Hokko Group has issued the Hokko Report, which integrates the company profile and Responsible Care report, since FY 2018. In FY 2019, we expanded our reporting on Environment, Social, and Governance (ESG) activities.

Reporting Scope

Some of the reported information includes activities conducted after December 2018.

Reporting scope: Hokko Chemical Industry Group. However, quantitative data on health and safety and the environment cover only the main production and research facilities of Hokko Chemical Industry Co., Ltd., namely the Hokkaido Factory, Niigata Factory, Okayama Factory, and the Central Research Laboratories and Fine Chemicals Research Laboratories.

Referenced guidelines:
Environmental Reporting Guidelines 2018, Japanese Ministry of the Environment

Published: August 2019 (next release scheduled in August 2020)

Hokko Chemical Industry Co., Ltd. was established as a chemicals manufacturer on February 27, 1950. Since then, we have achieved steady growth and development through our main business activities of manufacturing and selling crop protection and fine chemical products. In our Crop Protection Products Business, under the motto of “Hokko’s products ensure crop protection from seed treatment to harvesting,” we have manufactured and sold safe, high-quality products throughout our history. We offer these products both domestically in Japan and around the world to help sustain the stable supply of agricultural crops. In our Fine Chemicals Business, we have developed an extensive product portfolio encompassing organic catalysts, electronic materials, and pharmaceutical and agrochemical intermediates mainly using the Grignard reaction as one of our key technologies. These fine chemical products broadly contribute to industry and society.

With the goal of benefitting humankind and the management keywords of “social contributions,” “the environment” and “technology,” we offer safe and reliable crop protection products that contribute to food security, and fine chemical products that broadly support industrial activities.

We embarked on our new three-year management plan HOKKO Growing Plan 2020 in the 2018 business year (Dec. 2017–Nov. 2018) as a first step toward achieving our stated targets of sales of 50 billion yen and ordinary income of 5 billion yen. These targets represent the corporate scale we aim to achieve in the near future as part of our long-term growth goals.

We did not achieve our plan for sales in FY 2018, the first year of the plan, but we did exceed our plan for ordinary income. In terms of current net profit, we posted record-high profit for the fifth consecutive year in FY 2018. As a result, we were also able to steadily increase our capital adequacy ratio. We are planning to enter a robust growth track in FY 2020, when we mark our 70th year in business, by implementing a strategy that continues to follow the three basic policies outlined in the HOKKO Growing Plan 2020, which are 1) improving the revenue base of our existing businesses, 2) expanding our business fields and domains, and 3) maintaining a sound fiscal structure.

To continue this growth over the long term, improving our corporate governance and Responsible Care activities* is key. Based on our understanding that working together with stakeholders and maintaining a strong awareness of compliance are vital to achieving sustained growth and improving our corporate value in the mid- to long term, we are taking steps to expand our corporate governance.

As a chemical company, we must ensure safety and environmental considerations in all processes from development to manufacturing, distribution, product use, and disposal. We are therefore conducting Responsible Care activities, which is a voluntary initiative by the chemical industry. Through these activities, we are making ongoing improvements to the environment, safety, and health.

We hope that through this report, our stakeholders are able to deepen understanding of Hokko Group. We welcome your candid feedback as we pursue our future activities.

* Responsible Care activities: In the chemical industry, companies that handle chemical substances voluntarily secure “environment, safety and health” in all processes from chemical substance development, manufacturing, distribution, use, final consumption, and recycling through to disposal, publicly release the results of those activities, develop the activities and communicate with society. These initiatives are called Responsible Care activities, and Responsible Care is sometimes abbreviated as RC in this report.
Progress of the Three-Year Management Plan

We started implementing the HOKKO Growing Plan 2020, our three-year management plan with FY 2018 as its initial year, and are conducting a range of activities looking toward its final year of FY 2020, when we mark our 70th anniversary.

HOKKO Growing Plan 2020 Three-Year Management Plan (Business Years 2018–2020)

Challenge to Change — Embrace all change to open up the future

Basic Policy

Improve the revenue base of existing businesses

Strong core businesses driving profit higher

Expand business fields and domains

New fields creating sales

Maintain a sound financial constitution

Stable frame supporting growth

Results of main activities in FY 2018

- Started construction on synthesis plant no. 9 (Fine Chemicals Business) at Okayama Factory.
- Increased obtainment of JGAP instructor certification by all Crop Protection sales staff in Japan.
- Improved earning structure by shifting to high-value-added items.
- In the Fine Chemicals Business, achieved more efficient shipping operations through business alliance with other company.
- In the Crop Protection Products Business, rebuilt the supply structure for our self-developed product Kasugamycin in global markets.
- Four consecutive years of increased dividends.
- 10.0% ordinary income margin.
- 0.09 D/E ratio.
- 59.5% capital adequacy ratio.
- 12.8% ROE.

Main activities in FY 2019

Expanding production structure

- Strict project management for the smooth start-up of synthesis plant no. 9 at Okayama Factory.
- Decision on future crop protection product manufacturing facilities for the purpose of increasing profit margin through a manufacturing innovation project.

Establishing a sales growth trend

- Establishment of new formulation technology to expand volume of contract-crop protection product manufacturing.
- Acquisition of GMP management system for the purpose of business expansion in the pharmaceutical field.
- Promotion of business and capital alliances, M&A.

Strengthening risk management

- Strengthening of the production management structure using a system to avoid unexpected losses.
- Advancing work-style reforms using RPA.
- Deployment in production, logistics, and sales divisions.

Plan and Results

<table>
<thead>
<tr>
<th>Sales</th>
<th>Ordinary income</th>
<th>Ordinary income margin</th>
<th>D/E ratio</th>
<th>Capital adequacy ratio</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>(million ¥)</td>
<td>(million ¥)</td>
<td>(%)</td>
<td>(Ratio)</td>
<td>(%)</td>
<td>(Ratio)</td>
</tr>
<tr>
<td>2018 Plan</td>
<td>40,200</td>
<td>15</td>
<td>3%</td>
<td>0.4</td>
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Stock acquisition to make C. Murata & Co., Ltd. a subsidiary

As of March 18, 2019, we acquired all shares of C. Murata & Co., Ltd. (C. Murata) and have made it a subsidiary. C. Murata has a history of more than 130 years. It successfully shifted its business model from being a long-time textile wholesaler to a trading company exclusively dealing in textile materials. Currently it develops and offers advanced, multifunctional products through materials development from the raw materials and use of proprietary supplemental processing. Its products are used in a wide range of fields including automotive, furniture, bags, shoes, apparel, and for pets, disaster prevention, and caregiving.

By making C. Murata a subsidiary, we will not only be able to develop and produce materials based on user needs and demand trends but also are aiming to demonstrate synergies and create new added value by integrating the skills, know-how, networks, and other aspects of C. Murata with our production and manufacturing functions as well as our research and development function and the marketing function of our subsidiary Hokko Sangyo Co., Ltd. (sakes of antibacterial and antifungal products and Fine Chemicals products).

- Trade name: C. Murata & Co., Ltd.
- Headquarters: 2-5-1 Hachimanbasho, Chuo-ku, Osaka-shi, Osaka
- Tokyo Branch: 17F Toranomon Shiro Nakamachi, Chuo-ku, Tokyo
- Capital: 100 million
- Equity capital: 100 million

1) JGAP: Japan Good Agricultural Practice. An agricultural production management method for the purpose of ensuring the safety of agricultural crops.
2) GMP: Good Manufacturing Practice. International standards related to pharmaceutical manufacturing and quality management.
3) D/E ratio: Debt to equity ratio. Expresses the ratio of interest-bearing debt of the company to internal equity (shareholders’ equity) with no repayment obligation. A lower ratio indicates greater financial stability (D/E ratio = Interest-bearing debts / internal equity).
4) ROE: Return on equity. An indicator expressing how effectively a company uses its internal equity to generate profits. ROE = current net income / internal equity × 100.
5) RPA: Robotic process automation. Concept of using AI-based software, in other words a “robot,” to automate and execute white-collar deskwork (mainly standardized processes).

*6 Glass-lined: Coating the surface of a reactor with glass to prevent acids from corroding the reactor and to prevent solids from adhering to a reactor.

Company Profile of C. Murata & Co., Ltd.
History of Hokko Chemical Industry

Hokko Chemical Industry was founded on February 27, 1950, when the pharmaceutical division ofNomura Mining Co., Ltd. became an independent company. With our core technology of the Grignard reaction, we have developed the two main businesses of Crop Protection Products and Fine Chemicals.

