



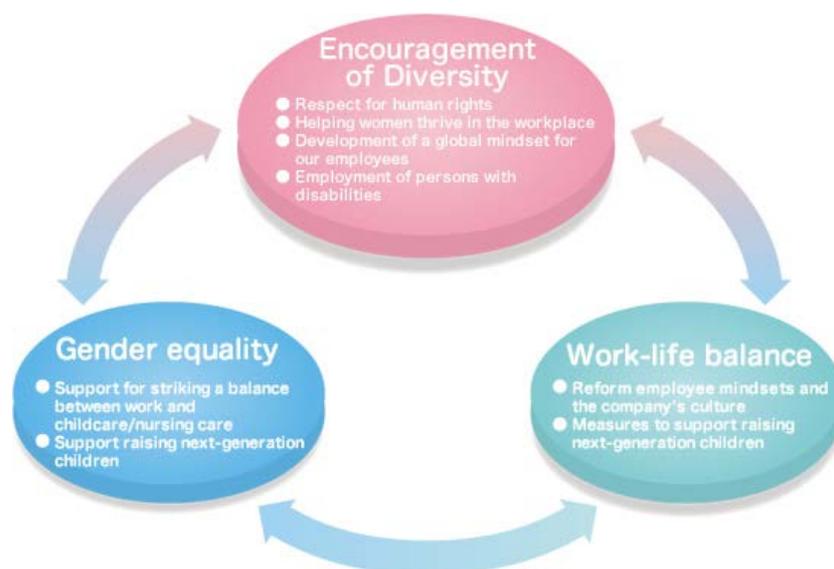
Initiatives for Employees

A company is nothing without its people. Nippon Kayaku respects the human rights of each and every employee, and strives to offer a workplace environment that offers peace of mind to employees. Our goal is to be a company where employees can grow personally and professionally through work and feel a sense of motivation in what they do.

Message from the Head of Administration Group

In order to realize the KAYAKU spirit, the Nippon Kayaku Group has developed a number of innovative systems and programs so that all employees can fulfill their individual responsibilities and roles with a sense of pride and self-confidence as key implementers of this vision. Our position class system, implemented 20 years ago, makes it possible to deploy and compensate human resources without focus placed on age, gender or academic history. The number of females promoted to manager positions also continues to increase with each passing year thanks to our appointment system that encourages a self-starter spirit and desire to take on challenges, and does not consider gender. Moreover, we are actively promoting diversity. This includes the re-hiring of nearly 100% of our employees who reach mandatory retirement age since the start of our senior partner program and supporting the employment of persons with disabilities through partnerships with schools for the disabled. Meanwhile, our business continues to become more global in nature. In line with this growth, we provide pre-departure and post completion training for expatriate employees and systemically carry out training for locally hired staff.

Moving forward, we will continue to develop systems with new, innovative thinking, unbound by conventional approaches or practices respecting human rights, so that we can respond flexibly to the changing business climate.



Approach to Diversity and Inclusion

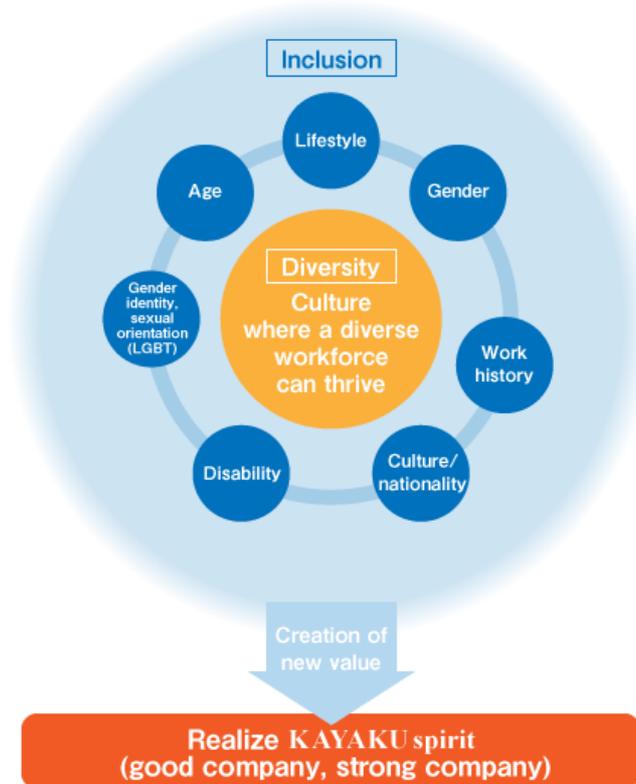
The Nippon Kayaku Group employs a diverse workforce of people with differing personalities and values. By promoting inclusion, we make it possible for employees to work together and fully contribute their unique skills and abilities, resulting in a dynamic work environment where everyone is

motivated and feels a sense of fulfillment. In turn, this helps management enhance our competitiveness and grow the company steadily.

