Materials Innovation

JSR

With chemistry, we can.

JSR Corporation

ANNUAL REPORT 2009

For the year ended March 31, 2009

Profile

JSR Corporation (formerly 'Japan Synthetic Rubber Co., Ltd.') was established in 1957 with the aim to commence the domestic production of synthetic rubber. Since then, JSR has continued to expand its business to manufacture emulsions and plastics. JSR further expanded in its operations by utilizing the group's own polymer technologies to introduce products such as semiconductor materials, display materials and optical materials. As such, the developments of these materials in the fields of information and electronics have been a focal point, leading to innovative changes to the company's business structure.

Currently, JSR Corporation's four-year Midterm Business Plan "JUMP2010" (which began in fiscal 2008) is being implemented. "JUMP2010" are ideal goals set for JSR to achieve by 2010; taking a big "jump" towards expediting the changes made to business and the structure, and aiming to take further leaps. In addition to further enhancing global competitiveness with existing projects, JSR will continue to provide our "innovative materials" and "high-precision processing technology and products" to newly-emerging fields in environment, energy, biotechnology and medicare, as well as in the areas of information and electronics, which are expected to continue to grow in the future.

Contents

Forward-Looking Statements

Statements regarding the company's future plans, strategies, projected performance and outlook are based on information available at the time of writing. Readers are cautioned that economic trends in JSR's target markets and other risks and factors beyond the company's control could cause actual results to differ materially from those projected by the management.

Corporate Philosophy

Materials Innovation

"To provide new materials,
and through their value strive to contribute
to the realization of an affluent human society
(people, society, and the environment)."

Management Policies

- Persistently challenge "revolution", constantly "evolve" globally, and strive to be a technology oriented company.
- Pursue efficient, transparent and wholesome management and strive to be a company trusted by stakeholders.
- Practice Responsible Care for the future of the world.

Corporate Slogan

With chemistry, we can.

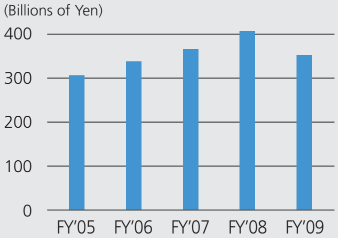
In commemoration of the 50th anniversary of its foundation, JSR has made its corporate slogan. "With chemistry, we can." appeals our technological strengths to make possible by chemistry what appears to be impossible and shows our corporate vision to pursue cutting-edge technologies to create new values, provide solutions to our customers and society, and keep meeting challenges for the future.

The corporate slogan shows the scope of our business domains in a clearer way and supplements our corporate philosophy "Materials Innovation". Under the new corporate slogan, we endeavor to enhance our corporate brand.

Consolidated Financial Highlights

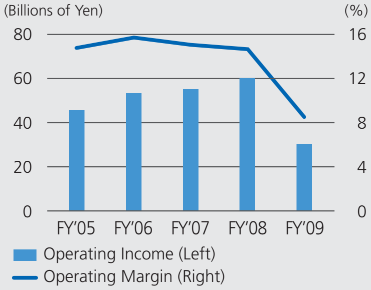
Net Sales

(Billions of Yen)



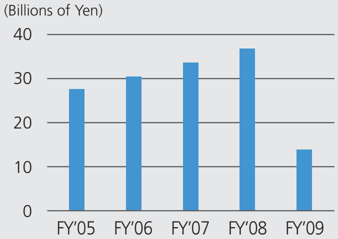
Operating Income / Operating Margin

(Billions of Yen) (%)



Net Income

(Billions of Yen)



Fiscal Years ended March 31

Millions of Yen

	FY2000	FY2001	FY2002	FY2003	FY2004
Results for the year					
Net sales	¥219,492	¥231,823	¥220,058	¥247,139	¥275,071
Costs and expenses	212,860	222,400	211,246	226,345	242,452
Operating income	6,632	9,423	8,812	20,794	32,619
Interest and dividend income	355	591	411	431	397
Interest expenses	(1,265)	(946)	(757)	(750)	(693)
Income before income taxes and minority interests	2,545	9,332	7,915	17,855	30,378
Net income	2,243	5,678	4,728	10,991	19,353
Capital expenditures	12,317	10,936	13,265	16,048	17,156
Depreciation	17,884	17,599	16,507	16,489	14,970
Year-end financial position					
Total assets	293,477	283,859	270,054	281,874	308,581
Long-term debt due after one year	24,760	24,222	22,934	24,208	13,920
Total liabilities	169,186	155,476	135,477	139,682	146,280
Equity	121,198	124,684	131,752	139,447	159,497
Current ratio (times)	1.3	1.4	1.5	1.6	1.6
Return on assets (%)	0.8	2.0	1.8	3.9	6.3
Return on equity (%)	1.9	4.6	3.6	7.9	12.9
Equity ratio (%)	41.3	43.9	48.8	49.5	51.7
Per share of common stock (Yen and U.S. Dollars)					
Net income	8.67	22.20	18.48	42.46	75.12
Cash dividends	6.00	6.00	6.00	7.00	9.00
Equity	473.80	487.42	514.93	544.94	623.14

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥98.23=$1, the exchange rate prevailing at March 31, 2009.

2003–2004

HOP

JSRevolution

The period for establishing a solid foundation in order to promote structural reform and achieve growth.

Net Sales:
¥275.1 billion

Operating Income:
¥32.6 billion

FY2005	FY2006	FY2007	FY2008	FY2009	Thousands of U.S. Dollars FY2009
¥305,368	¥338,160	¥365,831	¥406,968	¥352,503	$3,588,547
260,035	284,803	310,588	346,958	322,155	3,279,603
45,333	53,357	55,243	60,010	30,348	308,944
519	635	1,030	1,309	1,230	12,519
(475)	(420)	(399)	(256)	(271)	(2,757)
43,471	49,038	53,440	54,867	20,803	211,780
27,564	30,555	33,655	36,994	13,981	142,331
18,134	23,361	22,094	29,076	19,081	194,254
15,245	16,206	18,133	21,180	24,833	252,806
325,031	381,097	408,949	416,951	339,498	3,456,152
13,857	1,607	2,745	1,525	1,500	15,270
139,249	164,389	168,963	159,288	97,512	992,690
182,476	212,751	235,186	252,539	240,896	2,452,376
1.8	1.7	1.8	1.9	2.5	
8.7	8.7	8.2	14.8	4.1	
16.1	15.5	15.0	15.2	5.7	
56.1	55.8	57.5	60.6	71.0	
107.54	119.63	133.10	147.26	56.36	0.57
14.00	20.00	24.00	32.00	32.00	0.33
717.13	836.31	932.47	1,009.27	986.33	10.04

2005–2007

2008–2011

STEP

JSRevolution II

The period for creating operational foundations for next-stage growth business and increasing profits for existing business.

Net Sales:
¥365.8 billion
Operating Income:
¥55.2 billion

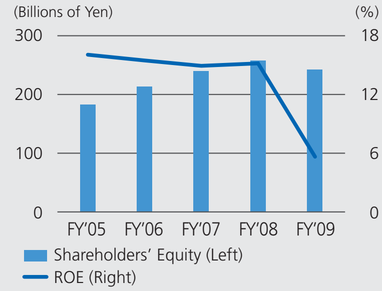
JUMP

JUMP2010

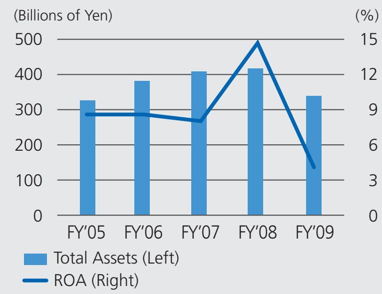
The period for accelerating reform and innovation to achieve a jump forward while continuing growth.

Revised in April 2009
Net Sales:
Over ¥360 billion yen
Operating Margin:
10% or higher

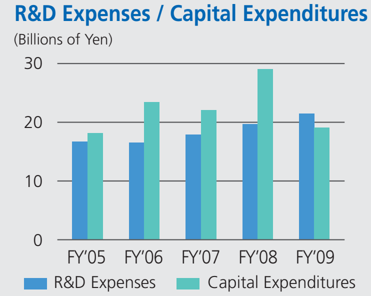
Shareholders' Equity / ROE



Total Assets / ROA



R&D Expenses / Capital Expenditures

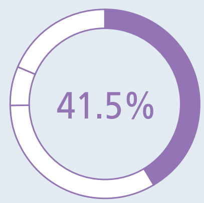


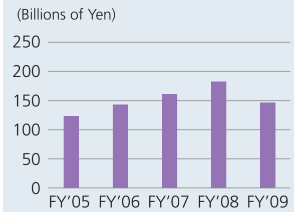
At a Glance

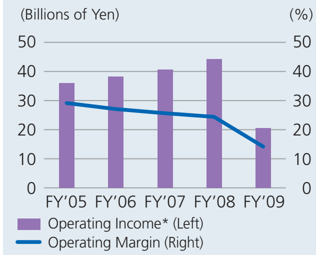
Segment	Proportion of Sales	Net Sales	Operating Income / Operating Margin

Fine Chemicals and Other Products

Information electronics materials, mainly for semiconductors and flat panel displays, are the largest component of this segment.





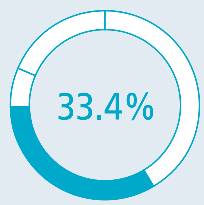


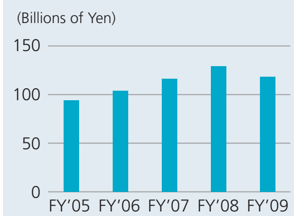
*Operating income includes company-wide costs for fundamental research and development.

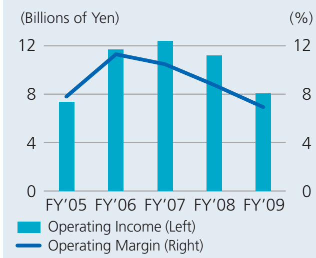
Petrochemicals

Elastomers

The main products in this segment are synthetic rubber and thermoplastic elastomers (TPE). JSR is one of the world's largest manufacturers of synthetic rubber.

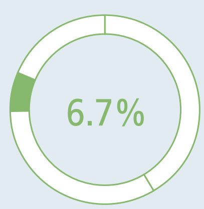


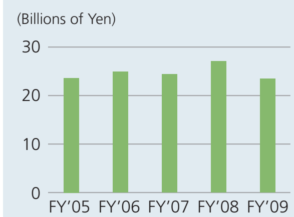


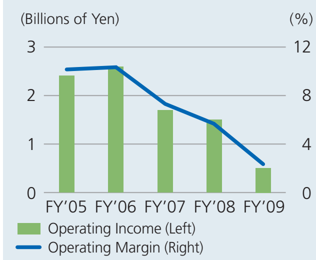


Emulsions

Emulsions are liquids in which synthetic rubber or synthetic resin have been dispersed in water, such as acrylic emulsions and paper coating latex (PCL).

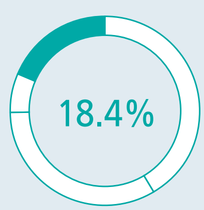


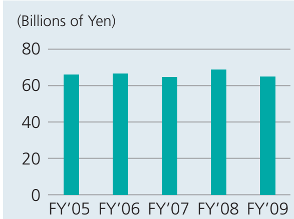


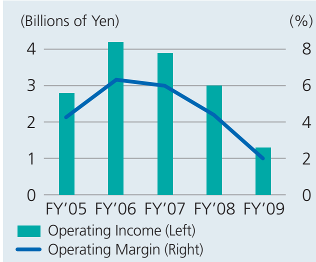


Plastics

The major product in this segment is ABS plastics, a material with well-balanced properties that is used in many applications worldwide.







1st Tier Products

Elastomer

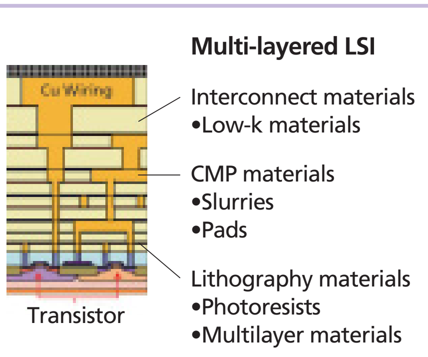
Styrene-butadiene rubber (SBR) and other JSR general-purpose synthetic rubbers are used in many applications across industries due to their advanced technology. JSR products are top class in the Japanese market. The largest application is automobile tires, and JSR is making a large contribution to increasing the performance of these products through the development of solution polymerization SBR (S-SBR) for high performance energy efficiency tires.

Tread: SBR, BR
Base tread: BR
Sidewall: BR
Inner liner: IIR
Chafer: BR, SBR

Semiconductor materials

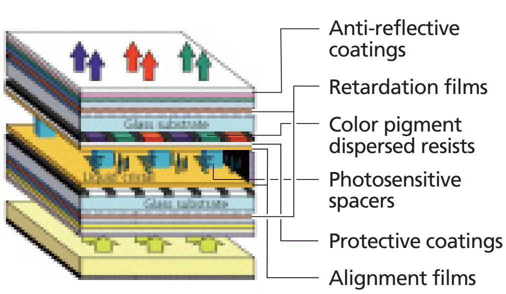
JSR's semiconductor materials are developed based on its many years of polymer chemistry in petrochemical business. In particular, JSR lithography materials including photoresists are recognized as global top class products. JSR products meet diverse global needs for high quality and performance products in the trend of miniaturization and high integration in semiconductors.

Products	Applications
Semiconductor Materials •Lithography materials (photoresists, multilayer materials and others) •CMP materials (CMP slurries and pads) •Interconnect materials (spin-on low-k materials) •Packaging materials (thick photoresists, photosensitive insulation materials and others) **Flat Panel Display (FPD) Materials** •LCD materials (alignment films, protective coatings, color pigment dispersed resists, photosensitive spacer and others) •PDP materials (dielectric layer of dry film, dry film for electrode formation, and others) •Optical films (ARTON® films) **Optical Materials** •Opto-functional materials (anti-reflective coatings, UV curing optical fiber coatings, heat-resistant transparent resin ARTON®)	**Semiconductor Materials** •Process materials for semiconductor manufacturing **FPD Materials** •Process materials for liquid crystal displays panels •Process materials for plasma display panels **Optical Materials** •Anti-reflection for display surface, organic / inorganic hybrid hard coat, prism lens, adhesive for optical discs, etc. •Optical fiber coating materials, three-dimensional free form fabrications •Optical lens, retardation films, light guiding plates, etc.
General-Purpose Synthetic Rubbers •Styrene-butadiene rubber (SBR) •Poly-butadiene rubber (BR) **Special Purpose Synthetic Rubbers** •Acrylonitrile-butadiene rubber (NBR) •Butyl rubber (IIR) •Ethylene-propylene rubber (EPM/EPDM) **Thermoplastic Elastomer (TPE)** •Syndiotactic 1,2-Poly-Butadiene "JSR RB®" •Hydrogenated polymer "DYNARON®" •Styrene-butadiene block copolymer "JSR TR" •Styrene-isoprene block copolymer "JSR SIS®"	**General-Purpose Synthetic Rubbers** •Automobile tires **Special-Purpose Synthetic Rubbers** •Automobile parts, industrial rubbers, etc. **Thermoplastic Elastomer (TPE)** •Various shoe soles, injection molding items •Hot melt adhesives, hot melt binders
Emulsion Products •Paper coating latex (PCL) •SB latex •Acrylic emulsion **Performance Chemicals** •High-functional dispersant "DYNAFLOW®" •Organic/inorganic hybrid coating material "GLASCA®" •Standard particles •Particles for clinical diagnostic •Research reagents	**Emulsion Products** •Carpet backings, various binders •Coating paper for printing purposes •Floor polish, paint, binders, adhesives **Performance Chemicals** •Anti-staining coating materials •Exterior coatings, various functional coating materials.
•Acrylonitrile-butadiene-styrene (ABS) plastics •Acrylonitrile-ethylene-propylene-styrene (AES) plastics	•Automotive parts, electrical appliances, office automation equipment, etc. •Automotive parts, electrical appliances, house-buliding materials, etc.



Liquid crystal display (LCD) materials

JSR's Liquid Crystal Display (LCD) materials contribute toward the high-definition of LCD television sets. Furthermore, LCD materials are recognized in the market as the cutting-edge technology originally developed by the Company. JSR creates value for innovations in FPD technology through development and commercialization by its proprietary polymer technology.



To Our Shareholders

MITSUNOBU KOSHIBA
Representative Director and President

YOSHINORI YOSHIDA
Representative Director and Chairman

We have been steadily increasing our business size and profitability from fiscal 2002 to 2008. However, the business environment has rapidly deteriorated since October 2008 due to the severe recession caused by the global financial crisis. In this situation, the Company would like to re-emphasize the importance of a business management style that gives precedence to rapid decision making which enables us to overcome the tough and unpredictable business environment and start on a new growth path upon an economic upturn.

Here, we would like to report our business operations of fiscal 2009.

A fiscal year ended March 31. (ie. For the case of fiscal 2002, the fiscal year started on April 1, 2001 and ended on March 31, 2002.)

Fiscal 2009 Business Environment and Earnings

In the first half of fiscal 2009, Japan's economy grew more uncertain not only from the sharp rise in crude oil price, but also due to slackening export growth and a downturn in gross domestic product as well. Furthermore, in the second half, the global financial crisis caused a worldwide stock market slump as well as the yen's accelerated appreciation. This has seriously affected the real economy, which has been indicated by the world economy's fast deceleration. As a result, these events have pushed the economy into a grave recession on an unprecedented scale.

Our main customers, including automobile, automobile tire, paper, semiconductor and flat panel display (FPD) manufacturers, saw a rapid drop in global demand. Resultantly, they had no choice but to implement large-scale production adjustments.

Under these circumstances, during the first half of fiscal 2009, our petrochemical sector weathered steep hikes in the major raw materials price, mainly caused by the rise in the prices of crude oil. In addition, production adjustments at the ethylene production plants in the petrochemical complex, further limit the availability of raw materials in the first half of fiscal 2009. Within this unforgiving environment, the sector endeavored to revise prices in order to improve profitability and ensure the supply of major raw materials in a bid to stabilize earnings. Also the fine chemicals and other products sector, which posit information electronics materials as its main business, continued to provide advanced materials and promoted global marketing in a bid to expand its operations further. As the business environment quickly deteriorated in the second half, the both of business sector united to take emergency measures in order to maintain earnings. Although these measures were mainly taken to reduce fixed costs, earnings, nevertheless, declined substantially from the plunge in sales caused by the rapid drop in demand.

As a result, sales and profit were down in fiscal 2009, net sales decreased 13.4% to 352.5 billion, operating income was down 49.4% to ¥30.3 billion, current income decreased 44.5% to ¥31.1 billion, and current net income decreased 62.2% to ¥13.9 billion.

Dividends

Our basic dividend payout policy calls for the maintenance of a stable dividend over the long-term and the distribution of profits contingent upon consolidated earnings growth. The dividend amount for fiscal 2009 was ¥32 per share, unchanged from the previous year, consisting of ¥16 in midterm dividend and ¥16 in term-end dividend.

Future Outlook and Operation Policies

In fiscal 2010, the Japanese economy is expected to see contracting demand due to the prolonged global economic slump and spillover effects of deteriorating corporate earnings and personal spendings. The economic situation will remain tough after the unprecedented recession in fiscal 2009. Particularly, demand will stay slack in our main customers, including automobile, automobile tire, paper, semiconductor and flat panel display manufacturers. It is projected to take time for the demand in these industries to recover.

