

[Translation: Please note that this is an English translation of the Japanese original Notice of the 10th 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. In the event of any discrepancy between this translation and the Japanese original, the original shall prevail.]

Securities code: 4189

March 4, 2020

To our shareholders,

Michio Takahashi
President & Chief Executive Officer

KH Neochem Co., Ltd.

2-3-1, Nihonbashi-Muromachi, Chuo-ku, Tokyo

Notice of the 10th Ordinary General Meeting of Shareholders

You are cordially invited to attend the 10th Ordinary General Meeting of Shareholders of KH Neochem Co., Ltd. (the “Company”), which will be held as described below.

If you are unable to attend the Meeting in person, you may exercise your voting rights in writing or by electromagnetic means (via the Internet, etc.) as explained in the “Instructions for Exercising Voting Rights” on pages 3-4. Please review the attached “Reference Documents for the General Meeting of Shareholders” and exercise your voting rights.

- 1. Date and Time:** Thursday, March 26, 2020, at 10:00 a.m. (JST) (Reception will open at 9:00 a.m.)
- 2. Venue:** 5F Conference Center, Bellesalle Tokyo Nihonbashi,
Tokyo Nihonbashi Tower, 2-7-1, Nihonbashi, Chuo-ku, Tokyo
- 3. Proposes:**

Items to be reported:

1. Business Report and Consolidated Financial Statements for the 10th term (from January 1, 2019 to December 31, 2019), 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 10th term (from January 1, 2019 to December 31, 2019)

Items to be resolved:

- Proposal No. 1:** Appropriation of Surplus
Proposal No. 2: Election of Eight Directors
Proposal No. 3: Election of Three Audit & Supervisory Board Members

<Internet Disclosure>

Pursuant to laws and regulations and Article 16 of the Articles of Incorporation of the Company, the following documents are not included with this notice since they have been made accessible on the Company’s website instead.

- Consolidated statement of changes in equity and Notes to the consolidated financial statements in the Consolidated Financial Statements
- Statement of changes in equity and Notes to the financial statements in the Financial Statements

The attached documents to this notice constitute a part of the documents that were audited by the Audit & Supervisory Board Members and the Accounting Auditor in preparing the audit reports. Any corrections in the Reference Documents for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements or Financial Statements will be reported on the Company's website (<http://www.khneochem.co.jp/>).

Instructions for Exercising Voting Rights

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

[Attending the Meeting]

Submit the Voting Card at the venue's reception.

Date/Time: Thursday, March 26, 2020, at 10:00 a.m. (JST) (Reception will open at 9:00 a.m.)

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

<Exercising Voting Rights by Proxy>

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

[Mailing the Voting Card]

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

Votes to be received by: 5:40 p.m. on Wednesday, March 25, 2020 (JST)

[Exercising Voting Rights via the Internet, etc.]

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

Votes to be given by: 5:40 p.m. on Wednesday, March 25, 2020 (JST)

<Electronic Voting Platform>

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

How to scan QR code, “Smart voting”

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

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

“Smart voting” can only be used once to exercise your voting rights.

In the event that you wish to modify the details of your vote after exercising your voting rights, please access the website below from a PC, enter the voting rights exercise code printed on the Voting Card together with your password, log in, and exercise your voting rights once again.

* If the QR code is read a second time, you will be transferred to the PC version of the website.

How to enter the “voting rights exercise code” and “password”

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

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

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

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

Cautions regarding exercising voting rights via the Internet

- (1) Please be aware that, in order to prevent illegal online access by third parties who are non-shareholders (spoofing) and unauthorized changing of voting details, 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 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 Wednesday, March 25, 2020; however, we kindly ask that you vote as early as possible.
- (7) We conducted operation checks of the voting website using common Internet access devices. However, you may not be able to use the website on some devices.
- (8) Please note that shareholders bear any costs incurred when accessing the voting website.

Reference Documents for the General Meeting of Shareholders

Proposal No. 1: Appropriation of Surplus

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

Based on the above policy, the Company proposes to pay ¥30.00 per share as the year-end dividend for the 10th term (fiscal year under review), in comprehensive consideration of factors such as the consolidated financial results and financial condition for the fiscal year under review. As a result, the annual dividend including the interim dividend (¥30.00 per share) will be ¥60.00 per share, increased by ¥6.00 from the previous fiscal year.

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: ¥30 Total dividends: ¥1,110,873,330
3	Effective date of dividends of surplus	March 27, 2020

Proposal No. 2: Election of Eight Directors

The terms of office of all seven 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.

As a result of the above, by increasing the number of Independent Outside Directors by one person, the Company will live discussion in the Board of Directors through the inclusion of more multifaceted viewpoints. In addition, the change will further strengthen corporate governance.

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

The candidates for Director are as follows:

No.	Name		Position and responsibility in the Company (Significant concurrent positions outside the Company)	Attendance at Board of Directors meetings (fiscal year under review)
1	Michio Takahashi*	Reelection	Representative Director President & Chief Executive Officer	100% (17 of 17 meetings)
2	Toshihiro Matsuoka*	Reelection	Managing Director General Manager of Production & Technology Office	100% (17 of 17 meetings)
3	Tatsuro Niiya*	Reelection	Managing Director General Manager of Business Headquarters Office	100% (17 of 17 meetings)
4	Masaya Hamamoto*	New election	Senior Executive Officer In charge of Corporate Functions	—
5	Yukihiro Isogai*	Reelection	Director General Manager of R&D Office and Head of Innovation Strategies Office	100% (13 of 13 meetings)
6	Sayoko Miyairi	Reelection Outside Director Independent Director	Outside Director (Independent Director) Professor of Kaichi International University, The Faculty of International Liberal Arts, Department of International Liberal Arts Partner of Scholar Consult Co., Ltd.	100% (13 of 13 meetings)
7	Jun Tsuchiya	New election Outside Director Independent Director	CEO of Tsuchiya International Consulting Corp. Outside Director of Soken Chemical & Engineering Co., Ltd.	—
8	Yuji Kikuchi	New election Outside Director Independent Director	Partner and attorney at law of Tokyo Hatchobori Law Office Outside Audit & Supervisory Board Member of NEC Networks & System Integration Corporation	—

Notes:

1. An asterisk mark (*) indicates individuals serving concurrently as Executive Officers.
2. The records of attendance of Director Mr. Yukihiro Isogai and Outside Director Ms. Sayoko Miyairi are based on only the Board of Directors meetings held after they assumed their office at the 9th Ordinary General Meeting of Shareholders held on March 26, 2019.

