

Hodogaya Chemical Group Report

Integrated Report

2018

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.



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. This Agenda is a plan of action for people, planet, and prosperity, and includes the Declaration and Goals. The Goals consist of 17 Sustainable Development Goals (SDGs) and 169 targets which seek to build on the Millennium Development Goals (MDGs). Hodogaya Chemical Group will support the initiatives to achieve these goals for sustainable development.

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Editorial Policy

To date, CSR (Corporate Social Responsibility) activities of the Hodogaya Chemical Group have been detailed in the “CSR Initiatives” section of Hodogaya Chemical’s Japanese website. Information regarding business status has been posted via the Business Report and Financial Statement on our homepage.

Since FY2017, we have been publishing our report as a booklet in order to enable all our stakeholders, including our shareholders, customers, partner companies, people from the local community and society as well as our employees to better understand the business and CSR activities of the Hodogaya Chemical Group. The report published in 2017 was only in Japanese, but starting from 2018 we decided to publish in English as well. This booklet is the first issue in English.

The report is made up of the contents of CSR activities, which consist of a business summary for each segment and highlights of financial data, which is an integrated report.

We 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 take initiatives to resolve them through each segment’s business activities.

We introduce various initiatives based on the management philosophy of the Hodogaya Chemical Group.

Period Covered

This Report generally covers the period from April 2017 to March 2018, but also contains reports on activities before and after said period.

Scope of Report

Hodogaya Chemical Co., Ltd. and its group companies

Publication Date

October 2018

* The next issue is scheduled for October 2019.

Major Guidelines Referenced

Ministry of Economy, Trade and Industry
Guidance for Collaborative Value Creation

Ministry of the Environment
Environmental Reporting Guidelines 2012
ISO 26000:2010
Guidance on Social Responsibility
GRI Sustainability Reporting Standards



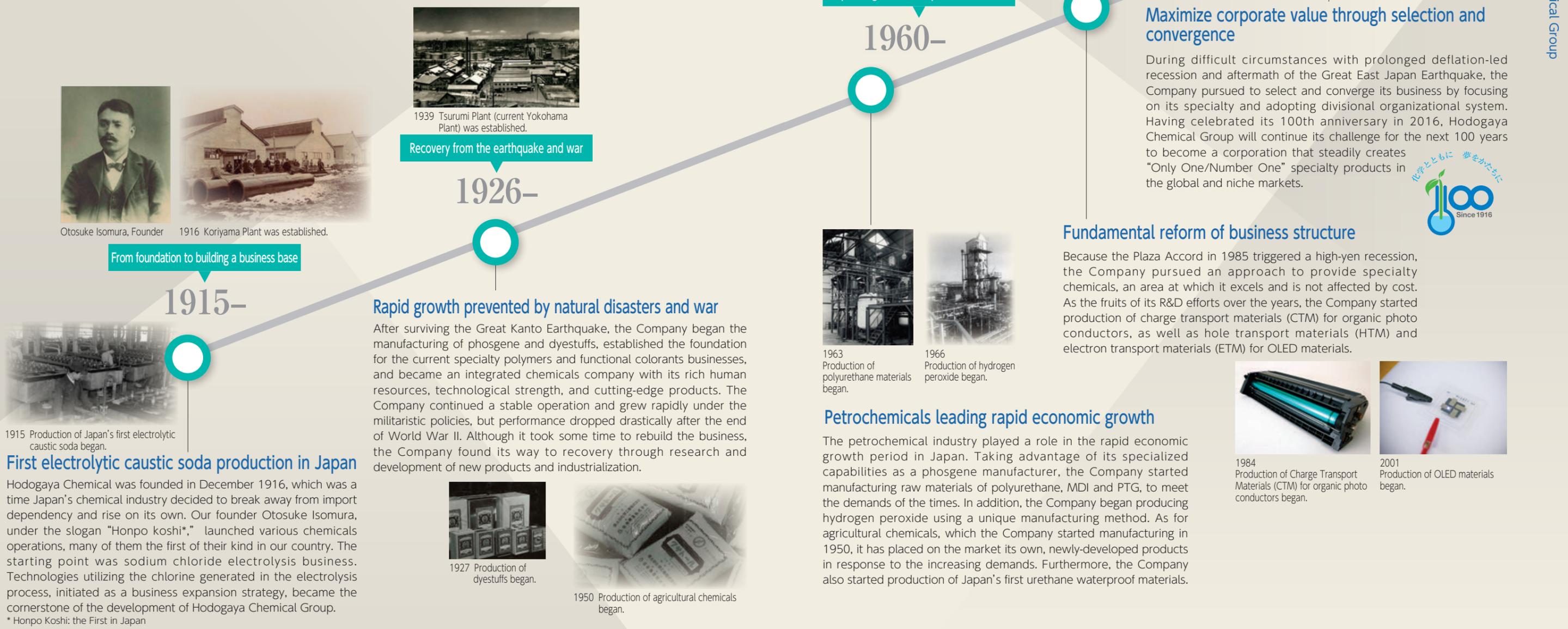
History of Hodogaya Chemical Group

- 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.



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



The Four Promises of Hodogaya Chemical Group

- Toward the next 100 years -

As a chemicals manufacturer benefiting the society, we will aim to achieve sustainable growth for the next 100 years.

Promise
1

Based on our core technologies, we will steadily supply “Only One/Number One” specialty products in the global and niche markets.

One feature of Hodogaya Chemical Group is that each group company is highly specialized in the fields of functional colorants, specialty polymers, basic chemicals, agro-science, and logistics. The R&D, production and sales departments of each group company make a tripartite effort to meet the diverse needs of customers and constantly provide high-quality products and services, taking advantage of our unique technological capabilities and networks. This boosts the corporate value of the Group as a whole and promotes strong relations of trust with customers.

By further applying and developing the specialized technologies and expertise derived

from our core organic composites, we will pursue high performance and high added values to provide “Only One/Number One” specialty products and services that satisfy our customers’ requirements.

With each group company leveraging technology of a specialized area, as well as applying and developing the specialized technologies and expertise within the Group, we believe that striving to become a corporate group creating highly functional products with high added value will enable us to share the benefits with all of our stakeholders and to improve the corporate value of the Hodogaya Chemical Group.

Promise
2

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

The Hodogaya Chemical Group is pursuing the concept of dynamic innovation as a group of companies that contributes to society and people’s lifestyles by creating highly functional products with high added value. The Group makes it possible by its three highly advanced core technologies it has built up over the long history based on synthesis technology of organic compound—high-purification technology, development capability in functional materials, and evaluation technology for functional materials—and its three competitive advantages in value creation, research and development, and manufacturing technologies.

The Hodogaya Chemical Group integrates these

technologies and strengths to design and develop environmentally friendly products demanded in the future and continues to polish our technologies as a chemical company benefiting people’s lifestyles and society. And to further strengthen the power of the Group, we will build an organization with outstanding cost competitiveness, profitability, and risk resistance, and contribute to society by creating “Harmony Between Chemistry and Environment.”



Promise
3

We will continue to reform the organization to enhance and strengthen our corporate governance.

In order to promote CSR activities, the Company established the CSR Committee in April 2016, and the CSR Department as its subordinate body in April 2017. With this framework, we will facilitate the anchoring of ESG management among all officers and employees.

Meanwhile, we have been focusing on enhancing our corporate governance to maintain and deepen the trust held in us by a wide range of stakeholders. In 2003, we introduced the executive officer system with a view to separate the management and executive functions. Then in 2015, we made a transition to a Company with Audit & Supervisory Committee with a view to further strengthen the Board of Directors’ supervisory functions and process auditing, as well as to realize quicker

decision-making and business operation via a separation of supervisory and executive functions. Furthermore in January 2018, the Company shifted into a new management structure which facilitates separation of the “strategic decision-making and supervisory functions of management” from the “prompt executive functions of business strategy,” with a view to further strengthen its supervisory and executive functions. As a result, the number of Directors who are not Audit & Supervisory Committee Members has been reduced from seven to three.

Through these reforms, Hodogaya Chemical Group will ensure the effectiveness of our governance to improve our corporate value.

Promise
4

We will value our relationship with all of our stakeholders.

Hodogaya Chemical celebrated its 100th anniversary of foundation in November 2016, to join the ranks of century-old companies. In order to continue contributing to the society in the new century, it is essential for the Hodogaya Chemical Group to achieve sustainable growth.

And to do so, we must inherit the traditions and legacies of our predecessors and pass them over to the next generation. Some traditions and legacies are visible, while others are not. Visible heritage may include various product groups, advanced technological capabilities and their patents, domestic and overseas production bases and facilities, as well as customers and partner

companies. Invisible inheritance may include the joy and pride we feel as manufacturer when our products served other people, the Group’s vision to steadily supply “Only One/Number One” products, and our gratitude toward all of our stakeholders. It is the belief of all officers and employees of the Hodogaya Chemical Group that these invisible aspects help improve the visible assets.

In aim to realize the Group Management Philosophy, we will continue to value the unique traditions and legacies of the Hodogaya Chemical Group as well as achieve sustainable growth and uphold our corporate social responsibility.



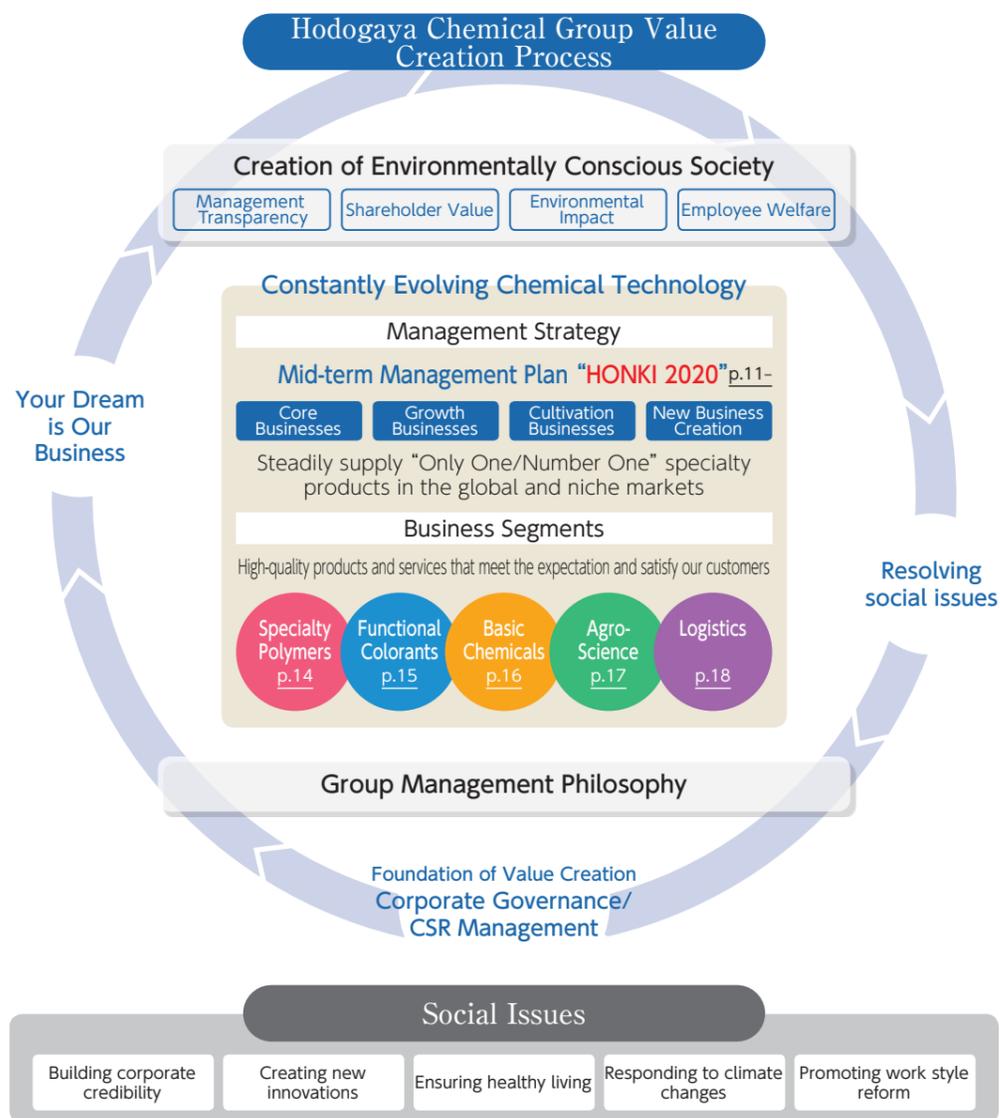
Value Created by Hodogaya Chemical Group

