Greetings

We are pleased to provide you with our Social and Environmental Report 2017. We hope it will help you understand our efforts and commitments to society and the environment.

CMP will continuously do our best to achieve a sustainable society. Your continued support and advice would be greatly appreciated.

President and CEO
Masataka Uetake

Reports a wide range of our social and environmental activities from the perspective of CSR.

(*) The reports have been issued annually since 2003, formerly called “Environmental Report” and renamed “Social and Environmental Report” in 2008 to expand its contents as its title suggests.

Period covered April 1, 2016 to March 31, 2017 (a part of the descriptions may include the period in and after April 2017)

Date of Issue November, 2017 (previous report issued: November, 2016 scheduled date of the next issue: November, 2018)
CMP’s approach to society and environment

**CMP fulfills its responsibility as a paint manufacturer.**
Playing three major roles, “beautification,” “protection” and “function,” paint has been used in a number of industries from ships and buildings to commodities. CMP, a company mainly supplying paints of users in marine, shipbuilding, utility, steel, construction and woodwork industries, occupying a socially significant role and with responsibility to contribute to industrial development through improved paint performance, is striving to ensure stable supply through our genuine technologies and production system.

**CMP promotes the development of Eco-Friendly Products.**
Our marine paint products can reduce the frictional resistance generated between the ship hull and water, which should reduce fuel consumption. Our industrial paint products also have the potential to enable various environmental achievements such as helping save energy for air conditioning by reflecting sunlight onto buildings efficiently, or reducing construction waste and life cycle cost by preventing building corrosion. Our key mission is to maximize the environmental performance of paints and we will strive to develop more environmental products in future.

**CMP strives to reduce the environmental burden and improves product safety.**
Under the philosophy that industrial development should be realized in harmony with the environment, CMP is carrying out various activities to reduce the environmental impact generated in the course of the manufacture, transport and use of our products as much as possible and enhance product safety, including establishing a management system for environmental protection and safety as well as producing solvent-free paints to reduce irritating material and VOC.

**CMP establishes social trust and contributes to sustainable social development.**
CMP believes that establishing social trust and contributing to sustainable social development is a key responsibility that a company should assume as a member of society and a public institution. To fulfill this responsibility, we will focus on compliance as our management cornerstone, emphasizing the establishment of sound and highly transparent corporate governance and internal control, and strive to improve the relationship with local communities through our 24 companies in 20 countries and regions worldwide.
Celebrating the 100th Anniversary

In May 2017, CMP reached its 100th year since the foundation. Heartily appreciating many years of support by all its stakeholders, CMP continues to step forward to the next century.

### CMP’s 100 Years of Progress

#### 1917

The predecessor of CMP, Chugoku Chemical Industry Limited Partnership, was established in Hiroshima. At that time, Japan’s marine transportation industry was advancing rapidly, yet Japan relied on imported antifoulings. Looking at such a situation, our founder launched a venture company aiming for the domestic production of antifoulings. This was the starting point of CMP.

**1917**

In May, Chugoku Chemical Industry Limited Partnership (capital: 50,000 yen) established in Kakomachi, Hiroshima

**Founder Iwao Suzukawa**

#### Prewar

After reorganizing to Chugoku Marine Paints, Ltd. (CMP) in 1923, the company started to intensely focus on technology development under the aspiration of, “contributing to the society by chemistry” since its foundation. As a result, CMP achieved in-house production of raw materials for improving product performance, and successfully developed urea resin products as pioneer synthetic resin products in Japan and epoch-making products such as oxygen generating agents.

**1923** Reorganized to Chugoku Marine Paints, Ltd., with a capital of 250,000 yen

**1924** Relocated to Yoshijimacho, Hiroshima

**1935** Started the production of urea resin

**1936** Started manufacturing oxygen generators

Based on an oxygen generating agent Suzukawa brought back from his fact-finding tour in Europe, Suzukawa developed his own oxygen generator. Manufacturing was continued until the end of war mainly for aircraft applications.

**Manufacturing of urea resin (around 1935)**

### Wartime

Under the wartime economic regulations, companies underwent adjustment and amalgamations. CMP was once designated to be discontinued, but was allowed to survive in the name of a factory dedicated for antifouling. In August 1945, CMP lost most of its main factory due to an atomic bomb dropped in Hiroshima.

**1945**

Hiroshima Factory that was located 2.3 km away from the hypocenter and divisions distributed in the city received catastrophic damage. At the dispersed factory in Itsukaichi that started operating immediately prior to the bombing, CMP started production of daily necessities such as soaps and toothpastes.

**Hiroshima Factory immediately after bombing**

### Immediately after the war

Even early on in the restoration of paint production, cessation of war compensation, allocation of raw materials by a coupon system and a recession caused by the Dodge Line forced CMP to the verge of closing down, but thanks to strong supports by Iino Kaiun, CMP managed to get out of these difficulties.

### Postwar to High economic growth period

While expanding its sales along with the recovery of the Japan’s shipbuilding and marine transportation industries, CMP continued to maintain its spirit to focus on technology that continues from its foundation, and created many revolutionary products whose essences are still used in today’s products.

**1949**

Listed on the Hiroshima Stock Exchange

“EVABOND” that realized a leap from an antifouling manufacturer to a comprehensive marine paint manufacturer and “MARBLAC” that established the foundation of paints for woodworks.

**1961**

Listed on the Second Section of the Tokyo Stock Exchange

In the 1950s, the Japanese shipbuilding industry greatly developed, and became the world’s largest in the volume of shipbuildings. CMP developed many epoch-making products, and held the largest market share in Japanese marine paints in the 1960s.

**A representative office in London established**

**1971**

Hong Kong office established

**1972**

Singapore Office established

**1973**

Chugoku Marine Paints (Hong Kong), Ltd. in Hong Kong established
Oil crises to the present

As its main clients are ocean-going ship-operators, CMP started establishing a global supply network from the early days, and has now grown into a large corporate group with 24 subsidiaries in 20 countries and regions in the world. CMP has established a unique position in the paint industry as a company that produces distinctive products based on its long years of knowledge in the marine environment and raw materials.

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>Kyushu Factory (Saga) newly established</td>
</tr>
<tr>
<td>1980</td>
<td>Chugoku Marine Paints (Singapore) Pte., Ltd. in Singapore. established</td>
</tr>
<tr>
<td>1983</td>
<td>Chugoku Paints (UK) Ltd. in the U.K. established</td>
</tr>
<tr>
<td>1984</td>
<td>Chugoku Marine Paints (Taiwan), Ltd. in Taiwan established</td>
</tr>
<tr>
<td>1985</td>
<td>Ohtake-Meishin Chemical Co., Ltd. (former trade name Ohtake Chemical Co., Ltd.) in Otake, Hiroshima established</td>
</tr>
<tr>
<td>1987</td>
<td>Otake Factory in Otake, Hiroshima newly established</td>
</tr>
<tr>
<td>1988</td>
<td>Participated in the management and funding of Chugoku Paints, B.V. in the Netherlands, and converted it to a consolidated subsidiary.</td>
</tr>
<tr>
<td>1993</td>
<td>Chugoku Marine Paints (Shanghai), Ltd. in China (Shanghai City) established</td>
</tr>
<tr>
<td>1994</td>
<td>Research Center in Otake, Hiroshima newly established</td>
</tr>
<tr>
<td>1997</td>
<td>Chugoku Marine Paints (Guang Dong), Ltd. in China (Guangdong Province) established</td>
</tr>
<tr>
<td>1999</td>
<td>Head Office relocated to Otake, Hiroshima</td>
</tr>
<tr>
<td>2007</td>
<td>Tokyo Head Office relocated</td>
</tr>
<tr>
<td>2012</td>
<td>Participated in the management and funding of Chugoku-Boat Italy S.p.A. in Italy, and converted it to a consolidated subsidiary</td>
</tr>
<tr>
<td>2017</td>
<td>New factory in the Netherlands completed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>Chugoku Samhwa Paints, Ltd. in Korea established</td>
</tr>
<tr>
<td>1988</td>
<td>Seajet series developed in 1988 as Japan’s first paints specialized for pleasure boats.</td>
</tr>
<tr>
<td>1989</td>
<td>TOA-Chugoku Paints Co., Ltd. in Thailand established</td>
</tr>
<tr>
<td>1990</td>
<td>Chugoku Paints (Malaysia) Sdn. Bhd. in Malaysia established</td>
</tr>
<tr>
<td>1993</td>
<td>Chugoku Marine Paints (Singapore) Pte., Ltd. in Singapore established</td>
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</table>

100th anniversary
Historic Landmark Preservation and Regional Exchange

Commemorating the 100th anniversary, CMP offered donations to three regions related to CMP, namely, Hiroshima, Shiga, and Saga, for the preservation of historic landmarks such as the A-Bomb Dome and regional exchanges.

A-Bomb Dome
The A-Bomb Dome was built in 1915, two years before the foundation of CMP, as the Hiroshima Prefectural Commercial Exhibition Hall (later renamed to Hiroshima Prefectural Industrial Promotion Hall) for the purpose of promoting excellent products of Hiroshima Prefecture. From 1926 until it was bombed, it also displayed CMP’s products as examples of industrial products representing of Hiroshima.

Yoshinogari Ruins
Yoshinogari Ruins spread to the west of CMP’s Kyushu Factory. The official excavation that started in 1986 found the Japan’s largest dry moat village and other important facilities from the Yayoi period, which attracted attention nationwide. The site has been opened to public as the National Yoshinogari Historical Park since 2001. (Photograph: The main shrine of Yoshinogari Ruins viewed from the Kyushu Factory)

Anniversary Ceremony
On July 15, 2017, CMP held its 100th anniversary ceremony for all its employees on a Tokyo Bay cruise ship.

Commemoration Logo
This 100th anniversary logo was selected from about 250 designs submitted from CMP Group employees all over the world. This was designed by a female employee from the CHUGOKU MARINE PAINTS (Singapore) PTE. LTD.

Commemorative Dividend
Commemorating the 100th anniversary, CMP offered a commemorative dividend of 2 yen per share to all its shareholders.
Company Profile

CMP, a leading company aiming to harmonize human activity with nature.

Since its foundation, Chugoku Marine Paints, Ltd. has been taking a unique approach in the industry to develop core products for marine paints and also paints for industrial applications. Our consistent and sincere attitude in areas of both software and hardware, towards developing better products has been highly appreciated and praised by customers not only locally but also internationally. With the help of strong customer confidence in our products and services and our never-ending quest to meet customers’ expectations, we keep developing. As we are a supplier to key industries such as shipping, ship building, electric power, steel, construction and woodworking industries, our role and contribution can be vital to the growth of the industrial world in many aspects. Also, our efforts should be based in the ideal of maintaining harmony between man and nature. Chugoku Marine Paints, Ltd. is an industrial leader that seeks to promote industrial growth while protecting the global environment, and continues its efforts into the future with a creative and innovative approach towards meeting customers’ needs.

Corporate Data

Company Name
CHUGOKU MARINE PAINTS, LTD.

