

# Business Report 2015

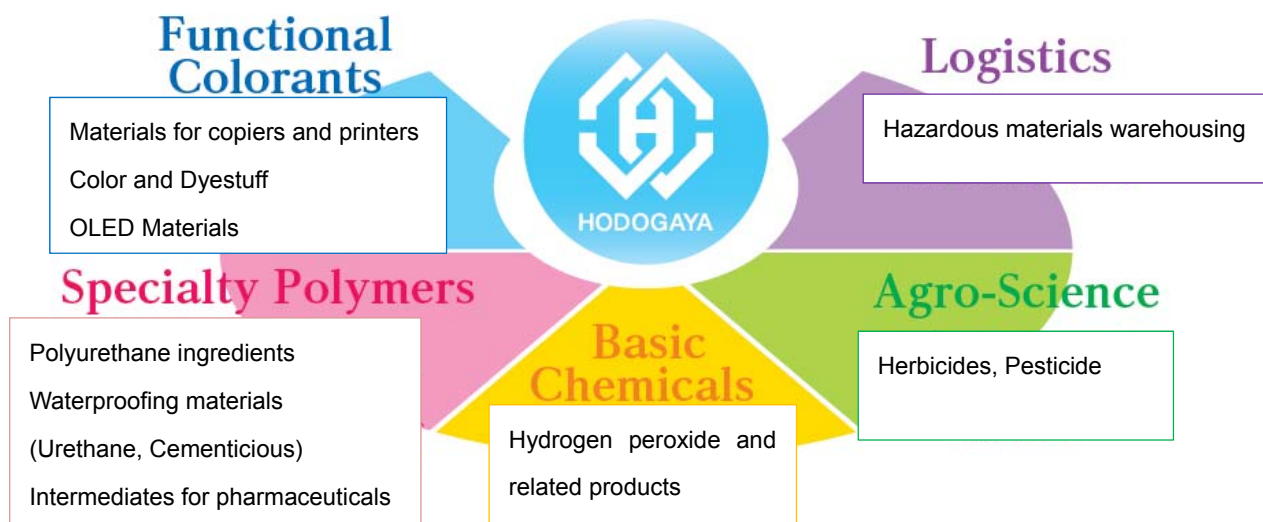
April 1, 2015 - March 31, 2016

## 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.

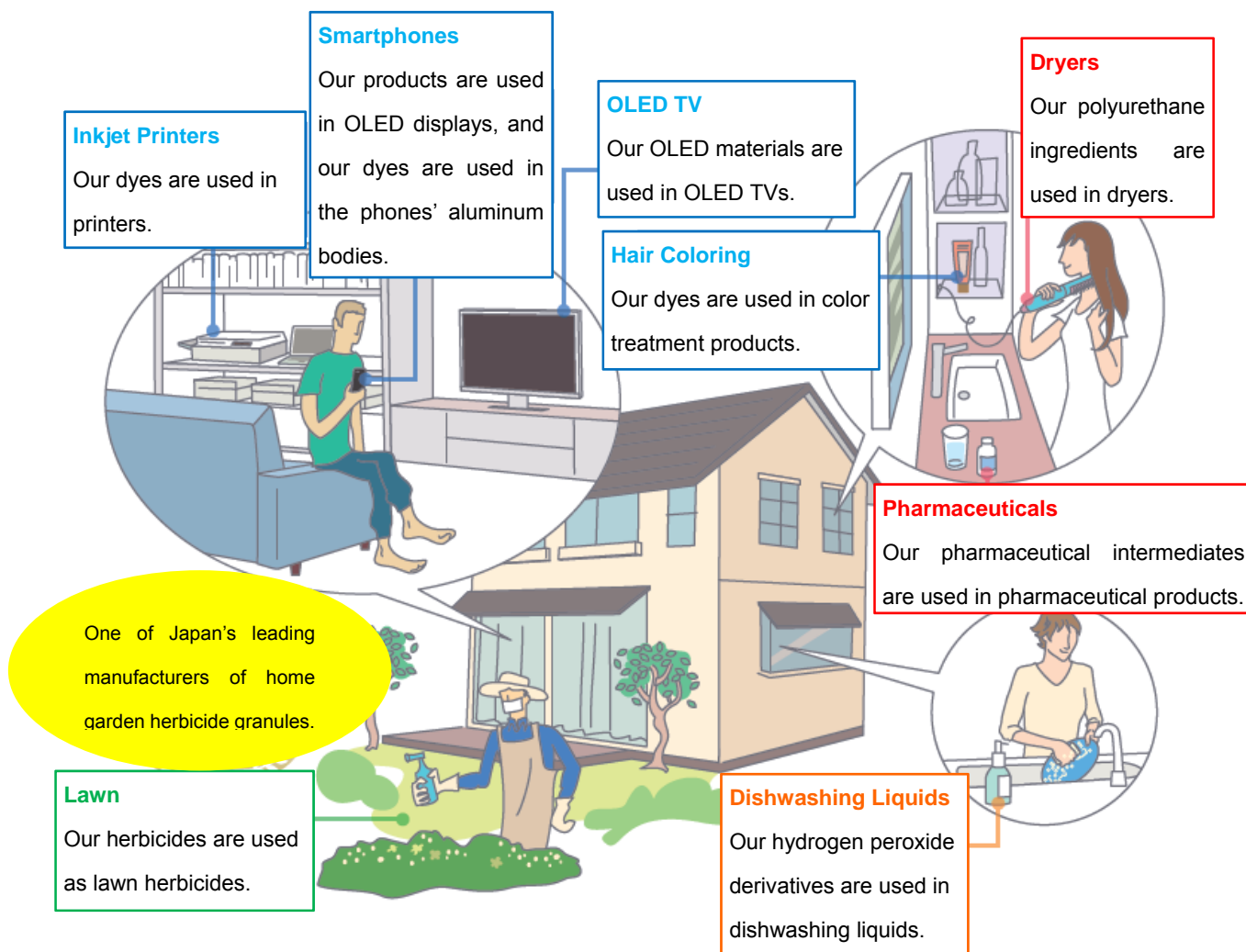
## Business Overview

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 4: In the Home

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.



## A Message from our President

### **Overcoming a harsh business environment, and setting out once more on our mid-term management plan, “HONKI 2020”.**

I would like to begin by expressing my heartfelt condolences for the victims of the Kumamoto earthquake, and my wishes for the fastest possible recovery of the area.

This year, our Group celebrates its 100th anniversary. We are sincerely grateful to our customers, our partner companies, and our shareholders for their support in achieving this major milestone. Currently, our Group is pushing ahead with “HONKI 2020”, a mid-term management plan that will conclude in 2020. In 2015, the first year of the plan, cost-cutting and other measures allowed us to increase operating income despite the negative effects of stagnant demand.

I will now report on our results for FY 2015 (April 1, 2015 – March 31, 2016), and our prospects for the future.

Toshikazu Kitano  
President and CEO  
July 2016

<b>FY 2015: Consolidated Results</b>		<b>(Millions of Yen)</b>
	<b>FY 2015 Results</b>	<b>Changes Gains/Losses</b>
Net Sales	33,826	△2.5%
Operating Income	828	+4.0%
Ordinary Income	633	△13.3%
Net Income	811	+30.0%