We will create “Only One/Number One” specialty products in the global and niche markets and aim for a harmony between chemistry and environment, as a way to contribute to the development of society.

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.

Under our motto, “Your Dream Is Our Business,” we will pursue “constantly evolving chemical technology” in each business segment according to the management strategy and provide “high-quality products and services that meet the expectation and satisfy our customers,” in order to contribute to the “creation of environmentally conscious society” to help resolve the issues.



Combining our strengths for value creation

– Three competitive advantages driven by three highly advanced core technologies –

A solid foundation of 3 core technologies

1
High-Purification
Technology

Applying advanced refining technologies to take high purification to the next level

Highly purified raw materials that can be used in new fields and for constantly evolving applications are always in demand. The Hodogaya Chemical Group applies its advanced refining technologies to meet extremely strict technical requirements that exceed clients' expectations.

2
Development Capability
in Functional Materials

Developing materials with new functions to make people's lives more comfortable and enriching

The Hodogaya Chemical Group aims to help people fulfill their hopes for lifestyles that are safe, secure, comfortable, and enriching. With this in mind, the Group offers new materials that feature a wide array of functions, while striving to open up all kinds of fresh possibilities for their use.

3
Evaluation Technology
for Functional Materials

Renowned for its knowledge, experience, and skill, the Group supports the materials of the future with its advanced technologies

The Hodogaya Chemical Group's products are trusted by customers for their highly renowned technologies. Our strong reputation has led to the creation of new designs and the reinvention of materials that are ahead of their time.

Ever-evolving 3 competitive advantages

1
Value Creation

Value is generated through solutions for customers' problems

The Hodogaya Chemical Group can accurately identify the needs of society and its customers, and then respond with dedication and innovation, creating products with high added value by drawing on its extensive technological expertise.

2
Research and
Development

Cutting-edge research targeting the technologies of the next generation

Leveraging state-of-the-art research facilities and advanced research capabilities honed over its long history, the Hodogaya Chemical Group carries out cutting-edge research projects that lead to the creation of entirely new value.

3
Manufacturing
Technology

High-quality manufacturing with the greatest attention to the environment and safety

Having built a reputation for dependably supplying high-quality products while ensuring excellent cost competitiveness, the Hodogaya Chemical Group has put in place a manufacturing system that is based on high standards for safety and the environment.

Products of Hodogaya Chemical Group

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.

Around You

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

Ice cream
Our natural food dyes are used.

Golf courses, athletic fields, parks
Our products are used as lawn herbicides.

Dishwashing liquids
Our cleaning agents are used.

Laundry detergents
Our bleaching agents are used.

Ballpoint pens
Our dyes are used in ink.

Inkjet printers
Our dyes are used in the ink for inkjet printers.

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

Digital cameras
Our dyes are used in the aluminum bodies.

Pharmaceuticals
Our specialty chemicals are used as intermediates for pharmaceutical products.

Endoscopes
Our disinfectant agents are used for cleaning.

Hair coloring products
Our dyes are used.

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

Copiers and laser printers
Our products are used as an additive of toners.

Stockings
Our polyurethane materials are used.

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

Wristwatches
Our polyurethane materials are used in wristbands.

Sportswear
Our polyurethane materials are used.

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 green space.

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

Waterproofing
Our waterproofing materials are used for rooftops and balconies.

Aquafarms
Sakana Guard is used for parasite control.

Automobile tires
Our adhesives are used in tires.

Mid-term Management Plan

“HONKI 2020” (FY2015 – FY2020)

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).

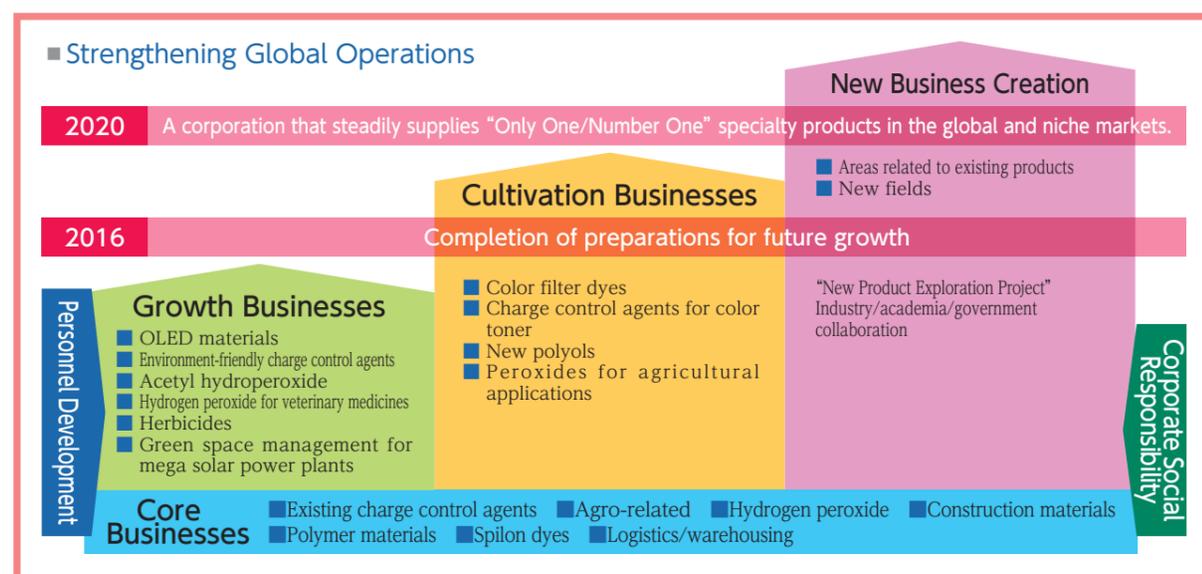
(Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination)

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”

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

► FY2017 results

With regard to the global economic trends in FY2017, the United States economy continued a steady recovery supported by gradual recovery in capital investments and steady consumer spending as a result of improvements in employment and income environment.

In Europe, the economy continued a favorable trend with improvements in employment environment and strong consumer spending.

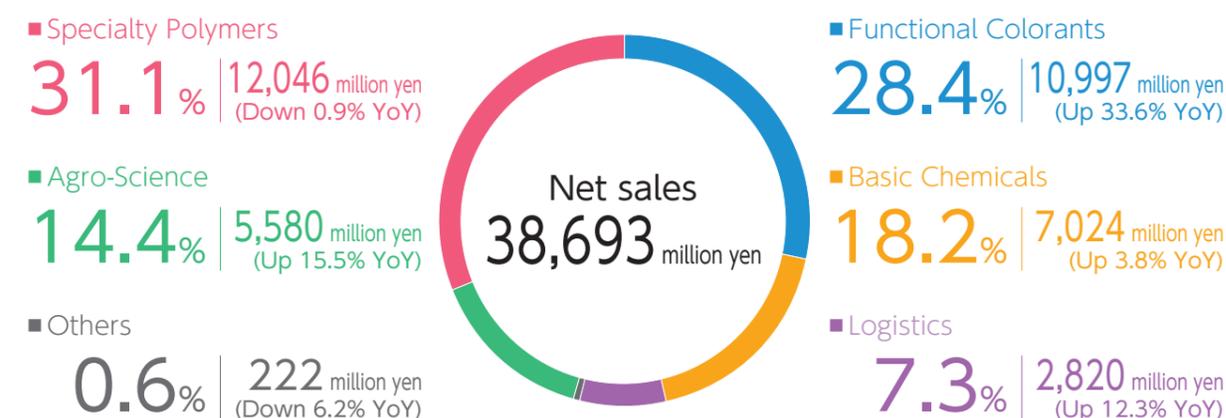
The Chinese economy remained strong with increase in export against the backdrop of the recovery of global economy and stable consumer spending as a result of income increase.

As for Japan, our economy continued a moderate recovery with ongoing improvements in employment and income environment, and

gradual recovery of consumer spending.

Within this economic climate, our net sales in FY2017 increased by 3,953 million yen (up 11.4%) year-over-year to 38,693 million yen, mainly due to growth of the Functional Colorants segment, which saw increased demands for OLED materials, dyes and colors. In terms of profit and loss, operating profit increased by 1,774 million yen (up 83.3%) year-over-year to 3,903 million yen thanks to increased net sales and other factors. Ordinary profit came to 4,169 million yen, an increase of 2,075 million yen (up 99.1%) year-over-year, while profit attributable to owners of parent increased by 911 million yen (up 46.7%) year-over-year to 2,862 million yen.

► FY2017 net sales by segment



► FY2018 initiatives

In FY2018, the environment surrounding the Hodogaya Chemical Group is increasingly becoming harsh due to factors such as increase in crude oil and naphtha prices, and increase in raw material prices caused by tighter environmental regulations in China.

In such climate, the Group identified the FY2018 challenges as “sustainable growth of its Core Businesses and steady expansion of its Growth Businesses and Cultivation Businesses including placing new products on the market.”

To resolve these challenges, we will expedite the development of new products mainly in the fields of functional colorants and basic chemicals, and expand our scope of business with a view to achieving stable and safe production and cost

reduction and enhancing our capabilities.

As a manufacturer, one of the most important commitments is to continue ensuring the reliability of our products, and to do so we will take initiatives to enhance our quality control and assurance systems.

