

Report to shareholders

# Interim Business Report 2015

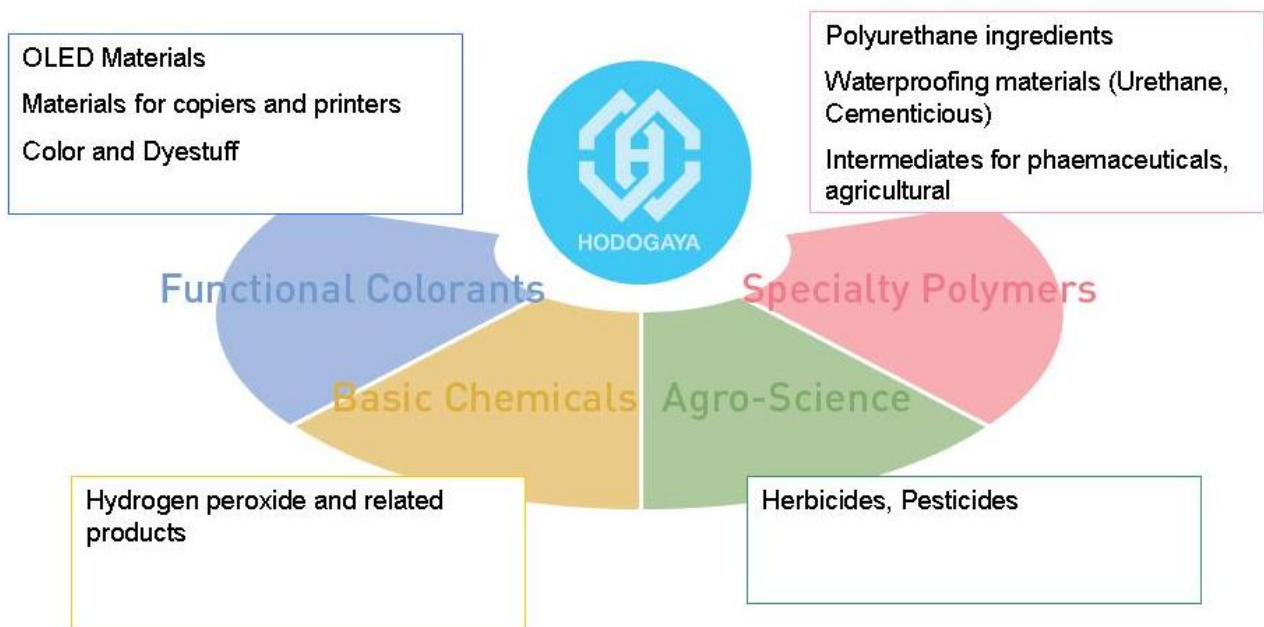
April 1 - September 30, 2015

## ■ 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

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

With the start of our new mid-term management plan, "HONKI 2020", we are making progress towards strengthening our core businesses and cultivating the businesses of the future.

As we approach the great milestone of our Group's 100th anniversary in 2016, we are working toward our goals of becoming a corporation that steadily supplies "Only One/Number One" specialty products in the global and niche markets, fortifying our core businesses and corporate structure, and expanding our business. Against this backdrop, we embarked on our new mid-term management plan, "HONKI 2020", in FY 2015, and will complete the plan in FY 2020. This 6-year management plan focuses on strengthening our core businesses and cultivating the businesses of the future.

I will now report on our results for the first half of FY 2015 (April 1 – September 20, 2015), and our prospects for the future.

#### **Second Quarter 2015 Consolidated Results (Millions of Yen)**

	FY 2015 Second Quarter Results	Changes Gains/Losses
Net Sales	16,062	△1.9%
Operating Income	17	△58.7%
Ordinary Income (△=losses)	△47	-
Net Income (△=losses)	△41	-

## **First Half Results**

**Despite the severe business environment, we were able to turn an operating income in the first half of the year.**

During the first half of FY 2015, the world economy saw continued gradual recovery, with stronger consumer spending and employment contributing to growth in the U.S. economy, and consumer spending leading the path to recovery in the EU. However, there are concerns that the diesel emissions scandal that came to light in September may have a negative impact on the economies of Germany and other countries. Further, the slowdown in China's economy has become more apparent, but it is still unclear how this may affect the world economy.