The promotion of diversity requires to "Gender equality program" and "Work-life balance," which we believe help develop a workplace environment where women as well as a diverse overall workforce can contribute its skills to the fullest.

To promote inclusion, we strive to provide workplace environments that are friendly to a diverse workforce regardless of age, gender, religion, nationality, disability, sexual orientation, gender identity or employment format. Also, we have adopted a position class system as our personnel system in order to evaluate and compensate this diverse workforce fairly.

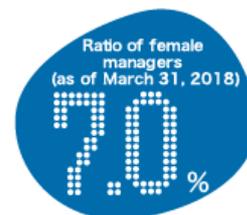
Approach to Diversity and Inclusion



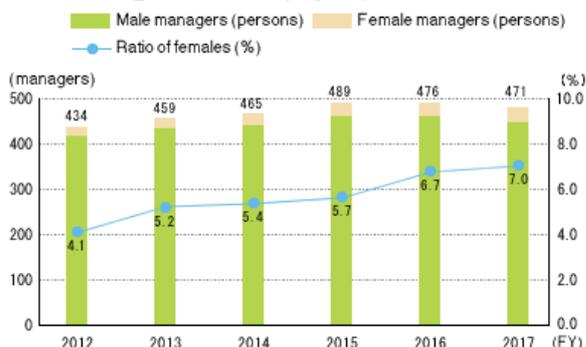
Encouraging Diversity

Nippon Kayaku Group's Personnel System

We have adopted the position class system as our personnel system which enables assignments and compensation not tied to age, gender, career or academic history. This system marks the 19th year. This system focuses evaluations on a person's roles and responsibilities. The same system is also used for managerial employees. Therefore, promotions to the managerial level can be achieved regardless of age, gender, academic history or career. As a result, the number of female managers continues to grow with each passing year.



● Percentage of female managers (*Nippon Kayaku non-consolidated basis; excluding seconded employees)



Helping Women Thrive in the Workplace

The appointment of female managers is one aspect of the results of our initiatives to encourage diversity in the workplace. The ratio of our female managers increased to 7.0% as of the end of March, 2018 (6.7 in previous year). We will continue with our efforts to encourage the greater involvement of women in the workplace, with a goal to increase the percentage of female managers to 8% by the year 2020.

■ Employment of Persons with Disabilities

Nippon Kayaku employs people with disabilities. As of the end of March, 2018, 50 people* with disabilities are working with us (2.0% of total employees). Society demands that we move swifter in hiring persons with disabilities and so in the future we will strengthen our efforts and continue to actively hire persons with intellectual disabilities wherever possible.

*One part time employee is included.

■ Re-employment of Employees after reaching Mandatory Retirement Age (senior partners)

In April 2006, we launched the Nippon Kayaku Senior Partner Program as a way to rehire employees who reached their mandatory retirement age. This program is intended to provide a place of work after retirement for former employees who are in good mental and physical health, are motivated to continue their career, and who can contribute their past career experiences and know-how. Participants are asked about their requested workplace, work duties and employment format, and since adopting this system we have been able to meet the requests of nearly 100% of participants who are rehired. Most of these participants continue on working until the age of 65. There are 133 reemployed persons working for Nippon Kayaku as of March 31, 2018.

■ Development of Global Human Resources

As one of our efforts to promote diversity, we provide employees in Japan as well as at our overseas group companies with opportunities to thrive in a global environment. We also strive to develop our employees' language abilities by offering study-abroad programs, short-term intensive English programs and company-wide TOEIC test. Moreover, we provide employees assigned overseas as expatriates with training programs on various subjects including cross-culture training. In addition to the training programs, we will keep making efforts to develop global talent by means of promoting personal interactions between business units in Japan and overseas group companies and also enhancing our support to experience various cultures and business environments.

In fiscal year 2017, Nippon Kayaku had foreign staff transferred from our overseas group companies to the head quarters. In order for the transferees to accustom to the Japanese lifestyle and culture smoothly, we held various orientations and prepared English version of the related regulations. This has been one of our efforts aimed at our commitment to further develop global human resources.

■ More active role of women in the workplace

I was the first local employee hired at Kayaku Safety Systems Malaysia Sdn. Bhd. (KMY), which was established in 2012. I received training at the Himeji Plant in 2013.

