

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



KH NeoChem

CSR Report 2017



**NON
VOC**

KH Neochem Co., Ltd.

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The Power of Chemistry

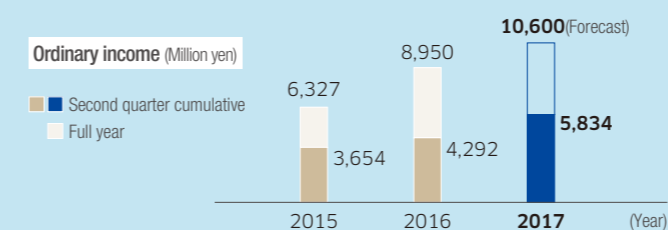
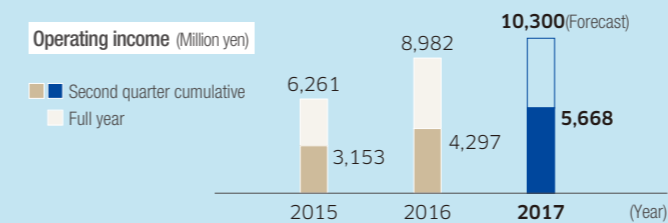
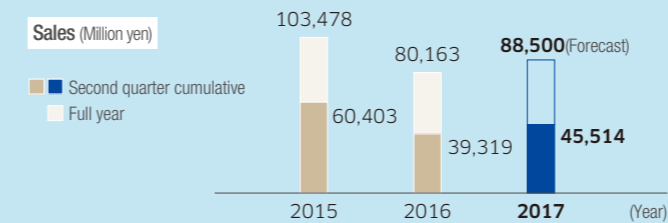
The word “Chemistry” carries the meaning of chemical reactions, but it also expresses the notion of common elements that link people together.

KH Neochem aims to cultivate deeper communication with our stakeholders, discern further elements in common with them, generate “chemical reactions” through our business and corporate social responsibility (CSR) activities, and help guide society to a brighter tomorrow. This is our vision for the corporation that we intend to sustain. At KH Neochem, we will go on working through the power of chemistry to realize a brighter tomorrow for society.

Corporate Overview

Founded	December 2010 *Our predecessor, Kyowa Yuka Co., Ltd., was established in November 1966	Affiliates	Kurogane Kasei Co. Ltd. Kurogane Fines Inc. J-PLUS Co., Ltd.* * Joint venture with Mitsubishi Chemical Corporation
Capital	8,765 million yen	Overseas network	KH Neochem Americas, Inc. Shanghai Seika Trading Co., Ltd. Taiwan-Japan Oxo Chemical Industries Inc.* * Joint venture for the Taiwan Project. See p. 9.
Number of employees	739 employees (Consolidated, as of September 2017)		
Corporate headquarters	1-6-5 Nihonbashi-Honcho, Chuo-ku, Tokyo 103-0023, Japan		
Facilities	Osaka Branch Office Yokkaichi Plant Yokkaichi Research Lab Chiba Plant Sakai Logistics Center		

Consolidated Financial Highlights



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Editorial Policy

This report gives a heading by heading introduction to the conceptual approach and initiatives of Corporate Social Responsibility (CSR) at KH Neochem. We have made every effort to write the report in a readily understandable language.

Scope of Report

Report period: January 1 to December 31, 2016
* However, environmental report data and other such information with a statutory basis is during the period from April 1, 2016 to March 31, 2017. Some portions of the report also include activities for 2017.
Organization covered: KH Neochem Co., Ltd. (Non-consolidated)
(Some portions also include consolidated information.)
Date of publication: October 2017



As a fine chemicals manufacturer that provides a comfortable life for people around the world, KH Neochem will continue to uphold its presence as a valued member of society

Keiichi Asai

President and Chief Executive Officer
KH Neochem Co., Ltd.

Corporate Mission is the Foundation for Seeking Future Advances

With the Corporate Mission of "Realizing a brighter tomorrow for society through the power of chemistry," KH Neochem is a fine chemicals manufacturer that provides distinctive products of high quality in a variety of industrial sectors. We engage in business in three areas: Basic chemicals, supporting a wide range of industrial sectors by supplying all types of solvent and raw materials for plasticizers. Performance materials, such as ingredients for lubricants in air conditioners to support an environmentally friendly use that does not damage the ozone layer, ingredients for cosmetics and other such goods people use in their everyday lives. Electronic materials, contributing to the development of the IT industry through a fusion of high purification technology and quality control technology. Our corporation was listed on the First Section of the Tokyo Stock Exchange on October 12, 2016. We have renewed our commitment to fulfill our social responsibility as a listed corporation.

At present, we are pursuing our company's Second Medium-Term Business Plan (see p. 11) for 2016 to 2018. The plan sets the three key objectives of enhancing profitability in basic

chemicals, globally expanding sales of performance chemicals, and establishing a base for the future. We are engaged in strengthening our core business on that basis with the aim of achieving significant advances in the future. In overseas business, we have established a joint venture with a state-owned enterprise in Taiwan to manufacture and market isononyl alcohol (INA). By these and other initiatives, we will concentrate further energies on expansion of our business worldwide.

By putting CSR into practice, we will actualize comfortable living that is environmentally friendly

As I see it, CSR is an opportunity to think about what kind of value our company can provide to society. Making advances in technology that contribute to the joy or comfort of people's lives, that is exactly our mission as a chemical manufacturer. Our intention is to act in line with the purpose of CSR, and never stop trying to sensitively discern the demands of society and the times, taking a stance that proactively ties in with business development. For example, KH Neochem possesses the technology for manufacturing the ingredients for cosmetics, air conditioner lubricants, high-purity solvents, and other such products

that only a few companies in the world are able to manufacture. These are the unique strengths of this company, and they are also a capability to produce great value. I think that making effective use of our unique technological capabilities to provide products that are needed by society, providing solutions to problems in society as well as value that people welcome, is precisely the implementation of CSR by means of our company's core business. I also believe that our efforts to put CSR into practice are leading toward the realization of our Corporate Mission: "Realizing a brighter tomorrow for society through the power of chemistry."

Corporate growth is supported by human resources

The wellspring of the force that drives our business development is nothing other than the power of our human resources. No matter how high the level of our technology may be, and even if we introduce the most advanced equipment, they will not amount to anything unless we also have the human resources to handle them. At KH Neochem, we affirm the importance of the following "Five C's" to our organization:

- Compliance
- Communication
- Challenge
- Curiosity
- Courtesy

All of our employees have now made themselves aware of the "Five C's" and by putting them into practice they seek to make this a corporation that will always continue to grow.

As a fine chemicals manufacturer, we will contribute to the resolution of social issues

Increasing importance is being attached to environmental conservation, the world's population is growing, and we now find ourselves in an age when societal problems have to be addressed at a global level. The chemical industry is very closely involved in these matters, and we must contribute to the resolution of these issues by means of our core business.

For example, electric vehicles (EV) and plug-in hybrid vehicles (PHV) are expected to make contributions in terms of environmental conservation and energy conservation as next-generation vehicles. The motors and fuel cells installed in these vehicles use large numbers of chemical products, and the presence of the chemical industry has actually been enhanced by the provision of those products and technologies. There are also emerging nations, where

standards of living are thought to be rising, and the demand for air conditioners, smart phones, and other such goods is forecast to grow significantly as a result. There are also cultural developments in those emerging nations that are anticipated to bring about growth in the market for skin care cosmetics, and we think this will significantly increase the potential demand for our products. As a fine chemicals manufacturer, we aim to respond to these kinds of social changes by helping, through our business, to realize ways of life that are comfortable and kind to the Earth. By means of KH Neochem products, we aim to contribute to the protection of the global environment in the present and in the future. For that purpose, the first step is to sensitively grasp the changes in social issues and needs on a global level. There are questions, such as what is being sought by society, and what can this company do to provide a comfortable life for people. It is because we are a company that provides fine chemical products that are used in various areas of people's lives that KH Neochem is able to examine seriously how society is changing and what its needs are. As a result, we can provide suggestions and solutions based on our technological capabilities that will lead toward answers, and in this way we can provide value to society.

A message to our stakeholders

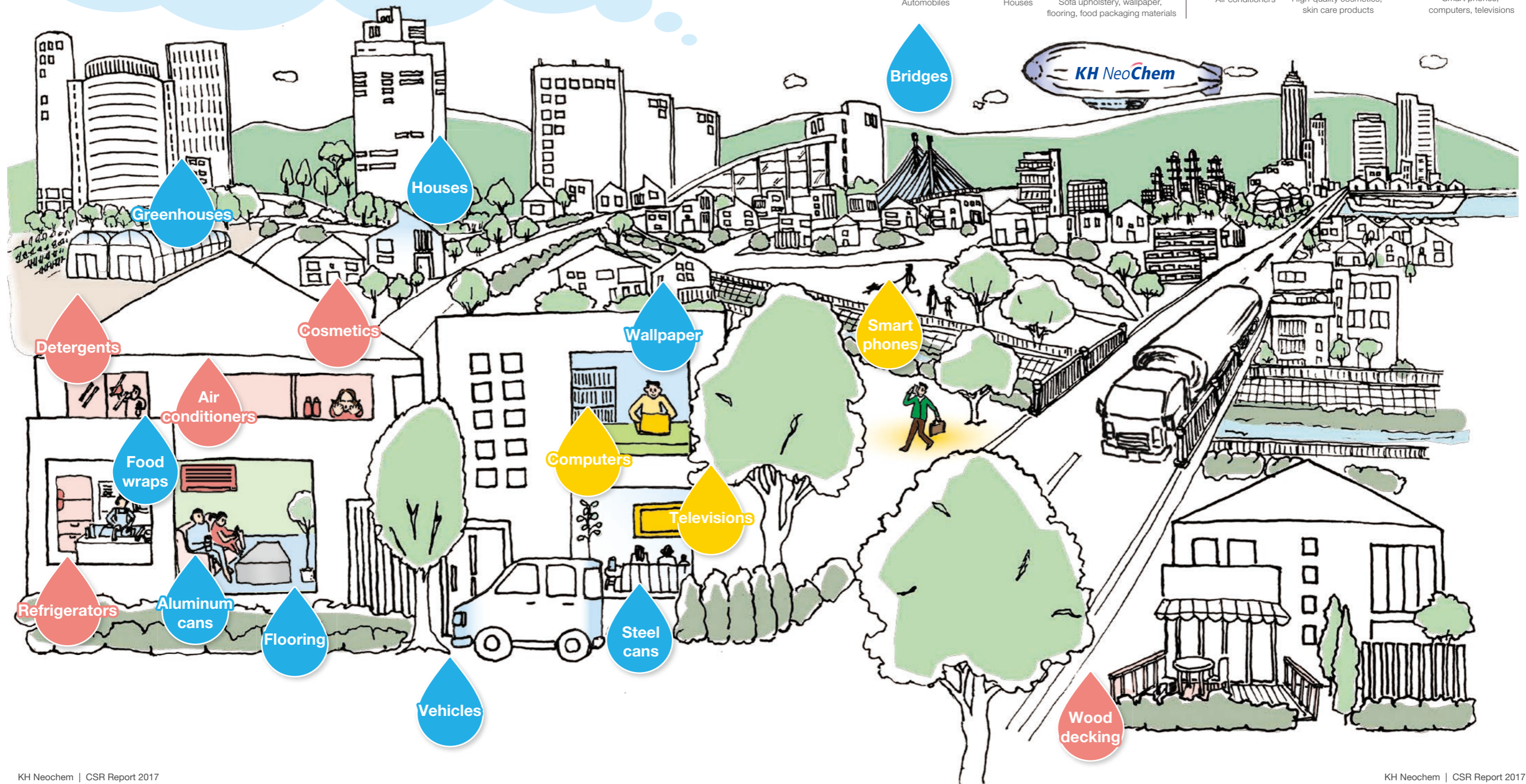
It is thanks to the presence of our stakeholders that we are able to develop our business. Our aim is to continue to be a corporation that responds to the needs of society and of the times, a corporation that is sought after by our stakeholders. We are committed to expanding our business accordingly, so I hope that you will read this CSR Report to gain an even better understanding of KH Neochem business and CSR activities, and give us your continuing support.