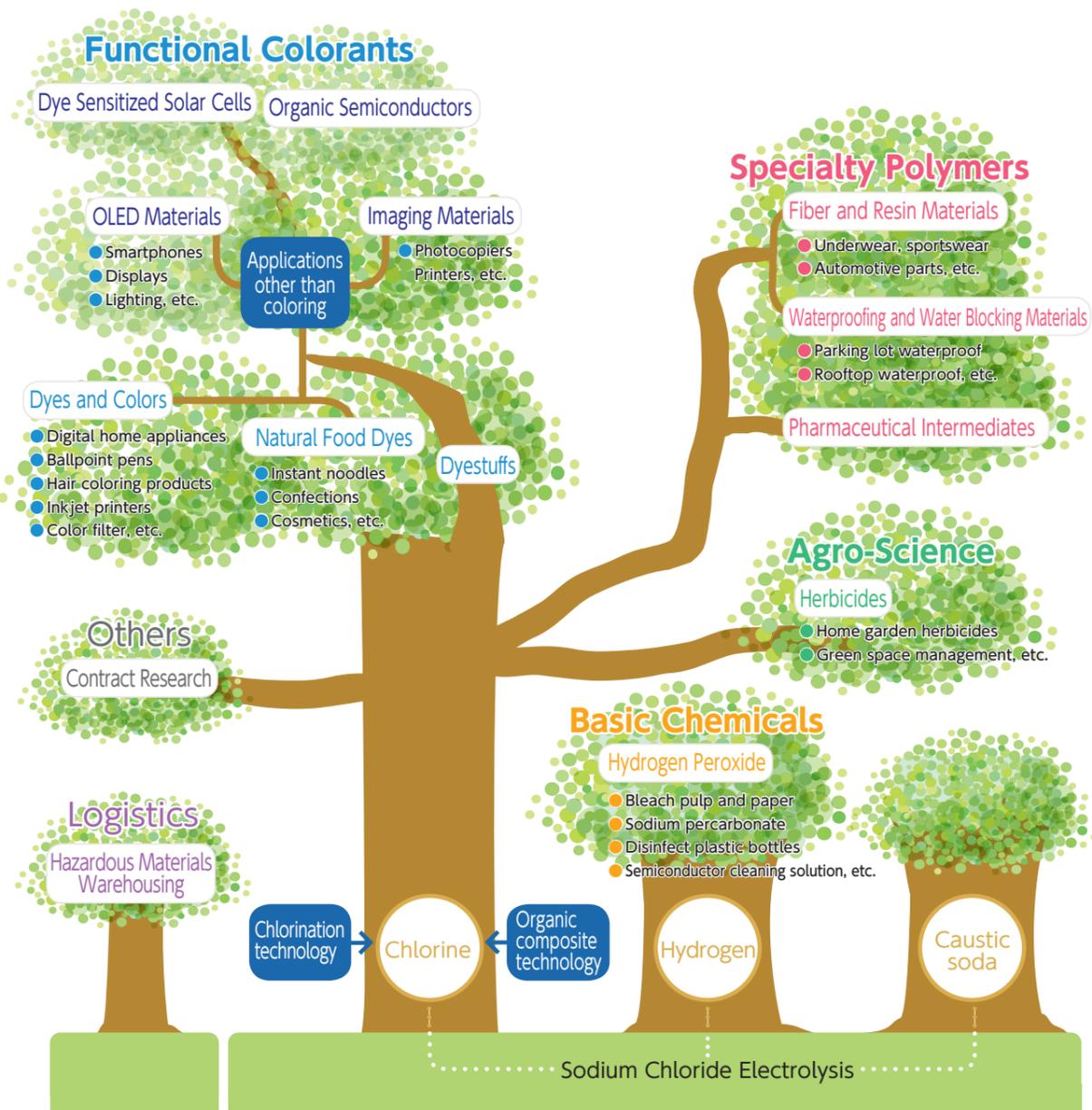
Furthermore, we will strive to increase profitability by responding to increased raw material and fuel costs and expanding sales by utilizing both domestic and overseas bases.

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.

Business Overview of Hodogaya Chemical Group

We create specialty 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

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

The world's "Only One" polyurethane materials

Polymer materials and pharmaceutical intermediates leading global market share

Environmentally friendly waterproofing materials free of specified chemical substances

Major products/Contribution to SDGs



Raw material of spandex



Urethane waterproofing



Pharmaceutical intermediates

- 3 GOOD HEALTH AND WELL-BEING**: Specialty chemicals are used as pharmaceutical intermediates to treat infectious diseases.
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE**: Construction materials help improve infrastructures to be more environmentally friendly. The creation of specialty products contributes to promoting innovation.
- 13 CLIMATE ACTION**: Bio-PTG uses plant-derived raw materials, and contributes to reducing CO₂ emissions, a possible cause of climate change.

FY2017 results

The Functional Polymers business was on par with the previous fiscal year thanks to steady demands for urethane materials and tire materials.

The Specialty Chemicals business led to increased income with increased demand for polymer-related components.

Meanwhile, in the Construction Materials business, competition in the area of waterproofing materials led to a reduction in income.

As a result, net sales in this segment came to 12,046 million yen, with 653 million yen in operating profit.



Topics - Specialty Polymers Segment -

For urethane waterproof materials, in addition to the existing environmentally friendly urethane waterproof material Eco Proof, we brought new products to the market, including Eco Proof i, improved for better application in the summer, and Eco Proof ET with greater durability. The Group will continue to develop new products that are more environmentally friendly and energy saving.



Functional Colorants Segment

Description of business

The Functional Colorants segment mainly consists of three businesses.
 Demands for OLED Materials continue to expand as they are used in smartphone display panels with expectations for use in TVs and lighting in the future.
 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.
 The Imaging Materials business supplies materials that are essential for copiers and printers to function, helping to enhance precision in the office automation environment.

Strengths



Major products/Contribution to SDGs



Smartphone display materials Dyes and colors for stationery Essential materials for copiers

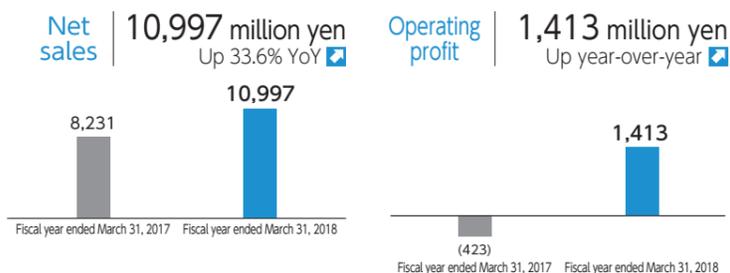
- 7 AFFORDABLE AND CLEAN ENERGY** OLED materials help improve energy efficiencies.
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE** The creation of specialty products contributes to promoting innovation.
- 10 REDUCED INEQUALITIES** Hair dyes can help make many people around the world happy.

FY2017 results

The OLED Materials business saw a large increase in income due to an increase in demand in the area of displays. In the Dyes and Colors business, continued strong performance in the area of aluminum coloring dyes for digital home appliances led to an increase in income.

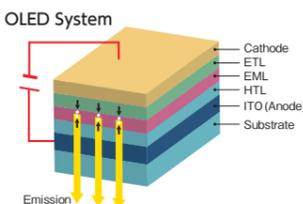
In contrast, continued sluggish demand for materials for printers led to a decrease in income in the Imaging Materials business.

As a result, net sales in this segment came to 10,997 million yen, with 1,413 million yen in operating profit.



Topics - Functional Colorants Segment -

Smartphone display panels are switching from LCD to OLED due to its high degree of design freedom. As the Group develops both emitting materials and transport materials, we offer "the art of combination" to our customers. OLED materials are now produced at three bases at Tsukuba Research Laboratory in Japan, SFC CO., LTD., and HODOGAYA CHEMICAL KOREA CO., LTD. in South Korea. We are gaining greater presence in South Korea where many major panel manufacturers are based.



Basic Chemicals Segment

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



Major products/Contribution to SDGs



Semiconductor cleaning solution PET bottle cleansing Veterinary medicines

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

FY2017 results

Increased demands for hydrogen peroxide for the industrial chemicals and environmental areas led to an increase in income.

As a result, net sales in this segment came to 7,024 million yen, with 805 million yen in operating profit.



Topics - Basic Chemicals Segment -

In September 2017, we began sales of food additive OXYATTACK.

This product is an acetyl hydroperoxide formulation that was newly approved as a food additive in 2016. It is used for surface anti-bacterial treatment of meats, vegetables, and fruits, and is expected to be effective in removing bacteria from food processing equipment as well.



Agro-Science Segment

» 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 working on new market development in the areas of plant growth promoters and microbial materials.

» Strengths

- 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 plant growth promoters and microbial materials

» Major products/Contribution to SDGs



Herbicides Supply oxygen to the field soil Removing weeds from mega solar sites

- 2** **AGRICULTURE**
Agricultural chemicals such as herbicides and agricultural materials including oxidizers contribute to improving agricultural productivity.
- 9** **INDUSTRY, INNOVATION AND INFRASTRUCTURE**
The creation of specialty products contributes to promoting innovation.
- 15** **LIFE ON LAND**
Repellent inhibiting damage of plant by an animal helps protect rare species.

» FY2017 results

Increased demands for herbicides for home gardening and cropland led to a large increase in income.

As a result, net sales in this segment came to 5,580 million yen, with 350 million yen in operating profit.



Topics - Agro-Science Segment -

We launched eight new "shower-type" herbicides based on agrochemical intermediates with various weed-removing capabilities. Easy-to-spray shower-type herbicides are gaining popularity in the market, and we will continue to focus on developing new shower-type products.



Logistics Segment

» 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

- 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/Contribution to SDGs



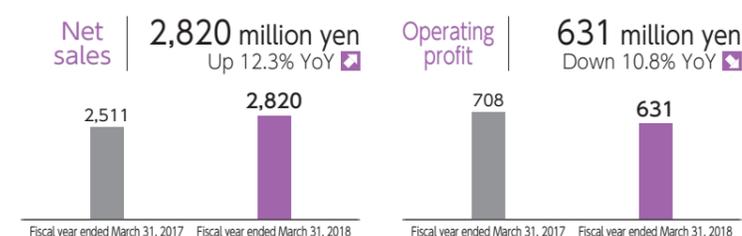
Hazardous materials warehouse Outdoor warehouse Forwarding and customs clearance

- 7** **AFFORDABLE AND CLEAN ENERGY**
The use of railroad cargo transport helps improve energy efficiencies.
- 11** **SUSTAINABLE CITIES AND COMMUNITIES**
Storage and control of hazardous substances help ensure the safety of cities and residential areas.

» FY2017 results

Steady performance in the Warehousing business and increase in exports resulted in a large increase in income.

As a result, net sales in this segment came to 2,820 million yen, with 631 million yen in operating profit.



Topics - Logistics Segment -

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. As a company actively grappling with environmental issues, Hodogaya Chemical was certified to use the Eco Rail Mark additionally for our four environmentally friendly, rail-transportable products.



CSR Management of Hodogaya Chemical

Group Toward 2020

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.

Basic policy

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

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.

