

Bringing 100 years of technology and trust,
now and to the future

KOEI



CSR Report 2020



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Editorial policy

Editorial policy

This report is intended to provide information to help many stakeholders understand Koei Chemical's CSR activities.

We strive to make this material clearer and more reader-friendly by using graphs and pictures.

Reporting period

April 2019 to March 2020

(information for April 2020 and later is partially included.)

Issuance

October 2020

Corporate Philosophy

- | 1 | We treat trust and honesty as our mission, and aim to become a company where vital talent and knowledge congregate.
- | 2 | Contribute to the growth of society by providing useful products that are the results of creative technologies.

Contribution to a sustainable society

○ CSR Basic Policy

The Koei Chemical Group will enhance corporate value by providing new value through business activities based on the technology and trust that it has been developing until today in order to contribute to the improvement of the quality of human lives globally. We will also actively promote initiatives for global environmental issues and the development of local communities.

To this end, we will perform business activities in compliance with Japanese and overseas laws and regulations, as well as the corporate philosophy of the Koei Chemical Group, while striving to perform safety, environment and quality assurance activities with the aim of realizing a sustainable society by taking stakeholder's concerns into consideration.

Koei Chemical's policy on SDGs*

Koei Chemical will contribute to a sustainable society by achieving SDGs through diverse business activities.



*Sustainable Development Goals, which are adopted by the United Nations, are globally shared issues to be achieved by 2030.

Koei Chemical's Challenge to Aim at Creating a New Era



My name is Ray Nishimoto. I was appointed President as of June 26, 2020. I will devote every effort to the further development of our businesses in order to respond to the expectations of stakeholders.

In the interview below, I will report on the status of management based on the mid-term management plan and discuss initiatives for sustainable growth and creation of social value.

President

Career Summary

April	1980	Joined Sumitomo Chemical Co., Ltd. (current SUMITOMO CHEMICAL COMPANY, LIMITED)
July	2003	General Manager, Development Operations Department, AgroSolutions Division - International
October	2004	General Manager, Business Planning Department, AgroSolutions Division - International
June	2006	General Manager, Planning & Coordination Office, Crop & Chemical Sector
April	2009	Executive Officer
April	2011	Managing Executive Officer
June	2012	Director, the Company (concurrent position)
April	2013	Managing Executive Officer, SUMITOMO CHEMICAL COMPANY, LIMITED (in charge of Health & Crop Sciences Sector)
June	2013	Representative Director, Managing Executive Officer (same as above) Resigned as Director of the Company
April	2015	Representative Director, Senior Managing Executive Officer (same as above)
April	2019	Representative Director, Executive Vice President (same as above)
April	2020	Director
June	2020	Advisor, the Company
June	2020	President, the Company (current)

Succession and further evolution of corporate culture



Please tell us about your profile and ambitions as the new President.

Since joining Sumitomo Chemical Co., Ltd. (current SUMITOMO CHEMICAL COMPANY, LIMITED), our parent company, I had worked in a variety of fields, mainly engaged in administrative and planning duties. Over the course of my career, I was most deeply engaged with the Health & Crop Sciences Sector, primarily through participation in overseas agrochemical projects. Given this background and other factors, I served as Outside Director of Koei Chemical for one year from 2012.

At Sumitomo Chemical, which promotes sustainability management, I gained a wide range of experiences by also taking charge of many businesses that would contribute to

resolving social issues. In recent years, as part of our response to SDGs, I have taken the leadership of projects involved in the development and promotion of products such as Olyset Net, an insecticidal mosquito net, in an effort to contribute to global activities aimed at preventing malaria in developing countries. I believe that I can make use of such experiences in the management of Koei Chemical.

Upon assuming the post of President, I have made it my mission "to create a future for Koei Chemical that promotes the happiness of employees through sustainable development of the Company, and do my best to contribute to the realization of a sustainable society through business activities." I also intend to steer management based on an awareness of the following issues.

First, the top priority issues are full and strict compliance, safe and stable operations, and business operation focused on quality. Taking these issues into

account, I will promote strategic initiatives to achieve the mid-term management plan that is now in progress. In addition, to utilize the group power of the Sumitomo Chemical Group, I will build a business foundation that allows us to execute growth strategies, while forging stronger partnerships with internal divisions and partner companies. I am committed to demonstrating leadership and enhancing the Company's corporate value while achieving a balance of management in terms of both human resources and business performance.

Q | How do you view Koei Chemical as a company? What will you change and what will you inherit going forward?

The Company, located higher upstream in the supply chain than Sumitomo Chemical, engages in businesses especially related to intermediates, etc. in the fields of pharmaceuticals and agrochemicals, and electronic materials. Although we are not carrying out direct business with end users, we are recognized for being extensively involved in various markets and providing high-added value. Our strength lies in having many unique products developed by using proprietary manufacturing technologies and processes.

Given the large number of competent and highly motivated employees we have and close cooperation maintained between divisions, I believe it is fully possible for us to further advance creative research and development, thereby achieving sustainable growth. Meanwhile, we may need to create new technologies to make the next leap forward by also using outside knowledge mainly through open innovation going forward.

I will aim at creating a company where employees are filled with vitality to tackle issues more proactively while inheriting a corporate culture based on creativity and technological capabilities which have been fostered through its history of more than 100 years.

Leaping beyond the boundary of the chemical industry based on chemistry

Q | Please tell us about the reason for changing the Company's name.

In recent years, we have not only provided products but also focused on making proposals that support value creation for client companies using our products as we make a gradual transition to becoming a research and development-oriented company. By doing so, we are promoting the solutions business that also provides custom synthesis and industrialization technologies. In order to reflect our will to expand our business domains beyond the framework of the "kagaku kogyo" (chemical industry) in our company name, we changed our company name

from Koei Kagaku Kogyo (Chemical Industry) Kabushiki Kaisha to Koei Kagaku (Chemical) Kabushiki Kaisha on October 1, 2020.

People's lives and industries are undergoing significant changes due to advancements in digitalization, globalization trends, and rising environmental awareness. Amid this trend, the chemical industry has always continued to create new materials, technologies, and solutions required by such changes. With the change of the Company's name, we will aim to accurately grasp and more swiftly respond to the needs of society and trends in the industry, market and customers.

Q | Please tell us about the progress of the mid-term management plan.

The mid-term management plan "Transformation KOEI" that started in FY2019 proactively invests 15 billion yen over three years to transform the Company with a view to creating value for the next 100 years by rebuilding core businesses and expanding growth businesses. Specifically, we will invest in the construction of a multi-purpose plant in the Chiba Plant and the reconstruction of the amine plant. Along with such capital investment, we will accelerate development of next-generation products, strengthen competitiveness in existing businesses, and renovate the business process with the aim of achieving net sales of 20 billion yen and operating profit of 2 billion yen (operating profit margin of 10%) in the final year of the plan (FY2021).

In the first year of the plan, we got off to a strong start in terms of performance by achieving a 10% operating profit margin due to an increase in net sales and a significant improvement in profit. As for the capital investment plan, we made a decision in May 2020 to construct a new multi-purpose plant.

Research and development capability is what drives the Company's growth. We will allocate human resources and capital to research and development to refine this capability as a source of value creation. Going forward, we will focus on strengthening corporation with the Sumitomo Chemical Group and utilizing open innovation in order to accelerate and enhance research and development. (Please also refer to pages 7 and 8 for more details.)

Q | How is the spread of COVID-19 affecting the business of Koei Chemical?

The global spread of COVID-19 has forced people to change their lifestyles and seriously affected many industrial sectors. In our business, we fortunately do not depend heavily on certain product groups or sectors and are engaged in the supply of a broad range of products in the upper stream of supply chain. As such, COVID-19 has not had a significant impact for now, with our recent performance remaining strong.

However, since the decline in demand may gradually spread to the upstream domain as well over the medium to long term, we will closely watch the trends in durable consumer goods such as automobiles as well as information and electronic materials, both pertaining to resins and paints, and prepare for any changes.

We supply Pyrrole, a raw material of Remdesivir, and Pyridine, a raw material of Avigan®, to the respective pharmaceutical companies, and sales of these raw materials are expected to contribute to our performance. These drugs are expected to be effective against COVID-19. Since Koei Chemical is the sole manufacturer of Pyrrole and Pyridine in Japan, we recognize that it is an important social responsibility to supply these materials stably. We will continue maintaining this supply system to contribute to the eradication of this infectious disease.

Aiming to realize a sustainable society



How would you evaluate Koei Chemical from the standpoint of CSR/ESG management and what kind of initiatives would you promote?

Unlike Sumitomo Chemical, we do not practice CSR/ESG management by taking an all-around approach on a large scale because the size of our company differs from that of Sumitomo Chemical. However, we not only take initiatives for safety, the environment and product quality that support “Responsible Care” which chemical companies are required to take but also implement various activities including contributing to the local community. Through public relations and IR, we will further promote these activities and disseminate information externally and spread recognition thereof within the Company in the hope of making employees, too, feel proud of these initiatives.

Going forward, we also intend to adopt the seven material issues (materiality) that the Sumitomo Chemical Group addresses, making them as the guideline for our CSR/ESG management. These material issues consist of four issues related to the creation of social value, namely “contribution to reducing environmental impact,” “contribution to solving food issues,” “contribution to solving healthcare issues,” and “contribution to ICT innovation,” and three issues for the creation of value in the future, namely “promotion of technology innovation and research and development,” “initiatives for digital innovation,” and “promotion of diversity and inclusion.” These issues aim at continuously creating economic value and social value through business activities.

We will tackle the seven material issues and contribute to realizing a sustainable society through business while achieving our own sustainable growth. In order to follow up on the achievements of these initiatives and evaluate the status of activities, it would be necessary to establish specific KPIs to conduct performance management. We

will set up a promotion system for sustainability activities as a company-wide project, and internally discuss what KPIs should be used to grasp the achievements related to the material issues, while linking our business activities with SDGs (Sustainable Development Goals for 2030 adopted by the United Nations) themes.

Building Relationships with Stakeholders



Please explain the measures for employees who support the Company’s development and aim to grow together with the Company.