Crop Protection Products Business

Development of Kasugamycin
We launched Kasugamycin in 1965. It is an aminoglycoside antibiotic isolated from Streptomyces kasugaensis, which is produced by microorganisms discovered in the soil of Kasuga Grand Shrine in Nara Prefecture. Kasugamycin is extremely safe and is still used today, more than 50 years after its market launch as a fungicide highly effective against diseases that affect vegetable and fruit tree crops. We have obtained pesticide registration for it in over 40 countries.

Products for wide-ranging fields
We began manufacturing our leading product Triphenylphosphine (TPP), an organophosphorus ligand for catalysts, in 1969. Later, we entered the fields of raw materials for vinyl chloride stabilizers and industrial and household use biocides. From the late 1970s, we began offering raw materials for synthetic fragrances and pharmaceutical raw materials and intermediates. In the 1980s, we began working with raw materials for functional polymers, and in the 2000s, we launched sales of raw materials for catalysts that clean automotive exhaust.

Advanced manufacturing technology
In addition to maximizing the efficacy of crop protection products, we offer a wide variety of product types using advanced formulation technology so that crop protection products can be spread more safely and easily.

Fine Chemicals Business

Strengthened business development
The Fine Chemicals Business began operating as an independent division in 1969, when it began manufacturing raw materials for vinyl chloride stabilizers. We began focusing on development of the Fine Chemicals Business in the 1970s, using Grignard reaction technology to grow this business into our second major business unit. In the late 1970s, the business had grown to reach close to 10% of our total sales.

Products for wide-ranging fields
We began manufacturing our leading product Triphenylphosphine (TPP), an organophosphorus ligand for catalysts. In 1969, when it began manufacturing raw materials for vinyl chloride stabilizers, we entered a synthetic fragrance business. From the late 1970s, we began offering raw materials for synthetic fragrances and pharmaceutical raw materials and intermediates. In the 1980s, we began working with raw materials for functional polymers, and in the 2000s, we launched sales of raw materials for catalysts that clean automotive exhaust.

Our technology is an aminoglycoside antibiotic isolated from Streptomyces kasugaensis, which is produced by microorganisms discovered in the soil of Kasuga Grand Shrine in Nara Prefecture. Kasugamycin is extremely safe and is still used today, more than 50 years after its market launch as a fungicide highly effective against diseases that affect vegetable and fruit tree crops. We have obtained pesticide registration for it in over 40 countries.

Development of ipenofacarbazone
We developed ipenofacarbazone as the herbicide Winner and launched it in 2014. It demonstrates a high level of safety in paddy rice and residual efficacy against Eichhornia sp., which is one of the most noxious weeds in rice paddies. We subsequently expanded our lineup to include Kachiboshi, Kimarnite, and Gyro herbicide products.

Global production structure
Backed by the steady performance of our business units, in 2002 we established the subsidiary Zhangjiagang HOKKO Chemical Industry Co., Ltd. in Jiangsu, China as a production base for Fine Chemicals products. We built a second plant there in 2009 to establish a global production structure in coordination with the Okayama Factory in Japan.

Today, we offer products for the resin, electronics materials, pharmaceutical, and agrochemical fields.

Business Overview

With our core technology of the Grignard reaction, we have developed the two main businesses of Crop Protection Products and Fine Chemicals.

We are the first company in Japan to succeed at industrial production of organometallic compounds using the Grignard reaction. In addition to this and is now one of our leading businesses.

History

1950 Founding

1950 Feb. Hokko Chemical Co., Ltd. founded, with the Head Office initially established in Chiyoda-ku, Tokyo. Rubeshibe Factory established in Rubeshibe, Tokoro-gun, Hokkaido (currently Rubeshibe, Kimarite City). Began production and sales of our first product, Bordeaux Duster (copper fungicide).

1953 Nov. Company name changed to Hokko Chemical Industry Co., Ltd. (present name).

1954 Central Research Laboratories established in Kamakura City, Kanagawa Prefecture.


1956 Nov. Central Research Laboratories relocated to Aizup City, Karapagata Prefecture (present location).

1957 Dec. Bei Hakudo Industry Co., Ltd. established (currently a consolidated subsidiary).


1961 Mar. Shikoku Experimental Farm established in Sagane-cho, Habakun-gun, Shikoku Prefecture (currently Shikoku, Makinohara City).

1964 Sept. Hokko Experimental Farm established in Naka-cho, Yubari-gun, Hokkaido.

1965 May. Listed on the First Section of Tokyo Stock Exchange.


1967 Apr. HOKKO Chemical America Corporation founded, with New York registered in August.


1970 Jan. Hokko Experimental Farm relocated from Tagawa City, Karapagata Prefecture (present location), to Shirai, Makinohara City.

1991 Aug. Hokko Pex, Ltd. established (currently a consolidated subsidiary).


2014 May. HOKKO Chemical America Corporation established in North Carolina, USA.

Company Overview

Non-consolidated Data (as of Nov. 30, 2018)

Corporate name: Hokko Chemical Industry Co., Ltd.
Head office: 1-5-4 Nihonbashishin-Honcho, Chuo-ku, Tokyo
Established: February 27, 1950
Capital: 3,214 million yen
Listed exchange: First Section of the Tokyo Stock Exchange
President: Yoshikatsu Nakashima
No. of employees: 628

Business Overview

Financial Highlights (Consolidated)

- **Sales by segment (business year ending Nov. 30, 2018)**
  - Fine Chemicals Business: ¥15.0 billion
  - Crop Protection Products Business: ¥27.7 billion

- **Operating income by segment (business year ending Nov. 30, 2018)**
  - Fine Chemicals Business: ¥1.1 billion
  - Crop Protection Products Business: ¥0.9 billion

Shareholder Information

- **Stock Information (as of Nov. 30, 2018)**
  - Total no. of issuable shares: 92,000,000
  - Total no. of issued shares: 29,885,531
  - No. of shareholders: 4,202

- **Major Shareholders (as of Nov. 30, 2018)**

- **Shareholder Composition (Ratio of Shareholding)**

SDGs and Hokko Group activities

The Sustainable Development Goals (SDGs) are international goals to undertake from 2016 to 2030 stated in the 2030 Agenda for Sustainable Development, which was adopted at the United Nations Sustainable Development Summit of September 2015. The SDGs consist of 17 goals and 169 targets to achieve a sustainable world and represent a call to action for governments and companies. At Hokko Group, we are taking steps to achieve the SDGs through our Crop Protection Products Business and our Fine Chemicals Business.

**SDGs and main related Hokko Group activities**

<table>
<thead>
<tr>
<th>SDG relevant to our business</th>
<th>Main related activities</th>
<th>Listed page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal 2: ZERO HUNGER</td>
<td>Provide society with safe and reliable crop protection products contributing to a stable food supply.</td>
<td>p.9-10</td>
</tr>
<tr>
<td>Goal 5: GENDER EQUALITY</td>
<td>Ensure more equal and sustainable management of leader and sanitation for all.</td>
<td>p.15</td>
</tr>
<tr>
<td>Goal 6: CLEAN WATER AND SANITATION</td>
<td>Improve water and sanitation for all.</td>
<td>p.20</td>
</tr>
<tr>
<td>Goal 7: AFFORDABLE AND CLEAN ENERGY</td>
<td>Increase water and sanitation for all.</td>
<td>p.19</td>
</tr>
<tr>
<td>Goal 8: DECENT WORK AND ECONOMIC GROWTH</td>
<td>Ensure economic growth and social development for all.</td>
<td>p.21</td>
</tr>
<tr>
<td>Goal 9: INDUSTRY, INNOVATION AND INFRASTRUCTURE</td>
<td>Promote innovation through research and development on Crop Protection products and Fine Chemicals.</td>
<td>p.13</td>
</tr>
<tr>
<td>Goal 10: RESPONSIBLE CONSUMPTION AND PRODUCTION</td>
<td>Ensure sustainable consumption and production patterns</td>
<td>p.20</td>
</tr>
<tr>
<td>Goal 11: CLIMATE ACTION</td>
<td>Take steps to implement clean and sustainable living patterns</td>
<td>p.16</td>
</tr>
<tr>
<td>Goal 12: AFFORDABLE AND CLEAN ENERGY</td>
<td>Ensure more sustainable and affordable living patterns for all.</td>
<td>p.19</td>
</tr>
<tr>
<td>Goal 13: LIFE BELOW WATER</td>
<td>Take steps to implement clean and sustainable living patterns</td>
<td>p.20</td>
</tr>
<tr>
<td>Goal 14: LIFE ON LAND</td>
<td>Ensure sustainable consumption and production patterns</td>
<td>p.16</td>
</tr>
<tr>
<td>Goal 15: LIFE ON LAND</td>
<td>Protect, restore and promote sustainable use of terrestrial ecosystems</td>
<td>p.19</td>
</tr>
<tr>
<td>Goal 16: LIFE BELOW WATER</td>
<td>Take steps to implement clean and sustainable living patterns</td>
<td>p.20</td>
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<td>Goal 17: LIFE ON LAND</td>
<td>Take steps to implement clean and sustainable living patterns</td>
<td>p.16</td>
</tr>
</tbody>
</table>
Registration, Manufacturing, Sales

Developing crop protection products involves not only agricultural labor and are indispensable to agriculture. They provide us with the stable supply of agricultural products needed to support the safety and affluence of our food supply. Crop protection products protect crops from diseases, pests, and weeds to support the safety and affluence of our food supply. We’ve earned a reputation for our expertise in chemical formulations that greatly contribute to improving pest and disease control technology and labor savings.

