Annual Report 2007

Fiscal Year Ended March 31, 2007

JSR CORPORATION Annual Report 2007

JSR Corporation

PROFILE

JSR Corporation, which was Japan Synthetic Rubber Co., Ltd.
until 1997 when the company celebrated its 40th anniversary,
has a clear policy of achieving an innovation-driven transformation on its own.
The aim is the formulation of a business strategy able to meet projected
market trends in the 21st century.
Since its establishment in December 1957,
JSR has been expanding its businesses and building sound management systems.
As a result, JSR has grown to rank among the leading manufacturers of synthetic rubber,
emulsions and plastics. Recently, JSR has entered the rapidly growing information and
electronics industries by applying its polymer technology for opto-electronic materials.
JSR is supplying many types of information electronics materials,
a product category where the company has a high market share.
The renewed JSR will continue to take on new challenges to realize its full potential,
seeking advanced semiconductor materials, display materials, optical materials, and
environment & energy- and medical care-related materials
that will drive progress in the 21st century.

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.

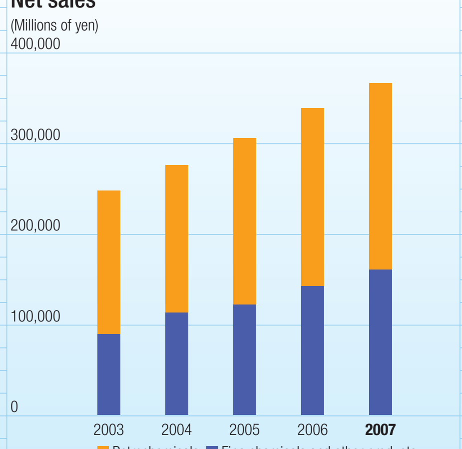
SIX-YEAR SUMMARY

JSR Corporation
Year ended March 31

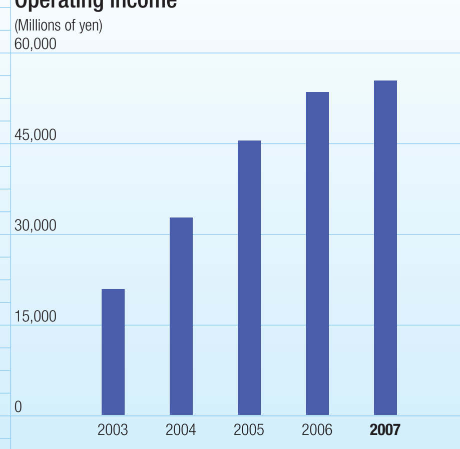
	Millions of yen						Thousands of U.S. dollars
	2002	2003	2004	2005	2006	**2007**	**2007**
Results for the year							
Net sales	¥220,058	¥247,139	¥275,071	¥305,368	¥338,160	**¥365,831**	**$3,098,951**
Costs and expenses	211,246	226,345	242,452	260,035	284,803	**310,588**	**2,630,988**
Operating income	8,812	20,794	32,619	45,333	53,357	**55,243**	**467,963**
Interest and dividend income	411	431	397	519	635	**1,030**	**8,728**
Interest expenses	(757)	(750)	(693)	(475)	(420)	**(399)**	**(3,376)**
Income before income taxes and minority interests	7,915	17,855	30,378	43,471	49,038	**53,440**	**452,693**
Net income	4,728	10,991	19,353	27,564	30,555	**33,655**	**285,088**
Capital expenditures	13,265	16,048	17,156	18,134	23,361	**22,094**	**187,155**
Depreciation	16,507	16,489	14,970	15,245	16,206	**18,133**	**153,608**
Year-end financial position							
Total assets	270,054	281,874	308,581	325,031	381,097	**408,949**	**3,464,203**
Long-term debt due after one year	22,934	24,208	13,920	13,857	1,607	**2,745**	**23,254**
Total liabilities	135,477	139,682	146,280	139,249	164,389	**168,963**	**1,431,281**
Equity	131,752	139,447	159,497	182,476	212,751	**235,186**	**1,992,263**
Current ratio (times)	1.46	1.59	1.63	1.82	1.67	**1.75**	
Return on assets (%)	1.8	3.9	6.3	8.7	8.7	**8.2**	
Return on equity (%)	3.6	7.9	12.9	16.1	15.5	**15.0**	
Equity ratio (%)	48.8	49.5	51.7	56.1	55.8	**57.5**	
Per share of common stock (yen and U.S. dollars)							
Net income	18.48	42.46	75.12	107.54	119.63	**133.10**	**1.13**
Cash dividends	6.00	7.00	9.00	14.00	20.00	**24.00**	**0.20**
Equity	514.93	544.94	623.14	717.13	836.31	**932.47**	**7.90**

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118.05=$1, the exchange rate prevailing at March 31, 2007.

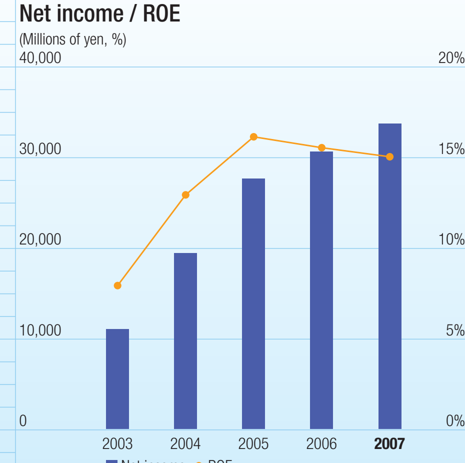
Net sales



Operating income



Net income / ROE



TO OUR SHAREHOLDERS

YOSHINORI YOSHIDA, Ph.D.
Representative Director and President

OPERATING ENVIRONMENT AND REVIEW OF BUSINESS RESULTS

In the past fiscal year, the steep rise in the price of crude oil and slowing growth in consumer spending were areas of concern. However, thanks to increased capital investment, an improved job market and wages, and other factors, the economy achieved moderate growth.

Against this backdrop, we viewed the past fiscal year, the final year of "JSRevolution II," as a critical period leading to our next medium-term business plan. With this recognition, we focused on addressing priority issues. In our petrochemicals operations, we made concerted efforts to increase sales and to raise prices to improve margins amid a difficult environment where the price of major raw materials increased sharply. Our goal was to stabilize earnings in these operations. In our fine chemicals and other products segment, which is centered on information electronics materials, we continued to launch cutting-edge materials based on our proprietary technology as we worked to enhance our presence in the global marketplace. In addition, the entire JSR Group implemented the Cost Revolution for Growth-II (CRG-II) cost-reduction project to improve earnings.

As a result, we recorded higher sales and earnings. Consolidated net sales increased 8.2% year-on-year to ¥365.8 billion, operating income was up 3.5% to ¥55.2 billion, ordinary income rose 3.3% to ¥54.7 billion, and net income increased 10.1% to ¥33.6 billion.

DIVIDENDS

We increased the interim dividend by ¥2 per share to ¥12, and based on this year's performance, we plan to pay a year-end dividend of ¥12 per share, also up ¥2. This would translate into a dividend of ¥24 per share applicable to fiscal 2007, ¥4 higher than the previous fiscal year.

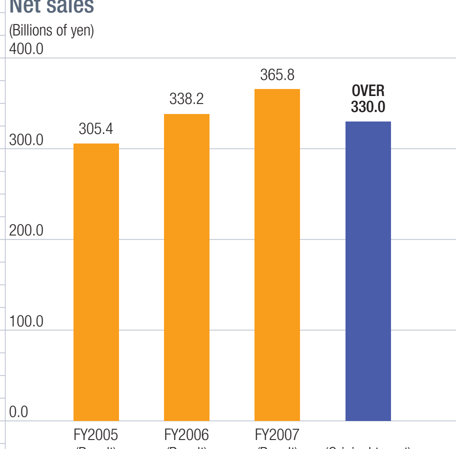
OVERVIEW OF JSRevolution II

"JSRevolution II" was launched in fiscal 2005 and was designed to accelerate growth in the fine chemicals and other products segment and to generate consistent earnings in the petrochemicals operations, as well as lay the foundations for next-stage growth businesses.

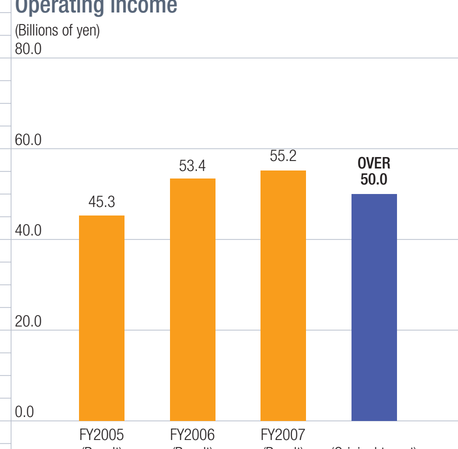
The main industries served by JSR experienced generally healthy growth in volume terms during this business plan. However, we were also confronted with a business environment that was far more challenging than we had anticipated at the outset of this three-year journey. Surging prices of raw materials was just one of the challenges we faced.

JSRevolution II – Review of Achievements

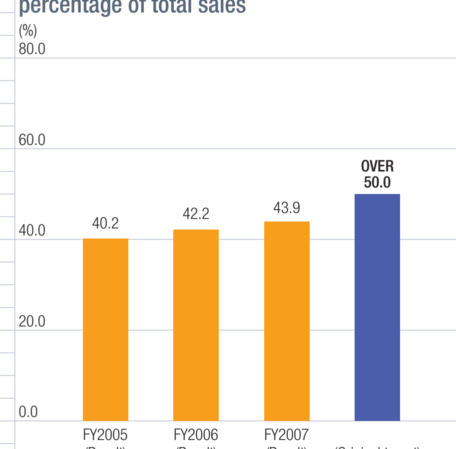
Net sales



Operating income



Fine chemicals and other products as a percentage of total sales



We responded to this difficult operating environment by tackling a number of key themes in each of our businesses. These efforts lifted net sales, operating income and ROE higher than our initial targets.

Although the fine chemicals and other products segment accounted for a lower share of sales than planned, this was mainly attributable to sales in petrochemicals operations eclipsing our plan due to sales price increases.

NEXT-STAGE GROWTH BUSINESSES UNDER JSRevolution II

We have continued to channel resources to the next-stage growth business.

In the precision processing business, we have begun volume production of retardation film at our own facilities, as well as made progress in making viable businesses out of new film products. These include protective films, near-infrared cut filters and ITO films.

In the environment & energy field, we pushed ahead with the development of automotive and mobile device applications for electrolyte membranes for fuel cells. We chalked up a number of achievements in turning this product into a viable business.

While we didn't achieve what we set out to with respect to the optical materials business and some next-stage growth businesses, we generally achieved our initial performance targets under "JSRevolution II".

OUTLOOK AND INITIATIVES

Japan's economy is expected to continue on a moderate recovery course, but with further increases in crude oil prices and concerns of a slowdown in the U.S. economy, we expect the business environment to remain challenging and unpredictable.

In response to this environment—and having achieved most of the initial targets of "JSRevolution II"—we have decided to launch a new medium-term business plan, "JUMP2010." This plan will cover the four-year period from fiscal 2008 to fiscal 2011. In our petrochemicals operations, we aim to generate earnings by raising the share of sales derived from value-added products and by increasing total sales. Even more intense competition is likely in our fine chemicals and other products segment. We therefore plan to increase earnings in this segment by continuing to deploy resources to growing markets and aggressively expanding sales in Japan and overseas. Initiatives for next-stage growth businesses will include establishing a business platform for precision processing and launching a number of environment & energy and healthcare-related businesses.

We will implement the "E-100" (Efficiency 100%) cost-reduction project to increase our competitiveness further as we make efforts to raise the earnings of the JSR Group and strengthen our operations.

