

Interim Business Report 2016

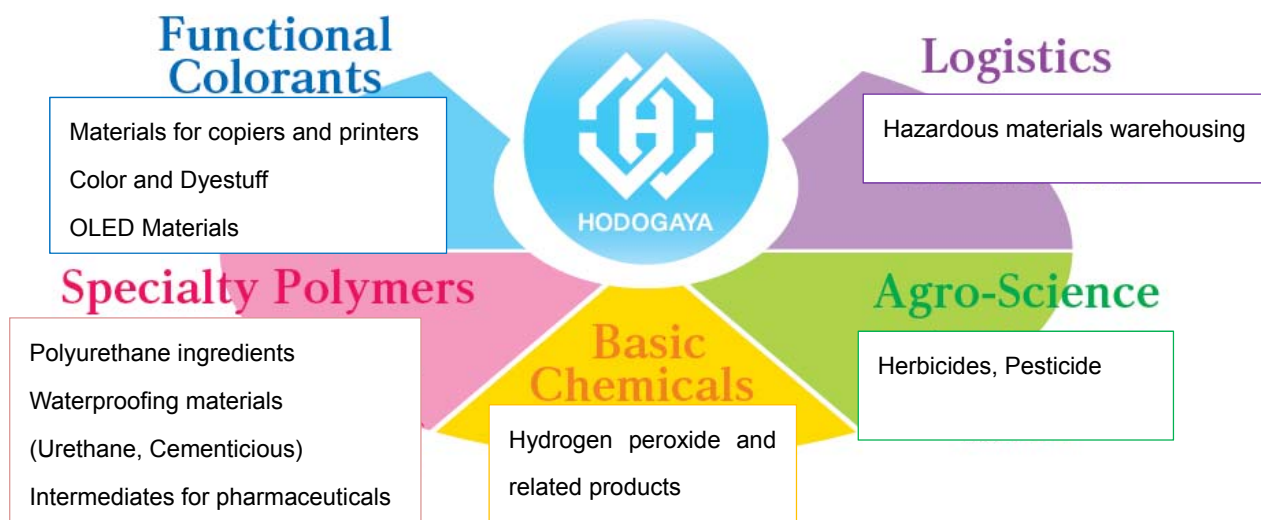
April 1 - September 30, 2016

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

In November 2016, Hodogaya Chemical Co., Ltd. celebrated its 100th anniversary.

We now set out on our second hundred years with gratitude in our hearts.

We are especially grateful for the support of our shareholders and customers, without which we would not have been able to achieve this important milestone.

At this time, our Group is pushing ahead with “HONKI 2020”, a mid-term management plan that will conclude in 2020, but we have also decided to introduce a new management structure to lead us into our 101st year.

In order to strengthen our management base, former president Toshikazu Kitano has been named Chairman of the Board and Representative Director, while Yuto Matsumoto has assumed the role of President and Representative Director.

We thank you for your continued support as we work towards a strong future.

Yuto Matsumoto
President and CEO
December 2016

Second Quarter 2016 Consolidated Results (Millions of Yen)

	FY 2016 Second Quarter Results	Changes Gains/Losses
Net Sales	15,675	△2.4%
Operating Income	526	-
Ordinary Income	276	-
Net Income attributable to owners of parent	382	-

First Half Results

Through steady cost-cutting efforts, we were able to increase profitability despite decreased sales.

Regarding the world economies in the first half of 2016, employment rates in the United States continued to grow, along with consumer spending. At the same time, however, industrial sentiment, industrial production, and retail all declined. In Europe, England's decision by national referendum in June to leave the EU became a major political event, but its economy continued to gradually recover, with improved employment rates and rising consumer spending. The Chinese economy grappled with excess capacity in the steel and coal industries, but the economy remained steady

thanks to rising housing prices and investments in infrastructure.

In Japan, employment figures improved, but because the Japanese yen continued to appreciate against other currencies despite long-term low interest rates, corporate profits fell and the economy remained in a holding pattern.