Business Overview

Crop Protection Products Business

Hokko’s products ensure crop protection from seed treatment to harvesting.

In our Crop Protection Products Business, we have manufactured and sold safe and effective agricultural chemicals since our founding with the motto “Hokko’s products ensure crop protection from seed treatment to harvesting.”

Agricultural Chemicals R&D

Crop protection products protect crops from diseases, pests, and weeds to support the stability of agricultural crops. They also offer other benefits such as reducing agricultural labor and are indispensable to agriculture. Developing crop protection products involves not only tests of agricultural chemicals’ efficacy and non-target phytotoxicity, but also many tests related to safety. For this reason, it can take more than 10 years and tens of billions of yen to develop a new agricultural chemical. Of all the new chemical compounds, it is said that 1 in 50,000 gets registered as an agricultural chemical.

Starting with kasugamycin (antibiotic fungicide for paddy rice and horticulture), which is highly effective at controlling the fungus that causes rice blast, a destructive disease found in cultivated rice, our development team has successfully developed many new active components. Another is ipfencarbazone (paddy rice herbicide), which demonstrates a high level of safety in paddy rice and is effective against the lowland weed barnyard grass. We have a reputation for our expertise in chemical formulations that greatly contribute to improving pest and disease control technology and labor savings.

Production Structure

We operate three factories in Japan that are equipped with the latest facilities and technologies to produce high-quality products. We give due consideration to both the surrounding environment and working conditions in our production operations and take all possible measures to prevent water, air, and other forms of pollution. We also contract the manufacture of formulated products including some insecticides, fungicides, and herbicides as well as repacking.

Business in Japan

Diverse product lineup and support structure

We sell more than 200 products including insecticides, fungicides, and herbicides for paddy rice, vegetable crops, and fruit orchards through JA branches nationwide in Japan.

We have seven branches that serve as sales offices in Japan and sales representatives stationed in every prefecture to provide service at the local level. We offer detailed information to distribution organizations such as JA, experimental farms, agricultural extension centers and other institutional organizations, and to the farmers who use our products to ensure that our crop protection products are used safely and effectively.

Global Business

Operating business mainly in Asia and the Americas

We sell products that we develop in markets in Asia and the Americas, primarily kasugamycin, a fungicide and bactericide for paddy rice and horticulture, and ipfencarbazone, a paddy rice herbicide. To expand use of these products, we established Hokko Chemical America Corporation in North Carolina, USA, in May 2016. This subsidiary is engaged in sales promotion in the North, Central, and South American markets.

We constructed the Niigata Factory Branch Plant in November 2016 as a production plant exclusively for kasugamycin to build a stable supply structure for expanded exports. In December 2018, we secured an experimental farm in Vietnam to conduct tests on the efficacy and harm of ipfencarbazone for the purpose of developing crop protection products suited to tropical regions.

Manufacturing and Sales Process Flow from R&D

Research stage

Synthesis of new chemical compounds

Patent survey/application

Development stage

Toxicity testing (acute toxicity, irritation, skin and eye irritation, mutagenicity, teratogenicity, reproductive toxicity, repeated dose toxicity, chronic toxicity, carcinogenicity)

Tests of effects on aquatic plants and animals (fish, crustacean [Daphnia sp.], algae)

Registration stage

Registration application

Registration

Manufacturing and sales stage

Production technology

Quality control

• Ministry of Agriculture, Forestry and Fisheries
• Ministry of Health, Labour and Welfare
• Ministry of the Environment
• Food Safety Commission of Japan

Support System

Feedback about requests and suggestions

Technical support

Leading products

Kasugamycin for the USA

Niigata Factory Branch Plant

Leading products sold globally

Hokko Chemical Industry

Product

JA (Dai-Ni)

JA (local co-op)

Farmers

Application of label expansion/additional formulations

Screening request

Registration

Technical product manufacturing research, formulation research

Niigata Factory Liquid Plant No.1

Test location

Research stage

Development stage

Registration stage

Manufacturing and sales stage

Application of label expansion/additional formulations

Screening request

Registration

Technical product manufacturing research, formulation research

Niigata Factory Liquid Plant No.1

Test location
Our Okayama Factory engages in efficient production through the coordinated efforts of our Fine Chemicals Research Laboratories. We conduct integrated research and development across a wide range of fields, but reaction temperature control during reagent synthesis is challenging, and few companies conduct large-scale synthesis of Grignard reagents. We meet a wide range of customer needs using our world-leading technologies and production scale.

Fine Chemicals Business
Contributions to the development of industry and society by building upon original technologies
Our Fine Chemicals Business supplies a wide range of business fields with products made using core technology represented by Grignard reaction.

Hokko Fine Chemicals Products
We use the generic name of “fine chemicals” for highvalue added chemicals produced in small quantities versus mass-produced chemical products. To meet the needs of society and markets, our Fine Chemicals Business Unit supplies high purity, high performance, and high value-added products made using our original manufacturing technology based on the Grignard reaction. These products are used in resins, electronics components, pharmaceuticals & agrochemicals, and other fields to support the development of industry and affluent living.

Hokko Technology Grignard Reaction
The Grignard reaction was developed in 1900 by the French chemist Victor Grignard. It is the generic name for reactions involving an organomagnesium halide. Grignard reagents are widely used in industry, but reaction temperature control during reagent synthesis is challenging, and few companies conduct large-scale synthesis of Grignard reagents. We meet a wide range of customer needs using our world-leading technologies and production scale.

Fine Chemicals R&D, Manufacturing, and Sales System
We conduct integrated research and development through the coordinated efforts of our Fine Chemicals Marketing Department and Fine Chemicals Business Planning Department at the Head Office and the Fine Chemicals Research Laboratories.

Hokko Technological Grignard Reaction
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Breakdown of FC Sales by Business Fields

22.6% Resin
36.1%Electronic materials
23.6% Pharma & Agro
17.5% Others

Business Fields

Resin
Electronic materials
Pharma & Agro
Others

Business Description

Hokko Products
Organophosphines and their derivatives
Functional Styrenes
Grignard Reagents
Alcohols, derivatives and others
Raw materials for Fine Ceramics
Raw materials for Functional polymers
Rare metals

Hokko Technology Grignard Reaction
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Fine Chemicals R&D, Manufacturing, and Sales System
We conduct integrated research and development through the coordinated efforts of our Fine Chemicals Marketing Department and Fine Chemicals Business Planning Department at the Head Office and the Fine Chemicals Research Laboratories.

Our Okayama Factory engages in efficient production with a total of eight workshops, including clean rooms and high value-added products made using our original technologies represented by Grignard reaction. Our Okayama Factory is equipped with the latest facilities.

Contracted Manufacturing
In addition to our own products, we also contract manufacturing based on proposals using Hokko technologies and Hokko raw materials. Leveraging our advanced technologies and know-how built up over many years, we meet customers’ detailed needs and requirements using our production system consisting of multipurpose manufacturing units of various sizes equipped with the latest facilities.

Global Marketing
We opened our Munich Representative Office in 2012 to serve customers in Europe and aim to capture new demand. Through this office, we are able to more quickly respond to our customers in Europe and aim to capture new demand.

Business Overview

Contributions to the development of industry and society by building upon original technologies
Our Fine Chemicals Business supplies a wide range of business fields with products made using core technology represented by Grignard reaction.

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Our Okayama Factory engages in efficient production with a total of eight workshops, including clean rooms and high value-added products made using our original technologies represented by Grignard reaction. Our Okayama Factory is equipped with the latest facilities.

