

# Business Report 2014

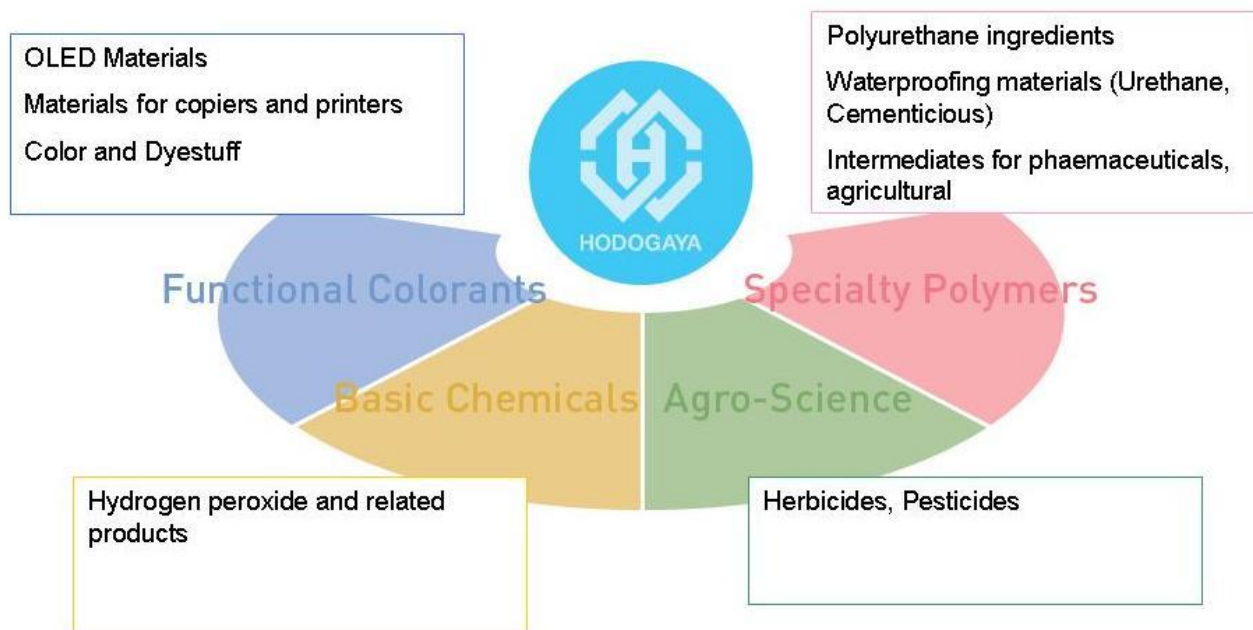
April 1, 2014 - March 31, 2015

## Hodogaya Chemical Group: Management Philosophy

Through constant innovation of chemical technology, we will provide high-quality products and services throughout the world and contribute to the creation of an environmentally conscious society.