No.	Name (Date of birth)	Career summary, position and responsibility in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
1	<Reelection> Michio Takahashi (February 15, 1965)	<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 Director, Executive Vice President and Executive Officer of the Company</p> <p>Mar. 2019 Representative Director, President and Chief Executive Officer of the Company (to present)</p>	3,000 shares
		<p>[Reason for nomination as candidate for Director]</p> <p>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 exercises strong leadership as President in order to realize VISON 2030, and has extensive experience, achievements, and insight related to management of the Group. Accordingly, the Company proposes the election of Mr. Michio Takahashi as a Director.</p>	<p>Attendance at Board of Directors meetings during the fiscal year</p> <p>100% (17 of 17 meetings)</p>
2	<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</p> <p>Mar. 2018 Managing Director and Executive Officer of the Company (to present)</p>	1,700 shares
		<p>[Current responsibility]</p> <p>General Manager of Production & Technology Office</p> <p>[Reason for nomination as candidate for Director]</p> <p>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. As General Manager of Production & Technology Office, he is currently engaged in strengthening the Company's technology foundation. Accordingly, the Company proposes the election of Mr. Toshihiro Matsuoka as a Director.</p>	<p>Attendance at Board of Directors meetings during the fiscal year</p> <p>100% (17 of 17 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> Tatsuro Niiya (June 1, 1964)	<p>Apr. 1988 Joined Kyowa Hakko Kogyo Co., Ltd.</p> <p>Jul. 2013 General Manager of Chemical Sales & Marketing Division, Business Headquarters Office of the Company</p> <p>Jan. 2016 Executive Officer of the Company</p> <p>Mar. 2017 Director and Executive Officer of the Company</p> <p>Mar. 2019 Managing Director and Executive Officer of the Company (to present)</p> <p>[Current responsibility] General Manager of Business Headquarters Office</p>	1,600 shares
		<p>[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 in the business field. As General Manager of Business Headquarters Office, he is currently engaged in strengthening the Company's business foundation. Accordingly, the Company proposes the election of Mr. Tatsuro Niiya as a Director.</p>	<p>Attendance at Board of Directors meetings during the fiscal year</p> <p>100% (17 of 17 meetings)</p>
4	<New election> Masaya Hamamoto (June 20, 1960)	<p>Apr. 1985 Joined The Industrial Bank of Japan, Limited. (now Mizuho Bank, Ltd.)</p> <p>Apr. 2011 General Manager of Osaka Corporate Banking Division No. 1 of Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.)</p> <p>Apr. 2014 Executive Officer and General Manager of Corporate Banking Division No. 5 of Mizuho Bank, Ltd. (retired in March 2015)</p> <p>Apr. 2015 Executive Officer of IBJ Leasing Company, Limited. (now Mizuho Leasing Company, Limited)</p> <p>Jun. 2015 Director, Executive Officer and General Manager of Corporate Planning Department of IBJ Leasing Company, Limited.</p> <p>Apr. 2016 Managing Director, Managing Executive Officer and General Manager of Corporate Planning Department of IBJ Leasing Company, Limited. (retired in May 2019)</p> <p>Jun. 2019 Joined the Company</p> <p>Sep. 2019 Senior Executive Officer of the Company (to present)</p> <p>[Current responsibility] In charge of Corporate Functions</p>	0 shares
		<p>[Reason for nomination as candidate for Director] The Company deems that Mr. Masaya Hamamoto 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 regarding management strategies of listed companies from holding important positions in financial institutions. Accordingly, the Company proposes the election of Mr. Masaya Hamamoto as a Director.</p>	<p>Attendance at Board of Directors meetings during the fiscal year</p> <p>—</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	<p><Reelection></p> <p>Yukihiro Isogai (October 11, 1963)</p>	<p>Apr. 1987 Joined Toaboshoku Co., Ltd.</p> <p>Aug. 2000 Joined YIC Co., Ltd.</p> <p>Oct. 2001 Joined Kyowa Hakko Kogyo Co., Ltd.</p> <p>Jan. 2016 General Manager of Yokkaichi Research Laboratories, R&D Office of the Company</p> <p>Dec. 2017 General Manager of R&D Office (to present) and General Manager of Yokkaichi Research Laboratories, R&D Office of the Company</p> <p>Jan. 2018 Executive Officer of the Company</p> <p>Mar. 2019 Director and Executive Officer of the Company (to present)</p> <p>[Current responsibility] General Manager of R&D Office and Head of Innovation Strategies Office</p> <hr/> <p>[Reason for nomination as candidate for Director] The Company deems that Mr. Yukihiro Isogai is a skilled individual that is appropriate for the sustained improvement of the Company's corporate value because he has extensive experience, achievements, and insight in the R&D field. As General Manager of R&D Office and Head of Innovation Strategies Office, he is currently engaged in developing new products and investigating new businesses. Accordingly, the Company proposes the election of Mr. Yukihiro Isogai as a Director.</p>	<p>300 shares</p> <hr/> <p>Attendance at Board of Directors meetings during the fiscal year</p> <p>100% (13 of 13 meetings)</p>
6	<p><Reelection></p> <p>Outside Director</p> <p>Independent Director</p> <p>Sayoko Miyairi (November 12, 1956)</p>	<p>Apr. 1979 Joined Hitachi, Ltd.</p> <p>Jul. 1982 Joined Bank of America, N.A., Asia Headquarters</p> <p>Mar. 1986 Joined Pasona Inc. and seconded and then transferred to Edu Consult Co., Ltd. (now Scholar Consult Co., Ltd.)</p> <p>Apr. 2000 Partner of Scholar Consult Co., Ltd. (to present)</p> <p>Apr. 2000 Assistant Professor of Nihonbashi Gakkan University (now Kaichi International University)</p> <p>Jan. 2005 Director of Scholar Consult Co., Ltd.</p> <p>Apr. 2008 Professor of Nihonbashi Gakkan University (to present)</p> <p>Mar. 2019 Outside Director of the Company (to present)</p> <p>[Significant concurrent positions outside the Company] Professor of Kaichi International University, The Faculty of International Liberal Arts, Department of International Liberal Arts Partner of Scholar Consult Co., Ltd.</p> <hr/> <p>[Reason for nomination as candidate for Outside Director] The Company deems that Ms. Sayoko Miyairi is a skilled individual that can provide advice to management from an objective standpoint and appropriately supervise the execution of duties because she possesses business and management experience gained while working at a consulting company and experience and broad insight as a university professor. As an Outside Director, she currently provides a range of opinions and recommendations related to overall management. Accordingly, the Company proposes the election of Ms. Sayoko Miyairi as an Outside Director.</p>	<p>600 shares</p> <hr/> <p>Attendance at Board of Directors meetings during the fiscal year</p> <p>100% (13 of 13 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
7	<p><New election></p> <p>Outside Director</p> <p>Independent Director</p> <p>Jun Tsuchiya (October 23, 1952)</p>	<p>Apr. 1981 Joined Argonne National Laboratory, U.S.A.</p> <p>May 1983 Joined Lawrence Berkeley National Laboratory, U.S.A.</p> <p>Feb. 1984 Joined Mitsubishi Chemical Industries Limited (now Mitsubishi Chemical Corporation)</p> <p>Jan. 1999 Seconded as President to Verbatim Corporation, U.S.A. subsidiary of Mitsubishi Chemical Limited (now Mitsubishi Chemical Corporation) as a secondment</p> <p>Apr. 2001 General Manager of Corporate Planning Office of Mitsubishi Chemical Industries Limited (now Mitsubishi Chemical Corporation) (retired in January 2002)</p> <p>Feb. 2002 Director of Rohm & Haas Japan K.K. (now Dow Chemical Japan Limited) (retired in December 2006)</p> <p>Jan. 2007 Representative Director and President of Heraeus K.K. (retired in September 2018)</p> <p>Oct. 2018 CEO of Tsuchiya International Consulting Corp. (to present)</p> <p>Jun. 2019 Outside Director of Soken Chemical & Engineering Co., Ltd. (to present)</p> <p>[Significant concurrent positions outside the Company] CEO of Tsuchiya International Consulting Corp. Outside Director of Soken Chemical & Engineering Co., Ltd.</p> <p>[Reason for nomination as candidate for Outside Director] The Company deems that Mr. Jun Tsuchiya is a skilled individual that can provide advice to management and appropriately supervise the execution of duties because he possesses management know-how accumulated at global companies and advanced technological knowledge in the chemical field. Accordingly, the Company proposes the election of Mr. Jun Tsuchiya as an Outside Director.</p>	<p>0 shares</p> <p>Attendance at Board of Directors meetings during the fiscal year</p> <p>—</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><New election></p> <p>Outside Director</p> <p>Independent Director</p> <p>Yuji Kikuchi (February 15, 1964)</p>	<p>Apr. 1992 Registered as an attorney at law Entered Sakano, Seo & Hashimoto Law Office (now Tokyo Hatchobori Law Office)</p> <p>Apr. 2002 Partner of Tokyo Hatchobori Law Office</p> <p>Mar. 2003 Joined the Securities and Exchange Surveillance Commission (Coordination and Inspection Division, Executive Bureau)</p> <p>Mar. 2005 Returned to Partner of Tokyo Hatchobori Law Office (to present)</p> <p>Jun. 2010 Outside Audit & Supervisory Board Member of Inui Warehouse Co., Ltd. (now Inui Global Logistics Co., Ltd.)</p> <p>Jun. 2014 Outside Audit & Supervisory Board Member of NEC Networks & System Integration Corporation (to present)</p> <p>[Significant concurrent positions outside the Company]</p> <p>Partner and attorney at law of Tokyo Hatchobori Law Office Outside Audit & Supervisory Board Member of NEC Networks & System Integration Corporation</p> <p>[Reason for nomination as candidate for Outside Director]</p> <p>The Company deems that Mr. Yuji Kikuchi is a skilled individual that can provide advice to management and appropriately supervise the execution of duties because he possesses broad expertise particularly in the Companies Act and corporate governance as an attorney at law, although he has not been directly involved in a company's management by means other than serving as an outside corporate auditor. Accordingly, the Company proposes the election of Mr. Yuji Kikuchi as an Outside Director.</p>	<p>0 shares</p> <p>Attendance at Board of Directors meetings during the fiscal year</p> <p>—</p>

