Report to shareholders

Interim Business Report 2012

April 1 - September 30, 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 2012 first-half (April 1 – September 30, 2012) results and discuss our prospects for the rest of the year.

Second Quarter 2012: Consolidated Results (Millions of Yen)

	FY2011 Results	FY 2012 Results	Changes Gains/Losses
Net Sales	17,173	16,811	△361
Operating Income	452	145	△307
Ordinary Income (△=losses)	200	△65	△266
Net Income (△=losses)	570	△1,143	△1,714

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

A: Under the ongoing difficult economic conditions, revenue was significantly lower in the Imaging Materials, Basic Chemicals and Agro-Science businesses, leading to an overall reduction in revenue and profits for the first half of the year.

The economic climate in the first half of 2012 was characterized by economic stagnation in many countries as a result of the debt crisis in Europe, and the business environment within which we operate continued to be harsh.

Despite contributions made by SFC Co., Ltd., which became a consolidated subsidiary in the second quarter of last year, consolidated sales for the first half of the year were negatively affected by a downturn in the Imaging Materials business due to weak demand as a result of economic stagnation, and decreases in the Industrial Chemicals business. The Agro-Science sector felt the impact of production adjustments by customers in the home garden herbicides business as well. Consolidated sales came to 16,811 million yen, a decrease of 361 million yen (2.1%) from the same period last year.

Regarding profit and loss, we did all that we could to reduce costs, thoroughly manage inventory, and cut expenses, but profits were still affected by the decrease in revenue, raw materials price increases, and the continuing strength of the Japanese yen. Operating income came to 145 million

yen, a decrease of 307 million yen (67.9%) from the same period last year, while ordinary losses came to 65 million yen. We also posted extraordinary losses of 560 million yen due to losses from valuation of investment securities, which brought net losses for the quarter to 1,143 million yen. (See p. 10)

In consideration of the consolidated results of the first half of the year and future prospects, the mid-year dividend will be set at 2 yen per share.

Question 2: Please tell us about the initiatives being taken in connection with "HONKI 2013", the mid-term management plan

A: To strengthen core businesses, we began production of a new CCA (Charge Control Agent for toner), and we consolidated the head office functions of the group companies to strengthen the organization as a whole.

As our group approaches its 100th anniversary in 2016, our goal is to be a "corporation that steadily supplies 'Only One/Number One' materials in the global and niche markets". To achieve this objective, we embarked on the mid-term management plan "HONKI 2013" (***H****ODOGAYA as* ***O****nly one,* ***N****umber one with our* ***K****ey technology and* ***I****magination*) in FY 2011.

With "HONKI 2013", we plan to create a firm foundation for future growth and strengthen each category of business (Core Businesses, Growth Businesses, Cultivation Businesses and New Product Creation) by 2013. In the first half of the year, we took steps to strengthen our corporate structure by consolidating the head office functions of the group companies in one location (Yaesu, Chuo-ku, Tokyo) (See p. 7)

We are one of the world's top producers of CCAs, and we have now completed a manufacturing facility at our Koriyama plant and started production of the new CCA that we developed in 2011. (See p. 7)

In addition, a major electronics manufacturer has decided to use one of our core products, aluminum coloring dyes, in its smartphone products, so we have strengthened our production capabilities to meet that demand. Further, in the area of logistics and warehousing, Hodogaya Logistics Co., Ltd. has decided to expand its hazardous materials warehouse in Yokohama (Kanagawa Prefecture). As a chemical company, the know-how we have accumulated in handling hazardous materials will help the company expand its business.

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

A: We will work on making management as efficient as possible through such measures as cost cutting, and renew efforts to expand Core and Growth businesses.

We expect the outlook for the business climate to remain murky into the second half of 2012. It is unclear how much demand will recover in the area of Imaging Materials, one of our main business areas.

Even under these tough conditions, our group will continue to focus on measures such as cost

cutting and inventory management, while we work to strengthen growth businesses such as OLED Materials (see p. 4) and strengthen and expand core businesses in our quest to become a world-renowned global niche company.

The forecast for the full year, in light of the conditions described above, is 35,300 million yen in sales (an increase of 0.3% over last year), operating income of 800 million yen (a decrease of 53.3% from last year), ordinary profits of 300 million yen (a decrease of 75.6%), and a net loss for the period of 1,200 million yen. We expect the year-end dividend to be 2 yen per share.