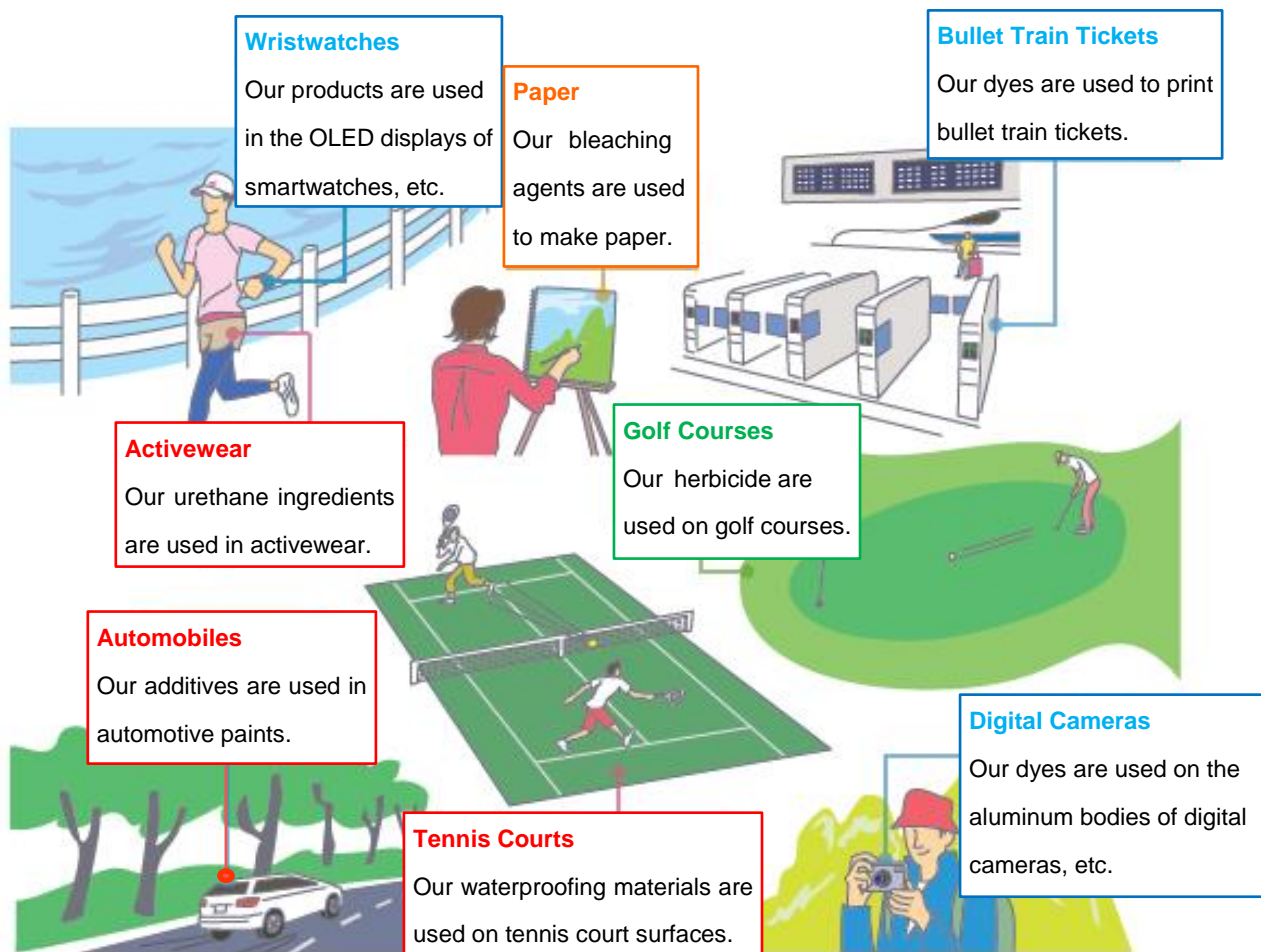
## Business Overview

One of the things that make the Hodogaya Chemical group unique is that in each sector, whether it is Functional Colorants, Specialty Polymers, Basic Chemicals, Agro-Science, or Logistics, etc., there is a highly specialized group company. With Research & Development, Manufacturing, and Sales working together in a Trilateral Business Plan, we are able to meet the various needs of our customers quickly, and with products and service of the highest quality.



## Series: Hodogaya Chemical is in Your World Part 3: Leisure

Chemistry is used to create many of the materials that form the foundations of our society and our modern lifestyle. Chemistry is at the heart of everything from fashion to food, furniture to housing, pharmaceuticals to the latest IT equipment. From the time it was founded about 100 years ago, the Hodogaya Chemical group has used its high-level skills in chemical technology to meet the needs of each era and bring dreams of the future to life. Let's look at a few examples.



## Message from our President

**Our new mid-term management plan, designed to restore our fortified organization's competitive edge, "HONKI 2020," starts now.**

As we approach our 100th anniversary in 2016, our Group designated 2014 as the 'Year of Reconstruction', and all directors and employees pulled together to realize our paramount goal of regaining profitability. Now, in 2015, we are embarking on a new mid-term management plan, "HONKI 2020," which will be completed in 2020.

