

Interim Business Report 2011

April 1, 2011 – Sep 30, 2011

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 first-half (April 1, 2011 – September 30, 2011) results and discuss our prospects for the rest of the year.

Question 1: Please tell us about first-half business conditions and results.

Looking back at the economic climate of the first half of FY 2011, at the beginning of the period we saw production begin to recover from the effects of the disaster in northeastern Japan and start to get back on track. However, tough conditions persisted in the latter half of the period, with the financial crisis in Europe, setbacks in America's economic recovery, and the continuing strength of the Japanese yen.

Despite these conditions, consolidated sales for the first half of the fiscal year came to 17,173 million yen, an increase of 1,476 million yen (9.4%) over the same period in the previous year. Sales in the Imaging Materials business fell due to the effects of slow demand, the strong yen, and intensifying price competition, but we saw robust performance in the Functional Polymers business thanks to growing demand, and we also benefited from the effects of making SFC Co., Ltd. in Korea and Hodogaya Agrotech Co., Ltd. consolidated subsidiaries.

Rising raw materials costs and the strong yen contributed to a reduction in profits. Operating income came to 452 million yen, falling 381 million yen (45.7%) from the previous year, while ordinary income came to 200 million yen, dropping by 313 million yen (61.0%). Because we posted extraordinary profits from the step acquisition of SFC Co., Ltd. and Hodogaya Agrotech Co., Ltd. stock, quarterly net income came to 570 million yen, a 470 million yen (465.2%) increase over the same period in the previous year.

Upon consideration of performance trends and other factors, we set the midterm dividend at 4 yen per share.

Second Quarter, 2011: Cumulative Consolidated Results (Millions of Yen)

	FY2010 Results	FY 2011 Results	Changes Gains/Losses
Net Sales	15,697	17,173	+1,476
Operating Income	883	452	-381
Ordinary Income (Δ=losses)	513	200	-313
Net Income (Δ=losses)	100	570	+470

Question 2: Please tell us about the initiatives being taken in connection with “HONKI*2013”, the mid-term management plan that kicked off in April, 2011.

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

As the Hodogaya Chemical Group (the “Group”) approaches its 100th anniversary in 2016, our vision of what we want to be is “a corporation that steadily supplies ‘Only One/Number One’ materials in the global and niche markets.” In order to realize this goal, the “HONKI 2013” mid-term management plan provides a plan for strengthening each business and creating a solid foundation for future growth by FY 2013.

In the first half of this year, the OLED Materials business was an area of particular focus. SFC Co., Ltd. became a consolidated subsidiary, we began a business collaboration with the Samsung Group, and we established a research center at our Korean affiliate company, HODOGAYA CHEMICAL KOREA, among other measures. By aligning our Group in this way with the top Korean corporations that are driving the OLED industry, we are positioning ourselves to become the Number One supplier of OLED materials.

In the Imaging Materials business, a major user has officially decided to use our new, environmentally friendly CCA (charge control agents for toner) product. Because this CCA does not contain heavy metals, we are hopeful that it will become one of the standard CCA products of the future.

In the Functional Polymers segment, we are preparing to ramp up our manufacturing capabilities to meet the demand for “Bio PTG”, made from plant-based raw materials.

In May 2012, we plan to move our headquarters from the present location to Yaesu, in Chuo-ku, Tokyo. This move is in furtherance of the basic strategies of our mid-term management plan, namely, “further strengthening of our global management structure,” and “strengthening our corporate structure”. By aggregating the Group companies, we hope to increase operating

efficiency and expand operations, further accelerating progress in our mid-term management plan growth strategies.

Question 3: Please tell us about the full-year forecast.

With demand slowing due to growing fears of economic slowdown, the persistently strong yen, and intensifying price competition, etc., our Group faces extremely harsh and uncertain conditions for the second half of 2011.

Under these circumstances, our Group will strive to meet its goals by thoroughly reviewing manufacturing costs and inventory management practices, reducing fixed costs and unnecessary or non-urgent expenditures, working to bring new products to market quickly, and developing new markets for existing products.