Under the mid-term management plan, we will “renovate business process” as one of the priority themes for achieving the targets. By enhancing the work efficiency of each employee and shifting to more high-value-added operations, we will enhance the Company’s value creation capabilities while making efforts to create a workplace where employees can work with a sense of fulfillment and to promote “work style reform.” Over the past year, we have identified problems in each workplace and took company-wide initiatives based on the proposal for items for improvement. We are intent on adding items for improvement as appropriate while continuing to put the improvement proposal into action swiftly.

In my greeting message to employees upon taking office as President, I called on them to understand the big picture that their work resolves social issues and contributes to the realization of a sustainable society, and also requested them to keep in mind the following five items as action guidelines in their day-to-day work.

First, employees should always pursue the best performance as professionals in charge of their respective operations in order to outperform their competitors. Second, they should proactively tackle issues and actively recommend improvements and reforms. Third, they should have a broad view by keeping in mind the medium- to long-term perspective and overall optimization. Fourth, they should conduct thorough time management in an effort to improve productivity. And fifth, they should pursue the best performance as an organization through teamwork based on self-management of these four items.

Based on these action guidelines, I will commit myself to creating an organization filled with vitality and motivation to build the next 100 years, while promoting reformation of each employee’s mindset.



Q | What is your message regarding co-existence and co-prosperity with all stakeholders?

The approach of cultivating business with all stakeholders, including shareholders, investors, clients, business partners, local communities, and employees who support the Company and their families, and sharing the results thereof with them, is a prerequisite for achieving sustainable growth as a company and provides the reason for its survival in society. We would like to value two-way communication to achieve co-existence and co-prosperity with all such stakeholders.

We will build closer relationships than ever before with customers through the solutions business which we will be advancing going forward. We will deepen communication to solve issues with a view to forging a win-win partnership based on strong trust.

With regard to co-existence with local communities, we will take action by always bearing in mind what we can do and what is required of us as a company in order to give back and contribute to society extensively while cooperating with Sodegaura City, Chiba.

We recognize that it is an important management issue to reward support through enhancement of long-term corporate value while returning profits to shareholders and investors through stable dividend payments.

We will also aim to engage in two-way communication to listen to the opinions and requests from investors and shareholders and reflect them on corporate management, while enhancing dissemination of information through active IR activities.

It is my hope that you will look forward to the challenges Koei Chemical will take on as we aim to create a new era.

Progress of Mid-term Management Plan and Capital Investment Plan

With the impact of the spread of COVID-19 on economic and social activities becoming increasingly serious, the business environment is expected to become increasingly severe in Japan and overseas as concerns over a global economic recession are also mounting. Under these circumstances, we will continue optimizing sales prices, expanding sales, and securing profit while steadily implementing the mid-term management plan with the aim to become a company with a strong business foundation that is unaffected by the business environment.

1 Mid-term management plan KOEI2021 -Tradition and Challenge-

○ Basic policy of the mid-term management plan

- 1 | Accelerate development of next-generation products
- 2 | Strengthen competitiveness in existing businesses
- 3 | Renovate the business process, shift to high-value-added activities, and transform work style
- 4 | Ensure full and strict compliance and maintain safe and stable operations
- 5 | Make investments proactively to expand businesses
- 6 | Vitalize human resources for business expansion

Performance targets for FY2021

Net sales · **20billion yen** Operating profit · **2billion yen** Operating profit margin · **10%**

Status of progress in the current fiscal year

Koei Chemical has been implementing the mid-term management plan “KOEI 2021 -Tradition and Challenge-” for FY2019-2021. In this plan, we aim to transform into a “new Koei Chemical” through the integration of “tradition without changing” and “challenge for innovation” which we have fostered through our 100 years of history.

In FY2019, the first year of the plan, although net sales amounted to 18.5 billion yen compared to the target of 20 billion yen, operating profit increased significantly to 1.8 billion yen compared to the target of 1.4 billion yen due to an improvement in the terms of trade and our response to the changing business environment.

2 Capital investment plan

We plan to invest 8.6 billion yen to build a new series of multi-purpose plant (CMIV) in the Chiba Plant. Construction is scheduled to start in April 2021 and scheduled to be completed in August 2022.

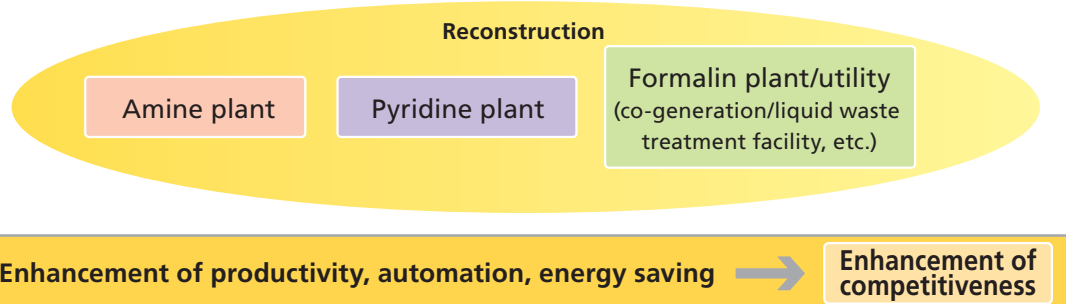
We position the custom synthesis business, including intermediates for pharmaceuticals, metallocene catalysts, and electronic materials related products at the multi-purpose plants (CM series), as a growth business and have expanded production capacity by constructing CMI, CMII and CMIII within the Chiba Plant due to increased demand. CMIV will be the largest capital investment to date. At CMIV, we will expand the high-value-added custom synthesis business and manufacture urethane-related products (URECKO®), which are positioned as

next-generation products, in order to further expand business.

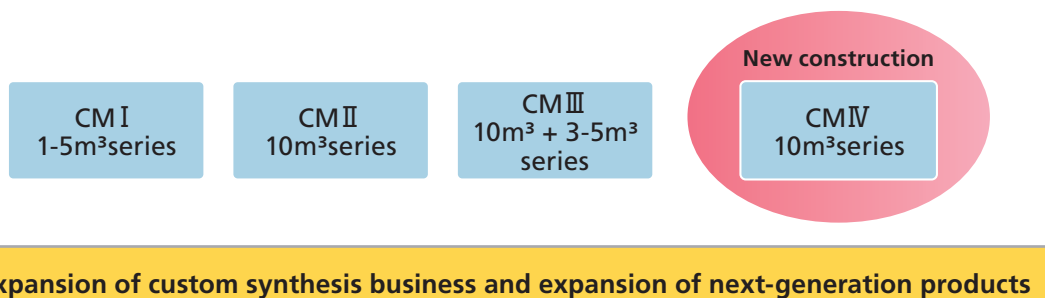
We are also reconstructing the plant for existing products comprising amines, pyridines and formalin. The plant for existing products is nearly 50 years old, and it is now time to renew the plant facilities on a large scale. This reconstruction aims not only to renew facilities but also to enhance competitiveness by installing equipment for the enhancement of productivity, automation, and energy saving.

By expanding the growth business and next-generation products through the construction of CMIV, and also by enhancing competitiveness through the reconstruction of the plant for existing products, we will transform into a "new Koei Chemical."

Reconstruction of plant for existing products = Strengthening of core business



Strengthening of multi-purpose plants (CM series) = Expansion of growth business



Strengthening of core business (reconstruction)
+
Expansion of growth business

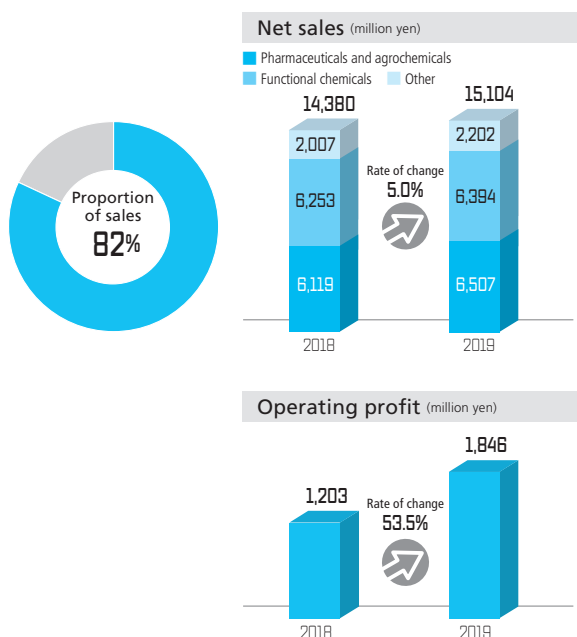


Becoming a
new Koei Chemical

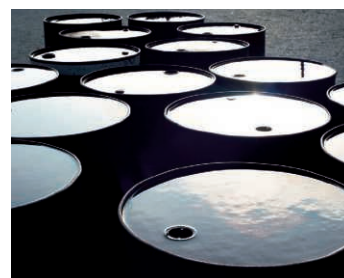
Fine chemical business (2019)

For pharmaceuticals and agrochemicals, revenue increased due to steady sales of intermediates for pharmaceuticals and agrochemicals. For functional chemicals, revenue increased due to the contribution of sales of new products including optical materials-related products, although catalyst-related products showed sluggish growth. For other fine chemicals, sales of resin-related products increased.

As a result, net sales of this segment amounted to 15,104 million yen (up 5.0% YoY) and operating profit amounted to 1,846 million yen (up 53.5% YoY).



ionic liquids(KOELIQ®)



Amines

Pyridines

Application

Pharmaceuticals, agrochemicals, solvents, adhesives

Pyrazines

Application

Pharmaceuticals, agrochemicals

Amines

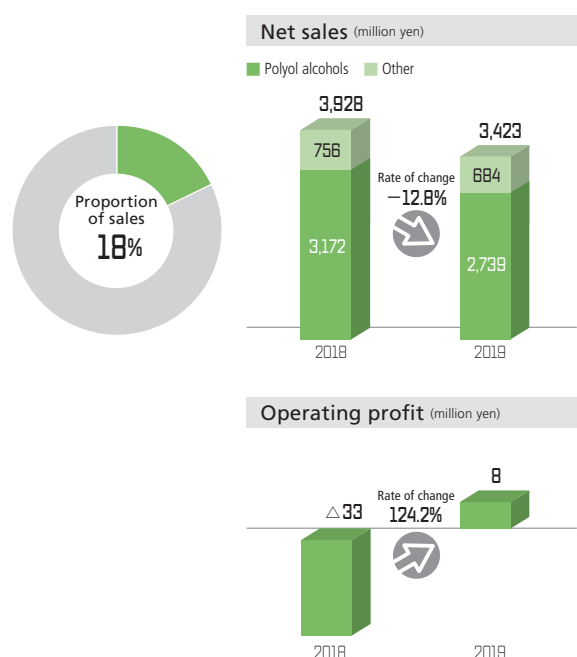
Application

Surfactants, polymers, photographic agents, Pharmaceuticals, agrochemicals, paints

Chemical products business (2019)

For polyol alcohols, revenue decreased as a result of lower sales prices reflecting a decline in raw material prices, in addition to a sharp downturn in domestic related demand. Other chemical products, too, remained sluggish. Profit improved, reflecting lower fixed costs due to impairment.

