

Business Report 2022

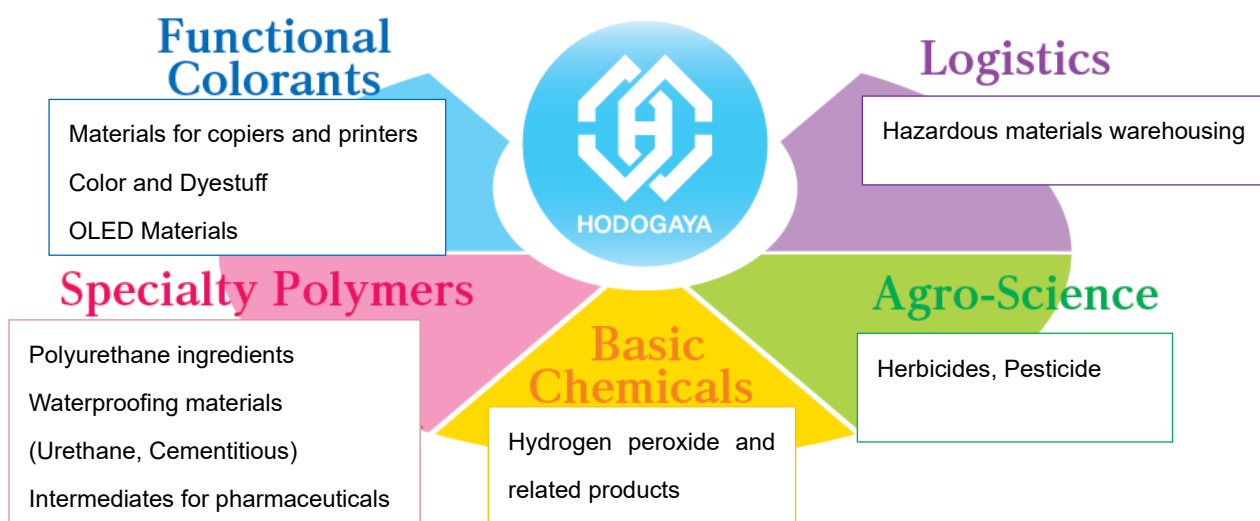
April 1, 2022 - March 31, 2023

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

FY 2022: Consolidated Results (Millions of Yen)

	FY 2022 Results	Changes Gains/Losses
Net sales	43,324	+3.5%
Operating profit	3,701	-42.4%
Ordinary profit	4,211	-39.1%
Profit attributable to owners of parent	2,223	-31.6%

Mid-term management plan (FY2021 to FY2030)

The Hodogaya Chemical Group has been promoting our mid-term management plan (FY2021 to FY2030) that began in FY2021.

In establishing this mid-term management plan, we have focused on how, based on the issues found in "HONKI 2020", the Hodogaya Chemical Group, which aims to continue to exist for 200 years, realizes growth in the next 10 years under ambiguous situations.

Despite a hard-to-predict condition, we have set our "ideal figure" to be achieved in 10 years, with "megatrends" up to FY2030 in mind.

Using a "backcasting" method, the plan has drawn up a growth scenario for the Group over the next 10 years.

PURPOSE [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.

[VISION for the Mid-term Management Plan]

A corporation that contributes to establish a sustainable society by means of our original portfolio and environmentally friendly manufacturing, with a focus on specialty products

[Outline of the Mid-term Management Plan]

Mid-term Management Plan [FY2021 from FY2030]

"SPEED 25/30"

The Hodogaya Chemical Group will speedily transform itself to our "target figure" in FY2025 and to our "ideal figure" in FY2030, by means of:

- S** : Specialty products that construct a
- P** : Portfolio built up with great originality;
- E** : Engagement improvement that contributes to
- E** : ESG management promotion;
- D** : Digital transformation-led competitiveness enhancement

"SPEED 25/30" aims at a speedy transformation of the Hodogaya Chemical Group to the "target figure" by FY2025 and to the "ideal figure" in FY2030.

In this hardly predictable age, we have first defined a figure that we seek to achieve in FY2030 as our "ideal figure" and developed a 10-year scenario using a "backcasting" method. As its halfway point, we have drawn up our "target figure" to be achieved in FY2025.

