

Business Report 2016

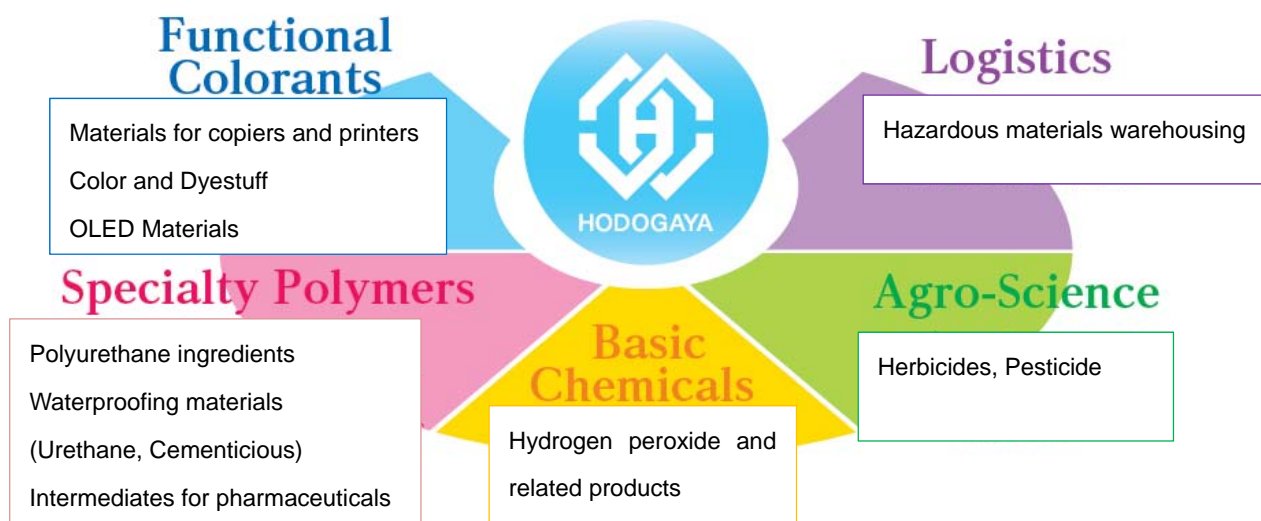
April 1, 2016 - March 31, 2017

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.



A Message from our President

From the time that it began manufacturing caustic soda using the electrolysis process in 1916 until the present day, the Hodogaya Chemical Group has been building on the technologies it developed through the years to create a wide variety of products and businesses. In order to meet the evolving demands of today's markets, we have in recent years accelerated our efforts to strengthen our specialty product businesses, such as functional colorants, and functional materials applications.

Even in these rapidly changing times, the Hodogaya Chemical Group's commitment to providing our clients with value is unwavering.

We thank you for your support.

Yuto Matsumoto
President and CEO
July 2017

FY 2016: Consolidated Results (Millions of Yen)

	FY 2016 Results	Changes Gains/Losses
Net Sales	34,739	+2.7%
Operating Income	2,129	+156.8%
Ordinary Income	2,094	+230.6%
Net Income	1,951	+140.6%

Highlights of FY 2016 (ending in March, 2017)

Financial Results

POINT 1: Sales of Dyes and Colors products and OLED materials increased, thanks to growing demand.

POINT 2: Operating income increased as a result of increased sales, effective cost reduction measures, and low fuel and raw material prices.

POINT 3: Decreased foreign exchange losses contributed to an increase in ordinary income.

Corporation

POINT 1:

As we celebrated our 100th anniversary on November 1, 2016, Yuto Matsumoto assumed the role of President and Representative Director to create a new management structure, and ensure sound execution of our mid-term management plan.

POINT 2:

We carried out a 1-for-10 reverse stock split, effective October 1, 2016, and changed the number of shares in a trading unit to 100 shares from 1,000 shares.

Regarding developments in world economies during the past fiscal year, the European Union saw ongoing gradual recovery, despite some economic confusion following England's decision to leave the EU.

In the United States, improving employment conditions and firm consumer spending contributed to ongoing gradual expansion.

In China, accelerating investment in infrastructure and housing sales resulted in steady gains, but when monetary controls were tightened somewhat to prevent overheating in the real estate investment sector, economic growth slowed a bit.

The Japanese economy has seen a moderate recovery, with a firm employment environment and improving consumer spending.

Within this economic climate, our consolidated sales for the year increased by 912 million yen (2.7%) to 34,739 million yen.

In terms of profit and loss, increased sales, effective cost reduction measures, and continuing low fuel and raw material prices contributed to a 1,300 million yen (156.8%) increase in operating income, which came to 2,129 million yen.

Ordinary income came to 2,094 million yen, an increase of 1,460 million yen or 230.6%, while net income attributable to stockholders of the parent company came to 1,951 million yen, an increase of 1,140 million yen, or 140.6%.

Overview of our Mid-Term Management Plan

In FY 2015, we embarked on “HONKI 2020” (Hodogaya 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.

Our Group’s Vision for 2020

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



Each business is classified into one of the following four categories, and we focus on strengthening core businesses while developing and cultivating the businesses of the future.

Core Businesses: Businesses that are already generating positive results

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

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

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

With “HONKI 2020”, we are implementing the following measures:

- (1) **Regaining Competitive Strength and Securing a Stable Revenue Base**
- (2) **Establishing a Foundation for the Next Generation**
- (3) **Expanding our Scope of Business by Creating New Added Value**
- (4) **Strengthening Global Operation**
- (5) **Cultivating Personnel for a Diversifying Society**
- (6) **Enhancing our Commitment to CSR (Corporate Social Responsibility)**

(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] Dyes 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.

