank, Ltd. (retired in March 2015)
Apr. 2015 Executive Officer of IBJ Leasing Company, Limited. (now Mizuho Leasing Company, Limited)
June 2015 Director, Executive Officer and General Manager of Corporate Planning Department of IBJ Leasing Company, Limited.
Apr. 2016 Managing Director, Managing Executive Officer and General Manager of Corporate Planning Department of IBJ Leasing Company, Limited. (retired in May 2019)
June 2019 Joined the Company
Sep. 2019 Senior Executive Officer of the Company
Mar. 2020 Board Director & Senior Corporate Officer & Chief Financial Officer of the Company (to present)

Yukihiro Isogai
Board Director
Corporate Officer, R&D office, Innovation Strategy Office

Apr. 1987 Joined Toaboshoku Co., Ltd.
Aug. 2000 Joined YIC Co., Ltd.
Oct. 2001 Joined Kyowa Hakko Kogyo Co., Ltd.
Jan. 2016 General Manager of Yokkaichi Research Laboratories, R&D Office of the Company
Dec. 2017 General Manager of R&D Office (to present) and General Manager of Yokkaichi Research Laboratories, R&D Office of the Company
Jan. 2018 Executive Officer of the Company
Mar. 2019 Director & Executive Officer of the Company
Mar. 2020 Board Director & Corporate Officer of the Company (to present)

Sayoko Miyairi
Outside Director

Apr. 1979 Joined Hitachi, Ltd.
July 1982 Joined Bank of America, N.A., Asia Headquarters
Mar. 1986 Joined Pasona Inc. and seconded and then transferred to Edu Consult Co., Ltd. (now Scholar Consult Co., Ltd.)
Apr. 2000 Partner of Scholar Consult Co., ltd. (to present)
Apr. 2000 Assistant Professor of Nihonbashi Gakkan University (now Kaichi International University)
Jan. 2005 Director of Scholar Consult Co., ltd.
Apr. 2008 Professor of Nihonbashi Gakkan University (to present)
Mar. 2019 Outside Director of the Company (to present)
June 2020 Outside Director of Toyo Engineering Corporation (to present)

Jun Tsuchiya
Outside Director

Apr. 1981 Joined Argonne National Laboratory, U.S.A.
May 1983 Joined Lawrence Berkeley National Laboratory, U.S.A.
Feb. 1984 Joined Mitsubishi Chemical Industries Limited (now Mitsubishi Chemical Corporation)
Jan. 1999 Seconded as President to Verbatim Corporation, U.S.A. subsidiary of Mitsubishi Chemical Limited (now Mitsubishi Chemical Corporation) as a secondment
Apr. 2001 General Manager of Corporate Planning Office of Mitsubishi Chemical Industries Limited (now Mitsubishi Chemical Corporation) (retired in January 2002)
Feb. 2002 Director of Rohm & Haas Japan K.K. (now Dow Chemical Japan Limited) (retired in December 2006)
Jan. 2007 Representative Director and President of Heraeus K.K. (retired in September 2018)
Oct. 2018 CEO of Tsuchiya International Consulting Corp. (to present)
June 2019 Outside Director of Soken Chemical & Engineering Co., Ltd.
Mar. 2020 Outside Director of the Company (to present)

Yuji Kikuchi
Outside Director

Apr. 1992 Registered as an attorney at law Entered Sakano, Seo & Hashimoto Law Office (now Tokyo Hatchobori Law Office)
Apr. 2002 Partner of Tokyo Hatchobori Law Office
Mar. 2003 Joined the Securities and Exchange Surveillance Commission (Coordination and Inspection Division, Executive Bureau)
Mar. 2005 Returned to being a partner at Tokyo Hatchobori Law Office (to present)
June 2010 Outside Audit & Supervisory Board Member of Inui Warehouse Co., Ltd. (now Inui Global Logistics Co., Ltd.)
June 2014 Outside Audit & Supervisory Board Member of NEC Networks & System Integration Corporation (to present)
Mar. 2020 Outside Director of the Company (to present)

Audit & Supervisory Board Members

Tokuo Oodo
Audit & Supervisory Board Member

Kazuhiro Kawai
Audit & Supervisory Board Member (Independent Auditor)

Keiko Tamura
Audit & Supervisory Board Member (Independent Auditor)

Corporate Officers

Seiji Saito
Production & Technology Office

Toshiaki Ogata
President of Kurogane Kasei Co., Ltd.

Akio Nakahashi
Chiba Plant

Yoshiaki Kondo
Yokkaichi Plant

Hideki Shimizu
Strategic planning and Purchasing

Isao Takahashi
General Manager
Corporate Administration

Akira Kamimura
Finance, Public & Investor Relations, General Manager,
Finance Division

Messages from Outside Directors and Outside Audit & Supervisory Board Members

Fulfilling Our Social Responsibility with a United Management Team

Sayoko Miyairi
Outside Director

There are relationships of trust built upon the corporate culture of working together to create innovation that has been in place since before the Company became independent, and there is a positive kind of tension at meetings. Thus, only a few years have passed since the Company's share were listed on the stock market, but both the full-time and outside directors that comprise the Board of Directors engage in open and frank discussion—on not only matters to be approved but also about important management issues affecting both the present and future—based on the general principles of the Japan's Corporate Governance Code.

When the Nomination and Compensation Committee reviewed the selection of candidates for outside director and director compensation, emphasis was placed on ensuring that the process was highly transparent and satisfactory, by comprehensive data analysis and exchange of opinions with the full-time directors subject to said compensation.

Such an atmosphere creates an environment conducive to fulfilling the monitoring function of the internal control system. I can share a different perspective as an outside director based on my professional experience, and the Board members provide a thorough response to even the most basic of questions.

Going forward, management must be even more united as a team to solve internal and external challenges, as the Company faces the difficult business environment caused by COVID-19. Furthermore, companies today are required to take corporate social responsibility that incorporates an ESG perspective and the element of SDGs, so it is necessary to take a broad perspective when engaging in corporate management.

I hope to facilitate sympathy and relationships of trust within the management team based on my personal experience, and I will leverage outside connections and networking involving cross-industry information provision to support the strengthening of corporate governance.