Contracted Manufacturing
In addition to our own products, we also contract manufacturing based on proposals using Hokko technologies and Hokko raw materials. Leveraging our advanced technologies and know-how built up over many years, we meet customers’ detailed needs and requirements using our production system consisting of multipurpose manufacturing units of various sizes equipped with the latest facilities.

Global Marketing
We opened our Munich Representative Office in 2012 to serve customers in Europe and aim to capture new demand. Through this office, we are able to more quickly respond to our customers in Europe and aim to capture new demand.

Business Overview

Contributions to the development of industry and society by building upon original technologies
Our Fine Chemicals Business supplies a wide range of business fields with products made using core technology represented by Grignard reaction.

Hokko Fine Chemicals Products
We use the generic name of “fine chemicals” for highvalue added chemicals produced in small quantities versus mass-produced chemical products. To meet the needs of society and markets, our Fine Chemicals Business Unit supplies high purity, high performance, and high value-added products made using our original manufacturing technology based on the Grignard reaction. These products are used in resins, electronics components, pharmaceuticals & agrochemicals, and other fields to support the development of industry and affluent living.

Hokko Technology Grignard Reaction
The Grignard reaction was developed in 1900 by the French chemist Victor Grignard. It is the generic name for reactions involving an organomagnesium halide compound (Grignard reagent). Grignard reagents are widely used in industry, but reaction temperature control during reagent synthesis is challenging, and few companies conduct large-scale synthesis of Grignard reagents. We meet a wide range of customer needs using our world-leading technologies and production scale.

Fine Chemicals R&D, Manufacturing, and Sales System
We conduct integrated research and development through the coordinated efforts of our Fine Chemicals Marketing Department and Fine Chemicals Business Planning Department at the Head Office and the Fine Chemicals Research Laboratories.

Our Okayama Factory engages in efficient production with a total of eight workshops, including clean rooms and high value-added products made using our original technologies represented by Grignard reaction. Our Okayama Factory is equipped with the latest facilities.

Contracted Manufacturing
In addition to our own products, we also contract manufacturing based on proposals using Hokko technologies and Hokko raw materials. Leveraging our advanced technologies and know-how built up over many years, we meet customers’ detailed needs and requirements using our production system consisting of multipurpose manufacturing units of various sizes equipped with the latest facilities.

Global Marketing
We opened our Munich Representative Office in 2012 to serve customers in Europe and aim to capture new demand. Through this office, we are able to more quickly respond to our customers in Europe and aim to capture new demand.
Research & Development

At our Central Research Laboratory and Fine Chemicals Research Laboratory, we are improving our R&D capabilities and promoting R&D under the slogan of “Continuous Development for New Technology: Challenge to Innovation.”

Central Research Laboratories

The Central Research Laboratories opened in 1966 after relocating laboratories from Ofuna, Kamakura City, Kanagawa Prefecture. It is involved in creation of new technical products for crop protection products, developing new crop protection products, and providing technical support for sales. In 2016, it obtained certification of compliance with standards for proper testing of toxicity and residues of agricultural chemicals (Good Laboratory Practice [GLP] for Agricultural Chemicals).

The Fine Chemicals Research Laboratories was established in 1989 on the grounds of the Central Research Laboratories to augment the R&D team at our Atsugi research facilities in conjunction with expansion of our Fine Chemicals Business. It conducts research and development on fine chemicals, raw materials for fine ceramics, and antifungal agents.

Experimental Farms

Hokkaido Experimental Farm

Location: Yubari-cho, Yubari City, Hokkaido
Site area: 19,700 m²
Established: 1985

Conducts experiments to develop crop protection products meeting local needs, mainly using cultivated land designated for experiments. The Atsugi Experimental Farm is attached to the Central Research Laboratories.

Shizuoka Experimental Farm

Location: Makinohara City, Shizuoka
Site area: 23,800 m²
Established: 1993

Fine Chemicals Business

The Fine Chemicals Research Laboratories was established in 1949 on the grounds of the Central Research Laboratories to augment the R&D team at our Atsugi research facilities in conjunction with expansion of our Fine Chemicals Business. It conducts research and development on fine chemicals, raw materials for fine ceramics, and antifungal agents.

Manufacturing

We are adding to our production facilities and increasing efficiency at our factories, building a robust production structure.

Crop Protection Products Business

Hokkaido Factory

Location: Takikawa City, Hokkaido
Site area: 53,000 m²
No. of employees: 50 (as of Nov. 30, 2018)

Our Rubeshibe Factory, located in Rubeshibe, Hokkaido, where we first got our start, was not located near the main rice-producing region of Hokkaido. We relocated the Hokkaido Factory to the major rice-producing region of Takikawa and completed the factory in 1970. The Hokkaido Factory is our leading crop protection product manufacturing facility in Hokkaido.

Crop Protection Products Business

Niigata Factory

Location: Shibata City, Niigata
Site area: 128,000 m²
No. of employees: 99 (as of Nov. 30, 2018)

We established the Niigata Factory in 1961 in one of the leading grain-growing regions in Japan as the first crop protection product factory located along the Japan Sea. We built the Niigata Factory Branch Plant in 2016 for the purpose of creating a stable supply structure to expand exports of Kasugamycin, our original product.

Crop Protection Products Business

Okayama Factory

Location: Tamano City, Okayama
Site area: 184,000 m²
No. of employees: 245 (as of Nov. 30, 2018)

As the first factory attracted by Okayama Prefecture, the Okayama Factory was constructed in 1953 for the purpose of integrated production of crop protection products starting from synthesis of agricultural chemical technical products. In addition to crop protection products, the factory currently produces raw materials for electronics components and fine chemical products including pharmaceutical intermediates.

Fine Chemicals Business

Zhangjiagang Hokko Chemical Industry Co., Ltd.

Location: Industrial Park in Zhangjiagang, Jiangsu, China
Site area: 165,000 m²
No. of employees: 93 (as of Nov. 30, 2018)

We established the wholly owned subsidiary Zhangjiagang Hokko Chemical Industry in 2002 as a manufacturing facility exclusively for fine chemical products. A new plant was added in 2009. In cooperation with the Okayama Factory, Zhangjiagang Hokko Chemical Industry is part of our global production structure.
Corporate Governance

At Hokko Group, we are taking steps to further improve corporate governance with the aim of achieving sustained growth and improving our corporate value.

Basic Approach

Through implementation of our corporate philosophy and basic management policy, we are pursuing the best model of corporate governance for our company to achieve sustained growth and improved mid- to long-term corporate value. We are taking steps to improve our corporate governance based on our understanding that working together with stakeholders and maintaining a strong awareness of compliance are vital to achieving sustained growth and improving our corporate value in the mid- to long term.

Overview of Corporate Governance Structure

We adopt the form of a company with corporate auditors. The Board of Directors supervises the execution of duties of directors, and corporate audit auditors conduct audits. We adopt a corporate officer system for the execution of operations. Corporate officers are tasked with this execution under the supervision of the Board of Directors. In addition to outside corporate auditors with a high level of expertise appointed to conduct audits, we work to strengthen our audit function through the integrated efforts of corporate auditors, an internal audit team independent of divisions in charge of execution of operations, and accounting auditors.

Compliance

We position compliance as a management issue of the highest priority. To ensure that operations are conducted both fairly and efficiently, we have established our Basic Compliance Policy, the Hokko Chemical Industry Group Code of Conduct, and our Basic Regulations on Legal Compliance. Executives and staff base their conduct on laws and regulations as well as on common sense and propriety. We have set up the Compliance Committee to propose our basic policy on compliance, conduct standards, and related matters as well as to implement education and training on compliance. Corporate auditors and the internal audit team conduct audits of compliance at business divisions and Group companies. We have set the month of September as Compliance Month for the purpose of increasing employee awareness of compliance with laws and regulations and hold trainings in business divisions and departments. On our intranet system, we publish four-panel comic strips illustrating examples of compliance violations and a quiz-type compliance newsletter that can be used as compliance education materials in workplaces.

In addition to an internal hotline we have set up for reporting and seeking advice related to compliance, we have also set up an external reporting center to encourage consultations and reports related to compliance.

We have established explicit internal regulations for the hotline and reporting center to protect the privacy and confidentiality of people making reports or seeking advice, and ensure that people are not disadvantaged due to seeking advice or making a report.

Business Continuity Plan (BCP)

We have drafted a business continuity plan (BCP) in the event of a large-scale disaster such as an earthquake striking directly under the Tokyo region for the purpose of minimizing the damage to our business assets, continuing our core business operations, and quickly recovering from the disaster.

This BCP defines the necessary policy, the structure, and other basic matters for sustaining a stable product supply, and aims to fulfill our supply responsibility as a manufacturer by continuing our business operations even in the event of a major disaster.