Within this economic climate, our consolidated sales for the first half of the year fell due to the effects of the strong yen and ongoing severe conditions in the Imaging Materials business, but revenues increased as a result of decreasing materials costs and our Group-wide effort to reduce costs.

In the Functional Colorants segment, strong performance by aluminum dyes for digital appliances was countered by stagnating demand for printer materials and severe competition for OLED materials, resulting in an overall decrease in income.

In the Specialty Polymers segment, tire materials performed well, but inventory adjustments in polyurethane materials for elastic fibers and other factors contributed to decreases in income.

In the Basic Chemicals segment, demand for hydrogen peroxide for paper pulp fell while competition intensified, but because of strong demand for industrial chemicals and veterinary medicines, income increased overall.

In the Agro-Science segment, income decreased as a result of client inventory adjustments. Income increased significantly in the Logistics segment, thanks to steady performance in the warehousing business and new growth in the exporting business.

Our consolidated sales for the first half of the year came to 15,675 million yen, a decrease of 386 million yen from the first half of last year. Operating income increased by 508 million yen to 526 million yen. Ordinary income, though affected by foreign exchange losses, came to 276 million yen (an increase of 324 million yen) due to increased operating income. The Net Income attributable to owners of parent came to 382 million yen (an increase of 424 million yen).

Upon consideration of performance trends, future business development, and unquantifiable risks, etc., we set the interim dividend at 2.5 yen per share.

Our full-year consolidated earnings forecast is as follows:

Forecast for FY 2016 (Millions of Yen)

Net Sales	34,000
Operating Income	1,000
Ordinary Income	900
Net Income attributable to owners of parent	800

Regarding our year-end dividend, we plan to set the dividend at 35 yen per share, including a commemorative dividend for our 100th anniversary. (Effective October 1, 2016, we carried out a reverse stock split at the rate of 10 shares for 1 share. If the reverse stock split is not taken into account, this comes to 3.5 yen per share.)

Overview By Business Segment

Functional Colorants

Income from the Imaging Materials business fell, due to reduced demand and ongoing severe competition in the area of printer materials. The Colors and Dyestuffs business grew significantly, thanks to strong performance in the area of aluminum dyes for digital appliances.

The OLED Materials business is expanding as display applications are introduced, bringing increasing numbers of new users, but intense competition caused income to fall. Sales in this segment came to 3,620 million yen, with operating losses of 472 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

In the Polymer Materials business, tire materials performed well, but inventory adjustments in the area of elastic fiber materials contributed to a reduction in income. In the Construction Materials business, stiff competition impacted urethane waterproofing materials, but results remained steady thanks to large-scale waterproofing construction jobs. The Specialty Chemicals business remained steady despite the effects of the strong yen.

Sales in this segment came to 5,746 million yen, with operating income of 369 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.

Basic Chemicals

In the mainstay area of Hydrogen Peroxide for paper pulp, income decreased as demand fell while competition intensified, but strong demand for industrial chemicals and veterinary medicines led to increased income. In the Hydrogen Peroxide Derivatives business, demand for home cleaning products grew, and income increased.

In other business areas, income was reduced by the discontinuation of products. Sales in this segment came to 3,399 million yen, with operating income of 402 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
--	---

Agro-Science

Performance of home garden herbicides, etc. was on a par with last year, but overall results were down due to inventory adjustments by golf course and farming pesticide clients.

Sales in this segment came to 1,589 million yen, with an operating loss of 96 million yen.

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

Logistics

Performance was strong in the Warehousing business, and new accounts in the Export business resulted in large-scale increases in income.

Sales in this segment came to 1,199 million yen, with operating income of 344 million yen.

Logistics	Hazardous materials warehousing
-----------	---------------------------------

Overview of our Mid-Term Management Plan

Steady attention to our 6-pronged initiative gives rise to tangible results and new possibilities.

With our Group's mid-term management plan, "HONKI 2020" (Hodogaya as Only one, Number one with our Key technology and Imagination), we are working to strengthen our core businesses, and to cultivate and strengthen the businesses of the future. We are making progress toward our goals, as described below.