High Hopes for Global Business Expansion and the Limitless Possibilities of Chemistry

Jun Tsuchiya
Outside Director

Society cannot exist without materials. Moreover, the raw materials that go into them, the manufacturing processes, and the final products cannot cause damage to the environment. Chemical technology is one of tools that are useful to the public by supplying the products within various restrictions. KH Neochem has introduced a variety of unique chemical materials. The Company will need to continue pursuing endless possibilities, leveraging the extensive knowledge accumulated with our chemical technology.

It will be our new challenge to go beyond commercializing and rolling out technology to supply products useful to humanity on a global basis. The world is made up of diverse cultures and values. Going forward, I believe the Company must further improve business development initiatives within those different environments. I hope to support those challenges from my position as an outside director.

Supporting the Foundation for "Aggressive Governance"

Yuji Kikuchi
Outside Director

The strengths of KH Neochem are its global niche technical capabilities, its production facilities ranking among the world's foremost, and co-creation with customers. If the Company were to let its guard down even for a moment, any of these strengths could be overtaken by a competitor or become obsolete. To continue fully leveraging these strengths and become a leading global specialty chemical company—while increasing corporate value over medium to long term—it is essential to continue enhancing existing businesses. At the same time, the Company must continue to innovate based on concepts that differ completely from the existing businesses.

It might be a hackneyed phrase, but to achieve such multidimensional management I believe it remains as true today as ever that aggressive rather than defensive governance is essential. As a lawyer, I have been involved in corporate law for many years, especially on corporate management for a range of clients. Taking advantage of that experience, I hope to improve management's outlook, primarily from a legal standpoint, and support the foundation for aggressive governance within the Board of Directors.

Spreading Compliance Awareness

Kazuhiro Kawai
Audit & Supervisory Board Member
(Independent Auditor)

Companies are social entities and need to be sustainable. For that to be possible, it is essential that a company builds and operates a proper internal control system and spreads compliance awareness. Compliance is defined as conformity with the law. A majority of compliance violations arise from a lack of awareness rather than insufficient knowledge of complicated laws or rules. There is serious risk hidden in thoughts such as, "We've always done it this way" and "This much should be fine."

Companies have customary ways of doing things that have developed over many years, but if form triumphs over substance, it can lead to an inconsistency with social norms. As an Audit & Supervisory Board member (independent auditor), I keep that in mind, leveraging my knowledge and experience gained at other companies to conduct audits from an objective, third-party standpoint. In this manner, I will make effort to contribute to the Company's sustainable growth and development.

Achieving Further Growth Based on a Robust Compliance Structure

Keiko Tamura
Audit & Supervisory Board Member
(Independent Auditor)

KH Neochem seeks to become a leading global specialty chemical company, an ambition stated in VISION 2030. I believe that the key to achieving that goal is for each individual employee to feel strongly motivated and energetic in their work. Paying particular attention to the compliance structure and status of operations, I hope to work together with the other members of the Audit & Supervisory Board and communicate thoroughly with those in charge as I perform my duties. This will help employees to fulfill their potential under a solid compliance structure and sound compliance operations.

Action plan for industrial safety is available on our website: http://www.khneochem.co.jp/en/csr/rc/

Basic conceptual approach

Responsible Care (RC) refers to the autonomous management activities that business operators who manufacture or handle chemicals carry out to implement and take steps to improve environmental, safety, and health measures throughout all processes involving chemicals, from development through manufacturing, physical distribution and use, to final consumption and disposal. KH Neochem has adopted an RC Program Policy and is implementing Responsible Care.

RC Program Policy and System

RC Program Policy

KH Neochem has established the RC Program Policy and pursues business activities with commitment first and foremost to fulfilling responsibility to society as a corporation. We do this in order to continue being a chemical manufacturer that provides distinctive products in a variety of sectors and that supports the global environment, as well as comfortable lives for people around the world. What is required of chemical manufacturers, above all, is to operate their plants safely, and so we have formulated the Fundamental Policy for Safety Management to implement a thoroughgoing response to that requirement, and we are making every effort to assure the security and safety of our operations.

RC program policy

❶ **Compliance**
In addition to international regulations and domestic laws and regulations, we will comply with KH Neochem rules and regulations.

❷ **Environmental conservation**
We will make every effort to reduce the environmental impact of our products at every stage, from development to disposal.

❸ **Safety and disaster prevention and occupational safety and health**
We will maintain our record of zero accidents and disasters, making every effort to assure safety, peace of mind, and health for regions and communities, as well as for everybody who works at KH Neochem.

❹ **Physical distribution safety and chemical and product safety**
We will acquire the most up-to-date safety information on the chemical substances and products that we handle, and we will provide the correct information to customers, to the people involved in physical distribution, and to the people who work at KH Neochem.

❺ **Dialogue with society**
We will contribute to regions and communities by engaging in dialogue and communication with them regarding the environment, safety, and health.

Fundamental policy for safety management

❶ In addition to safety-related laws and regulations, we will act in unfailing compliance with the decisions made by KH Neochem.

❷ We will always continue maintaining awareness of sources of danger and making every effort to prevent safety-related accidents.

❸ We will continue improving our safety management systems and seeking to upgrade safety management levels.

❹ We will make every effort to conduct training and consciousness-raising in order to encourage employees and other people involved to take the initiative to prevent accidents.

RC Program System

KH Neochem has established an Environmental and Safety Committee with the president as chair and the executive officer in charge of safety management as vice chair, and the Company is implementing an RC program. Activities are being pursued at every operating facility in accordance with the RC Program Policy and the Fundamental Policy for Safety Management determined by the Environmental and Safety Committee.

Environmental and Safety Committee

Chair: President
Vice chair: Executive officer in charge of safety management
Secretariat: Environment Safety & Quality Assurance Division

- Corporate Headquarters
- Osaka Branch Office
- Yokkaichi Plant
- Chiba Plant
- Sakai Logistics Center

Status of Certification Acquisition

The Yokkaichi Plant and the Chiba Plant have acquired certifications for quality management systems (ISO 9001) and environmental management systems (ISO 14001). These plants are maintaining their certification and promoting RC programs in line with those systems, and both have made the transition to the new ISO 9001 and ISO 14001 standards (2015 versions).