### **Highlights of FY 2015 (ending in March, 2016)**

#### **Despite a decrease in sales, increased profitability allowed us to meet our profit targets.**

In 2015, the Japanese economy continued to gradually recover, thanks to economic and financial policies of the government and the Bank of Japan that promoted improvements in corporate performance and the employment environment. At the same time, the sharp decline in oil prices and economic slowdowns in China and the emerging nations have increased the risk of economic downturn in the world economy, and have given rise to concerns about the possibility of global recession.

This was the state of affairs within which our Group embarked on “HONKI 2020”, a mid-term management plan designed to fortify core businesses and cultivate new businesses. However, in the harsh market environment described above, we finished with increased profits despite a reduction in sales due to weak demand.

In the Functional Colorants segment, aluminum dyes for digital appliances and food colorants performed well, but weak demand for printer materials led to an overall decrease in income. In the Specialty Polymers segment, strong performance by urethane ingredients, cementitious waterproofing materials and construction, and pharmaceuticals was countered by stagnation in urethane waterproofing materials and inventory adjustments by specialty chemical clients, resulting in decreased revenue overall.

In the Basic Chemicals segment, demand for hydrogen peroxide derivatives and other industrial chemicals fell, but steady performance in the paper pulp and environmental sectors led to increased revenues. In the Agro-Science segment, performance of home garden herbicides, etc. was on a par with last year, but overall results were down due to inventory adjustments by pesticide clients. In the Logistics segment, revenue increased due to steady performance in the import and warehousing businesses.