As a result, net sales of this segment amounted to 3,423 million yen (down 12.8% YoY) and operating profit amounted to 8 million yen (an operating loss of 33 million in the previous fiscal year).



Polyol alcohols



Formalin

Formalin

Application

Adhesives, synthetic resins, paints, inks, lubricants, plasticizers, etc.

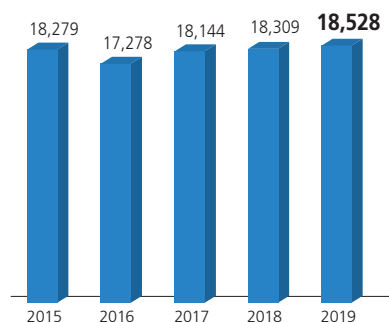
Polyol alcohols

Application

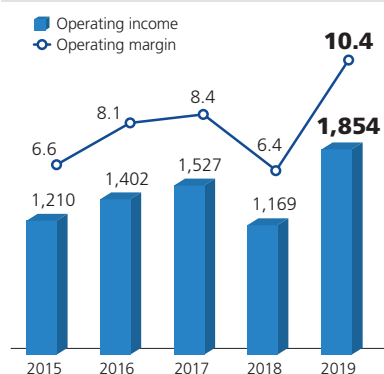
Paints, inks, lubricants, plasticizers

Financial Highlights

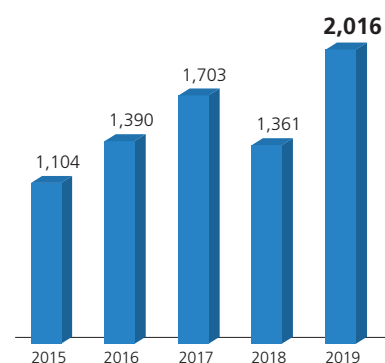
Net sales (Millions of Yen)



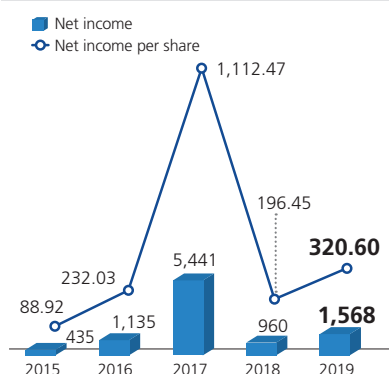
Operating income (Millions of Yen) /
Operating margin (%)



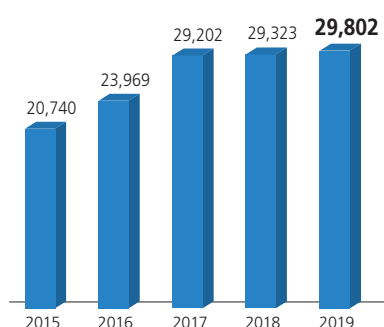
Ordinary profit (Millions of Yen)



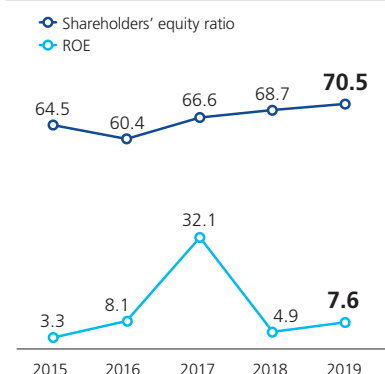
Net income (Millions of Yen) /
Net income per share (%)



Total asset (Millions of Yen)



Shareholders' equity ratio (%) /
ROE (%)



		2015	2016	2017	2018	2019
Net sales	(Millions of Yen)	18,279	17,278	18,144	18,309	18,528
Operating income	(Millions of Yen)	1,210	1,402	1,527	1,169	1,854
Ordinary profit	(Millions of Yen)	1,104	1,390	1,703	1,361	2,016
Net income	(Millions of Yen)	435	1,135	5,441	960	1,568
Total asset	(Millions of Yen)	20,740	23,969	29,202	29,323	29,802
Total shareholders' equity	(Millions of Yen)	13,379	14,487	19,460	20,131	20,997
Free cash flow	(Millions of Yen)	577	△440	5,126	△1,730	△1,454
ROE	(%)	3.3	8.1	32.1	4.9	7.6
Payout ratio	(%)	45.0	21.5	6.3	30.5	25.0

Governance

In order to respond to the expectations of stakeholders, we strive to establish and operate an effective corporate governance system and continuously strengthen and improve the system.

Basic policy on corporate governance

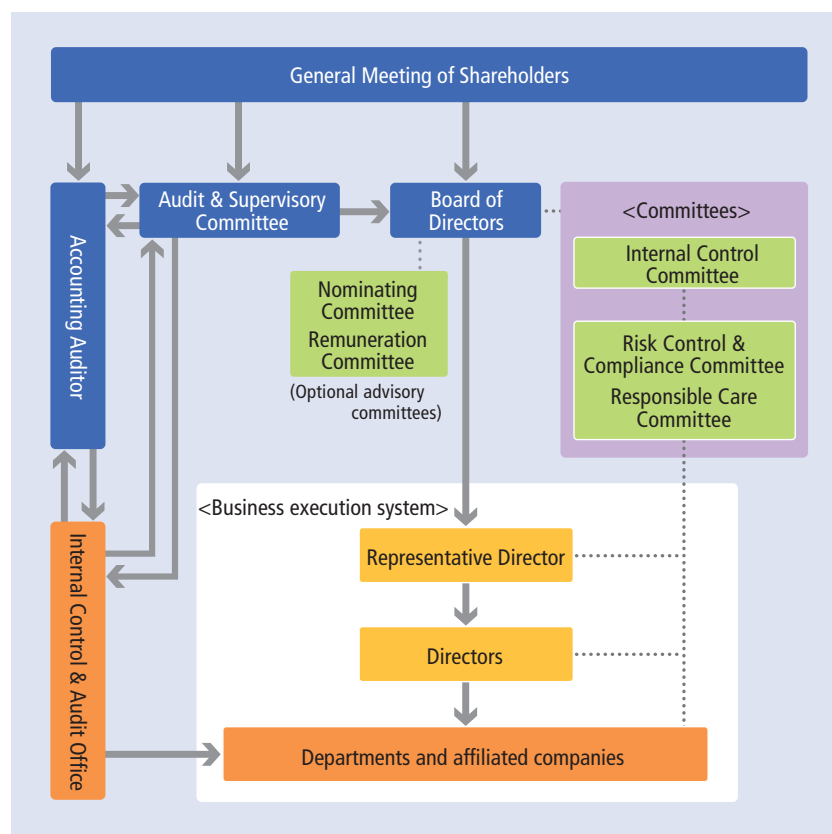
In order to perform fair corporate activities, we strive to operate an effective corporate governance system and continuously strengthen and improve the system. In terms of our business management system, we have established the Board of Directors and the Audit & Supervisory Committee, as well as the Internal Control Committee, the Risk Control & Compliance Committee and other necessary committees, which are intended to supplement and reinforce the function of the Board of Directors. Our businesses are being operated under the supervision of these organizations. We also endeavor to enhance corporate value through efficient management in pursuit of the best possible corporate governance.

Corporate governance system

In accordance with the resolution passed at the 155th Ordinary General Meeting of Shareholders held on June 24, 2016, Koei Chemical transitioned from a company with a board of corporate auditors to a company with an audit & supervisory committee. By establishing the Audit & Supervisory Committee, the majority of which are outside directors, and through the appointment of several outside directors, the supervisory function of the Board of Directors has been further strengthened, leading to the further enhancement of our corporate governance system.

In addition, in order to further strengthen the supervisory function, three outside directors are registered as Independent Officers with the Tokyo Stock Exchange.

Outline chart of corporate governance system



Compliance

“Earning the trust of society as we pursue our business activities” has been positioned as the basis of Koei Chemical management. In order to obtain the trust of society, observation of laws, regulations and social ethics (compliance) is essential.

We have prepared the Compliance Manual to familiarize officers and personnel with compliance. This manual has been revised as needed in response to the amendment of laws and regulations.



Speak-up system

We have established a whistle-blowing hotline that allows officers and personnel to report compliance violations or the risk thereof if they detect the occurrence inside Koei Chemical or an affiliated company (speak-up system). We use sufficient caution with respect to the privacy of whistle-blowers and consulters so that they will never be treated disadvantageously on the grounds of having made a report/consultation under this system.

Familiarization with the company newsletter

For the purpose of raising the awareness of officers and personnel regarding compliance, Compliance News is posted in the Company's newsletter, which is published twice a year. This reader-friendly article mainly discusses topics that are closely related to personnel with the use of illustrations and graphics.



Message from Outside Director



Ken Takiguchi
Outside Director
(Audit & Supervisory
Committee Member)

Four years have passed since I was appointed outside director of the Company. During this period, the Company has implemented various measures to strengthen governance, including transitioning to a company with an audit & supervisory committee, evaluating the effectiveness of the Board of Directors, introducing the Nominating Committee and the Remuneration Committee, which are optional advisory committees, and establishing the Outside Director Session. I feel that, along with governance reform of Japanese companies based on the Corporate Governance Code, my role and importance as outside director of the Company have been increasing every year.

In addition to the basic roles of performing audits of the duties of executive directors and supervising internal control, I intend to continue making the necessary recommendations while remembering to appropriately reflect the opinions of stakeholders including minority shareholders at Board of Directors meetings.

Responsible Care

The global chemical industry is working voluntarily to protect safety, the environment and product quality through every process from the development of chemical substances, their manufacture, distribution and use to final consumption and disposal, as well as engaging in communication with the public by openly disclosing performance. These initiatives are known as "Responsible Care."