With the approval of our charter amendment at the annual shareholders' meeting on June 25, 2015, we will transition to a board with an auditing committee structure. This is intended to further strengthen the auditing capabilities of our board of directors, and to speed our decision-making process by separating oversight and executive operations.

I will now report on our results for FY 2014 (April 1, 2014 - March 31, 2015), and our prospects for the future.

Toshikazu Kitano  
President and CEO  
July 2015

<b>FY 2014: Consolidated Results</b>		<b>(Millions of Yen)</b>
	<b>FY 2014 Results</b>	<b>Changes Gains/Losses</b>
Net Sales	34,688	△2.8%
Operating Income	796	-
Ordinary Income	730	-
Net Income	623	-

### **Highlights of FY 2014 (ending in March, 2015)**

**The various measures we took to strengthen our organization have helped us to successfully achieve our paramount goal of regaining profitability.**

The outlook for the Japanese economic climate continued to be uncertain in 2014, with rising hopes of recovery in response to government and Bank of Japan fiscal policies tempered by decreases in personal consumption and repercussions of rush demand relating to April's consumption tax increase, as well as by fluctuating factors such as the sudden drop in crude oil prices and the rise in materials and fuel costs due to the rapid fall of the yen.

Under such conditions, the Hodogaya Chemical Group (the "Group") designated 2014 as the 'Year of Reconstruction', in which we endeavored to cut costs and implement various management measures to strengthen our organization, and through these efforts, we were successfully able to achieve our paramount goal of regaining profitability.

In addition, Hodogaya (Shanghai) Trading Co., Ltd., which opened for business in August 2014, has begun to expand sales in the Asian region as a result of its locally-based operations.

Though dyes for stationery and color filters maintained steady performance, the Functional Colorants segment saw losses due to downturns in the printer materials and OLED materials businesses. The Specialty Polymers segment saw growth, with strong performance in urethane ingredients, construction materials, and specialty chemicals. The Basic Chemicals sector saw losses despite steady performance in the veterinary medicines area, due to sluggish demand for hydrogen peroxide derivatives, delayed introduction of new home garden herbicides in the Agro-Science business, and customer inventory adjustments.

Total consolidated sales for the year came to 34,688 million yen, a decrease of 2.8%. In terms of profit and loss, although ingredient and fuel costs rose with the weakening yen, our efforts to reduce costs helped us to achieve operating income of 796 million yen (last year's operating income was 34 million yen), ordinary income of 730 million yen (last year we had ordinary losses of 310 million yen), and net income of 623 million yen (last year we had net losses of 1,271 million yen).

Upon consideration of performance trends, future business development, and unquantifiable risks, etc., we set the year-end dividend at 2.5 yen per share. With the mid-term dividend of 2 yen per share, the annual dividend comes to 4.5 yen per share.

### March, 2015 Financial Statement: Points of Interest

POINT 1: Sales and profit fell in Functional Colorants, Basic Chemicals, and Agro-Science.

POINT 2: Despite the drop in sales, operating income rose as a result of reductions in the cost of goods sold, and in selling, general, and administrative expenses.

POINT 3: Ordinary income increased, thanks to such factors as the increase in operating income and foreign exchange gains.

POINT 4: Net income increased, thanks to such factors as the increase in ordinary income and the reduction in extraordinary losses.

## An Overview of our New Mid-Term Management Plan

Through our newly launched “HONKI 2020” plan, we will continue to strengthen our core businesses and cultivate the businesses of the future.

Our group has embarked on “HONKI 2020” (Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination), a 6-year mid-term management plan that begins in FY 2015 and will run through FY 2020.



### Our Group’s Vision for 2020

A corporation that steadily supplies “Only One/Number One” materials in the global and niche markets.

### Our Vision for 2016 (our 100th Anniversary Year)

We have prepared ourselves for future growth in various ways:

In the area of Core Businesses, we have regained our competitive edge and recovered our profitability. In the area of Growth Businesses, we are increasing sales and profits, and expanding our sphere of activity. Finally, in the areas of Cultivation Businesses and New Product Creation, we have established the growth engines of the next generation.