Our consolidated sales for the year came to 33,826 million yen, a 2.5% decrease from the previous year. In terms of profit and loss, operating income came to 828 million yen (a 4% increase), while ordinary income came to 633 million yen (a 13.3% decrease) as a result of non-operating foreign exchange losses. The net income that is distributed to parent company shareholders came to 811 million yen (a 30% increase).

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 2.5 yen per share, the annual dividend comes to 5 yen per share.

### March, 2016 Financial Statement: Points of Interest

POINT 1: Sales were adversely affected by stagnant demand for OLED materials and some industrial chemicals and polymers.

POINT 2: Operating income increased despite decreased sales, thanks to strong selling prices and reduced sales costs.

POINT 3: Ordinary income, though bolstered by the increase in operating income and reduced non-operating retirement benefit costs, declined as a result of foreign exchange losses.

POINT 4: The net income that is distributed to parent company shareholders increased despite reduced ordinary income, due to the reduction of net income distributed to non-controlling shareholders, etc.

## Overview of our Mid-Term Management Plan

We will strive to make up for our failure to meet our Year 1 sales targets, and to achieve the original targets of the mid-term management plan.

In FY 2015, we embarked on “HONKI 2020” (**H**odogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination), a 6-year management plan that will be completed in FY 2020, in which we focus on strengthening our core businesses and cultivating the businesses of the future. Looking back over the year, among our ‘core businesses’, which are already generating income, the construction materials business in our Functional Polymers segment remained steady, and in the Functional Colorants segment, new products in the OPC materials business (materials for organic photoconductor drums) reached the global market. Among our ‘growth businesses’, which are expected to generate positive results in FY2015~2016, peracetic acid in the Basic Chemicals segment and grounds management services for mega-solar installations are nearing the stage at which they will generate positive results, while hydrogen peroxide for veterinary pharmaceuticals is definitively increasing its market share. Finally, in the areas of ‘cultivation businesses’, expected to produce positive results in FY2017~2018, and ‘new product creation’, expected to produce positive results in FY2019 and beyond, we are starting to see the results of our efforts in various areas, and we continue to sow new seeds.

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

#### ① Core Businesses: Businesses that are already generating positive results

[Basic Approach] Cutting costs, improving production capacity, developing new applications, expanding global business.

[Main Businesses]

[Functional Colorants Segment] Existing charge control agents (CCA), aluminum dyes, stationery dyes, hair coloring dyes.

[Functional Polymers Segment] Existing polyol materials (bio-polyols, special polyols), phosgene derivatives, tire adhesives, cementitious and urethane waterproofing materials.

[Basic Chemicals Segment] Hydrogen peroxide, sodium percarbonate.

[Agro-Science Segment] Herbicide granules, pesticides, contract manufacturing.

[Logistics Segment] Logistics, warehousing.

### (2) Establishing a Foundation for the Next Generation

#### ② Growth Businesses: Expected to generate positive results in FY 2015~2016

[Basic Approach] Expand sales and market share in growing markets, strategic investment.

[Main Businesses]

[Functional Colorants Segment] OLED materials, environmentally-friendly charge control agents (CCA).

[Basic Chemicals Segment] Peracetic acid, hydrogen peroxide for veterinary pharmaceuticals.

[Agro-Science Segment] Liquid herbicides, mega-solar grounds management.

### (3) Expanding our Scope of Business by Creating New Added Value

③ **Cultivation Businesses:** Expected to generate positive results in FY 2017~2018

[Basic Approach] Creation of new products, expansion of sales and market share.

[Main Businesses]

[Functional Colorants Segment] Charge control agents (CCA) for color filters, CCA for color toner, inkjet dyes.

[Functional Polymers Segment] New polyol materials

[Agro-Science Segment] Peroxides for agricultural applications.

④ **New Business Creation:** Businesses that are expected to generate positive results in FY 2019 and beyond

[Basic Approach]

- Striving to achieve 5,000 million yen in new product sales in 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 Operation

[Basic Approach] Promotion of 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 Approach] Energizing the Group by training employees to “think, investigate, and act”.

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

[Basic Approach] Maintaining and deepening the trust held in us by all stakeholders, and contributing to social development.

As described above, stagnant demand took a toll this year, leading to lackluster results. However, our Group has a firm resolve to achieve the goals of the 6-year plan in its remaining 5 years, and we will all pull together to make it happen. We will continue to approach each measure head-on, build on our successes, and progress toward our goals.

