

ANNUAL REPORT 2018

For the year ended December 31, 2018



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Message from CEO

Performance for 2018

I, Michio Takahashi, was appointed CEO and President of KH NeoChem on March 26, 2019. As the representative of the KH NeoChem Group, I will do my utmost best in steering management.

With our Corporate Mission of “Realizing a brighter tomorrow for society through the power of chemistry,” KH NeoChem is a chemical materials manufacturer offering premium products with unique characteristics to a variety of industries.

KH NeoChem is supporting to enrich people’s lifestyles by providing a broad range of products: Basic Chemicals, Performance Materials, and Electronic Materials. Basic Chemicals support a wide variety of the industries by supplying a rich lineup of solvents and plasticizers alcohols. Performance Materials include raw materials for lubricants used in eco-friendly air conditioning, contributing to Ozone Layer Protection and Global Warming Prevention, as well as cosmetics raw material used in premium skin care products. Electronic Materials, such as high purity solvents, which are manufactured by our high purification technology and quality management know-hows, contribute to higher performance and miniaturization of electronic devices.

The KH NeoChem Group had been promoting our second mid-term business plan, which ended in FY2018, in line with the main theme of “Challenge for Change.” In FY2018, as the conclusion of this business plan, we steadily promoted key initiatives such as “executing various policies to secure high profit,” “strengthening our production infrastructure in order to achieve stable supply of premium products,” and “strengthening production capacity of performance materials.”

As a result of such efforts, our net sales increased by 6.9% year-on-year to 101.2 billion yen, while our operating income decreased by 5.5% year-on-year to 10.9 billion yen. Overall, we exceeded the planned targets for net sales and operating income set in the second mid-term business plan for each financial year.

FY2019 marks the first year of our third mid-term business plan, whereby we will promote efforts to realize VISION 2030, an initiative we announced in November 2018. We will leap into action and do our best to firmly promote various policies as definite steps toward VISION 2030.

Priority issues for 2019

Growth strategy for achieving long-term vision and strengthening of organizations and human resources executing the strategy

- ▶ Completion of a new plant for refrigeration lubricant raw material (Yokkaichi plant)
- ▶ Further sales expansion of Performance Material
- ▶ Acceleration of open innovation by establishment of a new R&D office
- ▶ Start of an increase in headcount, move of head office and an improvement workplace environment in plant
- ▶ Promotion and strengthening of diversity and governance (appointment of female independent outside board director)



A handwritten signature in black ink, which appears to read 'Michio Takahashi'. The signature is stylized and fluid.

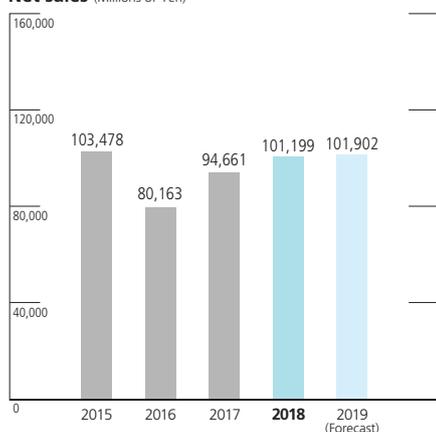
President & Chief Executive Officer

Financial Highlights

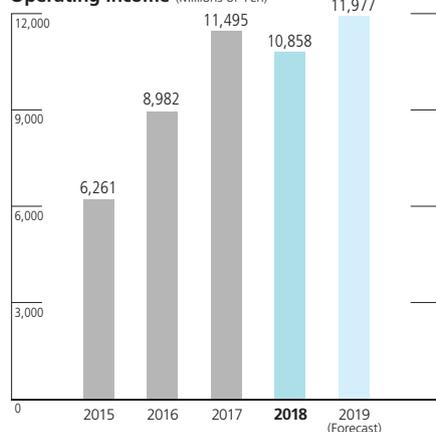
	Millions of Yen				Thousands of U.S. Dollars
	2015	2016	2017	2018	2018
For the year					
Net sales	¥ 103,478	¥ 80,163	¥ 94,661	¥ 101,199	\$ 912,442
Operating income	6,261	8,982	11,495	10,858	97,900
Net income attributable to owners of parent	7,712	6,013	8,167	6,737	60,749
Comprehensive income	7,239	5,878	8,903	6,306	56,862
At year-end					
Total equity	¥ 20,785	¥ 28,112	¥ 34,512	¥ 38,304	\$ 345,369
Total assets	85,831	87,674	95,247	94,527	852,293
Per share (Yen/U.S. dollar)					
Net assets per share (BPS)	¥ 517	¥ 672	¥ 842	¥ 972	\$ 8.76
Net income per share (EPS)	227	174	222	183	1.65
Financial ratios					
Shareholders' equity ratio	21%	28%	33%	38%	
ROE	39%	28%	29%	20%	
PER (Times)		7	13	13	
Cash flows					
Cash flows from operating activities	¥ 6,028	¥ 2,681	¥ 12,971	¥ 7,707	\$ 69,495
Cash flows from investing activities	1,434	(3,791)	(3,281)	(4,009)	(36,155)
Cash flows from financing activities	(9,659)	(1,373)	(9,338)	(6,224)	(56,120)
Cash and cash equivalents at end of period	14,636	12,135	12,666	10,126	91,305
Interest-bearing debt net, Capital expenditures and depreciation and amortization					
Interest-bearing debt	¥ 34,050	¥ 31,300	¥ 24,730	¥ 21,040	\$ 189,703
Capital expenditures	2,461	2,350	1,637	2,943	26,541
Depreciation and amortization	4,012	3,495	3,382	3,254	29,343

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

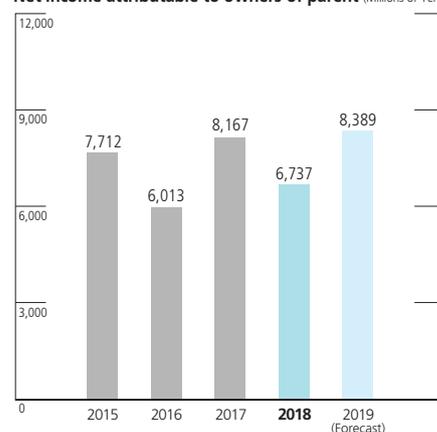
Net sales (Millions of Yen)



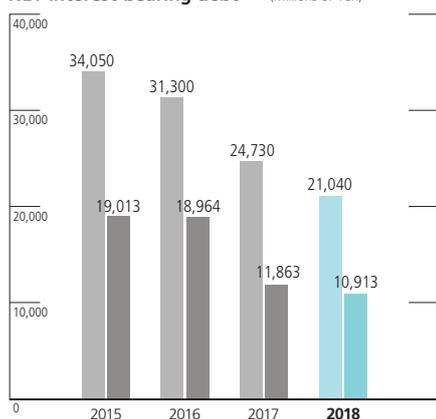
Operating income (Millions of Yen)



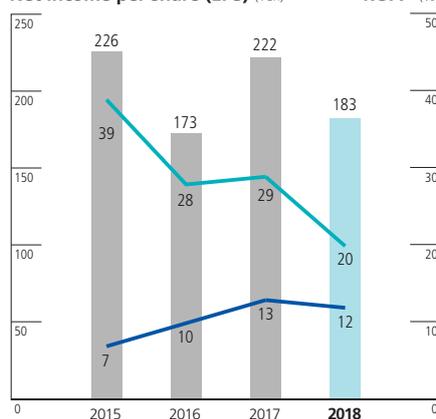
Net income attributable to owners of parent (Millions of Yen)



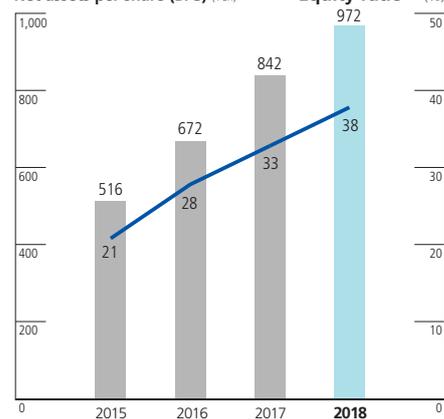
Interest-bearing debt (Millions of Yen)
NET interest-bearing debt (Millions of Yen)



Net income per share (EPS) (Yen)



Net assets per share (BPS) (Yen)



Management's Discussion and Analysis

Status of business operations for the current fiscal year

(i) Business progress and results

During the consolidated fiscal year under review, the tone of the Japanese economy was on a modest recovery, with capital investments remaining strong against a backdrop of high levels of corporate earnings, and with moderate improvements in the global economy supporting robust exports up until the middle of the year. However, in the second half of the year, China, Europe and other countries saw slowing rates of economic growth accompanying the manifestation of trade friction between the U.S. and China, while Japan's exports also started to lose momentum. In addition, concerns about the political situation in Europe and North America such as the U.K.'s decision to exit the EU and the impact from U.S. interest-rate policy on other economies have led to a rising sense of uncertainty.

The environment surrounding the Group has remained favorable from the previous year with a tightening of the supply-demand balance and an improvement in market conditions etc., while demand for chemical products expanding steadily in the Asian market. Nevertheless, due to the impact of rising uncertainty among overseas economies towards the end of the year, caused by trade friction between the U.S. and China, the price of oil and naphtha fell sharply, leading to a downward trend in prices for general chemical products.

Under these circumstances, the Group has steadily moved forward with the implementation of various measures in relation to issues that had been designated the highest priority for the consolidated fiscal year under review, such as "Implement various measures aimed at raising profitability," "Enhancing production capability of Performance Materials," and "Strengthen the production

platform in order to consistently supply high-quality products." The Group also actively worked to strengthen its corporate governance and to further enhance its Corporate Social Responsibility (CSR) activities.

With regard to the Isononyl alcohol project with which we had been proceeding in Taiwan, soaring plant construction costs led us to consider whether or not we should continue, and in October 2018 we decided to discontinue the project. Accordingly, for the consolidated fiscal year under review an extraordinary loss was posted, consisting of a loss on valuation of investment securities, and a loss on liquidation of subsidiaries and associates, totaling ¥1,443 million.

With regard to growth in the business, demand in Japan and overseas was strong in a continuation of the previous year's trend, and with oil and naphtha prices having risen sharply up until the beginning of the autumn we took the opportunity to steadily implement price increases for some products. However, in addition to major periodic reconditioning work (carried out every other year) reducing production and sales volumes, there was an increase in facilities maintenance expenses due to such factors as the reconditioning costs, which led to an increase in net sales but a decline in profits compared to the previous fiscal year.

As a result, the Group's results for the fiscal year under review included net sales of ¥101,199 million (up 6.9% year on year), operating income of ¥10,858 million (down 5.5% year on year), and net income attributable to owners of parent of ¥6,737 million (down 17.5% year on year).

Consolidated net sales

¥101,199 million

(Up 6.9% year on year)

Consolidated operating income

¥10,858 million

(Down 5.5% year on year)

Net income attributable to owners of parent

¥6,737 million

(Down 17.5% year on year)

Note: For the amounts shown in this part, figures less than one unit are rounded down.

Management's Discussion and Analysis

Results by business field are as follows.

Basic Chemicals

Net sales

¥49,344 million

(Up 8.1% year on year)

Gross profit

¥6,985 million

(Up 2.2% year on year)

Sales volumes declined due to major periodic reconditioning work, but domestic demand remained robust, partly thanks to automotive production continuing at the high level of the previous year, and we implemented a steady program of raising prices for products that had been hit by the increase in raw material prices. As a result, both net sales and profits rose year on year, with net sales hitting ¥49,344 million (up 8.1% year on year) and gross profit reaching ¥6,985 million (up 2.2% year on year).



Electronic Materials

Net sales

¥11,782 million

(Up 7.0% year on year)

Gross profit

¥3,033 million

(Down 4.6% year on year)

As a result of factors such as demand in semiconductors both in Japan and overseas remaining strong from the previous fiscal year, net sales exceeded those of the previous fiscal year, but due to a rise in raw material prices, profits declined. Net sales came in at ¥11,782 million (up 7.0% year on year) while gross profit was ¥3,033 million (down 4.6% year on year).



Performance Materials

Net sales

¥39,364 million

(Up 5.5% year on year)

Gross profit

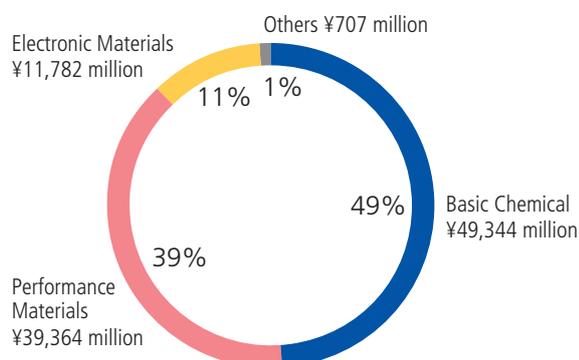
¥11,812 million

(Down 4.7% year on year)

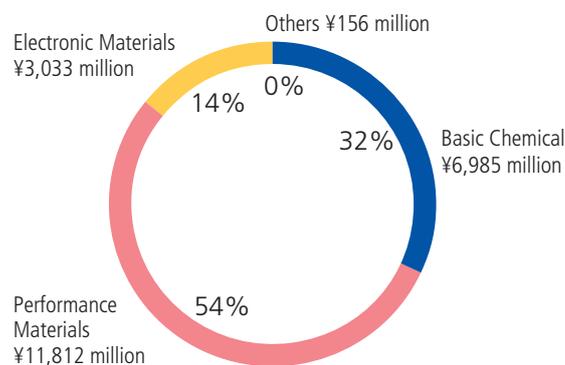
With the use of environmentally conscious refrigerants for air conditioners and the consumption of cosmetics both rising in emerging nations such as China, demand for our refrigeration lubricants raw materials and cosmetics raw materials continued to record year-on-year increases. By pushing ahead to raise prices of products that had been affected by tight supply and higher raw material prices, we were able to achieve year-on-year growth in net sales. However, due to the constraints imposed by major periodic reconditioning work, sales volumes declined, which was one of the reasons for profits falling year on year. Net sales were ¥39,364 million (up 5.5% year on year), and gross profit was ¥11,812 million (down 4.7% year on year).