Plant	Certification acquired		Certification body
Yokkaichi Plant	ISO 9001	January 1999	Japan Chemical Quality Assurance Ltd.
	ISO 14001	July 2000	International Standards Certification Center
Chiba Plant	ISO 9001	December 1998	Japan Chemical Quality Assurance Ltd.
	ISO 14001	November 2000	Japan Chemical Quality Assurance Ltd.

Fiscal Year 2019 RC Program Objectives and Results Together with Fiscal Year 2020 Objectives

◎: Achieved ○: Almost achieved △: Unachieved

RC code	Fiscal year 2019			Fiscal year 2020
	Objective	Actual results	Evaluation	Objective
Environmental conservation	● Environmental accidents: 0	● Environmental accidents: 0	◎	● Environmental accidents: 0
Safety and disaster prevention	● Safety-related accidents: 0	● Safety-related accidents: 4	△	● Safety-related accidents: 0
Occupational safety and health	● Work-related accidents: 0	● Employee accidents resulting in lost workdays: 0 ● Employee accidents not resulting in lost workdays: 3 (Yokkaichi Plant and Chiba Plant) ● Accidents at cooperating companies resulting in lost workdays: 0 ● Accidents at cooperating companies not resulting in lost workdays: 7 (Yokkaichi Plant and Chiba Plant)	△	● Work-related accidents: 0
Others	● Compliance violations: 0	● Compliance violations: 0	◎	● Compliance violations: 0
	● Trouble reduction five-year average (28 cases) or lower	● Trouble: 37 cases	△	● Trouble reduction five-year average (27 cases) or lower

Inspections and Audits

Environment safety inspections and quality audits

At KH Neochem, periodic environment safety inspections of the Yokkaichi Plant, Chiba Plant, and Sakai Logistics Center are conducted by the Environment Safety & Quality Assurance Division at corporate headquarters under the direction of the executive officer in charge of safety management. Periodic quality audits are also similarly conducted under the direction of the executive officer in charge of quality assurance. The environment safety inspections and quality audits involve evaluation of RC activities at our operating facilities.

Internal audit of plants

The Yokkaichi Plant and the Chiba Plant conduct internal audits for ISO 9001*1 and ISO 14001*2 as well as for accreditation as high-pressure gas inspection executors (completion inspection and safety inspection)*3 based on safety management systems.

External audits

The Yokkaichi Plant and the Chiba Plant undergo external audits (maintenance audits and renewal audits) based on ISO 9001*1 and ISO 14001*2 and are maintaining their certifications.

KH Neochem is taking continuing steps to improve RC programs by incorporating the results of these environment safety inspections, quality audits, internal audits of plants, and external audits as feedback.

*1 and *2, See page 40 *3 See page 45

Inspections underway

Environment safety inspection (Yokkaichi Plant)

Environment safety inspection (Chiba Plant)

Environmental Conservation

Flow of Environmental Impact Results

This shows an overall image of inputs and outputs that occur when manufacturing our products.

INPUT

Energy (crude oil equivalent)

Fuel ..... 172,258 kL
Purchased steam ..... 14,936 kL
Purchased electric power... 17,367 kL

Water

City water ..... 12 kt
Ground water ..... 32 kt
Industrial water ..... 7,398 kt

Raw materials

522,396 t

KH Neochem

Yokkaichi Plant

Chiba Plant

OUTPUT

Product

480,922 t

Released into the atmosphere

CO_2 ..... 440,103 t
SOx ..... 2.3 t
NOx ..... 259.9 t
Dust ..... 5.8 t
PRTR substances ..... 3.3 t

Released into the water

Total amount released..... 4,468 kt
COD ..... 24.7 t
T-N ..... 9.7 t
T-P ..... 1.6 t
PRTR substances ..... 7.3 t

Waste material

Amount generated..... 52,703 t
Amount as final landfill ..... 0.8 t

Scope of aggregation: Yokkaichi Plant and Chiba Plant
Period covered: April 1, 2019 to March 31, 2020

Environmental Accounting

Environmental accounting quantitatively determines and evaluates the amounts of investment and expenses for environmental conservation.

Environmental conservation costs

(million yen)

Classification		Substance of main measures	Investment amounts	Expense amounts
Costs within business area			188	2,388
Breakdown	Pollution prevention costs	Air pollution prevention, water pollution prevention, etc.	(174)	(881)
Breakdown	Global environmental conservation costs	Global warming prevention, energy conservation measures, etc.	(0)	(247)
Breakdown	Resource recycling costs	Efficient use of resources, recycling of waste, etc.	(14)	(1,260)
Upstream and downstream costs		Purchase of recycled stationery (eco-label goods), etc.	0	2
Management program costs		Environmental management system maintenance, operation, etc.	0	26
Research and development costs		Research and development, etc. for products contributing to environmental conservation, etc.	0	223
Social program costs		Contributions to groups engaging in environmental conservation, support, etc.	0	0
Environmental remediation costs		Oil spill liability insurance, levies on pollution loads	0	6
		Total	**188**	**2,644**

* Some totals may not tally due to rounding.

Economic impact

(million yen)

Description		Amount
Profit	Sales of waste material (waste catalyst, scrap, etc.), sales of recovered containers	9

Scope of aggregation: Yokkaichi Plant and Chiba Plant
Period covered: January 1,2019 to December 31, 2019

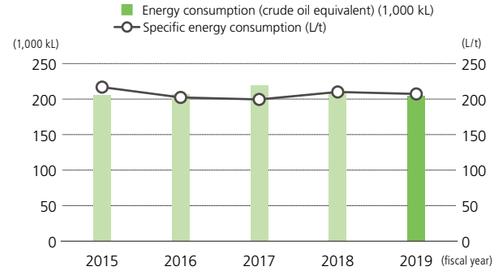
Global Warming Prevention

Energy consumption, specific consumption, and CO_2 emissions volume

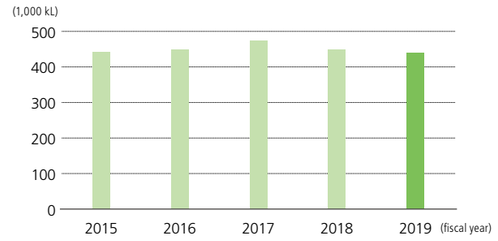
As a designated business operator under the Energy Saving Law,*1 KH Neochem makes every effort to promote rational uses of energy. As a specified emitter under the Global Warming Law,*2 we are also working diligently to reduce CO_2 emissions. In fiscal year 2019, our energy consumption and CO_2 emissions volume as percentages from the previous year were 98.0% and 98.0%, respectively, showing a decrease. Our specific energy consumption was also down 1.4% from the previous year. Going forward, the whole company will act together to improve the specific energy consumption and reduce CO_2 emissions.