In addition, to ensure the effectiveness of our BCP, every year we conduct education and drills, and make revisions where issues are identified to enhance the content of our BCP and review new potential issues. In FY 2018, we drafted BCP for the event of a factory fire.

We have also introduced a safety confirmation system to quickly confirm the safety of all of our employees in the event of a major earthquake or other disaster. We conduct regular tests of this system and make other preparations for unforeseen events to foster an awareness of crisis management among employees on an ongoing basis.

Complaint Response Team

We seek to improve our quality management system in manufacturing divisions to prevent the occurrence of product complaints. We believe that in the event of a product complaint, responding promptly, accurately, and with integrity and striving to prevent recurrences is of utmost importance to remain a company that is trusted by society.

We define complaints as the spectrum of expressions of dissatisfaction with our company, from complaints about our products to dissatisfaction with our sales, technologies, and other services, complaints related to our factories and laboratories, and other complaints from our stakeholders. We have put in place a response team to deal with complaints.

We use the PDCA cycle to investigate the causes, process complaints, and devise prevention measures. A robust system to deal with complaints facilitates improvements in our business activities, quality, and operations as well as improvements in our service to our customers and all other stakeholders.

Corporate Governance System

Basic Compliance Policy

Compliance with Laws and Regulations
We conduct our activities in compliance with Japanese and international laws, regulations, and treaties as well as with internal regulations, and with strong ethical values and social propriety.

Respect for Dignity
We respect the human rights, character, and individuality of all people irrespective of nationality, gender, age, or belief system, and strive to prevent harassment and other unfair treatment in the workplace.

Fair Competition
We conduct business under fair, transparent, and free competition based on reasonable conditions.

Proper Handling of Information
We appropriately manage information including that received from our business partners, and release information to our stakeholders and investors as appropriate.

Exclusion of Antitrust and Criminal Elements
We have no relationships with anti-social forces with the resolve to eliminate their influence in society.

Protection of the Global Environment
We strive to prevent environmental pollution to protect the global environment and reduce environmental impacts.

Prevention of Misconduct
We enhance the efficacy of systems to prevent misconduct in order to prevent damage to our corporate value.

Integrity in Responding to Misconduct
When misconduct is social, we conduct an investigation, identify the causes, and take the appropriate action.
**Responsible Care Management**

As a company that handles chemical substances, internally we prioritize ensuring safety, health and the protection of the environment from product development through to product disposal, publicly releasing the results of these efforts, and deepening understanding through mutual dialogue.

**Basic Policy on the Environment, Safety and Health**

We conduct Responsible Care (RC) activities, a voluntary management initiative of the chemical industry to protect the environment and ensure safety and health, based on our Basic Policy on the Environment, Safety and Health and our Responsible Care Activity Policy. These activities encompass the areas of environmental protection, occupational health and safety, process safety and disaster prevention, distribution safety, chemical products safety, and communication with the public.

**Responsible Care Promotion Structure**

<table>
<thead>
<tr>
<th>Board of Directors</th>
<th>President</th>
<th>Management Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Responsible Care Committee Managing Office (Planning and Management Dept.)

**RC Internal Audits (Environment & Safety Audits)**

The Environment & Safety Team in the Head Office Planning and Management Department regularly conducts RC internal audits of our factories, laboratories, and Group companies. The locations carry out systematic improvements based on the guidance and instructions received in audits.

**ISO 9001, ISO 14001, OHSAS 18001 Certifications**

<table>
<thead>
<tr>
<th>Location</th>
<th>Certification Date</th>
</tr>
</thead>
</table>

**Responsible Care Activities**

- Responsible Care (RC) activities and measures for environment protection, safety and health, and other voluntary management criteria
- Management based on OHSAS 18001 and ISO 14001
- Basic Policy on the Environment, Safety and Health and Responsible Care Activity Policy
- Environmental conservation activities, including R&D, manufacturing, and sales

We have established the Responsible Care Committee, with the President serving as committee chair and others serving as committee members, to oversee our companywide RC activities.

The Responsible Care Committee deliberates on our Basic Policy on the Environment, Safety and Health and related targets and plans. Business locations and group companies also conduct RC activities and establish a system corresponding to their operations.

Our factories have obtained certifications in quality management (OHSAS 18001), environmental management (ISO 14001), and occupational health and safety management (OHSAS 18001).

**Environmental Accounting**

Scopes: Non-consolidated Reporting period: Dec. 1, 2017–Nov. 30, 2018

**Environmental Conservation Programs**

- Total energy input
- Amount of final waste disposal
- Management and monitoring of environmental impacts
- Improvement of work environments

**Environmental Conservation Activities**

- Total energy input
- Amount of final waste disposal
- Management and monitoring of environmental impacts
- Improvement of work environments

**Responsible Care Promotion Structure**

<table>
<thead>
<tr>
<th>Responsible Care Committee (Head Office)</th>
<th>RC internal audit (Hokkaido Factory)</th>
</tr>
</thead>
</table>

**Economic Benefit Associated with Environmental Conservation Activities**

- **Benefit Details**
  - Sale of valuable articles
- **Amount**
  - 9

*Calculated in conformance with the Environmental Accounting Guidelines 2005 published by the Japanese Ministry of the Environment and the Environmental Accounting Guidelines for Chemical Companies published by the Responsible Care Committee of the Japan Chemical Industry Association.*
**Environmental Protection**

We calculate the amounts of energy and resources we use, product production volumes, and emissions of substances with environmental load as part of our business activities, and proactively work to save energy, reduce chemical substance emissions, and properly manage waste to protect the environment.

Hokko Chemical Industry Business Activities, Input, and Output


**INPUT**

<table>
<thead>
<tr>
<th>Total amount of energy input (crude oil equivalent)</th>
<th>213 214 915 782 9,940 10,147 630 595</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>25,715 25,052 25,711 25,842 27,785 26,184 25,964 24,305</td>
</tr>
<tr>
<td>Fuel</td>
<td>0.02 0.02 0.01 0.02 14.9 12.1 1.0 0.9</td>
</tr>
<tr>
<td>Total materials input</td>
<td>3.7 3.8 12.5 13.2 2,546 2,398 12.8 12.7</td>
</tr>
<tr>
<td>Crop Protection Products Business</td>
<td>0.0 0.1 0.0 0.0 12.9 12.1 1.0 0.9</td>
</tr>
<tr>
<td>Fine Chemicals Business</td>
<td>8,670 8,424 8,670 8,424 547 547 84 84</td>
</tr>
<tr>
<td>Amount of input water resources</td>
<td></td>
</tr>
<tr>
<td>Clean water</td>
<td>0.398 mil. m³</td>
</tr>
</tbody>
</table>

**OUTPUT**

<table>
<thead>
<tr>
<th>Greenhouse gas emissions</th>
<th>COD emissions 31,943t-CO₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emissions</td>
<td>15.0 20.0 15.0 20.0 16.2 15.1 14.9 12.8</td>
</tr>
<tr>
<td>NOx emissions</td>
<td>25.5 14.2 15.1 14.9 12.8 12.7</td>
</tr>
<tr>
<td>SOx emissions</td>
<td>2.428 mil. m³</td>
</tr>
<tr>
<td>Total wastewater</td>
<td>3.7 3.8 12.5 13.2 2,546 2,398 12.8 12.7</td>
</tr>
<tr>
<td>Total wastewater</td>
<td>0.02 0.02 0.01 0.02 14.9 12.1 1.0 0.9</td>
</tr>
</tbody>
</table>

**Data by Location**

**Conserving Energy**

We have put in place a companywide energy management organization, revised our facilities and manufacturing processes, and installed LED lights and other energy-conserving facilities as part of our energy-conserving activities.

Although our total energy input in FY 2018 increased 0.3% compared with FY 2017, our unit energy consumption*2 decreased 2.2%.

**Reducing Greenhouse Gas Emissions**

The greenhouse gas CO₂ is emitted when using energy and incinerating waste. We are working to reduce our CO₂ emissions by taking actions to conserve energy. We reduced our CO₂ emissions in FY 2018 by 1.1% compared with FY 2017.

Fluorocarbon refrigerants used in air conditioning and refrigeration equipment are a cause of ozone layer destruction and global warming. We inspect these types of equipment to help prevent leaks of fluorocarbon refrigerants.

**Preventing Water Pollution**

Wastewater generated in manufacturing processes is discharged to river and ocean waters after removing water contaminating substances through such treatment processes as neutralization, use of activated sludge, flocculation, and precipitation. We appropriately monitor and measure emissions based on laws and other regulations. COD* emissions in FY 2018 were 14.1% lower than in FY 2017.

