

Report to shareholders

Interim Business Report 2014

April 1 - September 30, 2014

■ Hodogaya Chemical Group: Management Philosophy

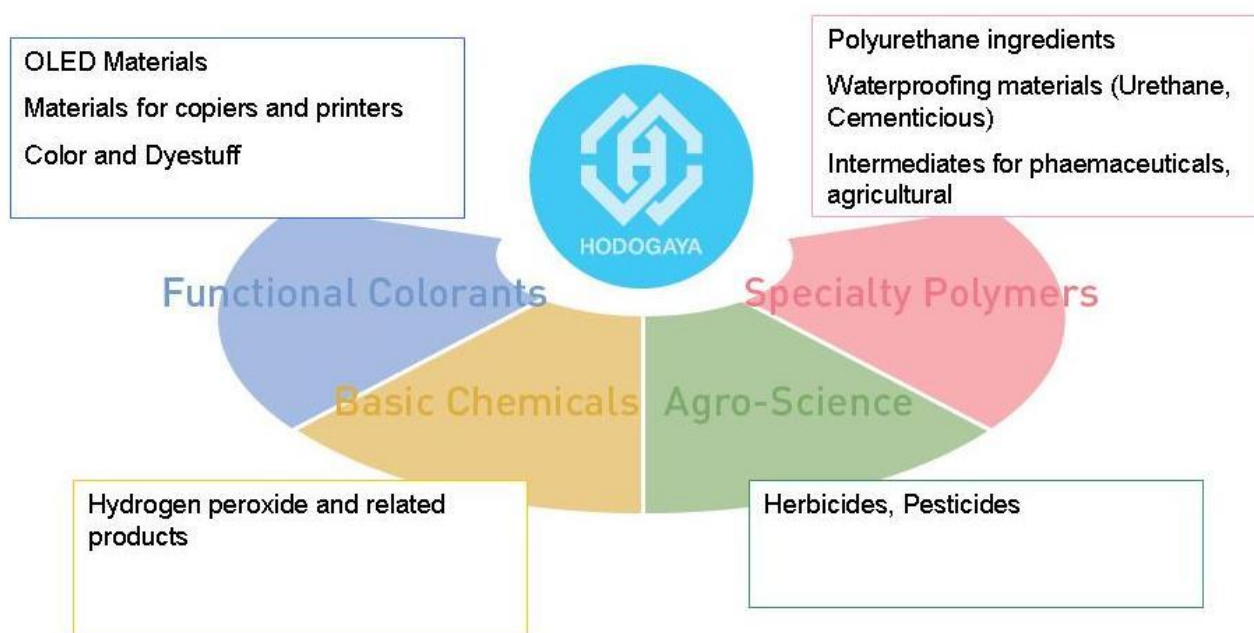
Through constant innovation of chemical technology, we will provide high-quality products and services throughout the world and contribute to the creation of an environmentally conscious society.

■ Promoting women to directorships and management positions

One of the directives of the Hodogaya Group Compliance Guidelines is “Respect for Human Rights and the Prohibition of Discrimination”. Accordingly, in our hiring and promotion practices, etc., we do not discriminate on the basis of age, gender, or nationality. Moving forward, we will nurture talented staff members, whether male or female, and devote special attention to leveling the playing field for female employees through career development and equitable evaluation. We will implement new motivational training programs for female employees in making their work lives more fulfilling, and managers who supervise female employees will be given diversity training. Through measures such as these, we plan to increase the percentage of women in management positions from the current 3% to 6% in 2020.

■ 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

In the ‘Year of Reconstruction’, we take a big step toward profitability with surefooted management initiatives and unceasing effort

As we approach our Group’s 100th anniversary in 2016 and pursue our goal of becoming a “corporation that steadily supplies ‘Only One/Number One’ materials in the global and niche markets,” we have been busily working on business expansion and fortifying our foundation and business structure. In order to break away from the difficult business climate that we have grappled with for the past few years and improve our performance, we designated 2014 as the ‘Year of Reconstruction’, in which, through the implementation of precise management initiatives and tireless effort, we make a strong push toward profitability. Here I will present the results from the first half of FY 2014 (April 1 – September 30, 2014), and discuss our future prospects.

Second Quarter 2014 Consolidated Results (Millions of Yen)

	FY 2014 Second Quarter Results	Changes Gains/Losses
Net Sales	16,377	△4.4%
Operating Income	42	△29.3%
Ordinary Income (△=losses)	△19	-
Net Income (△=losses)	△69	-

First Half Results

Our improved business structure helped us to maintain operating income in the first half of the year.