(1) Regaining Competitive Strength and Securing a Stable Revenue Base

Core Businesses: Businesses that are already generating positive results

We are focused on cutting costs, improving production capacity, developing new applications, and expanding global business. The first half of this year saw a significant increase in sales as our aluminum dyes were used to create new colors for the ever popular smartphone. In the Agro-Science segment, our new golf course herbicide, PROVIDE EC was brought to market.

(2) Establishing a Foundation for the Next Generation

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

OLEDs have been in the spotlight as a next-generation display technology, and now that full-scale production of OLED smartphone displays has begun, we expect the market to grow. We have accumulated OLED technologies and know-how for the past 25 years. Building on our advantage as a leader in the field, we will continue to actively apply ourselves to further research and product development.

(3) Expanding our Scope of Business by Creating New Added Value

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

Demand for vibrantly colored, high permeability dye-type colorants for color filters for displays is overtaking demand for the traditional pigment-type colorants. We have a great deal of technical expertise and know-how in the area of color filter dyes, and we expect significant growth in this area. We have already begun to see the buds of this cultivation business begin to emerge.

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

We are working to bring new specialty products to market, making the most of 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”.

(4) Strengthening Global Operation

HODOGAYA (SHANGHAI) TRADING CO., LTD. has expanded our product portfolio in China and is achieving revenue growth, while in Korea, OLED material developer, manufacturer and sales company SFC CO., LTD. and HODOGAYA CHSMICAL KOREA CO., LTD., which sells chemical products, continue to prosper. HODOGAYA CHEMICAL (U.S.A.), INC. has been expanding sales of polyurethane materials, imaging materials, and agricultural chemicals, etc. Further, our offices in Dusseldorf (Europe) and Taipei (Taiwan) have been actively marketing our products and collecting information at trade shows, etc.

(5) Cultivating Personnel for a Diversifying Society

As part of our initiative to stimulate our Group through solid personnel development, we are holding periodic classes and practical training sessions at each plant to ensure that our advanced technologies are passed along from veteran employees to mid-career and younger employees.

(6) Enhancing our Commitment to CSR (Corporate Social Responsibility)

In April of this year we established a CSR committee, and have deepened our commitment to enhancing our CSR activities. In the first half of the year, we participated in our second “Children’s Summer Vacation Chemical Lab” event, visiting children in elementary schools in the vicinity of our Nanyo Plant for guest classes on chemistry.

Last November 5, in conjunction with our CSR efforts, we held a commemorative 100th anniversary concert at the Koriyama Culture Center to express our gratitude to the people in the Koriyama region who have supported our development for so many years. Advance sale tickets quickly sold out, and the packed house was able to enjoy classical music performed by a top class conductor and musicians. The next day, November 6, we held a chamber music concert at the hospital adjacent to our Koriyama plant.

We will continue to do our best to contribute to the well-being of this regional community.
I thank our shareholders for their continuing support.

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

Hodogaya Chemical's 100 year history

To commemorate our 100th anniversary, we invited our employees to design a special logo. Our 100th anniversary logo expresses the feelings we share about this milestone and our future: "Sowing unlimited seeds of the chemical technologies of the future, and using chemistry to help bring dreams to fruition."

1915: "Hodogaya Soda Works", a private enterprise was established
Production of electrolytic caustic soda initiated. First in Japan

1916: **Inauguration of "Hodogaya Chemical"**
Koriyama Plant opened

1926: **Production of Phosgene started**

1927: **Production of Dyestuff started**

1939: **Yokohama Plant opened**

1950: **Production of Agrochemicals started**

1963: **Production of PTG, raw materials of elastic fibers, started**

1966: **Production of Hydrogen peroxide started**

1967: **Production of Urethane waterproof materials started. First in Japan**

New York office opened (Incorporated in 1986)

1971: **Nanyo Plant opened**

1978: **Production of Charge Control Agents for toner started**

Hodogaya Vandex Construction Products Co., Ltd. established

1984: **Production of Organic Photo Conductor materials started**

1991: **Tsukuba Research Center opened**

1993: Hodogaya JRF Contract Laboratory Co., Ltd. established

(2014 Capital participation by Jai Research Foundation (India))

1997: Shanghai office opened

2001: **Production of Hole Transport Materials for OLED started**

2004: **Development of Electron Transport Materials for OLED**

2008: Hodogaya UPL Co., Ltd. established

Korea office opened. (Incorporated in 2011)

2010: Investment in stock SFC Co., Ltd.

