

HOKKO CHEMICAL INDUSTRY CO., LTD.

FINANCIAL SUMMARY

for the year ended November 30, 2017



Contents

| | | |
|----|---------------------|----|
| I | Result of FY 2017 | 2 |
| II | Outlook for FY 2018 | 14 |
| ■ | Supplement | 19 |



I Result of FY 2017



□ Consolidated Result

Millions of yen

| | FY2014 | | FY2015 | | FY2016 | | FY2017 | | change | % |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Net Sales | 42,416 | (100%) | 42,251 | (100%) | 40,117 | (100%) | 39,826 | (100%) | △292 | △0.7% |
| Operating Income | 1,364 | (3.2%) | 2,497 | (5.9%) | 2,464 | (6.1%) | 2,286 | (5.7%) | △178 | △7.2% |
| Ordinary Income | 1,790 | (4.2%) | 2,956 | (7.0%) | 2,777 | (6.9%) | 3,541 | (8.9%) | +765 | +27.5% |
| Net Income | 997 | (2.4%) | 1,900 | (4.5%) | 1,965 | (4.9%) | 1,989 | (5.0%) | +24 | +1.2% |

※Average Exchange Rate : FY2016 ¥ 110.01 /US\$, FY2017 ¥112.34 /US\$

- Sales primarily fell because of the increased distribution stocks of herbicides or others in the crop protection business.
- Operating income fell because of decrease in sales of crop protection business and increase of manufacturing costs at overseas subsidiary.
- Ordinary income increased because of a large increase in dividends received from overseas companies and foreign exchange gains.
- Net income was unchanged from the previous fiscal year because of impairment loss on factory facilities at overseas subsidiary.

Note: Concerning changes in the display method

While we used to book abandonment losses for part of the inventory assets as non-operating expenses, from the 2016 fiscal year, we have changed this to book them as part of the cost of goods sold. Following this, we have displayed the numbers for the 2013-2015 fiscal years after recalculating operating income and operating income for crop protection business by segment based on the same standard. There has been no change to the way of displaying sales, ordinary income and net income.



□ Consolidated Result - profit and loss change factor

Millions of yen

| | FY2017 P/L record | Profit and loss change factor | |
|--|----------------------|-------------------------------|--|
| | | Influenced amount | Detail description |
| Net sales | 39,826 | — | |
| Cost of sales | 29,793 | +436 | · Increase in manufacturing costs at overseas subsidiary +273 · Change of evaluation criteria of inventory assets +163 |
| Gross profit | 10,032 | △436 | |
| Selling, general and administrative expenses | 7,746 | — | |
| Operating income | 2,286 | △436 | |
| Non-operating income | 1,386 | +648 | · Increase in interest income / dividends including dividends from overseas companies +638 · Exchange rate gains +10 |
| Non-operating expenses | 130 | △282 | · Exchange rate gains △282 |
| Ordinary income | 3,541 | +494 | |
| Extraordinary income | 87 | — | |
| Extraordinary loss | 778 | +649 | · Impairment loss on plant facilities at overseas subsidiary +649 |
| Income before income taxes | 2,851 | △155 | |

- Operating income declined due to lower sales of crop protection business and higher manufacturing costs at overseas subsidiaries.
- Ordinary income increased due to a large increase in dividends received from overseas companies and an improvement in foreign exchange gains and losses.
- Income before income taxes was the same as the FY2016 due to impairment loss on factory facilities at overseas subsidiaries.

Return to shareholders

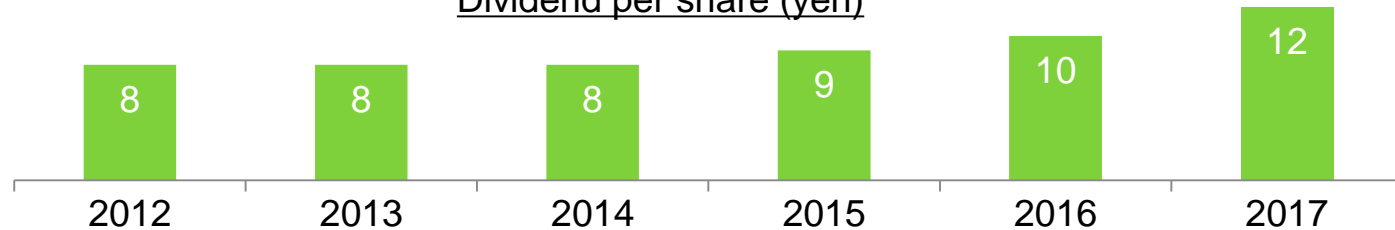
Basic thoughts

With the basic policy of continuing stable profit distribution, we will implement shareholder returns according to the trend of profits while balancing internal reserves and growth investment.

《Dividend policy》

- Continuous implementation of stable dividend regardless of profit level that have been done since the past.
- Appropriate profit distribution according to the performance of the planning period.
- In the current three-year management plan, we do not set the target of dividend level in order to continue to expand our core capital firstly. We aim to set the target of dividend level in the next medium-term management plan from fiscal 2021.

Dividend per share (yen)

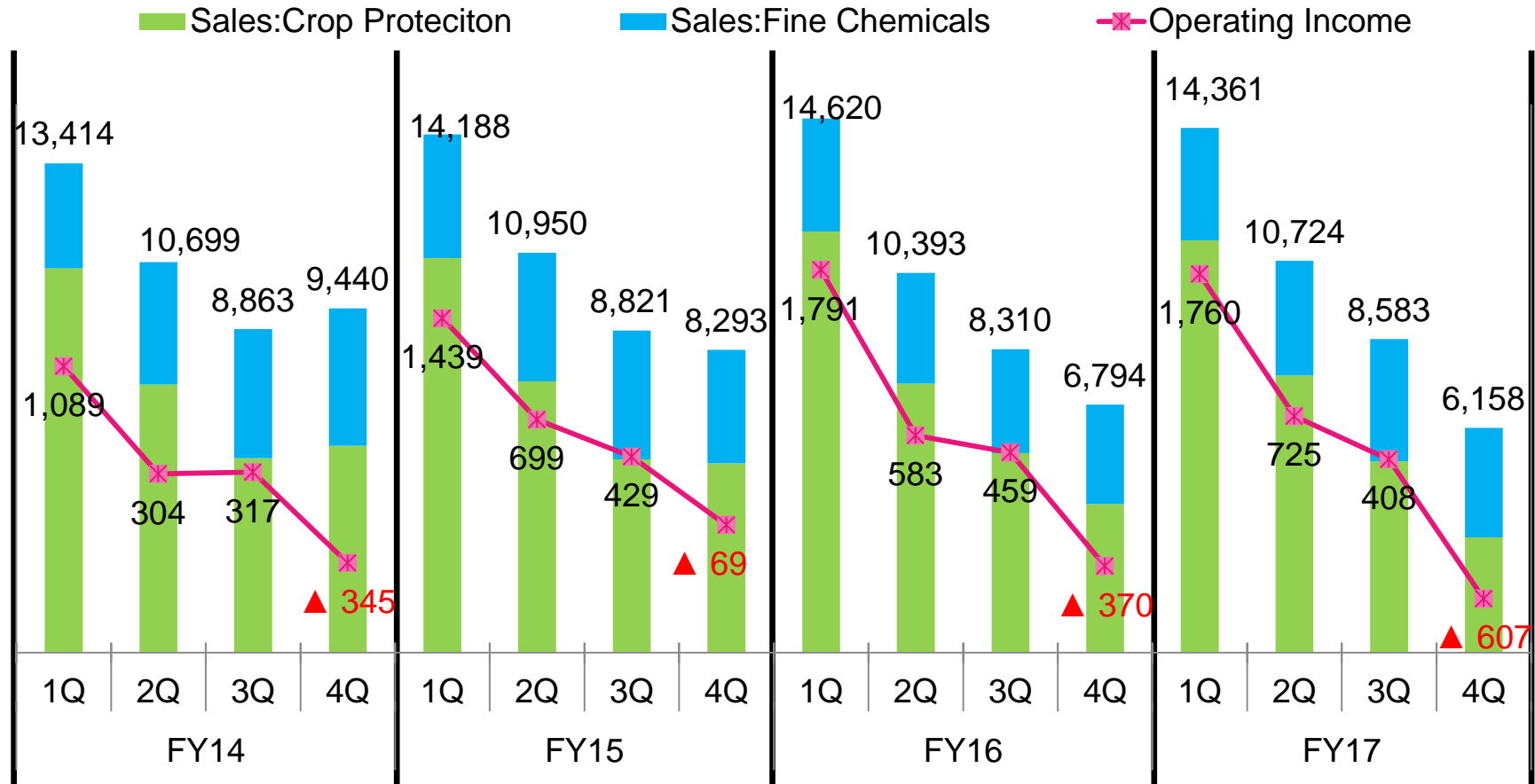


| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------------|--------|-------|-------|-------|-------|-----------------|
| Dividend ratio | 155.6% | 45.3% | 22.1% | 13.1% | 14.0% | 16.5% |
| Treasury stock acquisition | — | — | — | — | — | 300 million yen |
| Total return ratio | 155.6% | 45.3% | 22.1% | 13.1% | 14.0% | 31.5% |