At this time, the consolidated full-year forecast for FY 2011 stands at 38,000 million yen in sales, 2,400 million yen in operating income, 1,600 million yen in ordinary income, and 2,000 million yen in net income for the year. The year-end dividend is expected to be 4 yen per share.

I thank our shareholders for their continuing support.

Toshikazu Kitano
President and CEO
December 2011

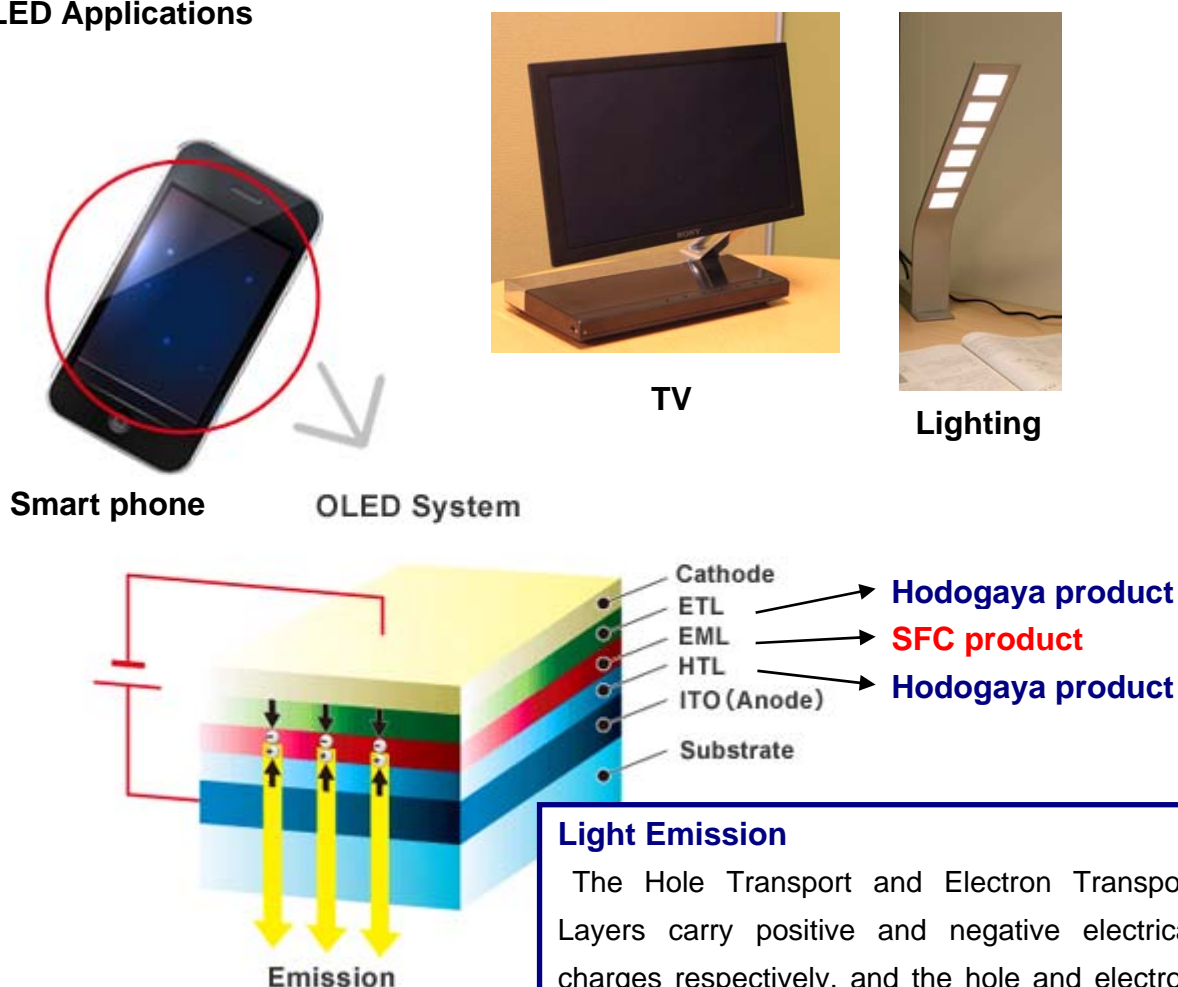
Hodogaya Chemical Group's OLED Materials Business

Here (In this paragraph), we present initiatives being taken in the OLED Materials business, designated as one of our Group's key growth and cultivation businesses.

