

Business Report 2017

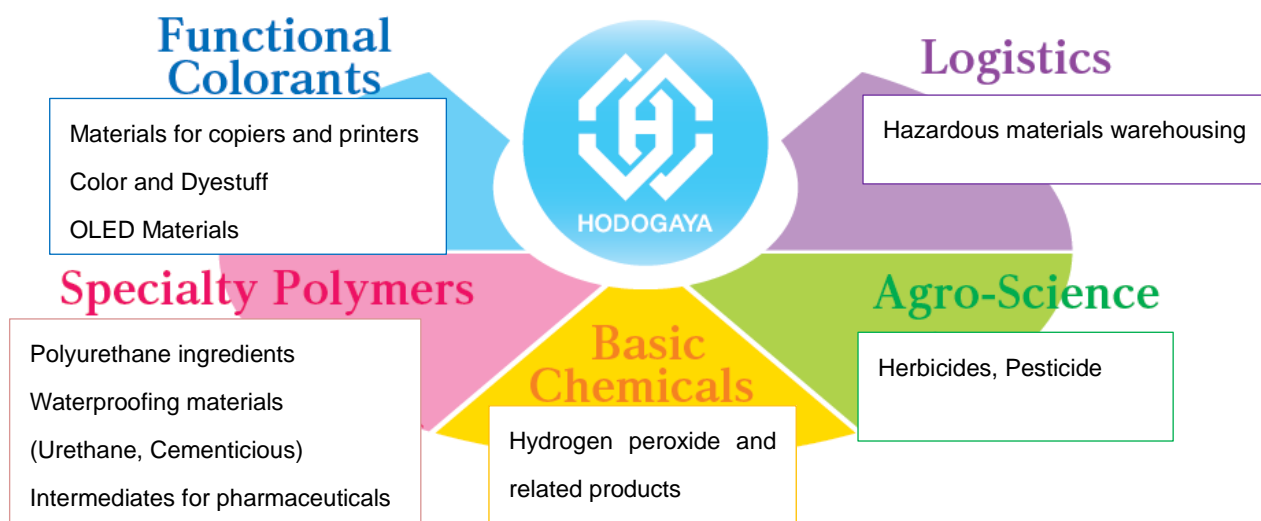
April 1, 2017 - March 31, 2018

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.



Financial Results

With regard to the global economic trends in FY2017, the United States economy continued a steady recovery supported by gradual recovery in capital investments and steady consumer spending as a result of improvements in employment and income environment. In Europe, the economy continued a favorable trend with improvements in employment environment and strong consumer spending. The Chinese economy remained strong with increase in export against the backdrop of the recovery of global economy and stable consumer spending as a result of income increase. As for Japan, our economy continued a moderate recovery with ongoing improvements in employment and income environment, and gradual recovery of consumer spending.

Within this economic climate, our net sales in FY2017 increased by 3,953 million yen (up 11.4%) year-over-year to 38,693 million yen, mainly due to growth of the Functional Colorants segment, which saw increased demands for OLED materials, dyes and colors. In terms of profit and loss, operating profit increased by 1,774 million yen (up 83.3%) year-over-year to 3,903 million yen thanks to increased net sales and other factors. Ordinary profit came to 4,169 million yen, an increase of 2,075 million yen (up 99.1%) year-over-year, while profit attributable to owners of parent increased by 911 million yen (up 46.7%) year-over-year to 2,862 million yen.

FY 2017: Consolidated Results (Millions of Yen)

	FY 2017 Results	Changes Gains/Losses
Net sales	38,693	+11.4%
Operating profit	3,903	+83.3%
Ordinary profit	4,169	+99.1%
Profit attributable to owners of parent	2,862	+46.7%

Overview of our Mid-Term Management Plan

We embarked on “HONKI 2020” (Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination), a 6-year management plan that will be completed in FY 2020.

Our Group’s Vision for 2020

A corporation that steadily supplies “Only One/Number One” materials in the global and niche markets.



