Report to shareholders

Business Report 2011

April 1, 2011 – March 31, 2012

Message from our President

As we swiftly respond to changing business conditions, we are also accelerating our efforts to build a foundation for future growth. I would like to take this opportunity to share with you our FY 2011 (April 1, 2011 – March 31, 2012) results and discuss our prospects for the rest of the year.

On February 3, 2012, a fire occurred in our Yokohama plant, taking the life of one of our affiliate's employees. We pray that he may rest in peace, and extend our deepest condolences to his family. We are thoroughly investigating the cause of the accident, and will take all steps necessary to ensure that this sort of accident never happens again.

Highlights of FY 2011 (ending in March, 2012)

Under the current tough economic conditions, we are concentrating management resources on the businesses that hold the most promise for the future (OLED, CCA, Agro-science, etc.). As we strive to establish ourselves as a highly profitable corporation, we have seen increases in consolidated sales and net income for the period.

Looking back over the economic climate of this past fiscal year (FY 2011), in the first half of the year, the lives of citizens and industrial production were greatly affected by the aftermath of the Tohoku earthquke on March 11, which disrupted supply chains, the radioactive contamination from the accident at the Fukushima Daiichi nuclear power plant, and the restrictions on electricity use that followed.

In the second half of the year we saw a gradual recovery from the effects of the disaster, but difficult conditions persisted, with the unexpectedly strong yen and the worldwide economic slowdown due to the flooding in Thailand, the fiscal and banking problems in Europe, and the softening of economic growth in developing nations.

It was under these circumstances that the Hodogaya Chemical Group (“our Group”) began the first year of its new mid-term management plan, “HONKI※ 2013”.

In pursuit of our “HONKI 2013” goals, we took the following steps in the Republic of Korea to strengthen our OLED business: the step acquisition of OLED material developer and manufacturer SFC Co., Ltd. (“SFC”), making it a consolidated subsidiary, joint development with Samsung Mobile Display Co., Ltd. (“SMD”), a member of the Samsung Group, and the establishment of HODOGAYA CHEMICAL KOREA CO., LTD. (“HCK”), and the opening of a research facility there.

On the domestic front, we worked to build a base for stable profits by establishing Hodogaya Agrotech Co., Ltd. as a consolidated subsidiary in conjunction with the restructuring of our Agro-Science business, increasing Bio PTG manufacturing capacity, and converting the raw materials of Nippon Peroxide Co. Ltd.'s hydrogen peroxide products to increase competitiveness.

FY 2011 Consolidated Results (Millions of Yen)

	FY2010 Results	FY 2011 Results	Changes Gains/Losses
Net Sales	**33,440**	**35,188**	**+1,747**
Operating Income	**2,422**	**1,712**	**-710**
Ordinary Income (△=losses)	**1,796**	**1,228**	**-567**
Net Income (△=losses)	**563**	**1,623**	**+1,060**

Consolidated sales for the period were adversely affected by slow demand in the Imaging Materials and Dyes and Colors businesses due to the economic slowdown in Europe, the continuing strength of the Japanese yen and increasing cost competition. However, because we made SFC and Hodogaya Agrotech Co., Ltd. consolidated subsidiaries, we ended the year with 35,188 million yen in consolidated sales, an increase of 1,747 million yen (5.2%) over the previous year. In terms of profit and loss, while increased sales and cost-reducing measures contributed to our results, increases in raw materials prices and the continuing strength of the yen led resulted in losses for the year. Operating income came to 1,712 million yen, a decrease of 710 million yen (29.3%) from the previous year, and ordinary income came to 1,228 million yen, a decrease of 567 million yen (31.6%) from the previous year.

Although additional costs arose in connection with the Tohoku earthquake, net income rose to 1,623 million yen, an increase of 1,060 million yen (188.2%) over the previous year, thanks to the posting of marginal profits from the step acquisition of SFC and Hodogaya Agrotech Co., Ltd. stock as they became consolidated subsidiaries, and profits from the sale of securities as part of an asset reduction plan.

Regarding dividends for the year, after a comprehensive consideration of performance trends, future business development and unforeseen risk, we set the year-end dividend at 4 yen/share, which, when added to the 4 yen/share mid-year dividend, comes to 8 yen/share for the year.

