

Report to shareholders

# Business Report 2009

April 1, 2009 – March 31, 2010

## A Message from our President

Though weathering a difficult business environment, the Hodogaya Chemical Group (the “Group”) has continued its efforts to enhance sales force performance, and sharpened its focus on cash flow-based management.

At the same time, an aggressive plan to improve profitability has resulted in a gradual recovery in performance, and a significant improvement in operating profits. Moving forward, our focus will be not only on profitability, but on increasing competitive strength, achieving sustained growth, and marshalling the resources of the entire organization to meet the expectations of our shareholders, and indeed, all of our various stakeholders.

Based on current corporate strategy, which focuses on “becoming a creator of high-performance, high-value-added products by building on our unique strengths and know-how in organic synthesis technology, with particular emphasis on environmental issues and safety”, we will work throughout the year to develop a new mid-range business plan, which will begin in FY 2011.

I thank our shareholders for their continuing support.

June, 2010

President and CEO

Toshikazu Kitano

# TOP INTERVIEW

## Question 1: How has the economic climate been, and how were the year's results?

In the first half of FY 2009, the lingering effects of the previous year's precipitous world economic downturn contributed to a harsh business climate. Although there were sharp fluctuations in currency exchange rates and stagnant consumer spending continued, the second half of the year brought visible signs of recovery in the manufacturing sector: exports to China and other Asian countries increased, and progress was made in inventory adjustments.

It was against this backdrop that our Group implemented its Trilateral Business Plan, coordinating R&D, production and sales efforts to grasp client needs as quickly and accurately as possible. This endeavor has borne fruit, with an efficient business structure geared towards new product creation coming into place. We have also worked to improve our cash flow by significantly reducing inventory levels, and bringing previously outsourced functions in-house.

Our efforts resulted in consolidated sales of 31,463 million yen for the period, down 636 million yen, or 2%, from the previous year. The Imaging Materials business unit was adversely affected by the slow economic recovery, but the Agro-science, Specialty Polymers and Hydrogen Peroxide business units saw positive results, and other strategies implemented to increase sales paid off as well.

In terms of profit and loss, profit-increasing strategies and reductions in raw material prices helped us to achieve operating profits of 1,521 million yen, up 594 million yen (64%) from the previous year. With declines in dividend income, etc., current profits topped out at 734 million yen, a 366 million yen (99.8%) increase over the previous year.

Because of appraisal losses on investment securities and factory furlough losses that we posted, we had a net loss for the period of 429 million yen. This represents a 3,513 million yen improvement from the previous period, largely due to reductions in extraordinary losses, and other such factors.

## Consolidated Results

(millions of yen)

	FY2008	<b>FY2009</b>	Change
Net Sales	32,099	<b>31,463</b>	$\Delta$ 636
Operating income	927	<b>1,521</b>	+594
Ordinary income	367	<b>734</b>	+366

**Question 2:** Please tell us about the initiative undertaken to improve profitability.

Beginning in the third quarter, our Group undertook an initiative to improve profitability by working to achieve three categories of specific numerical targets: increased sales, reduced variable costs, and reduced fixed costs.

Although demand is beginning to pick up, the recovery has not yet reached full steam. For this reason, we were not able to achieve our targets with regard to increased sales. However, the results of the initiative as a whole, including reduced variable and fixed costs, exceeded our targets.

Accordingly, although operating profits in our Fine Chemicals segment declined by 462 million yen, increases of 384 million yen in the Specialty Polymers segment and 428 million yen in the Basic Chemicals segment contributed to the steady recovery of operating profits for the Group as a whole.

### Improving Profitability: FY 2009 Targets and Results

(millions of yen)

	Target	Result
Increased Sales (Marginal Profits)	300~400	↓ 256
Reduced Variable Costs	50~100	→ 75
Reduced Fixed Costs	300~400	↑ 580
Total	650~900	↑ 911

**Question 3:** Which projects are you focusing on now?

At this time we are working on an increasing number of projects, in an effort to create new high-value-added products. Today I'd like to report on the progress we've made in two projects we first introduced in our last Business Report.

