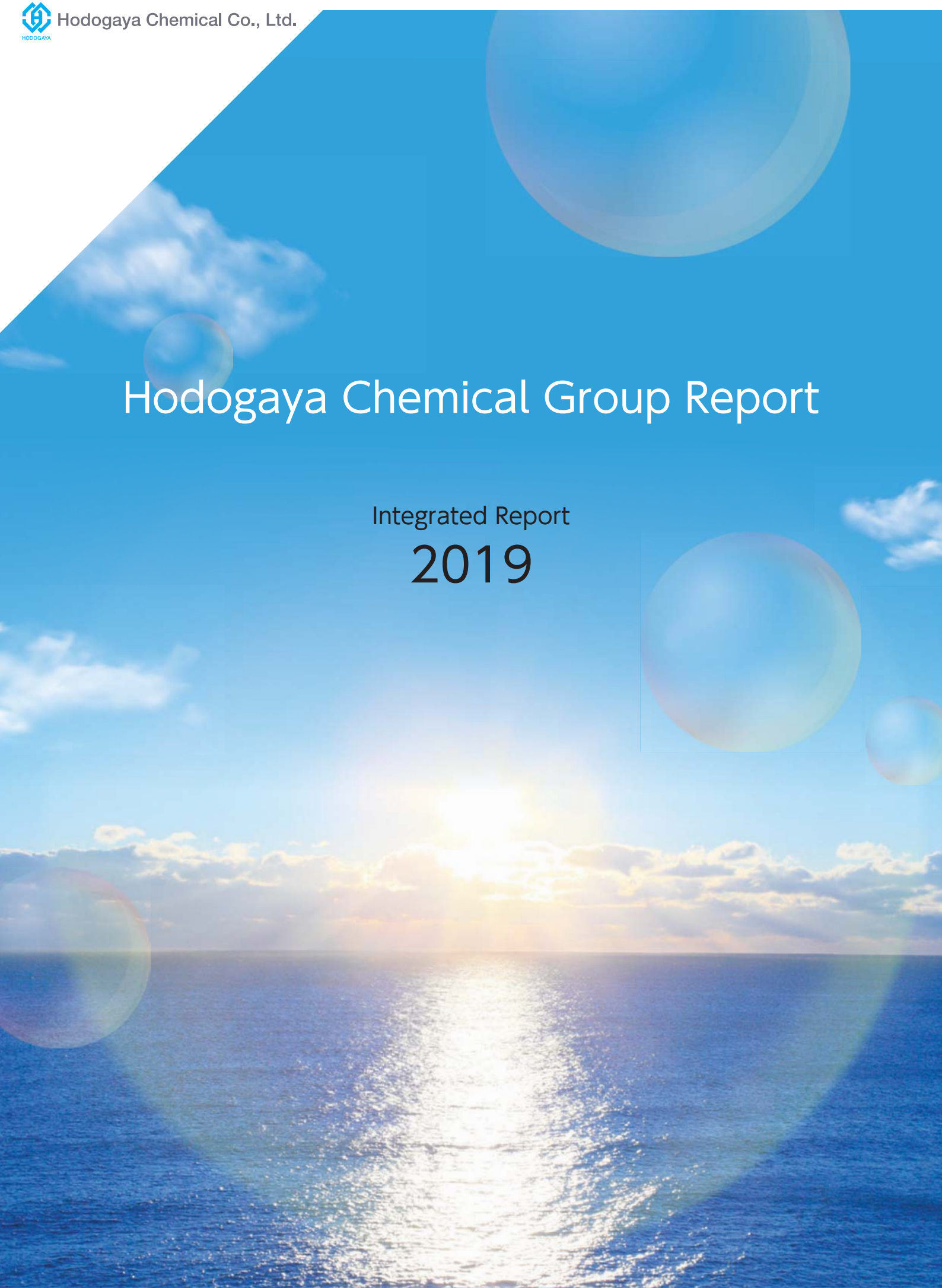
Hodogaya Chemical Co., Ltd.

Hodogaya Chemical Group Report

Integrated Report

2019



Your Dream is Our Business

Management Philosophy of the Hodogaya Chemical Group

Through constant innovation of chemical technology, we will provide high-quality products and services throughout the world and contribute to the creation of an environmentally conscious society.

▶ Key points of this report

The Hodogaya Chemical Group is committed as an organization to conducting our business activities and CSR activities.
This report summarizes the basic approaches and initiatives that we will use to fulfill our promises (five commitments) to stakeholders.

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

At the United Nations Sustainable Development Summit held on September 25 – 27, 2015 at the UN Headquarters in New York, the "Transforming our world: the 2030 Agenda for Sustainable Development" was adopted. A main theme of this Agenda is "no one will be left behind." As an action plan to achieve by 2030 for people, the planet, and prosperity, the Agenda consists of 17 Sustainable Development Goals (SDGs) and 169 associated targets.
Hodogaya Chemical Group will support the initiatives to achieve these goals for sustainable development.

For information related to business activities → p.14–18; For information related to CSR activities → p.21

Editorial Policy

We publish the Hodogaya Chemical Group Report in order to enable our all stakeholders, including our shareholders, customers, partner companies, people from the local communities and society as well as our employees, to better understand the business and CSR activities of the Hodogaya Chemical Group.

We received opinions from many people regarding the report that we published last year. Therefore, we revised the report to satisfy the requests of those who want an easily understandable explanation of the Hodogaya Chemical Group's global expansion and initiatives for diversity as well as the appeal and strengths of our products.

As compatibility with the environment has become an important social issue recently, we will explain representative environmentally friendly products and services in each segment.

In addition, we have established a separate chapter in this report explaining our basic approach regarding respect for human rights.

We will also introduce how we support SDGs, not only as part of our CSR activities, but also how we consider the SDGs as social issues and enhance initiatives to resolve them through each segment's business activities, which has been ongoing since the previous year.

Also, as part of the renewal of our website in October 2018, detailed information regarding products, financial matters and ESG (Environmental, Social, and Governance), which could not be included in this report, is available on the website.

To easily access the applicable reference information on our website, please use the QR codes for smartphones or the addresses (URLs) for computers or tablets shown in this report.

Period Covered

This Report generally covers the period from April 2018 to March 2019, but also contains reports on activities before and after said period.

Scope of Report

Hodogaya Chemical Co., Ltd. and its group companies

Publication Date

September 2019
* The next issue is scheduled for October 2020.

Major Guidelines Referenced

Ministry of Economy, Trade and Industry
Guidance for Collaborative Value Creation
Ministry of the Environment
Environmental Reporting Guidelines 2018
ISO 26000: 2010 Guidance on Social Responsibility
U.S. Sustainability Accounting Standards Board (SASB) standards, "Resource Transformation" Sector, Chemicals
GRI Sustainability Reporting Standards

Environment Social Governance
Guidance for Collaborative Value Creation

CONTENTS

Products of Hodogaya Chemical Group Around You 3
History of Hodogaya Chemical Group 5
Value Created by Hodogaya Chemical Group 7
Mid-term Management Plan of Hodogaya Chemical Group 9
Global Expansion of Hodogaya Chemical Group 11
Business Overview of Hodogaya Chemical Group 13
Financial & Non-financial Highlights 19
CSR Management of Hodogaya Chemical Group Toward 2020 21

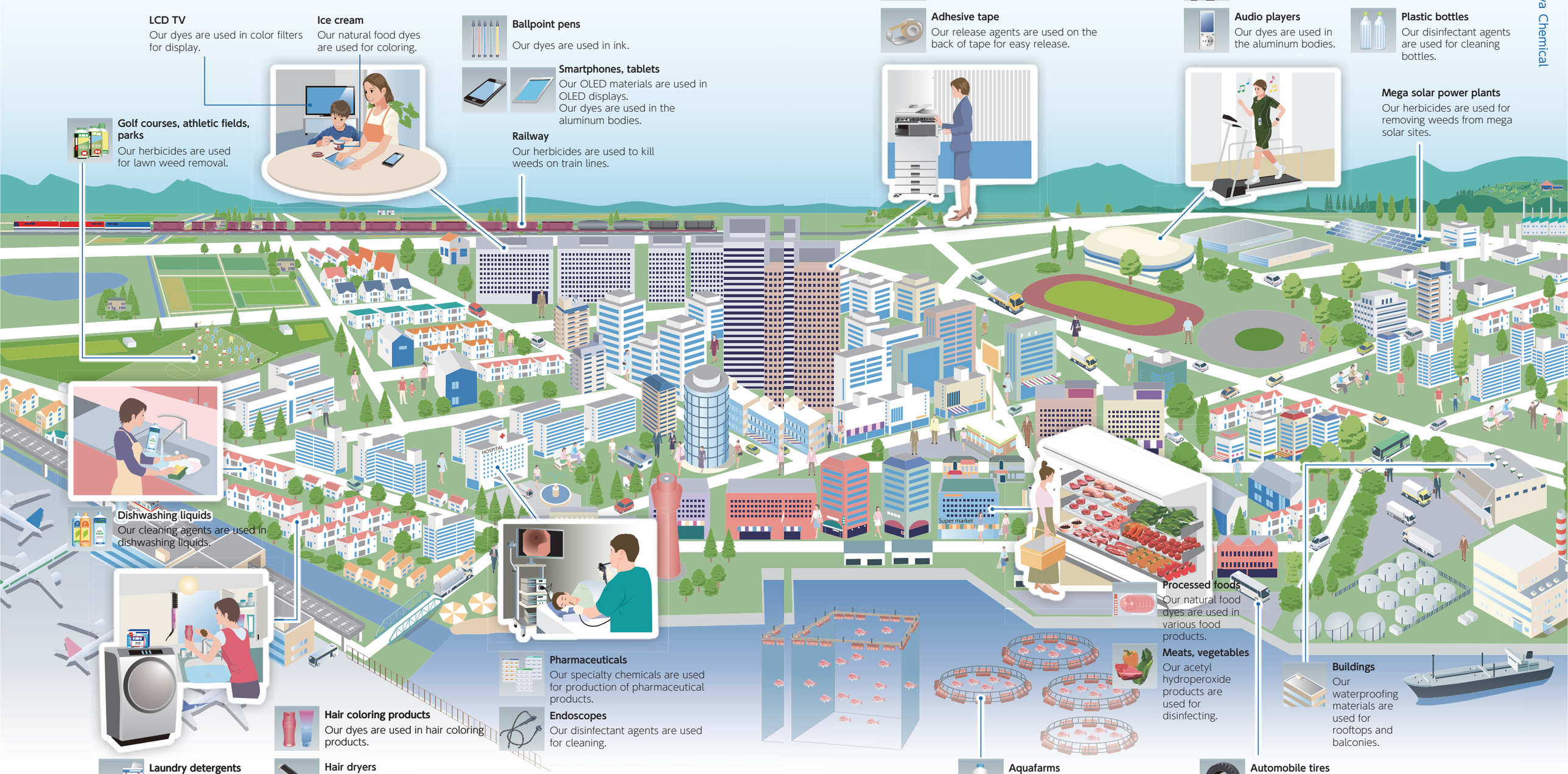
Governance
–Corporate Governance 23

Responsible Care
–Responsible Care 27
–Quality Assurance 28
–Workplace Safety and Health, Security and Disaster Prevention 29
–Chemicals and Product Safety 31
–Environmental Conservation 32

Stakeholder Communication
–Together with Shareholders & Investors 35
–Together with Customers & Partner Companies 36
–Together with Employees 37
–Together with Community & Society 40
–Respect for Human Rights 42

Products of Hodogaya Chemical Group Around You

Materials produced using technologies of the Hodogaya Chemical Group are used in many products in our day-to-day lives.
Let's look at some of the products around us that you may not have noticed.



LCD TV
Our dyes are used in color filters for display.

Ice cream
Our natural food dyes are used for coloring.

Ballpoint pens
Our dyes are used in ink.

Smartphones, tablets
Our OLED materials are used in OLED displays.
Our dyes are used in the aluminum bodies.

Railway
Our herbicides are used to kill weeds on train lines.

Golf courses, athletic fields, parks
Our herbicides are used for lawn weed removal.

Copiers and laser printers
Our imaging materials are used in an additive of toners.

Stockings
Our polyurethane materials are used in spandex.

Adhesive tape
Our release agents are used on the back of tape for easy release.

Wristwatches
Our polyurethane materials are used in wristbands.

Sportswear
Our polyurethane materials are used in spandex.

Audio players
Our dyes are used in the aluminum bodies.

Plastic bottles
Our disinfectant agents are used for cleaning bottles.

Mega solar power plants
Our herbicides are used for removing weeds from mega solar sites.

Dishwashing liquids
Our cleaning agents are used in dishwashing liquids.

Pharmaceuticals
Our specialty chemicals are used for production of pharmaceutical products.

Endoscopes
Our disinfectant agents are used for cleaning.

Hair coloring products
Our dyes are used in hair coloring products.

Hair dryers
Our polyurethane materials are used in hair brush dryers.

Laundry detergents
Our bleaching agents are used in laundry detergents.

Processed foods
Our natural food dyes are used in various food products.

Meats, vegetables
Our acetyl hydroperoxide products are used for disinfecting.

Aquafarms
Our veterinary medicines are used for fish parasite control.

Buildings
Our waterproofing materials are used for rooftops and balconies.

Automobile tires
Our adhesives are used in tires.

History of Hodogaya Chemical Group

– A history built up over 100 years –

Hodogaya Chemical was founded in 1916 as the first company in Japan to manufacture caustic soda using an electrolysis method.

For over 100 years, Hodogaya Chemical has responded to the needs of the times by applying technologies developed over the long years, and through continuous innovation, created a wide range of products from dyes and agricultural chemicals to pharmaceutical intermediates, polyurethane materials and OLED materials, which support people's lifestyles and society.

All members of the Hodogaya Chemical Group are committed to creating products and services that benefit people as a way to contribute to the development of society and uphold our corporate social responsibility as a good corporate citizen for the next 100 years.

From foundation to building a business base

1915–



Otosuke Isomura, Founder



1916 Koriyama Plant was established.



1915 Production of Japan's first electrolytic caustic soda began.

First electrolytic caustic soda production in Japan

Hodogaya Chemical was founded in December 1916, which was a time Japan's chemical industry decided to break away from import dependency and rise on its own. Our founder Otosuke Isomura, under the slogan "Honpo koshi*," launched various chemicals operations, many of them the first of their kind in our country. The starting point was sodium chloride electrolysis business. Technologies utilizing the chlorine generated in the electrolysis process, initiated as a business expansion strategy, became the cornerstone of the development of Hodogaya Chemical Group.

* Honpo Koshi: the First in Japan

Recovery from the earthquake and war

1926–



1939 Tsurumi Plant (current Yokohama Plant) was established.

Rapid growth prevented by natural disasters and war

After surviving the Great Kanto Earthquake, the Company began the manufacturing of phosgene and dyestuffs, established the foundation for the current specialty polymers and functional colorants businesses, and became an integrated chemicals company with its rich human resources, technological strength, and cutting-edge products.

The Company continued a stable operation and grew rapidly under the militaristic policies, but performance dropped drastically after the end of World War II. Although it took some time to rebuild the business, the Company found its way to recovery through research and development of new products and industrialization.