KH Neochem: Supporting Lives

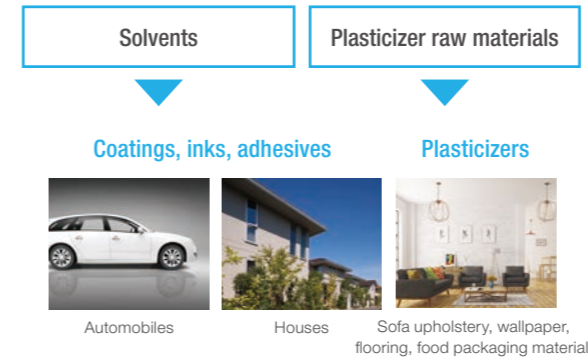
We provide support from behind the scenes for quality manufacturing and people's lives around the world

These are some of the many, various things (products) that are used in our everyday lives. KH Neochem uses its unique, reliable technology to manufacture a variety of different materials that are essential to quality manufacturing, and we provide a stable supply of these materials for the world. There are many things around you in your day-to-day living that make use of the materials we supply.



Basic chemicals

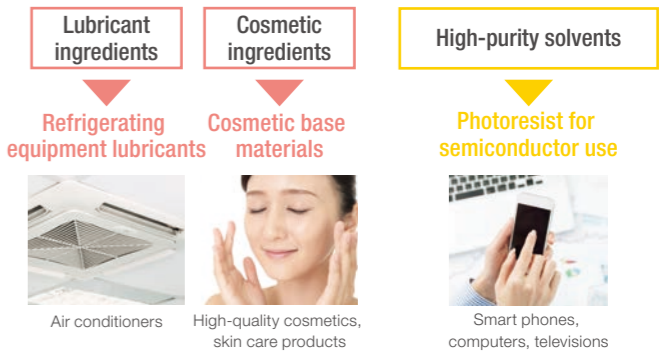
Our broad product lineup finds a variety of applications, including automobile parts, housing materials, and all types of everyday consumer goods.



Performance chemicals

Performance materials

Our unique performance chemicals are used in cosmetics, air conditioners, electronic equipment, and other items, providing people with support for a comfortable life.



KH Neochem: Our History and Our Strengths

KH Neochem has worked from the strengths of its unique core technology to create distinctive materials that are in line with the needs of society. We are committed to continuing initiatives directed toward "Realizing a brighter tomorrow for society" as we make every effort toward safe and stable operation, expand and improve our supply systems, and create new products and new businesses.

1948

- Kyowa Sangyo Co., Ltd. (which later became Kyowa Hakko Kogyo Co. Ltd.) began Japan's first mass production of Acetone and Butyl alcohol by fermentation from syrup

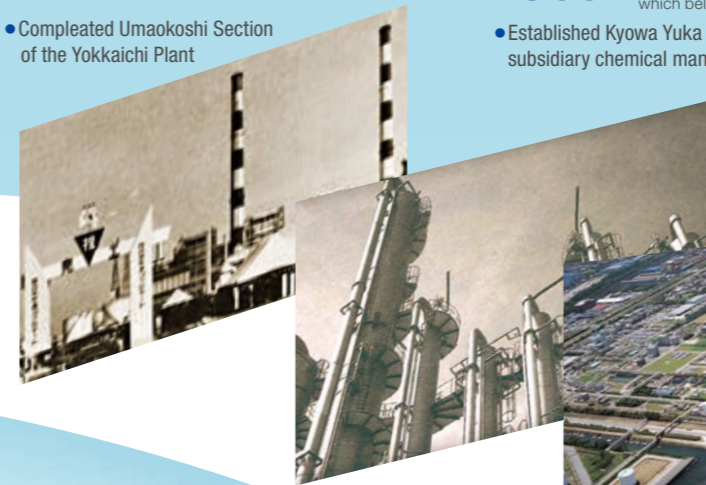


1949

- Established Kyowa Hakko Kogyo Co., Ltd.
- * The photo shows the founding management team.

1963

- Completed Umaokoshi Section of the Yokkaichi Plant



1966

- * The photograph shows the Kasumigaura Section (completed in 1970), which belongs to the Yokkaichi Plant
- Established Kyowa Yuka (this company's predecessor) as a subsidiary chemical manufacturer under Kyowa Hakko Kogyo Co. Ltd.

1988

- Established Japan Oxocol Co., Ltd. (Present-day: Chiba Plant)



2004

- Yokkaichi Plant Achieved record length of time without accident by industry (for that time)*

* See p. 20 for details



2011

- Became independent from Kyowa Hakko Kirin Group with support from Japan Industrial Partners, Inc.
- Changed name to KH Neochem the following year

KH NeoChem

2016

- Listed on the First Section of the Tokyo Stock Exchange



2015

- Established Taiwan-Japan Oxo Chemical Industries Inc. in Taiwan as a joint venture* with the CPC Corporation, the local state-owned petroleum enterprise

* There was also participation by the Japan Bank for International Cooperation, a Japanese government enterprise, and the Mega International Commercial Bank in Taiwan. This is one of the largest Japan-Taiwan projects in the petrochemical sector.

KH Neochem's Main Products

Basic chemicals

Supporting the world's industries with a breadth of product lineup and solid quality

Solvents (coatings, inks, adhesives, etc.)

Butyl alcohol Butyl acetate and many more

We provide a wide range of solvents of many different types for dissolving materials according to their uses. KH Neochem products are used in many different applications encountered in everyday life, including coating, printing, bonding, and other functions for buildings, motor vehicles, food packaging materials, and so on.

Plasticizer raw materials

2-Ethyl hexyl alcohol Oxocol 900 (Isononyl alcohol)

Plasticizers are additives that give flexibility to materials and improve their workability. They are essential for plastic products. Oxocolcohols from KH Neochem are used as raw materials for these plasticizers.

Detergents

Kyowasol series

Ozone layer protection High safety

These are high-performance and highly safe industrial detergents that do not damage the ozone layer because they are free of chlorofluorocarbons and chlorine. They are used to clean automobile parts, optical parts, and so on.

Performance chemicals

Performance materials

Unique high-performance materials are friendly to people and the environment

Lubricant ingredients

2-Ethyl hexanoic acid KYOWANOIC-N (Isononanoic acid)

Ozone layer protection Global warming mitigation

The compressor units (outdoor units) of environmentally friendly air conditioners use special lubricants. Our products are used worldwide as the ingredients for these kinds of lubricant.

Ingredients for water-based coatings

DAAM (Diacetone acrylamide)

Low VOC

DAAM is highly valued on the market as an epoch-making ingredient that achieves a balance between the reduction of volatile organic carbons (VOC) by shifting to water-based coatings and the formation of durable coating films.

Cosmetic ingredients

1,3-Butylene glycol

High moisture retention Antibacterial Low irritation

The 1,3-Butylene glycol manufactured using our technology has a high level of quality that makes customers value it highly as an ingredient for cosmetics and other such products.

Electronic materials

Contributing to the evolution of electronics with outstanding high purification technology

High-purity solvents (for semiconductors, liquid crystal)

PMA-P (Propylene glycol monomethyl ether acetate-P)

PM-P (Propylene glycol monomethyl ether-P)

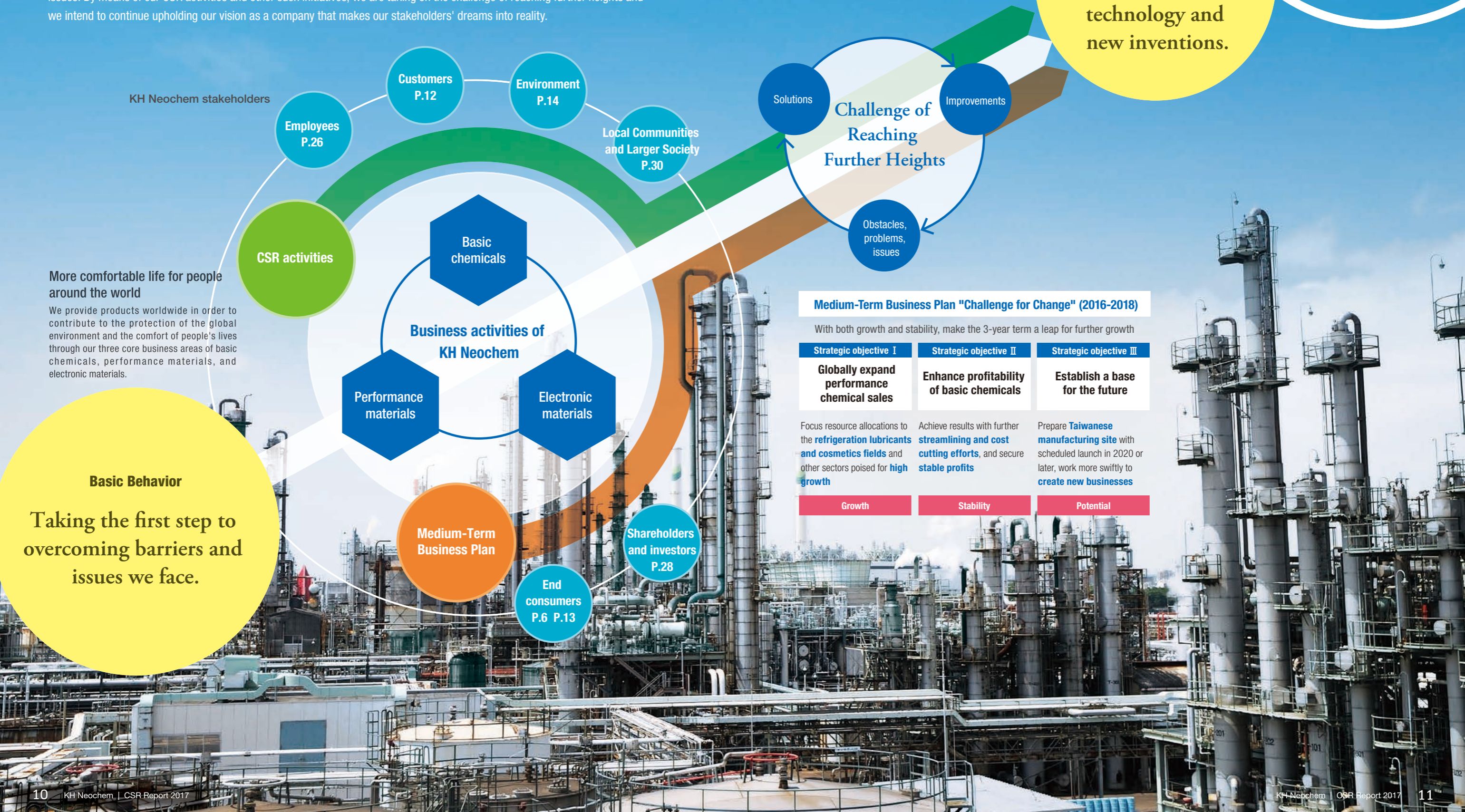
High-purity solvents are needed in manufacturing processes for semiconductors used in computer CPUs and memory, as well as for displays. In this sector, we make good use of the high purification technology and quality control technology cultivated over many years at KH Neochem to provide products of exceptionally high purity.

