

[Translation: Please note that this is an English translation of the Japanese Notice of the 8th Ordinary General Meeting of Shareholders of KH Neochem Co., Ltd. prepared for your reference and convenience only and without any warranty as to its accuracy or otherwise.]

Securities code: 4189

March 8, 2018

To our shareholders,

Keiichi Asai
President & Chief Executive Officer

KH Neochem Co., Ltd.

1-6-5, Nihonbashi-Honcho, Chuo-ku, Tokyo

Notice of the 8th Ordinary General Meeting of Shareholders

You are cordially invited to attend the 8th Ordinary General Meeting of Shareholders of KH Neochem Co., Ltd. (the “Company”), which will be held as described below.

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

1. **Date and Time:** Tuesday, March 27, 2018, at 10:00 a.m. (JST) (Reception will open at 9 a.m.)
2. **Venue:** 5F Conference Center, Bellesalle Tokyo Nihonbashi,
Tokyo Nihonbashi Tower, 2-7-1, Nihonbashi, Chuo-ku, Tokyo
3. **Proposes:**

Items to be reported:

1. Business Report and Consolidated Financial Statements for the 8th term (from January 1, 2017 to December 31, 2017), as well as the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board
2. Financial Statements for the 8th term (from January 1, 2017 to December 31, 2017)

Items to be resolved:

- Proposal No. 1:** Appropriation of Surplus
- Proposal No. 2:** Election of Eight Directors
- Proposal No. 3:** Payment of Retirement Benefits to a Retiring Director and Final Payment of Retirement Benefits in Conjunction with Abolition of Retirement Benefit Plan for Officers
- Proposal No. 4:** Introduction of Performance-linked Share-based Remuneration Plan for Directors

Instructions for Exercising Voting Rights

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

[Attending the Meeting]

Submit the Voting Card at the venue's reception.

Date/Time: Tuesday, March 27, 2018, at 10:00 a.m. (JST) (Reception will open at 9 a.m.)

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

<Exercising Voting Rights by Proxy>

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

[Mailing the Voting Card]

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

Votes to be received by: 5:40 p.m. on Monday, March 26, 2018 (JST)

[Exercising Voting Rights via the Internet]

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

Votes to be given by: 5:40 p.m. on Monday, March 26, 2018 (JST)

Cautions regarding exercising voting rights via the Internet

- (1) Please be aware that, in order to prevent illegal online access by third parties who are non-shareholders (spoofing) and vote tampering, you will be asked to change your password when you log in to the voting website for the first time.
- (2) If you enter your password incorrectly for a certain number of times, the password will be locked and you will no longer be able to use it. If this occurs, please complete the procedures indicated in the guidance on the screen.
- (3) If you exercise your voting rights in duplicate both in writing and via the Internet, your voting via the Internet shall prevail.
- (4) If you exercise your voting rights multiple times via the Internet, only your last voting instructions will be counted as valid.
- (5) Your password (including the password after you have changed it) shall be effective only for this Meeting.
- (6) Voting rights exercised via the Internet are accepted until 5:40 p.m. on Monday, March 26, 2018; however, we request that you vote as early as possible.
- (7) Although operational checks have been carried out for the voting website for common Internet connection equipment, there is a possibility that you may be unable to use the website due to the equipment you are using.
- (8) You shall be responsible for any fees incurred when accessing the voting website.

Electronic Voting Platform

Trust banks and other nominee shareholders (including standing proxies) who have applied in advance to use the electronic voting platform operated by ICJ, Inc. may use this platform.

Please contact the following if you have questions about the operation of exercise of voting rights via the Internet.

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

Reference Documents for the General Meeting of Shareholders

Proposal No. 1: Appropriation of Surplus

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

Based on the above policy, the Company proposes to pay ¥29.00 per share as the year-end dividend for the 8th term (fiscal year under review), in comprehensive consideration of factors such as the consolidated financial results and financial condition for the fiscal year under review. As a result, the annual dividend adding the interim dividend (¥25.00 per share) will be ¥54.00 per share, an increase of ¥4.00 compared with the annual dividend of ¥50.00 per share in the previous fiscal year (total amount of an ordinary dividend (¥46.50) and a dividend to commemorate the Company's listing (¥3.50)).

Year-end dividends

1	Type of dividend property	Cash
2	Allotment of dividend property and their aggregate amount	Dividends per common share of the Company: ¥29 Total dividends: ¥1,068,630,570
3	Effective date of dividends of surplus	March 28, 2018

Proposal No. 2: Election of Eight Directors

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

The candidates for Director are as follows:

No.	Name		Position and responsibility in the Company (Significant concurrent positions outside the Company)
1	Keiichi Asai*	Reelection	President
2	Michio Takahashi*	Reelection	Executive Vice President General Manager of Administrative Office In charge of Corporate Planning Office
3	Toshihiro Matsuoka*	Reelection	Director General Manager of Production & Technology Office
4	Kenichi Hirai*	Reelection	Director General Manager of Finance Office and General Manager of Finance Division
5	Tatsuro Niiya*	Reelection	Director General Manager of Business Headquarters Office
6	Katsu Harashima	Reelection Outside Director	Outside Director Managing Director of Japan Industrial Partners, Inc.
7	Manabu Fujise	Reelection Independent Outside Director	Outside Director (Independent Officer) Auditor of Kunitachi College of Music Outside Director of MORIROKU HOLDINGS COMPANY, LTD.
8	Mitsuhiro Nagata	Reelection Independent Outside Director	Outside Director (Independent Officer) Representative attorney at law of Yoyogi Uehara Law Office Outside Director of JIP CAPITAL INC. Outside Auditor of EduLab, Inc. Outside Corporate Auditor of SKYLARK CO., LTD

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

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
1	<Reelection> Keiichi Asai (September 29, 1954)	<p>Apr. 1978 Joined Mitsubishi Corporation</p> <p>Apr. 2009 Executive Officer of Mitsubishi Corporation</p> <p>Apr. 2013 Executive Officer of Mitsubishi Corporation Executive Vice President of Lithium Energy Japan</p> <p>Jul. 2014 Director and Executive Officer of the Company</p> <p>Sep. 2014 President & Chief Executive Officer of the Company (to present)</p> <p>[Reason for nomination as candidate for Director] The Company deems that Mr. Keiichi Asai is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he aims to improve corporate value as a President, and has a track record of leading the entire group with his strong leadership as well as extensive insight and work experience as a manager. Accordingly, the Company proposes the election of Mr. Keiichi Asai as a Director.</p>	<p>135,000 shares</p> <p>Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)</p>
2	<Reelection> Michio Takahashi (February 15, 1965)	<p>Apr. 1987 Joined Kyowa Hakko Kogyo Co., Ltd.</p> <p>Jul. 2011 President of Basic Chemicals Division of Kyowa Hakko Chemical Co., Ltd. (now the Company)</p> <p>Mar. 2013 Director and Executive Officer of the Company</p> <p>Mar. 2016 Managing Director and Executive Officer of the Company</p> <p>Mar. 2017 Executive Vice President & Executive Officer of the Company (to present)</p> <p>[Current responsibility] General Manager of Administrative Office In charge of Corporate Planning Office</p> <p>[Reason for nomination as candidate for Director] The Company deems that Mr. Michio Takahashi is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight related to management mainly from holding important positions in the business headquarters office, corporate planning office, and administrative office. Accordingly, the Company proposes the election of Mr. Michio Takahashi as a Director.</p>	<p>1,400 shares</p> <p>Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)</p>

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
3	<Reelection> Toshihiro Matsuoka (May 9, 1962)	<p>Apr. 1987 Joined Kyowa Hakko Kogyo Co., Ltd.</p> <p>Apr. 2008 General Manager of Production Administration Division of Kyowa Hakko Chemical Co., Ltd. (now the Company)</p> <p>Jun. 2011 General Manager of Yokkaichi Plant of the Company</p> <p>Apr. 2013 Executive Officer of the Company</p> <p>Mar. 2014 Director and Executive Officer of the Company (to present)</p> <p>[Current responsibility] General Manager of Production & Technology Office</p>	900 shares
		<p>[Reason for nomination as candidate for Director] The Company deems that Mr. Toshihiro Matsuoka is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight related to technology, production, quality control and products mainly from holding important positions in the manufacturing office and R&D office. Accordingly, the Company proposes the election of Mr. Toshihiro Matsuoka as a Director.</p>	<p>Attendance at Board of Directors meeting during the fiscal year</p> <p>100% (16 of 16 meetings)</p>
4	<Reelection> Kenichi Hirai (September 3, 1954)	<p>Apr. 1978 Joined Nissan Diesel Motor Co., Ltd. (now UD Trucks Corporation)</p> <p>Jan. 2008 Vice President of Nissan Diesel Motor Co., Ltd. CFO of Volvo Powertrain Japan</p> <p>Apr. 2012 Vice President of UD Trucks Corporation Volvo Group Trucks Operations Japan Controlling Coordination</p> <p>Jan. 2016 Director & Chief Financial Officer of the Company (to present)</p> <p>[Current responsibility] General Manager of Finance Office and General Manager of Finance Division</p>	1,400 shares
		<p>[Reason for nomination as candidate for Director] The Company deems that Mr. Kenichi Hirai is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight in the accounting and finance field. Accordingly, the Company proposes the election of Mr. Kenichi Hirai as a Director.</p>	<p>Attendance at Board of Directors meeting during the fiscal year</p> <p>100% (16 of 16 meetings)</p>