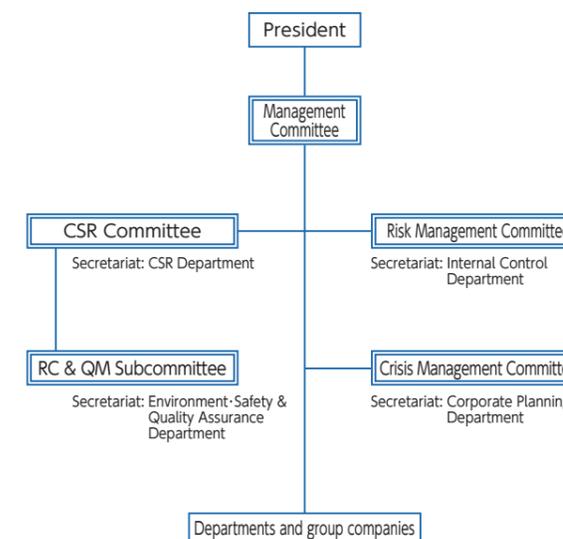
CSR promotion organization

The Hodogaya Chemical Group has the CSR Committee within the organization to promote CSR more actively. The CSR Committee deliberates and decides on specific measures in accordance with the basic policy.

In order to promote the Responsible Care (RC) activities (→p.25) as part of the CSR activity, the Group structures the RC & QM Subcommittee as a subordinate organization of the CSR Committee.

We also consider corporate governance as an important element of our CSR activity. In particular, to manage risks (→p.23) we have the Risk Management Committee in charge of identifying risks and developing and implementing key risk control measures to prevent risks in advance.

If a "management crisis" that may inflict damage on the company occurs, we will set up the Crisis Management Committee to respond immediately to the crisis and to take actions in accordance with our CSR basic policy.



CONTENTS	ISO 26000 7 core subjects	How we want to be in 2020	Related SDGs	Key targets	FY2017 results	FY2018 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.21-	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	Formulated & released Corporate Governance Report in July	Continue to abide by the Corporate Governance Code
		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. 2017 and Feb. 2018	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	Increase the number of personnel passing the Examination of Compliance Proficiency for Practical Business
		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.25-	Environment	Efforts to reduce environmental impact are regarded by society	6 11 12 14	To promote reduction of environmental impact	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	
Stakeholder Communication p.33-	Fair business practices	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
		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"	Published the first Integrated Report in Dec. 2017	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	Set forth the Procurement Policy and the Procurement Guidelines in March 2018	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
Community involvement and development	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	
	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	Leased out part of the plant site for free to a communal facility	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	Conducted visiting chemistry classes at a nearby elementary school under the theme of nurturing children through chemistry	Identify and conduct new volunteering activities appropriate for the Company

*ISO 26000: An international standard published in 2010 which provides guidance on social responsibility to contribute to sustainable environmental and social development.

Corporate Governance

- ISO 26000: Organizational governance -

Basic approach

The Hodogaya Chemical Group strives to create values for the various stakeholders including our shareholders, customers, partner companies, 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.

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, Directors are entrusted with the decision-making on all business operation matters other than matters that should be solely for the Board of Directors to determine as required by laws and regulations. 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

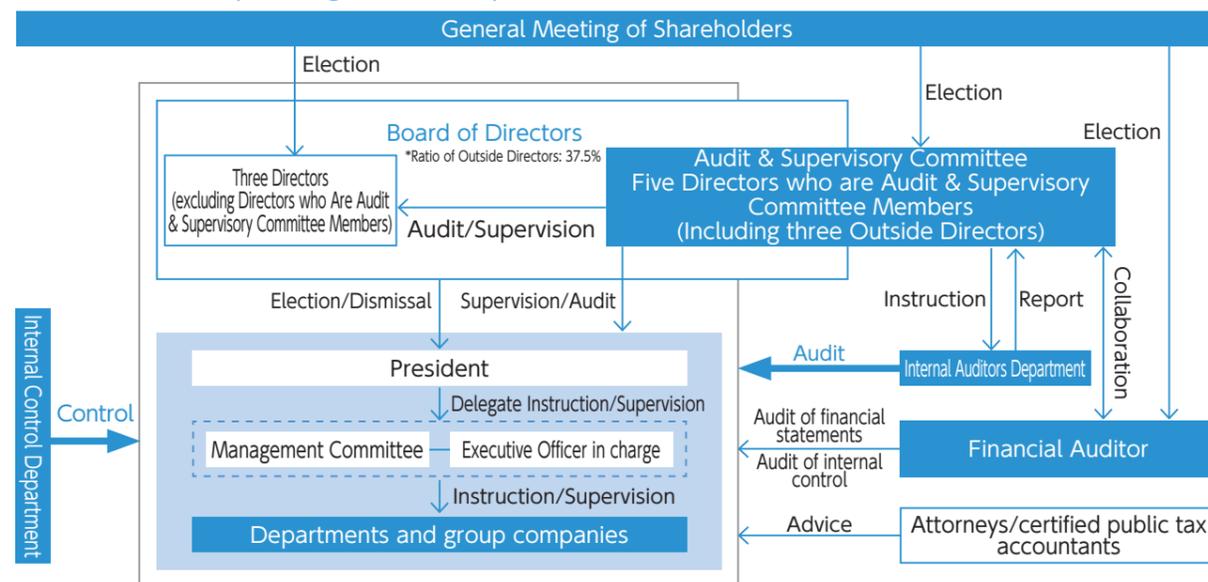
Initiatives to strengthen corporate governance

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

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.

Additionally, in January 2018, the Company shifted into a new management structure which facilitates separation of the "strategic decision-making and supervisory functions of management" from the "prompt executive functions of business strategy," with a view to further strengthen its supervisory and executive functions. As a result, the number of Directors who are not Audit & Supervisory Committee Members has been reduced from seven to three. Accordingly, the ratio of Outside Directors is now 37.5%.

Structure of corporate governance system



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. It engages in constructive bilateral dialogue with shareholders in an effort to achieve effective corporate governance that can contribute to sustainable growth of Hodogaya Chemical 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 eight Directors, including "Directors (excluding Directors who are Audit & Supervisory Committee Members)" and "Directors who are Audit & Supervisory Committee Members." Sets of criteria for the election of Directors are established. Among other things, an Internal Director should have the personality, extensive experience, and quality to appropriately serve as a corporate manager, and an Outside Director should have appropriate experience and knowledge cultivated by broad business experiences. At Hodogaya Chemical, those who are considered to possess these qualities are reviewed and nominated as candidates for Directors by the Board 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.

Audit & Supervisory Committee

The Audit & Supervisory Committee consists of five 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 advices on accurate and fair business practices through internal control audit.

Internal Control Department

Hodogaya Chemical has the Internal Control Department that continuously reviews and evaluates that a group-wide 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 our group-wide internal control, and promote various policies to ensure that our business operations are conducted in an appropriate and effective manner.

Internal Auditors Department

Hodogaya Chemical has the Internal Auditors Department that 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

The amount of remuneration of Directors are determined within the maximum limit of remuneration approved at the General Meeting of Shareholders, taking into consideration factors such as the performance of the Company, standard amounts of directors' compensation, and consistency with the salaries of Executive Officers and employees. Since FY2016, Hodogaya Chemical has introduced a "stock-based compensation plan" for Directors (excluding Directors who are Audit & Supervisory Committee Members) and Executive Officers with the objective to raise awareness to contribute to improve performance for the mid- to long-term of the Hodogaya Chemical Group and increase its corporate value. This "stock-based compensation plan" is an officer incentive program in which the Group issues stocks (treasury shares) of Hodogaya Chemical to its officers based on the positions held and level of achievement of performance goals as well as their level of contribution to achieving Hodogaya Chemical's mid-term management plan "HONKI 2020."

► Risk management

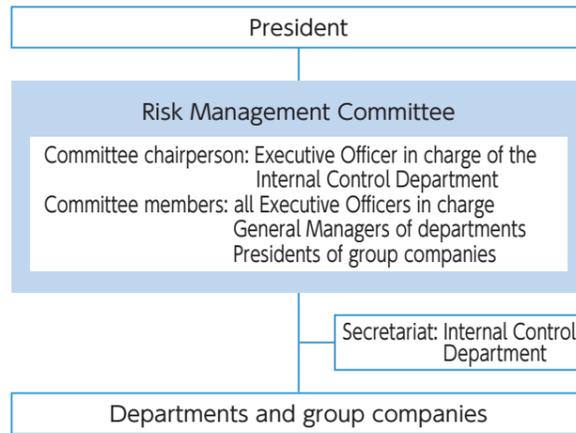
● Basic approach

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 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, in accordance with the Crisis Management Rules. 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 if necessary.

● Corporate Code of Conduct, Compliance Action Policy

Hodogaya Chemical has formulated the Corporate Code of Conduct, the Compliance Action Policy, and other compliance-related policies and rules. All officers and employees of the Hodogaya Chemical 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 Code of Conduct sets forth the guiding principle that the companies, officers and employees must follow in all corporate activities undertaken by the Hodogaya Chemical Group. The Compliance Action Policy clarifies in a more comprehensible manner the Corporate Code of Conduct which 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 Hodogaya Chemical Group for all of its officers and employees 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.

● 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 Code of Conduct 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. The protection of reporters is clearly stipulated in the Internal Reporting Rules and utmost care is given so that a reporter 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 managerial 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.

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 independent officer specified by the exchange.

Note that one of the Outside Directors and the Substitute Director Who Is an Audit & Supervisory Committee Member had been employees of a financial institution which is a major lender to the Company; however, nine years have elapsed since they left said financial institution. Therefore, the Company deems that there are no concerns over their independence.



Voice

Legal Department
Attorney Masayuki Kamigauchi

Everything begins from information gathering

Every task at the Legal Department begins by gathering information. We cannot draft an appropriate contract unless we understand the laws and regulations and rulings that serve as precedents to the objectives we want to achieve. Handling legal disputes is also part of our job, and my experience as an attorney has helped me gain some insight on how to resolve disputes.

Highly accurate information is essential in delivering quality results, but since the rules such as laws, regulations and precedents are changing every day together with the change in society, I try to keep my knowledge updated at all times. Corporate governance cannot be enhanced and strengthened unless not only the Legal Department but also all employees implement it, recognizing its importance, so I am hoping to support this initiative through my daily work.

Environmental and Safety Initiatives - Responsible Care -

- ISO 26000: Environment -

► Basic approach

The Hodogaya Chemical Group conducts its operation based on the principle that ensuring environmental conservation, health and safety, 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 RC and the Basic Policies of 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.

► About Responsible Care (RC)

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, health and safety measures across the product lifecycle, from development to disposal.

Hodogaya Chemical became a member of the Japan Responsible Care Council (JRCC) in 1997, declaring engagement in responsible care and establishing the Basic Philosophy of RC and the Basic Policies of RC.

The Basic Policies of RC outlines our approach to conducting a sound business, in accordance with the Basic Philosophy of RC, by actively protecting the environment, ensuring safety, health and quality, and making continual improvement to coexist with society.

Since then, annual objectives based on the Basic Policies of RC are created every year, and every member of our organization is actively involved in the efforts to promote the RC initiatives to improve our performance with regard to the environment, safety, health and quality which are the bedrock of our business activities.

