[Translation: Please note that this is an English translation of the Japanese Notice of the 9th Ordinary General Meeting of Shareholders of KH Neochem Co., Ltd. prepared for your reference and convenience only and without any warranty as to its accuracy or otherwise.]

Securities code: 4189
March 6, 2019

To our shareholders,

Keiichi Asai
President & Chief Executive Officer
KH Neochem Co., Ltd.
1-6-5, Nihonbashi-Honcho, Chuo-ku, Tokyo

Notice of the 9th Ordinary General Meeting of Shareholders

You are cordially invited to attend the 9th Ordinary General Meeting of Shareholders of KH Neochem Co., Ltd. (the "Company"), which will be held as described below.

If you are unable to attend the Meeting in person, you may exercise your voting rights in writing or by electromagnetic means (via the Internet, etc.) as explained in the "Instructions for Exercising Voting Rights" on pages 2-3. Please review the attached "Reference Documents for the General Meeting of Shareholders" and exercise your voting rights.

1. **Date and Time:** Tuesday, March 26, 2019, at 10:00 a.m. (JST) (Reception will open at 9:00 a.m.)

2. **Venue:** 5F Conference Center, Bellesalle Tokyo Nihonbashi,
Tokyo Nihonbashi Tower, 2-7-1, Nihonbashi, Chuo-ku, Tokyo

3. **Proposes:**

Items to be reported:

1. Business Report and Consolidated Financial Statements for the 9th term (from January 1, 2018 to December 31, 2018), as well as the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board
2. Financial Statements for the 9th term (from January 1, 2018 to December 31, 2018)

Items to be resolved:

Proposal No. 1: Appropriation of Surplus
Proposal No. 2: Election of Seven Directors

<Internet Disclosure>

Pursuant to laws and regulations and Article 16 of the Articles of Incorporation of the Company, the following documents are not included with this notice since they have been made accessible on the Company's website instead. The attached documents to this notice constitute a part of the documents that were audited by the Audit & Supervisory Board Members and the Accounting Auditor in preparing the audit reports.

(1) Notes to the Consolidated Financial Statements
(2) Notes to the Financial Statements

Any corrections in the Reference Documents for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements or Financial Statements will be reported on the Company's website (http://www.khneochem.co.jp/).

Instructions for Exercising Voting Rights

You may exercise your voting rights by using any of the following three methods:

[Attending the Meeting]

Submit the Voting Card at the venue's reception.

Date/Time: **Tuesday, March 26, 2019, at 10:00 a.m. (JST) (Reception will open at 9:00 a.m.)**

Venue: 5F Conference Center, Bellesalle Tokyo Nihonbashi,
Tokyo Nihonbashi Tower, 2-7-1, Nihonbashi, Chuo-ku, Tokyo

<Exercising Voting Rights by Proxy>

If you are unable to attend the Meeting in person, you may exercise your voting rights by a proxy who is also a shareholder with voting rights. Please be aware that a written statement attesting to the right of proxy must be submitted.

[Mailing the Voting Card]

Complete the enclosed Voting Card by indicating your approval or disapproval of the proposals and return it without affixing a stamp.

Votes to be received by: **5:40 p.m. on Monday, March 25, 2019 (JST)**

[Exercising Voting Rights via the Internet, etc.]

Scan a QR code with smartphone or access the voting website (https://soukai.mizuho-tb.co.jp/) through a computer, enter the "voting rights exercise code" and "password," which are provided on the enclosed Voting Card, and follow the instructions on the screen to vote on the proposals.

Votes to be given by: **5:40 p.m. on Monday, March 25, 2019 (JST)**

<**Electronic Voting Platform**>

Institutional investors may use the platform for institutional investors operated by ICJ, Inc. to electronically exercise the voting rights.

How to scan QR code, "Smart voting"

You can log in to the voting website for exercising voting rights without having to enter your "voting rights exercise code" and "password."

1. Scan the QR code printed on the right side of Voting Card.
2. Then indicate your approval or disapproval for each of the proposals by following the instructions on the screen.

"Smart voting" can only be used once to exercise your voting rights.
In the event that you wish to modify the details of your vote after exercising your voting rights, please access the website below from a PC, enter the voting rights exercise code printed on the Voting Card together with your password, log in, and exercise your voting rights once again.
* If the QR code is read a second time, you will be transferred to the PC version of the website.

How to enter the "voting rights exercise code" and "password"

Voting website: https://soukai.mizuho-tb.co.jp/

1. Please access the voting website and click "次へすすむ (Next)."
2. Enter the voting right exercise code printed on Voting Card and click "次へ (Next)."
3. Enter the password printed on Voting Card, set the new password that you actually use, and click "登録 (Register)."
4. Then indicate your approval or disapproval for each of the proposals by following the instructions on the screen.

Please contact the following if you have questions about the operation of your computer or smartphone regarding the exercise of voting rights via the Internet.

Inquiries: Mizuho Trust & Banking Co., Ltd.
Securities Agent Department, Web Support Desk
Telephone: 0120-768-524 (available only in Japan)
(Business hours: 9:00 a.m. to 9:00 p.m. on weekdays)

Cautions regarding exercising voting rights via the Internet

(1) Please be aware that, in order to prevent illegal online access by third parties who are non-shareholders (spoofing) and vote tampering, you will be asked to change your password when you log in to the voting website for the first time.
(2) If you enter your password incorrectly for a certain number of times, the password will be locked and you will no longer be able to use it. If this occurs, please complete the procedures indicated in the guidance on the screen.
(3) If you exercise your voting rights in duplicate both in writing and via the Internet, your voting via the Internet shall prevail.
(4) If you exercise your voting rights multiple times via the Internet, only your last voting instructions will be counted as valid.
(5) Your password (including the password after you have changed it) shall be effective only for this Meeting.
(6) Voting rights exercised via the Internet are accepted until 5:40 p.m. on Monday, March 25, 2019; however, we request that you vote as early as possible.
(7) Although operational checks have been carried out for the voting website for common Internet connection equipment, there is a possibility that you may be unable to use the website due to the equipment you are using.
(8) You shall be responsible for any fees incurred when accessing the voting website.

Reference Documents for the General Meeting of Shareholders

Proposal No. 1: Appropriation of Surplus

The Company's basic policy regarding the return of profits to our shareholders is to strive to provide continuous and stable dividends in consideration of the balance between investments for future growth areas and retained earnings.

Based on the above policy, the Company proposes to pay ¥27.00 per share as the year-end dividend for the 9th term (fiscal year under review), in comprehensive consideration of factors such as the consolidated financial results and financial condition for the fiscal year under review. As a result, the annual dividend including the interim dividend (¥27.00 per share) will be ¥54.00 per share.

Year-end dividends

1	Type of dividend property	Cash
2	Allotment of dividend property and their aggregate amount	Dividends per common share of the Company: ¥27 Total dividends: ¥997,629,696
3	Effective date of dividends of surplus	March 27, 2019

Proposal No. 2: Election of Seven Directors

The terms of office of all eight current Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the Company proposes the election of seven Directors, including two Outside Directors.

As a result of the above, by continuing to maintain two Independent Outside Directors and ensuring one Independent Outside Director is female, the Company will increase diversity in the Board of Directors and liven discussion through the inclusion of more multifaceted viewpoints. In addition, the change will promote a speedier decision-making process.

The Board of Directors passed a resolution to submit this proposal after discussions at the Company's voluntary Nomination and Remuneration Committee (the majority of whose members are Outside Directors).

The candidates for Director are as follows:

No.	Name		Position and responsibility in the Company (Significant concurrent positions outside the Company)
1	**Michio Takahashi***	Reelection	Executive Vice President Officer in charge of Corporate (Corporate Planning, Project Development, and Purchasing)
2	**Toshihiro Matsuoka***	Reelection	Managing Director General Manager of Production & Technology Office
3	**Kenichi Hirai***	Reelection	Managing Director Officer in charge of Corporate (Accounting, Finance, Public Relations, and Investor Relations) General Manager of Finance Division
4	**Tatsuro Niiya***	Reelection	Director General Manager of Business Headquarters Office
5	**Yukihiro Isogai**	New election	Executive Officer General Manager of R&D Office and Head of Innovation Strategies Office
6	**Manabu Fujise**	Reelection Independent Outside Director	Outside Director (Independent Officer) Outside Director of MORIROKU HOLDINGS COMPANY, LTD.
7	**Sayoko Miyairi**	New election Independent Outside Director	Professor of Kaichi International University, The Faculty of International Liberal Arts, Department of International Liberal Arts Partner of Scholar Consult Co., ltd.

An asterisk mark (*) indicates individuals serving concurrently as Executive Officers.