Head Offices
Tokyo Office
Tokyo Club Building, 2-6, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo, 100-0013 Japan
Phone: +81-3-3506-3951 Fax: +81-3-5511-8541

Hiroshima Office
1-7, Meiji-Shinkai, Otake-shi, Hiroshima-ken 739-0652, Japan
Phone: +81-827-57-8555 Fax: +81-827-59-0017

Company President
Masataka Uetake

Date of Establishment
May 1917

Capital
11,600 million yen

Stock Exchange
First section of the Tokyo Stock Exchange (Code #4617)

Net Sales
82,368 million yen in 2016 (Consolidated)
33,911 million yen in 2016 (Non-consolidated)

Transition of Annual Net Sales

Number of Employees
2,298 as of the end of March 2017 (Consolidated)
390 as of the end of March 2017 (Non-consolidated)

Company Logo
Established in 1992

Our company logo is based on a design selected from about 250 designs submitted in response to a group-wide invitation that was issued as part of the 75th anniversary memorial project. This logo carries our hopes for major future growth of the CMP group, with the red highlight indicating a passionate “human”power that continues to seek new challenges.
Japan Networks

Head Office
Tokyo Head Office
Hiroshima Head Office

Technical Headquater
Technical Headquater (Hiroshima Pref.)

Factories in Japan
Kyushu Factory
Shiga Factory

Main business locations in Japan
- Head Office
- Factory
- Sales Office

Factories at Japanese subsidiaries
Kobe Paints, Ltd.
Ohtake-Meishin Chemical Co., Ltd.
CMP, having begun in the business of marine coatings, placed great emphasis on developing systems that provide and maintain products and service all over the world. Now, with the growing support, confidence, and trust of its customers for all its achievements, CMP has established a worldwide network which delivers top class services generally - manufacturing, supplying, sales and technical partnerships in marine paints, container paints, and paints for plants and woodworking, etc. We are present in about 100 locations in 30 countries. CMP aims to continuously improve and develop itself as a global company, expanding its factories and upgrading its service network worldwide by gathering and analyzing a broad range of information through organic cooperation with its global affiliates and business partners.

**Main Domestic & Overseas Subsidiaries and Affiliates**

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHUGOKU MARINE PAINTS (SHANGHAI), LTD.</td>
<td>China</td>
</tr>
<tr>
<td>CHUGOKU MARINE PAINTS (GUANGDONG), LTD.</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>CHUGOKU MARINE PAINTS (TAIWAN), LTD.</td>
<td>Taiwan</td>
</tr>
<tr>
<td>CHUGOKU SAMHWA PAINTS, LTD.</td>
<td>Korea</td>
</tr>
<tr>
<td>CHUGOKU MARINE PAINTS (SINGAPORE) PTE. LTD.</td>
<td>Singapore</td>
</tr>
<tr>
<td>CHUGOKU PAINTS (MALAYSIA) SDN. BHD.</td>
<td>Malaysia</td>
</tr>
<tr>
<td>TOA-CHUGOKU PAINTS CO., LTD.</td>
<td>Thailand</td>
</tr>
<tr>
<td>CHUGOKU PAINTS INDONESIA</td>
<td>Indonesia</td>
</tr>
<tr>
<td>CHUGOKU PAINTS (INDIA) PRIVATE LIMITED</td>
<td>India</td>
</tr>
<tr>
<td>CHUGOKU PAINTS B.V.</td>
<td>Netherlands</td>
</tr>
<tr>
<td>CHUGOKU PAINTS (UK) LIMITED</td>
<td>U.K.</td>
</tr>
<tr>
<td>CHUGOKU PAINTS (GERMANY) GMBH</td>
<td>Germany</td>
</tr>
<tr>
<td>CHUGOKU MARINE PAINTS (HELLAS) S.A.</td>
<td>Greece</td>
</tr>
<tr>
<td>CHUGOKU-BOAT ITALY S.P.A.</td>
<td>Italy</td>
</tr>
<tr>
<td>CMP COATINGS, INC.</td>
<td>U.S.A.</td>
</tr>
</tbody>
</table>
In March 2017, a new paint manufacturing plant was completed at CMP’s consolidated subsidiary CHUGOKU PAINTS B.V. The new plant enables almost fully automated operation for all manufacturing processes from preparation of raw materials to dispersion and filling of paints.

Automation allows for manufacturing in a closed environment, enabling suppression of volatile organic compounds (VOCs) emissions that cause air pollutions, improvement in the work environment, alleviation of labor shortage and improvement in the productivity.

Solar power generation devices installed on the roof can cover 40% of the power the plant uses on sunny days. The plant is also equipped with other facilities that contribute to tackle global warming, such as using cold water stored during night as cooling water.

The previous plant (production capacity: about 700 t/month) shown at the left back of the photograph above will be used as a warehouse.

**Completion date:** March 22, 2017  
**Location:** Heijningen, Netherlands  
**Building area:** Approx. 3,600 m²  
**Production capacity:** 1,000 t/month  
**Production item:** Marine paints  
**Investment amount:** Approx. 2.8 billion yen
Overseas factories

Shanghai
CHUGOKU MARINE PAINTS (SHANGHAI), LTD.

Relocated from the former Shanghai Factory site for its expansion in November, 2006.

Shanghai No 2
CHUGOKU MARINE PAINTS (SHANGHAI), LTD.

Completed in March, 2010.

Guangdong
CHUGOKU MARINE PAINTS (GUANGDONG), LTD.

Incorporated in October, 1997

Korea
CHUGOKU SAMHWA PAINTS, LTD.

Factory built in September, 2002

Singapore
CHUGOKU MARINE PAINTS (SINGAPORE) PTE. LTD.

Incorporated in April, 1980

Malaysia
CHUGOKU PAINTS (MALAYSIA) SDN. BHD.

Incorporated in July, 1990

Thailand
TOA-CHUGOKU PAINTS CO., LTD.

Incorporated in October, 1989

Indonesia
P.T. CHUGOKU PAINTS INDONESIA

Incorporated in October, 1988

Netherlands
CHUGOKU PAINTS B.V.

Consolidated subsidiary since January, 1988

U.S.A.
CMP COATINGS, INC.

Incorporated in October, 1990
CMP’s responsibility to stakeholders

We are aware that it is our management priority to carry out our social responsibility for stakeholders, and globally operate our activities in the medium and long term, within the scope of the management policy as defined below.

### Company’s policy

<table>
<thead>
<tr>
<th>No.</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To win customer’s confidence and satisfaction with the highest quality products.</td>
</tr>
<tr>
<td>2</td>
<td>To develop technological innovation and create new products from a global point of view.</td>
</tr>
<tr>
<td>3</td>
<td>To introduce scientific methods to company’s management to let our company run continuously with proper profit and make a contribution to our society.</td>
</tr>
<tr>
<td>4</td>
<td>To be faithful, to cooperate each other and to be fair.</td>
</tr>
<tr>
<td>5</td>
<td>To cope with changes in business environment and move ahead on job standardization and implement systematic management.</td>
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### CMP Group’s Code of Conduct

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<tbody>
<tr>
<td>1</td>
<td>We shall be aware of changes in the values of our society and in the state of the world from a global and long-term point of view. We shall carry out our businesses based on a medium-to-long-term perspective, not being distracted by temporary, speculative, and short-sighted focus on profitability.</td>
</tr>
<tr>
<td>2</td>
<td>We shall give serious consideration to rigorous compliance with the law, to our international reputation, and to commercial ethics, and maintain the reputation of the CMP Group as a whole. We shall continue to consider conventional trade practices and aim for fair trade in line with corporate ethics and social common sense.</td>
</tr>
<tr>
<td>3</td>
<td>We need to engage in free and fair competition in our relevant markets and in sound rivalry with our competitors, so that we develop ourselves with the stimulation of fair competition such that development contributes to benefits for consumers. We shall impose serious penalties on any action against Anti-Trust Laws in the course of dealings with our competitors, especially as regards bid rigging.</td>
</tr>
<tr>
<td>4</td>
<td>We shall not fail to give consideration to environmental issues such as manufacturing. We shall take care with respect to the maintenance of the environment and the environmental impact of our businesses on humans, and shall not hesitate with respect to expenses incurred in adopting sound environmental measures. If, in any case, those expenses render a business unprofitable, such business shall be discontinued or its activities restricted.</td>
</tr>
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<td>5</td>
<td>We shall make efforts to maintain mutual recognition and integration with local communities, disclosing our company activities by way of conducting field trips and holding explanatory sessions, and so forth, on our premises as required.</td>
</tr>
<tr>
<td>6</td>
<td>We shall not engage in any relationship with Special Shareholders or organized crime syndicates. Such relationships have no relevance to our businesses.</td>
</tr>
<tr>
<td>7</td>
<td>We shall not allow discrimination on the basis of race, gender, and belief, or tolerate sexual harassment, whether on our business premises or not.</td>
</tr>
<tr>
<td>8</td>
<td>We shall treat personal and confidential information appropriately.</td>
</tr>
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<td>9</td>
<td>We shall remain strictly neutral and non-partisan regarding elections as stated in the Public Office Election Law.</td>
</tr>
<tr>
<td>10</td>
<td>We shall refrain from any sales or purchases of shares of our company or of our business counter-parties that may raise any suspicions of insider trading.</td>
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CMP’s responsibility to stakeholders

We are aware that it is our management priority to carry out our social responsibility for stakeholders, and globally operate our activities in the medium and long term, within the scope of the management policy as defined below.

To win customer's confidence and satisfaction with the highest quality products.

To develop technological innovation and create new products from a global point of view.

To introduce scientific methods to company's management to let our company run continuously with proper profit and make a contribution to our society.

To be faithful, to cooperate each other and to be fair.

To cope with changes in business environment and move ahead on job standardization and implement systematic management.

We shall be aware of changes in the values of our society and in the state of the world from a global and long-term point of view. We shall carry out our businesses based on a medium-to-long-term perspective, not being distracted by temporary, speculative, and short-sighted focus on profitability.

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Through developing environmentally conscious products, promoting environmental management, and participating in activities of environmental conservation, CMP intends to develop a relationship with all stakeholders with a strong focus on environmental protection.
Together with customers

Business Environment of Our Company

CMP has expanded and intends to expand further into various markets using the knowledge and technology of its marine, industrial and container paints.

Marine Paint Field

A majority of shipowners transfer the registration of their ships to countries, so called flag of convenience countries, with a lower tax rate and lax regulations on the nationality of sailors, such as Panama and Liberia. The actual nationalities of shipowners are concentrated in Asia and Europe, regardless of the nominal ship registration countries.

A majority of ships are built in China, South Korea or Japan, and repair docks concentrate along the main routes from Europe through to East Asia.

Demands for shipbuilding tend to drastically change along with the economic trend, and also demands for ship repair temporarily fluctuate due to various factors. However, the marine market in general is in an expanding trend in a long term, by an increase in the volume of marine logistics associated with the growth of global economy.

Our products are applied not only to trading vessels but also to small vessels (such as pleasure boats and fishing boats) and fishing net, and are well received by various users who are involved with marine business and activities.

Involvement with the marine industry

Shipowner side

Loading of repair paints onto ships

Nama tions of paints

Sales

Shipping company

Shipbuilding order

Ship management company

Ship building

Repair work

Original shipowner

Chartering

Ship owned by shipping company

Outsourcing

Repair order

Sales

Delivery
Together with customers, registration countries concentrated in Asia and Europe, regardless of the nominal ship. Panama and Liberia. The actual nationalities of shipowners are tax rate and lax regulations on the nationality of sailors, such as countries, so called flag of convenience countries, with a lower rate.

A majority of shipowners transfer the registration of their ships to container paints.

CMP has expanded and intends to expand further into various markets using the knowledge and technology of its marine, industrial and container paints.