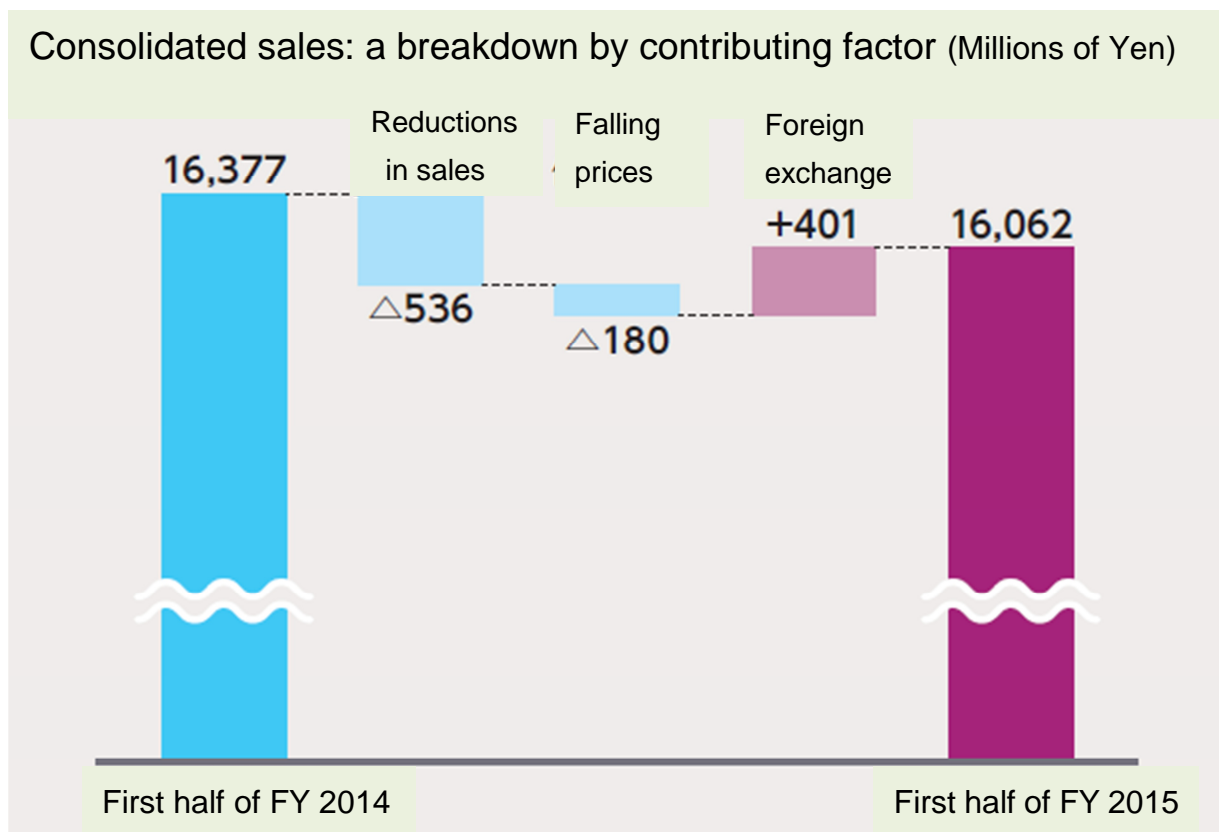
Meanwhile, in the Japanese economy, a gradual economic recovery was bolstered by the effects of a cheaper Japanese yen and fiscal policies implemented by the government and the Bank of Japan, but October's monthly economic report reflected the impact of world economic events, with the assessment of current economic conditions dropping for the first time in a year and the risk of economic downturn growing greater.

Under these conditions, consolidated sales for the first half of the fiscal year came to 16,062 million yen, a reduction of 315 million yen from the previous year. Revenues increased in the Specialty Polymers segment, but fell in the Functional Colorants, Basic Chemicals, and Agro-Science segments.

In the Specialty Polymers segment, steady demand for urethane ingredients, particularly with regard to construction materials, led to the increase in revenue. In the Functional Colorants segment, on the other hand, the environmentally friendly organic photo conductor business and the aluminum and stationery dyes businesses were strong, but increased competition and weakening demand for OLED materials led to sharp decreases. In the Basic Chemicals segment, reduced demand in the hydrogen peroxide derivatives business and increased competition in the Agro-Science business contributed to the decrease in revenue.

In terms of profit and loss, our operating income came to 17 million yen, a reduction of 25 million yen. Ordinary losses came to 47 million yen, an increase of 28 million yen from last year. Quarterly net losses, which are attributable to our shareholders, came to

41 million yen, an improvement of 27 million yen compared with last year. In overall consideration of trends in our results, future business development and unforeseen risks, the mid-year dividend will be set at 2.5 yen per share, as forecasted.