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
1	<Reelection> **Michio Takahashi** (February 15, 1965)	Apr. 1987 Joined Kyowa Hakko Kogyo Co., Ltd. Jul. 2011 President of Basic Chemicals Division of Kyowa Hakko Chemical Co., Ltd. (now the Company) Mar. 2013 Director and Executive Officer of the Company Mar. 2016 Managing Director and Executive Officer of the Company Mar. 2017 Executive Vice President & Executive Officer of the Company (to present) [Current responsibility] Officer in charge of Corporate (Corporate Planning, Project Development, and Purchasing)	2,100 shares
		[Reason for nomination as candidate for Director] The Company deems that Mr. Michio Takahashi is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value aimed at realizing VISION 2030 because he has extensive experience, achievements, and insight related to management mainly from holding important positions in the business headquarters office, corporate planning office, and administrative office. Accordingly, the Company proposes the election of Mr. Michio Takahashi as a Director.	Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)
2	<Reelection> **Toshihiro Matsuoka** (May 9, 1962)	Apr. 1987 Joined Kyowa Hakko Kogyo Co., Ltd. Apr. 2008 General Manager of Production Administration Division of Kyowa Hakko Chemical Co., Ltd. (now the Company) Jun. 2011 General Manager of Yokkaichi Plant of the Company Apr. 2013 Executive Officer of the Company Mar. 2014 Director and Executive Officer of the Company Mar. 2018 Managing Director and Executive Officer of the Company (to present) [Current responsibility] General Manager of Production & Technology Office	1,200 shares
		[Reason for nomination as candidate for Director] The Company deems that Mr. Toshihiro Matsuoka is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight related to technology, production, quality control and products mainly from holding important positions in the manufacturing office and R&D office. Accordingly, the Company proposes the election of Mr. Toshihiro Matsuoka as a Director.	Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
3	<Reelection> **Kenichi Hirai** (September 3, 1954)	Apr. 1978 Joined Nissan Diesel Motor Co., Ltd. (now UD Trucks Corporation) Jan. 2008 Vice President of Nissan Diesel Motor Co., Ltd. CFO of Volvo Powertrain Japan Apr. 2012 Vice President of UD Trucks Corporation Volvo Group Trucks Operations Japan Controlling Coordination Jan. 2016 Director & Executive Officer of the Company Mar. 2018 Managing Director & Executive Officer of the Company (to present) [Current responsibility] Officer in charge of Corporate (Accounting, Finance, Public Relations, and Investor Relations) General Manager of Finance Division	2,100 shares
		[Reason for nomination as candidate for Director] The Company deems that Mr. Kenichi Hirai is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight in the accounting and finance field. Accordingly, the Company proposes the election of Mr. Kenichi Hirai as a Director.	Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)
4	<Reelection> **Tatsuro Niiya** (June 1, 1964)	Apr. 1988 Joined Kyowa Hakko Kogyo Co., Ltd. Jul. 2013 General Manager of Chemical Sales & Marketing Division, Business Headquarters Office of the Company Jan. 2016 Executive Officer of the Company Mar. 2017 Director & Executive Officer of the Company (to present) [Current responsibility] General Manager of Business Headquarters Office	1,100 shares
		[Reason for nomination as candidate for Director] The Company deems that Mr. Tatsuro Niiya is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight mainly from holding important positions in the business headquarters office. Accordingly, the Company proposes the election of Mr. Tatsuro Niiya as a Director.	Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
5	<New election> **Yukihiro Isogai** (October 11, 1963)	Apr. 1987 Joined Toaboshoku Co., Ltd. Aug. 2000 Joined YIC Co., Ltd. Oct. 2001 Joined Kyowa Hakko Kogyo Co., Ltd. Jan. 2016 General Manager of Yokkaichi Research Laboratories, R&D Office of the Company Dec. 2017 General Manager of R&D Office (to present) and General Manager of Yokkaichi Research Laboratories, R&D Office of the Company Jan. 2018 Executive Officer of the Company (to present) [Current responsibility] General Manager of R&D Office and Head of Innovation Strategies Office	0 shares
		[Reason for nomination as candidate for Director] The Company deems that Mr. Yukihiro Isogai is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight mainly from holding important positions in the R&D office. Accordingly, the Company proposes the election of Mr. Yukihiro Isogai as a Director.	Attendance at Board of Directors meeting during the fiscal year –
6	<Reelection> Independent Outside Director **Manabu Fujise** (February 19, 1946)	Apr. 1968 Joined Mitsui Petrochemical Industries, Ltd. (now Mitsui Chemicals, Inc.) Jul. 2001 Director of Mitsui Chemicals, Inc. Jul. 2005 President of Mitsui Chemicals Singapore, Ltd. (now Mitsui Chemicals Asia Pacific, Ltd.) Apr. 2008 President of Mitsui Chemicals Asia Pacific, Ltd. President of Mitsui Chemicals India, Pvt. Ltd. Apr. 2011 Auditor of Kunitachi College of Music Jul. 2012 Outside Director of Torishima Pump Mfg. Co., Ltd. Jan. 2016 Outside Director of the Company (to present) Jun. 2017 Outside Director of MORIROKU HOLDINGS COMPANY, LTD. (to present) [Significant concurrent positions outside the Company] Outside Director of MORIROKU HOLDINGS COMPANY, LTD.	300 shares
		[Reason for nomination as candidate for Outside Director] Mr. Manabu Fujise has provided proactive opinions and recommendations related to overall management from an objective viewpoint and appropriately fulfilled the role of supervising management, while making the most of his many years of experience and broad insight gained while working at a major chemical company. Accordingly, the Company proposes the reelection of Mr. Manabu Fujise as an Outside Director.	Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
7	<New election> Independent Outside Director **Sayoko Miyairi** (November 12, 1956)	Apr. 1979 Joined Hitachi, Ltd. Jul. 1982 Joined Bank of America, N.A., Asia Headquarters Mar. 1986 Joined Pasona Inc. and seconded and then transferred to Edu Consult Co., Ltd. (now Scholar Consult Co., ltd.) Apr. 2000 Partner of Scholar Consult Co., ltd. (to present) Apr. 2000 Assistant Professor of Nihonbashi Gakkan University (now Kaichi International University) Jan. 2005 Director of Scholar Consult Co., ltd. Apr. 2008 Professor of Nihonbashi Gakkan University (to present) [Significant concurrent positions outside the Company] Professor of Kaichi International University, The Faculty of International Liberal Arts, Department of International Liberal Arts Partner of Scholar Consult Co., ltd.	0 shares
		[Reason for nomination as candidate for Outside Director] Ms. Sayoko Miyairi possesses business and management experience gained while working at a consulting Company and experience and broad insight as a university professor and therefore the Company believes she can provide a range of opinions and recommendations related to overall management from an objective viewpoint and appropriately fulfill the role of supervising management. Accordingly, the Company proposes the election of Ms. Sayoko Miyairi as an Outside Director.	Attendance at Board of Directors meeting during the fiscal year –

Notes:

1. Ms. Sayoko Miyairi's name as recorded in her family register is Sayoko Ibaraki.
2. There is no special interest between any of the candidates for Director and the Company.
3. At the conclusion of this Ordinary General Meeting of Shareholders, Mr. Manabu Fujise's term of office as Outside Director will have been three years and three months.
4. The Company has entered into a liability limitation agreement with Mr. Manabu Fujise in accordance with Article 427, paragraph 1 of the Companies Act and the provisions of the Company's Articles of Incorporation to limit the liability for damages as provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of liability for damages under said agreement shall be the higher of ¥1 million or the amount stipulated by laws and regulations. If Mr. Manabu Fujise is elected, the Company plans to renew the aforementioned agreement with him. In addition, if Ms. Sayoko Miyairi is elected, the Company plans to enter into a liability limitation agreement with her, under which the maximum amount of her liability for damages is limited to the amount provided for in the laws and regulations.
5. The Company has submitted notification to Tokyo Stock Exchange, Inc. that Mr. Manabu Fujise has been designated as independent officer as provided for by the aforementioned exchange. If this proposal is approved and adopted, the Company will notify Tokyo Stock Exchange of the designation of Mr. Manabu Fujise and Ms. Sayoko Miyairi as independent officers.

(Document to be provided)

Business Report

(January 1, 2018 to December 31, 2018)

1. Current Status of the Corporate Group

(1) Status of business operations for the current fiscal year

(i) Business progress and results

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

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

Under these circumstances, the Group has steadily moved forward with the implementation of various measures in relation to issues that had been designated the highest priority for the consolidated fiscal year under review, such as "Implement various measures aimed at raising profitability," "Enhancing production capability of Performance Materials," and "Strengthen the production platform in order to consistently supply high-quality products." The Group also actively worked to strengthen its corporate governance and to further enhance its Corporate Social Responsibility (CSR) activities.