Notes:

- Ms. Sayoko Miyairi's name as recorded in her family register is Sayoko Ibaraki.
- There is no special interest between any of the candidates for Director and the Company.
- At the conclusion of this Ordinary General Meeting of Shareholders, Ms. Sayoko Miyairi's term of office as Outside Director will have been one year.
- The Company has entered into a liability limitation agreement with Ms. Sayoko Miyairi in accordance with Article 427, paragraph 1 of the Companies Act and the provisions of the Company's Articles of Incorporation to limit the liability for damages as provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of liability for damages under said agreement shall be the amount stipulated by laws and regulations. If Ms. Sayoko Miyairi is elected, the Company plans to renew the aforementioned agreement with her. In addition, if Messrs. Jun Tsuchiya and Yuji Kikuchi are elected, the Company plans to enter into the similar liability limitation agreement with each of them.
- The Company has submitted notification to Tokyo Stock Exchange, Inc. that Ms. Sayoko Miyairi has been designated as Independent Director as provided for by the aforementioned stock exchange. If this proposal is approved and adopted, the Company will notify Tokyo Stock Exchange of the designation of Ms. Sayoko Miyairi and Messrs. Jun Tsuchiya and Yuji Kikuchi as Independent Directors in the same way as indicated above.

Proposal No. 3: Election of Three Audit & Supervisory Board Members

The terms of office of all three Audit & Supervisory Board Members will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the Company proposes the election of three Audit & Supervisory Board Members, including two Outside Audit & Supervisory Board Members.

In addition, the Audit & Supervisory Board has given consent for this proposal.

The candidates for Audit & Supervisory Board Member are as follows:

No.	Name	Position in the Company (Significant concurrent positions outside the Company)	Attendance at Board of Directors/ Audit & Supervisory Board meetings (fiscal year under review)
1	Tokuo Oodo Reelection	Full-time Audit & Supervisory Board Member	100% (17 of 17 meetings) 100% (13 of 13 meetings)
2	Kazuhiro Kawai New election Outside Audit & Supervisory Board Member Independent Audit & Supervisory Board Member	Outside Corporate Auditor of Kiraboshi Bank, Ltd. Corporate Auditor of Japan Management Systems, Inc.	—
3	Keiko Tamura New election Outside Audit & Supervisory Board Member Independent Audit & Supervisory Board Member	Partner attorney at law of Asahi Law Offices Outside Director (Audit and Supervisory Committee Member) of ODELIC CO., LTD. Outside Audit & Supervisory Board Member of The Norinchukin Trust & Banking Co., Ltd.	—

No.	Name (Date of birth)	Career summary and position in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
1	<Reelection> Tokuo Oodo (August 11, 1959)	<p>Apr. 1983 Joined Nissan Chemical Industries, Ltd. (now Nissan Chemical Corporation)</p> <p>Jul. 1989 Transferred to Kyowa Hakko Kogyo Co., Ltd.</p> <p>Jul. 2013 General Manager of Accounting Division of the Company</p> <p>Mar. 2017 Full-time Audit & Supervisory Board Member of the Company (to present)</p>	<p>600 shares</p>
		<p>[Reason for nomination as candidate for Audit & Supervisory Board Member]</p> <p>Mr. Tokuo Oodo has experience in a broad range of operations in the administrative department. Furthermore, he has been involved in internal audits, and possesses abundant knowledge of accounting and finance. He also has proven experience as an Audit & Supervisory Board Member of the Company. Accordingly, the Company proposes the election of Mr. Tokuo Oodo as an Audit & Supervisory Board Member.</p>	<p>Attendance at Board of Directors meetings during the fiscal year 100% (17 of 17 meetings)</p> <p>Attendance at Audit & Supervisory Board meeting during the fiscal year 100% (13 of 13 meetings)</p>
2	<New election> Outside Audit & Supervisory Board Member Independent Audit & Supervisory Board Member Kazuhiro Kawai (May 16, 1959)	<p>Apr. 1983 Joined The Industrial Bank of Japan, Limited. (now Mizuho Bank, Ltd.)</p> <p>Apr. 2009 General Manager of Credit Review Division of Mizuho Corporate Bank, Ltd. (now Mizuho Bank, Ltd.)</p> <p>Apr. 2012 Executive Officer, General Manager of Corporate Credit Division of Mizuho Corporate Bank, Ltd. (retired in April 2014)</p> <p>May 2014 Managing Executive Officer of Nippon Steel Kowa Real Estate Co., Ltd.</p> <p>Jun. 2014 Managing Director of Nippon Steel Kowa Real Estate Co., Ltd.</p> <p>Apr. 2018 Director of Nippon Steel Kowa Real Estate Co., Ltd. (retired in June 2018)</p> <p>May 2018 Outside Audit & Supervisory Board Member of Kiraboshi Bank, Ltd. (to present)</p> <p>May 2019 Corporate Auditor of Japan Management Systems, Inc. (to present)</p>	<p>0 shares</p>
		<p>[Significant concurrent positions outside the Company]</p> <p>Outside Corporate Auditor of Kiraboshi Bank, Ltd.</p> <p>Corporate Auditor of Japan Management Systems, Inc.</p> <p>[Reason for nomination as candidate for Outside Audit & Supervisory Board Member]</p> <p>The Company deems that Mr. Kazuhiro Kawai will conduct appropriate audits in the Company from a fair and objective standpoint because he possesses abundant experience regarding examination practices and management at financial institutions, and advanced knowledge of accounting. Accordingly, the Company proposes the election of Mr. Kazuhiro Kawai as an Outside Audit & Supervisory Board Member.</p>	<p>Attendance at Board of Directors meeting during the fiscal year —</p> <p>Attendance at Audit & Supervisory Board meeting during the fiscal year —</p>

No.	Name (Date of birth)	Career summary and position in the Company (Significant concurrent positions outside the Company)	Number of the Company's shares owned
3	<New election> Outside Audit & Supervisory Board Member Independent officer Keiko Tamura (August 11, 1963)	Apr. 1992 Registered as an attorney at law Joined Tokyo Yaesu Law Offices (now Asahi Law Offices) Apr. 1998 Partner of Asahi Law Offices (to present) Jun. 2014 Outside Audit & Supervisory Board Member of The Norinchukin Trust & Banking Co., Ltd. (to present) Jun. 2016 Outside Director (Audit and Supervisory Committee Member) of ODELIC CO., LTD. (to present)	0 shares
		[Significant concurrent positions outside the Company] Partner and attorney at law of Asahi Law Offices Outside Director (Audit and Supervisory Committee Member) of ODELIC CO., LTD. Outside Audit & Supervisory Board Member of The Norinchukin Trust & Banking Co., Ltd.	Attendance at Board of Directors meetings during the fiscal year —
		[Reason for nomination as candidate for Outside Audit & Supervisory Board Member] Ms. Keiko Tamura possesses broad expertise in the financial field and corporate legal affairs as an attorney at law. Although she has not been directly involved in a company's management by means other than serving as an outside director or audit & supervisory board member, the Company deems that she will conduct appropriate audits in the Company from a fair and objective standpoint. Accordingly, the Company proposes the election of Ms. Keiko Tamura as an Outside Audit & Supervisory Board Member.	Attendance at Audit & Supervisory Board meetings during the fiscal year —

Notes:

1. There is no special interest between any of the candidates for Audit & Supervisory Board Member and the Company.
2. At the conclusion of this Ordinary General Meeting of Shareholders, Mr. Tokuo Oodo's term of office as Audit & Supervisory Board Member will have been three years.
3. The Company has entered into a liability limitation agreement with Mr. Tokuo Oodo in accordance with Article 427, paragraph 1 of the Companies Act and the provisions of the Company's Articles of Incorporation to limit the liability for damages as provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of liability for damages under said agreement shall be the amount stipulated by laws and regulations. If Mr. Tokuo Oodo is elected, the Company plans to renew the aforementioned agreement with him. In addition, if Mr. Kazuhiro Kawai and Ms. Keiko Tamura are elected, the Company plans to enter into the similar liability limitation agreement with each of them.
4. If this proposal is approved and adopted, the Company will notify Tokyo Stock Exchange of the designation of Mr. Kazuhiro Kawai and Ms. Keiko Tamura as Independent Audit & Supervisory Board Members as provided for by the stock exchange.