Currently, I am the only female member of KMY's management team in my position as Senior Manager of the Human Resources Department. I supervise a team of eight people, and I value communication with each of my team members. I also share my understanding of the Nippon Kayaku Group's KAYAKU spirit with Malaysian employees to raise awareness about its meaning and best practices in terms of work. In addition, I have high expectations for raising the motivation of Malaysian female employees so that they can advance their careers proactively and one day become leaders behind KMY's business in Malaysia.

Outside of work I am a wife and mother of four children. I have achieved a positive work-life balance that allows me to enjoy my hobbies of reading, jogging and cooking. On my days off from work, I often go on trips together with my family.



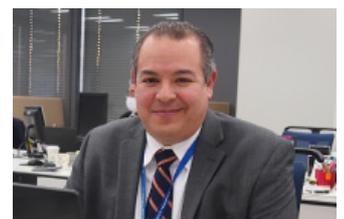
Ramla Mohamed Nor, Senior Manager, KMY Human Resources Department

■ Global exchanges

My name is Jorge Montes. After my involvement in setting up the plant of Kayaku Safety Systems de Mexico., S.A. de C.V. (KSM), I spent ten years on continual improvement activities with regards to quality and manufacturing. In June 2017, I was assigned to the Nippon Kayaku head office as a member of the Global Quality Project Team led by the Quality Assurance Division of the Safety Systems Group.

Outside of work, my family and I have opened our hearts to the totally new world of Japan and its completely different living environment. We are learning Japanese as well as visiting various places, and our interactions with people's kindness along the way is an experience we cherish above all else.

I'm often asked, "What is your staple food? Can you buy it in Japan?" I always answer "Tortillas, and yes I can buy them in Japan."



Jorge Montes, Safety Systems Group

In closing, we have the chance to make the Nippon Kayaku Group better on a daily basis. Let's be drivers behind change in each of our positions under the motto, "Everyone has a place in the driver's seat *1."

*1 "Everyone has a place in the driver's seat": take the lead in taking action from the driver's seat (D-seat)

Expanding Programs for Gender Equality

The Nippon Kayaku Group is expanding in-house programs for gender equality and encouraging their utilization. In terms of our Next Generation Childcare Support measures, we have rolled out various programs that exceed legal requirements, beginning with our childcare leave program. While percentage of childcare leave use for female employees was 100%(26

employees), that for male employees was 9.3%(4 employees) from April 1, 2017 to March 31, 2018.

Also, percentage of reinstatement after childcare leave was 100% for both male and female employees, we will seek to develop a workplace culture that encourages male employees to participate in childcare.

Special Paid Leave Program

The Special Paid Leave Program enables employees to set aside annual paid leave that will expire if not taken within a two year period and use it for nursing care obligations, training, volunteer work, infertility treatments, or to donate bone marrow. No complicated procedures are required to use this program, as employees simply have to apply by providing supporting proof for their activity. In addition, even after using the program once, employees can continue to accumulate paid leave to the maximum number of days for employees' convenience.

Also, starting this fiscal year, in response to childcare and nursing care needs, employees are now allowed to take half-day leave as part of nursing care leave for adults or children.

*Nursing care for a spouse, relative within the second degree, and uncles or aunts: employees permitted to take up to 10 days in half-day increments

*Nursing care for a child: employees permitted to take in half-day increments (up to 10 days)

●Special Paid Leave Program	
Applicable Uses	No. of Days Allowed
To receive treatment of an injury or illness that requires at least 4 consecutive days of care To receive outpatient services for rehabilitation or aftercare (within the stated period on the physician-issued medical certificate)	Up to 60 days
To provide nursing care to an immediate family member, aunt or uncle	45 days
To participate in a training program or volunteer activities	30 days
Leave in conjunction with the use of active points from the Nippon Kayaku Cafeteria Plan	5 days
To take leave in order to receive a vaccination or medical exam for a child of preschool age	5 days
To receive fertility treatments	60 days
To allocate additional days to childcare leave	10 days
To allocate additional days to leave for providing care to a sick child	10 days

Work-life Balance

Better Managing Employee Work Hours

With regards to compliance and mental health, the Nippon Kayaku Group strives to properly ascertain employee work hours and conditions, to take action where needed, and to manage working time properly by cooperation between employees and management. Additionally, from the perspective of enhancing work-life balance, starting last fiscal year we have reduced the total working hours by 7.5 hours and implemented work-style innovations to change the way employees think in an effort to increase productivity and create added value. We will now look to further reduce overtime hours and increase the percentage of paid leave taken.