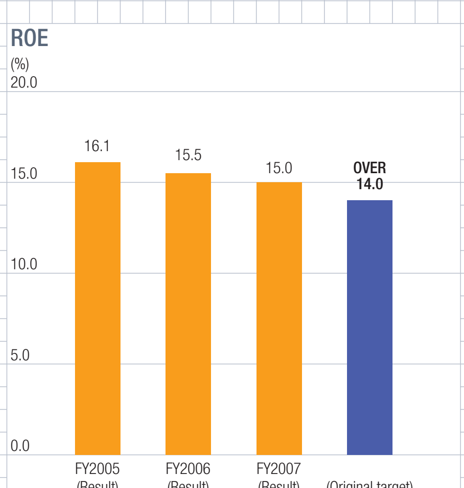
Our new medium-term business plan is discussed in more detail in the feature section of this annual report.

In addition to strengthening JSR Group management systems, we will fulfill our social responsibilities by conducting Responsible Care activities and adhering to the highest standards for corporate ethics. We intend to put forth a collective effort to become the company we are striving to be in 2010.

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

June 2007

YOSHINORI YOSHIDA, Ph.D.
Representative Director and President



JUMP2010
JSR Medium-term Business Plan

POSITIONING OF JUMP2010

Q: JSR launched a new medium-term business plan on April 1, 2007. How does it relate to the previous business plan?

A: "JUMP2010", as we call the new business plan, covers the 4-year period from April 1, 2007 through March 31, 2011. As the name suggests, this plan is positioned as the "jump" phase of a hop, step and jump process.

Through the end of fiscal 2007, we concentrated on changing the structure of businesses, increasing earnings in existing businesses and paving the way for next-stage growth businesses. "JUMP2010" will see us target further growth in the fine chemicals and other products segment, and increase earnings in petrochemicals operations. We will also create new products in next-stage growth businesses and the fine chemicals and other products segment. This is a period during which we aim to continue growing as an advanced chemical company as we pave the way for achieving longer-term goals we have set for 2015.

2015 VISION

Q: What is that vision for 2015, as laid out in the new medium-term business plan?

A: We have set goals for 2015 in terms of technologies and business domains.

JSR made its start in the elastomer business in petrochemicals operations. Today, our operations extend around the world and are based on superior materials and technologies in diverse business fields including information and electronics.

By 2015, we will have evolved even more. Our aim is to develop new materials and technologies to augment existing ones as well as conduct businesses in a whole range of next-generation fields harboring exciting growth prospects, such as semiconductor materials, display materials, optical materials, environment & energy and healthcare-related businesses.

JUMP2010 (FY2007-FY2011)

- **Further accelerate growth of fine chemicals and other businesses**
- **Increase earnings of the petrochemicals business**
- **Launch new products in next-stage growth businesses, and fine chemicals and other products**

	FY2007 (Result)	FY2011 (Target)	FY2007-FY2011 CAGR
Net Sales (Billions of yen)	365.8	Over 500.0	Over 8%
Operating Income (Billions of yen)	55.2	Over 75.0	Over 8%
Operating Margin (%)	15.1%	Over 15%	—
ROE (%)	15.0%	Over 14%	—

JUMP2010 NUMERICAL TARGETS

Q: What are the numerical targets of "JUMP2010"?

A: In fiscal 2011, the final year of this plan, we are targeting consolidated net sales of ¥500 billion, an operating margin of 15% and ROE of 14%. We will achieve these targets by expanding existing businesses and launching new ones.

BUSINESS STRATEGY (PETROCHEMICALS BUSINESS)

Q: JSR's overall goals for JUMP2010 are clear, but what are your specific strategies for achieving them? Please outline your strategies and targets for the petrochemicals operations.

A: In petrochemical operations—elastomers, emulsions and plastics—our basic strategy is to increase earnings by concentrating on value-added products. Improving productivity, lowering costs and in terms of our targets for these operations, we aim to achieve average annual growth over the 4 years of the plan, from fiscal 2008 through fiscal 2011, 3% in net sales and 3% in operating income.

BUSINESS STRATEGY (FINE CHEMICALS AND OTHER PRODUCTS BUSINESS)

Q: How about the fine chemicals and other products business, which includes information electronics materials?

A: The fine chemicals and other products segment is centered on the semiconductor materials, flat panel display (FPD) materials, and optical materials businesses. Our basic strategy is to maintain and increase earnings through ongoing efforts to cut variable costs and other expenses and by expanding the scale of our businesses based on higher sales of existing materials and the development of new materials.

In this segment, we aim to deliver annual growth in sales of at least 14% over the 4-year plan period. We also have a goal for the share of sales within our product portfolio for fiscal 2011: semiconductor materials (approx. 40%), FPD materials (approx. 35%), optical materials (over 10%) and other products (over 10%). On the profit front, we are aiming for at least 10% annual growth in operating income.

(SEMICONDUCTOR MATERIALS)

Q: The fine chemicals and other products segment will support increased earnings. What are your basic strategies and growth targets in each of your three main businesses—semiconductor materials, FPD materials and optical materials?

A: In regards to semiconductor materials, we plan to increase sales in existing products and aggressively develop new products to further expand this business.

The semiconductor market is expected to achieve mid-single-digit growth on average through 2010. However, we are targeting an average annual growth rate of 20% in our semiconductor materials business, far in excess of the projected market growth rate. While pursuing this lofty goal, we will work to bring down raw material expenses and other costs. Together, these steps will increase our earnings in this business.

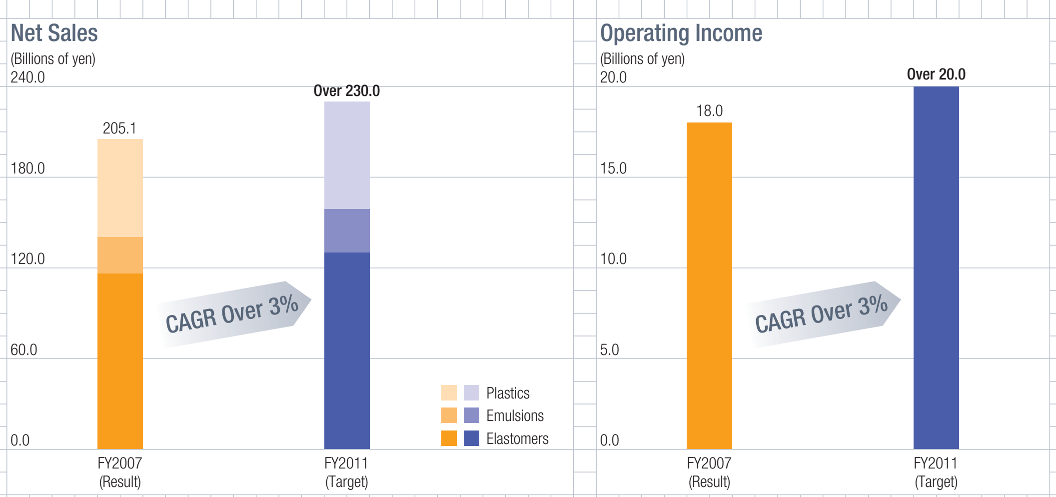
(FPD MATERIALS)

Q: Your plan is to expand the semiconductor materials business significantly. What about FPD materials used in LCD TVs?

A: In FPD materials, our basic strategy is to expand sales and maintain profitability by responding to demands for quality improvements in terms of higher definition and performance of TVs. We will also enhance our ability to compete on price.

With existing materials, including alignment film and color pigmented resists, we will develop and expand sales of distinctive products for high-end TVs and new processes. Regarding new FPD materials for achieving higher definition, we aim to develop viable products as soon as possible with the goal of generating sales of no less than ¥14 billion in fiscal 2011.

Strategic Review of Petrochemicals Business



Taking full advantage of manufacturing sites in South Korea and Taiwan, we will provide timely solutions to customers. Coupled with a relentless drive to reduce variable costs and other expenses, we are determined to maintain profitability in this area.

Our target is for at least 7% average annual growth in FPD materials sales over the period through fiscal 2011.

(OPTICAL MATERIALS)

Q: What about optical materials?

A: This business, which is made up of retardation film and antireflective coating materials for LCDs, optical fiber coating materials and other products, plans to achieve at least 35% average annual growth over the 4 years of "JUMP2010".

Sales of ARTON® retardation film fell appreciably short of plan under our previous business plan. However, we are determined to improve earnings from this film. We will endeavor to develop and expand sales of products for high-end TVs thereby responding to an anticipated increase in LCD panel sizes and higher contrast going forward. At the same time, another approach will be to continue reducing costs.

In respect of new materials, such as protective films, we are aiming for sales of at least ¥6.0 billion in fiscal 2011.

STRATEGY FOR NEXT-STAGE GROWTH BUSINESSES

Q: That covers the strategy for the existing businesses. What is your strategy for next-stage growth businesses in the new medium-term business plan?

A: Under "JUMP2010", our basic strategy is to create multiple core businesses that will expand the Company in the future. These businesses will capture synergies from our superior materials and process technologies. The goal for these businesses is to generate sales of at least ¥20.0 billion in fiscal 2011.

The next-generation materials and process technologies we will develop, combined with our portfolio of existing materials and process technologies, will power our business expansion by meeting customer needs in target markets.

NEXT-STAGE GROWTH BUSINESSES (PRECISION PROCESSING AND ENVIRONMENT & ENERGY)

Q: What are your plans for the precision processing business, which you have been working on since the previous business plan? Equally, what have you got planned for the environment & energy business where you have already had success with electrolyte membranes for fuel cells in automotive applications?

A: In precision processing, we will combine superior materials and sophisticated processing technologies with expertise in providing new functions to develop products with the potential to dominate the market. In this way, we aim to expand our business.

The chart on the next page shows specific product examples. In fields where high market growth is anticipated, we will use precision processing technologies to process superior proprietary materials such as ARTON® and provide such functions as electrical conductivity and ion conductivity to develop competitive products.

Collaboration with customers is a key to develop competitive materials, and by enhancing our relations with leading edge customers, we will continue to develop materials with even higher added value.

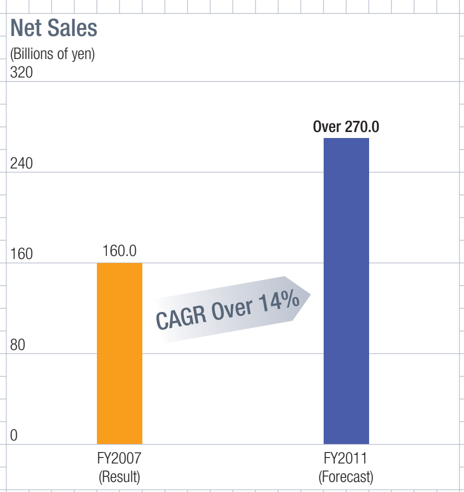
In the environment & energy field, in addition to binders for rechargeable batteries and electrolyte membranes, which we have developed, we aim to develop new rechargeable batteries and capacitor and fuel cell materials.

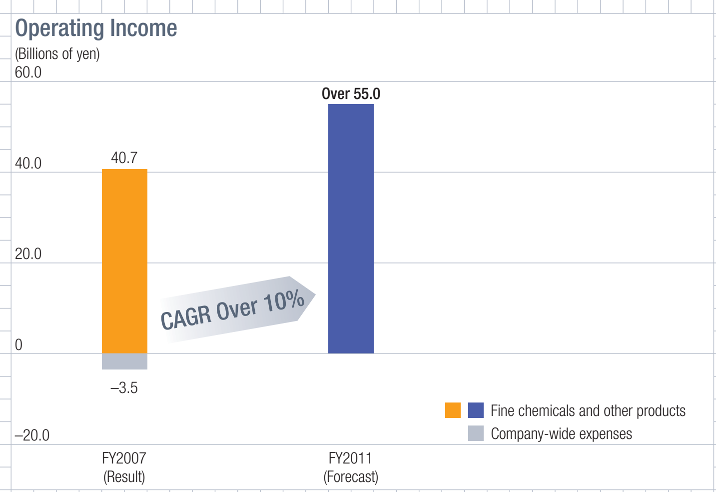
NEW PRODUCT SALES TARGETS

Q: You have positioned new products to drive sales growth in the future. What are your sales targets for new products in terms of existing businesses and next-stage growth businesses under "JUMP2010"?