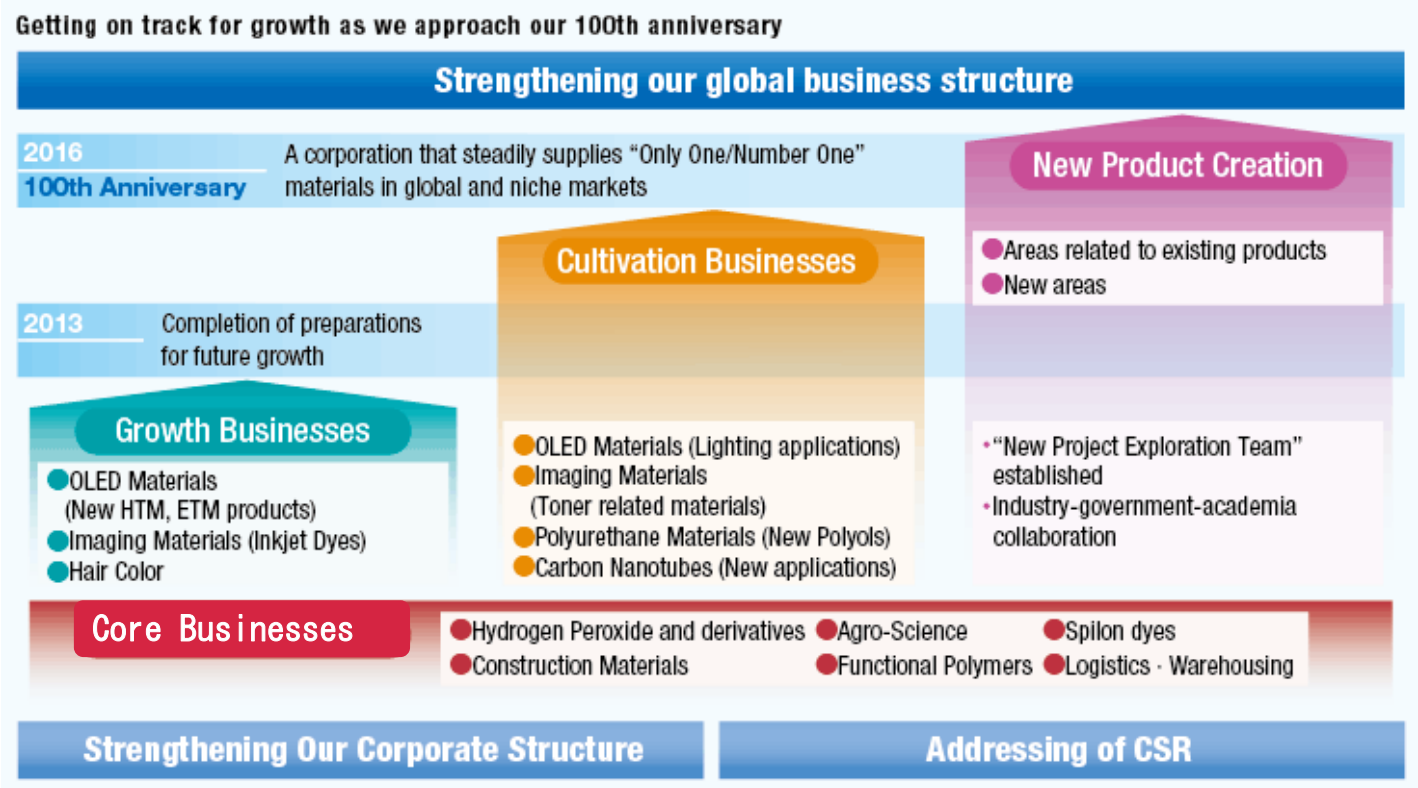
Mid-Term Management Plan “HONKI 2013”: 1st Year Progress and Achievements

※ ***H****odogaya as* ***O****nly one,* ***N****umber one with our* ***K****ey technology and* ***I****magination.*

In the first year of this 3-year plan, we faced business environment challenges such as the Tohoku earthquake, the strong yen, and rising oil prices, etc., but we still made progress in implementing measures for future expansion.

We embarked on the “HONKI 2013” plan in April, 2011, and so we have completed the first year of the plan. The main focus of the plan is to group our businesses into 4 categories, and develop and strengthen each business for the future as we fortify our core businesses.