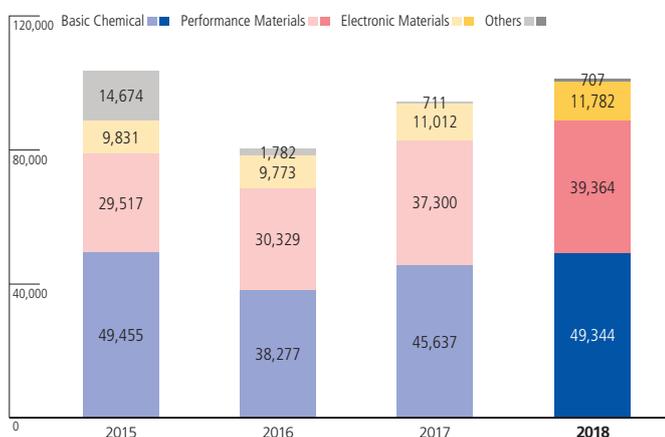
Net sales by business field



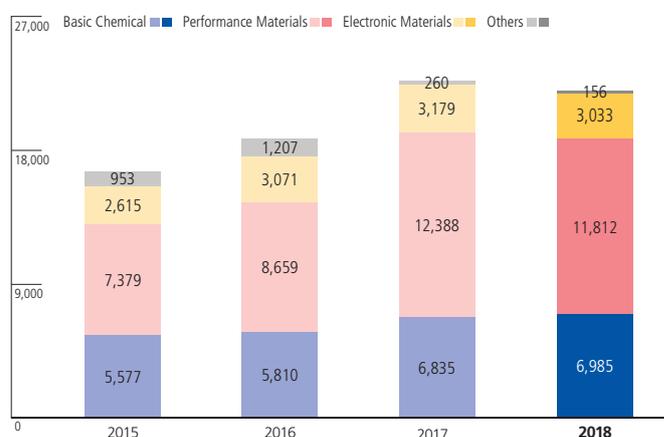
Gross profit by business field



Business fields (Net sales) (Millions of Yen)



Business fields (Gross profit) (Millions of Yen)



(ii) Capital investments

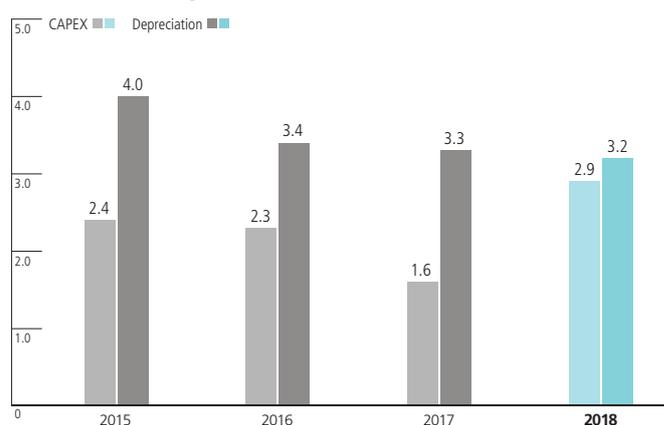
Total capital investments for the Group in the fiscal year under review were ¥2,943 million, and were focused on maintenance and upgrades for existing facilities.

The plan for expanding production facilities at the Yokkaichi plant for raw materials used in refrigerant lubricants is proceeding on schedule, with operations due to begin in 2020.

(iii) Financing

The Group raises funds through loans from financial institutions and through issuance of commercial paper.

CAPEX and Depreciation (Billions of Yen)



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.)

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

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

Detergents

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.

PRODUCTS	Butyl alcohol Butyl acetate and many more	2-Ethyl hexyl alcohol Oxocol 900 (Isononyl alcohol)	Kyowasol series
FEATURES			Ozone layer protection High safety

Performance materials Performance chemicals

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

Lubricant ingredients

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.

Cosmetic ingredients

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

Ingredients for water-based coatings

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.

PRODUCTS	2-Ethyl hexanoic acid KYOWANOIC-N (Isononanoic acid)	1,3-Butylene glycol	DAAM (Diacetone acrylamide)
FEATURES	Ozone layer protection Global warming mitigation	High moisture retention Antibacterial Low irritation	Low VOC

Electronic materials Performance chemicals

Contributing to the evolution of electronics with outstanding high purification technology

High-purity solvents (for semiconductors, liquid crystal display)

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.

PRODUCTS	PMA-P (Propylene glycol monomethyl ether acetate-P) PM-P (Propylene glycol monomethyl ether-P)
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Vision2030

Ambitions for 2030

A Leading Global Specialty Chemical Company

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



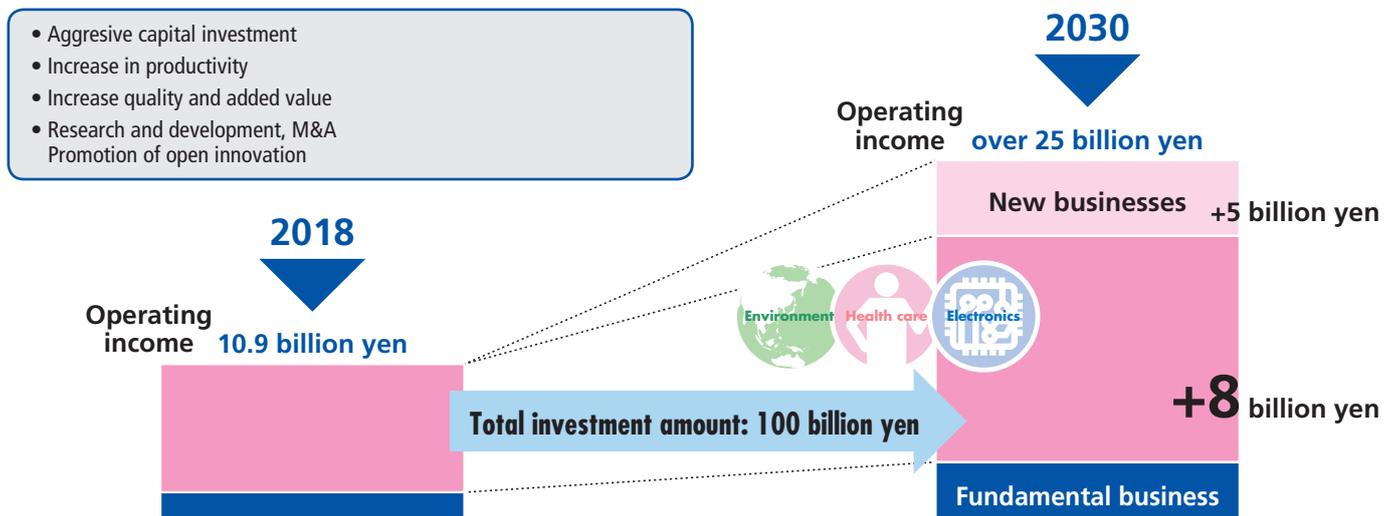
Strategic domains

Concentrate management resources for the environment, health care, and electronics.



Profit plan

Expansion of operating income by an aggressive investment in a total amount of about 100 billion yen.



3rd Mid-Term Business Plan

3 Strategies

The 3 years of "Taking on New Challenges" towards the accomplishment of VISION2030

Strategy I

Profit Increase by New Facilities

- Stat up of new facilities for refrigeration lubricant raw materials and marketing of new products
- Operate facilities for the next generation semiconductor materials

Strategy II

Active investment for the expansion of performance chemical business

- Further increase in production capacity for performance chemicals
- Creation of new business through the new research hub

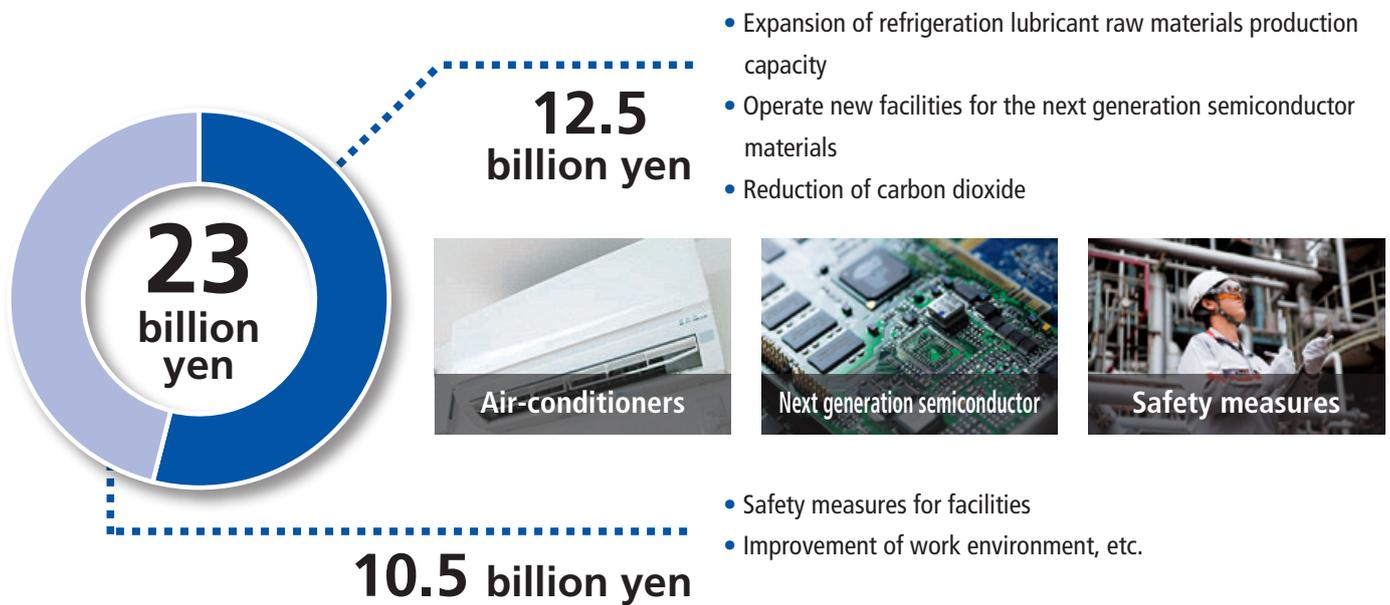
Strategy III

Improvement of business framework

- Further introduction of facility control system with latest technologies (AI and IoT)
- Improvement of work environment and encouragement of diverse work styles

Capital Investment plan

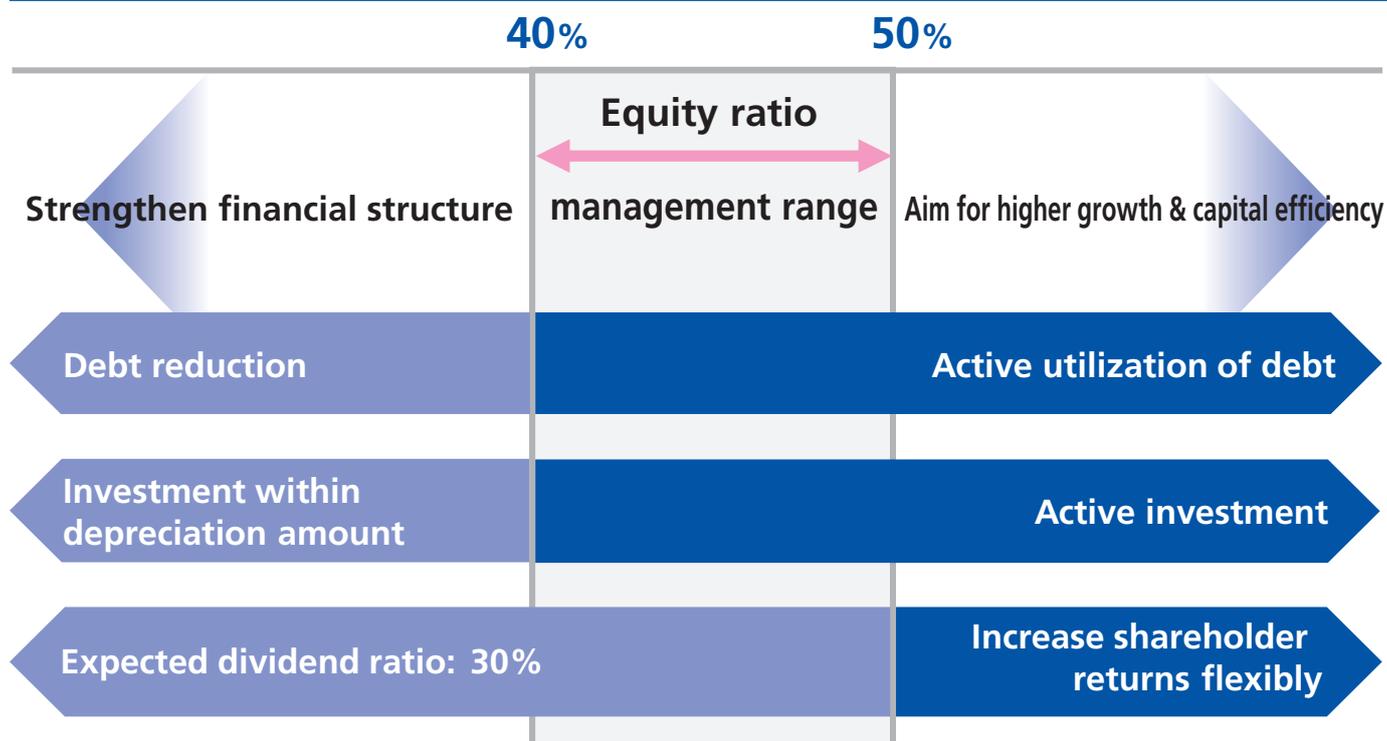
A capital investment plan of 23 billion yen that is approximately three times more than the second mid-term plan.