1927 Production of dyestuffs began.



1950 Production of agricultural chemicals began.

Responding to the new petrochemical era

1960–



1971 Nanyo Plant was established.



1963 Production of polyurethane materials began.



1966 Production of hydrogen peroxide began.

Petrochemicals leading rapid economic growth

The petrochemical industry played a role in the rapid economic growth period in Japan. Taking advantage of its specialized capabilities as a phosgene manufacturer, the Company started manufacturing raw materials of polyurethane, MDI and PTG, to meet the demands of the times.In addition, the Company began producing hydrogen peroxide using a unique manufacturing method. As for agricultural chemicals, which the Company started manufacturing in 1950, it has placed on the market its own, newly-developed products in response to the increasing demands. Furthermore, the Company also started production of Japan's first urethane waterproof materials.

Expansion of specialty chemicals

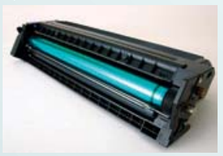
1980–



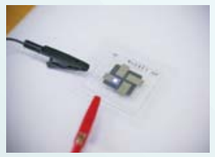
1991 Tsukuba Research Laboratory was established.

Fundamental reform of business structure

Because the Plaza Accord in 1985 triggered a high-yen recession, the Company pursued an approach to provide specialty chemicals, an area at which it excels and is not affected by cost. As the fruits of its R&D efforts over the years, the Company started production of charge transport materials (CTM) for organic photo conductors, as well as hole transport materials (HTM) and electron transport materials (ETM) for OLED materials.



1984 Production of Charge Transport Materials (CTM) for organic photo conductors began.



2001 Production of OLED materials began.

In preparation for the next 100 years

2016–

Maximize corporate value through selection and convergence

During difficult circumstances with prolonged deflation-led recession and aftermath of the Great East Japan Earthquake, the Company pursued to select and converge its business by focusing on its specialty and adopting divisional organizational system. Having celebrated its 100th anniversary in 2016, Hodogaya Chemical Group will continue its challenge for the next 100 years to become a corporation that steadily creates "Only One/Number One" specialty products in the global and niche markets.

Global Trends

- World War I (1914 to 1918)
- The Great Kanto Earthquake (1923)
- World War II (1939 to 1945)
- Postwar rebuilding/ rapid economic growth (1950 to around 1973)
- Oil crises (1973 & around 1979)
- Economic bubble burst (1991 to around 1993)
- Plaza Accord (1985)
- Global financial crisis (2008)
- Great East Japan Earthquake (2011)
- U.S.-China trade friction (2018)

Value Created by Hodogaya Chemical Group

Commitment 1

We will promote environmentally friendly products with our unique chemical technologies and continue to create "Harmony Between Chemistry and Environment."

In the ever-changing environment surrounding us, we face various social issues given the keyword of establishing a sustainable society. Hodogaya Chemical Group believes that our corporate activities based on its management philosophy will lead to resolving social issues, and the process of problem-solving is in fact the value creation process of the Group. Needless to say, enhancing our commitment to corporate governance and CSR is the basis of carrying out our corporate activities.

By injecting the Hodogaya Chemical Group's strengths accumulated over many years, we pursue "constantly evolving chemical technology" in each business segment according to the management strategy under our motto, "Your Dream Is Our Business."

In consequence, each segment provides "high-quality products and services that meet the expectation and satisfy our customers," helping to resolve social issues through business and contributing to the "creation of environmentally conscious society."

Creation of Environmentally Conscious Society

Strengths accumulated over many years

A solid foundation of 3 core technologies

- High-Purification Technology
- Development Capability in Functional Materials
- Evaluation Technology for Functional Materials

Ever-evolving 3 competitive advantages

- Value Creation
- Research and Development
- Manufacturing Technology

WEB https://www.hodogaya.co.jp/english/company/vcp/#a1

Your Dream is Our Business

Constantly Evolving Chemical Technology

Management Strategy

Mid-term Management Plan "HONKI 2020"

- Core Businesses
- Cultivation Businesses
- Growth Businesses
- New Business Creation

Steadily supply "Only specialty products in markets

One/Number One" the global and niche

Providing high-quality products and services that meet the expectation and satisfy our customers

- Specialty Polymers
- Functional Colorants
- Basic Chemicals
- Agro-Science
- Logistics

To solve social issues

- Develop and provide environmentally friendly products to reduce environmental impact
- Create new innovations to increase shareholder value
- Create a pleasant environment to achieve employee welfare
- Build corporate credibility to achieve management transparency

Toward sustainable development

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD

Support the initiatives to achieve the goals for sustainable development

Corporate Governance /CSR Management

Group Management Philosophy

Toward Achieving the Mid-term Management Plan "HONKI 2020"

Commitment 2

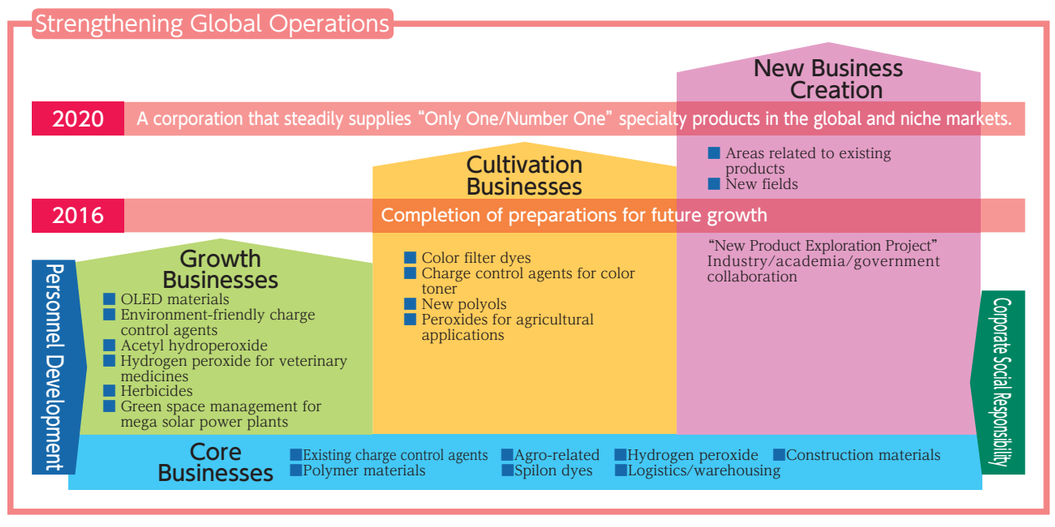
We aim to become a corporation that steadily supplies "Only One/Number One" specialty products in the global and niche markets.

The Hodogaya Chemical Group is devoting its efforts on "HONKI 2020," a 6-year mid-term management plan that began in FY2015 (FY2015 – FY2020).
(Hodogaya as Only one, Number one with our Key technology and Imagination)
We aim to become a corporation that steadily supplies "Only One/Number One" specialty products in the global and niche markets by FY2020, and to achieve this, we will prepare ourselves for future growth.

Outline of "HONKI 2020"

Each business is classified into one of the four stages of growth, and we focus on strengthening core businesses while enhancing and cultivating the businesses of the future.

Core Businesses	Businesses that are already generating profits
Growth Businesses	Businesses that are expected to produce positive results in FY2015 – FY2016
Cultivation Businesses	Businesses that are expected to produce positive results in FY2017 – FY2018
New Business Creation	Businesses that are expected to produce positive results in FY2019 and beyond



Performance target for "HONKI 2020"

	Net sales	Operating profit	Operating margin
FY2020 (plans)	50 billion yen	5 billion yen	10.0%

FY2018 results

With regard to the global economic trends in FY2018, the United States economy remained strong as a result of improvements in employment and income environment.

In Europe, despite steady consumer spending as a result of improvements in employment environment, there were trends of economic slowdown due to the impacts such as drop in automobile production caused by delay in complying with the new fuel efficiency standards.

The Chinese economy slowed down with decrease in infrastructure investments and sluggish export against the backdrop of U.S.-China trade friction.

As for Japan, our economy slowed down due to sluggish export to China affected by U.S.-China trade friction and higher raw material and fuel prices.

Within this economic climate, our net sales in FY2018 decreased by 1,144 million yen (down 3.0%) year-over-year to 37,548 million yen, due to declines in each segment except the specialty polymers segment.

In terms of profit and loss, operating profit decreased by 874 million yen (down 22.4%) year-over-year to 3,028 million yen due to a decrease in net sales, an increase in raw fuel costs and other factors. Ordinary profit came to 3,104 million yen, a decrease of 1,065 million yen (down 25. 6%) year-over-year, due to a decrease in operating profit, a decrease in foreign exchange gains and other factors, and profit attributable to owners of parent decreased by 978 million yen (down 34.2%) year-over-year to 1,883 million yen.

FY2018 net sales by segment



FY2019 initiatives

The prospects of Japan's economy are highly uncertain with a severe business environment ahead, due to factors such as the rise in consumption tax rate as well as the U.S.-China trade friction, geopolitical risks in the Middle East and South America, and risks caused by appreciation of the yen.

Furthermore, in FY2019, the environment surrounding the Hodogaya Chemical Group is increasingly becoming harsh due to factors such as crude oil and naphtha prices that remain high, and concerns over increases in raw material prices caused by continued tightening of environmental regulations in China.

In such climate, the Group identified the challenges as "increasing profitability of its Core Businesses, developing and releasing new products in its Growth Businesses and Cultivation Businesses, stable procurement of raw materials and stable production of products, and accident-free, disaster-free operation." To this end, we are expediting the development of new products mainly in the Functional Colorants and Basic Chemicals segments, and improving competitiveness through cost reductions.

In view of the existing steady demands and future outlook for aluminum coloring dyes of the Functional Colorants segment, we invested capital into Koriyama Plant, our key production base in Fukushima Prefecture. We will actively carry out the capital investments in each segment for the expansion of our business.

Product quality, environment, and safety are the basis of reliability for a chemicals manufacturer. For the purpose of clarifying the functions, roles and responsibilities, the Environment·Safety & Quality Assurance Department was restructured into the Quality Assurance Department and the Environment & Safety Department in October 2018. We will continue to take initiatives to enhance our quality control and assurance systems in a sustainable manner.

With these initiatives, the Hodogaya Chemical Group will aim to become how we want to be in 2020, that is, a corporation that steadily supplies "Only One/Number One" specialty products in the global and niche markets.

Global Expansion of Hodogaya Chemical Group

Commitment 3

We will respond to the needs of global customers by enhancing our overseas bases.

The Hodogaya Chemical Group is enhancing its overseas bases in order to respond to the diverse needs of global customers. For example, in the field of OLED materials, we invest in a South Korean corporation possessing high technological capabilities and have a system in which the development, production, and sales functions make a tripartite effort to respond speedily to the needs in the highly potential Asian regions. The Group will constantly provide high-quality products and services, taking advantage of our unique technological capabilities and global networks in all fields.

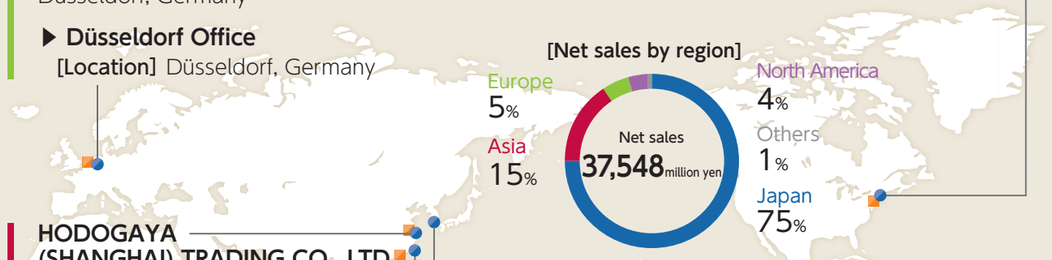
HODOGAYA CHEMICAL EUROPE GmbH

[Description of business]
Sales and marketing of chemical products and their raw materials
[Location]
Düsseldorf, Germany

▶ **Düsseldorf Office**
[Location] Düsseldorf, Germany

HODOGAYA CHEMICAL (U.S.A.), INC.

[Description of business]
Sales and marketing of chemical products
[Location]
New York State, U.S.A.



HODOGAYA (SHANGHAI) TRADING CO., LTD.

[Description of business]
Sales and marketing of chemical products and their raw materials
[Location]
Shanghai, China

▶ **Shanghai Office**
[Location] Shanghai, China

▶ **Taipei Office**
[Location] Taipei, Taiwan

HODOGAYA CHEMICAL KOREA CO., LTD.
Head office and research facilities

[Description of business]
Sales, marketing and R&D of chemical products
[Location]
Chungcheongbuk-do, South Korea

SFC CO., LTD.

[Description of business]
Manufacturing and sales of OLED materials and fine chemicals
[Location]
Chungcheongbuk-do, South Korea

REXCEL CO., LTD.
[Location] Chungcheongbuk-do, South Korea

Establishment of an affiliate company in Europe

Europe is an important market, making up 20% of the Group's export. In order to strengthen and expand the timely and community-based sales and support functions for local customers, we established a European affiliate company in Düsseldorf, Germany (HODOGAYA CHEMICAL EUROPE GmbH) apart from Düsseldorf Office. (Began operation in July 2018)

Distribution Centers (Antwerp, Guangzhou, Shanghai, New Jersey)
Specialty Polymers Functional Colorants Agro-Science

Base for OLED materials in South Korea: SFC CO., LTD.

The OLED market is expanding rapidly in recent years, as it is expected to replace LCD in next-generation display materials.Established in 1998, SFC has a reputation for its emitting materials for OLED in the South Korean market where major panel manufacturers are competing. SFC became a member of the Hodogaya Chemical Group in 2010. SFC's motto is to respond in a speedy, timely, and flexible manner like a chameleon as the company continues to grow.

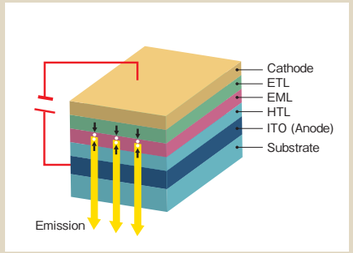
Since then, fusing of the technologies of SFC's emitting materials and Hodogaya Chemical's transport materials (hole transport materials, electron transport materials) were made possible. Currently, the companies promote frequent personnel exchange through which we work in close collaboration and cooperation on the development of new materials and production of parts, offering "the art of combination" to many customers.



