

Report to shareholders

# Interim Business Report 2010

April 1 – September 30, 2010

## Mid-term Message to Our Shareholders

### **Working Toward the Actualization of Sustainable Growth**

As environmental issues such as global warming become more serious throughout the world, our Group is not merely pursuing profit, but is also seeking to fulfill a greater social role.

By focusing on our 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 environment conscious society”, we are striving to become a company that provides value to all of its stakeholders, whether they be shareholders, customers, the local community or employees.

In FY 2010, our Group is working towards steady growth based on its corporate strategy of “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 are also formulating a new mid-range business plan, which will begin in FY 2011.

This “Business Report” has been created with a focus on our efforts to achieve sustainable growth based on our corporate strategy. As we did last year, we are including a Shareholder Questionnaire.

As we move forward, our group will work as a whole to meet the expectations of our shareholders, and all of our other stakeholders. I thank our shareholders for their continued support.

Toshikazu Kitano,  
President and CEO  
December, 2010

## April – September, 2010 Highlights

April

### **Establishment of our Taipei Office**

In order to expand our Electronics Materials business in Taiwan, we established a representative office in Taipei. This is our third office in Asia, following the establishment of offices in Shanghai and Korea. This office will work to expand the OLED materials business and other businesses, developing new businesses in the Asian markets and strengthening our customer service and sales efforts.

June

### **Participation in “Nanotech 2010” in the United States**

In June we exhibited at “Nanotech 2010”, which was held in Anaheim, CA. We described the current status of our multilayered carbon nanotube (“CNT”) products and their future potential through the use of posters and catalogs, and were approached by several interested companies. Moving forward, we plan to gather information regarding the needs of overseas customers as well, and use this information in the CNT application development process.

August

### **Completion of our Koriyama CNT Manufacturing Facility**

In order to improve our manufacturing capabilities, we moved our CNT manufacturing equipment from Akishima, in Tokyo, to our Koriyama plant. Along with our conductive resin products, these products will be used to maximize the potential of our products by adding thermal conductivity, reducing weight, etc. Using the consolidated research and development facilities of the Koriyama plant, we will be able to meet our customers’ needs more rapidly and efficiently.

September

### **Establishment of our Dusseldorf Office**

We established a representative office in Dusseldorf, Germany, in order to strengthen ties with existing customers and develop new business areas. Our European business development efforts will add new materials such as OLED materials and CNT to the product lineup, along with imaging materials such as printer toner additives and functional resin products such as PTG (an ingredient of polyurethane).

### **Completion of SFC Co. Ltd. (Korea) Stock Acquisition**

We acquired more than one third in stocks of SFC Co. Ltd., a Korean company involved in the manufacturing and sales of OLED materials. With this acquisition, we will be able to speed up the development process by drawing on our strengths in charge (hole, electron) transport materials and SFC’s strengths in luminescent materials technology. Further, by providing customers with data regarding various combinations of materials, we expect to be able to help them reduce their evaluation time, so that they may incorporate our products more quickly.

## TOP MESSAGE

**Aiming to become a creator of high-performance, high-value-added products, with particular emphasis on environmental issues and safety**

**Increased revenue in the first half of FY 2010, thanks to increased sales as a result of economic recovery. Improved productivity contributed to increased profits as well.**

The economic climate in the first half of FY 2010 (ending in March, 2011) was characterized by softened demand due to the strength of the Japanese yen and escalating price competition on the one hand, and signs of renewed manufacturing activity due to the gentle economic recovery on the other. In the second quarter, our Group saw revenue increases as sales improved, as well as increased profits as a result of improved productivity. The Specialty Polymers segment was particularly robust, with demand for PTG (an ingredient of polyurethane) recovering, exports of adhesives to Asia flourishing, and domestic demand for curing agents on the rise. In the Agro-science segment, demand for home-use herbicides and pesticides increased, and we began to see the effects of our acquisition of an agrochemical formulating business in the second quarter.