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

KH Neochem: Our Conceptual Approach to CSR

Taking "Realizing a brighter tomorrow for society through the power of chemistry" as our Corporate Mission, KH Neochem is a chemicals manufacturer that provides distinctive, high-quality materials to a variety of industrial sectors. We engage in business activities in accordance with our Medium-Term Business Plan and with a clear understanding of societal issues. By means of our CSR activities and other such initiatives, we are taking on the challenge of reaching further heights and we intend to continue upholding our vision as a company that makes our stakeholders' dreams into reality.

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



More comfortable life for people around the world
We provide products worldwide in order to contribute to the protection of the global environment and the comfort of people's lives through our three core business areas of basic chemicals, performance materials, and electronic materials.

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

Medium-Term Business Plan "Challenge for Change" (2016-2018)

With both growth and stability, make the 3-year term a leap for further growth

Strategic objective I	Strategic objective II	Strategic objective III
Globally expand performance chemical sales	Enhance profitability of basic chemicals	Establish a base for the future
Focus resource allocations to the refrigeration lubricants and cosmetics fields and other sectors poised for high growth	Achieve results with further streamlining and cost cutting efforts , and secure stable profits	Prepare Taiwanese manufacturing site with scheduled launch in 2020 or later, work more swiftly to create new businesses
Growth	Stability	Potential

KH Neochem Products Contribute Value to Society

KH Neochem provides a worldwide supply of unique high-performance products that are matched to needs in society. These include products that only this company can manufacture in Japan, products with their shares in the world market that are at the top level. The special feature in this report introduces KH Neochem's main high-performance products and how they support quality manufacturing and more comfortable lives for people around the world.



Main high-performance products

Cosmetic ingredients

Skin care products are essential for maintaining beauty and health. Since they come in direct contact with the skin, there is concern not only about moisture retention but also about irritation. What resolves these issues are the cosmetic ingredients from KH Neochem.

Lubricant ingredients

The compressors found inside the outdoor units of air conditioners work to compress the refrigerant that conveys heat from indoors to outside the building. This makes them the key component of an air conditioner. KH Neochem manufactures ingredients for lubricants that make these compressors work smoothly.

High-purity solvents

The semiconductors found inside smart phones, computers, and other such electronic devices hold the key to making equipment more compact and even more highly functional. At KH Neochem, we make ingredients that are essential to manufacturing superior semiconductors.

Value provided to the customer

Value provided

- Development and stable supply of high-quality, high-performance cosmetics

Products provided by this company

1,3-Butylene glycol

Since 1,3-Butylene glycol provides high moisture retention and a suitable degree of antibacterial function, together with a low degree of skin irritation, it sees worldwide use in high-quality cosmetics and a variety of skin care products.

Value provided

- Responding to expanding worldwide demand for environmentally friendly air conditioners

Products provided by this company

2-Ethyl hexanoic acid KYOWANOIC-N (Isononanoic acid)

2-Ethyl hexanoic acid and KYOWANOIC-N (isononanoic acid) are used as ingredients for air conditioner (compressor) lubricants. The materials from KH Neochem are highly compatible with environmentally-friendly air conditioners, and they are maintaining a large market share inside and outside Japan. The worldwide need for environmentally-friendly air conditioners is increasing as environmental regulations grow more stringent, and further market growth has been forecast.

Value provided

- Enhancing semiconductor performance

Products provided by this company

PMA-P PM-P

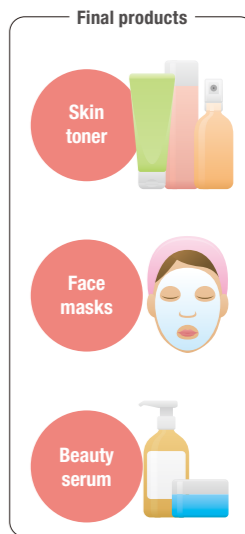
Photoresist is a chemical agent that is necessary for fabricating semiconductor circuits. Solvents are some of the main ingredients in this photoresist. Our high-purity solvents are essential to the most advanced quality manufacturing, and they support high-precision semiconductor manufacturing.

Value provided to society at large

Value provided

- Maintaining and improving beauty and health

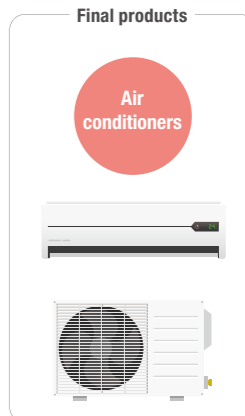
There is a feeling of soft, smooth skin that people have when they use skin toner, face masks, beauty serum, and other such products. The ingredient used for that purpose is the cosmetic ingredient 1,3-Butylene glycol made by KH Neochem. The raw materials we produce have both high moisture retention and an appropriate degree of antibacterial function, and they are made into high-quality skin care products that find their way into the consumer's hands.



Value provided

- Ozone layer protection • Global warming mitigation

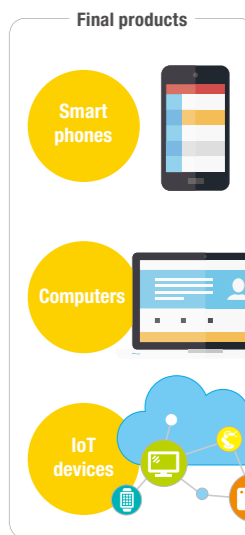
As environmental regulations grow more stringent around the world, there is growing worldwide need for environmentally-friendly air conditioners that protect the ozone layer and mitigate global warming. The raw materials from our company are extremely compatible with air conditioners that are kind to the global environment, and they are already contributing to more comfortable and sustainable lifestyles not only in advanced nations, where air conditioners are in widespread use, but also in emerging nations, where demand is expanding rapidly.



Value provided

- Highly convenient electronic devices

Recent years have brought rapid increases in the miniaturization of semiconductor circuits. Advancing miniaturization encourages the evolution of electronic devices, which become more compact, lighter in weight, more power-saving, and even more highly functional. The solvents from KH Neochem act to remove dust, metal fragments, and other foreign matter as much as possible, and they are of extremely high purity. The capabilities of the solvents are demonstrated in the process of fabricating semiconductors that are being miniaturized. Though their role is largely unseen, they are contributing to the widespread worldwide adoption of highly convenient electronic devices.



Responsible Care



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 RC Program Policy and is implementing Responsible Care.

RC Program Policy and System

RC Program Policy

KH Neochem has established an RC Program Policy and pursues its business activities with commitment first and foremost to fulfilling its 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 a 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

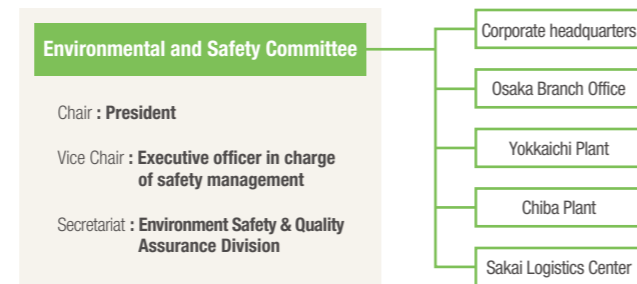
- 1 **Compliance**
In addition to international regulations and domestic laws and regulations, we will comply with KH Neochem rules and regulations.
- 2 **Environmental conservation**
We will make every effort to reduce the environmental impact of our products at every stage from development to disposal.
- 3 **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.
- 4 **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 correct information to customers, to the people involved in physical distribution, and to the people who work at KH Neochem.
- 5 **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

- 1 In addition to safety-related laws and regulations, we will act in unflinching compliance with the decisions made by KH Neochem.
- 2 We will always continue maintaining awareness of sources of danger and making every effort to prevent safety-related accidents.
- 3 We will continue improving our safety management systems and seeking to upgrade safety management levels.
- 4 We will make every effort to conduct training and consciousness-raising in order to encourage employees and other people involved to take the initiative in accident prevention activities.

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.



Status of certification acquisition

The Yokkaichi Plant and the Chiba Plant have acquired certification in quality management systems (ISO 9001) and environmental management systems (ISO 14001). They are maintaining their certification and promoting RC programs in line with those systems.