SFC company logo



Factory Ⅱ



OLED System



SFC 20th Anniversary

Voice


HODOGAYA CHEMICAL KOREA CO., LTD.
Koki Kase

Strive to aim high at all times

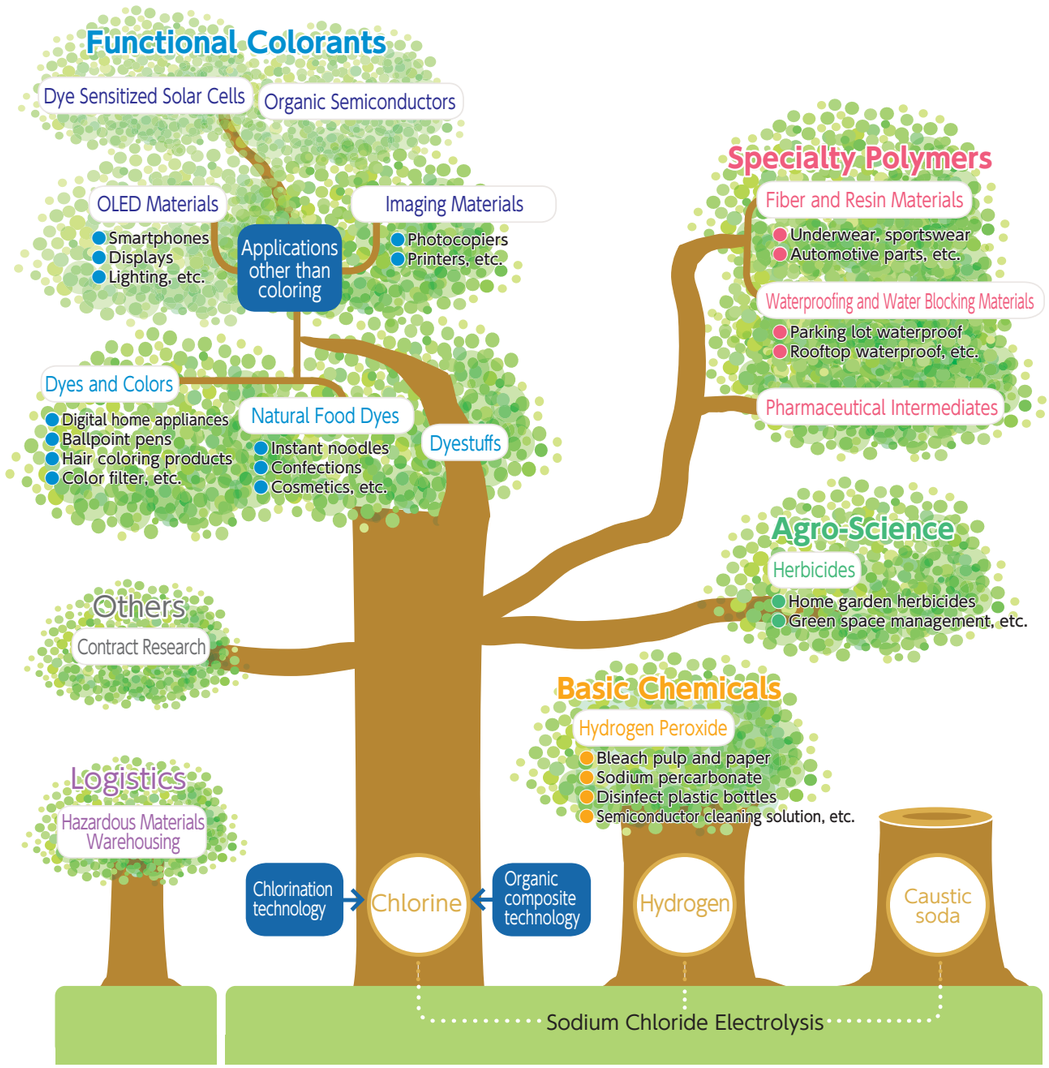
SFC and HODOGAYA CHEMICAL KOREA (the Group companies in South Korea) are leveraging each other's specialized capabilities and working in cooperation in the development of OLED materials. In the OLED market, leading manufacturers around the world are engaged in fierce competition every day, aiming for the highest standards. The key to success is whether we can continue offering new materials that meet the high standards required by customers with speed and good judgment at all times. This is my fourth year since I took on my assignment at HODOGAYA CHEMICAL KOREA. I am pretty much settled now living abroad and working here, so looking ahead, I wish to engage in active discussions with my good colleagues in order to achieve the product levels that meet the needs of our customers and to deliver successful results as soon as possible.

Business Overview of Hodogaya Chemical Group

Commitment 4

Through constantly evolving chemical technology, we create products tailored to the needs of our changing society.

The Hodogaya Chemical Group has continued to evolve while responding to the needs of the times. After starting out in the sodium chloride electrolysis business, the Group branched out across a wide array of technical applications that are utilized in a diverse range of businesses and product groups. It has expanded into the fields of functional colorants, specialty polymers, basic chemicals, agro-science, and logistics, among others, and produces highly specialized products in each of these businesses. These specialties are playing a key role in enabling Hodogaya Chemical to build relations of trust with its customers. We will continue to evolve while catering to the diverse needs of our customers.



Specialty Polymers Segment

WEB https://www.hodogaya.co.jp/english/products/segment02/

Description of business

The Specialty Polymers segment consists of three businesses. Polyurethane plays a central role in our Functional Polymers and Construction Materials businesses. One of our primary products, PTG is an essential raw material of spandex. Our urethane waterproofing, developed ahead of competitors, are used widely to waterproof the roofs of office buildings, schools, and multi-story parking buildings for large-scale retail facilities.

The third business, Specialty Chemicals, includes intermediates and additives making full use of our organic composite technology and unique phosgenation technology accumulated over many years. We supply products precisely tailored to specific requests of customers in various fields such as pharmaceuticals and cosmetics.

Strengths Ability to deliver specialty products to global markets by making full use of our phosgenation technology, etc.

- The world's "Only One" polyurethane materials
- Environmentally friendly waterproofing materials free of specified chemical substances
- Polymer materials and pharmaceutical intermediates leading global market share

Major products


Raw material of spandex


Urethane waterproofing for buildings, etc.


Pharmaceutical intermediates

Contribution to SDGs

13 CLIMATE ACTION — Bio-PTG uses plant-derived raw materials, and contributes to reducing CO_2 emissions, a possible cause of climate change.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — Construction materials help improve infrastructures to be more environmentally friendly. The creation of specialty products contributes to promoting innovation.

3 GOOD HEALTH AND WELL-BEING — Specialty chemicals are used as pharmaceutical intermediates to treat infectious diseases.

Environmentally friendly products

WEB https://www.hodogaya.co.jp/english/csr/eco/environmentally_conscious#a2

Urethane materials

Bio-PTG is a raw material used for producing polyurethanes, and it is made from 100% plant-derived raw materials. While most of the plastic or fiber materials around us are made from petroleum, Bio-PTG uses plant-derived biomass raw materials. This allows us to reduce fossil fuel consumption and contributes to the reduction in CO_2 emissions.



Functional Colorants Segment

WEB https://www.hodogaya.co.jp/english/products/segment01/

Description of business

The Functional Colorants segment mainly consists of four businesses.

Demands for OLED Materials continue to expand as they are used in display panels for smartphones and TVs, with expectations for use in in-vehicle devices and lighting.

The Imaging Materials business supplies materials that are essential for copiers and printers to function, helping to enhance precision in the office automation environment.

Our Dyes and Colors, used for stationery ink, aluminum coloring, and hair dyes, are applied in high-quality products with our unique technologies and are highly regarded in Japan and around the world.

As a pioneer of food dyes in Japan, our Food Additives (Food Dyes) make food more appetizing, delicious-looking, and fun by adding color to food products.

Strengths Ability to embody the needs of customers in the global arena by making full use of the DNA of the Group including our organic composite technology



Major products


Smartphone display materials


Essential materials for copiers


Dyes and colors for stationery

Contribution to SDGs

7 AFFORDABLE AND CLEAN ENERGY — OLED materials help improve energy efficiencies.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — The creation of specialty products contributes to promoting innovation.

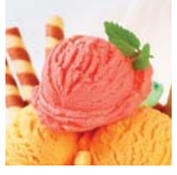
10 REDUCED INEQUALITIES — Hair dyes and natural food dyes can help make many people around the world happy.

Environmentally friendly products

WEB https://www.hodogaya.co.jp/english/csr/eco/environmentally_conscious#a3

Natural food dyes

Our natural food dyes, made from naturally-derived ingredients that come from nature, are human-friendly, environmentally-friendly food additives that add color to food products and enrich our dietary life. Some of our natural food dyes acquired Halal certification so that people from many countries including Muslims can eat without worrying.



Basic Chemicals Segment

WEB https://www.hodogaya.co.jp/english/products/segment03/

Description of business

Hydrogen peroxide decomposes into water and hydrogen, and this property supports our everyday lives as clean and environmentally friendly products for a variety of uses. The Hodogaya Chemical Group has been engaged in the development, manufacturing and sales of hydrogen peroxide and its derivatives for over 50 years. Hydrogen peroxide is conventionally used for paper pulp and industrial chemicals, but in recent years, we are aggressively expanding the sales into new fields such as veterinary medicines. We were also the first in Japan to obtain approval for the production of acetyl hydroperoxide, a derivative of hydrogen peroxide, for use in food production applications, and we are working to accelerate expansion.

Strengths Creativity to explore new applications based on the hydrogen peroxide production technology accumulated over many years



Major products


Semiconductor cleansing solution


Parasite control agent for aquafarms


Plastic bottle cleansing

Contribution to SDGs

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — The creation of specialty products contributes to promoting innovation.

14 LIFE BELOW WATER — Hydrogen peroxide contributes to the effective use of fishery resources in the form of parasite control agents.

3 GOOD HEALTH AND WELL-BEING — Acetyl hydroperoxide and sodium percarbonate are used for disinfecting and help treat infectious diseases.

Environmentally friendly products

WEB https://www.hodogaya.co.jp/english/csr/eco/environmentally_conscious#a4

OXYATTACK

In September 2017, we began the sales of food additive OXYATTACK, an acetyl hydroperoxide formulation developed as a disinfectant agent for food products. While having powerful anti-bacterial effects, it is an environmentally-friendly disinfectant agent that is broken down to acetic acid and water after use.

It also reduces the burden on work environment as it does not generate chlorine.



Business Overview of Hodogaya Chemical Group

Agro-Science Segment

https://www.hodogaya.co.jp/english/products/segment04/

Description of business

The products offered by the Agro-Science segment help to protect green area environment, from cropland to green spaces and maintenance of golf course lawns. In particular, our herbicides used for home gardening as well as agricultural land and nature boast top market shares. We now leverage our formulation techniques to develop applications for agrochemical intermediates. We are also developing market opportunities for agricultural oxidizers.

Strengths Ability to develop attractive products based on our formulation techniques

- Herbicides for home gardening leading market share in Japan
- Strength to constantly propose new products to the market
- R&D expertise to develop areas other than herbicides such as agricultural oxidizers

Major products



Lawn herbicides



Herbicides for weeding of rail lines



Herbicides for weeding of mega solar sites

Contribution to SDGs

2 ZERO HUNGER — Agricultural chemicals such as herbicides and agricultural materials including oxidizers contribute to improving agricultural productivity.

15 LIFE ON LAND — Repellent inhibiting damage of plant by an animal helps protect rare species.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE — The creation of specialty products contributes to promoting innovation.

For information on the repellent inhibiting damage of plant by an animal, please access the following URL or QR code:
https://www.hodogaya.co.jp/english/csr/stakeholder/community#a11

Environmentally friendly products

https://www.hodogaya.co.jp/english/csr/eco/environmentally_conscious#a5

Agricultural oxidizers

Products that supply oxygen to field soil are used to promote healthy growth of vegetables such as cucumbers, tomatoes, and eggplants that we eat.

As a solution to poor growth of crops due to high temperatures and heavy rainfalls caused by climate change, our oxidizers help improve the soil which is the most important growing environment for crops, thereby contributing to sustainable and stable agricultural production.



Logistics Segment

https://www.hodogaya.co.jp/english/products/segment05/

Description of business

The Logistics business of the Hodogaya Chemical Group has been handling hazardous substances and chemicals for over a century. Drawing on this extensive expertise, it offers services that are highly regarded by customers in various fields beyond the chemical industry. We have huge distribution sites in Yokohama, Koriyama and Nanyo. In particular, the Yokohama Branch is conveniently located in close proximity with Japan's leading port of Yokohama and is used by many customers as a base for import and export. Our Koriyama and Nanyo distribution sites also offer storing and transporting services optimized for a wide variety of cargo including hazardous substances, chemicals as well heavy cargo, machinery and plant.

Strengths Ability to transport security and safety based on its expertise on handling hazardous substances and chemicals

- Storing and transporting services that draw on the locational advantages of Yokohama,Koriyama, and Nanyo
- Knowledge on hazardous substances accumulated as a chemicals manufacturer
- Provide door-to-door services as a second class consigned freight forwarding business operator

Major services



Hazardous materials warehouse



Outdoor warehouse



Forwarding and customs clearance

Contribution to SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES — Storage and control of hazardous substances help ensure the safety of cities and residential areas.

7 AFFORDABLE AND CLEAN ENERGY — The use of railroad cargo transport helps improve energy efficiencies.

Environmentally friendly initiatives

https://www.hodogaya.co.jp/english/csr/eco/environmental_protection#a6

Modal shift

As an initiative to protect the environment, the Group has been pursuing a modal shift in cargo transport (from truck to rail transport) for many years. We obtained certification to use the Eco Rail Mark for Hodogaya Chemical Co., Ltd. (HCC) and Hodogaya Construction Products Co., Ltd. (HCP) as companies actively grappling with environmental issues, as well as for five of our HCC products and one of our products from HCP as environmentally friendly, rail-transportable products.



Financial & Non-financial Highlights

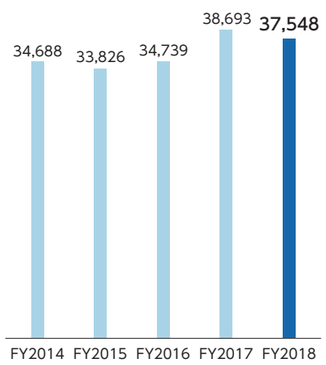
	FY2014	FY2015	FY2016	FY2017	FY2018
Net sales (millions of yen)	34,688	33,826	34,739	38,693	37,548
Specialty Polymers (millions of yen)	12,804	12,594	12,159	12,046	12,327
Functional Colorants (millions of yen)	8,296	7,624	8,231	10,997	10,912
Basic Chemicals (millions of yen)	6,671	6,719	6,768	7,024	6,799
Agro-Science (millions of yen)	4,793	4,700	4,831	5,580	5,288
Logistics (millions of yen)	1,765	1,948	2,511	2,820	2,035
Operating profit (millions of yen)	796	828	2,129	3,903	3,028
Specialty Polymers (millions of yen)	666	959	670	653	587
Functional Colorants (millions of yen)	(991)	(1,596)	(423)	1,413	966
Basic Chemicals (millions of yen)	153	672	919	805	545
Agro-Science (millions of yen)	486	323	249	350	409
Logistics (millions of yen)	447	453	708	631	487
Ordinary profit (millions of yen)	730	633	2,094	4,169	3,104
Profit attributable to owners of parent (millions of yen)	623	811	1,951	2,862	1,883
Net assets (millions of yen)	32,107	31,056	33,857	35,869	36,860
Total assets (millions of yen)	54,475	50,995	53,159	54,737	57,140
Net assets per share (yen)	3,739.98	3,658.17	4,023.85	4,210.82	4,299.75
Earnings per share (yen)	78.90	102.59	246.86	362.29	238.40
Equity ratio (%)	54.3	56.7	59.8	60.8	59.5
Cash flows from operating activities (millions of yen)	2,753	2,322	3,100	4,215	2,525
Cash flows from investing activities (millions of yen)	(489)	(780)	(507)	(960)	(2,351)
Cash flows from financing activities (millions of yen)	(35)	(1,880)	(2,241)	(3,210)	668
Dividends per share (yen)	45.0	50.0	60.0	50.0	50.0
Dividend payout ratio (%)	57.0	48.7	24.3	13.8	20.9

	FY2014	FY2015	FY2016	FY2017	FY2018
Number of employees (persons)	713	686	691	719	731
Ratio of female managers (%)	4.3	6.3	8.4	8.9	11.2
Ratio of female employment (%)	17.6	5.9	20.0	28.9	22.7
Ratio of disability employment (%)	1.25	1.27	1.26	1.47	1.85
Number of re-employment (persons)	63	65	64	61	47
Childcare leave (persons)	2	3	3	2	1
Nursing care leave (persons)	0	0	1	0	0
Rate of usage of paid holidays (%)	70	68	66	66	68
Average monthly overtime hours (hours)	8.9	9.8	9.8	10.3	11.9

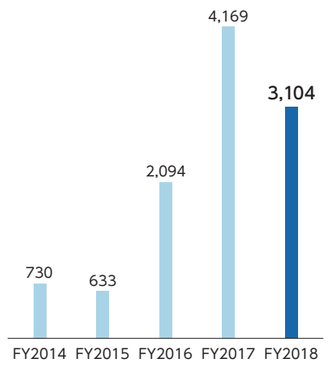
Note: Environmental data is listed on pages 33 and 34.

