

Business Report 2012

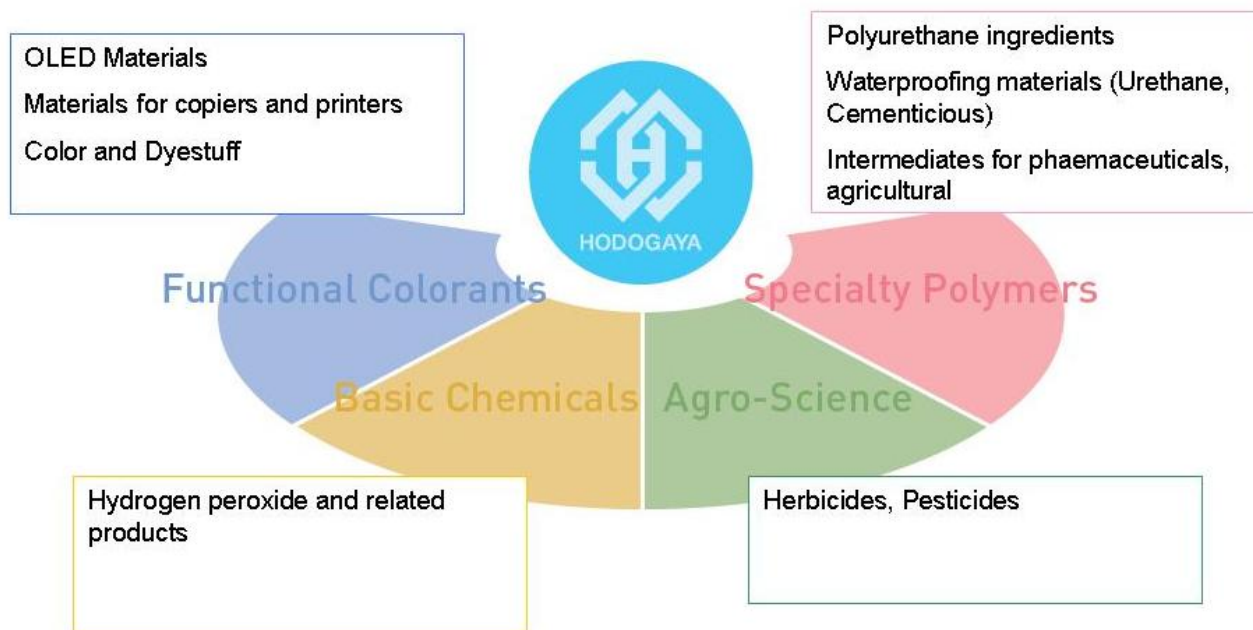
April 1, 2012 - March 31, 2013

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.