The Expanding OLED Market

OLED displays utilize organic compounds that emit light when electric current is applied. Unlike LCD displays, they do not require backlighting, making much thinner and lighter displays possible. As the response speed is faster, even quickly moving images can be reproduced with clear and vivid colors. However, because of such issues as short lifetime and size limitations, OLEDs have been limited so far only to small displays, such as cellular phones or smart phone. Very recently, the technology has developed to allow an expanded range of applications, and OLEDs will be used as the main display for tablet and mobile PCs as well as big format TV. The OLED market is expected to grow continuously, with applications being developed not only in the area of displays, but in the lighting area as well.

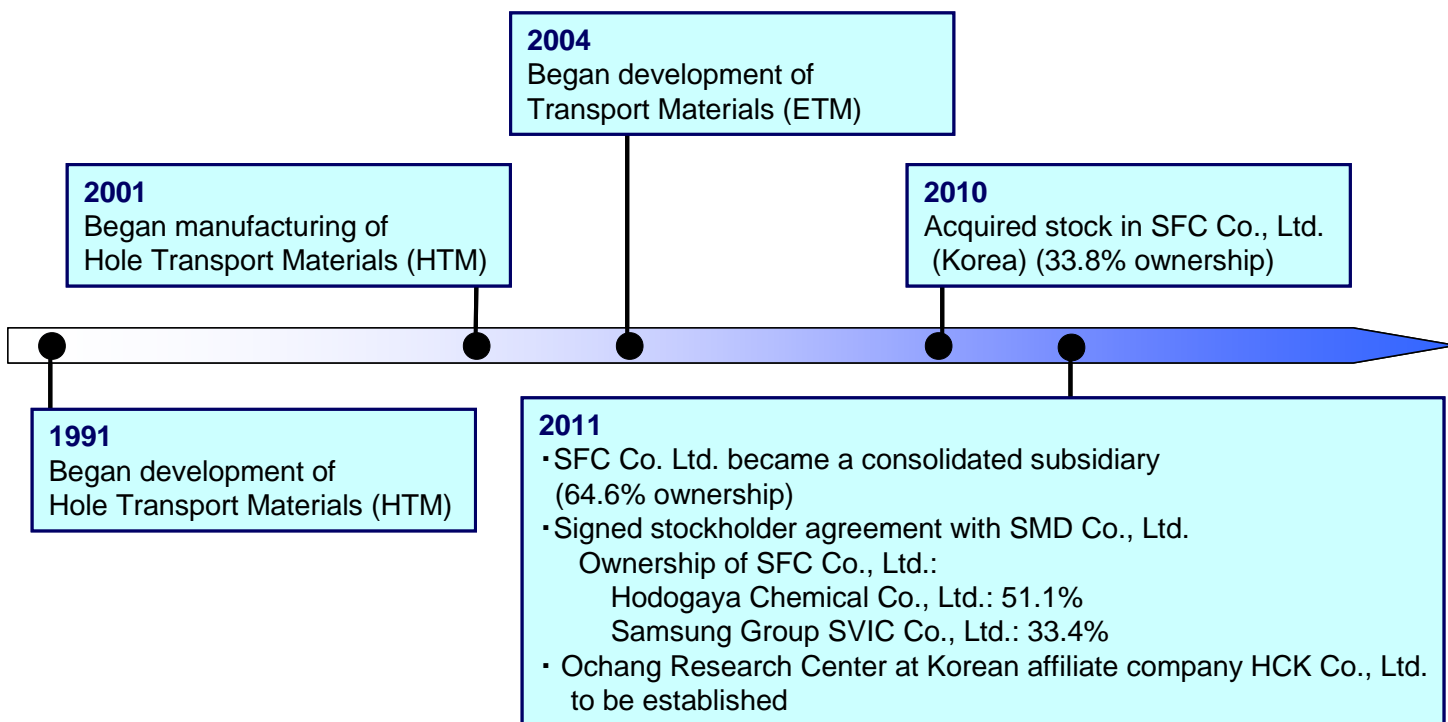
OLED Applications



Supplying the Main OLED Materials

As shown above, OLED device has layered structure. Applying the technologies we developed through our work with OPC (Organic Photo Conductors) materials, a critical component of copiers and printers, we have started to develop HTM (Hole Transport Materials) in 1991, and have begun supplying them to panel manufacturers since late 90's. We also have a great deal of knowhow regarding ETM (Electron Transport Materials), and plan to bring a new product to market in FY 2011. While, in September 2010 we invested SFC Co., Ltd., a Korean manufacturer and seller of light-emitting materials; through an additional stock purchase in May 2011, SFC became a consolidated subsidiary. In this way, it has become possible for our Group to supply the three main materials used in OLEDs, namely, HTM, ETM, and light-emitting materials. From now on, we are accelerating to develop new, value-added materials by utilizing the various materials' technologies of both companies, as well as by recommending optimum material combination to our customers, resulting in the reduction of evaluation time at our customers.