I thank our shareholders for their continuing support.

Toshikazu Kitano
President and CEO
December 2012

Spotlight

OLED, One of Today's Hottest Technologies, and Hodogaya Chemical, What is OLED?

An OLED (Organic Light-Emitting Diode, or Organic Electro-Luminescence) is a light-emitting system in which an electric current causes certain organic compounds to produce their own light.

The technology is used in smartphones, etc., and applications such as large television displays are being developed.

OLED displays offer a number of advantages over conventional liquid crystal displays: 1) since the materials emit their own light, no backlight is required, making great reductions in device weight and thickness possible; 2) clear display with faster response time; 3) clear display over a wide (180 degree) viewing angle, etc. They are attracting worldwide attention as a clear departure from LCD technology.

The unique possibilities of OLED technology are being realized not only in displays, but in other areas, such as lighting products, as well.

Why does Hodogaya Chemical hold such a strong position in the OLED materials field?

Manufacturing Core Materials

The basic OLED system is composed of three types of organic materials (*1), the electron transport layer, the light-emitting layer, and the hole transport layer, which are sandwiched between electrodes, etc. When electric current is applied to the electrodes, light is produced in the light-emitting layer.

Our group manufactures and supplies all three of the core components: electron transport materials, light-emitting materials, and hole transport materials.

**1 The thickness of each material ranges from a few nanometers to a few hundred nanometers.*

New Applications for an Advanced Skill Set

How did we start developing OLED materials in the first place? The answer to that question lies in the high level of technical skill we cultivated through our work in developing and manufacturing dye products. That technology is also applied in one of the core components of a copy machine, as the electron transport material used in OPC (Organic Photo Conductor) drums. We are proud to be the top supplier of these materials.

Following these achievements, we turned our attention to the development of OLED materials.

Hodogaya Chemical's technologies support the world's top manufacturers

These days, Korean manufacturers, led by the Samsung group, are the world's top manufacturers of OLED panels. Through our top-quality materials, we are supporting panel manufacturers both within and outside of Japan.

Initially we focused on the manufacture of hole transport materials and electron transport

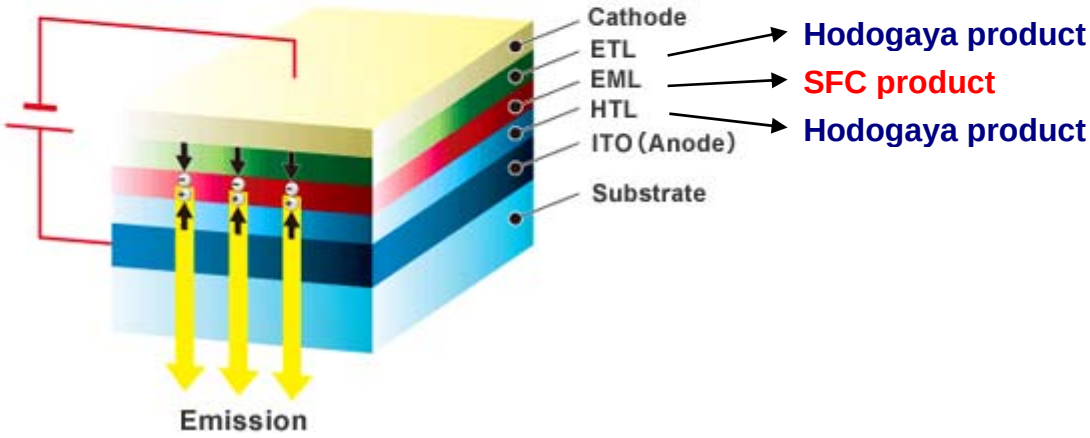
materials, but with the 2011 addition of Korean light-emitting material manufacturer SFC Co. Ltd. to our group as a consolidated subsidiary, it became possible for us to manufacture all three core components. SFC's strength lies in its ability to produce colors that other companies have trouble with.

With the ability to manufacture all three materials came the opportunity to fuse the technologies used in each material to accelerate the development of new products. Because we are able to recommend the best formulas to panel makers when they are selecting materials, we have been able to shorten evaluation and decision times.