(Document to be provided)

Business Report

(January 1, 2019 to December 31, 2019)

1. Current Status of the Corporate Group

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

(i) Business progress and results

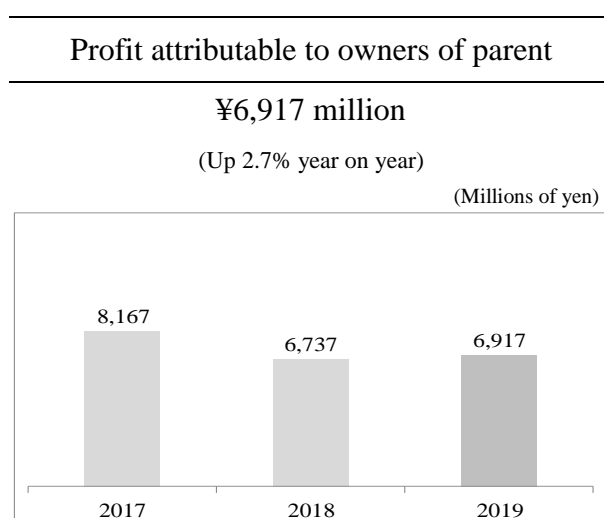
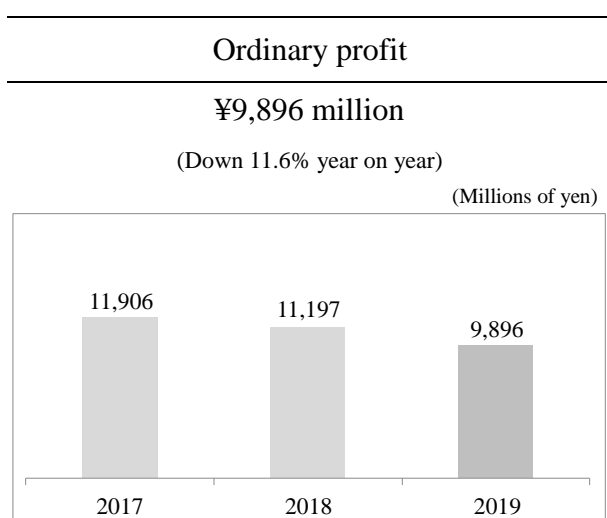
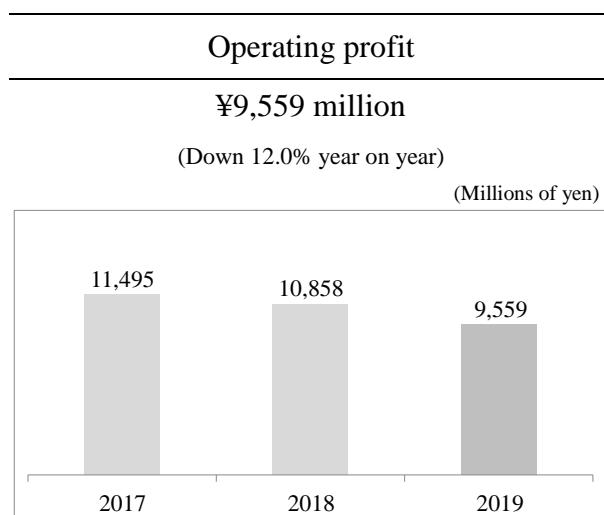
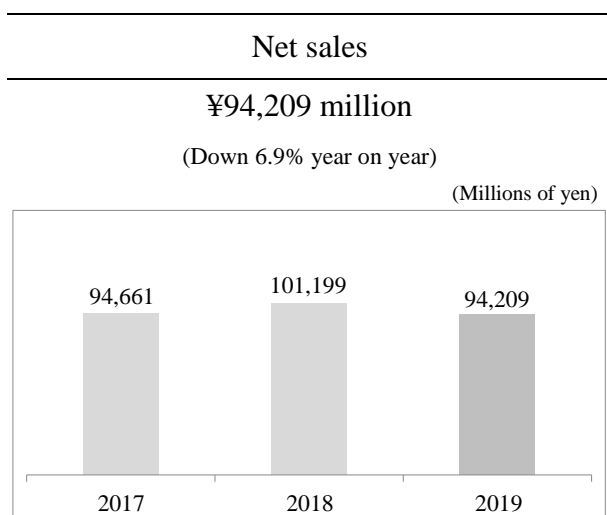
During the consolidated fiscal year under review, despite strong capital investments of companies, the tone of the Japanese economy remained flat in general, with slumping exports and industrial production lacking strength due to a slowdown in the Chinese economy against a backdrop of trade friction between the U.S. and China. Due to concerns about the impact on various countries' economies from the political situation in Europe and North America and instability in the Middle East, there was an ongoing sense of uncertainty regarding the future.

With regard to the environment surrounding the Group, market conditions for basic chemicals in the Asian market remained weak, due to a large decline in prices of overall chemicals affected by a sharp fall in the price of crude oil and naphtha at the end of the previous year. For performance chemicals, amid the slowing economy in China, both production and shipments stagnated due to the impact of inventory adjustments, etc. despite the air conditioner market being at a high level.

Under these circumstances, the Group has worked on "Profit Increase by New Facilities," "Active Investment for the Further Expansion of the Performance Chemical Business" and "Improvement of Business Framework," which are the basic strategies set forth for its third Medium-Term Business Plan "Taking on New Challenges," and steadily moved forward with the implementation of various measures including construction of new facilities for refrigeration lubricant raw materials to expand share, opening of the new research hub for promptly creating new business, and further introduction of facility control system with latest technologies. The Group also actively worked to strengthen its corporate governance and to further enhance its Corporate Social Responsibility (CSR) activities.

Due to the impact of severe overseas market conditions for basic chemicals, as well as interruption of raw material supply, failure of plant equipment, etc., the Group's results for the fiscal year under review included net sales of ¥94,209 million (down 6.9% year on year), operating profit of ¥9,559 million (down 12.0% year on year), and ordinary profit of ¥9,896 million (down 11.6% year on year), which reduced both revenue and profits. However, profit attributable to owners of parent increased to ¥6,917 million (up 2.7% year on year) due to the absence of the extraordinary loss in the consolidated fiscal year under review that was posted in the previous fiscal year for the discontinuation of the Isononyl alcohol project.

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



(ii) Capital investments

Total capital investments for the Group in the fiscal year under review were ¥6,995 million, and were mainly focused on expanding production facilities at the Yokkaichi Plant for raw materials used in refrigeration lubricants. Operations at those production facilities began in 2020.

(iii) Financing

The Group raises funds through means such as loans from financial institutions. The Group issued straight bonds to apply raised funds to payments for capital investments as follows.

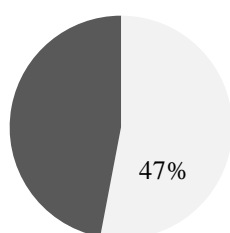
Issued bonds	Issuance date	Total issue amount (Millions of yen)	Maturity
First unsecured straight bonds payable	December 5, 2019	5,000	December 5, 2024

Results by business field

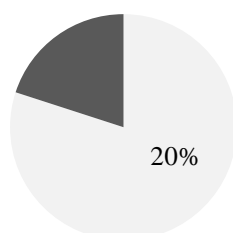
The Group is primarily engaged in the development, manufacture and sale of petrochemical products. As the business of the Group consists of a single segment, the chemical business, segment information is not provided. Furthermore, the overview of details of business and main products are current as of December 31, 2019.