Plant name	Certification acquired	Certification bodies
Yokkaichi Plant	ISO9001 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 2016 RC Program objectives and results together with fiscal year 2017 objectives

◎: Achieved ○: Almost achieved △: Unachieved

RC code	Fiscal year 2016			Fiscal year 2017
	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: 2	△	• Safety-related accidents: 0
Occupational safety and health	• Work-related accidents: 0	<ul style="list-style-type: none"> • Employee accidents resulting in lost workdays: 0 • Employee accidents not resulting in lost workdays: 1 (Chiba Plant) • Accidents at cooperating company resulting in lost workdays: 1 (Chiba Plant) • Accidents at cooperating company not resulting in lost workdays: 1 (Yokkaichi Plant) 	△	• Work-related accidents: 0
Others	• Compliance violations: 0	• Compliance violations: 0	◎	• Compliance violations: 0
	• Trouble reduction (five-year average or lower)	<ul style="list-style-type: none"> • Trouble: 31 cases (average of fiscal years 2011-2015) <li style="text-align: center;">↓ 23 cases (fiscal year 2016) 	◎	• Trouble reduction (five-year average or lower)

Inspection and audit

Environment safety inspections and quality audits

KH Neochem conducts periodic environment-safety inspections of the Yokkaichi Plant, Chiba Plant, and Sakai Logistics Center 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.

Scenes of inspections underway



Environment safety inspection (Yokkaichi Plant)

Internal audit of plants

The Yokkaichi Plant and the Chiba Plant conduct internal audits for ISO 9001¹¹ and ISO 14001¹² as well for accreditation as high-pressure gas inspection executors (completion inspection and safety inspection)¹³ based on safety management systems.



Environment safety inspection (Chiba Plant)

External audits

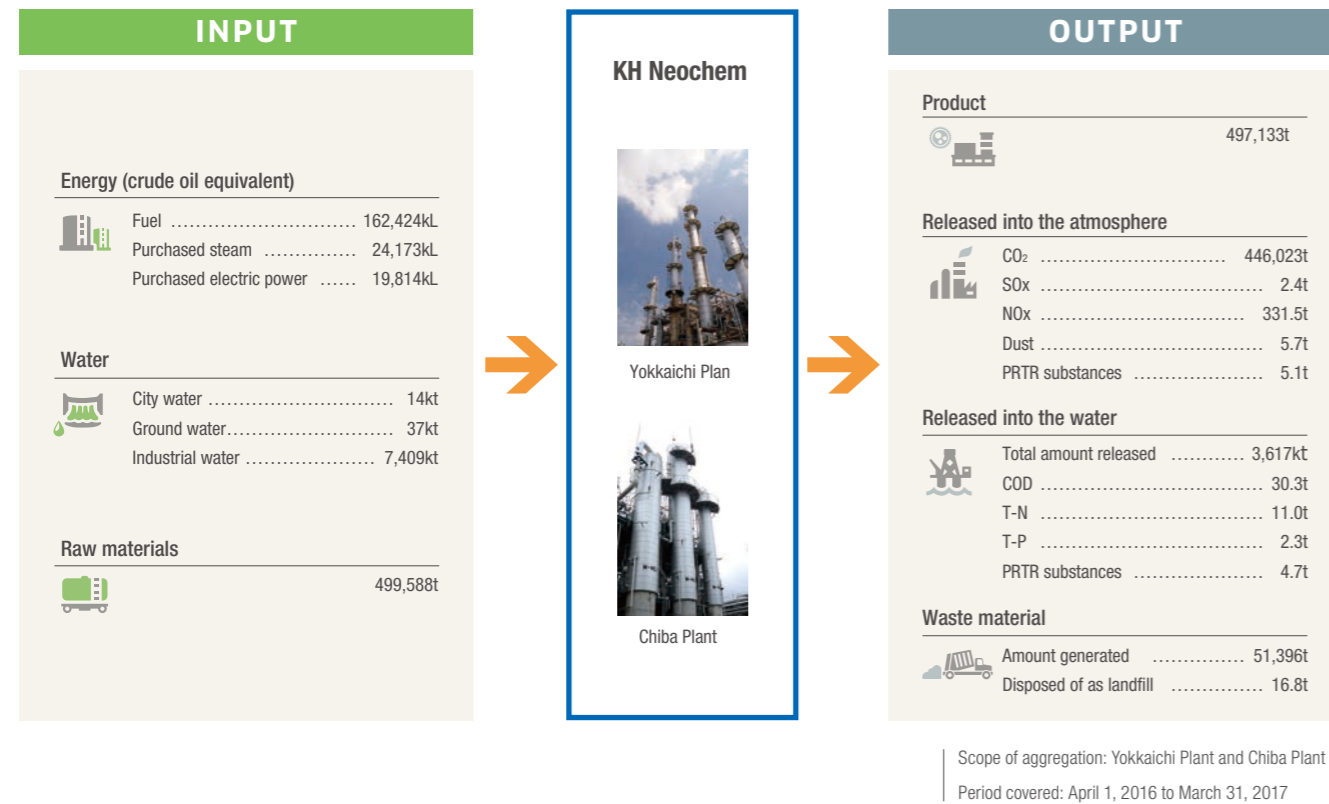
The Yokkaichi Plant and the Chiba Plant undergo external audits (certification audits and renewal audits) based on ISO 9001¹¹ and ISO 14001¹² and are maintaining their certification. KH Neochem is taking continuing steps to improve RC programs by incorporating the results of these environment safety inspections, quality audits, internal audits of plants, and external audits as feedback.

*1 See p. 14 *2 See p. 14 *3 See p. 19

Environmental conservation

Flow of environmental impact results

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



Environmental accounting

This refers to environmental accounting that quantitatively determines and evaluates the amounts of investments and expenses involved in environmental conservation.

Environmental conservation costs

Classification		Substance of main measures	Investment amounts	Expense amounts
Costs within business area			225	2,432
Breakdown	Pollution prevention costs	Air pollution prevention, water pollution prevention, etc.	(47)	(766)
	Global environmental conservation costs	Global warming prevention, energy conservation measures, etc.	(92)	(585)
	Resource recycling costs	Efficient use of resources, recycling of waste, etc.	(85)	(1,081)
Upstream and downstream costs		Purchase of recycled stationery (eco-label goods), etc.	0	2
Management program costs		Environmental management system maintenance, operation, etc.	0	41
Research and development costs		Research and development, etc. for products contributing to environmental conservation, etc.	0	171
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	8
Total			225	2,654

Unit: Million yen

* Some totals may not tally due to rounding.

Economic impact

Description	Amount
Profit	6

Unit: Million yen

Scope of aggregation: Yokkaichi Plant and Chiba Plant
Period covered: January 1 to December 31, 2016

Global warming prevention

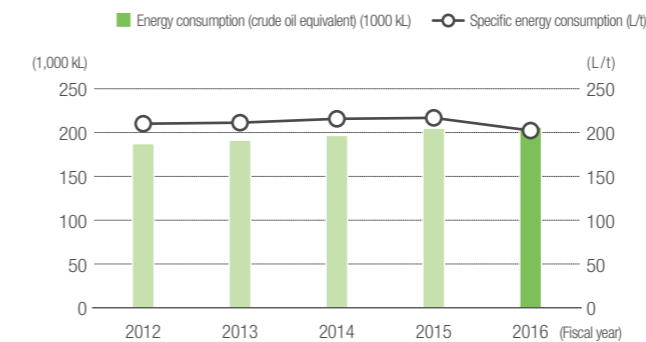
Energy consumption, specific consumption, and CO₂ emissions volume

As a designated business operator under the Energy Saving Law¹, KH Neochem makes every effort to promote the rational use of energy. As a specified emitter under the Global Warming Law², we are also making every effort to reduce CO₂ emissions. In fiscal year 2016, our energy consumption and CO₂ emission volume as percentages of the previous year were 100.7% and 101.3%, respectively, showing an increase. As to specific energy consumption, improvements in the fuel, steam, and other energy sources we use brought an improvement at 93.3% of the previous fiscal year. Going forward, the whole company will act together to improve the specific energy consumption and reduce CO₂ emissions.

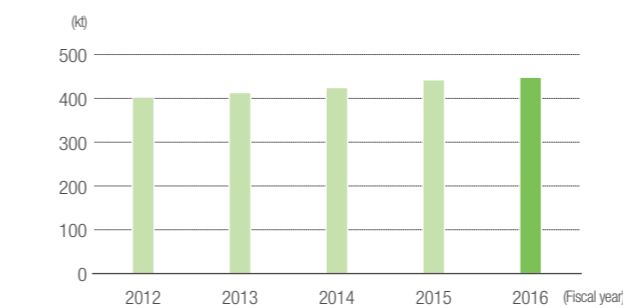
¹ Energy Saving Law: Law Concerning the Rational Use of Energy

² Global Warming Law: Act on Promotion of Global Warming Countermeasures

Energy consumption and specific consumption



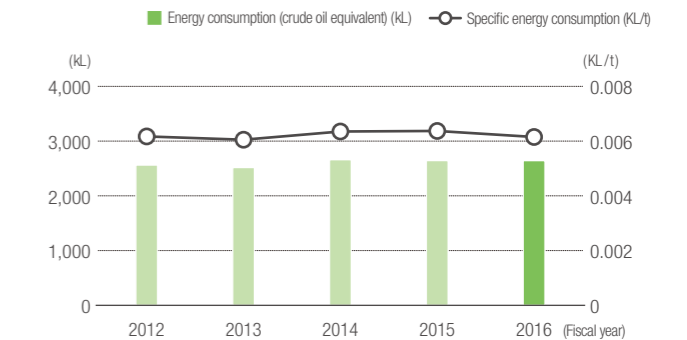
CO₂ emissions



Energy consumption and specific consumption in physical distribution

As a designated shipper under the Energy Saving Law¹, KH Neochem also promotes the rationalization of energy use in physical distribution. The specific energy consumption for physical distribution in fiscal year 2016 improved over the previous fiscal year, at 96.6%, due to the higher stowage factor per ship in marine transportation, where the specific energy consumption is lower. We will continue taking measures to reduce our energy consumption by increasing lot sizes, using reforming additives for ship fuel, and so on.

Energy consumption and specific consumption in physical distribution



Scope of aggregation: All KH Neochem operating facilities
Period covered: April 1, 2016 to March 31, 2017

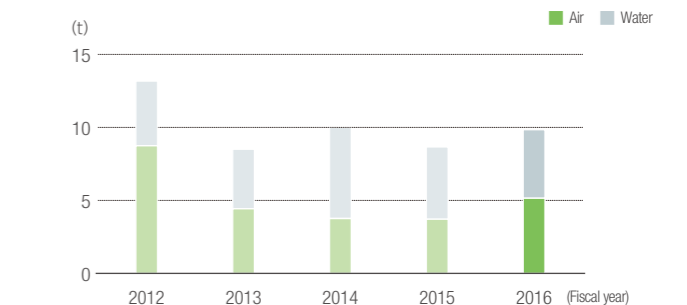
Reduction of amount released into the environment

Chemical substances

KH Neochem makes reports to the Japanese government in accordance with the PRTR Act³ on the amount of Type 1 designated chemical substances manufactured, or used annually, that is released into the environment and on changes in those amounts. As shown in the below figure, the amounts released have been successfully reduced relative to fiscal year 2012, by approximately 20% to 35% since fiscal year 2013. Particularly notable is the amount of 2-aminoethanol released into the atmosphere. Improvements to the equipment in 2012 brought the figure down significantly from 13.1 t in fiscal year 2011 to 0.7 t in fiscal year 2016.