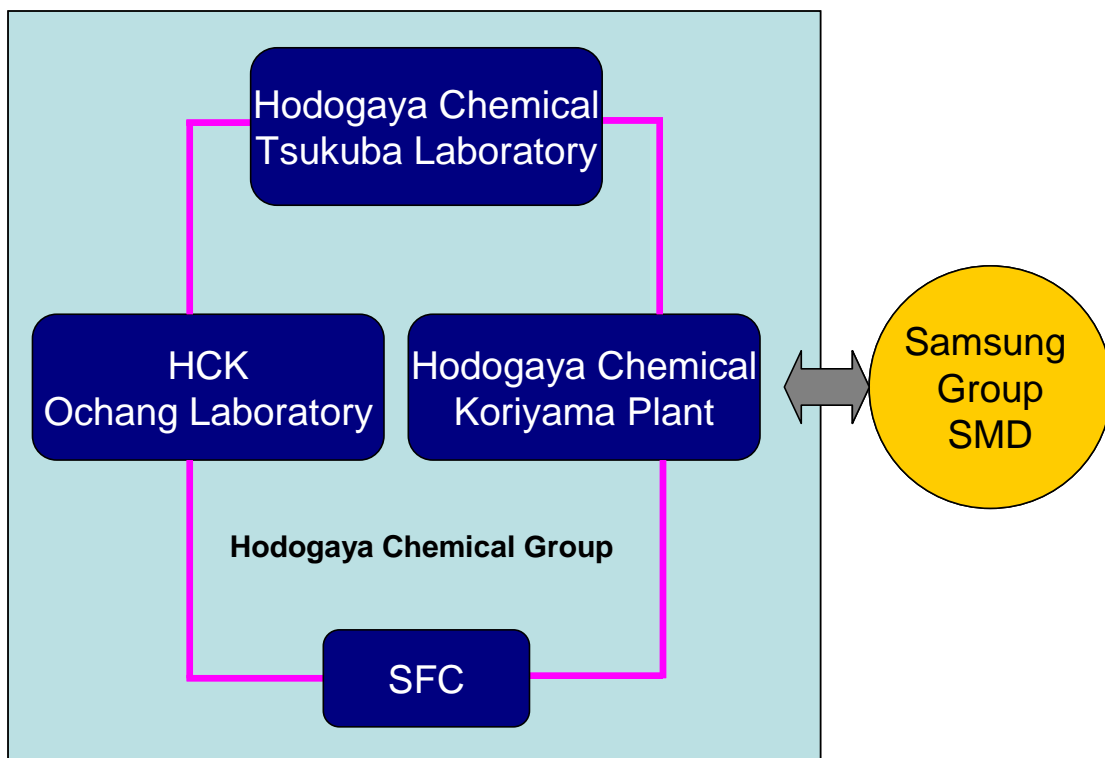
Our OLED Business Timeline



Building a Strong Relationship with our Customers

As OLED application expands into larger panels and lighting applications, our Group is working to develop higher performance materials. To do so, it is important for us to work closely with the EL panel manufacturers who are our customers, and to develop the materials that satisfy their needs in the shortest time possible. Up to now, we have worked on joint development projects with 3M (U.S.) and Novald (Germany), but in August 2011 we signed the shareholder's agreement regarding SFC Co., Ltd. with Samsung Mobile display Co., Ltd. (SMD), and agreed on an OLED-related joint development project with SMD, the world leader in OLED displays. Further, in December of this year, we are planning to open a research facility at our Korean affiliate company, HODOGAYA CHEMICAL KOREA (HCK). Our Group will continue to work closely with our customers in development and sales, as we strive to become the Number One corporation in the growing OLED market.

OLED Business Collaboration Arrangements



Overview By Business Segment

Functional Colorants

The Imaging Materials business was negatively affected by poor economic conditions that slowed demand, the strong yen, and intensifying price competition. In the Dyes and Colors business, the long-term downturn continues in the paper pulp and textile dyes segments, but strong demand for aluminum and stationery dyes kept first-half results at the same level as last year. In the OLED business, a slump in our customers' sales led to decreased demand for hole transport materials for mobile device displays, but half-year results increased compared with last year, due to the establishment of a subsidiary specializing in light-emitting materials in the second quarter. Sales in this segment came to 4,628 million yen, with 14 million yen in operating income.

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.
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

We saw growth in the Polymer Materials business, with robust exports of adhesives to Asia, and growing demand for PTG (an ingredient of polyurethane) both in Japan and overseas. The Specialty Chemicals business also grew, with strong performance in both the polymer and pharmaceutical sectors. Sales fell in the Construction Materials business, as intense price competition continued in the urethane waterproofing materials sector. However, sales were up in the waterproofing sector, as we secured large-scale construction jobs, as well as reconstruction work in the areas affected by the disaster in northeastern Japan. Sales in this segment came to 5,718 million yen, with 102 million yen in operating income.