Under this situation, we have substantially revised numerical targets and the action plans for the second half of its four-year mid-term business plan, "JUMP2010," which started in fiscal 2008. The basic strategy remains unchanged, namely, seeking to "create a group of next-stage growth businesses and expand earnings at the petrochemical and the fine chemicals and other products businesses." Furthermore, we will thoroughly reduce costs and improve business competitiveness by implementing restructuring measures in the petrochemical sector as well as the fine chemicals and other products business sector, especially, the semiconductor and flat panel display materials divisions. As for next-stage growth businesses, we will enhance the promotional system and resource allocation to accelerate commercialization. We will do our utmost to achieve the goals by implementing these measures promptly to get back on a growth path as soon as the market environment recovers.

As a member of the chemical industry, we believe that our corporate responsibility is to "enable sustainable development." Under this belief, the Group will further enhance efforts to contribute to the development of society by striving to fulfill its corporate social responsibility, giving due considerations to the environment and safety and promoting fair business operations.

Lastly, we appointed a new representative director and president on April 1, 2009, thereby launching a new management regime. Under the corporate slogan of "With chemistry, we can." we aim to continue creating new values, provide solutions to society and further grow and develop as a company.

To our shareholders, we ask for your continued cooperation and support.

YOSHINORI YOSHIDA
Representative Director
and Chairman

MITSUNOBU KOSHIBA
Representative Director
and President

Interview with the President

Fiscal 2009 marked the mid-point of the four year mid-term business plan "JUMP2010." We asked Mitsunobu Koshiba, who became President on April 1, 2009 on his thoughts regarding policies hereafter.

Review of the first half of "JUMP 2010"

Q How would you summarize the performance at this point on looking back on the two years in the first half of "JUMP 2010"?

A Fiscal 2009 marked the second year of the four year mid-term business plan from fiscal 2008 to fiscal 2011, and was positioned as the year to place us on the path for growth acceleration in the latter half of two years; however, due to effects of the financial crisis, demand and business environment suddenly worsened starting in October 2008. During the first half of fiscal 2009, our petrochemical division weathered steep hikes in the major raw materials price, mainly caused by the sharp rise in the prices of crude oil. In addition, production adjustments at the ethylene center started to restrict procurement of raw materials in the first half of fiscal 2009. As the whole business environment quickly deteriorated in the second half, both petrochemical business sector and fine chemicals and other products business sector united to take emergency measures in order to maintain earnings.

Despite their efforts, they did not achieve their initial goals. Net sales dropped 19% over the initially planned, which is similar to fiscal 2007 level, and operating income fell 50% over the initially planned. Thus, we are forced to revise our initially assumed growth path, and must rapidly advance cost optimization to match the sales scale of the new scenario for the two years in the second half of the mid-term business plan "JUMP2010."

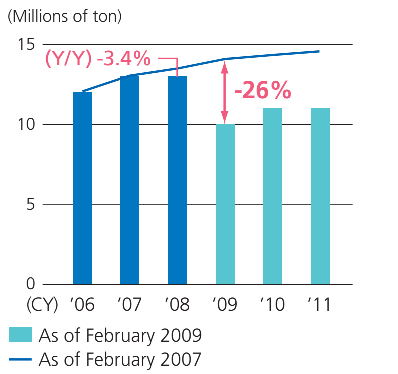
	FY2008	FY2009 Initial Plan	FY2009
Net sales	¥407 billion	¥437 billion	¥352.5 billion
Operating income	¥60 billion	¥61 billion	¥30.3 billion
Operating margin	14.7%	14.0%	8.6%
ROE	15.2%	14.0%	5.7%

Q How would you define the current industry's situation?

A Overall sales were down toward the fiscal year's second half for markets representing JSR's main customers, which are: synthetic rubbers, semiconductors, and Liquid Crystal Display (LCD) panels. Compared to its peak sales in fiscal 2008, a 30-40% decline is projected in fiscal 2010, and a further fall of at least 20-30% below the initial market forecast is assumed. Also, short term recovery is viewed as difficult for all of them, creating a large gap between the initially forecasted market sizes over the next few years. Thus we must make revisions in our previous growth scenario which assumed market expansion, and look to the future of our business operations.

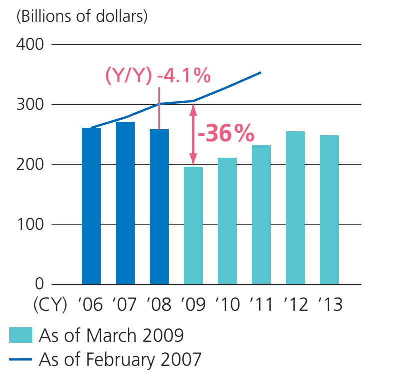
Demand Trend of Main Customers

Consumption of Synthetic Rubber



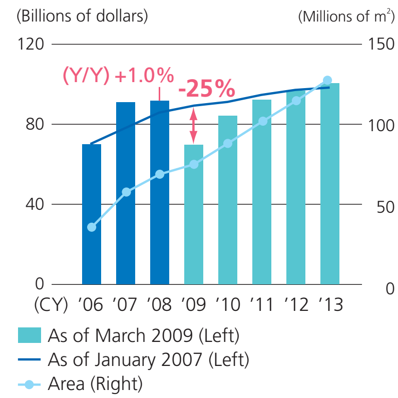
Reference: "Japan rubber yearbook"

Global Semiconductor Market



Reference: Gartner, "Semiconductor Forecast Worldwide: Forecast Database," (February 28, 2007, March 23 2009) (Calculated by JSR. Solar cell excluded from the projection as of March, 2009.)
The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) data, research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Prospectus) and the opinionsexpressed in the Gartner Report(s) are subject to change without notice.

LCD Market



Reference: DisplaySearch

Management & Business Operation Policy

Q You said earlier you made revisions to the original target of "JUMP 2010". Please tell us the newly established earnings targets for the second half of "JUMP 2010."

A In the initial plan, we had targets of ¥500 billion net sales, ¥75 billion operating income, and ROE of over 14% in fiscal 2011. Giving consideration to the present business conditions, we set the new targets of ¥360 billion net sales, ¥36 billion operating income, and ROE of 10%. We aim to make fiscal 2009 the bottom of our drive to a regrowth trend.

	FY2008	FY2009	FY2010 Plan	FY2011 Plan		FY2011 Initial Plan
Net sales	¥407billion	¥352.5 billion	¥290 billion	¥360 billion		¥500 billion
Operating income	¥60billion	¥30.3 billion	¥15 billion	¥36 billion	↔	¥75 billion
Operating margin	14.7%	8.6%	5.2%	10% or more		15% or more
ROE	15.2%	5.7%	4.1%	10% or more		14% or more

Q What initiatives are you emphasizing to achieve "JUMP 2010" targets?

A We implement the optimization of business costs to match our sales level as the common issue throughout the company. In addition, issues remain such as the establishment of an optimal production infrastructure for our petrochemicals business. Furthermore, we need to search for ways to respond to the commoditization of products as well as the downward price pressures for our fine chemicals and other products business.

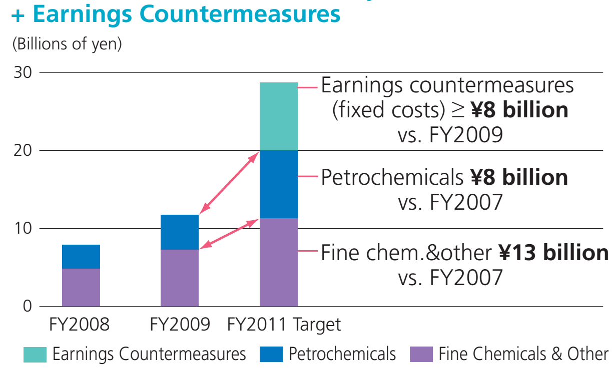
In this environment, JSR will arrange its portfolio with the elastomer and other petrochemical businesses and fine chemicals (semiconductor materials, FPD materials and optical materials) as our core businesses. Our next-stage growth business (precision processing, performance chemicals, environment and energy and medicare related materials) are defined as our strategic business. Policies for each business area will be set and actions will be taken in accordance.

Thorough cost cutting measures and a restructured competitiveness that can perform under risk scenario settings will be our goal for these core businesses. In our strategic businesses, we will also work to launch new products and strengthen required resource allocations, to accelerate startup of business.

Q You said that optimizing business costs is an issue common to your core businesses. What measures are you taking to achieve this?

A We put our efforts to align our business costs to our revised growth scenario, and build a business structure which can respond to even lower demand. We have focused on variable cost reductions such as process improvements and higher yields in the framework of the Cost-Reduction Plan "E-100 Projects"and cost reduction of ¥13 billion (estimated) was achieved in the first half of JUMP2010. Our initial target was ¥28 billion, but as a result of recalculating our assumed sales conditions in line with the business environment, we expect cost reduction of ¥8 billion for the second half of JUMP2010, resulting in cumulative cost reduction results of ¥21 billion through fiscal 2011 comparing to fiscal 2007. Also, as new earnings countermeasures, we will execute fixed cost reductions such as streamlining manufacturing staff, cutting R&D costs for existing products, and holding down other manageable costs, to cut ¥8 billion in total. Therefore, these will total over ¥16 billion of cost reductions for the second half of JUMP2010. We will also give thoughts to merging production bases and reorganizing production lines as measures to build long term competitiveness.

Cost-Reduction Plan "E-100 Projects" + Earnings Countermeasures



Q What is required to rebuild competitiveness in each core business?

A In petrochemical business, we keep our basic strategy of strengthening our competitiveness by supplying technically differentiated and high-value-added products, such as S-SBR for high performance energy efficient tires, to meet society needs, especially for blooming up concerns about global environment.

The whole petrochemical industry map may be changed due to the restructuring of the ethylene production plants in complex and many start-ups in Middle East, causing the tight supply and demand balance of butadiene. JSR needs to be ready for these changes. In order for us to maximize and maintain stable earnings without having raw material concerns, we will work to diversify raw material sources by establishing procurement routes from Asia or securing local source through overseas production arrangement, such as the capacity right arrangement with DOW Europe GmbH.

In fine chemicals and other products, global demand contraction and slow growth have become remarkable, indicated by the downward revisions in market forecasts for electronics, especially semiconductor markets. Also, progressive commoditization and competition with expansion in the markets for display panels for flat TV accelerates decline in unit prices of products.

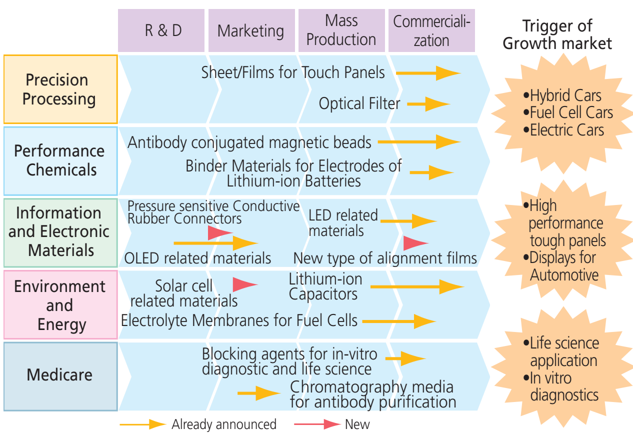
Fortunately, JSR has several top tier products in semiconductor materials and display materials and global manufacturing infrastructure, which supply high quality products. By utilizing those competitive advantages, JSR will introduce cutting-edge products to markets quickly when demand recovers.

For both businesses, streamlining of cost structure to meet current demand and enhancing competitiveness under the revised scenario.

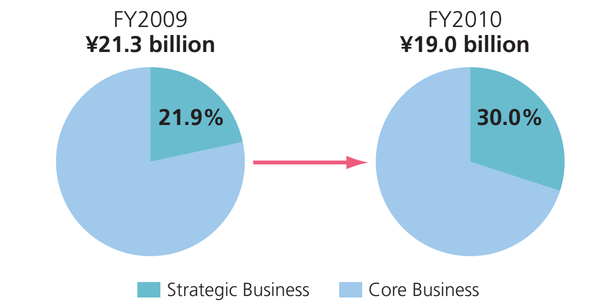
Q What progress was made in the first two years for next-stage growth businesses initially announced for "JUMP 2010"? What are your business plans hereafter?

A In the first two years of JUMP2010, some products are each making solid progresses, such as areas in optical films, lithium ion capacitors, electrolyte membranes for fuel cells and so forth. In regards to the manufacturing, JM energy Corporation, JSR's group company, completed its commercial scale production plant for lithium ion capacitors in November 2008. Also, JSR completed facility for commercial-scale production of electrolyte membranes for fuel cells in the Yokkaichi plant. In order for us to accelerate the promotions, as mentioned earlier, we defined 5 areas as strategic businesses, which expect big leap of growth, which are precision processing and materials, environment and energy, medicare related materials, performance chemicals and information and electronic materials.

Looking at overall speed of market expansion, we see a lag over our initial assumptions. But originally this business has been conceived with a long term perspective towards 2020. Therefore, we will first build up these clustered product lines with an aim ¥30 billion in sales in fiscal 2011.



Consolidated R&D Costs

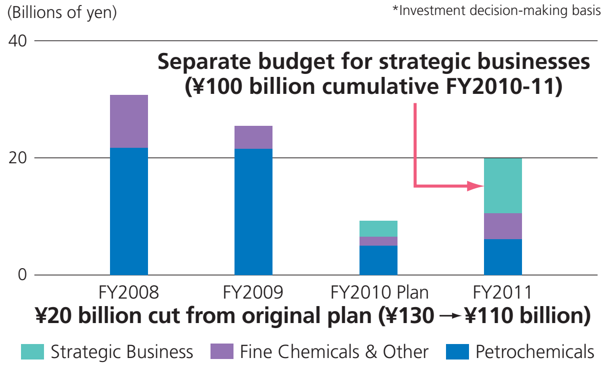


Q Are capital investment and R&D costs announced in "JUMP 2010" proceeding as initially planned?

A For capital investments, we are working on large scale contraction and freezing in response to changed business results. For strategic businesses on the other hand, we set a separate total budget of ¥10 billion in fiscal 2010-2011, flexibly moving forward with capital investments.

Consolidated Capital Investment Plan*

(Billions of yen) *Investment decision-making basis



We are also moving towards shrinking R&D cost overall in fiscal 2010. We are further raising the amount and percentage of this R&D allocated to strategic businesses, working to boost development of new products and speed of commercialization.

Conclusions

Q Lastly, please describe JSR's basic strategy once more.

A First, we're assuming business operations in an extremely harsh environment, but there is no change in our basic strategy of earnings maintenance and expansion in core businesses, with nurturing and commercialization of strategic businesses. JSR will continue to provide our "innovative materials" and "high-precision processing technology and products" to newly-emerging fields in environment, energy, biotechnology and medicare, as well as in the areas of information and electronics, which are expected to continue in its expansion, for further enhancing global competitiveness with existing projects.

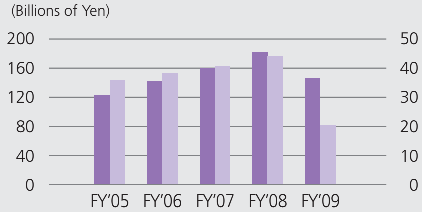
When the economy is back on track, JSR strives to make this possible with its quick and responsive practices.

Review of Operations /

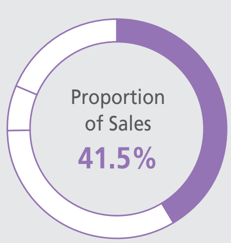
Fine Chemicals and Other Products

The Fine Chemicals and Other Products of JSR mainly consist of materials for semiconductors, flat panel displays (FPDs), and optical materials. These business lines are seeing steady expansions of argon fluoride (ArF) photoresists and multilayer materials used for semiconductors, as well as alignment films and color pigment-dispersed resists used for liquid crystal display panels (LCD).

Net Sales and Operating Income



*Operating income includes company-wide costs for fundamental research and development.



Fiscal 2009 Business Performance:

Semiconductor Materials

In the semiconductor materials division, we saw large growth in sales of multilayer materials due to growing demand and sales with the launch of ArF immersion exposure. Despite these measures, photoresists —the main product— were impacted by the large fall in demand starting the second half due to production adjustments at our customers side; slump in business with some of our major customers, resulted in lower net sales year-on-year. JSR opened its Singapore representative office in September, 2008 as a business base for advanced materials with a focus on semiconductors in Southeast Asia. Through this initiative, the company is working to be even more competitive in the most advanced materials sector.

Flat Panel Display Materials

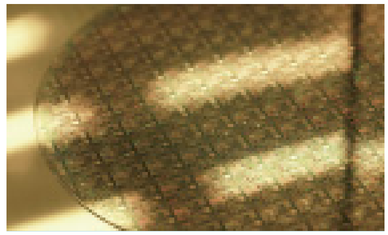
In flat panel display (FPD) materials, sales of LCD materials were initially steady with growing monitors of personal computers (PC) and LCD TV markets. Nevertheless, demand began to decline especially for PCs starting the middle of the first half, and business was affected by falling prices due to lower LCD panel production and the worsening supply/demand environment. Moving into the second half, further slowdown in consumption due to the global recession also resulted in large inventory adjustments in demand industries. From these large drops in demand, especially sales in Japan and Taiwan resulted in lower net sales year-on-year.

Optical Materials

For the optical fiber coating materials —the mainstream product— net sales decreased year-on-year due to the drop in demand in exports for optical fiber in addition to cut-backs in investments for the domestic optical fiber cables starting from the second half. Anti-reflective coating materials and protective coating materials were increasingly adopted by the high-value-added sector paralleling the trend in thin screen TVs to become more high-definition. Furthermore, despite the rapid fall in demand during the second half, net sales grew year-on-year. Although progress was seen in sales for ARTON® resin (heat-resistant transparent resin), and in the precision processing sector, lower net sales year-on-year was recorded due to intense competition between competitors in the optical film industry and from the drop in demand starting the second half.

Earnings:

Prices came under increasing downward pressure due to falling prices for



JSR ArF resists and multilayer materials are used in cutting edge semiconductor production.