In the first half of FY 2014, consumer demand was cooled by April's sales tax increase and the irregular summer weather, but corporate spending showed signs of recovery, with increases in capital investment, and improvements in employment and income. The world economy was somewhat weak but stable, with the U.S. remaining strong on the one hand, and geopolitical risks and slowdowns in the developing Asian nations on the other.

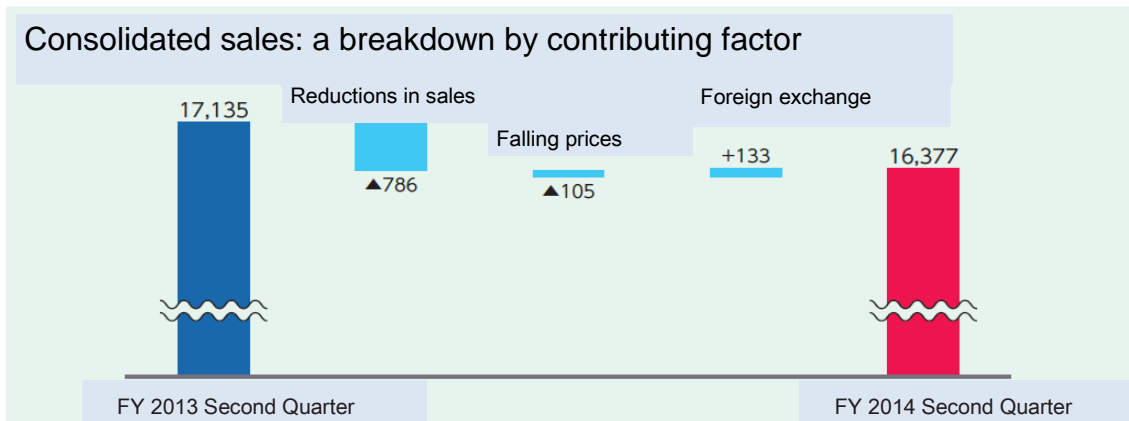
Under these conditions, consolidated sales for the first half of the year came to 16,377 million yen, a decrease of 757 million yen from last year. While our Basic Chemicals segment saw increased revenue, the Functional Colorants, Specialty Polymers and Agro-Science segments all saw decreases.

The Basic Chemicals segment profited from increased exports of certain industrial chemicals. Demand dropped in the Functional Colorants segment, while the Specialty Polymers segment was negatively affected by our withdrawal from some business areas, and the Agro-Science business felt the impact of increasingly severe competition and inventory adjustments.

In terms of profit and loss, although we faced decreased sales, and increases in fuel and raw materials costs due to the weakening yen, our efforts at cost cutting helped us to minimize losses. Our operating income/profit was 42 million yen, down 17 million yen from last year.

Thanks to foreign exchange gains and other factors, ordinary net losses were only 19 million yen, an improvement of 79 million yen compared with last year. Net losses came to 69 million yen, 242 million yen less than they were last year.

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, as forecasted.



Outlook for the Full Year

Our unwavering ‘reconstruction’ effort is focused on continuously increasing sales and decreasing costs.

In the first half of 2014, our “Year of Reconstruction”, we implemented a variety of measures designed to fortify the organization and improve results. At the same time, we maintained focus on the second half of the year and on our upcoming 100th anniversary, sowing seeds for the future with new product R&D, employee training for global development, and industry/academia/government projects.

We will continue this work through the second half of the year, and implement the following initiatives in our business segments.

In the Functional Colorants segment, our China office became a locally incorporated company in April of this year, and in August, started operations as Hodogaya (Shanghai) Trading Co., Ltd. From this base, we will work to expand our toner charge control agent business throughout Asia.

In the Specialty Polymers segment, we will be increasing our focus on environmentally friendly plant-based bio-products we would like to shift our focus away from petrochemical-based products to environmentally friendly plant-based bio-products, and proactively work to increase sales of building materials through involvement in construction projects.

In the Basic Chemicals segment, we aim to increase market share of our core product, hydrogen peroxide, by increasing sales of such products as the fishery parasiticide Sakana Guard. Additionally, we are reaping the benefits of last July's merger with Nippon Peroxide Co., Ltd., with increased productivity and improved operational efficiency.

In the Agro-Science segment, we will strive to bring new products to market. In the second half of the year we will focus on sales of herbicides, which are in particularly high demand, and in providing herbicide application services to mega solar installations.

The Group as a whole has ambitious plans for sales development in the domestic and overseas markets, and as we work to cut costs in every possible area, we have also raised the sales price of some products. We are also hard at work on new product development and sales.

Hodogaya (Shanghai) Trading Co., Ltd. will buy and sell raw materials, helping the Group to lower procurement costs. By implementing these measures in a sure and timely fashion, our Group will pursue 'reconstruction' along with a stable profit base for our 100th anniversary in 2016.