3rd Mid-Term Business Plan

Financial & Capital Strategies

For financial health and capital efficiency, standard equity ratio is 40~50%



- While securing financial health, we will work on investment for growth, capital efficiency enhancement, and shareholder return improvement
- Equity ratio: 38% in 2018, 47% in 2021 (planned)

Finance with agility while investing within operating cash flows

Cash Flow Plan Summary

Operating cash flows (excl. R&D)..... 37.0 bn JPY

- Net profit total of 26.0 bn JPY will be yielded
- Total depreciation cost will be 13.0 bn JPY

Investment cash flows (incl. R&D)..... 26.0 bn JPY

- 12.5 bn JPY for growth investment (incl. 2.0 bn JPY for strategy investment)
- 10.5 bn JPY for framework improvement & rationalization (incl. improvement of work environment)
- 3.0 bn JPY will be allocated for R&D

Shareholder returns 7.0 bn JPY

- Returns will be provided stably based on dividend ratio of around 30%, consistent with profit growth

Financing Finance with agility

- Utilize external debt while considering stability (as necessary)

3rd Mid-Term Business Plan

Acceleration of creation of new businesses

Creation of new businesses through the new Research hub



『 "Forest of Creation" in Shin-Kawasaki, AIR BIC 』

7-1 Shin-Kawasaki, Saiwai-ku, Kawasaki, Kanagawa, Japan



Global warming prevention
Study for marine plastic reduction



Expand cosmetic raw materials related product line
Study to reduce odor & development of applied products



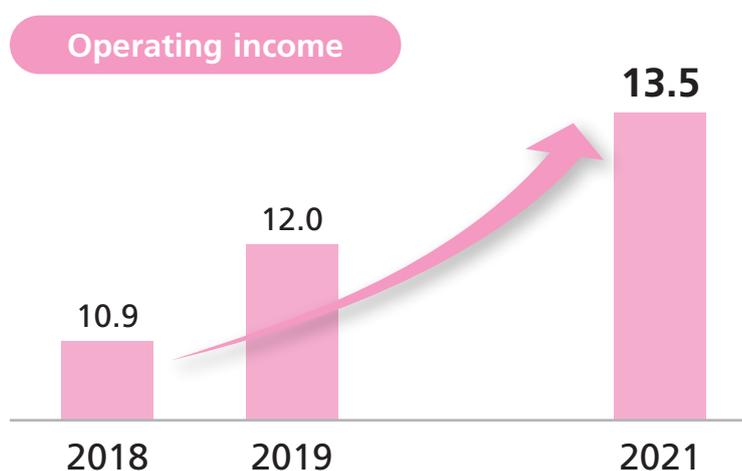
Development of mobility-related materials
Development of new products targeting the Electronic materials frontline



Financial Targets

Work for steady profit growth and stronger financial structure

	2018	2021
Net Sales	101.2 bn JPY	110.0 bn JPY
Operating income	10.9 bn JPY	13.5 bn JPY
ROE	20%	18%
Equity ratio	38%	47%
Exchange rate	110 JPY/\$	110 JPY/\$
Domestic naphtha	50,900 JPY/KL	46,000 JPY/KL



Consolidated Balance Sheet

	Millions of Yen		Thousands of U.S. Dollars
	As of December 31, 2018	As of December 31, 2017	As of December 31, 2018
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (Note 15)	¥ 10,126	¥ 12,666	\$ 91,305
Time deposits with original maturities of over three months (Note 15)		200	
Receivables—Trade notes (Notes 5 and 15)	830	963	7,490
Receivables—Trade accounts (Note 15)	24,764	22,104	223,283
Receivables—Unconsolidated subsidiaries and associated companies (Note 15)	2,670	2,728	24,079
Receivables—Other	989	942	8,925
Receivables—Allowance for doubtful accounts	(6)	(6)	(59)
Inventories (Note 4)	12,279	11,094	110,716
Deferred tax assets (Note 14)	514	1,093	4,643
Prepaid expenses and other current assets	272	374	2,452
Total Current Assets	52,442	52,161	472,838
PROPERTY, PLANT AND EQUIPMENT			
Land	17,549	17,549	158,231
Building and structures	30,437	29,891	274,438
Machinery and equipment	89,118	87,681	803,523
Furniture and fixtures	3,619	3,588	32,635
Construction in progress	645	870	5,824
Other	2,046	1,989	18,454
Total	143,418	141,570	1,293,107
Accumulated depreciation	(112,329)	(111,167)	(1,012,798)
Net Property, Plant and Equipment	31,089	30,403	280,308
INVESTMENT AND OTHER ASSETS			
Investment securities (Notes 3 and 15)	5,774	6,191	52,064
Investments in unconsolidated subsidiaries and associated companies	1,411	2,363	12,722
Goodwill	1,646	1,781	14,849
Assets for retirement benefits (Note 7)	1,341	1,585	12,096
Deferred tax assets (Note 14)	58	35	525
Other assets	765	727	6,904
Allowance for doubtful accounts	(1)	(1)	(16)
Total Investments and Other Assets	10,996	12,683	99,146
Total	¥ 94,527	¥ 95,247	\$ 852,293

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

	Millions of Yen		Thousands of U.S. Dollars
	As of December 31, 2018	As of December 31, 2017	As of December 31, 2018
LIABILITIES			
CURRENT LIABILITIES			
Payables—Trade notes (Notes 5 and 15)	¥ 19	¥ 16	\$ 180
Payables—Trade accounts (Note 15)	22,550	20,187	203,325
Payables—Unconsolidated subsidiaries and associated companies (Note 15)	865	1,087	7,806
Payables—Other (Note 15)	2,343	2,696	21,131
Short-term bank loans (Notes 6 and 15)	9,750	9,910	87,909
Short-term borrowings from unconsolidated subsidiaries and associated companies (Note 15)	840	970	7,573
Current portion of long-term debt (Notes 6 and 15)	2,400	2,400	21,639
Commercial paper (Note 15)		999	
Income taxes payable (Note 15)	2,416	2,856	21,789
Accrued expenses	176	551	1,595
Provision for repairs	382	1,837	3,445
Other current liabilities	439	446	3,964
Total Current Liabilities	42,185	43,958	380,359
LONG-TERM LIABILITIES			
Long-term debt (Notes 6 and 15)	8,050	10,450	72,581
Liability for retirement benefits (Note 7)	2,574	2,600	23,211
Provision for environmental measures	148	150	1,337
Provision for repairs	598		5,394
Deferred tax liabilities (Note 14)	2,405	3,204	21,686
Other long-term liabilities	260	373	2,352
Total Long-Term Liabilities	14,037	16,777	126,564
Total Liabilities	56,222	60,735	506,924
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16 and 18)			
EQUITY (Notes 8 and 21)			
Common stock—authorized, 136,200,000 shares; issued, 36,949,400 and 36,849,400 shares in 2018 and 2017	8,800	8,772	79,347
Capital surplus	6,047	5,272	54,523
Retained earnings	20,746	16,072	187,056
Treasury stock, at cost, 8,752* and 70 shares in 2018 and 2017	(26)	(0)	(240)
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Unrealized gain on available-for-sale securities	414	712	3,733
Deferred gains or losses on hedges	1	(1)	13
Foreign currency translation adjustments	118	131	1,065
Defined retirement benefit plans	(197)	72	(1,781)
Total	35,903	31,032	323,716
Non-Controlling Interests	2,401	3,479	21,653
Total Equity	38,304	34,512	345,369
Total	¥ 94,527	¥ 95,247	\$ 852,293

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

* 8,600 shares of the Company's shares held by the Board Benefit Trust were included in the number of treasury stock as of December 31, 2018.

Consolidated Statement of Income

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
NET SALES	¥ 101,199	¥ 94,661	\$ 912,442
COST OF SALES (Note 10)	79,210	71,997	714,189
GROSS PROFIT	21,988	22,664	198,253
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 12)	11,130	11,169	100,353
OPERATING INCOME	10,858	11,495	97,900
OTHER INCOME (EXPENSE)			
Interest and dividend income	312	171	2,818
Interest expense	(92)	(122)	(834)
Foreign exchange loss—net	(17)	(7)	(162)
Equity in earnings of associated company	158	259	1,432
Loss on valuation of investment securities (Note 13)	(890)		(8,028)
Loss on liquidation of subsidiaries and associates (Note 13)	(553)		(4,986)
Other—net	(21)	185	(190)
Other (expense) income—net	(1,103)	486	(9,951)
INCOME BEFORE INCOME TAXES	9,754	11,982	87,948
INCOME TAXES—Current	2,867	3,940	25,854
INCOME TAXES—Deferred	1	(267)	14
TOTAL INCOME TAXES (Note 14)	2,869	3,672	25,869
NET INCOME	6,885	8,309	62,079
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	147	142	1,329
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 6,737	¥ 8,167	\$ 60,749

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

	Yen		U.S. Dollars
	2018	2017	2018
PER SHARE OF COMMON STOCK (Notes 2 and 20)			
Basic net income	¥ 182.77	¥ 222.12	\$ 1.65
Diluted net income	¥ 181.62	¥ 220.44	\$ 1.64
Cash dividends applicable to the year	54.00	54.00	0.49

Consolidated Statement of Comprehensive Income

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
NET INCOME	¥ 6,885	¥ 8,309	\$ 62,079
OTHER COMPREHENSIVE INCOME (Note 19)			
Unrealized (loss) gain on available-for-sale securities	(298)	409	(2,691)
Deferred gain on derivatives under hedge accounting	2	3	23
Foreign currency translation adjustments	(12)	(15)	(116)
Defined retirement benefit plans	(269)	196	(2,433)
Total Other Comprehensive (Loss) Income	(578)	594	(5,217)
COMPREHENSIVE INCOME	6,306	8,903	56,862
TOTAL COMPREHENSIVE INCOME ATTRIBUTE TO :			
Owner of the parent	6,159	8,761	55,532
Noncontrolling interests	¥ 147	¥ 142	\$ 1,329

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

Consolidated Statement of Changes in Equity

	Thousands	Millions of Yen			
	Number of shares of common stock issued	Common Stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, JAN. 1, 2017	36,749	¥ 8,745	¥ 5,245	¥ 10,438	
Issuance of stock (Exercise of share option)	100	27	27		
Cash dividend, ¥75 per share				(2,756)	
Net income attributable to owners of parent				8,167	
Increase in treasury stock (70 shares)					
Change of scope of consolidation				223	
Net change in the year					
BALANCE, JAN. 1, 2018	36,849	8,772	5,272	16,072	
Issuance of stock (Exercise of share option)	100	27	27		
Cash dividend, ¥56 per share				(2,063)	
Net income attributable to owners of parent				6,737	
Increase in treasury stock (8,682 shares)*					¥ (26)
Purchase of shares of consolidated subsidiaries			746		
Net change in the year					
BALANCE, DEC. 31, 2018	36,949	¥ 8,800	¥ 6,047	¥ 20,746	¥ (26)

	Millions of Yen						
	Accumulated other comprehensive income				Total	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Defined retirement benefit plans			
BALANCE, JAN. 1, 2017	¥ 303	¥ (4)	¥ 109	¥ (124)	¥ 24,713	¥ 3,399	¥ 28,112
Issuance of stock (Exercise of share option)					55		55
Cash dividend, ¥75 per share					(2,756)		(2,756)
Net income attributable to owners of parent					8,167		8,167
Increase in treasury stock (70 shares)							
Change of scope of consolidation					223		223
Net change in the year	409	3	21	196	630	79	710
BALANCE, JAN. 1, 2018	712	(1)	131	72	31,032	3,479	34,512
Issuance of stock (Exercise of share option)					55		55
Cash dividend, ¥56 per share					(2,063)		(2,063)
Net income attributable to owners of parent					6,737		6,737
Increase in treasury stock (8,682 shares)*					(26)		(26)
Purchase of shares of consolidated subsidiaries					746		746
Net change in the year	(298)	2	(12)	(269)	(578)	(1,077)	(1,656)
BALANCE, DEC. 31, 2018	¥ 414	¥ 1	¥ 118	¥ (197)	¥ 35,903	¥ 2,401	¥ 38,304

Thousands of U.S. Dollars

	Common Stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, JAN. 1, 2018	\$ 79,099	\$ 47,542	\$ 144,914	\$ (1)
Issuance of stock (Exercise of share option)	247	247		
Cash dividend, \$0.50 per share			(18,608)	
Net income attributable to owners of parent			60,749	
Increase in treasury stock (8,682 shares)*				\$ (239)
Purchase of shares of consolidated subsidiaries		6,732		
Net change in the year				
BALANCE, DEC. 31, 2018	\$ 79,347	\$ 54,523	\$ 187,056	\$ (240)

Thousands of U.S. Dollars

	Accumulated other comprehensive income				Total	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Defined retirement benefit plans			
BALANCE, JAN. 1, 2018	\$ 6,424	\$ (9)	\$ 1,181	\$ 651	\$ 279,803	\$ 31,367	\$ 311,171
Issuance of stock (Exercise of share option)					495		495
Cash dividend, \$0.50 per share					(18,608)		(18,608)
Net income attributable to owners of parent					60,749		60,749
Increase in treasury stock (8,682 shares)*					(239)		(239)
Purchase of shares of consolidated subsidiaries					6,732		6,732
Net change in the year	(2,691)	23	(116)	(2,433)	(5,217)	(9,714)	(14,932)
BALANCE, DEC. 31, 2018	\$ 3,733	\$ 13	\$ 1,065	\$ (1,781)	\$ 323,716	\$ 21,653	\$ 345,369

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

* The increase in treasury stock was due to the purchases of 8,600 shares of the Company by the management board benefit trust.