### **Second Quarter, 2010: Cumulative Consolidated Results (millions of yen)**

|  | FY 2009<br>Results | FY 2010<br>Results | Gains/Losses |
|--|--------------------|--------------------|--------------|
| Net Sales                              | 14,868             | 15,697             | +828         |
| Operating Income                       | 64                 | 833                | +769         |
| Ordinary Income<br>( $\Delta$ =losses) | $\Delta$ 316       | 513                | +830         |
| Net Income<br>( $\Delta$ =losses)      | $\Delta$ 696       | 100                | +797         |

Cumulative consolidated sales for the second quarter came to 15,697 million yen, an increase of 828 million yen compared to the same period in the previous year. Operating profits increased by 769 million yen to 833 million yen, aided by an increase in sales due to economic recovery and improved productivity, while ordinary profits showed significant recovery, increasing by 830 million yen to reach 513 million yen. Net profits for the quarter came to only 100 million yen because of extraordinary losses caused by investment securities valuation losses, but this still represents a 797 million yen increase over the same period in the previous year.

**A new mid-range business plan is being formulated, with particular emphasis on how we can use our technological strengths to build an organization that is optimized for the creation of high-performance, high value-added products.**

Our Group has, to date, reorganized its business structure in order to improve our profit-generating capabilities. We have also worked to improve our cost structure by improving energy consumption, bringing outsourced production in-house, and reevaluating our manufacturing systems. Further, to strengthen internal cooperation, we have embarked on projects involving our research and development, manufacturing and sales teams. As a result, we have been able to build a business structure that responds to customer demands with precision, and we have begun to see concrete results from our efforts.

Right now, we are in the process of creating a new mid-range business plan that will begin in FY 2011. As we reconfirm our image of the type of business we would like to become, the central theme of the new plan will be how our Group can best utilize its strengths in organic synthesis to build an organization that is optimized for the creation of high-performance, high value-added products.

In September 2010, we acquired the stock of SFC Co., Ltd. in Korea, as a part of the strategy for our OLED materials business. The market for these materials is expected to grow in Korea and Taiwan, etc., and we believe that the need for cooperation with overseas companies, including contract manufacturing, etc. will increase accordingly.

We are also aware that, as part of the manufacturing industry, the approach we take to global environmental issues will be a critical topic in determining our future growth.

**It's not just a matter of reducing the environmental burden. It's about contributing to the solution of environmental and social problems through the quality of our products.**

We believe that our responsibilities to the environment and to society can be divided into two main categories.

The first, naturally, is to minimize the impact of our activities on the environment and on the areas surrounding our manufacturing plants. Our Group has taken active measures to minimize the environmental burden of our manufacturing activities, including improving manufacturing efficiency, recovering and reusing steam, and switching to natural gas. We have also reformed our business portfolio to enable us to create high-performance, high value-added products that are profitable and have a low impact on the environment. Further, in addition to keeping track of pollutant emissions levels on an annual basis and working to reduce emissions, we are also inspecting the waste processing facilities that we contract with to ensure that waste materials are being handled properly.

The second category of responsibility is to consider how we can contribute to the solution of environmental and social problems through our business activities, specifically, our strengths in

the area of organic chemical synthesis. Because our Group's products are typically shipped as powders or liquids, we often don't get to see how they are used in final products. Nonetheless, we play an important role in the products that touch our lives.

**We are the world's top manufacturer of CCA, a high-performance toner material that is safe for both people and the environment.**

For example, we are the world's top manufacturer of CCA (charge control agent), a high value-added toner material used in printers and copiers. CCA comprises just a few percent of the toner composition, but it is a critical component in that it controls static electric charge to ensure a crisp, clean print. Some CCA products contain toxic metals, but we are improving those so that they will contain only non-toxic materials. Copies are handled by people, incinerated as trash after use, and will, in part, wind up in the air or in the soil. In considering the life cycle of printed materials, we, as manufacturers, must carefully consider the life cycle of CCA. If we limit our focus to creating the highest performance materials possible, and that material is detrimental to people or to the environment, we cannot say that we are creating a high value-added product.

**An OLED panel just a few millimeters thick can change our living spaces and reduce energy consumption.**

To give another example, OLED materials are another of our high-performance, high value-added products. Our Group manufactures and sells the transport layer material that efficiently transports positive and negative electricity to the light-emitting layer. OLEDs are mainly used in cellular phone displays, but their applications are expected to expand to include televisions and other displays.

Most people imagine LCDs when they think about displays. With OLEDs, the panel itself lights up, so they don't require as many components as LCD displays. A display can be as thin as a sheet, and can clearly and crisply display even fast-moving images. OLEDs are expected to perform well as lights, too, perhaps even surpassing LEDs in energy savings. OLEDs may change our lives in ways that we couldn't even imagine before. For example, displays that can be rolled up for easy carrying, and televisions that are so thin that they can be adhered to a wall. Ceilings and walls that light up. OLED panels without configuration limitations may not be too far in the future, either.