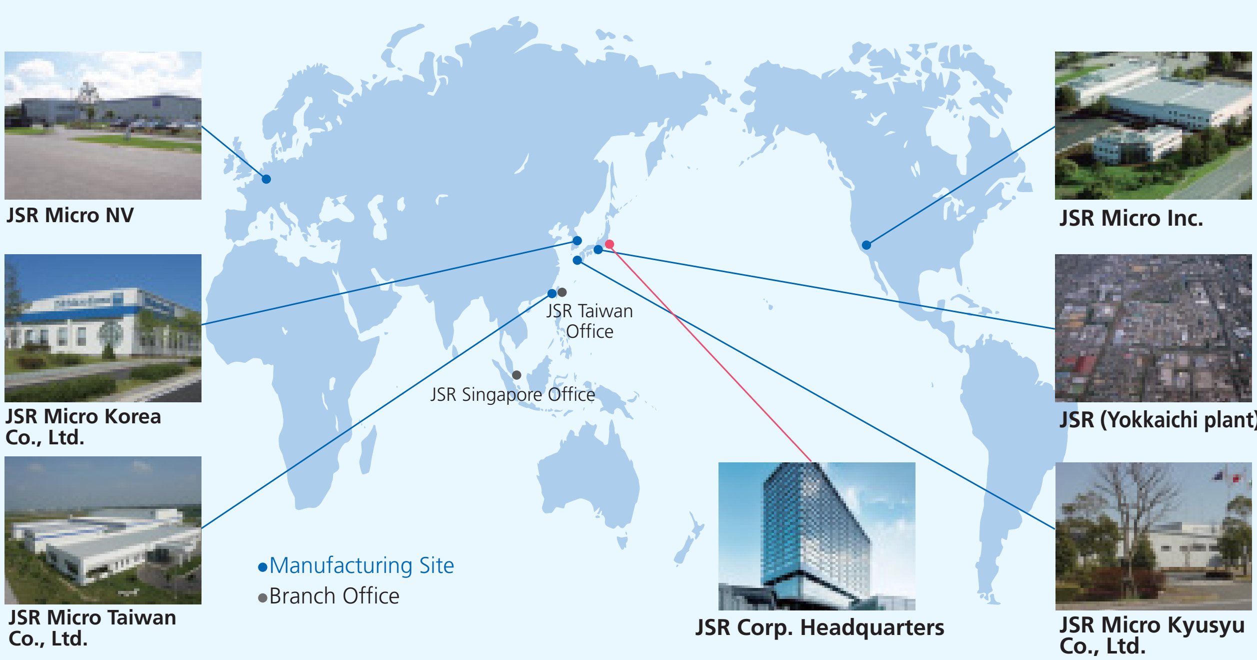
JSR LCD materials are used in high definition TVs.

major demand industry products. Under such circumstances, JSR worked to boost sales of differentiated products and promoted the Cost-Reduction Plan “E-100 Projects”, while taking urgent measures concerning earnings in the second half targeting further cost reductions in the entire group. Despite these efforts, the decline in sales volume due to the rapid fall in demand had a large impact, resulting in a large profit decline year-on-year. As a result, the fine chemicals and other products consolidated net sales declined 19.6% year-on-year to ¥146,385 million, with operating income declining 53.7% year-on-year to ¥20,496 million.

Fiscal 2010 Business Strategy:

For the current fiscal year, negative growth is expected largely due to the major economic downturn that started from the second half of fiscal 2009, which has caused the inevitable large scale production adjustments in important customers such as semiconductors and FPDs. Under such conditions, measures to cut costs and reinforce our business competitiveness will be implemented. To execute these tasks, the Company is promoting the Cost-Reduction Plan “E-100 Projects”, rebuilding the manufacturing unit to cut fixed costs, and making thorough cost reductions in the sales, management, and research units, thereby aligning and optimizing business costs for our market scale. JSR is also working to expand and enhance its business by utilizing its overseas bases in Korea, Taiwan and Singapore, pushing to grow sales in Asian emerging markets, and using cutting-edge technologies to create new materials in peripheral sectors.

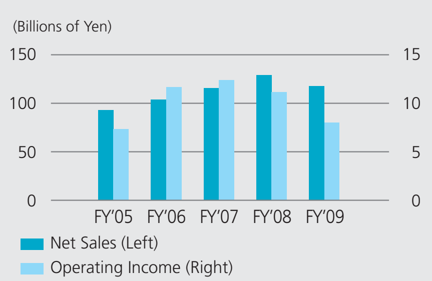
JSR Global Operations for Fine Chemicals Business

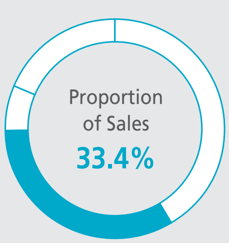


Elastomers

Since its foundation, JSR has offered a wide range of elastomer products for the world market including: general-purpose synthetic rubbers such as styrene-butadiene rubber (SBR) developed for automobile tires; and special-purpose synthetic rubbers such as acrylonitrile-butadiene rubber (NBR), butyl rubber (IIR), and ethylene-propylene rubber (EPR). JSR also offers thermoplastic elastomer materials (TPEs), which have unique characteristics that consists both elements of rubber and thermoplastic resins.

Net Sales and Operating Income





Fiscal 2009 Business Performance:

Synthetic Rubber

In the domestic general purpose synthetic rubber business such as SBR and polybutadiene rubber (BR) was impacted by raw material restrictions due to ethylene center production adjustments in fiscal 2009, in addition to the rapid drop in demand accompanying production adjustments of automobile tires. Despite efforts to revise prices in response to higher raw materials prices in the first half, sales volume and net sales decreased year-on-year.

Similarly, for high-performance special-purpose rubber, efforts were made to revise prices of NBR, EPR and IIR in response to higher raw materials prices in the first half. However, the rapid fall in automobile production starting the second half resulted in lower year-on-year sales volume and net sales. In exports, general-purpose rubber and high-performance special-purpose rubber were also affected by the rapid dropped in production of both automobiles and automobile tires, resulting in lower year-on-year sales volume and net sales.

Thermoplastic Elastomer (TPE)

For TPEs, such as butadiene and styrene-butadiene thermoplastic elastomer, JSR strove to revise prices responding to higher raw materials in the domestic market during the first half. Nevertheless, starting the second half, demand fell due to production declines in main demand industries such as automobiles. Starting the second half, exports suffered as demand fell rapidly for butadiene thermoplastic elastomer (RB) in Europe and Central & South America. As a result, lower year-on-year sales volume and net sales were recorded both for the domestic and export markets.

Production:

The capacity rights to receive 30,000 tons a year of solution polymerized styrene butadiene rubber (S-SBR), equivalent to 50% of Dow Europe GmbH's new production line was obtained and its commercial production started in March 2009. This is in response to medium term expansion in demand for S-SBR for energy conserving and high performance tires, and the measures taken to diversify our raw materials procurement sources. By strengthening the supply system of high quality products, JSR will continue to expand globally using Japan and Europe as its bases.

Earning:

JSR promoted expanded sales of high value added products while making cost reduction efforts through the Cost-Reduction Plan "E-100 Projects". Along with price revision efforts in the first half in response to higher raw materials prices, in the second half, urgent measures concerning earnings were taken in the entire group targeting further cost reductions. Despite these efforts, decreased sales volume due to the rapid fall in demand had a large impact, and profits fell far below the previous period. As a result, net sales in the elastomer segment declined 8.6% year-on-year to ¥117,855 million, with operating income declining 28.1% year-on-year to ¥8,026 million.

JSR's products support to improve the performance of tires.

JSR TPE products are used in the soles of shoes.

Fiscal 2010 Business Strategy:

JSR will continue with our basic business strategy for entire petrochemical business sector, working to maintain and expand earnings by utilizing originality and technical superiority, expanding sales of high-value-added products, along with productivity enhancements and cost reductions through innovative technology. In short term, it seems that demand recovery will take time for the following main demand industries in Japan: automobiles, auto tires, and paper manufacturing, JSR puts its efforts into the promotion of the Cost-Reduction Plan "E-100 Projects", along with drastic cost structure reforms such as cutting fixed costs and dramatic productivity enhancements including integration of production lines.

For further global expansion of the sales, JSR will focus on high-value-added products, such as S-SBR for energy conserving and high performance tire, which is expected sustainable growth over the medium term. JSR will utilize production bases in Japan and Europe, where it obtained the capacity right of 50% of Dow Europe GmbH's new production line that started its commercial production in March 2009.

In regards to the raw material supply management, restrictions of main raw materials such as butadiene due to reorganization of the petrochemical industries centering ethylene centers may be expected. JSR will work on diversify the procurement of raw materials from Asia. Also, local procurement for diversified raw material sources through overseas production arrangement, such as the capacity right arrangement with DOW Europe GmbH, will be secured.

Production Profile

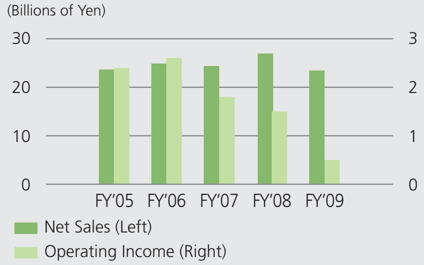
Products	Application / Features	Production Capacity of Plant
Styrene-butadiene rubber (SBR)	typical general–purpose synthetic rubber; for tires, conveyor belts, hoses, footwear	Yokkaichi—255,000 tons/year
Acrylonitrile-butadiene rubber (NBR)	highly oil–resistant; for industrial rubber parts	
High styrene rubber (HSR)	a high degree of hardness with low specific gravity; for hardboard, tiles, ebonite, footwear	
Polybutadiene rubber (BR)	general-purpose synthetic rubber; low in heat buildup, high in resilience; for tires and golf balls	Chiba—72,000 tons/year
Solution polymerization styrene-butadiene rubber (S-SBR)	specialty SBR for fuel-efficient and high-performance tires	Yokkaichi—45,000 tons/year
Hydrogenated polymer (DYNARON®) and others	used as a compatible blending agents, resin modifier, adhesives, etc.	
Polyisoprene rubber (IR)	physical properties duplicate those of natural rubber; for tires, belts, footwear	Kashima—41,000 tons/year (Manufactured by KRATON JSR Elastomers K.K.)
Ethylene-propylene rubber (EPR)	specialty synthetic rubber; excellent weatherability and heat resistance; for automotive parts, window frames, electrical cables, industrial goods	Kashima—36,000 tons/year
Butadiene thermoplastic elastomer (JSR RB®)	a plastic with rubberlike properties for shoe soles, plastic modifiers, etc.	Chiba—24,000 tons/year
Styrene thermoplastic elastomer (SBS, JSR SIS®)	used as adhesives, plastics modifiers, footwear	Kashima—45,000 tons/year (Manufactured by KRATON JSR Elastomers K.K.)
Butadiene	material for petrochemical products	Yokkaichi—148,000 tons/year Chiba—130,000 tons/year (Manufactured by Tobu Butadiene Co., Ltd.) Kashima—120,000 tons/year
Isoprene	material for petrochemical products	Kashima—36,000 tons/year

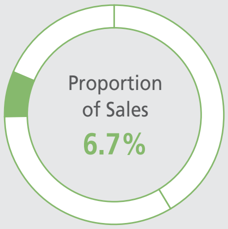
Emulsions

JSR's PCL (paper coating latex) is widely used to beautify papers more.

A material with special functions based on emulsion polymerization technology developed through the process of manufacturing synthetic rubber. A main emulsion product is paper coating latex (PCL), which has the top share in the domestic market. With powerful adhesiveness and excellent suitability for printing, PCL is used for a wide range of coated paper products. Styrene-butadiene latex is also developed as various types of adhesive, such as the carpet backings.

Net Sales and Operating Income





Fiscal 2009 Business Performance:

In the first half, usage in volume for paper coating latex (PCL) —the main product— increased by consecutively putting new lines of coated paper manufacturers into operation. Notwithstanding these undertakings, the substantial drop in demand for coated paper from the second half resulted in the decrease in sales volume and net sales year-on-year. Similarly for acrylic emulsions, the drop in demand in adhesives area —mainly for use in building materials and automobiles— contributed to the decline in sales volume and net sales year-on-year.

Earning:

Cost reduction efforts were made through the promotion of the Cost-Reduction Plan "E-100 Projects". In the first half, prices revision efforts were also made in response to higher raw materials prices, and in the second half, urgent measures concerning earnings were taken in the entire group targeting further cost reductions. Despite these efforts, decreased sales volume due to the rapid fall in demand had a substantial impact, and profits fell far below the previous period. As a result, in the emulsion segment, net sales declined 13.2% year-on-year to ¥23,432 million, with operating income declining 66.5% year-on-year to ¥516 million.

Fiscal 2010 Business Strategy:

Please refer to page 15, "Fiscal 2010 Business Strategy".

Production Profile

Products	Application / Features	Production Capacity of Plant
Latex	for paper coating, carpet backing, tire cord dipping, adhesive agents, ABS plastics	Yokkaichi—120,000 tons/year

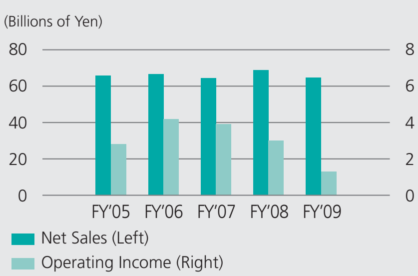
Review of Operations / Petrochemical Materials

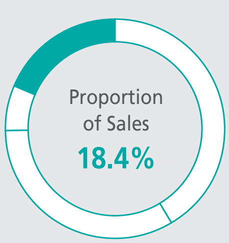
Plastics

ABS plastic products are being used for automotive parts.

JSR is operating its plastics business under Techno Polymer Co., Ltd. Techno Polymer offers various acrylonitrile-butadien-styrene (ABS) plastic products that customers seek. The company's ABS products are noted for uniqueness, based on the combined characteristics of various polymers. The company provides ABS products with consistent quality, backed by its worldwide bases of sales and technical services.

Net Sales and Operating Income





Fiscal 2009 Business Performance:

In the domestic market, sales during the first half were steady for heat-resistant ABS plastics and weatherproof acrylonitrile-ethylene-propylene-styrene (AES) as well as acrylonitrile-styrene-acrylate (ASA) plastics for automotive uses. From the second half, the sharp drop in demand for automobiles, building materials and consumer electronics due to the impact of declining automobile production and housing starts, resulted in lower year-on-year sales volume and net sales. Although exports were similarly affected by the rapid drop in demand during the second half, the growing sales in the entertainment sector resulted in sales volume and net sales that were slightly higher year-on-year. Nevertheless, this did not make up for the decline in the domestic market and plastics segment's sales volume and sales fell year-on-year. Furthermore, as of March 31, 2009, a joint venture was dissolved between Mitsubishi Chemical Corporation regarding Techno Polymer. By acquiring the entire 40% share held by Mitsubishi Chemical Corporation, Techno Polymer effectively became a fully owned subsidiary of JSR. With this arrangement JSR will strive for even faster decision making and effective use of business resources, working for a stronger plastics business in JSR.

Earning:

Cost reduction efforts through the Cost-Reduction Plan "E-100 Projects" were promoted, along with prices revision efforts in response to higher raw materials prices. Additionally, in the second half, urgent measures concerning earnings were taken in the entire group targeting further cost reductions. Notwithstanding these undertakings, decreased sales volume due to the rapid fall in demand had a large impact, and profits fell far below the previous period. As a result, net sales of the plastics segment declined 5.8% year-on-year to ¥64,829 million, with operating income declining 56.6% year-on-year to ¥1,308 million.

Fiscal 2010 Business Strategy:

Please refer to page 15, "Fiscal 2010 Business Strategy".

Production Profile

Products	Application / Features	Production Capacity of Plant
Acrylonitrile-butadiene-styrene plastics (ABS)	excellent impact resistance; for automotive parts, electrical appliances, office automation equipment, miscellaneous goods	Yokkaichi—280,000 tons/year (Manufactured by Techno Polymer Co., Ltd.)
Acrylonitrile-ethylene-propylene-styrene plastics (AES)	same mechanical properties as ABS plastics; superior weatherability; for automotive parts	
Acrylonitrile-styrene-plastics (AS)	transparent plastics; applications similar to those of ABS plastics	

Research and Development, Intellectual Property

1. Core Technologies and the JSR Business Model

Expertise in polymerization gained from the manufacture of synthetic rubber and other petrochemical products represents the core technology of JSR. Leveraging this know-how, JSR has grown by responding quickly and accurately to the technological demands of customers concerning information electronics materials. Next generation businesses as well will be rooted in the even more effective use of this core technology. Through this process, JSR is dedicated to developing new materials along with new business domains.

Growth at JSR is driven by the following three business models:

(1) Global Leadership

Information electronics materials products pose unique challenges. Most become outdated rather quickly and no single product makes a significant contribution to sales. For this reason, it is imperative to secure powerful market positions worldwide. This strength provides quick access to information on next-generation technological breakthroughs that can be used for new research projects. With this in mind, JSR early on began establishing a global presence, supplying products to prominent companies in many countries.

(2) De Facto Standards

By transforming diverse user needs into products suitable for many applications, JSR strives to create products that become the de facto standard in their respective categories. Success in the information electronics materials business requires this de facto standard approach. Building ties rooted in trust with the most advanced users in a targeted category is the most effective means of establishing a de facto standard. JSR and these partners can then jointly develop innovative products and quickly bring them to the market.

(3) Clusters

Cluster refers to a business made up of many niche markets, each with annual sales of a few billion yen. JSR gathers a number of interrelated products to create a single business unit. The image is similar to how many grapes combine to make one bunch. Taking this approach raises the efficiency of research, manufacturing and sales. To generate more benefits, JSR is moving quickly to build more clusters.

JSR is confident that adherence to these three business models will give the company a solid base for growth for many years to come.

2. R&D and Intellectual Property Organization and R&D Alliances

(1) R&D and Intellectual Property Organization

As of June 16, 2009

Yokkaichi Research Center	Performance Polymer Research Laboratories	Polymer Materials Lab.	Rubber for tires, specialty rubber, functional elastomer, thermoplastic elastomer, etc.
		Performance Chemicals Lab.	Latex for paper coating, functional emulsions etc.
		Microfabrication Process materials Lab.	CMP materials (slurries, pads), etc.
	Display Materials Research Laboratories	LCD Materials 1st Lab.	Protective coatings and color pigment dispersed resists for LCDs, etc.
		LCD Materials 2nd Lab.	Alignment film for LCD, etc.
	Fine Electronic Materials Research Laboratories	Semiconductor Materials Lab.	Photoresist for semiconductors, etc.
		Packaging and Assembly Materials Lab.	Thick photoresists, photo sensitive insulation materials for LSI, etc.
	Performance Polymers Laboratories		ARTON®, optical materials for films, etc.
	Research Fellow Laboratories (Yokkaichi)		Functional materials for LIB, Insulation materials for LED, etc.
	Fine Chemical Process Laboratories		Review possibilities to industrialize new raw materials and products in the fine material / product area.
	Material Characterization& Analysis Laboratories		Physical properties, analysis, characterization, CAC, etc.
Precision Process Technology Center	Precision Process Research Laboratories	Process Research Lab.	Research on film converting technology, etc.
		Process Materials Lab.	Converting products on optical films, ARTON® film, etc.
	Precision Process High Performance Film Depertment		Manufacturing technology and manufacturing of films
Tsukuba Research Laboratories			Optical fiber coating, Radiation curing materials, particles for diagnosis, Low-k films for LSI, etc.
Research Fellow Laboratories (Tsukuba)			Materials for fuel cells, etc.
Research and Development Department			R&D strategic initiatives and administration.
Intellectual Property Department			Business related to intellectual property rights.

(2) R&D Alliances

JSR establishes R&D alliances as required to achieve strategic objectives. Most alliances are with customers conducting businesses that use leading-edge technologies.

3. Summary of R&D Segments and Intellectual Property

JSR aims to build and enhance intellectual property (IP) networks in all its R&D segments by creating IP, such as patents, knowhow, designs, and trademarks, as well as by acquiring and utilizing IP on a global scale. By strategically utilizing these networks, JSR aims to attain a predominant position over competitors in its businesses.

One priority is information electronics materials and other businesses outside the petrochemicals field. The goal is to acquire IP that can support global expansion. In this regard, JSR is focusing not only on Europe and North America, but also on Asia, chiefly South Korea, Taiwan and China, as a source of IP to build and expand its IP network.

Another theme is creating IP in fields where JSR aims to create new businesses that use sophisticated technologies.