Basic policy regarding safety, the environment and product quality (Formulated on January 1, 1995)

We treat trust and honesty as our mission, and combine our vital talent and knowledge to contribute to the growth of society through the provision of useful products that are the results of creative technologies.

We not only place safety above all else in various phases of business activities including research and development, production, logistics, and sales but also give priority to the following activities related to the environment and quality as well.

1	We will continue operations without accidents and injuries to ensure the safety of our employees and the local community.
2	We will confirm the safety of raw materials, intermediates and products to prevent health problems of the people involved including employees, logistics staff, customers, and general consumers.
3	We will supply high-quality products and services that satisfy customers' needs and ensure safety in their use.
4	We will evaluate and reduce the environment impact throughout the entire life cycle of a product from development to disposal for the purpose of environmental preservation.

All divisions and all employees will comply with laws and regulations and standards and constantly make improvements with the recognition of the importance of this policy.

Responsible care activities (Formulated on January 1, 2009)

In accordance with the Corporate Policy on Safety, Environment and Product Quality, Koei Chemical will actively strive to promote responsible care activities in developing our business, and will also do its utmost to achieve sustainable development and earn the trust of society.

1	We will achieve our zero-accident, zero-injury targets to ensure stable operations.
2	We will conduct risk management throughout the life cycle of our products, including development, manufacturing, transport and disposal, and strive to conserve the environment, as well as to ensure the safety and health of our employees as well as that of the local community.
3	We will comply with domestic and international laws and standards relating to safety and the environment, and strive to meet even stricter targets than required by law.
4	We will promote the conservation of resources and energy and to minimize waste emission and strive to conserve the environment.
5	We will implement the requisite education and training of our employees relating to safety, the environment and product quality and will promote effective responsible care activities.
6	We will promote both risk-reduction and accident-prevention from the perspective of product safety and quality.
7	We will evaluate the content of our activities and seek to implement improvements through internal audits pertaining to occupational health and safety, security and disaster prevention, environmental protection, chemical safety, product safety, and quality assurance.
8	We will keep the external communication among a related government office, the region, and the stake holder, and aim at coexistence with the society.

This line of action makes public to all workers and the person with whom it relates, shall be understood, and assumed to be the one to attempt the improvement of consideration.

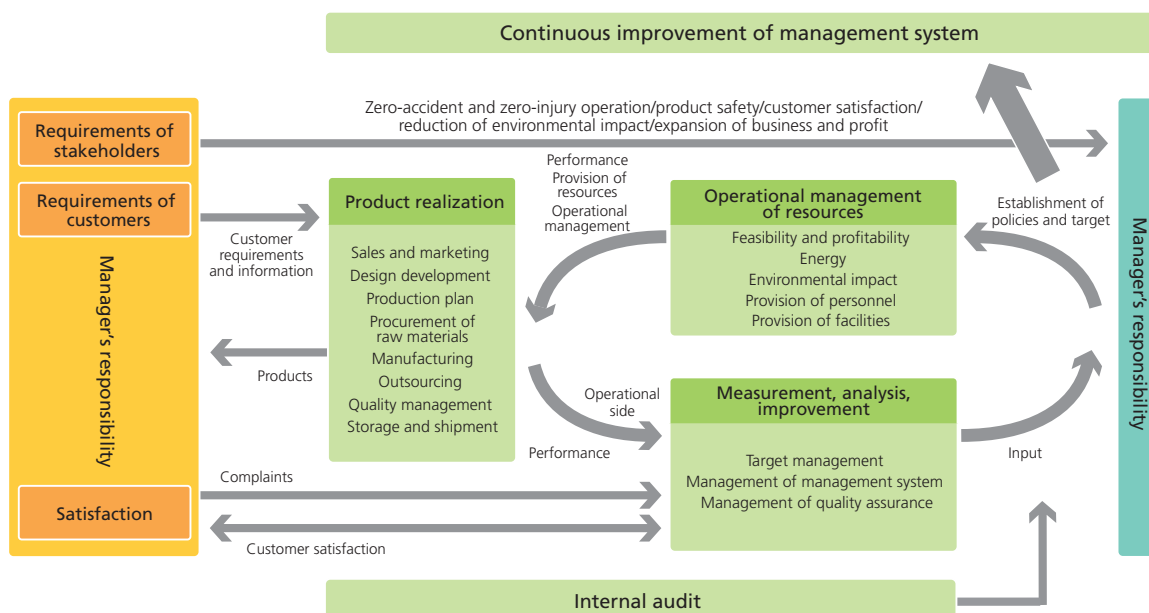
Efforts for responsible care activities

We formulated the basic policy regarding safety, the environment and product quality in 1995 in which the performance of Responsible Care was declared. Having recognized this policy, officers and personnel are making continuous efforts to improve the management system in compliance with laws and regulations. In addition, an officer who is in charge of safety, the environment and product quality oversees all the duties regarding safety and health, environmental protection, security and disaster prevention, quality assurance and chemical safety.

We have established the Responsible Care Committee, which is chaired by the President, as the supreme decision-making organization that promotes Responsible Care activities. The Responsible Care Committee meetings are held twice a year. The Committee reviews the results of activities performed during the previous fiscal year and approves plans to be implemented for the current fiscal year to ensure continuous improvement of the management system. In addition, we perform internal audits on a regular and as-needed basis to check the effectiveness of the activities.

We have acquired ISO certification, which is the international standard relating to environmental and quality management systems, as one of the tools to promote Responsible Care activities. We also focus on the overall improvement of system performance.

Cross correlation chart of major processes

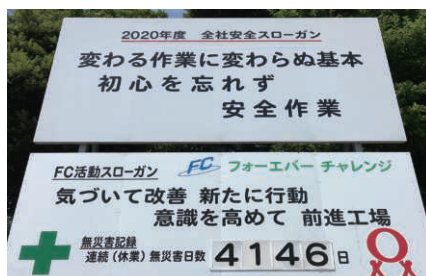


Approach on Safety, Environment and Quality Assurance

Safety and Health Activities

Based on the basic principle of “placing safety above all else,” we are making concerted efforts with all employees and all persons concerned including cooperating companies that work with us, to ensure worker safety and health so that personnel can work comfortably.

Safety, security and disaster prevention



Safety slogan



Safety workshop



Disaster training

Based on the basic principle of “placing safety above all else,” we strive to ensure worker safety and health with the aim of making safety and stable operation our strength.

More specifically, we perform activities to periodically discuss and consider issues regarding safety and health, and determine measures mainly through the Safety and Health Committee and the safety and environment promotion members’ meeting.

In addition, we perform concerted safety activities by organizing various campaigns with the aim of eliminating both minor and major disasters. During the campaign period, the identification of dangerous sites and the improvement thereof, the promotion of Hiyari-Hatto (near-accident situations) prevention activities, the strengthening of risk detection, the promotion of the pointing and coding method and other necessary measures are conducted by safety and environment promotion members, which are representatives appointed in each workplace.

Moreover, we have established the Safety and Environment Promotion Task Force for plant reform activities. These activities are being strengthened by positioning the Task Force as an important pillar of reform activities.

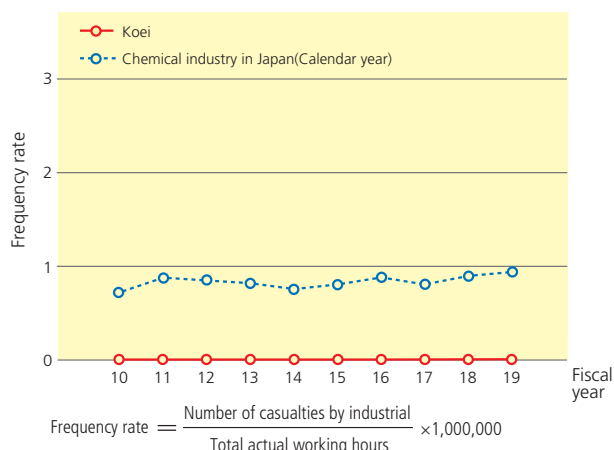
Both the President and Plant Directors, which are the top members of the plant, inspect the relevant workplace and are actively involved in various initiatives such as ensuring Japanese 5S methodology, raising safety awareness, and eliminating safety issues. In this manner, ensuring safety is treated first and foremost.

With regard to work-related accidents, there were no industrial injuries in FY2019.

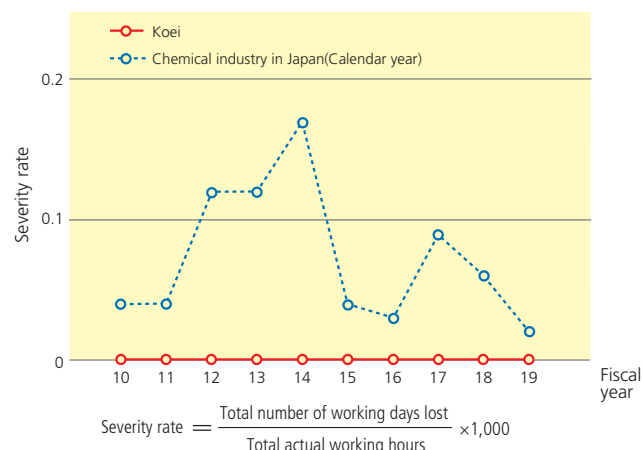
The number of zero-injury days reached 4,054 (as of March 31, 2020), which is equal to over 10 years. As shown in the following graphs, frequency rates of industrial injuries and severity rates of industrial injuries remain zero.

Unfortunately, non-lost-time minor injuries occurred. We conduct RC zero-accident audits even on minor injuries to find the cause and implement additional measures, while making efforts to undertake horizontal deployment on the prevention of the occurrence of similar injuries to achieve zero-injuries.

Frequency Rates of Industrial Injuries



Severity Rates of Industrial Injuries



Risk management of chemicals

Topics

In 2019, Japanese Industrial Standards (JIS) Z 7252 and JIS Z 7253, standards for the items to be included in the SDS, were revised. In Japan, SDS conforming to the new JIS is in accordance with the sixth revised edition of the United Nations GHS, the Industrial Safety and Health Act, the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof (the PRTR Act), and the Poisonous and Deleterious Substances Control Act. Accordingly, the Company is also preparing to provide new JIS-compliant SDS by May 2022, the deadline for transition.