A: Our plan is to generate sales of at least ¥50.0 billion in fiscal 2011, developing new products in the fine chemicals and other products segment and next-stage growth businesses. Of this

Strategic Review of Fine Chemicals and Other Products Business





amount, semiconductor materials, display materials, and optical materials will account for sales of ¥10.0 billion, ¥14.0 billion and ¥6.0 billion, respectively. Precision processing and environment & energy/medical care-related businesses—next-stage growth businesses—will account for the remaining ¥20.0 billion in targeted sales.

COST-REDUCTION PLAN [E-100]

Q: Cost-reducing is vital for ensuring stable earnings and is an ongoing initiative at JSR. Have you set specific cost-reducing targets in the new medium-term business plan?

A: Our company-wide cost-reducing project during the 3-year period from fiscal 2005 through fiscal 2007 yielded savings of ¥19.7 billion compared with fiscal 2004.

"JUMP2010" seeks to take this a step further, targeting total cost reductions of ¥28.0 billion over 4 years, by looking at cost-reducing from new perspectives. We have set specific targets of ¥6.0 billion and ¥22.0 billion for petrochemicals operations and the fine chemicals and other products segment, respectively. These reductions will help to lift earnings in each business.

RETURNING PROFITS TO SHAREHOLDERS

Q: Please explain your policy for returning profits to shareholders.

A: The company is developing new businesses and taking other actions in order to increase corporate value. At the same time, the return of profits to shareholders is a crucial management issue.

In setting dividends, we take into account the funds needed to support future business expansion. Given that for the time being we will put emphasis on investments for expanding our businesses, our policy will be to pay stable dividends that are set in accordance with growth in our consolidated earnings.

We plan to increase the dividend by ¥4 per share to ¥28 in fiscal 2008. We also plan to repurchase our shares, based on our stock price and other considerations, as part of our policy for returning profits to shareholders.

CONCLUSION

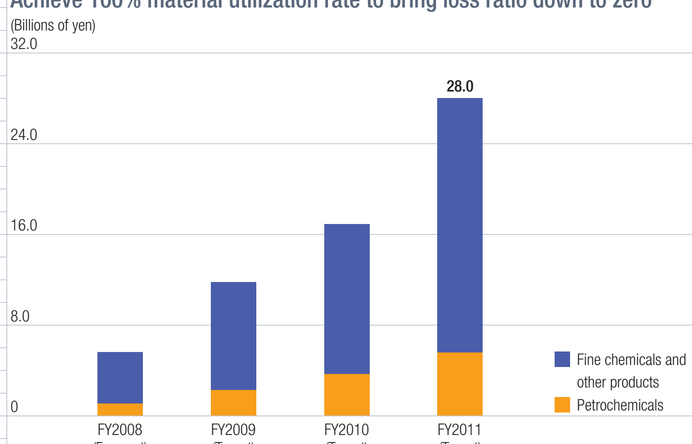
Q: Please summarize your achievements under JSRevolution II and your goals for "JUMP2010".

A: JSR achieved its targets for the previous business plan ahead of schedule, delivering significantly higher sales and earnings by expanding the fine chemicals and other products segment and improving earnings in petrochemicals operations since fiscal 2003.

"JUMP2010" reaches even higher—for net sales and an operating margin of at least ¥500.0 billion and 15%, respectively, in fiscal 2011. Our aim for 2015 is for even more dramatic growth.

Cost-cutting Plan [E-100]

Achieve 100% material utilization rate to bring loss ratio down to zero



Example Products for Next-Stage Growth Businesses

Precision Processing Business

Create new markets and launch diverse new products using JSR's proprietary processes

Products
- Retardation films
- Protective films
- Near-infrared cut filters
- ITO films and other products

Environment & Energy and Healthcare Businesses

Products
- Electrolyte membrane for fuel cells (for cell phones, residential co-generation systems and automobiles)
- Photo-catalyst coating materials (for traffic signs, external wall panels, etc.)
- Biochips and other products

Elastomers

BUSINESS OUTLINE

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. In recent years, JSR has focused on increasing earnings in this business.

MAIN PRODUCTS AND APPLICATIONS

SYNTHETIC RUBBER FOR TIRES: STYRENE-BUTADIENE RUBBER (SBR), POLYBUTADIENE RUBBER (BR), POLYISOPRENE RUBBER (IR)

Applications: Automotive tires

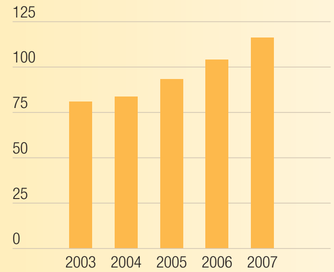
SYNTHETIC RUBBER FOR NON-TIRES: ACRYLONITRILE-BUTADIENE RUBBER (NBR), ETHYLENE-PROPYLENE RUBBER (EPR)

Applications: Automotive parts, industrial rubber parts

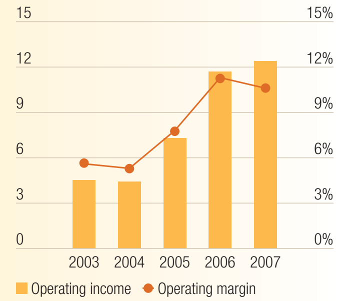
THERMOPLASTIC ELASTOMERS (TPE): BUTADIENE RESIN (RB), STYRENIC THERMOPLASTIC ELASTOMER (SBS, SIS)

Applications: Plastic modifiers, footwear

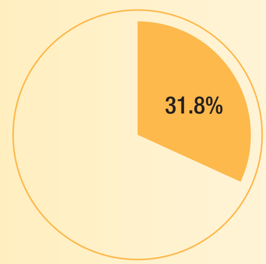
Sales
(Billions of yen)



Operating income/Operating margin
(Billions of yen)



Proportion of sales



JSR's products improve the performance of racing, energy-conserving and many other types of tires.

Emulsions

BUSINESS OUTLINE

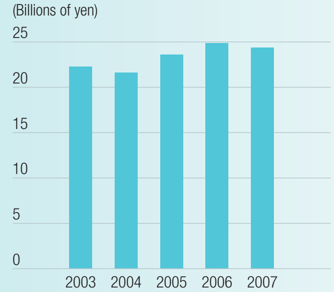
Emulsions are liquids in which synthetic rubber or synthetic resin have been dispersed in water. As demand for these emulsions is stable, JSR is working on improving profitability in this segment.

PRODUCTS AND APPLICATIONS

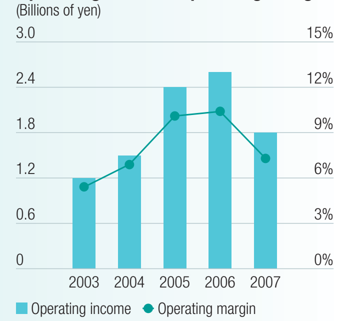
LATEX: PAPER COATING LATEX (PCL), ACRYLIC EMULSION (AE)

Applications: Paper coating, carpet backing, adhesive agents

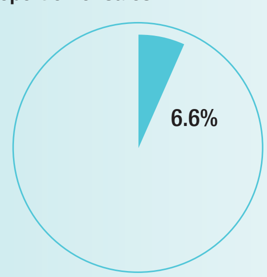
Sales
(Billions of yen)



Operating income/Operating margin
(Billions of yen)



Proportion of sales



Paper coating latex made by JSR is widely used by paper companies to produce coated paper that makes publications more attractive.

Plastics

BUSINESS OUTLINE

The major product in this segment is ABS plastics, a material with well-balanced properties that is used in many applications worldwide. JSR is boosting profitability by shifting emphasis to value-added products.

PRODUCTS AND APPLICATIONS

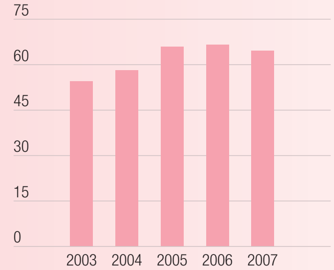
ACRYLONITRILE-BUTADIENE STYRENE (ABS) PLASTICS

Applications: Automotive parts, electrical appliances, office automation equipment

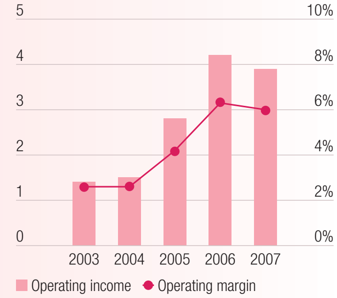
ACRYLONITRILE-ETHYLENE-PROPYLENE-DIENE STYRENE (AES) PLASTICS

Applications: Automotive parts, electrical appliances, house building materials

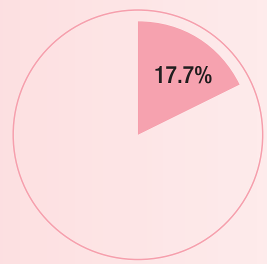
Sales
(Billions of yen)



Operating income/Operating margin
(Billions of yen)



Proportion of sales



Synthetic resins are increasingly being used for automotive parts.

Fine Chemicals and Other Products

BUSINESS OUTLINE

Information electronics materials are the largest component of this segment. Backed by strong demand for semiconductors and flat panel displays, sales of products in this segment are increasing more than in any other segment and driving JSR's earnings growth.

PRODUCTS AND APPLICATIONS

SEMICONDUCTOR MATERIALS: PHOTORESISTS, CHEMICAL MECHANICAL PLANARIZATION (CMP) SLURRY AND PAD, PACKAGING MATERIALS

Applications: Semiconductors

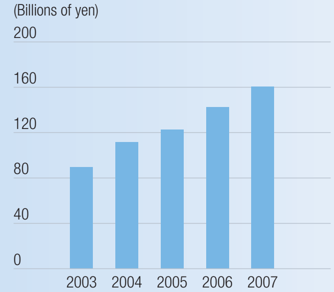
DISPLAY MATERIALS: LIQUID CRYSTAL DISPLAY (LCD) MATERIALS, PLASMA DISPLAY PANEL (PDP) MATERIALS

Applications: Flat panel displays

OPTICAL MATERIALS: OPTICAL FIBER COATING MATERIALS, HEAT RESISTANT TRANSPARENT RESIN (ARTON®)

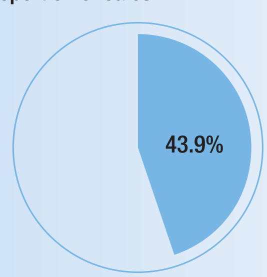
Applications: Optical fiber coating materials, retardation film

Sales
(Billions of yen)



Operating income/Operating margin
(Billions of yen)

Proportion of sales



An LCD television using the ARTON® retardation film.

Elastomers

SYNTHETIC RUBBER

Strong production of automobile tires along with price increases linked to the higher cost of raw materials resulted in a significant year on year increase in sales of general-purpose synthetic rubber in Japan. Sales of special-function rubber such as ethylene propylene rubber (EPR) and nitrile rubber increased owing to higher production of automobiles and price increases.

As a result of efforts to increase sales of solution polymerized SBR (S-SBR), which is used in high-performance tires, both unit volume and the monetary value of sales of synthetic rubber exports increased significantly year on year. Additionally, the monetary value of sales of nitrile rubber and other special-function rubber increased owing to higher production of automobiles and price increases.

TPE

Both volume and monetary sales of thermoplastic elastomers (TPE) increased in Japan over the previous fiscal year on recovery of demand, efforts to increase sales and price increases. Exports of butadiene thermoplastic elastomers were firm due to the recovery of demand. However, while volume decreased as a result of JSR's withdrawal from other unprofitable TPE categories, monetary sales were higher due to price increases.

PRODUCTION

Production of ethylene-propylene rubber (EPR) was consolidated at the Kashima Plant. In addition, JSR also increased annual production capacity to 36,000 tons in June 2006 and raised its equity stake to 50% in Kumho Polychem Co., Ltd. (KPC), a Korean joint venture that manufactures and sells EPR. KPC also plans to raise its annual EPR production capacity to 78,000 tons by August 2007, which will establish the JSR Group as Asia's foremost supplier EPR for rubber applications.