**(1) Regaining Competitive Strength, and Securing a Stable Revenue Base**

**Core Businesses:** Businesses that are already generating profits.

**Basic Policy:** Reduce costs, improve manufacturing capacity, develop new applications, and expand global sales network.

**(2) Establishing a Pillar for the Next Generation**

**Growth Businesses:** Businesses that are expected to produce positive results in 2015 – 2016.

**Basic Policy:** Expand sales and market share in growing markets, and develop business through strategic investments.

**(3) Expanding Our Sphere of Activity by Creating New Value**

**Cultivation Businesses:** Businesses that are expected to produce positive results in 2017 -2018.

**Basic Policy:** Create new products, and expand sales and market share.

**New Product Creation:** Businesses that are expected to produce positive results in 2019 and beyond.

**Basic Policy:**

- Strive for 5,000 million yen in new product sales in FY 2020.
- Using the strengths in organic synthesis and manufacturing technologies that we have cultivated over the course of our long history as a foundation for our capabilities in ‘High Purity Technologies’, ‘Development of Functional Materials’, and ‘Evaluation of Functional Materials’, we will endeavor to contribute to a world of abundance.

**(4) Strengthening Global Operations**

**Basic Policy:** Promote business activities in global and niche markets on the basis of a firm understanding of customer needs.

**(5) Cultivating Personnel for a Diversifying Society**

**Basic Policy:** Energize the Group by training employees to ‘think, investigate, and act’.

**(6) Enhancing our Commitment to CSR (Corporate Social Responsibility)**

**Basic Policy:** Maintain and deepen the trust held in us by all stakeholders, and contribute to social development.

<b>Business Objectives</b>	<b>(Millions of Yen)</b>
	FY 2020
Net Sales	50,000
Operating Income	5,000
Operating Income Ratio	10.0%

Our entire Group will pull together to implement the measures described above, in order to meet the expectations of all of our stakeholders (shareholders, customers, regional societies, employees, etc.)

### **Prospects for March 2016**

This is the Group's 'year of rebuilding', in which we strive for profitability with firm resolve. Taking a giant step, with great determination, toward our 100th anniversary, and towards 2020.

In 2015, the first year of "HONKI 2020", we are working to further increase sales in the Chinese market as part of our global strategy, and on development in the area of new products such as OLED materials. At the same time, we continue to focus on reducing costs and cultivating personnel.

As a result of these efforts, we expect the consolidated results for FY 2015 to be 36,000 million yen (an increase of 3.8%) in sales, operating income of 800 million yen (an increase of 0.5%), ordinary income of 600 million yen (a decrease of 17.8%), with current net income, attributable to the shareholders of the parent company, of 400 million yen (a decrease of 35.8% over the previous year). The annual dividend is expected to be 5 yen per share.

I thank our shareholders for their continuing support.

<b>Prospects for FY 2015</b>	<b>(Millions of Yen)</b>
	FY 2015
Net Sales	36,000
Operating Income	800
Ordinary Income	600
Net Income	400

## Overview By Business Segment

### **Functional Colorants**

Demand for printer materials continued to be sluggish, resulting in decreased revenues for the Imaging Materials business. In the Colors and Dyestuffs business, demand for stationery and color filter dyes remained strong, but the combined effects of last year's textile dyes business divestiture, reduced demand by large-scale food dye customers, and weak demand for aluminum dyes for digital home appliances led to results that were on a par with those of last year.

Revenues in the OLED Materials business dropped sharply as a result of decreased demand for smartphone products and increasingly severe competition.

Sales in this segment came to 8,296 million yen, with operating losses of 991 million yen.

Imaging Materials	CCA (Charge Control Agents), a critical component of toner. Materials for the OPC (Organic Photo Conductors) drums that are central to copiers and laser printers. Dyes for ink jet printers
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks. Hair Coloring Agents Colorants for processed foods and cosmetics, etc.
OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights.

### **Specialty Polymers**

Despite the effects of withdrawal from some product lines, the Polymer Materials business saw increased revenue, thanks to strong domestic and overseas demand for urethane ingredients. The Construction Materials business finished on a par with last year, with steady demand for both materials and construction. Although demand in the polymer-related, pharmaceutical and contract manufacturing areas was strong, the Specialty Chemicals business saw losses as a result of the sale of some businesses at the end of the last period.

