

# Interim Business Report 2013

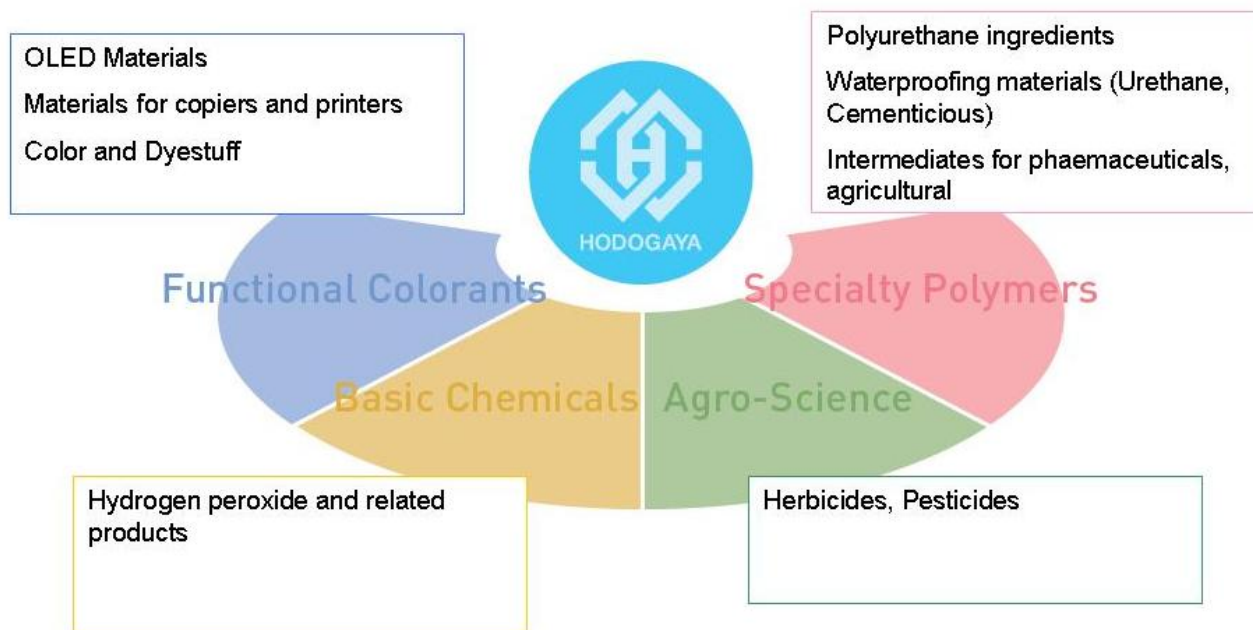
April 1 - September 30, 2013

## 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.



## Message from our President

I thank you for this opportunity to report on our FY 2013 first-half (April 1, 2013 – September 30, results, and on our forecasts for the future.

### **First Half Results**

**With continued growth in the economy, we were able to increase revenue in the first half of the year.**

#### **Second Quarter 2013: Consolidated Results (Millions of Yen)**

	FY 2013 Results	Changes Gains/Losses
Net Sales	17,135	1.9%
Operating Income	60	△58.4%
Ordinary Income (△=losses)	△98	—
Net Income (△=losses)	△311	—

Looking back at the economic climate in the first half of 2013, we see that recovery was weak in Europe, the United States, China, and other world economies, while in Japan there was ongoing economic expansion, fueled by such factors as continuing demand for reconstruction, the compilation of a large supplementary budget, and a weaker yen and higher stock prices following the Bank of Japan's bold easing of monetary policy.

In this environment, consolidated sales for the first half of the year increased by 323 million yen over this time last year to 17,135 million yen. Regarding our businesses, there were ups and downs, with increased revenue in the Specialty Polymers and Agro-Science segments, but decreases in the Functional Colorants and Basic Chemicals segments.

In the Specialty Polymers segment, increased domestic demand for PTG (an ingredient of polyurethane) and significant increases in exports as a result of the weakening of the yen contributed to increases in revenue. In the Agro-Science segment, growth was related to solid demand for herbicides for home garden use. The Functional Colorants segment was negatively affected by increased competition in OLED materials, while the Basic Chemicals segment saw reductions in demand.

In terms of profit and loss, increased expenditures for research and development contributed to an 84 million yen decline in operating income, to 60 million yen. Though we did see increases in dividends received and foreign exchange gains, ordinary losses came to 98 million yen, an increase of 32 million yen from this period last year. Net losses for the first half of the year came to 311 million yen, an improvement of 832 million yen compared to last year, as a result of increased extraordinary profits (damages from Tokyo Electric Power Co., etc.), reduced extraordinary losses (loss on valuation of investment securities, etc.), and reduced corporate taxes, etc.