Each business is classified into one of the following four categories, and we focus on strengthening core businesses while developing and cultivating the businesses of the future.

Core Businesses: Businesses that are already generating positive results

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

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

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

With “HONKI 2020”, we are implementing the following measures:

- (1) Regaining Competitive Strength and Securing a Stable Revenue Base
- (2) Establishing a Foundation for the Next Generation
- (3) Expanding our Scope of Business by Creating New Added Value
- (4) Strengthening Global Operation
- (5) Cultivating Personnel for a Diversifying Society
- (6) Enhancing our Commitment to CSR (Corporate Social Responsibility)

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

① Core Businesses: Businesses that are already generating positive results

[Basic Approach] Cutting costs, improving production capacity, developing new applications, expanding global business.

[Main Businesses]

[Functional Colorants Segment] Existing charge control agents (CCA), aluminum dyes, stationery dyes, hair coloring dyes.

[Functional Polymers Segment] Existing polyol materials (bio-polyols, special polyols), phosgene derivatives, tire adhesives, cementitious and urethane waterproofing materials.

[Basic Chemicals Segment] Hydrogen peroxide, sodium percarbonate.

[Agro-Science Segment] Herbicide granules, pesticides, contract manufacturing.

[Logistics Segment] Logistics, warehousing.

(2) Establishing a Foundation for the Next Generation

② Growth Businesses: Expected to generate positive results in FY 2015~2016

[Basic Approach] Expand sales and market share in growing markets, strategic investment.

[Main Businesses]

[Functional Colorants Segment] OLED materials, environmentally-friendly charge control agents(CCA).

[Basic Chemicals Segment] Peracetic acid, hydrogen peroxide for veterinary pharmaceuticals.

[Agro-Science Segment] Liquid herbicides, mega-solar grounds management.

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

③ Cultivation Businesses: Expected to generate positive results in FY 2017~2018

[Basic Approach] Creation of new products, expansion of sales and market share.

[Main Businesses]

[Functional Colorants Segment] Dyes for color filters, CCA for color toner.

[Functional Polymers Segment] New polyol materials.

[Agro-Science Segment] Peroxides for agricultural applications.

④ New Business Creation: Businesses that are expected to generate positive results in FY 2019 and beyond

[Basic Approach]

- Striving to achieve 5,000 million yen in new product sales in FY 2020.
- Using 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”, we will endeavor to contribute to a world of abundance.

(4) Strengthening Global Operation

[Basic Approach] Promotion of business activities in global and niche markets on the basis of a firm understanding of customer needs.

(5) Cultivating Personnel for a Diversifying Society

[Basic Approach] Energizing the Group by training employees to “think, investigate, and act”.

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

[Basic Approach] Maintaining and deepening the trust held in us by all stakeholders, and contributing to social development.

Business Objectives (Millions of Yen)

	FY 2020
Net sales	50,000
Operating profit	5,000
Operating margin	10.0%

Prospects for March 2018

Prospects for FY 2018 (Millions of Yen)

	FY 2018
Net sales	37,000
Operating profit	2,300
Ordinary profit	2,300
Profit attributable to owners of parent	1,100

Overview By Business Segment

Functional Colorants

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

As a result, net sales in this segment came to 10,997 million yen, with 1,413 million yen in operating profit.

OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights. Light Emitting Materials.
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.

Specialty Polymers

The Functional Polymers business was on par with the previous fiscal year thanks to steady demands for urethane materials and tire materials. The Specialty Chemicals business led to increased income with increased demand for polymer-related components. Meanwhile, in the Construction Materials business, competition in the area of waterproofing materials led to a reduction in income.

As a result, net sales in this segment came to 12,046 million yen, with 653 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

Increased demands for hydrogen peroxide for the industrial chemicals and environmental areas led to an increase in income.

As a result, net sales in this segment came to 7,024 million yen, with 805 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

Increased demands for herbicides for home gardening and cropland led to a large increase in income.