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

Prospects for March 2017

Prospects for FY 2017	(Millions of Yen)
	FY 2017
Net Sales	35,500
Operating Income	1,300
Ordinary Income	1,100
Net Income	600

Overview By Business Segment

Functional Colorants

Income from the Imaging Materials business fell sharply, due to reduced demand and ongoing severe competition in the area of printer materials. In contrast, the Colors and Dyestuffs business saw significant growth, with strong performance in the area of aluminum dyes for digital appliances. Income from the OLED business also grew, thanks to newly adopted display applications.

Sales in this segment came to 8,231 million yen, with operating losses of 423 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. Light Emitting Materials.

Specialty Polymers

The Polymer Materials business was affected by the strong yen, but domestic and international demand for urethane raw materials was firm. Demand was strong for tire materials, and income in this area increased. Stiff competition in the area of urethane waterproofing materials contributed to a decrease in income in the Construction Materials business, while the Specialty Chemicals business was adversely affected by the strong yen and reduced demand in the area of pharmaceutical products. Other stock goods also saw increased competition and decreased income.

Sales in this segment came to 12,159 million yen, with operating income of 670 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.
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Basic Chemicals

In the Hydrogen Peroxide business, demand for core paper pulp products fell, leading to decreases in income, but demand and income increased in the area of industrial chemicals. In the Hydrogen Peroxide Derivatives business, demand for household cleaning products grew and income increased. However, other stock goods were discontinued, and income in those areas decreased.

Sales in this segment came to 6,768 million yen, with operating income of 919 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

Demand for herbicides grew in railway applications, but demand for home garden herbicides fell, leading to results that were on a par with last year. Demand for insecticides grew, and income increased in this area.

Sales in this segment came to 4,831 million yen, with operating income of 249 million yen.

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

The Warehousing business remained strong, and the Export business continued to perform well, with large-scale increases in income.

Sales in this segment came to 2,511 million yen, with 708 million yen in operating profit.

Logistics	Hazardous materials warehousing
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TOPICS

Commemorating Concert for 100th Anniversary

November 5th Koriyama City Cultural Center

In addition to our clients, we were happy to have the opportunity to invite the middle- and high-school members of the Koriyama brass band and choral club (about 330 people) to our 100th Anniversary Concert. Tickets sold out quickly, and the concert was very well received. Our guests responded to the wonderful performance by the top-class conductor and performers with thunderous applause, and were even treated to an encore specially organized by the conductor.

Conductor: Kenichiro Kobayashi

Violin: Mariko Senju

The Japan Philharmonic Orchestra



Quartet mini-concert

November 6th Hoshi General Hospital (Koriyama)

The Japan Philharmonic Orchestra put on a string quartet mini-concert in Hoshi General Hospital, next door to our Koriyama Plant. Drawn by the music that echoed through the hospital, about 60 patients and their families attended the performance. The satisfied faces of the audience members, some humming along, some occasionally wiping a tear from their eyes, told us that planning a concert in the hospital had been a good idea indeed.



CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2016 and 2017.

	MILLIONS OF YEN	
	2016 Mar. 31	2017 Mar. 31
ASSETS		
Current Assets	23,742	24,972
Fixed Assets	27,390	28,457
Tangible Fixed Assets	20,946	20,186
Intangible Fixed Assets	301	212
Investment	6,143	8,058
Total Assets	51,133	53,430
LIABILITIES		
Current liabilities	12,487	10,491
Fixed liability	7,590	9,080
Total Liabilities	20,077	19,572
Shareholders' equity	23,585	25,132
Common stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	4,500	6,056
Less: Treasury share at cost, 5,083,717 shares in Mar. 31, 2016	(1,700)	
Less: Treasury share at cost, 511,518 shares in Mar. 31, 2017		(1,709)
Valuation and Translation Adjustments	5,333	6,664
Minority interests	2,137	2,060
Total Shareholders' equity	31,056	33,857
Total Liabilities and Shareholders' equity	51,133	53,430

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - March 31, 2016 and 2017.

	MILLIONS OF YEN	
	FY 2016	FY 2017
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	33,826	34,739
Cost of sales	23,323	23,317
Selling, general and administrative expenses	9,674	9,292
Operating income	828	2,129
Other income	276	256
Other expenses	472	291
Ordinary income	633	2,094
Extraordinary income	59	115
Extraordinary expenses	30	93
Income before income taxes	662	2,115
Current	64	266
Deferred	598	1,848
Minority interests	(212)	(102)
Net income	811	1,951

STOCK (AS of March 31, 2017)

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

7,176

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares Held (%)
Tosoh Corporation	700,000	8.3
Hodogaya Chemical Co., Ltd.	511,518	6.1
Japan Trustee Services Bank, Ltd.	356,800	4.2
Mizuho Bank, Ltd.	298,704	3.6
Japan Trustee Services Bank, Ltd.	253,200	3.0
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN (CASHPB)	229,200	2.7
The Norinchukin Bank	227,430	2.7
The Master Trust Bank of Japan, Ltd.	219,200	2.6
Meiji Yasuda Life Insurance Company	164,535	2.0
The Toho Bank, Ltd.	148,399	1.8