Marine Paint Field

<table>
<thead>
<tr>
<th>Major Asian countries</th>
<th>33.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major European countries</td>
<td>32.7%</td>
</tr>
</tbody>
</table>

Involvement with the marine industry

Social Performance

| Japan | ˋ |
| Taiwan | ˋ |
| Hong Kong | 3.9 |
| Korea | ˋ |
| Singapore | 6.9 |
| Greece | ˋ |
| Italy | 5.5 |
| U.S.A. | ˋ |
| Norway | ˋ |
| Denmark | ˋ |
| U.S.A. | 200 |
| Japan | 3.1 |
| Korea | 2.5 |
| China | 37.7 |
| Other | 20.0 |

Shipbuilding

| Ship owner by shipping company | 16 |
| Ship management company | 16 |

Sales

| Ship operating | 13 |
| Chartering | 14 |
| Repair | 15 |

Changes of shipping tonnage

Change of the volume of marine logistics associated with the growth of in general is in an expanding trend in a long-term view.

Demands for shipbuilding tend to drastically change along with marine transportation.

China is the world’s leading producer of container boxes. The quantity of container boxes used in ocean transportation is increasing along with the expansion of the global economy, and demand for container boxes is also in an increasing trend from a long-term view.

Changes of container port traffic

Sales by segments

Other business

Container Paint

Industrial Paint

Marine Paint

Other business
Together with customers

Product safety

CMP’s Policy of Consumer Protection

From the standpoint of consumer protection, CMP always gives consideration to the environment, safety and health not only during the development stage of new products but also for existing products, and develops and improves products and technology which are safe and friendly to mankind with less impact on the global environment.

Providing Safety Information on the products

To help customers use the paint products safely, CMP provides warnings and other information in SDS (Safety Data Sheet), product catalogues and on container labels.

Responding to GHS

GHS, “Globally Harmonized System of Classification and Labeling of Chemicals” is an internationally agreed system to classify chemicals according to the kind and extent of hazard. Such classified information is displayed on labels for easy understanding and a SDS is provided.

CMP has modified its labeling in conformity with GHS in conjunction with enforcement of the Amended Industrial Safety and Health Law in December 2006, and has issued GHS-compliant SDS since August 2007.

From the aspect of placing a greater emphasis on regulatory compliance, CMP reviews the descriptions of such labels periodically and updates them with new information.

Manual for the maintenance painting
(Japanese & English version, 165(H)90(W)mm, 64 pages)

Maintenance painting manual is to instruct the basics of safe & proper(handlings of CMP products simply together with illustrations.)
ISO 9001 Registration

CHUGOKU MARINE PAINTS, LTD. Japan
OHTAKE-MEISHIN CHEMICAL CO., LTD
KOBE PAINTS, LTD.
CHUGOKU SAMHWA PAINTS, LTD. Korea
TOA-CHUGOKU PAINTS CO., LTD. Thailand
CHUGOKU PAINTS B.V. Netherlands
CHUGOKU MARINE PAINTS (SHANGHAI), LTD. China
CHUGOKU MARINE PAINTS (GUANGDONG), LTD.
CHUGOKU PAINTS (MALAYSIA) SDN. BHD. Malaysia
CHUGOKU MARINE PAINTS (SINGAPORE) PTE. LTD. Singapore
PT. CHUGOKU PAINTS INDONESIA Indonesia
CHUGOKU-BOAT ITALY S.P.A. Italy

*ISO 14001 Registration: page 36
Together with customers

Communications

Presentations at exhibitions

To help customers better understand our products, we introduce our products in domestic and international exhibitions.

Presentations and lectures

CMP actively engages in giving presentations and lectures at events in order to assist its customers to gain better understanding of CMP and its products.

Silicone elastomer coating
“CMP BIOCLEAN PLUS”

Fuel-saving antifouling paint: Visualization of Friction Resistance by 3D Hull Roughness Analysis

Anti-fouling paint for coastal vessels
“CMP PREMIER PLUS”
Together with local communities

Environmental Protection

In the areas where CMP Group’s main factories are located, our employees engage in beautification and tree-planting activities on the premises as well as cleaning, weeding and beautification activities around the company. CMP employees including workers of Headquarters and Sales offices also actively participate in local environmental conservation events.

Participation in the “Trash Zero Operation” (Shiga)

Staff members of the Shiga Factory participated in the “Trash Zero Operation,” a clean-up activity around the lakeshore of Lake Biwa hosted by the Yasu city government on May 29, 2016.

Cleaning Activity at Gioui-gawa Riverbed (Shiga)

On October 12, 2016 and March 29, 2017, CMP participated in the riverbed cleaning activity for Gioui-gawa River hosted by a citizen’s group for preservation and revitalization of the nature and culture of Yasu City.

Cleanup of factory neighborhood (Hiroshima Head Office and Ohtake-Meishin)

On June 9, 2016, CMP’s Hiroshima Head Office and Ohtake-Meishin Chemical Co., Ltd. participated in a cleanup activity in factory neighborhood hosted by Otake City.

Clean-up activities outside factories

Participation in Kasumi no Uchimizu (water sprinkling event at Kasumi Terrace) (Tokyo)

CMP Tokyo staff participated in the water sprinkling event, which promoted less air-conditioning and energy saving on July 27, 2016.
Together with local communities

**Contributions to the Society**

**Supporting yachting events**

As a marine paint manufacturer, in order to promote marine sports, CMP supports various yachting events and offers paints for pleasure boats and small gifts.

- 8th Subaru-za Cup Charity Yacht Race Tokyo Bay Open 2016
- 25th Tokyo's Cup 2016
- 10th Ibaraki Billfish Tournament In Oarai
- 19th Yokohama Bayside Marina Open Yacht Race
- 6th Around Kansai International Airport Yacht Race

**Donation of unwanted calendars and used stamps (Tokyo)**

CMP Headquarters in Tokyo collected used postage stamps to be utilized by JOICFP (Japanese Organization for International Cooperation in Family Planning), which performs international corporation activities in developing countries via Cityliving, free information magazine.

Additionally, we have donated calendars and notebooks to the “Charity Calendar Market” hosted by the Nippon Volunteer Network Active in Disaster (NPO).

**Sponsoring Regional Events**

Shiga Factory sponsored the “OKTOBERFEST & JAZZ festival in Yasu 2016” held on September 24-25, 2016 and participated in the event as volunteer staffs.

CMP group companies have sponsored various events held at areas where offices or factories are located.

<table>
<thead>
<tr>
<th>Month</th>
<th>Event Description</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>May, 2016</td>
<td>Amamo Summit Japan in Bizen</td>
<td>Osaka Branch</td>
</tr>
<tr>
<td>June, 2016</td>
<td>8th Yasumaru-hiroba 2016</td>
<td>Shiga</td>
</tr>
</tbody>
</table>

**Donation to an autumn festival, etc. near the factory (Kobe Paints)**

Kobe Paints made a donation for the autumn festival held on October 19th 2016 and to a children’s association.
TOA-CHUGOKU PAINTS CO., LTD. donated teaching materials to a nearby primary school on Children’s Day in January 2016. It also donated paints to a nearby school in September and November 2016 for repainting, and performed volunteer painting as well.

CHUGOKU SAMHWAA PAINTS, LTD. in Korea gave presents to neighboring towns and villages taking the opportunity of a traditional holiday in September 2016. Additionally, it has offered donations to local regional organizations and elderly facilities, and granted scholarships to pupils of a nearby primary school at the graduation ceremony.

CHUGOKU PAINTS B.V. conducts various donation activities including donation to “t Veerke Sport” which runs events to encourage children to participate in sporting activities, donation of paints to local festivals, and donations to local sporting organizations and schools.

CMP participated in events such as a launching ceremony at a shipyard hosted by the Cooperative Association of Japan Shipbuilders targeting elementary and junior high school students for the purpose of developing next generations, and gave lectures on marine paints to the local students.

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Location</th>
<th>Type of School</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>May</td>
<td>Shimonoseki-shi, Yamaguchi</td>
<td>Junior high school</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>Suzaki-shi, Kochi</td>
<td>Elementary school</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>Saeki-shi, Oita</td>
<td>Junior high school</td>
</tr>
</tbody>
</table>
Together with suppliers

Purchasing policy

1. Open policy
   Our Purchasing Division always looks for new business partners and maintains an open policy.

2. Fairness
   Our Purchasing Div. assesses quality, price, delivery schedule, reliable supply and technical service together and selects our business partners fairly.

3. Law-abiding principle
   Our Purchasing Div. abides by every applicable law and regulation to the purchasing business.

4. Mutual trust
   Our Purchasing Div. promotes mutual trust with business partners following our fair purchasing policy.

5. Conserving the environment
   Our Purchasing Div. contributes to the benefit of society through purchasing and bearing environmental conservation in mind.

Green Purchasing

CMP promotes “Green Purchasing and Procurement” where environmentally conscious products are preferably purchased. We are steadily increasing the ratio of Green Purchasing and Procurement in stationary and office items and switching of copying paper and printed matters to FSC (Forest Stewardship Council) certified paper.

Conducting the Survey of the Suppliers’ Green Procurement

CMP surveys the status of the ISO 14001 certification granted to raw material manufacturers from whom CMP has already purchased a fixed amount to learn their approach to environmental issues. 54 percent of the manufacturers surveyed were already certified. CMP continues to work on uncertified manufacturers to apply for the ISO certification.

What is the Law on Promoting Green Purchasing?

Green Purchasing means purchasing goods with a minimum environmental load by taking the impact on the environment and the extent of the necessity into consideration. The Law on Promoting Green Purchasing was introduced in April 2001 and national and public institutions took the initiative to promote Green Purchasing. By providing useful information about environmental friendly products, etc., it aims to change the structure of the demand and to build a sustainable society with a continuous progress. It also stipulates the obligations not only of national level institutions but also of local public organizations, business owners and citizens.
Together with shareholders and investors

Corporate Governance

CMP is aware that increasing the corporate value is important for management policy, with the establishment of effective, healthy and transparent corporate governance. Forming the board of directors, the board of auditors, management meetings, and other committees, CMP reinforces its corporate system. The basic policy of CMP’s corporate governance is available for viewing on the CMP’s website.

[CMP Website / Corporate Governance] http://www.cmp.co.jp/ir/governance.html  ※ Japanese only

Organization Chart for Corporate Governance

Internal Control

By aiming for the sustainable development of the company with efficient and effective internal control systems, CMP endorsed a resolution to establish the “Rules and Basic Policy for Establishing Internal Control System” at the board of directors in May 2006 (partially amended in March 2008 & May 2015), and are putting effort into forming and operating the appropriately related committees.

Reliable financial reporting

As a listed company, CMP recognize that to submit a highly reliable financial report to investors and shareholders is an important responsibility, thus “Basic Policy of the Financial Reporting” was resolved at the board of directors in March 2008. Additionally, CMP maintain and improve the system through the “Self assessment concerning Internal Control over Financial Reporting”.

[Organization Chart for Corporate Governance]

[Internal Control]

[Reliable financial reporting]
Together with shareholders and investors

Risk Management System

The business environment surrounding CMP Group is always changing and requires CMP to respond quickly to various risks. Under the basic policy; “Establish the effective and efficient Risk Management System to achieve Human Safety, Continuous Development of Corporate Value and Mutual Trust with Stakeholders”, CMP Group forms various committees and keeps improving the system. These committees include Compliance Committee, System Planning & Operating Committee and others in support of the Risk Management Committee. We consolidate the control system for prevention, detention, correction, recurrence prevention of such anticipated risks, and for response to crisis.

Organizational Chart of the Risk Management System

CMP has implemented wide-ranging measures in response to potential large-scale natural disasters, including the Tonankai Earthquake, and an inland earthquake affecting the metropolitan area, in order to maintain a stable supply and ensure the safety of our employees.

