

Interim Business Report 2018

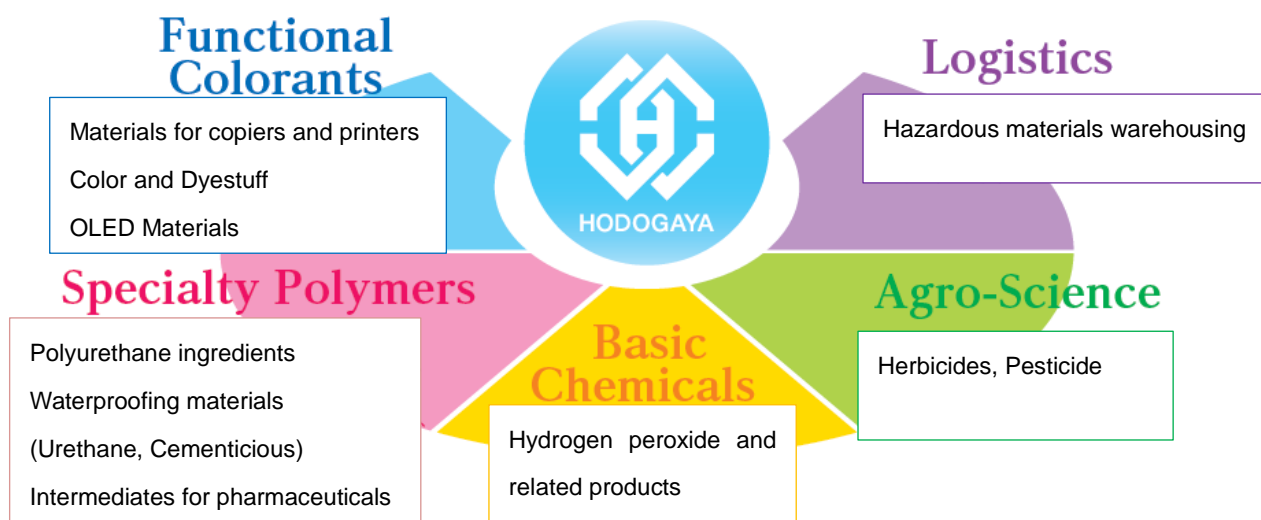
April 1 - September 30, 2018

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.



A Message from our President

Maximizing Group value for the next 100 years with our mid-term management plan, “HONKI 2020”.

The Hodogaya Chemical Group, which celebrated its 100th anniversary in 2016, is currently hard at work on “HONKI 2020”, a 6-year mid-term management plan that began in FY 2015 and will end in FY 2020. Focusing on “the next 100 years”, we are pursuing sustainable growth and maximum corporate value for the future by making steady progress on the 6 key measures set forth in “HONKI 2020”, as well as stepping up our Corporate Social Responsibility (CSR) efforts. I thank you for your support throughout this effort. I will now report on our results for the first half of FY 2018 (April 1, 2018 – September 30, 2018), and on our prospects for the future.

Yuto Matsumoto
President and CEO
December 2018



First-Half Results

Due to intense competition in the Functional Colorants segment, sales and income decreased in the first half of the year.

In the first half of FY 2018, the Japanese and the world economies continued their gradual recovery with improvements in employment and income, but our earnings were depressed by such factors as increased oil and naphtha prices arising from increased tensions in the Middle East and increased raw material prices resulting from stricter environmental policies in China. We still face continuing uncertainty about future economic conditions, with concerns about stagnation in the world economy triggered by trade friction between the United States and China, and growing currency exchange risks.

Such were the conditions we faced as we pursued the strategies set forth in our mid-term management plan “HONKI 2020” during the first half of the fiscal year. We are taking various specific measures to fortify our management system, including focusing on securing a stable revenue base, establishing foundations for the next generation, creating new added value, strengthening our global operations, and cultivating personnel for a diversifying society. With regard to strengthening our global operations, we established a local subsidiary company in Dusseldorf, Germany in June 2018 as our European operations base. In terms of CSR activity, in September 2018 our Group company, Hodogaya Construction Products Co., Ltd., received Eco-Rail Mark certification from the Ministry of Land, Infrastructure, Transport and Tourism.

Through these business and organizational efforts, we achieved the following consolidated results for the first half of the year: 17,213 million yen in net sales (down 9.1% from the first half of the previous year), 1,129 million yen in operating profit (down 44.8%), and 1,377 million yen in ordinary profit (down 44.9%), with 993 million yen in profit attributable to owners of parent (down 39.3%). Weak performance in the Functional Colorants segment and the Logistics segment led to the decrease in sales and profits.