OLED System

TV

Lighting



The HTL(hole transport layer) and the ETL(electron transport layer) carry positive and negative charges, respectively, which combine at the central EML(emitting layer) to produce light.

Q&A: Hodogaya Chemical's Technological Strategy

Q: How did you start developing OLED materials?

OLED elements were first developed by Eastman Kodak in 1987, but we were also studying them. Our concerted effort began in 1991. Using the technological know-how we had developed through the manufacture of our OPC drum material products, we started developing hole transport materials in partnership with a panel manufacturer, i.e., a user of such products.

Q: What were the high and low points of your R&D effort?

When we first started development, we weren't sure what sort of characteristics the material would need to have, and the process of creating and evaluating electroluminescent elements was not yet stable. We could only feel our way forward by making materials, evaluating them, and learning from them.

At the time, the PHS phones that were being developed were our initial target, but LCDs were getting better and better, so nobody really considered the practical application of OLED technology. We can truly say that the seeds sown by those dedicated researchers, who kept pushing forward with their work, have finally blossomed.

Q: What are the prospects for the OLED market?

According to one market research company, the market is expected to grow quickly, from 700,000 million yen in 2012, to 1,400,000 million yen in 2014. The OLED lighting market, which should take shape around 2014, is also expected to be worth about 70,000 − 140,000 million yen. Our group is fighting to be the top materials supplier in these markets.

Q: What are the strengths of Hodogaya Chemical's OLED materials technologies?

A high level of purity is required for OLED materials. Our group has the technology to manufacture products of a higher purity than those of other companies (99.9%) with fewer processes, which gives us a cost advantage. Further, the quality of our products is stable, and our customers know that they can count on us to supply them with defect- and claim-free materials.

This overwhelming technical strength comes from our years of experience with imaging materials and functional materials.

Q. What will Hodogaya Chemical's OLED materials be used for in the future?

In the area of displays, we expect that they will eventually be used in large-scale televisions. Also, because OLED displays are capable of producing photo-like colors, we expect to see applications in medical displays, where it is necessary to clearly display the area being treated.

In the area of lighting, the market will probably be split between OLED and LED products, but OLED products will offer the greatest opportunity for lightweight, thin designs.

OLEDs can reproduce colors at levels that approach natural light, so they are also being considered as the light source for gastroscopes and other medical devices.

Using our strengths in being able to manufacture all three high-purity OLED materials, we will introduce the best uses and combinations to the world, and lead the industry.

Topics

Concentrating the Group's Head Office Functions in One Location to Improve Management Efficiency

Our group has been working on strengthening our organization as part of our mid-term management plan, "HONKI 2013".

We had already started focusing on the operations of the group as a whole with the globalization of our businesses, the strengthening of internal controls, and systems integration, etc. Having determined that we could accelerate these efforts more efficiently if we gathered all the separate head office functions in one location, we began the process of consolidation in 2011, and in May, 2012, we brought the former head office (in Hamamatsu-cho, Tokyo) together with 3 group companies in a new head office, located in Yaesu, Tokyo.

This move has allowed us to strengthen 1) individual performance; 2) team coordination; and 3) contact with our customers, and made it possible for the group to act in concert to a greater degree than ever before to create new value.

Completion of the New CCA Manufacturing Facility

We are proud to be a world-class leading manufacturer of a material that is indispensible to the toner that is used in copy machines and printers, namely, CCA (Charge Control Agents for toner).

In 2011, in order to better respond to customer needs, we developed and introduced a new CCA product. Not only does this CCA product have excellent basic properties, its chemical structure was designed with the environment in mind. We expect this to become one of our standard CCA products, and so, in order to meet demand, we completed a manufacturing facility at our Koriyama plant in June 2012, and began manufacturing there.

Going forward as a leading CCA company, we will develop materials for various types of toner in order to meet our customers' various needs.

Hodogaya Trivia: Agricultural Chemicals

Among the chemical products that support our abundant lifestyle, agricultural chemicals have played a particularly important role in the development of the agricultural industry, contributing to increased production and improved quality. Hodogaya Chemical is an industry leader in the area of herbicides, supplying products for home gardens and golf courses as well.

The next time you go to the golf course, take a good look at the grass. In the shadow of the manicured green, Hodogaya Chemical's chemicals are hard at work.