Sales in this segment came to 12,804 million yen, with operating income of 666 million yen.



Functional Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc. Adhesive Release Agents
Construction Materials	Urethane waterproofing materials (for building and parking structure roofs, etc.) Cementitious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)
Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.

### Basic Chemicals

The Hydrogen Peroxide business finished on a par with last year despite severe conditions in the paper pulp area, thanks to steady demand in the veterinary medicines area. The Hydrogen Peroxide Derivatives business saw weakened demand and losses. Revenues increased in the area of other industrial chemicals, thanks to strong export demand.

Sales in this segment came to 6,671 million yen, with operating income of 153 million yen.

Basic Chemicals (Hydrogen peroxide)	Bleaching agent for paper pulp, fibers and clothing, etc. Pollution treatment and other forms of environmental cleanup. Parasiticides for Farmed Fish
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### Agro-Science

The Agro-Science business saw losses as the result of a sharp decrease in home garden herbicide sales due to the delayed launch of new products, the effects of inventory adjustments, and weak demand for golf course herbicides.

Sales in this segment came to 4,793 million yen, with operating income of 486 million yen.

Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.
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## Meet Hodogaya Logistics Co., Ltd.

Hodogaya Logistics Co., Ltd. provides comprehensive logistics services “to and from anywhere on earth”. Drawing on the strengths of the Hodogaya Group network, the company provides strong support for our customers’ import and export operations with intermodal transport on land, sea, or air.

Especially with regard to international logistics services, the company is focused on maximizing customer convenience, covering all aspects of the shipment process from domestic transport to warehousing, packaging, lading, and customs clearance.

In 1997, the Hodogaya Chemical Logistics division was spun off and incorporated, and since then has developed capabilities in a wide range of specialized logistics services, including the handling of hazardous materials, chemicals, and pharmaceuticals, general cargo, temperature-controlled cargo, large plants, precision instruments, and more.

The company as a whole tackles safety and environmental issues head on, devoting uncompromised attention to compliance and security in order to provide the level of reliability demanded from this important part of the social infrastructure.

### Company Profile

Name:	Hodogaya Logistics Co., Ltd.
Headquarters:	Chuo-ku, Tokyo
Network:	Yokohama Branch (Yokohama City, Kanagawa) Koriyama Branch (Koriyama City, Fukushima) Nanyo Branch (Shunan City, Yamaguchi)
President:	Noriaki Moritsugu
Established:	February 1997
Capital:	350 million yen

## **Feature Article: Knowing our history**

### **100 years of Hodogaya Chemical Part3: 1971~2000**

- 1971: Nanyo Plant opened
- 1973: Hodogaya Plant closed
- 1978: Manufacture of toner charge control agents (CCA) begins  
Hodogaya Construction Materials Industry Co., Ltd. (now Hodogaya Vandex Construction Materials Co., Ltd.) established.
- 1981: Manufacture of color formers for thermosensitive paper begins
- 1984: Manufacture of organic charge control materials (CTM) begins
- 1986: HODOGAYA CHEMICAL (U.S.A.), INC. established
- 1991: Tsukuba Research Center established
- 1993: Hodogaya Contract Laboratories Co., Ltd. (now Hodogaya JRF Contract Laboratories Co., Ltd.) established
- 1994: Hodogaya Agros Co. Ltd. (now Hodogaya Agrotech Co. Ltd.) established
- 1996: Tokyo Plant closed
- 1997: Hodogaya Logistics Co., Ltd. established  
Shanghai office opened
- 1998: Nanyo Branch Plant opened
- 1999: Hodogaya Dyes & Colors Co., Ltd. (now Aizen Sales Department) established
- 2000: Hodogaya Dairen PTG Co., Ltd. Established

#### **Transitioning from commodities to specialties in an age of change**

In 1971, we built a plant in Shunan City in Yamaguchi Prefecture in order to support the diversifying product line of that time. Feeling the waves of the first oil crisis in 1973, we closed our flagship Hodogaya plant. In the mid-70s, we began to see signs of decline in our key electrolytic soda and dyestuffs businesses, but pharmaceutical and agriculture products and intermediates grew to be more profitable in their place.