³ PRTR Act: Act on Tracking the Amounts of Specific Chemical Substances Released into the Environment, and Promoting Improvement in the Management of Such Substances

Amount released



Amount of PRTR Act Type 1 designated chemical substances released (fiscal year 2016) [Top five substances by amount released]

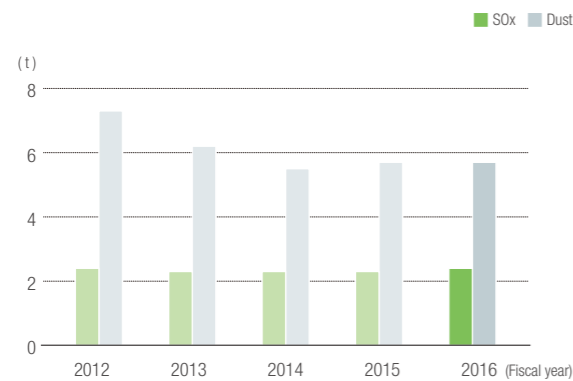
Ordinance number	Substance name	Amount released			
		Air	Water	Soil	Total
12	Acetaldehyde	1.7	1.1	0.0	2.8
35	Isobutyl aldehyde	0.4	1.7	0.0	2.1
300	Toluene	1.7	0.0	0.0	1.7
20	2-aminoethanol	0.7	0.8	0.0	1.5
132	Cobalt and its compounds	0.0	0.6	0.0	0.6

Unit: t

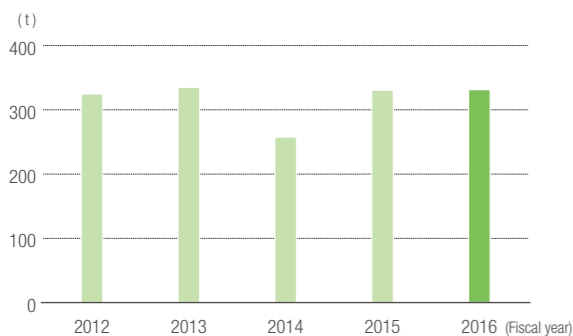
Air pollutants

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

Amounts released (SOx, dust)



Amounts released (NOx)



Levels agreed upon with local communities and annual maximum values

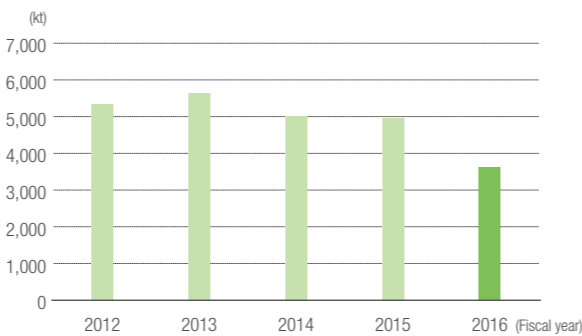
	SOx		NOx		Dust ^{*1}	
	Agreement level	Maximum value	Agreement level	Maximum value	Agreement level	Maximum value
Yokkaichi Plant	1.0Nm ³ /h	0.0Nm ³ /h	53.0kg/h	28.1kg/h	0.025g/Nm ³	0.001g/Nm ³
Chiba Plant	9.0 Nm ³ /h	0.2Nm ³ /h	12.0Nm ³ /h	3.2Nm ³ /h	4.5kg/h	0.7kg/h

*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.

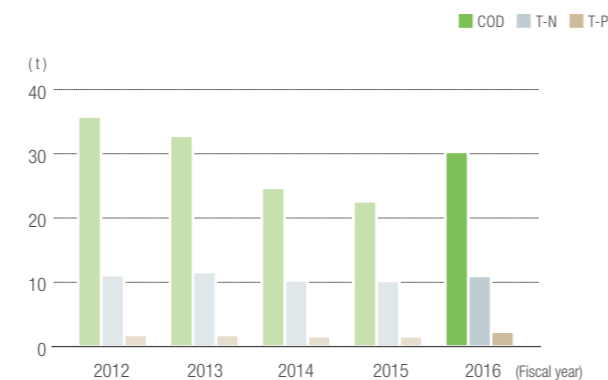
Water pollutants

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

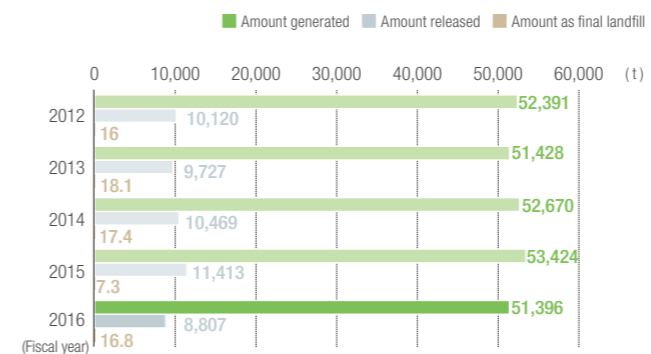
	COD		T-N		T-P	
	Agreement level	Maximum value	Agreement level	Maximum value	Agreement level	Maximum value
Yokkaichi Plant	201.2	133.9	46.0	28.1	13.00	9.18
Chiba Plant	124	58	90	38	12.5	1.5

Unit: kg/day

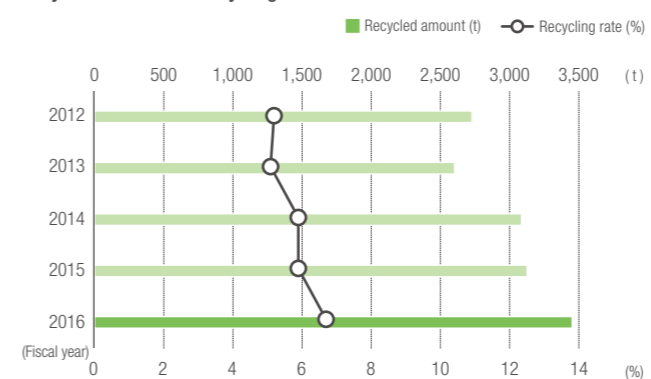
Waste material

KH Neochem implements thoroughgoing separation of waste materials and engages in the 3 R's of waste, which are Reduce, Reuse, and Recycle. We are moving forward with efforts to reuse acid waste and alkaline waste in our plants as well as to reduce their volume, to contract for 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.

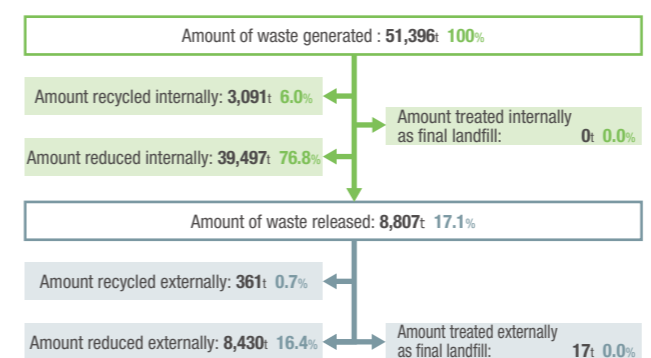
Amount of waste generated, amount released, and amount treated as final landfill



Recycled amount and recycling rate



Waste material treatment flow



Scope of aggregation: Yokkaichi Plant and Chiba Plant
Period covered: April 1, 2016 to March 31, 2017

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. 14). They carry out a variety of activities to secure the safety of their plant, including safety and environmental assessments, disaster preparedness training, and so on.

Safety and environmental assessment (SEA)

KH Neochem conducts a SEA in advance to assess the environmental, safety, and health impact when introducing new technology, new processes, new facilities, new machinery, or 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.



Comprehensive disaster preparedness training (Chiba Plant) Earthquake and tsunami evacuation drill (Chiba Plant)

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

This system, which is established by the High Pressure Gas Safety Act, enables establishments 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 five 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 occurrence of work-related accidents

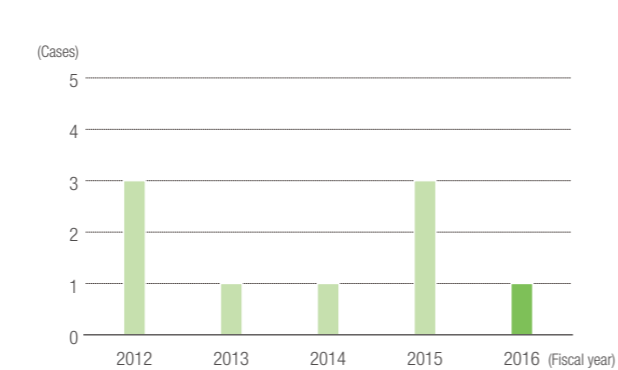
There has been zero occurrences of accidents resulting in lost workdays at the Yokkaichi Plant since October 11, 2008, and at the Chiba Plant since September 3, 2010. In the 2016 fiscal year, however, there was one accident at the Chiba Plant that did not result in lost workdays. We are making every effort to examine the root causes of the accident and to devise measures, including safety education and equipment improvements, so prevent its recurrence.

In 2004, the Yokkaichi Plant set the Japan Industrial Safety and Health Association record (for that time) of longest accident-free period classified by industry. Domestically, the plant is holding its position among the top record holders for accident-free working hours classified by industry (organic chemical product manufacturing industry: 23,953,235 hours). In 2005, the plant celebrated reaching 10,000 continuous days of accident-free work, and erected a commemorative monument.

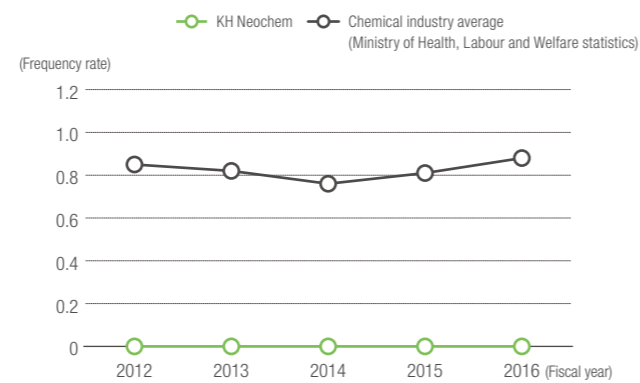


Monument commemorating continuous accident-free days

Number of cases of work-related accidents^{*1}

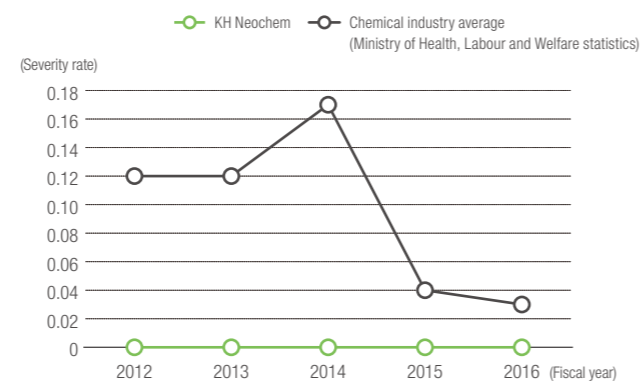


Frequency rate (accidents resulting in lost workdays)



Frequency rate: Indicator of 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^{*1}

For preparedness in the event of accident while transporting KH Neochem products, we have created yellow cards that set out what measures to take in case of 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.