- Simulation of emergency alternative production
- Implementing earthquake-resistant measures for buildings, fixing dangerous indoor objects to walls, etc.
- Storing emergency foods and drinking water
- Conducting evacuation drills
- Preparing accommodation goods for employees unable to go home

The “Code of Conduct for CMP Group” states the group’s compliance and core business management from the medium- to long-term perspectives, and encourages mutual understanding with stakeholders. This Code of Conduct was translated into English and Chinese, and distributed to all related companies along with CMP’s Company Policy, in an attempt to raise awareness of the Code and Policy among the executives and staff of the group. (The full text of The Code of Conduct is shown on Page 11.)
To sustain the corporate activity in the society & conforming to the social norms and corporate ethics is imperative. CMP is aware that responding to compliance is one of the most important issues among a number of risks, and always remain committed to compliance, across the board checks by the Risk Management Committee and with the guidance of the Compliance Committee.

**Providing compliance education**

**Providing basic education**

CMP prepares a Compliance Manual and audiovisual aids in Japanese, English and Chinese to raise general awareness of compliance and comprehensively explain the legal matters to be noted when carrying out our business, and distributes and delivers the same across head offices and all affiliates in and outside Japan.

**Implementation of applied education**

Based on the principal object of compliance to “Increase the corporate value by meeting expectations of stakeholders”, detailed education training on laws and ordinances, social norms and other rules of particular importance has been conducted by occupational category and subject, mainly for domestic executives and workers.

**Initiatives for Protecting Human Rights**

Infringement of human rights represented by child labor and slave labor still exists now, and is an issue the whole world has to work together to eliminate. CMP endeavors to always exercise fair and reasonable corporate ethics through its management policies and code of conduct, and pays close attention not to cause infringement of human rights in conducting its business. In line with that, CMP’s consolidated subsidiary CHUGOKU PAINTS (UK) LIMITED has announced a declaration not to cause infringement of human rights such as enforced slave labor not only within the company but throughout its supply chain, conforming to the UK Modern Slavery Act 2015.

The “Code of Conduct for CMP Group” states the group’s compliance and core business management from the medium- to long-term perspectives, and encourages mutual understanding with stakeholders. This Code of Conduct was translated into English and Chinese, and distributed to all related companies along with CMP’s Company Policy, in an attempt to raise awareness of the Code and Policy among the executives and staff of the group. (The full text of The Code of Conduct is shown on Page 11.)

**Setting up of anonymous consultation in and outside the company**

In December 2002, CMP set up “Post 999”, which is an anonymous consultation network in and outside the company. Currently CMP Group has this system in 8 countries / regions.
Together with shareholders and investors

Performance in fiscal 2016 (April 1, 2016 to March 31, 2017)

Overview

The global economy in this term started sluggishly due to economic slowdown in developed countries. However, the economy of major countries including Europe and the US showed unexpected robustness in the second half year, and a tone of gradual economic recovery continued overall.

Meanwhile, fears of an economic downturn lingered due to the uncertainty into the future associated with a series of political events such as the Brexit and the US presidential election, and a sense of stagnancy remained in the global economy without giving much hope for recovery.

Regarding the economic environment surrounding CMP, in the marine segment, a fall in the demand was observed in the ship repair market as a reaction to the bullish move in the first half year compared to the same period previous year, particularly after a massive fall in the demand as a result of market deceleration seen in the second half of the previous year.

Under such a management environment, CMP exerted itself to expand sales by introducing products containing new antifouling agents into the market. However, the radical change in the environment engulfed CMP, and CMP Group’s net sales in this term were 82.368 billion yen (Year on Year 28.4% decrease). With regard to profit, although CMP promoted reduction of cost, it couldn’t counter the impact of reduced sales, and the operating income was 5.471 billion yen (YoY 45.4% decrease), ordinary income 6.076 billion yen (YoY 41.7% decrease), and the net income attributable to parent company shareholders 3.643 billion yen (YoY 4.0% decrease).

Summary of consolidated financial statements

Summary of consolidated balance sheet

<table>
<thead>
<tr>
<th>Items</th>
<th>March 31, 2016</th>
<th>March 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>92,058</td>
<td>84,001</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>36,331</td>
<td>38,056</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>128,389</td>
<td>122,058</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>43,149</td>
<td>36,501</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>6,423</td>
<td>7,387</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>49,572</td>
<td>43,889</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>11,626</td>
<td>11,626</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>7,783</td>
<td>7,783</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>46,522</td>
<td>49,045</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>– 1,201</td>
<td>– 1,702</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>64,730</td>
<td>66,752</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>8,402</td>
<td>5,797</td>
</tr>
<tr>
<td>Minority interests</td>
<td>5,684</td>
<td>5,618</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>78,817</td>
<td>78,169</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>128,389</td>
<td>122,058</td>
</tr>
</tbody>
</table>

Assets

Decreased by 6.331 billion yen, as a result of a decrease in current assets by 8.057 billion yen due to a reduction in notes and accounts receivable and other factors and an increase in non-current assets by 1.725 billion yen due to an increase in property and equipment and other factors.

Liabilities

Decreased by 5.683 billion yen, as a result of a decrease in current liabilities by 6.648 billion yen due to a reduction in notes and accounts payable and other factors and an increase in non-current liabilities by 0.964 billion yen due to an increase in long-term borrowings and other factors.

Net assets

Decreased by 0.648 billion yen, as a result of an increase in shareholders’ equity by 2.021 billion yen due to accounting of net income attributable to parent company shareholders and other factors and a decrease in accumulated other comprehensive income by 2.604 billion yen associated with a decrease in foreign currency translation adjustments, as well as a decrease in non-controlling interests by 0.065 billion yen affected by foreign exchange rates.
Summary of consolidated balance sheet
Together with shareholders and investors centering on China. The industrial segment also faced in the demand as the market entered an adjustment stage the ship repair market as a reaction to the bullish move in
Regarding the economic environment surrounding CMP, in economy without giving much hope for recovery.
political events such as the Brexit and the US presidential
Meanwhile, fears of an economic downturn lingered due to showed unexpected robustness in the second half year, economy of major countries including Europe and the US
The global economy in this term started sluggishly due to
foreign exchange rates.
non-controlling interests by 0.065 billion yen affected by translation adjustments, as well as a decrease in accounting of net income attributable to parent company
in shareholders’ equity by 2.021 billion yen due to increase in non-current liabilities by 0.964 billion yen due to
notes and accounts payable and other factors and an current liabilities by 6.648 billion yen due to a reduction in
Decreased by 5.683 billion yen, as a result of a decrease in Liabilities
an increase in property and equipment and other factors.
increase in non-current assets by 1.725 billion yen due to
Current income tax
Income before minority interests
Ministry interests
Net income

Summary of consolidated cash flow statement
Units: million yen

Cash flows from operating activities
9,774 10,750
Cash flows from investing activities
− 3,552 − 5,448
Cash flows from financing activities
− 3,133 − 2,737
Effect of exchange rate changes on cash and cash equivalents
− 660 − 990
Net increase in cash and cash equivalents
2,428 1,574
Cash and cash equivalents at beginning of year
24,400 26,828
Cash and cash equivalents at end of year
26,828 28,403

Consolidated statements of changes in net assets
Year ended March 31, 2017
Units: million yen

Shareholders’ equity
Common stock Capital surplus Retained earnings Treasury stock at cost Total shareholders’ equity Net unrealised holding gain on other securities Revaluation gain on land Foreign currency translation adjustments Reinvestements of surplus benefit plans Total accumulated other comprehensive income Minor interests Total net assets
Balance at beginning of the year 11,626 7,783 46,522 − 1,201 64,730 2,015 3,863 2,676 − 153 8,402 5,684 78,817
Amount of changes during the year
Cash dividends − 1,119 − 1,119
Net income 3,643 3,643
Acquisition of treasury stock − 501 − 501
Net changes in items other than shareholders’ equity
0 0 0
Total amount of changes during the year 94 − 2,708 9 − 2,604 − 65 − 2,669
Balance at the end of the year 11,626 7,783 49,045 − 1,702 66,752 2,109 3,863 − 31 − 143 5,797 5,618 78,169

Net sales
Decreased by 32.698 billion yen compared with the previous term, because of the shipbuilding market having entered an adjustment stage, a reactive reduction in the demand in the ship repair market, and stagnancy in the container market having continued after a deceleration in the second half of the previous year.

Operating income
Decreased by 4.541 billion yen compared with the previous term associated with a reduction in sales, although the ratio of gross profit to net sales was improved.

Net income attributable to parent company shareholders
Decreased by 2.858 billion yen compared with the previous term along with a reduction in operating income.

Cash flows from operating activities
Increased by 0.975 billion yen compared with the previous term, because of a reduction in sales credits and other factors, although the income before income tax and minority interests decreased.

Cash flows from investing activities
Decreased by 1.895 billion yen compared with the previous term, because of an increase in expenses due to acquisition of non-current assets and other factors.

Cash flows from financing activities
Increased by 0.396 billion yen compared with the previous term, because of a decrease in repayments of borrowings and other factors.

Cash and cash equivalents at end of year
Increased by 1.574 billion yen compared with the end of previous term.
Together with employees

Benefits

Re-employment system

While the retirement age at CMP is 60 years old, CMP has started its re-employment system since April 2006 applicable to retirees, if they are willing to work longer and agree to the employment conditions with the company, to allow them to work until the age of 65. CMP intends to transfer veteran’s technical know-how and techniques to younger generations and utilizes the accumulated knowledge. 100% of CMP retirees in 2016 applied for this system and remain in work today.

Support of the Development of the Next Generation (Child Care Leave, Family Care Leave)

CMP provides a working environment where employees can balance working with their family life. We have established action plans on the basis of the “Law to Promote Measures to Support the Development of the Next Generation” so that workers can select different working styles matching their needs of the various lives styles. In the case of Child or Family Care Leave, CMP has set up a system where workers can manage both working and child-care or nursing-care. In fiscal 2016, the number of employees who took child care leave was 3.

Benefits Program

In addition to annual paid holidays, CMP provides an “Accumulated paid holiday system” (for medical leave, volunteering, nursing, etc.) and a “Refresh vacation system” for longtime employees. Recreation facilities of CMP are spread in Hokkaido, Hakone, Atami, Izu, Nagano and Toba, and employees visit and enjoy them in various ways.

Promoting the Employment of People with Disabilities

The hiring rate for people with disabilities decreased in fiscal 2016 compared with last year due to the retirement of relevant employees, dropping down to 0.80%, which is below the statutory rate of 2.0%. We are willingly making an effort to raise this rate.

Labor-Management Relations

CMP has the labor union and participates in its upper tier union, the Japan Federation of Energy and Chemistry Workers Unions. In this way labor and management maintain a harmonious favorable relationship which has been cultivated for a long time.

Training and development

CMP has been actively conducting education and training by job type or position as well as training for all employees, in addition to training of new graduates. In fiscal 2016, CMP conducted an educational session on mental health targeting all employees, stratified training for Grade 7 leaders and for newly assigned managers, and work-specific training for workers in the Production Division and the Technical Division.

Prevention of sexual harassment

The work discipline of the work regulations has been amended to reflect CMP’s determination on prevention of sexual harassment in workplaces. A consultation contact point was established to respond to the inquiries and complaints. In addition, awareness on sexual harassment prevention has been raised through the manager training, in-house training, education using video materials, etc.

Health Care

Mental Healthcare Support

In order to raise employee awareness of mental healthcare, CMP provides training for managers to increase their awareness and develop an appropriate culture. CMP also introduces external service contacts for “telephone health counseling” and “mental health counseling,” including health insurance societies which individual employees can consult. Additionally, CMP conducted a mental health checks for employees of its Head Offices and group companies in Japan. Kyushu Factory set a Radio Gymnastics Week in September as part of its “Mental and Physical Health Promotion Activities”.