**Appropriate Waste Management**

We appropriately treat waste and promote the 3 R’s (Reduce, Reuse, Recycle).

Of the waste that we generate, we incinerate waste able to be incinerated at our locations in accordance with waste disposal standards. We contract treatment of waste that cannot be treated at our locations to treatment providers, and select reliable providers by conducting local inspections and other measures.

Our total volume of generated waste*3 in FY 2018 increased 11.0% compared with FY 2017, due to increased production volumes of high-load products.

We calculate the amounts of energy and resources we use, product production volumes, and emissions of substances with environmental load as part of our business activities, and proactively work to save energy, reduce chemical substance emissions, and properly manage waste to protect the environment.

*1 COD: Chemical Oxygen Demand

*2 Of the hazardous substances that contaminate the air (substances requiring priority action), only substances we emit in large amounts are listed.

*3 The method for calculating NOx emissions has been revised and changed.

HOKKO REPORT 2019

FLUOROCARBON REFRIGERANTS

HOKKO REPORT 2019
Responsible Care Activities

Occupational Health and Safety, Process Safety and Disaster Prevention

With safe operations and elimination of occupational accidents given highest priority, we conduct independent health and safety activities as part of our efforts to create workplace environments that are safe and easy to work in.

Occupational Health and Safety Initiatives

With safe operations and elimination of occupational accidents given highest priority, we have put in place a health and safety management system and conduct a range of activities related to health and safety including activities to predict risk (called “KY”) and SS translated as “Sort, Set in order, Shine, Standardize, Sustain”) activities. All of our factories have also obtained OHSAS 18001 certification, the international standard for occupational health and safety management systems.

In FY 2018, we conducted a safety awareness questionnaire for all employees at Okayama Factory. Based on the factory’s strengths and weaknesses and trends by employee position, years of service, and division revealed through analysis of the survey results, we are conducting new activities to enhance employees’ safety awareness aimed at cultivating a safety culture*1.

*1 Safety culture: The mindset of individuals and atmospheres of organizations that give safety the highest priority.

Education and training

We provide education on the health and safety information employees need to know in operations, including our basic approach to safety and safe handling of chemical substances, and promote obtaining of the health and safety management system and conduct a range of activities related to health and safety including our basic approach to safety and safe handling.

Occurrence of Occupational Accidents

In FY 2018, there were three incidents of lost time injuries, resulting from falls, getting caught in equipment, and cuts or scrapes. We have improved the facilities, revised the work methods, and put in place countermeasures to prevent recurrences of these incidents. We also share information within the Hoko Group on accidents and disasters to prevent similar accidents or disasters from occurring.

- **Lost Time Injury Rate (LTR)**
  - Chemical industry average (Ministry of Health, Labour and Welfare statistics)
  - 2014: 0.20, 2015: 0.17, 2016: 0.19, 2017: 0.19, 2018: 0.17
  - LTR: (Number of lost time injuries) / (Total working hours) × 1 million

- **Severity Rate**
  - Chemical industry average (Ministry of Health, Labour and Welfare statistics)
  - 2014: 0.00, 2015: 0.00, 2016: 0.00, 2017: 0.00, 2018: 0.00
  - Severity rate: (Number of work days lost) / (Total working hours) × 1,000

Chemical Product Safety, Distribution Safety

Each business location takes measures to properly handle and manage chemical substances. We clearly specify the product properties and handling methods for the relevant parties and update information as necessary.

Chemical Substances Management

Chemical substances are useful and indispensable to our way of life, but their improper management can lead to environmental contamination and accidents, and carries the risk of adversely affecting human health and ecosystems.

We comply with laws and regulations in handling chemical substances. We also collect safety information, conduct safety tests and risk assessments, and implement appropriate management of chemical substances corresponding to the product stage (R&D, manufacturing, etc.).

Safety Data Sheets (SDSs)

We prepare Safety Data Sheets (SDSs), which list important information for the safe handling of chemical products, for all of our products, and use them when providing information to customers and conducting employee education. SDSs for our leading crop protection products can be found on our website and can also be provided upon emergency request.

- [Safety Data Sheet](https://www.hokkochem.co.jp/business/pesticide/product-sds)

Management of Electrical Machinery Containing PCBs

Based on the Act on Special Measures for Promotion of Proper Treatment of Polychlorinated Biphenyl (PCB) Wastes, transformers and condensers containing polychlorinated biphenyl (PCB) stored at our facilities are reported to the authorities and strictly managed as industrial waste requiring special management. We are disposing of these electrical devices containing PCB in accordance with legislation.

Distribution Safety

Our factories periodically hold consultations with shipping companies to mutually coordinate and implement environmental and safety initiatives in distribution. To prepare for the unlikely event of an accident while products are being shipped, drivers carry Yellow Cards*1 with them listing information such as who to contact and what measures to take in an emergency. To complement the Yellow Card system, we have introduced the Container Yellow Card labelling system*2, which lists the guide number*3 and UN number*4 on cardboard boxes.

- [Container Yellow Card](https://www.hokkochem.co.jp/business/pesticide/product-sds)

*1 Yellow Card (emergency contact card): Yellow paper printed with instructions for the driver, fire fighters, police, and other relevant parties to take in the event of an accident. The instructions are given the name “yellow card” because they are printed on yellow paper to make them easy to find in an emergency.

*2 Container Yellow Card (labelling system): To supplement the Yellow Card system, cardboard boxes and product labels list the guide number and UN number.

*3 Guide number: In the emergency response guidelines published by the Japan Chemical Industry Association, chemical substances are classified into 62 groups and assigned numbers based on their common hazards and emergency response measures. In an emergency, information about the emergency response measures to take can be obtained from the guide number.

With Stakeholders

Our corporate activities would not be possible without the understanding and support of our stakeholders. Through various forms of engagement with stakeholders, we aim to build upon our trustworthy relations.

With Customers

We work to ensure safety and product quality in all the stages of research and development, manufacturing, logistics, and sales. We listen to the stages of research and development, and strive to hold constructive dialogue with shareholders and investors looking to achieve sustained growth and improved corporate value.

Quality Assurance Structure

To stably supply products of excellent quality able to satisfy customers, our factories have obtained ISO 9001 certification, the international standard for quality management systems. After rounds of examinations for maintenance and updates by the certifying body, we obtained the 2015 version of the certification in 2018. We conduct an internal quality audit once a year to confirm whether the management system at our factories is being appropriately and effectively implemented, and factory managers periodically make revisions to the system.

In the Fine Chemicals Business group, we have set up the Quality Inspection Team and the Quality Assurance Team independent from the Production Department to augment our quality assurance structure.

Communication with Customers

Sales staff in the Crop Protection Products Business group in Japan have obtained the JGAP*1 instructor qualification to better propose products that meet customer requests.

The Fine Chemicals Business group actively exhibits at trade fairs and other events to introduce our products and technologies.

*1 JGAP: Japan Good Agricultural Practice. An agricultural production management method for the purpose of ensuring the safety of agricultural crops.

With Shareholders and Investors

We disclose information appropriately and in a timely manner, and strive to hold constructive dialogue with shareholders and investors looking to achieve sustained growth and improved corporate value.

General Meeting of Shareholders

We position the general meeting of shareholders as an important opportunity to engage in direct communication with all of our shareholders. At the general meeting of shareholders, we use visuals to supplement explanations of our business situation, business plans, and strategy. The notice of convocation of the general meeting of shareholders is released and sent at an early date. We also set up the “Hokko Now” corner, where we introduce our business performance over the last year as well as new products and other topics of note as another way to expand our information sharing.

Management Plan and Financial Closing Briefings

We hold briefings for institutional investors and analysts to discuss our three-year management plan and financial closing. We also aim to build good trustworthy relations with investors through regularly held IR meetings.

Expanding Our Website

We release timely and appropriate IR-related information, including about our management policy and strategy, business performance, and financial information, on our website to deepen understanding for the Hokko Group. In July 2018, we launched the “Quick and Easy HOKKO” website (in Japanese) to promote understanding of our origins, the Crop Protection Products Business, and the Fine Chemicals Business using easy-to-understand graphics and photos.

https://www.hokkochem.co.jp/jr/

With Local Communities

Through offering tours and hands-on workshops and participating in volunteer activities, our business locations seek out opportunities for communication with local residents.

Offering tours and hands-on workshops

Our locations give tours and hands-on workshops and seminars for students. Our factories provide briefings on product manufacturing processes, safety and health, and environmental conservation efforts. Our laboratories provide briefings on a range of tests to validate safety and efficacy that are required in the development of crop protection products.