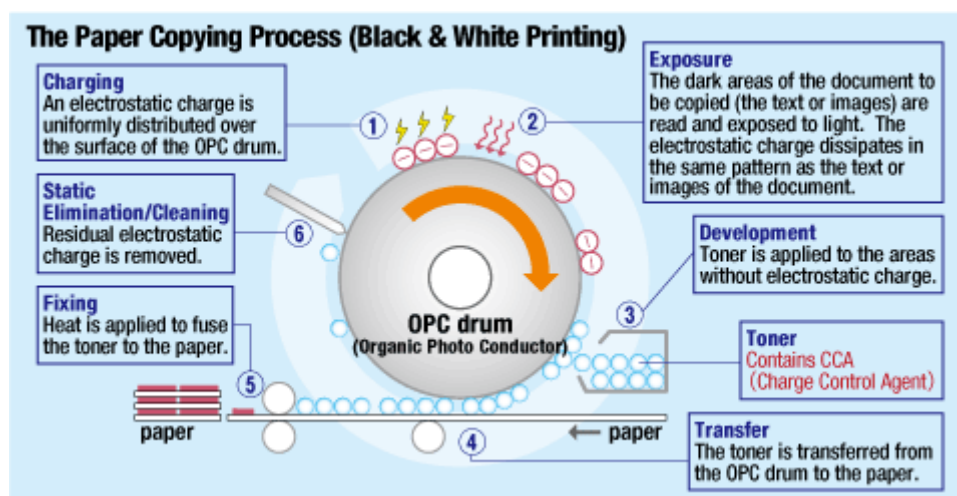
#### 1. Project "CCX"

Our Group is coordinating R&D, production and sales efforts in an effort to achieve a better understanding of our clients' current and potential needs. At this point, we have reached the stage at which we can apply the information we have gathered to accelerate the product development process.

In 2009, our core Imaging Materials business unit kicked off Project "CCX". This project is devoted to the development of toner materials, primarily CCA (Charge Control Agents) for printers

and copiers. CCA is an ingredient in toner that regulates electrostatic charge. Adding CCA ensures that the electrostatic charge is applied uniformly and stably over the toner surface, making it possible to maintain high print quality even after hundreds or thousands of pages, and preventing paper waste.

The world market for color printing is expected to grow. To meet the needs of this developing market, which not only demands high quality but also has a growing appetite for low cost, environmentally friendly, energy saving products, we are now focused on the development of other toner-related materials in addition to CCA.



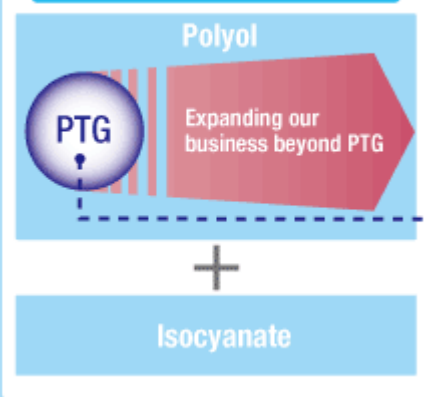
## 2. Project “NEXT PTG”

Another project in which we are coordinating R&D, production and sales efforts to provide products that meet our clients’ expectations is Project “NEXT PTG”.

In the “NEXT PTG” project, we are concentrating on polyol, an ingredient of polyurethane. The production of polyurethane requires two main ingredients: polyol and isocyanate. PTG, a core product of our Functional Polymers segment, is a type of polyol. Polyurethane is found in an enormous variety of products, ranging from pantyhose to automotive interiors. Our research is targeting not only commodity products, but also products with specialized functions. In Project “NEXT PTG”, we are actively seeking to expand our product development beyond PTG into a wider range of polyols.

By building on our experiences with Project “CCX”, we have been able to identify our clients’ needs more quickly in Project “NEXT PTG”. Going forward, we intend to deepen our ties with our clients, so that we can create the new polyol products that meet their requirements as quickly as possible.

### Polyurethane: Raw Materials



### The Function of PTG

PTG adds flexibility to polyester and polyurethane.

A Wide Variety of Applications

#### Sportswear



Sports



Suits

Business

Briefcases

## Overview By Business Segment

### **Fine Chemicals**

The Agro-science business unit saw growth, with the introduction of new pesticides and other new products.

The impact of economic conditions on demand, coupled with increasing competition from rival products, led to declines in the OLED Materials business unit.

Although demand for aluminum coloring and stationery dyes picked up from the third quarter, the Dyes and Colors business unit's full year results were down as a result of stagnant demand through the second quarter, and persistent weakness in the paper pulp dyes business.

Demand for office equipment has begun to recover, but because the recovery has not yet hit its stride, the Imaging Materials business unit saw declines.

Demand for pharmaceutical and polymer-related products began to recover in the third quarter, but because of low demand through the second quarter, the Specialty Chemicals business unit declined overall.

Sales for the segment as a whole were 12,586 million yen, down 138 million yen (1.1%) from the previous year.