**Prospects for the Full Fiscal Year**

**As we approach our 100th anniversary, we are focused on stabilizing our core businesses.**

In the first half of FY 2015, which is the first year of our new mid-term management plan, “ HONKI 2020 ( Hodogaya as Only one, Number one with our Key technology and Imagination), our Group has devoted itself to stabilizing our already profitable core businesses by focusing on sales expansion and cost reduction.

In particular, at Hodogaya (Shanghai) Trading Co., Ltd., which began operations last August, the ‘high quality, low cost’ approach to the toner charge control agents business has contributed to positive results such as the significant expansion of sales in the Asian markets.

In the second half of FY 2015, the Group will strive as a whole to develop sales expansion measures for each segment, and to redouble cost reduction efforts. In the Functional Colorants segment, a variety of our OLED materials are being sold in the Asian markets as a set with the products of our Group companies, focusing not only on the weakened smartphone market, but also on such areas as tablet PCs and lighting. At the same time, the segment is working increase development efficiency. The Agro-Science segment is working to expand growth with the introduction of new products that it has developed.

We are also putting more effort than ever before into our Corporate Social Responsibility (CSR) initiatives, including strengthening corporate governance, and promoting work-life balance. With our 100th anniversary in sight, our Group will continue to work to stabilize core businesses, while pulling together to restore our competitive position and profitability, and working to build the foundations that will allow us to develop and cultivate the new businesses and products that will be essential to future growth.

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 3.8% over last year), operating income of 800 million yen, ordinary income of 600 million yen, and a net income of 400 million yen. We expect the year-end dividend to be 2.5 yen per share.

I thank our shareholders for their continuing support.

Toshikazu Kitano  
 President and CEO  
 December 2015

**Forecast for FY 2015 (Millions of Yen)**

Net Sales	36,000
Operating Income	800
Ordinary Income	600
Net Income	400

## ■ Overview By Business Segment

### **Functional Colorants**

In the Imaging Materials business, severe conditions continue for printer materials, but thanks to the introduction of some new products, sales were on a par with the previous year. In the Dyes and Colorants business, although aluminum dyes for digital home appliances performed well and demand for food dyes recovered, overseas demand for other dyes fell sharply, and results remained flat compared with the previous year. The OLED business saw significant losses due to increased competition and decreased demand for smartphone products. Sales in this segment came to 3,928 million yen, a reduction of 258 million yen (6.2%) from the previous year.

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 an increase, thanks to stable demand for urethane ingredients both domestically and abroad, as well as increased demand in building applications at the beginning of the period. Results remained steady in the Building Materials business, with good demand for water-stopping materials and construction countered by falling demand for waterproofing materials and construction. Results were steady in the Specialty Chemicals business, as strong performance in the pharmaceuticals area was offset by client inventory adjustments in other areas. Sales in this segment came to 6,079 million yen, an increase of 90 million yen (1.5%) over the previous year.

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

In the Hydrogen Peroxide business, performance was strong in the areas of paper pulp and environmental products, but demand for derivative products (sodium percarbonate, peracetic acid) was down, and competition for some industrial chemicals grew more severe. Sales in this segment came to 3,376 million yen, a decrease of 18 million yen (0.5%) from the previous year.

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

In the Agro-Science business, demand for herbicides for mega-solar projects was strong, but because of inventory adjustments by home garden herbicide clients, overall results were down. Sales in this segment came to 1,640 million yen, a decrease of 103 million yen (6.0%) from the previous year.

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

### Taking Part in the “Children’s Summer Break Chemistry Lab Show”

On August 1st and 2nd, our Yokohama plant and Tsukuba Research Laboratory were proud to participate in the “Children’s Summer Break Chemistry Lab Show”, which was held at the Science Museum. This event was designed to spark interest in chemistry among the scientists of the future through lab experiments. At our booth, we worked with aluminum dyes. The children created one-of-a-kind bookmarks with their own messages and drawings, and dyed them to the color of their choice. 260 children visited our booth over the two days, and they all seemed to genuinely enjoy themselves.

## ■ Introducing KATSURA SANGYO CO., LTD.

KATSURA SANGYO CO., LTD. procures and markets the chemical ingredients that go into the products that enrich our lives, ranging from polyurethane resins to food additives to colorants for stationery and paints.

At Katsura Sangyo, we always remember the need for balance between what people want to achieve with chemicals, and their responsibilities in using them. Developments in chemical technology accelerate the pace of human progress, but at the same time, they intensify the need for environmental protection. We aim to supply chemical products that are useful to humanity while protecting the environment of our precious planet. In order to accomplish this, a company must always have the ‘macro’ picture – the planet and the future – and the ‘micro’ picture - the daily life of the individual – in sight. This is our goal.