In 1978, Hodogaya Construction Materials Industry Co., Ltd. was established. In the same year, the current core business of imaging materials gradually developed. The end of the Showa Era was a time for transitioning from commodity products to specialty products for us, and that trend continued into the following Heisei Era.

In 1989 a facility for manufacturing pharmaceutical intermediates was completed at the Nanyo plant, and in 1992, a continuous manufacturing facility for PTG, an ingredient of polyurethane, was built. Our Tsukuba Research Center was built in 1991. The Japanese economic bubble burst around this time, however, sending the economy into a rapid decline and leading us to restructure our businesses and offices. In 1993 we reexamined the agricultural chemical business, and established Hodogaya Contract Laboratories Co., Ltd. to handle contract research and analysis. In 1996 we merged the dyestuffs plant in Tokyo with the Tsurumi plant, and renamed it the Yokohama Plant.

The business restructuring continued, and in 1997 we established Hodogaya Logistics Co., Ltd. to handle the logistics and warehousing businesses, and, with an eye on the emerging Chinese economy, established an office in Shanghai.

# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED BALANCE SHEETS

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2014 and 2015.*

	MILLIONS OF YEN	
	2014 Mar. 31	2015 Mar. 31
<b>ASSETS</b>		
<b>Current Assets</b>	20,815	23,948
<b>Fixed Assets</b>	30,110	30,534
Tangible Fixed Assets	23,279	22,625
Intangible Fixed Assets	1,528	974
Investment	5,303	6,934
<b>Total Assets</b>	50,926	54,483
<b>LIABILITIES</b>		
Current liabilities	12,423	12,618
Fixed liability	9,351	9,757
<b>Total Liabilities</b>	21,774	22,376
<b>Shareholders' equity</b>	22,861	23,171
Common stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	3,770	4,084
Less: Treasury share at cost, 5,054,476 shares in Mar. 31, 2014	(1,695)	
Less: Treasury share at cost, 5,074,511 shares in Mar. 31, 2015		(1,699)
Valuation and Translation Adjustments	4,093	6,397
Share warrant	51	-
Minority interests	2,144	2,537
<b>Total Shareholders' equity</b>	29,151	32,107
<b>Total Liabilities and Shareholders' equity</b>	50,926	54,483

## CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - March 31, 2014 and 2015.*

	MILLIONS OF YEN	
	FY 2014	FY 2015
	Apr.1-Mar.31	Apr.1-Mar.31
<b>Net Sales</b>	35,687	34,688
<b>Cost of sales</b>	25,094	24,184
<b>Selling, general and administrative expenses</b>	10,559	9,707
<b>Operating income</b>	34	796
Other income	338	539
Other expenses	683	605
<b>Ordinary income</b>	(310)	730
Extraordinary income	321	126
Extraordinary expenses	679	2
<b>Income before income taxes</b>	(668)	854
<b>Current</b>	277	21
<b>Deferred</b>	(945)	833
<b>Minority interests</b>	325	209
<b>Net income</b>	(1271)	623

## STOCK (AS of March 31, 2015)

### AUTHORIZED NUMBER OF SHARES

200,000,000

### NUMBER OF COMMON SHARES ISSUED

84,137,261

### NUMBER OF SHAREHOLDERS

9,107

### MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	16,828	20.0
Hodogaya Chemical Co., Ltd.	5,074	6.0
Mizuho Bank, Ltd.	2,987	3.6
The Norinchukin Bank	2,274	2.7
Meiji Yasuda Life Insurance Company	1,645	2.0
The Toho Bank, Ltd.	1,483	1.8
Mitsui Sumitomo Insurance Co., Ltd	1,414	1.7
The Yamaguchi Bank Ltd.	1,300	1.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,201	1.4
Nippon Soda Co., Ltd.	1,163	1.4