As of the end of each fiscal year

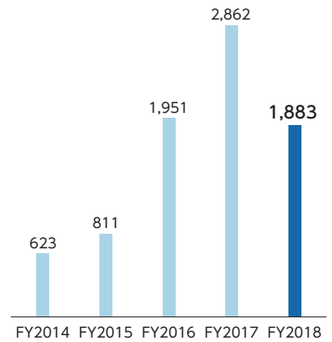
■ Net sales (Unit: millions of yen)



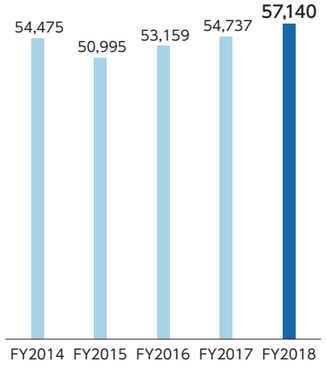
■ Ordinary profit (Unit: millions of yen)



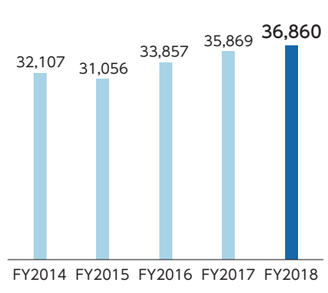
■ Profit attributable to owners of parent (Unit: millions of yen)



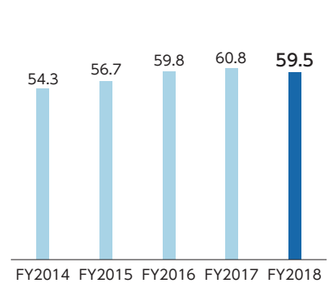
■ Total assets (Unit: millions of yen)



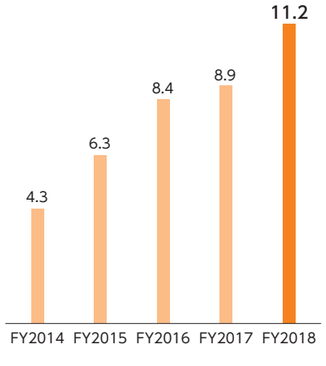
■ Net assets (Unit: millions of yen)



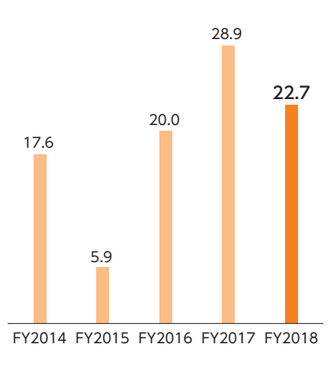
■ Equity ratio (Unit: %)



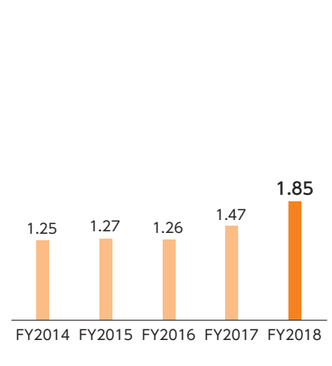
■ Ratio of female managers (Unit: %)



■ Ratio of female employment (Unit: %)



■ Ratio of disability employment (Unit: %)



CSR Management of Hodogaya Chemical Group Toward 2020

Commitment 5

We will maintain and deepen the trust held in us by all stakeholders, and contribute to social development.

Basic approach

The Hodogaya Chemical Group identifies CSR (Corporate Social Responsibility) as one of the policies of our mid-term management plan, "HONKI 2020."

Under this policy, we consider CSR as "a social responsibility that a company must fulfill through its business operations beyond the interest of the company with focus on its relationship with the various stakeholders including the local community, partner companies, shareholders, and employees." All officers and employees are carrying out various activities under the three pillars of Corporate Governance, Responsible Care, and Stakeholder Communication.

Key targets and plans of CSR activities

In formulating the key targets of our CSR activities, we used the seven core subjects addressed in ISO 26000* as priority areas for our stakeholders and defined "How we want to be in 2020" and what we need to do in reference to the "HONKI 2020."

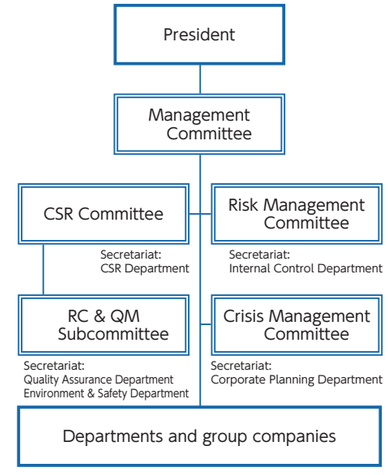
Among them, we identified the key targets that are most important to the Company and developed an annual plan on which we base our actions.

CSR promotion organization

To promote CSR more actively, the Hodogaya Chemical Group has the CSR Committee within the organization that deliberates and decides on specific measures in accordance with the basic policy and reviews the progress of such measures.

In order to promote the Responsible Care (RC) activities as part of the CSR activity, the Group structures the RC & QM Subcommittee as a subordinate organization of the CSR Committee. This Subcommittee promotes various policies to ensure product quality, environment, and safety, which form the basis of reliability for a chemicals manufacturer. Also, for the purpose of clarifying the functions, roles, and responsibilities, the Environment·Safety & Quality Assurance Department was restructured into the Quality Assurance Department and the Environment & Safety Department in October 2018.

We also consider corporate governance as an important element of our CSR activity. In particular, to manage risks we have the Risk Management Committee in charge of identifying risks and developing and implementing key risk control measures to prevent risks in advance.



CONTENTS	ISO 26000 7 core subjects	How we want to be in 2020	Related SDGs	Key targets	FY2018 results	FY2019 plans
Mid-term Management Plan		Having achieved the mid-term plan, and making stable and continuous dividend payments	8	To achieve the mid-term management plan	Implemented solutions to various issues based on the six policies	Ensure implementing various policies
Governance p.23-	Organizational governance	Having a good balance between "defensive governance" to avoid risks and "offensive governance" to obtain upside opportunities while maintaining growth	16	To improve corporate governance	Released Corporate Governance Report in December 2018	Continue to abide by the Corporate Governance Code Establish a Nominating and Compensation Committee
		Compliance awareness is widespread, and the Group is capable of responding to the changing social norms	16 17	To spread compliance mindsets	Conducted compliance training sessions in Aug. 2018 and Feb. 2019	Conduct compliance training sessions
		Departments having contact with partner companies have particularly strong compliance awareness	16 17	To increase knowledge on business compliance	All management personnel took the Examination of Compliance Proficiency for Practical Business, 96% acquired qualification	All chief staff in addition to management personnel take the Examination of Compliance Proficiency for Practical Business to increase the percentage of qualified employees
		The CSR mindset is widespread, and the Group has achieved ESG management	16 17	To cultivate CSR activities	Conducted CSR education using the Integrated Report	Improve CSR mindset
Responsible Care p.27-	Environment	Efforts to reduce environmental impact are regarded by society	6 11 12 14	To promote reduction of environmental impact	A group company, Hodogaya Construction Products Co., Ltd., also obtained Eco Rail Mark certification	Reduce emission of substances of concern
		The Group contributes to society by having achieved reduction of intensity and total amounts of electricity usage and water usage	6 7 9 13	To promote energy-saving	Installed energy-saving models for equipment upon renewal	Promote installation of energy-saving equipment
		Complying with laws and regulations on chemical substances, and appropriately managing chemical substances	3 12	To enhance the management of chemical substances	Expanded the architecture of the chemical substance integrated management system to cover all group companies	Enhance the voluntary management initiatives for chemical substances
		Continuing to achieve accident-free, disaster-free operation, the Group is trusted by society	8	To ensure security and disaster prevention	Conducted education under the RC implementation plan at each plant according to plan	Conduct facility maintenance education and safety education
	Consumer issues	Continuing to supply safe, high-quality products, the Group is regarded by partner companies	12	To supply safe, high-quality products	Environmentally-friendly products were released from manufacturers using our materials	Strengthen our quality control system
		Developing and propagating products that contribute to the environment and society, the Group is regarded by partner companies	8 9 12 17	To develop socially-beneficial products	Undertook collaborative research for product development with universities	Undertake collaborative research with universities and companies
		Having improved "customer-first" attitude, operational knowledge and skills within the account lines, the Group is regarded by partner companies	4 12	To improve the service levels of employees dealing with partner companies	Conducted education and training by job position and capacity according to plan	Conduct education and training by job position and capacity
Stakeholder Communication p.35-	Fair business practices	Disclosing information in a timely and appropriate manner, and pursuing in-depth "dialogues (engagements)" with shareholders and investors	12 16 17	To enhance information disclosure and promote "dialogues"	Newly published the English version of the Integrated Report in Oct. 2018, and completed the website renewal	Continue the publication of Integrated Report
		Conducting procurements in accordance with the CSR Procurement Policy, taking into consideration the environment, human rights and labor practices of partner companies	1 8	To promote CSR throughout the supply chain	Explained the publicized Procurement Policy and Procurement Guidelines to suppliers during visiting audits	Continue to instill our Procurement Policy in suppliers
	Human rights	Respect for human rights are in place, and no harassment exists	1 5 10	To promote human rights enlightenment activities	Conducted human rights education at compliance training sessions	Continue to conduct human rights education
	Labor practices	Having promoted work-life balance, employees are successfully combining work and daily living (including child-raising and nursing care)	5 8 10 12	To create a pleasant workplace	Introduced the first Reemployment Applicants Registration System	Promote work-life balance
		Employees are healthy and working actively	3	To promote employee health management	Continued to conduct mental health checkups	Strengthen health maintenance and care system
		Due to promotion of diversity and a fair and equitable personnel system, the workplace is activated and global-minded talents are nurtured	4 5 8 10	To promote human resource development and vitalization programs	Conducted various education programs according to plan	Conduct various education programs
	Community involvement and development	Having promoted social contribution activities in the offices, the Group is acknowledged and regarded in the community	4 6 11 17	To promote community contribution activities	Conducted visiting chemistry classes at a nearby elementary school under the theme of nurturing children through chemistry	Conduct various contribution activities
		The volunteer mindset has been improved and employees are actively participating in various volunteering activities	4 6 15 17	To initiate and promote volunteering activities	Participated in activities to clean the forests and rivers near our plants	Identify and conduct new volunteering activities appropriate for the Company

*ISO 26000: An international standard published in November 2010 which provides guidance on corporate social responsibility

Corporate Governance

- ISO 26000 7 core subjects: Organizational governance -

Basic approach

The Hodogaya Chemical Group strives to create values for the various stakeholders including our shareholders, customers, local communities, and employees; contribute to the development of domestic and global economies and industries for the prosperity of society; ensure the soundness and legality of management; and increase efficiency, all the while steadily supplying "Only One/Number One" specialty products in the global and niche markets. We have established these targets as highest priority of management as we work toward enhancing and strengthening our corporate governance system.

■ Initiatives to strengthen corporate governance

June 2003	Introduction of executive officer system
March 2004	Abolishment of directors' retirement benefits program
May 2006	Formulation of Basic Policy on Internal Control
November 2006	Establishment of Internal Control Department
June 2013	Start of appointment of Outside Directors
June 2015	Transition to a Company with Audit & Supervisory Committee
July 2016	Introduction of stock-based compensation plan
January 2018	Shift into new management structure
June 2019	Establishment of a Nominating and Compensation Committee

Corporate governance system

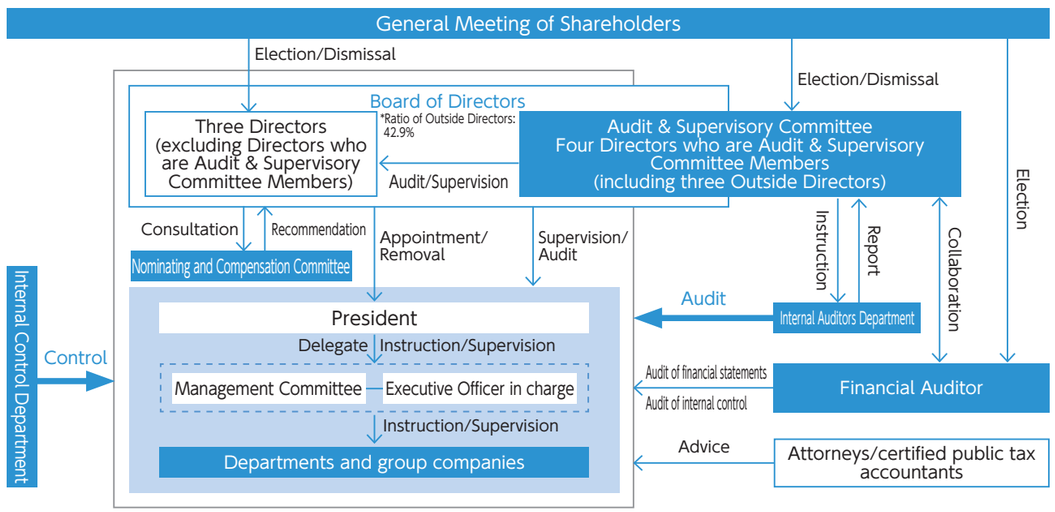
Aiming to ensure the effectiveness of our corporate governance and to improve our corporate value, Hodogaya Chemical made a transition to a "Company with an Audit & Supervisory Committee" structure in June 2015, to further strengthen the Board of Directors' supervisory functions with the participation of Outside Directors.