4. Policy for Acquisition and Management of Intellectual Property

(1) Strategy for Intellectual Property

JSR uses intellectual policy based on an intellectual property strategy that is made up of the following four components.

a. Participation in the creation of intellectual property

JSR takes part in 3C analysis of intellectual property and technological information beginning at the stage of searching for R&D themes. The results of this analysis are incorporated in R&D activities. Furthermore, by being selective in its intellectual property rights applications, JSR will enhance consistency between its technological development and patent application strategies.

b. Acquisition of intellectual property

JSR always seeks to secure the broadest possible rights to its R&D achievements. The aim is to acquire "usable rights" that can contribute to industry-wide progress and be licensed to other companies. Portfolio management of intellectual property is conducted in accordance with potential earnings and the degree of innovation. Clearances are received for the use of patents in JSR products and JSR acquires strategic patents that have the potential of becoming more valuable in the future.

c. Use of intellectual property rights

JSR makes effective use of its own patent rights and utilizes the intellectual property of other companies by entering into individual licensing and cross-licensing agreements. The goal is preserving the continuity of business activities and the freedom of R&D programs. JSR also assesses and manages potential risks in its intellectual property portfolio.

d. A global perspective

JSR will secure a competitive edge in its businesses by devising a global intellectual property strategy that covers not only patents, but also trademarks and brands. In addition, JSR is upgrading the skills of its Intellectual Property Department and strengthening ties with patent offices in other countries. This will allow JSR to acquire and utilize intellectual property rights according to the circumstances of each country and region.

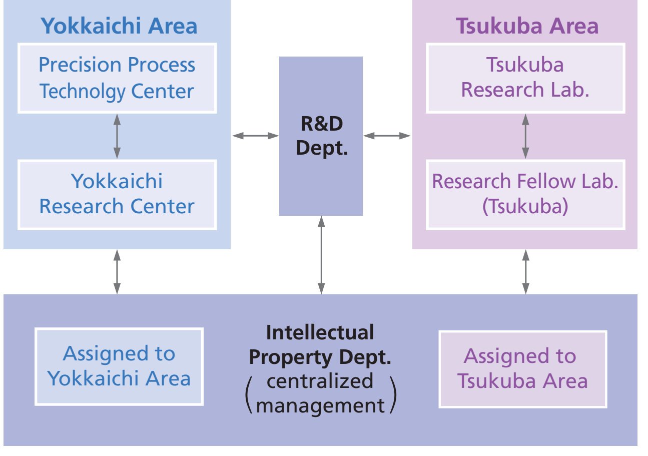
(2) Framework for Using Intellectual Property

JSR's framework for using intellectual property is distinguished by two elements: a system closely linked to R&D laboratories, which identifies ideas that should be patented, and a centralized management system for intellectual property.

JSR's Intellectual Property Department assigns staff members to work at the Yokkaichi Area and Tsukuba Area. By maintaining close ties with R&D activities, this approach allows the department to help create intellectual property and quickly submit well-prepared patent applications.

In addition, JSR and its group companies use an organized approach to effectively use their intellectual property and obtain worldwide patents. All matters concerning intellectual property are managed by the JSR head office to keep this information confidential and prevent leaks of technological information.

R&D Organization



JSR has an intellectual property award and bonus system to increase motivation to come up with new ideas and follow through with inventions. The system distributes payments in line with JSR's workplace invention system when patent applications are submitted, when a patent is registered and when a patent generates earnings.

(3) Acquisition Policy of Intellectual Property

JSR will continue acquisition of intellectual property aggressively especially in new technology field for glowing market all over the world based on a mid-term business plan. The expenses will be concentrated in acquiring strong and competitive intellectual properties.

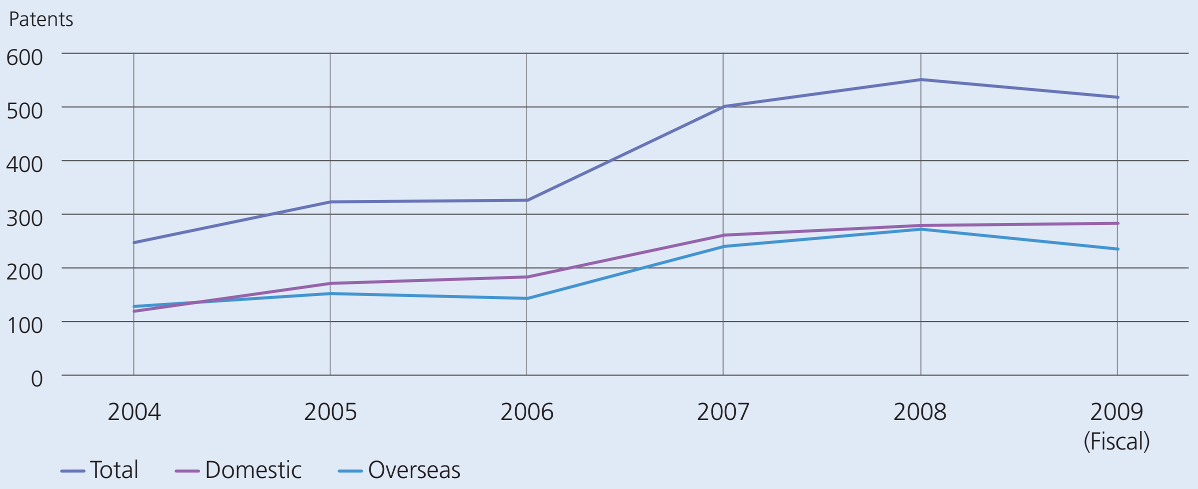
5. Contribution of Patents

The following table summarizes patents held by JSR:

	Petrochemicals		Fine Chemicals and Other Products		Others		Total	
As of	08.3.31	09.3.31	08.3.31	09.3.31	08.3.31	09.3.31	08.3.31	09.3.31
Patents (Japan)	428	428	1,103	1,269	67	73	1,598	1,770
Patents (Overseas)	493	512	1,721	1,955	36	34	2,250	2,501

The following graph shows the number of patents acquired by JSR in each fiscal year.
It shows that JSR is continuing acquisition of patents as is expanding its business globally.

Number of Patents Acquired in each Fiscal Year



6. Policy Regarding Intellectual Property Portfolio

JSR follows a policy of retaining rights to intellectual property that can be used to give its products a competitive edge. Other intellectual property having potential applications is retained or, if necessary, provided to other companies through licensing agreements. JSR does not keep rights to intellectual property that has no potential applications.

7. Information Regarding Risk

There are no risks involving JSR's patents or licensing agreements that could have a material impact on cash flows. Furthermore, in its business operations, JSR exercises care regarding the patents and rights of other companies, quickly conducting investigations where necessary and strictly complying with all laws.

The JSR Corporate Social Responsibility Report

Fiscal 2009 Accomplishments Concerning Key Themes and Goals

JSR believes it to be the group's role to actively contribute to the welfare of society through its primary business. For matters concerning the promotion of Corporate Social Responsibility (CSR), JSR has the following 4 committees under the CSR Committee from June, 2008 to further strengthen its activities, and they are: the Corporate Ethics Committee, the Responsible Care Committee, the Risk Management Committee and the Social Contribution Committee. Fiscal 2009 major accomplishments are listed below. For details, please refer to the JSR CSR Report.

1. Consider Safety and the Environment when Developing Products

• JSR takes a positive approach in producing eco-friendly products in order to offer new materials that satisfy customers' environmental and safety-related concerns. Regarding one of these products, JSR has completed a facility for commercial-scale production of high quality, highly adaptable hydrocarbon electrolyte films for fuel cells at its Yokkaichi Plant.

• Life Cycle Inventory (LCI) data for representative products of our synthetic rubbers are registered on the database of the Japan Environmental Management Association for Industry.

• All annual productions/imports of more than one ton of chemical products are required to come with safety test data according to the European regulations concerning "Registration, Evaluation, Authorization and Restriction of Chemicals (REACH)." JSR has registered a total of 125 materials for preliminary registration as of November 30, 2008.

2. Provide Safety and Environmental Information Related to Products

JSR operates a Material Safety Data Sheets (MSDS) electronic data management system to provide accurate information on prototypes to our customers and to ensure thorough MSDS as well.

3. Ensure the Safety of the Public and Protect the Environment

• There were no accidents in fiscal 2009 to which the obligation to report to the government applied under the Law on the Prevention of Disasters in Petroleum Industrial Complexes and Other Petroleum Facilities.

• "Crisis Management Training"simulating a massive accident was conducted in order to strengthen our abilities to respond to crises when they occur.

• There were no environmental complaints in fiscal 2009. Facilities to incinerate synthetic rubber drying exhaust have been installed at the Yokkaichi, Kashima and Chiba plants. This resulted in reducing both foul odor and volatile organic compounds (VOC) emission levels. In addition, at the Yokkaichi plant, a ground flare incinerator has been installed as a noise and light blocking countermeasure since fiscal 2009, and has shown good results.

4. Reduce the Environmental Impact

• With regard to reducing the amount of carbon dioxide emissions, JSR has advanced measures concentrated on energy saving. Instead of maintaining our previous target for reducing energy unit consumption, JSR has set a new target for reducing the absolute amount of CO_2 emissions (Reducing emissions in fiscal 2013 by 6% compared with fiscal 1991). During fiscal 2009, we have succeeded in reducing the yearly rate of energy unit consumption by 1% in comparison with the average of the period from fiscal 2000 to fiscal 2008.

• A photovoltaic power generation system has been installed in a newly built welfare facility at the Yokkaichi plant. With the introduction of this system, emissions of carbon dioxide are expected to be cut by 54 tons annually.

5. Ensure Safety and Protect the Environment in International Operations

• Chairman Yoshida signed the "Responsible Care Global Charter," which was established in October 2008 by the ICCA in order for the world chemical industry to enhance greater Responsible Care activities. JSR promised further contribution to improve world health, safety and environmental conservation.

• JSR has continued to cooperate with the program of the International Center for Environmental Technology Transfer (ICETT) for accepting individuals from abroad to receive training in Japan (classroom training in environmental and safety management technologies, and related response technologies; observation tours of production facilities).

• In fiscal 2009, an environmental and safety audit was carried out at one company. In the future, JSR is planning to increase the level of environmental and safety measures at our overseas group enterprises while lending our support to those activities.

6. Ensure Employee Health and Safety

• To provide better mental health activities, JSR started a "Human Frontier Counseling Room" so our employees can undergo counseling at anytime. Furthermore, the "MTOP (Mental Toughness Orientation Program)" was implemented as a self-management tool for employees to periodically use in order to understand the state of their mental health.

• A set of measures has been developed in preparation for a new-type influenza outbreak.

7. Make All Employees Aware of their Responsibilities

• JSR, as a company with global activities, announced on April 1, 2009, that it would participate in "The United Nations Global Compact," in order to take responsible actions in the international community. Following this announcement, the JSR group is continuing to further strengthen global CSR activities.

• To increase awareness about CSR among employees, JSR has utilized information sessions at each sites, Responsible Care (RC) caravans, company newsletters, and CSR handbook.

• To promote corporate ethics activities, JSR renews the principles of JSR corporate ethics and established a multilingual hotline in addition to the existing Japanese one.

• To engage in thorough compliance efforts, JSR verified and improved the status of compliance of the whole group, including overseas locations.

Corporate Governance and Compliance

Fundamental Position Regarding Corporate Governance

JSR is dedicated to translating into actions its corporate philosophy: Materials Innovation—Supplying new materials and using the value generated to help create a better world (for people, society and the environment). JSR's goal is to constantly generate corporate value by sustaining the efficiency, transparency and soundness of its operations, while functioning as an exciting company that earns the trust of and satisfies all stakeholders.

JSR has adopted the corporate auditor system. There are five corporate auditors, including three from outside the JSR Group. By fully utilizing the functions of this system, JSR intends to conduct business operations in a manner that is fair, transparent and speedy.

Since fiscal 2006, JSR has also used the executive officer system to separate the management decision-making and supervision function and business execution function. This makes it possible to reach management and business execution decisions faster as well as to speed up business operations. Another purpose of this separation is to reinforce supervisory functions. Authority and responsibility are clearly established concerning the directors' role of dealing with company-wide management issues and the executive officers' role of executing business operations.

JSR has established a Corporate Social Responsibility (CSR) Committee in response to the high priority that society now places on the effectiveness of corporate governance. This committee clearly defines the company's stance regarding compliance activities, ensures strict legal compliance and preserves a sound relationship with society.

In addition, in accordance with the Corporation Law of Japan, JSR's Board of Directors decided in May 2006 on a basic policy to establish a sound internal control system and the company is working to strengthen and improve internal controls. In order to ensure the effectiveness of internal controls, the Internal Audit Department will carry out systematic audits of the execution of operations and compliance in each department of the company and in companies throughout the Group. Based on the results of these audits, JSR is refining the framework for confirming legal compliance across the company and making further improvements.

The internal control system is also designed to ensure the fairness of financial reports. Project teams are formed to conduct activities in this regard throughout JSR. The framework of the system has been completed and the actual activities along with the system started in April 2008 to establish the complete system.

Management Organization for Management Decision-Making, Business Execution and Supervision and Other Corporate Governance Systems

JSR uses the following management systems to conduct operations in a fair and transparent manner.

1. Board of Directors

As of June 16, 2009, there were nine directors. They are charged with studying and reaching decisions concerning important items associated with the execution of business operations. As a rule, the directors hold monthly meetings that are chaired by JSR's chairman. In addition, the corporate auditors, including external auditors, attend meetings of the Board of Directors and state opinions as required.

2. Executive Committee

In order to ensure further study into items requiring management decision-making as well as efficient business operation, the missions of the Executive Committee and the Strategic Issues Committee were consolidated into that of the Executive Committee in October 2008, effectively ending the Strategic Issues Committee, while establishing the Officers committee as stated in the following paragraph. The Executive Committee holds extensive discussions on items concerning fundamental management initiatives, management policies, and management plans, along with important matters concerning the execution of business activities at each department. The committee thus gives direction concerning those issues. As required, certain items submitted to this committee are passed on to the Board of Directors for further study. This committee is made up of all the directors and, concerning items to be debated and reported, of full time corporate auditors as well. As a rule, this committee meets every Monday except the third Monday of the month, and is chaired by the president.

3. Officers Committee

This committee was established in October 2008 in order to hear reports from all departments concerning the execution of business activities, to ensure members' thorough understanding of important business matters and to enhance their communications. This committee consists of all the directors, senior officers, officers and full time corporate auditors, except overseas representatives. As a rule, this committee meets every third Monday of the month and is chaired by the president.

4. Board of Auditors

With five members, including three external auditors, this board meets every month as stipulated in the regulations governing this body. The corporate auditors receive reports on important matters, hold discussions and reach decisions. In accordance with standards for audits by corporate auditors, the auditors attend meetings of the Board of Directors, Executive Committee and other important committees to monitor how important decisions are reached and business activities are executed. The auditors also receive reports from the independent financial accountants, directors and others. Through these activities, the Board of Auditors holds discussions in order to form auditing opinions.

5. CSR Committee

The CSR Committee was established to ensure that JSR fulfills its responsibilities to society and complies with laws and regulations. To further strengthen the company's CSR efforts, in June 2008 JSR established the Risk Management Committee to further bolster the company's risk management framework, and the Social Contribution Committee to promote activities that contribute to society. These two committees, along with the Corporate Ethics Committee and Responsible Care Committee, were placed under the CSR Committee.

The CSR Committee integrates and guides the activities of the above four committees and meets four times each year along with special meetings as necessary. The Committee is chaired by the executive managing director responsible for CSR, with an executive managing director, three managing directors and two directors. Bureaus of the four committees listed above also attend meetings of the CSR Committee. The Committee clarifies the company's stance toward CSR and works to strengthen CSR efforts at JSR.

6. Corporate Ethics Committee

The Corporate Ethics Committee chaired by the managing director for general affairs was established to implement corporate ethics standards and prevent improper actions throughout the JSR Group. The JSR Group Principles of Corporate Ethics have been prepared to provide a code of conduct for the executives and the employees. The committee oversees corporate ethics throughout the Group as well as provides guidance regarding specific items.

Along with the existing system for submitting reports to this committee, JSR has added a new external reporting channel that uses an outside attorney who provides advice from an objective stance. This provides a means for individuals to receive advice and take actions at an early stage of a potential ethics problem.

7. Responsible Care Committee

JSR conducts a Responsible Care program to fulfill its obligations to achieve sustainable development. The Responsible Care Committee was established to ensure that Responsible Care activities are conducted effectively across the entire company. The committee is chaired by the director for safety environment affairs, demonstrating Responsible Care's position as a core component of JSR's management.

This committee approves Responsible Care plans, evaluates and verifies results of activities, and helps to maintain and upgrade JSR's programs to eliminate accidents, reduce environmental impact and handle chemicals responsibly. Details and results of Responsible Care activities are disclosed through Responsible Care reports prepared by individual plants as well as for the company as a whole. These reports are audited by third parties to improve the reliability and transparency of the data. Through these activities, the committee is dedicated to earning greater trust from customers and preventing any concerns among residents in the neighborhoods of JSR facilities.

Since fiscal 2007, JSR has elevated the position of its CSR report by revamping it to include more information on CSR activities, based on JSR's fundamental stance regarding the three core elements of CSR: the economy, the environment and the community. To make the information widely available, these reports are posted on the JSR website (http://www.jsr.co.jp/jsr_e/csr/index.shtml).

8. Risk Management Committee

In the event of a large crisis, JSR considers actions to limit the impact on operations to be a critical management task. In this light the company established the Risk Management Committee in June 2008, under the CSR Committee with the executive managing director responsible for CSR as a committee chair. The Committee decides policies and plans in response to crises, both present and potential, and promotes crisis management training that simulates the occurrence of large scale disasters.

9. Social Contribution Committee

JSR is involved in many activities that contribute to society, centered on activities at the local level. To further bolster the company's activities in these areas, JSR established the Social Contribution Committee in June 2008, under the CSR Committee with the executive managing director responsible for CSR as committee chair. The Committee examines and implements new programs by addressing how JSR should contribute to solve society's issues in the good use of the company's unique characteristics.

10. Status of Internal Audits, Audits by Corporate Auditors and Financial Audits

JSR has adopted the corporate auditor system. There are currently corporate auditors, including from outside the JSR Group. These auditors have a staff of one individual. Audits are performed as described in item 4 concerning the Board of Auditors.

The corporate auditors work closely with the independent financial accountant. The corporate auditors receive reports on the financial accountant's audit plan and audit results. Furthermore, the corporate auditors and financial accountants exchange information and opinions as necessary in the course of each fiscal year.

JSR has established the Internal Audit Department as a specialized internal auditing unit in order to reinforce all auditing functions associated with ensuring that internal controls are functioning in accordance with applicable laws and regulations.

11. Names and Affiliations of Accountants at Independent Financial Accounting Firm Assigned to Audit JSR

The certified public accountants assigned by the independent financial accounting firm to audit JSR are Teruo Iida, Shinnosuke Yamada and Masayuki Kawanishi. All three individuals are employed by KPMG AZSA & Co. These individuals are assisted by three certified public accountants among others.

12. Consulting Attorneys

To receive consultations from attorneys, JSR uses the services of the Tokyo Aoyama Aoki Koma Law Office, Shinpo Law Office and attorney Kiyotaka Ishikawa. JSR asks for advice from these offices and person as required.

Actions during Past Fiscal Year to Improve Corporate Governance

1. JSR revamped its Sustainability Report, which is centered on the company's stance regarding the three core elements of CSR —economy, environment and community— by enhancing information on CSR activities and renaming it the JSR CSR Report since fiscal 2007.

The report data undergoes third-party checks to heighten transparency and reliability.

2. To promote corporate ethics activities, JSR renews the principles of JSR corporate ethics (September 2008) and established a multilingual hotline in addition to the existing Japanese one.

The company held ethics training for executives conducted by outside experts (November 2008) and such training for domestic managers of JSR and group companies.