As a result, net sales in this segment came to 5,580 million yen, with 350 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 increase in exports resulted in a large increase in income.

As a result, net sales in this segment came to 2,820 million yen, with 631 million yen in operating profit

Logistics	Hazardous materials warehousing
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TOPICS

Supporting the 69th National Tree Planting Festival

The National Tree Planting Festival is a national land afforestation campaign held every year between April and June hosted by the National Land Afforestation Promotion Organization and the prefectural government of the venue. The 69th Festival was held in Fukushima Prefecture in 2018 for the second time since 1970. On June 10, the first day of the Festival, five venues were set up including the site in Shidoke district of Haramachi in Minami-soma City where the



ceremony was held with the attendance of the Emperor and Empress, and other satellite sites and PR sites. The ceremony was broadcast live and the entire prefecture got into the spirit.

Having had its primary plant in Koriyama City, Fukushima Prefecture for over 100 years since 1916, the Hodogaya Chemical Group also actively sponsored and supported this year's Tree Planting Festival. On March 11, 2018, seven years after the disaster of the Great East Japan Earthquake, 11 young employees from the Koriyama Plant planted 250 saplings of Japanese black pine at the coastal disaster prevention forest in Shidoke district.

We hope that these trees will grow in the next 10, 20, and 50 years to form a grand disaster prevention forest as Fukushima continues its tireless recovery efforts.

Eco-Rail Mark Certification

As an initiative to protect the environment, the Group has been pursuing a modal shift in cargo transport (from truck to rail transport) for many years. As a company actively grappling with environmental issues, Hodogaya Chemical was certified to use the Eco Rail Mark additionally for our four environmentally friendly, rail-transportable products.



CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2017 Mar. 31	2018 Mar. 31
ASSETS		
Total Current Assets	24,972	25,565
Total non-current assets	28,457	29,431
Total property, plant and equipment	20,186	20,010
Total intangible assets	212	175
Total investments and other assets	8,058	9,245
Total Assets	53,430	54,997
LIABILITIES		
Total current liabilities	10,491	11,426
Total non-current liabilities	9,080	7,702
Total Liabilities	19,572	19,128
Total shareholders' equity	25,132	26,637
Capital stock	11,196	11,196
Capital surplus	9,589	8,716
Retained earnings	6,056	8,444
Treasury shares	(1,709)	(1,719)
Total accumulated other comprehensive income	6,664	6,632
Non-controlling interests	2,060	2,599
Total net assets	33,857	35,869
Total liabilities and net assets	53,430	54,997

CONSOLIDATED STATEMENTS OF INCOME

MILLIONS OF YEN

	MILLIONS OF YEN	
	FY 2017	FY 2018
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	34,739	38,693
Cost of sales	23,317	24,787
Selling, general and administrative expenses	9,292	10,001
Operating profit	2,129	3,903
Total non-operating income	256	733
Total non-operating expenses	291	467
Ordinary profit	2,094	4,169
Total extraordinary income	115	13
Total extraordinary losses	93	452
Profit before income taxes	2,115	3,731
Income taxes	266	176
Profit	1,848	3,555
Profit attributable to non-controlling interests	(102)	692
Profit attributable to owners of parent	1,951	2,862

STOCK(AS of March 31, 2018)**AUTHORIZED NUMBER OF SHARES**

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

8,622

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares Held (%)
Tosoh Corporation	700,000	8.9
Japan Trustee Services Bank, Ltd.	350,800	4.4
Mizuho Bank, Ltd.	298,704	3.8
The Norinchukin Bank	227,430	2.9
Japan Trustee Services Bank, Ltd.	170,100	2.2
Meiji Yasuda Life Insurance Company	164,535	2.1
The Toho Bank, Ltd.	148,399	1.9
Mitsui Sumitomo Insurance Co., Ltd.	141,400	1.8
The Master Trust Bank of Japan, Ltd.	134,800	1.7
The Yamaguchi Bank Ltd.	130,000	1.6