To increase the speed and agility of corporate management, the Board of Directors entrusts Executive Directors with the decision-making on all material business operation matters. Meanwhile, Directors report the performance of their duties to the Board of Directors, as well as mutually monitor and supervise the performance of duties with other Directors. The Audit & Supervisory Committee supports the supervisory functions of the Board of Directors, and evaluates the Board of Directors by assessing mainly such items as to whether the Board of Directors is conducting thorough discussions on the appropriate agenda items based on its role, and whether a sufficient support system is in place to enhance the content of discussions at the Board of Directors' meeting.

In January 2018, with a view to further strengthen its supervisory and executive functions, the Company shifted into a new management structure in which the number of Directors who are not Audit & Supervisory Committee Members was reduced from seven to three. Furthermore, in June 2019, in order to strengthen the independence, objectivity, and accountability of the Board of Directors' functions on the matters of nomination and compensation, the Company established the Nominating and Compensation Committee as an advisory body to the Board of Directors.

To view the Corporate Governance Report, please access the following URL or QR code (Japanese text only):
https://www.hodogaya.co.jp/wp/wp-content/uploads/2019/06/corporate_governance_20190627.pdf

■ Structure of corporate governance system (As of June 30, 2019)



● General Meeting of Shareholders

In addition to the appropriate statutory disclosure and timely disclosure, Hodogaya Chemical strives to proactively provide shareholders and investors with relevant information such as its management strategies, in order to gain understanding on its business activities. It also establishes measures to encourage shareholders to attend the General Meeting of Shareholders, for example, by avoiding peak concentration dates. It engages in constructive bilateral dialogue with shareholders in an effort to achieve effective corporate governance that can contribute to sustainable growth and increase its corporate value.

● Board of Directors

To enable thorough discussions based on diverse opinions and prompt, rational decision-making, the Board of Directors consists of a total of seven Directors, including Directors who are not Audit & Supervisory Committee Members and Directors who are Audit & Supervisory Committee Members. The ratio of Outside Directors is 42.9%.

The Board of Directors, based on the deliberation of the Nominating and Compensation Committee, formulates the policy on the election and dismissal of Directors and the policy on compensation of Directors.

Reasons for nomination as candidates for Directors, including career summary, are published in the Reference Documents for General Meeting of Shareholders which can be found on our corporate website.

● Nominating and Compensation Committee

In order to strengthen the independence, objectivity, and accountability of the Board of Directors' functions on matters of nomination and compensation, Hodogaya Chemical has the Nominating and Compensation Committee as an advisory body to the Board of Directors chaired by an independent Outside Director, which is made up of a majority of independent Outside Directors.

The Nominating and Compensation Committee shall deliberate and submit a report to the Board of Directors on the election and dismissal of Directors and compensation of Directors, and the Board of Directors shall respect the content of such report.

● Audit & Supervisory Committee

The Audit & Supervisory Committee consists of four Directors (including three Outside Directors), and audits the legality of business execution by Directors and officers, appropriateness of the Company's business operations, internal control, and financial status, etc. by attending important meetings and ordering timely and appropriate reporting from Directors, Executive Officers and employees of the Hodogaya Chemical Group. The Audit & Supervisory Committee also maintains close relations with the Financial Auditor to take necessary measures in relation to the audit work.

● Executive Officer

The executive officer system of Hodogaya Chemical was introduced in view to (1) streamline management, (2) as a result enable quicker decision-making, (3) specialize functions, (4) strengthen supervisory and monitoring functions, and (5) strengthen our business management. Executive Officers who can fulfill these goals have been elected by President to execute the business of our core departments.

● Financial Auditor

Hodogaya Chemical appoints Grant Thornton Taiyo LLC as its Financial Auditor, and in addition to financial audit services, receives advice on accurate and fair business practices through internal control audit.

● Internal Control Department

The Internal Control Department continuously reviews and evaluates that the internal control systems required under the Companies Act and the Financial Instruments and Exchange Act are in place and implemented, and ensures that any existing business risks are maintained lower than the predetermined level. We maintain and strengthen the level of internal control, and promote various policies to ensure that our business operations are conducted in an appropriate and effective manner.

● Internal Auditors Department

The Internal Auditors Department monitors our internal control system in accordance with the Companies Act, etc., and ensures the appropriateness of our business operations. It also serves as the secretariat of the Audit & Supervisory Committee and supports the Committee's operation and helps maintain and improve the audit quality.

● Directors' compensation

Hodogaya Chemical positions its Directors' compensation plan as a priority item for corporate governance. The basic requirements in determining the compensation of Directors include: (1) compensation linked to performance; (2) incentives to improve corporate value; (3) linkage to shareholder interests; and (4) securing and retaining talented personnel.

According to these requirements, the amount of compensation of Directors is determined at the meetings of the Board of Directors within the maximum limit of compensation resolved at the General Meeting of Shareholders, and based on the deliberation of the Nominating and Compensation Committee.

The amount of compensation of individual Directors (excluding Directors who are Audit & Supervisory Committee Members) consists of: "fixed compensation (cash)" based on individual job responsibilities; "compensation linked to short-term performance (cash)" based on valuation of the previous fiscal year results; and "compensation linked to mid- to long-term performance (treasury shares)" reflecting mid- to long-term results. The ratio of "fixed compensation" and "compensation linked to performance" is roughly 6:4.

The "compensation linked to mid- to long-term performance (treasury shares)" is to be issued upon retirement from office as officer. This is aimed to provide incentives to officers until their retirement to improve the Group's corporate value on a mid- to long-term basis.

The amount of compensation of individual Directors who are Audit & Supervisory Committee Members shall be based on a separate scheme from that for Directors (excluding Directors who are Audit & Supervisory Committee Members) on the premise that "compensation linked to performance" is not paid, and only "fixed compensation" is paid.

Criteria for independence of Outside Directors

At Hodogaya Chemical, candidates for independent outside directors are selected from among those who meet the Tokyo Stock Exchange's requirements of independence and possess extensive experience and knowledge.

Accordingly, the Company has registered three of the Outside Directors as independent officers specified by the Tokyo Stock Exchange, and if the substitute Director who is an Audit & Supervisory Committee Member is appointed as Director, the Company intends to register him as an independent officer specified by the exchange.

Note that one of the Outside Directors and one of the substitute Directors who are Audit & Supervisory Committee Members had been employees of a financial institution which is a major lender to Hodogaya Chemical; however, ten years have elapsed since they left said financial institution. Therefore, the Company deems that there are no concerns over their independence.

Message from the three Outside Directors

Do not take for granted the 100 years of history – stay ahead of the changing business environment

Impressions of Hodogaya Chemical: The Company has excellent technologies accumulated through its long history. I got the impression that a group of very serious people are taking on their jobs with sincerity to maximize its strength.

When we hold discussions at the meeting of the Board of Directors, people are thoroughly prepared so as to facilitate the participation of outside people like us. They explain to us not only good stories but also bad stories, which deserves recognition. This is perhaps because the Group's internal control and internal audit are functioning properly and it has a highly transparent management.

Continue to grow through endless challenges toward new businesses: We think that the social conditions now and in the future will be tough and the environment will remain uncertain. Uncertain, in other words, means that the economy and society will change dramatically. If you are successful in staying ahead of such changes and making challenges for new businesses, you can achieve growth. That is, you must continue challenging until you see the results. I think that is what needs to be done to achieve growth.

Although the Company has over 100 years of history, it must have passed several major turning points. And each time, the Company continued to grow with products and services that met the needs of the times. The question is whether you can respond flexibly to the ever-changing business environment. If you can determine the trend, the Company should be able to grow.

There are many cases in which the business performance of the Company is affected by the fluctuations in exchange and raw material prices. Looking forward, it will be necessary to establish a new pillar for the operation or make improvements to the way to carry out business in order not to be affected by such factors. It is also important to review the business structure and to be able to make necessary investments in the right areas.

While you should be proud of the 100 years of history, do not take it for granted. We expect to see a more active attitude, without being satisfied with the status quo, staying ahead of the changes, and taking up new challenges.

Risk management

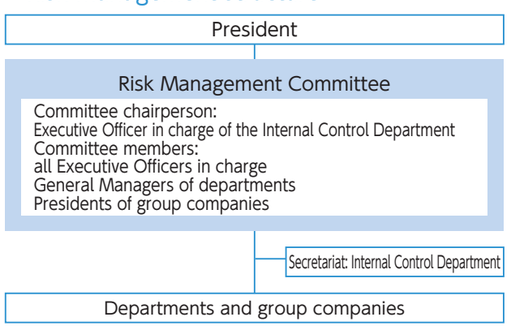
Basic approach

The Hodogaya Chemical Group has its own risk management system in place to minimize damages associated with illegal acts against the Group, quality issues, natural disasters and other risks. In order to maintain and increase corporate value, to fulfill corporate social responsibilities, and to achieve sustainable growth of the Group, all officers and employees are engaged in initiatives to increase risk awareness and promote risk management.

Risk Management Committee

Hodogaya Chemical Group has a Risk Management Committee in place, in accordance with the Risk Management Committee Rules. The Committee holds regular meetings to share risk awareness, develop measures to reduce risks, review the progress of such measures, and take initiatives to minimize damages, on a group-wide basis. As for information securities, we are formulating internal rules and regulations to store and manage information appropriately, and conducting educational activities such as the compliance training.

Risk management structure



Compliance

Promotion structure

The Hodogaya Chemical Group formulates various rules and regulations based on the Basic Policy on Internal Control, and strives to achieve compliance through organized and cross-sectional initiatives led by the Internal Control Department. The Internal Auditors Department audits the status of compliance and provides advice and guidance for improvements.

Corporate Action Guidelines, Compliance Action Policy

Hodogaya Chemical Group has formulated the Corporate Action Guidelines, the Compliance Action Policy, and other compliance-related policies and rules. All officers and employees of the Group abide by these rules and act in accordance with laws and regulations, the company's Articles of Incorporation, and the social norms. The Corporate Action Guidelines sets forth the guiding principle that the companies, officers and employees must follow in all corporate activities undertaken by the Group. The Compliance Action Policy sets forth the matters that must be observed in executing operation, based on the understanding that it is essential for the sound development of the Group to have complete understanding of the social responsibilities of the Group, to ensure full compliance of relevant laws and regulations and internal rules in all aspects of corporate activities, and to behave in accordance with the social norms.

Corporate Action Guidelines:
https://www.hodogaya.co.jp/english/company/philosophy#a7

Tax compliance

The Hodogaya Chemical Group will respond to the social demands and expectations by duly fulfilling its tax obligation in each country and region, as stipulated in the Corporate Action Guidelines and the Compliance Action Policy.

To do so, we work to maintain and improve tax compliance through actions such as formulating structures to accommodate various taxation systems, cooperating in submitting tax information to the tax authorities in a timely and appropriate manner, and not engaging in intentional tax avoidance through income transfer to other countries or the use of tax haven.

Internal reporting system

The Hodogaya Chemical Group has set up an internal reporting system under its Internal Reporting Rules in order to ensure early detection and prevention of violations of laws and business ethics. Reports are received by the Internal Control Department and outside legal consultants. The system ensures that, in conducting investigations based on reports, the privacy of the reporters and the secrecy of the content of their report are protected to the maximum extent possible. Utmost care is given to the protection of reporters with honest intentions do not receive any disadvantageous treatment such as dismissal, displacement, or discrimination as a result of their reporting.

Compliance education

In terms of cultivating and improving compliance awareness, the Hodogaya Chemical Group continuously offers compliance training sessions and independent education using e-Learning for all Group officers and employees, in order to thoroughly ensure compliance.

In addition, officers and management personnel of the Group are required to take the Examination of Compliance Proficiency for Practical Business (Primary Level) to gain knowledge and increase understanding of compliance, and 96% have passed the examination.

Voice



Legal Department and Internal Control Department
Shuhei Takahashi

The importance of saying "Hello"

Every operation of the Company, including in-house operations, outside operations, and various tasks and meetings, begins with a word of greeting. I believe that by exchanging pleasant greetings, we can all work in a disciplined manner and collaborate with various relevant parties, and take on one's job by maximizing one's performance.

As a member of a governance-related department, I will take the initiative in offering pleasant greetings to enable everyone to work pleasantly and to improve performance in cooperation with other members of the Hodogaya Chemical Group, with a belief that the first step to enhancing and strengthening corporate governance is to greet others.

Responsible Care

– ISO 26000 7 core subjects: Environment –

Basic approach

Responsible care (RC) is a voluntary management initiative intended for companies involved in the production and handling of chemical substances to implement and improve their environmental, safety and health measures across the product lifecycle, from development to disposal.

The Hodogaya Chemical Group conducts its operation based on the principle that ensuring environmental conservation, safety and health, and product quality is fundamental to corporate management and the basis for all business activities.

The Group has formulated its Responsible Care Rules to assess the overall business activities, and declares the Basic Philosophy of Responsible Care (RC) and the Basic Policies of Responsible Care (RC) as its management goals and initiatives for the total safety control of chemical substances, while educating all employees on the importance of the Basic Philosophy of RC and the Basic Policies of RC.

[Declaration of Responsible Care]

Hodogaya Chemical hereby sets forth the Basic Philosophy of Responsible Care (RC) to protect the environment and ensure the safety and health of people, and declares its engagement in the practice of Responsible Care through its ordinary business activities.

June 23, 1997

Responsible Care®
OUR COMMITMENT TO SUSTAINABILITY

Basic Philosophy of Responsible Care (RC)

1. Ensuring environmental conservation, safety and health, and product quality are fundamental to its management and the basis for all business activities.
2. Ensuring environmental conservation, safety and health, and product quality can be achieved when each and every employee acts with constant awareness and responsibility in their respective capacity.
3. Ensuring environmental conservation, safety and health, and product quality leads to greater trust of society and the well-being of employees.

Basic Policy of Responsible Care (RC)

1. Each and every employee will act according to the Basic Philosophy of RC with awareness and responsibility.
2. We will abide by the laws and regulations pertaining to our business activities and by the requirements of the local communities and partner companies as agreed to by the Company.
3. We will ensure the safety and health of employees and local residents by controlling the safety of our operation.
4. We will provide highly functional products and services with high added value.
5. We will be environmentally conscious in the development, manufacturing, transportation, use, and disposal of our products, and strive to preserve the environment by implementing measures to prevent pollution and reduce environmental impact.
6. We will gather information on the safety of chemical substances and will ensure the safety and health of our employees, partner companies, and suppliers by providing education and offering such information.
7. We will maintain close contact with the administrative authorities and industry groups to ensure environmental conservation, safety, health and quality.

Responsible Care (RC) implementation system

In carrying out the RC activities, the Group structures the RC & QM Subcommittee within the CSR Committee as advisory body to the President. It was named the RC & QM Subcommittee because the Basic Philosophy of RC of the Hodogaya Chemical Group includes quality management.

The Executive Officer overseeing the Environment & Safety Department is in charge of implementing RC activities.