Basic Chemicals

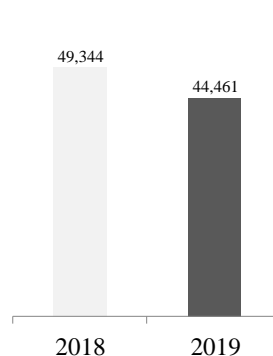
Basic Chemicals
proportion of total net
sales



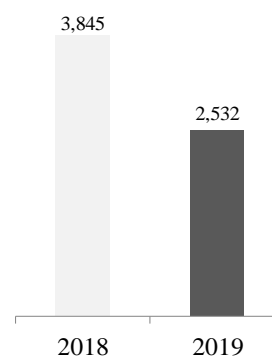
Basic Chemicals
proportion of total
operating profit



Net sales
(Millions of yen)



Operating profit
(Millions of yen)



Overview of details of business

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

Main products

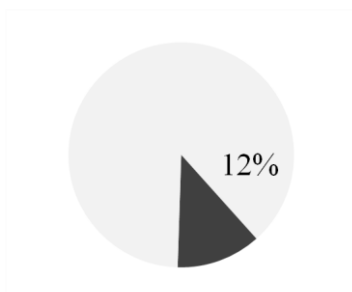
Butyl alcohol, 2-ethyl hexyl alcohol, Isononyl alcohol (INA), Butyl acetate

Key points of results

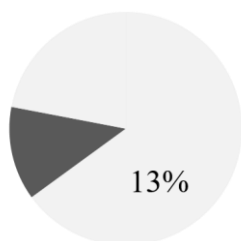
There was impact of stagnant market conditions in the Asian market, competition from import goods in Japan, failure of production equipment and other factors. As a result, all sales volume, net sales and profits declined year on year, with net sales totaling ¥44,461 million (down 9.9 year on year) and operating profit amounting to ¥2,532 million (down 34.1%).

Electronic Materials

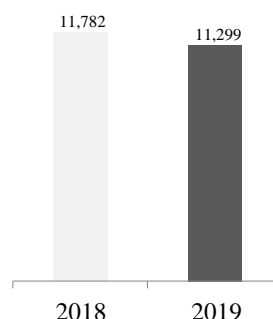
Electronic Materials
proportion of total net
sales



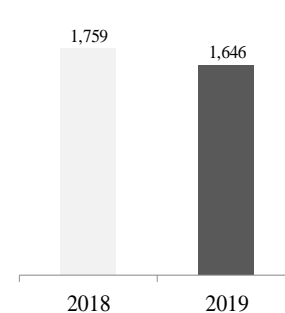
Electronic Materials
proportion of total
operating profit



Net sales
(Millions of yen)



Operating profit
(Millions of yen)



Overview of details of business

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

Main products

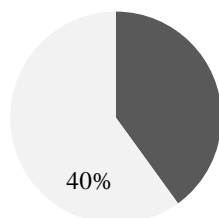
Propylene glycol monomethyl ether-P (PM-P), Propylene glycol monomethyl ether acetate-P (PMA-P)

Key points of results

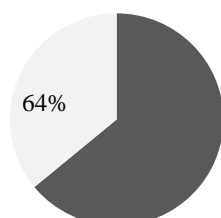
Despite strong sales of high-purity solvents in Japan, all sales volume, net sales and profits declined year on year due to a decrease in exports to South Korea and trend of weak demand for subsidiaries' products for displays, and other factors. As a result, net sales totaled ¥11,299 million (down 4.1% year on year) and operating profit amounted to ¥1,646 million (down 6.4% year on year).

Performance Materials

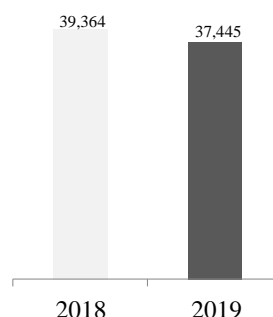
Performance Materials
proportion of total net
sales



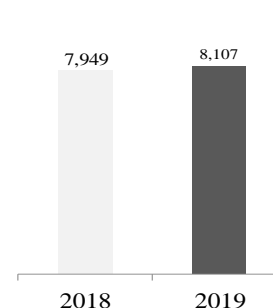
Performance Materials
proportion of total
operating profit



Net sales
(Millions of yen)



Operating profit
(Millions of yen)



Overview of details of business

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

Main products

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

Key points of results

Sales volume and net sales declined year on year due to temporary interruption of raw material supply and failure of plant equipment in the first half of the year, in addition to the impact of inventory adjustments on demand for refrigeration lubricant raw materials for air conditioners and cosmetic raw materials in Asia. However, as a result of efforts to work on appropriate pricing policies, etc., profits rose year on year, with net sales coming to ¥37,445 million (down 4.9% year on year) and operating profit reaching ¥8,107 million (up 2.0% year on year).

Others

Key points of results

In the Other field, net sales was ¥1,003 million (up 41.7% year on year) and operating profit was ¥315 million (up 101.7% year on year).

Note: When calculating “operating profit” in results by business field, administrative expenses, etc., which are common to the entire company, are not allocated.

(2) Trends in operating results and assets

Item	7th Fiscal Year (Year ended December 31, 2016)	8th Fiscal Year (Year ended December 31, 2017)	9th Fiscal Year (Year ended December 31, 2018)	10th Fiscal Year (Current fiscal year) (Year ended December 31, 2019)
Net sales (Millions of yen)	80,163	94,661	101,199	94,209
Ordinary profit (Millions of yen)	8,950	11,906	11,197	9,896
Profit attributable to owners of parent (Millions of yen)	6,013	8,167	6,737	6,917
Basic earnings per share (Yen)	173.56	222.12	182.77	187.09
Total assets (Millions of yen)	87,674	95,247	94,035	102,261
Net assets (Millions of yen)	28,112	34,512	38,304	43,522

Notes:

1. Basic earnings per share was calculated on the assumption that the share split was conducted at the beginning of the 7th fiscal year (year ended December 31, 2016), since the Company conducted a 1:100 share split whereby 1 common share was split into 100 common shares on June 10, 2016.
2. The Group has applied the Partial Amendments to Accounting Standard for Tax Effect Accounting and relevant guidance from the beginning of the 10th fiscal year (fiscal year under review), and the amount of total assets for the 9th fiscal year (year ended December 31, 2018) represents the amount after the retrospective application of this accounting standard and relevant guidance.

(3) Major parent company and subsidiaries

(i) Parent company

There is no relevant information.

(ii) Major subsidiaries

Company name	Capital	The Company's voting rights ratio	Principal business
Kurogane Kasei Co., Ltd.	¥90 million	70.6%	Manufacture, contracted manufacture and sale of organic synthesis intermediates
Kurogane Fines Inc.	¥10 million	65.0% (55.0%)	Sale of products including raw materials for health foods and pharmaceuticals, and industrial chemical products
KH Neochem Americas, Inc.	US\$870 thousand	100.0%	Import, export and sale of chemicals

Notes:

1. The Company additionally acquired shares of Kurogane Kasei Co., Ltd. on November 29, 2019.
2. Kurogane Kasei Co., Ltd. additionally acquired shares of Kurogane Fines Inc. on September 20, 2019.
3. Values under “The Company’s voting rights ratio” that are in parentheses are the portion of indirect holdings.
4. In regard to “The Company’s voting rights ratio” figures less than one unit of display are rounded to the nearest unit.

(4) Issues to be addressed

The Group has formulated “Taking on New Challenges,” our third Medium-Term Business Plan that covers the three years from 2019 to 2021, for which it has defined and has implemented the following basic strategies.