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
5	<Reelection> Tatsuro Niiya (June 1, 1964)	Apr. 1988 Joined Kyowa Hakko Kogyo Co., Ltd. Jul. 2013 General Manager of Chemical Sales & Marketing Division, Business Headquarters Office of the Company Jan. 2016 Executive Officer of the Company Mar. 2017 Director & Executive Officer of the Company (to present) [Current responsibility] General Manager of Business Headquarters Office	800 shares
		[Reason for nomination as candidate for Director] The Company deems that Mr. Tatsuro Niiya is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight mainly from holding important positions in the business headquarters office. Accordingly, the Company proposes the election of Mr. Tatsuro Niiya as a Director.	Attendance at Board of Directors meeting during the fiscal year 100% (13 of 13 meetings)
6	<Reelection> Outside Director Katsu Harashima (September 20, 1966)	Apr. 1989 Joined The Industrial Bank of Japan, Limited. (now Mizuho Bank, Ltd.) Jun. 1996 Joined IBJ Securities Co., Ltd. (now Mizuho Securities Co., Ltd.) Aug. 2003 Joined Japan Industrial Partners, Inc. Apr. 2009 Managing Director of Japan Industrial Partners, Inc. (to present) Mar. 2011 Outside Director of Kyowa Hakko Chemical Co., Ltd. (now the Company) (to present) [Significant concurrent positions outside the Company] Managing Director of Japan Industrial Partners, Inc.	0 shares
		[Reason for nomination as candidate for Outside Director] Mr. Katsu Harashima has provided proactive opinions and recommendations related to overall management from an objective viewpoint and appropriately fulfilled the role of supervising management, while making the most of his many years of experience and broad insight gained while working at financial institutions. Accordingly, the Company proposes the reelection of Mr. Katsu Harashima as an Outside Director.	Attendance at Board of Directors meeting during the fiscal year 100% (16 of 16 meetings)

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
7	<p data-bbox="284 611 411 633"><Reelection></p> <p data-bbox="245 667 450 719">Independent Outside Director</p> <p data-bbox="252 748 443 799">Manabu Fujise (February 19, 1946)</p>	<p data-bbox="483 331 1203 387">Apr. 1968 Joined Mitsui Petrochemical Industries, Ltd. (now Mitsui Chemicals, Inc.)</p> <p data-bbox="483 398 979 421">Jul. 2001 Director of Mitsui Chemicals, Inc.</p> <p data-bbox="483 432 1150 488">Jul. 2005 President of Mitsui Chemicals Singapore, Ltd. (now Mitsui Chemicals Asia Pacific, Ltd.)</p> <p data-bbox="483 499 1114 555">Apr. 2008 President of Mitsui Chemicals Asia Pacific, Ltd. President of Mitsui Chemicals India, Pvt. Ltd.</p> <p data-bbox="483 566 1139 589">Apr. 2011 Auditor of Kunitachi College of Music (to present)</p> <p data-bbox="483 600 1145 622">Jul. 2012 Outside Director of Torishima Pump Mfg. Co., Ltd.</p> <p data-bbox="483 633 1086 656">Jan. 2016 Outside Director of the Company (to present)</p> <p data-bbox="483 667 1102 689">Jun. 2017 Outside Director of MORIROKU HOLDINGS COMPANY, LTD. (to present)</p> <p data-bbox="483 768 1018 790">[Significant concurrent positions outside the Company]</p> <p data-bbox="483 801 858 824">Auditor of Kunitachi College of Music</p> <p data-bbox="483 835 1118 857">Outside Director of MORIROKU HOLDINGS COMPANY, LTD.</p> <p data-bbox="483 880 1043 902">[Reason for nomination as candidate for Outside Director]</p> <p data-bbox="483 913 1203 1081">Mr. Manabu Fujise has provided proactive opinions and recommendations related to overall management from an objective viewpoint and appropriately fulfilled the role of supervising management, while making the most of his many years of experience and broad insight gained while working at a major chemical company. Accordingly, the Company proposes the reelection of Mr. Manabu Fujise as an Outside Director.</p>	<p data-bbox="1369 577 1477 600">200 shares</p> <p data-bbox="1230 880 1477 969">Attendance at Board of Directors meeting during the fiscal year</p> <p data-bbox="1281 1003 1477 1059">100% (16 of 16 meetings)</p>

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
8	<p><Reelection></p> <p>Independent Outside Director</p> <p>Mitsuhiro Nagata (July 9, 1956)</p>	<p>Apr. 1981 Joined Saitama Bank, Ltd. (now Resona Bank, Limited)</p> <p>Jun. 1987 Joined Goldman Sachs Japan Co., Ltd.</p> <p>Aug. 1996 Managing Director and General Manager of Financial Institution Department, Investment Banking Division of UBS Securities Japan Co., Ltd.</p> <p>May 1998 Managing Director and General Manager of Financial Institution Department, Investment Banking Division of Merrill Lynch Securities Co., Ltd. (now Merrill Lynch Japan Securities Co., Ltd.)</p> <p>Oct. 2006 Representative attorney at law of Yoyogi Uehara Law Office (to present)</p> <p>Jun. 2015 Outside Director of JIP CAPITAL INC. (to present)</p> <p>Dec. 2015 Outside Auditor of EduLab, Inc. (to present)</p> <p>Mar. 2016 Outside Corporate Auditor of SKYLARK CO., LTD (to present)</p> <p>Mar. 2017 Outside Director of the Company (to present)</p> <p>[Significant concurrent positions outside the Company]</p> <p>Representative attorney at law of Yoyogi Uehara Law Office Outside Director of JIP CAPITAL INC. Outside Auditor of EduLab, Inc. Outside Corporate Auditor of SKYLARK CO., LTD</p> <hr/> <p>[Reason for nomination as candidate for Outside Director]</p> <p>Mr. Mitsuhiro Nagata has provided proactive opinions and recommendations related to overall management from an objective viewpoint and appropriately fulfilled the role of supervising management, while making the most of his many years of experience gained while working at financial institutions and his experience and broad insight as an attorney at law. Accordingly, the Company proposes the reelection of Mr. Mitsuhiro Nagata as an Outside Director.</p>	<p>500 shares</p> <hr/> <p>Attendance at Board of Directors meeting during the fiscal year</p> <p>100% (13 of 13 meetings)</p>

Notes:

1. There is no special interest between any of the candidates for Director and the Company.
2. Messrs. Katsu Harashima, Manabu Fujise, and Mitsuhiro Nagata are candidates for Outside Director.
3. Messrs. Katsu Harashima, Manabu Fujise, and Mitsuhiro Nagata are currently Outside Directors of the Company. At the conclusion of this Ordinary General Meeting of Shareholders, their term of office as Outside Directors will have been seven years, two years and three months, and one year, respectively.
4. The Company has entered into the liability limitation contract with Messrs. Katsu Harashima, Manabu Fujise, and Mitsuhiro Nagata in accordance with Article 427, paragraph 1 of the Companies Act and the provisions of the Company's Articles of Incorporation to limit the liability for damages as provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of liability for damages under these contracts shall be the higher of ¥1 million or the amount stipulated by laws and regulations in the case of Messrs. Katsu Harashima and Manabu Fujise, while for Mr. Mitsuhiro Nagata the amount shall be the amount stipulated by laws and regulations. If Messrs. Katsu Harashima, Manabu Fujise, and Mitsuhiro Nagata are elected as originally proposed, the Company plans to renew the aforementioned contracts with them.

5. The Company has submitted notification to Tokyo Stock Exchange, Inc. that Messrs. Manabu Fujise and Mitsuhiro Nagata have been designated as independent officer as provided for by the aforementioned exchange. If this proposal is approved and adopted and Messrs. Manabu Fujise and Mitsuhiro Nagata are reelected as Outside Directors, the Company will notify Tokyo Stock Exchange of their designation as independent officers again.
6. The records of attendance of Messrs. Tatsuro Niiya and Mitsuhiro Nagata are based on only the Board of Directors meetings held after they assumed their office of Director on March 24, 2017.

Proposal No. 3: Payment of Retirement Benefits to Retiring Director and Final Payment of Retirement Benefits in Conjunction with Abolition of Retirement Benefit Plan for Officers

Mr. Kazuya Sato resigned from Director on November 30, 2017. The Company proposes to award him within ¥18,640 thousand of retirement benefits in recognition of his services, in accordance with the Company's internal rules.

It is the Company's intent to entrust the decisions regarding the specific amount, time of payment, method, etc., for said retirement benefits to the deliberation of the Board of Directors.