As for sales by business segment, sales of OLED materials in the Functional Colorants segment fell sharply, but strong sales of polyurethane ingredients in the Specialty Polymers segment and strong home garden herbicide sales in the Agro-Science segment led to results that were on a par with those of the same period last year. Sales in the Basic Chemicals segment dipped slightly, due to decreased demand for hydrogen peroxide products for paper pulp and environmental applications.

With regard to FY 2018 mid-term dividends, upon consideration of performance trends, future business development, and unquantifiable risks, etc., we set the mid-term dividend at the same level as last year, 25 yen per share.

Second Quarter 2018 Consolidated Results (Millions of Yen)

	FY 2018 Second Quarter Results	Changes Gains/Losses
Net sales	17,213	(9.1%)
Operating profit	1,129	(44.8%)
Ordinary profit	1,377	(44.9%)
Profit attributable to owners of parent	993	(39.3%)

Mid-term Management Plan Status Update

Focusing on developing and nurturing new businesses while strengthening our core businesses

Under our mid-term management plan “HONKI 2020”, our Group is currently focused on further strengthening our core businesses while reaping the results of growth businesses, and cultivating the new businesses that will be our next generation’s sources of revenue. The word ‘HONKI’ (Hodogaya as Only one, Number one with our Key technology and Imagination) expresses our Group’s strong determination to continue to be the group that clients look to for the creation of ‘Only one, Number one’ specialty products based on our core technologies, such as organic synthesis.

With the close of the first half of this year, “HONKI 2020” reaches the halfway point. In the 2.5 years that remain, our Group, in its role as a high-performance, high value-added corporate group, will work to offer both industry and society valuable new innovations, while at the same time using our command of unique chemical technologies to create environmentally friendly products and work towards a future in which the environment and society exist in harmony.

Business Objectives (Millions of Yen)

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

Full-year Prospects

We anticipate business results that add momentum to our efforts to achieve the goals of our mid-term management plan

In the second half of FY 2018, we expect uncertainty about the business environment to increase, with concerns about economic slowdowns in developing nations and instability in the world energy situation. Under these conditions, our Group aims to earn the trust of its stakeholders by focusing on expanding business operations and strengthening earning power, as well as firmly maintaining a management stance that prioritizes quality and ESG (Environmental, Social, and Governance). To this end, on October 1 2018 we divided our Environmental, Safety, and Quality Assurance department into the Environmental Safety department and the Quality Assurance department, in order to clarify functions and responsibilities and enhance performance with respect to quality, environment and safety.

Though sales and profits will be down, we expect our FY 2018 full-year performance to generally go according to plan. We will continue to actively invest management resources toward accomplishing the goals of our mid-term management plan, "HONKI 2020", and toward achieving sustainable growth and increased shareholder value. We thank you for your continued support.

Forecast for FY 2018 (Millions of Yen)

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

OLED business sales fell sharply as a result of decreased demand for displays and increasingly intense competition. The Imaging Materials business also saw decreased sales as demand for printer materials remained stagnant. On the other hand, results in the Colors and Dyestuffs business were on a par with last year, thanks to strong performance by aluminum dyes for digital appliances. Sales in this segment came to 5,266 million yen, with operating income of 454 million yen.

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

Results for the Polymer Materials business were on a par with last year, with strong performance by polyurethane ingredients and tire materials. However, Specialty Chemicals business sales fell as competition in the pharmaceutical ingredients sector increased.

Construction Materials business sales also dropped, due to a reduction in orders for waterproofing construction. Sales in this segment came to 5,655 million yen, with operating income of 149 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

Sales in the Hydrogen Peroxide business decreased due to weak demand in the paper pulp and environmental sectors. Demand for hydrogen peroxide derivatives also fell, resulting in decreased sales.

Sales in this segment came to 3,412 million yen, with operating income of 294 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
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Agro-Science

Sales of home garden herbicides were steady, and sales were on a par with last year.

Sales in this segment came to 1,786 million yen, with an operating loss of 6 million yen.

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

Sales fell sharply as a result of decreases in export handling and warehousing.

Sales in this segment came to 1,021 million yen, with operating income of 241 million yen.

Logistics	Hazardous materials warehousing
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TOPICS

Chemical Material Japan 2018

Our Group was an exhibitor at Chemical Material Japan 2018, which was held in May at Pacifico Yokohama. At our booth, we introduced OLED materials, aluminum dyes, and various other products, highlighting the breadth of our product lineup and our technical skills.



Koriyama Expo 2018

Our Group was an exhibitor at Koriyama Expo 2018, which was held in Koriyama City in Fukushima Prefecture in October. In order to give our neighbors a better idea of who we are and what we do at our Koriyama plant, we presented information on the history of the Koriyama plant and on everyday products that contain our materials.