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

## **Prospects for March 2017**

**Amid the promising signs of our 100<sup>th</sup> anniversary year, we will focus our efforts on strengthening our competitive edge.**

In FY2016, our Group's 100<sup>th</sup> anniversary, we have seen some promising signs in the market, such as the use of OLEDs in smartphones.

Our Group continues its efforts to expand sales and cut costs, and we are also focused on cultivating personnel to strengthen global operations. We are endeavoring to enrich our CSR (Corporate Social Responsibility) activities, led by the CSR committee that we established in April.

As the result of these efforts, we expect the consolidated results for FY 2016 to be 34,000 million yen in sales (an increase of 0.5%), with operating income of 1,000 million yen (an increase of 20.8%), ordinary income of 900 million yen (an increase of 42.2%), and current net income, attributable to the shareholders of the parent company, of 800 million yen (an increase of 1.4% over the previous year). The annual dividend is expected to be 6 yen per share.

I thank our shareholders for their continuing support.

### **Prospects for FY 2016 (Millions of Yen)**

	FY 2016
Net Sales	34,000
Operating Income	1,000
Ordinary Income	900
Net Income	800

## Overview By Business Segment

### **Functional Colorants**

In the Imaging Materials business, demand for printer materials remains stagnant, and even though some new products were adopted by clients, overall results were down. In the Colors and Dye stuffs business, revenues increased thanks to strong performance by aluminum dyes for digital appliances and recovering demand for food colorants. In the OLED business, the display sector is steadily expanding, but overall revenues were down due to increasingly severe competition. Sales in this segment came to 7,624 million yen, with an operating loss of 1,596 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**

In the Polymer Materials business, demand for elastic fibers remained stable, but severe competition in the construction applications sector led to decreased revenues. In the Construction Materials business, steady performance by cementitious waterproofing materials and construction was countered by stiff competition in the urethane waterproofing materials sector, leading to results that were on a par with those of last year. Results in the Specialty Chemicals business were also on a par with last year, as strong performance in the pharmaceuticals sector was countered by overseas customers' inventory adjustments in other sectors. Sales in this segment came to 12,594 million yen, with operating income of 959 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

In the Hydrogen Peroxide business, demand for hydrogen peroxide derivatives and other industrial chemicals dropped, but revenues increased, thanks to strong performance in the paper pulp and environmental sectors. Sales in this segment came to 6,719 million yen, with operating income of 672 million yen.

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

In the Agricultural Chemicals business, sales of home garden herbicides were steady, but revenues decreased due to inventory adjustments by pesticide clients. Sales in this segment came to 4,700 million yen, with operating income of 323 million yen.

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

In the Logistics-related businesses, revenues increased thanks to strong performance in the import and export business and the warehousing business. Sales in this segment came to 1,948 million yen, with operating income of 453 million yen.

Logistics	Hazardous materials warehousing
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## 100th Anniversary

### Commemorative Logo

To commemorate our 100<sup>th</sup> anniversary, we invited our employees to design a special logo. Our 100<sup>th</sup> anniversary logo expresses the feelings we share about this milestone and our future: “Sowing unlimited seeds of the chemical technologies of the future, and using chemistry to help bring dreams to fruition.”



### 100<sup>th</sup> Anniversary Concert

In November 2016, our Group celebrates its 100<sup>th</sup> anniversary. We are very grateful to our shareholders for their support in helping us reach this milestone. Since our main plant in Koriyama (Fukushima Prefecture) will also celebrate its 100<sup>th</sup> anniversary, and Koriyama is known for its focus on music, we decided to hold a 100<sup>th</sup> anniversary concert in Koriyama. This commemorative concert will be held with the support of Fukushima Prefecture and Koriyama City.



### 100<sup>th</sup> Anniversary Webpage

We have created a 100<sup>th</sup> Anniversary page on our website. On this page, we introduce our 100<sup>th</sup> Anniversary logo and slogan, as well as highlights from our 100-year history. Please visit the page, which can be accessed from our homepage.