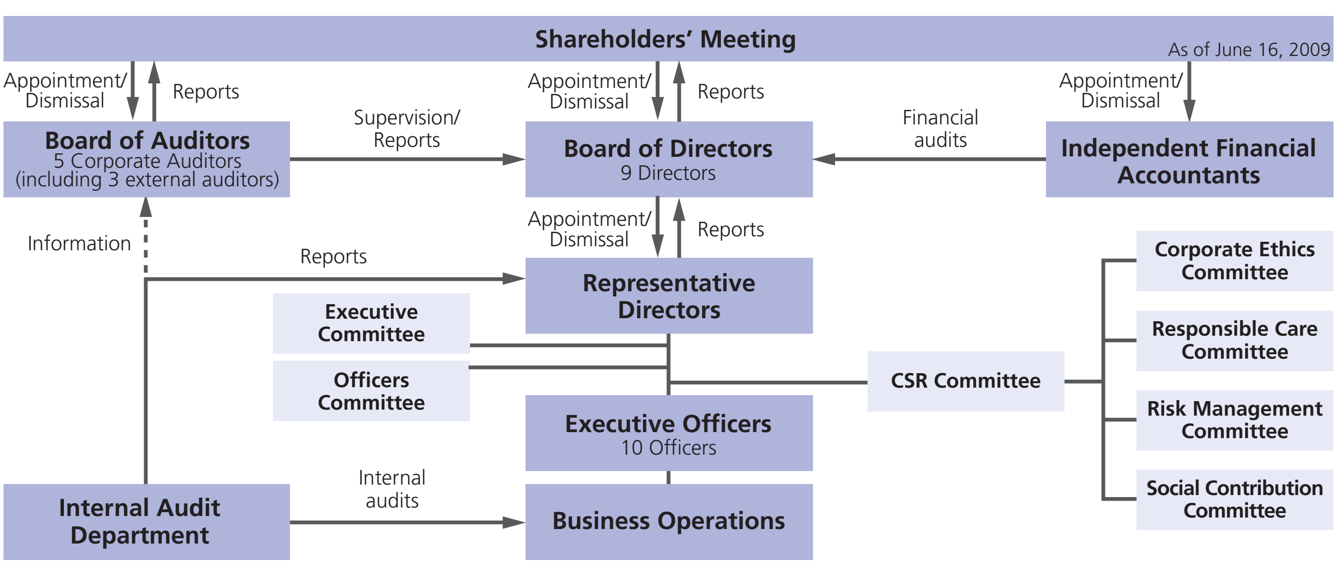
Also, to get a firm grasp of the status of corporate ethics throughout the entire JSR group, the company held a corporate ethics awareness survey for all employees (August-September 2007). This survey followed on from surveys held in fiscal 2005 and 2006. Survey results were fed back to all members of the Group (April 2008) and are useful in corporate ethics initiatives at each Group company. Through the survey results together with Group-wide education and dissemination efforts JSR is working to raise corporate ethics levels throughout the Group.

3. A risk management drill was conducted by the JSR head office and plants to strengthen the risk management framework. This drill confirmed that JSR can respond properly to an accident, fire or damage from a natural disaster at a plant. Drills cover the head office Disaster Response Headquarters, the disaster response departments at plants, corporate communications units and other components of the JSR organization (February 2008).

JSR is working to further implement accident and disaster prevention measures and further strengthen its disaster response management framework.

4. JSR conducts environmental and safety audits at all of its plants, research facilities and manufacturing subsidiaries in Japan. In fiscal 2006, these audits were extended to include JSR Group companies outside Japan. In fiscal 2009, audits were conducted at 11 domestic group companies and one overseas group company.

5. To engage in thorough compliance efforts, JSR verified and improved the status of compliance of the whole group, including overseas locations.



Financial Section

Management's Discussion and Analysis

Business Results for fiscal 2009

During the fiscal 2009 (April 1, 2008 to March 31, 2009), the Japanese economy continued to see mounting uncertainty amidst concerns over sharp rises in crude oil prices in the first half of the year, as well as a slow down in export growth, and gross domestic product turning negative. In the second half, the global financial crisis led to lower stock prices throughout the world and an appreciation of the yen. This had a large impact on the real economy, indicated by the rapidly decelerating world economy, resulting in an unprecedentedly severe economic recession.

In our main customers, which are the automobiles, automobile tires, paper, semiconductors and flat panel display (FPD) sectors, global demand has fallen quickly since the second half, inevitably resulting in large production adjustments.

Under these circumstances, JSR Group's petrochemicals business weathered steep hikes in the major raw materials price, mainly caused by the sharp rise in the prices of crude oil. In addition, production adjustments at the ethylene production plants at the petrochemical complex, further limit availability of raw materials in the first half of fiscal 2009. We endeavored to revise the prices of our products as well as secure our main raw materials to maintain profit margins with the aim of stabilizing earnings. In the fine chemicals and other products business, which mainly comprises information electronics materials, we continued to deliver cutting-edge materials as we focused on our growth in the global market. The business environment rapidly deteriorated in the second half, and resultantly both the petrochemicals business and fine chemicals and other products business took urgent measures for earnings focused on cutting fixed costs, aimed at maintaining earnings. Despite these efforts, the rapid and large decline in demand resulted in a large drop in sales, with a large decline in earnings.

As a result, net sales decreased 13.4% to ¥352,502 million, operating income declined 49.4% to ¥30,347 million, ordinary income decreased 44.5% to ¥31,111 million, and net income fell 62.2% to ¥13,981 million.

Results by Business Sector

Petrochemicals

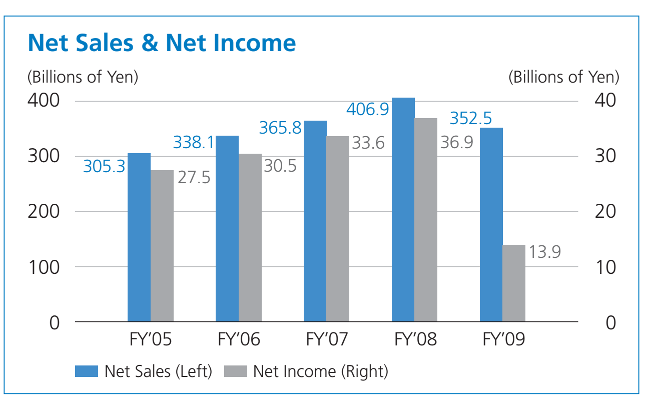
Net sales in the elastomers division declined 8.6% from the previous year to ¥117,855 million, and operating income fell 28.1% to ¥8,026 million.

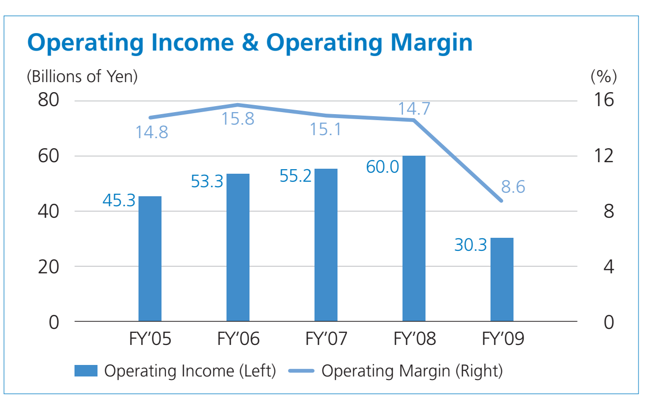
In the domestic synthetic rubber business, general-purpose synthetic rubbers such as styrene-butadiene rubber (SBR) and polybutadiene rubber (BR) were impacted by limited availability of raw materials due to ethylene center production adjustments, and they faced the rapid drop in demand accompanying production adjustments of automobile tires. Sales volume and net sales were lower than the previous year despite efforts to revise prices in response to higher raw materials prices in the first half. For high-performance special-purpose rubber, efforts were made to revise prices of acrylonitrile-butadiene rubber (NBR), thylene-propylene rubber (EPR) and butyl rubber (IIR) in response to higher raw materials prices in the first half. Notwithstanding these undertakings, the rapid fall in automobile production starting the second half resulted in lower year-on-year sales volume and net sales. In exports, both general-purpose rubber and high-performance special-purpose rubber were affected by the rapid fall in production of automobiles and automobile tires, resulting in lower sales volume and net sales.

JSR strove to revise domestic prices in the first half for thermoplastic elastomers (TPEs) such as butadiene and styrene-butadiene block copolymers, but starting the second half, demand fell due to production declines in our main customers such as automobiles. Also in exports, starting the second half, demand fell rapidly for butadiene thermoplastic elastomer (RB) in Europe and Latin America, thus the domestic market and exports both saw lower sales volume and net sales.

As for production capacity, in order to cope with the medium-term growing demand for solution polymerized styrene butadiene rubber (S-SBR) for energy-efficient and high performance tires and to diversify our raw materials procurement sources, we secured the capacity rights of 30,000 tons for 50% of new production line of S-SBR, which began commercial production in March 2009, from Dow Europe GmbH. We are determined to enhance the foundation of supplying high-quality products and further expand our businesses on global basis by utilizing production facilities both in Japan and Europe.

For earnings, we endeavored to increase sales of high-value-added products while making cost reduction efforts through the Cost-Reduction Plan "E-100 Projects." Along with price revision efforts in the first half in response to higher raw materials prices, in the second





half, urgent measures for earnings were taken in the entire group targeting further cost reductions. Even with our concerted efforts, decreased sales volume due to the rapid fall in demand had a large impact, and profits fell far below the previous year.

In the emulsion division, net sales declined 13.2% to ¥23,432 million, and operating income declined 66.5% to ¥516 million.

As for paper coating latex (PCL), which is the main product in the emulsion division, coated paper manufacturers put new lines into operation one after another and usage volume grew in the first half, but starting the second half, the large drop in demand for coated paper reduced sales volume and net sales below the previous period. In acrylic emulsions, demand in the adhesives area mainly for building materials and automobile uses fell starting in the second half, resulting in acrylic emulsion sales volume and net sales lower than the previous year.

For earnings, cost reduction efforts were made through the Cost-Reduction Plan "E-100 Projects." In the first half, price revision efforts were also made in response to higher raw materials prices, and in the second half, urgent measures for earnings were taken in the entire group targeting further cost reductions. Our attempts could not prevent the decrease in sales volume as the rapid fall in demand had a large impact, and profits fell far below the previous period.

Net sales of the plastics division declined 5.8% to ¥64,829 million, and operating income declined 56.6% to ¥1,308 million.

In the domestic market, the first half saw favorable sales of heat-resistant Acrylonitrile-butadiene-styrene (ABS) plastics and weatherproof Acrylonitrile-ethylene-propylene-styrene (AES) plastics and Acrylonitrile-styrene-acrylate (ASA) plastics for automotive uses. Starting the second half, however, due to the impact of declining automobile production and housing starts, demand for automobiles, building materials and consumer electronics fell rapidly, with lower year-on-year sales volume and net sales. Exports were affected by a rapid drop in demand starting the second half, but growing sales in the entertainment sector resulted in sales volume and net sales slightly higher than the previous year. Unfortunately, this did not make up for the decline in Japan, so the plastics division's sales volume and sales were lower than the previous year. On March 31, 2009, we terminated the business partnership concerning a joint venture with Mitsubishi Chemical Corporation, our joint investor in Techno Polymer Co., Ltd., which is the core company of the plastics division. We acquired the entire 40% share held by Mitsubishi, making Techno Polymer a fully owned subsidiary. With this we will strive for even faster decision making and effective use of business resources, working for a stronger plastics business in JSR.

For earnings, cost reduction efforts were made through the Cost-Reduction Plan "E-100 Projects," as well as efforts to revise prices of our products in response to higher raw materials prices. In the second half, urgent measures for earnings were taken in the entire group targeting further cost reductions. However, decreased sales volume due to the rapid fall in demand had a large impact, and profits fell far below the previous period.

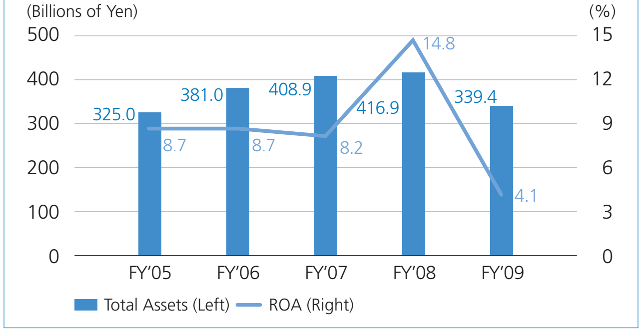
Fine Chemicals and Other Products

In the semiconductor materials division, lithography-related sales rose sharply, thanks to increased demand for multi-layer materials necessary for argon fluoride (ArF) immersion lithography. Despite the initial positive signs, photoresists (our main products) were impacted by the large fall in demand starting the second half due to production adjustments at our customers and slumping business with some of our major customers, resulting in lower net sales year-on-year. In September 2008, we opened our Singapore representative office as a business base in Southeast Asia for advanced materials, especially semiconductor materials. Through this initiative, we are working to be even more competitive in the most advanced materials sector.

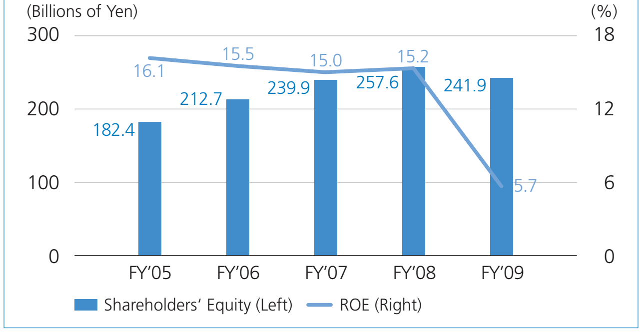
In flat panel display materials, sales of liquid crystal display (LCD) materials were initially steady with growing PC and LCD TV markets, but demand began to decline starting the middle of the first half, especially for PCs, and sales were affected by falling prices due to lower LCD panel production and the worsening supply/demand environment. Moving into the second half, further slowdown in consumption due to the global recession also resulted in large inventory adjustments in demand industries. These factors brought large drops in demand, especially in Japan and Taiwan, resulting in lower net sales year-on-year.

In optical materials, optical fiber coating materials, the mainstream product of this division, saw lower domestic investment in

Total Assets & ROA



Shareholders' Equity & ROE



fiber optic cable, and although optical fiber for exports was favorable in the first half, demand started to fall in the second half, resulting in lower net sales year-on-year. Anti-reflective coating materials and protective coatings materials saw more new adoption in the high-value-added sector of higher definition flat panel TVs, therefore, despite the rapid fall in demand during the second half, net sales increased over the previous year. For ARTON®, a heat-resistant transparent resin, there was progress in resin sales and in the precision process sector, but optical film manufacturers, the primary users of the product, saw harsher competition and slower demand in the second half, resulted in lower net sales year-on-year.

In earnings, prices came under increasing downward pressure due to falling prices for major demand industry products. Under such circumstances, we worked to boost sales of differentiated products and promoted the Cost-Reduction Plan "E-100 Projects" while taking urgent measures for earnings in the second half targeting further cost reductions in the entire group. But the decline in sales volume due to the rapid fall in demand had a large impact, resulting in a large profit decline year-on-year.

As a result of the above, net sales of fine chemicals and other products declined 19.6% to ¥146,385 million, and operating income declined 53.7% to ¥20,496 million.

Outlook

The Japanese economy in fiscal 2010 is likely to remain challenging following fiscal 2009, which faced an unprecedented depression, because we expect demand contraction in the wake of the dampened global economy and because worsened corporate earnings have a full impact on personal spendings. Demand, particularly in our main customers, namely, the automobile, tires, paper, semiconductors, and flat panel display industries, will remain sluggish, and recovery is expected to take time.

Under these circumstances, based on the results of the two years in the first half of "JUMP 2010," the mid-term business plan for a period of four years beginning in fiscal 2008, the JSR Group largely revised its numeric targets and action plan for the last two years starting from fiscal 2010. There is no change in our basic strategy of, "by creating a group of next-stage growth businesses, and increase in earnings in the fine chemicals and other products business as well the petrochemical products business." In the petrochemicals sector and in the fine chemicals and other products sector, especially, the semiconductor materials business and flat panel display (FPD) materials business, JSR will work on thorough cost reductions and rebuilding business competitiveness. For next-stage growth businesses, JSR will strengthen its promotion system and resource allocation to accelerate their commercialization. By expediting these measures, JSR will put all its power toward achieving targets on a growth path again when the market environment recovers.

Consequently, for fiscal 2010, it is projected to be a consolidated net sales of ¥290.0 billion (down 17.7% from the previous year), operating income of ¥15.0 billion (down 50.5%), ordinary income of ¥16 billion (down 48.6%), and net income of ¥10.0 billion (down 28.5%).

The above projections assume a yen exchange rate of 95 to the dollar and a naphtha price of ¥35,000 per kiloliter.

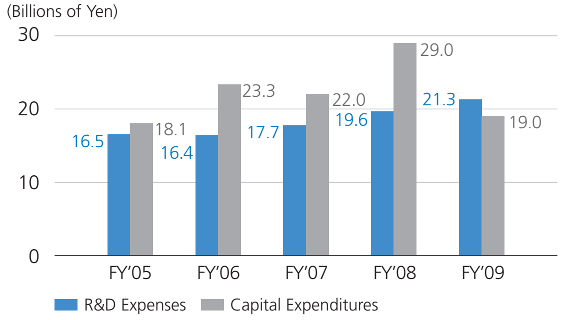
R&D Expenditures

R&D expenditures in fiscal 2009 amounted to ¥21,352 million as we made substantial investments in the fine chemicals and other products sector and in next-stage growth businesses. Despite of the fact that we are faced with a situation to contract the entire budget for fiscal 2010, the Company will speed up development and commercialization by increasing the amount of resource allocation as well as its ratio to the strategic business.

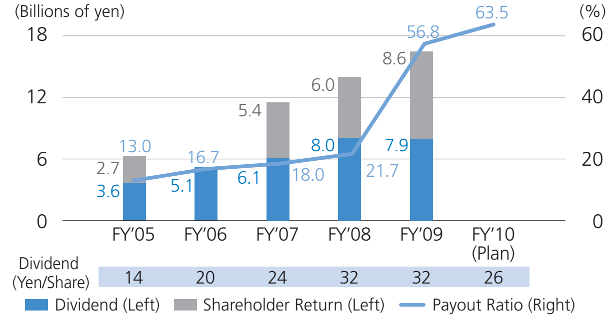
Capital Expenditures

Capital expenditures amounted to ¥25,143 million in fiscal 2009. In particular, a new production line is completed for S-SBR, of which we acquired 50% capacity rights from Dow Europe GmbH. In the fine chemicals and other products sector, we enhanced R&D facilities and production capacity in response to cutting-edge technologies in semiconductor materials and next-stage businesses. The Company will reduce or freeze its capital expenditures for this year contingent upon the earnings. Regarding the strategic business, we will execute capital expenditures flexibly.

R&D Expenses & Capital Expenditures



Shareholder Return & Payout Ratio



RISKS

The JSR Group is exposed to the following risks that may impact its operating results, financial position, cash flows and other aspects of performance. Forward-looking statements in this discussion are based on JSR's judgment as of March 31, 2009.

Risks at JSR include, but are not limited to, the following items:

(1) Changes in Demand due to Economic Trends

In the major industries where the JSR Group's products are sold, automobiles and electronics, demand is influenced by the economic climate in a country or region. An economic slowdown could reduce demand in an industry and adversely affect the JSR Group's operating results.

(2) Higher Prices for Crude Oil, Naphtha and Other Major Raw Materials

Higher prices for crude oil and naphtha, or changes in the markets for JSR's major raw materials, could raise prices of raw materials and adversely affect the JSR Group's operating results, especially in the petrochemicals sector of elastomers, emulsions and plastics.