Consolidated Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018
OPERATING ACTIVITIES			
Income before income taxes	¥ 9,754	¥ 11,982	\$ 87,948
Adjustment for:			
Income taxes—paid	(3,244)	(3,157)	(29,250)
Depreciation and amortization	3,254	3,382	29,343
Loss on valuation of investment securities	890		8,028
Loss on liquidation of subsidiaries and associates	553		4,986
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(2,704)	(3,377)	(24,388)
Increase in inventories	(1,194)	(1,582)	(10,768)
Increase in notes and accounts payable	2,161	5,177	19,486
(Decrease) increase in provision for repairs	(856)	884	(7,725)
Payment on liquidation of subsidiaries and associates	(553)		(4,986)
Other—net	(352)	(337)	(3,179)
Total Adjustments	(2,046)	989	(18,453)
Net Cash Provided by Operating Activities	7,707	12,971	69,495
INVESTING ACTIVITIES			
Increase in time deposits		(200)	
Decrease in time deposits	200	200	1,803
Purchases of property, plant and equipment	(4,061)	(2,249)	(36,616)
Purchase of investment securities	(10)	(1,058)	(96)
Purchase of stock of unconsolidated subsidiaries and associated companies	(62)		(562)
Other—net	(75)	25	(683)
Net Cash Used in Investing Activities	(4,009)	(3,281)	(36,155)
FINANCING ACTIVITIES			
(Decrease) increase in short-term bank loans & borrowings—net	(290)	9,829	(2,616)
(Decrease) increase in commercial paper—net	(1,000)	998	(9,017)
Increase in long-term bank loans		14,650	
Repayments of bank loans	(2,400)	(32,050)	(21,639)
Proceeds from stock issuance (Exercise of share option)	55	55	495
Dividends paid	(2,065)	(2,745)	(18,621)
Purchases of treasury stock	(26)		(239)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(410)		(3,704)
Other—net	(86)	(76)	(778)
Net Cash Used in Financing Activities	(6,224)	(9,338)	(56,120)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(13)	(18)	(118)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,539)	333	(22,899)
NET INCREASE IN CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		197	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,666	12,135	114,205
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 10,126	¥ 12,666	\$ 91,305

Note: The U.S. dollar amounts are translated from Japanese yen at the rate of ¥110.91 = U.S.\$1, the prevailing exchange rate at December 31, 2018.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which KH Neochem Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.91 to \$1, the approximate rate of exchange at December 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen and U.S. dollar figures less than a million yen or thousand dollars are rounded down to the nearest million yen or thousand dollars, except for per share data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of December 31, 2018 include the accounts of the Company and its four significant (four in 2017) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one (one in 2017) associated company is accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and other associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities for which there is a positive intent and ability to hold to maturity are reported at amortized cost; and (3) available-for-sale securities which are not classified as either of the aforementioned securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Inventories—Inventories are stated at the lower of cost, determined by the average cost method, or net selling value.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of

the Company and its consolidated domestic subsidiaries is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings (excluding building improvements) acquired on after April 1, 1998, building improvements and structures acquired on after April 1, 2016 by the Company and its consolidated domestic subsidiaries, and substantially all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 4 to 17 years for machinery and equipment.

g. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset, or the net selling price at disposition.

h. Amortization of Goodwill—The differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are amortized on a straight-line basis over 20 years.

i. Other Assets—Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method.

j. Allowance for Doubtful Accounts—The allowance for doubtful accounts is estimated based on the Groups' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

k. Provision for Environmental Measures—The Group estimates a provision for future payments resulting from the treatment of Polychlorinated Biphenyl ("PCB") wastes required by the law for "Special Measures for Promotion of Proper Treatment of PCB Wastes."

l. Provision for repairs—Provision for repairs of production facilities at plants is recorded based on estimated expense at the end of the year.

m. Retirement and Pension Plans—The Company adopts a lump-sum severance payment system and an agreement-type defined benefit corporate pension plan (including a cash balance plan) as defined benefit plans, and some consolidated subsidiaries adopt a lump-sum severance payment system and the smaller enterprise retirement allowance mutual aid scheme.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The accounting method of retirement and pension plans is as follow.

- ① Period attribution method of expected amount of retirement benefits
To calculate retirement benefit obligations, the expected amount of retirement benefits is attributed to the period prior to the end of the consolidated fiscal year under review on a benefit formula basis.
- ② Method of expensing actuarial gains and losses
Any actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over a certain period (10 years) within the average remaining service period of employees at the time of the accrual using the straight-line method.
- ③ Adoption of a simplified method at small-sized businesses, etc.
Some consolidated subsidiaries apply a simplified method of using the amount of payments required for retirement benefits for voluntary retirement at each balance sheet date as retirement benefit obligations for the calculation of liability for retirement benefits and net periodic retirement benefit costs.

Retirement allowances for directors are recorded as a liability (Other long-term liabilities) at the amount that would be required if all directors retired at each balance sheet date.

n. Research and Development Costs—Research and development costs are charged to income as incurred.

o. Leases—Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.

p. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

q. Accounting for Consumption Taxes—The tax exclusion method is adopted for accounting for consumption taxes and local consumption taxes. Consumption taxes not subject to deduction, and local consumption taxes are treated as expenses for the current consolidated fiscal year.

r. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains

and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

s. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

t. Derivatives and Hedging Activities—The Group's significant hedge accounting method is as follows.

① Hedge accounting method

In principle, deferred hedge accounting is adopted. In addition, a method (allocation treatment) for translating foreign currency receivables and payables based on yen-value cash flows fixed by forward contracts is adopted in cases where the requirements for using said method are fulfilled.

② Hedging instrument and hedged items

Hedging instrument: exchange contracts

Hedged items: foreign currency receivables and payables and anticipated foreign currency transactions

③ Hedging policy

The Group uses derivative transactions for the purpose of managing the risk of exchange rate fluctuations arising in the ordinary course of business. The Group does not engage in derivative transactions for speculative purposes. The Group does not use derivative transactions with a leverage effect that creates large volatility in the market price of transactions compared with changes in the price of underlying products in the transactions. The Group conducts derivative transactions in accordance with the basic policy and internal regulations.

④ Method for assessing hedging effectiveness

An assessment of hedging effectiveness on the balance sheet date is omitted because exchange contracts with the same amount in a foreign currency and the same due date are assigned to each hedged item when concluding exchange contracts according to the risk management policy, so that correlations with subsequent changes in exchange rate fluctuations are completely assured.

u. Per Share Information—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the

beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

v. Recently Issued Accounting Standards Not Yet Adopted—

- Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28, revised on February 16, 2018, Accounting Standards Board of Japan)
- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, final version on February 16, 2018, Accounting Standards Board of Japan)

(1) Outline

These guidelines reviewed the treatment of future taxable temporary differences related to stocks of subsidiaries, etc. in non-consolidated financial statements and clarified the treatment of recoverability of deferred tax assets in companies falling under Category 1.

(2) Planned date of application

To be applied from the beginning of the fiscal year ending December 31, 2019.

(3) Impact of the application of these accounting standards, etc.

The impact of the adoption of the Implementation Guidance on Tax Effect Accounting and the Implementation Guidance on Recoverability of Deferred Tax Assets on the consolidated financial statements is currently under evaluation.

- Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 30, 2018, Accounting Standards Board of Japan)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30, March 30, 2018, Accounting Standards Board of Japan)

(1) Outline

International Accounting Standards Board ("IASB") and Financial Accounting Standard Board ("FASB") have jointly developed comprehensive accounting standards for revenue recognition and announced Revenue from Contracts with Customers (IFRS 15 for IASB and Topic 606 for FASB). As IFRS 15 is effective from fiscal years commencing on or after January 1, 2018, and Topic 606 is effective from fiscal years commencing after December 15, 2017, ASBJ has developed a comprehensive accounting standard together with its implementation guidance.

The fundamental policy of ASBJ in developing accounting standards for revenue recognition is for the new accounting standard to be consistent with IFRS 15. Alternative accounting treatment considering practices in Japan would be added to the extent that inconsistencies with IFRS 15 do not arise.

In particular, revenue will be recognized through the following five steps.

Step 1: Identify the contract with the customer

Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price
 Step 4: Allocate the transaction price to the performance obligation in the contract
 Step 5: Recognize revenue when (or as) the performance obligation is satisfied

(2) Planned date of application

To be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of the application of these accounting standards, etc.

The impact of the adoption of the Accounting Standard for Revenue Recognition and its implementation guidance on the consolidated financial statements is currently under evaluation.

w. Stock-Based Remuneration Plan for Directors—We have introduced a stock-based remuneration plan, of the Board Benefit Trust (“BBT”) (the “Plan”) for the Company’s directors, excluding outside directors. The introduction of the Plan aims to further increase incentive for the Directors, to contribute to improving medium and long-term performance, and to enhance corporate value by linking the Directors’ remuneration and the Company’s equity value.

(1) Overview of the plan

The plan is a stock-based remuneration plan, under which the Company’s shares will be acquired by a trust (the trust to be established under the plan is referred to hereinafter as the “Trust”) using funds that the Company will contribute, and the Company’s shares and cash equivalent to the market price of the Company’s shares will be provided to the Directors, from the Trust in accordance with the Regulations for Provision of Shares to Directors established by the Company. In principle, the Company’s shares will be provided to the Company’s Directors on their retirement.

(2) Remaining shares of the Company in the Trust

In order to provide, the Company’s shares, etc. to the Directors under the plan, the Company will contribute money to the Trust as funds for the acquisition of shares of the Company by the Trust. The acquisition of shares of the Company by the Trust will be implemented through the stock market on which the Company’s shares are listed by the Company and recorded as a treasury stock.

< Remaining amount and number of treasury stock at the balance sheet date under review >

Amount ¥26 million

Number 8 thousand shares

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of December 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-current:			
Equity securities	¥5,774	¥6,191	\$52,064
Debt securities	—	—	—
Other	—	—	—
Total	¥5,774	¥6,191	\$52,064

The costs and aggregate fair values of marketable and investment securities at December 31, 2018 and 2017 were as follows:

December 31,	Millions of Yen				
	2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:					
Available-for-sale:					
Equity securities	¥1,860	¥591	—	—	¥2,452
Debt securities	—	—	—	—	—
Other	—	—	—	—	—
December 31, 2017					
Securities classified as:					
Available-for-sale:					
Equity securities	¥1,852	¥1,019	—	—	¥2,872
Debt securities	—	—	—	—	—
Other	—	—	—	—	—

December 31,	Thousands of U.S. Dollars				
	2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:					
Available-for-sale:					
Equity securities	\$16,779	\$5,337	—	—	\$22,116
Debt securities	—	—	—	—	—
Other	—	—	—	—	—

There were no available-for-sale securities which were sold during the years ended December 31, 2018 and 2017.

There were no impairment losses on available-for-sale equity securities for the years ended December 31, 2018 and 2017.

4. INVENTORIES

Inventories at December 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Merchandise	¥ 1,206	¥ 1,151	\$ 10,876
Finished products	8,717	8,021	78,595
Work in process	362	336	3,272
Raw material	1,712	1,295	15,437
Supplies	281	290	2,534
Total	¥12,279	¥11,094	\$110,716

5. PROCESSING METHOD OF TRADE NOTES MATURED AT THE END OF THE FISCAL YEAR

Trade notes matured at the end of the fiscal year are settled as of the clearing day.