EARNINGS

The entire JSR Group has been implementing the CRG-II Project to reduce costs. However, earnings have been severely impacted by the higher cost of raw materials. In response, JSR has raised prices to maintain profit margins despite cost increases.

As a result, consolidated net sales of elastomers increased 11.8% to ¥116,250 million and operating income was up 5.3% to ¥12,369 million.

OUTLOOK

SYNTHETIC RUBBER

Earnings growth atop firm demand

Across the board, demand in the current fiscal year is expected to exceed that of the previous year, with robust domestic and export demand projected for synthetic rubber used in tires. While volume is likely to be flat, monetary sales should increase, benefiting from higher prices made effective in the previous fiscal year. In synthetic rubber for non-tire sectors, volume exports of EPR are expected to decline in line with measures to consolidate production facilities, despite healthy automobile production levels.

TPE

New applications to boost earnings

In addition to higher volume sales due to new applications for the proprietary JSR RB® (butadiene plastic), earnings are likely to benefit from price increases conducted in the previous year.

STAYING PROFITABLE

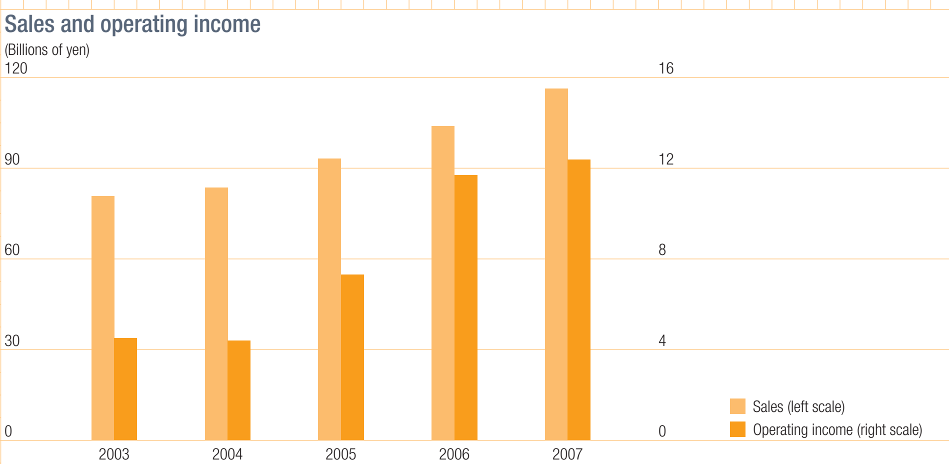
Respond quickly to cost changes and accelerate cost-cutting programs

As in the previous year, JSR will stay profitable by responding with speed to projected changes in the cost of raw materials and accelerating the pace of cost-cutting programs.

ENHANCING HIGH VALUE-ADDED PRODUCTS

Better lineup of products for high-performance tires and automotive components

To maintain stable profitability in elastomers, JSR is leveraging its distinctive advantages and superior technology in a focused drive to enhance its lineup of high value-added products. In Europe, where demand for S-SBR for high-performance tires is growing, this effort saw JSR increase production capacity at the end of 2005. Further growth in demand for S-SBR is expected.



JSR's products improve the performance of racing, energy-conserving and many other types of tires.

Emulsions

PCL & OTHERS

Volume sales of paper coating latex (PCL), the main product in this segment, decreased year-on-year due to intensified competition, even though the level of production of coated paper was largely unchanged from the previous fiscal year. Monetary sales remained the same as a result of price increases to reflect an upturn in the cost of raw materials. Volume and monetary sales of acrylic emulsions were significantly lower due to a decrease in sales in the building exterior paint market.

EARNINGS

In this sector too, the entire JSR Group has been implementing the CRG-II Project to substantially reduce costs. However, earnings have been severely impacted by the higher cost of raw materials. In response, JSR has raised prices to offset a portion of cost increases.

But operating income decreased due to both decline of sales volume and delay of price raising.

The result of these factors was a 2.3% decrease in consolidated net sales of emulsions to ¥24,362 million and a 30.5% decrease in operating income to ¥1,777 million.

OUTLOOK

PCL

Higher volume due to healthy demand

In addition to firm domestic demand, coated paper production should see a slight improvement year on year from increased exports. Backed by robust demand in PCL, JSR will focus on expanding sales to match its full production capacity. Volume sales are thus likely to be slightly higher than in the previous year. Monetary sales should also see growth, benefiting from higher product prices made effective last year.

EMULSIONS FOR GENERAL INDUSTRIES

Lower volume sales expected

Volume sales are likely to decline, reflecting JSR's withdrawal from unprofitable fields in this sector, with lower monetary sales also expected compared to the previous year.

EARNINGS

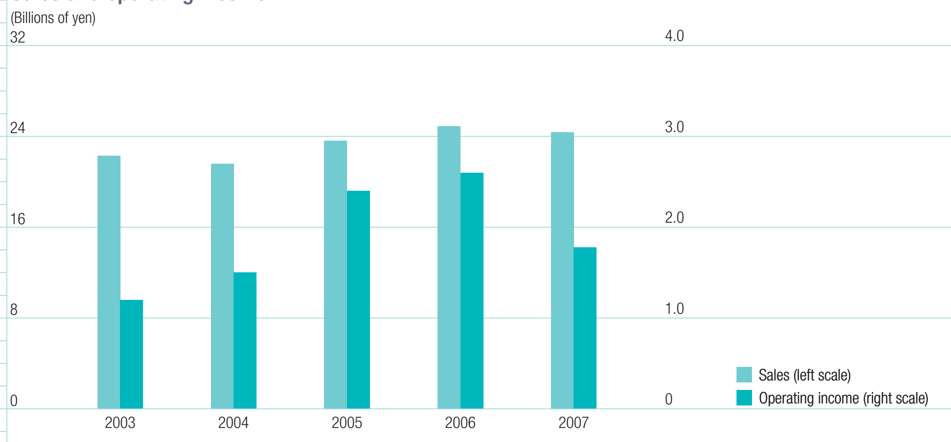
Initiatives to improve profitability

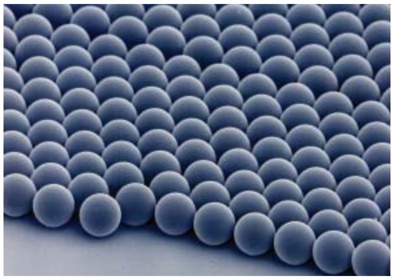
JSR has taken steps to boost production efficiency by consolidating at the Yokkaichi Plant the production of emulsion products that was formerly separated at the Yokkaichi and Kashima plants. This move is part of efforts to enhance competitiveness in this field.

Also, in a process begun two years ago and running through to last year, JSR is withdrawing from unprofitable fields, with the aim of raising the profitability by shifting to high value-added sectors.

Looking ahead, JSR will promote the E-100 cost reduction project outlined in the new medium-term business plan while conducting product price increases to keep pace with rising costs for raw materials. In this way, JSR is committed to an ongoing effort to pursue measures designed to bolster profitability.

Sales and operating income





JSR's functional particles are used for diagnostic agents and reagents for research. Looking ahead, JSR plans to focus even more on sales.

Plastics

ABS PLASTICS

In Japan, sales year on year increased for such specialty ABS plastics as ultra-heat resistant ABS plastics used in automobiles and weather-resistant AES plastics. However, sluggish demand for home appliances and the withdrawal from unprofitable product fields caused a decline in volume sales. Monetary sales increased as a result of efforts to expand sales in special and high value-added fields and increase prices.

Outside of Japan, JSR worked to expand sales of special and high value-added products and increase prices, but volume and monetary sales declined due to sluggish demand in the ASEAN region for motorcycle applications and the withdrawal from unprofitable product fields.

RESTRUCTURING

JSR is currently restructuring the plastics business to build a more powerful operating framework. To improve sales, JSR is accelerating the shift to specialty and value-added products. To improve manufacturing activities, JSR has embarked on an extensive streamlining program to realign and integrate existing production bases.

EARNINGS

The entire JSR Group has been implementing the CRG-II Project to substantially reduce costs in this sector. However, earnings have been severely impacted by the higher cost of raw materials. In response, JSR has raised prices to offset a portion of cost increases.

But operating income decreased due to both decline of sales volume and delay of price raising.

As a result, consolidated net sales of plastics decreased 2.8% to ¥64,614 million and operating income was down 8.0% to ¥3,865 million.

OUTLOOK

Lower volume and monetary sales due to withdrawal from unprofitable fields

While ABS demand is likely to be about the same as in the previous year, production capacity will decline as JSR realigns and raises the efficiency of production facilities. Tracking this move, JSR will continue to withdraw from unprofitable product grades. While this will likely result in slightly lower volume sales year-on-year, monetary sales should rise due to the two price increases enacted last year.

To enhance profitability, JSR will continue to increase the ratio of specialty and high value-added products in its product mix. Already accounting for more than 70% of sales in fiscal 2007, the goal is to bolster profitability further by raising the ratio of these products to 80% in fiscal 2008.

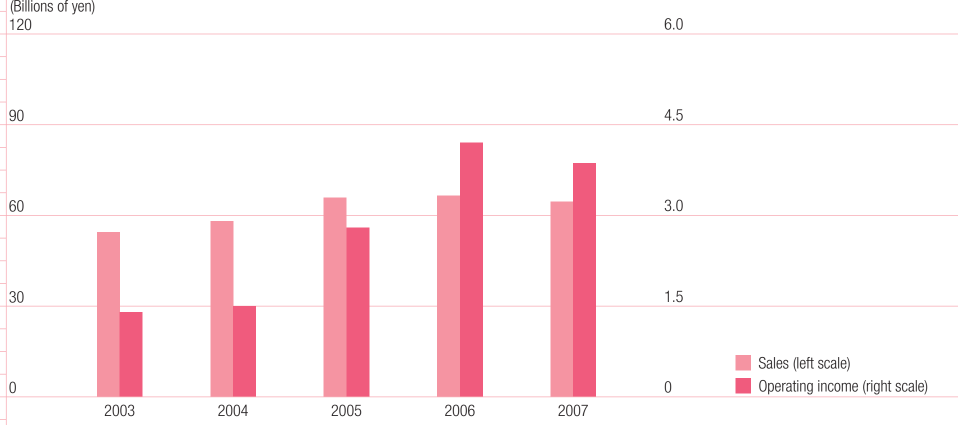
Realignment of production bases to raise efficiency

JSR has restructured production facilities at the Yokkaichi Plant, having nearly completed the consolidation of two separate production plants in the Yokkaichi area.

JSR, meanwhile, has cut back production capacity for ABS plastics by 60,000 tons to 230,000 tons. In consolidating ABS facilities, JSR focused on closing down inefficient plants while concentrating production in high-efficiency plants. These steps are part of plans to boost overall production efficiency and strengthen cost competitiveness.

In this way, JSR is seeking to build a more powerful operational base as one of Japan's leading ABS manufacturers.

Sales and operating income



Specialty ABS plastics sold as technopolymers are increasingly being used in automotive parts.

Fine Chemicals and Other Products

SEMICONDUCTOR MATERIALS

Sales of photoresists, the primary product in semiconductor materials, increased year-on-year due to growing demand resulting from higher semiconductor production and strong exports, mainly to Asia, and in Japan for excimer photoresists. In particular, sales of ArF (Argon Fluoride) photoresists, a new material, made significant contribution to the growth in excimer photoresist sales as a result of increased application in cutting-edge fields. Sales increased at subsidiaries in the U.S. and Europe from steady demand for semiconductors. Looking at other new semiconductor materials, in addition to large increases in demand and sales of chemical mechanical planarization (CMP) consumables, multilayer materials and packaging materials, sales of semiconductor materials increased significantly overall.