[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



► Basic Philosophy of Responsible Care (RC)

1. Ensuring environmental conservation, health and safety, and product quality are fundamental to its management and the basis for all business activities.
2. Ensuring environmental conservation, health and safety, 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, health and safety, 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 RC basic philosophy with awareness and responsibility.
2. We will abide by the laws and regulations pertaining to our business activities as well as 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.

► 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. The Executive Officer overseeing the Environment·Safety & Quality Assurance Department is in charge of implementing RC initiatives.

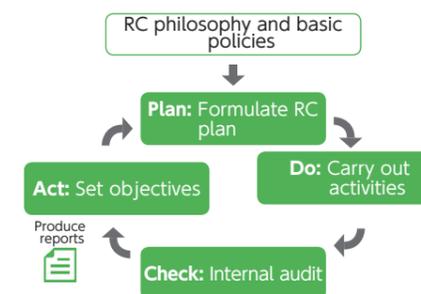
The progress of the annual activity objectives are reported at the subcommittee meetings held regularly, four times a year. At the year-end subcommittee meeting, the Company RC/QM/ISO Execution Plan, which consists of a summary of the company-wide activities and the RC objectives for the following fiscal year, are 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.

► Systems for RC initiatives

To ensure consistent implementation of RC initiatives, all plants and research laboratories utilize the ISO 9001 Quality Management Systems (QMS) and ISO 14001 Environment Management Systems (EMS) as means (tools) to manage the chemicals and product safety and to protect the environment. The Group adopts the PDCA cycle model to manage objectives and continually improve.

The PDCA cycle is a continuous flow used to create the yearly RC plan (Plan), carry out the RC initiatives (Do), review the progress by RC internal audit (Check), and set objectives based on the progress (Act). The entire process is executed in accordance with the RC philosophy and basic policies.

The RC internal audit is conducted twice a year in April and October by the leader and members of the RC & QM Subcommittee to assess the effectiveness of the management systems.



► RC education

In order to gain understanding on RC initiatives and to ensure steady implementation, the Hodogaya Chemical Group provides new employees and transferees with structured education on the Seven codes of Responsible Care (management system, environmental conservation, security and disaster prevention, occupational safety and health, logistic safety, chemicals and product safety, and dialogue with society) as well as on quality assurance.

We also provide regular training sessions every year to develop human resources for ISO management system internal auditors.

[Seven codes of Responsible Care]

1 Management system	Carry out each of the 6 activities systematically in a unified manner.
2 Environmental conservation	Protect people's health and global environment.
3 Security and disaster prevention	Prevent disasters at facilities and minimize damage in the event of a fire.
4 Workplace safety and health	Protect the safety and health of workers.
5 Logistic safety	Prevent accidents or disasters during distribution until delivery to customers and protect safety, health and the environment.
6 Chemicals and product safety	Clearly identify the properties and handling of chemicals and protect the safety, health and the environment of all stakeholders including customers.
7 Dialogue with society	Respond appropriately to the concerns of the general public.

Voice

Tsukuba Research Laboratory
Yamato Shima

As an occupational safety and health promoter

As an occupational safety and health promoter, my job is to create an annual action plan on the various environmental and safety issues that need to be addressed at our workplace, and to execute and control the progress of the plan. At the monthly occupational safety and health meeting of the Functional Materials Group, lively discussions are held among superiors and subordinates, seniors and juniors, regardless of rank, and I feel that through various initiatives, there is a growing momentum in which each of us think about safety more seriously. Environment and safety are critical theme that constitute the bedrock of our business activities and are essential in gaining social trust and coexisting with society. It is a theme that must be grappled by the collaborative effort of all employees, and I am also committed to fulfill my own role, cooperating with others, giving attention to environment and safety at all times.

Workplace Safety and Health, Security and Disaster Prevention

- ISO 26000: 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.

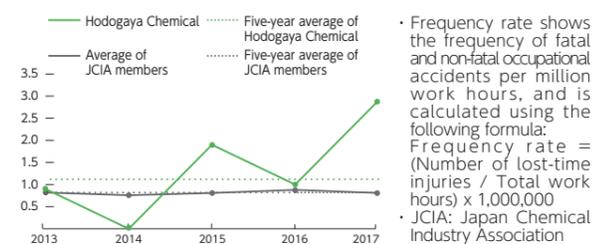
In order to promote workplace safety and health, security and disaster prevention, and logistics safety, we have formulated the Safety and Health Management Rules, the Disaster Prevention Rules, and the Logistic Safety Management Rules based on relevant laws and regulations.

▶ Initiatives for workplace safety and health

The Safety and Health Management Rules sets 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 improve 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.

■ Change in frequency rate of lost-time injuries



▶ Emergency responses

We conduct 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 FY2017, two teams from the Koriyama Plant participated in the Koriyama region self-defensive firefighting skills competition and both placed high including the second place; at the Tsurumi Ward self-defense brigade firefighting skills training session, the Yokohama Plant was placed sixth by the clock with no point deduction; and Nanyo Plant participated in the local disaster prevention competition and came in eighth.

▶ Ensuring safety in operation

The Disaster Prevention Rules set forth the basic rules on actions to be taken by the Hodogaya Chemical Group to prevent disasters under the crisis management scheme. The aim is to ensure the safety and health of our employees and the local residents, and to protect the local environment as well as our facilities.

To this aim, we established a goal to achieve accident-free, disaster-free operation, and conduct safety patrols and 3S (Sort, Set, Shine) as well as inspection visits among offices in an effort to improve our safety awareness. Despite these efforts, we had many accidents and incidents in FY2017, and the Group took to conduct full safety checkups, held emergency morning sessions at each office, and declared a “state of emergency” to eradicate accidents and disasters.

We also conduct 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.

V



Voice

Koriyama Plant
Takahiro Okoshi
Participant in Koriyama city self-defensive firefighting skills competition

A self-defensive firefighting skills competition is held under the motto to “protect our own workplace by ourselves,” and aims to nurture self-defense brigades who can perform appropriate initial response in the event a disaster occurs at a business facility. About 30 corporate teams based in Koriyama participate in the competition. We just worked really hard to show the results of our regular practice. That is why we were literally speechless with joy when we won the Best Performance Award in both the first year and the second year!

What is important is that each one of us act with the awareness to “put safety first” at all times. If we have the awareness and knowledge, we can look back at our own behavior, and if you have higher awareness, you can call out to the people around you.
 I think this is the ideal form of safety.

Quality Assurance

- ISO 26000: 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.

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 Halal certification

Certain natural food dyes acquired Halal certification from the 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.



▶ 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 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



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



Chemicals and Product Safety, Logistic Safety

- ISO 26000: 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 RC philosophy to ensure environmental conservation, health and safety, 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.

► PRTR (Pollutant Release and Transfer Register)

We have implemented the PRTR since 1997 as part of the Japan Chemical Industry Association's voluntary management initiative for chemical substances.

We are also gathering information on the status of release and transfer of PRTR substances under the PRTR Act enacted in 2001.

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 utilizes such information to manage chemical substances.

■ FY2017 release amounts and transfer amounts of PRTR substances



No. (PRTR Law)	Name of chemical substance	FY2017 results (compiled data): unit in tons					
		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	1.90
53	ethylbenzene	0.30	0.18	0.00	0.00	0.00	5.00
71	ferric chloride	0.00	0.00	0.00	0.00	0.00	0.00
73	1-octanol	0.00	0.00	0.00	0.00	0.00	0.02
80	xylene	0.30	0.18	0.00	0.00	0.00	5.62
87	chromium and chromium(III) compounds	0.00	0.00	0.00	0.00	0.00	0.80
89	chloroaniline	0.00	0.00	0.00	0.00	0.00	0.00
160	3,3'-dichloro-4,4'-diaminodiphenylmethane	0.00	0.00	0.00	0.00	0.00	0.03
181	dichlorobenzene	0.07	0.28	0.00	0.00	0.00	7.70
232	N,N-dimethylformamide	0.00	0.00	0.00	0.00	0.00	13.00
292	tributylamine	0.00	0.00	0.00	0.00	0.00	0.00
296	1,2,4-trimethylbenzene	0.02	0.00	0.00	0.00	0.00	0.03
298	tolylene diisocyanate	0.00	0.00	0.00	0.00	0.00	0.48
300	toluene	4.40	0.00	0.00	0.00	0.00	65.10

No. (PRTR Law)	Name of chemical substance	FY2017 results (compiled data): unit in tons					
		Release amounts			Transfer amounts		
		Air emission	Water bodies	Land	Landfills	Sewage	Waste
302	naphthalene	0.00	0.00	0.00	0.00	0.00	0.00
307	zirconium dichloride oxide	0.00	0.00	0.00	0.00	0.00	0.00
342	pyridine	0.00	0.00	0.00	0.00	0.00	0.00
355	bis(2-ethylhexyl) phthalate	0.00	0.00	0.00	0.00	0.00	0.72
374	hydrogen fluoride and its water-soluble salts	0.00	0.00	0.00	0.00	0.00	0.00
393	betanaphthol	0.00	0.00	0.00	0.00	0.00	0.00
405	boron compounds	0.00	0.00	0.00	0.00	0.00	0.00
407	poly(oxyethylene)alkyl ether(alkyl C=12-15)	0.00	0.00	0.00	0.00	0.00	0.00
411	formaldehyde	0.19	0.00	0.00	0.00	0.00	2.70
415	methacrylic acid	0.00	0.23	0.00	0.00	0.00	2.70
446	4,4'-methylenedianiline	0.00	0.00	0.00	0.00	0.00	5.00
448	methylenebis(4,1-phenylene) diisocyanate	0.00	0.00	0.00	0.00	0.00	0.00
453	molybdenum and its compounds	0.00	0.02	0.00	0.00	0.00	0.00
	Grand total	5.27	0.90	0.00	0.00	0.00	110.80

► 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 as well as 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 promptly, including confirmation of legal compliances with national and foreign laws and regulations, and automatic production of SDS (Safety Data Sheet), product labels, MSDS plus and other safety information in multiple languages.

► Compliance with global laws and regulations

In addition to the conventional regulations such as TSCA (USA) and REACH (Europe), Asian countries including 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 resident 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.

► Risk assessment of chemicals

The Hodogaya Chemical Group has formulated procedures for risk assessment to prevent accidents and disasters, has 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 implements 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.

► 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* 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) meetings and various safety training sessions with subcontracting logistics companies, covering topics on the handling of hazardous substances, chemicals and pharmaceuticals as well as on the distribution of general cargo, low-temperature cargo and all types of products, and conducts safety activities including the sharing of SDS and safety-related information, and carrying of the Yellow Card.

*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.

Voice



Yokohama Plant
Kanae Otsuka

Risk assessment of our workplace

My job is to inspect the quality of dyes, and I think you must have the sensibility to detect danger to achieve day-to-day operation safety. To discover and remove or reduce dangers and hazards in the workplace, we compile all the dangerous and hazardous factors that each one of us identifies in the workplace and take measures for those factors that are highly serious or likely to cause harm.