Care for the employees’ health

CMP places the highest priority on the health and safety of its workers for creating comfortable working environments. Each establishment works on health management of workers according to the advice from industrial physicians, by periodically holding health and safety committee and deploying health supervisors. Further, as measures against heatstroke, factories in Japan distributed salt candies, salt tablets, etc. to their employees.
Measures for Lifestyle-Related Diseases

CMP has been installing Automated External Defibrillators (AEDs) in its facilities. An AED is a device that restores normal heart rhythm by sending an electric shock when the heart loses a pump function to circulate blood. We will keep training our employees so that they will learn how to use AEDs.

Occupational Safety and Health

Main Activities

We are promoting and managing health and safety in compliance with the Industrial Safety and Health Act. The beautification of the working places in our factories is considered a particular starting point and all factory personnel have joined in pursuing activities with the five themes of arrangement, orderliness, cleaning, cleanliness and discipline. Furthermore, as environmental cleanliness benchmarks, we measure the concentration of airborne organic solvents, ventilation, lighting, noise and room temperature at the work place periodically.

CMP and some group companies have introduced “My Machine System.” Under this system, persons responsible for each manufacturing equipment or device are assigned. Clarifying the management responsibility of equipment raises employees’ awareness on keeping things clean and maintaining good condition resulting in promotion of the 5S Project.

Improving Operational Condition at Work-Place

To maintain safe working condition at unit working places where Ordinance on Prevention of Organic Solvent Poisoning or Ordinance on Prevention of Hazards Due to Dust are applied, measuring in compliance to the Working Environment Measurements Law is conducted every year. Regarding noise in unit work places classified as Controlling Class-2, ear plugging is mandated to maintain lower noise load on individuals.

Occupational accidents at work-place (frequency of accidents) and frequency rate of accident

In fiscal 2016, the number of accidents that required time off from work was zero (zero in fiscal 2015) and that required no time off from work was 3 (1 in fiscal 2015), two cases increased than in fiscal 2015. Based on the basic concept of human life first, aiming at realizing zero personal injuries, CMP encourages all its Group companies to maintain high awareness of safety on a daily basis. Specifically, we are working on reviewing of work procedures based on the Coatings Care Action Guideline to prioritize the safety and health of employees, customers and local residents and the environmental protection, and, establishing systems for education and training as well as for checking the validity of these initiatives.

Additionally, work injuries, accidents, and near miss cases that occurred at each business site are investigated at the Central Safety & Health Committee for the causes, and measures are distributed throughout the company.

Sites covered: CMP and subsidiaries & contractors in the company premise (within Japan)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of accidents without lost working time</th>
<th>Number of accidents with lost working time</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>2014</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>3</td>
<td>0</td>
</tr>
</tbody>
</table>

Frequency rate of accident

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency rate of accident / CMP (financial year)</th>
<th>Frequency rate of accident / chemical industry average (calendar year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>0.4</td>
<td>1.6</td>
</tr>
<tr>
<td>2013</td>
<td>0.6</td>
<td>1.0</td>
</tr>
<tr>
<td>2014</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>2015</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>2016</td>
<td>1.4</td>
<td>1.4</td>
</tr>
</tbody>
</table>

(*) Calendar year values from the “Chemical Industry” section of Survey on Industrial Accidents by Ministry of Health, Labour and Welfare.
Our products development

**CMP focuses on the future with the most globally advanced technologies from 3 key perspectives.**

High quality and performance contribute to the development of society and are based on a deep concern for harmony with nature. CMP focuses on people and paints from the standpoints of ECOLOGY, INNOVATION and QUALITY, using the most advanced technologies.

---

### Development of high performance, quality products.

To meet various demands promptly, CMP proactively develops and promotes high quality products, together with color designs, featuring high and innovative functionality designed for specific applications.

---

### Innovative technology - taking a global view

CMP globally searches for technological innovation, not only in order to develop paints and other products, but also to establish paint technologies that are effective in streamlining processes, are labor saving, and can be incorporated into automated line and robot systems.

---

### Harmony with the environment

CMP takes information learned from nature and daily life as messages pointing to the future. We are “a company dedicated to protecting the environment”, actively promoting harmonization with it.
CMP continuously works on discovery of new principles, development of products, and rationalization of manufacturing process, preemptively envisaging the needs of the era. Here, some of our achievements are shown taking antifouling, our mainstay products, as examples.

Meeting customer’s needs
In this so-called environment age, the level of demands on antifouling by customers tackling on energy saving and environmental protection is getting higher on a daily basis.

Q: How can CMP help improve fuel economy of ships and reduce CO2 emissions?
A: We develop suitable products by conducting researches on coating films.

Antifoulings contribute to improving the fuel economy by preventing adhesion of marine organisms, source of resistance against sailing, to ships. Moreover, in recent years, reduction of friction resistance with seawater by modifying the coating film surface has been serving as a new challenge. Jointly with external institutions, CMP has been developing products which forms ultra-smooth coating surface to reduce friction with seawater through.

Q: How can CMP help reducing impact of ship operation on the ocean to protect the marine environment?
A: We develop antifouling agents and their elution mechanism by conducting researches.

We have to protect ships from fouling by organisms and minimize the environmental loads while the ships voyage through various ecosystems. In addition to research on antifouling agents that conform to strict regulations enacted by environmentally advanced countries, CMP conducts development of mechanisms to properly and consistently elute such antifouling agents, and further promotes switching to antifoulant-free paints.

CMP rigorously examine effects both theoretically and practically
For new ideas, we rigorously examine their effects by both theoretical and practical means. Reduction of friction with seawater by ultra-smooth coating surface has been proven by joint research with external research institutions, and its evaluation method has been established. Meanwhile, we conduct elaborate verification through long-term demonstration tests of paints simulating various environments.

New Products

**NEW PELLER CLEAN PLUS**
Paint for propellers of small ships

NEW PELLER CLEAN PLUS Mini (0.3m²)  NEW PELLER CLEAN PLUS Jr. (0.6m²)

Human- and Eco-friendly Antifouling for Propellers
CMP has released “NEW PELLER CLEAN PLUS”, paints for propellers of small ships with larger adhesion than conventional products. The high adhesiveness was realized by adding adhesion aids to a chromate-free epoxy-based undercoat. The top coat has a small amount of antifouling activator mixed into a silicone-based antifouling paint with a surface property on which any adhered substance falls off by an act of water current, and protects ships from adhesion of marine organisms even while being moored.
Our environmental product

Environmental conservation
CMP conducts R&D on saving resources and energy aiming at creating products that further improve its contribution to the environment.

Resource saving
Paints have a role to “protect” the material from erosion and deterioration. By painting, materials made of steel, concrete or wood can be maintained in a good condition free from rusting and erosion for a long period of time. Paints reduce loss of materials due to erosion and thereby contribute to saving resources.

Global warming prevention
Fuel-saving anti-fouling paints improve the fuel efficiency. Heat reflective paints improve the efficiency of air conditioning in buildings and ships. CMP diligently keeps conducting research to further improve the performance of such products that contribute to save energy and reduce CO2 emissions.

Fluororesin finish paint FLUOREX
Universal Primer BANNOH 1500
Titanium foil anti-corrosive system
By applying paints to aged steel structures that were built during the period of rapid growth, the structures will be revitalized with extended longevity.

Epoxy underwater coating CONTACT WE (For concrete surface) PERMASTAR WE (For steel surface)
Coating materials applicable underwater or on wet surfaces, to protect under water and waterside structures from corrosion.

Role of anti-fouling paint
Besides preventing the hull from being damaged by adhesion of shells and algae (resource-saving), it induces a resistance to marine organisms and prevents aggravating fuel efficiency (energy-saving).

Fuel saving anti-fouling paint SEAFOLO NEO Z
The underwater frictional resistance is reduced by improving the smoothness of coating surface. CMP received the Minister of the environment’s Award etc. for the excellent fuel saving performance backed by its FIR theory.

FIR Theory
FIR Theory calculates the underwater frictional resistance of antifouling paint by the roughness and wavelength of the coating surface and quantizes its effect on the fuel efficiency. Through CMP’s FIR Theory, fuel-saving antifouling paints keep evolving.

Heat reflecting coating THERMO SHADAN
Environment-conscious water-based THERMO SHADAN W improves the air conditioning efficiency and contributes to saving energy through its excellent heat reflection performance.
Environmental consideration

Environment- and human-friendly products. CMP conducts R&D for better products aiming to further enhance environmental consideration.

- Reducing air pollution

Volatile organic compounds (VOCs) released into the air become the main cause of photochemical smog. CMP has been promoting the development of low-VOC high-solids or water-based paints to reduce the amount of toluene, xylene and ethyl benzene in its products.

- Reducing marine pollution

Anti-fouling paints are used in various places such as ship bottoms and water pipes of power plants to prevent adhesion of marine organisms. CMP uses anti-fouling agents with less impact on the marine environment and offers a range of silicone anti-fouling paints that are free from anti-fouling agents, in pursuit of further enhancing the performance of its products.

- Human-friendly technology

VOC in indoors is said to be the cause of allergic symptoms, such as “Sick Building Syndrome”. As part of its VOC reduction initiatives, CMP achieved toluene- and xylene-free paints for vessel living areas and building materials, and obtained the formaldehyde emission class F☆☆☆☆☆.

- Supporting the safety

Highly durable caulking materials with desirable flexibility to absorb vibrations and shocks. CMP’s resin caulking materials are widely used in railway tracks and heavy machineries such as ship engines, supporting the safety of transport by train and ship.
IBC Recycle System

IBC system is the paint delivery system which combines IBC (Intermediate Bulk Container) and automatic paint blending equipment. To contribute to resource conservation and come close to the target of zero-emission, CMP has launched promotions of the IBC system since 1995 and supplied to its customers since 2001. Conversion to IBC System, driven by the team work of CMP and the customers, contributes not only to the reduction of waste cans but also to that of waste paint, improved mechanical washing efficiency and better working environment. Thus CMP enjoys favorable reaction by its customers such as shipyards.

Merits of IBC System

<table>
<thead>
<tr>
<th>Merits of IBC System</th>
</tr>
</thead>
<tbody>
<tr>
<td>To reduce waste can disposals</td>
</tr>
<tr>
<td>To eliminate can opening operation</td>
</tr>
<tr>
<td>To mix paints at a time</td>
</tr>
<tr>
<td>To reduce paint loss</td>
</tr>
<tr>
<td>To improve quality of paints</td>
</tr>
</tbody>
</table>
Approx. 9.4 million waste cans reduced in 16 years.(*)
Significant contribution to less industrial wastes.

An increase in shipment by IBC proportionally reduces the amount of industrial waste such as 18 liter cans and drums. In fiscal 2016, 7,062 tons of products have been shipped by IBC and CMP reduced waste by 660,000 cans.

(*) Approximate quantity calculated by converting the paint volume shipped from IBC into conventional 18 liter oil cans.

By switching to IBC, premise of the shipyards were much better put in order.

If the waste cans saved by CMP over the past 16 years were stacked up, the height would be about 3200 km (converted to 18 liter cans). That’s almost the length of Tokyo - Cebu (Philippines)!
Environmental Management
Self-imposed control to protect environment, safety and health

Basic policies to secure environmental protection and ensure human safety & health

**Basic Principle**
To conduct business activities reducing the loading on the environment and maintaining harmony with it, as well as considering safety and health.