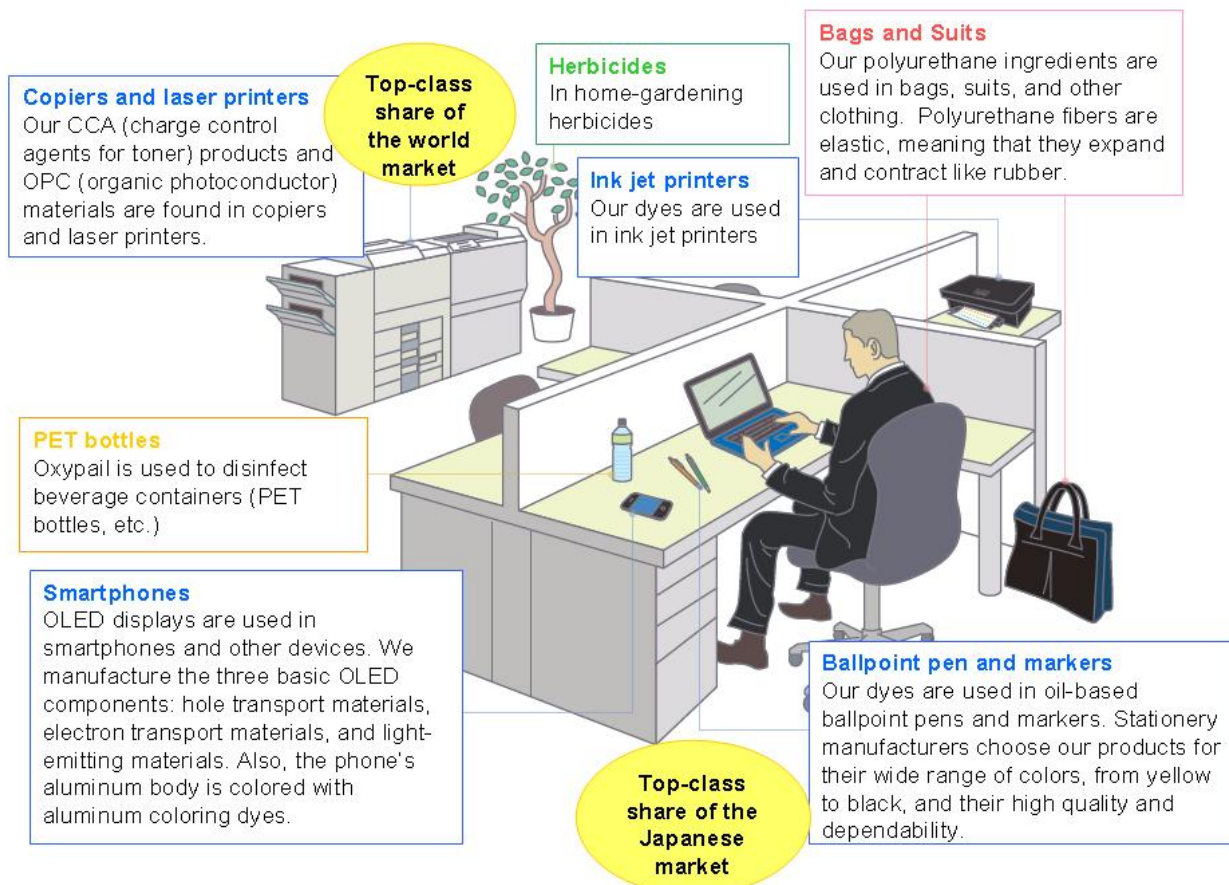
Business Overview

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 1: In the Office

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 over 96 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

As we approach our 100th anniversary, we are strengthening our foundations in pursuit of our goals.

As our Group approaches its 100th anniversary in 2016, our mid-term management plan, “HONKI 2013” is helping us to firm up the foundations that will support future growth by FY 2013. Though the business climate continued to be harsh in FY 2012, we made steady progress in implementing various initiatives to strengthen our foundations and expand our businesses. I thank you for this opportunity to report on our FY 2012 (April 1, 2012 – March 31, 2013) results, and on our forecasts for the future.

Toshikazu Kitano
President and CEO
June 2013

FY 2012: Consolidated Results (Millions of Yen)

	FY 2012 Results	Changes Gains/Losses
Net Sales	35,191	+0.0%
Operating Income	898	△47.5%
Ordinary Income (△=losses)	611	△50.2%
Net Income (△=losses)	△90	-

Highlights of FY 2012 (ending in March, 2013)

Against the backdrop of a harsh business climate, revenues increased but profits decreased.

Looking back at the economic climate of this period (FY 2012), we saw domestic demand get back on firm footing early in the period as a result of economic stimuli such as disaster and business recovery initiatives and subsidies for eco cars, etc. However, the business environment saw an overall downturn from the middle of the period, as the European and U.S. economies slowed, the long-term strength of the Japanese yen slowed exports, and domestic consumption continued to be weak.

This was the environment in which the Hodogaya Chemical Group (the “Group”) entered the second year of “HONKI 2013”, our mid-term management plan. (Hodogaya as Only one, Number one with our Key technologies and Imagination)

As part of the “HONKI 2013” effort, we stepped up efforts to expand the OLED business, one of our designated Growth Businesses, by fortifying our Research and Development capabilities, strengthening our collaboration with SFC Co., Ltd. (Republic of Korea) and increasing SFC’s

manufacturing capacity. For our CCA (charge control agents for toner) business, we added new manufacturing facilities. In existing business areas, primarily Imaging Materials and hydrogen peroxide, etc., we devoted ourselves to reducing costs. Regarding the hydrogen peroxide and related businesses, we also decided to merge Nippon Peroxide Co., Ltd. as of July 1 of this year, and moved forward with preparations. In the area of logistics, we completed construction of a hazardous materials warehouse at our Yokohama plant, advancing our ability to handle hazardous materials logistics.

Regarding consolidated sales for the period, while we saw increases, thanks to strong sales at SFC and changes in its accounting period, flat overseas and domestic demand in the Imaging Materials and Industrial Chemicals businesses, the strong yen, and escalating price competition caused overall sales to grow by just 2 million yen (0.0% increase), coming in at 35,191 million yen.