The forecast for the full year, in light of the environment and initiatives described above, is 36,500 million yen in sales (an increase of 2.3% over last year), operating income of 600 million yen, ordinary income/profit of 1,500 million yen, and a net income/profit 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 2014

Forecast for FY 2014 (Millions of Yen)

Net Sales	36,500
Operating Income	600
Ordinary Income	150
Net Income	100

■ Overview By Business Segment

Functional Colorants

In the Imaging Materials business, demand for printer materials continued to fall, and revenue dropped. In the Dyes and Colorants business, the effects of the sale of the textile dyes business at the end of the last period and the repercussions of increased sales of food dyes prior to the sales tax increase were countered by increased demand in the stationery and color filter dye areas, leading to a steady results compared with last year. The OLED business saw losses due to increased competition and decreased demand for smartphone products. Sales in this segment came to 4,186 million yen, with operating losses of 513 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

The Polymer Materials business saw losses due to the withdrawal of some product lines, despite strong demand for release agents and steady demand for polyurethane materials in both the domestic and the overseas markets. Results remained steady in the Building Materials business, as falling demand among large urethane materials customers was countered by several large-scale waterproofing projects. The sale of some product lines at the end of last year led to losses in the Specialty Chemicals business, even though the polymer-related business was steady, and demand for pharmaceuticals and contract manufacturing increased greatly. Sales in this segment came to 5,989 million yen, with operating incomes of 181 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

Results were steady in the Hydrogen Peroxide business, thanks to steady performance in the paper pulp and veterinary medicine areas. Sodium percarbonate sales fell, due to weak demand. Other industrial chemicals saw gains, thanks to increases in exports. Sales in this segment came to 3,394 million yen, with operating incomes of 63 million yen.

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

Agro-Science

Certain products in the Agro-Science business saw strong export results, but overall results were down, due to increased competition in the home garden herbicide market and inventory adjustments. Sales in this segment came to 1,744 yen, with operating incomes of 49 million yen.

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

■ Topics

■ Teaching our Children about the Wonders of Chemistry: “Yume · Kagaku 21”

We were proud to participate in the “Yume · Kagaku 21” (“Chemistry Makes Our Dreams Come True”) fair, which was held on June 14 and 15 in Fukushima City. This event, sponsored by the Japanese Chemical Industry Association and other groups, gave elementary school students the chance to experience the wonders of chemistry. Four companies located in the prefecture participated, teaching children about the fun and the mysteries of chemistry. Our Koriyama plant demonstrated our laundry detergent bleaching agent with an experiment in how colors change. The children enjoyed the experiment, and their mothers showed interest in the detergent demonstration. With about 200 visitors over the 2 days, the event was a great success.

■ Glossary

■ Release Agents

Release agents are coated on paper and films to provide release from adhesives. The main applications include the back surface treatment of tapes and films, and backing paper for stickers and labels. Our products are used in cellophane tape, masking tape, medical tape, and protective films for smartphones, among other products.

■ CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2014.

	MILLIONS OF YEN	
	2014 Mar. 31	2014 Sep. 30
ASSETS		
Current Assets	20,815	22,270
Fixed Assets	30,110	29,986
Tangible Fixed Assets	23,279	23,009
Intangible Fixed Assets	1,528	1,271
Investment	5,303	5,705
Total Assets	50,926	52,256
LIABILITIES		
Current liabilities	12,423	11,781
Fixed liability	9,351	10,656
Total Liabilities	21,774	22,438
Shareholders' equity	22,861	22,638
Common stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	3,770	3,549
Less: Treasury share at cost, 5,054,476 shares in Mar. 31, 2014	(1,695)	
Less: Treasury share at cost, 5,060,937 shares in Sep. 30, 2014		(1,696)
Valuation and Translation Adjustments	4,093	4,875
Share warrant	51	-
Minority interests	2,144	2,303
Total Shareholders' equity	29,151	29,818
Total Liabilities and Shareholders' equity	50,926	52,256

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2013 and 2014.

	MILLIONS OF YEN	
	2013	2014
	Apr.1-Sep.30	Apr.1-Sep.30
Net Sales	17,135	16,377
Cost of sales	11,880	11,535
Selling, general and administrative expenses	5,194	4,799
Operating income	60	42
Other income	200	251
Other expenses	359	313
Ordinary income	(98)	(19)
Extraordinary income	218	111
Extraordinary expenses	67	1
Income before income taxes	51	90
Current	190	94
Deferred	(138)	(3)
Minority interests	173	66
Net income	(311)	(69)

■ STOCK

(AS of September 30, 2014)

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

9,414

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.	5,060	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 Master Trust Bank of Japan, Ltd.	1,263	1.5
Japan Trustee Services Bank, Ltd.	1,246	1.5