FLAT PANEL DISPLAY MATERIALS

Volume sales of liquid crystal display (LCD) materials increased with worldwide growth of the LCD TV market. However, due to inventory adjustments of liquid crystal panels, JSR did not meet its initial projections. Also, monetary sales were the same as the previous fiscal year due to strong pressure to lower prices caused by a drop in liquid crystal panel prices. Sales of plasma display panel (PDP) materials increased year-on-year. Although export sales remained sluggish due to continued production cutbacks by primary users, in Japan there was strong production of large-sized televisions in the first half of the year. Following JSR's LCD materials plant in Korea, an LCD materials plant was completed in Taiwan, and commercial production began in July 2006. Moreover, JSR launched a second-stage plant, which will expand JSR's supply capacity and increase its range of products in Taiwan. The Start of commercial production is targeted for autumn of 2007.

OPTICAL MATERIALS

Sales of optical fiber materials increased sharply as sales of optical fiber coating materials, the main product of this category, were strong both in Japan and overseas due to increased demand for optical fiber cables, and as demand recovered for antireflection coating. Sales of ARTON®, a heat-resistant transparent resin, increased significantly as a result of efforts to increase sales in the area of optical film, the primary demand industry, although sales fell short of initial projections.

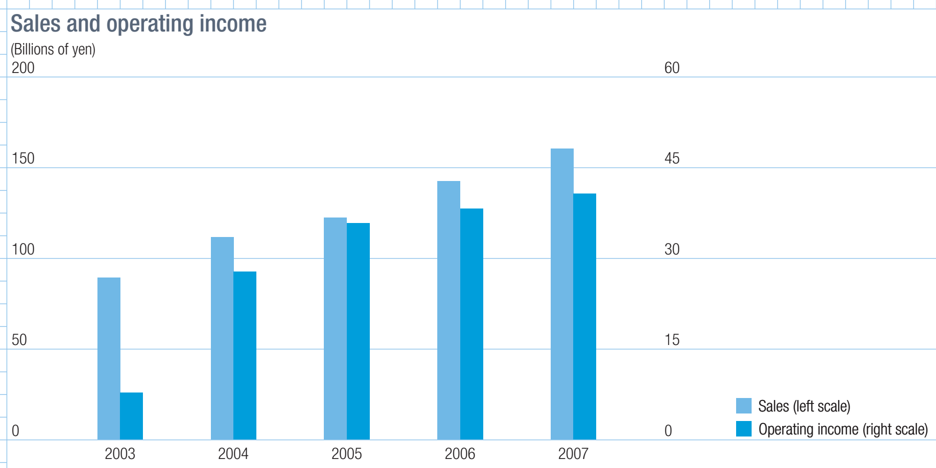
PRODUCTION

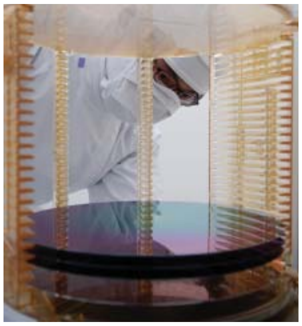
With the objective of manufacturing materials for next-generation semiconductor devices, this year JSR built its "ME Line" production facility in the Yokkaichi area, a new high-level concept consisting of clean rooms with a goal of achieving zero defects. By enhancing its infrastructure in the form of a precision processing line for next-generation lithography materials, JSR is well positioned to compete in markets for leading-edge materials.

EARNINGS

There was strong pressure to lower prices due to a drop in product prices in primary demand industries. In response, JSR has strengthened its competitiveness by making efforts to increase sales of differentiated products and by reducing costs through the steady implementation of the CRG-II Project.

As a result, consolidated net sales of fine chemicals and other products increased 12.5% to ¥160,605 million and operating income rose 6.6% to ¥40,732 million.





Strong semiconductor demand is projected to continue in fiscal 2008, and JSR forecasts that its semiconductor sales will increase at a rate that exceeds the market growth rate due to increased sales of new products.

OUTLOOK

SEMICONDUCTOR MATERIALS

Sustaining a competitive edge in growing fields involving leading-edge applications

In comparison to fiscal 2007, the semiconductor market growth rate is projected to dip slightly in fiscal 2008. Nevertheless, the market for ArF photoresists, used in the manufacture of state-of-the-art semiconductors, is expected to continue to post significant gains. In Asia, meanwhile, new products used in ArF immersion lithography, a new production technique established in the latter half of fiscal 2007, should become more widespread. As ArF photoresists enjoy healthy sales growth, JSR is working to steadily expand its share in this field.

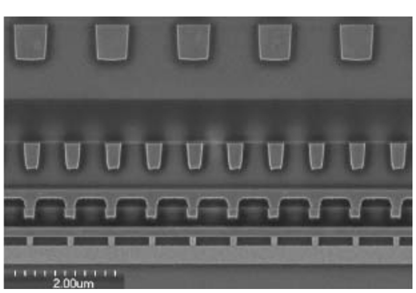
JSR is also making steady progress in development activities that closely track upcoming trends in technology. As an example, JSR is developing high refractive index liquid and others critical to the next generation of water-based immersion lithography technology.

New materials generate strong growth

JSR has been aggressively marketing CMP slurry and pads, and multilayer materials, all of which are vital to the production of advanced high-density, multi-layer semiconductors. This approach has enabled JSR to sustain high growth exceeding that of the overall market, and to develop conditions less vulnerable to the impact of the silicon cycle. For CMP slurry, two positive results should emerge from these actions in fiscal 2008—the continuation of expansion seen in the previous year as prominent users in Japan and abroad begin full-scale use of this product, and subsequent major growth in sales. Where CMP pads are concerned, users have highly rated products developed from JSR's proprietary specialty elastomers. Through increased use of these products by advanced users, JSR is looking to boost sales by a substantial margin.

Similarly, sales of packaging materials continue to grow steadily, with thick film photoresists, for which production was doubled in the previous fiscal year, expected to post a sharp jump in sales in the current fiscal year.

By steadily growing sales of new materials peripheral to photoresists in this way, JSR is taking steps to sustain a level of sales growth that outpaces that of the semiconductor market.



Photograph of cross-section of a semiconductor using Low-K, an insulating material for state-of-the-art semiconductors. JSR's Low-K material is highly acclaimed by leading users.


Demand for CMP slurry and pads is expanding in tandem with the spreading use of high-density multi-layer semiconductors. These JSR products are increasingly being used by many leading users.


JUMP2010, JSR's new medium-term business plan, calls for R&D investment to be focused on new products in the field of information electronics materials.

FPD MATERIALS

Making LCD materials the first priority

In terms of surface area, expansion in the LCD panel market seen in the previous year, driven primarily by large-sized televisions, is projected to continue in fiscal 2008. Prices for LCD panels, however, are widely expected to drop further as these products come into widespread use.

As always, JSR will give highest priority to the LCD market. Targeting television applications, a field where distinctive technologies can have the greatest impact, JSR will deliver products compatible with low-cost production processes. Complementing this, JSR will seek to expand business by promoting new materials that answer the need for high-performance materials accompanying larger panel sizes and higher image resolutions.

Upgrading infrastructure in South Korea and Taiwan

To enhance its supply system in areas with strong consumer markets, JSR is upgrading its network of production bases in South Korea and Taiwan, where demand is rising sharply. Having completed a second round of construction at South Korea-based JSR Micro Korea Co., Ltd., JSR has turned to Taiwan, where a second phase of construction at production base JSR Micro Taiwan Co., Ltd. is now under way. Full-scale operations at these upgraded bases are scheduled to commence in the fall of 2007.

OPTICAL MATERIALS

Greater demand for ARTON®

As LCD TVs grow larger and attain better image contrast, these trends are expected to spur greater demand for retardation film for high-end televisions in fiscal 2008. This should, in turn, spark increased demand for ARTON® film, a cyclo-olefin retardation film noted for its superior quality. JSR is determined to mount a recovery in ARTON® sales by accelerating the development of differentiated technologies to compete with rival products.

More growth in demand for optical fiber

As in the previous fiscal year, fiscal 2008 will likely witness firm demand for optical fiber in Japan and overseas, with projected demand for optical fiber coating materials largely on a par with demand in fiscal 2007. Against this backdrop, JSR will strive to maintain its high market share in optical fiber coating materials.

A distinctive approach for display coating materials

JSR hopes to promote synergies between two existing businesses—FPD materials and optical materials—and the display coating materials business purchased from DSM Desotech Inc. in March 2006. For JSR, the goal is to quickly develop and launch products that answer market needs. To this end, JSR is eyeing major sales growth in fiscal 2008 by focusing on anti-reflection coating materials for larger panel sizes and improved picture quality.

(JSR Micro Korea Co., Ltd.)

(JSR Micro Taiwan Co., Ltd.)

JSR is steadily improving its infrastructure in Korea and Taiwan, which are major production areas for flat panel displays. We will complete the second-phase construction of these two bases by the autumn of fiscal 2009, thereby putting in place a framework that can respond to increases in demand.

The left side of this LCD television uses the ARTON® retardation film. The favorable impact on image quality of the retardation film can be clearly seen when the screen is looked at from an angle.

RESEARCH AND DEVELOPMENT AND 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

Research and Development Dept.			R&D strategic initiatives and administration
Intellectual Property Dept.			Business related to intellectual property rights
Yokkaichi Research Center	Polymer Research Laboratories	Elastomer Lab.	Rubber for tires, specialty rubber, functional elastomers, thermoplastic elastomers, others
		Emulsion Lab.	Latex for paper coating, functional emulsions and particles, water soluble polymers, others
		Performance Products Lab.	ARTON®, others
	Semiconductor Materials Research Laboratories	Semiconductor Materials Lab.	Photoresist for ultra-fine semiconductor processes
	Fine Electronic Materials Research Laboratories	Specialty Materials Lab.	Materials for CMP, others
		Microfabrication Process Materials Lab.	Specialty materials for IC packaging, others
		Hidaka Lab.	Testing fixture for PCBs and ICs, others
	Display Materials Research Laboratories	Display Materials Lab.	Materials for PDPs, others
		LCD Materials Lab.	Protective coatings, alignment films, color pigment-dispersed resists for LCDs, others
	Material Characterization & Analysis Lab.		Physical properties, analysis, characterization, CAC, others
Tsukuba Research Laboratories			Optical fiber coating materials, radiation-cured coating materials, particles for diagnosis and genome refining, others
Research Fellow Lab. (Tsukuba)			Laboratory for research fellows

(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, know-how, 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.

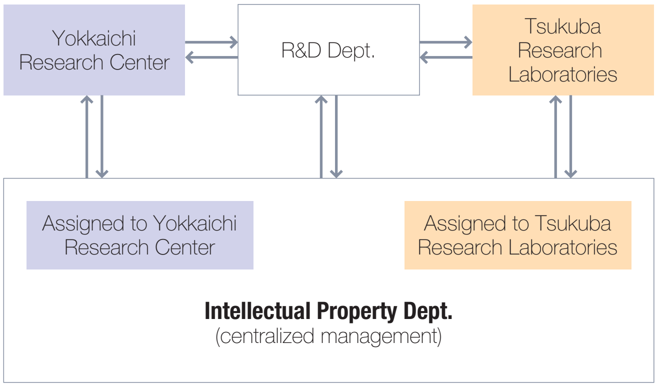
(2) Framework for Using Intellectual Property

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 Research Center and Tsukuba Research Laboratories. 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.

The following table compares JSR's global patent application performance with the average for all Japanese companies. As the figures show, JSR has much higher global patent application and final decision ratios. According to the "Leading Companies in Patent Strategy Indicators," published by the Japan Patent Office, JSR's global patent application and final decision ratios placed it 8th in the plastics, rubber and paper industry. In 2006, JSR acquired 62 patent applications in the United States, achieving the high ranking of 85th among all Japanese companies.