To increase the rate at which paid leave is taken, we have established the new anniversary paid leave system and taken other measures to encourage employees to use their paid leave days. To reduce overtime, we need to change our workplace culture and change the way employees think (work-style innovation). As a result, we are improving work-life balance along with aiming to increase operational productivity and create added value. Additionally, the Nippon Kayaku Group employs workers in various formats, including rehired seniors (senior partners), contract workers, and part-time workers. We are now working to develop various training and systems for these different formats in response to the growing diversity of our workforce.

●Work-life balance (Nippon Kayaku non-consolidated basis)			
	FY2015	FY2016	FY2017
Total working hours	185.25	184.75	184.75
Overtime hours *Average monthly hours per employee	12.4	12.3	12.8
Number of paid leave days taken	10.6	11.5	11.0
Ratio of paid leave days taken	58.6%	62.7%	59.2%
Employees taking childcare leave (males)	0	4	4
Employees taking childcare leave (females)	20	27	26

Taking childcare leave

I returned to work in July 2017 after taking childcare leave for the second time. I am currently working reduced hours so that I can drop off and pick off my children from daycare. This enables me to pursue my career seamlessly while still spending time with my children.

After giving birth, I was worried about whether I could continue working. However, during the course of my approximately one-year leave, my workplace contacted me to update me on the latest situation, which made the transition back to work smooth. The company offers a wide range of leave programs, so my husband was able to take a short child-care leave. It was really encouraging for us to be able to share the workload so to speak during the really difficult phase of childcare. I feel like the environment is gradually changing so that men, too, can take childcare leave. Sometimes I feel like I'm inconveniencing my workplace when I have to take a day off because my children aren't feeling well. I'm really grateful that everyone at work accepts this and kindly asks how my children are doing.

Since taking childcare leave and returning to work, I'm once again keenly aware that balancing work and childcare everyday with a smile is only possible with not only a wide range of leave programs, but also the understanding and support of people in the workplace and the support of family. I hope to grow as a member of society and as a mother, always remembering to appreciate those around me.



Hiromi Takimoto, Administration Department, Nippon Kayaku Fukuyama Co., Ltd.

General Business Operator Action Program under the Act for Measures to Support the Development of the Next Generation

We submitted our Action Plan for Measures to support the Development of the Next Generation action plan (from April 1, 2018 to March 31, 2020) to the Tokyo Labor Bureau for approval on April 1, 2018.

We will now work to obtain Platinum Kurumin certification as quickly as possible.



Kurumin logo

Training Programs

Various training programs are provided to employees according to their jobs positions. These comprehensive training programs are conducted so as to develop the skilled workforce that will lead Nippon Kayaku in the next generation.

Mandatory Programs

In order to systematically develop the skills of the employees, training is imparted to the employees start immediately upon their joining the company. This is followed by mandatory programs after durations of one year and three years. Training programs are also conducted for mid-level employees in accordance to their job types and positions and matching their job work performance. We support our employees to make new steps forward to develop practical skills based on the changes of their roles and competences.



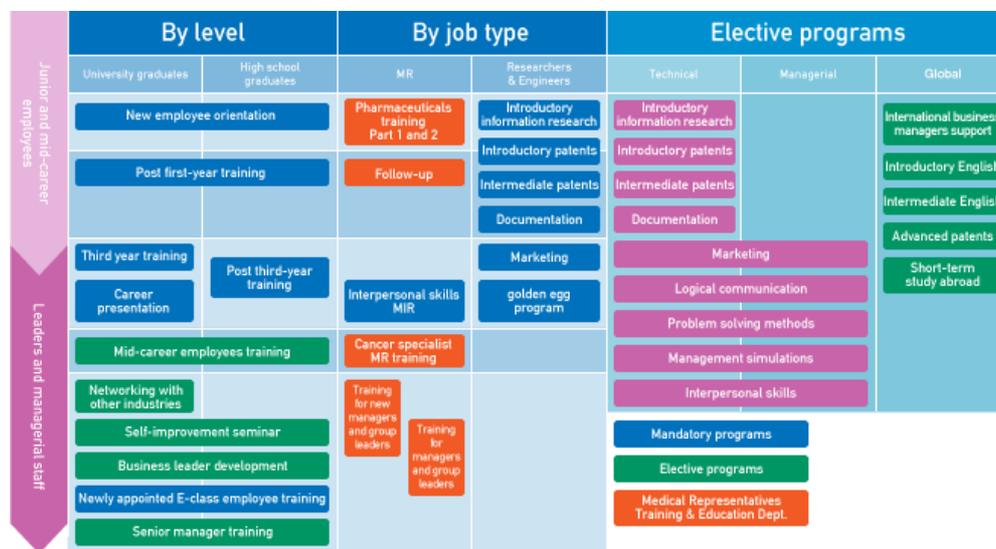
Training programs

Voluntary Programs

A wide array of voluntary training programs is also available. These voluntary programs are tailored to specific employee characteristics and jobs. They facilitate self-improvement and boost the job-related problem-solving abilities and business skills of the employees.