Duesseldorf office opened

Taipei office opened

2011: HODOGAYA AGROTECH Co., Ltd. established

2014: HODOGAYA (SHANGHAI) TRADING CO.,LTD. established

2016: **100th Anniversary**



Koriyama Plant



Yokohama Plant



Nanyo Plant



Tsukuba Research Center



SFC Research Center (Korea)

100 years of Hodogaya Chemical technology

Establishment of the Company

When our company was founded in 1916, imports had been cut off due to the First World War, and our country's chemical industry had shaken off import dependency and was experiencing a sudden rise to power.

After the company was founded, it became the first in Japan to use electrolysis to produce caustic soda and caustic soda derivatives, and this became its main technology. These continued to be core technologies and products until recent times. A special note must be made of the start of liquid phosgene production in 1926. This led to the development of our dye stuffs and dye stuff intermediates, as well as our urethane materials. This period was the dawn of our electrolysis, phosgene and dye businesses.

Time passed and our country moved rapidly toward militarization. Our company had a strong connection with the military, and was the first among the chemical companies to switch over to munitions research and production. During the war, we won numerous national awards for our aircraft fuel additives and our new manufacturing technologies, illustrating the high level of our technologies at the time. However, our flagship Koriyama plant was bombed, and when Japan lost the war munitions production ended overnight, leaving our reconstruction efforts weighed down with bad assets and heavy liabilities.

1945~

After the war, we contributed to hunger relief and public hygiene efforts with the production of artificial sweeteners, deworming medicines and penicillin, and from 1945 on we began to actively introduce new products into the market. Agricultural chemicals and pharmaceuticals, particularly tuberculosis treatments, sustained us through the mid-1950s. Older types of dye stuffs such as direct dyes and basic dyes were popular then, industrial chemical sales increased. For us, this was the period of pharmaceuticals and dyes.

1955~

New dye stuffs for acrylics replaced tuberculosis treatments as our leading product. With the introduction of the acrylic dyes, we became a major dye stuff manufacturer both in name and in fact. In addition, the agricultural chemicals businesses that we had developed in the late 1940s began to take off at this time, and herbicides for rice farming in particular became a main source of revenue from the mid 1950s until the early 1960s. In the area of industrial chemicals, paradichlorobenzene (insecticide) and sodium chlorate produced by a new method were strong performers. Dye stuffs, pharmaceuticals and agricultural chemicals, and industrial chemicals each secured their own position during this period.

1965~

As the extremely profitable rice farming herbicide business began to slow down, we started to look to other substances. Dye stuffs remained strong, with pressure sensitive dyes and dyes for

paints and ballpoint pens joining acrylic dyes in the lineup. In industrial chemicals, sodium chlorate retained its underlying strength, and urethane products began to grow. In this period industrial chemicals were our core product, dye stuffs and agricultural products found new directions, and polymer products came to the forefront.

During this period, we made the decision to close the Hodogaya plant that had been our birthplace and construct the Nanyo plant in order to develop a petrochemical business. However, we were ultimately unable to enter that industry.

1975~

With the economic stagnation caused by the oil shock, our acrylic dyes, which had been star performers, began to decline. Our management was faced with no choice but to streamline management. In agricultural chemicals, intermediates performed better than active ingredients. In this period, the contract manufacturing of active pharmaceutical ingredients became quite active, and with our organic synthesis capabilities, we were able to secure many large-scale contracts. The latter half of this period saw the development of dye stuff derivatives such as heat sensitive color formers and toner additives.