Since the last days of the previous consolidated fiscal year and the current consolidated fiscal year were holidays for financial institutions, bills matured at the end of the fiscal year are included in the balance in the following fiscal years,

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Receivables—Trade notes	¥170	¥214	\$1,533
Payables—Trade notes	¥ 1	¥ 1	\$ 11

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at December 31, 2018 and 2017 consisted of term loans. The annual interest rates applicable to the short-term bank loans ranged from 0.32% to 0.70% both at December 31, 2018 and 2017.

Long-term debt at December 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Loans from banks and other financial institutions, due serially to 2022 with interest rates ranging from 3-month Tokyo Inter Bank Offered Rate (TIBOR) plus 0.25% to 0.55% (2018 and 2017):	¥10,450	¥12,850	\$ 94,220
Collateralized			
Unsecured	10,450	12,850	94,220
Total	10,450	12,850	94,220
Less current portion	(2,400)	(2,400)	(21,639)
Long-term debt, less current portion	¥ 8,050	¥10,450	\$ 72,581

Annual maturities of long-term debt at December 31, 2018 were as follows:

Year Ending December 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 2,400	\$ 21,639
2020	2,400	21,639
2021	2,400	21,639
2022	3,250	29,303
2023 and thereafter		
Total	¥10,450	\$ 94,220

At December 31, 2017, land and buildings of ¥100 million were pledged as collateral for short-term bank loans of ¥150 million, and no assets were pledged as collateral for the long-term debt above.

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

The Company has current overdraft contracts and commitment line agreements with several banks to effectively secure working capital. The balance of unexecuted loans etc. concerning current overdraft contracts and commitment line agreements at the end of the previous consolidated financial year is as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Maximum amount of current overdraft contracts and lines of credit	¥22,018	¥22,025	\$ 198,522
Outstanding borrowings	9,750	9,910	87,909
Balance	¥12,268	¥12,115	\$ 110,613

7. RETIREMENT AND PENSION PLANS

The Company adopts a lump-sum severance payment system and an agreement-type defined benefit corporate pension plan (including a cash balance plan) as defined benefit plans, and some consolidated subsidiaries adopt a lump-sum severance payment system and the smaller enterprise retirement allowance mutual aid scheme.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Some consolidated subsidiaries apply a simplified method using the amount of payments required for retirement benefits for voluntary retirement at each balance sheet date as retirement benefit obligations for the calculation of liability for retirement benefits and net periodic retirement benefit costs.

(1) The changes in defined benefit obligation for the years ended December 31, 2018 and 2017 were as follows (excluding the amounts recorded by the simplified method):

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥5,015	¥5,217	\$45,220
Current service cost	264	278	2,386
Interest cost	30	31	271
Actuarial losses (gains)	79	(101)	716
Benefits paid	(519)	(409)	(4,682)
Balance at end of year	¥4,870	¥5,015	\$43,912

The changes in defined benefit obligation for the years ended December 31, 2018 and 2017 were as follows (amounts which were recorded by the simplified method):

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥289	¥297	\$2,608
Retirement benefit cost	35	44	321
Benefits paid	(3)	(46)	(34)
Contributions from the employer	(5)	(5)	(49)
Balance at end of year	¥315	¥289	\$2,846

(2) The changes in plan assets for the years ended December 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥4,289	¥4,131	\$38,679
Expected return on plan assets	107	103	966
Actuarial (gains) losses	(297)	163	(2,680)
Contributions from the employer	125	124	1,129
Benefits paid	(271)	(232)	(2,451)
Balance at end of year	¥3,953	¥4,289	\$35,644

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of December 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Defined benefit obligation	¥ 2,611	¥ 2,704	\$ 23,547
Plan assets	(3,953)	(4,289)	(35,644)
Total	(1,341)	(1,585)	(12,096)
Unfunded defined benefit obligation	2,574	2,600	23,211
Net liability arising from defined benefit obligation	¥ 1,232	¥ 1,014	\$ 11,114

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥ 2,574	¥ 2,600	\$ 23,211
Asset for retirement benefits	(1,341)	(1,585)	(12,096)
Net liability arising from defined benefit obligation	¥ 1,232	¥ 1,014	\$ 11,114

(4) The components of net periodic benefit costs for the years ended December 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 264	¥ 278	\$ 2,386
Interest cost	30	31	271
Expected return on plan assets	(107)	(103)	(966)
Recognized actuarial (gains) losses	(9)	16	(89)
Retirement benefit cost (Simplified Method)	35	44	321
Redundancy pay			
Net periodic retirement benefit costs	<u>¥ 213</u>	<u>¥ 266</u>	<u>\$ 1,923</u>

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial losses (gains)	<u>¥386</u>	<u>¥(281)</u>	<u>\$3,485</u>
Total	<u>¥386</u>	<u>¥(281)</u>	<u>\$3,485</u>

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial losses (gains)	<u>¥283</u>	<u>¥(103)</u>	<u>\$2,552</u>
Total	<u>¥283</u>	<u>¥(103)</u>	<u>\$2,552</u>

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Debt investments	71%	70%
Equity investments	29	30
Others	0	0
Total	<u>100%</u>	<u>100%</u>

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended December 31, 2018 and 2017 are set forth as follows:

	2018	2017
Discount rate	0.6%	0.6%
Expected rate of return on plan assets	2.5	2.5

8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit &

Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

During the years ended December 31, 2018 and 2017, stock options have been exercised and 100,000 shares have been issued, respectively, at ¥550 per share. The amount of the issuance of shares totaled ¥55 million each for 2018 and 2017, and the Company increased its common stock by ¥27 million each and additional paid-in capital by the same amount.

9. STOCK OPTIONS

The stock options outstanding as of December 31, 2018 are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2015 Stock Option	1 director	550,000 shares	Feb. 24, 2015	¥ 550 (\$ 4.9)	From Feb. 25, 2015 to July 31, 2020

Note

Related to the stock split on June 10, 2016, the number of shares mentioned above is converted to the number after the stock split.

The stock option activity is as follows:

	2015 Stock Option (Shares)
<u>Year Ended December 31, 2017</u>	
<u>Non-vested</u>	
January 1, 2017—Outstanding	-
Granted	-
Canceled	-
Vested	-
December 31, 2017—Outstanding	-
<u>Vested</u>	
January 1, 2017—Outstanding	400,000
Vested	-
Exercised	(100,000)
Canceled	-
December 31, 2017—Outstanding	300,000
<u>Year Ended December 31, 2018</u>	
<u>Non-vested</u>	
December 31, 2017—Outstanding	-
Granted	-
Canceled	-
Vested	-
December 31, 2018—Outstanding	-
<u>Vested</u>	
December 31, 2017—Outstanding	300,000
Vested	-
Exercised	(100,000)
Canceled	-
December 31, 2018—Outstanding	200,000
Exercise price	¥ 550 (\$ 4.9)
Average stock price at exercise	¥ 3,278 (\$ 29.5)
Fair value price at grant date	-

a. Method of estimating a fair unit price of stock options

The Company calculates stock options using an intrinsic value per unit, instead of a fair unit price, because the Company was privately owned when it granted stock options.

The assessed value of its shares, which is the basis of estimating the intrinsic value per unit, is calculated by comprehensively taking into account prices calculated by the comparable industry method, the dividend discount method, and the net asset value method.

b. Method of estimating the number of vested stock options

Estimating the number of lapsed stock options is essentially difficult. Therefore, the Company has applied a method that reflects only the number of actually lapsed stock options.

c. The sum of intrinsic values at the balance sheet date under review where the calculation is made using the intrinsic value per unit of stock options and the sum of intrinsic values on the date of exercise of stock options that were exercised in the consolidated fiscal year under review

(i) Sum of intrinsic values at the balance sheet date under review	¥350 million
(ii) Sum of intrinsic values exercised in the year under review	¥272 million

10. LOSS ON DEVALUATION OF INVENTORIES

The Company recorded the following loss on devaluation of inventories held for ordinary sales purposes due to impairments reflecting a drop in profitability for the years ended December 31, 2018 and 2017:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Cost of sales	¥ (52)	¥ 103	\$ (472)

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended December 2018 and 2017 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Salary	¥ 1,159	¥ 1,116	\$ 10,451
Freight	3,889	3,893	35,069
Container packaging	1,262	1,227	11,383
Others	4,818	4,931	43,448
Total	¥11,130	¥11,169	\$100,353

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥822 million (\$7,413 thousand) and ¥939 million for the years ended December 31, 2018 and 2017, respectively.

13. LOSS ON VALUATION OF INVESTMENT SECURITIES AND LOSS ON LIQUIDATION OF SUBSIDIARIES AND ASSOCIATES

At the Board of Director's meeting held on October 25, 2018, the Company resolved to start the procedure to withdraw from the plasticizer manufacturing facility construction project which has been driven mostly by the joint venture company "Taiwan-Japan Oxo Chemical Industries Inc.", established in Taiwan.

As a result, the Company recorded loss on valuation of investment securities related to shares of KH Neochem UK Ltd. (non-consolidated subsidiary), which owned interest in the joint venture, at ¥ 890 million and a loss on liquidation of subsidiaries and associates at ¥ 553 million in the consolidated financial statements for the year ended December 31, 2018.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.4% for each of

the years ended December 31, 2018 and 2017.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at December 31, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
Deferred tax assets:			
Liability for retirement benefits	¥ 790	¥ 797	\$ 7,128
Provision for repairs	295	558	2,668
Loss on valuation of investment securities	272	4	2,460
Loss on liquidation of subsidiaries and associates	166	—	1,505
Excess depreciation	42	44	379
Inventories	33	50	302
Unpaid enterprise tax	127	134	1,153
Accrued bonuses	—	105	—
Other	435	470	3,927
Less valuation allowance	(148)	(180)	(1,335)
Total	¥ 2,017	¥ 1,984	\$ 18,190
Deferred tax liabilities:			
Land	¥ (2,606)	¥ (2,606)	\$(23,498)
Revaluation of investment securities	(584)	(584)	(5,271)
Asset for retirement benefits	(405)	(478)	(3,651)
Unrealized gain on available-for-sale securities	(177)	(307)	(1,604)
Other	(75)	(82)	(682)
Total	(3,849)	(4,059)	(34,708)
Net deferred tax liabilities	¥ (1,831)	¥ (2,074)	\$(16,517)

Reconciliation for the years ended December 31, 2018 and 2017 is omitted since the difference between the tax rates is 5% or less of the normal effective statutory tax rate.

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

With respect to fund management, the Group manages funds using safe and secure financial assets, such as deposits. The Group also raises short-term funds mainly by borrowing from financial institutions and the issuance of commercial paper. The Group uses derivative transactions to avoid the risks described below and will not carry out speculative transactions.

(2) Nature and Extent of Risks Arising from Financial Instruments

The Group tries to reduce the credit risk of customers related to trade notes and accounts receivable according to regulations on the collection of receivables and credit management, etc. Investment securities are primarily shares in companies with which the Company has business relationships and are exposed to the risk of market price fluctuations. Trade notes and accounts payable and other accounts payable are payables that will become due within a year. The derivatives are forward exchange contracts whose purpose is hedging exchange fluctuation risks related to foreign currency operating receivables and payables.

(3) Risk Management for Financial Instruments

(i) Management of credit risk (risk relating to contractual default of customers)

In the Group, the sales and marketing divisions and others

regularly monitor the situation regarding operating receivables of main customers according to regulations on the collection of receivables and credit management for management of due dates and the balance of each customer and promptly comprehend and mitigate concerns about collection caused by the deterioration of financial standing and other factors.

To reduce credit risk, derivative transactions are only conducted with financial institutions with a high credit ratings.

(ii) Management of market risk (risk of exchange rate and interest rate fluctuations)

Foreign currency operating receivables and payables are hedged against the risk of exchange rate fluctuations by using forward exchange contracts as needed.

The situation regarding investment securities held is continuously reviewed by regularly monitoring market prices and the financial standings of issuers (customer companies), while taking into consideration relationships with customer companies.

Derivative transactions are executed and managed in accordance with regulations on market risk and others.

(iii) Management of liquidity risk related to financing (risk that payment cannot be made on due date)

In the Group, the liquidity risk is managed by the division in charge that maintains liquidity on hand, in addition to preparing and updating a management plan in a timely manner based on reports from each division and group.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

	Millions of Yen			
	December 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥10,126	¥10,126		¥—
Notes and accounts receivable	27,340	27,340		—
Investment securities	2,452	2,452		—
Total	¥39,920	¥39,920		¥—
Notes and accounts payable	¥23,429	¥23,429		¥—
Short-term borrowings	10,590	10,590		—
Current portion of long-term debt	2,400	2,400		—
Payables—Others	2,350	2,350		—
Income taxes payable	2,416	2,416		—
Long-term debt	8,050	8,050		—
Total	¥49,236	¥49,236		¥—
Derivative transactions	¥ 2	¥ 2		¥—
December 31, 2017				
Cash and cash equivalents	¥12,866	¥12,866		¥—
Notes and accounts receivable	24,642	24,642		—
Investment securities	2,872	2,872		—
Total	¥40,381	¥40,381		¥—
Notes and accounts payable	¥21,285	¥21,285		¥—
Short-term borrowings	10,880	10,880		—
Current portion of long-term debt	2,400	2,400		—
Commercial paper	999	999		—
Payables—Others	2,701	2,701		—
Income taxes payable	2,856	2,856		—

Long-term debt	10,450	10,450	–
Total	¥51,573	¥51,573	¥–
Derivative transactions	¥ (1)	¥ (1)	¥–
Thousands of U.S. Dollars			
December 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	\$ 91,305	\$ 91,305	\$ –
Notes and accounts receivable	246,511	246,511	–
Investment securities	22,116	22,116	–
Total	\$359,933	\$359,933	\$–
Notes and accounts payable	\$ 211,250	\$ 211,250	\$ –
Short-term borrowings	95,482	95,482	–
Current portion of long-term debt	21,639	21,639	–
Payables—Others	21,193	21,193	–
Income taxes payable	21,789	21,789	–
Long-term debt	72,581	72,581	–
Total	\$443,936	\$443,936	\$–
Derivative transactions	\$ 19	\$ 19	\$–

Note

Receivables and payables from derivative transactions are presented on a net basis, and numbers in parentheses denote net payables.