We hope to contribute to the chemical industry’s efforts to develop the next generations of chemical innovation by working cooperatively within the industry and supplying information, raw materials and products to support these efforts in Japan and throughout the world.

## ● History

“Yokohama Katsuraya Kihachi Shoten”, the company that would eventually go on to become Katsura Sangyo, was founded by Mr. Kihachi Watanabe of Katsuramura in Niigata Prefecture. The business was already operating during the Ansei era at the end of the Edo Period (1854~), even before the days of such historical figures as Kaishu Katsu and Ryoma Sakamoto. We can clearly say that this is one of Japan’s pioneer trading companies.

In Kihachi Watanabe’s hometown of Katsuramura (now Iwafune-gun Sekikawamura), there is a vast compound that was rebuilt in the style of a tea-ceremony house after a



fire in the middle Edo period, and is currently designated as a cultural property of national importance (Honkatsuraya, Watanabe House). “Yokohama Katsuraya Kihachi Shoten” began commerce with manufacturers in Germany and India during the Edo period, and in the Meiji period (1868 – 1912), the company changed its name to “Katsuraya Shibata Shoten”, establishing itself as a dye business in Nihonbashi Setomonochō in Tokyo. At the start of the Taisho period (1912 – 1926), the company had offices in Shanghai and New York, and it continued to build its network in the Showa period (1926 – 1989), opening offices throughout China and in Seoul.

#### Company Profile

Name: KATSURA SANGYO CO., LTD.  
Headquarters: Chuo-ku, Tokyo  
Network: Osaka Branch Office (Osaka City, Osaka)  
Nagoya Branch Office (Nagoya City, Aichi)  
President: Hiroshi Kato  
Established: 1917  
Capital: 30 million yen

## ■ CONSOLIDATED FINANCIAL STATEMENT

### CONSOLIDATED BALANCE SHEETS

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2015.*

	MILLIONS OF YEN	
	2015 Mar. 31	2015 Sep. 30
<b>ASSETS</b>		
<b>Current Assets</b>	23,948	22,676
<b>Fixed Assets</b>	30,534	28,923
Tangible Fixed Assets	22,625	21,675
Intangible Fixed Assets	974	614
Investment	6,934	6,632
<b>Total Assets</b>	54,483	51,600
<b>LIABILITIES</b>		
Current liabilities	12,618	11,881
Fixed liability	9,757	8,735
<b>Total Liabilities</b>	22,376	20,616
<b>Shareholders' equity</b>	23,171	22,931
Common stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	4,084	3,844
Less: Treasury share at cost, 5,074,511 shares in Mar. 31, 2015	(1,699)	
Less: Treasury share at cost, 5,079,313 shares in Sep. 30, 2015		(1,699)
Accumulated other comprehensive income	6,397	5,842
non-controlling interests	2,537	2,210
<b>Total Shareholders' equity</b>	32,107	30,983
<b>Total Liabilities and Shareholders' equity</b>	54,483	51,600

## CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2014 and 2015.*

	<b>MILLIONS OF YEN</b>	
	<b>2014</b>	<b>2015</b>
	<b>Apr.1-Sep.30</b>	<b>Apr.1-Sep.30</b>
<b>Net Sales</b>	16,377	16,062
<b>Cost of sales</b>	11,535	11,226
<b>Selling, general and administrative expenses</b>	4,799	4,817
<b>Operating income</b>	42	17
Other income	251	152
Other expenses	313	217
<b>Ordinary income</b>	(19)	(47)
Extraordinary income	111	16
Extraordinary expenses	1	25
<b>Income before income taxes</b>	90	(56)
<b>Current</b>	94	159
<b>Deferred</b>	(3)	(215)
<b>Minority interests</b>	66	(173)
<b>Net income</b>	(69)	(41)

## ■ STOCK

(AS of September 30, 2015)

### AUTHORIZED NUMBER OF SHARES

200,000,000

### NUMBER OF COMMON SHARES ISSUED

84,137,261

### NUMBER OF SHAREHOLDERS

9,641

### MAIN SHAREHOLDERS (TOP 10 COMPANIES)

<b>Shareholder</b>	<b>Number of Shares Held (in thousands)</b>	<b>Percentage of Shares Held (%)</b>
Tosoh Corporation	7,000	8.3
Hodogaya Chemical Co., Ltd.	5,079	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
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,326	1.6
The Yamaguchi Bank Ltd.	1,300	1.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd .	1,201	1.4