The large quantity knowledge on the danger and hazards in the workplace that we gain through these initiatives are extremely useful in our day-to-day operational safety practices. I also think that sharing with others the risk-related information that each one of us gathers in view of the safety measures is a highly effective way to nurture multitasking personnel in which one person can handle multiple responsibilities.

Environmental Conservation

- ISO 26000: Environment -

► Basic approach

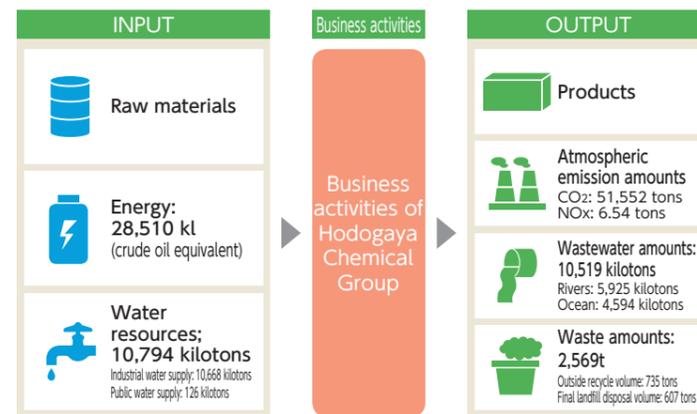
In protecting the environment, we consider it a corporate responsibility to continuously reduce the emission volumes of all chemical substances released into the air, water, and soil, and the volume of waste discharged in the course of business operation. In order to improve the environment, safety, 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.

► 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. As a result, we met this target by achieving a 1.0% annual reduction in FY2017.

► Material flow



► Promotion of industrial waste reduction and effective resource utilization

Through ongoing initiatives, we have been able to achieve significant reduction in the industrial waste volume generated from our business activities. Although we have not seen major improvement in recent years, we always include in the annual RC plan our goal to reduce the volume from the previous fiscal year, and 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.

Voice



Environment Safety & Quality Assurance Department
Satoru Shibata

ISO 14001 internal audit

Some of the things I take note as an ISO internal auditor include whether the documents assessing the environmental impact of our products are properly produced, and whether the concept of product lifecycle from procurement of raw materials and manufacturing to disposal and recycle is integrated in the product development process. Once we actually conduct the audit, we can clearly see that the progress of specific initiatives to resolve issues are properly documented, and training sessions are well planned.

Continuous efforts must be made to protect the environment. I believe that our Company can continue to help protect the environment as a chemicals company through the provision of materials that could limit the product's power consumption or through development of herbicides and pesticides that are friendly to the ecosystem.

► Prevention of atmospheric pollution

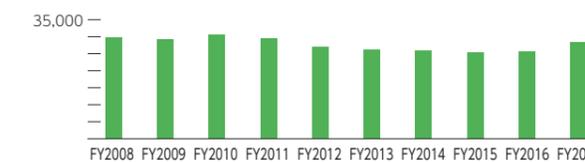
Consumption of energy and emission of carbon dioxide are steadily being reduced by consistent implementation of energy-saving initiatives.

We have completed the switching of raw fuel used in our plants to urban gas in FY2011, through which we achieved significant reduction in SO_x and NO_x emissions.

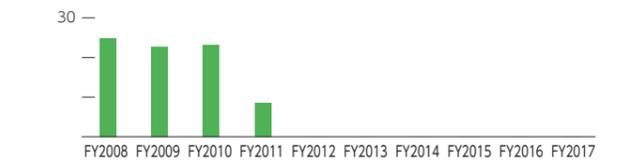
► Prevention of water pollution

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 prevent the pollution of oceans and rivers.

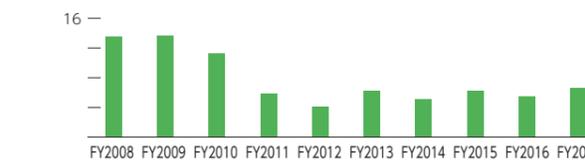
■ Energy usage (Unit: kl)



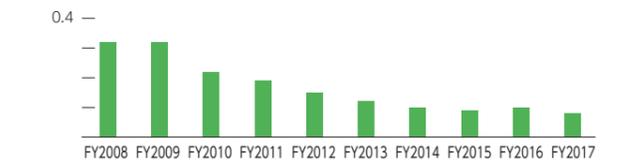
■ SO_x (sulfur oxide) emissions (Unit: ton)



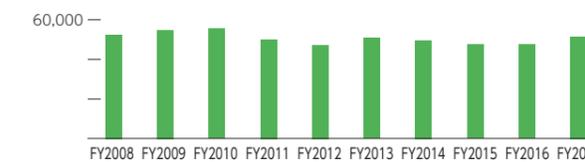
■ Change in NO_x (nitrogen oxide) emissions (Unit: ton)



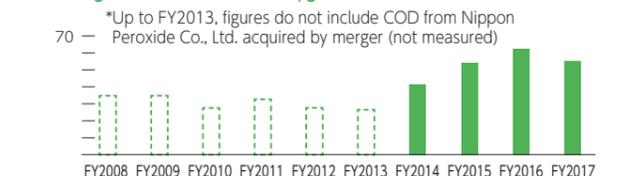
■ Dust emissions (Unit: ton)



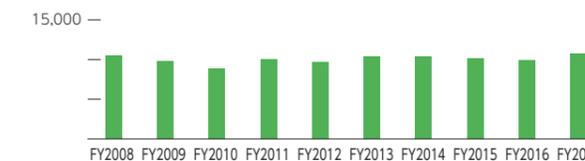
■ CO₂ (carbon dioxide) emissions (Unit: ton)



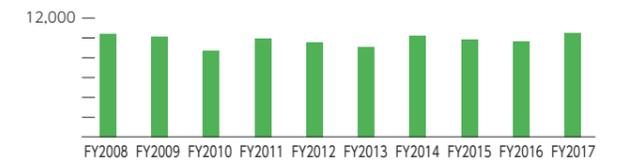
■ Change in COD (chemical oxygen demand) emissions (Unit: ton)



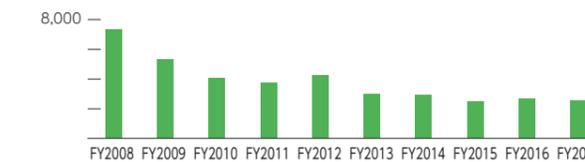
■ Water usage (Unit: kiloton)



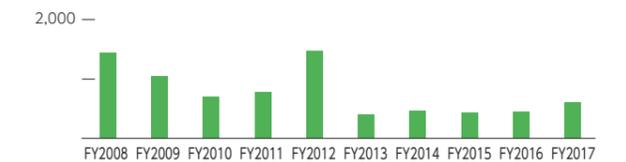
■ Water discharge volume (Unit: kiloton)



■ Industrial waste volumes (Unit: ton)



■ Industrial waste final disposal volume (Unit: ton)





Together with Shareholders & Investors

- ISO 26000: Fair operating practice -

▶ Basic approach

To maintain and deepen the trust held in us by all shareholders and stakeholders 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.

▶ 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.

We have been making our Corporate Governance Report, Annual Securities Report, and various IR materials available on our website, and starting in FY2017 we began posting our Summary of Consolidated Financial Results for Three Months in English as well as the English Notice of the Annual General Meeting of Shareholders held in June 2018. The Group issues Business Reports to shareholders, and holds individual meetings for institutional investors and security analysts on a quarterly basis to disclose information aggressively.



Business Report



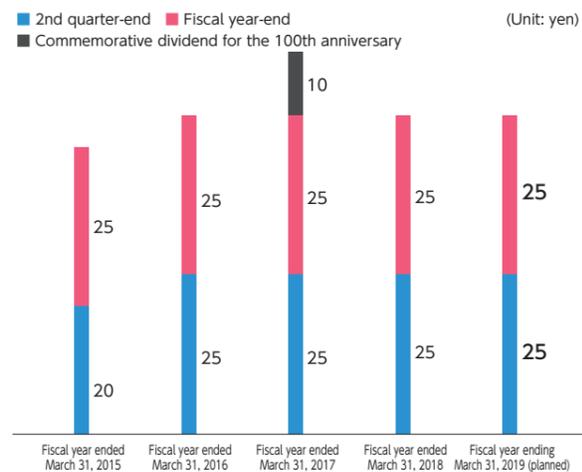
Notice of Annual General Meeting of Shareholders



English Notice of the Annual General Meeting of Shareholders (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.



Together with Customers & Partner Companies

- ISO 26000: 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 raw materials, commercial goods, and OEM products, 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.

▶ 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 numbers, and promote the proper storage, utilization, and management of such information within the scope of use as defined in the Policy and Rules, and conduct education and enlightening 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.

▶ Procurement Policy

The Group sets forth the Procurement Policy and the Procurement Guidelines based on the following basic philosophy to fulfill our ESG (Environmental, Social, and Governance) requirements and promote CSR activities. A detailed content can be found on our company 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

▶ 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 will 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
Yusho Oda

What I aim for in procurement operations

I handle the negotiation of prices and date of delivery of raw materials that are used in the plant, and also manage inventory. As a second year employee, I have much to learn on chemistry and on my job. It's a busy but rewarding job.

There are a few things that I always keep in mind when doing my job: one is to never run out of raw materials to be delivered to the plants; and to be fair and equitable in purchasing products and commercial goods from our partner companies. For on-going purchases, we try to meet face-to-face with partner companies and have in-depth communications on a regular basis, and for new purchases, it is important that we exchange information with various suppliers. Negotiating prices can be tough at times, but I wish to deal with our partner companies in a sincere manner and fulfill my responsibilities for procurement.



Together with Employees/Respect for Human Rights

- ISO 26000: Human rights/Labor practices -

► 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: formulate and promote 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. We also work to create a workplace environment, and maintain and improve various systems with an aim to achieve “further growth of the Hodogaya Chemical Group” and “improvement of job satisfaction of employees” at the same time.

► 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 Compliance Action Policy.

Excerpt from the Compliance Action Policy
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 human rights in the supply chain

Our policy is incorporated in the statement on fair trading in the Compliance Action Policy.

Excerpt from the Compliance Action Policy
We will not engage in any act against the legitimate interest of the Hodogaya Chemical Group, or behave in any way to disgrace or defame the company.

● Development of a guideline and manual against sexual harassments

Sexual harassment is strictly prohibited in the Work Rules, which is more specifically formulated in the form of a manual in the Guideline against Sexual Harassments.

► Initiatives against forced labor and child labor

● Initiatives to eliminate unfair trading and cooperation in Fair Trade activities

Respect for individuality and personality is spelled out in the Corporate Philosophy and Guideline. Prohibition of discrimination is spelled out in the Compliance Action Policy. We do not tolerate forced labor and child labor.

► Initiatives for work-life balance

The Hodogaya Chemical Group implements various programs and policies to enable employees to achieve a highly productive work style and successfully combine work and daily living (work-life balance).

■ Programs for work-life balance

Programs	
Long-term childcare leave	Accumulated annual leave for personal injury
Long-term nursing care leave	Half-day leave
Childbirth leave	Refreshment leave
Short working hours	Flextime working system
Nursing leave	“Come-back” entry
Short-term nursing care leave	Commute options to use the shinkansen and express trains

The contents can be found on our website.