(3) Procurement of Raw Materials

The JSR Group works on ensuring a stable supply of raw materials by procuring materials from a number of sources. However, an interruption to the supply of raw materials due to an accident, bankruptcy or quality problem at a supplier could adversely affect production activities and the JSR Group's operating results.

(4) Development of New Products

Rapid technological progress is constantly taking place in the electronics industry, which is the primary source of demand for semiconductor manufacturing materials, FPD materials and optical materials, the major products of the JSR Group's fine chemicals and other products business. JSR is constantly working on developing state-of-the-art materials in line with this progress. However, unforeseen changes in the industry or market could prevent the timely development of new products and adversely affect the JSR Group's operating results.

(5) R&D Involving Next-Stage Growth Businesses

The JSR Group makes substantial investments in R&D to create next-stage growth businesses. However, there is no guarantee that these R&D activities will always yield worthwhile results. Depending on R&D results, there could be an adverse effect on the JSR Group's operating results.

(6) Protection of Intellectual Property

Protection of intellectual property is extremely important for the JSR Group's business activities. JSR has established a system for protecting its intellectual property and takes various actions as required. However, a dispute about intellectual property with another company or an infringement on JSR's intellectual property by another company could adversely affect the JSR Group's operating results.

(7) Product Quality Assurance and Product Liability

The JSR Group has a product quality assurance system and product liability insurance. However, damage or injury caused by a product manufactured by the JSR Group could adversely affect the JSR Group's operating results.

(8) Natural Disasters and Accidents

To minimize the negative effect on its business activities of any disruption of manufacturing activities, all JSR Group manufacturing facilities have established countermeasures based on the identification of all potential sources of a crisis and conduct periodic inspections of facilities. The group also works constantly on safety measures with regard to earthquakes and other natural disasters. However, a major natural disaster or accident that damages a production facility or disrupts manufacturing could adversely affect the JSR Group's operating results.

(9) Environmental Issues

Positioning environmental protection as an important element of its operations, the JSR Group complies with all laws and regulations concerning the environment. The group also takes actions aimed at reducing its environmental impact, lowering and eliminating waste materials, and cutting energy and resource consumption. The group has taken many actions to prevent the external release of chemicals of all types.

However, in the event that a spill occurs or that environmental regulations become more strict, the group's business activities could be restricted, the group may have to pay compensation and other expenses, or the group may have to make substantial capital expenditures. Any of these events could adversely affect the JSR Group's operating results.

(10) Overseas Operations

The JSR Group is aggressively expanding operations on a global scale, conducting manufacturing, sales and other activities in countries and regions of the United States, Europe, Asia and other parts of the world. Overseas operations are exposed to a number of risks that include, but are not limited to, an unfavorable political environment or economic trends; labor disputes and other problems due to differences in labor laws and other working conditions; difficulty in recruiting and retaining employees; an adverse impact on business activities due to an inadequate social infrastructure; and the impact of wars, terrorism and other social instability. Any of these events could adversely affect the JSR Group's operating results.

(11) Laws and Regulations

In the countries where it operates, the JSR Group is subject to various laws and regulations involving business and investment permits, export and import activities, trade, labor relations, intellectual property, taxes, foreign exchange and other items. The group has established a clear compliance policy in order to ensure strict observance of laws and regulations as well as ethical standards. In the event that a law or regulation is violated, or a law or regulation becomes more strict or is significantly altered, there could be limitations on the group's business activities or additional compliance costs. Any of these events could adversely affect the JSR Group's operating results.

(12) Litigation

In conjunction with its business activities in Japan and overseas, the JSR Group may be sued or be involved in other litigation concerning a dispute with a supplier, customer or other external party. The outcome of significant litigation could adversely affect the JSR Group's operating results.

Consolidated Balance Sheets

JSR Corporation
March 31, 2008 and 2009

ASSETS	Millions of yen 2008	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2009
Current assets:			
Cash (Note 3)	¥ 16,537	¥ 16,910	$ 172,145
Notes and accounts receivable—trade (Note 4)	86,954	52,782	537,332
Marketable securities (Notes 3 and 5)	46,836	21,492	218,797
Inventories	72,317	76,955	783,420
Other current assets (Notes 8 and 12)	36,006	22,324	227,260
Total current assets	258,650	190,463	1,938,954
Property, plant and equipment (Notes 6 and 9)**:**			
Buildings and structures	31,407	29,290	298,177
Machinery, equipment and vehicles	41,295	32,591	331,780
Land	16,778	16,870	171,740
Construction in progress	8,142	4,097	41,709
Other tangible assets	7,910	8,629	87,845
	105,532	91,477	931,251
Intangible assets	6,466	6,723	68,442
Investments and other non-current assets:			
Investment securities (Note 5)	35,656	24,159	245,939
Longterm loans receivable	1,480	4,928	50,167
Deferred tax assets (Note 8)	3,906	8,703	88,602
Other assets (Notes 4 and 12)	5,261	13,045	132,797
	46,303	50,835	517,505
	¥ 416,951	¥ 339,498	$ 3,456,152

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2009	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Notes and accounts payable—trade	¥ 83,445	¥ 39,636	$ 403,497
Short-term loans payable and current portion of long-term debt (Note 6)	16,808	14,340	145,981
Other current liabilities (Notes 8 and 12)	37,463	22,194	225,945
Total current liabilities	137,716	76,170	775,423
Long-term liabilities:			
Employees retirement benefits (Note 7)	14,679	14,821	150,879
Allowance for environmental expenses	3,294	3,205	32,624
Other long-term liabilities (Notes 6, 8 and 12)	3,599	3,316	33,764
Total long-term liabilities	21,572	21,342	217,267
Contingent liabilities (Note 14)			
Net assets (Note 10)			
Shareholders' equity			
Common stock:			
Authorized — 696,061,000 shares			
Issued — 255,885,166 shares in 2008 and 2009	23,320	23,320	237,404
Capital surplus	25,179	25,179	256,331
Retained earnings	212,503	218,515	2,224,526
Less treasury stock, at cost			
5,666,693 shares in 2008 and 11,648,666shares in 2009	(13,623)	(22,217)	(226,173)
Valuation and translation adjustments			
Unrealized gains on securities, net of taxes	4,807	645	6,568
Foreign currency translation adjustments	353	(4,546)	(46,280)
Subscription rights to shares (Note 11)	194	311	3,162
Minority interests	4,930	779	7,924
Total net assets	257,663	241,986	2,463,462
	¥ 416,951	¥ 339,498	$ 3,456,152

Consolidated Statements of Income

JSR Corporation
Years ended March 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2008	2009	2009
Net sales (Note 16)	¥ 365,831	¥ 406,968	¥ 352,503	$ 3,588,547
Costs and expenses (Notes 15 and 16):				
Cost of sales	252,752	284,431	263,018	2,677,578
Selling, general and administrative expenses	57,836	62,527	59,137	602,025
	310,588	346,958	322,155	3,279,603
Operating income (Note 16)	55,243	60,010	30,348	308,944
Other income (expenses):				
Interest and dividend income	1,030	1,309	1,230	12,519
Interest expenses	(399)	(256)	(271)	(2,757)
Loss on disposal of inventories	(2,791)	(1,799)	—	—
Gain (loss) on sale and disposal of property, plant and equipment	(617)	(1,574)	399	4,062
Foreign exchange gains (losses)	352	(2,036)	(993)	(10,110)
Equity in earnings of affiliated companies	1,439	1,249	1,150	11,706
Gain on sales of investment securities	282	377	—	—
Depreciation expenses of idle assets	(393)	(740)	(1,091)	(11,109)
Impairment loss of fixed assets (Note 9)	—	—	(6,042)	(61,512)
Loss on devaluation of investment securities	—	—	(1,887)	(19,211)
Loss on devaluation of inventories	—	—	(1,686)	(17,162)
Loss on disposal of asbestos	(461)	—	—	—
Loss on allowance for environmental expenses	(201)	—	—	—
Other — net	(44)	(1,673)	(354)	(3,590)
	(1,803)	(5,143)	(9,545)	(97,164)
Income before income taxes and minority interests	53,440	54,867	20,803	211,780
Income taxes (Note 8):				
Current	20,127	18,112	6,217	63,291
Deferred	(1,136)	(776)	(76)	(776)
	18,991	17,336	6,141	62,515
	34,449	37,531	14,662	149,265
Minority interests in net income of consolidated subsidiaries	(794)	(537)	(681)	(6,934)
Net income	¥ 33,655	¥ 36,994	¥ 13,981	$ 142,331

	Yen			U.S. dollars (Note 1)
	2007	2008	2009	2009
Per share of common stock:				
Net income	¥ 133.10	¥ 147.26	¥ 56.36	$ 0.57
Diluted net income	133.06	147.19	56.31	0.57
Cash dividends applicable to the year	24.00	32.00	32.00	0.33

See accompanying notes.

Consolidated Statements of Changes in Net Assets

JSR Corporation
Years ended March 31, 2007, 2008 and 2009

	Number of shares of common stock (thousands)	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Unrealized gains on securities, net of taxes	Foreign currency translation adjustments	Subscription rights to shares	Minority interests
Balance at March 31, 2006	255,885	¥ 23,320	¥ 25,179	¥ 155,434	¥ (2,898)	¥ 11,151	¥ 565	¥ —	¥ 3,957
Net income	—	—	—	33,655	—	—	—	—	—
Increase of treasury stock	—	—	—	—	(5,412)	—	—	—	—
Disposal of treasury stock	—	—	—	(10)	10	—	—	—	—
Cash dividends paid	—	—	—	(5,569)	—	—	—	—	—
Bonuses to directors	—	—	—	(136)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	(1,064)	961	70	773
Balance at March 31, 2007	255,885	23,320	25,179	183,374	(8,300)	10,087	1,526	70	4,730
Net income	—	—	—	36,994	—	—	—	—	—
Increase of treasury stock	—	—	—	—	(5,328)	—	—	—	—
Disposal of treasury stock	—	—	—	(5)	5	—	—	—	—
Cash dividends paid	—	—	—	(7,044)	—	—	—	—	—
Decrease resulting from increase in consolidated subsidiaries	—	—	—	(1,048)	—	—	—	—	—
Increase resulting from increase in affiliated companies by equity method	—	—	—	232	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	(5,280)	(1,173)	124	200
Balance at March 31, 2008	255,885	23,320	25,179	212,503	(13,623)	4,807	353	194	4,930
Net income	—	—	—	13,981	—	—	—	—	—
Increase of treasury stock	—	—	—	—	(8,611)	—	—	—	—
Disposal of treasury stock	—	—	—	(10)	17	—	—	—	—
Cash dividends paid	—	—	—	(7,959)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	(4,162)	(4,899)	117	(4,151)
Balance at March 31, 2009	255,885	¥ 23,320	¥ 25,179	¥ 218,515	¥ (22,217)	¥ 645	¥ (4,546)	¥ 311	¥ 779

		Thousands of U.S. dollars (Note 1)							
Balance at March 31, 2008		$ 237,404	$ 256,331	$2,163,324	$ (138,686)	$ 48,933	$ 3,588	$ 1,974	$ 50,186
Net income		—	—	142,331	—	—	—	—	—
Increase of treasury stock		—	—	—	(87,668)	—	—	—	—
Disposal of treasury stock		—	—	(103)	181	—	—	—	—
Cash dividends paid		—	—	(81,026)	—	—	—	—	—
Net changes other than shareholders' equity		—	—	—	—	(42,365)	(49,868)	1,188	(42,262)
Balance at March 31, 2009	255,885	$ 237,404	$ 256,331	$2,224,526	$ (226,173)	$ 6,568	$ (46,280)	$ 3,162	$ 7,924

See accompanying notes.

Consolidated Statements of Cash Flows

JSR Corporation
Years ended March 31, 2007, 2008 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2008	2009	2009
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 53,440	¥ 54,867	¥ 20,803	$ 211,780
Adjustments to reconcile income before income taxes and minority interests to cash provided by operating activities:				
Depreciation and amortization	18,133	21,180	24,833	252,806
Interest and dividend income	(1,030)	(1,309)	(1,230)	(12,519)
Interest expenses	399	256	271	2,757
Equity in earnings of affiliated companies	(1,439)	(1,249)	(1,150)	(11,706)
Loss (gain) on sales and disposal of property, plant and equipment	617	1,574	—	—
Impairment loss of fixed assets	—	—	6,042	61,512
Loss on devaluation of investment securities	—	—	1,887	19,211
Loss (gain) on sales of investment securities	(282)	(377)	(399)	(4,062)
Changes in operating assets and liabilities—net:				
Increase (decrease) in allowance for environmental expenses	200	—	—	—
Decrease (increase) in notes and accounts receivable — trade	(14,548)	5,379	30,235	307,797
Decrease (increase) in inventories	(6,685)	(5,693)	(7,105)	(72,330)
Increase (decrease) in notes and accounts payable — trade	8,814	(2,352)	(38,012)	(386,970)
Other	6,820	(79)	11,217	114,187
Total	64,439	72,197	47,392	482,463
Interest and dividends received	2,907	2,530	2,592	26,391
Interest expenses paid	(411)	(254)	(276)	(2,810)
Income taxes paid	(20,463)	(20,583)	(15,787)	(160,722)
Net cash provided by operating activities	46,472	53,890	33,921	345,322
Cash flows from investing activities:				
Payments for purchase of property, plant and equipment and intangible assets	(26,218)	(27,122)	(22,736)	(231,458)
Payments for purchase of investment of subsidiaries and affiliates	—	(491)	(6,384)	(64,993)
Proceeds from sales of property, plant and equipment and intangible assets	347	—	408	4,151
Payments for purchase of investment securities	(1,767)	(1,653)	(636)	(6,472)
Proceeds from sales of investment securities	563	601	8	81
Proceeds from redemption of investment securities	—	500	2,000	20,360
Payments for loans receivable	(4,166)	(2,683)	(5,802)	(59,067)
Collection of loans receivable	1,972	1,576	2,880	29,320
Other — net	(1,094)	(2,968)	(6,203)	(63,142)
Net cash used in investing activities	(30,363)	(32,240)	(36,465)	(371,220)
Cash flows from financing activities:				
Net increase (decrease) in short-term loans payable	(1,945)	(222)	(1,162)	(11,831)
Repayment of long-term debt	(2,306)	(476)	(1,234)	(12,566)
Proceeds from long-term debt	1,558	—	—	—
Redemption of bonds	(10,000)	—	—	—
Cash dividends paid	(5,566)	(7,033)	(7,974)	(81,177)
Cash dividends paid to minority shareholders	(106)	(341)	(167)	(1,699)
Purchase of treasury stock	(5,412)	(5,329)	(8,612)	(87,668)
Other — net	0	0	(3)	(32)
Net cash used in financing activities	(23,777)	(13,401)	(19,152)	(194,973)
Effect of exchange rate changes on cash and cash equivalents	478	(819)	(2,903)	(29,556)
Net increase (decrease) in cash and cash equivalents	(7,190)	7,430	(24,599)	(250,427)
Cash and cash equivalents at beginning of year	60,846	53,656	61,725	628,370
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	639	—	—
Cash and cash equivalents at end of year (Note 3)	¥ 53,656	¥ 61,725	¥ 37,126	$ 377,943

See accompanying notes.

Notes to Consolidated Financial Statements

JSR Corporation
Years ended March 31, 2007, 2008 and 2009

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of JSR Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries and affiliates are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile and make necessary amendments for consolidated financial statements. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statement of changes in net assets for 2006) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was 98.23 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation — The accompanying consolidated financial statements include the accounts of the Company and its 28 significant subsidiaries in 2008 and 2009 (26 significant subsidiaries in 2007).

All significant intercompany accounts and transactions have been eliminated in consolidation.

JSR Micro Taiwan Co., Ltd. and Elastomix (Foshan) Co., Ltd. have been consolidated since 2008 due to the principle of materiality.

(b) Equity method— Investments in affiliated companies (all of those 20% to 50% owned and certain others 15% to 20% owned) were accounted for by the equity method. Unconsolidated subsidiaries and the other affiliated companies are stated at cost since their net income and retained earnings in the aggregate are not material compared to consolidated net income and retained earnings, respectively.

(c) Cash and cash equivalents — In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(d) Marketable securities and investment securities — The Company and its consolidated subsidiaries (the "Companies") had no trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no available fair market values are stated at moving-average cost or amortized cost.

(e) Inventories — Inventories are stated at cost, which is determined mainly based on the average method (for the value stated on the balance sheet, book value is written down to reflect the lower profitability).

(i) The accounting change

Effective April 1, 2008, the Company and domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories"(Statement No.9 by ASBJ on July 5, 2006). As a result of this change, Operating income and Income before income taxes and minority interests decreased by ¥2,859 million ($29,106 thousand), ¥1,934 million ($19,690 thousand) for the year ended March 31, 2009 respectively.

(f) Property, plant and equipment, and depreciation — Property, plant and equipment are stated at cost. Depreciation is computed using the declining-balance method at rates based on their estimated useful lives except for buildings acquired after March 31, 1998, which are depreciated based on the straight-line method.

(i) The accounting change

Effective April 1, 2007, the Company and domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law of Japan. As a result of this change, income before income taxes and minority interests decreased by ¥851 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

(ii) Additional information

Effective April 1, 2008, the Company and its domestic consolidated subsidiaries reviewed the economic useful life to depreciate machinery and equipment, responding to the revision of the Corporation Tax Law of Japan. The impact of this change did not have a material effect on net income.

Effective from the year ended March 31, 2008, the property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year. As a result of this change, income before income taxes and minority interests decreased by ¥1,429 million for the year ended March 31, 2008.

(g) Intangible assets — Goodwill is amortized over five years using the straight-line method.

Software for its own use is amortized over the estimated useful life (five years) using the straight-line method.

(h) Lease assets —

(i) The accounting change

Effective April 1, 2008, the Company and domestic consolidated subsidiaries adopted "Accounting Standard for Lease Transactions" (Statement No.13 by ASBJ on March 30, 2007) and the Guidance on Accounting Standard for Lease Transactions (Implementation Guidance No.16 by ASBJ on March 30, 2007).

The method of accounting for finance leases that do not transfer ownership of leased property to the lessee changed from treating such leases as rental transactions to treatment as sale/purchase transactions, recognizing them as lease assets.

Under the existing accounting standards, finance leases, commenced prior to April 1,2008, which do not transfer ownership of leased property to the lessee are permitted to be accounted for in the same manner as operating leases if certain "as if capitalized" information is disclosed in a note to the lessee's financial statements.

The impacts of this change did not have a material effect on net income.

(i) Allowance for doubtful accounts — Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. Allowance for doubtful accounts consists of the estimated uncollectible amount with respect to specific items, and the amount calculated using the actual percentage of collection losses in the past with respect to other items.

(j) Severance and retirement benefits — Employees of the Companies are entitled, under most circumstances, to lump-sum severance payments or pension payments upon reaching the mandatory retirement age, or earlier in the case of voluntary or involuntary termination, based on the compensation at the time of severance and years of service.

The Companies provided allowances and expenses for employees' severance and retirement benefits at year-end based on the estimated amounts of projected benefits obligation and the fair value of the pension assets.

The prior service costs are recognized as expenses using the straight-line method over three years, which falls within the estimated average remaining service lives, commencing with the following period. Actuarial differences of the Company are recognized as expenses at once in the following period, and some of consolidated subsidiaries use the straight-line method over ten years within the estimated average remaining service lives, commencing with the following period.

(K) Allowance for environmental expenses — An allowance for expenses is provided bases on estimated costs for the disposal of Polychlorinated biphenyl (PCB) as mandated by the Law Concerning Special Measures Against PCB Waste.