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

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

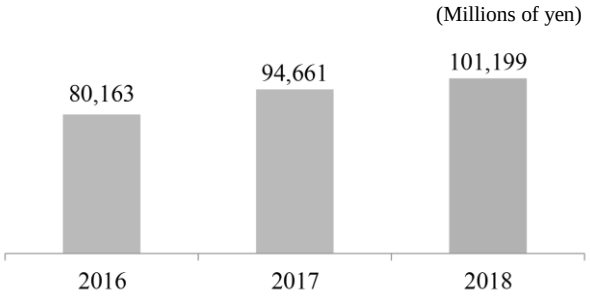
As a result, the Group's results for the fiscal year under review included net sales of ¥101,199 million (up 6.9% year on year), operating profit of ¥10,858 million (down 5.5% year on year), ordinary profit of ¥11,197 million (down 6.0% year on year), and profit attributable to owners of parent of ¥6,737 million (down 17.5% year on year).

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

Consolidated net sales

¥101,199 million

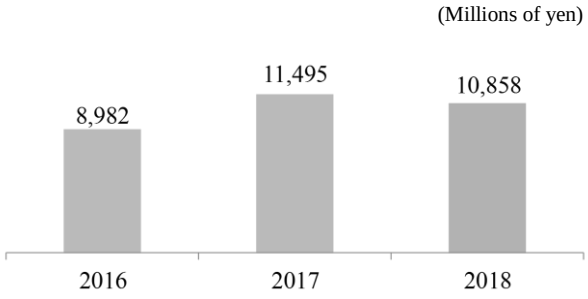
(Up 6.9% year on year)



Consolidated operating profit

¥10,858 million

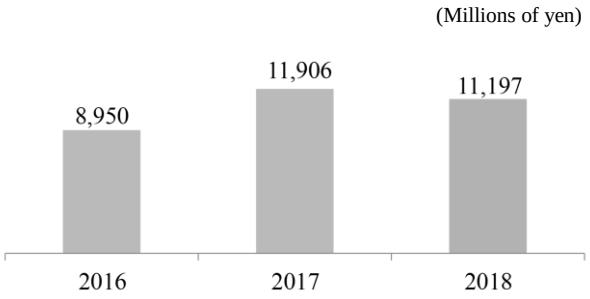
(Down 5.5% year on year)



Consolidated ordinary profit

¥11,197 million

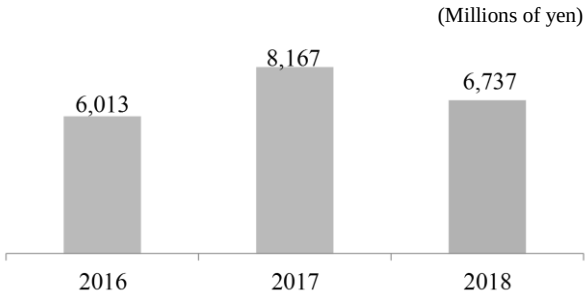
(Down 6.0% year on year)



Profit attributable to owners of parent

¥6,737 million

(Down 17.5% year on year)



(ii) Capital investments

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

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

(iii) Financing

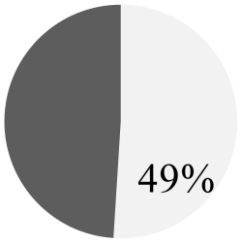
The Group raises funds through loans from financial institutions and through issuance of commercial paper.

Results by business field

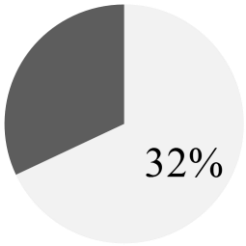
The Group is primarily engaged in the development, manufacture and sale of petrochemical products. As the business of the Group consists of a single segment, the chemical business, segment information is not provided. Furthermore, the overview of details of business and main products are current as of December 31, 2018.

Basic Chemicals

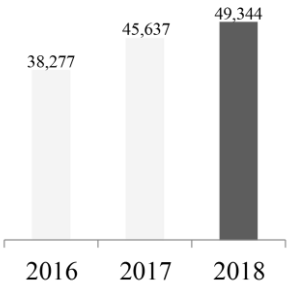
Basic Chemicals proportion of total net sales



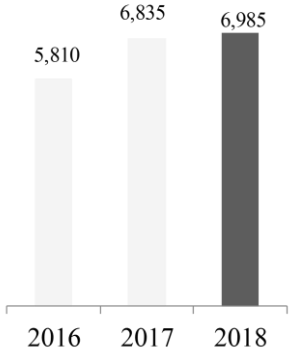
Basic Chemicals proportion of total gross profit



Net sales



Gross profit



Overview of details of business

These products are manufactured utilizing the Company's core technology, and are sold for use in various applications such as paint, ink, and plasticizer in industrial fields that include automotive, electrical, and housing.

Main products

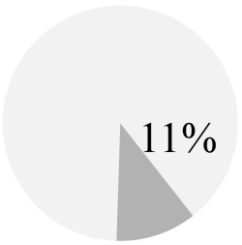
Butyl alcohol, 2-ethyl hexyl alcohol, Isononyl alcohol (INA), Butyl acetate

Key points of results

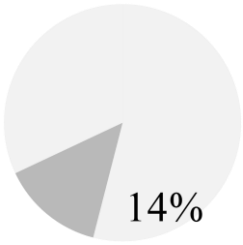
Sales volumes declined due to major periodic reconditioning work, but domestic demand remained robust, partly thanks to automotive production continuing at the high level of the previous year, and we implemented a steady program of raising prices for products that had been hit by the increase in raw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

Electronic Materials

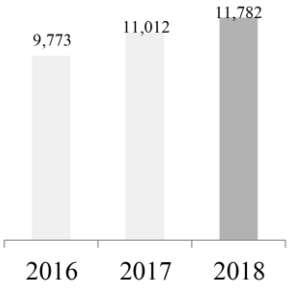
Electronic Materials proportion of total net sales



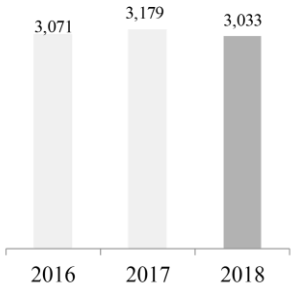
Electronic Materials proportion of total gross profit



Net sales



Gross profit



Overview of details of business

This section is a fusion between the Company's high-purity technology and its quality control technology, and sells high-purity solvents, etc. for use in production processes for semiconductor and LCD substrates.

Main products

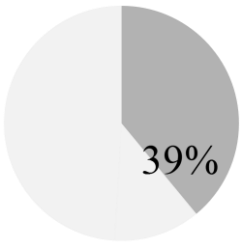
Propylene glycol monomethyl ether-P (PM-P), Propylene glycol monomethyl ether acetate-P (PMA-P)

Key points of results

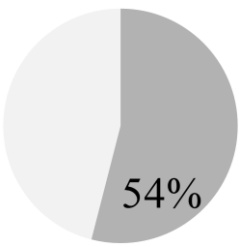
As a result of factors such as demand in semiconductors both in Japan and overseas remaining strong from the previous fiscal year, net sales exceeded those of the previous fiscal year, but due to a rise in raw material prices, profits declined. Net sales came in at ¥11,782 million (up 7.0% year on year)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

Performance Materials

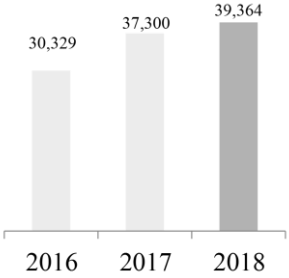
Performance Materials proportion of total net sales



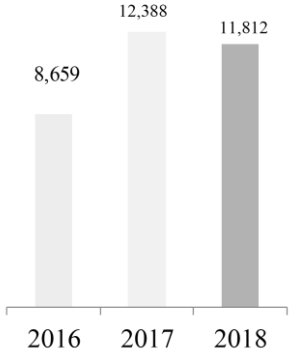
Performance Materials proportion of total gross profit



Net sales



Gross profit



Overview of details of business

This business field was developed from the synthesis technology cultivated in the Basic Chemicals field, and sells refrigerant lubricants raw materials for air conditioners and refrigerators etc., cosmetic raw materials and so on.

Main products

Isononanoic acid, Tridecanol (tridecyl alcohol), Diacetone acrylamide (DAAM), 2-ethyl hexanoic acid, 1,3 - butylene glycol

Key points of results

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

Others

Key points of results

In the Other field, net sales was ¥707 million (down 0.5% year on year) and gross profit was ¥156 million (down 39.8% year on year).