In terms of profit and loss, our cost reduction efforts did have an impact, but raw materials prices rose, resulting in operating income of 898 million yen, down 813 million yen (47.5%) from the previous year, and 611 million yen in ordinary income, a decrease of 617 million yen (50.2%) from the previous year. Net losses for the period came to 90 million yen, a reduction of 1,714 million yen from the previous year.

Upon consideration of performance trends, future business development, and unquantifiable risks, etc., we set the year-end dividend at 2 yen per share. With the mid-term dividend of 2 yen per share, the annual dividend comes to 4 yen per share.

March, 2013 Financial Statement: Points of Interest

POINT 1: Increased revenue from businesses such as OLED Materials, in which demand for smartphone products grew, Dyes and Colors, which saw increased domestic and overseas demand for aluminum dyes, and Agro-Science, with its strong sales of home garden herbicides.

POINT 2: Reduced revenue in the Imaging Materials business in the Functional Colorants segment, the Functional Polymers business in the Specialty Polymers segment, and hydrogen peroxide and industrial chemicals in the Basic Chemicals segment.

POINT 3: Reduced operating income as a result of increased raw material prices and other factors. Net profits for the period were reduced by the disposal of deferred tax assets.

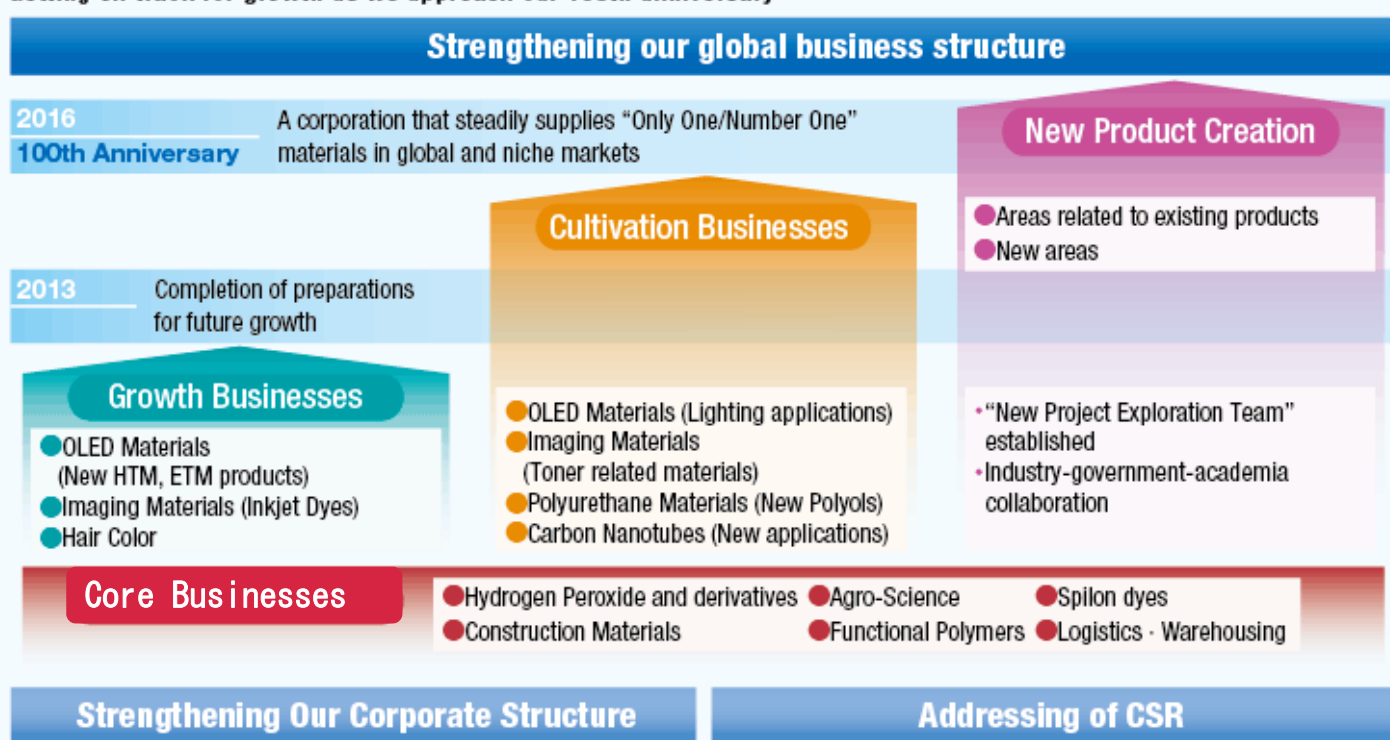
Mid-Term Management Plan “HONKI 2013”: Progress and Achievements

Entering the second year of “HONKI 2013”, we focused on measures in 4 areas.