In consideration of trends in the consolidated results of the first half of the year, future business development and unforeseen risks, the mid-year dividend will be set at 2 yen per share.

### **Making Progress with our Mid-Term Management Plan**

**As our mid-term management plan wraps up its final year, we are steadily reaping the fruits of our efforts.**

As our group approaches its 100<sup>th</sup> anniversary in 2016, our goal is to be a “corporation that steadily supplies ‘Only One/Number One’ materials in the global and niche markets”. To achieve this objective, we embarked on the mid-term management plan “HONKI 2013” (Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination) in FY 2011. With “HONKI 2013”, we plan to create a firm foundation for future growth, and to strengthen each category of business (Core Businesses, Growth Businesses, Cultivation Businesses, and New Product Creation) by 2013.

Highlights of the first half of the year include: our merger with consolidated subsidiary Nippon Peroxide Co., Ltd., on July 1; ongoing construction of cost-saving equipment at our Koriyama plant in an effort to further increase efficiency and strengthen our operations; and the completion of a second factory at SFC CO., LTD. in Korea. With this, we will expand our OLED business. In our Color and Dyestuff business, we are ramping up dye production capabilities for a new color treatment that just came to market. By doing so, we hope to increase market share for this product. Also, as we have previously discussed, we are reviewing the optimum level of product inventory in order to reduce costs.

As described above, we made real progress toward our goals in the first half of this year. We are now in the process of formulating a new mid-term management plan to carry us to our Group’s 100<sup>th</sup> anniversary in 2016.

## **Outlook for the Full Year**

### **Strengthening the Corporate Structure with a Sense of Speed and Independence**

Even though the Japanese economy is showing signs of recovery amid strong stock prices and a weakening Japanese yen, we expect uncertainty in the business environment to continue for the foreseeable future, as unknown elements such as the repercussions of the U.S. financial crisis and the domestic sales tax increase take shape.

In this sort of unpredictable climate, we will continue to devote ourselves to becoming a world-renowned global niche company in the second half of FY 2013, by cutting costs and optimizing inventory, and focusing on research and development, personnel training, and technology succession, etc. More than ever before, we will look to each employee to strive toward a greater sense of speed and independence at work, cultivating a 'bug's eye view' of the truth, a 'bird's eye view' of the big picture, and a 'fish's-eye view' of the flow of the trends in order to better grasp the social and business environment, and better contribute to the strengthening of the organization.

The forecast for the full year, in light of the environment and initiatives described above, is 36,000 million yen in sales (an increase of 2.3% over last year), operating income of 1,000 million yen (an increase of 11.3%), ordinary income of 500 million yen (a decrease of 18.2%), and a net income of 100 million yen. We expect the year-end dividend to be 2 yen per share.

I thank our shareholders for their continuing support.

Toshikazu Kitano  
President and CEO  
December 2013

## Topics

### **The Merger of Hodogaya Chemical Co. Ltd. and Nippon Peroxide Co. Ltd.**

On July 1, we entered a new phase with the merger of with our wholly-owned subsidiary, Nippon Peroxide Co., Ltd.,

Hydrogen peroxide and related materials are a core business area for our Group, and with the market environment facing significant changes, this merger helps us to use group management resources most efficiently, strengthen our competitive position by shoring up business foundations, and makes the Group stronger and more efficient as a whole.

With this merger we increase efficiency throughout the organization, from the back-office divisions, to research and development, to sales, and to production, etc., in order to strengthen the management structure and increase competitiveness.

### **Completion of a Second factory at SFC**

In October, a Second factory was completed at SFC CO., LTD., our Group company in Korea, responsible for the manufacturing and sale of OLED materials. SFC manufactures light-emitting materials, a component of OLEDs. With the completion of the new plant, it will be able to meet increasing customer demand.

Our Group now manufactures and sells all three of the essential OLED materials, including SFC's light-emitting materials, and our hole transport and electron transport materials. In Korea, which currently leads the OLED market, our strong relationship with SFC is helping us to speed the growth of the OLED business.

## Overview By Business Segment

### **Functional Colorants**

The Imaging Materials business grew as a result of almost completed inventory adjustments of copier and printer materials, and the effects of a weakening Japanese yen.

In the functional colorants business, we saw positive contributions from dye for a color treatment that has newly entered the market and almost completed inventory adjustment of aluminum dye in domestic and overseas, but overall results were down due to slack demand for small digital electronics products.

The OLED business also saw a decline related to intensifying competition.

Overall results for this segment were 4,581 million yen in sales, with an operating loss of 506 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 Colorants for processed foods and cosmetics, etc.
OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights.