Consolidated Result - quarterly sales and profit

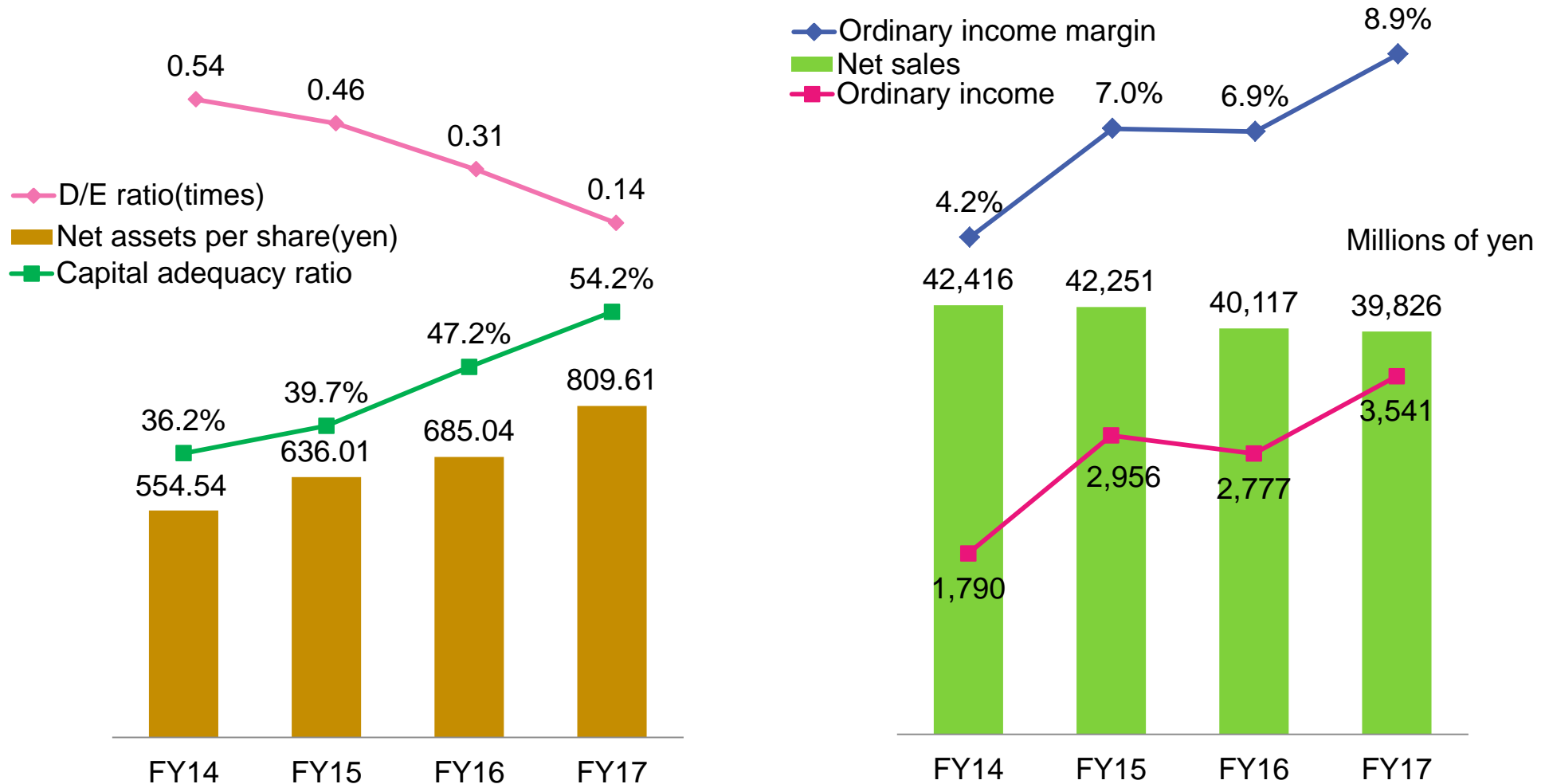
Millions of yen



- Because demand for crop protection products is largely seasonal, our company's sales and profit have a tendency to follow this pattern by peaking in Q1 and decreasing from Q2 onwards.



Consolidated Result - management index



- The net assets / capital ratio per share increased due to the accumulation of earnings in FY2017, the D / E ratio decreased to 0.14 times.
- Ordinary profit increased while sales declined and ordinary profit margin increased to 8.9%.

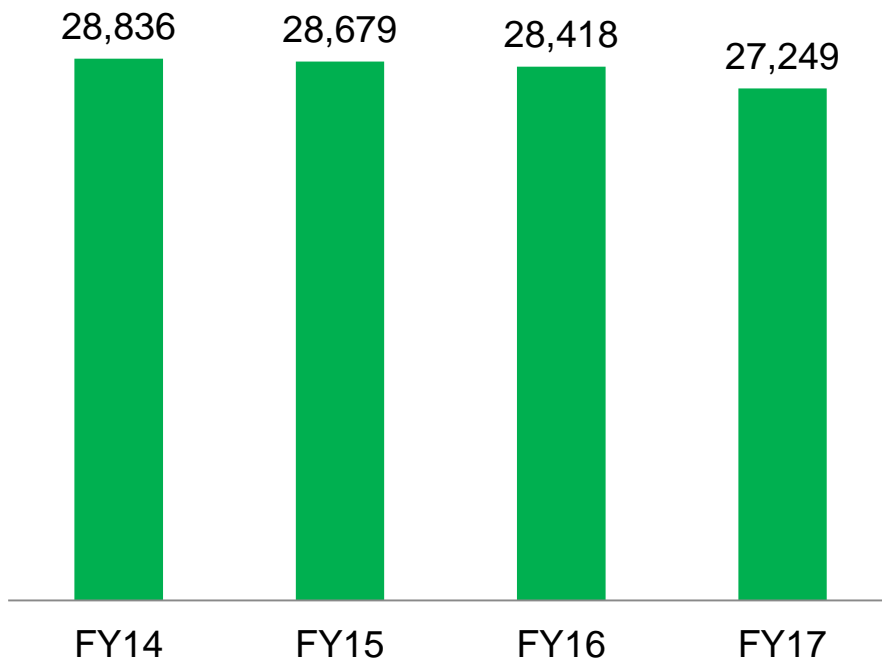


Results by segment

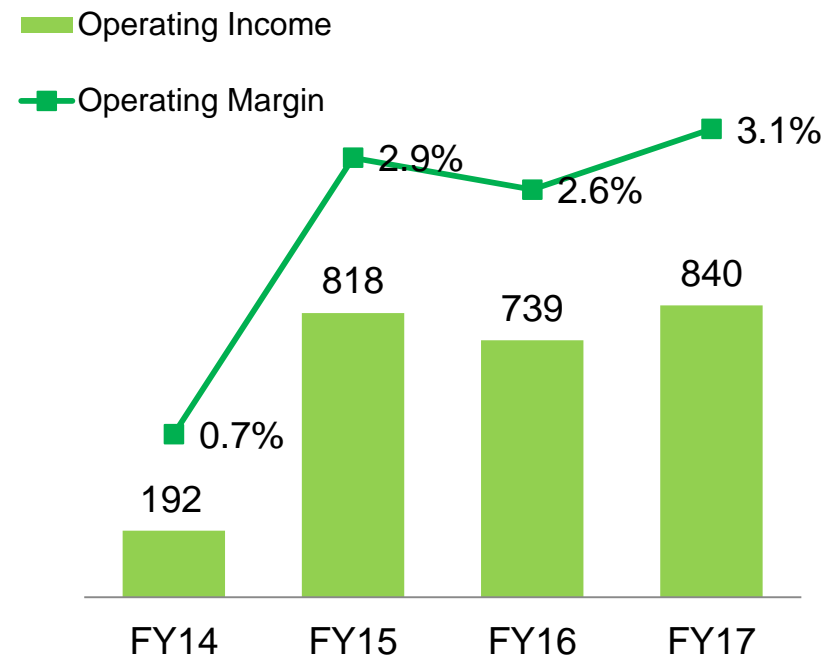
Crop Protection Business

Millions of yen

Sales



Operating Income



FY 2017 (compared with FY 2016) : Sales Δ 4.1%, Operating Income +13.5%

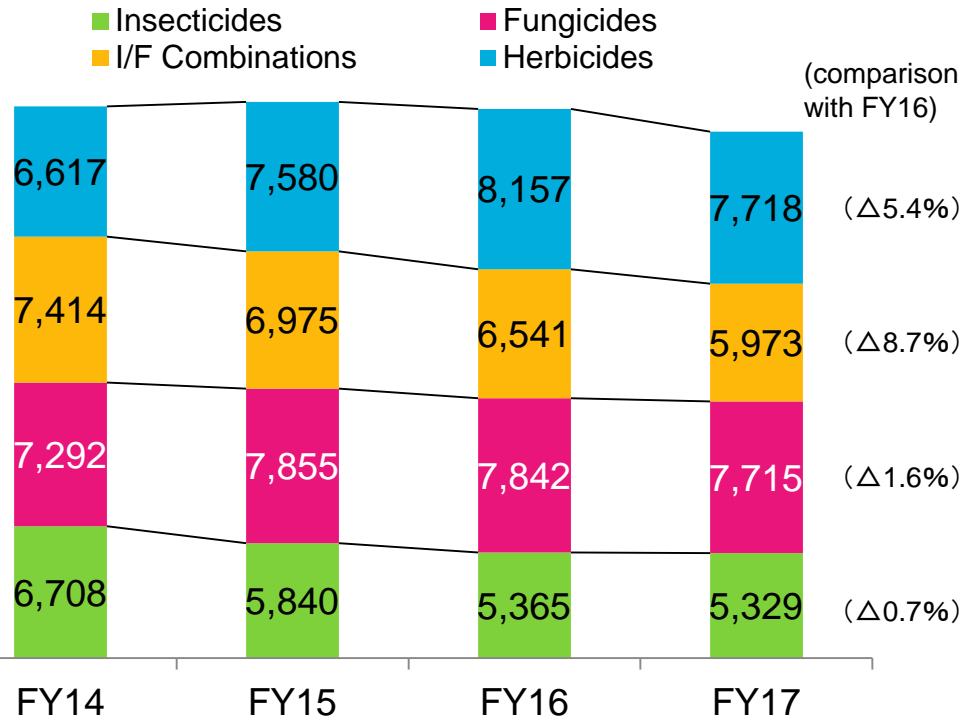
- Sales in fiscal year 2017 fell in domestic sales because of increased distribution stocks of herbicides and insecticidal fungicides, etc. Although orders increased in overseas sales mainly in the Asian region, resulted in fall in income as the total because of impact of domestic sales decline.
- On the other hand, operating income increased because of lower manufacturing costs, etc.