Social Contribution Activities, Communication with Communities

Our locations open their facilities such as baseball grounds to the community. We participate in cleanups around our business locations, collect waste materials from the community, and participate in various community events.

We also take part in blood drives, with a mobile blood drive visiting our factories each year. Our laboratories have concluded memorandums with local governments to provide use of our sites as emergency shelters in the event of a disaster.

With Employees

We are developing human resources to tackle new fields and creating workplaces where employees can demonstrate their talents to achieve sustained growth for our group.

Human resource development

To develop human resources who think for themselves and work with autonomy to tackle challenges in new fields, we implement various educational programs including rank-based trainings and practical workshops and sending employees to language schools. We also support employees to improve their skills by encouraging and subsidizing obtaining certifications (PHD, JGAP, etc.) and distance learning directly and indirectly related to business.

Work-Life Balance

As part of realizing a work–life balance, we believe it is important to create workplaces where employees feel it is easy to work. In addition to child care and family care leave programs, we also aim to realize work-life balance through other leave programs offering half-day paid leave, hourly paid leave, and planners paid leave. Promoting changes to how employees work from multiple angles will lead to increased productivity by individual employees, reductions in long working hours, and a higher rate of employees taking annual paid leave.

Physical and mental health management

We conduct annual health checkups and stress checks at all of our locations for the purpose of managing employees’ physical and mental health. We also offer health consultations and in-person guidance with an industrial physician as necessary. We are working to expand our support system, such as by setting up a hotline where employees and their families can receive consultations on health and mental health counseling in cooperation with a contracted outside party.
Financial Data

● Consolidated management indicators

<table>
<thead>
<tr>
<th></th>
<th>FY 2014</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (million ¥)</td>
<td>42,416</td>
<td>42,251</td>
<td>40,117</td>
<td>39,826</td>
<td>41,015</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>1,790</td>
<td>2,956</td>
<td>2,777</td>
<td>3,541</td>
<td>4,061</td>
</tr>
<tr>
<td>Current net income</td>
<td>987</td>
<td>1,900</td>
<td>1,985</td>
<td>1,989</td>
<td>2,944</td>
</tr>
<tr>
<td>attributable to parent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>company shareholder</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Sales do not include consumption tax. (Notes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Financial Data (million ¥) (%)

- **Cash flow from investment activity** (million ¥) 3,336 1,189 3,628 5,161 3,360
- **Diluted net income per share** (¥) — — — — —
- **Price–earnings ratio** (ratio) 10.8 6.8 5.2 9.9 5.1
- **Capital adequacy ratio** (%) 36.2 39.7 47.2 54.2 59.5
- **Current net income per share** (¥) 36.17 68.93 71.30 72.51 108.69
- **Net assets per share** (¥) 554.54 636.01 685.04 809.61 892.77
- **Cash flow from financial activity** (million ¥)
- **Total assets** (million ¥) 42,284 44,204 39,974 40,438 40,628
- **Net assets** (million ¥) 15,289 17,528 18,877 21,926 24,179
- **Capital investment** (million ¥) 603 1,199 1,880 1,236 2,257
- **Depreciation cost** (million ¥) 1,609 1,462 1,444 1,505 1,349
- **R&D expense** (million ¥) 1,619 1,557 1,578 1,484 1,495
- **Comprehensive income** (million ¥) 1,460 2,567 1,612 3,642 2,604
- **Current net income attributable to parent company shareholder** (million ¥) 997 1,900 1,965 1,989 2,944
- **Ordinary income** (million ¥) 1,790 2,956 2,777 3,541 4,061
- **Sales** (million ¥) 42,416 42,251 40,117 39,826 41,015
- **Ordinary income margin** (%) 10.8
- **Current net income attributable to parent company shareholder/ROE (%) 12.8

Notes:
1. Sales do not include consumption tax.
2. Diluted net income per share is not listed since there are no dilutive shares.

● Consolidated balance sheet

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Unit: million ¥)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Current assets**
  - Cash and deposits 1,454 1,359
  - Bills and accounts receivable 9,949 10,529
  - Products and finished goods 10,486 9,909
  - Products in progress 344 354
  - Raw materials and stored goods 4,690 4,574
  - Deferred tax assets 250 210
  - Other 308 336
- **Total current assets** 27,480 27,170
- **Total of assets** 40,438 40,628

- **Fixed assets**
  - Tangible fixed assets
    - Buildings and structures (net) 3,815 3,909
    - Machinery and vehicles (net) 2,071 2,065
    - Construction work-in-progress 28 716
    - Other (net) 404 563
    - Total of tangible fixed assets 7,303 8,228
  - Intangible fixed assets 471 300
  - Investments and other assets
    - Investment securities 4,948 4,702
    - Long-term loans 12 11
    - Deferred tax assets 7 6
    - Other 229 223
    - Allowance for doubtful accounts (12) (12)
    - Total of investments and other assets 5,183 4,930
    - Total of fixed assets 12,958 13,457

- **Liabilities**
  - Current liabilities
    - Bills and accounts payable 6,104 4,920
    - Short-term debts payable 134 136
    - Long-term debts payable within one year 1,042 984
    - Accounts payable 1,901 1,936
    - Income taxes payable 468 690
    - Consumption taxes payable 113 237
    - Accrued expenses 3,328 3,176
    - Total of current liabilities 13,247 12,175
  - Fixed liabilities
    - Long-term debts 1,940 900
    - Liabilities related to post-employment benefits 2,700 2,699
    - Deferred tax liabilities 407 251
    - Asset retirement obligations 3 —
    - Other 214 205
    - Total of fixed liabilities 5,264 4,274
  - Total of liabilities 18,511 16,449

- **Shareholder's equity**
  - Capital 3,214 3,214
  - Capital surplus 2,608 2,608
  - Earned surplus 14,027 16,598
  - Treasury stock (1,315) (1,315)
  - Total of shareholder's equity 18,520 21,111

- **Accumulated other comprehensive income**
  - Valuation difference on other available-for-sale securities 2,792 2,540
  - Foreign currency translation adjustment 148 102
  - Accumulated adjustment related to post-employment benefits 468 436
  - Total of accumulated other comprehensive income 3,407 3,068

- **Total of net assets** 21,028 24,179

- **Total of assets** 40,438 40,628

- **Total of liabilities and net assets** 40,438 40,628
### Consolidated Income Statement

(Unit: million ¥)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>39,628</td>
<td>41,015</td>
</tr>
<tr>
<td><strong>Cost of goods sold</strong></td>
<td>29,628</td>
<td>30,138</td>
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<tr>
<td><strong>Gross profit margin</strong></td>
<td>9,998</td>
<td>9,877</td>
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<tr>
<td><strong>Reversal of provision for sales returns</strong></td>
<td>164</td>
<td>129</td>
</tr>
<tr>
<td><strong>Provision for sales returns</strong></td>
<td>129</td>
<td>122</td>
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<tr>
<td><strong>Gross profit - net</strong></td>
<td>10,032</td>
<td>9,904</td>
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<tr>
<td><strong>Selling expenses and general administrative expenses</strong></td>
<td>7,748</td>
<td>7,763</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>2,286</td>
<td>3,141</td>
</tr>
<tr>
<td><strong>Non-operating income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>10</td>
<td>197</td>
</tr>
<tr>
<td>Dividends received</td>
<td>667</td>
<td>330</td>
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<tr>
<td>Foreign exchange gain</td>
<td>10</td>
<td>19</td>
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<tr>
<td>Commission received</td>
<td>407</td>
<td>426</td>
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<tr>
<td>Other</td>
<td>92</td>
<td>102</td>
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<tr>
<td><strong>Total of non-operating income</strong></td>
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<td>1,075</td>
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<td><strong>Non-operating expenses</strong></td>
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<tr>
<td>Interest paid</td>
<td>70</td>
<td>10</td>
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<tr>
<td>Compensation paid</td>
<td>—</td>
<td>23</td>
</tr>
<tr>
<td>Litigation-related expenses</td>
<td>—</td>
<td>37</td>
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<tr>
<td>Other</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total of non-operating expenses</strong></td>
<td>130</td>
<td>134</td>
</tr>
<tr>
<td><strong>Ordinary income</strong></td>
<td>3,541</td>
<td>3,081</td>
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<tr>
<td><strong>Extraordinary income</strong></td>
<td></td>
<td></td>
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<tr>
<td>Fixed asset disposal income</td>
<td>18</td>
<td>12</td>
</tr>
<tr>
<td>Insurance proceeds</td>
<td>69</td>
<td>—</td>
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<tr>
<td><strong>Total of extraordinary income</strong></td>
<td>87</td>
<td>12</td>
</tr>
<tr>
<td><strong>Extraordinary loss</strong></td>
<td></td>
<td></td>
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<tr>
<td>Fixed asset disposal loss</td>
<td>92</td>
<td>123</td>
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<tr>
<td>Impairment loss</td>
<td>649</td>
<td>24</td>
</tr>
<tr>
<td>Losses from disasters</td>
<td>38</td>
<td>24</td>
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<tr>
<td><strong>Total of extraordinary loss</strong></td>
<td>778</td>
<td>171</td>
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<tr>
<td><strong>Current net income before taxes</strong></td>
<td>2,651</td>
<td>3,022</td>
</tr>
<tr>
<td>Corporate tax, resident tax, and business tax</td>
<td>670</td>
<td>964</td>
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<tr>
<td>Adjustment for corporate tax, etc.</td>
<td>191</td>
<td>14</td>
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<tr>
<td><strong>Total of corporate tax, etc.</strong></td>
<td>861</td>
<td>978</td>
</tr>
<tr>
<td><strong>Current net income</strong></td>
<td>1,989</td>
<td>2,944</td>
</tr>
</tbody>
</table>