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

### **100 years of Hodogaya Chemical    Part4: 2001～2016**

- 2001: Began manufacturing OLED products
- 2007: Acquired ODI (polymer material) business
- 2008: Established Hodogaya UPL Co., Ltd.  
Opened Korean office (converted to an overseas affiliate company in 2011)
- 2010: Opened Taipei (Taiwan) office  
Invested in SFC Co., Ltd. (Korea) (Converted to a consolidated subsidiary in 2011 )  
Opened Dusseldorf (Germany) office
- 2011: Restructured Nihon Green and Garden Co., Ltd., and established Hodogaya Agrotech Co., Ltd.  
Established HODOGAYA CHEMICAL KOREA CO., LTD
- 2012: Opened HODOGAYA CHEMICAL KOREA Research Center
- 2014: Changed name from Hodogaya Contract Lab to Hodogaya JRF Contract Lab.  
[Established business alliance with Jai Research Foundation (India) ]
- 2016: 100<sup>th</sup> Anniversary

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

Looking toward the next 100 years in an ever-broadening business arena

As we entered the 21st century, our Group intensified efforts to diversify its businesses and to develop global businesses through M&A, etc. In 2001, we started manufacturing the OLED materials that are now used in displays and other applications. In 2007, we acquired an ODI business (octadecyl isocyanate, used as an adhesive tape release agent). In such ways, we steadily increased the range of our businesses.

In 2008, we established a consolidated subsidiary company to manufacture and sell agricultural chemicals in the Agro-Science sector, and a new office in Korea joined our overseas offices in New York and Shanghai. In 2010, we continued our push to develop overseas business with the opening of an office in Taipei, investment in SFC Co. Ltd. in Korea, and the opening of an office in Dusseldorf. In 2011 we established HODOGAYA CHEMICAL KOREA CO., LTD, and in 2012 the HODOGAYA CHEMICAL KOREA Research Center opened, and we established a business alliance with Jai Research Foundation in India. Through these local entities and consolidated subsidiaries, we have fortified our global management structure.

This year, with unwavering persistence and dedication, the Hodogaya Chemical Group approaches its 100th anniversary. For the next 100 years, we will continue to provide high-quality products and services created through constantly evolving chemical technology innovations, to contribute to the evolution of society.

# **CONSOLIDATED FINANCIAL STATEMENT** **CONSOLIDATED BALANCE SHEETS**

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2015 and 2016.*

	<b>MILLIONS OF YEN</b>	
	<b>2015</b>	<b>2016</b>
	<b>Mar. 31</b>	<b>Mar. 31</b>
<b>ASSETS</b>		
<b>Current Assets</b>	23,948	23,742
<b>Fixed Assets</b>	30,534	27,390
Tangible Fixed Assets	22,625	20,946
Intangible Fixed Assets	974	301
Investment	6,934	6,143
<b>Total Assets</b>	<b>54,483</b>	<b>51,133</b>
<b>LIABILITIES</b>		
Current liabilities	12,618	12,487
Fixed liability	9,757	7,590
<b>Total Liabilities</b>	<b>22,376</b>	<b>20,077</b>
<b>Shareholders' equity</b>	23,171	23,585
Common stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	4,084	4,500
Less: Treasury share at cost, 5,074,511 shares in Mar. 31, 2015	(1,699)	
Less: Treasury share at cost, 5,083,717 shares in Mar. 31, 2016		(1,700)
Valuation and Translation Adjustments	6,397	5,333
Minority interests	2,537	2,137
<b>Total Shareholders' equity</b>	<b>32,107</b>	<b>31,056</b>
<b>Total Liabilities and Shareholders' equity</b>	<b>54,483</b>	<b>51,133</b>

# CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - March 31, 2015 and 2016.*

	MILLIONS OF YEN	
	FY 2015	FY 2016
	Apr.1-Mar.31	Apr.1-Mar.31
<b>Net Sales</b>	34,688	33,826
<b>Cost of sales</b>	24,184	23,323
<b>Selling, general and administrative expenses</b>	9,707	9,674
<b>Operating income</b>	796	828
Other income	539	276
Other expenses	605	472
<b>Ordinary income</b>	730	633
Extraordinary income	126	59
Extraordinary expenses	2	30
<b>Income before income taxes</b>	854	664
<b>Current</b>	21	64
<b>Deferred</b>	833	598
<b>Minority interests</b>	209	(212)
<b>Net income</b>	623	811

## STOCK (AS of March 31, 2016)

### AUTHORIZED NUMBER OF SHARES

200,000,000

### NUMBER OF COMMON SHARES ISSUED

84,137,261

### NUMBER OF SHAREHOLDERS

9,370

### MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	7,000	8.3
Hodogaya Chemical Co., Ltd.	5,083	6.0
Mizuho Bank, Ltd.	2,987	3.6
Japan Trustee Services Bank, Ltd.	2,501	3.0
The Norinchukin Bank	2,274	2.7
The Master Trust Bank of Japan, Ltd.	2,143	2.5
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