(2) Trends in operating results and assets

Item		6th Fiscal Year (Year ended December 31, 2015)	7th Fiscal Year (Year ended December 31, 2016)	8th Fiscal Year (Year ended December 31, 2017)	9th Fiscal Year (Current fiscal year) (Year ended December 31, 2018)
Net sales	(Millions of yen)	103,478	80,163	94,661	101,199
Ordinary profit	(Millions of yen)	6,327	8,950	11,906	11,197
Profit attributable to owners of parent	(Millions of yen)	7,712	6,013	8,167	6,737
Basic earnings per share	(Yen)	226.56	173.56	222.12	182.77
Total assets	(Millions of yen)	85,831	87,674	95,247	94,527
Net assets	(Millions of yen)	20,785	28,112	34,512	38,304

Note: Basic earnings per share was calculated on the assumption that the share split was conducted at the beginning of the 6th fiscal year (year ended December 31, 2015), since the Company conducted a 1:100 share split whereby 1 common share was split into 100 common shares on June 10, 2016.

(3) Major parent company and subsidiaries

(i) Parent company

There is no relevant information.

(ii) Major subsidiaries

Company name	Capital	The Company's voting rights ratio	Principal business
Kurogane Kasei Co., Ltd.	¥90 million	70.1%	Manufacture, contracted manufacture and sale of organic synthesis intermediates
Kurogane Fines Inc.	¥10 million	62.0% (52.0%)	Sale of products including foodstuffs and raw materials for pharmaceuticals
KH Neochem Americas, Inc.	US$870 thousand	100.0%	Sale of chemicals

Notes:

1. The Company additionally acquired shares of Kurogane Kasei Co., Ltd. on April 26, 2018.
2. Values under "The Company's voting rights ratio" that are in parentheses are the portion of indirect holdings.
3. In regard to "The Company's voting rights ratio" figures less than one unit are rounded to the nearest unit.
4. KH Neochem U.K. Ltd., which was listed in the previous fiscal year, has thus been excluded from major subsidiaries, due to the decision on a policy to discontinue the Isononyl alcohol project in October 2018.

(4) VISION 2030

With markets, societies and economic environments exposed to rapid and fundamental change, the Group has created a vision of what it wishes to become in the medium to long term, and has drawn up "VISION 2030: A Leading Global Specialty Chemical Company" as a path to achieving that ideal.

Through its business activities, the Group provides products that mitigate global warming, and materials that help improve quality of life.

VISION 2030

A Leading Global Specialty Chemical Company

Expansion of products with the largest global share and new businesses in three strategic domains

The Company has strengths in the fields of "refrigeration lubricant raw materials," "cosmetic raw materials," and "high-purity solvents" and we have established three "strategic domains" centered on products in these fields as areas for the concentrated allocation of resources including capital expenditure and R&D.
In each of these "strategic domains," we aim to expand the products with top share in their market while creating new businesses and products.

Environment …… Work to capture changes in global warming and environmental regulations
Healthcare …… Skin care/home care market to contribute to improved Quality of Life (QOL)
Electronics …… High performance materials market to support IoT and AI

Technology and Information	We will advance the data management of large volumes of information produced by research and manufacturing locations and utilize this in future passing down of technologies and know-how, and new product development. Furthermore, we will actively incorporate the latest technologies, such as IoT and AI, and aim to improve operations and maintenance processes.
Human Resources and Corporate Culture	We will cultivate human resources who have strengths in "speed," "innovations," "professionalism," and "networking." We will achieve this by formulating a medium- to long-term human resources development plan and enhancing our training and development systems with the aim of strengthening the competitive advantages of our employees. Furthermore, we will foster a corporate culture that respects diversity, including in regard to gender, age, and nationality, and that maximizes achievements.
Governance	In order to further strengthen our management foundation and realize sustainable growth, we will promote prompt and decisive management judgment. Furthermore, we will aim to enhance consciousness regarding compliance throughout the entire Group through 5C Credo awareness-raising activities.
Financial targets	Looking toward 2030, we will aim to achieve top-class profitability in the chemical industry by expanding our range of high-earning products and increasing productivity. Our financial targets for 2030, the final year of the VISION 2030, have been set at net sales of ¥180 billion and operating profit of over ¥25 billion. By means of the initiatives implemented to achieve VISION 2030, we aim to maintain stable shareholder returns, and to evolve into a company whose existence is needed more in society.

(5) Issues to be addressed

The Group has formulated "Taking on New Challenges," our third Medium-Term Business Plan that covers the three years from fiscal 2019 to 2021, as the first action to accomplish our VISION 2030 program, and has defined three basic strategies.

3rd Medium-Term Business Plan "Taking on New Challenges"

Three basic strategies

Profit Increase by New Facilities:

Start up of new facilities for refrigeration lubricant raw materials and marketing of new products

Operate new facilities for the next generation semiconductor materials

Active Investment for the Expansion of Performance Chemical Business:

Further increase in production capacity for performance chemicals

Creation of new business through the new research hub

Improvement of Business Framework:

Further introduction of facility control system with latest technologies (AI and IoT)

Improvement of work environment and encouragement of diverse work styles

As the first year of this Medium-Term Business Plan, we consider 2019 to be an important year and will take a steady and strategic step toward achieving our targets.

We ask all our shareholders for your continued support and encouragement.



(6) Principal offices, plants, etc. (As of December 31, 2018)

(i) The Company

Head Office	Chuo-ku, Tokyo
Plant	Yokkaichi Plant (Yokkaichi-city, Mie) Chiba Plant (Ichihara-city, Chiba)
Research Laboratory	Yokkaichi Research Lab (Yokkaichi-city, Mie)
Branch Office	Osaka Branch Office (Osaka-city, Osaka)

(ii) Subsidiaries

Category	Company name	Location of head office
Japan	Kurogane Kasei Co., Ltd.	Nagoya-city, Aichi
	Kurogane Fines Inc.	Nagoya-city, Aichi
Overseas	KH Neochem Americas, Inc.	Illinois, U.S.A.

(7) **Employees** (As of December 31, 2018)

Employees of the corporate group

Number of employees (Year-on-year change)	Average age	Average years of service
753 (Increase of 14)	39.7	16.2 years

Notes:

1. The number of employees includes employees on loan to the corporate group but does not include employees on loan outside the corporate group.
2. The number of temporary employees such as part-time employees is not included.

(8) **Principal lenders** (As of December 31, 2018)

(Millions of yen)

Lender	Balance of borrowing
Mizuho Bank, Ltd.	6,865
Mizuho Trust & Banking Co., Ltd.	6,205
Sumitomo Mitsui Trust Bank, Limited	3,558
Resona Bank, Limited	2,898

(9) **Other significant matters concerning current status of the corporate group**

There is no relevant information.

2. Current Status of the Company

(1) Shares (As of December 31, 2018)

(i) Total number of shares authorized to be issued 136,200,000 shares

(ii) Total number of issued shares 36,949,400 shares (including 152 treasury shares)

Note: Following the exercise of stock options during the current fiscal year, the total number of issued shares increased by 100,000 shares.

(iii) Number of shareholders 5,897

(iv) Major shareholders

Name of shareholders	Number of shares held	Holding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust account)	5,874,000	15.90
THE CHASE MANHATTAN BANK 385036	2,132,300	5.77
The Master Trust Bank of Japan, Ltd. (Trust account)	1,885,200	5.10
SHEPHERDS HILL CAPITAL PARTNERS UNLIMITED COMPANY	1,670,600	4.52
JP MORGAN CHASE BANK 380634	1,132,300	3.06
JP MORGAN CHASE BANK 385174	780,400	2.11
Mizuho Bank, Ltd.	733,300	1.98
THE BANK OF NEW YORK MELLON 140042	650,244	1.76
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	647,400	1.75
Japan Trustee Services Bank, Ltd. (Trust account 5)	583,800	1.58

Note: The holding ratio is calculated based on the number of shares issued, from which treasury shares have been subtracted, and with fractions less than the units of display rounded off.

(2) Share acquisition rights, etc.

(i) Share acquisition rights held by the Company's Officers at the end of the current fiscal year which were delivered as compensation for their performance of duties

Number of share acquisition rights

2,000 units

Type and number of shares subject to share acquisition rights:

Common share 200,000 shares (100 shares per one share acquisition right)

Amount paid for share acquisition rights

No payment is required in exchange for the share acquisition rights.

Value of property to be contributed when share acquisition rights are exercised

¥55,000 per one share acquisition right (¥550 per share)

Exercise period

February 25, 2015 to July 31, 2020

Number of the Company's Officers that hold share acquisition rights

Director (excluding Outside Director)	1
Outside Director	0
Audit & Supervisory Board Member	0

(ii) Share acquisition rights granted to employees, etc. as compensation for their performance of duties during the current fiscal year

There is no relevant information.