1985~

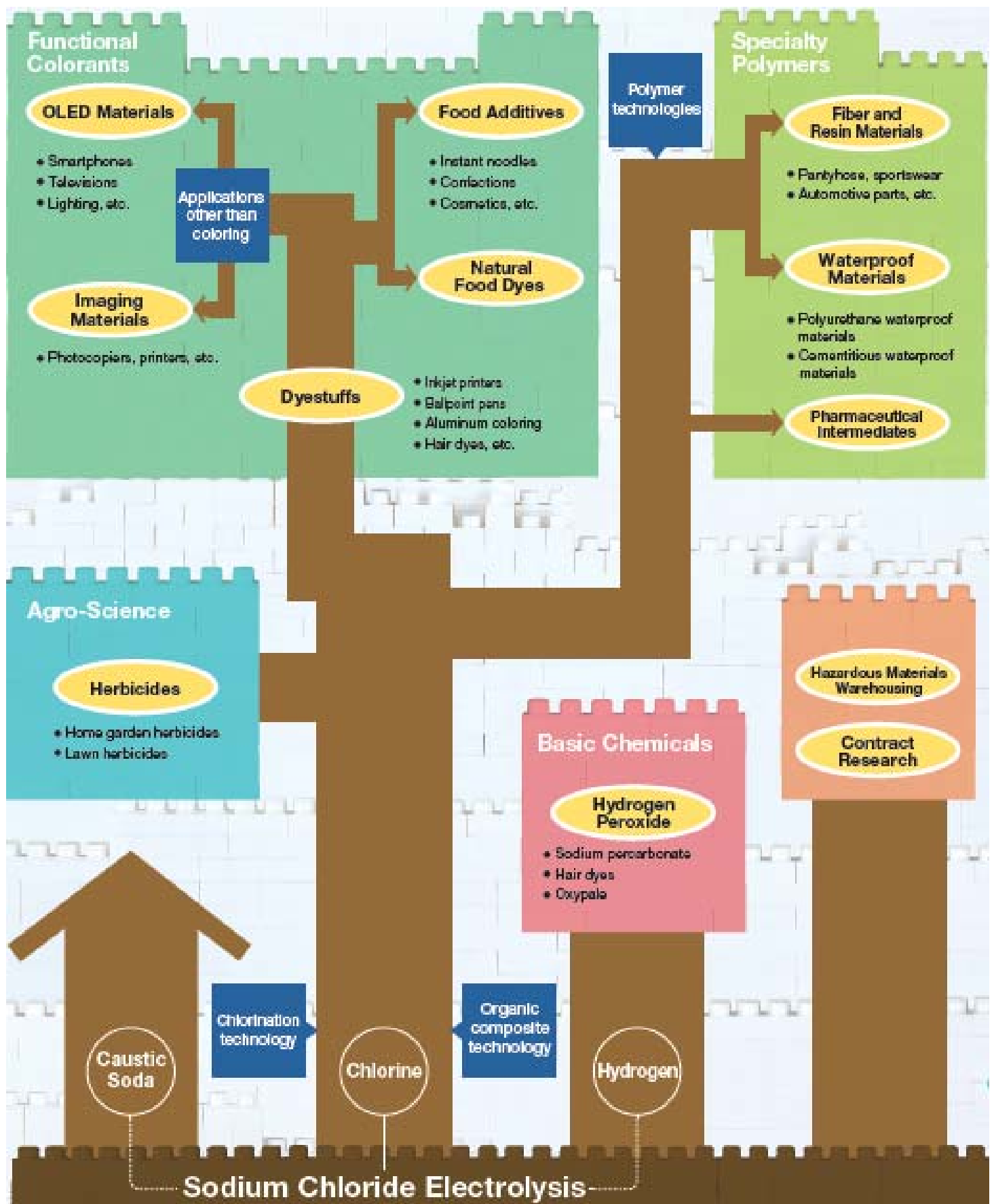
With the sudden economic recovery of the bubble economy, our core industrial chemicals business began to recover. However, contract manufacturing began to decline, with only small-scale contracts available. In the dye stuffs business, a remarkable transition to information recording materials took place, while in agricultural chemicals, the niche garden herbicides market became a mainstay.