[Ideal figures in FY 2030]

Items	"Ideal figures"
Strengthening operations	A well-constructed business portfolio Promoting digital transformation
Expanding our sphere of activity	Continually creating new products
Higher efficiency	Achieving a high productivity
Employees' point of view	Improving job satisfaction
Social point of view	Contributing to the achievement of SDGs and realizing environmental friendliness
Shareholders' point of view	Maintaining a stable dividend for a long term

DX

[Target figures in FY 2025]

Items	"Target figure"
Businesses	<ul style="list-style-type: none"> Achieving sustainable growth of the Group through both "core businesses" and "strategic businesses" <p>[Core Businesses]</p> <ul style="list-style-type: none"> Securing a stable revenue to enable deployment of strategic businesses <p>[Strategic businesses]</p> <ul style="list-style-type: none"> Playing a leading role for products and markets that will meet demand from the next generation by taking advantage of the Group's strength
Research & Development	<ul style="list-style-type: none"> Being capable of supporting strategic businesses by supplementing technologies for them Having already commercialized current new projects Having converted exploratory subjects into research subjects
Manufacturing Technology	<ul style="list-style-type: none"> Having completed a system for quickly launching new products Constantly producing environmentally friendly products safely and stably with high productivity
Infrastructure and related aspects	<ul style="list-style-type: none"> Improving the organizational capability to become a winner in the 2020s All officers and employees being satisfied with their job (feeling motivated and easy to work) Responding to emerging social values Having become a company recognized by both the Group and others to show excellent financial performance Promoting innovation with an already developed system for engaging in innovation using digital and other technologies

To facilitate the "SPEED 25/30" plan, we will react to changes in the external environment and other conditions, while adopting "KPI management" and monitoring its progress.

Key Policies of FY2023

Reinforced business

- OLED: Establishing of technical service bases (strengthening relationships with customers, introduction of technologies)
- Launching environmentally friendly aluminum coloring dyes into the market
- Launching new Bio-PTG into the market
- Expanding the oxidant agricultural materials business

Strengthening operations

- Establishing an increase in production of aluminum coloring dyes
- Expansion and promotion of phosgene derivatives
- Installation of special equipment for trial production which contributes to new product development
- Cost-cutting to reduce intensity

Creating new products

- Promoting development of OLED, environmentally friendly aluminum coloring dyes, new polyols
- Promoting research of new ideas for organic cathode materials, organic solar cell materials, and near-infrared absorption materials

Stronger management foundation (promoting DX)

- Promoting business reforms and various considerations for renewal of core systems

Disclosure of Information Related to Climate Change Based on TCFD

Basic approach

The Hodogaya Chemical Group will actively move forward based on the idea of balancing the pursuit of economic value and solutions to social issues and providing value to all stakeholders to fulfil its responsibilities related to creating a sustainable world/society as given in the VISION (Target Corporate Image) appearing in the Mid-term Management Plan SPEED 25/30, which started from FY2021. As a chemical company, Hodogaya Chemical is resolutely confronting climate change in accordance with the guidance by the TCFD, while proactively striving for information disclosure.

Governance and risk management

The Sustainability Development Committee is a committee organization that actively promotes responsibility toward the realization of a sustainable earth and society in accordance with the "Management Philosophy" and "Corporate Action Guidelines." We established the Global Environment Subcommittee, which promotes activities related to preservation and improvement of the global environment, and the TCFD Subcommittee, which promotes disclosure activities in response to guidance from the TCFD, in addition to the conventional RC/QM Subcommittee.

The Risk Management Committee discusses company-wide risk recognition, evaluation and mitigation measures. The Risk Management Committee also discuss environmental

risks, such as climate-related risks, opportunities and countermeasures recognized by the TCFD Subcommittee.

The content of discussions in each committee and subcommittee is submitted and reported to the Board of Directors and Management Committee.



Strategies – risk analysis

In pursuing the Mid-term Management Plan SPEED 25/30 business strategy of developing a new portfolio, we expect production volume to increase, but we have classified the risks projected from a long-term perspective, looking ahead to 2030, into TCFD risk categories and are proceeding with climate scenario analysis. We analyzed the risks associated

with the transition to a decarbonized society as the "1.5°C scenario" and the risks associated with the intensification of climate change as the "4°C scenario." From the results of scenario analysis, we will promote response measures and opportunities for transitional risks and physical risks, while envisioning new initiatives.

Scenario analysis

Risks and Opportunities			Risk	Opportunities
Transitional risk 1.5°C scenario	Policy/ Regulation	<ul style="list-style-type: none"> Strengthening energy-related laws and regulations CO₂ reduction 	○	
		Strengthening environment management	○	
	Technology	Creation of new technologies for environmental friendliness	○	○
	Market	Eco-friendly market formation	○	○
	Reputation	Stakeholders making environment as important matters	○	○
Physical risk 4°C scenario	Chronic	Rise in average temperature	○	○
	Acute	Increase in earthquakes, typhoons, and floods	○	

Major business opportunities in transition

Segment	Opportunity
Functional Colorants Segment	<ul style="list-style-type: none"> Aluminum coloring dyes Expand sales by developing eco-friendly products Bio business Expansion from materials for PCR diagnostic kits to medical use
Specialty Polymers Segment	<ul style="list-style-type: none"> PTG (urethane materials) Promoting green chemistry through biotechnology
Basic Chemicals Segment	<ul style="list-style-type: none"> Hydrogen Expanding business opportunities due to the advent of the hydrogen society
Agro-Science Segment	<ul style="list-style-type: none"> Hydrogen peroxide and derivatives Expanding applications to the field of agricultural materials

Target and indicators

The Hodogaya Chemical Group has set the non-financial targets shown on the right for FY2025 in its Mid-term Management Plan SPEED25/30.