### Consolidated cash flow statement

(Unit: million ¥)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flow from sales activity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current net income before taxes</td>
<td>2,651</td>
<td>3,022</td>
</tr>
<tr>
<td>Depreciation cost</td>
<td>1,505</td>
<td>1,349</td>
</tr>
<tr>
<td>Change in liabilities related to post-employment benefits</td>
<td>(86)</td>
<td>110</td>
</tr>
<tr>
<td>Change in reserves for product returns</td>
<td>(35)</td>
<td>(27)</td>
</tr>
<tr>
<td>Change in accounts payable</td>
<td>(877)</td>
<td>(628)</td>
</tr>
<tr>
<td>Change in consumption tax payable</td>
<td>(155)</td>
<td>(1,182)</td>
</tr>
<tr>
<td><strong>Interest paid</strong></td>
<td>70</td>
<td>55</td>
</tr>
<tr>
<td><strong>Fixed asset disposal profit and loss</strong></td>
<td>73</td>
<td>111</td>
</tr>
<tr>
<td><strong>Impairment loss</strong></td>
<td>649</td>
<td>24</td>
</tr>
<tr>
<td><strong>Insurance proceeds</strong></td>
<td>(85)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Casualty loss</strong></td>
<td>36</td>
<td>24</td>
</tr>
<tr>
<td>Change in trade receivables</td>
<td>(658)</td>
<td>(591)</td>
</tr>
<tr>
<td>Change in inventory assets</td>
<td>(641)</td>
<td>672</td>
</tr>
<tr>
<td><strong>Change in accounts payable</strong></td>
<td>1,553</td>
<td>(1,182)</td>
</tr>
<tr>
<td><strong>Change in consumption tax payable</strong></td>
<td>(305)</td>
<td>134</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>(250)</td>
<td>(613)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>4,839</td>
<td>3,960</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>877</td>
<td>528</td>
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<tr>
<td><strong>Interest paid</strong></td>
<td>(78)</td>
<td>(56)</td>
</tr>
<tr>
<td><strong>Insurance received</strong></td>
<td>69</td>
<td>—</td>
</tr>
<tr>
<td><strong>Corporate tax, etc. paid</strong></td>
<td>(547)</td>
<td>(694)</td>
</tr>
<tr>
<td><strong>Corporate tax, etc. refunded</strong></td>
<td>0</td>
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<tr>
<td><strong>Cash flow from sales activity</strong></td>
<td>5,161</td>
<td>3,360</td>
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<tr>
<td><strong>Cash flow from investment activities</strong></td>
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<td></td>
</tr>
<tr>
<td>Expenditures from obtaining securities investments</td>
<td>—</td>
<td>(117)</td>
</tr>
<tr>
<td>Expenditures from obtaining tangible fixed assets</td>
<td>(1,163)</td>
<td>(1,955)</td>
</tr>
<tr>
<td>Revenue from disposal of tangible fixed assets</td>
<td>37</td>
<td>21</td>
</tr>
<tr>
<td>Expenditures from obtaining intangible fixed assets</td>
<td>(84)</td>
<td>(33)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>(87)</td>
<td>(58)</td>
</tr>
<tr>
<td><strong>Cash flow from investment activities</strong></td>
<td>(1,294)</td>
<td>(2,142)</td>
</tr>
<tr>
<td><strong>Cash flow from financial activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in short-term debt</td>
<td>(1,463)</td>
<td>—</td>
</tr>
<tr>
<td>Expenditures from repayment of long-term debt</td>
<td>(1,341)</td>
<td>(1,040)</td>
</tr>
<tr>
<td>Expenditures from obtaining treasury stock</td>
<td>(303)</td>
<td>(5)</td>
</tr>
<tr>
<td><strong>Dividends paid</strong></td>
<td>(369)</td>
<td>(351)</td>
</tr>
<tr>
<td><strong>Cash flow from financial activities</strong></td>
<td>(3,397)</td>
<td>(1,391)</td>
</tr>
<tr>
<td><strong>Translation difference related to cash and cash equivalents</strong></td>
<td>22</td>
<td>(22)</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td>483</td>
<td>(185)</td>
</tr>
<tr>
<td><strong>Opening balance of cash and cash equivalents</strong></td>
<td>961</td>
<td>1,454</td>
</tr>
<tr>
<td><strong>Final balance of cash and cash equivalents</strong></td>
<td>1,454</td>
<td>1,259</td>
</tr>
</tbody>
</table>
## Business Locations

### Head Office
1-5-4 Nihonbashì-Hongo, Chuo-ku, Tokyo 103-8341, Japan  
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Fax: +81-46-229-7058

### Fine Chemicals Research Laboratories
Niigata Factory Branch Plant  
6-193-10 Higashikita, Seino-machi, Kitakanbara-gun, Niigata 957-0101, Japan

### Representative Office
Munich Representative Office  
Parking 11, 85746 Garching bei München, Germany  
Phone: +49-89-307 48 14 16

### Our Group (Affiliated Firms)

#### HOKKO Sangyo Co., Ltd.

- **Head Office**  
  1-5-4 Nihonbashì-Hongo, Chuo-ku, Tokyo 103-8341, Japan  
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#### Biei Hakudo Industry Co., Ltd.

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#### HOKKO Pax Co., Ltd.

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### Branch Offices

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Fax: +81-18-864-6213

#### Osaka Branch Office
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Fax: +81-76-462-1477

#### Niigata Branch Office
4-4-27 Bandai, Chuo-ku, Niigata-shi, Niigata 950-0088, Japan  
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10-14 Nihonbashì-Tomizawacho, Chuo-ku, Tokyo 103-0006 (Nihonbashì BS Building)  
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Fax: +81-3-6861-2733

#### Shanghai Office
Room 916, Guanghua Dasha, Beilou, No. 868, Maotai Road, Shanghai 200336, China  
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  Fax: +81-3-3279-5065

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Fax: +81-3-5838-9328

#### Osaka Branch Office
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Fax: +81-186-92-1890

#### Niigata Branch Office
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#### Niigata Factory Office
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Fax: +81-186-92-1890

#### Toyama Office, Toyama Branch Office
1-10 Komatsugawa, Minato-ku, Tokyo 113-0032, Japan  
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#### HOKKO Pax Co., Ltd.

- **Head Office**  
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  Phone: +81-3-3279-5151

#### Biei Hakudo Industry Co., Ltd.

- **Head Office**  
  1-5-4 Nihonbashì-Hongo, Chuo-ku, Tokyo 103-8341, Japan  
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  Phone: +81-3-3279-5151

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Phone: +86-21-6185-9789  
Fax: +86-21-6185-9790

#### HOKKO Chemical America Corporation
15401 Weston Parkway Suite 150, Cary, NC 27513, USA  
Phone: +1-919-678-2138

#### Fine Chemicals Business: Marketing base
- Shanghai Office  
  Shanghai 200336, China  
  Phone: +86-21-6185-9789  
  Fax: +86-21-6185-9790

- HOKKO Chemical America Corporation  
  15401 Weston Parkway Suite 150, Cary, NC 27513, USA  
  Phone: +1-919-678-2138

#### Crop Protection Products Business: Develop, register, and market crop protection products in the Americas
- HOKKO Chemical America Corporation  
  North Carolina, USA  
  Survey of crop chemical protection market, promotion of crop protection products