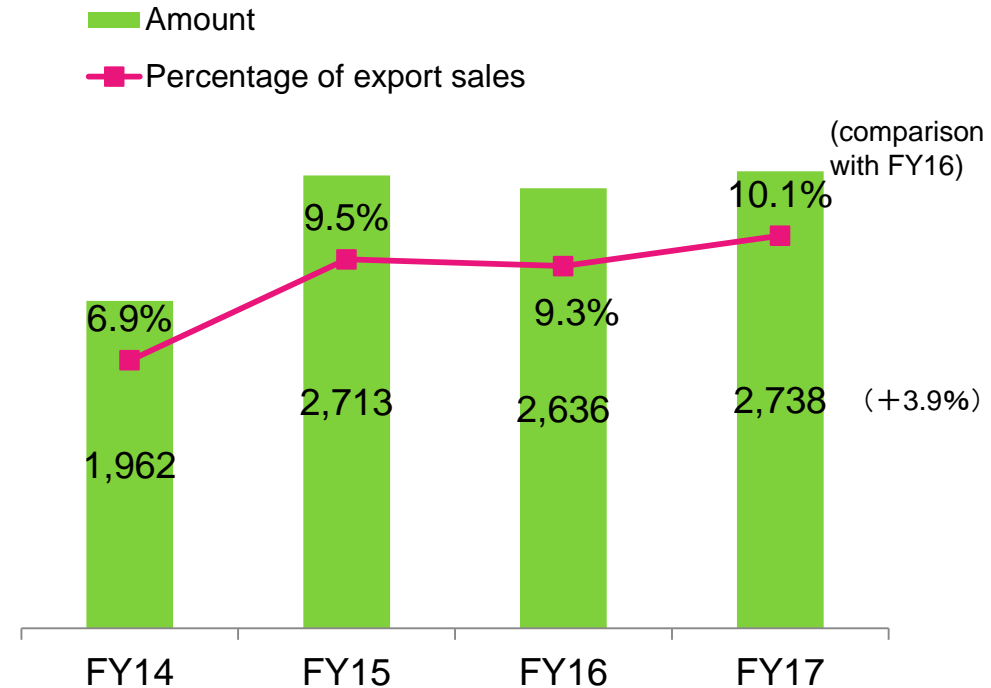
Crop Protection Business

Millions of yen

Sales by Products (non-consolidated)



Exports (non-consolidated)



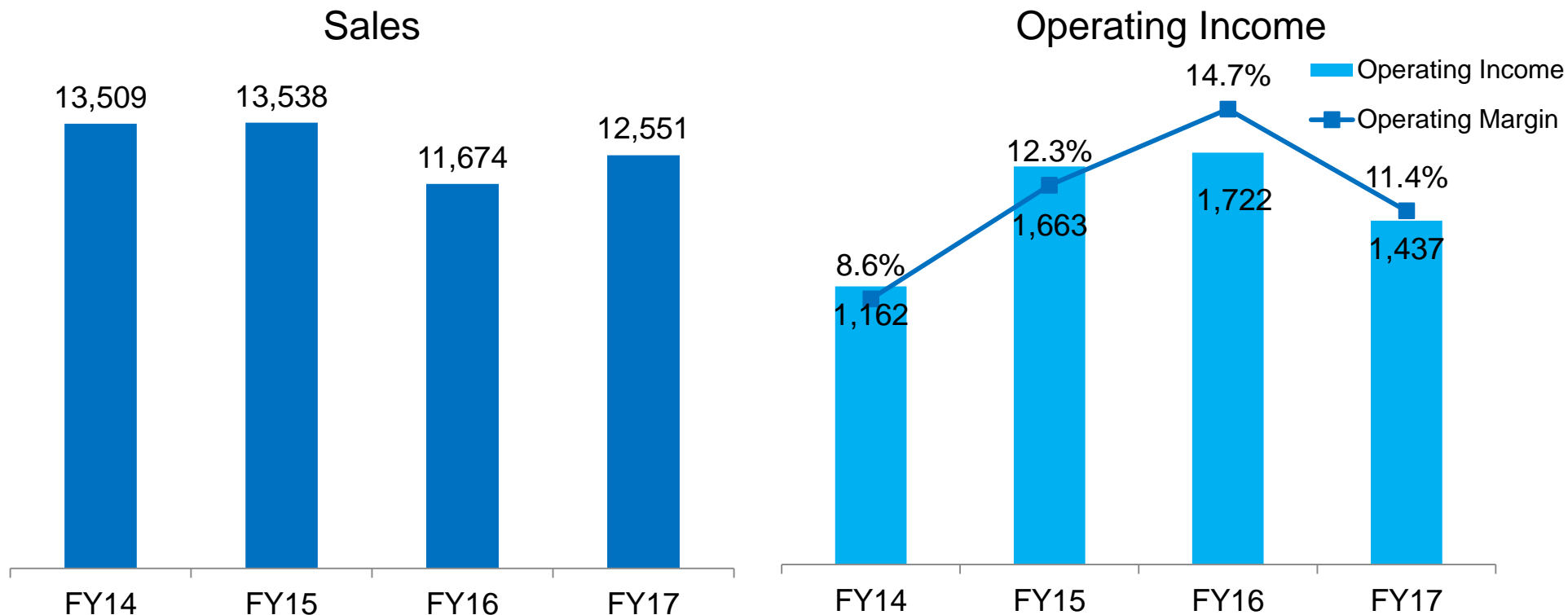
- Herbicides and insecticidal fungicides have drastically decreased because of domestic distribution stocks etc.
- Export sales increased mainly because of an increase in orders from overseas for products containing self-developed active ingredient “Kasugamycin” and the export ratio in the crop protection business increased.



□ Results by segment

Fine Chemicals Business

Millions of yen



FY 2017 (compared with FY 2016) : Sales +7.5%, Operating Income Δ 16.5%

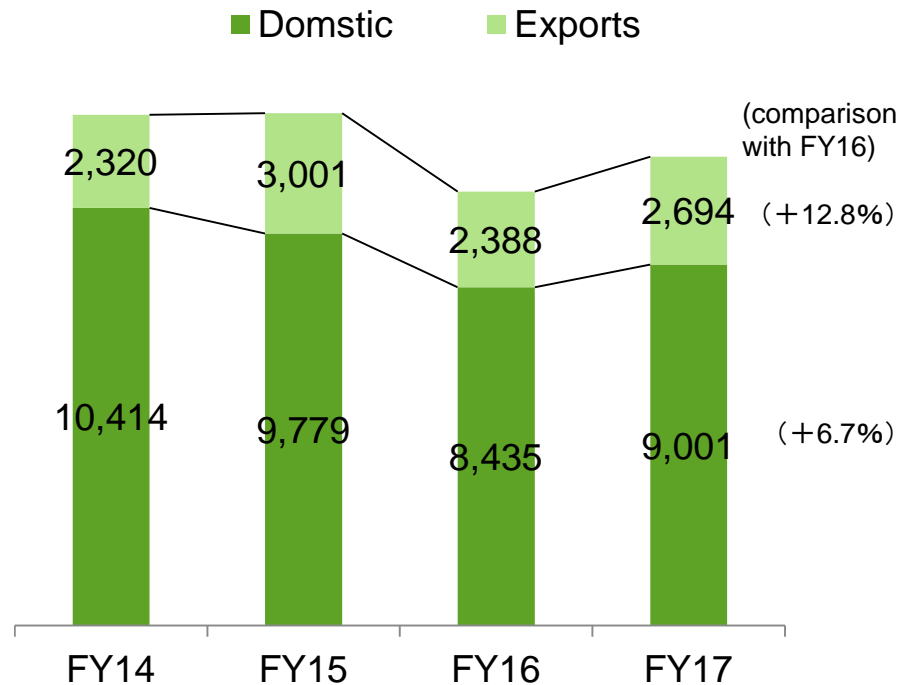
- Sales in fiscal year 2017 increased because of a recovery in product demands backed by firm domestic and overseas economies, and also strong sales of Electronic materials and Pharma & Agro in major fields.
- On the other hand, operating income declined because of an increase in manufacturing costs at overseas subsidiary.