***1 Yellow cards:** Cards in line with Japanese law that are attached only to products shipped to locations within Japan

Yellow card (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^{*3} 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.

***2 GHS:** Globally Harmonized System of Classification and Labelling of Chemicals

***3 SDS:** Safety Data Sheet

Container labels

We affix labels to our product containers as cautionary notices to people who handle KH Neochem products^{*4}. 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.

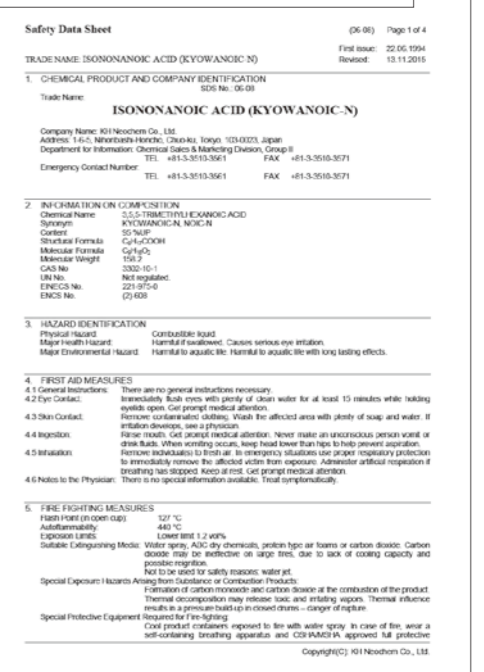
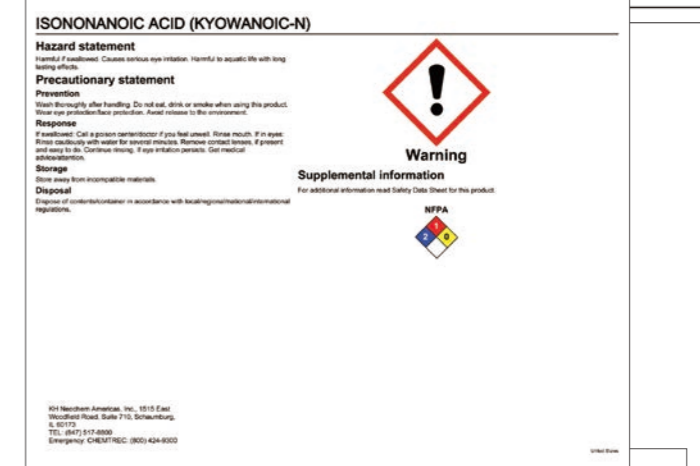
***4** For products we ship for use in Japan, we affix labels to all containers.

Safety Data Sheet (SDS)

At KH Neochem, a Safety Data Sheet (SDS) is created 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 the SDS using the official language of the country concerned, in line with the legal framework of the exporting country.

Container labels

(KH Neochem Americas Version)



SDS (General-purpose English-language version)

Action plan for industrial safety

An Industrial Safety Action Plan was put together by the Japan Petrochemical Industry Association on July 4, 2013, based on a requirement from the Ministry of Economy, Trade and Industry that industry organizations formulate action plans to prevent industrial accidents. This plan was partially revised on June 7, 2016. The guidelines for measures taken by KH Neochem in accordance with this Action Plan are publicly released as follows.

Heading	Status	Related page no.
1 Corporate management's commitment to industrial safety	Basic philosophy and basic guidelines relating to security and safety	On the basis of the Basic Safety Philosophy that (1) safety is the foundation of company management and (2) safety can be obtained by the participation, self-awareness, and efforts of all personnel, the president has established our RC Program Policy and Fundamental Policy for Safety Management and is promoting an RC program that includes safety management activities.
	Allocation of resources to industrial safety	Human resources: We are acting to rehire employees who have resigned on reaching the mandatory retirement age and having them pass on their technology to younger employees. We are hiring human resources with a focus on our concept for future personnel. Maintenance and equipment investment: We conduct systematic inspections of exterior surface corrosion for the purpose of preventive maintenance.
	Safety message on DVD	The DVD distributed by the Japan Petrochemical Industry Association has been viewed by all departments and units of the Yokkaichi Plant and Chiba Plant, and it is being used for employee education.
2 Setting industrial safety targets	Targets of zero work-related accidents, zero safety-related accidents, zero environmental accidents, zero compliance violations, and trouble reduction have been set.	P.15
3 Formulation of implementation plans for industrial safety measures	Risk assessment (RA)	We conduct risk assessments that extend to [1] risk and hazard factors that can be anticipated to result in work-related accidents, [2] risk prediction activities making use of "hiyari hatto," close call recognition, and "kigakari memos," [3] matters of concern during the startup of new processes (potential risks in a plant and problems in operation), and [4] irregular situations and times of emergency.
	Education and training for human resource development	The effects in the event of departure from plant operating procedures are examined using "What-if" or HAZOP methods to understand the principles involved ("Know-Why"). At the same time, the potential risks and problems with operation of the plant are identified and a systematic examination is made of whether or not safety measures are sufficient. We are taking these steps to heighten plant safety. We are conducting technical training to develop understanding of basic technology, carrying on education using educational materials and equipment, and conducting training for emergency scenarios as well as emergency reporting drills.
	Active use of accident information	For accidents that occur within the company, as well as for other risk situations, we survey and investigate the causes and discuss whether there are any problems with the corrective measures taken. For accidents that occur at other companies, accident information that can be considered to have similarities with our facilities is subjected to accident case studies. In this way we make every effort to heighten the safety awareness of our employees, taking action to prevent the occurrence of similar problems.
	Organizational management	Technical study groups meet every month, and our corporate headquarters and our plants keep in close contact to pass on information. Liaison conferences of our three main business groups are held as necessary, and steps are taken for coordination and communication between all of the groups.
	Equipment safety and measures against deterioration	We conduct systematic inspections of exterior surface corrosion for the purpose of preventive maintenance.
	Voluntary earthquake-resistance diagnosis of existing piping systems in high pressure gas facilities	In our capacity as high pressure gas accreditation inspectors, we assign priorities and carry out earthquake-resistance diagnosis of existing piping systems, though only at critical Category III facilities.
	Adoption of new techniques and technology to enhance safety	At present, we are not introducing any new technology for realizing more intelligent high pressure gas safety. However, we are incorporating advanced control programs in our operations management and taking steps to achieve further stability of our plants.
Implementation of safety management that also includes cooperating companies	We are conducting education and training for construction site supervisors, construction workers, transportation operations managers, transport crew members, and other such personnel. We have established safety cooperation councils in order to realize smooth operations, upgrading the safety of construction work done in our plants and work related to physical distribution. Our cooperating companies also participate actively in risk prediction activities by means of "hiyari hatto," close call recognition, and "kigakari memo," memos on matters of concern.	
4 Surveys, evaluations of achievement status of targets, and implementation status of measures	The Environmental and Safety Committee, which is chaired by the president, hears and evaluates reports on the status of progress toward targets and the progress of activities related to priority measures.	P.14
5 Measures to promote autonomous safety activities	We have determined standards for safety commendation, and we award commendations to operating facilities that have established and maintained outstanding safety management systems while also achieving accident-free and disaster-free operating hours. The operating facilities organize seminars with outside speakers. They also participate in conferences, study groups, and other such events organized elsewhere.	
6 Making use of knowledge from outside the company	The Yokkaichi Plant and Chiba Plant underwent safety capability evaluations by a third-party organization (the Japan Society for Safety Engineering). Taking the findings into consideration, the RC Program has assigned priority to addressing matters that are indicated as weaknesses and, of those matters, dealing in particular with matters that need to be addressed by the company as a whole.	
7 Risk communication with regions, communities, and so on	We participate in the Chiba district and Yokkaichi district RC regional dialogue that is held every two years. Every year, we hold voluntary cleanup activities of roads around our plants. At the Yokkaichi Plant, we hold plant tours to which we regularly invite faculty and students from nearby universities. At the Chiba Plant, we hold plant tours every year to which we invite teachers and children from elementary schools.	P. 30 and p. 31
8 Measures to help prevent industrial accidents caused by earthquakes and tsunami	We have revised relevant documents in preparation for occurrence of a Tokai region earthquake or other Nankai Trough earthquake and have taken steps to improve responses to tsunami. Based on the most influential, 2011 edition of the tsunami inundation forecast published by Mie Prefecture, we have evaluated the phenomenon of tanks floating and drifting during flooding, and have taken measures to respond by changing the level of liquid surface to be managed and by manually closing the master valves on tanks. We hold evacuation drills on earthquake and tsunami scenarios at all of our operating facilities.	P.19

About Management

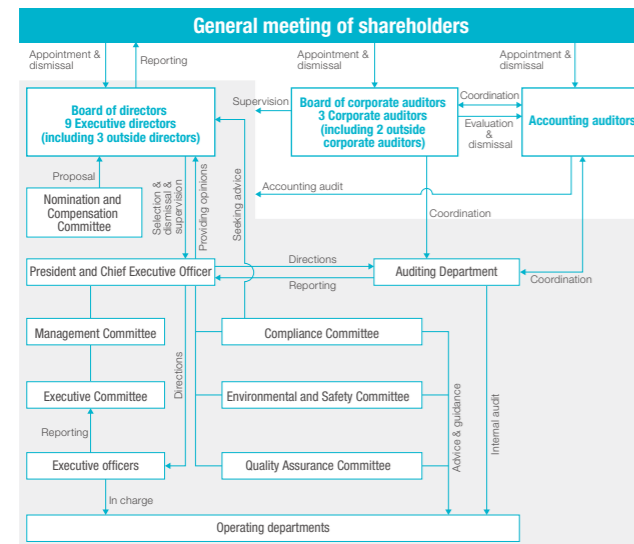


Corporate governance

Basic conceptual approach

The KH Neochem Group is committed to engaging in the realization of corporate governance in accordance with the Corporate Mission of “Realizing a brighter tomorrow for society through the power of chemistry” and with a view to achieving sustained growth and medium to long-term heightening of corporate value, together with sound management that assures transparency and fairness. We do this on the basis of constructive dialogue with our shareholders, substantive assurance of the rights and equality of our shareholders, appropriate disclosure of information, and appropriate cooperation with stakeholders other than our shareholders, all founded upon effective oversight in execution.