**Basic Policies**

1. To comply with the law and regulations regarding the environment, safety and health.

2. To promote our business activities through all the steps from the development of our products to their disposal, not only keeping in mind the environment, safety and health, but also resource conservation.

3. To develop and improve the products and technologies that are eco-friendly and safe to the global environment.

4. To consider the environment, safety and health of our employees and local residents through our business process of production, operation and distribution, as well as to promote the reduction of the environmental loading and waste products, resource conservation and recycling.

5. To shift to eco-friendly products and provide information and give advice to customers regarding the safe use and handling of our products in respect of the environment, safety and health in product markets.

6. To widely disclose information to the government and the local community regarding our products and operations.

**Announcing to promote Coatings Care**
In response to the current worldwide demand to harmonize with environment of earth, CMP has been proactively engaged in protecting environment, safety and health as prioritized management issue. On 18th July 2001, CMP declared promoting Coatings Care (program to protect environment, safety and health) proposed and advocated by the Paint Industry.

**What is the Coatings Care?**
Coatings Care is the self-imposed voluntary initiative proposed and advocated by the International Paint & Printing Ink Industry Council (IPPIC) and The Japan Paint Manufacturers Association to protect the environment, safety, and health at all stages of chemical processing, from their development right through to manufacturing, transportation usage and their disposal. Also its basic policy is expressed in the same way as the one described in "Responsible Care" advocated by The International Council of Chemical Associations and promoted internationally.
Environmental Management
Self-imposed control to protect environment, safety and health

Basic policies to secure environmental protection and ensure human safety & health

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To consider the environment, safety and health of our employees and local residents through our business process of production, operation and distribution, as well as to promote the reduction of the environmental loading and waste products, resource conservation and recycling.

To shift to eco-friendly products and provide information and give advice to customers regarding the safe use and handling of our products in respect of the environment, safety and health in product markets.

To widely disclose information to the government and the local community regarding our products and operations.

To promote Coatings Care, CMP sets up committees and associated organization to promote Coatings Care in Japan.

ISO14001

We are establishing an environmental management system to reduce the environmental impact which may be generated from our production, development and products and have obtained an ISO 14001 certificate as shown below. All of CMP and its group companies will continue to be actively involved in activities to reduce the environmental load.

Status Report of ISO 14001 Registration

CHUGOKU MARINE PAINTS, LTD. Japan
Shiga Factory & Technical Center(Shiga)

CHUGOKU MARINE PAINTS, LTD. Korea
Kyushu Factory

CHUGOKU SAMHWA PAINTS, LTD.

*ISO 9001 Registration: page 16
Plans to deal with Environment, Safety and Health Issues

### Basic Policy

**Environmental preservation activities**
Based on the fundamental policies of the Coatings Care Action Guideline, CMP makes maximum effort on environmental preservation in product planning, manufacturing and sales.

**Safety and health maintenance activities**
Based on the fundamental policies of the Coatings Care Action Guideline, safe and hygienic equipment, operation methods and management methods are established in order to eliminate industrial injuries and occupational diseases due to toxic substances. Operation methods are properly improved through mechanization etc. in order to eliminate severe duties such as heavy labor. Health conditions of workers are monitored and appropriate instruction for maintaining health is given as necessary.

### Major actions

**Occupational Safety and Health**

- **2016 - Target -**
  - To eliminate industrial injuries
  - To achieve zero industrial injuries
  - To strengthen measures for each plant with many industrial injuries

- **2016 - Results -**
  - **Accidents with lost working days:** 0 case
  - **Accidents without lost working days:** 3 case
  - **Provided safety education concerning the treatment of materials for employees in-charge-of manufacturing**

- **Employees Health Management**
  - To reduce employees' diagnosed issues

**Security and Disaster Prevention**

- **2016 - Target -**
  - To eliminate security accidents
  - To establish a disaster prevention system, and maintain and improve capability
  - To provide process and safety education

- **2016 - Results -**
  - **Security incidents:** 11 cases
  - **System continuously reviewed, and maintained and improved by providing training**

**Environmental Protection**

- **2016 - Target -**
  - To prevent environmental pollution incidents and troubles
  - **Creation of a Recycling-Oriented Society**
    - To reduce the industrial waste generated

- **2016 - Results -**
  - **Environmental incidents:** 0 case
  - **Reduced waste cans through the IBC system**
  - **Increased industrial waste generated by 7% compared to FY2013**
  - **Recycling rate was 79%**

**Countermeasures for Global Warming**

- **Reducing energy consumption per unit or standardized electricity consumption per unit by 2% (compared with fiscal 2014)**
- **Reduced energy consumption per production unit during transportation by 5% every five years**
- **To promote and continue energy-saving measures in all sections**
- **To carry out plans set at each distribution site**

- **Energy consumption per unit improved by 0.6% on a company-wide basis, as a result of improvement in the manufacturing section by 1% and the same level maintained for the administration and research sections on a YoY basis.**
- **Average 5-year energy consumption per unit change was 99.9% on a company-wide basis.**
- **Standardized electricity consumption per unit improved by 0.3% on a company-wide basis, as a result of improvement in the manufacturing section by 0.6% and deterioration in the administration and research sections by 0.1% on a YoY basis.**
- **Energy consumption per unit during transportation improved by 9% on a YoY basis, and the average 5-year energy consumption per unit change from fiscal 2012 to 2016 was 99.3%.**
## Environmental Protection

**2016 - Target -**

- To reduce chemical substance emissions
  - To reduce PRTR materials and VOC emissions
  - To control the generation of air and water pollutants
  - To reduce the consumption of hazardous substances contained in products

<table>
<thead>
<tr>
<th>No.</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To reduce T,X,EB (Toluene, Xylene and Ethyl benzene) by 1.5% compared to FY2013</td>
</tr>
<tr>
<td>2</td>
<td>To reduce lead and chromium by 1.5% compared to FY2013</td>
</tr>
<tr>
<td>3</td>
<td>To reduce endocrine disrupting chemicals by 1.5% compared to FY2013</td>
</tr>
<tr>
<td>4</td>
<td>To maintain tar at 0%</td>
</tr>
</tbody>
</table>

**2016 - Results -**

- Emissions of PRTR substances remained the same from the previous fiscal year
- Controlled generation of air and water pollutants
- Reduced the ratio of hazardous substances in products supplied as below:
  - Increased by 2% compared to FY2013
    - 20.2% → 20.5%
  - Reduced by 14% compared to FY2013
    - 0.00284% → 0.00244%
  - Increased by 3% compared to FY2013
    - 0.056% → 0.059%
  - Maintained tar at 0%

**Promotion of Green Procurement**

- Engaged material suppliers to promote Green Procurement

## Chemicals and Product Safety

**2016 - Target -**

- To prevent product safety incidents

**2016 - Results -**

- Most product instructions / labels were changed to highlight the type and extent of hazards.

- The system was operated and continuously improved

- Started the sequential preparation of SDS responding to GHS

## Chemicals and Product Safety

**2016 - Target -**

- To prevent accidents and disasters concerning transportation

**2016 - Results -**

- Rigorously instructed drivers on the emergency response using the emergency communication card (Yellow Card)
- Provided education to carriers as necessary

## Common Items

**2016 - Target -**

- Promotion of Coatings Care activities

**2016 - Results -**

- Promoted information sharing through continuous Coatings Care Committee meetings (held on two occasions)
- Reviewed regulations and standards concerning information sharing or communications with local communities during emergencies
- Published the Social & Environmental Report
Material balance expresses the input of energy and resources in business activities and the output of products and environmentally hazardous substances generated due to such activities. CMP endeavors to understand the environmental burden of its business activities and to reduce environmentally hazardous substances.

The schematic illustration below depicts the life cycle of paint products from collection of raw materials, manufacturing, painting and recycling to eventual disposal.
Promoting a recycling-based society

Waste Reduction

CMP targets zero emission of industrial waste in order to promote a recycling-oriented society. CMP continues its effort of recycling and reutilization of industrial waste generated in the domestic and overseas affiliated companies which leads to the reduction of the amount of disposed industrial waste.

CMP sets and follows the following action targets.

- **Reduce**
  - To reduce waste cans by using IBC system for products supply and recycling raw material drums
  - To reduce waste solvents by improving the cleaning process

- **Reuse**
  - To reuse waste solvents
  - To reuse waste pallets as valuable resources
  - To promote recycling resources utilizing flexible container package in stead of paper bags

- **Recycle**
  - To reuse waste pallets as valuable resources
  - To use waste solvents as fuel

- **Others**
  - To properly separate wastes
  - To compact plastic wastes

Changes in the volume of wastes

Changes in the recycling ratio of wastes

Changes in the amounts of external intermediate and final disposals

CMP has been appropriately storing and managing PCB waste and extremely low-level PCB waste according to the PCB Special Measures Law. The PCB waste have properly been disposed by waste disposal operator in summer of 2017.

What is PCB waste?

Poly Chlorinated Biphenyl is a group of synthetic fluids that is used for various purposes especially in electrical equipment (e.g., transformers, capacitors) since around 1953 due to its unique characteristics such as high insulation properties and incombustibility. However, their toxicity has become a social problem, and production and import of PCBs have been banned in Japan since 1972. The PCB Special Measures Law, enforced in 2001 (amended in 2012) stipulated that all business operators in possession of PCB waste must properly process all PCB waste by the end of fiscal 2026.
Measures against global warming

Reducing the environmental load

Energy-saving activities

CMP promotes energy-saving activities at various worksites, including production sites, R&D sites, and offices. In fiscal 2016, factories of CMP promoted changeover of mercury lamps to LED lighting and upgrading of air conditioners to energy-saving models. In addition, “Cool Biz” and the proper room temperature adjustment was encouraged at offices. Further, CMP carried out putting up of posters to increase the awareness of energy saving, such as thinning out of lighting, lowering of light levels without affecting daily operations, and turning unnecessary lights off during overtime work and recess.

Energy-saving activities in transportation

To reduce CO₂ emissions during transportation, CMP promotes modal shifts and improvement in transportation efficiency. CMP and its group companies are switching their commercial vehicles to low fuel consumption vehicles. In fiscal 2016, 79% of the company’s commercial vehicles are low-pollution cars.

Complying with Fluorocarbon Emission Control Law

In April 2015, the Fluorocarbon Emission Control Law came into force. This Law obligates owners of commercial air conditioners to conduct periodic inspection and other safety measures. CMP’s domestic business bases own about 320 pieces of such equipment, and the equipment is properly managed by observing the judgment criteria of administrator stipulated by the Japanese government. There was no case of fluorocarbon leak in fiscal 2016 at CMP.

CO₂ emissions from Scope 3 sources

CMP used to disclose a total of Scope 1 and Scope 2 CO₂ emissions associated with its business activities. However, as the importance to grasp CO₂ emissions in the entire supply chain has risen, we started to calculate CO₂ emissions throughout the supply chain (Scope 3) in fiscal 2012.

CO₂ emissions from Scope 3 sources

The values in the chart were experimentally calculated for non-consolidated basis conforming to the calculation method of the “Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain (ver. 2.2)” (Ministry of the Environment and Ministry of Economy, Trade and Industry, Government of Japan, March 2015).
Measures against global warming

unnecessary lights off during overtime work and recess. Of light levels without affecting daily operations, and turning off energy saving, such as thinning out of lighting, lowering adjustment was encouraged at offices. Further, CMP addition, “Cool Biz” and the proper room temperature upgrading of air conditioners to energy-saving models. In changeover of mercury lamps to LED lighting and offices. In fiscal 2016, factories of CMP promoted CMP promotes energy-saving activities at various

Environmental Reporting

Energy-saving activities

Solar Power Generation System

Changeover of lighting to LEDs

Reducing the environmental load

CO2 emissions from Scope 3 sources

For all domestic business bases of CMP and 94% for domestic affiliates. CO2 emissions per unit on a YoY basis were 87% for all domestic business bases of CMP and 93% for domestic affiliates.