The progress of the annual activity objectives is reported at the subcommittee meetings held regularly, four times a year. At the year-end subcommittee meeting, the Company RC/QM/ISO Execution Plan, which consists of a summary of the company-wide activities and the RC objectives for the following fiscal year, is deliberated and determined. The RC objectives for the following fiscal year are placed before the Management Committee, then presented to the President for final decision and approval. Based on the Company RC/QM/ISO Execution Plan, each office develops its own Office RC/QM/ISO Execution Plan, then the plan is further broken down to each business unit and executed under the leadership of the occupational safety and health promoter in each business unit.

Quality Assurance

– ISO 26000 7 core subjects: Consumer issues –

Basic approach

The Hodogaya Chemical Group's quality policy is "commitment to quality-first, quality from our customer's perspective." The aim is to meet the demands of our partner companies through our products, commercial goods and OEM products, through which we contribute to society and business growth.

Initiatives for quality assurance

The Hodogaya Chemical Group is committed to understanding facts, judging from facts, and acting based on facts to maintain a quality-oriented principle and provide highly functional products and services with high added value to meet the trust and satisfaction of its partner companies.

In October 2018, the Environment·Safety & Quality Assurance Department was restructured into the Quality Assurance Department and the Environment & Safety Department for the purpose of clarifying the functions, roles, and responsibilities.

To ensure partner companies' satisfaction with respect to quality, we have categorized our quality assurance activities into the following four systems and work to assure the quality through screening, audit, and management systems required for each system.

(1) Quality assurance activity system from the planning stage to stable production of products
(2) Quality assurance activity system for the steady production operation of products
(3) Quality assurance activity system for commercial goods and OEM products
(4) Activity system to review the quality assurance activities

Obtaining ISO Certifications

Today, corporate compliance with international quality and environmental standards has come to be recognized as the norm. Each of the Hodogaya Chemical offices has acquired ISO 14001 and ISO 9001 certifications, the international standards for quality and environmental management systems, respectively. Then in 2010, the Group integrated the individual management systems of each office and successfully achieved an integrated certification as the Hodogaya Chemical Group that also certified the Group's affiliated companies and subcontracting companies. Furthermore, an overseas Group company, SFC CO., LTD. in South Korea, also obtained ISO from the South Korean certification body. In 2017, the Group underwent transition audit and renewed its certification of environmental and quality management systems under the updated 2015 standards.

Under enhanced systems, all companies in the Group are carrying out initiatives to manage the environment and improve quality.

ISO 9001:2015 Quality management systems	
Certification body	Japan Chemical Quality Assurance
Registration No.	JCQA-0184
Compatible standards	JIS Q 9001:2015 ISO 9001:2015
Date of acquisition	December 25, 1996



ISO 14001:2015 Environmental management systems	
Certification body	Japan Chemical Quality Assurance
Registration No.	JCQA-E-0330
Compatible standards	JIS Q 14001:2015 ISO 14001:2015
Date of acquisition	December 25, 2001



Voice

Quality assurance of plants



Group Leader of Quality Assurance Group of Nanyo Plant
Akemi Matsumoto

The role of the plant is to produce high-quality products and provide such products after making sure that they meet the required quality, thereby meeting the trust and satisfaction of customers.

The main job of the Quality Assurance Group is to check the quality of incoming raw materials and products being shipped. We also check the description of items on the test results that accompany the products in everyday shipments. I get nervous every time, but I want to keep in mind the original mindset so as not to ship out any products that have the wrong quality.

We conduct quality assurance-related education throughout the year. I am hoping to focus on the importance of the standard operating procedures which stipulate the procedures of human movement and machine operation as best practice under the current situation so as to ensure the same results regardless of who handles the task.

Workplace Safety and Health, Security and Disaster Prevention

– ISO 26000 7 core subjects: Environment –

Basic approach

The Hodogaya Chemical Group places highest priority on "ensuring workplace safety and health as the basis of our production activities," and ensures thorough compliance with laws and regulations related to safety and health, to achieve disaster-free operation.

In order to promote workplace safety and health, and security and disaster prevention, we spell out the basic rules on actions to be taken by the Hodogaya Chemical Group based on relevant laws and regulations in the Safety and Health Management Rules, the Disaster Prevention Rules, and the Logistic Safety Management Rules.

Initiatives for workplace safety and health

The Safety and Health Management Rules set forth the basic rules on safety and health management to prevent occupational disasters and health disorders of all employees. The aim is to engage both employees and employers to collaborate in ensuring the safety and health of all employees in the workplace, and to promote creating a more comfortable work environment, while streamlining the operation and contributing to improving productivity.

Furthermore, the Group has designated February 3 as the Group's annual Safety Day to prevent forgetting the fire accident at the Yokohama Plant on February 3, 2012, and the lessons learned from it, to enhance the safety culture, and to spread among all employees of the Group the efforts in structurally establishing safety in the business operation.

Ensuring safety in operation

The Group conducts its activities in accordance with its basic principle to deliver security and safety including environmental conservation to the local communities and society. We established a goal to achieve accident-free, disaster-free operation, continue with the conventional KYT ("Kiken Yochi Training," risk prediction training) and PYT (process error prediction training) activities, and conduct safety patrols, 3S (Sort, Set in Order, Shine) and inspection visits among offices in an effort to improve our safety awareness. Furthermore, under the internal audit of RC activities, the basis of activities were expanded from the three actuals (the actual place, the actual thing, the actual fact) to the five actuals (the actual place, the actual thing, the actual fact, principle, rule) to implement safety measures and safety education that include mechanism and law principles, and rules such as routines and orders.

Because we had many accidents and incidents in FY2017, the Group declared a "state of emergency" in November to eradicate accidents and disasters. As a result of strengthening its efforts to take various measures, the number of accidents and incidents in FY2018 dropped significantly with no occurrence of lost-time injuries.

Occurrence of lost-time injuries

	FY2014	FY2015	FY2016	FY2017	FY2018	Five-year average
Number of accidents/ incidents (cases)	0	2	1	4	0	1.4
Number of work-related fatalities and injuries (persons)	0	2	1	4	0	1.4
Frequency rate of lost-time injuries	0.00	1.90	1.00	3.90	0.00	1.36

・Frequency rate of lost-time injuries shows the frequency of occupational accidents per million work hours, and is calculated using the following formula:
Frequency rate = (Number of work-related fatalities and injuries / Total work hours) x 1,000,000

Emergency responses

The Disaster Prevention Rules set forth the actions to be taken in case of an emergency, such as reporting, organization formation, and emergency response education and training. Emergency response education and training includes disaster drills, fire extinguisher training, and emergency life-saving drills together with the fire departments on a regular basis so that we can respond quickly in case of an accident or other emergency incidents within our facilities.

Our plants are active participants of regional self-defensive firefighting skills competitions. In FY2018, two teams from the Koriyama Plant participated in the Koriyama region self-defensive firefighting skills competition and won the second place among 32 teams; at the Tsurumi Ward self-defense brigade firefighting skills training session, the Yokohama Plant came in fifth among 14 teams. One team from the Nanyo Plant participates biennially and places high each time in the local disaster prevention competition.



Koriyama Plant



Yokohama Plant



Nanyo Plant

Initiatives for logistic safety

The Logistic Safety Management Rules set forth basic rules on the prevention of accidents and disasters in the distribution of the Group's products and actions to be taken in the event of an accident or disaster. The aim is to ensure the safety and health of those in the logistics industry and the local residents, and to protect the local environment. The Group takes safety measures, including the issuance of a Yellow Card*1 to transport operators indicating actions and reporting information, etc., to enable them to respond appropriately in the event of an accident during the transportation of hazardous substances.

Hodogaya Logistics Co., Ltd. hosts transportation safety councils, SP (Stock Point)*2 meetings and various safety training sessions with subcontracting logistics companies, covering topics on the handling of hazardous substances, chemicals and pharmaceuticals and on the distribution of general cargo, low-temperature cargo and all types of products, and conducts safety activities including the sharing of SDS (Safety Data Sheet)*3 and safety-related information, and carrying of the Yellow Card.

In addition, as a safety activity when exporting hazardous substances, we take safety measures on a global level, for example, by translating our product labels and SDS to the official language of the destination country.

*1 A Yellow Card describes the first-aid treatments and measures to prevent the expansion of disasters in the event of an accident during the transportation of hazardous substances.
*2 An SP (Stock Point) is a distribution base in transporting products, and is a transit facility for maritime transport and ground transport.
*3 An SDS (Safety Data Sheet) is a document describing information on the hazards and toxicity of chemical substances, which is issued when selling or providing chemical substances and products containing chemical substances to other business operators.

Voice

To maintain safety



Koriyama Plant
Yuya Ohkura

A self-defensive firefighting skills competition is held under the motto to "protect our own workplace by ourselves," and aims to nurture self-defense fire brigades at each business facility who can perform appropriate initial response in the event a disaster occurs.

Last year, 32 corporate teams based in Koriyama participated in the competition and competed to show the results of our regular practice. During the two years I participated, it was very frustrating that our team became runner-up for two years in a row, but through firefighting skills I was able to gain awareness of safety and knowledge on initial response in the event of a disaster.

Safety is an essential norm in a plant, but it is very difficult to maintain this norm. I feel that it is the responsibility of us working at a chemicals manufacturer to have a keen awareness and knowledge on safety at all times, and that safety can be maintained by instilling such awareness and knowledge throughout the plant.

Chemicals and Product Safety

– ISO 26000 7 core subjects: Environment –

Basic approach

The Hodogaya Chemical Group sets forth a set of internal rules on the use of chemical substances and measures to control the content in products, etc. based on the Basic Philosophy of Responsible Care (RC) to ensure environmental conservation, safety and health, and product quality, which forms the basis for all business activities. The aim of these rules is to voluntarily manage chemical substances that are likely to injure human health or impact the global environment across the product lifecycle, from development, manufacturing, transportation, and use to disposal.

Management of chemicals

From the perspectives of environmental conservation, security and disaster prevention, workplace safety and health, and product safety, we manage chemical substances at the development phase, raw materials procurement phase, manufacturing phase, and use and disposal phases. The chemical substances we manage include controlled substances designated under national and foreign laws and regulations, and include those requested under partner companies' green procurement policies. The substances are categorized into three groups: prohibited substances, release restricted substances, and controlled substances in products.

We use the SAP-EHS Management system to manage our chemical substances. This system provides integrated management of information on all products, raw materials and chemical substances handled by the Hodogaya Chemical Group.

We also ensure that information is provided to our customers in standardized formats, including confirmation of legal compliances with national and foreign laws and regulations, automatic production of SDS (Safety Data Sheet) and product labels in multiple languages, and preparation of chemSHERPA (a scheme that facilitates sharing information on chemical substances in products) and other safety information.

Risk assessment of chemicals

The Hodogaya Chemical Group has formulated procedures for risk assessment to prevent accidents and disasters, has formulated procedures for measures to reduce risks based on the assessment results, has set forth the Risk Assessment Guidelines to clearly identify risks and take precise measures, and has implemented them on a regular basis.

As a result of the amendments to the Industrial Safety and Health Act in 2016, employers now have an expanded obligation to assess the risk of chemical substances that require the provision of SDS. In response, the Group revised its procedure by separating the "risk assessment of operations" and the "risk assessment of handling chemical substances" to enable clearer identification of risks and more precise measures.

Compliance with global laws and regulations

In addition to the conventional regulations such as TSCA (USA) and REACH (Europe), Asian countries including China, South Korea and Taiwan are actively enforcing new laws and regulations.

In order for the Hodogaya Chemical Group to expand its business globally, it not only works in close collaboration with foreign affiliate companies and representative offices, but also takes active part in various industry activities to keep track of the latest trends in chemical substance management policies and legislation of other countries so as to be prepared to respond in a timely manner.

We share this legislative information and responses from other countries with the entire Hodogaya Chemical Group.

Obtaining Halal certification

Certain natural food dyes have acquired Halal certification from Japan Muslim Association. It is said that there are 1.6 billion Muslims in the world, and food products that are Halal-certified can be eaten by Muslims without worrying.



Environmental Conservation

– ISO 26000 7 core subjects: Environment –

Basic approach

In protecting the environment, we consider it an important responsibility as a chemicals manufacturer to continuously reduce the emission volumes of all chemical substances released into the air, water, and soil, and the volume of waste discharged in the course of our business operations. In order to voluntarily improve the environment, safety, and health of all stakeholders, we established the environmental management system (EMS) under the Basic Philosophy of Responsible Care (RC) and undertake continuous improvements.

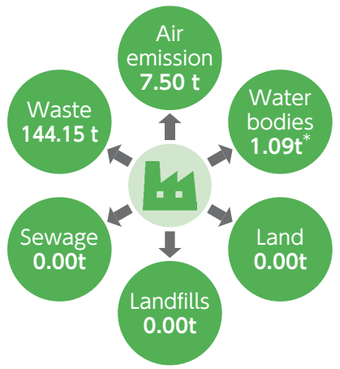
One initiative was the ISO 14001 certification which we acquired in December 2001. We use the ISO 14001 management system as a means (tool) for environmental conservation and work to reduce environmental impact.

PRTR(Pollutant Release and Transfer Register)

In order to reduce the environmental impact of chemical substances, we are gathering information on the status of release and transfer of the PRTR listed substances under the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof and notifying the national authorities.

Through these activities, Hodogaya Chemical keeps track of the chemical substances manufactured or used by the Company that are released in the environment or transferred as waste, and work to reduce the release and transfer of such substances from the perspective of environmental conservation.

■ FY2018 release amounts and transfer amounts of the PRTR listed substances



* Of which 1.08 tons have been sent to the adjacent wastewater treatment facility and released into the public water bodies after being treated.