(3) Officers

(i) Directors and Audit & Supervisory Board Members (As of December 31, 2018)

Position in the Company	Name	Responsibility in the Company and significant concurrent positions outside the Company
President & Chief Executive Officer	Keiichi Asai*	
Executive Vice President	Michio Takahashi*	Officer in charge of Corporate (Corporate Planning, Project Development, and Purchasing)
Managing Director	Toshihiro Matsuoka*	General Manager of Production & Technology Office
Managing Director	Kenichi Hirai*	Officer in charge of Corporate (Accounting, Finance, Public Relations, and Investor Relations) General Manager of Finance Division
Director	Tatsuro Niiya*	General Manager of Business Headquarters Office
Outside Director	Katsu Harashima	Managing Director of Japan Industrial Partners, Inc.
Outside Director (Independent Officer)	Manabu Fujise	Outside Director of MORIROKU HOLDINGS COMPANY, LTD.
Outside Director (Independent Officer)	Mitsuhiro Nagata	Representative attorney at law of Yoyogi Uehara Law Office Outside Director of JIP CAPITAL INC. Outside Auditor of EduLab, Inc. Outside Corporate Auditor of SKYLARK HOLDINGS CO., LTD.
Full-time Audit & Supervisory Board Member	Tokuo Oodo	
Outside Audit & Supervisory Board Member (Independent Officer)	Atsuo Inagaki	
Outside Audit & Supervisory Board Member (Independent Officer)	Kenji Ito	

An asterisk mark (*) indicates individuals serving concurrently as Executive Officers.

Notes:

1. Outside Director Katsu Harashima is Managing Director of Japan Industrial Partners, Inc. Said company manages an investment partnership that is a shareholder of the Company.
2. There are no important transactional or other special relationships between the Company and the companies at which Outside Directors hold other significant concurrent positions.

3. Changes in position and responsibility in the Company and significant concurrent positions outside the Company in relation to Directors during the current fiscal year were as follows.

Name	Before changes	After changes	Date of changes
Michio Takahashi	Executive Vice President & Executive Officer General Manager of Administrative Office In charge of Corporate Planning Office	Executive Vice President Officer in charge of Corporate (Corporate Planning, Project Development, and Purchasing)	July 1, 2018
Toshihiro Matsuoka	Director General Manager of Production & Technology Office In charge of R&D Office	Director General Manager of Production & Technology Office	January 1, 2018
	Director General Manager of Production & Technology Office	Managing Director General Manager of Production & Technology Office	March 27, 2018
Kenichi Hirai	Director General Manager of Finance Office and General Manager of Finance Division	Managing Director General Manager of Finance Office and General Manager of Finance Division	March 27, 2018
	Managing Director General Manager of Finance Office and General Manager of Finance Division	Managing Director Officer in charge of Corporate (Accounting, Finance, Public Relations, and Investor Relations) General Manager of Finance Division	July 1, 2018
Manabu Fujise	Auditor of Kunitachi College of Music Outside Director of MORIROKU HOLDINGS COMPANY, LTD.	Outside Director of MORIROKU HOLDINGS COMPANY, LTD.	April 1, 2018

4. Audit & Supervisory Board Members Tokuo Oodo, Atsuo Inagaki and Kenji Ito possess considerable knowledge of finance and accounting as described below.
   (i) Tokuo Oodo had been serving in the Accounting Division of the Company for many years, and has experience of accounting and financial operations.
   (ii) Atsuo Inagaki has experience serving as an audit & supervisory board member at other business companies.
   (iii) Kenji Ito has many years of work experience and experience as an audit & supervisory board member mainly at financial institutions.
5. Overview of content of limited liability agreement
   Under Article 427, paragraph 1 of the Companies Act and the provisions of the Company's Articles of Incorporation, the Company has entered into agreements with three Outside Directors and three Audit & Supervisory Board Members to limit their liability for damages as provided for in Article 423, paragraph 1 of the Companies Act.
   The maximum amount of liability for damages under these agreements shall be the higher of ¥1 million or the amount stipulated by laws and regulations, in the case of Directors Katsu Harashima and Manabu Fujise, and of Audit & Supervisory Board Members Atsuo Inagaki and Kenji Ito, while for Director Mitsuhiro Nagata and Audit & Supervisory Board Member Tokuo Oodo, the amount shall be the amount stipulated by laws and regulations.
6. The Company has submitted notification to the Tokyo Stock Exchange that Messrs. Manabu Fujise, Mitsuhiro Nagata, Atsuo Inagaki and Kenji Ito have been designated as independent officers as provided for by the aforementioned exchange.

(Reference) Executive Officers not concurrently serving as Directors (As of December 31, 2018)

Position in the Company	Name	Responsibility in the Company
Executive Officer	Seiji Saito	Deputy General Manager of Production & Technology Office
Executive Officer	Toshiaki Ogata	Seconded to Kurogane Kasei Co., Ltd. (President & Chief Executive Officer)
Executive Officer	Koji Matsuda	In charge of Corporate (HR, General Affairs, and IT)
Executive Officer	Yukihiro Isogai	General Manager of R&D Office
Executive Officer	Akio Nakahashi	General Manager of Chiba Plant

Note: As of January 1, 2019, the position and responsibilities of Executive Officers changed as follows.

Name	Before changes	After changes
Yukihiro Isogai	Executive Officer General Manager of R&D Office	Executive Officer General Manager of R&D Office and Head of Innovation Strategies Office
Yoshiaki Kondo	General Manager of Yokkaichi Plant	Executive Officer General Manager of Yokkaichi Plant

(ii) Amount of remuneration, etc. for Directors and Audit & Supervisory Board Members

Total amount of remuneration, etc. for the current fiscal year

Category	Number of Directors and Audit & Supervisory Board Members	Amount of Remuneration, etc. (Millions of yen)
Director	7	143
(of which, Outside Director)	(2)	(8)
Audit & Supervisory Board Member	3	25
(of which, Outside Audit & Supervisory Board Member)	(2)	(7)
Total	10	168
(of which, Outside Officer)	(4)	(15)

Notes:

1. Remunerations, etc. for Directors do not include the employee salaries paid to the Directors who concurrently serve as employees.
2. The above list does not include Outside Directors that are serving without remuneration.
3. The upper limit of remuneration for Directors is set at ¥200 million per year (not including the employee portion of salaries of Directors who concurrently serve as employees) as resolved at the Extraordinary General Meeting of Shareholders on March 31, 2011.

   Also, in addition to the upper limit of remuneration mentioned above, at the 8th Ordinary General Meeting of Shareholders held on March 27, 2018, a Board Benefit Trust (BBT) performance-linked share-based remuneration plan was introduced for Directors (excluding Outside Directors). The plan that was approved permits the Company to contribute monies to the trust, up to a maximum of ¥110 million every three fiscal years, which are used as funds to purchase shares of the Company to be awarded to eligible Directors.
4. The upper limit of remuneration for Audit & Supervisory Board Members is set at ¥50 million per year as resolved at the Extraordinary General Meeting of Shareholders on March 31, 2011.
5. At the 8th Ordinary General Meeting of Shareholders held on March 27, 2018, it was resolved that final payment of retirement benefits would be made, in conjunction with the abolition of the Retirement Benefit Plan for Officers. Accordingly, the treatment of retirement benefits is as follows.
   - ¥0 million (amounts of less than ¥1 million yen) in provisions for Directors' retirement benefits during the current fiscal year, in the period leading up to the abolition of the Retirement Benefit Plan for Officers, is included in the remuneration, etc. table above.
   - Schedule amounts for the final payment of retirement benefits are as follows.

     Six Directors: ¥30 million (including ¥1 million to two Outside Directors)

     Three Audit & Supervisory Board Members: ¥2 million (including ¥1 million to two Outside Audit & Supervisory Board Members)
6. In addition to the remuneration, etc. table above, based on a resolution taken at the 8th Ordinary General Meeting of Shareholders held on March 27, 2018, a payment of ¥17 million in retirement benefits was made to one retired Director on November 30, 2017.

(iii) Matters concerning Outside Officers

Major activities during the current fiscal year

Name	Position	Attendance	Status of main statements made
Katsu Harashima	Outside Director	Board of Directors meeting: 16 of 16 meetings	Provided opinions based on his many years of experience and broad insight gained at financial institutions.
Manabu Fujise	Outside Director	Board of Directors meeting: 16 of 16 meetings	Provided opinions based on his many years of experience and his broad insight gained at a major chemical company.
Mitsuhiro Nagata	Outside Director	Board of Directors meeting: 16 of 16 meetings	Provided opinions based on his many years of experience at financial institutions and his experience and broad insight as an attorney at law.
Atsuo Inagaki	Outside Audit & Supervisory Board Member	Board of Directors meeting: 16 of 16 meetings Audit & Supervisory Board meeting: 12 of 12 meetings	Provided opinions based on his experience as an audit & supervisory board member at other business corporations and his broad insight.
Kenji Ito	Outside Audit & Supervisory Board Member	Board of Directors meeting: 16 of 16 meetings Audit & Supervisory Board meeting: 12 of 12 meetings	Provided opinions based on his many years of business experience at financial institutions, etc. and experience and his broad insight as an audit & supervisory board member.