Imaging Materials	CCA (charge control agents), a critical component of toner. Materials for the OPC (organic photoconductors) drums that are central to copiers and laser printers.
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.
Food Additives and Hair Coloring Agents	Colorants for processed foods and cosmetics, etc.
Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.
Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.

## Functional Polymers

The Functional Polymers business unit grew overall, with demand for PTG (an ingredient of polyurethane) picking up in the second quarter, and demand for adhesives and release agents picking up in the third quarter to compensate for low demand in the first half of the year.

Although demand for cement waterproofing materials was robust, the Construction Materials business unit saw a decrease resulting from weakness in the urethane waterproofing business: new construction and renovation projects declined, while price competition increased sharply.

Sales in this segment were 8,529 million yen, down 388 million yen (4.4%) from the previous year.

Specialty Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc.
Construction Materials	Urethane waterproofing materials (for building and parking structure roofs, etc.) Cementitious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)

## Basic Chemicals

Although demand for hydrogen peroxide in the paper pulp sector remains depressed, there has been enough recovery in the semiconductor and industrial chemicals sectors to increase sales overall.

Sales of sodium percarbonate increased as the detergent customer base expanded.

Sales in this segment came to 8,357 million yen, an increase of 177 million yen (2.2%) from the previous year.

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

## CONSOLIDATED BALANCE SHEETS

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2010 and March 31, 2009.*

	MILLIONS OF YEN	
	2010 Mar 31	2009 Mar 31
<b>ASSETS</b>		
<b>Current Assets</b>	24,506	23,329
Cash and cash equivalents	6,123	4,256
Notes and accounts receivable	10,840	9,830
Inventories	4,334	6,217
Others	3,207	3,025
<b>Fixed Assets</b>	26,078	28,153
Tangible Fixed Assets	19,225	20,126
Intangible Fixed Assets	1,395	1,878
<b>Investment</b>	5,457	6,147
<b>Total Assets</b>	50,585	51,483
<b>LIABILITIES</b>		
Notes and accounts payable	4,306	4,044
Currents portion of bond	12,651	13,144
Others	6,823	7,030
<b>Total Liabilities</b>	23,781	24,218
<b>SHAREHOLDERS' EQUITY</b>		
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,044	6,107
Less: Treasury share at cost, 4,922,149 shares in Mar 31,2009		(1,662)
Less: Treasury share at cost, 5,018,455 shares in Mar 31,2010	(1,688)	
Valuation and Translation Adjustments	2,347	1,947
Minority interests	311	83
<b>Total Shareholders' equity</b>	26,803	27,264
<b>Total Liabilities and Shareholders' equity</b>	50,585	51,483



## CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for the years ending March 31, 2010 and 2009.*

	MILLIONS OF YEN	
	2010	2009
<b>Net Sales</b>	31,463	32,099
<b>Cost of sales</b>	22,354	23,524
<b>Selling, general and administrative expenses</b>	7,587	7,646
<b>Operating income</b>	1,521	927
Other income	316	609
Other expenses	1,103	1,169
<b>Ordinary income</b>	734	367
Extraordinary income	22	1,356
Extraordinary expenses	1,134	3,778
<b>Income before income taxes</b>	(377)	(2,055)
<b>Current</b>	405	710
<b>Deferred</b>	(366)	1,230
<b>Minority interests</b>	13	(52)
<b>Net income</b>	(429)	(3,943)

# STOCK

## AUTHORIZED NUMBER OF SHARES

200,000,000

## NUMBER OF COMMON SHARES ISSUED (AS OF MARCH 31, 2010)

84,137,261

## NUMBER OF SHAREHOLDERS (AS OF MARCH 31, 2010)

9,327

## MAIN SHAREHOLDERS (TOP 10 COMPANIES)

<b>Shareholder</b>	<b>Number of Shares Held (in thousands)</b>	<b>Percentage of Shares Held (%)</b>
Tosoh Corporation	28,049	33.34
Hodogaya Chemical Co., Ltd.	5,018	5.96
Mizuho Corporate Bank, Ltd.	2,987	3.55
The Master Trust Bank of Japan, Ltd.	2,290	2.72
The Norinchukin Bank	2,274	2.70
Meiji Yasuda Life Insurance Company	1,645	1.96
Japan Trustee Services Bank, Ltd.	1,528	1.82
Mitsui Sumitomo Insurance Co., Ltd	1,414	1.68
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,201	1.43
The Toho Bank, Ltd.	1,183	1.41