*GHS: The Globally Harmonized System of Classification and Labelling of Chemicals
GHS was adopted as a recommendation of the United Nations in July 2003. GHS classifies the dangers and hazards of chemical products based on specific standards, displays information with visual materials including pictures and graphics, and reflects the results in labels and SDS. This system is intended to be utilized for disaster prevention and the protection of human health and the environment.

Provision of SDS

We have prepared GHS*-compliant safety data sheets (SDS) for all products to provide users with necessary information on dangers and hazards (about 2,000 items as of the end of FY2019).

In Japan, the provision of SDS is mandatory under the Industrial Safety and Health Act, the Poisonous and Deleterious Substances Control Act, and the Act on Confirmation, etc., of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof (PRTR Act).

Chemical safety education

We provide personnel with necessary training regarding the management of chemical substances. We offer education regarding laws and regulations, etc., relating to the safety of chemicals to researchers who are involved in product design so that appropriate management of chemical substances is performed.

Risk assessment

Risk assessment is a method to identify potential dangers and hazards in the workplace, and reduce or remove them.

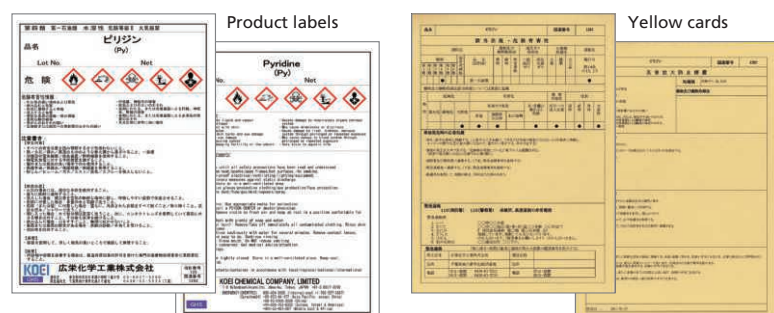
- (Step 1) Identification of dangers and hazards
- (Step 2) Estimation of risk factors caused by dangers and hazards
- (Step 3) Consideration of contents of risk reduction measures
- (Step 4) Implementation of risk reduction measures

We identify dangers and hazards of the substances that we handle at the phase of research and experimentation with reference to literature study and tests. For substances produced by trials, data including disaster prevention properties, toxicity and irritation is added. The data is examined by not only the department in charge of safety, but also in cooperation with the laboratory and the plant section.

For substances produced officially in a plant, various assessments through the evaluation of the magnitude of risks of chemicals and facilities are required. Reviewing risks and risk mitigation measures are also performed for existing processes with the aim of zero-disasters and zero-accidents.

We also perform risk assessment on dangers and hazards of subject substances in accordance with the amended Industrial Safety and Health Act, which took effect in June 2016. In particular, in the risk assessment on hazards, we prevent health problems by comparing the exposure amount estimated for each work with an exposure limit.

Risk reduction of chemicals at the time of distribution



Safe transportation (product labels and yellow cards)

In order to ensure safety and the environment when products are used, we attach product labels that show information on dangers/hazards and first aid measures to the product container. We affix GHS-compliant labels on products containing chemical substances specified in the Industrial Safety and Health Act.

We also ask logistics traders who transport products to carry a card that contains information on emergency handling and contact (yellow card).

Environmental Preservation Activities

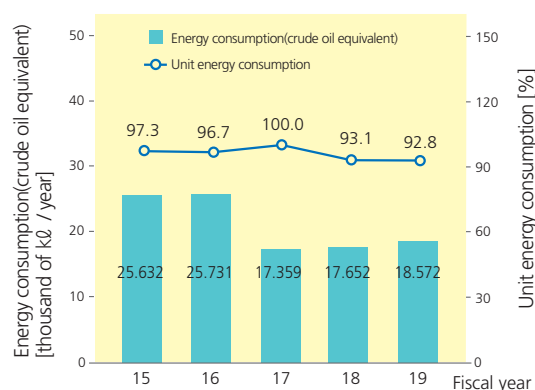
Because Koei Chemical considers the issue of climate change as one of the most important challenges facing society, we strive to enhance productivity and implement energy efficient facilities, leading to the lessening of climate change through business activities.

Energy saving and the prevention of global warming

In order to prevent global warming, the world must save energy and control the emission of CO₂ and other greenhouse gases. Koei Chemical started an energy efficiency project in 2005 with the goal of reducing energy consumption intensity through the improvement of production processes, the recovery of heat, fuel conversion and productivity enhancement. We have also introduced and operated package boilers that enhance heat efficiency, co-generation systems and photovoltaic generation, and have also shifted to the use of LED lights.

Actual energy consumption, CO₂ emissions and their intensity are shown in the following graphs. From FY2017 in which the Anegasaki Plant was closed, energy consumption and CO₂ emissions have been increasing slightly, resulting from an increase in production volume due to higher plant utilization rates. In addition, a new plant will start operation in the future and production volume is expected to further increase. Although energy consumption and CO₂ emissions are expected to increase accordingly, we will work to improve the intensity and achieve operational optimization to save energy and reduce CO₂ emissions (prevention of global warming).

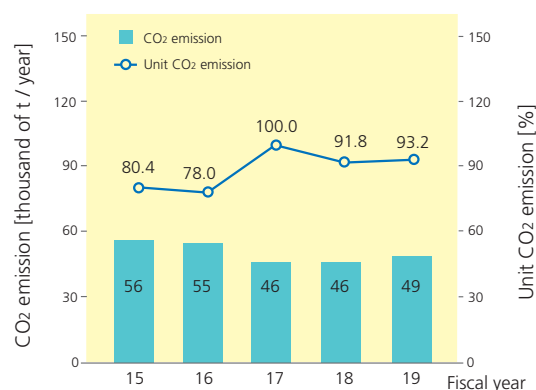
Trend of unit energy consumption



$$\text{Unit energy consumption} = \frac{\text{Energy consumption (crude oil equivalent) kℓ}}{\text{Production volume (ethylene equivalent) tons}}$$

*The above line graph shows the relative value for each fiscal year (FY2017=100)
(= Unit energy consumption for the relevant FY / FY2017 unit energy consumption)

Trend of unit CO₂ emission



$$\text{Unit CO}_2 \text{ emission} = \frac{\text{CO}_2 \text{ emission tons}}{\text{Production volume (ethylene equivalent) tons}}$$

*The above line graph shows the relative value for each fiscal year (FY2017=100)
(= Unit CO₂ emission for the relevant FY / FY2017 unit CO₂ emission)

Efforts to reduce the emission of fluorocarbons

In order to protect the ozone layer and lessen global warming, it is necessary to take appropriate measures to control the emission of specific fluorocarbons and alternative fluorocarbons.

We conduct proper management including simple/regular inspections in accordance with the Act on Rational Use and Proper Management of Fluorocarbons, which took effect in June 2015.

Toward the mitigation of greenhouse gas

In October 2018, Sumitomo Chemical Company, Limited obtained SBT* certification regarding the targets to reduce group-wide greenhouse gas (GHG) emissions by 30% and 57% or higher from the emissions volume in FY2013, by FY2030 and FY2050, respectively, and expressed the policy to actively work on significant reductions that contribute to the “well below 2°C” target adopted in the Paris Agreement. Koei Chemical, as a group company, will take on the challenge of the FY2030 targets to reduce GHG emissions by 15% from FY2017. It is difficult to achieve this target by simply continuing the current efforts, thereby indicating the need to introduce new solutions and other active measures. Going forward, we will aim to reduce the GHG emission volume through substantial reduction by receiving power from high-efficiency generators and through efforts to reduce energy consumption by an annual rate of 1%.

*SBT (Science Based Targets) are the high-level goals of reducing greenhouse gas emissions that companies establish based on climate science in order to achieve the “well below 2°C” target. The “well below 2°C” target, which was adopted in 2015 in the Paris Agreement, is an initiative to maintain the increase in global average temperature to well below 2°C above pre-industrial levels.

Environmental accounting report

Koei Chemical introduced environmental accounting in FY2000.

① Purpose of the introduction

- (1) To enhance the efficiency of activities by quantifying resources allocated in environmental preservation
- (2) To conduct decision-making on environmental measures from mid- and long-term perspectives
- (3) To enhance the transparency of companies through information disclosure

② Points of environmental accounting

- (1) Scope of calculations: Koei Chemical
- (2) Period covered: FY2019 (April 1, 2019 to March 31, 2020)
- (3) Preconditions of calculation
 - Calculations are based on the Ministry of the Environment’s Guidelines.
 - Costs are calculated based on actual results.
 - Economic benefits are only actual benefits. Risk avoidance benefits and deemed benefits are not included.

Environmental accounting (FY2019)

Environmental preservation cost

(Unit: Millions of yen)

Category	Major items	Investment	Cost
① Business area cost (Breakdown)		119	980
Environmental measure cost	Prevention of air pollution, water pollution, bad odor, noise, etc.	101	520
Global environment preservation cost	Prevention of global warming, ozone depletion, and energy saving, etc.	18	311
Resource circulation cost	Resource-saving, efficient water use, rainwater use, etc. Disposal, reduction and elimination of industrial waste, recycling, etc.	0	150
② Upstream/downstream cost	Green purchasing, recycling of products, etc., recycling of containers and packaging materials, etc.	0	0
③ Administration activity cost	Environmental training, outsourcing of analysis of environmental impacts, ISO14001 maintenance and management	0	104
④ R&D cost	R&D for products that contribute to environmental preservation	4	30
⑤ Social activity cost	Greening, beautification, levy on pollution load, support of environmental activities performed by local communities	2	4
⑥ Environmental deterioration cost	Land pollution, restoration of the natural environment to its original state	0	0
Total		125	1,118

Note: Cost amounts are the sum of depreciation costs, repair costs, labor costs, material and service costs and business consignment expenses, etc.

Economic effect of environmental preservation measures

(Unit: Millions of yen)

Details of effects	Amount
① Cost reduction and business income due to recycling	9
② Effects of resource saving	160
③ Effects of energy saving	36
Total	205

Environmental Preservation Activities

Koei Chemical reconciles business activities with environmental maintenance and improvement.