The career summary of the retired Director is as follows:

Name	Career summary	
Kazuya Sato	Jun. 2009	Director of the Company
	Jun. 2011	Managing Director of the Company
	Nov. 2017	Retirement

In addition, as part of a review of the remuneration system for Officers, it was resolved at a meeting of the Board of Directors held on January 26, 2018 to abolish the retirement benefit plan for Officers upon the conclusion of this Ordinary General Meeting of Shareholders. Following on from this, in the event that Proposal No. 2 is approved, it is proposed that for Directors scheduled to be reappointed, Michio Takahashi, Toshihiro Matsuoka, Kenichi Hirai, Tatsuro Niiya, Manabu Fujise and Mitsuhiro Nagata (of which, two are Outside Directors), and for Audit & Supervisory Board Members Tokuo Oodo, Atsuo Inagaki and Kenji Ito, final payments of the retirement benefits corresponding to their terms of office until the conclusion of this Meeting, in accordance with the Company's internal rules, should be paid within the total amount of ¥32,740 thousand in the case of Directors (within the total amount of ¥1,130 thousand in the case of Outside Directors) and within the total amount of ¥3,030 thousand in the case of Audit & Supervisory Board Members, with the award being made at the time of their respective resignations from office. In addition, it is the Company's intent to entrust the decisions regarding the specific amount, method, etc., for said retirement benefits to the deliberation of the Board of Directors in the case of Directors, and to the deliberation of the Audit & Supervisory Board Members in the case of Audit & Supervisory Board Members.

The career summaries of the Directors and Audit & Supervisory Board Members to whom these final payments are to be made are as follows.

Name	Career summary	
Michio Takahashi	Mar. 2013	Director of the Company
	Mar. 2016	Managing Director of the Company
	Mar. 2017	Executive Vice President of the Company (to present)
Toshihiro Matsuoka	Mar. 2014	Director of the Company (to present)
Kenichi Hirai	Jan. 2016	Director of the Company (to present)
Tatsuro Niiya	Mar. 2017	Director of the Company (to present)
Manabu Fujise	Jan. 2016	Outside Director of the Company (to present)
Mitsuhiro Nagata	Mar. 2017	Outside Director of the Company (to present)
Tokuo Oodo	Mar. 2017	Audit & Supervisory Board Member of the Company (to present)
Atsuo Inagaki	Jan. 2016	Outside Audit & Supervisory Board Member of the Company (to present)
Kenji Ito	Mar. 2016	Outside Audit & Supervisory Board Member of the Company (to present)

Proposal No. 4: Introduction of Performance-linked Share-based Remuneration Plan for Directors

1. Reasons for the Proposal

This proposal is a request for approval to introduce a new performance-linked share-based remuneration plan (Board Benefit Trust, or BBT) (hereinafter referred to as the “Plan”) following revisions to the remuneration plan of the Company’s Directors (excluding Outside Directors and hereinafter the same), which had been composed of the base remuneration (fixed remuneration + performance-linked remuneration) and retirement benefits, and the abolishment of the retirement benefit plan for Officers.

The purpose of the introduction of this Plan is to further increase the linkage between remuneration for Directors and corporate performance, and clarify the linkage between remuneration for Directors and the stock value of the Company at the same time, sharing with our shareholders not only the merits of the increase in the stock price, but also the risk of the decrease in the stock price, thereby increasing awareness of the Directors to contribute to the medium- to long-term improvement in the business performance and to the enhancement of corporate value. The Company, therefore, considers this request to be appropriate in light of the purpose.

This proposal is a request for approval on the remuneration amount provided as new share-based remuneration for the Company’s Directors, separate from the remuneration amount of Directors (annual amount within ¥200 million, including the amount of Outside Director’s portion but excluding employee’s salary portion for Directors who concurrently serve as employees) approved at the Extraordinary General Meeting of Shareholders held on March 31, 2011. The Company requests that details of this Plan be left to the Board of Directors within the framework provided below in 2.

The number of Directors subject to the Plan is currently five, and the number will not be changed if Proposal No. 2 is approved as proposed.

2. Amount of Remuneration and Reference Information

(1) Outline of the Plan

The Plan is a performance-linked share-based remuneration plan under which the Company’s shares are acquired through a trust established by the Company (hereinafter the trust established based on the Plan is referred to as the “Trust”) using funds contributed by the Company, and through the Trust, Directors are provided with the Company’s shares and the money equivalent to the market value of the Company’s shares (hereinafter referred to as the “Company’s Shares, etc.”) according to the position and degree of achievements in performance in accordance with the Rules for Delivery of Shares to Officers stipulated by the Company. The Directors shall receive the Company’s Shares, etc. upon their retirement in principle.

(2) Persons eligible to benefit from the Plan

Directors (excluding Outside Directors)

(3) Trust period

From May 2018 (tentative) until the termination of the Trust. (No date of termination of the Trust has been set, and the Trust will remain in place as long as the Plan is maintained. The Plan will terminate upon the delisting of the Company’s shares or abolition of the Rules for Delivery of Shares to Officers, or in certain other cases.)

(4) Amount of trust funds (amount of remuneration)

Subject to the approval of this proposal, the Company intends to introduce the Plan for three fiscal years from the year ending December 31, 2018 until the year ending December 31, 2020 (hereinafter referred to as the “Initial Target Period”) as well as for the subsequent periods of each three fiscal years (hereinafter referred to, respectively, as the “Target Period”), and shall contribute the following amount

of money to the Trust as funds for acquisition of shares of the Company by the Trust in order to pay Company's Shares, etc. to Directors.

First, the Company shall contribute funds to the Trust of up to ¥110 million as necessary funds for the Initial Target Period.

The amount has been determined, and judged appropriate by the Company, by comprehensively taking into consideration factors such as the degree of fluctuation of the remuneration level, the number of Directors stipulated under the Company's Articles of Incorporation, and the current and expected composition of positions, based on the level of the retirement benefit plan for Officers to be abolished.

Furthermore, after the expiration of the Initial Target Period, the Company shall make additional contributions to the Trust of up to ¥110 million in every Target Period in principle until the termination of the Plan. However, if, at the time of such additional contributions, there remain the Company's shares (excluding the Company's shares equivalent to the points granted to Directors up to the Target Period immediately before, and have not yet been provided to them) and money (hereinafter referred to as the "Remaining Shares, etc.") in the trust assets, the total sum of the amount of the Remaining Shares, etc. (for the Company's shares, the book value at the end of the immediately preceding Target Period) and the additional contribution shall not be more than ¥110 million.

For the Initial Target Period and the subsequent Target Periods, the Company shall be able to contribute funds to the Trust multiple times to the extent that the accumulated amount of contribution does not exceed each above mentioned upper limit amount.

(5) Method of acquisition of the Company's shares and number of shares to be acquired

The Trust shall acquire the Company's shares through the stock market or by underwriting the disposition of the Company's treasury shares, using as the funds the money contributed in accordance with (4) above.

Furthermore, for your reference, assuming that the Company's shares are acquired at the closing price (¥2,949 per share) on January 25, 2018, the day before the date on which the Board of Directors resolved the introduction of the Plan, the number of shares acquired by using the funds with an upper limit amount of ¥110 million, which the Company will contribute as funds for acquiring shares to be provided to the Directors, will be a maximum of 37,300 shares.

(6) Calculation method of the number of the Company's Shares, etc. to be provided to the Directors

For each fiscal year, Directors will be granted the number of points determined by taking into consideration the position and degree of achievements in performance in accordance with the Rules for Delivery of Shares to Officers.

Each point granted to Directors shall be converted into one share of Company's common shares at the time of the provision of the Company Shares, etc. as described in (7) below (provided, however, that if a share split, allotment of share without contribution, or consolidation of shares, etc. is carried out regarding the Company's shares in the future, the accumulated number of points or conversion ratio shall be adjusted in a reasonable manner in proportion to the relevant ratio, etc. for the share split, allotment of share without contribution, or consolidation of shares, etc.)

The number of points for the Directors which become the bases for the provision of the Company's Shares, etc. in (7) below shall be defined, in principle, as the number of the points granted to the Directors by the time of their retirement (hereinafter, points calculated in the manner are referred to as the "Defined Number of Points").

(7) Provision of the Company's Shares, etc.

When Directors retire and meet the requirements for the beneficiary stipulated in the Rules for Delivery of Shares to Officers, the said Directors may, in principle, receive the number of the Company's shares from the Trust in accordance with the "Defined Number of Points" as explained in (6) above after their

retirement by taking the stipulated procedures to define the beneficiary. However, if the requirements stipulated in the Rules for Delivery of Shares to Officers are fulfilled, the said Directors receive, in respect of a certain portion of the points, an amount of cash equivalent to the market price of the Company's shares in lieu of the provision of Company's shares. The Trust may sell the Company's shares in order to make the monetary provisions.