1989~

Information recording materials became leading products. The industrial chemical and older-type dye businesses that supported us for so long were restructured, and the nature of our business changed greatly. Construction materials, primarily urethane materials and urethane waterproofing materials, gained traction at this time.

In recent years, we've developed new products such as OLED materials and hair coloring products, but if we consider the products and technologies that have been handed down to us over time, the dye technologies and synthesis capabilities that were awarded the Okochi Production Prize are clearly central to our development.

Hodogaya Chemical's Tree of Diversification



TOPICS 1

Hodogaya Logistics Co., Ltd. now offers door-to-door ISO tank container (a tank container built to ISO (International Organization for Standardization) standards) service to the United States. ISO tank containers are an excellent shipping method in terms of economy, convenience, safety, and environmental concerns, and over 450,000 such containers are in use throughout the world. We expect the popularity of these containers to continue to grow, and are working to expand our international shipping business.



TOPICS 2

Visiting classes

Last July, we held visiting classes on chemistry for 4th graders in the vicinity of our Nanyo plant.

1st Period

Let's make bubbles!

An experiment in which oxygen is generated from hydrogen peroxide, blowing soap bubbles through a graduated cylinder.



2nd period

Let's make soap bubbles that don't break!

An experiment in which break-resistant soap bubbles are made by adding laundry starch and sugar to the soap bubble liquid, and the soap bubbles are played with outside.

This was our first attempt at visiting classes, and most of the preparations were carried out by first-year employees. The students had a lot of comments and questions, and it was a productive day all around. Many of the students didn't know what we manufacture even though the plant is in their neighborhood, so this was a good opportunity to introduce ourselves. We plan to hold similar classes at other locations in the future.

CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2016.

	MILLIONS OF YEN	
	2016 Mar. 31	2016 Sep. 30
ASSETS		
Current Assets	23,742	22,795
Fixed Assets	27,390	26,987
Tangible Fixed Assets	20,946	20,340
Intangible Fixed Assets	301	252
Investment	6,143	6,394
Total Assets	51,133	49,783
LIABILITIES		
Current liabilities	12,487	12,111
Fixed liability	7,590	6,879
Total Liabilities	20,077	18,991
Shareholders' equity	23,585	23,769
Common stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	4,500	4,685
Less: Treasury share at cost, 5,083,717 shares in Mar. 31, 2016	(1,700)	
Less: Treasury share at cost, 5,088,481 shares in Sep. 30, 2016		(1,702)
Valuation and Translation Adjustments	5,333	5,173
Minority interests	2,137	1,849
Total Shareholders' equity	31,056	30,792
Total Liabilities and Shareholders' equity	51,133	49,783

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2015 and 2016.

	MILLIONS OF YEN	
	2015	FY 2016
	Apr.1-Sep.30	Apr.1- Sep.30
Net Sales	16,062	15,675
Cost of sales	11,226	10,760
Selling, general and administrative expenses	4,817	4,388
Operating income	17	526
Other income	152	126
Other expenses	217	375
Ordinary income	(47)	276
Extraordinary income	16	84
Extraordinary expenses	25	3
Income before income taxes	(56)	357
Total income taxes	159	148
Net income	(215)	208
Net Income attributable to non-controlling interests	(173)	(174)
Net Income attributable to owners of parent	(41)	382

STOCK (AS of September 30, 2016)

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

8,871

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	7,000	8.3
Hodogaya Chemical Co., Ltd.	5,088	6.0
Mizuho Bank, Ltd.	2,987	3.6
The Master Trust Bank of Japan, Ltd.	2,603	3.1
Japan Trustee Services Bank, Ltd.	2,532	3.0
The Norinchukin Bank	2,274	2.7
Japan Trustee Services Bank, Ltd.	1,671	2.0
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