(4) Accounting Auditor

(i) Name Deloitte Touche Tohmatsu LLC

(ii) Amount of remuneration, etc.

	Amount of Remuneration, etc.
Amount of remuneration, etc. to Accounting Auditor for the current fiscal year	¥31 million
Total amount of money and other financial interests to be paid by the Company and its subsidiaries	¥32 million

Notes:

1. The Audit & Supervisory Board, after considering the appropriateness of elements such as the details of the Accounting Auditor's audit plan, the status of execution of audits and the grounds for calculation of remuneration, determined said elements to be suitable and approved the Accounting Auditor's remuneration, etc.
2. The audit agreement between the Company and its Accounting Auditor does not distinguish remuneration, etc. paid for audit work performed in conformity with the Companies Act and remuneration, etc. paid for audit work performed in conformity with the Financial Instruments and Exchange Act, and it is effectively impossible to do so. Therefore, the total amount of these remuneration types is presented.
3. The Company entrusts its accounting auditor with the provision of services, which involve advice and guidance on the building of internal controls related to financial reporting, other than the (non-auditing) services specified in Article 2, paragraph 1 of the Certified Public Accountant Act, and pays consideration in this regard.
4. Among the Company's major subsidiaries, Kurogane Kasei Co., Ltd., and KH Neochem Americas, Inc. are audited by audit firms other than the Accounting Auditor of the Company.

(iii) Policy for decisions on dismissal or non-reappointment of Accounting Auditor

The Audit & Supervisory Board comprehensively considers factors such as the Accounting Auditor's independence, reliability and the status of the execution of their duties, and decides the details of proposals regarding the dismissal or non-reappointment of the Accounting Auditor that will be submitted to the General Meeting of Shareholders, in the event that such a proposal is deemed necessary. In such case, the Board of Directors will submit to the General Meeting of Shareholders the proposal regarding the dismissal or non-reappointment of the Accounting Auditor based on the relevant decision made by the Audit & Supervisory Board.

The Audit & Supervisory Board, with the unanimous consent of the Audit & Supervisory Board Members, shall dismiss the Accounting Auditor in the event that said Accounting Auditor is recognized as falling under any of the items provided for in Article 340, paragraph 1 of the Companies Act. In such case, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the dismissal and the reasons thereof at the first General Meeting of Shareholders held following the dismissal.

3. System to Ensure Appropriateness of Operations and Operational Status of Said System

The Company, pursuant to the Companies Act and the Regulation for Enforcement of the Companies Act, has established, by a resolution of the Board of Directors, its policy regarding the establishment of a system to ensure the appropriateness of operations (so-called "internal control system").
A summary of the content and operation status of said system is as follows.

(1) System to ensure that the Directors and employees perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation

(i) Believing compliance with laws and regulations and the Articles of Incorporation to be fundamental to management, the Company shall strive for thorough compliance in all business activities and implements programs including corporate ethics education and compliance awareness activities.

(ii) The Company shall strive to prevent acts in violation of laws, regulations and internal rules in advance by establishing an internal reporting system and an audit body.

[Operational Status]

The Company operates the system as follows.

- We maintain strict conformance with compliance based on "Compliance guidelines" and "Compliance regulations."
- A survey on compliance awareness was implemented, and based on the results we extracted issues that require further education and compliance awareness activities.
- At twice-yearly meetings of the Compliance Committee, basic policies are planned and drawn up in order to maintain and strengthen the compliance system, in addition to which the state of conformance is checked and appropriate measures are adopted.
- In the Compliance Committee, training related to compliance is held for full-time Executive Officers, General Managers of Head Office and managers of operating facilities.
- Various training programs are implemented for employees in order to raise awareness of conformance with compliance, and to ensure that both internal and external rules, such as related laws and regulations, are widely understood.
- In order to raise awareness of compliance issues, we have prescribed a "5C Credo," and distributed "Credo Cards" (including compliance cards) to both Executive Officers and employees, in order to ensure that it is widely known.
- A "Corporate Governance Report" is created and disclosed, the contents of which are based on revised corporate governance code.
- Internal controls related to financial reporting are evaluated, and reports confirming their effectiveness are submitted.
- A whistleblowing system has been established (including the setting up of multiple contact points, including an external attorney at law), and we strive to detect problems at an early stage. In addition, through various types of training, we have made the existence of the whistleblowing system widely known.
- We have updated regulations and other internal rules as appropriate in response to revisions to laws and regulations and in order to ensure thoroughgoing compliance with laws and regulations.
- The Audit Department draws up the audit plan from an independent viewpoint, and performs internal audits based on that plan. Moreover, we work to maintain and operate an effective internal audit system, such as by establishing a cycle whereby each department must submit an improvements report promptly in response to issues raised by the Audit Department.

(2) System concerning preservation and management of information relating to execution of duties by Directors

In regard to the preservation and management of information relating to execution of duties by Directors, the Company shall clarify the information that is to be managed and the management organization, and shall carry out appropriate preservation and management in accordance with the provisions of regulations, etc.

[Operational Status]

The Company operates the system as follows.

- Information related to the execution of duties is saved and managed appropriately, based on various regulations such as the "Board of Directors Rules," "Rules for Management of Confidential Information" and "Document Rules."
- We have strengthened the operational system for material non-public information to ensure thorough insider trading prevention, in addition to manage administration policy.

(3) Rules and other systems for managing risk of loss

(i) In regard to the management of risk of loss, the Board of Directors shall identify and assess the overall potential business risks of the Company.

(ii) Each office shall identify, analyze, assess and respond to the risks that it is in charge of.

[Operational Status]

The Company operates the system as follows.

- In order to strengthen the governance of pension assets, the Company has amended its basic policy on management, and has reviewed its management risk control structure.
- We have prescribed "Risk Management Rules" and maintain a risk register focused on business risk.
- Every year, each department gathers together the risks related to the work for which they are responsible, performs an analysis and evaluation of them, and updates the risk register. In addition, we work to reduce risks and prevent the materialization of such risks by taking appropriate measures.
- Departments with jurisdiction for risks for the Company conduct monitoring of the risks listed in the risk register, and report risks that exceed a certain level to the Board of Directors once a year.

(4) System to ensure the efficient execution of Directors' duties

(i) The Company shall set business goals with clear assignment of authority of duties and implements various measures to ensure that the Directors efficiently execute their duties.

(ii) The Company shall regularly carry out reviews on their progress status and results.

[Operational Status]

The Company operates the system as follows.

- Resolutions and authority are determined through "Board of Directors Rules," "Management Meeting Rules" and "Rules on Request for Decisions" etc., and operations are conducted in accordance with these rules.
- In order to improve the effectiveness of the Board of Directors, surveys are carried out through a third-party organization, with analysis, discussion and evaluation of the Members of the Board being conducted, and specific measures for improvement undertaken.
- In order to improve the efficiency of the Board of Directors, we have reviewed the matters reported.
- Monthly progress towards the yearly budget is reported and considered from multiple angles at the Board of Directors meetings held every month in principle, and any necessary measures are adopted.
- The state of progress towards the Medium-Term Business plan and annual plans is checked as appropriate by the Board of Directors, and any necessary measures are adopted.

(5) System to ensure the appropriateness of operations by the corporate group comprised of the Company and its subsidiaries

To ensure the appropriateness of business operations in the corporate group, the Company shall formulate internal rules for the management of subsidiaries and associates, and shall set forth in regulations the responsibilities and authority of business execution. In addition, auditing shall be conducted by the Internal Audit Department.

[Operational Status]

The Company operates the system as follows.

- "Subsidiary and Associate Management Rules" have been drawn up, the role of the departments with jurisdiction over subsidiaries has been clarified, and we work to achieve a suitable understanding of the management situation through reporting in a timely manner from subsidiaries.
- Rules for important subsidiaries are maintained and revised as necessary in accordance with the enactment and revision of laws and regulations.
- At important subsidiaries, we have implemented compliance training to raise awareness of compliance issues.
- Appropriate management and administration of the corporate group is promoted by the dispatch or secondment of executives or employees to important subsidiaries in roles such as President & Chief Executive Officer, or Outside Officer, to facilitate the provision of suitable guidance and supervision, in addition to which the Audit Department conducts internal audits.

(6) System regarding employees to assist duties of Audit & Supervisory Board Members when the Audit & Supervisory Board Members request to assign such employees, and matters regarding the independence of such employees from the Directors

When the Audit & Supervisory Board Members require support personnel to fulfill their duties, a small number of employees of the Company shall be assigned to perform a role of supporting the Audit & Supervisory Board Members' duties. If such personnel are required, the individual who directs and supervises those personnel's performance of duties shall be the relevant Audit & Supervisory Board Member and not a Director.

[Operational Status]

The Company operates the system as follows.