Transition of energy consumption and CO2 emissions

Energy consumption in fiscal 2016 was 85,963 GJ (YoY 0.5% decrease) for all domestic business bases of CMP and 70,528 GJ (YoY 3% decrease) for domestic affiliates. Following the example set by Kyushu Factory, in order to reduce CO2 emissions, Shiga Factory, Shiga R&D Centre and Kobe Paints changed the purchasing source of electricity. As a result, CO2 emissions by all domestic business bases of CMP were 4,346 t-CO2 (YoY 13% decrease). Meanwhile, CO2 emissions by domestic affiliates were 4,784 t-CO2 (YoY 3% decrease).

Transition of Energy Consumption

The energy consumption per unit on a YoY basis was 99% for all domestic business bases of CMP and 94% for domestic affiliates. CO2 emissions per unit on a YoY basis were 87% for all domestic business bases of CMP and 93% for domestic affiliates.

Transition of CO2 emissions

Reducing the environmental load from transportation

Energy consumption per unit in fiscal 2016 was increased by 9% on a YoY basis. This was caused by a difficulty in performing efficient transportation because of low load factors for trucks due to delivery deadline issues.

Transition of transportation volume and energy consumption per production unit

Average 5-year energy consumption per unit change compared with the reference year of fiscal 2012 was 99.3%, failing to achieve the target of average 1% reduction per year. CO2 emissions were increased by 809 tons compared with fiscal 2015.

Transition of CO2 emissions during transportation
Chemical substance management

Management of chemical substances

Having introduced the chemical substance management system, CMP continues to put efforts into domestic environmental conservation and strong management for product safety. The CMP management system enables safety information provided from raw material suppliers and information of laws and regulations to be processed, and such information is then rapidly offered to customers when necessary. Not only in Japan but also in overseas subsidiaries, CMP continues to develop the system.

Risk Assessment of Chemical Substances

Associated with the amendment of the Industrial Safety and Health Act in June 2016, business bases that deal with substances subject to issuance of SDS (640 substances) are obliged to conduct risk assessment. CMP have appointed persons responsible of such risk assessment, and promotes assessment based on the control-banding method by the safety and health committees of each business base.

What is SDS?

SDS (Safety Data Sheet) describes the characteristics and handling information of chemicals. In case the ownership of chemicals or products containing chemicals is transferred to another party, the SDS should be presented.

SDS example of one of the CMP products
Reduction of harmful substance

CMP sets reduction target to use PRTR harmful substance and promotes its reduction plan.

**Harmful substances in the products sold**

**Toluene, Xylene and Ethyl Benzene**

CMP has been promoting the development of low-VOC high-solids or water-based paints to reduce the amount of toluene, xylene and ethyl benzene in its products. In fiscal 2016, the total amount of these substances used was 17,000 tons in Japan (YoY 6% increase) and 20,000 tons overseas (YoY 32% decrease). The content rate in the amount of products sold in Japan was 21%, failing to achieve the target of 20%. The group-wide content rate was 16%, which was the same as the result in fiscal 2015. We will continue to promote reduction of these substances.

**Environmental Hormones (Endocrine Disrupter)**

CMP has been continuously endeavoring to reduce environmental hormones in its products. In fiscal 2016, the total amount of these substances used was 50 tons in Japan (YoY 300% increase) and 53 tons overseas (YoY 47% decrease). The content rate in the amount of products sold in Japan was 0.059%, failing to achieve the target of 0.057%. The group-wide content rate was 0.046%, which was 0.004 percent points higher than the result in fiscal 2015. We will continue to promote reduction of environmental hormones.

**Lead/Chrome**

CMP has been continuously addressing the reduction of lead and chromium compounds in its products. In fiscal 2016, the total amount of these substances used was 2 tons in Japan (same as FY2015) and 105 tons overseas (YoY 1% increase). The content rate in the amount of products sold in Japan was 0.0024%, achieving the target of 0.0028%. The group-wide content rate was 0.011%, which was 0.048 percent points higher than the result in fiscal 2015. We will continue to promote transition to lead- and chromium-free products.

**Tar**

In April 2006, CMP voluntarily stopped manufacture and sales of tar products in Japan. In fiscal 2016, the total amount of tar used was 269 tons overseas (YoY 20% increase). The content rate in the amount of products sold overseas was 0.12%, which was 0.04 percent point higher than the result in fiscal 2015. CMP will continue to work on abolishing the use of tar overseas.

**Reduction target**

Reduction in the toxic substance content rate (→) in the amount of products manufactured at the Kyusyu Factory and the Shiga Factory (comparison to fiscal 2013)

<table>
<thead>
<tr>
<th>Substance</th>
<th>2014(FY)</th>
<th>2015(FY)</th>
<th>2016(FY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>T, X, EB</td>
<td>0.5%</td>
<td>1.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Lead/Chrome</td>
<td>0.5%</td>
<td>1.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Environmental Hormones</td>
<td>0.5%</td>
<td>1.0%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Tar</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Chemical substance management

Material Balance of the PRTR Substances

PRTR law is enacted to encourage enterprises to conduct self-management and self-improvement to reduce negative impact of chemical substances. CMP engages in necessary actions through investigation of 462 substances designated by ordinance.

Sites covered: Kyushu Factory, Shiga Factory, Technical Center(Otake), and Technical Center(Shiga)

Release and Transfer of Substances Regulated by the PRTR Law

24 among the 462 PRTR substances designated by the government became subjects of notification (according to the record of 2016) in 2017. Three substances of Xylene, Toluene and Ethyl benzene comprise 99.3% of the total emission to the air from CMP. Just as in 2016, no emission to the aquatic environment and soil was observed.

Sites covered: Kyushu Factory, Shiga Factory, Technical Center(Otake), and Technical Center(Shiga)

Transition of emissions discharged into air

Transaction volume of PRTR-registered substance

17,802t (100%)

Paint Production

Emissions released into air

94t (0.5%)

Consumption

17,649t (99.2%)

Transferred amount

59t (0.3%)

Deodorization equipment (Kyushu Factory)

Dust collector (front) and air intake & exhaust equipment (behind)

Emissions released into air

Transaction volume

(t) 20,000

15,000

10,000

5,000

0

12

13

14

15

16 (FY)

Transition of the amount of usage and the amount of emission to the air

Toluene

Ethyl Benzene

Ethyl acetate

Xylene

1-Butanol

(t) 120

100

80

60

40

20

0

12

13

14

15

16 (FY)
Release and Transfer of Substances regulated by the PRTR Law

<table>
<thead>
<tr>
<th>Designated chemical names</th>
<th>Serial number of chemical substance</th>
<th>Emission volume into the air</th>
<th>Transfer volume outside the premise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water-soluble zinc compound</td>
<td>1</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Antimony and its compounds</td>
<td>31</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Ethyl benzene</td>
<td>53</td>
<td>32,440</td>
<td>19,300</td>
</tr>
<tr>
<td>Xylene</td>
<td>80</td>
<td>49,290</td>
<td>29,900</td>
</tr>
<tr>
<td>Cumene</td>
<td>63</td>
<td>29</td>
<td>47</td>
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<tr>
<td>Chromium &amp; trivalent-chromium compounds</td>
<td>67</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>3,3’-dichloro-4,4’ diamino diphenyl methane</td>
<td>160</td>
<td>42</td>
<td></td>
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<tr>
<td>Styrene</td>
<td>240</td>
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<td>20</td>
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<tr>
<td>Tetraethylthiuram disulfide</td>
<td>259</td>
<td>9</td>
<td></td>
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<tr>
<td>1,2,4-trimethylbenzene</td>
<td>296</td>
<td>480</td>
<td>1,136</td>
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<tr>
<td>1,3,5-trimethyl-benzene</td>
<td>297</td>
<td>155</td>
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<tr>
<td>Toluene</td>
<td>298</td>
<td>27</td>
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<td>Toluene</td>
<td>300</td>
<td>11,400</td>
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<tr>
<td>Hexamethylene diacrylate</td>
<td>302</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Vanadium compounds</td>
<td>306</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>Polycarbamate</td>
<td>329</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>N-vinyl-2-pyrrolidone</td>
<td>339</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Phenol</td>
<td>349</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Bis(2-ethylhexyl) phthalate</td>
<td>355</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>Benzophenone</td>
<td>403</td>
<td>170</td>
<td></td>
</tr>
<tr>
<td>Manganese and Manganese-containing compound</td>
<td>412</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Mehylenebis(4,1-phenylene)disocyanate</td>
<td>448</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>Molybdenum and molybdenum-containing compound</td>
<td>453</td>
<td>82</td>
<td></td>
</tr>
<tr>
<td>Tritolyl phosphate</td>
<td>460</td>
<td>29</td>
<td></td>
</tr>
</tbody>
</table>

Quality management of industrial wastewater

CMP’s factories are designed to collect all water (cooling water mainly) used during production into a reservoir of wastewater treatment plant, where dedicated inspectors carry out on a daily basis visual inspection of water surface as well as recording and confirming of pH meter and oil film detector values being within a proper value range. The reservoir houses koi cars or crucian cars, ensuring an environment habitable for aquatic organisms. The surface status of water in the reservoir is monitored 24/7/365 in case of oil leak. If an oil film is detected on the surface, an email notification is sent to executives and relevant personnel immediately, and the discharge pump is stopped to prevent release to the outside.

Reduction of Odor

CMP has been working on reduction of VOC emissions not only in Japan but also at overseas factories, and in 2016, VOC processing equipment was installed at the Shanghai Factory and Shanghai No.2 Factory. Additionally, the new plant in the Netherlands completed in March 2017 is a state-of-the-art manufactory that enables almost fully automated operation for a majority of manufacturing processes in a closed environment and eliminates emission of VOCs that cause air pollutions.

PRTR (Pollutant Release and Transfer Register)

PRTR is a system which requires chemical manufacturers to locate source of harmful chemical substance, measure its emission in the environment and its disposal outside manufacturing factory contained in industrial wastes, collect data, summarize and announce its report. Business owners who manufacture or use PRTR chemicals are required to measure and report volume of emissions into the environment and volume transferred as industrial wastes out of the premise to administrative offices once a year. Administrative offices sort, summarize and publish the collected data. By acting on the PRTR, we are able to learn kinds of chemicals, source of origins and volume of emissions. Mandating PRTR is in progress in various foreign countries and in Japan new law to require measuring emission volume of designated chemicals into the air and management improvement, so called “PRTR law” became effective in 1999.
Eco-efficiency & environmental education and training

Eco-efficiency

Eco-efficiency is an indicator given by dividing the value created by products or other articles by the environmental impact generated in its creation. The purpose is to create greater value with a smaller environmental effect. Although eco-efficiency has no detailed indicator since it has only recently been advocated, CMP calculates the value of sales divided by the various environmental impacts involved to generate figures for eco-efficiency by comparison with variation from the reference year.

In fiscal 2016, the eco-efficiency of CO2 emissions was improved compared with fiscal 2015. Compared with the reference year of fiscal 2012, the amount of wastes generated was improved. CMP will continue to work on improving the eco-efficiency.