(l) Income taxes — The Companies provide for income taxes applicable to all items included in the consolidated statements of income regardless of when such taxes are payable. Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(m) Derivative and hedging activities — The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, foreign currency swaps and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading purposes or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(i) All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on these derivative transactions are recognized in the consolidated statements of income.

(ii) For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on these derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income as incurred.

(n) Foreign currency transactions — The Companies translate assets and liabilities denominated in foreign currencies into Japanese yen at exchange rates prevailing at the balance sheet dates. Resulting exchange gains or losses are credited or charged to income as incurred.

(o) Translation of foreign currency financial statements — Financial statements of overseas subsidiaries are translated into Japanese yen using the respective year-end rate for assets and liabilities, the average rate for revenues and expenses, and the historical rates for shareholders' equity accounts. Foreign currency translation adjustments are contained in valuation and translation adjustments and minority interests.

(p) Amounts per share of common stock — The computation of net income per share of common stock is based on the average number of shares outstanding during each fiscal year. Treasury stock has been excluded in the calculation of amounts per share of common stock.

Cash dividends per share represent actual amounts applicable to the respective years.

(q) Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements —

(i) The accounting change

Effective April 1, 2008, the Company adopts "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18 issued on May 17, 2006). According to this rule, the Company made necessary adjustments for significant differences between Japanese GAAP and IFRS or U.S.GAAP. The adoption of this rule did not have a material effect on net income.

(r) Accounting standard for statement of changes in net assets — Effective for the year ended March 31, 2007, the Companies adopted newly "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 by ASBJ on December 27, 2005), and "Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets (Implementation Guidance No.9 by ASBJ on December 27, 2005).

Accordingly, the Company prepared the statement of changes in net assets for the year ended March 31, 2007. In addition, the

Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with these accounting standards. Previously, the consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

(s) Stock options — Effective from the year ended March 31, 2007, the Company adopted newly "Accounting Standard for Share-based Compensation" (Statement No.8 by ASBJ on December 27, 2005) and "Guidance on Accounting Standard for Share-based Compensation" (Implementation Guidance No.11 by the ASBJ on May 31, 2006).

The adoption of these accounting standards did not have a material effect on net income.

(t) Reclassifications — Certain prior years amounts have been reclassified and restated to conform to the current year presentation.

Also, as described in Note 2 (s), in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statements of changes in the net assets for the year ended March 31, 2006.

These reclassifications and restatements had no effect on previously reported results of operations or retained earnings.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2007, 2008 and 2009 consisted of the following:

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	2009	2009
Cash	¥ 14,586	¥ 16,537	¥ 16,910	$ 172,145
Marketable securities	39,418	46,484	21,492	218,797
Time deposits over three months	(348)	(1,296)	(1,277)	(12,999)
Cash and cash equivalents	¥ 53,656	¥ 61,725	¥ 37,125	$ 377,943

4. Allowance for doubtful accounts

Allowance for doubtful accounts of March 31, 2008 and 2009 were as follows:

Allowance for doubtful accounts	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Current asset : Notes and accounts receivable—trade	¥ (114)	¥ (554)	$ (5,638)
Investments and other non-current assets:Other assets	(241)	(148)	(1,506)

5. Marketable Securities and Investment Securities

(1) The following tables summarize the acquisition cost, book value and fair value of available-for-sale securities with available fair value as of March 31, 2008 and 2009:

(a) Securities with book value exceeding acquisition cost

	Millions of Yen		
	2008		
	Acquisition cost	Book value	Difference
Equity securities	¥ 9,904	¥ 19,272	¥ 9,368

	Millions of Yen		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	¥ 8,069	¥ 11,323	¥ 3,254

	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	$ 82,147	$ 115,274	$ 33,127

(b) Securities with book value not exceeding acquisition cost

	Millions of Yen		
	2008		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,428	¥ 2,239	¥ (1,189)

	Millions of Yen		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	¥ 6,040	¥ 3,926	¥ (2,114)

	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	$ 61,492	$ 39,965	$ (21,527)

(2) The following tables summarize the book value of available-for-sale securities with no available fair value as of March 31, 2008 and 2009:

	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Non-listed equity securities	¥ 3,108	¥ 1,066	$ 10,850
Commercial paper	33,984	7,492	76,274
Preferred subscription certificate	2,000	—	—
Certificate of deposit	9,500	10,000	101,802
Other	3,352	4,000	40,721
Total	¥ 51,944	¥ 22,558	$229,647

(3) Redemption schedule of available-for-sale securities with fixed maturities are as follows:

	Millions of Yen				
	Within one year	Over one years within five years	Over five years within ten years	Over ten years	Total
March 31, 2008:	¥ 46,484	¥ —	¥ —	¥ —	¥ 46,484
March 31, 2009:	¥ 21,492	¥ —	¥ —	¥ —	¥ 21,492

	Thousands of U.S. dollars				
	Within one year	Over one years within five years	Over five years within ten years	Over ten years	Total
March 31, 2009:	$218,797	$ —	$ —	$ —	$218,797

(4) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2007, 2008 and 2009 are as follows:

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	2009	2009
Total sales	¥ 563	¥ 493	¥ 8	$ 81
Gain	282	377	—	—
Loss	—	—	2	24

6. Short-Term Loans Payable and Long-Term Debt

Short-term loans payable represent primarily overdrafts from banks bearing interest at 1.4% and 1.2% per annum (weighted average interest rate) at March 31, 2008 and 2009, respectively.

Long-term debt at March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Loans principally from banks and insurance companies due through 2014 with interest rates 1.2% in 2008 and 2009:			
Secured	1	1	10
Unsecured	2,739	1,503	15,302
	2,740	1,504	15,312
Less amount due within one year	(1,215)	(4)	(42)
	¥ 1,525	¥ 1,500	$ 15,270
Lease liability	—	18	189
Less amount due within one year	—	(5)	(55)
	¥ —	¥ 13	$ 134

At March 31, 2009, property, plant and equipment, at book value of ¥10,912 million ($111,092 thousand) were pledged as collateral for secured loans.

The annual maturities of long-term debt at March 31, 2009 were as follows:

	Millions of Yen		Thousands of U.S. dollars	
Year ending March 31,	Long-term loans payable	Lease liability	Long-term loans payable	Lease liability
2010	¥ 4	¥ 5	$ 42	$ 55
2011		4		42
2012	500	4	5,090	42
2013	1,000	4	10,180	42
2014		1		8
2015 and thereafter				
	¥ 1,504	¥ 18	$ 15,312	$ 189

7. Employees' Severance and Retirement Benefits

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Projected benefit obligation	¥ 49,067	¥ 49,493	$ 503,853
Less fair value of pension assets	(35,038)	(33,268)	(338,678)
Unfunded retirement benefit liabilities	14,029	16,225	165,175
Unrecognized prior service costs	61	—	—
Unrecognized actuarial differences	(536)	(1,693)	(17,241)
Net retirement benefit liabilities	13,554	14,532	147,934
Prepaid pension costs	(1,125)	(289)	(2,945)
Employees' retirement benefits	¥ 14,679	¥ 14,821	$ 150,879

Included in the consolidated statements of income for the years ended March 31, 2007, 2008 and 2009 were severance and retirement benefit expenses consisting of the following:

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	2009	2009
Service costs—benefits earned during the year	¥ 1,729	¥ 1,789	¥ 2,292	$23,334
Interest cost on projected benefits obligation	878	896	877	8,931
Expected return on plan assets	(341)	(445)	(368)	(3,752)
Amortization of prior service costs	(61)	(61)	(61)	(623)
Amortization of actuarial differences	(525)	(51)	417	4,248
Severance and retirement benefit expenses	¥ 1,680	¥ 2,128	¥ 3,157	$32,138

The discount rates used by the Companies for the years ended March 31, 2008 and 2009 are mainly 2.0% and 2.1%, respectively. The rates of expected return on plan assets used by the Companies for the years ended March 31, 2008 and 2009 are mainly 1.3% and 1.1%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years.

8. Income Taxes

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated normal effective tax rate was approximately 40.7%.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2007, 2008 and 2009:

	2007	2008	2009
Statutory tax rate	40.7%	40.7%	40.7%
Lower tax rates for foreign consolidated subsidiaries	(1.9)	(5.0)	(5.5)
Tax credit on research and development costs	(2.3)	(3.2)	(4.4)
Equity in earnings of affiliated companies	(1.1)	(0.9)	(2.2)
Valuation allowance	0.6	(0.4)	3.0
Other	(0.5)	0.4	(2.1)
Effective tax rate	35.5%	31.6%	29.5%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Deferred tax assets:			
Excess retirement benefits	¥ 5,436	¥ 5,845	$ 59,501
Impairment loss of fixed assets	—	2,452	24,959
Excess bonuses accrued	1,711	1,630	16,596
Provision for environmental expenses	1,337	1,303	13,262
Unrealized gain on sale of property, plant and equipment	1,130	1,094	11,133
Unrealized gain on sale of inventories	1,135	769	7,833
Other	4,516	3,012	30,673
Sub-total	15,265	16,105	163,957
Valuation allowance	(92)	(709)	(7,223)
Total deferred tax assets	15,173	15,396	156,734
Deferred tax liabilities:			
Deferred gain on sale of fixed assets	2,656	2,963	30,162
Net unrealized holding gains on securities	3,315	447	4,554
Other	1,199	902	9,186
Total deferred tax liabilities	7,170	4,312	43,902
Net deferred tax assets	¥ 8,003	¥ 11,084	$112,832

9. Impairment of Fixed Assets

The Companies recognized impairment losses on the following group of fixed assets for the year ended March 31, 2009.

		Millions of Yen				Thousands of U.S. dollars
Use	Location	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	amount	amount
Facility for a heat-resistant	Ichihara City, Chiba Prefecture	¥ 455	¥ 1,950	¥ 101	¥ 2,506	$ 25,514
transparent resin	Yokkaichi City, Mie Prefecture	781	1,921	236	2,938	29,908
Facility for plastic products	Satte City, Saitama Prefecture	256	245	97	598	6,090

The companies have grouped their fixed assets into business units. Fixed assets that are idle or not being used for business activities are assessed individually. The book value of machinery and equipment etc. was written down to its recoverable value.

10. Net Assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law (“the Law”), in the case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividends or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under Japanese Commercial Code (“the Code”), companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by the resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations.

At the annual shareholders meeting held on June 16, 2009, the shareholders resolved cash dividends amounting to ¥3,908 million ($39,782 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009. Such appropriations are recognized in the period in which they are resolved.

11. Stock Option Plans

The shareholders of the Company approved the issuance of stock options to the directors and the executive officers of the Company as follows:

Date of resolution of the general shareholders' meeting	June 16, 2006	June 15, 2007	June 13, 2008
The maximum number of shares to be issued	39,100 shares	48,500 shares	73,900 shares
Exercisable period of the stock options	From August 2, 2006	From July 11, 2007	From July 16, 2008
	to June 16, 2026	to July 10, 2027	to July 15, 2028
Stock subscription rights which have been vested			
Outstanding as of March 31, 2008	39,100 shares	48,500 shares	73,900 shares
Exercise price per share	1	1	1
	$0.01	$0.01	$0.01

12. Derivative Transactions

(1) Qualitative disclosure about derivatives

The Companies enter into foreign exchange forward contracts, foreign currency swap contracts and interest rate swap contracts as derivative financial instruments. The Companies deal with foreign exchange forward transactions to hedge exchange rate risks of trade receivables and payables denominated in foreign currency. Foreign currency swap transactions are made in order to mitigate foreign exchange risks on loans receivable denominated in foreign currencies. Interest rate swap transactions are made in order to reduce interest rate risks on loans payable.

The Companies do not enter into derivatives for speculative transaction purposes. Hedge accounting is used for interest rate swaps in the case where there is a high degree of correlation between the hedge instruments and the hedge items.

Significant conditions surrounding hedging instruments are the same as those for the items hedged, the risks of which will likely continue to be hedged through hedge transactions.

Foreign exchange forward contracts and foreign currency swaps that the Companies entered have risks due to fluctuations in foreign exchange rates. Interest rate swap contracts that the Companies entered have risks due to fluctuations in interest rates. Due to the fact that counterparties to the Companies represent major financial institutions that have high creditworthiness, the Companies believe that the overall credit risk related to its financial instruments is insignificant.

Derivative transactions are executed and controlled based on the Companies' internal rules and are approved by the responsible officials. The balances of such transactions with counterparties are periodically confirmed.

(2) Quantitative disclosure about

The following contract amounts are only nominal or notional amounts of derivatives, and do not necessarily indicate the magnitude of market risk associated with the derivative transactions.

Contract amounts, market values and recognized gains or losses on the derivative transactions, except those accounted for using hedge accounting, at March 31, 2008 and 2009 were as follows:

(a) Related to currencies

	Millions of Yen			
	Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2008:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	¥ 3,504	¥ —	¥ 3,332	¥ 172
Euro	104	—	106	(2)
Buying: U.S. Dollars	310	—	293	(17)
Euro	165	—	165	(0)
Swiss Franc	71	—	73	2
Foreign currency swaps				
receiving Japanese Yen paying, Korea won	4,315	3,065	(311)	(311)
receiving Japanese Yen paying, Taiwan dollar	5,739	5,739	137	137
Total	¥ —	¥ —	¥ —	¥ (19)
March 31, 2009:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	¥ 5,041	¥ —	¥ 5,161	¥ (120)
Euro	415	—	407	8
Buying: U.S. Dollars	38	—	37	(1)
Euro	51	—	54	3
Swiss Franc	5	—	6	1
Foreign currency swaps				
receiving Japanese Yen paying, Korea won	3,065	—	804	804
receiving Japanese Yen paying, Taiwan dollar	5,739	3,594	1,066	1,066
Total	¥ —	¥ —	¥ —	¥ 1,761

	Thousands of U.S. dollars			
	Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2009:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	$51,322	$ —	$52,543	$(1,221)
Euro	4,226	—	4,138	88
Buying: U.S. Dollars	382	—	375	(7)
Euro	521	—	550	29
Swiss Franc	52	—	57	5
Foreign currency swaps				
receiving Japanese Yen paying, Korea won	31,204	—	8,188	8,188
receiving Japanese Yen paying, Taiwan dollar	58,420	36,584	10,853	10,853
Total	$ —	$ —	$ —	$17,935

Market values are calculated using foreign exchange forward rates.

(b)Related to interests

Interest rate swap contracts, for which hedge accounting is adopted, are excluded from being an object of disclosure.

13. Information for Certain Lease Payments

As described in Note 1.(h), under the existing accounting standards, finance leases, commenced prior to April 1, 2008, which do not transfer ownership of leased property to the lessee are accounted for in the same manner of operating leases:

(1) Equivalent amounts of purchase price, accumulated depreciation and book value of leased properties were as follows (including the interest portion thereon):

	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Machinery, equipment and vehicles:			
Purchase price equivalent	¥ 42	¥ 37	$ 378
Accumulated depreciation equivalent	17	20	207
Book value equivalent	¥ 25	¥ 17	$ 171
Tools, furniture and fixtures:			
Purchase price equivalent	¥ 660	¥ 101	$1,030
Accumulated depreciation equivalent	506	60	606
Book value equivalent	¥ 154	¥ 41	$ 424
Total:			
Purchase price equivalent	¥ 702	¥ 138	$1,408
Accumulated depreciation equivalent	523	80	813
Book value equivalent	¥ 179	¥ 58	$ 595

(2) Lease commitments (including the interest portion thereon):

	Millions of Yen		Thousands of U.S. dollars
	2008	2009	2009
Due within one year	¥ 120	¥ 25	$ 257
Due over one year	59	33	338
	¥ 179	¥ 58	$ 595

(3) Lease expenses and depreciation equivalent:

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	2009	2009
Lease expenses	¥ 145	¥ 147	¥ 119	$1,209
Depreciation equivalent	145	147	119	1,209

Depreciation equivalent is computed using the straight-line method over the term of each lease with no residual value.

There is no impairment loss on finance leases.

14. Contingent Liabilities

At March 31, 2009, the Company and certain consolidated subsidiaries were contingently liable as guarantors for loans of employees and others in the amount of ¥77 million ($790 thousand).

15. Research and Development Expenses

Research and development expenses of the Companies for the years ended March 31, 2007, 2008 and 2009 were ¥17,390 million, ¥19,118 million and ¥21,061 million ($214,405 thousand), respectively, which are included in selling, general and administrative expenses or manufacturing costs.

16. Segment Information

The Companies' business segments are classified into the following four business segments ranked in order of importance: (1) elastomers business (2) emulsions business, (3) plastics business, and (4) fine chemicals and other products business.

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, impairment loss and capital expenditures by segment of business activities for the years ended March 31, 2007, 2008 and 2009 was as follows:

	Millions of Yen						
	Elastomers	Emulsions	Plastics	Fine chemicals and other products	Total	Elimination and/or corporate	Consolidated
For 2007:							
Sales to outside customers	¥ 116,250	¥ 24,362	¥ 64,614	¥ 160,605	¥ 365,831	¥ —	¥ 365,831
Inter-segment sales/transfers	536	3,576	—	12,966	17,078	(17,078)	—
Costs and expenses	104,417	26,161	60,749	132,839	324,166	(13,578)	310,588
Operating income	¥ 12,369	¥ 1,777	¥ 3,865	¥ 40,732	¥ 58,743	¥ (3,500)	¥ 55,243
Identifiable assets	¥ 129,896	¥ 25,031	¥ 35,200	¥ 147,999	¥ 338,126	¥ 70,823	¥ 408,949
Depreciation and amortization	4,357	1,381	1,523	10,042	17,303	830	18,133
Capital expenditures	5,916	1,625	1,257	12,382	21,180	914	22,094
For 2008:							
Sales to outside customers	¥ 128,953	¥ 26,994	¥ 68,845	¥ 182,176	¥ 406,968	¥ —	¥ 406,968
Inter-segment sales/transfers	537	4,300	—	15,358	20,195	(20,195)	—
Costs and expenses	118,322	29,752	65,832	153,247	367,153	(20,195)	346,958
Operating income	¥ 11,168	¥ 1,542	¥ 3,013	¥ 44,287	¥ 60,010	¥ —	¥ 60,010
Identifiable assets	¥ 130,586	¥ 24,861	¥ 34,375	¥ 160,524	¥ 350,346	¥ 66,605	¥ 416,951
Depreciation and amortization	5,075	1,501	1,546	13,058	21,180	—	21,180
Capital expenditures	7,185	1,226	1,835	18,831	29,077	—	29,077
For 2009:							
Sales to outside customers	¥ 117,856	¥ 23,433	¥ 64,829	¥ 146,385	¥ 352,503	¥ —	¥ 352,503
Inter-segment sales/transfers	522	4,180	—	16,931	21,633	(21,633)	—
Costs and expenses	110,351	27,096	63,521	142,820	343,788	(21,633)	322,155
Operating income	¥ 8,027	¥ 517	¥ 1,308	¥ 20,496	¥ 30,348	¥ —	¥ 30,348
Identifiable assets	¥ 120,322	¥ 19,313	¥ 30,145	¥ 131,341	¥ 301,121	¥ 38,377	¥ 339,498
Depreciation and amortization	6,001	1,787	1,619	15,426	24,833	—	24,833
Impairment loss	—	—	598	5,444	6,042	—	6,042
Capital expenditures	6,205	2,039	1,640	9,198	19,082	—	19,802

	Thousands of U.S. dollars						
For 2009:							
Sales to outside customers	$ 1,199,791	$ 238,552	$ 659,976	$ 1,490,228	$ 3,588,547	$ —	$ 3,588,547
Inter-segment sales/transfers	5,313	42,554	—	172,364	220,231	(220,231)	—
Costs and expenses	1,123,391	275,847	646,658	1,453,938	3,499,834	(220,231)	3,279,603
Operating income	$ 81,713	$ 5,259	$ 13,318	$ 208,654	$ 308,944	$ —	$ 308,944
Identifiable assets	$ 1,224,900	$ 196,610	$ 306,877	$ 1,337,080	$ 3,065,467	$ 390,685	$ 3,456,152
Depreciation and amortization	61,090	18,192	16,482	157,042	252,806	—	252,806
Impairment loss	—	—	6,090	55,422	61,512	—	61,512
Capital expenditures	63,168	20,761	16,689	93,636	194,254	—	194,254

Costs and expenses in elimination and/or corporate that cannot be allocated to business segments are related mainly to fundamental research and development. Assets in elimination and/or corporate are related mainly to Cash, Marketable Securities and Investment Securities of the Company. Capital expenditures are recognized on an accrual basis.