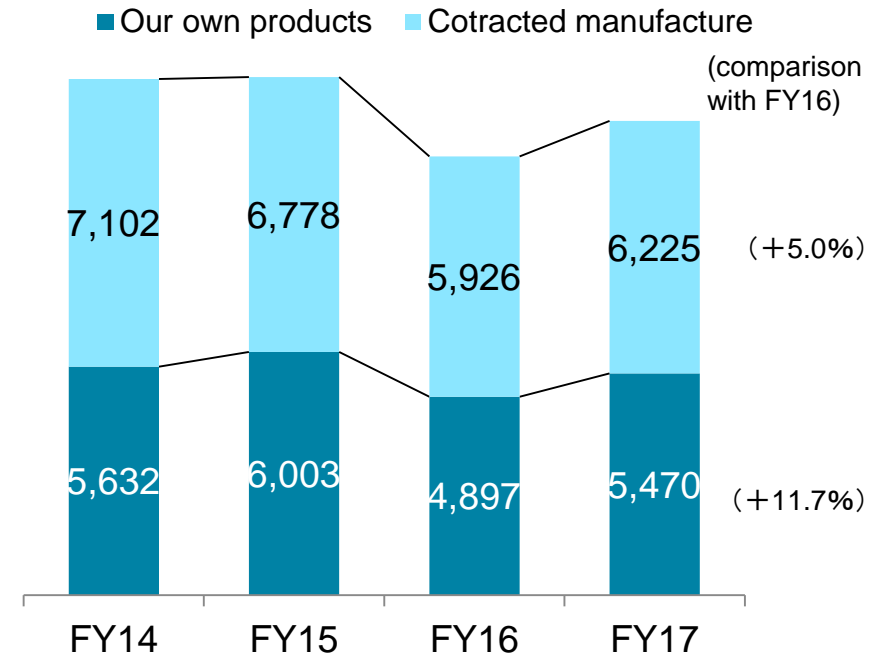
Fine Chemicals Business

Millions of yen

Domestic / Exports (non-consolidated)



Our own products / Contracted manufacture (non-consolidated)

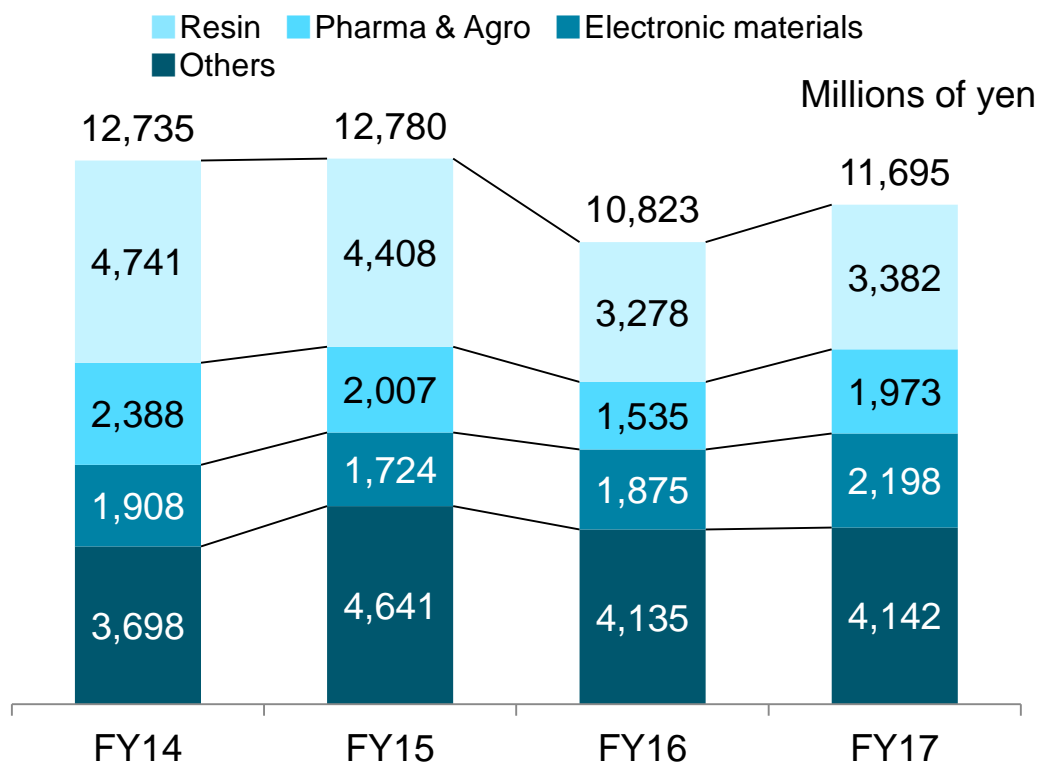


- In fiscal year 2017, both domestic and export sales increased backed by strong domestic and overseas economies. Especially exports increased significantly.
- Sales ratio of own and contracted products has been in almost half so far, own product ratio significantly increased in fiscal year 2017 especially.



Fine Chemicals Business

Sales by Business Fields
(non-consolidated)



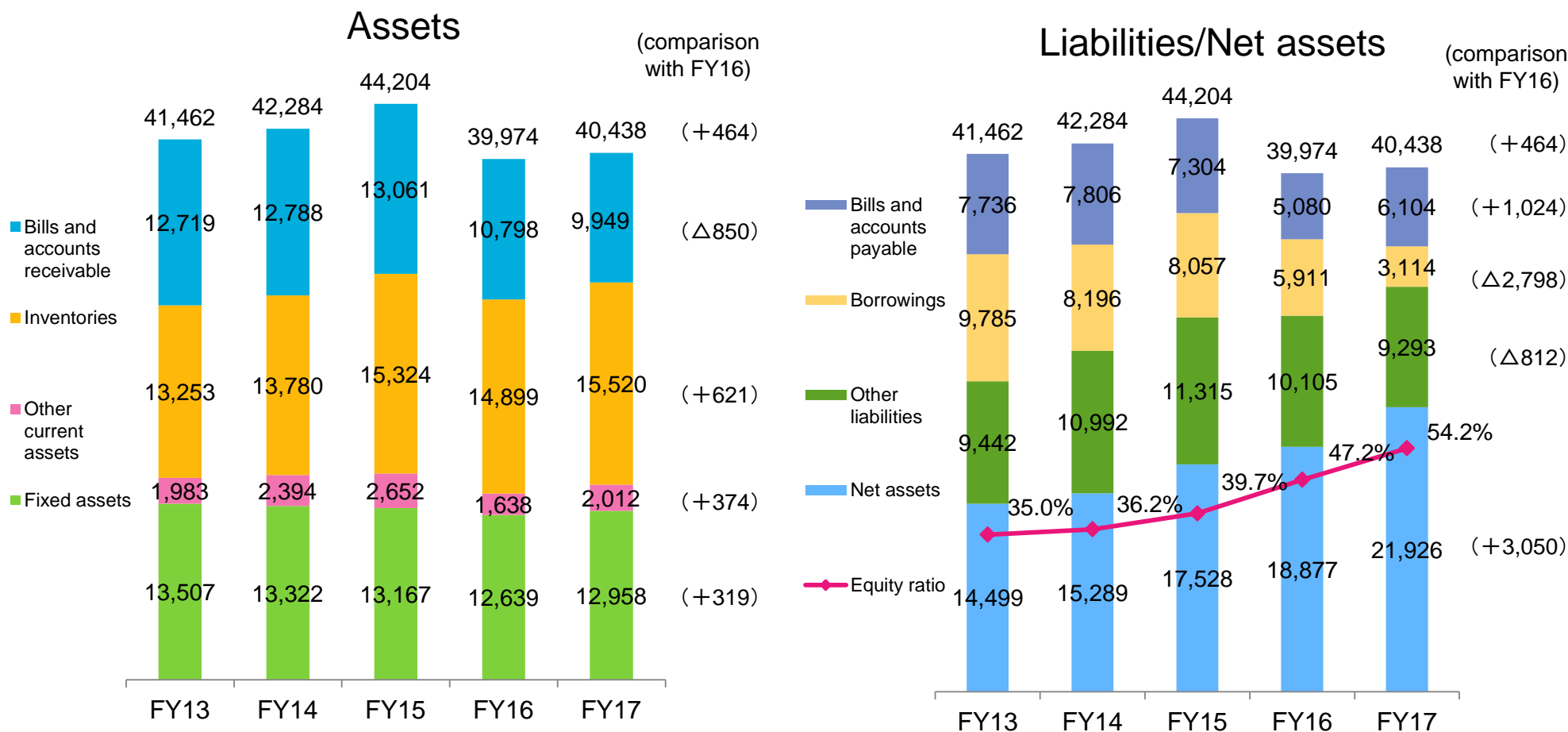
FY2017 compared with FY2016
by Business Fields (non-consolidated)

| Business Fields | Comparison with FY16 | |
|----------------------|----------------------|--------|
| R e s i n | ↑ | +3.2% |
| Pharma & A g r o | ↑ | +28.6% |
| Electronic materials | ↑ | +17.2% |
| O t h e r s | ↑ | +0.2% |
| T o t a l | ↑ | +8.1% |

- Sales in fiscal year 2017 increased mainly in major fields such as Resins, Pharma & Agro, and Electronic materials backed by the strong domestic and overseas economies

Change in consolidated B/S

Millions of yen



- Because of the accumulation of profits, borrowings decreased sharply, and the capital ratio rose to 54.2%.