“Core Businesses”	: Businesses that are already generating profits
“Growth Businesses”	: Businesses that will produce results in 2011 - 2013
“Cultivation Businesses”	: Businesses that will produce results in 2014 - 2016
“New Product Creation”	: Businesses that will produce results in 2017 and beyond



In the past fiscal year, we made the following progress:

●Core Businesses

At our Nanyo plant, we increased manufacturing capacity for Bio PTG and other products. Also, we converted the raw material for the hydrogen used in our hydrogen peroxide manufacturing process from butane to city gas, resulting in cost savings and a great reduction in our carbon footprint.

●Growth Businesses

In the OLED business, the addition of SFC as a consolidated subsidiary has allowed us to supply customers with a full range of key materials (hole transport materials, electron transport materials, light-emitting materials). Our joint development work with SMD and the establishment of a research facility at HCK are also designed to strengthen the OLED business.

Regarding CCA (charge control agents for toner), we introduced a safe, high-performance, environmentally-friendly product to the market.

We have also succeeded in developing a weather- and humidity-resistant inkjet dye with excellent coloring properties, and plan to bring it to market in the fall.

●Cultivation Businesses

In the area of Imaging Materials, we are working on projects to develop CCA for polymer toners and other toner-related materials. Regarding Carbon Nanotubes, we are working to develop applications that make best use of their special properties.

●New Product Creation

In April 2011, we established a “New Product Exploration Team” to drive research and development work geared toward the creation of next-generation businesses and long-term plans.

Forecast for FY 2012

In working towards the goals of our mid-term management plan “HONKI 2013”, we will continue to implement plan measures in a steady and timely fashion, and make our best efforts to build a foundation for stable profitability.

In the coming year, we hope to see a gradual recovery of the Japanese economy, but unfavorable world economic conditions, including banking problems and fiscal uncertainty in Europe and slowed growth in developing nations, as well as the continuing strength of the yen, point to a tough economic climate.

Under these circumstances, our Group will strive to achieve its “HONKI 2013” goals, thoroughly implementing cost-cutting and inventory control measures, taking steps to reduce fixed costs and unnecessary/non-critical spending, and working to develop new products and new applications for existing products as quickly as possible.

Regarding our consolidated financial outlook for FY 2012, we are anticipating sales of 39,000 million yen, operating income of 2,400 million yen, ordinary income of 1,900 million yen, and net income of 1,200 million yen for the period.

I thank our shareholders for their continuing support.

Toshikazu Kitano
President and CEO
August 2012

Spotlight on a Core Hodogaya Chemical Group Business: Nippon Peroxide Co., Ltd.

We introduce one of our Group's core businesses, hydrogen peroxide and its derivatives.

Our Group includes 4 segments: Functional Colorants, Functional Polymers, Basic Chemicals and Agro-Science. Playing a central role in the Basic Chemicals segment is Nippon Peroxide Co., Ltd.

Nippon Peroxide was formed to manufacture and sell hydrogen peroxide in July 1963, as a joint venture between Hodogaya Chemical, Nippon Kayaku Co., Ltd., Santoku Chemical Industries Co., Ltd., and Laporte (U.K.). Operations began in 1966. The plant is located in Koriyama, in Fukushima prefecture, next to Hodogaya Chemical's Koriyama plant.

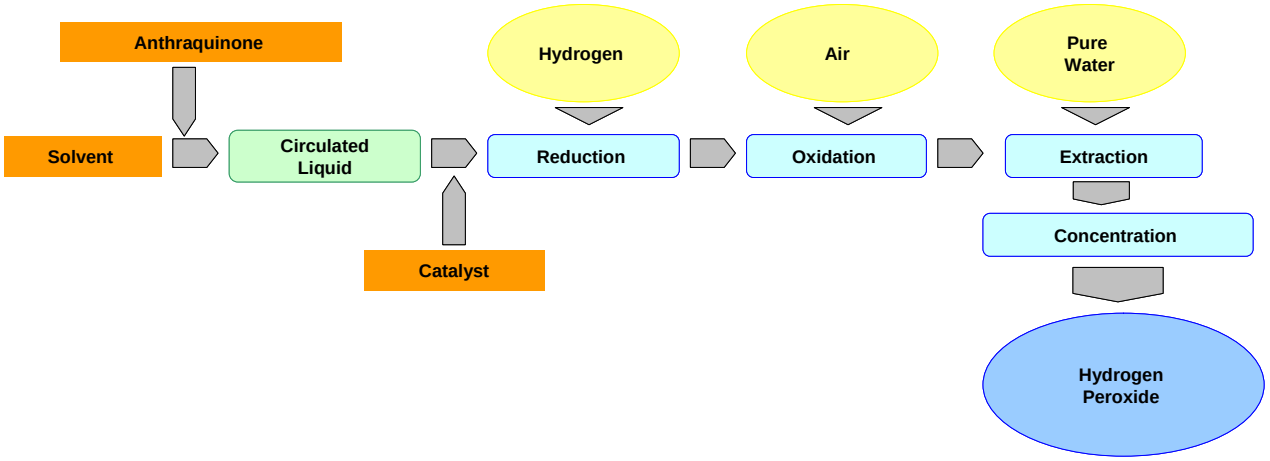
Currently, Nippon Peroxide can manufacture 40,000 tons of hydrogen peroxide, giving it a 20% share of the market (FY 2010).