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 (for building and parking structure roofs, etc.) Cementitious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)

Basic Chemicals

Sales of hydrogen peroxide increased in the new veterinary medicine sector, but dropped overall due to reduced demand in the main paper pulp and industrial chemical sectors, as a result of the disaster in northeastern Japan. Sales of sodium percarbonate fell as well, with first-quarter production delays following the disaster leading to an influx of products from overseas. Sales in this segment came to 3,889 million yen, with 129 million yen in operating income.

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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Agro-Science

The Agro-science business grew, with demand for horticultural herbicides and pesticides recovering, and an affiliate company reclassified as a consolidated subsidiary in the first quarter. Sales in this segment came to 2,220 million yen, with 66 million yen in operating income.

Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.
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※Segment classifications were changed in March, 2011.

Topics

Business Collaboration with Samsung Mobile Displays Co., Ltd. (Korea), and the Establishment of a Research Center in Korea

In August 2011, we signed a stockholders' agreement with Samsung Mobile Displays Co., Ltd. (SMD) regarding our consolidated subsidiary, SFC Co., Ltd. With this agreement, the Samsung Group's venture investment corporation, SVIC, became the second-largest shareholder of SFC Co., Ltd. after Hodogaya, and three parties, SMD, Hodogaya and SFC will undertake joint development in OLED-related areas.

In addition, our Korean affiliate company, HODOGAYA CHEMICAL KOREA plans to open a research center in Korea in December, 2011. By establishing our research facility in Korea, main market of OLED, we plan to accelerate growth in our OLED business.

Awards and Commendations

Our Koriyama plant receives a commendation from Fukushima Prefecture

In July 2011, Fukushima Prefecture held an event called "Let's Go Fukushima! Manufacturing Companies," commemorating 35 companies that were affected by the disaster in March but continued to operate in the prefecture and preserve jobs, etc. Our Koriyama plant's quick recovery (operations resumed on April 1) was highly acclaimed. The Koriyama plant is our primary manufacturing site, producing imaging materials and OLED materials. We will continue to manufacture here, and to contribute as best we can to the economic recovery of the region.