(8) Exercise of voting rights

Voting rights pertaining to the Company's shares held by the Trust account, at the instruction of the Trust Administrator, shall not be exercised. By doing so, it is intended to ensure the neutrality in the management of the Company with regard to the exercise of voting rights pertaining to the Company's shares held by the Trust account.

(9) Treatment of dividends

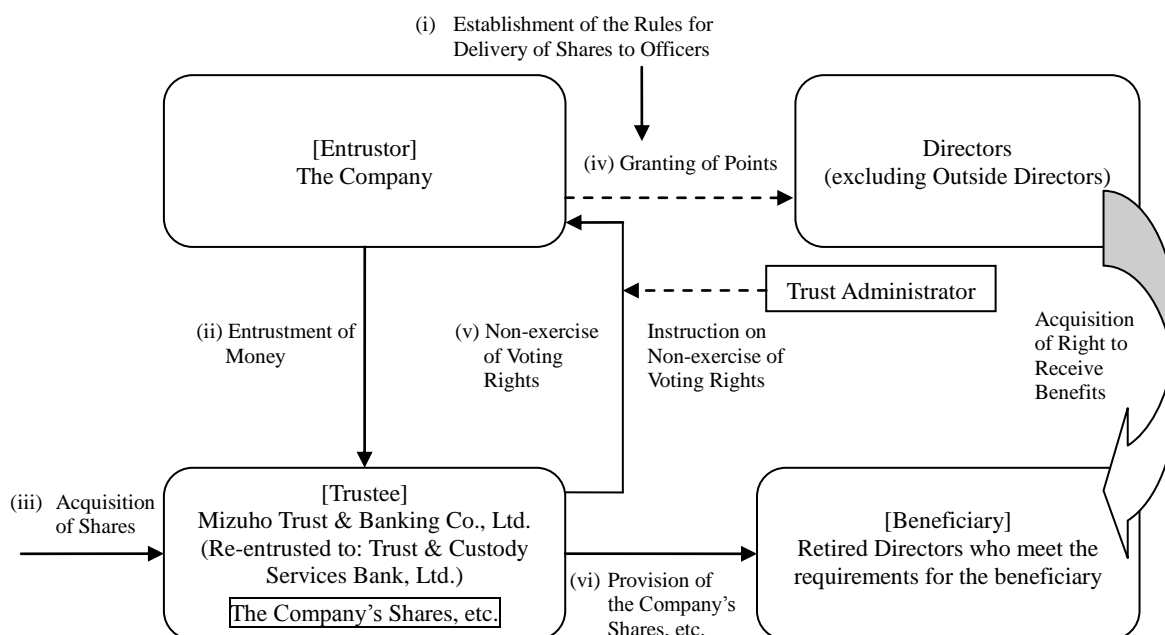
Dividends on the Company's shares in the Trust account will be received by the Trust, and mainly used for the acquisition of the Company shares and fees payable to the trustee of the Trust. If the Trust is terminated, the dividends remaining in the Trust will be provided to Directors then in office in proportion to the number of points that each of them holds in accordance with the Rules for Delivery of Shares to Officers.

(10) Treatment upon the termination of the Trust

The Trust may be terminated for reasons including delisting of the Company shares or abolition of the Rules for Delivery of Shares to Officers.

Of the residual assets of the Trust at the time of the termination of the Trust, all the Company's shares will be acquired by the Company without any compensation and cancelled by a Board of Directors resolution. Of the residual assets of the Trust at the time of the termination of the Trust, in accordance with (9) above, the balance of the said money excluding the portion delivered to Directors will be delivered to the Company.

<Reference: Structure of the Plan>



- (i) The Company shall stipulate the “Rules for Delivery of Shares to Officers” within the framework approved in this proposal.
- (ii) The Company shall entrust the money within the limit approved in this proposal.
- (iii) The Trust shall acquire the Company’s shares through the stock market or by underwriting the disposition of the Company’s treasury shares, using as the funds the money entrusted in the manner set forth in (ii).
- (iv) The Company shall grant points to the Directors in accordance with the “Rules for Delivery of Shares to Officers.”
- (v) In accordance with the instructions from the trust administrator independent of the Company, the Trust shall not exercise the voting rights pertaining to the Company’s shares under the Trust account.
- (vi) The Trust shall provide the Company’s shares to the retired Directors who meet the requirements stipulated in the “Rules for Delivery of Shares to Officers” (hereinafter referred to as the “Beneficiaries”), in proportion to the points granted to the said Beneficiaries. However, if the Directors meet the requirements stipulated in the Rules for Delivery of Shares to Officers, they may receive, in respect of a certain portion of the points, an amount of cash equivalent to the market price of the Company’s shares.

(Document to be provided)

Business Report

(January 1, 2017 to December 31, 2017)

1. Current Status of the Corporate Group

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

(i) Business progress and results

During the consolidated fiscal year under review, the tone of the Japanese economy was one of improvement, aided by a moderate recovery in the global economy that resulted in an expansion in exports, industrial production and capital investments, and by an improving trend in personal consumption triggered by firm conditions for employment and income. Also, towards the end of the year, due to rising expectations for further improvements in corporate earnings as a result of tax reforms in the U.S. and so on, a sense of optimism emerged in relation to business conditions going forward, and although concerns remain about the impact on various economies of the political situation in Europe and North America and about other geopolitical risks, there was an easing of the sense of uncertainty regarding the future.

The environment in which the chemical industry operates has been favorable, with demand for chemical products expanding steadily in the Asian market, and the impact of environmental regulations in China leading to restrictions primarily in the supply of basic chemicals, which has caused a tightening of the supply-demand balance and an improvement in market conditions etc. Meanwhile, towards the end of the year, following rises in the price of oil and naphtha, there was also a trend towards higher raw material prices. In addition, due to worldwide environmental restrictions on refrigerants there has been a movement towards using environmentally conscious refrigerants even in China and other emerging nations, leading to growing demand for refrigeration lubricants that are compatible with such refrigerants.

It is against this background that the Group has steadily implemented an array of measures in accordance with the basic policies outlined in the Medium-Term Management Plan, namely “Globally expand performance chemical sales,” “Enhance profitability of basic chemicals” and “Establish a base for the future.” The Group also actively worked to strengthen its corporate governance and to further enhance its Corporate Social Responsibility (CSR) activities.

With regard to growth in the business, demand was favorable both in Japan and overseas, performance materials such as refrigerant lubricants raw materials expanded, and there was no large-scale periodic maintenance work in the consolidated fiscal year under review, which led to an increase in sales volumes. In addition, the Group managed to secure profit margins in overseas market conditions for basic chemicals as a result of a better supply-demand balance. The net effect of the above was that both net sales and profits grew compared to the previous fiscal year.

As a result, the Group’s results for the current fiscal year included net sales of ¥94,661 million (up 18.1% year on year), operating profit of ¥11,495 million (up 28.0% year on year), ordinary profit of ¥11,906 million (up 33.0% year on year), and profit attributable to owners of parent of ¥8,167 million (up 35.8% year on year), all hitting a record high.

Consolidated net sales	¥94,661 million (Up 18.1% year on year)	Consolidated ordinary profit	¥11,906 million (Up 33.0% year on year)
Consolidated operating profit	¥11,495 million (Up 28.0% year on year)	Profit attributable to owners of parent	¥8,167 million (Up 35.8% year on year)

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

Results by business field are as follows.

Basic Chemicals	Net sales	¥45,637 million (Up 19.2% year on year)	Gross profit	¥6,835 million (Up 17.6% year on year)
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As a result of factors such as rising demand both in Japan and overseas stemming from rising automotive production, the improvement in Asian market conditions caused by environmental regulations in China, and the small-scale periodic maintenance that is carried out every other year, both sales volumes and profits in Basic Chemicals surpassed those of the previous consolidated fiscal year, with net sales reaching ¥45,637 million (up 19.2% year on year) and gross profit coming in at ¥6,835 million (up 17.6% year on year).

Performance Materials	Net sales	¥37,300 million (Up 23.0% year on year)	Gross profit	¥12,388 million (Up 43.1% year on year)
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Due to expanding demand, primarily in China, for refrigerant lubricants raw materials used in air conditioners and for raw materials for cosmetics, sales volumes and profits for Performance Materials both significantly exceeded those of the previous consolidated fiscal year, with net sales reaching ¥37,300 (up 23% year on year) and gross profit hitting ¥12,388 million (up 43.1% year on year).

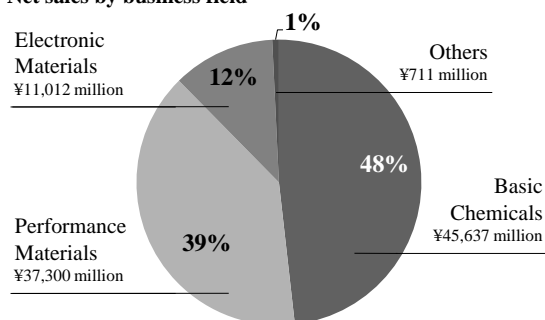
Electronic Materials	Net sales	¥11,012 million (Up 12.7% year on year)	Gross profit	¥3,179 million (Up 3.5% year on year)
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As a result of factors such as rising demand both in Japan and overseas stemming from increases in semiconductor and display production, and the small-scale periodic maintenance that is carried out every other year, both sales volumes and profits in Electronic Materials overtook those of the previous consolidated fiscal year, with net sales reaching ¥11,012 million (up 12.7% year on year) and gross profit reaching ¥3,179 million (up 3.5% year on year).