We reduce the emission of chemical substances handled in the course of business activities, such as PCB and specific chemical substances, and perform proper waste management. In this manner, we are performing environmental preservation activities to reduce the environmental impact.

Efforts to reduce industrial waste

Approach to zero emissions

Regarding waste generated through business activities, we actively promote the "3Rs" (reduce, reuse and recycle) to reduce the environmental impact.

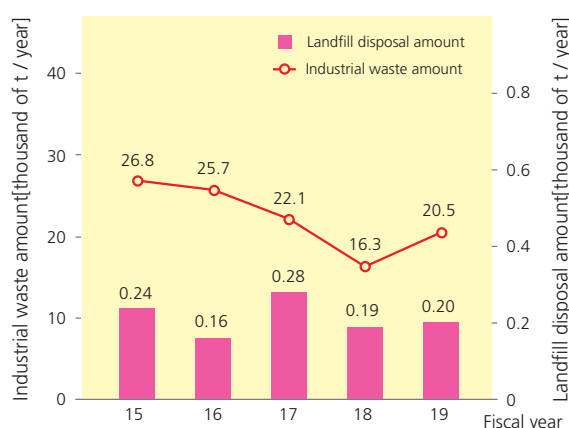
The volume of waste discharged for FY2019 is shown in the following chart. The volume of industrial waste generated increased by 26% compared to the previous fiscal year, and the recycle rate decreased by 1%.

We will make continuous efforts to reduce environmental impact through recycling, such as a method of using incineration residues as cement materials.

Actual results for FY2019

Targets of initiatives	Actual results
<p>Through business activities:</p> <ul style="list-style-type: none"> Reduction of industrial waste amount Reduction of landfill disposal amount 	<ul style="list-style-type: none"> Waste generated through business activities: 20,487 tons (16,310 tons for the previous fiscal year, up by 26%) Landfill disposal amount: 195 tons (192 tons for the previous fiscal year, up by 2%)
<p>Promotion of recycling</p> <ul style="list-style-type: none"> Increase of effective usage rate 	<p>Recycling amount: 5,241 tons, recycling rate: 26% (4,890 tons for the previous fiscal year, recycling rate: 27%)</p>

Trend of industrial waste by fiscal year



Trend of industrial waste

Although the industrial waste amount is decreasing each year, the landfill disposal amount fluctuates with the change of production items.

We will make continuous efforts to promote the reduction of environmental impact by cutting not only the industrial waste amount but also the landfill disposal amount.

We have disclosed information on the maintenance and management of industrial waste facilities (incinerators) on our website since 2011 in accordance with the Enforcement Regulations of the Waste Management Law (URL: <https://www.koeichem.com/company/rc.html>).

Efforts for PCB waste

We collect all condensers and lamp stabilizers that contain PCB, and replace them with PCB-free equipment.

We also store the collected PCB-containing equipment properly so that it does not have any environmental impact. In February 2019, the disposal of all the collected equipment was completed through Japan Environmental Storage & Safety Corporation (JESCO).

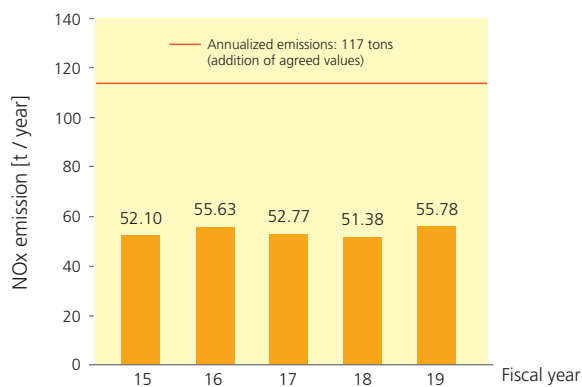
Trend of SOx and NOx emissions and COD impact volume

The environmental impact on air and water areas is as follows.

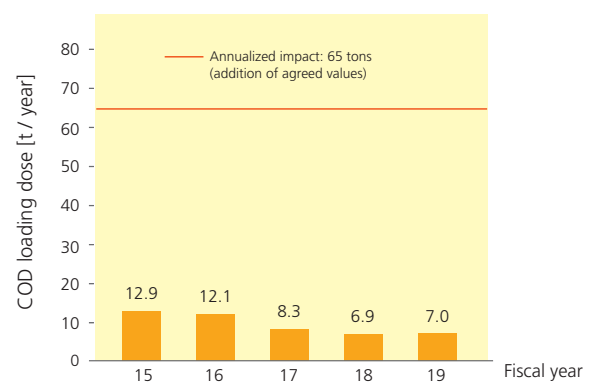
For SOx, the volume detected through annual analysis is small and lower than the emission standards.

For NOx emissions and COD impact volume, we have set agreed values which are stricter than the requirements under laws with local communities. Appropriate control is performed based on the agreed values.

Trend of NOx emission



Trend of COD loading dose

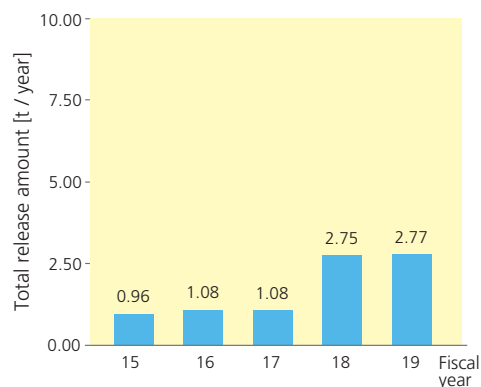


PRTR reports

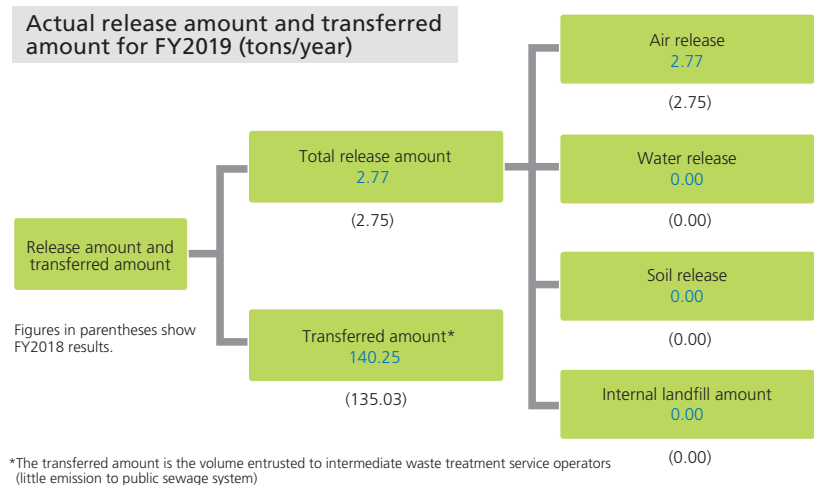
The PRTR system is prescribed in Article 5 of the Act on Confirmation, etc., of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof (generally known as the "PRTR Act"), which took effect in March 2000. PRTR (Pollutant Release and Transfer Register) is a system for identifying, compiling and publicly disclosing information on what amount of chemical substances specified by government ordinance have been emitted into the environment or have been transferred off-site with waste.

The actual results for FY2019 are as follows.

Trend of total release amount



Actual release amount and transferred amount for FY2019 (tons/year)



Koei Chemical strives to supply high-quality products and services that satisfy customers' needs and ensure safety in their use.

Quality assurance systems

Policy regarding quality assurance

We have built the quality management system based on the policy of "supplying high-quality products and services that satisfy customers' needs and ensure safety in their use." In order to satisfy customers, we find it important to deliver products that meet customer demands with quality that provides customer satisfaction in a timely manner. To this end, quality assurance activities must be promoted at each stage through the concerted efforts of divisions including sales, design/development, purchasing, production, quality assurance and logistics.

The Quality Assurance Division supervises company-wide quality assurance activities, shares and disseminates the basic policy, and presses ahead with company-wide efforts in order to realize the policy.

Quality-related flow chart



Activities for improving the corporate culture focusing on quality

We are making efforts to eliminate complaints based on three pillars: 1) zero major complaints on product quality, 2) efforts for continuous enhancement to improve customer satisfaction, and 3) enhancement of the awareness of quality management. We collect quality information on complaints and Hiyari (near-accident situations) relating to product quality, share information on cause investigations and recurrence prevention measures, and undertake horizontal deployment of said information to enhance customer satisfaction.

In FY2019, during the "quality improvement month," which is promoted every November, we conducted quality patrols together with quality management promotion members, who represent each division, mainly in places where complaints were made in the past and ensured the Japanese 5S methodology, which is the basics of quality management.

In order to strengthen quality management, the Quality Maintenance Task Force engages in the investigation of the primary cause of quality-related problems in the plant reform activities by conducting "naze-naze" analysis (causal analysis) and referring to quality hiyari cases, etc., and shares such information.

In addition, in order to enhance the awareness of quality management, quality management promotion members horizontally deploy the prevention of quality problems within their respective divisions. Furthermore, they add important complaints made more than five years ago to the complaint calendar, which contains a list of complaints for the past five years, and share them at meetings of the quality management promotion members to prevent the recurrence thereof.

We properly disclose information regarding overall management in accordance with applicable laws and regulations and convey our management policy and contents in an accurate and precise way in an effort to obtain social trust.

IR policy

We disclose IR information swiftly and properly to help shareholders and investors accurately understand Koei Chemical. We disclose useful information in accordance with applicable laws and regulations as well as rules provided by securities exchanges so that shareholders and investors can accurately understand our business activities.

Method of information disclosure

IR information on financial results, performance forecasts and general meetings of shareholders, etc., is posted through Tokyo Stock Exchange's TDnet (Timely Disclosure Network System) and on the Company's website, which was renewed in FY2017.

We will continue to provide information with better contents in a prompt manner.



Please refer to the website for investors.

<https://www.koeichem.com/ir.html>



Basic policy on profit distribution

As our basic policy, we determine dividends of surplus and other related matters in consideration of the balance between 1) the profits to be secured for shareholders over the long-term and in a stable manner and 2) the status of our performance in each fiscal year and the enhancement of shareholders' equity to be reserved for future business development.