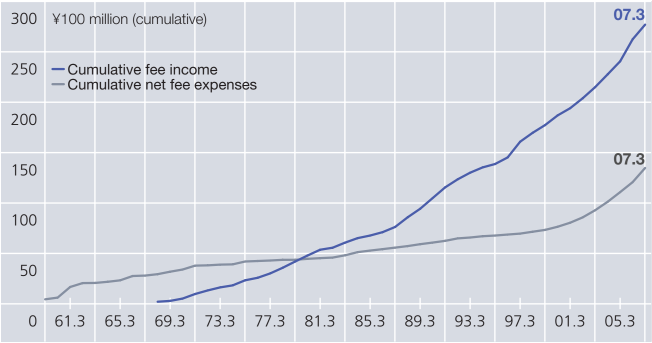
	JSR	All Japanese companies
Global patent application ratio (2005)[1]	36.0%	21.9%
Final decision ratio (2004-2006)[2]	59.5%	49.1%

Source: "Leading Companies in Patent Strategy Indicators," Japan Patent Office, April 2007
1. The percentage of applications submitted in Japan that are also submitted overseas
2. Number of final decisions/number of final actions

5. CONTRIBUTION OF LICENSING ACTIVITIES

As one means of raising earnings by supplying more distinctive and competitive products, JSR is making effective use of its patents. In the field of information electronics materials, where technologies are becoming increasingly sophisticated and complex, success requires the use of a large volume of industrial intellectual property, including patents held by other companies. To ensure the sustainability of its operations and the freedom of R&D programs, JSR gains access to the technologies it requires by entering into licensing and cross-licensing agreements.

(1) Fee Income From Intellectual Property



(2) Time Series Analysis of Expenses for Acquisition and Preservation of Intellectual Property

Expenses for the acquisition and preservation of intellectual property have been increasing steadily. One reason is the rising number of patent applications involving optical and electronics materials. Also responsible for this growth are foreign patent applications associated with the increasingly global nature of JSR's operations. JSR expects these expenses to continue to climb as R&D activities are expanded in line with the ongoing medium-term business plan.

6. CONTRIBUTION OF PATENTS

The following table summarizes patents held by JSR:

		Petrochemicals		Fine Chemicals and Other Products		Others		Total	
As of		06.3.31	**07.3.31**	06.3.31	**07.3.31**	06.3.31	**07.3.31**	06.3.31	**07.3.31**
Patents (Japan)	Used	102	**121**	221	**263**	0	**0**	323	**384**
	To be used	365	**379**	494	**631**	65	**73**	924	**1,083**
	Total	467	**500**	715	**894**	65	**73**	1,247	**1,467**
Patents (Overseas)		503	**516**	1,004	**1,415**	33	**30**	1,540	**1,961**

7. 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.

8. 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.

FISCAL 2007 ACCOMPLISHMENTS CONCERNING KEY THEMES AND GOALS

JSR has established seven key themes based on the fundamental policies of the Japan Chemical Industry Association concerning the environment and safety. These key themes have been used to formulate specific action plans designed to conduct a Responsible Care program. Fiscal 2007 goals and major accomplishments are listed below.

1. CONSIDER SAFETY AND THE ENVIRONMENT WHEN DEVELOPING PRODUCTS

When developing new products, JSR evaluates the environmental, safety and health impact at every stage from research and development to manufacture, transport, use and disposal, and works hard on providing products that reflect these considerations.

Fiscal 2007 accomplishments

The Functional Materials Research Center has been established with Kinki University. Plans call for engaging in basic research connected with production development in next-stage growth businesses.

2. PROVIDE SAFETY AND ENVIRONMENTAL INFORMATION RELATED TO PRODUCTS

JSR has established a system for the management of product-related safety and environmental information and furnishes Material Safety Data Sheets (MSDS) and yellow cards to customers, transporters and others as necessary.

Fiscal 2007 accomplishments

JSR used an MSDS electronic management system to ensure that customers always receive accurate MSDS concerning prototypes and products.

3. ENSURE THE SAFETY OF THE PUBLIC AND PROTECT THE ENVIRONMENT

In consideration of the environmental impact of its business activities, JSR is taking many actions to protect regional environments, ensure the safety of its facilities and protect facilities against major earthquakes. JSR's objective is to earn even greater trust at all of its business facilities.

Fiscal 2007 accomplishments

There were three complaints during fiscal 2007. Remedial actions were taken in all cases following an immediate investigation and explanations were provided to residents in the affected areas. Regarding measures to eliminate complaints involving odors (measures to reduce volatile organic compound (VOC) emissions), JSR has developed a technology for the incineration of synthetic rubber emissions and started installing this incineration equipment in fiscal 2007.

In line with a medium-term plan for taking actions to protect facilities against major earthquakes, JSR has started to install the necessary systems ahead of schedule, beginning with the most important equipment.

4. REDUCE THE ENVIRONMENTAL IMPACT

JSR conducts studies of the environmental impact of chemicals and works toward the systematic reduction of emissions. JSR engages in extensive efforts to reduce emissions, reuse materials and recycle resources in order to lessen its environmental impact.

Fiscal 2007 accomplishments

To reduce VOC emissions, JSR achieved a further reduction in emissions of 1, 3-butadiene and dichloromethane. There were small increases in emissions of styrene, toluene and other compounds. As was explained in the environmental complaint section, JSR has developed technology for incinerating synthetic rubber emissions to reduce VOC emissions and started installing these incinerators in fiscal 2007.

5. ENSURE SAFETY AND PROTECT THE ENVIRONMENT IN INTERNATIONAL OPERATIONS

JSR makes every effort to ensure that all environmental and safety standards are observed at every operating base outside Japan. JSR cooperates with cross-border transfers of environmental and safety technology and strictly adheres to the regulations of Japan and other nations.

Fiscal 2007 accomplishments

In fiscal 2007, JSR conducted environmental and safety audits at four overseas group companies. JSR will provide support to improve environmental and safety activities.

6. ENSURE EMPLOYEE HEALTH AND SAFETY

JSR is improving work processes and equipment by increasing preliminary evaluations of safety matters related to chemicals and their handling. JSR is dedicated to making further improvements in workplace safety and hygiene.

Fiscal 2007 accomplishments

Various systems were upgraded to provide workplaces that are more fulfilling and supportive for women; JSR has started to establish support systems that allow employees to work while raising children.

7. MAKE ALL EMPLOYEES AWARE OF THEIR RESPONSIBILITIES

JSR's president has declared that Responsible Care activities are the responsibility of each and every member of the JSR Group. Every employee is now aware of his or her obligation to aim for continuous improvements in environmental and safety matters while complying with all laws and regulations.

Fiscal 2007 accomplishments

JSR conducted a variety of training and other programs to raise awareness of corporate ethics. For example, JSR held meetings at all business sites to explain the JSR Group Principles of Corporate Ethics, which was revised in fiscal 2007. Additionally, all JSR directors and management personnel, including individuals at Group companies, participated in a corporate ethics training program led by external specialists.

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.

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 15, 2007, 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 president. In addition, the five corporate auditors, including two external auditors, attend meetings of the Board of Directors and state opinions as required.

2. EXECUTIVE COMMITTEE

This committee studies items concerning management plans as well as important items concerning the execution of business activities. As required, certain items submitted to this committee are passed on to the Board of Directors for further study. The Executive Committee is made up of the president, executive vice president, executive managing directors, managing directors, and directors, senior executive officers and executive officers named by the president. By handling important matters concerning the execution of business activities, the committee contributes to speedy decision-making and operating efficiency. As a rule, this committee meets every Monday and is chaired by the president.

3. STRATEGIC ISSUES COMMITTEE

This committee performs functions that are supplementary to those of the Board of Directors and Executive Committee. One role is to examine items concerning fundamental management initiatives and management policies. This committee also holds extensive debates and discussions concerning fundamental policies associated with specific projects and changes in business strategies. The committee's activities are then incorporated in the deliberations conducted by the Board of Directors and Executive Committee.

The Strategic Issues Committee is made up of the president, executive vice president, executive managing directors, managing directors and other directors. As a rule, this committee meets every Tuesday and is chaired by the president.

4. BOARD OF AUDITORS

With five members, including two 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

This committee was established for the purposes of ensuring that JSR fulfills its responsibilities as a corporate citizen and complies with laws and regulations. There are four regular meetings each year that are chaired by the executive managing director responsible for CSR. The other committee members are the executive vice president and four managing directors. Representatives of the Responsible Care Committee and Corporate Ethics Committee also attend these meetings to clarify JSR's approach to compliance, deal with any issues and upgrade activities.

Their attendance also helps raise awareness of and execute programs concerning Responsible Care and corporate ethics.

6. 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 president, 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 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 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/index.shtml).

7. CORPORATE ETHICS COMMITTEE

The Corporate Ethics Committee was established to implement corporate ethics standards and prevent improper actions throughout the JSR Group. The JSR Group Principles of Corporate Ethics has been prepared to provide a code of conduct for executives and 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 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.

8. DISCLOSURE POLICY COMMITTEE

JSR established the Disclosure Policy Committee during fiscal 2006. This committee holds discussions and reaches decisions concerning information disclosure policies for the purposes of disclosing information in a more suitable manner and making JSR executives and employees aware of information disclosure policies.

This committee is made up of the president, executive vice president, and executive managing director responsible for CSR activities, corporate communications and investor relations. As required, directors and department general managers at departments involved with a particular issue are added to the committee or invited to participate. Committee meetings are held as necessary and chaired by the executive managing director responsible for CSR activities, corporate communications and investor relations.

9. STATUS OF INTERNAL AUDITS, AUDITS BY CORPORATE AUDITORS AND FINANCIAL AUDITS

JSR has adopted the corporate auditor system. There are currently five corporate auditors, including three 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.

10. NAMES AND AFFILIATIONS OF ACCOUNTANTS AT INDEPENDENT FINANCIAL ACCOUNTING FIRM ASSIGNED TO AUDIT JSR

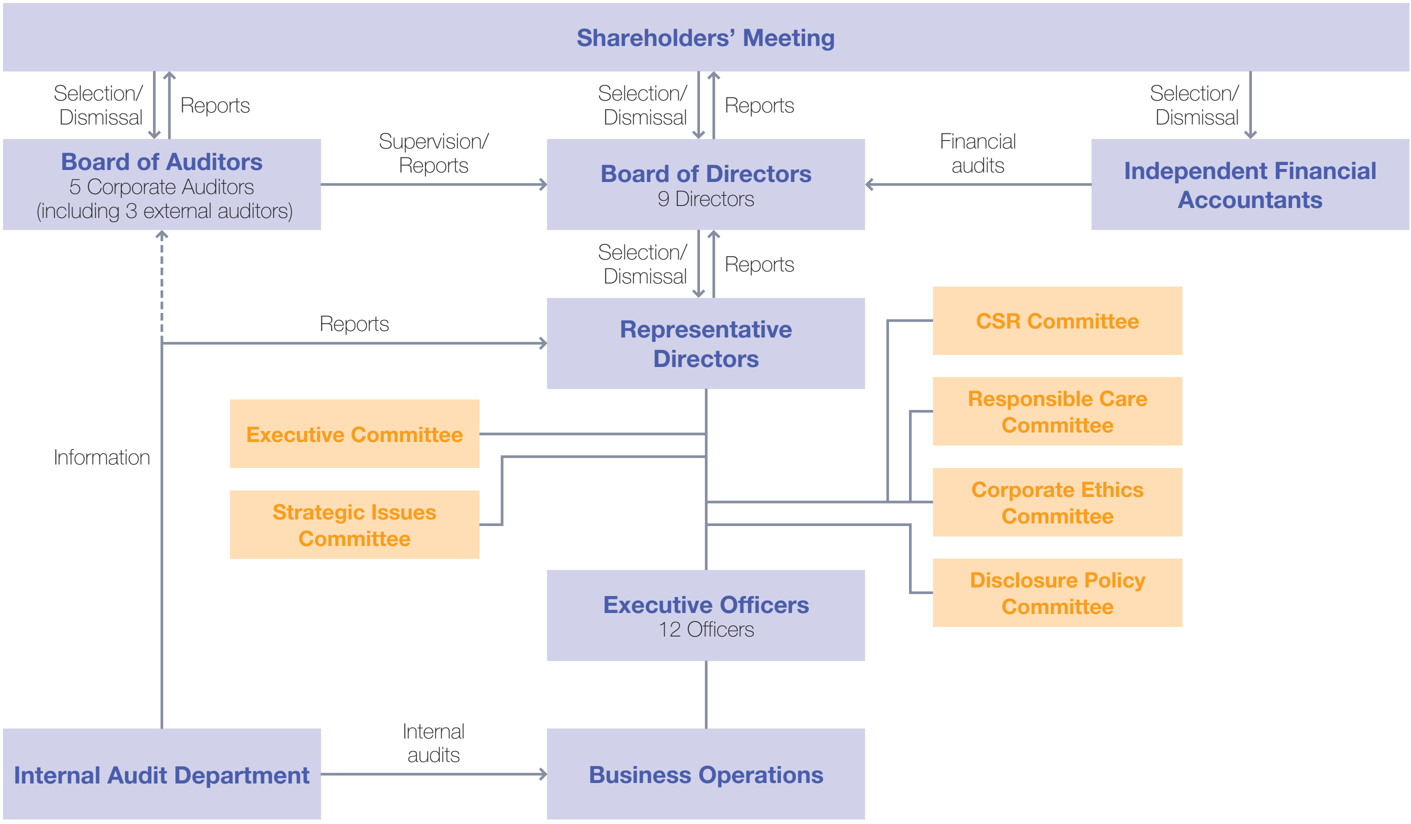
The certified public accountants assigned by the independent financial accounting firm to audit JSR are Teruo Iida, Masao Wada and Masayuki Kawanishi. All three individuals are employed by KPMG AZSA & Co. These individuals are assisted by five certified public accountants among others.