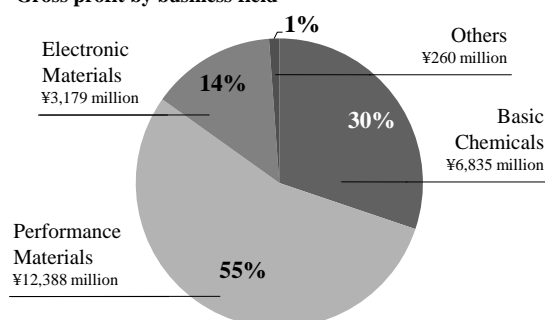
Others	Net sales	¥711 million (Down 60.1% year on year)	Gross profit	¥260 million (Down 78.5% year on year)
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In the Other field, because there were none of the technology licensing fees that were posted in the previous consolidated fiscal year as consideration for the licenses granted to Taiwan-Japan Oxo Chemical Industries Inc. (Taiwan), both revenue and profits fell sharply, with net sales coming to ¥711 million (down 60.1% year on year) and gross profit reaching only ¥260 million (down 78.5% year on year).

Net sales by business field



Gross profit by business field



(ii) Capital investments

Total capital investments for the Group in the consolidated fiscal year under review were ¥1,637 million, and were focused on maintenance and upgrades for existing facilities.

The main component of the investment plan decided by the Group for the consolidated fiscal year under review consisted of expansions to the production facilities for refrigerant lubricants raw materials at the Yokkaichi Plant.

(iii) Financing

The Group raises funds through loans from financial institutions and through issuance of commercial paper. Also, during the consolidated fiscal year under review, the Group raised funds by concluding loan agreements totaling ¥27,800 million with financial institutions for the purpose of refinancing existing loans.

(2) Trends in operating results and assets

Item	5th Fiscal Year (Year ended December 31, 2014)	6th Fiscal Year (Year ended December 31, 2015)	7th Fiscal Year (Year ended December 31, 2016)	8th Fiscal Year (Current fiscal year) (Year ended December 31, 2017)
Net sales (Millions of yen)	143,488	103,478	80,163	94,661
Ordinary profit (Millions of yen)	2,959	6,327	8,950	11,906
Profit attributable to owners of parent (Millions of yen)	2,604	7,712	6,013	8,167
Basic earnings per share (Yen)	76.60	226.56	173.56	222.12
Total assets (Millions of yen)	106,746	85,831	87,674	95,247
Net assets (Millions of yen)	25,389	20,785	28,112	34,512

Note: Basic earnings per share was calculated on the assumption that the share split was conducted at the beginning of the 5th fiscal year (year ended December 31, 2014), since the Company conducted a 1:100 share split whereby 1 common share was split into 100 common shares on June 10, 2016.

(3) Major parent company and subsidiaries

(i) Parent company

There is no relevant information.

(ii) Major subsidiaries

Company name	Capital	Ratio of capital contribution by the Company	Principal business
Kurogane Kasei Co., Ltd.	¥90 million	53.4%	Manufacture, contracted manufacture and sale of organic synthesis intermediates
Kurogane Fines Inc.	¥10 million	62.0% (52.0%)	Sale of products including foodstuffs and raw materials for pharmaceuticals
KH Neochem Americas, Inc.	US\$870 thousand	100.0%	Sale of chemicals
KH Neochem U.K. Ltd.	US\$12,300 thousand	60.2%	Investment into joint ventures that manufacture chemicals

Notes:

1. Values under “Ratio of capital contribution by the Company” that are in parentheses are the portion of indirect holdings.
2. In regard to “Ratio of capital contribution by the Company,” figures less than one unit are rounded to the nearest unit.
3. KH Neochem Singapore Pte. Ltd., which was listed in the previous fiscal year, suspended business activities in April 2017, and became a dormant company in January 2018, and has thus been excluded from important subsidiaries.

(4) Issues to be addressed

The Group considers the most important issue to be achieving the targets laid out in the “Innovation Challenge” Medium-Term Management Plan that runs for the three years from fiscal 2016 to fiscal 2018, so as to enhance corporate value. The Group has steadily implemented the three basic policies of “Globally expand performance chemical sales,” “Enhance profitability of basic chemicals” and “Establish a base for the future,” which includes the expansion of production bases overseas and the development of new products, laid out in the Plan. While maintaining the Basic Chemicals field as a stable source of earnings, the Group will allocate management resources in a concentrated fashion to the Performance Materials field, where future growth can be expected, thus promoting the transformation to a business structure that allows it to secure high earnings consistently.

Fiscal 2018 is set to be a critical year for the completion of the “Innovation Challenge” Medium-Term Management Plan currently under way, and is also an important year for putting into effect our evolution to a new stage of development. The following four business activities, on which the Group is actively working, are considered to be the highest priority for fiscal 2018.

<Priority issues for fiscal 2018>

- Implement various measures aimed at raising profitability
 - Promote an adequate pricing policy in response to changes in external circumstances.
 - Move forward with measures to enhance the efficiency of management resources and carry out thoroughgoing cost-cutting measures.
- Enhancing production capability of Performance Materials
 - Construct new manufacturing facilities for refrigerant lubricants raw materials, which contribute to the protection of the global environment.
 - Enhance capacities of existing facilities in order to deal with rapidly expanding demand.
- Establish overseas production bases in preparation for the future
 - Move forward steadily with preparations for beginning construction of a new plant for plasticizer raw materials in Taiwan.
- Strengthen the production platform in order to consistently supply high-quality products
 - Actively work on preventive measures to strengthen our future business platform, in addition to the usual periodic maintenance.
 - Use the opportunity afforded by periodic maintenance to transmit technology to the next generation and to nurture human resources.

In addition, by rearranging the organizational structure we will enhance the functions of planning, HR, IT etc., strengthen corporate governance for the entire Group, and continue to work on nurturing human resources and improvements to operational efficiency etc. with accordance with medium- to long-term strategy.

Moreover, in order to realize further growth for the Group and enhancements in corporate value over the medium- to long-term, we will work diligently on drawing up the next medium-term management plan, which is due to start in fiscal 2019. While continuing to contribute to the global environment, we will work on capturing rapidly growing Asian demand, and draw up a growth strategy that takes into account such factors as differentiating our products on the quality front by leveraging our quality control technology.

By discharging in good faith our corporate social responsibility in such areas as compliance, conservation of the environment, quality assurance and safety in operations, and through providing to customers unique and high-quality products in a range of industrial fields, the Group aims to further enhance its trustworthiness in the eyes of society.

(5) Principal business (As of December 31, 2017)

The Group is primarily engaged in the development, manufacture and sale of petrochemical products and is operating the following three businesses. As the business of the Group consists of a single segment, the chemical business, segment information is not provided.

Business fields	Overview of details of business	Main products
Basic Chemicals	These products are manufactured utilizing the Company's core technology, and are sold for use in various applications such as paint, ink, and plasticizer in industrial fields that include automotive, electrical, and housing.	Butyl alcohol, 2-ethyl hexyl alcohol, Isononyl alcohol (INA), Butyl acetate
Performance Materials	This business field was developed from the synthesis technology cultivated in the Basic Chemicals field, and sells refrigerant lubricants raw materials for air conditioners and refrigerators etc., cosmetic raw materials and so on.	Isononanoic acid, 2-ethyl hexanoic acid, 1,3 - butylene glycol, Tridecanol (tridecyl alcohol), Diacetone acrylamide (DAAM)
Electronic Materials	This section is a fusion between the Company's high-purity technology and its quality control technology, and sells high-purity solvents for use in production processes for semiconductor and LCD substrates, etc.	Propylene glycol monomethyl ether-P (PM-P), Propylene glycol monomethyl ether acetate-P (PMA-P)

(6) Principal offices, plants, etc. (As of December 31, 2017)

(i) The Company

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

(ii) Subsidiaries

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

(7) Employees (As of December 31, 2017)

Employees of the corporate group

Number of employees (Year-on-year change)	Average age	Average years of service
739 (Increase of 8)	39.6	16.2 years

Notes:

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

(8) Principal lenders (As of December 31, 2017)

(Millions of yen)

Lender	Balance of borrowing
Mizuho Bank, Ltd.	7,685
Mizuho Trust & Banking Co., Ltd.	6,945
Sumitomo Mitsui Trust Bank, Limited	3,982
Resona Bank, Limited	3,242

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

There is no relevant information.