*1. **Energy Saving Law:** the law covering the rational usage of energy
*2. **Global Warming Law:** the law covering the promotion of initiatives taken the measure against global warming

Energy consumption and specific consumption



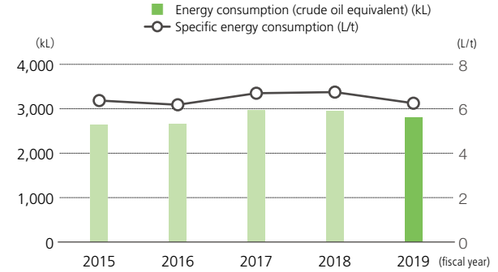
CO_2 emissions



Energy consumption and specific consumption in physical distribution

As a designated shipper under the Energy Saving Law,*1 KH Neochem also promotes the rationalization of energy use during physical distribution. Specific energy consumption during distribution decreased 7.5% from the previous year in fiscal year 2019 owing to systematic ship transportation to stock points. We will continue to work on reducing our energy consumption in several ways, such as increasing lot sizes and using additives to improve ship fuel.

Energy consumption and specific consumption in physical distribution



Scope of aggregation: All KH Neochem operating facilities
Period covered: April 1, 2019 to March 31, 2020

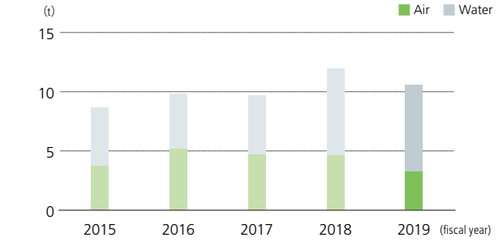
Reduction of Amount Released into the Environment

Chemical substances

KH Neochem makes reports to the Japanese government in accordance with the PRTR Act*3 on the amount of Type or Class 1 designated chemical substances manufactured or used annually, that is released into the environment and on changes in those amounts. The amounts released are shown in the figure below.

*3 PRTR Act: the act covering the tracking of amounts of specific chemical substances released into the environment and promoting improvements in the management of these substances

Amounts released



Amount of PRTR Act Type or Class 1 designated chemical substances released (fiscal year 2019) [Top five substances by amount released]

(t)

Ordinance number	Substance name	Amount released			
		Air	Water	Soil	Total
35	Isobutyl aldehyde	0.4	1.8	0.0	2.2
12	Acetaldehyde	0.9	1.2	0.0	2.1
1	Water-soluble zinc compounds	0.0	1.8	0.0	1.8
20	2-aminoethanol	0.5	0.8	0.0	1.3
300	Toluene	0.7	0.0	0.0	0.7

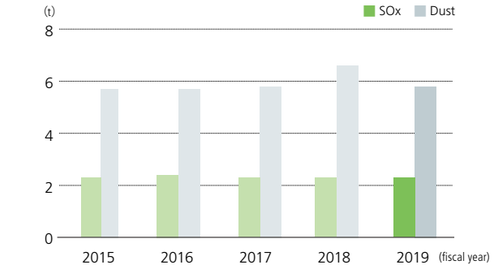
* Some totals may not tally due to rounding

Scope of aggregation: Yokkaichi Plant and Chiba Plant
Period covered: April 1, 2019 to March 31, 2020

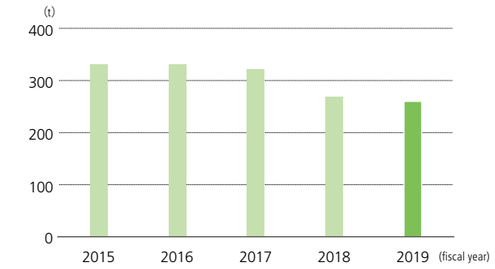
Air pollutants

For the sulfur oxides (SOx), nitrogen oxides (NOx), and dust discharged from boilers, liquid waste incinerators, sludge incinerators, and other such equipments, KH Neochem of course complies with emissions standards based on the Air Pollution Control Act, and we additionally comply with levels that have been agreed upon with local communities.

Amounts released (SOx, dust)



Amount released (NOx)



Levels agreed upon with local communities and annual maximum values

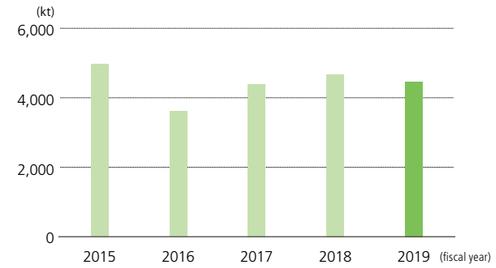
	SOx		NOx		Dust*1	
	Agreement level	Maximum value	Agreement level	Maximum value	Agreement level	Maximum value
Yokkaichi Plant	1.0 Nm³/h	0.0 Nm³/h	53.0 kg/h	26.5 kg/h	0.025 g/Nm³	0.001 g/Nm³
Chiba Plant	9.0 Nm³/h	0.1 Nm³/h	12.0 Nm³/h	1.9 Nm³/h	4.5 kg/h	0.5 kg/h

*1 Dust: At the Yokkaichi Plant, density controls are set per item of equipment. Here, the generator boiler figure is shown as a typical example.

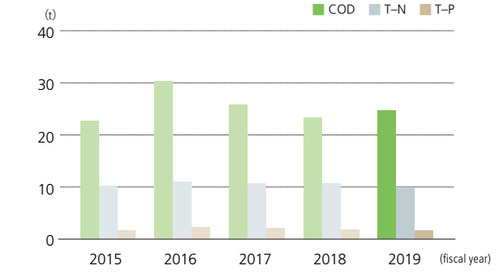
Water pollutants

KH Neochem complies with emissions levels based on the Water Pollution Prevention Act as well as with levels agreed upon with local communities for chemical oxygen demand (COD), total nitrogen (T-N), and total phosphorus (T-P) in wastewater.