Overview By Business Segment

Functional Colorants

The Imaging Materials business saw a steep decline as a result of weak demand in response to the global economic downturn.

In the functional colorants business, weak overseas demand for stationery dyes resulted in a decline, but thanks to increased overseas demand for aluminum dyes, results were on a par with last year.

The OLED business saw gains as a result of sales at SFC Co. Ltd., which became a consolidated subsidiary in the second quarter of last year.

Overall results for this segment were 4,607 million yen in sales, a reduction of 21 million yen (0.5%) compared with last year's first half.

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

Because of adhesive customers' production adjustments, the Functional Polymers business saw a decline.

Demand was weak in the polymer-related areas, but because of recovering demand in the pharmaceutical sector, results for the Specialty Chemicals business were at the same level as last year's first half.

Sales in the Construction Materials business increased, thanks to successful bids for urethane waterproofing in renovation jobs. In the second quarter, the construction sector won some large-scale contracts, so results were at the same level as last year's first half.

Sales for the segment were 5,753 million yen, an increase of 34 million yen (0.6%) over last year's first half.

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

Demand for hydrogen peroxide for newly developed veterinary medicine applications (fisheries) increased, but because of weakness in the main paper pulp and industrial chemicals sectors, results were on a par with last year’s first half.

Sodium percarbonate sales were up, thanks to recovery from the effects of the Tohoku earthquake.

Other industrial chemicals were faced with harsh conditions, and declined sharply.

Sales for this segment came to 3,600 million yen, a decrease of 289 million yen (7.4%) from last year’s first half.

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

Agro-Science

In the Agro-Science business, food exports that had been halted due to reputational damage following the nuclear accident resumed, and demand for pesticides grew, but because of customer production adjustments in the home garden herbicide sector, the business saw a steep decline.

Sales in this segment came to 2,071 million yen, a decrease of 149 million yen (6.7%) from last year’s first half.

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, 2012.

	MILLIONS OF YEN	
	2012 Mar. 31	**2012 Sep. 30**
ASSETS		
Current Assets	24,878	24,352
Cash and cash equivalents	6,398	6,975
Notes and accounts receivable	11,572	10,149
Inventories	5,546	5,958
Others	1,362	1,268
Fixed Assets	27,237	26,919
Tangible Fixed Assets	21,425	21,914
Intangible Fixed Assets	2,218	1,911
Investment	3,594	3,093
Total Assets	52,116	51,272
LIABILITIES		
Notes and accounts payable	5,344	4,765
Currents portion of bond	11,528	12,387
Others	7,054	7,081
Total Liabilities	23,931	24,237
Shareholders' equity	25,020	23,558
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,924	4,463
Less: Treasury share at cost, 5,028,456 shares in Mar. 31, 2012	(1,690)	
Less: Treasury share at cost, 5,033,751 shares in Sep. 30, 2012		(1,691)
Valuation and Translation Adjustments	1,983	2,236
Share warrant	52	58
Minority interests	1,128	1,181
Total Shareholders' equity	28,184	27,035
Total Liabilities and Shareholders' equity	52,116	51,272

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for April 1 - September 30, 2011 and 2012.

	MILLIONS OF YEN	
	2011	**2012**
	Apr.1-Sep.30	**Apr.1-Sep.30**
Net Sales	17,173	16,811
Cost of sales	12,099	11,994
Selling, general and administrative expenses	4,621	4,672
Operating income	452	145
Other income	158	189
Other expenses	410	400
Ordinary income	200	(65)
Extraordinary income	790	142
Extraordinary expenses	295	618
Income before income taxes	694	(542)
Current	137	485
Deferred	557	(1,027)
Minority interests	(12)	116
Net income	570	(1,143)

STOCK **(AS of September 30, 2012)**

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

9,948

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	16,828	20.0
Japan Trustee Services Bank, Ltd.	9,503	11.3
Hodogaya Chemical Co., Ltd.	5,033	6.0
Mizuho Corporate Bank, Ltd.	2,987	3.6
The Norinchukin Bank	2,274	2.7
The Master Trust Bank of Japan, Ltd.	1,750	2.1
Meiji Yasuda Life Insurance Company	1,645	2.0
Mitsui Sumitomo Insurance Co., Ltd	1,414	1.7
The Toho Bank, Ltd.	1,281	1.5
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,201	1.4