No. (PRTR Act)	Name of chemical substance	FY2018 results (compiled data): unit: t					
		Release amounts				Transfer amounts	
		Air emission	Water bodies	Land	Landfills	Sewage	Waste
8	methyl acrylate	0.00	0.00	0.00	0.00	0.00	1.85
53	ethylbenzene	0.30	0.25	0.00	0.00	0.00	7.02
73	1-octanol	0.00	0.00	0.00	0.00	0.00	0.02
80	xylene	0.30	0.25	0.00	0.00	0.00	12.69
87	chromium and chromium(III) compounds	0.00	0.00	0.00	0.00	0.00	0.78
160	3,3'-dichloro-4,4'-diaminodiphenylmethane	0.00	0.00	0.00	0.00	0.00	0.11
181	dichlorobenzene	0.09	0.28	0.00	0.00	0.00	18.73
232	N,N-dimethylformamide	0.00	0.00	0.00	0.00	0.00	4.29
296	1,2,4-trimethylbenzene	0.02	0.00	0.00	0.00	0.00	0.00
298	tolylene diisocyanate	0.00	0.00	0.00	0.00	0.00	0.48
300	toluene	6.59	0.00	0.00	0.00	0.00	91.06
355	bis(2-ethylhexyl) phthalate	0.00	0.00	0.00	0.00	0.00	1.44
411	formaldehyde	0.20	0.00	0.00	0.00	0.00	0.00
415	methacrylic acid	0.00	0.29	0.00	0.00	0.00	3.48
446	4,4'-methylenedianiline	0.00	0.00	0.00	0.00	0.00	2.20
453	molybdenum and its compounds	0.00	0.01	0.00	0.00	0.00	0.00
	Grand total (rounded off)	7.50	1.09	0.00	0.00	0.00	144.15

For more details, please access the following URL or QR code.

https://www.hodogaya.co.jp/english/csr/eco/environmental_protection/

Voice



Yokohama Plant

Mari Kaneko

Safety of Chemicals

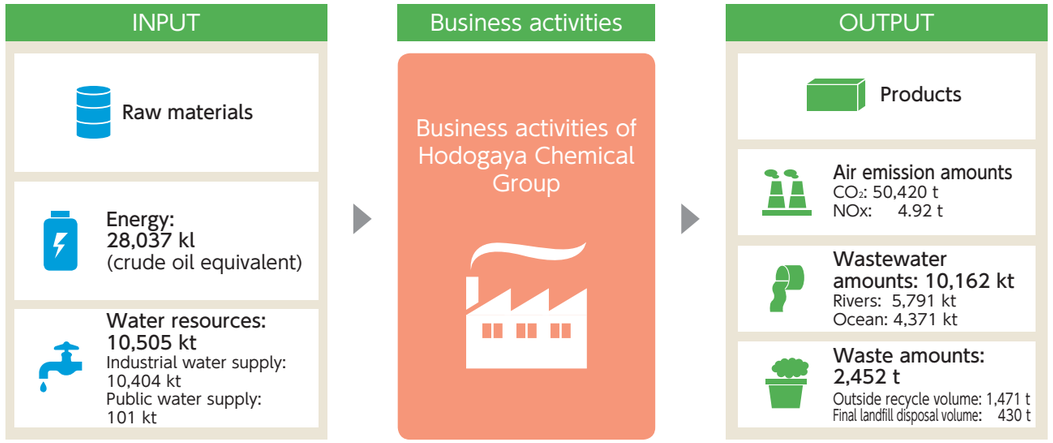
We are engaged in the development and quality inspection of dyestuffs, and use organic solvents and chemicals that are acidic or alkaline. In recent years, the production of dyestuff increased due to the rise in demand, and the number of staff and work scale expanded in the workplace.

In an workplace where people have different levels of experience and there are major changes to the work environment, I think that following the conventional ways alone is not sufficient in ensuring safety. Operators need to understand the characteristics and toxicity of the chemicals they handle through education and predict risks before conducting operations. The sense of danger I have concerning my workplace should be shared within the workplace through near miss/close calls, risk assessments, and everyday communication, which should lead to creating a better workplace environment and improving our individual knowledge and sensitivity on chemical safety.

Promotion of energy-saving and resource-saving

In order to effectively use limited resources, we are promoting energy saving across all Group companies. At each plant, we have taken initiatives to promote the reduction of fuel and electricity usage, such as optimization of process control values, aggressive introduction of energy-saving equipment, recovery and reuse of steam, and increase of steam piping efficiency, through which we set a target to reduce the energy intensity by an average of 1% per year over a five-year period. In FY2018, our annual reduction was 0.4% not being able to meet the target, and we need to take further measures to address this issue.

Material flow

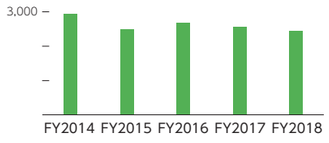


Promotion of industrial waste reduction and resource recycling

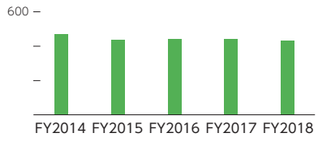
Through ongoing initiatives, we have been able to achieve significant reduction in the industrial waste volume generated from our business activities. We always include our goal to reduce the volume from the previous fiscal year in the annual RC plan, and although the reduction from the previous year is about 0.5% each year, we have been achieving our goal since FY2016. We will continue to accumulate small improvements to achieve reduction.

The Group also promotes the 3R initiative (reduce, reuse, recycle) to reduce the disposal volume of industrial waste.

■ Industrial waste volumes (Unit: ton)



■ Industrial waste final disposal volume (Unit: ton)



Initiatives toward carbon-free society

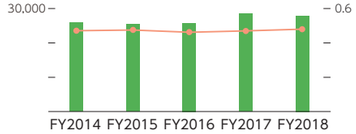
Most of the greenhouse gas (GHG) emitted from our plants are CO_2 originated from the energy we use. The amount of GHG emissions in FY2018 decreased compared to FY2017 due to reduction of energy usage, but increased in terms of the amount of change over the past five years. As we expect increase in production, we will conduct technical investigations on reduction of GHG emissions and strive to reduce our emissions through promoting the introduction of energy-saving equipment aimed to reduce the energy intensity and switching to renewable energy with the aim to achieve the COP21 targets.

In addition, Hodogaya Chemical supports the national movement, COOL CHOICE, which is an initiative promoted by the Japanese government to address global warming. We conduct steady activities such as Cool Biz and regular No Car Day at the Nanyo Plant.

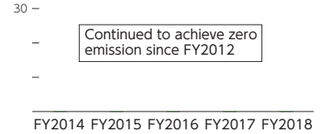
Prevention of air pollution

We completed the switching of raw fuel used in our plants to urban gas in FY2011, through which we have continued to achieve zero emission of SOx (sulfur oxide) since FY2012. We are also achieving significant reduction of NOx (nitrogen oxide) emissions.

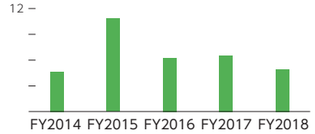
■ Energy usage (Unit: kl)
Energy intensity (Unit: kl/t)



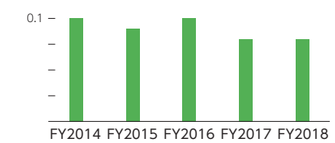
■ SOx (sulfur oxide) emissions (Unit: ton)



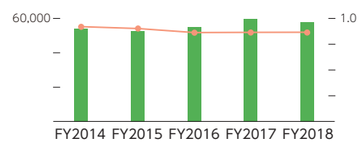
■ NOx (nitrogen oxide) emissions (Unit: ton)



■ Dust emissions (Unit: ton)



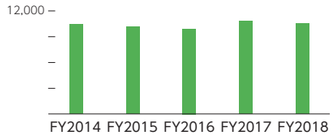
■ CO_2 (carbon dioxide) emissions (Unit: ton)
CO_2 (carbon dioxide) emission intensity (Unit: t/t)



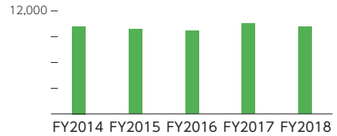
Prevention of water pollution

Water released during the manufacturing process is treated in an advanced manner at the on-site wastewater treatment facility within the plant, and released into the public water bodies after the water quality clears regulatory values. We will continue to improve the water quality and work to reduce the environmental impact risks to oceans and rivers.

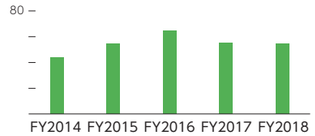
■ Water usage (Unit: kiloton)



■ Water discharge volume (Unit: kiloton)



■ COD (chemical oxygen demand) emissions (Unit: ton)



WEB For data from the past 10 years, please access the following URL or QR code.
https://www.hodogaya.co.jp/english/csr/eco/environmental_data/

Voice



Tsukuba Research Laboratory
Masafumi Asakai

Introduction of Tsukuba Research Laboratory's approach to waste reduction

To reduce paper waste, we try to reduce the amounts generated and also as a community contribution effort, we ask a social welfare corporation operating a support facility for persons with disabilities in Tsukuba City to collect and recycle paper waste. They come to collect the paper waste once a week. When we have a small chat, they are all so pleasant that I get cheered up. I also feel that recycling the paper waste is beneficial to the welfare activities, even if just by a small amount.

To reduce glass waste, we used to take the glass bottles to the waste storage, which took up space. After consulting with the supplier, we are now able to return and reuse them by drying the bottles. We no longer worry about securing space for waste.

Together with Shareholders & Investors

– ISO 26000 7 core subjects: Fair operating practice –

Basic approach

To maintain and deepen the trust in us by all shareholders and stakeholders well into the future, the Group recognizes that ensuring the soundness and legality of business management and increasing efficiency is one of the highest priority issues of business, and to this end, we are working to enhance and strengthen our corporate governance system.

Disclosure of IR information

To provide shareholders, institutional investors, security analysts, and individual investors with a better understanding of the Hodogaya Chemical Group, we engage in extensive communication activities and strive to disclose information in a fair and timely manner. We have been making our Corporate Governance Report, Annual Securities Report, and various IR materials available from the "IR" section on our website, and we began posting our Summary of Consolidated Financial Results for Three Months in English starting in FY2017 and the Notice of the Annual General Meeting of Shareholders in English starting from the Annual General Meeting of Shareholders held in June 2018.

Dialogue with shareholders & investors

The Group hosts a social gathering after the General Meeting of Shareholders to exchange face-to-face dialogue with our shareholders and encourage extensive bi-directional communication. At mid-term, we also issue Business Reports to shareholders.

To enable foreign stakeholders to better understand the business and CSR activities of the Hodogaya Chemical Group, we began publishing our Integrated Report in English starting in FY2018.

For institutional investors and security analysts, the Group holds individual meetings on a quarterly basis to disclose information aggressively, and encourages bi-directional communication through engagements after the release of the Integrated Report for better understanding.

WEB https://www.hodogaya.co.jp/english/investors/



Business Report



Notice of the Annual General Meeting of Shareholders


Notice of the Annual General Meeting of Shareholders in English (excerpt)

Basic policy on dividends

We make it our basic policy to establish a sound and stable management foundation and to achieve sustainable increase of corporate value in order to return the profits to shareholders.

First, we will effectively use our internal reserves to strengthen our mid- to long-term competitive edge through strategic investments to expand our core businesses, investments in R&D efforts leading to the creation of new businesses and products, and to fund projects that could contribute to cost reductions, energy-saving and environmental solutions. Dividends to be paid to shareholders are fairly determined taking into full consideration such factors as the business results, future expansion of business, and unforeseen risks.

Based on the above policy, the annual dividend for the fiscal year ended March 2019 was 50 yen per share.

Together with Customers & Partner Companies

– ISO 26000 7 core subjects: Consumer issues/Fair operating practice –

Basic approach

We recognize that managing information on all of our stakeholders is essential in performing our business fairly.

In purchasing not only raw materials, commercial goods, OEM products but also facility equipment, we consider all of our partner companies as good partners of the Hodogaya Chemical Group, and work together in resolving social issues.

Information security

We manage corporate data as confidential information, and set forth the Information Security Policy to ensure the security of information. Under this policy, we ensure that information is obtained, used, disclosed, managed, and protected properly, and comply with related laws and regulations including the Unfair Competition Prevention Act and regulations on insider trading. All of our officers and employees strive to increase awareness of information security and implement security measures.

Procurement Policy

The Group sets forth the Procurement Policy and the Procurement Guidelines based on the basic philosophy described in the right column, to promote CSR activities in line with our ESG (Environmental, Social, and Governance) requirements together with partner companies.

A detailed content can be found on our website.

1. Comply with laws, regulations, and social norms
2. Conduct environmentally friendly procurement activities
3. Provide fair trading opportunities
4. Deepen communication with the supply chain

WEB Please find the Procurement Policy at the website below:
https://www.hodogaya.co.jp/english/company/philosophy#a8

WEB Please find the Procurement Guidelines at the website below:
https://www.hodogaya.co.jp/english/wp/wp-content/uploads/2018/09/procurement_guidelines_20180918.pdf

Promotion of CSR procurement

The Purchasing Department promotes the procurement of raw materials in tandem with the CSR activities.

We search with a global perspective for financially sound partner companies that are capable of continuous transactions, and endeavor to establish a robust supply chain. In particular, we work to secure multiple suppliers for each raw material and to diversify the countries from which we procure.

Based on Hodogaya Chemical's Procurement Policy, we ask our partner companies to conform with environmental, social, and governance needs such as management of chemical substances, reduction of the environmental impact of the raw materials, and respect for human rights throughout the supply chain. We conduct visiting audits and questionnaire surveys, and work to deepen mutual understanding and establish mutual trust with our partner companies and to conduct improvement activities.

Voice



Purchasing Department
Megumi Nakahara

What I aim for in procurement operations

My job in the Purchasing Department is to place purchase orders. When we receive a request to purchase raw materials or packaging materials from our plants, I place a purchase order to our partner companies. If the delivery date or quantity is wrong, it will not only affect the production but will also cause trouble to the partner companies, so I make sure that the information is entered accurately. When a partner company is unable to deliver on the desired delivery date, we usually adjust the delivery date with the plant. I feel relieved when the adjustments go well. Also, we have quite a few sudden incidents at the Purchasing Department, which require flexible response. I hope to continue fulfilling my role firmly and establishing amicable relationships with our partner companies, thereby contributing to stable procurement.

Together with Employees

– ISO 26000 7 core subjects: Labor practices, Consumer issues –

Basic approach

The Hodogaya Chemical Group aims to become a corporation that steadily supplies “Only One/Number One” specialty products in global and niche markets, and takes on the following four approaches to this end: formulation and promotion of a flexible and suitable “personnel system” that can respond to the changing environment; “personnel placement” that enables each and every employee to efficiently exercise their ability; appropriate “recruitment” in view of future business expansions; and an “enhanced education program” to nurture personnel that can think, investigate, and take actions for themselves.

Initiatives for diversity

Diverse mixes of people, regardless of age, sex, or nationality, are working in a broad range of fields at the Hodogaya Chemical Group.

Active participation of female employees

The Group expects both male and female employees to actively participate in all positions including management and supervisory positions based on individual capabilities, skills and experience.

For the three years starting FY2016, we set the following targets: **(1) the percentage of female applicants in new hires to be 30% or greater; (2) the percentage of female employment to be 20% or greater; and (3) the percentage of female managers to be 10% or greater in management personnel**. All of these targets were achieved in FY2018.

In particular, we have more female managers working as general managers of departments and heads of the administration department of our plants, and the number of female managers accounted for 11.2% of the total management personnel as of March 31, 2019.

Active participation of foreign employees

In response to the global expansion of business, the Hodogaya Chemical Group has many foreign employees who are working inside and outside Japan. As of March 31, 2019, there are 134 foreign employees (18.3%) who are pursuing their career in various areas including production, R&D, sales, and management.

Initiatives to improve the employment rate of workers with disabilities

Our target for employment rate of workers with disabilities is 2.2%, and in order to achieve this goal, we select candidates through recruitment activities by visiting schools in the vicinity of the offices, exchanging information with Hello Work (public employment security office) and private support institutions, and receiving referrals from staffing firms. We then establish probationary periods and conduct internship programs at the offices.

Initiatives to support the re-challenge of middle-aged and senior employees

The Group has introduced the Reemployment Program for retired personnel and provides a senior employment system for those who wish to continue their career. In FY2018, nearly 80% of the retired personnel utilized their experience to continue their career in various fields.