2. Current Status of the Company

(1) Shares (As of December 31, 2017)

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

(ii) Total number of issued shares 36,849,400 shares (including 70 treasury shares)

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

(iii) Number of shareholders 6,911

(iv) Major shareholders

Name of shareholders	Number of shares held	Holding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust account)	5,089,800	13.81
SHEPHERDS HILL CAPITAL PARTNERS	2,038,900	5.53
THE CHASE MANHATTAN BANK 385036	1,674,100	4.54
Japan Industrial Fund III	1,596,900	4.33
Mizuho Bank, Ltd.	1,466,500	3.98
JP MORGAN CHASE BANK 380634	1,435,000	3.89
MANASLU FUND, L.P.	1,180,800	3.20
The Master Trust Bank of Japan, Ltd. (Trust account)	1,137,200	3.09
SONORA FUND, L.P.	781,700	2.12
STATE STREET BANK AND TRUST COMPANY	766,600	2.08

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

(2) Subscription rights to shares, etc.

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

Number of subscription rights to shares

3,000 units

Type and number of shares subject to subscription rights to shares:

Common share 300,000 shares (100 shares per one subscription right to shares)

Amount paid for subscription rights to shares

No payment is required in exchange for the subscription rights to shares.

Value of property to be contributed when subscription rights to shares are exercised

¥55,000 per one subscription right to shares (¥550 per share)

Exercise period

February 25, 2015 to July 31, 2020

Number of the Company's Officers that hold subscription rights

Director (excluding Outside Director)	1
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Outside Director	0
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Audit & Supervisory Board Member	0
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- (ii) Subscription rights to shares granted to employees, etc. as compensation for their performance of duties during the current fiscal year

There is no relevant information.

(3) Officers

(i) Directors and Audit & Supervisory Board Members (As of December 31, 2017)

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

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

Notes:

- Directors Katsu Harashima, Manabu Fujise and Mitsuhiro Nagata are Outside Directors.
- Audit & Supervisory Board Members Atsuo Inagaki and Kenji Ito are Outside Audit & Supervisory Board Members.
- Outside Director Katsu Harashima is Managing Director of Japan Industrial Partners, Inc. Said company manages an investment partnership that is a shareholder of the Company.
- There are no important transactional or other special relationships between the Company and the companies at which Outside Directors hold other significant concurrent positions.
- Changes in Directors and Audit & Supervisory Board Members during the current fiscal year were as follows.
 - At the conclusion of the 7th Ordinary General Meeting of Shareholders held on March 24, 2017, Audit & Supervisory Board Member Hiroataka Iwata retired from office due to resignation.
 - On November 30, 2017, Managing Director and General Manager of Production & Technology Office Kazuya Sato retired from office due to resignation.
 - At the 7th Ordinary General Meeting of Shareholders held on March 24, 2017, Messrs. Tatsuro Niiya and Mitsuhiro Nagata were newly elected as Directors and assumed office.
 - At the 7th Ordinary General Meeting of Shareholders held on March 24, 2017, Mr. Tokuo Oodo was newly elected as Audit & Supervisory Board Member and assumed office.
- Changes in position and responsibility in the Company and significant concurrent positions outside the Company in relation to Directors and Audit & Supervisory Board Members during the current fiscal year were as follows.
 - Director Michio Takahashi assumed the office of Executive Vice President & Executive Officer from Managing Director on March 24, 2017.
 - Outside Director Manabu Fujise assumed the office of Outside Director of MORIROKU HOLDINGS COMPANY, LTD. on June 29, 2017.
 - Director Toshihiro Matsuoka assumed the office of General Manager of Production & Technology Office from General Manager of R&D Office on December 1, 2017. In addition, for the period from the same date until December 31, 2017, he had been in charge of the R&D Office.
- Audit & Supervisory Board Members Tokuo Oodo, Atsuo Inagaki and Kenji Ito possess considerable knowledge of finance and accounting as described below.

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

(Reference) Executive Officers not concurrently serving as Directors (As of December 31, 2017)

Position in the Company	Name	Responsibility in the Company
Executive Officer	Seiji Saito	General Manager of Chiba Plant
Executive Officer	Toshiaki Ogata	General Manager of Yokkaichi Plant
Executive Officer	Tomoki Kakuta	General Manager of Corporate Planning Office, General Manager of Business Strategy Planning Division and General Manager of Corporate Planning Division
Executive Officer	Koji Matsuda	Deputy General Manager of Administrative Office

Note: As of January 1, 2018, the position and responsibilities of Executive Officers changed as follows.

- (i) The responsibility of Executive Officer Seiji Saito has changed from General Manager of Chiba Plant to Deputy General Manager of Production & Technology Office
- (ii) Mr. Yukihiro Isogai assumed the office of Executive Officer and is now General Manager of R&D Office and General Manager of Yokkaichi Research Laboratories, R&D Office.
- (iii) Mr. Akio Nakahashi assumed the office of Executive Officer and is now General Manager of Chiba Plant.

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

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

Category	Number of Directors and Audit & Supervisory Board Members	Amount of Remuneration, etc. (Millions of yen)
Director (of which, Outside Director)	8 (2)	143 (6)
Audit & Supervisory Board Member (of which, Outside Audit & Supervisory Board Member)	4 (2)	24 (7)
Total (of which, Outside Officer)	12 (4)	167 (14)

Notes:

1. Remunerations, etc. for Directors do not include the employee salaries paid to the Directors who concurrently serve as employees.
2. The above list includes one Audit & Supervisory Board Member who retired from office at the conclusion of the 7th Ordinary General Meeting of Shareholders held on March 24, 2017, and one Director who retired from office on November 30, 2017. However, the above list does not include Outside Directors that are serving without remuneration.
3. The upper limit of remuneration for Directors is set at ¥200 million per year (not including the employee portion of salaries of Directors who concurrently serve as employees) as resolved at the Extraordinary General Meeting of Shareholders on March 31, 2011.
4. The upper limit of remuneration for Audit & Supervisory Board Members is set at ¥50 million per year as resolved at the Extraordinary General Meeting of Shareholders on March 31, 2011.
5. The total amount of remuneration, etc. outlined above includes ¥15 million in provision for Directors' retirement benefits for the current fiscal year.

(iii) Matters concerning Outside Officers

Major activities during the current fiscal year

Name	Position	Attendance	Status of main statements made
Katsu Harashima	Outside Director	Board of Directors meeting: 16 of 16 meetings	Provided opinions based on his many years of experience and broad insight gained at financial institutions.
Manabu Fujise	Outside Director	Board of Directors meeting: 16 of 16 meetings	Provided opinions based on his many years of experience and his broad insight gained at a major chemical company.
Mitsuhiro Nagata	Outside Director	Board of Directors meeting: 13 of 13 meetings	Provided opinions based on his many years of experience at financial institutions and his experience and broad insight as an attorney at law.
Atsuo Inagaki	Outside Audit & Supervisory Board Member	Board of Directors meeting: 16 of 16 meetings Audit & Supervisory Board meeting: 12 of 12 meetings	Provided opinions based on his experience as an audit & supervisory board member at other business corporations and his broad insight.
Kenji Ito	Outside Audit & Supervisory Board Member	Board of Directors meeting: 16 of 16 meetings Audit & Supervisory Board meeting: 12 of 12 meetings	Provided opinions based on his many years of business experience and experience as an audit & supervisory board member at other corporations including financial institutions and his broad insight.

Note: Director Mitsuhiro Nagata was newly elected at the 7th Ordinary General Meeting of Shareholders held on March 24, 2017, and as such the number shown for Board of Directors meetings held differs.

(4) Accounting Auditor

(i) Name Deloitte Touche Tohmatsu LLC

(ii) Amount of remuneration, etc.

	Amount of Remuneration, etc.
Amount of remuneration, etc. to Accounting Auditor for the current fiscal year	¥28 million
Total amount of money and other financial interests to be paid by the Company and its subsidiaries	¥28 million

Notes:

1. The Audit & Supervisory Board, after considering the appropriateness of elements such as the details of the Accounting Auditor's audit plan, the status of execution of audits and the grounds for calculation of remuneration, determined said elements to be suitable and approved the Accounting Auditor's remuneration, etc.
2. The audit agreement between the Company and its Accounting Auditor does not distinguish remuneration, etc. paid for audit work performed in conformity with the Companies Act and remuneration, etc. paid for audit work performed in conformity with the Financial Instruments and Exchange Act, and it is effectively impossible to do so. Therefore, the total amount of these remuneration types is presented.
3. Among the Company's significant subsidiaries, Kurogane Kasei Co., Ltd., KH Neochem Americas, Inc., and KH Neochem U.K. Ltd. are audited by audit firms other than the Accounting Auditor of the Company.

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

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

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

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

The Company, pursuant to the Companies Act and the Ordinance for Enforcement of the Companies Act, has established, by a resolution of the Board of Directors, its policy regarding the establishment of a system to ensure the appropriateness of operations (so-called “internal control system”).

A summary of the content and operation status of said system is as follows.