- In the event of a request from an Audit & Supervisory Board Member to assign employees to assist with their duties, the request shall be complied with promptly. At this point in time, no such requests have been received from Audit & Supervisory Board Members, and thus no support personnel have been assigned.

(7) System that enables Directors and employees of the Company and its subsidiaries to report to Audit & Supervisory Board Members, and other systems related to reporting to Audit & Supervisory Board Members

The Directors and employees of the Company and its subsidiaries shall carry out the necessary reporting and information provision as requested by the Audit & Supervisory Board members. In particular, they shall report to the Audit & Supervisory Board members without delay about any discovery of actions that violate laws and regulations or the Articles of Incorporation, facts with the potential to cause significant loss to the Company, or the risk of the aforementioned occurring.

[Operational Status]

The Company operates the system as follows.

- Information on agenda items and on matters to be reported at the Board of Directors meetings is provided and explained to Audit & Supervisory Board Members beforehand.
- Full-Time Audit & Supervisory Board Members attend the Compliance Committee. Information related to compliance is appropriately provided to Full-Time Audit & Supervisory Board Members, and is shared by the Full-Time Audit & Supervisory Board Member with other Audit & Supervisory Board Members.

- Directors and employees of the Company and its subsidiaries collect information of subsidiaries in accordance with "Subsidiary and Associate Management Rules" and provide appropriate and necessary information to the Full-Time Audit & Supervisory Board Member, and this is shared by the Full-Time Audit & Supervisory Board Member with other Audit & Supervisory Board Members.

(8) System to ensure that persons reporting to Audit & Supervisory Board Members, as outlined above in (7), are not subject to disadvantageous treatment due to having reported

Regarding the reports given to the Audit & Supervisory Board Members from Directors and employees of the Company and its subsidiaries, the Company shall keep the details of the reports as confidential information in accordance with laws and regulations, and shall prohibit any disadvantageous treatment of persons making such reports.

[Operational Status]

The Company operates the system as follows.

- A "Full-Time Auditor hotline" has been established as a whistleblowing system. Also, in addition to making it and other contact points known, the Company is working on a thorough policy whereby confidentiality will be strictly maintained and that unfair treatment will be forbidden during the course of responses to whistleblowing.

(9) Matters regarding the policy for handling expenses and debts incurred by the execution of duties by Audit & Supervisory Board Members

Regarding expenses that the Audit & Supervisory Board Members recognize as necessary for the execution of their duties, when payment in advance or reimbursements or the like are requested, the Company shall swiftly handle the relevant expenses or debts.

[Operational Status]

The Company operates the system as follows.

- When an Audit & Supervisory Board Member requests payment in advance or reimbursement or the like, the Company swiftly handles the relevant expenses or debts.

(10) Other systems to ensure effective auditing by Audit & Supervisory Board Members

(i) To ensure that the auditing of Audit & Supervisory Board Members is conducted effectively, Audit & Supervisory Board Members may conduct audits jointly with internal audit organizations, etc.

(ii) Directors and employees shall provide Audit & Supervisory Board Members with information as necessary to comply with requests from Audit & Supervisory Board Members.

[Operational Status]

The Company operates the system as follows.

- Audit & Supervisory Board Members and the Audit Department hold a communications meeting every month, with information provided on such matters as audit activity plans and retrospective analysis of audit activity. In addition, in order to achieve more effective audits, Audit & Supervisory Board Members, as necessary, cooperate with the Audit Department and the Accounting Division to conduct audits.
- Reports on internal audit were submitted by the Audit Department to Audit & Supervisory Board Members.
- Directors and employees shall, in response to requests from Audit & Supervisory Board Members, work to provide appropriate and necessary information.

Consolidated balance sheet

(As of December 31, 2018)

(Millions of yen)

Assets		Liabilities	
Description	**Amount**	**Description**	**Amount**
Current assets	**52,442**	**Current liabilities**	**42,185**
Cash and deposits	10,126	Notes and accounts payable - trade	23,429
Notes and accounts receivable - trade	27,340	Short-term loans payable	10,590
Merchandise and finished goods	9,923	Current portion of long-term loans payable	2,400
Work in process	362	Accounts payable - other	2,350
Raw materials and supplies	1,993	Income taxes payable	2,416
Deferred tax assets	514	Provision for repairs	382
Other	2,187	Other	616
Allowance for doubtful accounts	(6)	**Non-current liabilities**	**14,037**
Non-current assets	**42,085**	Long-term loans payable	8,050
Property, plant and equipment	**31,089**	Deferred tax liabilities	2,405
Buildings and structures	5,887	Net defined benefit liability	2,574
Machinery, equipment and vehicles	5,829	Provision for environmental measures	148
Land	17,549	Provision for repairs	598
Construction in progress	645	Other	260
Other	1,176	**Total liabilities**	**56,222**
Intangible assets	**1,754**	**Net assets**	
Goodwill	1,646	**Shareholders' equity**	**35,567**
Other	107	Capital stock	8,800
Investments and other assets	**9,241**	Capital surplus	6,047
Investment securities	7,179	Retained earnings	20,746
Net defined benefit asset	1,341	Treasury shares	(26)
Other	722	**Accumulated other comprehensive income**	**336**
Allowance for doubtful accounts	(1)	Valuation difference on available-for-sale securities	414
		Deferred gains or losses on hedges	1
		Foreign currency translation adjustment	118
		Remeasurements of defined benefit plans	(197)
		Non-controlling interests	**2,401**
		Total net assets	**38,304**
Total assets	**94,527**	**Total liabilities and net asset**	**94,527**

Note: For the amounts shown, fractional numbers are rounded down to the whole unit.

Consolidated statement of income

(January 1, 2018 to December 31, 2018)

(Millions of yen)

Description	Amount	
Net sales		**101,199**
Cost of sales		**79,210**
Gross profit		**21,988**
Selling, general and administrative expenses		**11,130**
Operating profit		**10,858**
Non-operating income		
Interest and dividend income	312	
Share of profit of entities accounted for using equity method	158	
Commission fee income	35	
Insurance fee	99	
Other	206	813
Non-operating expenses		
Interest expenses	92	
Foreign exchange losses	17	
Loss on disposal of non-current assets	318	
Other	44	473
Ordinary profit		**11,197**
Extraordinary losses		
Loss on valuation of investment securities	890	
Loss on liquidation of subsidiaries and associates	553	1,443
Profit before income taxes		**9,754**
Income taxes - current	2,867	
Income taxes - deferred	1	2,869
Profit		**6,885**
Profit attributable to non-controlling interests		147
Profit attributable to owners of parent		**6,737**

Note: For the amounts shown, fractional numbers are rounded down to the whole unit.

Consolidated statement of changes in equity

(January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,772	5,272	16,072	(0)	30,118
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	27	27			55
Dividends of surplus			(2,063)		(2,063)
Profit attributable to owners of parent			6,737		6,737
Purchase of treasury shares				(26)	(26)
Purchase of shares of consolidated subsidiaries		746			746
Net changes of items other than shareholders' equity					–
Total changes of items during period	27	774	4,673	(26)	5,449
Balance at end of current period	8,800	6,047	20,746	(26)	35,567

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income		
Balance at beginning of current period	712	(1)	131	72	914	3,479	34,512
Changes of items during period							
Issuance of new shares - exercise of share acquisition rights							55
Dividends of surplus							(2,063)
Profit attributable to owners of parent							6,737
Purchase of treasury shares							(26)
Purchase of shares of consolidated subsidiaries							746
Net changes of items other than shareholders' equity	(298)	2	(12)	(269)	(578)	(1,077)	(1,656)
Total changes of items during period	(298)	2	(12)	(269)	(578)	(1,077)	3,792
Balance at end of current period	414	1	118	(197)	336	2,401	38,304

Note: For the amounts shown, fractional numbers are rounded down to the whole unit.