Basic Strategies of 3rd Medium-Term Business Plan

Strategy I	Profit Increase by New Facilities <ul style="list-style-type: none">• Startup of new facilities for refrigeration lubricant raw materials and marketing of new products• Operate new facilities for the next generation semiconductor materials
Strategy II	Active Investment for the Further Expansion of the Performance Chemical Business <ul style="list-style-type: none">• Further increase in production capacity for performance chemicals• Creation of new business through the new research hub
Strategy III	Improvement of Business Framework <ul style="list-style-type: none">• Further introduction of facility control system with the latest technologies (AI and IoT)• Improvement of work environment and encouragement of diverse work styles

Initiatives for 2020

We have been moving forward with the implementation of various measures in accordance with the policies of the 3rd Medium-Term Business Plan. However, since prospects for the economy are expected to remain unclear as a whole, we aim to achieve management objectives by responding to changes in the business circumstances flexibly and agilely.

As for Strategy I “Profit Increase by New Facilities,” we will work to increase revenue through expansion of sales of refrigeration lubricant raw materials for environmentally conscious air conditioners and next generation semiconductor materials, for which the new facilities will begin operation in 2020.

As for Strategy II “Active Investment for the Further Expansion of the Performance Chemical Business,” we will continue examinations on large strategic investments that focused on an increase in capacity for refrigeration lubricant raw materials and cosmetic raw materials to realize medium- to long-term growth. In addition, we will accelerate exploration for new businesses that become pillars to next generation business in strategic domains of “Environment,” “Healthcare” and “Electronics” for VISION 2030, making use of KH i-Lab, the open the innovation hub that opened in October 2019.

As for Strategy III “Improvement of Business Framework,” we will implement strategic maintenance to reduce equipment troubles, and further introduce facility control system utilizing the latest technologies to improve production capacity and curtail costs. Moreover, we will promote introduction of an enterprise resource planning system (ERP) to accelerate business improvement. We will also increase diversity in the Board of Directors and strengthen corporate governance. In addition to the above measures, we will carry out structural reforms in order to maximize the Company’s management resources.

The Group continues to aim to be “A Leading Global Specialty Chemical Company” set forth in VISION 2030 by continuing our efforts to resolve global environmental and social issues. We ask all our shareholders for your continued support.

(5) Principal offices, plants, etc. (As of December 31, 2019)

(i) The Company

Head Office	Chuo-ku, Tokyo
Plant	Yokkaichi Plant (Yokkaichi-city, Mie) Chiba Plant (Ichihara-city, Chiba)
Laboratory	R&D Center (Yokkaichi-city, Mie) KH i-Lab (Kawasaki-city, Kanagawa)
Branch Office	Osaka Branch Office (Osaka-city, Osaka)

Notes:

1. As of May 7, 2019, the Head Office was relocated to 2-3-1, Nihonbashi-Muromachi, Chuo-ku, Tokyo. Because the relocation occurred within the same ward, the above has not changed.
2. In line with the reorganization as of January 1, 2019, the name of Yokkaichi Research Lab was changed to R&D Center.
3. As of October 1, 2019, KH i-Lab was established as a new research and development hub.

(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.

(6) Employees (As of December 31, 2019)

Employees of the corporate group

Number of employees (Year-on-year change)	Average age	Average years of service
808 (Increase of 55)	39.3	15.1 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.

(7) Principal lenders (As of December 31, 2019)

(Millions of yen)

Lender	Balance of borrowing
Mizuho Bank, Ltd.	6,045
Mizuho Trust & Banking Co., Ltd.	5,465
Sumitomo Mitsui Trust Bank, Limited	3,134
Resona Bank, Limited	2,554

(8) 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, 2019)

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

(ii) Total number of issued shares 37,029,400 shares (including 289 treasury shares)

Note: Due to the exercise of stock options during the current fiscal year, the total number of issued shares increased by 80,000 shares.

(iii) Number of shareholders 6,010

(iv) Major shareholders

Name of shareholders	Number of shares held	Holding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust account)	4,241,100	11.45
THE CHASE MANHATTAN BANK 385036	2,627,499	7.10
The Master Trust Bank of Japan, Ltd. (Trust account)	2,379,200	6.43
Tosoh Corporation	1,852,000	5.00
TAIYO FUND, L.P.	1,097,200	2.96
JP MORGAN CHASE BANK 385174	1,037,200	2.80
Mizuho Bank, Ltd.	733,300	1.98
TAIYO HANEI FUND, L.P.	732,500	1.98
Japan Trustee Services Bank, Ltd. (Trust account 9)	725,000	1.96
Japan Trustee Services Bank, Ltd. (Trust account 5)	698,700	1.89

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 one unit of display rounded to the nearest unit.

(2) Share acquisition rights, etc.

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

There is no relevant information.

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

There is no relevant information.

(3) Directors and Audit & Supervisory Board Members

(i) Directors and Audit & Supervisory Board Members (As of December 31, 2019)

Position in the Company	Name	Responsibility in the Company and significant concurrent positions outside the Company
Representative Director President & Chief Executive Officer	Michio Takahashi*	
Managing Director	Toshihiro Matsuoka*	General Manager of Production & Technology Office
Managing Director	Kenichi Hirai*	Officer in charge of Corporate Functions (Accounting, Finance, Public Relations, and Investor Relations)
Managing Director	Tatsuro Niiya*	General Manager of Business Headquarters Office
Director	Yukihiro Isogai*	General Manager of R&D Office and Head of Innovation Strategies Office
Outside Director (Independent Director)	Manabu Fujise	Outside Director of MORIROKU HOLDINGS COMPANY, LTD.
Outside Director (Independent Director)	Sayoko Miyairi	Professor of Kaichi International University, The Faculty of International Liberal Arts, Department of International Liberal Arts Partner of Scholar Consult Co., Ltd.
Full-time Audit & Supervisory Board Member	Tokuo Oodo	
Outside Audit & Supervisory Board Member (Independent Audit & Supervisory Board Member)	Atsuo Inagaki	
Outside Audit & Supervisory Board Member (Independent Audit & Supervisory Board Member)	Kenji Ito	

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

Notes:

1. Ms. Sayoko Miyairi's name as recorded in her family register is Sayoko Ibaraki.
2. There are no important transactional or other special relationships between the Company and the companies at which Outside Directors hold significant concurrent positions.

3. Changes of Directors at the 9th Ordinary General Meeting of Shareholders held on March 26, 2019 were as follows.

Type of change	Position in the Company	Name
Assumption of office	Director	Yukihiro Isogai
Assumption of office	Outside Director (Independent Director)	Sayoko Miyairi
Retirement	Representative Director President & Chief Executive Officer	Keiichi Asai
Retirement	Outside Director	Katsu Harashima
Retirement	Outside Director (Independent Director)	Mitsuhiro Nagata

4. Changes in position and responsibility in the Company and significant concurrent positions outside the Company during the current fiscal year were as follows.

Name	Before changes	After changes	Date of changes
Michio Takahashi	Executive Vice President Officer in charge of Corporate Functions (Corporate Planning, Project Development, and Purchasing)	Representative Director President & Chief Executive Officer	March 26, 2019
Kenichi Hirai	Managing Director Officer in charge of Corporate Functions (Accounting, Finance, Public Relations, and Investor Relations) General Manager of Finance Division	Managing Director Officer in charge of Corporate Functions (Accounting, Finance, Public Relations, and Investor Relations)	May 1, 2019
Tatsuro Niiya	Director General Manager of Business Headquarters Office	Managing Director General Manager of Business Headquarters Office	March 26, 2019

5. Audit & Supervisory Board Members Tokuo Oodo, Atsuo Inagaki and Kenji Ito possess considerable knowledge of finance and accounting as described below.
- (i) Tokuo Oodo had been serving in the Accounting Division of the Company for many years, and has experience of accounting and financial operations.
 - (ii) Atsuo Inagaki has experience serving as an audit & supervisory board member at other business companies.
 - (iii) Kenji Ito has many years of work experience and experience as an audit & supervisory board member mainly at financial institutions.
6. Overview of content of limited liability agreement
- Under Article 427, paragraph 1 of the Companies Act and the provisions of the Company's Articles of Incorporation, the Company has entered into agreements with two 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 Director Manabu Fujise, and of Audit & Supervisory Board Members Atsuo Inagaki and Kenji Ito, while for Director Sayoko Miyairi and Audit & Supervisory Board Member Tokuo Oodo, the amount shall be the amount stipulated by laws and regulations.
7. The Company has submitted notification to the Tokyo Stock Exchange that Mr. Manabu Fujise, Ms. Sayoko Miyairi, Messrs. Atsuo Inagaki and Kenji Ito have been designated as Independent Directors or Independent Audit & Supervisory Board Members as provided for by the aforementioned exchange.

