

# Interim Business Report 2017

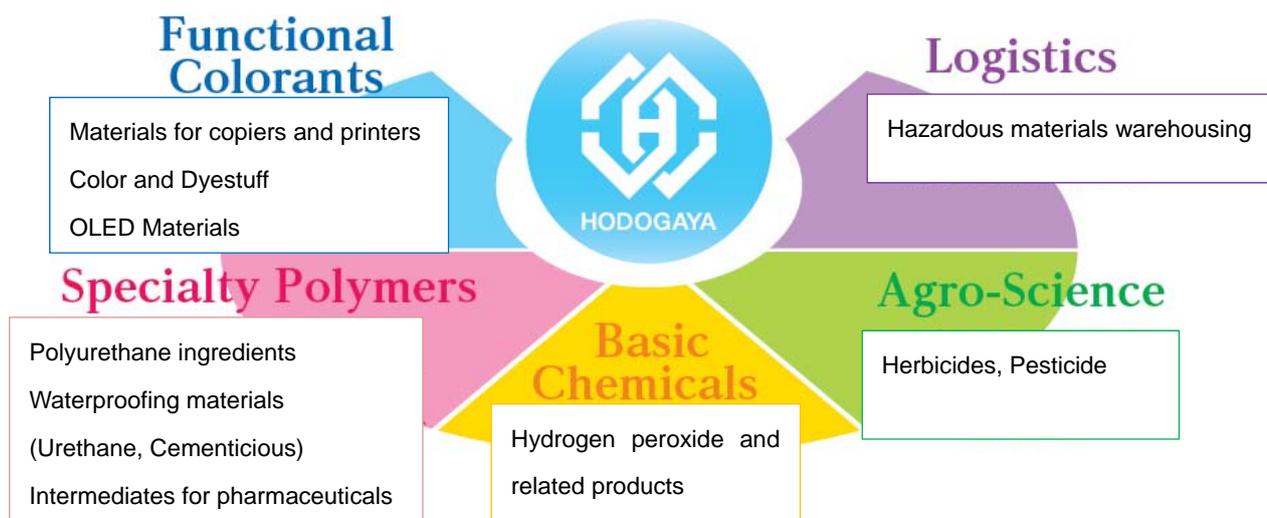
April 1 - September 30, 2017

## 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 its 101<sup>st</sup> year, Hodogaya Chemical continues to forge ahead in its quest for growth and enhanced group value through “HONKI 2020”.**

We celebrated our 100<sup>th</sup> anniversary last year, and this year, we’ve taken the first steps into the next 100 years. Currently, our group is devoting its efforts to “HONKI 2020”, a mid-term management plan that will conclude in FY 2020.

We thank you for your continued support as we work to increase growth.

Our report on first-half results for FY 2017 (April 1 – September 30, 2017) and on future prospects follows.

We thank you for your support.

Yuto Matsumoto  
President and CEO  
December 2017



## First-Half Results

### Increased Demand and Profitability in Functional Colorants and Other Segments

With regard to the world economies in the first half of 2017, the United States economy has been stable, but various risks lie ahead. Between the geopolitical risks rising in North Korea and other areas, and domestic issues such as tax reform, future prospects are uncertain. In Europe, political uncertainty was forecasted at the national level, but this has not had much effect on the economy, which continues to recover steadily with improvements in employment and consumer spending. The Chinese economy saw slumps in real estate and manufacturing investment, but these were countered by increased spending on infrastructure and strong consumer spending, resulting in a steady overall economic picture. In Japan, the economy has basically continued on a path of gradual growth, with good corporate earnings. However, between the geopolitical risks posed by North Korea and other countries, and political and economic uncertainties in the United States, the situation cannot be viewed with optimism.

Within this economic climate, our consolidated net sales grew in the first half of the year, particularly in the Functional Colorants segment, which saw increased demand for OLED materials and dyestuffs. In terms of profit and loss, fuel prices that were much higher than the previous year put pressure on profitability, but income increased due to increases in sales, etc.