■ Initiatives to reduce overtime labor

- Setting of no overtime day: Wednesdays and Fridays every week
- Promotion to leave the office by 9 p.m.
- Management of overtime labor by department using the attendance management system

► 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.

● 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. As of March 31, 2018, there are 31 senior employees who utilize their experience and knowledge to continue their career in various fields up until the age of 65.

● Active participation of female employees

As of March 31, 2018, there are 126 female employees, 16 of which are pursuing their career as managers. Starting April 1, the number of female managers increased to 22, accounting for 10.1% of the total management personnel.

● Active participation of foreign employees

As of March 31, 2018, there are 125 foreign employees who are pursuing their career inside and outside Japan.

● Initiatives to improve the employment rate of workers with disabilities

We take the following approaches to employ workers with disabilities.

- (1) Visit schools in the vicinity of the offices and conduct recruitment activities
- (2) Exchange information with the job placement office and private support institutions in the vicinity of the office to select candidates. Establish probational periods and conduct internship programs at the offices
- (3) Receive referrals from staffing firms, establish probational periods, and conduct internship programs at the offices

► Enhanced education programs

We educate and nurture potential personnel with an aim to achieve our management philosophy.

- (1) Nurture personnel who can look across from a high perspective and respond flexibly to the changes in situation
- (2) Create groups with deep and broad qualities containing diverse talents and personalities
- (3) Allocate personnel with required capabilities and qualifications appropriately

■ Training programs

- Training by job capacity
- Training by job capabilities
- Hodogaya Person - general training
- Training by job description
- Training on internationalization
- Support for self enlightenment

The contents can be found on our website.

► Enhanced health maintenance and care systems

The Hodogaya Chemical Group actively supports 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 encourage all employees to undergo health checkups with a goal of a 100% consultation rate, and in FY2017, 100% of our employees took the first checkup, and everyone needing second screening received further consultation. Our industrial doctors 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 FY2017 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 perspectives of yourself and of others, employees gain better understanding on how to manage stress properly.

Voice



Head of Administration
Department, Nanyo Plant
Noriko Miura

As a working female

At the plant I work, the majority of employees are male. In such an environment, I sometimes feel the pressure of being a female manager, but in carrying out my job, I always try to think what I need to do and what I am expected to do while using my sensibilities as a woman. My husband and I are a working couple, so it was difficult to balance my career and housework when the children were young. I couldn't have continued working without the support of my family.

The Company has many programs for female employees to actively participate, and I think they could be improved with ideas from a female perspective, which should lead to improving the quality of our business. Looking forward, I hope that there will be more opportunities for female employees to participate actively, with the recognition that male and female are working partners.

Together with Community & Society

- ISO 26000: 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.



Nanyo Plant
Akira Uchiyama

Visiting classes at an elementary school

We held visiting science classes for 4th graders at Fukugawa Elementary School in the vicinity of our Nanyo Plant. For this second session, we decided that the theme should be relevant to the technologies and products of the Hodogaya Chemical Group, and the mechanism of laundry detergents was selected as the theme for FY2017.

As an experiment, we washed cloths stained by food with the detergents and observed how detergents help mix water and oil better. Many children expressed their opinion when the experiment results were presented.

We think the children realized that there are many opportunities around us to study science, and that experiments can enhance our learning. We also spent some time introducing our company, and explained the location of Nanyo Plant and the products we manufacture, which was a good opportunity to provide a sense of familiarity and to establish amicable relationships with the local residents.

We will continue with our activities in order to prosper together with the local community and society.



Yokohama Plant
Masanori Kanda

Participated in Dream Chemistry 21

We have been participating in the Summer Holiday Children's Experiment Show sponsored by "Dream Chemistry 21" Organizing Committee since 2015. With the cooperation of the Head Office and Tsukuba Research Laboratory, the Yokohama Plant, which manufactures dyes, mainly takes initiative to provide children who take on the future with the opportunity

to have hands-on experience with the excitement of chemistry and develop interest in it.

Each time, we have such themes as bookmark making or card case making using alumite dye technology with aluminum coloring dyes.

The experiments are conducted safely of course, but we are really pleased to see children selecting the dye color type of their choice from among various colors and smiling when they see the dyed product, and to find out that they enjoyed the experiments. It would be a pleasure for us if the children start to like chemistry through this experience.



Koriyama Plant
Kenta Tsuchie

Supporting the 69th National Tree Planting Festival

The National Tree Planting Festival is a national land afforestation campaign held every year between April and June hosted by the National Land Afforestation Promotion Organization and the prefectural government of the venue. The 69th Festival was held in Fukushima Prefecture in 2018 for the second time since 1970. On June 10, the first day of the Festival, five venues were set up including the site in Shidoke district of Haramachi in Minami-soma City where the ceremony was held with the attendance of the Emperor and Empress, and other satellite sites and PR sites. The ceremony was broadcast live and the entire prefecture got into the spirit.

Having had its primary plant in Koriyama City, Fukushima Prefecture for over 100 years since 1916, the Hodogaya Chemical Group also actively sponsored and supported this year's Tree Planting Festival. On March 11, 2018, seven years after the disaster of the Great East Japan Earthquake, 11 young employees from the Koriyama Plant planted 250 saplings of Japanese black pine at the coastal disaster prevention forest in Shidoke district.

We hope that these trees will grow in the next 10, 20, and 50 years to form a grand disaster prevention forest as Fukushima continues its tireless recovery efforts.

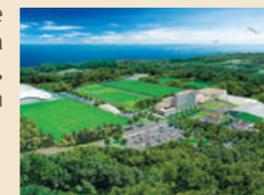


J-Village

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

Since J-Village opened in the towns of Naraha and Hirono of Futaba County in Fukushima Prefecture as Japan's first national training center for soccer in 1997, the facilities were used by many people as a base to promote sport and energize the local region. However due to the Great East Japan Earthquake on March 11, 2011 and the subsequent nuclear power station accident, the entire village halted operation and has been used as an operational base for dealing with the nuclear power station accident.

Fukushima Prefecture, home to our Koriyama Plant, launched the J-Village Restoration Support Project under the motto of "connect the power of sports to restoration," restored the green fields, and reconstructed the facilities for people to gather and share the joy of sports. As a result of the Project, J-Village restarted on July 28, 2018.



Green Festa

In April 2018, Nanyo Plant and its affiliate K.K. Jasper ("JSP") hosted a thanksgiving festival named Green Festa with the aim of showing their gratitude to the local people where their plants are located.

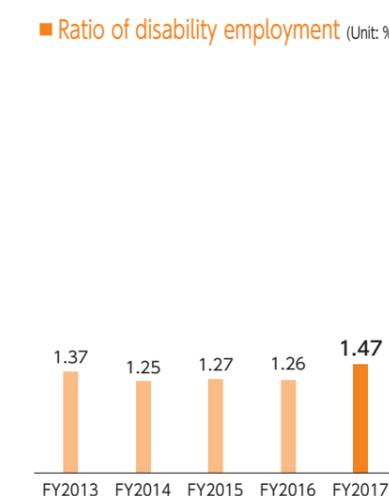
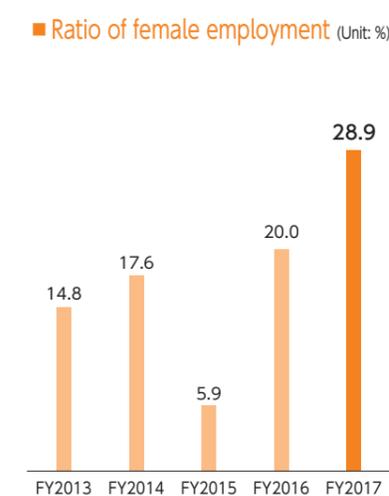
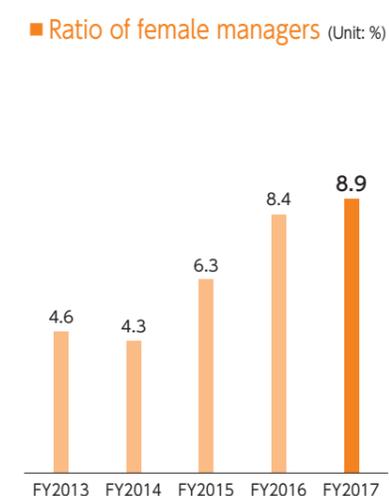
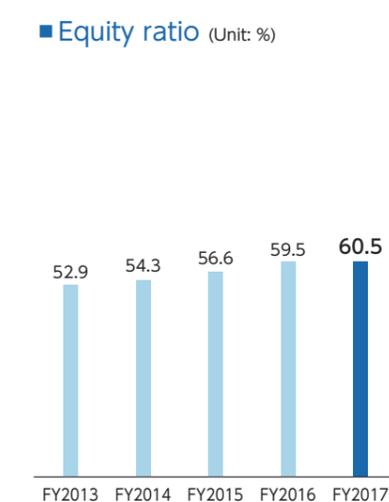
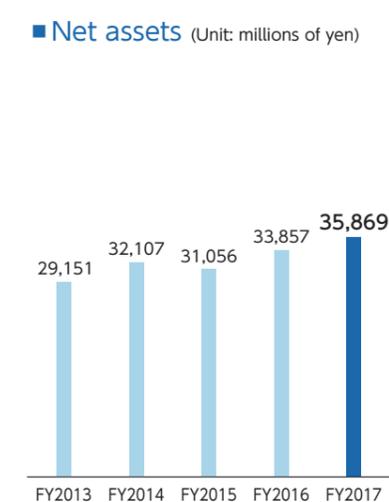
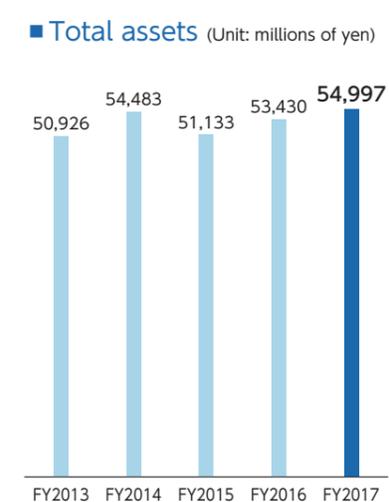
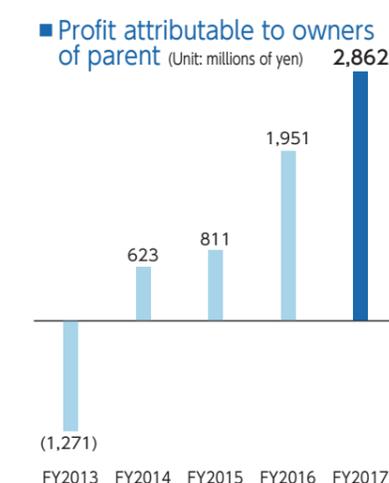
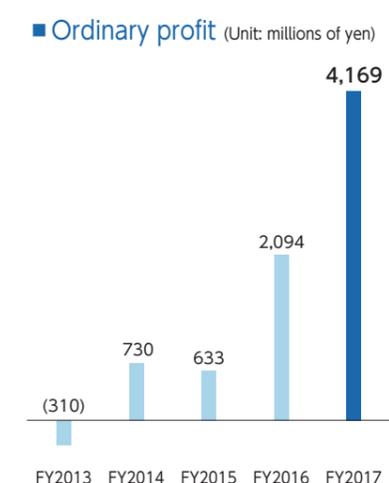
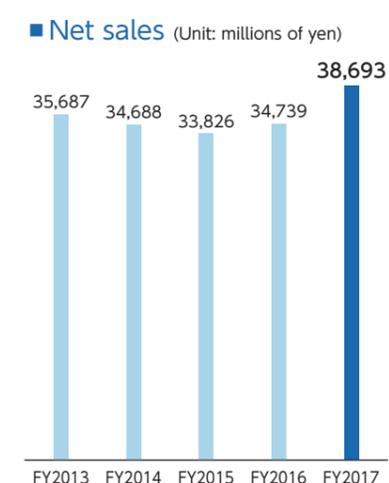
Using the Shinnanyo Golf Driving operated by JSP, they offered various events for children and adults such as the free use of the driving range and tossing rice cakes, providing an opportunity for children and parents to enjoy closeness. With the support of restaurants around the Plant, there were also food booths aiming to further vitalize the local community. To gain a sense of closeness, Hodogaya Chemical set up an exhibit booth to showcase our products, which were offered as prizes for the lottery. Although this was our first effort, we were happy to hear visitors' comment that they wish to come again.