(Reference) Executive Officers not concurrently serving as Directors (As of December 31, 2019)

Position in the Company	Name	Responsibility in the Company
Senior Executive Officer	Masaya Hamamoto	Officer in charge of Corporate Functions
Executive Officer	Seiji Saito	Deputy General Manager of Production & Technology Office
Executive Officer	Toshiaki Ogata	Seconded to Kurogane Kasei Co., Ltd. (President & Chief Executive Officer)
Executive Officer	Koji Matsuda	Officer in charge of Corporate Functions (HR, General Affairs, and IT)
Executive Officer	Akio Nakahashi	General Manager of Chiba Plant
Executive Officer	Yoshiaki Kondo	General Manager of Yokkaichi Plant
Executive Officer	Hideki Shimizu	Officer in charge of Corporate Functions (Corporate Planning, Project Development, and Purchasing) General Manager of Purchasing Division

Notes:

- Executive Officer Koji Matsuda retired as of December 31, 2019.
- Changes of the position and responsibility in the Company as of January 1, 2020 are as follows.

Name	Before changes	After changes
Hideki Shimizu	Executive Officer Officer in charge of Corporate Functions (Corporate Planning, Project Development, and Purchasing) General Manager of Purchasing Division	Executive Officer Officer in charge of Corporate Functions (Strategic Planning and Purchasing)
Isao Takahashi	General Manager of General Affairs Division	Executive Officer Officer in charge of Corporate Functions (HR, Legal, General Affairs, and IT) General Manager of Corporate Administration Division
Akira Kamimura	General Manager of Finance Division	Executive Officer General Manager of Finance Division

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

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

	Number of Directors and Audit & Supervisory Board Members	Total amount of remuneration, etc. by type (Millions of yen)		Amount of remuneration, etc. (Millions of yen)
		Monetary remuneration	Share-based remuneration	
Director	9	137	16	153
(of which, Outside Director)	(3)	(11)	(-)	(11)
Audit & Supervisory Board Member	3	28	-	28
(of which, Outside Audit & Supervisory Board Member)	(2)	(10)	(-)	(10)
Total	12	166	16	182
(of which, Outside Director and Outside Audit & Supervisory Board Member)	(5)	(22)	(-)	(22)

Notes:

1. Remunerations, etc. for Directors do not include the employee salaries paid to the Directors who concurrently serve as employees.
2. The above does not include Outside Directors that are serving without remuneration.
3. The share-based remuneration shows the amount expensed during the fiscal year under review in accordance with the Board Benefit Trust (BBT) performance-linked share-based remuneration plan, which was introduced by resolution at the 8th Ordinary General Meeting of Shareholders held on March 27, 2018.
4. The maximum amount of remuneration, etc. for Directors and Audit & Supervisory Board Members was resolved as follows.

	Type of remuneration, etc.	Maximum amount	Resolution at the General Meeting of Shareholders
Director	Monetary remuneration	¥200 million per year (not including the employee portion of salaries of Directors who concurrently serve as employees)	Extraordinary General Meeting of Shareholders on March 31, 2011
	Share-based remuneration	Based on the Board Benefit Trust (BBT) performance-linked share-based remuneration plan, contribute monies to the trust, up to ¥110 million every three fiscal years	8th Ordinary General Meeting of Shareholders held on March 27, 2018
Audit & Supervisory Board Member	Monetary remuneration	¥50 million per year	Extraordinary General Meeting of Shareholders on March 31, 2011

(iii) Matters concerning Outside Directors and Outside Audit & Supervisory Board Members

Major activities during the current fiscal year

Name	Position	Attendance	Status of main statements made
Manabu Fujise	Outside Director	Board of Directors meetings: 17 of 17 meetings	Provided opinions based on his many years of experience at a major chemical company and his broad insight.
Sayoko Miyairi	Outside Director	Board of Directors meetings: 13 of 13 meetings	Provided opinions based on her experience and broad insight gained through consulting and academic research on reform of organization climate, etc.
Atsuo Inagaki	Outside Audit & Supervisory Board Member	Board of Directors meetings: 17 of 17 meetings Audit & Supervisory Board meetings: 13 of 13 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 meetings: 16 of 17 meetings Audit & Supervisory Board meetings: 13 of 13 meetings	Provided opinions based on his many years of business experience at financial institutions, etc., his experience as an audit & supervisory board member and his broad insight.

Notes:

1. Other than the above number shown for Board of Directors meetings held, there was one resolution in writing, which is deemed to be a resolution of the Board of Directors passed pursuant to the provisions of Article 370 of the Companies Act and Article 24 of the Company's Articles of Incorporation.
2. Outside Director Sayoko Miyairi was newly elected at the 9th Ordinary General Meeting of Shareholders held on March 26, 2019, and as such the number shown for attendance indicates her attendance to the Board of Directors meetings that were held after her assumption of office.

(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	¥32 million
Total amount of money and other financial interests to be paid by the Company and its subsidiaries	¥34 million

Notes:

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

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

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

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

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

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

A summary of the content and operational 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 a whistleblowing 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.”
- Under the leadership of the Officer in charge of compliance, we have put in place a structure to respond to non-compliance cases more swiftly.
- At the Compliance Committee, which is held twice a year, compliance measures are promoted, and educational and awareness-raising activities are conducted at the workplace level.
- Various training programs are implemented for employees in order to raise awareness of conformance with compliance, and to ensure that both internal and external rules, such as related laws and regulations, are widely understood.
- In order to raise awareness of compliance issues, we have prescribed a “5C Credo,” and distributed “Credo Cards” (including compliance cards) to both Executive Officers and employees, in order to ensure that it is widely known.
- In order to keep up with the corporate governance cord, a “Corporate Governance Report” is updated and disclosed appropriately.
- 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 contact point) to put in place a structure that enables not only whistleblowing of violation cases but also broad counseling, and we strive to prevent problems in advance. In addition, we have made the existence of the whistleblowing system widely known through providing various types of training, displaying information on posters and the intranet, and other means.
- We have caught up on revisions to laws and regulations and ensured that they are widely understood internally, and updated regulations and other internal rules appropriately.
- 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 preserved and managed appropriately, based on various regulations such as the “Rules for Management of Confidential Information” and “Document Rules.”
- We have set forth the operational system for material non-public information to ensure thorough insider trading prevention for officers and employees in the Insider Trading Prevention Rules in addition to managing such information in accordance with the 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 department shall identify, analyze, assess and respond to the risks that it is with jurisdiction.

[Operational Status]

The Company operates the system as follows.

- For pension assets, we, as an asset owner, have monitored stewardship activities of organizations entrusted with asset management.
- We have prescribed “Risk Management Rules” and maintain a risk register focused on business risk.
- Every year, each department gathers together the risks related to the work for which they are responsible, performs an analysis and evaluation of them, and updates the risk register. In addition, we work to reduce risks and prevent the materialization of such risks by taking appropriate measures.
- Departments with jurisdiction for risks for the Company conduct monitoring of the risks listed in the risk register, and report risks that exceed a certain level to the Board of Directors once a year.
- In order to minimize damage and strive for business continuity and recovery in the event of an emergency situation, we have set basic policies for business continuity management (BCM), and each business place has put in place a business continuity plan (BCP) based on these policies.

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

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

[Operational Status]

The Company operates the system as follows.

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

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

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

[Operational Status]

The Company operates the system as follows.

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

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

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

[Operational Status]

The Company operates the system as follows.