In the Functional Colorants segment, demand for imaging materials continued to be soft, but increasing demand for the OLED materials that are used in smartphone displays, etc., and strong demand for aluminum dyes for digital appliances contributed to an increase in income.

In the Specialty Polymers segment, increasing competition in the construction materials business affected waterproofing materials, but demand for urethane materials and tire materials was steady, and sales performance in the specialty chemicals business was on a par with last year, while profits increased.

In the Basic Chemicals segment, sales of hydrogen peroxide derivatives for home cleaning products decreased, but demand for hydrogen peroxide for paper pulp and industrial chemicals increased, leading to increases in profits.

In the Agro-Science segment, increased sales of herbicides for home gardens, railroads, and farms contributed to increases in profits.

In the Logistic segment, strong performance in the warehousing business and in the import-export business led to increased profits.

Consolidated net sales for the first half of the year came to 18,938 million yen, an increase of 3,263 million yen from the first half of last year. Operating profit increased by 1,521 million yen to 2,047 million yen, thanks to increased net sales, while ordinary profit came to 2,499 million yen (an increase of 2,222 million yen) due to foreign exchange gains, etc. The profit attributable to owners of parent was reduced by increased profit attributable to non-controlling interests, but still came to 1,637 million yen (an increase of 1,255 million yen).

Upon consideration of performance trends, future business development, and unquantifiable risks, etc., we set the interim dividend at 25 yen per share.

## Second Quarter 2017 Consolidated Results (Millions of Yen)

	FY 2017 Second Quarter Results	Changes Gains/Losses
Net Sales	18,938	+20.8%
Operating Profit	2,047	+289.1%
Ordinary Profit	2,499	+803.0%
Profit attributable to owners of parent	1,637	+327.8%

### Mid-term Management Plan Status Update

**As “HONKI 2020” makes steady progress, we strive for both corporate and social growth.**

Currently, as our Group works through its mid-term management plan “HONKI 2020” (Hodogaya as **O**nly one, **N**umber one with our **K**ey Technology and **I**magination), we have focused on strengthening our core businesses while developing and strengthening the businesses of the future. This September, we brought one of our growth businesses, a peracetic acid food additive called “OXYATTACK®” to market. This product, which can be used as a surface anti-bacterial on a variety of foods, drew a great deal of attention from the market, and we anticipate that demand will continue to grow.

Our Group is also focused on strengthening its Corporate Social Responsibility (CSR) efforts. This year, we published our first “Integrated Reporting” featuring financial information, CSR activities, management strategies, corporate governance, and more. Among our various CSR initiatives has been our effort to use environmentally friendly rail transportation for shipping - this earned us Eco-Rail Mark certification.

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

## Full-year Prospects

**In both sales and income, our forecasts exceed previous estimates.**

Cumulative results for the second quarter of FY 2017 and immediate performance trends point to consolidated results for the full year that exceed previous estimates in terms of both sales and income, and we adjusted our forecast accordingly.

We anticipate net sales of 38,200 million yen (a 10% increase from the previous year), operating profit of 3,700 million yen (an increase of 73.8% from the previous year), ordinary profit of 3,700 million yen (an increase of 76.7% from the previous year), and 2,000 million yen in profit attributable to owners of parent (an increase of 2.5% from the previous year). We expect the full-year dividend to be 25 yen per share.

We thank our shareholders for their support.

### Forecast for FY 2017 (Millions of Yen)

Net Sales	38,200
Operating Profit	3,700
Ordinary Profit	3,700
Profit attributable to owners of parent	2,000

## Overview By Business Segment

### **Functional Colorants**

The OLED business saw an increase in demand in the area of displays, and a large increase in income. In the Dyes and Colors business, continued strong performance in the area of aluminum dyes for digital appliances led to a large increase in income. In contrast, continued sluggish demand for materials for printers led to flat results in the Imaging Materials business.

Net sales in this segment came to 5,978 million yen, with 1,090 million yen in operating profit.

OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights.
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks. Hair Coloring Agents Colorants for processed foods and cosmetics, etc.
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

### **Specialty Polymers**

In the Polymer Materials business, performance in the area of tire materials was on a par with the previous year, but thanks to strong demand for urethane materials both domestically and overseas, income increased. Performance in the Specialty Chemicals business was on a par with the previous year, with reduced demand for pharmaceutical chemicals countered by increased demand for polymer chemicals. In the Construction Materials business, competition in the area of waterproofing materials led to a reduction in income.

Net sales in this segment came to 5,910 million yen, with 204 million yen in operating profit.

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 Hydrogen Peroxide business, increased demand in the core area of paper pulp as well as in the industrial chemicals area led to increased income. However, in the Hydrogen Peroxide Derivatives business, income decreased as a result of reduced demand for home cleaning product materials.

Net sales in this segment came to 3,572 million yen, with 372 million yen in operating profit.

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
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### Agro-Science

In the Herbicides business, demand grew in the home garden and railway areas, leading to an increase in income. Demand for farm herbicides grew as well, also leading to increased income.

Net sales in this segment came to 1,790 million yen, with 42 million yen in operating profit.

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

Steady performance in the Warehousing business and strong performance in the Exports business resulted in a large increase in income.

Net sales in this segment came to 1,591 million yen, with 342 million yen in operating profit.

Logistics	Hazardous materials warehousing
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## TOPICS

### **“OXYATTACK®”, a new food additive, is launched**

This September, we began sales of food additive “OXYATTACK®”. This product is a peracetic acid formulation that was newly designated as a food additive last year. Applications include surface anti-bacterial treatment of meats, vegetables, and fruits, and we expect it to be effective in removing bacteria from food processing equipment, etc., as well. The product drew so much attention at the October ‘Safety and Technology Japan’ trade show that we could do nothing but answer questions and field inquiries for some time after our presentation.



### **Eco-Rail Mark Certification: Environmentally-friendly cargo transport**

Carrying a ton of cargo one kilometer by rail produces just one tenth the amount of carbon dioxide that would be produced by a commercial truck, so the use of rail transport is an effective way to reduce carbon dioxide emissions. Our Group actively grapples with environmental issues, and both the company and our rail-transportable products, Sakana Guard, sodium percarbonate, peracetic acid, and charge control agent TP-415 were certified with the Eco-Rail Mark by the Railway Freight Association.



### **Our Group Company, Katsura Sangyo Co., Ltd., Celebrates 145 Years of Operation and the 100th Anniversary of its Incorporation**

Katsura Sangyo Co., Ltd., a trading company devoted to the sales and marketing of chemical products, celebrates 145 years in operation and the 100th anniversary of its incorporation this year. In 1872, the company got its start handling dyes and pigments, and gradually expanded into the areas of industrial chemicals and polymer materials, etc., until it became a leading importer of products from overseas. We congratulate them on reaching this milestone.



## Bringing Science Lessons to Children / Kids' Summer Break Science Experiment Show



We have been participating in the “Kids’ Summer Break Science Experiment Show” produced by Dream/Science 21 since 2015. This year, we conducted a safe and fun experiment in aluminum bookmark making using aluminum dyes and alumite dye technology.

We also held visiting chemistry classes for 4th graders living in the vicinity of our Nanyo plant. The children asked many questions and expressed many

opinions, and it was a productive day all around. We see this as a good opportunity to introduce our company to our neighbors, and explain what we manufacture.



## A Sign of Recovery: The 69th National Free Planting Festival

On June 10, 2018, our Group will be a sponsor of the 69th National Free Planting Festival that will take place in the coastal disaster prevention forests of Minami-soma City in Fukushima Prefecture.



Fukushima Prefecture is the home of our Koriyama plant, and local residents have been participating in efforts to promote recovery by planting trees and creating disaster prevention forests. We see the upcoming National Free Planting Festival as an important symbol of the community’s tireless recovery efforts, and as an expression of thanks for the support that has poured in to the area from around Japan and around the world.