II Outlook for FY 2018



□ Earnings outlook

Millions of yen

| | FY2017 result | | FY2018 outlook | | Change | % |
|------------------|---------------|------|----------------|------|--------|--------|
| Net Sales | 39,826 | 100% | 41,400 | 100% | +1,574 | +4.0% |
| Operating Income | 2,286 | 5.7% | 2,650 | 6.4% | +364 | +15.9% |
| Ordinary Income | 3,541 | 8.9% | 3,100 | 7.5% | △441 | △12.5% |
| Net Income | 1,989 | 5.0% | 2,100 | 5.1% | +111 | +5.6% |

※Exchange Rate : FY2017 actual ¥ 112.34 /US\$, FY2018 outlook ¥110.00 /US\$

(reference)

Ordinary Income

Excluding interest revenue
and dividends

| | | | | | | |
|--|-------|------|-------|------|------|--------|
| | 2,665 | 6.7% | 3,010 | 7.3% | +346 | +13.0% |
|--|-------|------|-------|------|------|--------|

- Sales are expected to increase because of increased sales in crop protection business
- Operating income is expected to increase mainly because of increased sales in crop protection business
- On the other hand, the ordinary income is expected to decrease as dividend income from overseas companies is expected to decline sharply (Reference: Income excluding interest revenue and dividends increased by 346 million yen)

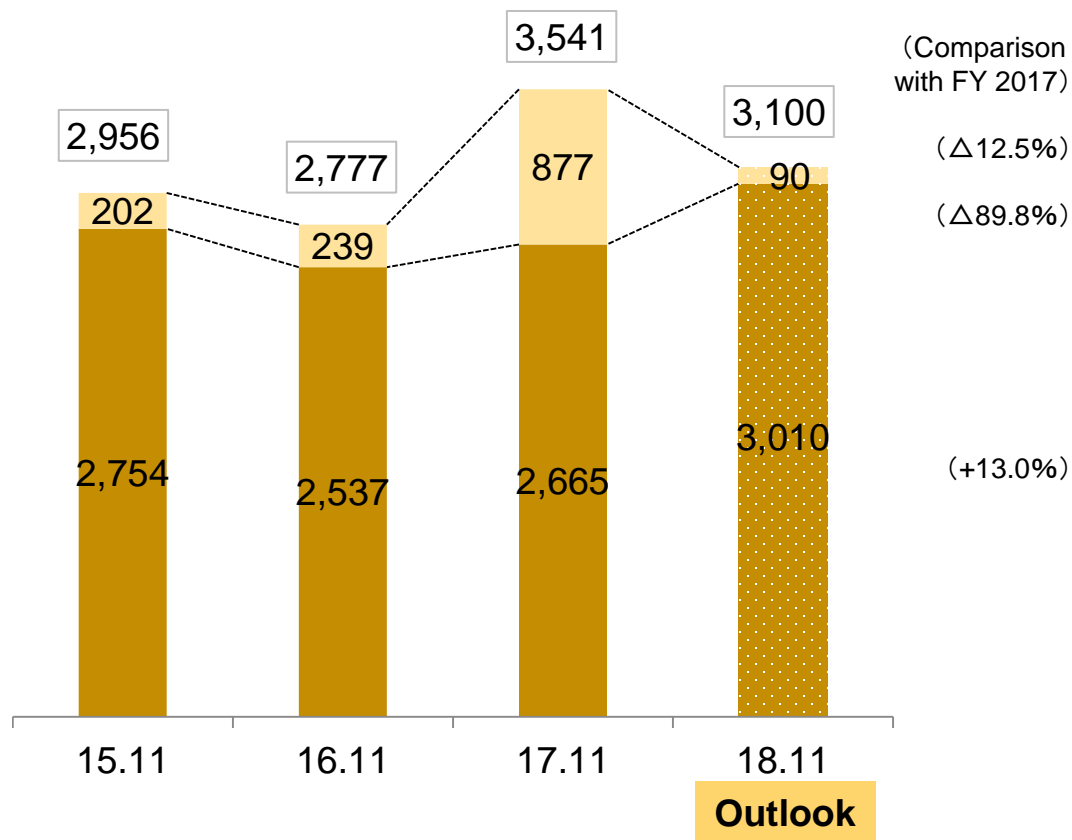


□ Earnings outlook Breakdown of Ordinary Income Outlook for FY 2018

■ Transition of breakdown (Ordinary income)

(Millions of yen)

■ Other ■ Excludes interest revenue and dividends



● Outlook for Ordinary Income 2018

- Total ordinary Income is expected to decrease by 441 million yen (-12.5%) from the FY 2017, as dividend income from overseas companies is expected to decline
- Expected to be +346 million yen (+13.0%) from the fiscal year 2017 excluding interest revenue and dividends



□ Earnings outlook by segment

◆ Crop Protection Business

Millions of yen

| | FY2017 result | | FY2018 outlook | | change | % |
|------------------|---------------|------|----------------|------|--------|-------|
| Net Sales | 27,249 | 100% | 28,730 | 100% | +1,481 | +5.4% |
| Operating Income | 840 | 3.1% | 842 | 2.9% | +2 | +0.3% |

● Outlook for the 2018 fiscal year

- The sales of the crop protection business as a whole will increase substantially because of resolution of domestic distribution inventory excess and the increase of shipping quantities for exports
- Operating income is expected to remain almost unchanged from the fact that selling, general and administrative expenses such as research and development expenses will increase despite an increase in profit resulting from increased sales

● Main activities in the 2018 fiscal year

- We will strive to expand sales through provision of labor-saving needs of producers, development of products adapted to evolving cultivation techniques and agricultural machinery, and application of crop protection products corresponding to new cultivation and control technologies
- In overseas sales, we will proceed with the establishment of an oversea testing site for product development conforming to the tropical region and with the promotion of acquisition of crop protection registration for own developed products and the establishment of development & promotion base in the main cultivating country of rice



□ Earnings outlook by segment

Millions of yen

◆ Fine Chemicals Business

| | FY2017 result | | FY2018 outlook | | change | % |
|------------------|---------------|-------|----------------|-------|--------|--------|
| Net Sales | 12,551 | 100% | 12,640 | 100% | +89 | +0.7% |
| Operating Income | 1,437 | 11.4% | 1,801 | 14.2% | +364 | +25.3% |

● Outlook for the 2018 fiscal year

- Sales are expected to increase slightly, as demand for products continues to be strong backed by a recovery trend in domestic and overseas economies
- Operating income is expected to increase because of a reduction in the manufacturing cost of overseas subsidiary

● Main activities in the 2018 fiscal year

- We will expand sales in existing businesses by planned increase in production in the field of electronic materials and strengthening product development of organophosphorus compounds we are good at
- Focus on creation of new business by expanding sales channels in the pharmaceutical field through alliances etc.



■ Supplement



1. Corporate Data

As of November 30, 2016

| | |
|-------------------------------|---|
| Company name | HOKKO CHEMICAL INDUSTRY CO., LTD |
| Business activities | Crop Protection Business, Fine Chemicals Business |
| Established | February, 1950 |
| Head office | 1-5-4, Nihonbashi Honcho, Chuo-ku, Tokyo |
| Branches | Sapporo, Sendai, Tokyo, Niigata, Osaka, Okayama, Fukuoka |
| Factories | Hokkaido, Niigata, Okayama, |
| Laboratories | Atsugi (Kanagawa) experimental farm: Hokkaido, Shizuoka |
| Capital | JPY 3,214 million |
| No. of employee | 637 (non-consolidated) / 751 (consolidated) |
| Consolidated subsidiaries | Hokko Sangyo Co., Ltd. / Biei Hakudo Industry Co., Ltd. / Hokko Pax, Ltd. / Zhangjiagang Hokko Chemical Co., Ltd. (China) |
| Non-consolidated subsidiaries | HOKKO CHEMICAL AMERICA CORPORATION (North Carolina, USA) |



2. Business Activities

Fiscal year ended November 2017



Crop Protection Business

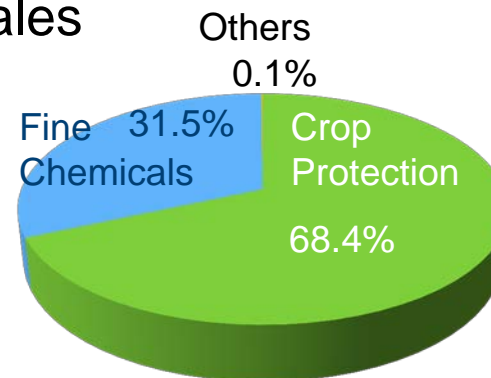
- Manufacturing & Sales of Fungicides, Insecticides, Herbicides etc.



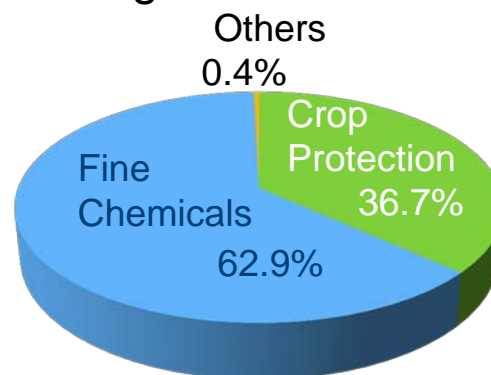
Fine Chemicals Business

- Manufacturing & Sales of raw materials, intermediates and Catalyst ligands for Resins, Pharma & Agro and Electronics business fields

Sales



Operating Income



※ Others: sales of petroleum etc.