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

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

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

[Operational Status]

The Company operates the system as follows.

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

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

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

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

[Operational Status]

The Company operates the system as follows.

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

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

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

[Operational Status]

The Company operates the system as follows.

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

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

- 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.
- 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, 2019)

(Millions of yen)

Assets		Liabilities	
Description	Amount	Description	Amount
Current assets	55,038	Current liabilities	43,419
Cash and deposits	17,867	Notes and accounts payable - trade	17,523
Notes and accounts receivable - trade	22,635	Short-term loans payable	10,440
Merchandise and finished goods	10,263	Current portion of long-term loans payable	2,400
Work in process	345	Accounts payable - other	8,313
Raw materials and supplies	2,083	Income taxes payable	1,925
Other	1,848	Provision for repairs	2,245
Allowance for doubtful accounts	(5)	Other	572
Non-current assets	47,222	Non-current liabilities	15,318
Property, plant and equipment	35,474	Bonds payable	5,000
Buildings and structures	5,781	Long-term loans payable	5,650
Machinery, equipment and vehicles	5,018	Deferred tax liabilities	1,769
Land	17,549	Net defined benefit liability	2,466
Construction in progress	5,935	Provision for environmental measures	148
Other	1,189	Other	283
Intangible assets	1,737	Total liabilities	58,738
Goodwill	1,512	Net assets	
Other	225	Shareholders' equity	40,450
Investments and other assets	10,010	Capital stock	8,822
Investment securities	7,523	Capital surplus	6,107
Net defined benefit asset	1,562	Retained earnings	25,557
Deferred tax assets	100	Treasury shares	(36)
Others	825	Accumulated other comprehensive income	634
Allowance for doubtful accounts	(1)	Valuation difference on available-for-sale securities	590
		Deferred gains or losses on hedges	0
		Foreign currency translation adjustment	113
		Remeasurements of defined benefit plans	(69)
		Non-controlling interests	2,438
		Total net assets	43,522
Total assets	102,261	Total liabilities and net asset	102,261

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

Consolidated statement of income
(January 1, 2019 to December 31, 2019)

(Millions of yen)

Description	Amount	
Net sales		94,209
Cost of sales		73,409
Gross profit		20,800
Selling, general and administrative expenses		11,240
Operating profit		9,559
Non-operating income		
Interest and dividend income	187	
Share of profit of entities accounted for using equity method	273	
Commission fee income	118	
Other	228	807
Non-operating expenses		
Interest expenses	70	
Foreign exchange losses	42	
Loss on disposal of non-current assets	297	
Other	59	471
Ordinary profit		9,896
Profit before income taxes		9,896
Income taxes - current	3,143	
Income taxes - deferred	(293)	2,850
Profit		7,045
Profit attributable to non-controlling interests		127
Profit attributable to owners of parent		6,917

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

Balance sheet
(As of December 31, 2019)

(Millions of yen)

Assets		Liabilities	
Description	Amount	Description	Amount
Current assets	51,752	Current liabilities	43,715
Cash and deposits	16,237	Accounts payable - trade	16,605
Notes receivable - trade	552	Short-term loans payable	12,240
Accounts receivable - trade	21,845	Current portion of long-term loans payable	2,400
Merchandise and finished goods	9,121	Accounts payable - other	7,998
Work in process	255	Income taxes payable	1,789
Raw materials and supplies	1,918	Deposits received	309
Accounts receivable - other	1,400	Provision for repairs	2,245
Other	421	Other	126
Non-current assets	44,824	Non-current liabilities	14,708
Property, plant and equipment	30,776	Bonds payable	5,000
Buildings	1,289	Long-term loans payable	5,650
Structures	2,598	Deferred tax liabilities	1,844
Machinery and equipment	3,629	Provision for retirement benefits	1,913
Vehicles	3	Provision for environmental measures	148
Tools, furniture and fixtures	331	Asset retirement obligations	80
Land	16,628	Other	71
Construction in progress	5,687	Total liabilities	58,424
Other	607	Net assets	
Intangible assets	1,719	Shareholders' equity	37,562
Goodwill	1,512	Capital stock	8,822
Software	202	Capital surplus	5,322
Other	4	Legal capital surplus	5,322
Investments and other assets	12,327	Retained earnings	23,453
Investment securities	6,004	Other retained earnings	23,453
Shares of subsidiaries and associates	4,321	Retained earnings brought forward	23,453
Long-term prepaid expenses	291	Treasury shares	(36)
Prepaid pension cost	1,442	Valuation and translation adjustments	590
Other	268	Valuation difference on available-for-sale securities	590
		Deferred gains or losses on hedges	0
		Total net assets	38,152
Total assets	96,577	Total liabilities and net asset	96,577

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

Statement of income
(January 1, 2019 to December 31, 2019)

(Millions of yen)

Description	Amount	
Net sales		87,206
Cost of sales		68,150
Gross profit		19,056
Selling, general and administrative expenses		10,103
Operating profit		8,952
Non-operating income		
Interest and dividend income	565	
Commission fee income	118	
Other	178	863
Non-operating expenses		
Interest expenses	72	
Foreign exchange losses	43	
Loss on disposal of non-current assets	296	
Other	59	472
Ordinary profit		9,343
Profit before income taxes		9,343
Income taxes - current	2,904	
Income taxes - deferred	(271)	2,633
Profit		6,709

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

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

INDEPENDENT AUDITOR'S REPORT

February 12, 2020

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

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

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of KH Neochem Co., Ltd. ("the Company") for the fiscal year from January 1, 2019 through December 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the corporate group comprised of KH Neochem Co., Ltd. and its consolidated subsidiaries, applicable to the fiscal year ended December 31, 2019, in conformity with accounting principles generally accepted in Japan.

Interest

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

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

INDEPENDENT AUDITOR'S REPORT

February 12, 2020

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 10th fiscal year from January 1, 2019 through December 31, 2019.

Management's Responsibility for the Financial Statements and Others

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company and the results of its operations for the fiscal year ended December 31, 2019 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 10th fiscal year from January 1, 2019 through December 31, 2019, 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, assignment 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 the audit policy and the assignment of duties, all Audit & Supervisory Board Members strived to achieve effective communication with the Directors, the Audit Department and other employees, worked to collect information and to improve the audit environment, while conducting the audit by the following methods.
 - i) All Audit & Supervisory Board Members attended the meetings of the Board of Directors and other important meetings, received reports from Directors and employees about the status of the performance of their duties, obtained explanations as necessary, reviewed important approval documents, and conducted investigations on the status of the business operations and assets of the Company at its head office and other principal business offices. Furthermore, the Audit & Supervisory Board Members also worked to facilitate communication and information exchange with the directors, the audit & supervisory board members and others of the subsidiaries of the Company, and received reports on the business conditions of subsidiaries as necessary.
 - ii) The Audit & Supervisory Board Members received reports periodically from the Directors and employees on the construction and status of operation of the internal control system, i.e. a system developed based on resolutions made by the Board of Directors concerning systems prescribed in Article 100, paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act as necessary for ensuring that the performance of duties by the Directors conforms with laws and regulations and the Company’s Articles of Incorporation and for ensuring proper business conduct by the corporate group comprised of a stock company and its subsidiaries, as described in the Company’s business report. As necessary, Audit & Supervisory Board Members also asked for explanations from Directors and employees and expressed opinions.
 - iii) We monitored and verified whether the Accounting Auditor made appropriate audits while maintaining their independence. We received reports from the Accounting Auditor on their operations, and requested them for explanations when necessary. The Accounting Auditor notified us and we requested their explanations when necessary, concerning their establishment of a “System for Ensuring the Appropriate Execution of Duties” (matters set forth in items of Article 131 of the Regulation on Accounting of Companies) in accordance with the “Quality Control Standards for Audits” (issued by the Business Accounting Council on October 28, 2005).

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

2. Results of the Audit:

(1) Results of the audit for the business report

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

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

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

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

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

February 18, 2020

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

Full-time Audit & Supervisory Board Member
Outside Audit & Supervisory Board Member
Outside Audit & Supervisory Board Member

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