## Participating in the Fukushima Prefecture Renewable Energy Technologies Empirical Research Project

Our company is participating in the 2017 Fukushima Prefecture Renewable Energy Technologies Empirical Research Project. This Prefecture-supported project involves the testing of a “next-generation cogeneration system to promote the use of renewable energy”, and is being undertaken by Hitachi, Ltd., Denyo Kosan Co., Ltd. and the National Institute of Advanced Industrial Science and Technology.



We will provide space for conducting the tests at our Koriyama plant, and will supply hydrogen and utilities for the tests. This demonstration testing will be used as a model in hydrogen economy research, and will play a role in conceptualizing the “Fukushima New Energy Economy”. As part of our CSR efforts, we hope that our Group’s products will help to make the hydrogen economy a reality, and benefit Fukushima Prefecture, the home of our Fukushima plant.

**CONSOLIDATED FINANCIAL STATEMENT**  
**CONSOLIDATED BALANCE SHEETS**

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31 and September 30, 2017.*

	<b>MILLIONS OF YEN</b>	
	<b>2017</b>	<b>2017</b>
	<b>Mar. 31</b>	<b>Sep. 30</b>
<b>ASSETS</b>		
<b>Current Assets</b>	24,972	26,393
<b>Total non-current assets</b>	28,457	29,406
Total property, plant and equipment	20,186	19,776
Total intangible assets	212	175
Investments and other assets	8,058	9,454
<b>Total Assets</b>	53,430	55,800
<b>LIABILITIES</b>		
Total Current liabilities	10,491	10,791
Total non-current liabilities	9,080	8,846
<b>Total Liabilities</b>	19,572	19,637
<b>Shareholders' equity</b>	25,132	26,487
Capital stock	11,196	11,196
Capital surplus	9,589	9,589
Retained earnings	6,056	7,417
Less: Treasury share at cost, 511,518 shares in Mar. 31, 2017	(1,709)	
Less: Treasury share at cost, 512,524 shares in Sep. 30, 2017		(1,716)
Accumulated other comprehensive income	6,664	7,104
Non-controlling interests	2,060	2,570
<b>Total net assets</b>	33,857	36,162
<b>Total liabilities and net assets</b>	53,430	55,800

## CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2016 and 2017.*

	MILLIONS OF YEN	
	2016	FY 2017
	Apr.1-Sep.30	Apr.1- Sep.30
<b>Net Sales</b>	15,675	18,938
<b>Cost of sales</b>	10,760	12,047
<b>Selling, general and administrative expenses</b>	4,388	4,843
<b>Operating profit</b>	526	2,047
Non-operating income	126	587
Non-operating expenses	375	135
<b>Ordinary profit</b>	276	2,499
Extraordinary income	84	4
Extraordinary losses	3	5
<b>Profit before income taxes</b>	357	2,498
<b>Income taxes</b>	148	309
<b>Profit</b>	208	2,188
<b>Profit (loss) attributable to non-controlling interests</b>	(174)	550
<b>Profit attributable to owners of parent</b>	382	1,637

## STOCK (AS of September 30, 2017)

### AUTHORIZED NUMBER OF SHARES

20,000,000

### NUMBER OF COMMON SHARES ISSUED

8,413,726

### NUMBER OF SHAREHOLDERS

6,874

### MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares Held (%)
Tosoh Corporation	700,000	8.3
Hodogaya Chemical Co., Ltd.	512,524	6.1
Japan Trustee Services Bank, Ltd.	460,200	5.5
Mizuho Bank, Ltd.	298,704	3.6
The Norinchukin Bank	227,430	2.7
Japan Trustee Services Bank, Ltd.	205,600	2.4
JPMCB:CREDIT SUISSE SECURITIES EUROPE-JPY 1007760	179,700	2.1
Meiji Yasuda Life Insurance Company	164,535	2.0
The Master Trust Bank of Japan ,Ltd.	159,900	1.9
The Toho Bank, Ltd.	148,399	1.8