Balance sheet

(As of December 31, 2018)

(Millions of yen)

Assets		Liabilities	
Description	**Amount**	**Description**	**Amount**
Current assets	**49,135**	**Current liabilities**	**42,259**
Cash and deposits	8,878	Accounts payable - trade	22,343
Notes receivable - trade	726	Short-term loans payable	12,090
Accounts receivable - trade	26,080	Current portion of long-term loans payable	2,400
Merchandise and finished goods	8,760	Accounts payable - other	2,187
Work in process	313	Income taxes payable	2,381
Raw materials and supplies	1,788	Deposits received	325
Deferred tax assets	441	Provision for repairs	382
Accounts receivable - other	1,900	Other	150
Other	244	**Non-current liabilities**	**13,395**
Non-current assets	**39,860**	Long-term loans payable	8,050
Property, plant and equipment	**26,329**	Deferred tax liabilities	2,482
Buildings	1,215	Provision for retirement benefits	1,978
Structures	2,746	Provision for environmental measures	148
Machinery and equipment	4,215	Asset retirement obligations	80
Vehicles	5	Provision for repairs	598
Tools, furniture and fixtures	225	Other	56
Land	16,628	**Total liabilities**	**55,654**
Construction in progress	559	**Net assets**	
Other	734	**Shareholders' equity**	**32,925**
Intangible assets	**1,735**	**Capital stock**	**8,800**
Goodwill	1,646	**Capital surplus**	**5,300**
Software	82	Legal capital surplus	5,300
Other	6	**Retained earnings**	**18,851**
Investments and other assets	**11,795**	Other retained earnings	18,851
Investment securities	5,741	Retained earnings brought forward	18,851
Shares of subsidiaries and associates	4,308	**Treasury shares**	**(26)**
Long-term prepaid expenses	229	**Valuation and translation adjustments**	**415**
Prepaid pension cost	1,344	**Valuation difference on available-for-sale securities**	**414**
Other	171	**Deferred gains or losses on hedges**	**1**
		Total net assets	**33,340**
Total assets	**88,995**	**Total liabilities and net asset**	**88,995**

Note: For the amounts shown, fractional numbers are rounded down to the whole unit.

Statement of income

(January 1, 2018 to December 31, 2018)

(Millions of yen)

Description	Amount	
Net sales		**94,111**
Cost of sales		**73,922**
Gross profit		**20,189**
Selling, general and administrative expenses		**9,986**
Operating profit		**10,202**
Non-operating income		
Interest and dividend income	773	
Commission fee income	35	
Other	235	1,044
Non-operating expenses		
Interest expenses	92	
Foreign exchange losses	17	
Loss on disposal of non-current assets	304	
Other	44	458
Ordinary profit		**10,789**
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	890	
Loss on liquidation of subsidiaries and associates	553	**1,443**
Profit before income taxes		**9,345**
Income taxes - current	2,683	
Income taxes - deferred	(21)	2,662
Profit		**6,683**

Note: For the amounts shown, fractional numbers are rounded down to the whole unit.

Statement of changes in equity

(January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
		Legal capital surplus	Other retained earnings		
			Retained earnings brought forward		
Balance at beginning of current period	8,772	5,272	14,231	(0)	28,277
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	27	27			55
Dividends of surplus			(2,063)		(2,063)
Profit			6,683		6,683
Purchase of treasury shares				(26)	(26)
Net changes of items other than shareholders' equity					–
Total changes of items during period	27	27	4,619	(26)	4,647
Balance at end of current period	8,800	5,300	18,851	(26)	32,925

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	712	(1)	711	28,988
Changes of items during period				
Issuance of new shares - exercise of share acquisition rights				55
Dividends of surplus				(2,063)
Profit				6,683
Purchase of treasury shares				(26)
Net changes of items other than shareholders' equity	(298)	2	(295)	(295)
Total changes of items during period	(298)	2	(295)	4,351
Balance at end of current period	414	1	415	33,340

Note: For the amounts shown, fractional numbers are rounded down to the whole unit.

Independent Auditor's Audit Report concerning Consolidated Financial Statements
(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 12, 2019

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

Deloitte Touche Tohmatsu LLC
Yoshiki Okutsu [Seal]
Designated Unlimited Liability Partner
Engagement Partner
Certified Public Accountant

Naokazu Fukushi [Seal]
Designated Unlimited Liability Partner,
Engagement Partner
Certified Public Accountant

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of KH Neochem Co., Ltd. ("the Company") for the fiscal year from January 1, 2018 through December 31, 2018.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the corporate group comprised of KH Neochem Co., Ltd. and its consolidated subsidiaries, applicable to the fiscal year ended December 31, 2018, in conformity with accounting principles generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

Independent Auditor's Audit Report concerning Financial Statements (Non-consolidated)
(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 12, 2019

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

Deloitte Touche Tohmatsu LLC
Yoshiki Okutsu [Seal]
Designated Unlimited Liability Partner
Engagement Partner
Certified Public Accountant

Naokazu Fukushi [Seal]
Designated Unlimited Liability Partner,
Engagement Partner
Certified Public Accountant

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the financial statements, namely, the balance sheet, the statement of income, the statement of changes in equity, the notes to the financial statements and the accompanying supplemental schedules of KH Neochem Co., Ltd. ("the Company") for the 9th fiscal year from January 1, 2018 through December 31, 2018.

Management's Responsibility for the Financial Statements and Others

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company and the results of its operations for the fiscal year ended December 31, 2018 in conformity with accounting principles generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

Audit Report of the Audit & Supervisory Board
(TRANSLATION)

AUDIT REPORT

In respect of the execution of duties of the Directors during the 9th fiscal year from January 1, 2018 through December 31, 2018, the Audit & Supervisory Board (hereinafter "we"), following the discussion among us, has prepared this audit report based on the audit report prepared by each Audit & Supervisory Board Member, and hereby reports as follows:

1. Methods and details of audits by Audit & Supervisory Board Members and the Audit & Supervisory Board

(1) We have formulated an audit policy, sharing of duties among Audit & Supervisory Board Members, and other audit-related items. We have received reports from each Audit & Supervisory Board Member on the implementation and results of audits, and received reports from the Directors, etc. of KH Neochem Co., Ltd., the Accounting Auditor on their execution of duties, and requested explanations from them when necessary.

(2) In conformity with the auditing standards stipulated by the Audit & Supervisory Board, and in accordance with auditing policies and the assignment of duties, all Audit & Supervisory Board Members strived to achieve effective communication with the Directors, the Audit Department and other employees, worked to collect information and to improve the audit environment, while conducting the audit by the following methods.

i) All Audit & Supervisory Board Members attended the meetings of the Board of Directors and other important meetings, received reports from Directors and employees about the status of the performance of their duties, obtained explanations as necessary, reviewed important approval documents, and conducted investigations on the status of the business operations and assets of the Company at its head office and other principal business offices. Furthermore, the Audit & Supervisory Board Members also worked to facilitate communication and information exchange with the Directors, the Audit & Supervisory Board Members and others of the subsidiaries of the Company, and received reports on the business conditions of subsidiaries as necessary.

ii) The Audit & Supervisory Board Members received reports periodically from the Directors and employees on the construction and status of operation of the internal control system, i.e. a system developed based on resolutions made by the Board of Directors concerning systems prescribed in Article 100, paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act as necessary for ensuring that the performance of duties by the Directors conforms with laws and regulations and the Company's Articles of Incorporation and for ensuring proper business conduct by the corporate group comprised of a stock company and its subsidiaries, as described in the Company's business report. As necessary, Audit & Supervisory Board Members also asked for explanations from Directors and employees and expressed opinions.

iii) We monitored and verified whether the Accounting Auditor made appropriate audits while maintaining their independence. We received reports from the Accounting Auditor on their operations, and requested them for explanations when necessary. The Accounting Auditor notified us and we requested their explanations when necessary, concerning their establishment of a "System for Ensuring the Appropriate Execution of Duties" (matters set forth in items of Article 131 of the Regulation on Accounting of Companies) in accordance with the "Quality Control Standards for Audits" (issued by the Business Accounting Council on October 28, 2005).

Through these methods, we reviewed the business report and the accompanying supplemental schedules, financial statements (balance sheet, statement of income, statement of changes in equity and notes to financial statements) and the accompanying supplemental schedules, and the consolidated financial statements (consolidated balance sheet, consolidated statement of income, statement of changes in equity and notes to the consolidated financial statements) for the current fiscal year.

2. Results of the Audit:

(1) Results of the audit for the business report

(i) We have found that the business report and the accompanying supplementary schedules present fairly the current financial position of KH Neochem Co., Ltd. in conformity with applicable laws and regulations and the Articles of Incorporation.

(ii) With respect to the execution of duties of the Directors, we have found neither improper conduct nor any material breach of applicable laws and regulations and the Articles of Incorporation.

(iii) We have found that the resolutions of the Board of Directors regarding the internal control system are proper and correct. We have found nothing that needs to be pointed out concerning the content of the business report and the Directors' performance of their duties.

(2) Results of the audit of the non-consolidated financial statements and the accompanying supplementary schedules

We have found that the auditing methods employed by Deloitte Touche Tohmatsu LLC, Accounting Auditor, and the results thereof are appropriate and sufficient.

(3) Results of the audit of the consolidated financial statements

We have found that the auditing methods employed by Deloitte Touche Tohmatsu LLC, Accounting Auditor, and the results thereof are appropriate and sufficient.

February 18, 2019

The Audit & Supervisory Board,
KH Neochem Co., Ltd.

Full-time Audit & Supervisory Board Member	Tokuo Oodo [Seal]
Outside Audit & Supervisory Board Member	Atsuo Inagaki [Seal]
Outside Audit & Supervisory Board Member	Kenji Ito [Seal]