Regarding CO₂ emissions, we have set targets for both volume and intensity reductions, taking into account changes in emissions due to increases and decreases in production volume. These are examined by the Global Environment Subcommittee, discussed by the Sustainability Development Committee, and progress is confirmed by the Board of Directors and Management Committee.

Non-financial targets	
CO ₂ reduction	43,400 tons (0.868 tons/sales million JPY)
Reduction of energy intensity	0.606kl/sales million JPY
Reduction of industrial waste volumes	Less than the amount generated in the previous year

Roadmap for reducing CO₂ emissions

Most of the greenhouse gases emitted by Hodogaya Chemical are energy-derived CO₂. As production is expected to increase in the future, we will address climate change from both mitigation and adaptation perspectives and from a long-term perspective looking toward FY2030.

To promote CO₂ reduction, in addition to Hodogaya Chemical's technology, we will introduce the Internal Carbon Pricing (ICP) in FY2022. It will allow us to price our own carbon emissions along with energy saving and energy creation initiatives and renewable energy. Hodogaya Chemical is aiming for a 38% reduction*¹ in FY2030 by creating a system that can support investment as a response to climate change toward a low-carbon society.

Management Targets (Financial)

Financial target	FY2022 results	FY2023 forecast	FY2025 management target
Net sales	¥43.3 billion	¥47.0 billion	¥50.0 billion
Operating profit	¥3.7 billion	¥3.9 billion	¥7.5 billion
Operating margin	8.5%	8.3%	15%
ROE	5.3%	—	9%

Management Targets (Non-financial)

Non-financial target	FY2021 results	FY2025 management targets
Energy intensity	0.698kl (per million JPY of net sales)	0.606kl (per million JPY of net sales)
CO ₂ emissions (CO ₂ emission intensity)	1.1759t (per million JPY of net sales)	0.868t (per million JPY of net sales)
Industrial waste volumes	2,746 t	Same level or less than previous FY
ESG evaluation score (FTSE Russell score)	2.7 (FY2022 results)	3.7
Engagement score	-	Gradually raise score
Percentage of management positions held by women	11% (FY2022 results)	13%

Overview By Business Segment

Functional Colorants

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

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

Basic Chemicals (Hydrogen peroxide)	Bleaching agent for paper pulp, fibers and clothing, etc. Pollution treatment and other forms of environmental cleanup. Parasitocides for Farmed Fish
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Agro-Science

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

Logistics	Hazardous materials warehousing
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CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2022	2023
	Mar. 31	Mar. 31
ASSETS		
Total Current Assets	34,013	36,596
Total non-current assets	32,435	35,454
Total property, plant and equipment	22,449	23,729
Total intangible assets	243	241
Total investments and other assets	9,741	11,483
Total Assets	66,448	72,051
LIABILITIES		
Total current liabilities	11,487	12,972
Total non-current liabilities	7,048	9,181
Total Liabilities	18,535	22,153
Total shareholders' equity	35,131	36,111
Capital stock	11,196	11,196
Capital surplus	8,718	7,943
Retained earnings	16,883	18,612
Treasury shares	(1,666)	(1,640)
Total accumulated other comprehensive income	6,284	6,723
Non-controlling interests	6,496	7,061
Total net assets	47,912	49,897
Total liabilities and net assets	66,448	72,051

CONSOLIDATED STATEMENTS OF INCOME

	MILLIONS OF YEN	
	FY 2022	FY 2023
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	41,879	43,324
Cost of sales	24,221	26,654
Total selling, general and administrative expenses	11,236	12,968
Operating profit	6,421	3,701
Total non-operating income	633	652
Total non-operating expenses	140	141
Ordinary profit	6,914	4,211
Total extraordinary income	23	126
Total extraordinary losses	713	66
Profit before income taxes	6,224	4,271
Total income taxes	1,445	1,081
Profit	4,778	3,189
Profit attributable to non-controlling interests	1,526	966
Profit attributable to owners of parent	3,251	2,223

STOCK (AS of March 31, 2023)**AUTHORIZED NUMBER OF SHARES**

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

(including 409, 635 treasury shares)

NUMBER OF SHAREHOLDERS

7,130

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares Held (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	934,300	11.7
Tosoh Corporation	700,000	8.7
Custody Bank of Japan, Ltd. (Trust Account)	516,700	6.5
Mizuho Bank, Ltd.	298,704	3.7
The Norinchukin Bank	227,430	2.8
Meiji Yasuda Life Insurance Company	164,535	2.1
The Toho Bank, Ltd.	148,399	1.9
Mitsui Sumitomo Insurance Company, Limited	141,400	1.8
The Yamaguchi Bank, Ltd.	130,000	1.6
MUFG Bank, Ltd.	120,107	1.5

Treasury stocks (409, 635 shares) are not included in the above list.