Cash and Cash Equivalents, Receivables

The carrying values of cash and cash equivalents and receivables approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange. Fair value information for investment securities by classification is included in Note 3.

Payables, Short-term borrowings, Commercial paper, Payables – Others, Income taxes payable

The carrying values of these approximate fair value because of their short maturities.

Current portion of long-term bank loans and Long-term debt

These financial instruments are borrowed at floating interest rates and reflect market interest rates in the short term. Their market prices are deemed to approximate their book values because the credit standing of the Company does not change much after the borrowing. The fair values are therefore deemed equal to their book values.

Derivatives

Fair value information for derivatives is included in Note 15.

(b) Carrying amount of financial instruments whose fair values cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unlisted equity securities that do not have a quoted market price in an active market	¥4,732	¥5,682	\$42,670

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

December 31, 2018	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Receivables	¥27,340	¥–	¥–	¥–
Total	¥27,340	¥–	¥–	¥–
December 31, 2017	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 200	¥–	¥–	¥–
Receivables	24,642	–	–	–
Total	¥24,842	¥–	¥–	¥–
December 31, 2018	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Receivables	\$ 246,511	\$ –	\$ –	\$ –
Total	\$ 246,511	\$ –	\$ –	\$ –

16. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange rate risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within the Group's business. Accordingly, market risk for these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting Is Not Applied

There are no derivative transactions to which hedge accounting is not applied.

Derivative Transactions to Which Hedge Accounting Is Applied

December 31, 2018	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.\$	Forecast transaction	¥ –	¥–	¥ –
Selling U.S.\$	Forecast transaction	175	–	2

Foreign currency forward contracts appropriated to specific debts and credits:				
Buying U.S.\$	Payables	¥ 345	¥ –	(Note)
Selling U.S.\$	Receivables	2,398	–	(Note)
Selling euro	Receivables	€ 75	€ –	(Note)

December 31, 2017

Foreign currency forward contracts:				
Buying U.S.\$	Forecast transaction	¥ 193	¥ –	¥ (0)
Selling U.S.\$	Forecast transaction	302	–	(0)

Foreign currency forward contracts appropriated to specific debts and credits:				
Buying U.S.\$	Payables	¥ 346	¥ –	(Note)
Selling U.S.\$	Receivables	1,991	–	(Note)
Selling euro	Receivables	€ 31	€ –	(Note)

Thousands of U.S. Dollars

December 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
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Foreign currency forward contracts:				
Buying U.S.\$	Forecast transaction	\$ –	\$ –	\$ –
Selling U.S.\$	Forecast transaction	1,585	–	19

Foreign currency forward contracts appropriated to specific debts and credits:				
Buying U.S.\$	Payables	\$ 3,110	\$ –	(Note)
Selling U.S.\$	Receivables	21,625	–	(Note)
Selling euro	Receivables	€ 683	€ –	(Note)

Note

The fair values of allocation treatment are included in the fair values of accounts receivable because they are accounted for as an integral part of accounts receivable and payable, which are hedge items.

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the table above do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

17. RELATED-PARTY TRANSACTION

Transactions with related parties the years ended December 31, 2018 and 2017 were as follows.

J-Plus Co., Ltd. (Associated company. The Company owned 50% of the common stock of J-Plus Co., Ltd. At December 31, 2018.)

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Transactions:			
Sales (Note 1)	¥ 6,094	¥ 5,454	\$ 54,949
Borrowing (Note 2)	–	–	–

Purchases of raw materials (Note 1)	10,382	10,333	93,611
Balances:			
Receivables—accounts	1,745	1,571	15,738
Short-term borrowings	840	970	7,573
Payables—accounts	856	1,079	7,725
Receivables—other	¥ 925	¥ 1,153	\$ 8,341

Keiichi Asai (President & CEO of the Company)

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Transactions:			
Exercise of stock option (Note 3)	¥ 55	¥ 55	\$ 495
Balances:	–	–	–

Notes

- Transaction terms for sales and purchase of raw materials are determined in the same manner as regular transaction terms based on their market prices.
- Interest rates have been reasonably determined considering the market rate of interest. We have omitted transaction amounts because these borrowings were for working capital, and we perform this operation frequently in the short term.
- Stock price is calculated by comprehensively taking into account prices calculated by the comparable industry method, the dividend discount method, and the net asset value method.

18. CONTINGENT LIABILITIES

At December 31, 2018, the Group had no material contingent liabilities:

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended December 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ (427)	¥ 586	\$(3,855)
Reclassification adjustments to profit or loss	–	–	–
Amount before income tax effect	(427)	586	(3,855)
Income tax effect	129	(176)	1,163
Total	¥ (298)	¥ 409	\$(2,691)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains arising during the year	¥ 3	¥ 5	\$ 33
Reclassification adjustments to profit or loss	–	–	–
Amount before income tax effect	3	5	33
Income tax effect	(1)	(1)	(10)
Total	¥ 2	¥ 3	\$ 23
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (12)	¥ (15)	\$(116)
Reclassification adjustments to profit or loss	–	–	–
Total	¥ (12)	¥ (15)	\$(116)
Defined retirement benefit plan(s):			
Adjustments arising during the year	¥ (376)	¥ 265	\$(3,396)
Reclassification adjustments to profit or loss	(9)	16	(89)
Amount before income tax effect	(386)	281	(3,485)
Income tax effect	116	(85)	1,052
Total	¥ (269)	¥ 196	\$(2,433)
Total other comprehensive (loss) income	¥ (578)	¥ 594	\$(5,217)

20. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2018 and 2017 is as follows:

Year Ended December 31, 2018	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥6,737	36,863	¥182.77	\$1.65
Effect of dilutive securities: Warrants		234		
Diluted EPS—Net income for computation	¥6,737	37,098	¥181.62	\$1.64
Year Ended December 31, 2017				
Basic EPS—Net income available to common shareholders	¥8,167	36,768	¥222.12	
Effect of dilutive securities: Warrants		279		
Diluted EPS—Net income for computation	¥8,167	37,048	¥220.44	

Note

The Company's shares in the BBT recorded as treasury stock in the net assets section of the consolidated balance sheet is included in the number of treasury stock deductible for the purpose of calculating the weighted-average number of shares during the year when calculating earnings per share.

The numbers of treasury stock deducted for the calculation of earnings per share were 5 thousand and 0 thousand for the years ended December 31, 2018 and 2017, respectively.

21. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings at December 31, 2018, was approved at the Company's shareholders' meeting held on March 26, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥27 (\$0.24) per share	¥997	\$8,994

Note

Dividends to the BBT of ¥0 million are included in the amount of total dividends

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate

resources to operating segments.

(1) Description of Reportable Segments

Information by segment is omitted as the Group has only one reportable segment, which is related to the chemical business, for the years ended December 31, 2018 and 2017.

(2) Information about Products and Services

For the years ended December 31, 2018 and 2017, a description is omitted as the Group has only one reportable segment.

(3) Information about Geographical Areas

a. Sales

Millions of Yen			
2018			
Japan	Asia	Other	Total
¥79,498	¥17,018	¥4,682	¥101,199

Millions of Yen			
2017			
Japan	Asia	Other	Total
¥71,019	¥18,567	¥5,074	¥94,661

Thousands of U.S. Dollars			
2018			
Japan	Asia	Other	Total
\$716,783	\$153,441	\$42,217	\$912,442

Note: Sales are classified by country or region based on the location of customers.

b. Property, plant and equipment

A description is omitted as the Group operates mainly in Japan and total tangible fixed assets in foreign countries were less than 10% of consolidated tangible fixed assets as of December 31, 2018 and 2017.

(4) Information about Major Customers

2018		
Name of Customers	Millions of Yen	
	Sales	Related Segment Name
Idemitsu Kosan Co., Ltd.	¥11,133	Chemical business
Miyako Kagaku Co., Ltd.	¥10,361	Chemical business

2017		
Name of Customers	Millions of Yen	
	Sales	Related Segment Name
Idemitsu Kosan Co., Ltd.	¥11,041	Chemical business

2018		
Name of Customers	Thousands of U.S. Dollars	
	Sales	Related Segment Name
Idemitsu Kosan Co., Ltd.	\$100,381	Chemical business
Miyako Kagaku Co., Ltd.	\$93,418	Chemical business

(5) Information about impairment loss on fixed assets

For the year ended December 31, 2018, there was no impairment loss on fixed assets.

For the year ended December 31, 2017, a description is omitted as the Group has only one reportable segment.

(6) Information about Amortization of Goodwill and Balance of Goodwill

For the years ended December 31, 2018 and 2017, a description is omitted as the Group has only one reportable segment.



Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan
Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of KH Neochem Co., Ltd.:

We have audited the accompanying consolidated balance sheet of KH Neochem Co., Ltd. and its consolidated subsidiaries as of December 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KH Neochem Co., Ltd. and its consolidated subsidiaries as of December 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

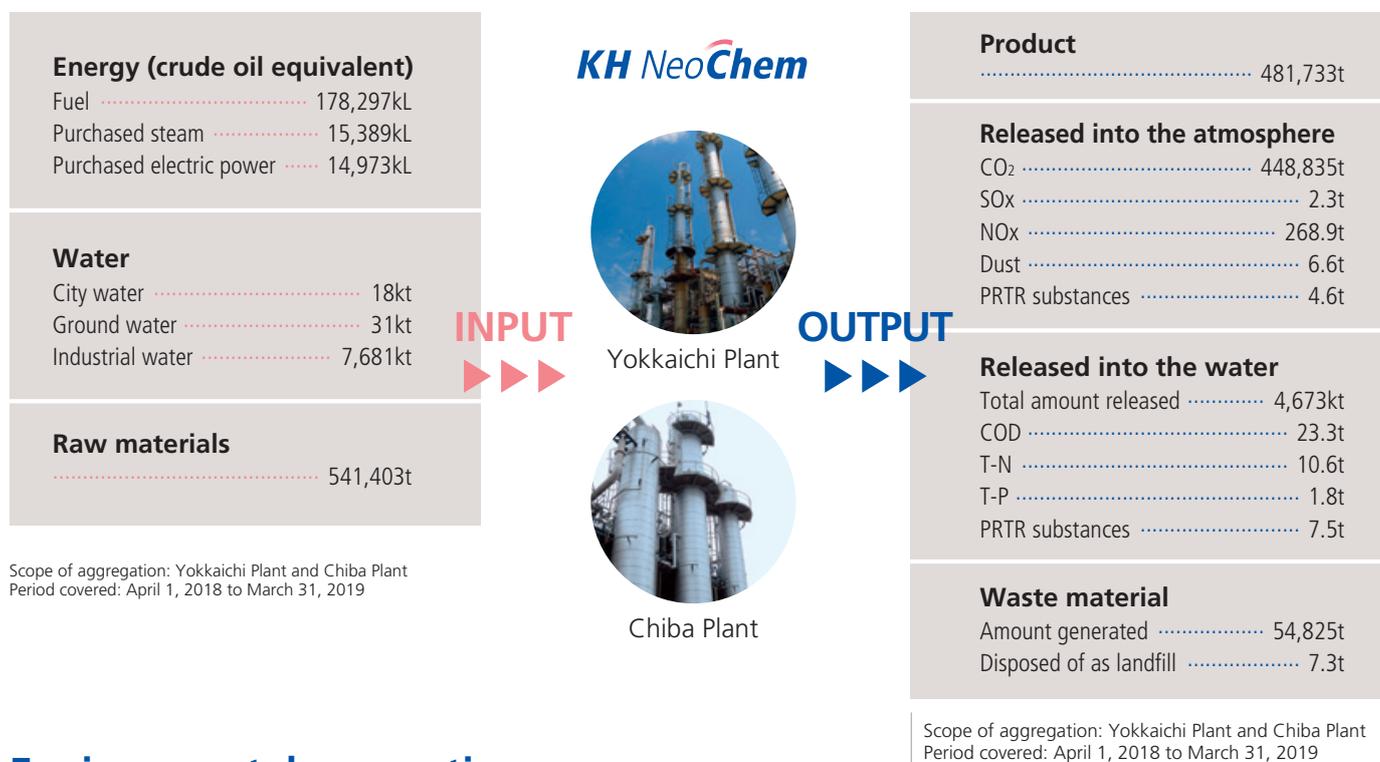
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

March 26, 2019

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

			Millions of Yen	
Classification	Substance of main measures	Investment amounts	Expense amounts	
Costs within business area		114	2,603	
Breakdown	Pollution prevention costs	Air pollution prevention, water pollution prevention, etc.	(25)	(885)
	Global environmental conservation costs	Global warming prevention, energy conservation measures, etc.	(55)	(394)
	Resource recycling costs	Efficient use of resources, recycling of waste, etc.	(33)	(1,325)
Upstream and downstream costs	Purchase of recycled stationery (eco-label goods), etc.	0	2	
Management program costs	Environmental management system maintenance, operation, etc.	0	31	
Research and development costs	Research and development, etc. for products contributing to environmental conservation, etc.	0	251	
Social program costs	Contributions and supports to groups engaging in environmental conservation, etc.	0	0	
Environmental remediation costs	Oil spill liability insurance, levies on pollution loads.	0	7	
Total		114	2,894	

* Some totals may not tally due to rounding.