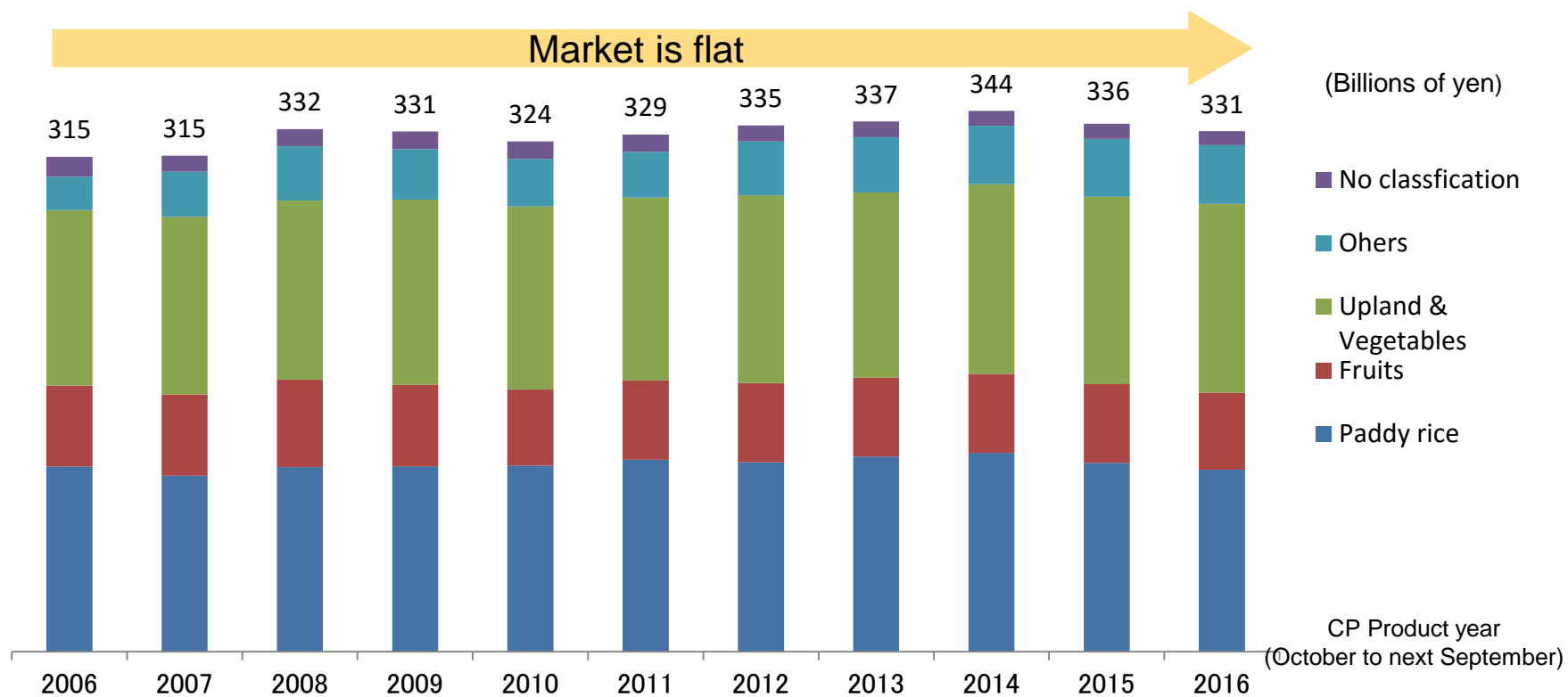


□ Crop Protection(CP) Business

- Domestic CP product market trends

⇒ It has been almost flat in recent years

Domestic CP products shipment value



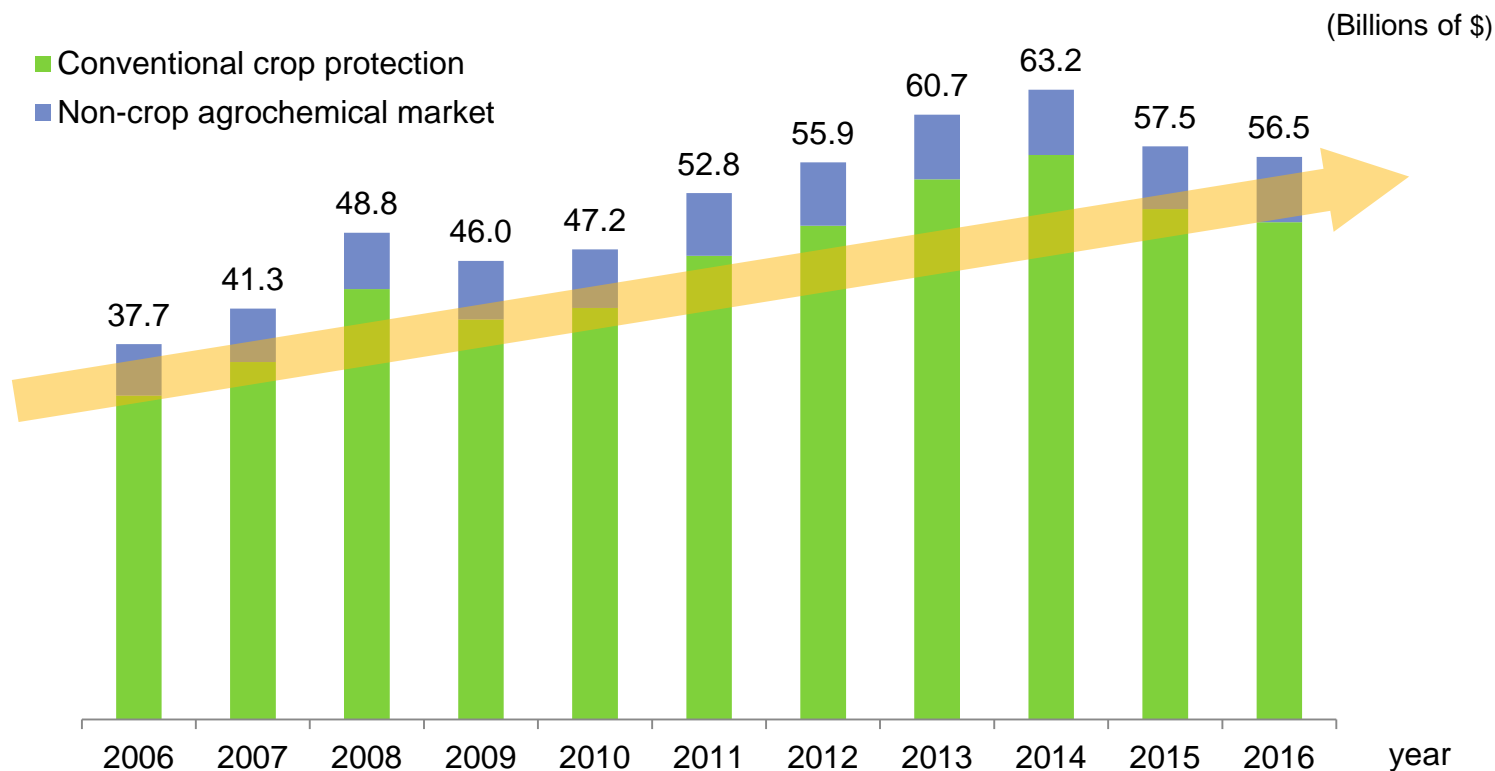
(Source: Japan Crop Protection Association-JCPA)



□ Crop Protection(CP) Business

- Global CP product market trends
⇒ Market has been expanded by the increasing demand for food

Global CP products shipment value



(Source: Phillips McDougall)



□ Crop Protection(CP) Business

◆ Domestic and overseas business

- Along with matured domestic market and growing global market, overseas sales ratio is increasing

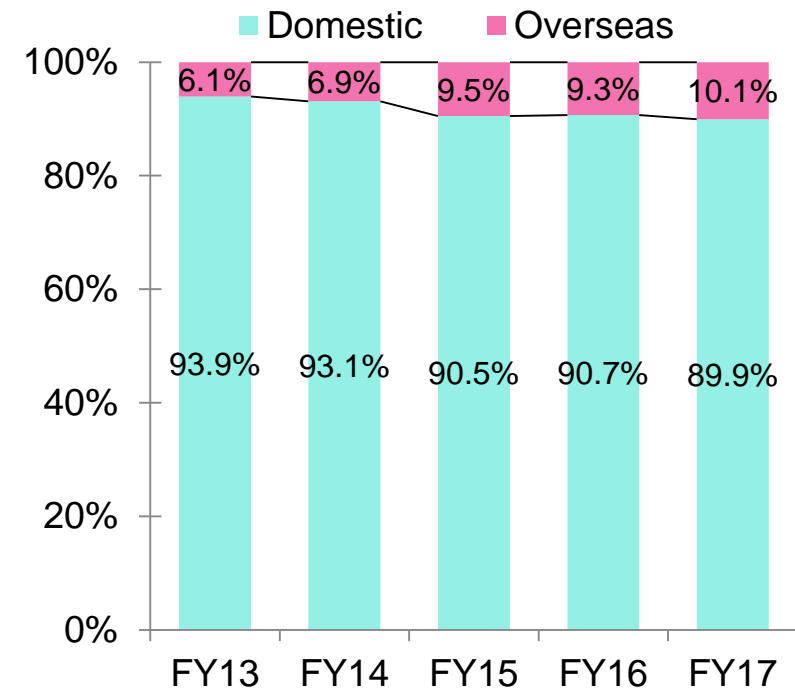
Domestic

- Finished Product supplied to customers through JA (Cooperative Channel)
- Contract formulation for other CP product manufacturers

Overseas

- Finished Product or Active ingredient through trading companies mainly sold in Asia, North and Latin America etc.