Effective from the year ended March 31, 2008, fundamental research and development costs previously reflected as Costs and expenses in elimination and/or corporate have been involved in Costs and expenses in Fine chemicals and other products, as a result of research and development activities. Those of the Companies for the years ended March 31, 2007 were ¥3,500 million.

As noted in Note 2. (e) (i) , effective April 1,2008, the Company and its domestic consolidated subsidiaries adopt the "Accounting Standards for Measurement of Inventories" (Statement No. 9, by ASBJ ,on July 5, 2006), and use the value method to devaluate a book value to reflect the lower profitability. As a result of this change, the operating income decreased ¥1,102 million ($11,214 thousand) in Elastomers segment, ¥17 million ($171 thousand) in Emulsions segment, ¥57 million ($583 thousand) in Plastics segment and ¥1,683 million ($17,138 thousand) in Fine chemicals and other products segment.

As noted in Note 2. (f) (i), effective April 1,2007, the Company and its domestic consolidated subsidiaries changed depreciation method. As a result of this change, depreciation expenses increased ¥178 million in Elastomers segment, ¥41 million in Emulsions segment, ¥51 million in Plastics segment and ¥581 million in Fine chemicals and other products segment.

Also, effective from the year ended March 31, 2008, the property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year. As a result of this change, depreciation expenses increased ¥889 million in Elastomers segment, ¥252 million in Emulsions segment, ¥60 million in Plastics segment and ¥180 million in Fine chemicals and other products segment.

Geographic segment information with respect to net sales, costs and expenses, operating income, and identifiable assets for the years ended March 31, 2007, 2008 and 2009 was as follows:

	Millions of Yen					
	Japan	Asia	Others	Total	Elimination and/or Corporate	Consolidated
For 2007:						
Sales to outside customers	¥ 308,459	¥ 36,447	¥ 20,925	¥ 365,831	¥ —	¥ 365,831
Inter-segment sales/transfers	31,583	1,181	788	33,552	(33,552)	—
Costs and expenses	287,357	35,366	17,917	340,640	(30,052)	310,588
Operating income	¥ 52,685	¥ 2,262	¥ 3,796	¥ 58,743	¥ (3,500)	¥ 55,243
Identifiable assets	¥ 299,981	¥ 18,425	¥ 19,721	¥ 338,127	¥ 70,822	¥ 408,949
For 2008:						
Sales to outside customers	¥ 308,758	¥ 74,552	¥ 23,658	¥ 406,968	¥ —	¥ 406,968
Inter-segment sales/transfers	64,878	67	4,423	69,368	(69,368)	—
Costs and expenses	319,680	70,236	26,410	416,326	(69,368)	346,958
Operating income	¥ 53,956	¥ 4,383	¥ 1,671	¥ 60,010	¥ —	¥ 60,010
Identifiable assets	¥ 296,347	¥ 34,874	¥ 19,125	¥ 350,346	¥ 66,605	¥ 416,951
For 2009:						
Sales to outside customers	¥ 262,324	¥ 71,655	¥ 18,524	¥ 352,503	¥ —	¥ 352,503
Inter-segment sales/transfers	54,040	72	4,600	58,712	(58,712)	—
Costs and expenses	291,227	67,939	21,701	380,867	(58,712)	322,155
Operating income	¥ 25,137	¥ 3,788	¥ 1,423	¥ 30,348	¥ —	¥ 30,348
Identifiable assets	¥ 257,380	¥ 28,222	¥ 15,519	¥ 301,121	¥ 38,377	¥ 339,498

	Thousands of U.S. dollars					
For 2009:						
Sales to outside customers	$2,670,512	$ 729,460	$ 188,575	$3,588,547	$ —	$3,588,547
Inter-segment sales/transfers	550,131	737	46,830	597,698	(597,698)	—
Costs and expenses	2,964,746	691,632	220,923	3,877,301	(597,698)	3,279,603
Operating income	$ 255,897	$ 38,565	$ 14,482	$ 308,944	$ —	$ 308,944
Identifiable assets	$2,620,177	$ 287,309	$ 157,981	$3,065,467	$ 390,685	$3,456,152

The geographical segments consist of Japan, Asia and Others. Effective from the year ended March 31, 2008, the region previously reflected as Others has been divided into Asia and Others, considering the materiality of the sales of Asia. Main countries and regions included in each geographical segment were as follows;

Asia : China, Korea, Taiwan, Thailand

Others : United States, Belgium

Overseas sales for the years ended March 31, 2007, 2008 and 2009 were as follows:

	Millions of Yen			
	Asia	North America	Others	Total
For 2007:				
Overseas sales	¥ 111,431	¥ 14,089	¥ 15,152	¥ 140,672
Consolidated net sales	—	—	—	365,831
Percentage of overseas sales to consolidated sales	30.5%	3.9%	4.1%	38.5%
For 2008:				
Overseas sales	¥ 133,837	¥ 15,864	¥ 16,689	¥ 166,390
Consolidated net sales	—	—	—	406,968
Percentage of overseas sales to consolidated sales	32.9%	3.9%	4.1%	40.9%
For 2009:				
Overseas sales	¥ 117,657	¥ 12,078	¥ 13,811	¥ 143,546
Consolidated net sales	—	—	—	352,503
Percentage of overseas sales to consolidated sales	33.4%	3.4%	3.9%	40.7%

	Thousands of U.S. dollars			
For 2009:				
Overseas sales	$ 1,197,772	$ 122,955	$ 140,601	$ 1,461,328
Consolidated net sales	—	—	—	3,588,547

Overseas sales are segmented into Asia, North America and Others. Main countries and regions included in each segment were as follows;

Asia : China, Korea, Taiwan, Thailand, Singapore

North America : United States

Others : Europe

17. Related Parties

Significant transactions and balances with related parties as of and for the years ended March 31, 2007, 2008 and 2009 were as follows:

	Millions of Yen			Thousands of U.S. dollars
	2007	2008	2009	2009
BRIDGESTONE Corporation (a major shareholder):				
Sales	¥ 36,542	¥ 38,878	¥ 38,663	$ 393,597
Notes and accounts receivable	16,180	12,855	9,157	93,225
KRATON JSR Elastomers K.K. (an affiliated company):				
Purchases	10,650	12,117	10,867	110,633
Notes and accounts payable	5,613	5,435	4,219	42,954
Provision of materials for processing	5,604	—	—	—
Accounts receivable — other	3,273	—	—	—
JM Energy Corporation (an affiliated company):				
Loans	—	—	3,000	30,541
Loans receivable	—	—	3,000	30,541
Tobu Butadiene Co., Ltd. (an affiliated company):				
Purchases	12,419	13,632	—	—
Notes and accounts payable	5,953	6,507	—	—
Provision of materials for processing	10,196	11,642	—	—
Accounts receivable — other	5,077	5,327	—	—

18. Subsequent Events

At the June 16, 2009 annual meeting, the Companys shareholders approved the following appropriations of retained earnings: Payment of a year-end cash dividend of ¥16.00 per share aggregating ¥3,908 million ($39,782 thousand).

Independent Auditors' Report

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of
JSR Corporation

We have audited the accompanying consolidated balance sheets of JSR Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JSR Corporation and subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

(KPMG AZSA & Co.) KPMG AZSA & Co.
Tokyo, Japan
June 16, 2009

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Company Network

HEAD OFFICE

JSR Corporation : 1-9-2, Higashi-Shinbashi, Minato-ku, Tokyo 105-8640, Japan

BRANCH OFFICES

Nagoya Branch, Wallisellen Branch, Shanghai Office, Taiwan Office, Singapore Office

PLANTS

Yokkaichi Plant : 100 Kawajiri-cho Yokkaichi, Mie 510-8552, Japan
Chiba Plant : 5, Chigusakaigan, Ichihara, Chiba 229-0108, Japan
Kashima Plant : 34-1, Tohwada, Kamisu, Ibaraki 314-0102 Japan

Business Segment / Company Name / Purpose of Enterprise

*Equity method affiliate

Fine Chemicals Business

JSR MICROTECH INC.
Production and sales of printed circuit boards and IC testing fixtures.

D-MEC LTD.
Commissioned generation of 3D models, sales of solid modeling systems and optically-hardened resins, and commissioned analysis by CAE.

JSR Micro Kyushu Co., Ltd.
Production of photoresists for semiconductors and materials for flat panel displays.

JSR Optech Tsukuba Co., Ltd.
Production of UV curing type optical fiber coating materials.

JAPAN FINE COATINGS Co., Ltd.*
Sales of coating materials for fiber-optic cables reinforced by ultraviolet or electron radiation and for other apparatus.

JSR Micro N.V.
Production and sales of semiconductor materials.

JSR Micro, Inc.
Production and sales of semiconductor materials.

JSR Micro Korea Co., Ltd.
Design, development, production and sales of materials for flat panel displays and others.

JSR Micro Taiwan Co., Ltd.
Design, development, production and sales of materials for flat panel displays.

JM Energy Corporation
Design, development, product and sales of lithium ion capacitors.

Tri Chemical Laboratories, Inc.*
Production and sales of precursors for semiconductors, optical fiber and compound semiconductor and others.

Business in Other Fields

JSR Trading CO., LTD.
Exports and Imports, purchase and Sales of the following: Various chemicals, machinery, equipment, physical distribution materials, living necessaries, foodstuffs, beverages, real estate.

JSR LOGISTICS CO., LTD.
Freight forwarding, warehousing, delivery management.

JSR ENGINEERING CO., LTD.
Engineering and consultation for chemical engineering equipment.

JSR Business Service Co., Ltd.
Non-life insurance agency, purchase, sales and leasing of real estate, undertak ing of financing, payroll accounting calculation. Development and sales of computer software and hardware.

Nichigo Kogyo Co., Ltd.
Product packaging, undertaking of civil engineering & general construction.

Elastomers Business

Kyushu Gomu Kako Co., Ltd.
Compounding of crude rubber and sales of compounded products.

ELASTOMIX CO., LTD.
Compounding of crude rubber and sales of compounded products.

Japan Butyl Co., Ltd.*
Production and sales of butyl rubber.

KRATON JSR ELASTOMERS K.K.*
Production, purchase, and sales of thermoplastic rubber.

JSR AMERICA, INC.
Sales of synthetic rubber.

Kumho Polychem Co., Ltd.*
Production and sales of EPR.

ELASTOMIX (THAILAND) CO., LTD.
Compounding of crude rubber and sales of compounded products.

ELASTOMIX (FOSHAN) CO., LTD.
Compounding of crude rubber and sales of compounded products.

Tianjin Kuo Cheng Rubber Industry Co., Ltd.*
Compounding of crude rubber and sales of compounded products.

Emulsions Business

Emulsion Technology Co., Ltd.
Compounding and sales of crude latex.

Plastics Business

JAPAN COLORING CO., LTD.
Coloring of synthetic resin and sales of colored products.

Techno Polymer Co., Ltd.
Production, sales and R&D of ABS resin.

TECHNO POLYMER HONG KONG CO., LTD.
Sales and technical services of synthetic resin in Hong Kong and neighboring regions.

Techno Polymer (Thailand) Co., Ltd.
Sales and technical services of synthetic resin in ASEAN region.

Techno Polymer (Shanghai) Co., Ltd.
Sales and technical services of synthetic resin in China.

TECHNO POLYMER AMERICA, INC.
Sales of plastics, technical services related to plastics in North America.

Shanghai Rainbow Color Plastics Co., Ltd.
Coloring of synthetic resin and sales of colored products.

Corporate Data

(As of June 16, 2009)

Directors and Corporate Auditors

Yoshinori Yoshida
Representative Director and Chairman

Mitsunobu Koshiba
Representative Director and President, Management, Strategic Businesses

Tsugio Haruki
Executive Managing Director, CSR, Accounting, Finance, Corporate Communications

Seiichi Hasegawa
Executive Managing Director, Procurement, Logistics, Group Companies Coordination, Information Technology

Masaki Hirose
Managing Director, Corporate Planning, Human Resources Development, General Affairs and Legal

Hozumi Sato
Managing Director, Research & Development, Precision Process Technologies

Yasuki Sajima
Managing Director, Fine Chemicals Sector

Kouichi Kawasaki
Director and Senior Officer, Petrochemicals Sector (including Plastics), Safety Environment Affairs

Hisao Hasegawa
Director and Senior Officer, Manufacturing and Technology, Product Safety & Quality Assurance

Yoshio Tamaki
Corporate Auditor (Full-time)

Nobuo Bessho
Corporate Auditor (Full-time)

Kenji Ito
Corporate Auditor

Hiroichi Uekusa
Corporate Auditor

Nobuko Kato
Corporate Auditor

Officers

Toshiyuki Fujimoto
Senior Officer, Vice President of JSR Trading Co., Ltd.

Atsushi Kumano
Senior Officer, General Manager of Yokkaichi Research Center and Display Materials Research Lab.

Shin-ichiro Iwanaga
Senior Officer, General Manager of Tsukuba Research Lab.

Yasuhisa Nagahiro
Senior Officer, Yokkaichi Plant Manager

Yoshiyuki Ohashi
Officer, President of JSR Micro Taiwan Co., Ltd.

Takashi Wakabayashi
Officer, General Manager of Fine Chemicals Business Planning Department

Tatsushi Kawai
Officer, Vice President of Kumho Polychem Co., Ltd.

Takashi Ukachi
Officer, President of Japan Fine Coatings Co., Ltd. and JSR Optech Tsukuba Co., Ltd.

Nobuo Kawahashi
Officer, General Manager of Electronic Materials Division

Takatoshi Nagatomo
Officer, Deputy General Manager of Petorochemical Products Division

Company Name
JSR Corporation

Established
December 10, 1957

Capital
¥23,320,165,484

Employees
5,256 (As of March 31, 2009)

Main Products (Businesses)

<Petrochemicals>

Elastomers:
General-purpose synthetic rubber, special-purpose synthetic rubber, thermoplastic elastomers, and others

Emulsions:
Paper coating latex, general-purpose latex

Plastics:
ABS, AES, AS, ASA plastics

<Fine Chemicals and Other Products>

Semiconductor Materials:
Photoresists, CMP materials, packaging and assembly materials, antireflective coating materials

Display Materials:
Color LCD materials, PDP materials

Optical Materials:
Optical fiber coating materials, functional coating materials, antireflection treatment, heat-resistant transparent resin and film

Performance Chemicals:
Functional materials, industrial particles, particles for application in clinical diagnosis

Closing Date
JSR's books are closed on March 31 each year.

Regular General Meeting
The regular general meeting of shareholders is held in June each year. The 2009 regular general meeting was held on June 16.

Transfer Agent and Register
The Chuo Mitsui Trust and Banking Co., Ltd.

Auditors
KPMG AZSA & Co.

Home Page
URL http://www.jsr.co.jp/jsr_e/index.html

Investor Information

(As of March 31, 2009)

Number of Shares Issued

255,885,166 shares

Number of Shareholders

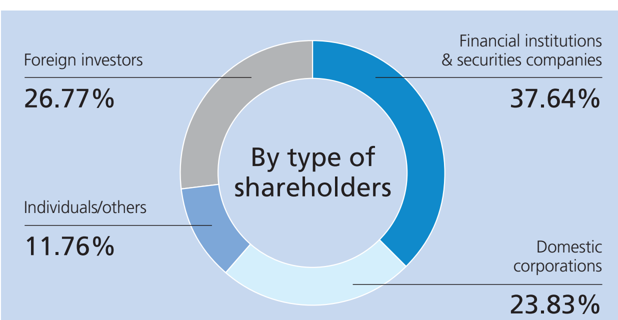
25,491

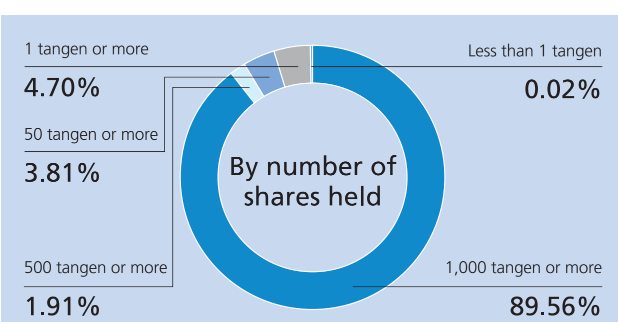
Major Shareholders

Name	Percentage of shares held (%)	Number of shares held (thousands)
Bridgestone Corporation	15.97	40,866
Japan Trustee Services Bank, Ltd. (Trust Account)	4.40	11,280
Japan Trustee Services Bank, Ltd. (Trust Account 4)	4.40	11,278
The Master Trust Bank of Japan, Ltd. (Number of Retirement Allowance Trust Shares of Mitsubishi Chemical Corporation)	3.86	9,888
The Master Trust Bank of Japan, Ltd. (Trust Account)	3.61	9,247
Mizuho Corporate Bank, Ltd.	3.48	8,925
Nippon Life Insurance Company	2.34	5,998
The Chase Manhattan Bank 385036	1.91	4,897
Meiji Yasuda Life Insurance Company	1.57	4,034
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	1.50	3,842

Composition of Shareholders

Shareholders by category	Number	Shares held (thousands)
Individuals and Others	22,974	26,207
Foreign Corporation and Individuals	364	72,387
Other Corporations	344	61,357
Financial Institutions	139	93,493
Securities Companies	57	2,440
Total	23,878	255,885





Common Stock Price Range

(Tokyo Stock Exchange)

		1st quarter	2nd quarter	3rd quarter	4th quarter
FY2002	High	1,005	945	910	963
	Low	685	599	650	815
FY2003	High	1,135	1,033	1,238	1,282
	Low	856	780	900	1,109
FY2004	High	1,477	2,080	2,540	2,435
	Low	1,141	1,429	1,795	2,055
FY2005	High	2,520	2,180	2,265	2,255
	Low	1,892	1,655	1,790	2,040
FY2006	High	2,395	2,635	3,150	3,810
	Low	2,000	2,175	2,370	3,040
FY2007	High	3,710	2,930	3,170	3,240
	Low	2,535	2,280	2,505	2,530
FY2008	High	2,985	3,120	3,020	2,875
	Low	2,540	2,445	2,465	1,886
FY2009	**High**	**2,460**	**2,180**	**1,397**	**1,312**
	Low	**2,000**	**1,246**	**795**	**990**

Securities Traded Common Stock

Tokyo Stock Exchange
Osaka Securities Exchange

Monthly Stock Price

JSR Corporation

Shiodome Sumitomo Bldg.
1-9-2 Higashi-Shinbashi, Minato-ku, Tokyo
105-8640, Japan
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Facsimile:03-6218-3684

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