Hydrogen peroxide is a clear, colorless liquid with the chemical formula 'H2O2'. Composed of hydrogen atoms and oxygen atoms, it is regarded as a basic chemical product that is environmentally friendly.

Hydrogen peroxide is used in a wide variety of applications, including paper pulp and fiber bleaching, wastewater treatment, semiconductor cleaning, metal surface treatment, an oxidizer in chemical manufacturing processes, disinfection of beverage containers (paper packs and PET bottles), etc. Hydrogen peroxide is a basic chemical that is critical to our daily lives.

Nippon Peroxide's facilities were damaged in the Tohoku earthquake, and production was temporarily halted. Other companies also stopped production, and supplies became very tight, but Nippon Peroxide was able to contribute to recovery efforts through its channels in the drinking water market, as demand for drinking water in the affected area suddenly spiked.

Manufacturing Process



Hydrogen Peroxide: Applications

●Bleaching the paper and fabrics that are all around us

For the bleaching of paper pulp and clothing, demand is shifting greatly from traditional chlorine-based bleaches to oxygen-based bleaches. Chlorine-based bleaches have a strong odor, and generate highly toxic chlorine gas when mixed with acidic detergents. For this reason, more users are turning to hydrogen peroxide, which has no bad odor, and is safe for people and for the environment.

●Wastewater treatment and soil remediation

Hydrogen peroxide is used for wastewater treatment and for the remediation of contaminated soil. Soil remediation is a long-known application, but recently, the oxidative powers of hydrogen peroxide are being harnessed to break down organic contaminants. Hydrogen peroxide can be used to treat areas of highly concentrated contamination that would be difficult using microorganisms, and makes it possible to shorten treatment time. Further, hydrogen peroxide breaks down into water and oxygen, and so has no impact on the environment. We expect demand for hydrogen peroxide in soil remediation applications to continue to grow.

●Expanding into the aquaculture industry

We are currently exploring the possibility of using hydrogen peroxide to rid farmed fish of parasites. Here, too, the fact that hydrogen peroxide breaks down into water and oxygen and will not harm the fish or the environment will be a big merit.