As our Group approaches its 100th anniversary in 2016, our vision of what we want to be is “a corporation that steadily supplies ‘Only One/Number One’ materials in the global and niche markets,” and to this end, we have taken up the challenges of our mid-term management plan, “HONKI 2013” (Hodogaya as Only one, Number one with our Key Technology and Imagination) since 2011. The “HONKI 2013” plan provides for the creation of a strong foundation for future growth by 2013, as well as the fortification of each category of business (Core, Growth, Cultivation and New Product Creation); in FY 2012, a number of initiatives were implemented in pursuit of these goals.

Our Group categorizes businesses as Core Businesses, Growth Businesses, and Cultivation Businesses. In addition, New Product Creation, an exploratory effort, focuses on our achievements in 2017 and beyond.

Getting on track for growth as we approach our 100th anniversary



“Core Businesses”

: Businesses that are already generating profits

“Growth Businesses”

: Businesses that will produce results in 2011 - 2013

“Cultivation Businesses”

: Businesses that will produce results in 2014 - 2016

“New Product Creation”

: Businesses that will produce results in 2017 and beyond

- **“Core Businesses”**

With regard to existing businesses such as Imaging Materials and hydrogen peroxide, etc., we devoted our energies to reducing costs. The Yokohama office of Hodogaya Logistics Co., Ltd. (in our Yokohama plant) added three hazardous materials warehouses, making it even stronger in handling hazardous materials logistics. In addition, to strengthen the hydrogen peroxide and related businesses, we decided to merge with Nippon Peroxide Co., Ltd. as of July 1 of this year (with Hodogaya Chemical as the surviving company), and established a merger project team to make the required preparations.

- **“Growth Businesses”**

To step up efforts to expand the OLED business, we fortified our Research and Development capabilities, strengthened our collaboration with SFC Co., Ltd. (Republic of Korea) and increased SFC’s manufacturing capacity. In the Imaging Materials business, we added new CCA (charge control agents for toner) manufacturing facilities. We also worked closely with customers in the ink jet printer dyes and color treatment dyes (for hair color) sectors to develop new products and bring them to market.

- **“Cultivation Businesses”**

Drawing on the knowledge we have acquired from existing products, we have embarked on projects such as the development of CCA for chemical toners, toner-related materials, and new polyols. With regard to carbon nanotubes, we are working on batteries and other applications that make the most of the carbon nanotubes’ unique characteristics.

- **“New Product Creation”**

We kicked off a ‘New Product Exploration Project’ at our Tsukuba Research Center. The project team is exchanging information with Japanese governmental organizations and universities and investigating research topics focused on the environment and energy.

- **“Strengthening Our Corporate Structure”**

In May, 2012, we moved to Yaesu in Tokyo, putting together our Group headquarters in one location to unify our efforts and strengthen the corporate structure.

Forecast for FY 2013

We will continue working to streamline management and strengthen core businesses as we work to become a Global Niche Company.

With last year's change of administration in Japan, stocks have recovered and the exchange rate has been corrected, leading to a brighter outlook for the Japanese economy and hopes for economic recovery. However, there is still a great deal of uncertainty regarding the future of the domestic and overseas economies and real economic recovery in Japan.

These are harsh conditions in which to operate, but in FY 2013, our Group will continue to surely and swiftly implement the measures outlined for the final year of our mid-term management plan "HONKI2013". We will also work to further strengthen the hydrogen peroxide business through the merger with Nippon Peroxide Co., Ltd.

The forecasted consolidated results for FY 2013 reflect the business climate described above, with sales of 36,000 million yen (an increase of 2.3%), operating income of 1,000 million yen (an increase of 11.3%), ordinary income of 500 million yen (a decrease of 18.2%), and net profits of 100 million yen. We expect the dividend for the year to be 4 yen per share.

I thank our shareholders for their continuing support.

Overview By Business Segment

Functional Colorants

The OLED Materials business saw a large increase in revenue, thanks to increased demand for smartphone products at SFC Co., Ltd., and a change in its accounting period.