Corporate governance structure



regarding candidate executive directors and other related matters. More than half of the membership of this committee is composed of outside directors. In advising the board of directors on the nomination and compensation of directors, the committee is intended to further enhance the transparency and fairness of the decision-making process.

Board of directors

In addition to functioning as a decision-making body with regard to matters set forth by legal statute, the corporate charter, and other such legal mandates, the board of directors of KH Neochem functions as a supervisory body over the execution of duties by the executive directors. The board is made up of nine executive directors, among them three outside directors. The term of service of the executive directors is set as one year in order to promote prompt response to change in the management environment, as well as to make clear the management responsibility of the executive directors within the business year. As a rule, the board of directors meets regularly once a month and once each quarter to approve the financial statement. The system also provides for extraordinary meetings of the board of directors to be convened as necessary in order to allow management decisions to be made without delay.

Corporate auditors and the board of corporate auditors

KH Neochem has adopted a corporate auditor system with a board of corporate auditors made of up three corporate auditors, among whom are two outside corporate auditors. Corporate auditors meet with the board of directors, the Management Committee, and other important committees, where they audit the execution of duties by executive directors by stating their views as required, by examining important documents under consideration for approval, and so on. They also take steps for mutual coordination with the Auditing Department and accounting auditors by regularly exchanging views and information, and then holding discussions with them.

As a rule, the board of corporate auditors holds regular meetings once a month and also holds extraordinary meetings as necessary to formulate auditing plans, examine audit implementation status, audit results, and related matters, taking steps for mutual information sharing with corporate auditors.

Measures to strengthen corporate governance

Composition of board of directors

KH Neochem added one outside director in March 2017, moving to a complement of three such directors, in order to further strengthen the supervisory function of the board of directors as well as heighten the transparency and soundness of management and the growth potential of the corporation. We are also taking steps to build up our system of corporate auditors in a way that will lead to a heightening of the supervisory function of the board of directors, by such measures as the March 2017 appointment of full-time in-house corporate auditors who have abundant finance and accounting experience along with appropriate knowledge.

Establishment of the Nomination and Compensation Committee

In December 2016, the previous Compensation Committee was reorganized and expanded and the Nomination and Compensation Committee was established with the added function of conducting deliberations and planning

Compliance

Basic conceptual approach

At KH Neochem, we consider compliance to be one of the essential and crucial components of CSR. We formulate our rules and regulations, then inspect our legal compliance status on the basis of Compliance Guidelines and compliance regulations, and we make every effort toward strict implementation. Those activities and their results are confirmed by the Compliance Committee, and we take the proper measures suited to the results of inspections.

Compliance Guiding Principles

We take action according to a high ethical standard that is embraced by the Corporate Mission of “Realizing a brighter tomorrow for society through the power of chemistry” and the management stance of, “Making our dream a reality through reliable technology and new inventions.” Our aim is to be a corporation that earns the trust of society.



A corporate overview is available on the KH Neochem website

Measures for compliance

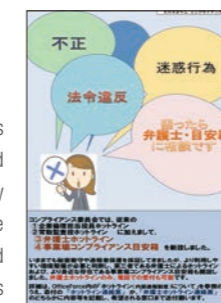
Compliance Committee

KH Neochem has established a Compliance Committee in order to plan and formulate basic guidelines regarding compliance, provide opinions to the board of directors, address serious problems concerning compliance, to provide compliance-related advice, guidance, education, and consciousness raising, and to deliberate on rules and regulations relating to other aspects of compliance in the company. The membership of this committee is made up of full-time directors, full-time corporate auditors, executive officers, managers of departments and offices at corporate headquarters, and managers of operating facilities. As a rule, the committee meets twice a year.

Internal notification system

This company acts to prevent acts that violate laws and regulations, the Compliance Guidelines, and so on, before they are committed. In the unlikely event that such acts are committed, however, we have in place an internal notification system called the Hotline as a way to address such situations appropriately.

We make hotlines available for use by executive officers, employees, temporary employees, and any others concerned. These lines include the hotline for executive officers responsible for corporate ethics, the hotline for full-time corporate auditors, the corporate attorney's hotline, and the operating facility compliance complaints and suggestions box.



Internal notification system poster



Hotline notification form that allows for anonymity

Risk management

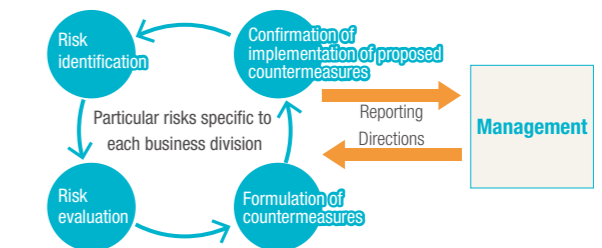
Basic conceptual approach

The KH Neochem Group has established risk management rules, and we are involved in risk management so that we can earn the trust of our customers and people in the community.

Risk management system

All of our business divisions extract risks that could affect business activities of companies in the KH Neochem Group. We identify the risks, list possible solutions, and take measures to prevent risks from materializing, as well as to reduce their impact. We assign risk levels according to the status of progress with those countermeasures and evaluations of the measures. The Risk Management Office determines the appropriateness of measures formulated and risk levels assigned based on results of risk inventories. For items considered high priority, management is provided with notifications and reports.

Risk management system



Cybersecurity measures

At KH Neochem, we operate our information systems based on internal management rules and appropriately to the importance of the system concerned. In this way we make every effort to prevent improper external access to company information, the loss of recorded data media, and so on. Since the chemical sector has been newly included as part of the critical infrastructure designated by the Cabinet Office, we have conducted risk assessments of the control systems for our plants.

Industrial Safety Action Plan

In response to a requirement from the Ministry of Economy, Trade and Industry, the Japan Petrochemical Industry Association put together an Industrial Safety Action Plan intended to prevent industrial accidents. KH Neochem is taking measures to reduce the risk of accidents of all types based on that action plan. We report on this in detail on pp. 22-23.

Working with Our Employees



Basic conceptual approach

We provide our employees with workplaces where it is easy to work and workplaces where it is rewarding to work. We promote the creation of healthy workplaces while supporting all of our individual employees in demonstrating their capabilities. Specifically, we actively promote the operation of a personnel system that is oriented toward realizing a work-life balance, create personnel development plans and rotation for employees, and provide education, training, and welfare activities for employees.

Creating workplaces where it is easy to work

Measures to establish a work-life balance

We make every effort to create a workplace environment where it is easy to work so that our employees can achieve a balance between their work and home life, while also demonstrating their work capabilities to the fullest. At the same time, therefore, we are promoting work style reform.

Personnel systems for child rearing and nursing care

In response to societal demand, KH Neochem is engaged in building various systems and also improving the environment to enable people to provide child rearing and nursing care while they work.

Measures relating to working hours

Annual paid leave

We are taking various measures in order to increase the percentage of annual paid leave days taken. These include systematic assignments of leave, setting aside days recommended for taking annual leave, and so on.

2016 fiscal year performance in annual leave days taken	Approximately 84% (for all employees)
---	---------------------------------------

Flexible working hours system

We have introduced a system of flexible working hours so that employees can work efficiently while taking steps to harmonize their life and work.

Reduction of overtime working hours

Each of our operating facilities designates "no overtime days" (days for leaving work at quitting time) in order to help employees harmonize their work and their life.

Average monthly overtime hours worked	18.06 hours
<small>* 2016 fiscal year</small>	

Active rehiring of employees who have resigned upon reaching the mandatory retirement age

Reemployment system

We have put in place a system for reemployment of people even after they have reached the mandatory retirement age of sixty, if they are healthy and motivated to work. This enables them to continue putting their experience and knowledge to good use.

Number of people reemployed after resigning upon reaching the mandatory retirement age	46 people (including 5 women)
<small>* As of July 2017</small>	

Creating workplaces where it is rewarding to work

Human resource development through the Mission & Action for Progress (MAP) system of goal management

At KH Neochem, we conduct two annual MAP interviews with employees with the aim of producing results as an organization while also developing our human resources. We consider MAP to be the most important mechanism for individual growth, and we situate it accordingly. In the interviews, superiors guide their subordinates to achieve higher goals, become able to engage in greater actions, and demonstrate greater capabilities. Through the interviews, superiors seek to motivate their subordinates to tackle the next goal. That way the subordinates will gain the ability in themselves to take on the challenges of achieving higher goals, pursuing greater actions, and acquiring even greater capabilities.

Rotation utilizing the challenge post system

The challenge post system is an in-house recruiting system that works with departments that want to find additional personnel by canvassing widely among employees in other departments who are interested in transferring elsewhere. In 2016, there were calls for personnel from two departments. After documentary screening and judging short essays, interviews were held and arrangements were made for the rotation of motivated employees. Going forward, we plan to promote rotation through the challenge post system, in addition to the usual personnel rotations.

Human resource development through education and training

We are placing an emphasis on group training as one method of human resource development. Programs are created to provide the necessary training according to participants' ranks, job classifications, or other such factors. In this way we conduct effective education and training. For employees who have the active will to seek growth on their own, we also have systems to actively support the acquisition of qualifications needed for work, as well as measures for self-development.



Scenes of education and training

Measures to promote activity by women

When the law for it went into force in 2016, KH Neochem formulated a general employer action plan. Actions undertaken to realize the plan included conducting a survey on what makes work worthwhile, and based on the results, we carried out career training for managers and women employees. Part of this involved guidance in more effective utilization of MAP interviews from the perspectives of both superiors and subordinates as a way of making communication more vital. We are planning future measures so that all employees, not just women, can enjoy working energetically.

Employees speak out



Chizuru Suenaga
Quality Assurance Group, Administration Department
Yokkaichi Plant

After participating in theme-specific training

In training we learned practical skills and know-how that we could put to use in our everyday work. This also gave me a chance to interact with people from other plants, who I normally have no contact with, so that was very nice. Hearing people talk about the work they do at other plants, and about the measures they take, I found things that I could relate to. I brought what I learned in training back with me to the plant, where I was able to put it to use right away, so I think the training was very meaningful.

In the future, I hope to engage more actively in the suggested activities, such as in the VC movement*, and other such activities as well. If the training is to be held again, I definitely want to take part.

* VC (Value Change) movement:

This is a unique improvement program being conducted at our Yokkaichi Plant.