- (1) System to ensure that the Directors and employees perform their duties in conformance with relevant laws and regulations and the Articles of Incorporation
 - (i) Believing compliance with laws and regulations and the Articles of Incorporation to be fundamental to management, the Company shall strive for thorough compliance in all business activities and implements programs including corporate ethics education and compliance awareness activities.
 - (ii) The Company shall strive to prevent acts in violation of laws, regulations and internal rules in advance by establishing an internal reporting system and an audit body.

[Operational Status]

The Company operates the system as follows.

- We maintain strict conformance with compliance based on “Compliance guidelines” and “Compliance regulations.”
 - At twice-yearly meetings of the Compliance Committee, basic policies are planned and drawn up in order to maintain and strengthen the compliance system, in addition to which the state of conformance is checked and appropriate measures are adopted.
 - In the Compliance Committee, study meetings related to legal matters are held for full-time executives.
 - Training on compliance and the legal duties of executives is given to new executives.
 - Various training programs are implemented for employees in order to raise awareness of conformance with compliance, and to ensure that both internal and external rules, such as related laws and regulations, are widely understood.
 - A “Corporate Governance Report” is created and disclosed, the contents of which are based on evaluations carried out on the effectiveness of the Board of Directors.
 - Internal controls related to financial reporting are evaluated, and reports confirming their effectiveness are submitted.
 - A whistleblowing system has been established (including the setting up of multiple contact points, including an external attorney at law), and we strive to detect problems at an early stage.
 - We have updated regulations and other internal rules as appropriate in response to revisions to laws and regulations and in order to ensure thoroughgoing compliance with laws and regulations.
 - The Audit Department draws up the audit plan from an independent viewpoint, and performs internal audits based on that plan. Moreover, we work to maintain and operate an effective internal audit system, such as by establishing a cycle whereby each department must submit an improvements report promptly in response to issues raised by the Audit Department.
- (2) System concerning preservation and management of information relating to execution of duties by Directors

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

[Operational Status]

The Company operates the system as follows.

- Information related to the execution of duties is saved and managed appropriately, based on various regulations such as the “Board of Directors Rules,” “Rules for Management of Confidential Information” and “Document Rules.”
- We have strengthened the operational system for material non-public information by further restricting access to such information, in addition to drawing up a management and administration policy.

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

- (i) In regard to the management of risk of loss, the Board of Directors shall identify and assess the overall potential business risks of the Company.
- (ii) Each office shall identify, analyze, assess and respond to the risks that it is in charge of.

[Operational Status]

The Company operates the system as follows.

- We have prescribed “Risk Management Rules” and maintain a risk register focused on business risk.
- Departments with jurisdiction for risks for the Group conduct monitoring of the risks listed in the risk register, and report risks that exceed a certain level to the Board of Directors once a year.
- Every year, each department gathers together the risks related to the work for which they are responsible, performs an analysis and evaluation of them, and updates the risk register. In addition, we work to reduce risks and prevent the materialization of such risks by taking appropriate measures.

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

- (i) The Company shall set business goals with clear assignment of authority of duties and implements various measures to ensure that the Directors efficiently execute their duties.
- (ii) The Company shall regularly carry out reviews on their progress status and results.

[Operational Status]

The Company operates the system as follows.

- Resolutions and authority are determined through “Board of Directors Rules,” “Management Meeting Rules” and “Rules on Request for Decisions” etc., and operations are conducted in accordance with these rules.
- In order to achieve more effective discussions at the Board of Directors meetings, we have reviewed the scope of agenda items introduced at the Board of Directors meetings, and have delegated authority for resolutions of a formal nature.
- In order to deal with the increasing volume and importance of public relations operations, a “Public Relations Division” has been set up, and rules related to administrative authority etc. have been revised accordingly.
- Monthly progress towards the yearly budget and progress on important issues are reported and considered from multiple angles at the Board of Directors meetings held every month in principle, and any necessary measures are adopted.
- The state of progress towards the Medium-Term Management plan and annual plans is checked as appropriate by the Board of Directors, and any necessary measures are adopted.

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

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

[Operational Status]

The Company operates the system as follows.

- “Subsidiary and Associate Management Rules” have been drawn up, the role of the departments with jurisdiction over subsidiaries has been clarified, and we work to achieve a suitable understanding of the management situation through monthly communication meetings with subsidiaries.
- Rules for important subsidiaries are maintained and revised as necessary in accordance with the enactment and revision of laws and regulations.

- Appropriate management and administration of the corporate group is promoted by the dispatch of executives as appropriate to important subsidiaries to offer suitable guidance and supervision, in addition to which the Audit Department conducts internal audits of all subsidiaries.
- In order to handle the internal control reporting system in relation to financial reporting, internal control systems are being constructed at KH Neochem Americas Inc., in addition to at Kurogane Kasei Co., Ltd.

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

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

[Operational Status]

The Company operates the system as follows.

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

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

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

[Operational Status]

The Company operates the system as follows.

- Information on agenda items and on matters to be reported at the Board of Directors meetings is provided and explained to Audit & Supervisory Board Members beforehand.
- By attendance of a Full-Time Audit & Supervisory Board Member to the Compliance Committee, information across the entire Group related to compliance is provided, and is shared by the Full-Time Audit & Supervisory Board Member with other Audit & Supervisory Board Members.
- Directors and employees of the Company and its subsidiaries collect information of subsidiaries and provide appropriate and necessary information to the Full-Time Audit & Supervisory Board Member in accordance with "Subsidiary and Associate Management Rules," and this is shared by the Full-Time Audit & Supervisory Board Member with other Audit & Supervisory Board Members.

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

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

[Operational Status]

The Company operates the system as follows.

- A "Full-Time Audit & Supervisory Board Member hotline" has been established as a whistleblowing system. Also, in addition to making it and other contact points known, the Company is working on a

thorough policy whereby confidentiality will be strictly maintained and that unfair treatment will be forbidden during the course of responses to whistleblowing.

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

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

[Operational Status]

The Company operates the system as follows.

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

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

- (i) To ensure that the auditing of Audit & Supervisory Board Members is conducted effectively, Audit & Supervisory Board Members may conduct audits jointly with internal audit organizations, etc.
- (ii) Directors and employees shall provide Audit & Supervisory Board Members with information as necessary to comply with requests from Audit & Supervisory Board Members.

[Operational Status]

The Company operates the system as follows.

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

Consolidated balance sheet
(As of December 31, 2017)

(Millions of yen)

Assets		Liabilities	
Description	Amount	Description	Amount
Current assets	52,161	Current liabilities	43,958
Cash and deposits	12,866	Notes and accounts payable - trade	21,285
Notes and accounts receivable - trade	24,642	Short-term loans payable	10,880
Merchandise and finished goods	9,172	Current portion of long-term loans payable	2,400
Work in process	336	Commercial papers	999
Raw materials and supplies	1,585	Accounts payable - other	2,701
Deferred tax assets	1,093	Income taxes payable	2,856
Other	2,470	Provision for repairs	1,837
Allowance for doubtful accounts	(6)	Other	997
Non-current assets	43,086	Non-current liabilities	16,777
Property, plant and equipment	30,403	Long-term loans payable	10,450
Buildings and structures	5,860	Deferred tax liabilities	3,204
Machinery, equipment and vehicles	5,162	Net defined benefit liability	2,600
Land	17,549	Provision for directors' retirement benefits	195
Construction in progress	870	Provision for environmental measures	150
Other	959	Other	177
Intangible assets	1,807	Total liabilities	60,735
Goodwill	1,781	Net assets	
Other	26	Shareholders' equity	30,118
Investments and other assets	10,876	Capital stock	8,772
Investment securities	8,548	Capital surplus	5,272
Net defined benefit asset	1,585	Retained earnings	16,072
Other	744	Treasury shares	(0)
Allowance for doubtful accounts	(1)	Accumulated other comprehensive income	914
		Valuation difference on available-for-sale securities	712
		Deferred gains or losses on hedges	(1)
		Foreign currency translation adjustment	131
		Remeasurements of defined benefit plans	72
		Non-controlling interests	3,479
		Total net assets	34,512
Total assets	95,247	Total liabilities and net asset	95,247

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

Consolidated statement of income
(January 1, 2017 to December 31, 2017)

(Millions of yen)

Description	Amount	
Net sales		94,661
Cost of sales		71,997
Gross profit		22,664
Selling, general and administrative expenses		11,169
Operating profit		11,495
Non-operating income		
Interest and dividend income	171	
Share of profit of entities accounted for using equity method	259	
Commission fee income	116	
Other	250	797
Non-operating expenses		
Interest expenses	122	
Foreign exchange losses	7	
Loss on disposal of non-current assets	200	
Other	55	385
Ordinary profit		11,906
Extraordinary income		
Subsidy income	206	206
Extraordinary losses		
Impairment loss	130	130
Profit before income taxes		11,982
Income taxes - current	3,940	
Income taxes - deferred	(267)	3,672
Profit		8,309
Profit attributable to non-controlling interests		142
Profit attributable to owners of parent		8,167