Though the Imaging Materials business saw some recovery in demand in the 4th quarter and new ink jet printer dyes hit the market, the long-term downturn in the domestic and overseas economies kept overall demand low, resulting in a large decrease in revenue.

In the Dyes and Colors business, sales of stationery dyes were down as a result of economic stagnation and weak demand, but revenues increased, thanks to increased domestic and overseas demand for aluminum dyes. New color treatment dyes were also brought to market.

Sales in this segment came to 9,864 million yen, with operating income of 179 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.
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks. Hair Coloring Agents
Food Additives	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, overseas demand for PTG (an ingredient of polyurethane) grew, but there was an overall decrease in revenue as a result of weak domestic demand due to the economic downturn and delays in customer development work.

Domestic demand for tire adhesives was negatively affected by the end of eco car tax incentives, while demand in China was negatively affected by a decrease in Japanese car sales.

In the Construction Materials business, sales of urethane waterproofing materials were strong, thanks to a continuous stream of renovation jobs, but large waterproofing construction contracts were down sharply, leading to an overall reduction in revenue.

Sales in the Specialty Chemicals business grew as a result of steady demand in polymer-related areas, and new demand for pharmaceutical products.

Sales in this segment came to 11,809 million yen, with operating income of 143 million yen.

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

Basic Chemicals

Revenues decreased in the hydrogen peroxide business, due to reduced demand in the paper pulp sector and increasingly severe competition.

Sodium percarbonate revenues increased, due to the development of new applications in the home detergent sector and increased market share among our customers.

Industrial chemicals revenues fell as the result of increased competition and fewer orders.

Sales in this segment came to 7,045 million yen, with operating income of 217 million yen.

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

The Agro-Science business saw decreases resulting from the discontinuation of some pesticide products, but overall revenues increased as a result of the golf course herbicides coming to market, and steady increases in demand for home garden herbicides.

Sales in this segment came to 4,897 million yen, with operating income of 45 million yen.

Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.
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Glossary: Sodium Percarbonate

This compound, made from hydrogen peroxide and sodium carbonate, is also known as solid hydrogen peroxide. The aqueous solution has oxidizing properties, making it effective for whitening and disinfecting. Accordingly, it is used in a variety of applications, including laundry bleach, and kitchen bleach and disinfecting products. Because it breaks down into sodium carbonate and oxygen without producing any harmful substances, it can also be considered an environmentally friendly compound. Our Group company, Nippon Peroxide Co., Ltd., has been manufacturing this product since 1969.

Hodogaya Trivia: Color and Dyestuff

Our lives are surrounded by colors. We add color to our foods, and decorate with flowers... Color makes our lives richer in a number of ways. These days, more and more people are changing their hair color for fun and fashion: Hodogaya Chemical's color treatment dyes are hard at work, making that possible. Hodogaya Chemical brings you the colors that brighten our world, along with safety and quality that you can rely on.

Topics and CSR Information

With the opening of our new warehouse, we became one of the largest handlers of hazardous materials in the country.

In March 2013, our Group company Hodogaya Logistics Co., Ltd. completed construction of its new hazardous materials warehouse at its Yokohama location in Tsurumi-ku, Yokohama (in our Yokohama plant). The high value-added 3-building facility has a total floor area of 3,000m², and state-of-the-art features such as a raised floor for added efficiency in loading and unloading shipping containers. Along with the existing warehouse buildings, we now have one of the largest hazardous materials warehouse facilities in the country, with 10 buildings and a total floor area of 9,000m².

Announcing the merger of Nippon Peroxide Co., Ltd.

In order to improve our competitive position and strengthen the foundations of our hydrogen peroxide and related businesses, namely R&D, M&A, and overseas business development, we decide to merge with our Group company, Nippon Peroxide Co., Ltd., effective as of July 1, 2013. By effectively using our Group's management resources, we will build an optimized, efficient operation in the head office and the Koriyama plant.

A Group Employee Becomes Fire Chief for a Day

An employee of Nippon Peroxide Co., Ltd.'s Koriyama plant won awards for excellence in both the fire safety slogan division and the home fire alarm division of the 43rd Fire Safety Slogan Contest, hosted by the Koriyama Regional Firefighters Association.

In February 2013, she was named Fire Chief for a Day, and given the opportunity to observe drills, etc.

Feature Article: Knowing our history

100 years of Hodogaya Chemical Part 1: 1915 - 1945

1915 “Hodogaya Soda Manufacturing” , a private enterprise was established.