Selective Program

A program providing special leadership and management training is also available for the next generation promising candidates who are recommended by the superiors.



Passing down Technologies from Veteran Senior Employees to Junior Employees Initiatives of Nippon Kayaku Fukuyama

Nippon Kayaku Fukuyama is a subsidiary of Nippon Kayaku established in 2000 that engages in the contract manufacturing of functional materials and pigment materials. It plays an important role in ensuring the Nippon Kayaku Group is able to provide a stable supply of products. In recent years, Nippon Kayaku Fukuyama was faced with a shortage of mid-career employees despite the globalization of its business. As of October 2014, some 70% of its workforce was under the age of 40, and when many of its core employees reach retirement age five years from now the company's employees in their 20s and 30s will need to take the reins and drive the company forward. For this reason, Nippon Kayaku Fukuyama faced the urgent task of passing down its technologies and establishing a solid foundation of knowledge among its young employees before its veteran senior employees reached retirement.



Workshop about the basics of cost price as well as profit and loss

To overcome this issue, Nippon Kayaku Fukuyama worked on developing a new training program that would allow younger employees to obtain a comprehensive overview of the plant's functions. This in-depth three-year

program consists of 49 curriculums and administered to employees based on their career stage. The company set up an effective organizational structure for this program involving the entire plant by establishing a cross-functional working group to come up with the curriculum and instructors.

The program was launched in 2014. Section heads, team leaders and other mid career employees headed up efforts to create the curriculum so that newly hired employees can learn a broad range of skills over a period of time. Through this training, the plant's vertical threads and horizontal threads are able to mesh, creating a sense of solidarity that transcends age. The program is now being implemented under a new three-year plan established for fiscal 2017 and beyond. The know-how gained from the program will be shared with other business sites as a way to develop the human resources who will underpin the Nippon Kayaku Group in the future.



Members of the training system development team at Nippon Kayaku Kayaku Fukuyama

COE 2nd Generation*2 Program at Kayaku Safety Systems de Mexico, S.A. de C.V. (KSM) From operator to employee

KSM launched the COE 2nd Generation Program in September 2017. COE is a program that involves training operator level employees to become supervisors. The purpose of this program is to increase the motivation of operators by providing them with an opportunity to be promoted to supervisor.

During the COE 1st Generation Program from 2014 to 2017, a total of four operators were promoted to supervisor and currently the COE 2nd Generation Program has 14 participants. They will be promoted to supervisor based on the final evaluation of the program.



KSM will continue to support their career ambitions.

*2 COE 2nd Generation Program participants

COE: change from operator to employee

Operator (day worker; format of employment in Mexico)

Employee (monthly worker; format of employment in Mexico)



Encouraging the Creation of Intellectual Properties

Nippon Kayaku develops its businesses and contributes to society by producing useful products through the creation and utilization of intellectual properties. To encourage the creation of intellectual properties, we have established several programs to reward employee inventions, with both monetary awards and commendations presented annually.

1. Performance Award Program and Invention Award Program

Our performance award program provides remuneration to employee patents that have contributed to sales. This program was initiated under the company's rule on the handling of employee inventions first prepared in 1963. This rule was created based on the provision of Japan's Patent Act and hence has been changed over the years with each modification to this law.

Researchers receive a certain percentage of the sales and licensing fees for each business year and retired employees, too, are eligible for such payments.

Employees responsible for inventions or patents that contribute particularly to society and sales are eligible to receive a lump sum payment, which incentivises the creation of intellectual properties.



2. Early Performance Contributions

Even for patents pending, if an invention has already made contributions to the performance of the Nippon Kayaku Group, the employee can receive remuneration known as an early performance contribution. This particular program was initiated in 2005 to properly recognize product inventions with a comparatively shorter lifecycle. This program serves to complement the previously mentioned Performance Award Program, and the fact that employees are eligible to receive payments based on sales for patents not yet registered makes for a very advanced program in the corporate world.



3. In-house Commendation for Excellent Technologies

At the Company-wide Research Presentation Conference held every year in July, a commendation ceremony is held for employee inventions that have been patented or are patent pending during which time talented inventors

are presented with monetary prizes and awards. These awards include the R&D Director's Award, presented at the recommendation of each laboratory head, Patent Pending Award, for inventors with many patents pending, and the Best Invention Award, recognizing highly advanced technological innovations. Recipients of the Best Invention Award are asked to present a lecture.