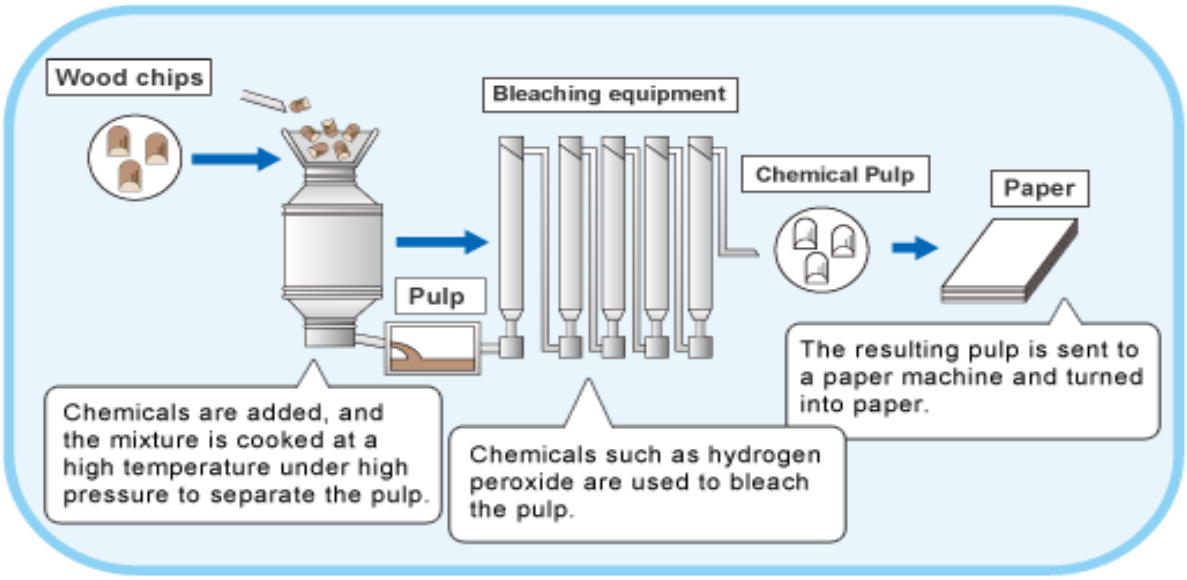
Hydrogen Peroxide Derivatives

As a derivative of hydrogen peroxide, Nippon Peroxide also manufactures sodium percarbonate (PC), also known as “solid hydrogen peroxide”. This is used as a bleaching agent for clothing, and as a dish detergent, etc.

The company also manufactures acetyl hydroperoxide for disinfecting PET bottles and medical equipment, etc., and calcium peroxide for soil decontamination, among other products.

With its “hydrogen peroxide and derivative products”, Nippon Peroxide Co., Ltd. will continue to support an environmentally-friendly green lifestyle.

— Paper Manufacturing Process —



Overview By Business Segment

Functional Colorants

The Imaging Materials business showed losses for the year, as demand softened due to economic stagnation, the continued strength of the yen, and intensifying cost competition.

The Dyes and Colors business also showed losses as the long-term slump in paper pulp and textile dyes continued, and overseas demand for aluminum coloring dyes and stationery dyes was weakened by adverse economic conditions.

In the OLED business, hole transport materials for displays saw a decrease, but the overall business grew from the second quarter as SFC became a consolidated subsidiary.

Sales in this segment came to 9,208 million yen, with operating income of 238 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.
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks. Hair Coloring Agents
Food Additives	Colorants for processed foods and cosmetics, etc.
OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights.

Specialty Polymers

Though sales of PTG became more robust, the Functional Polymers business saw overall losses due to weak demand for release agents.

In the Specialty Chemicals business, demand was soft in the polymer-related sector, but overall results matched last year's levels thanks to revived demand in the pharmaceuticals sector.

The Construction Materials business saw overall losses, due to continuing intense price competition for urethane-based waterproofing materials.

Demand increased in the Waterproofing business, with steady large-scale construction projects and work related to recovery efforts following the Tohoku earthquake..

Sales in this segment came to 11,942 million yen, with operating income of 509 million yen.

Functional Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc.
Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.
Construction Materials	Urethane waterproofing materials (for building and parking structure roofs, etc.) Cementicious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)

Basic Chemicals

The Hydrogen Peroxide business was adversely affected by the Tohoku earthquake and weakened demand in the paper pulp and industrial chemicals sectors, but overall, results matched last year's levels because of new developments in veterinary medicine (aquaculture) applications.

The Sodium Percarbonate business was down despite new demand, due to delays in recovery after the disaster and the influx of overseas products that continued into the 2nd quarter.

Sales in this segment came to 7,751 million yen, with operating income of 373 million yen.

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

Agro-Science

The Agro-Science business saw gains, thanks to steady demand for herbicides for home gardens and management of green spaces, as well as Hodogaya Agrotech Co., Ltd. becoming a consolidated subsidiary in the 1st quarter.

Sales in this segment came to 4,763 million yen, with operating income of 282 million yen.

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

Topics

A Letter of Appreciation from Nitto Denko Corporation

In December 2011, Nippon Peroxide Co., Ltd. (“NPO”), a member of the Hodogaya Chemical Group, received a letter of appreciation from Nitto Denko Corporation for the role it played in maintaining stable supplies in the aftermath of the Tohoku earthquake.

NPO’s product, Fine Polisher PO-TG, is used in the manufacture of flexible print circuit boards (FPC). Nitto Denko is the world’s top producer of FPCs – if their production was interrupted, it would have had a major impact on HDD production around the world.

Following the Tohoku earthquake, NPO was forced to stop production at its Koriyama plant and its logistics network was destroyed, but it was able to recover quickly enough to continue stably supplying its products.

A New Research Center in Korea

In May 2011, Hodogaya Chemical established HODOGAYA CHEMICAL KOREA CO., LTD. (“HCK”), in order to better align sales activities with the local environment.