We also set up an aluminum dyeing demonstration booth for children and their families. We had many visitors, and were



awarded second place in the Koriyama Expo Award 2018 contest. It was a great opportunity to introduce Hodogaya Chemical, and we look forward to continuing to develop regional and community relationships.

Hodogaya Construction Materials Co. Ltd. Eco-Rail Mark Certification

Eco-Rail Mark certification is awarded for products that are shipped by environmentally-friendly rail transport (at least 30% of ground shipping must be by rail), or to companies that use rail transport for at least 15% of their overall ground shipping. Hodogaya Chemical received this certification last year, and our Group company, Hodogaya Construction Materials, has now received certification both as a company and for its Eco Proof product. Our Group will



continue to pull together as a whole to find ways to lessen our impact on the environment.

Our Group's Eco-Rail Mark certified products:

Fish Guard
Sodium Percarbonate
Peracetic Acid
Charge Control Agent TP-415
Eco Proof



Establishment of HODOGAYA CHEMICAL EUROPE GmbH

We first opened a liaison office in Dusseldorf in September 2010, and that office has been responsible for gathering information and building customer relationships. In order to work more directly and nimbly on the businesses that we have developed there, we have now transitioned from the liaison office to a European sales office, with a broader range of functions.

We chose centrally located Dusseldorf as the best location from which to approach existing and potential customers. We will work to expand our Group's business activities in Europe with locally connected, timely sales activity.



Commemorative photo with Mayor Geisel

Company Profile

Name	HODOGAYA CHEMICAL EUROPE GmbH
Location	DUESSELDORF GERMANY
Paid-in Capital	325 thousand euros (100%)
Business	Sales and marketing of chemical products
Established	July 2018
Business Start Date	October 2018

Publication of our 「2018 Integrated Report」

In order to provide our stakeholders with a greater understanding of our Group's business and CSR activities, we started publishing the Integrated Report in 2017. The 2018 Integrated Report is now complete. Drawing on the comments and requests we received in response to our inaugural issue, this issue highlights the charms and the strengths of a 100-year old company, and features the faces and voices of our employees. The report is available on our homepage – we hope you will enjoy it.



CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2018 Mar. 31	2018 Sep. 30
ASSETS		
Total Current Assets	25,047	24,098
Total non-current assets	29,689	30,296
Total property, plant and equipment	20,010	20,473
Total intangible assets	175	164
Total investments and other assets	9,503	9,659
Total Assets	54,737	54,394
LIABILITIES		
Total current liabilities	11,426	10,763
Total non-current liabilities	7,441	6,706
Total Liabilities	18,868	17,469
Total shareholders' equity	26,637	27,435
Capital stock	11,196	11,196
Capital surplus	8,716	8,717
Retained earnings	8,444	9,240
Treasury shares	(1,719)	(1,719)
Total accumulated other comprehensive income	6,632	6,763
Non-controlling interests	2,599	2,726
Total net assets	35,869	36,925
Total liabilities and net assets	54,737	54,394

CONSOLIDATED STATEMENTS OF INCOME

MILLIONS OF YEN

	2017	FY 2018
	Apr.1-Sep.30	Apr.1- Sep.30
Net Sales	18,938	17,213
Cost of sales	12,047	11,309
Selling, general and administrative expenses	4,843	4,774
Operating profit	2,047	1,129
Total non-operating income	587	330
Total non-operating expenses	135	82
Ordinary profit	2,499	1,377
Total extraordinary income	4	-
Total extraordinary losses	5	6
Profit before income taxes	2,498	1,371
Income taxes	309	194
Profit	2,188	1,177
Profit attributable to non-controlling interests	550	183
Profit attributable to owners of parent	1,637	993

STOCK (AS of September 30, 2018)

AUTHORIZED NUMBER OF SHARES

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

8,760

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares	
		Held (%)	
Tosoh Corporation	700,000	8.3	
Mizuho Bank, Ltd.	298,704	3.6	
Japan Trustee Services Bank, Ltd.	298,300	3.5	
The Master Trust Bank of Japan ,Ltd.	247,600	2.9	
The Norinchukin Bank	227,430	2.7	
Meiji Yasuda Life Insurance Company	164,535	2.0	
The Toho Bank, Ltd.	148,399	1.8	
Mitsui Sumitomo Insurance Co., Ltd.	141,400	1.7	
Japan Trustee Services Bank, Ltd.	131,600	1.6	
The Yamaguchi Bank Ltd.	130,000	1.5	