Amount released (total effluent discharged)



Amount released (COD, T-N, T-P)



Levels agreed upon with local communities and annual maximum values

(kg/day)

	COD		T–N		T–P	
	Agreement level	Maximum value	Agreement level	Maximum value	Agreement level	Maximum value
Yokkaichi Plant	201.2	110.2	46.0	21.8	13.0	9.1
Chiba Plant	124.0	53.4	90.0	37.9	12.5	4.0

VOICE

Employees speak out

Kanami Tanaka
Kasumigaura Product Division 2, Yokkaichi Plant

Ensuring safe and stable plant operations

Since joining the Company, I have been working on plant operations in Kasumigaura Product Division 2 at the Yokkaichi Plant, and since 2011 I have worked on maintaining safe and stable operations.

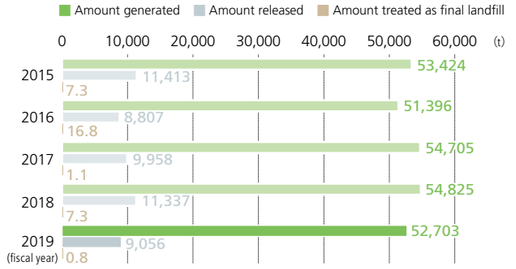
In this division, there is a plant that manufactures more than one product, so there is product changeover work. This work is complicated and requires proficiency to perform it safely. For that reason, experienced workers and younger workers are working together to ensure the technology is passed on by reviewing the manual. Additionally, we read the 5C Credo card together and recite the safety slogan at the daily morning meeting to promote safety awareness and educate employees to prevent human error. In October 2019, I received a commendation* from the Japan Petrochemical Industry Association. I consider it a great honor, and I will continue to work on ensuring safe and stable operations.

* As a result of selection by the Plant Safety and Industrial Hygiene Committee of the Japan Petrochemical Industry Association, as well as letters of commendation from Chairman Morikawa to 14 people from 14 companies that were judged to have outstanding skills and that have produced excellent safety results at their worksite or division.

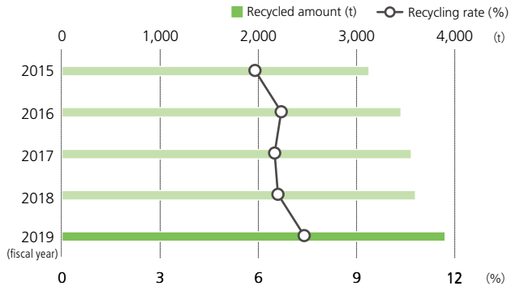
Waste material

At KH Neochem we implement thoroughgoing separation of waste materials and engage in the 3Rs of waste management: reduce, reuse, and recycle. We are moving forward to reuse acid waste and alkaline waste in our plants as well as to reduce their volume, to contract recycling treatment of waste catalysts, and to reuse incinerator waste as aggregate. For waste material that cannot be reused or recycled, we are making every effort to treat it to reduce its volume and to reduce the amount that goes to a landfill.

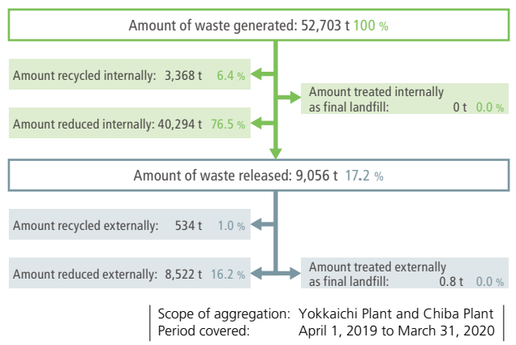
Amount of waste generated, amount released, and amount treated as final landfill



Recycled amount and recycling rate



Waste material treatment flow



Safety and Disaster Prevention

Safety and Disaster Prevention Measures

The Yokkaichi Plant and Chiba Plant each define their own Safety Management Policy in accordance with the Fundamental Policy for Safety Management (see p. 40). They carry out a variety of activities to secure the safety of their plants, including safety and environmental assessments, disaster preparedness training, and so on.

Safety and environmental assessment (SEA)

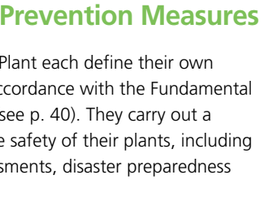
At KH Neochem, we conduct an SEA in advance to assess the environmental, safety, and health impact when introducing new technology, new processes, new facilities, new machinery, and new chemical substances. By using the SEA assessment results for feedback, we make every effort to heighten the safety of processes and equipment.

Emergency training

KH Neochem conducts periodic disaster preparedness training for emergency scenarios, as well as training in initial firefighting response and emergency reporting. We prepare so that we can respond promptly and appropriately, keeping damage to a minimum in the event of an emergency.

Disaster prevention comprehensive drill (Yokkaichi Plant)

Independent disaster prevention drill (Chiba Plant)



Disaster evacuation drill for tsunami (Chiba Plant)

Accreditation as high pressure gas inspection executors (for both completion inspection and safety inspection)

This system, instituted by the High Pressure Gas Safety Act, enables companies that are recognized to have high standards for safety management, operations management, and equipment management, to conduct their own completion inspections and safety inspections in accordance with the High Pressure Gas Safety Act.

The Yokkaichi Plant has acquired this accreditation for six manufacturing facilities and the Chiba Plant has acquired it for one manufacturing facility. Both plants take steps for continuing improvement by implementing the plan-do-check-action (PDCA) cycle.

Occupational Safety and Health

Occupational Safety and Health Measures

KH Neochem conducts risk assessments*1 in order to assure the safety of employees and personnel engaged in work at our plants, as well as to take preventive action against disaster. We also conduct case studies on accidents and disasters that have occurred in the past, whether in the Company or elsewhere, and we make every effort to prevent the occurrence of similar accidents or disasters. We also engage in risk prediction activities using *hiyari hatto*, close call recognition, and *kigakari memo*, memos on matters of concern, improvement suggestion programs, and other everyday health and safety activities.

A revision of the Industrial Safety and Health Act has also made it mandatory to conduct risk assessments*2 of chemical substances. We began administration of these assessments when the amended law went into effect on June 1, 2016.