Economic impact

		Millions of Yen
Description	Amount	
Profit	Sales of waste material (waste catalysts, scrap, etc.), sales of recovered containers	17

Scope of aggregation: Yokkaichi Plant and Chiba Plant
Period covered: January 1 to December 31, 2018

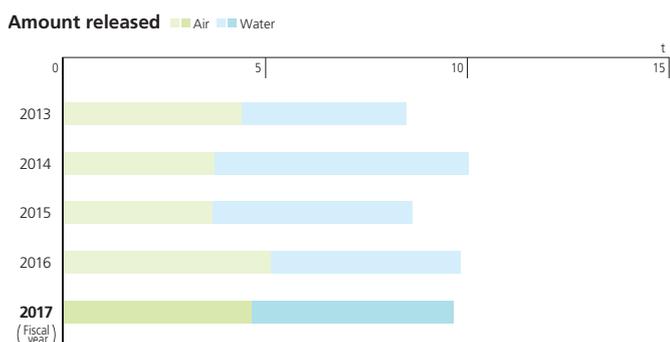
Reduction of amount released into the environment

Chemical substances

KH Neochem makes reports to the Japanese government in accordance with the PRTR Act* 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. The amounts released are shown in the below figure.

Due to facility improvements implemented in fiscal year 2012, over the last five years we have maintained figures showing a reduction by approximately 30% over fiscal year 2012.

* 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 of PRTR Act Type 1 designated chemical substances released (fiscal year 2017) [Top five substances by amount released]

Ordinance number	Substance name	Amount released				Total
		Air	Water	Soil	Total	
12	Acetaldehyde	1.6	1.1	0.0	2.7	
35	Isobutyl aldehyde	0.4	1.8	0.0	2.3	
300	Toluene	0.9	1.0	0.0	1.9	
20	2-aminoethanol	0.7	0.0	0.0	0.7	
132	Cobalt and its compounds	0.0	0.5	0.0	0.5	

* Some totals may not tally due to rounding.

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 we additionally comply with levels that have been agreed upon with local communities.

Amounts released (SOx, dust) ■ SOx ■ dust



Levels agreed upon with local communities and annual maximum values

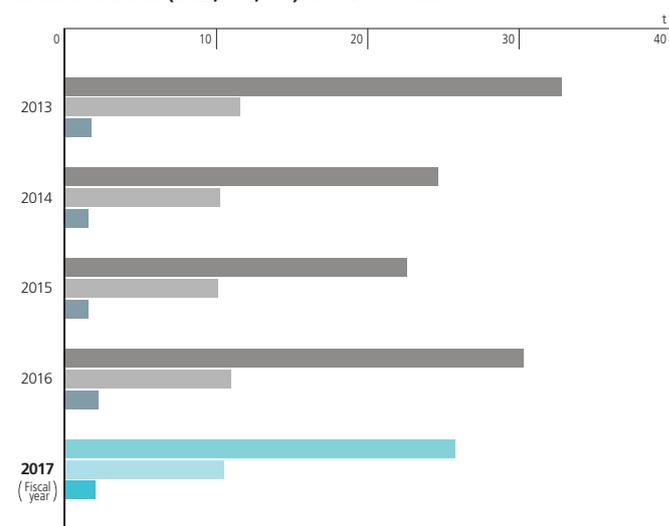
	Sox		Nox		Dust*	
	Agreement level	Maximum value	Agreement level	Maximum value	Agreement level	Maximum value
Yokkaichi Plant	1.0 Nm ³ /h	0.0 Nm ³ /h	53.0 kg/h	30.6 kg/h	0.025 g/Nm ³	0.001 g/Nm ³
Chiba Plant	9.0 Nm ³ /h	0.1 Nm ³ /h	12.0 Nm ³ /h	2.2 Nm ³ /h	4.5 kg/h	0.4 kg/h

* 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 (COD, T-N, T-P) ■ 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	90.7	46.0	29.8	13.00	9.4
Chiba Plant	124	62.9	90	38.9	12.5	5.7

Contributing to Local Communities and Society

Supporting Moemi Kikuchi, a short-track speed skating player



Our company concluded a contract with Moemi Kikuchi, a short-track speed skating player, in October 2018. Ms. Kikuchi puts dedicated efforts and plays an active role in the international scene with the aim of winning a medal at the Beijing Olympics in 2022. With the respect to Ms. Kikuchi's attitude, we will continue to tackle new challenges to aim higher together with her while fully supporting her to achieve her goal.

KH Neochem's social action programs



We, as a chemical materials manufacturer that supports the world-wide manufacturing activity, started a new social action program since 2017. This year, which is our second attempt, we implemented a voluntary activity at Ichihara Sports and Recreation Park in Ichihara City, Chiba, where our Chiba factory is located, utilizing "paints" that are related to our business.

*Ichihara Sports and Recreation Park has been the base for training of the Super Rugby Japan team Sunwolves since January 2019, and it is expected to be used by many people.

Goi Rinkai Festival



The 44th Goi Rinkai Festival was held in Ichiharyokuchi Sports Park and we set up a stall again. We sold sweet buns as we did last year. We attracted many customers and 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.

Our Responsible Care



The 11th RC in Chiba District communicating with Local Communities was held, and KH Neochem took part as one of the enterprises. Taking "corporate's role in participating environmental protection and safety and disaster prevention," as the topic, cases of RC activity by the various companies were introduced and panel discussions were held. There were 131 participants.

Volunteer cleanup



On Ocean Day, which is a national holiday in Japan we participated a volunteer cleanup of the Takamatsu coast, near our Yokaichi Factory.

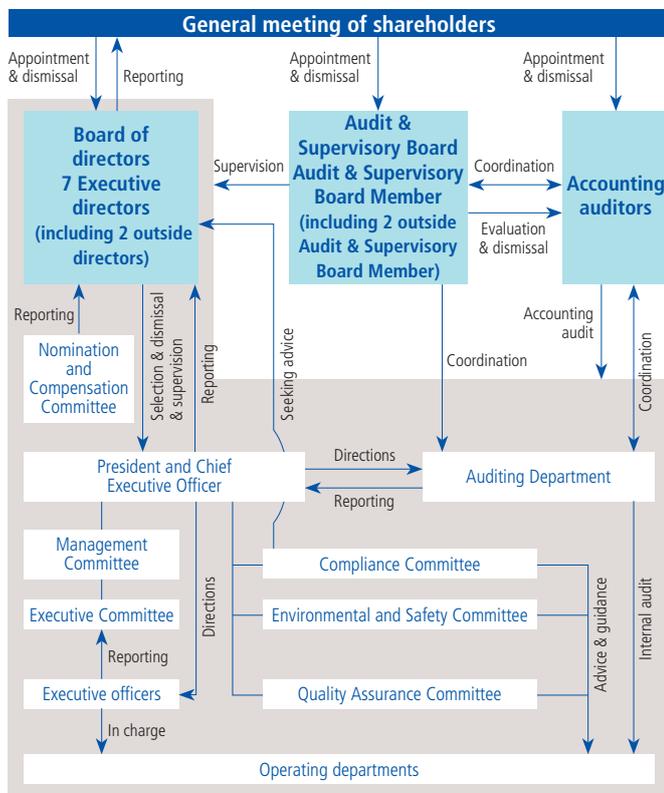
About Management

Corporate governance

Basic conceptual approach

In accordance with 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.

Corporate governance structure



Measures to strengthen corporate governance

Composition of board of directors

The board of directors of KH Neochem is composed of seven executive directors, among them two outside directors. The full-time directors have their respective wealth of work experience as well as specialized know-how from the business, production, research and development, corporate planning, accounting, finance, and other divisions, and they are capable of fulfilling their responsibilities effectively. The board of directors therefore has a well-balanced composition as a whole.

The outside directors make use of their abundant work experience and high level of professionalism to express their views actively and directly as to whether management judgements are not distorting the corporation’s in-house ethics as seen from the diverse perspectives of stakeholders and society. They also offer constructive advice and oversight. The term of service of the executive directors is set as one year in order to promote prompt responses to change in the management environment, as well as to make clear the management responsibility of the executive directors within the business year.

The Nomination and Compensation Committee

In March 2018, we decided to abolish the executive directors’ retirement benefits system and introduce a performance-linked, share-based compensation plan for executive directors, excluding outside directors, as a system to heighten the linkage with performance and the share price.

This was approved at the eighth regularly scheduled general meeting of KH Neochem shareholders. These revisions of the compensation system for executive directors were realized as a result of proposals that this committee made to the board of directors.

Board of directors

The board of directors of KH Neochem functions as a decision-making body with regard to matters set forth by legal statute and the corporate charter as well as important management matters, and 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 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

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, holding discussions with them, and so on. The KH Neochem board of corporate auditors has three members, including two outside corporate auditors. As a rule, the board of corporate auditors holds regular meetings once a month and also holds extraordinary meetings as necessary. They take steps for mutual information sharing with corporate auditors, formulating auditing plans, examining audit implementation status and audit results, and engaging in related activities.

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 Guiding Principles and compliance regulations, and we make every effort toward 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 accordingly.

Measures for compliance

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.



Our Compliance Guiding Principle is available on the KH Neochem website

Compliance Committee

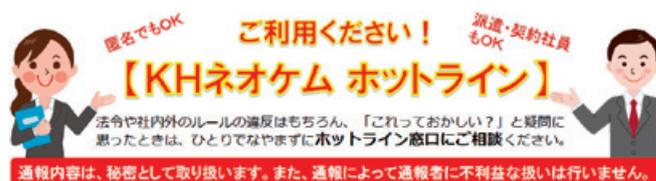
KH Neochem has established a Compliance Committee in order to plan and formulate basic guidelines regarding compliance, address serious problems concerning compliance, to provide compliance-related advice, guidance, education, and consciousness raising, and to deliberate on rules and regulations relating to other aspects of compliance in the KH Neochem Group. 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 takes steps to prevent acts that violate laws and regulations, by following the Compliance Guiding Principles, 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. Specifically, we make hotlines available for use by executive officers, employees, temporary employees, and any others concerned. We have developed a system that allows for use of a variety of routes, including 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. In order not to subject notifiers to any disadvantage, confidentiality is strictly observed and in-house company regulations state explicitly that notifiers are to be protected.

Hotline notification form that allows for anonymity



Hotlines are available through an intranet

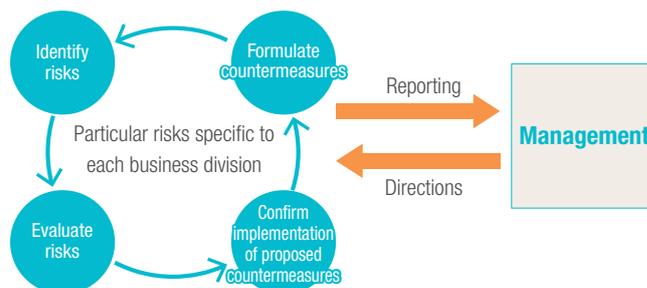
Risk management

Basic conceptual approach

The KH Neochem Group has established risk management rules, and we are engaging in company-wide 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 conduct inventories of risks that could affect management and business activities of companies in the KH Neochem Group. We calculate risk levels according to the impact and likelihood of the listed risks, and draft proposals for measures to prevent risks from materializing as well as to reduce their impact. The Risk Management Office examines the appropriateness of proposed measures and assigns risk levels based on the results of the risk inventories, then provides management with notifications and reports regarding risks of high priority.



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, and information leakage caused by the loss of recorded data media and so on. We conducted risk assessments of the control systems for our plants in 2017, and we made updates and revisions to portions of our plants' written operational procedures based on the results.

Action plan for industrial safety

In response to a requirement from the Ministry of Economy, Trade and Industry, the Japan Petrochemical Industry Association put together an Action Plan for industrial safety intended to prevent industrial accidents. KH Neochem is taking measures to reduce the risk of accidents of all types based on that action plan.

The 5C Credo

We enacted the "5C Credo*" in September 2018. This takes the KH Neochem statement of Basic Behavior, "Taking the first step to overcoming barriers and issues we face," and places it in the context of specific examples of action so that employees can use it as a foundation for their own judgement when taking action.