11. 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 JSR's stance regarding the three core elements of CSR—the economy, the environment and the community—by enhancing information on CSR activities and renaming it the JSR CSR Report. The report data undergoes third-party checks to heighten transparency and reliability. (June 2006)
2. To bolster its corporate ethics initiatives, JSR conducted a corporate ethics training program, which included an e-learning component (June-July 2006) and video-based training (October-November 2006). The program's objective was to raise awareness of corporate ethics and to share knowledge and values. The program was for all directors and employees, including those of JSR Group companies.
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.
(September 2006)
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 eight JSR Group companies outside Japan. In fiscal 2007, four overseas group companies conducted audits (July and September 2006, February 2007).
5. To reinforce compliance measures, JSR specified laws that apply uniformly across the company and made progress putting in place a framework to assess and improve the levels of compliance. Verification and improvement activities will be an ongoing theme in fiscal 2008.



Financial Section

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

During fiscal 2007 in the major industries that use the JSR Group's products, production of automobiles and tires was higher than in the previous year, while production of coated paper was unchanged. Semiconductor production levels surpassed initial forecasts due to increased demand for personal computers, cell phones and digital home electronic products. Growth in flat panel display (FPD) production was less than initial forecasts, reflecting the rapid spread of inventory cutbacks of LCD panels in the first half of fiscal 2007 and the early termination in the second half of the fiscal year of production aimed at the year-end shopping season. Regarding raw materials, the costs of crude oil and naphtha increased due to rising global demand for crude oil, Middle East instability and other factors. The run-up in costs of all key raw materials used in petrochemicals operations negatively impacted earnings.

In response to these circumstances, in the petrochemicals business JSR endeavored to increase sales and to raise prices to maintain profit margins so as to stabilize earnings. In the fine chemicals and other products business, which mainly comprises information electronics materials, JSR continued to invest in cutting-edge materials based on exclusive technologies as it focused on developing in the global market to enable further growth.

In addition, the entire JSR Group continued to implement the Cost Revolution for Growth-II (CRG-II) cost-reduction project, working to reduce costs at all operational stages from raw materials to distribution, to improve earnings.

As a result of the above, consolidated net sales increased 8.2% to ¥365,831 million, operating income was up 3.5% to ¥55,243 million, ordinary income rose 3.3% to ¥54,719 million, and net income for the current fiscal year increased 10.1% to ¥33,655 million.

RESULTS BY BUSINESS SEGMENT

Petrochemicals

Sales in the elastomers segment increased 11.8% to ¥116,250 million, and operating income was up 5.3% to ¥12,369 million.

In the synthetic rubber business, sales of synthetic rubber were higher than in the previous fiscal year mainly because of healthy growth in demand for automobiles and price increases. With thermoplastic elastomers (TPE), amid an upturn in demand, both volume and monetary sales increased in Japan due to efforts to expand sales and price increases. Regarding TPE exports, volumes declined as a result of JSR's withdrawal from unprofitable categories, The monetary value of sales was higher due to price increases.

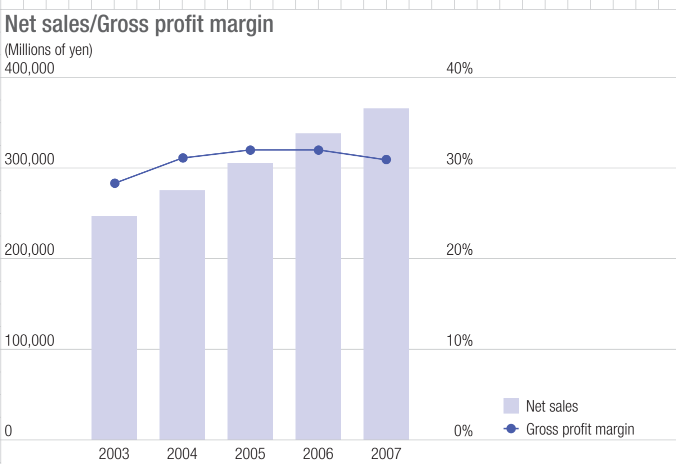
In the emulsions segment, sales decreased 2.3% to ¥24,362 million and operating income fell 30.5% to ¥1,777 million.

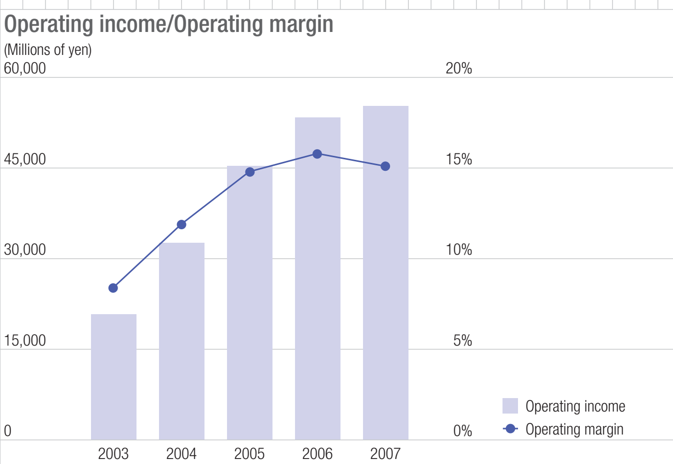
Sales volume of paper coating latex, the primary product in this segment, decreased year-on-year due to stiffer competition, even though production of coated paper was unchanged. Monetary sales remained the same as a result of price increases implemented in response to higher prices of raw materials. Both volume and monetary sales of acrylic emulsions were significantly lower due to a drop in sales in the building exterior paint market.

Sales in the plastics segment decreased 2.8% to ¥64,614 million and operating income fell 8.0% to ¥3,865 million. In Japan, sluggish demand for use in home appliances and JSR's withdrawal from unprofitable product lines caused a decline in sales volume. Overseas, JSR worked to expand sales of specialty and high value-added products and increase prices, but both sales volume and monetary sales declined mainly due to sluggish demand in the ASEAN region for motorcycle applications and the withdrawal from unprofitable product lines.

Fine Chemicals and Other Products

Sales of photoresists increased year-on-year due to growing demand resulting from higher semiconductor production and strong exports. ArF (Argon Fluoride) photoresists, a new material,





made a significant contribution to the growth in excimer photoresist sales as a result of increased application in cutting-edge fields. Looking at other new semiconductor materials, in addition to large increases in demand and sales of chemical mechanical planarization (CMP) consumables, multilayer materials and packaging materials, sales of semiconductor materials increased significantly overall.

Volume sales of liquid crystal display (LCD) materials increased with worldwide growth of the LCD TV market. However, due to inventory adjustments of liquid crystal panels, JSR did not meet its initial projections. Also, monetary sales were the same as the previous fiscal year due to strong pressure to lower prices caused by a drop in liquid crystal panel prices.

Sales of optical fiber materials increased sharply as sales of optical fiber coating materials, the main product of this category, were strong both in Japan and overseas due to increased demand for optical fiber cables. Sales of ARTON®, a heat-resistant transparent resin, increased significantly as a result of efforts to increase sales in the area of optical film.

As a result, consolidated net sales of fine chemicals and other products increased 12.5% to ¥160,605 million and operating income rose 6.6% to ¥40,732 million.

OUTLOOK

Fiscal 2008 is the first year of "JUMP2010", JSR's new medium-term business plan. In line with this plan and based on key technologies and human resources, JSR aims for a period of explosive growth driven by the creation of next-stage growth businesses and the expansion of existing businesses followed by sustained growth as an advanced chemicals company. At the same time, JSR will strive to sustain and increase earnings by continuing to focus on strengthening competitiveness by such measures as implementing E-100 (Efficiency 100%), a new cost-reduction project designed to ensure that 100% of raw materials procured are converted into products.

Turning to the outlook for fiscal 2008, in the petrochemicals business JSR anticipates continued pressure on earnings from rising prices of raw materials, which are being pushed upward by the high price of crude oil. Nevertheless, JSR expects to generate earnings by raising the share of sales from high value-added products and by increasing total sales. In the fine chemicals and other products segment, JSR expects even more intense competition. Nevertheless, JSR plans to increase earnings by continuing to invest resources in growth areas and aggressively working to expand sales in Japan and overseas.

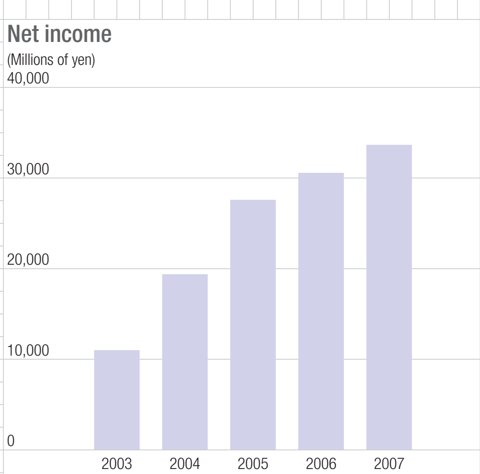
Consequently, for fiscal 2008 JSR projects consolidated net sales of ¥397.0 billion (up 8.5% over the previous fiscal year), operating income of ¥56.0 billion (up 1.4%), ordinary income of ¥56.0 billion (up 2.3%) and net income of ¥34.5 billion (up 2.5%).

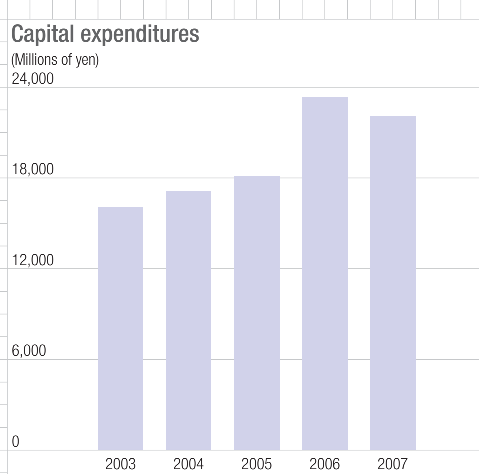
R&D EXPENDITURES

R&D expenditures amounted to ¥17,390 million. JSR made substantial investments mainly in the fine chemicals and other products segment and in next-stage growth businesses. As a result, R&D expenditures increased ¥1,561 million over the previous fiscal year to ¥17,390 million. Looking ahead, JSR plans to conduct aggressive R&D investments in product development in the cutting-edge field of information electronics materials, in new product development for next-stage growth businesses, and elsewhere.