*1 Risk assessment: This refers to a series of techniques for identifying the risks and hazards in work, determining the seriousness and likelihood of work-related accidents arising from them, combining that information to estimate the risks, deciding on a priority for countermeasures based on the magnitude of those risks, studying measures to eliminate or reduce the risks, and keeping a record of the results.
*2 Chemical risk assessment: This refers to the identification of the risks and hazards of chemical substances and products, estimation of the likelihood of risk to workers or damage to their health, and studying measures to reduce the risks.

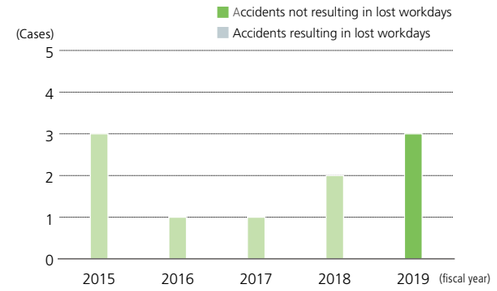
Status of Work-related Accidents

There have been zero accidents resulting in lost workdays at the Yokkaichi Plant since October 11, 2008, and at the Chiba Plant since September 3, 2010. In fiscal year 2019, however, there were three accidents at these plants (Yokkaichi plant: 2, Chiba plant: 1) that did not result in lost workdays. We are making every effort to examine the root causes of these accidents and to devise countermeasures, including safety education and equipment improvements, to prevent a reoccurrence.

In 2002, the Yokkaichi Plant set the Japan Industrial Safety and Health Association record (at that time) for the longest accident-free period classified by industry and the record has been kept to date. Domestically, the plant is holding the position among the top record holders for accident-free working hours classified by industry (organic chemical product manufacturing industry: 23,953,235 hours, as of October 2008). In 2005, the plant celebrated reaching 10,000 continuous days of accident-free work, and we put up a commemorative plague.

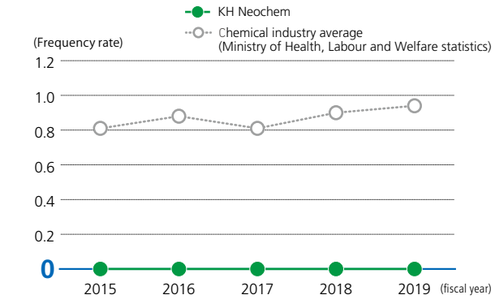
Plague commemorating continuous accident-free days

Number of work-related accidents



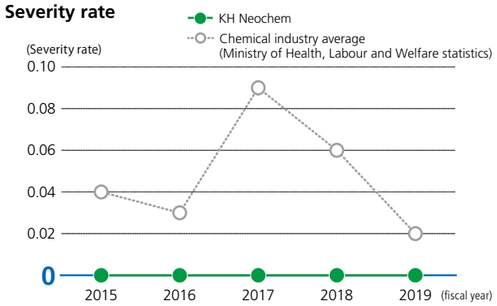
There were no accidents resulting in lost workdays.
For details, please see the Status of Work-related Accidents column.

Frequency rate (accidents resulting in lost workdays)



Frequency rate: Indicator of the frequency of accident occurrence
(Number of fatalities and injuries) ÷ (Cumulative number of actual work hours) × 1,000,000

Severity rate



Severity rate: Indicator of the seriousness of an accident
(Cumulative number of lost work days) ÷ (Cumulative number of actual work hours) × 1,000

Physical Distribution Safety and Chemical and Product Safety

Yellow cards

For preparedness in the event of an accident while transporting KH Neochem products, we have created yellow cards that set out the measures to take in case of an emergency, who to contact, and so on. We make certain that these cards are always carried by the drivers of tanker trucks or other vehicles during transportation.

Yellow card
(front, in Japanese)

Chemical substance management

KH Neochem gives first priority to providing correct information so that our products can be used safely, and the Company is taking measures to put this into practice. Inside Japan, we create SDS*1 and labels displaying risk and hazard information and safety measures according to JIS standards, which are GHS*2 compliant. In other countries, we implement measures as necessary in accordance with that particular country's GHS system.

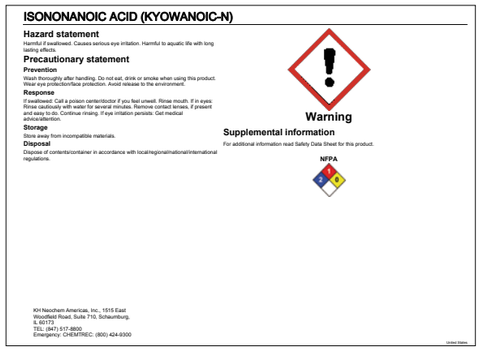
*1 SDS: Safety data sheets
*2 GHS: Globally Harmonized System of Classification and Labelling of Chemicals

Container labels

We affix labels to our product containers as cautionary notices to people who handle KH Neochem products.

For products exported to other countries, we provide information and other support of every kind to the local importers who are responsible for affixing container labels.

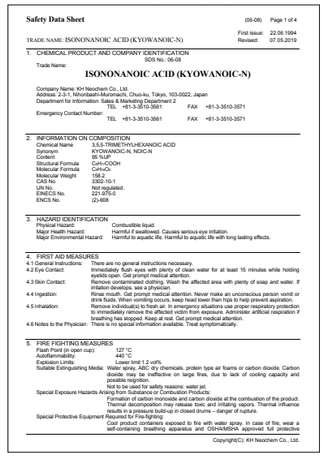
Container labels
(KH Neochem Americas Version)



Safety data sheets (SDS)

At KH Neochem, we create a safety data sheet (SDS) for all products that we guarantee the quality of, and we provide these sheets to customers and distributors. For export products, we prepare and provide an SDS using the official language of the country in line with the legal framework of the exporting country.