Voice



Deputy General Manager of Intellectual Property Dept. Research & Development Department

Chen Jin

As a foreign manager and a mother

My job is patent practice. It requires highly specialized knowledge and a strong sense of responsibility. In doing my job, I am required to master the legal knowledge on intellectual properties inside and outside of Japan and technical knowledge on areas in charge. In such environment, the responsibilities and pressure of being a female manager of a foreign nationality are not small, but I try to handle the domestic and international patent practices by utilizing the unique sense I have as a woman and language skills I have as a foreigner in the practical management of intellectual property-related activities.

Also, my husband and I are a working couple with elementary school kids, so there are many challenges in balancing my career and housework. However, I think I am able to work full-time by using the various programs that support childcare and thanks to the support of my colleagues.

I wish to continue contributing to the development of the Company on my own without being conscious about gender or nationality.

Initiatives for work-life balance

With an aim to achieve “further growth of the Hodogaya Chemical Group” and “improvement of job satisfaction of employees” at the same time, we respect the diverse lifestyles and work to create a motivating workplace environment. To this end, we implement various programs and policies to enable employees to achieve a highly productive work style and successfully combine work and daily living (work-life balance).

WEB The details of the system can be found on our website.
https://www.hodogaya.co.jp/english/csr/stakeholder/employee#a9

Child-raising and nursing care

The Group implements various programs to support childcare, including short working hours during pregnancy and child-raising period, long-term childcare leave, and nursing leave when to care for a sick child. For better understanding and use of such programs, we also conduct briefings to publicize the corporate programs, financial aids, and necessary procedures related to pregnancy, childbirth, and childcare that are available. Employees are also entitled to a congratulatory leave upon childbirth by their spouse.

The Group also implements nursing care programs including long-term and short-term nursing care leaves.

In FY2018, we introduced a new reemployment applicants registration system named Come-back Entry Program for employees who terminated their employment voluntarily due to reasons such as childcare and nursing care.

Reduction of overtime labor

As initiatives to reduce work hours, we set “no overtime days” on Wednesdays and Fridays every week and instruct employees to leave work on time. In addition, the Head Office promotes to leave the office by 9 p.m., and although it is not an official rule, we aim to ensure a 12-hour interval between shifts.

The flextime working system has also been expanded starting in FY2016 to include some of the administrative departments at the Head Office. It was proven to be effective in reducing overtime labor and improving work efficiency, and we are considering expanding the system to other departments in the future.

In promoting these initiatives, each department is able to manage overtime labor with the implementation of the attendance management system.

Annual paid holidays

Annual paid holidays can also be used on a half-day basis, and the rate of usage of paid holidays is 60% or greater. We will continue to review various systems to achieve further improvements.

Annual paid holidays that were not used can be accumulated as accumulated annual leave for personal injury.

Accumulated annual leave for personal injury may be used for purposes such as nursing care and volunteer activities in addition to personal injuries.

Refreshment leave

Refreshment leave is a system in which employees are eligible to take five consecutive business days off in addition to the annual paid holidays. This leave is aimed to freshen up the mind and body, and by combining it with Saturdays and Sundays, employees can enjoy a longer vacation.

Employees are required to use a certain number of annual paid holidays prior to taking the refreshment leave in order to achieve a good balance between annual paid holidays and refreshment leaves.

The use of Shinkansen and charged limited express trains for commuting

This system allows employees to use the Shinkansen and charged limited express trains for commuting, aiming to alleviate the commuting time of long-distance commuters, allow effective utilization of their time, and offer more choices of where to live. There are certain requirements such as commuting time and commuting distance to be eligible, but the system is utilized as one measure to enhance work-life balance.

Enhanced education programs

In order to achieve our management philosophy, we provide systematic education with an aim to nurture personnel who can look across from a high perspective and respond flexibly to the changes in situation.

At the Hodogaya Person - general training for all employees, we offer educational courses such as compliance training, CSR training, and diversity training to grant the basic knowledge essential for a member of the Hodogaya Chemical Group and to improve the levels of practical operations.

We allocate personnel with required capabilities and qualifications appropriately, and offer training by job capabilities in order to improve capabilities to perform the job, such as training by job capacity and management training to provide knowledge needed for each job capacity, that is conducted at the time of promotion to general manager, section chief, and subsection chief; and training by job description, including training for engineers, that is provided to improve capabilities required to perform such duties as sales, development, and production.

Furthermore, to create groups with deep and broad qualities consisting of diverse talents and personalities, we offer regular foreign language training courses in an aim to nurture personnel who can respond to internationalization. We also have a trainee program in which employees can study abroad in an English-, Chinese-, or Korean-speaking country for practical training in the local language in addition to language training.

In FY2018, all new employees for FY2018 and potential recruits for FY2019 visited our Group company SFC CO., LTD. located in South Korea and participated in the training on internationalization.

As support for self-development, we offer support to acquire qualifications and licenses, active learning support through correspondence courses, and support for web-based e-Learning courses. All employees take e-Learning courses on at least two themes every year.

Enhanced health maintenance and care systems

The Hodogaya Chemical Group promotes the health and productivity management in accordance with the Basic Philosophy and the Basic Policies of Responsible Care (RC). We actively support the promotion of mental and physical health jointly with Hodogaya Chemical Health Insurance Society so that all of the employees can work in good health.

We work to achieve a goal of a 100% consultation rate for health checkups, and in FY2018, 100% of our employees took the first checkup, and everyone needing second screening received further consultation. Our industrial physicians conduct interviews at each office, and health conditions of employees are shared with the company so that we can work to improve conditions or prevent deterioration.

Regarding mental health, we have been continuously implementing stress checks, and in FY2018 we achieved a 100% implementation rate. The Group further conducts "self-care training" for all employees and "line training" for managers with an aim to provide information on stress and how to deal with it. By learning about stress from the employees' perspectives and of others, employees gain better understanding on how to manage stress properly.

Voice

My experience working in Shanghai



HODOGAYA (SHANGHAI) TRADING CO., LTD.
Toshiki Konoshita

I spent one year from April 2015, my fifth year with the Company, in Shanghai to participate in the overseas language training (trainee program), and now I am based in Shanghai engaging mainly in sales operations of our dyestuff products within China. Three and a half years have already gone by since I began living in Shanghai.

Back then, I was bewildered by my first experience living abroad, and I had to study Chinese almost from zero. But thanks to all the support, the environment to focus on studying the language was already there, and I was able to dive straight into my Chinese studies, which I feel became the foundation of the greater ability I have now.

China is growing with such speed that I am often perplexed by the speed of things changing. But with the support of my colleagues and local staff, I am able to do my job in a foreign country.

I am truly grateful for this valuable opportunity to gain work experience abroad while I am still young. Meeting such people whom I could rarely meet in Japan is a real pleasure of working abroad, so I will continue to work hard on what I can do where I am.

Together with Community & Society

– ISO 26000 7 core subjects: Community involvement and development –

Basic approach

The Hodogaya Chemical Group believes that contributing to the sustainable development of the community is an important activity as corporate citizens in carrying out its business activities. We are engaged in various community contribution activities including the nurturing of children through chemistry, environmental conservation activities in the regions where the Group's plants are located, and the provision of tangible and intangible objects that are useful for the rich lifestyles of people.

Exhibited at KORIYAMA EXPO 2018



Koriyama Plant
Seiya Hirayama

The fourth KORIYAMA EXPO was held on October 5 - 7, 2018 at BIG PALETTE FUKUSHIMA. The objective of KORIYAMA EXPO AWARD is to hold a comprehensive exhibition bringing together the commercial, industrial, agricultural, tourism, and welfare communities of Koriyama to imagine and create the next generation together, thereby communicating and promoting the local industries.

As our first exhibit, our Company set up an interactive exhibit booth consisting of a corner to make an original bookmark using aluminum coloring dyes and a corner exhibiting our products. The exhibition ended with great success, having over 200 visitors wanting to experience bookmark making. We received many comments from the visitors, that they learned that there are many products of Hodogaya Chemical around them and that they wanted to come to the experience corner again next year. We also won the second prize in the KORIYAMA EXPO AWARD contest that awards companies and groups presenting advanced exhibits.

Aluminum coloring dyes are produced at the Yokohama Plant, but recently we constructed a facility to expand production within the Koriyama Plant and began production.





Green Festa



Nanyo Plant
Yuki Matsunami



Nanyo Plant and its affiliate K.K. Jasper ("JSP") hosted a thanksgiving festival named Green Festa in April 2019 with the aim of showing their gratitude to the local people again, the second time after the first festival held in FY2018.

Green Festa offered various events such as tossing rice cakes and the free use of the driving range for children and parents, and introduced the companies' products. With the support of restaurants around the Plant, there were also food booths aiming to further vitalize the local community. During the event, new employees including myself were in charge of recreational activities for children and parents such as blowing bubbles, giant jump rope, and stilts, providing an opportunity to interact directly with many people from children to adults. We were happy to hear comments from visitors that they had a good time and wished to come again.

I think the local residents got a sense of closeness with Hodogaya Chemical through Green Festa.

We will continue to undertake various activities that will lead to the development of and contribution to the local community and society.





https://www.hodogaya.co.jp/english/csr/stakeholder/community/

Visiting classes at an elementary school

Every July since 2016, the Nanyo Plant holds visiting chemistry classes for elementary school pupils in the vicinity of the Plant. At first, classes were held at only one school, but in 2018 we visited two schools. The Koriyama Plant also held visiting chemistry classes for the first time in January 2019. Both plants are selecting themes that are relevant to the technologies and products of the Hodogaya Chemical Group, communicating to the children the excitement of science through experiments.



Cooperating in Big Tree Pageant

The Big Tree Pageant Festa in Koriyama that illuminates the front of Koriyama Station has expanded the area from the West Exit to include the East Exit of the station on the occasion of the 13th festival. The Koriyama Plant cooperated by using its fences that extend from the East Exit of Koriyama Station to the main gate of the Plant. We designed a motif between the curtain of lights installed, and offered a photo-shooting spot for the residents to enjoy.



Supported the Restoration of J-Village

The Hodogaya Chemical Group supports the "Restoration of J-Village" which is positioned as a symbol of restoration of Fukushima Prefecture.

J-Village, which had been closed down due to the Great East Japan Earthquake on March 11, 2011 and the subsequent nuclear power station accident, restarted its operation on July 28, 2018, and the All-Weather Practice Field opened on September 8, 2018. On April 20, 2019, the entire village restarted as "the mecca of football."

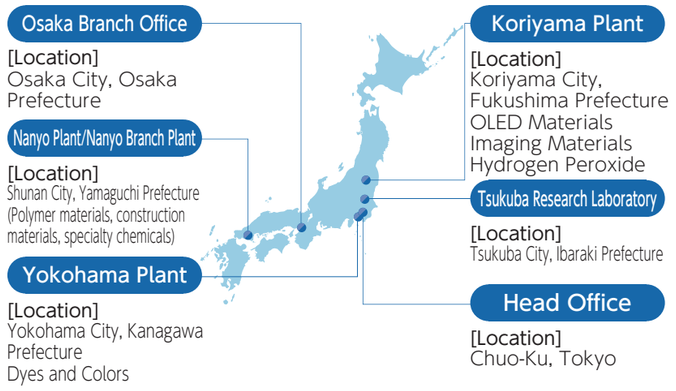
The Tokyo 2020 Olympic Torch Relay in Japan will start from the J-Village.

Sponsored the Yamaguchi Flower Expo

The Hodogaya Chemical Group sponsored the 35th National Urban Greening Yamaguchi Fair (Yamaguchi Flower Expo) held from September 14 to November 4, 2018.

Yamaguchi Flower Expo was held as a core event of the "Yamaguchi Mirai Ishin," the Meiji Restoration 150th anniversary project. The venue consisted of eight unique zones blooming with 10 million flowers and welcomed 1,360,000 visitors.

Hodogaya Chemical Group Domestic Network



Major Domestic Group Companies

- **KATSURA SANGYO CO., LTD.** Purchase and sales of chemical products
- **Hodogaya Construction Products Co., Ltd.** Manufacturing and sales of construction products
- **Hodogaya JRF Contract Laboratory Co., Ltd.** Contract-based analysis and development of chemical products
- **Hodogaya Logistics Co., Ltd.** Warehousing and logistics
- **HODOGAYA UPL Co., Ltd.** Manufacturing and sales of agricultural chemicals
- **HODOGAYA AGROTECH Co., Ltd.** Manufacturing and sales of agricultural chemicals

Respect for Human Rights

– ISO 26000 7 core subjects: Human rights –

Basic approach

The Hodogaya Chemical Group believes that respect for human rights is a fundamental matter in carrying out its business activities. Compliance with laws and regulations, behavior based on high ethics and common sense, respect for diversity, individuality, and personality of everyone working at the Hodogaya Chemical Group, and creation of a sound and pleasant workplace environment free of discrimination and harassment are specified in the Corporate Action Guidelines and the Compliance Action Policy.

Please find the Corporate Action Guidelines at the website below:
https://www.hodogaya.co.jp/english/company/philosophy#a7

Initiatives to tackle human rights issues

●Development of a company-wide comprehensive guideline on human rights

Respect for human rights and prohibition of discrimination are spelled out in the basic approach of the Compliance Action Policy.

> Excerpt from the Compliance Action Policy
> Respect for human rights and prohibition of discrimination
> We will respect the basic human rights, and will not discriminate based on nationality, race, belief, sex, age, ethnic group, religion, disability, illness, social status, or other reasons, or behave in any way to disregard the dignity of individuals, in all corporate activities.

●Support and assessment of initiatives to tackle human rights issues in the supply chain

The Hodogaya Chemical Group sets forth the Procurement Policy and the Procurement Guidelines and asks its partner companies to understand the content and to undertake initiatives to tackle human rights issues similar to those of the Group.

The Procurement Guidelines spell out the prohibition of forced labor, prohibition of inhumane treatment, prohibition of child labor, prohibition of discrimination, proper wages, and work hours as items to be complied with for the Human Rights and Labor.

●Guideline and manual against sexual harassments

Sexual harassment is strictly prohibited in the Work Rules.

We have further formulated the Guideline against Sexual Harassments in the form of a manual for more specific prevention of sexual harassment in the workplace and in order to promote a better understanding and to actively tackle the issue, and established a consultation desk for this purpose.

Initiatives against forced labor and child labor

Respect for the individuality and personality of employees is spelled out in the Corporate Action Guidelines, and respect for human rights and prohibition of discrimination are spelled out in the Compliance Action Policy.

In line with these policies, we do not tolerate forced labor or child labor at the Hodogaya Chemical Group.

Proper management of personal information

The Hodogaya Chemical Group has established and announced the Personal Information Protection Policy in order to ensure proper handling of personal information at the organizational level, and further set forth the Personal Information Management Rules and the Specific Personal Information Management Rules.

We will abide by the laws and regulations on the handling of personal information and Individual Number, and promote the proper storage, utilization, and management of such information within the scope of use as defined in the policies and rules, and conduct education and awareness building activities for all officers and employees.

We are also working to comply with the EU General Data Protection Regulation (GDPR) which came into force on May 25, 2018 with the aim of protecting the personal data of the European Economic Area, including the EU.

https://www.hodogaya.co.jp/english/

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