**Eco-efficiency**: An indicator of (sales amount/environmental load) setting the value in the reference year as 100.

*Reference year: 2012*

*Sites covered: Kyushu Factory, Shiga Factory, Technical Center(Otake), Technical Center(Shiga), Ohtake Meishin, Kobe paints*

Environmental education and training

CMP conducts environmental seminars and trainings under its program.

**Status of implementation**

- Control banding
- Risk assessment of chemical substances (basic)
- Fire prevention measures and ten items of awareness
- Separation of industrial wastes
- Energy-saving activities
- Static electricity

Training of Internal environmental auditors

CMP conducts seminars and training of Internal auditors according to the plan in order for improving the environmental management system.

Official qualification regarding the environment

CMP encourages its staff to obtain the qualification for environmental preservation such as pollution control manager and dangerous object handler, and our staff obtain such qualification in a planned manner.
Environmental Accounting

CMP keeps track of the expenses associated with investment in environmental conservation, evaluates the costs versus the benefits and publicly reports this information.

**Environmental Policy**

1. In reference to the Ministry of the Environment’s “Environmental Accounting Guidelines (2005 Edition)”, the below data has been collected based on our “Policy for Environmental Accounting”.

2. Economical results have been figured out based on realistic reasons only and exclude hypothetical ones such as potential benefits by risk aversion.

**Environmental Conservation Costs**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Main activities</th>
<th>Investments</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business activity costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Antipollution costs</td>
<td>Preventing pollution of air, water, noise, etc.</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>Global environmental conservation costs</td>
<td>Prevention of global warming, etc.</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Resource recycling costs</td>
<td>Waste reduction and recycling, etc.</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>19</td>
<td>48</td>
</tr>
<tr>
<td>Administration costs</td>
<td>Expenses for the promotion of environmental safety, management of maintenance of ISO certification and monitoring &amp; measurement</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>Research and development costs (*)</td>
<td>Development of environmental products</td>
<td>299</td>
<td>1,131</td>
</tr>
<tr>
<td>Social activity costs</td>
<td>Contribution to society, etc.</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Environmental remediation costs</td>
<td>Costs for the restoration of nature, for the recovery of environmental damage caused by production activities, etc.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>322</td>
<td>1,198</td>
</tr>
</tbody>
</table>

**Effects on Environmental Conservation (**)**

<table>
<thead>
<tr>
<th>Effects in business activities</th>
<th>Effects on invested resources</th>
<th>Reductions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Energy usage (GJ)</td>
<td>–85</td>
</tr>
<tr>
<td></td>
<td>Water usage (1000m³)</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>CO₂ emissions (ton-CO₂)</td>
<td>308</td>
</tr>
<tr>
<td></td>
<td>Pollutant release (ton) (*)</td>
<td>–1</td>
</tr>
<tr>
<td></td>
<td>Waste generation (ton)</td>
<td>23</td>
</tr>
</tbody>
</table>

**Other effects on environmental conservation**

|                                    | CO₂ Emissions from Transportation (ton-CO₂)          | –863       |
|                                    | Freight (Products) Transportation (1000 tons)        | –4,114     |

**Economic Benefits (****)**

<table>
<thead>
<tr>
<th>Effects</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>1.8</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>6.1</td>
</tr>
<tr>
<td>Total</td>
<td>7.6</td>
</tr>
</tbody>
</table>

**Summary of Efforts and Results in FY2016**

The total cost of environmental preservation activities in fiscal 2016 was 322 million yen for investment and 1,198 million yen for expenses. Investment was made in the changeover of mercury lamps to LED lighting and upgrading of air conditioners to energy-saving models. Physical effects include improvement in CO₂ emissions and water usage. CMP will further promote the reduction of energy consumption and CO₂ emissions by setting targets in line with the ISO 14001 management system.

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*1) R&D cost = [Total R&D costs] × [Research staff ratio]*

*2) The environmental conservation effect was calculated by comparison with the production volume in FY2015.

Environmental Conservation Effect = FY2015 Environmental Load × (FY2016 Production Volume / FY2015 Production Volume) - FY2016 Environmental Load

*3) Chemical Substances subject to the first kind of the PRTR Law

*4) The environmental conservation effect was calculated by comparison with the production volume in FY2015.

Cost saved = Cost in FY2015×(FY2016 Production Volume/FY2015 Production Volume) - Cost in FY2016
# Environmental Impact data by offices or factories

## Factories in Japan

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Water used (ton)</td>
<td>10,671</td>
<td>12,726</td>
<td>222,660</td>
<td>668,689</td>
</tr>
<tr>
<td>Amount of energy usage (crude oil equivalent, KL)</td>
<td>733</td>
<td>725</td>
<td>531</td>
<td>1,145</td>
</tr>
<tr>
<td>Energy consumption per production unit (L/ton)</td>
<td>13</td>
<td>12</td>
<td>23</td>
<td>55</td>
</tr>
<tr>
<td>CO₂ emissions (ton-CO₂)</td>
<td>1,476</td>
<td>1,507</td>
<td>1,097</td>
<td>4,563</td>
</tr>
<tr>
<td>Generation of wastes, etc. (ton)</td>
<td>339</td>
<td>489</td>
<td>870</td>
<td>201</td>
</tr>
<tr>
<td>Substances subject to the PRTR Law</td>
<td>Emission volume (ton)</td>
<td>74</td>
<td>77</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Disposal amounts (ton)</td>
<td>5</td>
<td>6</td>
<td>54</td>
</tr>
</tbody>
</table>

## Technical Headquarter

<table>
<thead>
<tr>
<th>Items</th>
<th>Technical Center(Otake)(2015)</th>
<th>Technical Center(Shiga)(2015)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water used (ton)</td>
<td>9,090</td>
<td>9,867</td>
</tr>
<tr>
<td>Amount of energy usage (crude oil equivalent, KL)</td>
<td>514</td>
<td>513</td>
</tr>
<tr>
<td>Energy consumption per production unit (L/ton)</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>CO₂ emissions (ton-CO₂)</td>
<td>1,444</td>
<td>1,420</td>
</tr>
<tr>
<td>Generation of wastes, etc. (ton)</td>
<td>108</td>
<td>103</td>
</tr>
<tr>
<td>Substances subject to the PRTR Law</td>
<td>Emission volume (ton)</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Disposal amounts (ton)</td>
<td>5</td>
</tr>
</tbody>
</table>

## Overseas subsidiaries and affiliates

<table>
<thead>
<tr>
<th>Items</th>
<th>Shanghai (%)</th>
<th>Guangdong</th>
<th>Korea</th>
<th>Thailand</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water used (ton)</td>
<td>101,140</td>
<td>94,114</td>
<td>7,571</td>
<td>16,829</td>
<td>7,517</td>
</tr>
<tr>
<td>Amount of energy usage (crude oil equivalent, KL)</td>
<td>3,517</td>
<td>3,214</td>
<td>350</td>
<td>280</td>
<td>966</td>
</tr>
<tr>
<td>Energy consumption per production unit (L/ton)</td>
<td>34</td>
<td>51</td>
<td>23</td>
<td>28</td>
<td>22</td>
</tr>
<tr>
<td>CO₂ emissions (ton-CO₂)</td>
<td>10,109</td>
<td>9,271</td>
<td>1,029</td>
<td>831</td>
<td>2,104</td>
</tr>
<tr>
<td>Generation of wastes, etc. (ton)</td>
<td>1,274</td>
<td>1,372</td>
<td>57</td>
<td>88</td>
<td>573</td>
</tr>
</tbody>
</table>

## Disaster and Accident Prevention

- **Leaks and outflows of paints caused by a damaged production unit:**
  - Material warehouse or products warehouse caused by a natural disaster or impact.

## Safety Measures at Factories

- **Firefighting training:**
  - June, December, 2016
  - May, November, 2016
  - July, 2016

- **Emergency response drill for chemical plant blackout:**
  - December, 2016

- **In-house fire drill:**
  - Technical Center(Otake)
  - Konan • Kouga Environment Association (October, 2016)

- **Emergency earthquake training:**
  - September, 2016
  - November, 2016
  - September, 2016

- **Training to prevent water contamination:**
  - September, October, 2016

## Cases of Possible Emergency Circumstance

- **Leaks and outflows of hazardous materials and paints caused by an abnormal reaction:**
  - Eruptions, leakages and discharges of toxic gas caused by chemical exposure.

- **Air pollution caused by fires triggered by an abnormal reaction:**
  - Material warehouse or products warehouse caused by a natural disaster or impact.

- **Leaks or outflows of hazardous materials caused by a damaged production unit:**
  - Material warehouse or products warehouse caused by a natural disaster or impact.

## Environmental Reporting

- **CO₂ emission in and outside Japan is calculated based on "Calculation and Reporting Manual of Greenhouse Gas Emission" issued by the Japanese Government (Ministry of Environment and the Ministry of Economy, Trade and Industry).**
- **Domestic electricity consumptions are calculated using Emission Indicators by Operators of Electric Utilities issued by the Ministry of Environment.**
- **Energy consumptions in overseas factories had been calculated using alternative values based on domestic indicators. From this year, they are calculated using the indicators by countries listed in "CO₂ Emissions from Fuel Combustion Highlights 2012 edition" issued by the International Energy Agency.**
Disaster and Accident Prevention

Safety Measures at Factories

CMP has established the Central Safety & Health Headquarters in its Head Office organizations as an upper organization of its business bases, and horizontally distributes information of industrial injuries and accidents occurred at its business bases and the state of safety and health activities. By this, all its business bases share the same safety knowledge and safety management capabilities, and work together to reduce and eradicate industrial injuries and accidents. In fiscal 2016, with participation of the labor union, CMP promoted much more advanced industrial injury and accident prevention activities.

Cases of Possible Emergency Circumstance

- Air pollution by static electricity-induced fire
- Outflows of hazardous materials or paints from a damaged raw material warehouse or products warehouse caused by a natural disaster
- Leaks or outflows of hazardous materials caused by inappropriate transportation of raw materials
- Air pollution caused by fires triggered by an abnormal reaction during the manufacturing process
- Eruptions, leakages and discharges of toxic gas caused by inappropriate storage of wastes
- Leaks and outflows of hazardous materials and paints caused by damage to an outdoor storage
- Leaks and outflows of paints caused by a damaged production line

Reporting routes in case of emergency
The chain of command has been formalized so that reporting to the fire station, police, and surrounding areas can be quickly made in case of emergency.

Installation of Earthquake Early Warning Reception System
Kobe Paints installed an earthquake early warning reception system, in an attempt to reduce earthquake damage. The reception system is linked to Kobe Paints’ simultaneous broadcasting system, and warning of an earthquake will be sent throughout the factory immediately after receiving an earthquake early warning.

Disaster Prevention Training

CMP established the “Emergency Action Plan” and periodically conducts trainings to prevent the environmental pollution in case of an emergency circumstance happens.

Kyushu Factory
- Firefighting training (July, 2016)
- Emergency earthquake training (November, 2016)
- Shiga (Factory and Technical Center)
- Firefighting training (May, November, 2016)
- Training to prevent water contamination (September, October, 2016)
- Environmental accident response drill (accidental release) (September, 2016)
- In-house fire drill (hosted by Konan • Kouga Environment Association) (October, 2016)
- Otake (Technical Center)
- Firefighting training (June, November, 2016)

Kobe Paint
- Emergency earthquake training (September, 2016)
- Firefighting training (March, 2017)
- Ohtake-Meishin
- Dangerous substance accidental leakage response drill (June, 2016)
- Leak accident training (June, 2016)
- Tsunami and earthquake evacuation drill (November, 2016)
- Emergency response drill for chemical plant blackout (December, 2016)
- Firefighting training (June, December, 2016)