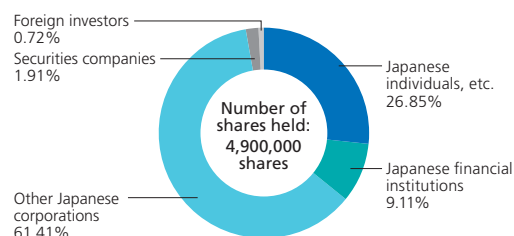
Based on the above basic policy, in FY2019, we paid an annual dividend of ¥80 per share, including an interim dividend of ¥30.

General meeting of Shareholders

While striving to deliver notices of convocation as early as possible, we post notices of convocation on websites (websites of stock exchanges and the Company) prior to the delivery in order to give shareholders adequate time to consider matters to be resolved.

Moreover, we prepared the notice of convocation of the 158th Ordinary General Meeting of Shareholders in color in order to make the document more visual and reader-friendly for shareholders.

Distribution of shareholders



Approach on the prevention of insider trading

In order to maintain the fairness and soundness of markets, we take thorough measures to prevent insider trading in advance. We have designated the period from the end of every quarter term until the day of the announcement of financial results as the "no-purchase period of Koei Chemical's shares" and notify officers and personnel about this period. This measure helps prevent doubts about insider trading from arising.

Relationship with Local Communities

Centering on Sodegaura City, Chiba, which is the location of the head office, we work on the revitalization and environmental development of local areas through communication with local residents.

Environmental preservation in local communities

Satoyama volunteers

We dispatch our employees each month to the “Shiinomori” Nature and Environmental Preservation Green Center to carry out preservation activities. Our diverse seasonal activities with local residents include mowing, cleaning, rice harvesting, and promenade maintenance. The aims of these activities are to protect the surrounding nature and create an environment in which residents can enjoy nature.

Number of participants per year About **60** persons



Collecting volunteers

We are undertaking an initiative to collect and sell used PET drink bottle caps. The profits earned are used to provide vaccines for children in developing countries. This initiative is spreading across Japan.

We collect used PET drink bottle caps and sell them to recycling companies through the Sodegaura City Social Welfare Council to collect money. We then donate the money earned to the Japan Committee, Vaccines for the World's Children.

We also collect second-hand books, CDs and other items from employees and sell them. We then donate to Sodegaura City the amount obtained from such sale by adding our contributions to it.

PET bottle caps About **47,750** caps

Donation money collected through sales of second-hand books **30,000** yen
(including matching gift provided by the Company)

Used Disney Land tickets **16** tickets

Used pre-paid cards **9** tickets

Used postal stamps, Bell Marks, etc.



Fostering the next generation

Organization of science experiment volunteer activities

We offer science experiment volunteer activities at Nagaura Elementary School in Sodegaura City located near the Company.

Company researchers conduct chemistry experiments with children in Grade 4. Through these opportunities, we seek to arouse youngsters' curiosity about chemistry and convey its enjoyment.

Number of participants About **90** persons



Dialogue with local society

Support for the shuttle bus to help Chiba Prefectural Sodegaura High School with community exchange activities

The brass band and the calligraphy club of Chiba Prefectural Sodegaura High School are actively engaged in community exchange activities. The Company supports their exchange activities by making arrangements for a bus to transport instruments and other equipment and students.



With Employees

Koei Chemical believes that developing an environment in which each and every personnel member can fully utilize and demonstrate his or her abilities is an essential issue to enhance productivity.

We offer various programs that enable personnel to work energetically and maintain a good work-life balance.

Human resources development

1. Human resources development policy

We prepare various training programs by objective and job position and focus on offering technique/expertise transfer education and globalization support education in accordance with the basic policy of "development of professional personnel who contribute to the enhancement of corporate performance."

2. Technique/expertise transfer education for FY2019

(1) Educational training courses implemented

Category	Educational training course title			Number of sessions	Number of attendees
Skill improvement	Technical seminar (gijutsu dojo)	• Safety and health/ Security and disaster prevention	2 hours/ session	3	22
		• Environmental preservation		2	23
		• Quality assurance		7	49
		• Equipment maintenance		11	90
		• Plant management		3	16
By job level	Basic technical training		3-day course	1	12
	Mid-level technician training		3-day course	1	6
	Workplace leader training		3-day course	1	6
Common	Driving simulation training		2-day course	2	2
	Safety simulation training		1-day course	4	7
	Chemical safety simulation training		2 hours/ session	6	63
	Autonomous maintenance operators (correspondence education)		—	1	18
Selected theme	FE (fire explosion) simulation training		2-month course	1	2
	Safety & prevention disaster theory training		2-day course	1	4
	SS training (management capability development course for manufacturing supervisor)		5-day course	1	2
	SV (supervisor) development training		24-day course	1	1
	New OM (operation manager) development training		22-day course	1	1
	Monozukuri leader training		8-day course	1	9

(2) –Train V.A.K.!

Launch of project to establish safety simulation dojo

We had sent personnel to safety simulation training provided at external organizations. However, since external organizations can only accommodate a limited number of trainees, the Company currently faced the problem of not being able to adequately train the growing number of personnel hired. In order to prevent the recurrence of Hiyari-Hatto (near-accident situations), problems and errors, we concluded that we needed a facility within the Company to have employees experience danger. As such, we launched a project to consider establishing a facility called the "safety simulation dojo" to have them experience danger.

(Construction was completed in July 2020)

Purpose

We will develop personnel to realize safe and stable operations and zero-accident, zero-injury targets through V (Visual), A (Auditory), K (Kinesthetic) training.

(1) Experience danger and learn the proper basic action for safety.

(2) Experience danger and train one's imagination to determine what is dangerous.

Details of training materials

(1) VR simulation facility

- Software
 - 1) Forward-facing crash,
 - 2) Solvent ignition explosion,
 - 3) Residual pressure blow-off,
 - 4) Falling down while going down the stairs
- CG
 - 1) Falling from a crane,
 - 2) Caught in a lathe

(2) Safety simulation device

- 1) Caught in V belt,
- 2) Liquid splash (from flange),
- 3) Electrostatic solvent combustion/explosion,
- 4) Learn pointing and calling out procedure,
- 5) Tank implosion by decompression during pumping of liquid

(3) Original training materials

- 1) Internal pressure during opening of drum cap,
- 2) Unsafe spots of flange bolt,
- 3) Hose runaway,
- 4) Valve operation,
- 5) Push button operation,
- 6) Liquid accumulation in flexible hose,

- 7) Glove with coated palm and fingers,
- 8) Checking of clothes/attire, description of functions of work clothes,
- 9) Safety shoes electrostatic checker/comparison of material

3. Globalization support education

(1) Online English conversation training program

We offer online English conversation classes with a view to developing global human resources. The training period is six months (24 sessions in total), and a speaking ability test is conducted before and after training to determine the level of class to be taken and to measure the effectiveness of training.

The benefit of online English conversation class is the one-to-one lesson given to trainees to suit their schedule. Previously, a foreign teacher was invited to conduct group training. There were problems with this format, such as trainees not being able to attend classes for reasons of everyday work and the short conversation time with the teacher. The online course has improved this situation.

Efforts to reduce long work hours

We also institute “No-Overtime Day” every Friday to reduce overtime work unless it is urgent. Notification of this initiative is made through internal announcements, email messages and other communication tools. In addition, the summary of monthly overtime hours of each personnel member is notified to each section manager, and the work status has also been checked using a PC management system and access control system. In this manner, we strive to ensure proper personnel management.

In FY2019, 28 persons participated in this program, exceeding the 20 persons who participated in FY2018. Going forward, we will continue improving employees’ English skills.

(2) Overseas short-term language training program

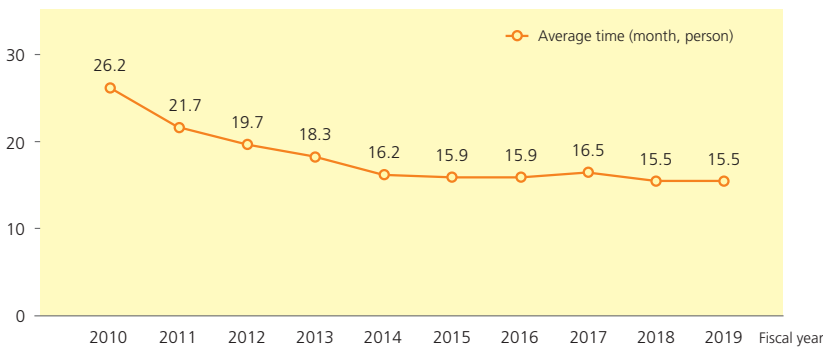
In order to develop global human resources, it is also important for personnel to actually visit foreign countries to interact with the local people and culture. To this end, in FY2019, two members were selected from among those who achieved high scores on TOEIC to participate in the overseas short-term language training program.

This time the selected members were dispatched to the EC London school for two weeks and engaged in discussions and other activities with students from various countries including Germany, Brazil and the Czech Republic. In addition, they stayed at the dormitory of the school and worked to improve their English skills not only in business but also in everyday living.

As a result, the overtime hours of daytime workers, which stood at 26.2 hours/month per person in FY2010, has currently been reduced to around 15 hours/month per person.

We will continue to discuss and review diverse measures to further reduce overtime work.

Average overtime hours (month, person)



With Employees

Flexible work style

Flextime system

Koei Chemical introduced a flextime system with core time in the 1990s to ensure the effective management of time and efficient work operation.

Today, society has been seeking better balance between work and private life. In order to further promote the improvement of an environment in which our personnel can manage time effectively, we have introduced the super flextime system that abolished core time in October 2019.

Reemployment program for retired persons

In 2006, we introduced the reemployment program for retired persons aged 60 or older in accordance with the Act on Stabilization of Employment of Elderly Persons. Today, an elderly person is allowed to work until 65 years of age if he/she wishes to be employed, in line with the amendment of the Act in April 2013.

Moreover, for the purpose of encouraging retired personnel to continuously demonstrate their experience, skills and other strengths, we pay the same amount of wages as that provided at the time of mandatory retirement to those who assume positions as line managers/supervisors and manufacturing operators.

Active recruitment (women empowerment and utilization of foreign personnel)

Koei Chemical is actively performing recruitment activities with an eye on a plan of large-scale capital investment through FY2024. Although our previous focus was hiring new high school graduates and experienced workers for the purpose of job creation in local regions as well, our recruitment targets have broadened to nation-wide recruitment.