Breakdown of CP sales



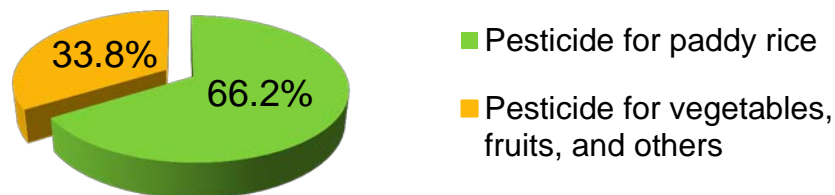
□ Crop Protection(CP) Business

◆ Strength in rice market

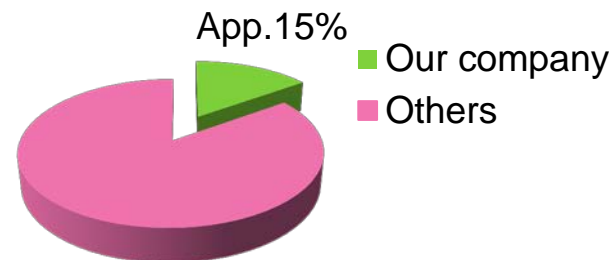
Breakdown of CP domestic sales

by fields

(Fiscal year ended November 2016)



Our share in the domestic market of pesticide for paddy rice (estimated)



◆ Strength of formulation technology

Declining farming population and increasing population of aged farmer in Japan

▶ Increase of labor-saving needs

▶ Focus on developing formulations to handle easily



【Main products】

Dr.ORYZE Seedling box treated granules
(September 1997 registration)

- Co-development with Meiji Seika Pharma Co., Ltd
- Highly sophisticated release controlled Probenazole formulation successfully improving performance as a granule of Seedling Box Treatment

◆ Hokko Proprietary Products

Proprietary compound

| Active Ingredient | Registration | Crop | Product |
|--------------------|--------------|--------------------|-----------|
| Kasugamycin | 1965 | Rice, Vegetables | Fungicide |
| Copper oxychloride | 1966 | All crops | Fungicide |
| imibenconazole | 1994 | Vegetables, Fruits | Fungicide |
| ipfencarbazone | 2013 | Rice | Herbicide |

Joint development

| Active Ingredient | Registration | Crop | Product |
|-------------------|--------------|------|-----------|
| tefuryltrione | 2010 | Rice | Herbicide |

- Co-development with the National Federation of Agricultural Cooperatives Federation & Bayer CropScience KK



□ Crop Protection(CP) Business

■ ipfencarbazone

- Rice herbicide of triazolinone chemistry ⇒ Registered in August 2013, sales launched in 2014
Received the achievement award (technology) of Pesticide Science Society of Japan (2016)

Features & Effects

High safety to paddy rice, excellent initial efficacy and long residual effect on "*Echinochloa* sp" which is most serious weeds in rice-producing areas

Domestic

- ✓ Sales have increased since its launch in 2014

CP Product year(October to next September)

| | 2014 | 2015 | 2016 | 2017 |
|-----------------------------------|------|------|------|------|
| Estimated used area (thousand ha) | 9 | 77 | 145 | 144 |
| share※ | 0.5% | 4.5% | 8.3% | 8.4% |

※Share of paddy rice herbicides the same application window
Source: Japan Plant Protection Association statistical data

Trade name

Winner, Kachiboshi, Kimarite

Overseas

- ✓ We are expanding target countries in Asian rice market. First overseas registration was approved in South Korea and sales were launched in April 2014.
- ✓ Other registration is expected to be in Taiwan in 2018.
- ✓ Initial development work has started in Vietnam, India, Thailand, Indonesia, etc.



□ Crop Protection(CP) Business

■ Kasugamycin

- Fungicide/Bactericide produced by microorganism(*Actinomyces*) isolated from soil of Kasuga shrine in Nara prefecture, Japan ⇒ widely used for more than 50 years since its first registration was approved in 1965

Features & Effects

Mainly used for the control of the most serious disease (Rice blast) and Bacterial diseases on vegetables and fruits.

Domestic

- ✓ Wide application window from seedling box to paddy field by ground spray and aerial application
- ✓ Excellent efficacy against “*Cercospora*” leaf spot on sugar beet and Gray blight, Bacterial shoot blight on tea plant

Major Products

Kasumin, Kasumin-bordeaux,
Double-cut

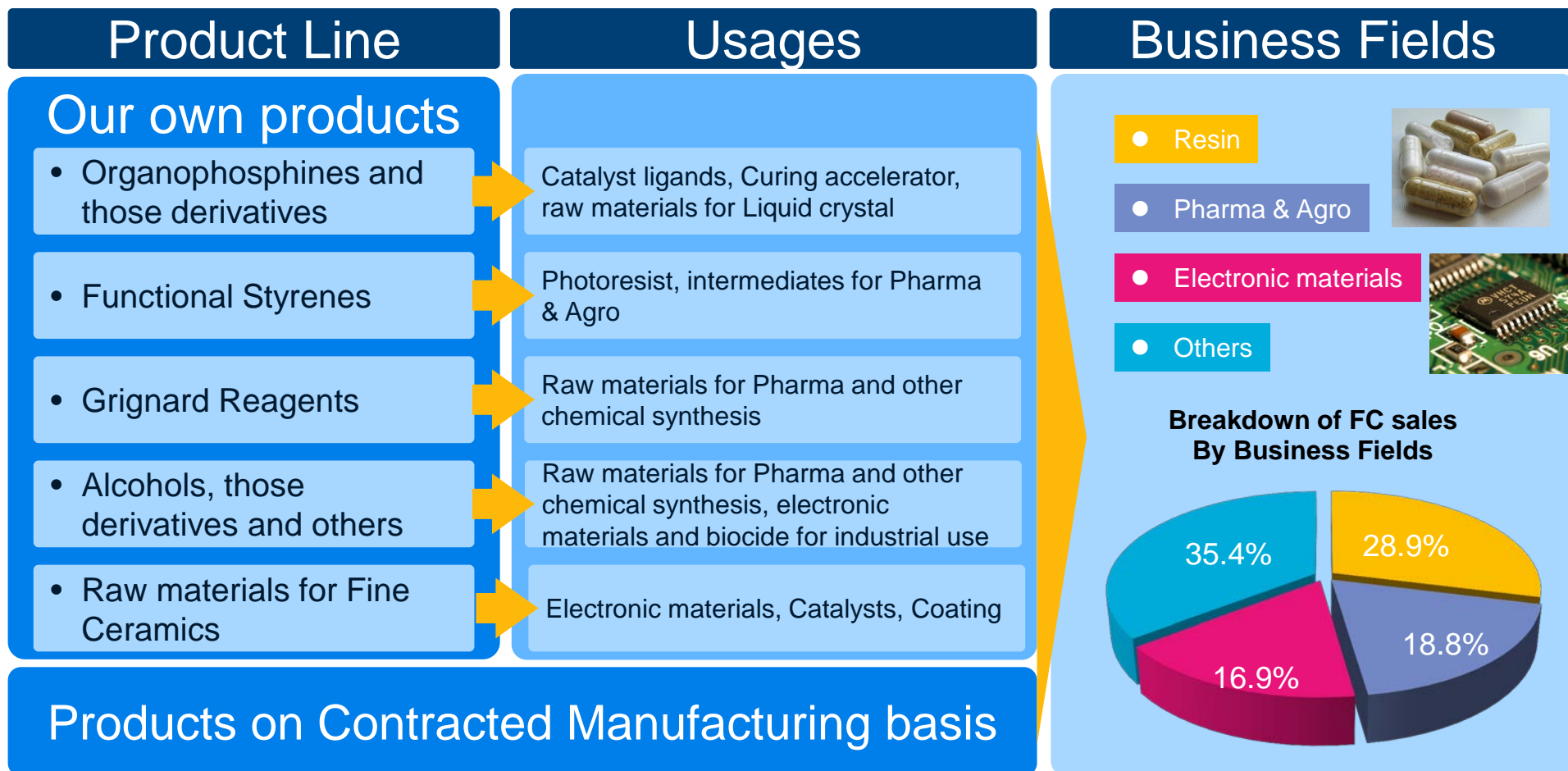
Overseas

- ✓ Registered in 40 countries in the world (Mainly used for the control of Rice blast and bacterial diseases on vegetables and fruits)
- ✓ Registered in USA in 2014 taking more than 10 years for the control of fire blight on apple which gives a serious damage to apple trees in the world, and effective bactericide has been strongly required.
- ✓ We are making effort to expand sales to the growing global market.



□ Fine Chemicals(FC) Business

- Supplying in a wide range of business fields with products made using our core synthesis technology, Grignard reaction (See 'Supplement')
- Sales of our own products and Contracted manufacture



□ Fine Chemicals(FC) Business

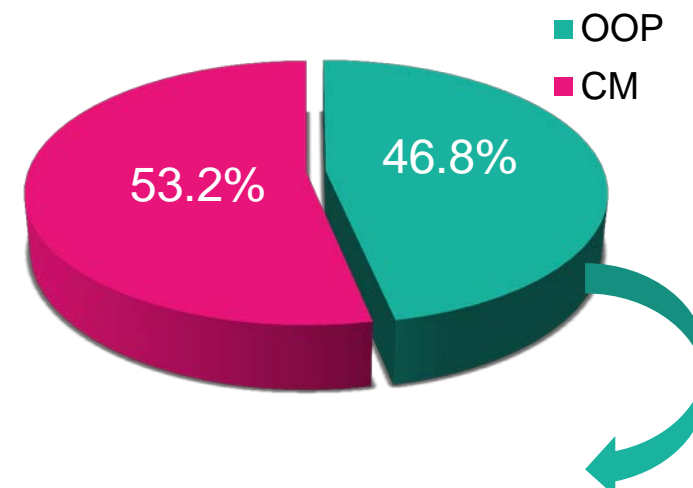
◆ Our Own Products (OOP)

- Major product is TPP (Tri Phenyl Phosphine: Organophosphorus compound)
 - Supplying to a variety of business fields
 - One of leading manufacturers (See 'Supplement')

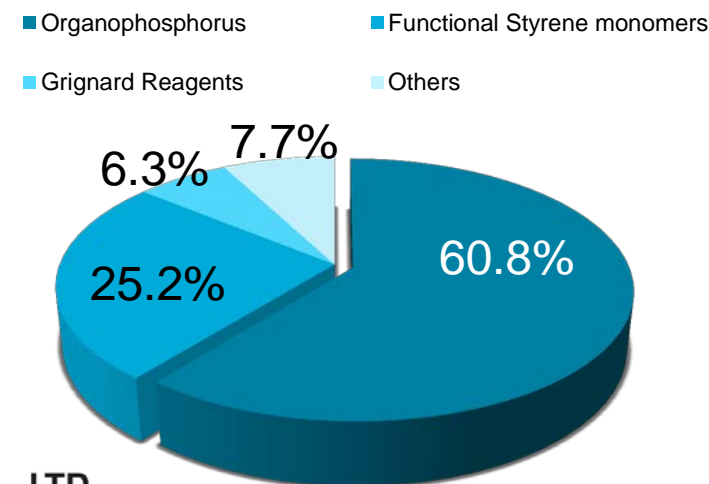
◆ Contracted manufacture (CM)

- Based on accumulated know-how through its long experience, conducting contracted manufacture in close relationship with each customer in a variety of fields.
- Corresponding to a wide range of needs mainly with Grignard base technologies, of which capacity is one of largest in the world.