**The cornerstone of sustainable development is contributing to sustainable social development through safe, eco-conscious business activities.**

One of the most important missions of any corporation is to grow and generate profits. That does not mean, however, that any activity is acceptable as long as it generates a profit. We cannot achieve sustainable development as a company if we pursue profits without considering the effect of our activities on society and on the environment. Enriching lives today and the world of the future through safe and eco-conscious business activities is the mission of our Group, and the cornerstone of sustainable development.

Our Group is supported by our shareholders, and by all of our other stakeholders, such as our customers, the local community, and our employees. We also depend on natural resources such as air, soil and water for our manufacturing activities. In order to continue as a company that is necessary to society, our Group must repay the people and the environment that support us by carefully explaining what the company is and what it does, obeying all laws and regulations, contributing to society and acting to protect the environment. With regard to our employees, we must also continue in our efforts to create a work environment in which each employee, regardless of gender or level, can aim high, and work with speed and vitality.

I thank our shareholders for their continued support.

December, 2010  
President and CEO  
Toshikazu Kitano

## Topics

### **Participation in Kyushu University's Center for Organic Photonics and Electronics Research (OPERA)**

While we continuously devote energy to our internal research and development efforts, our company also actively collaborates with outside research institutions in order to develop new materials. As a member of OPERA, we are dispatching researchers to Professor Adachi's research center at Kyushu University and working to create OLED materials that will benefit society. At OPERA, there is a lively exchange between the researchers from the Institute of Systems, Information Technologies and Nanotechnologies, which is a public research organization, several universities, and device and materials manufacturers. With our expertise in synthesis, we are hoping to contribute to the development of OLED materials through the design and exploratory synthesis of materials that improve the luminous efficiency and technical level of OLED devices. Drawing on our experience with the OPERA research exchange, we hope to develop a wide variety of OLED materials and next-generation organic electronic materials businesses.

### **Corporate Information Session and Community Social Event at Koriyama Plant**

On July 16, 2010, we held an information session and community social event for area groups, neighborhood associations and municipal councils at the Haga Community Center near the Koriyama plant. This is an annual event intended to provide information about our activities, and promote social exchange between the community and our employees. The Koriyama plant is one of our oldest manufacturing facilities, and its significance to our Group increased in August, when we moved our CNT manufacturing equipment from Akishima in Tokyo to Koriyama and consolidated research and development facilities there. The residents of the community gained a deeper understanding of our activities at the information session, and residents and employees alike enjoyed socializing together.

We hope that such interaction will continue to strengthen our connections with the community.

※ CNT : Carbon Nanotubes

## Overview By Business Segment

### **Functional Colorants**

In the imaging materials business, the office equipment sector was robust through the first quarter, but started to slacken in the second quarter, as demand softened and price competition intensified. The dyes and colors business was strong, with demand for dyes for coloring aluminum and stationery products beginning to recover in the third and fourth quarters of the last fiscal year, and demand recovering for dyes for paper pulp and textiles. In the OLED materials business, demand for displays for mobile devices is increasing. Sales in this segment came to 4,540 million yen.

|   |   |
|---|---|
| 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. |
| 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.   |
| OLED Materials                          | Hole transport materials and other principal components of organic EL displays and lights.  |

### **Functional Polymers**

The resin materials business was strong overall, with demand for PTG (an ingredient of polyurethane) picking up in the second quarter, exports of adhesives to Asia flourishing, and domestic demand for curing agents recovering. In the specialty chemicals business, demand is recovering in both resin-related and pharmaceutical-related areas. Sales of construction materials were weak, as the construction industry has yet to recover, new construction and renovation jobs are down, and price competition is intensifying. No increase has been seen in waterproofing construction jobs, and sales were low. Sales in this segment came to 5,283 million yen.

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



### **Basic Chemicals**

Sales of Hydrogen Peroxide were strong, with a period of extraordinary demand in the first quarter due to continuing paper pulp production adjustments, and recovered demand for industrial chemicals in the semiconductor industry and other industries. Demand in the detergent area bolstered sales of Sodium Percarbonate. Sales in this segment came to 4,131 million yen.

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

### **Agro Science**

The agro-science business saw signs of recovery in home-use herbicide and pesticide demand from the second quarter, but decreased overall due to poor weather conditions in the first quarter and price competition. Sales in this segment came to 989 million yen.