Financial & Non-financial Highlights

	FY2013	FY2014	FY2015	FY2016	FY2017
Net sales (millions of yen)	35,687	34,688	33,826	34,739	38,693
■ Specialty Polymers (millions of yen)	12,661	12,804	12,594	12,159	12,046
■ Functional Colorants (millions of yen)	8,993	8,296	7,624	8,231	10,997
■ Basic Chemicals (millions of yen)	6,780	6,671	6,719	6,768	7,024
■ Agro-Science (millions of yen)	5,407	4,793	4,700	4,831	5,580
■ Logistics (millions of yen)	-	1,765	1,948	2,511	2,820
Operating profit (millions of yen)	34	796	828	2,129	3,903
■ Specialty Polymers (millions of yen)	356	666	959	670	653
■ Functional Colorants (millions of yen)	(1,204)	(991)	(1,596)	(423)	1,413
■ Basic Chemicals (millions of yen)	86	153	672	919	805
■ Agro-Science (millions of yen)	356	486	323	249	350
■ Logistics (millions of yen)	-	447	453	708	631
Ordinary profit (millions of yen)	(310)	730	633	2,094	4,169
Profit attributable to owners of parent (millions of yen)	(1,271)	623	811	1,951	2,862
Net assets (millions of yen)	29,151	32,107	31,056	33,857	35,869
Total assets (millions of yen)	50,926	54,483	51,133	53,430	54,997
Net assets per share (yen)	3,408.49	3,739.98	3,658.17	4,023.85	4,210.82
Earnings per share (yen)	(160.80)	78.90	102.59	246.86	362.29
Equity ratio (%)	52.9	54.3	56.6	59.5	60.5
Cash flows from operating activities (millions of yen)	2,861	2,753	2,322	3,100	4,215
Cash flows from investing activities (millions of yen)	(3,800)	(489)	(780)	(507)	(960)
Cash flows from financing activities (millions of yen)	(423)	(35)	(1,880)	(2,241)	(3,210)
Dividends per share (yen)	40.0	45.0	50.0	60.0	50.0
Dividend payout ratio (%)	-	57.0	48.7	24.3	13.8

	FY2013	FY2014	FY2015	FY2016	FY2017
Number of employees (persons)	758	713	686	691	719
Ratio of female managers (%)	4.6	4.3	6.3	8.4	8.9
Ratio of female employment (%)	14.8	17.6	5.9	20.0	28.9
Ratio of disability employment (%)	1.37	1.25	1.27	1.26	1.47
Number of re-employment (persons)	63	63	65	64	61
Childcare leave	Male (persons)	0	0	0	0
	Female (persons)	0	2	3	3
Nursing care leave	Male (persons)	0	0	0	1
	Female (persons)	0	0	0	0
Rate of usage of paid holidays (%)	59	70	68	66	66
Average monthly overtime hours (hours)	8.1	8.9	9.8	9.8	10.25



Corporate Overview

Company Name Hodogaya Chemical Co., Ltd.

Head Office UNIZO Yaesu Building, 2-4-1 Yaesu, Chuo-ku, Tokyo, 104-0028 Japan
TEL +81-3-5299-8000
(Main switchboard)

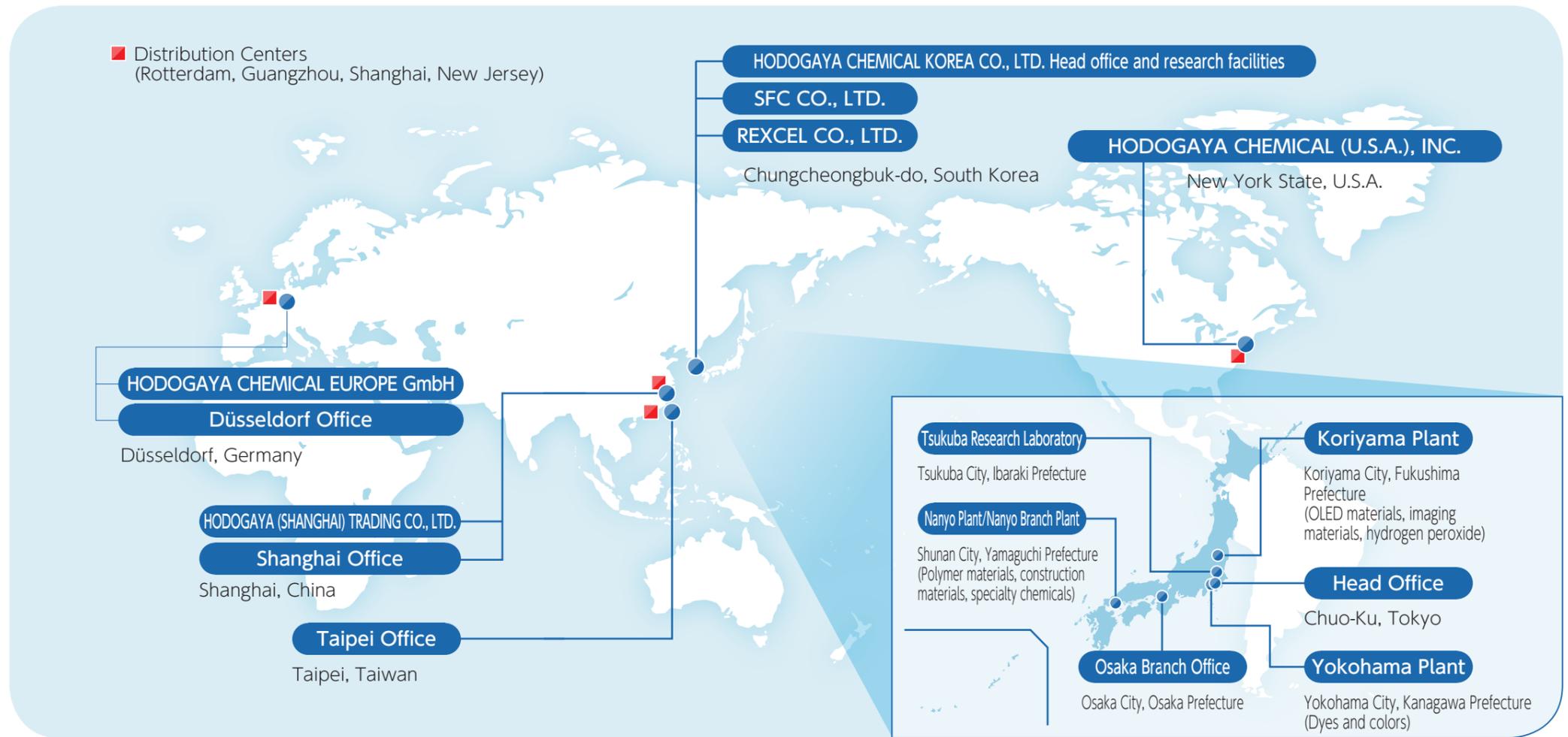
Foundation December 11, 1916

Paid-in Capital 11,196 million yen

Employees 719 (Consolidated), 442 (Hodogaya only)
(As of March 31, 2018)

Main Business

- Specialty Polymers Segment
Polymer materials/construction materials/specialty chemicals
- Functional Colorants Segment
OLED materials/dyes and colors/imaging materials/food additives
- Basic Chemicals Segment
Hydrogen peroxide/oxygen-type bleaching agents/other industrial chemicals
- Agro-Science
Agricultural chemicals-related products
- Logistics
Hazardous materials warehousing and logistics, etc.



Offices

Head office entrance



- Head Office (Chuo-ku, Tokyo)
- Osaka Branch Office (Osaka City, Osaka Prefecture)
- Koriyama Plant (Koriyama City, Fukushima Prefecture)
- Yokohama Plant (Yokohama City, Kanagawa Prefecture)
- Nanyo Plant (Shunan City, Yamaguchi Prefecture)
- Nanyo Branch Plant (Shunan City, Yamaguchi Prefecture)
- Tsukuba Research Laboratory (Tsukuba City, Ibaraki Prefecture)
- Düsseldorf Office (Düsseldorf, Germany)
- Shanghai Office (Shanghai, China)
- Taipei Office (Taipei, Taiwan)

Koriyama Plant



Yokohama Plant



Nanyo Plant



Tsukuba Research Laboratory



Major Group Companies

- KATSURA SANGYO CO., LTD.** (100.0%)
Sales and marketing of chemical products
- Hodogaya Construction Products Co., Ltd.** (100.0%)
Manufacturing and sales of construction products
- Hodogaya JRF Contract Laboratory Co., Ltd.** (87.6%)
Contract-based custom synthesis, analysis and development of chemical products
- Hodogaya Logistics Co., Ltd.** (Equity ownership 100%)
Warehousing and logistics
- Hodogaya UPL Co., Ltd.** (60.0%)
Manufacturing and sales of agricultural chemicals
- HODOGAYA AGROTECH Co., Ltd.** (80.0%)
Manufacturing and sales of agricultural chemicals
- HODOGAYA CHEMICAL (U.S.A.), INC.** (100.0%)
Sales and marketing of chemical products
- SFC CO., LTD. (South Korea)** (54.8%)
Manufacturing and sales of OLED materials and fine chemicals
- HODOGAYA CHEMICAL KOREA CO., LTD.** (86.7%)
Sales, marketing and R&D of chemical products
- HODOGAYA (SHANGHAI) TRADING CO., LTD.** (100.0%)
Sales and marketing of chemical products and their raw materials
- HODOGAYA CHEMICAL EUROPE GmbH** (100.0%)
Sales and marketing of chemical products and their raw materials

SFC



<http://www.hodogaya.co.jp/english/>

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HODOGAYA

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