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

Consolidated statement of changes in equity
(January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	8,745	5,245	10,438	-	24,429
Changes of items during period					
Issuance of new shares - exercise of subscription rights to shares	27	27			55
Dividends of surplus			(2,756)		(2,756)
Profit attributable to owners of parent			8,167		8,167
Purchase of treasury shares				(0)	(0)
Change of scope of consolidation			223		223
Net changes of items other than shareholders' equity					-
Total changes of items during period	27	27	5,634	(0)	5,688
Balance at end of current period	8,772	5,272	16,072	(0)	30,118

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	303	(4)	109	(124)	284	3,399	28,112
Changes of items during period							
Issuance of new shares - exercise of subscription rights to shares							55
Dividends of surplus							(2,756)
Profit attributable to owners of parent							8,167
Purchase of treasury shares							(0)
Change of scope of consolidation							223
Net changes of items other than shareholders' equity	409	3	21	196	630	79	710
Total changes of items during period	409	3	21	196	630	79	6,399
Balance at end of current period	712	(1)	131	72	914	3,479	34,512

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

Balance sheet
(As of December 31, 2017)

(Millions of yen)

Assets		Liabilities	
Description	Amount	Description	Amount
Current assets	47,083	Current liabilities	42,063
Cash and deposits	10,235	Accounts payable - trade	20,192
Notes receivable - trade	827	Short-term loans payable	10,720
Accounts receivable - trade	23,254	Current portion of long-term loans payable	2,400
Merchandise and finished goods	7,863	Commercial papers	999
Work in process	252	Accounts payable - other	2,297
Raw materials and supplies	1,339	Income taxes payable	2,810
Deferred tax assets	974	Deposits received	324
Accounts receivable - other	1,988	Provision for repairs	1,837
Other	349	Other	481
Non-current assets	39,943	Non-current liabilities	15,975
Property, plant and equipment	25,646	Long-term loans payable	10,450
Buildings	1,279	Deferred tax liabilities	3,164
Structures	2,785	Provision for retirement benefits	2,044
Machinery and equipment	3,674	Provision for directors' retirement benefits	69
Vehicles	7	Provision for environmental measures	150
Tools, furniture and fixtures	215	Asset retirement obligations	97
Land	16,628	Total liabilities	58,038
Construction in progress	506	Net assets	
Other	549	Shareholders' equity	28,277
Intangible assets	1,788	Capital stock	8,772
Goodwill	1,781	Capital surplus	5,272
Other	7	Legal capital surplus	5,272
Investments and other assets	12,508	Retained earnings	14,231
Investment securities	6,158	Other retained earnings	14,231
Shares of subsidiaries and associates	4,726	Retained earnings brought forward	14,231
Long-term prepaid expenses	324	Treasury shares	(0)
Prepaid pension cost	1,215	Valuation and translation adjustments	711
Other	84	Valuation difference on available-for-sale securities	712
		Deferred gains or losses on hedges	(1)
		Total net assets	28,988
Total assets	87,027	Total liabilities and net asset	87,027

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

Statement of income
(January 1, 2017 to December 31, 2017)

(Millions of yen)

Description	Amount	
Net sales		88,011
Cost of sales		67,023
Gross profit		20,987
Selling, general and administrative expenses		10,049
Operating profit		10,938
Non-operating income		
Interest and dividend income	667	
Commission fee income	116	
Other	202	986
Non-operating expenses		
Interest expenses	121	
Foreign exchange losses	16	
Loss on disposal of non-current assets	177	
Other	38	354
Ordinary profit		11,571
Profit before income taxes		11,571
Income taxes - current	3,658	
Income taxes - deferred	(315)	3,342
Profit		8,228

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

Statement of changes in equity
(January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' equity					
	Capital stock	Capital surplus	Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other retained earnings	Retained earnings brought forward		
Balance at beginning of current period	8,745	5,245	8,759		-	22,750
Changes of items during period						
Issuance of new shares - exercise of subscription rights to shares	27	27				55
Dividends of surplus			(2,756)			(2,756)
Profit			8,228			8,228
Purchase of treasury shares					(0)	(0)
Net changes of items other than shareholders' equity						-
Total changes of items during period	27	27	5,471		(0)	5,526
Balance at end of current period	8,772	5,272	14,231		(0)	28,277

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	303	(4)	298	23,049
Changes of items during period				
Issuance of new shares - exercise of subscription rights to shares				55
Dividends of surplus				(2,756)
Profit				8,228
Purchase of treasury shares				(0)
Net changes of items other than shareholders' equity	409	3	412	412
Total changes of items during period	409	3	412	5,939
Balance at end of current period	712	(1)	711	28,988

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

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

INDEPENDENT AUDITOR'S REPORT

February 14, 2018

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

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

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of KH Neochem Co., Ltd. ("the Company") for the fiscal year ended December 31, 2017.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the corporate group comprised of KH Neochem Co., Ltd. and its consolidated subsidiaries, applicable to the fiscal year ended December 31, 2017, in conformity with accounting principles generally accepted in Japan.

Interest

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

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

INDEPENDENT AUDITOR'S REPORT

February 14, 2018

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

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

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the financial statements, namely, the balance sheet, the statement of income, the statement of changes in equity, the notes to the financial statements and the accompanying supplemental schedules of KH Neochem Co., Ltd. ("the Company") for the 8th fiscal year ended December 31, 2017.

Management's Responsibility for the Financial Statements and Others

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations for the year ended December 31, 2017 in conformity with accounting principles generally accepted in Japan.

Interest

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

Audit Report of the Audit & Supervisory Board
(TRANSLATION)

AUDIT REPORT

In respect of the execution of duties of the Directors during the 8th fiscal year ended December 31, 2017, the Audit & Supervisory Board (hereinafter “we”), following the discussion among us, has prepared this audit report based on the audit report prepared by each Audit & Supervisory Board Member, and hereby reports as follows:

1. Methods and details of audits by Audit & Supervisory Board Members and the Audit & Supervisory Board
 - (1) We have formulated an audit policy, sharing of duties among Audit & Supervisory Board Members, and other audit-related items. We have received reports from each Audit & Supervisory Board Member on the implementation and results of audits, and received reports from the Directors, etc. of KH Neochem Co., Ltd., the Accounting Auditor on their execution of duties, and requested explanations from them when necessary.
 - (2) In conformity with the auditing standards stipulated by the Audit & Supervisory Board, and in accordance with auditing policies and the assignment of duties, all Audit & Supervisory Board Members strived to achieve effective communication with Directors, the Audit Department and other employees, collected information and improved the audit environment, and conducted the audit by the following methods.
 - i) All Audit & Supervisory Board Members attended the meetings of the Board of Directors and other important meetings, received reports from Directors and employees about the status of the performance of their duties, obtained explanations as necessary, reviewed important approval documents, and conducted investigations on the status of the business operations and assets of the Company at its head office and other principal business offices. Furthermore, Audit & Supervisory Board Members also worked to facilitate communication and information exchange with the Directors, Audit & Supervisory Board Members and others of the subsidiaries of the Company, and received reports on the business conditions of subsidiaries as necessary.
 - ii) Audit & Supervisory Board Members received reports periodically from Directors and employees on the content of the resolution made by the Board of Directors concerning the development of a system for ensuring that the performance of duties by Directors conforms with laws and regulations and the Company’s Articles of Incorporation, as described in the Company’s business report, and other systems prescribed in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act as systems necessary for ensuring proper business conduct by the corporate group comprised of a stock company and its subsidiaries (internal control system), as well as the construction and status of operation of the internal control system developed based on said resolution. As necessary, Audit & Supervisory Board Members also asked for explanations from Directors and employees and expressed opinions.
 - iii) We monitored and verified whether the Accounting Auditor made appropriate audits while maintaining their independence. We received reports from the Accounting Auditor on their operations, and requested them for explanations when necessary. The Accounting Auditor notified us and we requested their explanations when necessary, concerning their establishment of a “System for Ensuring the Appropriate Execution of Duties” (the Corporate Calculation Regulations Article 131) in accordance with the “Quality Control Standards for Audits” (issued by the Business Accounting Council on October 28, 2005).

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

2. Results of the Audit:

(1) Results of the audit for the business report

- (i) We have found that the business report and the accompanying supplementary schedules present fairly the current financial position of KH Neochem Co., Ltd. in conformity with applicable laws and regulations and the Articles of Incorporation.
- (ii) With respect to the execution of duties of the Directors, we have found neither improper conduct nor any material breach of applicable laws and regulations and the Articles of Incorporation.
- (iii) We have found that the resolutions of the Board of Directors regarding the internal control system are proper and correct. We have found nothing that needs to be pointed out concerning the content of the business report and the Directors' performance of their duties.

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

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

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

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

February 20, 2018

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

Audit & Supervisory Board Member
Outside Audit & Supervisory Board Member
Outside Audit & Supervisory Board Member

Tokuo Oodo [Seal]
Atsuo Inagaki [Seal]
Kenji Ito [Seal]