### **Specialty Polymers**

The Polymer Materials business saw gains related to solid domestic demand for PTG (an ingredient of polyurethane), big increases in exports thanks to the weakening Japanese yen, and greatly increased demand for adhesives in overseas markets.

In the Construction Materials business results were flat, with increases coming from new urethane waterproofing materials customers balancing sluggish growth in large waterproofing contracts.

Sales in the Specialty Chemicals business grew as a result of strong demand in the pharmaceutical, polymer-related and contract manufacturing areas.

Sales in this segment came to 6,001 million yen, with operating income of 169 million yen.

Functional Polymers	Materials for clothing, automobiles, industrial components, leisure products, 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.)
Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.

### Basic Chemicals

The hydrogen peroxide business saw some demand recover in the paper pulp sector due to the weakening Japanese yen, and the industrial chemicals business was in good shape, but overall results were flat because of a drop in demand for veterinary medicine products.

Other hydrogen peroxide-related businesses saw small losses as a result of intensifying competition.

Sales in this segment came to 3,460 million yen, with operating income of 73 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 grew as a result of positive demand for home garden herbicides.

Sales in this segment came to 2,213 million yen, with operating income of 121 million yen.

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

### Hydrogen Peroxide

Hydrogen peroxide is a colorless, clear liquid with the chemical formula “ $H_2O_2$ ” . It is known for its strong oxidation properties. Because it breaks down into hydrogen and oxygen, it is also considered to be an environmentally friendly chemical.

One of its main applications is the bleaching of paper pulp. Hydrogen peroxide is used in a bleaching method that does not require the use of chlorine gas. Diluted hydrogen peroxide is used in the home to bleach clothing, and in Oxydol and other products used to disinfect cuts and scrapes. It is also used to sterilize PET bottles for beverages.

### Did you know?

#### Polyurethane

Polymers are everywhere in our daily lives. When elastic fibers are used in our sportswear or stockings, the clothing label will say “Polyurethane” . The dryers that we use to dry our hair may have brushes made from heat-resistant polymers, while the bands of our wristwatches may be made of polymers that are water- and sweat-resistant. Hodogaya Chemical’ s PTG (an ingredient of polyurethane) plays an important role in all of these items. Hodogaya Chemical is present in the most familiar aspects of our daily lives.



# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED BALANCE SHEETS

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2013.*

	MILLIONS OF YEN	
	2013 Mar. 31	2013 Sep. 30
<b>ASSETS</b>		
<b>Current Assets</b>	23,057	21,657
<b>Fixed Assets</b>	28,707	30,276
Tangible Fixed Assets	23,009	23,894
Intangible Fixed Assets	1,888	1,755
Investment	3,810	4,626
<b>Total Assets</b>	51,765	51,933
<b>LIABILITIES</b>		
Current liabilities	14,480	12,911
Fixed liability	8,048	9,288
<b>Total Liabilities</b>	22,528	22,200
<b>Shareholders' equity</b>	24,453	23,981
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,358	4,888
Less: Treasury share at cost, 5,035,247 shares in Mar. 31, 2013	(1,691)	
Less: Treasury share at cost, 5,044,099 shares in Sep. 30, 2013		(1,693)
Valuation and Translation Adjustments	3,002	3,672
Share warrant	72	40
Minority interests	1,707	2,038
<b>Total Shareholders' equity</b>	29,236	29,732
<b>Total Liabilities and Shareholders' equity</b>	51,765	51,933

## CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2012 and 2013.*

	MILLIONS OF YEN	
	2012	2013
	Apr.1-Sep.30	Apr.1-Sep.30
<b>Net Sales</b>	16,811	17,135
<b>Cost of sales</b>	11,994	11,880
<b>Selling, general and administrative expenses</b>	4,672	5,194
<b>Operating income</b>	145	60
Other income	189	200
Other expenses	400	359
<b>Ordinary income</b>	(65)	(98)
Extraordinary income	142	218
Extraordinary expenses	618	67
<b>Income before income taxes</b>	(542)	51
<b>Current</b>	485	190
<b>Deferred</b>	(1,027)	(138)
<b>Minority interests</b>	116	173
<b>Net income</b>	(1,143)	(311)

## STOCK (AS of September 30, 2013)

### AUTHORIZED NUMBER OF SHARES

200,000,000

### NUMBER OF COMMON SHARES ISSUED

84,137,261

### NUMBER OF SHAREHOLDERS

9,891

### 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.	5,044	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
Japan Trustee Services Bank, Ltd.	1,602	1.9
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 Master Trust Bank of Japan, Ltd.	1,259	1.5