In addition, the HCK Ochang Research Center was established in SFC’s new research facility, and began operations in March 2012.

OLED is one of our Growth/Cultivation businesses. Korean manufacturers are at the forefront of this field, and we decided to build the new center when we realized that establishing a research facility that would be accessible to our Korean customers was imperative to building our Korean business.

With the cooperation of SFC, we are speeding up the growth of our OLED business in Korea, the leader of the OLED market.

Hodogaya Trivia: Waterproofing Materials

— Technologies that Protect Buildings and Facilities from Water—

Now we would like to introduce the Group technologies and products that protect your buildings from water, and help to maintain the optimum indoor environment.

Long-term building maintenance is difficult for any building – rain and leaks and other troubles are a constant concern. These problems don't just affect the indoor environment; they can also weaken the strength of the building and cause very serious problems.

Waterproofing technologies help to prevent these problems. Technologies that harness the power of chemistry are at the heart of waterproofing materials.

Waterproofing materials protect buildings by keeping water out. These can come in many forms, but recently, there is great demand for urethane coatings.

Leak-stopping materials are injected in leaking areas to stop the leak, improving the durability of the building and extending its useful life.

Our group company, Hodogaya Vandex Construction Products Co., Ltd., has applied many years of urethane R&D experience to the development of urethane coating waterproofing materials, cementitious waterproof materials, and waterproof materials for concrete that have made a significant contribution to the construction and maintenance of buildings, rooftop parking lots, tunnels, and other structures.

The future of urethane waterproofing materials

— the development of people-friendly materials —

We were the first in the waterproofing industry to sell urethane coating waterproofing materials in 1966. With over 40 years of experience and tireless research and development, we are focusing on 'Ecology' as a theme, and stepping up our efforts to develop " People- and environmentally-friendly waterproofing systems that don't contain endocrine disruptors or materials that contribute to 'sick house' syndrome."

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2012 and 2011.

	MILLIONS OF YEN	
	2012	**2011**
	Mar. 31	**Mar 31**
ASSETS		
Current Assets	24,878	22,002
Cash and cash equivalents	6,398	5,977
Notes and accounts receivable	11,572	10,919
Inventories	5,545	3,835
Others	1,362	1,269
Fixed Assets	27,237	26,222
Tangible Fixed Assets	21,425	19,405
Intangible Fixed Assets	2,218	1,033
Investment	3,594	5,784
Total Assets	52,116	48,225
LIABILITIES		
Notes and accounts payable	5,344	4,329
Currents portion of bond	11,528	9,650
Others	6,984	7,267
Total Liabilities	23,931	21,254
Shareholders' equity	25,020	24,027
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,924	4,933
Less: Treasury share at cost, 5,033,782 shares in Mar. 31, 2011		(1,692)
Less: Treasury share at cost, 5,028,456 shares in Mar. 31, 2012	(1,690)	
Valuation and Translation Adjustments	1,983	2,472
Share warrant	52	41
Minority interests	1,128	430
Total Shareholders' equity	28,184	26,971
Total Liabilities and Shareholders' equity	52,116	48,225

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for Apr.1-Mar.31, 2011 and 2012.

	MILLIONS OF YEN	
	2012	**2011**
	Apr.1-Mar.31	**Apr.1-Mar.31**
Net Sales	35,188	33,440
Cost of sales	24,152	23,044
Selling, general and administrative expenses	9,323	7,974
Operating income	1,712	2,422
Other income	301	312
Other expenses	785	938
Ordinary income	1,228	1,796
Extraordinary income	1,186	175
Extraordinary expenses	441	1,283
Income before income taxes	1,973	688
Current	402	421
Deferred	(351)	(303)
Minority interests	298	7
Net income	1,623	563

STOCK **(AS of March 31, 2012)**

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

9,442

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	28,049	33.3
Hodogaya Chemical Co., Ltd.	5,028	6.0
Mizuho Corporate Bank, Ltd.	2,987	3.6
The Norinchukin Bank	2,274	2.7
Japan Trustee Services Bank, Ltd.	1,873	2.2
Meiji Yasuda Life Insurance Company	1,645	2.0
The Master Trust Bank of Japan, Ltd.	1,467	1.7
Mitsui Sumitomo Insurance Co., Ltd	1,414	1.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,201	1.4
The Toho Bank, Ltd.	1,183	1.4