SDS (general-purpose English-language version)



Measures Taken at Plants

Responsible Care-related data for our plant is available on our website: **http://www.khneochem.co.jp/en/csr/rc/**

Yokkaichi Plant

Yoshiaki Kondo
Executive Officer
Plant Manager

Location
- **Umaokoshi Plant** 2-3 Daikyo-cho, Yokkaichi City, Mie Prefecture
- **Kasumigaura Plant** 1-4 Kasumi, Yokkaichi City, Mie Prefecture

Environmental and safety topics

- Cleaned safety mirrors at road curves in Kyohoku area
- Participated in a volunteer cleanup of Takamatsu shoreline at Kawagoe-cho
- Participated in a volunteer cleanup and flower bed maintenance on Kyohoku-dori Avenue
- Participated in a volunteer cleanup of Route 23 pedestrian crossings (recognized as an organization that cares for the roads by the Director of the Mie Office of Rivers and National Highways, Chubu Regional Development Bureau, Ministry of Land, Infrastructure, Transport and Tourism)
- Participated in a pro bono event in Yokkaichi City
- Cooperated with a rogaining competition organized by a local NPO
- Held a plant tour for a local educational institution
- Employee received a commendation from the Japan Petrochemical Industry Association
- Employee received a commendation from a director of the Mie Prefecture High Pressure Gas Safety Association

Initiatives at Yokkaichi Plant

Cleaning safety mirrors at road curves

This activity was planned out of a desire for local elementary and junior high school students to be able to commute to school safely and with peace of mind at the start of the new school year. In cooperation with the area's civic center, residents' association, and other groups, we cleaned the safety mirrors at road curves in the area. Employee volunteers cleaned mirrors in 92 locations, a substantial increase from the previous year.

Cooperation with local rogaining competition

We cooperated in the management of a mini-rogaining competition organized by a local NPO commissioned by Yokkaichi City. Rogaining is a sport in which teams compete for the highest score, visiting multiple checkpoints using a map within a time limit. One of the checkpoints was located on the plant premises, and we organized some activities, including commemorative photos and yo-yo fishing.

Chiba Plant

Akio Nakahashi
Executive Officer
Plant Manager

Location 11-1 Goi Minami-kaigan, Ichihara City, Chiba Prefecture

Environmental and safety topics

- Cosponsored Goi Rinkai Festival
- Participated in a volunteer cleanup of Route 16
- Held a plant tour for a local educational institution
- Carried out traffic safety exercise on Route 16
- Chiba Labor Standards Association awarded one person a commendation as an outstanding worker.
- Employee received a commendation from the Chiba Prefecture High Pressure Gas Safety Association.

Chiba Plant Initiatives

Goi Rinkai Festival

We ran a refreshment booth at the Goi Rinkai Festival, which was mainly organized by local companies, including KH Neochem, and neighborhood associations from the Goi area. The event was a great success, with many local people and the Ossa-kun, a regional mascot paying visits. We will set up booths in the future to contribute to the community.

Plant tour for elementary school students

We held a plant tour for local elementary students in collaboration with nearby companies. Around 110 students toured the plant with a large bus and learned how petrochemical complexes create familiar benefits.

Social Contribution Activities

KH Neochem is working to contribute to society through business and communications activities for the sustainable development of society. We are strengthening our approach to community service by emphasizing activities with deep local roots in Yokkaichi City, Mie Prefecture and Ichihara City, Chiba Prefecture in particular, where our plants are located.

5 Guidelines for Social Contribution Activities

- Activities that will be welcomed by those we are benefiting
- Activities that employees can actively participate in
- Activities that can continue
- Activities that will provide opportunities to learn about KH Neochem
- Activities that relate to business

Strengthening Social Contributions

Fiscal year 2017
- Conducted in-house questionnaire for all employees regarding social contribution activities
  *573 responded, approximately 90% of employees (non-consolidated)
- Decided on substance of social activities after reviews and discussions that included management based on the results of the employee survey
- Touched up paint at a sports field in Yokkaichi City, Mie Prefecture

Fiscal year 2018
- Touched up paint at a sports field in Ichihara City, Chiba Prefecture

PICK UP!

Fiscal year 2019
- **Touched up paint at a General Athletic Playground in Yokkaichi City, Mie Prefecture**

Donation and Painting Benches at a General Athletic Playground (Yokkaichi City, Mie Prefecture)


Painting work

Background

On this occasion, when considering what to do, we talked with people at Yokkaichi City Hall about activities that would make the community happy. After that, we received proposals from the city hall, and we carefully reviewed them to see which ones were in line with our key points for social contribution activities. The one that most closely aligned with these key points was the donation of wooden benches and painting existing benches and guard pipes at Kasumigaura Green Field.

Activity Report

This time, we built five new wooden benches. With the paint we use on our products, our employees hand-painted existing benches and guard pipes in the Kasumigaura Green Field in Yokkaichi City.

The work was performed by 98 volunteers from the whole company. These were tough activities because of the wide range of target areas and the steel guard pipes were difficult to paint. However, thanks to the dedicated work of our employees, we were able to finish the painting work as planned. This painting enabled a glimpse of good communications among the employees. As well, some who had finished their own work rushed to help out in other areas.

Yokkaichi City Mayor Tomohiro Mori came to see the painting work, and he watched with admiration as the participants painted the benches. At the closing ceremony, there was a tree planting ceremony to commemorate our social contribution. Mayor Mori then made some remarks and presented the volunteers with a letter of appreciation. At the end, Yoshiaki Kondo, manager of the Yokkaichi Plant, gave the closing remarks saying, "We would like to continue doing business here in Yokkaichi with the trust of the local people."

Kasumigaura Green Field will be used to host the Mie Tokowaka National Athletic Festival (scheduled to be held in 2021). We were able to make a small contribution to a place that many will be visiting, so the activity was very meaningful for our company.

We plan to continue with this type of activity next year and beyond. In 2020, we plan to make a social contribution near our Chiba Plant after consulting with Ichihara City Hall. Our hope is to continue making contributions to local communities and various other stakeholders on an active and ongoing basis.


Commemorative tree planting ceremony
Left: Mayor Mori, right: President Takahashi


Letter of appreciation from Yokkaichi City
Left: Mayor Mori, right: President Takahashi

Branding Activities

Basic conceptual approach

We believe, to sustainably increase our corporate value, it is important for us to explain our company to our stakeholders in an easy to understand way and to increase our visibility. We are developing our branding activities in line with this belief.