1916 **Inauguration of “Hodogaya Chemical”**

Hodogaya Soda Manufacturing Co.,ltd. was established.

Production of Japan’s first electrolytic caustic soda initiated.

1925 Company name change to “Hodogaya Soda Co., Ltd.” .

1926 Production of phosgene started.

1927 Production of Dyestuff started.

1934 Opening of Koriyama Plant

1939 Opening of Yokohama Plant

Company name change to “Hodogaya Chemical Co., Ltd.”

1942 Production of Caustic soda started in Koriyama Plant.

Hodogaya Chemical has its roots in Japan's period of modernization

In December 1916, the Hodogaya Soda Manufacturing was founded in Hodogaya-ku, Yokohama. We were Japan’s first manufacturer of caustic soda using electrolysis, and are the 7th oldest publically-traded chemical company in the country. Our founder, Otosuke Isomura, also founded the former Toyo Soda Co., Ltd. in November of the same year, and opened a plant in Koriyama in Fukushima Prefecture. This would become our current Koriyama plant.

Business contracted following the Great Kanto earthquake in 1923, but recovery efforts and the success of the rayon industry in 1925 caused demand for caustic soda to soar, and business to flourish. The company changed its name to Hodogaya Soda Co., Ltd., and began to manufacture liquid phosgene.

Business grew in the early part of the Showa era, around 1926, with phosgene being used in everything from intermediates to the manufacture of dyes, and in 1934, we acquired the former Toyo Soda. Our dye business, which had its start in 1927, with the manufacture of chlorine dyes, became one of our primary businesses, with many products being manufactured for the first time in Japan. The electrolysis business also grew steadily, buoyed by firm demand for caustic soda.

Before World War II and throughout the war, we acquired numerous companies through merger, and built several factories. In December 1936, we acquired Toryu Chemical Industries, now our Yokohama plant. We changed our name to the current Hodogaya Chemical Co., Ltd. and continued to expand our facilities through acquisitions and new construction, until we had dozens of plants throughout the country. In 1944, towards the end of the war, many of our plants were designated as military factories. As the war took a turn for the worse, our Koriyama plant was the target of a massive air raid on April 12, 1945. 204 employees lost their lives.

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2013 and 2012.

	MILLIONS OF YEN	
	2012	2013
	Mar. 31	Mar. 31
ASSETS		
Current Assets	24,878	23,057
Fixed Assets	27,237	28,707
Tangible Fixed Assets	21,425	23,009
Intangible Fixed Assets	2,218	1,888
Investment	3,594	3,810
Total Assets	52,116	51,765
LIABILITIES		
Current liabilities	15,380	14,480
Fixed liabilities	8,551	8,048
Total Liabilities	23,931	22,528
Shareholders' equity	25,020	24,453
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,924	5,358
Less: Treasury share at cost, 5,028,456 shares in Mar. 31, 2012	(1,690)	
Less: Treasury share at cost 5,035,247 shares in Mar. 31, 2013		(1,691)
Valuation and Translation Adjustments	1,983	3,002
Share warrant	52	72
Minority interests	1,128	1,707
Total Shareholders' equity	28,184	29,236
Total Liabilities and Shareholders' equity	52,116	51,765

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2011 and 2012.

	MILLIONS OF YEN	
	FY 2012	FY 2013
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	35,188	35,191
Cost of sales	24,152	24,084
Selling, general and administrative expenses	9,323	10,208
Operating income	1,712	898
Other income	301	446
Other expenses	785	733
Ordinary income	1,228	611
Extraordinary income	1,186	436
Extraordinary expenses	441	108
Income before income taxes	1,973	939
Current	402	452
Deferred	(351)	112
Minority interests	298	517
Net income	1,623	(90)

STOCK (AS of March 31, 2013)

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

10,314

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.	5,035	6.0
Mizuho Corporate Bank, Ltd.	2,987	3.6
The Norinchukin Bank	2,274	2.7
Meiji Yasuda Life Insurance Company	1,645	2.0
Japan Trustee Services Bank, Ltd.	1,564	1.9
The Toho Bank, Ltd.	1,483	1.8
Mitsui Sumitomo Insurance Co., Ltd	1,414	1.7
The Bank Of New York Mellon As Agent BNYM As Eadutch Pension Omnibus 140016	1,400	1.7
The Yamaguchi Bank Ltd.	1,300	1.5