Creating a healthy workplace

Mental health measures

We consider mental health measures and harassment prevention measures to be crucial issues for the company. We conduct periodic training for employees and for managers and supervisory personnel.

Employee social society activities

We subsidize, or otherwise support, recreation and all types of club activities at the workplace level, and we plan parties, bowling meets, and so on as activities for all employees. The purpose is to aid in achieving smooth exchanges and communication among employees.



Scene of an event for the whole employee social society

Conducting health seminars

Health seminars are held at every operating facility as a health insurance project. For example, at corporate headquarters offices, we conduct grip strength tests and check people's abilities to do sit-ups and balance themselves. These events give employees a refreshing change from their usual workplace, and is a measure to enable them to continue their work in good physical and mental health.



Scene of a health seminar

A diagram of the KH Neochem education system

Job grouping	Managers		S	R (advanced)		R (beginner)	Unrated
	Department manager class and above	Section manager class and above	Assistant manager class	D Foreman & specialized staff class	C Mid-level class	B-A General employee class	New employee class
1 Rank-specific education		New managerial appointment training		Mid-level employee training			New employee training Follow-up training
2 Theme-specific education	1 Communication		Methods for energizing the workplace		Logical thinking		
	2 Business skills		Leadership	Coaching	Improvement and creation		
3 Language training, etc.			Business finance and accounting strategy (correspondence education)				
			Presentations (correspondence education)		High pressure gas production safety manager (class B)		
4 Business leadership development education			Overseas language training				
			Languages e-learning (English)				
			Assignment to business school				

Working with Our Shareholders and Investors



Basic conceptual approach

In order to provide a deeper understanding of the corporation, KH Neochem actively communicates information to shareholders and investors, and then engages them in constructive dialogue.

Opportunities for communication with shareholders

* Since the corporation was listed in October 2016, the descriptions here will mainly focus on measures since the listing.

Convene general meeting of shareholders

KH Neochem holds its regularly scheduled general meeting of shareholders in March every year. The general meeting of shareholders is the corporation's highest decision-making body. We also consider it a valuable opportunity for us to engage directly in dialogue with our shareholders, and we make every effort to schedule the meeting for a time and place that will make it easier for shareholders to attend. We use spoken narration and other such means to explain matters at the meetings, and we strive to make our material readily understandable. At the 7th regularly scheduled general meeting of shareholders (started at 10:00 AM on March 24, 2017), all resolutions were approved and adopted, and we received a large number of questions and valuable views on the matter.



Financial results briefings and other IR activities

KH Neochem was listed on the First Section of the Tokyo Stock Exchange in October 2016, and the financial briefing we held the following month included an explanation of our three-year Medium-Term Business Plan as well as our financial results and forecast. This is a three-year plan geared to further progress, combining growth and stability. The plan sets forth strategies for achieving that objective by globally expanding sales of performance chemicals, enhancing the profitability of basic chemicals, and establishing a base for the future. At the same time, we also gave an overview of our technology, our business environment, and other such matters.



Financial results briefing for analysts and institutional investors

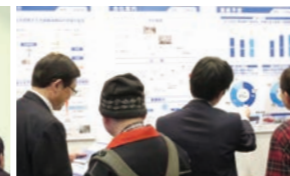


Announcement of Medium-Term Business Plan at financial results briefing

In February 2017, we exhibited at the Tokyo Stock Exchange IR Festa, where we gave individual investors an overview of our business, our Medium-Term Business Plan, and our performance. We took steps to communicate with large numbers of people during the two days of this event, which proved to be an extremely significant occasion.



IR presentation for individual investors at IR Festa



KH Neochem booth at the IR Festa

<http://www.khneochem.co.jp/en/ir/news/>

In April, we invited analysts and institutional investors on a tour of the Yokkaichi Plant. As our guests, they had the opportunity to observe KH Neochem quality manufacturing onsite, and to learn about the various fields in which our products are contributing to society. We also introduced our guidelines and initiatives for safe operation and environmental concerns, among other matters.



Yokkaichi Plant in Mie Prefecture where the plant tour was held

In June, we held overseas IR activities. Since inquiries from other countries about the KH Neochem business, our future potential, and so on, have been increasing, we communicated with investors in London and York. The people we met with expressed great interest in our technology infrastructure, the large share we hold in growth markets, and other such points.

In this way, we have positioned dialogue with shareholders and investors as an important management issue. Going forward, our management team will be at the forefront in continuing this initiative.

Activities at Our Plants

Yokkaichi Plant and Yokkaichi Research Lab

Plant profile

Location

■ Umaokoshi Section and Yokkaichi Research Lab
2-3 Daikyo-cho, Yokkaichi City, Mie Prefecture

■ Kasumigaura Section, 1-4 Kasumi, Yokkaichi City, Mie Prefecture



Panoramic view of Yokkaichi Plant

Number of employees
356 employees
(as of September 2017)



Toshiaki Ogata
Executive officer
Plant manager

Environmental and safety topics

- Participated in volunteer cleanup of Takamatsu shoreline, Kawagoe-cho
- Participated in volunteer cleanup of Kasumigaura Green Park
- Japan Boiler Association's Mie Branch awarded two people commendations as operations chiefs in the use of class-1 pressure vessels in fine chemical facilities
- Reported on company safety management activities at the Safety Promotion Conference of the Japan Petrochemical Industry Association

Environmental data

Heading	Amounts
Specific energy consumption [L*/t]	205
SOx amount released [t]	0
NOx amount released [t]	290.5
Dust amount released [t]	2.0
Total effluent discharged [kt]	1,958
COD amount released [t]	19.5
T-N amount released [t]	2.2
T-P amount released [t]	1.9
Amount of waste generated [t]	48,331
Amount disposed of as landfill [t]	0.4

* Crude oil equivalent

Amount of PRTR Act Type 1 designated chemical substances released Unit: t

Substance name	Amount released
Acetaldehyde	2.8
2-Aminoethanol	1.4
Isobutyl aldehyde	2.1
2-Ethylhexanoate	0.2
Ethylene oxide	0.4
Toluene	1.7
Boron compounds	0.1
Phthalic anhydride	0.2
Dioxins (mg-TEQ)	(100.2)
Others (11 substances)	0.0

Period covered: April 1, 2016 to March 31, 2017

Chiba Plant

Plant profile

Location

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

Number of employees
110 employees
(as of September 2017)



Panoramic view of Chiba Plant



Seiji Saito
Executive officer
Plant manager

Environmental and safety topics

- Participated in Ichihara Environmental Festival
- Fire Protection and Safety Association awarded one person a commendation for superior hazardous substance handling
- Chiba Labor Standards Society awarded one person a commendation as an outstanding worker
- Chiba Labor Standards Association awarded a commendation for outstanding safety management by an operating facility
- Chiba High Pressure Gas Safety Institute awarded a commendation to one person as an outstanding safety manager

Environmental data

Heading	Amounts
Specific energy consumption [L* /t]	193
SOx amount released [t]	2.4
NOx amount released [t]	41.0
Dust amount released [t]	3.7
Total effluent discharged [kt]	1,659
COD amount released [t]	10.8
T-N amount released [t]	8.8
T-P amount released [t]	0.4
Amount of waste generated [t]	3,065
Amount disposed of as landfill [t]	16.4

* Crude oil equivalent

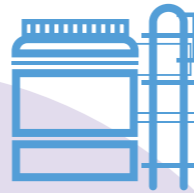
Amount of PRTR Act Type 1 designated chemical substances released Unit: t

Substance name	Amount released
2-Aminoethanol	0.0
Cobalt and its compounds	0.6
Decyl alcohol	0.0
3,5,5-Trimethyl-1-hexanol	0.3
Toluene	0.0
1-Nonanol	0.0
Phthalic anhydride	0.0
Dioxins (mg-TEQ)	(1.0)

Period covered: April 1, 2016 to March 31, 2017

Working with Local Communities and Society as a Whole

KH Neochem is committed to continuing as a corporation that meets the demands of society and the times, a corporation that is sought after by members of local communities and society at large. In order to achieve this aim, we count social contribution activities among our important measures. In addition to continuing our activities to contribute to the various local communities in the vicinity of our plants, in 2017 we also began engaging in social contribution activities by the whole corporation acting together.



Tour of the Yokkaichi Industrial Complex



We held a tour of the Yokkaichi Industrial Complex jointly with Yokkaichi City and two other, neighboring companies. Local university students majoring in mechanical, electrical, and electronic systems were invited to take part, and we endeavored to stimulate their interest in corporations at the industrial complex as places of possible future employment.

Satoyama woodland conservation activity in the southern zone of Nanbu Kyuryo Park



At the urging of the Yokkaichi City Nature Conservation Promotion Committee, we took part in activities for conservation of traditional satoyama woodland resources in the southern zone of Nanbu Kyuryo Park. We are working side by side with local residents on restoration of the satoyama resources here.



from
Yokkaichi Plant

Local community cleanup activities

56 people



This year the local community held its seventh annual cleanup activity, showing how well-established this event has become. A total of fifty-six employees arrived earlier than usual and cleaned up the Kasumigaura District sidewalks along Route 23 before starting their work.

6th Responsible Care Local Dialog Meetings in Yokkaichi

The 6th Responsible Care Local Dialog Meetings in Yokkaichi was held with KH Neochem as one of the corporate members participating. The topic was "safety and disaster prevention and environmental conservation activities in corporations aiming for safety and security" and 229 people took part.



Cleanup activity on the Japan National Route 16 median strip



Cleanup activities of the Japan National Route 16 median strip are held four times every year. There was a large amount of refuse because traffic is so heavy, but we are doing our best to maintain a clean highway by taking action periodically.

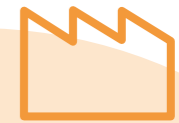


Plant tour for elementary students

We received ninety children from local elementary schools and held plant tours as part of our cooperation with Ichihara City's environmental month. The students all took notes, asked a large number of questions, and showed their enthusiasm for learning about petrochemical plants.



90 children



Goi Rinkai Festival



We participated in the Goi Rinkai Festival, which was held in Ichiharyokuchi Sports Park. As in past years we sold sweet buns, and this time attracted many customers despite the bad weather. By afternoon, we were completely sold out. We intend to continue spreading this circle of connection in the future, and we will go on contributing to our local communities.

from
Chiba Plant



Social contribution activity by the whole corporation acting together

Starting in 2017, KH Neochem will carry out social contribution activities that involve the whole corporation acting together. This is intended to strengthen our social contribution initiatives. We conducted a questionnaire survey of all employees in May 2017, and determined the theme and orientation of the activity according to the views expressed. The activity is slated to take place in October with employees from all our operating facilities gathering together in one place.