Breakdown of FC sales (OOP / CM)



Breakdown of FC sales (OOP)



□ Grignard reaction

- Generic name of reaction involving organomagnesium halogen compounds (Grignard reagents) developed in France in 1900 by Victor Grignard (later received a Nobel Prize in chemistry). Grignard reagents are highly reactive and are applied to a wide range of organic synthesis reactions.
- It currently occupies an important position in the synthesis of Pharmaceutical and Agrochemical intermediates, OLED raw materials, styrene compounds, boron compounds, phosphorus compounds, etc.
- Comparing with other organometallic (lithium, sodium, etc.) reactants, they are less flammable and easier to handle, so they are widely used industrially, but it is difficult to control the heat generation during synthesis of reagents, so there are few companies doing mass synthesis of the Grignard reagent.

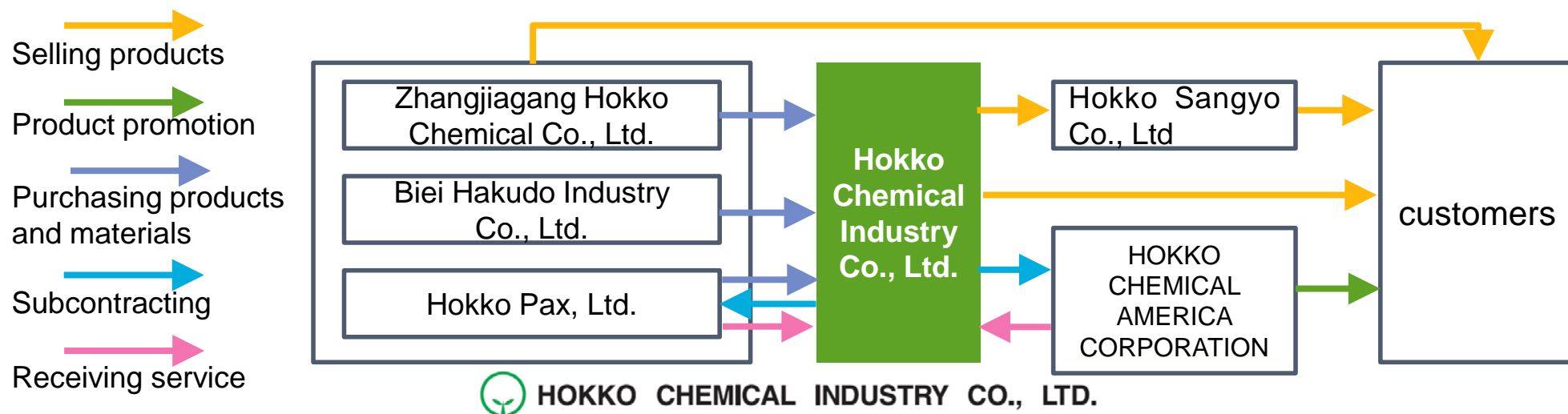
□ TPP (Tri Phenyl Phosphine)

- World demand is more than 5,000 tons and it is increasing trend in recent years.
- Rival manufacturers are a major European company and start-up companies in China.
- It is widely used in the fields of vitamins, pharmaceutical and agricultural chemicals, petrochemicals, electric materials, etc.



□ Consolidated subsidiaries

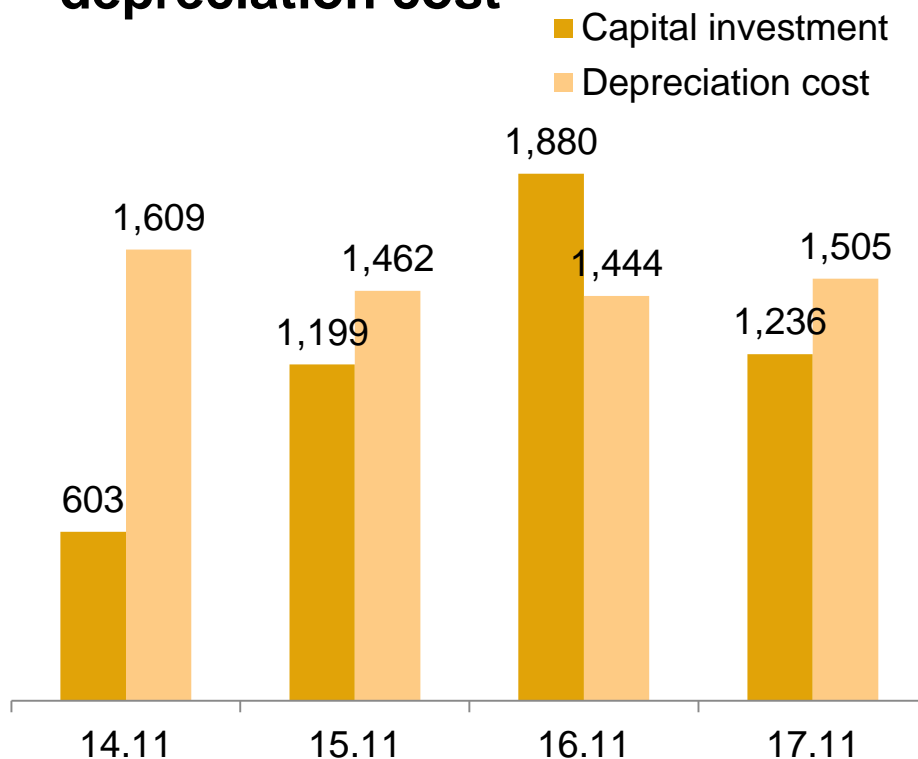
| Company name | Location | Main business activities |
|--|---------------------|--|
| Zhangjiagang Hokko Chemical Industry Co., Ltd. | Jiangsu (China) | manufacturing and sales of fine chemical products |
| Biei Hakudo Industry Co., Ltd. | Tokyo, Hokkaido | manufacturing and sales of copper substrates, clay, and Balloon (white clay firing sphere) |
| Hokko Pax, Ltd. | Tokyo, Okayama | sales of petroleum products, service of our company's welfare program |
| Hokko Sangyo Co., Ltd. | Tokyo | sales of fine chemical products |
| HOKKO CHEMICAL AMERICA CORPORATION | North Carolina, USA | research of market and promotion of products relating to crop protection |



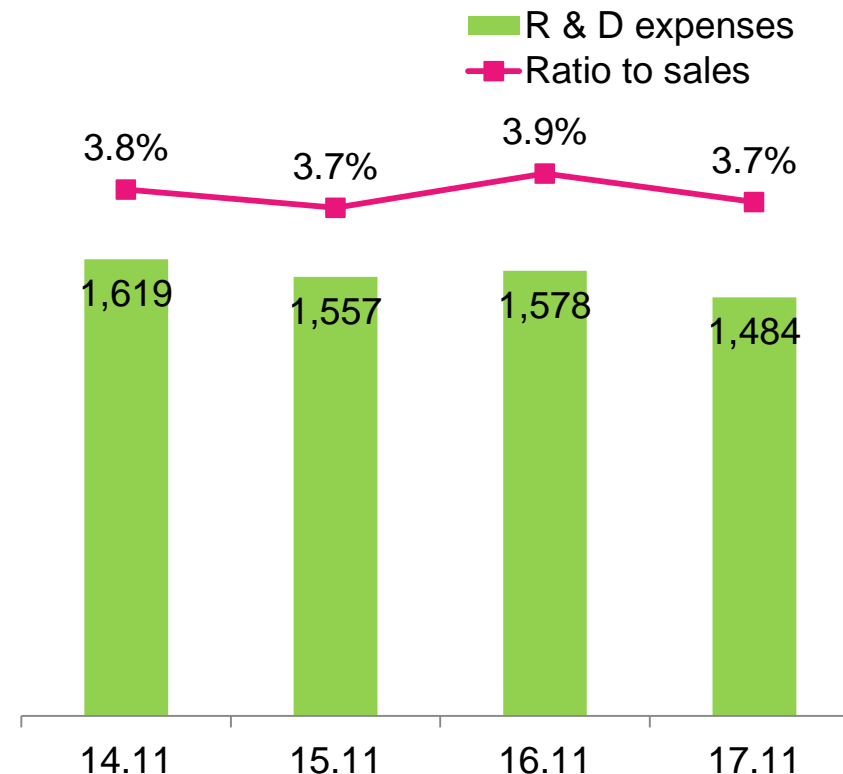
Results of capital investment and R & D expenses

Millions of yen

Capital investment, depreciation cost



R & D expenses



- Capital investment was planned to total 4.5 billion yen in the previous three-year management plan period (November 2015 to November 2017) but the actual amount was 4.3 billion yen



The earnings forecasts described in these materials have been estimated on the basis of currently available information, and it is possible that the actual financial performance will differ because of a variety of factors going forward.

Contact

HOKKO CHEMICAL INDUSTRY CO., LTD.

Planning & Management Department

TEL: 03 3279 5151

FAX: 03 3279 5195