Although Koei Chemical has always hired new personnel in an equal and fair manner regardless of gender, the ratio of female workers actually remains low. We will make active efforts to increase the number of female personnel in keeping with the Act on Promotion of Women's Participation and Advancement in the Workplace.

Target

To raise the ratio of female workers among total workers to be employed to 20% or higher.

Reduce annual scheduled total working hours

To date labor and management have made efforts to reduce total actual hours worked, and in 2019, held discussions to reduce annual scheduled total working hours, which constitute the foundation of working hours.

As a result of discussions, working hours of daytime workers were shortened by 16 hours to 1,899 hours per year, and working hours of shift workers were shortened by 14 hours to 1,890 hours per year, which have been implemented since January 2020.

Reemployment rate

Fiscal year	FY2017	FY2018	FY2019
Mandatory retirement	5	8	2
Reemployment as shokutaku fixed-term personee	4	6	2
Reemployment rate	80%	75%	100%

Actual results

	FY2017	FY2018	FY2019	FY2020
Male	16	22	25	22
Female	2	4	2	3
Employment rate of female workers	11%	15%	7%	12%

*In order to hire foreign personnel, we applied for the METI Government of JAPAN Japan Internship Program and accepted one foreign intern between October and December 2019. The intern is scheduled to join the Company in 2020.

Health promotion activities

In FY2019, we held a seminar for female personnel (theme: women's diseases that can be detected by medical examination), in addition to performing annual health promotion activities. We received feedback from participants, such as "I once again realized the importance of medical examination after listening to a detailed discussion of diseases that are specific to women for the first time."

Health guidance

For personnel who are required to undergo a second examination as a result of a general medical check-up, the public health nurse conducts a face-to-face interview and gives daily life guidance. Personal records are also prepared and follow-up is provided for target personnel, with their consent.

For those who are required to meet industrial physicians as a result of the follow-up or wish to do so, a face-to-face interview is offered by industrial physicians every month.

For personnel who joined the Company more than three months ago, any concerns about daily life and work operation are checked to provide them with mental and physical support.

Health promotion activities

We hold seminars, fitness tests and other health promotion activities to help personnel monitor their own health condition.

- Stretch class for functional improvement
- Measurement of estimated age of blood vessels
- In-body measurement (body component analyzer)
- Seminar for female personnel
- Support for personnel who wish to quit smoking
In order to prevent secondhand smoke, separate areas are provided to smokers within the office.
- Undergo a complete physical examination
We have personnel aged 40 years and older undergo a complete physical examination every five years as a periodic check-up.

Mental health

We conduct a stress check, which is performed under the law, and offer a mental health seminar every year to help personnel prevent mental illness in advance.

We have also established Mental Health Improvement Programs. While general personnel, managerial personnel, public health nurses, industrial physicians and the human resources division individually play roles in improving mental health, the Company strives to prevent the manifestation of personnel mental health problems through smooth communication.

For personnel who suffer from mental illness, we have established a program to help them obtain follow-up care in collaboration with public health nurses, industrial physicians and external organizations, with the goal of complete reinstatement. More specifically, the program includes the arrangement of face-to-face interviews with public health nurses and industrial physicians until reinstatement, re-working with external organizations and reduced working hour programs after reinstatement.



Stretch class for functional improvement

Third-party Opinion



Kazuhiro Bai, D.B.A.

Specially Appointed Professor,
College of Business & Graduate School of Business, Rikkyo University

Profile

Serving at Rikkyo University since 2018. Visiting professor in the Business Administration Program of Bond University (Australia) in 2008. His works include Outlook of CSR Accounting, Moriyama Shoten; Introducing CSR Accounting, Japanese Standards Association; First Step to CSR Management for Corporate Employees, co-author, Dai-ichi Hoki; "Deployment of Financial Reporting Theory based on Global Governance"; CSR Management Control; Essentials for a Going Concern: Five Principles to Overcome Environmental Change; and Corporate Ethics and Sustainability of Society, co-author, Reitaku University Press, and many more.

Koei Chemical Company, Limited (the "Company") summarizes its achievements relating to CSR activities from April 2019 to March 2020 in the CSR Report 2020, with the target of contributing to a sustainable society. Here are my opinions from an independent standpoint specializing in CSR accounting, which aims to quantify CSR activities, and the management of going concerns.

Points to be commended

I pointed out in the previous year's CSR report that the most material issues (materiality) indispensable for realizing sustainable management should be identified. The point to be commended in this year's report is that the Company explains in a step-by-step manner what measures it will take to identify materiality and advance to the next stage. First, the Company organizes future policies on CSR/ESG activities as "contribution to a sustainable society" and "policy on SDGs" (page 2) based on the corporate philosophy and specifically develops them into the mid-term management plan (pages 7-8). Second, the Company clearly states its policy of sharing the Sumitomo Chemical Group's four issues related to the creation of social value and three issues for the creation of value in the future as future material issues (page 5). The four issues comprise "contribution to reducing environmental impact," "contribution to solving food issues," "contribution to solving healthcare issues," and "contribution to ICT innovation," and the three issues consist of "promotion of technology innovation and research and development," "initiatives for digital innovation," and "promotion of diversity and inclusion" as mentioned in the "Top message." These initiatives correspond to the points to be improved, playing a vital role in the Company's effort to promote CSR/ESG activities. Specifically, in order to move on to the next step of sustainable management, it is necessary for the Company to establish a flow of incorporating the seven material issues in responsible care activities (pages 13-14), and then developing them into ongoing safety and health activities (pages 15-16), environmental preservation activities (pages 17-20),

quality assurance activities (page 21), and promotion of communication with local communities and employees that contributes to comprehensively giving back and contributing to society (pages 23-28). Furthermore, it is worth mentioning that the Company is taking the stance of focusing on business activities from a mid- and long-term perspective even amid the ongoing spread of COVID-19 and imposing on itself the social responsibility of stably supplying raw materials for drugs that raise hopes in treating infectious diseases (pages 4-5). In summary, I have concluded that an adequate level is achieved on identifying materiality, which is the key element in assessment, developing an organization to promote CSR/ESG activities, and responding to various stakeholders. The Company's such voluntary and proactive initiatives show great potential for future development.

Points to be improved

I would like to mention how the actual condition of sustainable management should be evaluated and reported within and outside the Company, as it leaves room for improvement. Once a system to promote CSR/ESG activities is developed for the achievement of the mid-term management plan "Transformation KOEI," the question is what indicators the Company uses to organize the information generated from the series of activities. This is because indicators for CSR/ESG activity not only show the condition but also plays an important role in measuring corporate value and reflecting such information in financial reporting as integrated information that links financial information and non-financial information. My expectation of the Company is to engage in preparing activity indicators linked to financial information such as Key Performance Indicators (KPI) and Key Risk Indicators (KRI) that are closely related to investment decisions and management decisions taking the opportunity of the Company's name change that reflects its aim of expanding its business domain beyond the framework of chemical industry. I sincerely hope that the Company parlay this effort into CSR/ESG activities that contribute to sustainable management.

Response to Third-Party Opinion



Koichiro Sogawa
Managing Director (in charge of
General Affairs & Personnel
Office, Logistics Managing &
Procurement Office and Internal
Control & Audit Office)
Koei Chemical Company, Limited

I deeply appreciate Dr. Kazuhiro Bai's valuable remark.

On October 1, 2020, we changed our company name from Koei Kagaku Kogyo to Koei Kagaku. With this change, we intend to not only expand our business but also promote the further development of sustainable management by strengthening the organization base for pursuing CSR/ESG activities even more. We will also focus on setting activity indicators such as KPI and KRI and establishing a governance framework that can effectively utilize such indicators.

We will embrace Dr. Bai's advice and continue to make concerted efforts to promote CSR/ESG activities.

Company Information

(As of October 1, 2020)

Corporate data

Company name: KOEI CHEMICAL COMPANY, LIMITED
 Location of head office: 1-8, Nihonbashi-Koamicho, Chuo-ku, Tokyo 103-0016, Japan
 URL: <https://www.koeichem.com/en.html>
 Date of establishment: June, 1917
 Capital: 2,343 million Yen
 Number of employees: 338 (As of March 31, 2020)
 Business description: Manufacture and sales of raw materials and intermediates for pharmaceutical/agrochemical products, paints, dyes, and various synthetic resins, etc.

Stock Information

(As of March 31, 2020)

Fiscal year-end: March 31
 Ordinary general meeting of shareholders: Held in June
 Stock Data: Authorized number of shares16,000,000
 Issued number of shares4,900,000
 Number of shareholders2,211

Board of Directors

President	Ray Nishimoto	Director(Audit & Supervisory Committee Member)	Kenji Kondo
Managing Director	Koichiro Sogawa		Ken Takiguchi
Managing Director	Ikuo Ishizuka		Hideo Higashi
Managing Director	Shuhei Murakami		Shingo Yoro
Director	Keiko Fukahori		
	Hidetada Kawai		
	Hiromitsu Kokami		
	Yasuaki Sasaki		

Business locations

Tokyo head office
 1-8, Nihonbashi-Koamicho, Chuo-ku, Tokyo 103-0016, Japan
 TEL 81(3)6837-9300 FAX 81(3)6837-9307
 Sales & Marketing: TEL 81(3)6837-9290 FAX 81(3)6837-9310

Chiba plant · Research laboratory
 25, Kitasode, Sodegaura-shi, Chiba 299-0266, Japan
 TEL: 81(438)63-5511 FAX: 81(438)63-5546

Major Shareholders

(As of March 31, 2020)

Name	Number of shares (Thousands)	% of total
Sumitomo Chemical Co., Ltd.	2,731	55.84
Kinki Sangyo Credit Union	240	4.91
Japan Trustee Services Bank Ltd. (Trust account)	123	2.53
Koei Chemical Employee Shareholder Plan	51	1.06
Masahiro Iso	43	0.90
Maruishi Chemical Trading Co.,Ltd.	33	0.69
Shigeharu Sakamoto	30	0.61
Koji Yamazaki	26	0.54
Sumitomo Seika Chemicals Company, Limited	26	0.53
Japan Securities Finance Co., Ltd.	25	0.51

NOTE: The Company's treasury shares (8,754 shares) were excluded in the calculation of the percentage of shares held.



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now and to the future



KOEI CHEMICAL CO., LTD.

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