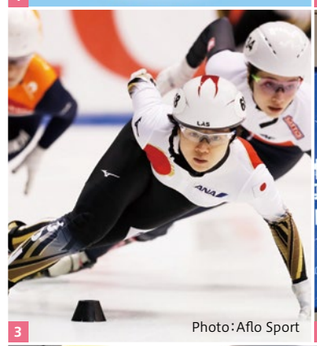
As fiscal 2019 was the first year of VISION 2030, we formulated a brand image and deployed it in various advertisements and publications. We also conducted internal and external branding activities through support for short track speed skater, Moemi Kikuchi, who is competing on the global stage.

Activities in fiscal year 2019

- Formulate brand image for VISION 2030 1 2
- Support for Moemi Kikuchi, short track speed skater 3
  - Appeared on a TV show (BS11: *The Team, Other Side of Winning and Losing*)
  - Activity debriefing meetings (in-house)
  - Fans voluntarily cheering
- Digital ads at major stations (spot ads in May: Tokyo, Nagoya, and Shin-Osaka Station) 4
- Ad flashing on electric bulletin board on bullet trains (spot ad in May) 5
- Advertisements in Kaisha Shikiho (summer and New Year's issue)
- Advertisements in various newspapers, etc.

1

2


3 Photo：Aflo Sport

4

5

TOPICS

VISION 2030 Introduction Movie

The introduction movie about VISION 2030, statement of our ambitions by 2030 is available in our website.

We aspire to be a leading global specialty chemical company and we aim for continued growth together with our stakeholders.

http://www.khneochem.co.jp/en/company/philosophy/vision.html

Dialog with Shareholders and Investors

IR Activities in 2019

No.	Month	Activities	Reference
1	Feb.	Third Medium-Term Business Plan and financial results briefing	2018
2	Feb.	Tokyo Stock Exchange IR Festa	Tokyo
3	Mar.	Overseas institutional investors conference	Tokyo
4	Apr.	Overseas IR	U.S.
5	May	Financial results briefing (conference call)	2019 1Q
6	May	Overseas institutional investors conference	Tokyo
7	June	Plant tour for institutional investors	Chiba Plant
8	June	Overseas IR	United Kingdom
9	Aug.	Financial results and R&D briefing	2019 1H
10	Sept.	Individual investor briefing	Yokkaichi City, Mie Prefecture
11	Sept.	Plant tour for institutional investors	Chiba Plant
12	Oct.	Plant tour for institutional investors	Yokkaichi Plant
13	Nov.	Financial results briefing (conference call)	2019 3Q
14	Dec.	Nomura IR Fair	Tokyo

Communication with Shareholders

KH Neochem holds a ordinary general meeting of shareholders in March every year. The general meeting of shareholders is our highest decision-making body. We also consider it a valuable opportunity for us to engage directly in dialogues with our shareholders, and we make every effort to schedule the meeting for a time and place that will make it easy for shareholders to attend. We communicate the details of our business activities and initiatives in an easy to understand way by using videos. This year's meeting was held while taking appropriate measures to prevent the spread of the COVID-19. Moreover, we publish our semiannual business reports to incorporate special features about our new research hub (KH i-Lab) opened in 2019 as well as other business topics.

Communication with Investors

Our corporate executives actively communicate with investors in order to deepen their understanding of our business and performance. For example, in 2019, we held four financial results briefings, as well as R&D briefing, plant tours, individual investor briefings, and other events (shown in the table above) where investors were able to understand about our management policies, business performance, safety and environmental efforts, and other aspects of our business. Additionally, in December 2019, we participated in the Nomura IR Fair, an very meaningful occasion for KH Neochem executives to hear the opinions and impressions from many individual investors.

Semiannual business reports

Nomura IR Fair

Selected as a constituent of the ESG Index

KH Neochem has been selected as a constituent of the SOMPO Sustainability Index by SOMPO Asset Management and the MSCI Japan Empowering Women Index (WIN), an ESG index created by the Government Pension Investment Fund (GPIF).

2020
Sompo Sustainability Index

2020 CONSTITUENT MSCI JAPAN
EMPOWERING WOMEN INDEX (WIN)

*The inclusion of KH Neochem Co., Ltd. in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of KH Neochem Co., Ltd. by MSCI or any of its affiliates.
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Corporate Overview / Stock Information

Corporate Overview (as of December 31, 2019)

Establishment December 2010
(Our predecessor Kyowa Yuka, was established in November 1966)

Capital 8.8 bnJPY

Head Office 2-3-1, Nihonbashi-Muromachi, Chuo-ku, Tokyo 103-0022, Japan

Affiliations
Kurogane Kasei Co., Ltd.
Kurogane Fines Inc.
KH Neochem Americas, Inc.
Shanghai Seika Trading Co., Ltd.
J-Plus Co., Ltd.*
*Joint venture with Mitsubishi Chemical Corporation

Global Network

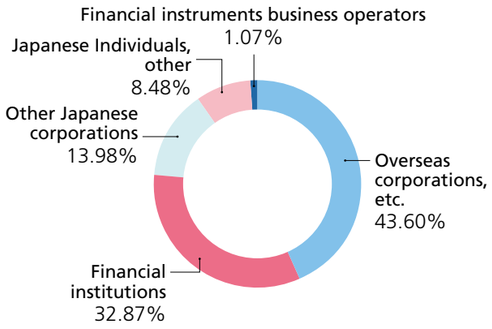
Stock Overview (as of December 31, 2019)

Total number of shares authorized to be issued	Total number of issued shares	Number of shareholders
136,200,000	37,029,400	6,010

Major Shareholders

Name of Shareholder	Number of Shares held (Thousand Shares)	Holding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	4,241	11.45
THE CHASE MANHATTAN BANK 385036	2,627	7.10
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,379	6.43
Tosoh Corporation	1,852	5.00
TAIYO FUND, L.P.	1,097	2.96
JP MORGAN CHASE BANK 385174	1,037	2.80
Mizuho Bank, Ltd.	733	1.98
TAIYO HANEI FUND, L.P.	732	1.98
Japan Trustee Services Bank, Ltd. (Trust Account 9)	725	1.96
Japan Trustee Services Bank, Ltd. (Trust Account 5)	698	1.89

Types of shareholders (%)



Rating Information (as of April 17, 2020)

Rating Agency	Issuer Rating	Short-term Rating
Rating and Investment Information, Inc. (R&I)	BBB+	a-2

For the definition of ratings, please see the website of the rating agency (below):
https://www.r-io.jp/eng/index.html