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

# CONSOLIDATED FINANCIAL STATEMENT

## CONSOLIDATED BALANCE SHEETS

*Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2010.*

|   | MILLIONS OF YEN |                |
|---|-----------------|----------------|
|   | 2010<br>Sep 30  | 2010<br>Mar 31 |
| <b>ASSETS</b>   |                 |                |
| <b>Current Assets</b>   | 22,404          | 24,506         |
| Cash and cash equivalents                                     | 5,028           | 6,123          |
| Notes and accounts receivable                                 | 10,124          | 10,840         |
| Inventories   | 4,265           | 4,334          |
| Others  | 2,987           | 3,209          |
| <b>Fixed Assets</b>   | 26,557          | 26,078         |
| Tangible Fixed Assets   | 19,580          | 19,225         |
| Intangible Fixed Assets                                       | 1,240           | 1,395          |
| <b>Investment</b>   | 5,735           | 5,457          |
| <b>Total Assets</b>   | 48,961          | 50,585         |
| <b>LIABILITIES</b>  |                 |                |
| Notes and accounts payable                                    | 4,257           | 4,306          |
| Currents portion of bond                                      | 11,068          | 12,651         |
| Others  | 7,174           | 6,824          |
| <b>Total Liabilities</b>                                      | 22,499          | 23,781         |
| <b>SHAREHOLDERS' EQUITY</b>                                   |                 |                |
| Common stock  | 11,196          | 11,196         |
| Capital surplus   | 9,590           | 9,590          |
| Retained earnings   | 4,786           | 5,044          |
| Less: Treasury share at cost, 5,018,455 shares in Mar 31,2010 |                 | (1,688)        |
| Less: Treasury share at cost, 5,030,535 shares in Sep 30,2010 | (1,692)         |                |
| Valuation and Translation Adjustments                         | 2,151           | 2,347          |
| Minority interests  | 428             | 311            |
| <b>Total Shareholders' equity</b>                             | 26,462          | 26,803         |
| <b>Total Liabilities and Shareholders' equity</b>             | 48,961          | 50,585         |

# FIRST-HALF CONSOLIDATED STATEMENTS OF INCOME

*Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for Apr.1-Sep.30,2010 and Apr.1-Sep.30,2009*

|   | <b>MILLIONS OF YEN</b> |                     |
|---|------------------------|---------------------|
|   | <b>2010</b>            | <b>2009</b>         |
|   | <b>Apr.1-Sep.30</b>    | <b>Apr.1-Sep.30</b> |
| <b>Net Sales</b>                                    | 15,697                 | 14,868              |
| <b>Cost of sales</b>                                | 10,951                 | 10,997              |
| <b>Selling, general and administrative expenses</b> | 3,912                  | 3,806               |
| <b>Operating income</b>                             | 833                    | 64                  |
| Other income  | 161                    | 173                 |
| Other expenses                                      | 481                    | 554                 |
| <b>Ordinary income</b>                              | 513                    | (316)               |
| Extraordinary income                                | 73                     | -                   |
| Extraordinary expenses                              | 355                    | 290                 |
| <b>Income before income taxes</b>                   | 231                    | (606)               |
| <b>Current</b>                                      | 165                    | 111                 |
| <b>Minority interests</b>                           | (34)                   | (21)                |
| <b>Net income</b>                                   | 100                    | (696)               |

## STOCK (AS OF SEPTEMBER 30, 2010)

### AUTHORIZED NUMBER OF SHARES

200,000,000

### NUMBER OF COMMON SHARES ISSUED

84,137,261

### NUMBER OF SHAREHOLDERS

9,182

### MAIN SHAREHOLDERS (TOP 10 COMPANIES)

| Shareholder                            | Number of Shares<br>Held (in thousands) | Percentage of<br>Shares Held (%) |
|--|---|----------------------------------|
| Tosoh Corporation                      | 28,049                                  | 33.34                            |
| Hodogaya Chemical Co., Ltd.            | 5,030                                   | 5.98                             |
| The Master Trust Bank of Japan, Ltd.   | 3,144                                   | 3.74                             |
| Mizuho Corporate Bank, Ltd.            | 2,987                                   | 3.55                             |
| Japan Trustee Services Bank, Ltd.      | 2,682                                   | 3.19                             |
| The Norinchukin Bank                   | 2,274                                   | 2.70                             |
| Meiji Yasuda Life Insurance Company    | 1,645                                   | 1.96                             |
| 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                             |