Hodogaya Vandex Construction Products Co., Ltd. wins the top award for accident-free operation

In July 2011, Hankyu Hanshin Railway Technology Co., Ltd. held its 2011 Safety Competition, and Hodogaya Vandex Construction Products Co., Ltd. won a gold medal. This year, in the Civil Works division, two companies received silver medals for accident-free operation, and three received gold medals (companies that received silver medals for five year or more in a row). Hodogaya Vandex has been working on leak proofing and waterproofing in Hankyu Railway's underground tunnels, and has a continuing record of safe, accident-free operation. Safety will continue to be our top priority in all of our leak proofing and waterproofing operations.

Hodogaya Trivia: Bio PTG

Protecting the Environment with Biomass Materials

Much of the plastic and textiles that surround us in our daily lives is made from petroleum-based materials. In recent years, as awareness of environmental problems has grown, there has been an effort to switch from petroleum-based materials to plant-based materials (biomass materials). Biomass materials are usually the non-edible portions of edible plants, such as corncobs and sugar beet pulp. By using biomass materials, it is possible to reduce petroleum consumption, and to reduce carbon dioxide emissions.

We have begun production of a 100% plant-based Bio PTG product (an ingredient of polyurethane), using non-edible plant materials. The quality of the product is identical to that of petroleum-based PTG. We expect demand for Bio PTG to grow, and are preparing to ramp up production. Hodogaya Chemical is doing its part to protect the environment.

PTG

In 1963, Hodogaya Chemical became the first company in Japan to commercially produce this ingredient of polyurethane. It is reacted with isocyanate and used in a wide variety of applications, ranging from the elastic fibers found in sportswear and stockings to the raw materials used to make synthetic leather, paints, and coatings, etc.

CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2011.

	MILLIONS OF YEN	
	2011 Sep. 30	2011 Mar 31
ASSETS		
Current Assets	23,875	22,002
Cash and cash equivalents	6,849	5,977
Notes and accounts receivable	10,349	10,919
Inventories	5,258	3,835
Others	1,415	1,269
Fixed Assets	26,849	26,222
Tangible Fixed Assets	19,878	19,405
Intangible Fixed Assets	2,702	1,033
Investment	4,268	5,784
Total Assets	50,724	48,225
LIABILITIES		
Notes and accounts payable	4,573	4,329
Currents portion of bond	11,323	9,650
Others	7,168	7,267
Total Liabilities	23,069	21,254
SHAREHOLDERS' EQUITY		
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,187	4,933
Less: Treasury share at cost, 5,033,782 shares in Mar. 31, 2011		(1,692)
Less: Treasury share at cost, 5,028,094 shares in Sep. 30, 2011	(1,690)	
Valuation and Translation Adjustments	2,355	2,472
Minority interests	1,015	471
Total Shareholders' equity	27,655	26,971
Total Liabilities and Shareholders' equity	50,724	48,225

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, 2011.

	MILLIONS OF YEN	
	2011	2010
	Apr.1-Sep.30	Apr.1-Sep.30
Net Sales	17,173	15,697
Cost of sales	12,099	10,951
Selling, general and administrative expenses	4,621	3,912
Operating income	452	833
Other income	158	161
Other expenses	410	481
Ordinary income	200	513
Extraordinary income	790	73
Extraordinary expenses	295	355
Income before income taxes	694	231
Current	137	165
Deferred	557	66
Minority interests	(12)	(34)
Net income	570	100

STOCK (AS of September 30, 2011)

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

8,920

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	28,049	33.34
Japan Trustee Services Bank, Ltd.	5,738	6.82
Hodogaya Chemical Co., Ltd.	5,028	5.98
Mizuho Corporate Bank, Ltd.	2,987	3.55
The Norinchukin Bank	2,274	2.70
Meiji Yasuda Life Insurance Company	1,645	1.96
The Master Trust Bank of Japan, Ltd.	1,576	1.87
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