As a measure to achieve a more widespread awareness of the 5C Credo, a message from the president, together with a 5C Credo carry card that can be kept ready to hand, was distributed to all executives and regular employees of our Group companies. On the front of the card are the five important keywords that start with the letter C: Challenge, Curiosity, Communication, Courtesy, and Compliance. They are accompanied by examples of model conduct. In light of the crucial importance of compliance, the reverse face of the card contains a compliance checklist. We have also had 5C Credo posters designed for visibility to be placed where people will tend to notice them in every operating facility.

KH Neochem is committed to realizing increased corporate value and further growth of our human resources by practice of the 5C Credo.

* Credo is a Latin word that indicates intention or belief, and in our usage it is the simple expression of values and a norm for action providing a basis for corporate activities.



5C Credo card



5C Credo posters

KH Neochem is selected for inclusion in the SNAM Sustainability Index

KH Neochem has been selected for inclusion in the SNAM Sustainability Index, managed by Sompo Japan Nipponkoa Asset Management Co., Ltd. (SNAM), this year. The SNAM Sustainability Index is used by SNAM for its SNAM Sustainable Investment Fund.

The SNAM Sustainable Investment Fund, launched by SNAM in August 2012, is a socially responsible investment product for pension trusts and institutional investors that invests in a broad range of companies rated highly for their environment, social and governance (ESG) performance. Unlike ordinary active funds—investment decisions for which depend on the judgment of fund managers—the SNAM Sustainable Investment Fund employs a buy-and-hold strategy and determines weightings based the SNAM Sustainability Index, a proprietary active index the constituents of which are selected with an emphasis on ESG evaluations by research organizations. By providing insights into management quality and hidden risks not discernable from financial statements and assessing corporate value from a long-term perspective, the index seeks to contribute to wealth accumulation for long-term investors. Companies are reviewed annually for inclusion.



Member of SNAM
Sustainability Index
2019



Back row, from left: Kenji Ito, Atsuo Inagaki, Tokuo Oodo, Yukihiro Isogai, Manabu Fujise, Sayoko Miyairi
 Front row, from left: Tatsuro Niiya, Toshihiro Matsuoka, Michio Takahashi, Kenichi Hirai

Member of Director Board

Michio Takahashi

President & CEO

Toshihiro Matsuoka

Managing Director

Kenichi Hirai

Managing Director & CFO

Tatsuro Niiya

Managing Director

Yukihiro Isogai

Board Director

Manabu Fujise

Outside Director (Independent Director)

Sayoko Miyairi

Outside Director (Independent Director)

Audit & Supervisory Board Member

Tokuo Oodo

Audit & Supervisory Board Member

Atsuo Inagaki

Audit & Supervisory Board Member
 (Independent Auditor)

Kenji Ito

Audit & Supervisory Board Member
 (Independent Auditor)

Communicating with Our Shareholders and Investors

General meeting of shareholders

Our company holds an annual meeting of shareholders in March every year. Since we regard the shareholders meeting as the company's highest organ of decision-making as well as a valuable opportunity where we can have direct interactions with our shareholders, we are trying our best to schedule the date and location as convenient as possible for our shareholders.

Also, in order to introduce our products in an easy-to-understand manner, we set up an exhibition booth for business introduction and presented the example scenes of our products being used in daily life. In addition, we try to convey our business contents and projects in an easy-to-



The general meeting of shareholders in session

understand manner by using narration, images, and other means when explaining at the shareholders' meetings. It was a great opportunity for interaction with our shareholders as we received many questions from our shareholders.

Close relationship with Our Shareholders and Investors

In addition to holding our financial results explanatory meeting four times annually, we had about 240 individual interviews with analysts and institutional investors in 2018. Also, along with introducing our projects towards safety operation and environment on a tour held in Chiba factory, we have been working on positive communication with our shareholders and investors in efforts, such as organizing a business briefing as first effort and explaining the business environment of refrigeration lubricant raw material, which is the main project of our company. Furthermore, upon publishing our long-term vision towards the year of

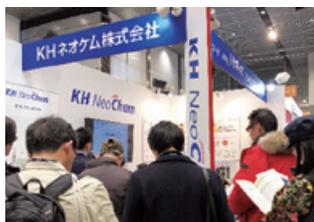


The third mid-term management plan/ financial results explanatory meeting

2030, VISION 2030, along with the third mid-term business plan starting in 2019, we had worthwhile communication with our shareholders and investors in the medium to long-term viewpoint.

We have communicated also with individual investors through several investor's forum. In February 2019, we set up a booth in Tosho IR Festa held in Tokyo. It was a very meaningful opportunity where our management team could exchange opinions with individual investors directly.

In addition to publishing the status of these activities on our IR site, we are working on enhancement of information distribution by transmitting videos of the company introduction and financial results explanatory



Tosho IR Festa 2019

meeting, issuing CSR reports and annual reports, and the like. Also, since we receive many inquiries from overseas, we have been actively working on early publishing of IR documents in English. To note, opinions and thoughts received from our shareholders and investors are shared in the management team monthly, and they are influencing to our management if necessary. We will strive to continue providing information in a timely and an easy-to-understand manner to our shareholders and investors as well as working on active communication.



Chiba factory that held the factory tour

Introduction of IR activities in 2018

Number	Period	Activity contents	Reference
1	January	Factory tour for institutional investors	Chiba factory
2	February	Financial results explanatory meeting	2017 Financial statements
3	March	International investors' conference	Europe and America institutional investors
4	May	Financial results explanatory meeting (phone conference)	2018 1Q
5	June	International IR	London, Edinburgh
6	June	Individual investor explanatory meeting	Chiba
7	August	Financial results explanatory meeting and business introduction	2018 2Q
8	August	Individual investor forum	Tokyo
9	September	International investors' conference	Domestic and international institutional investors
10	November	VISION 2030, financial results explanatory meeting	2018 3Q
11	December	Individual investor forum	Tokyo

Active and efficient IR activities

finance division recognizes the IR activities as important opportunities for the people to have a deeper understanding of our company. Thus, we are positively having interviews with institutional investors and security analysts from Japan and overseas daily.

We always strive for making accurate and easy-to-read documents and providing easy-to-understand explanations. As interviews with international institutional investors are increasing in recent years, we also put efforts in publishing Japanese and English documents at the same time.

The various opinions we receive from our shareholders and investors are cutting-edge and accurate, and they are reported monthly to the board of directors and used as reference for the management in order to lead to further growth of our company.



Yuri Ueno
Finance Division

Investor Information and Corporate Data

Founded:	December 8, 2010 (Predecessor Kyowa Yuka Co., Ltd. established in November 1966)
Capital:	8.8 billion yen (as of December 31, 2018)
Employees:	753 (as of December 31, 2018; on a consolidated basis)
Number of Shares Authorized:	136,200,000
Number of Shares Issued:	36,949,400
Number of Shareholders:	5,897
Trading Unit:	100 shares

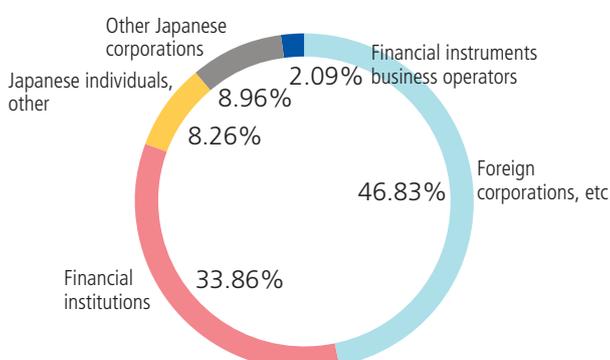
Major Shareholders (as of December 31, 2018)

Name of shareholders	Number of shares (Thousand shares)	Shareholding (%)
Japan Trustee Services Bank, Ltd. (Trust account)	5,874	15.90
THE CHASE MANHATTAN BANK 385036	2,132	5.77
The Master Trust Bank of Japan, Ltd. (Trust account)	1,885	5.10
SHEPHERDS HILL CAPITAL PARTNERS UNLIMITED COMPANY	1,670	4.52
JP MORGAN CHASE BANK 380634	1,132	3.06
JP MORGAN CHASE BANK 385174	780	2.11
Mizuho Bank, Ltd.	733	1.98
THE BANK OF NEW YORK MELLON 140042	650	1.76
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	647	1.75
Japan Trustee Services Bank, Ltd. (Trust account 5)	583	1.58

* No. of shares excludes any amounts lower than 1000.

* Share percentage rounds off percentages lower than displayed unit.

Status by Ownership (as of December 31, 2018)



Rating Information

Rating agency

Rating and Investment Information, Inc. (R&I)

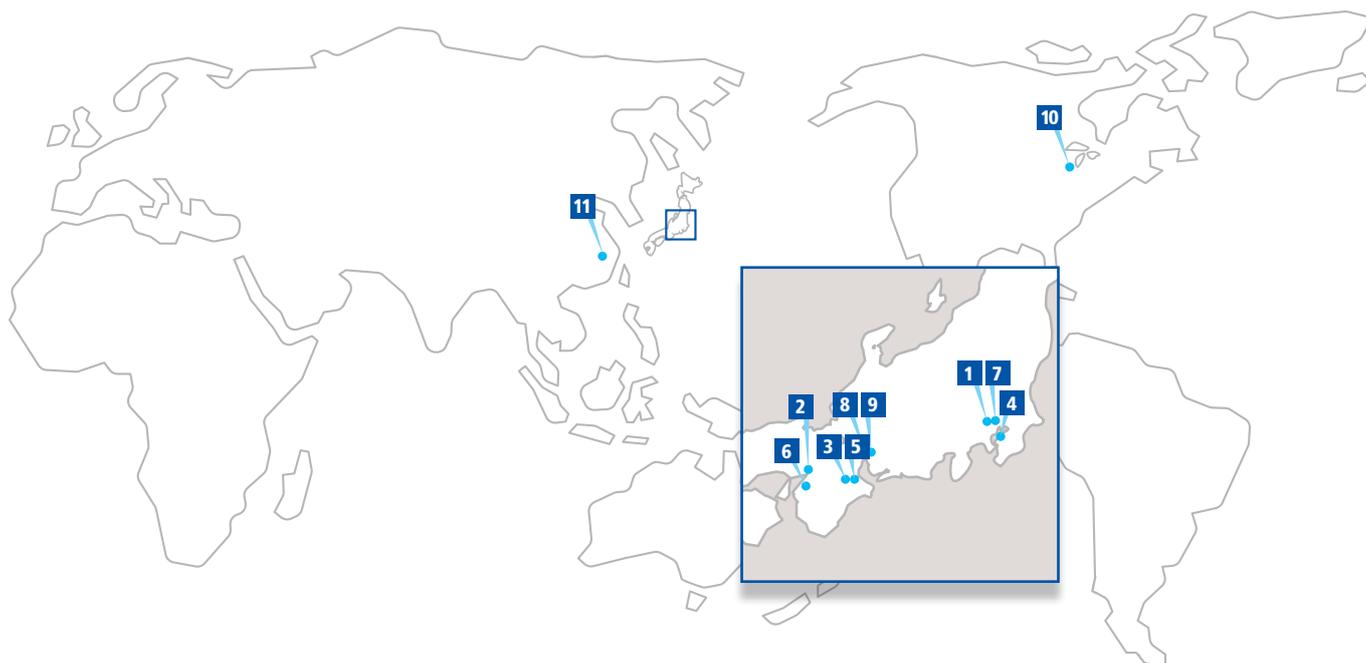
Issuer rating

BBB+

Short-term rating

a-2

Global Network



OVERVIEW

DOMESTIC

1 Head Office

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

2 Osaka Branch Office

1-1-4 Shibata, Kita-ku, Osaka-city,
Osaka 530-0012, Japan

3 Yokkaichi Plant

Umaokoshi Plant

2-3 Daikyo-cho, Yokkaichi-city, Mie 510-8502, Japan

Kasumigaura Plant

1-4 Kasumi, Yokkaichi-city, Mie 510-0011, Japan

4 Chiba Plant

11-1 Goi Minami-kaigan,
Ichihara-city, Chiba 290-8560, Japan

5 R&D Center

2-3 Daikyo-cho, Yokkaichi-city, Mie 510-8502, Japan

6 Sakai Logistics Center

3-39 Chikko Shinmachi, Nishi-ku,
Sakai-city, Osaka 592-8331, Japan

AFFILIATIONS

DOMESTIC

7 J-Plus Co., Ltd.

4-4-2, Nihonbashi-Honcho,
Chuo-ku, Tokyo 103-0023, Japan

8 Kurogane Kasei Co., Ltd

1-6-17 Nishiki, Naka-ku, Nagoya, Aichi 460-0003, Japan

9 Kurogane Fines Inc.

1-5-28 Nishiki, Naka-ku, Nagoya, Aichi 460-0003, Japan

OVERSEAS

10 KH Neochem Americas, Inc.

1515 East Woodfield Road,
Suite 710 Schaumburg, IL 60173, U.S.A

11 Shanghai Seika Trading Co., Ltd.

Room1116,Bldg.B,Far East International Plaza, No.317
Xianxia Rd. Changning District, Shanghai, 200051, China





KH Neochem Co., Ltd.

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

Tel: +81-3-3510-3550

URL: www.khneochem.co.jp