CAPITAL EXPENDITURES

Capital expenditures amounted to ¥22,094 million. In the petrochemicals business, JSR is working to enhance production efficiency by increasing the production capacity for ethylene-propylene rubber and reorganizing the production facilities for ABS plastics. In the fine chemicals and other products segment, JSR is constructing experimental and evaluation facilities in the Yokkaichi area with the aim of strengthening R&D for state-of-the-art materials, mainly information electronics materials. JSR has also constructed a precision manufacturing line for





the manufacture of next-generation semiconductors with the aim of bolstering product development capabilities.

FINANCIAL POSITION

Total assets as of March 31, 2007 were ¥408,949 million, an increase of ¥27,852 million from a year earlier. Current assets increased ¥18,174 million to ¥249,239 million due mainly to increases in notes and accounts receivable and inventories. Non-current assets increased ¥9,678 million to ¥159,710 million, chiefly because of an increase in construction in progress.

Total liabilities increased ¥4,574 million to ¥168,963 million. This was mostly the result of increases in notes and accounts payable.

Net assets amounted to ¥239,986 million.

CASH FLOWS

As of March 31, 2007, cash and cash equivalents ("cash") on a consolidated basis amounted to ¥53,656 million, a decrease of ¥7,190 million from the end of the previous fiscal year.

Net cash provided by operating activities increased 3.5% to ¥46,472 million. Cash provided rose ¥1,591 million due mainly to increases in income before income taxes and minority interests and depreciation and amortization, which outweighed cash decreases resulting from increases in notes and accounts receivable and income taxes paid.

Net cash used in investing activities increased 16.7% to ¥30,363 million. Cash used rose ¥4,347 million mainly because of higher payments for purchase of property, plant and equipment and intangible assets, and for purchase of investment securities.

Net cash used in financing activities increased 360.8% to ¥23,777 million. Cash used rose ¥18,617 million due to the redemption of bonds, payment of dividends, payments for purchase of treasury stock and repayments of bank loans.

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, 2007. 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 segments of elastomers, emulsions and plastics.

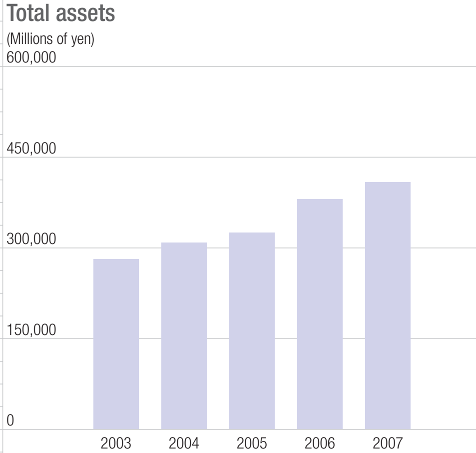
(3) Procurement of raw materials

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.

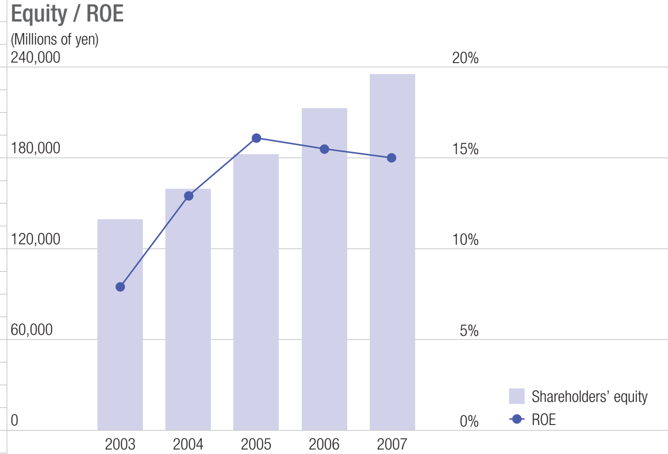
(4) Development of new products

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.

Total assets



Equity / ROE



(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, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2006	**2007**	**2007**
Current assets:			
Cash (Note 4)	¥ 25,521	**¥ 15,586**	**$ 132,032**
Notes and accounts receivable — trade (Note 3)	78,316	**93,341**	**790,689**
Marketable securities (Notes 4 and 5)	35,355	**38,418**	**325,440**
Inventories	60,187	**67,221**	**569,425**
Accounts receivable — other	20,657	**24,691**	**209,161**
Deferred tax assets (Note 8)	4,529	**5,074**	**42,978**
Other current assets (Note 12)	6,645	**5,005**	**42,393**
Allowance for doubtful accounts	(145)	**(97)**	**(822)**
Total current assets	231,065	**249,239**	**2,111,296**
Property, plant and equipment (Notes 6 and 9)**:**			
Buildings and structures	82,054	**85,803**	**726,840**
Machinery, equipment and vehicles	210,764	**217,105**	**1,839,090**
Tools, furniture and fixtures	35,462	**38,745**	**328,209**
Land	17,109	**16,957**	**143,644**
Construction in progress	2,586	**7,580**	**64,211**
	347,975	**366,190**	**3,101,994**
Accumulated depreciation	(255,963)	**(268,008)**	**(2,270,295)**
Net property, plant and equipment	92,012	**98,182**	**831,699**
Intangible assets	6,131	**5,713**	**48,393**
Investments and other non-current assets:			
Investment securities (Note 5)	34,917	**34,594**	**293,047**
Investments in unconsolidated subsidiaries and affiliated companies	9,628	**9,713**	**82,277**
Long-term loans receivable	2,762	**4,726**	**40,036**
Deferred tax assets (Note 8)	2,178	**2,462**	**20,859**
Other assets	2,573	**4,506**	**38,169**
Allowance for doubtful accounts	(169)	**(186)**	**(1,573)**
	51,889	**55,815**	**472,815**
	¥ 381,097	**¥ 408,949**	**$ 3,464,203**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Notes and accounts payable — trade	¥ 78,463	**¥ 87,952**	**$ 745,043**
Short-term loans payable and long-term debt due within one year (Note 6)	29,278	**15,524**	**131,502**
Income taxes payable (Note 8)	10,975	**10,795**	**91,444**
Accounts payable — other	6,322	**14,455**	**122,447**
Accrued expenses	9,798	**11,033**	**93,461**
Other current liabilities (Note 12)	3,818	**2,341**	**19,831**
Total current liabilities	138,654	**142,100**	**1,203,728**
Long-term liabilities:			
Long-term debt (Note 6)	1,607	**2,745**	**23,254**
Deferred tax liabilities (Note 8)	4,537	**3,291**	**27,876**
Employees' retirement benefits (Note 7)	13,921	**14,782**	**125,221**
Allowance for environmental expenses	3,094	**3,294**	**27,906**
Other long-term liabilities	2,576	**2,751**	**23,296**
Total long-term liabilities	25,735	**26,863**	**227,553**
Contingent liabilities (Note 14)			
Net assets (Note 10)			
Shareholders' equity			
Common stock:			
Authorized — 696,061,000 shares			
Issued — 255,885,166 shares in 2006 and 2007	23,320	**23,320**	**197,545**
Capital surplus	25,179	**25,179**	**213,294**
Retained earnings	155,434	**183,374**	**1,553,359**
Less treasury stock, at cost			
—1,663,063 shares in 2006 and 3,664,774 shares in 2007	(2,898)	**(8,300)**	**(70,308)**
Valuation and translation adjustments			
Unrealized gains on securities, net of taxes	11,151	**10,087**	**85,450**
Foreign currency translation adjustments	565	**1,526**	**12,923**
Subscription rights to shares (Note 11)	—	**70**	**595**
Minority interests	3,957	**4,730**	**40,064**
Total net assets	216,708	**239,986**	**2,032,922**
	¥381,097	**¥408,949**	**$3,464,203**

CONSOLIDATED STATEMENTS OF INCOME

JSR CORPORATION
Years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Net sales (Note 16)	¥305,368	¥338,160	¥365,831	$3,098,951
Costs and expenses (Notes 15 and 16)**:**				
Cost of sales	207,689	230,012	252,752	2,141,064
Selling, general and administrative expenses	52,346	54,791	57,836	489,924
	260,035	284,803	310,588	2,630,988
Operating income (Note 16)	45,333	53,357	55,243	467,963
Other income (expenses):				
Interest and dividend income	519	635	1,030	8,728
Interest expenses	(475)	(420)	(399)	(3,376)
Loss on disposal and write down of inventories	(2,792)	(3,413)	(3,268)	(27,686)
Gain (loss) on sale and disposal of property, plant and equipment	(678)	(269)	(617)	(5,223)
Gain (loss) on disposition of affiliated companies	73	—	—	—
Exchange gains (losses)	114	1,179	352	2,982
Equity in earnings of affiliated companies	628	1,719	1,439	12,189
Loss from disposal of asbestos	—	—	(461)	(3,903)
Impairment loss of fixed assets (Note 9)	—	(580)	—	—
Loss on allowance for environmental expenses	—	(3,094)	(201)	(1,705)
Other — net	749	(76)	322	2,724
	(1,862)	(4,319)	(1,803)	(15,270)
Income before income taxes and minority interests	43,471	49,038	53,440	452,693
Income taxes (Note 8)**:**				
Current	15,275	19,222	20,127	170,501
Deferred	16	(1,487)	(1,136)	(9,627)
	15,291	17,735	18,991	160,874
	28,180	31,303	34,449	291,819
Minority interests in net income of consolidated subsidiaries	(616)	(748)	(794)	(6,731)
Net income	¥ 27,564	¥ 30,555	¥ 33,655	$ 285,088

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥ 107.54	¥ 119.63	¥ 133.10	$ 1.13
Cash dividends applicable to the year	14.00	20.00	24.00	0.20

See accompanying notes.

CONSOLIDATED STATEMENTS OF NET ASSETS

JSR CORPORATION
Years ended March 31, 2005, 2006 and 2007

	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, 2004	255,885	¥23,320	¥25,179	¥106,385	¥ (189)	¥ 5,406	¥ (604)	¥—	¥2,804
Increase resulting from increase in consolidated subsidiaries	—	—	—	17	—	—	—	—	—
Net income	—	—	—	27,564	—	—	—	—	—
Change in foreign currency translation adjustment	—	—	—	—	—	—	103	—	—
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	1,185	—	—	—
Increase of treasury stock	—	—	—	—	(2,696)	—	—	—	—
Cash dividends paid	—	—	—	(3,058)	—	—	—	—	—
Bonuses to directors	—	—	—	(136)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	—	—	—	502
Balance at March 31, 2005	255,885	23,320	25,179	130,772	(2,885)	6,591	(501)	—	3,306
Decrease resulting from increase in consolidated subsidiaries	—	—	—	(1,404)	—	—	—	—	—
Decrease resulting from decrease in consolidated subsidiaries	—	—	—	(8)	—	—	—	—	—
Net income	—	—	—	30,555	—	—	—	—	—
Change in foreign currency translation adjustment	—	—	—	—	—	—	1,066	—	—
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	4,560	—	—	—
Increase of treasury stock	—	—	—	—	(13)	—	—	—	—
Cash dividends paid	—	—	—	(4,322)	—	—	—	—	—
Bonuses to directors	—	—	—	(159)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	—	—	—	651
Balance at March 31, 2006	255,885	23,320	25,179	155,434	(2,898)	11,151	565	—	3,957
Net income	—	—	—	33,655	—	—	—	—	—
Change in foreign currency translation adjustment	—	—	—	—	—	—	961	—	—
Change in unrealized gains on securities, net of taxes	—	—	—	—	—	(1,064)	—	—	—
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	—	—	—	—	—	—	—	70	773
Balance at March 31, 2007	**255,885**	**¥23,320**	**¥25,179**	**¥183,374**	**¥(8,300)**	**¥10,087**	**¥1,526**	**¥70**	**¥4,730**

	Thousands of U.S. dollars (Note 1)							
Balance at March 31, 2006	$197,545	$213,294	$1,316,676	$(24,551)	$ 94,461	$ 4,782	$ —	$33,521
Net income	—	—	285,088	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	8,141	—	—
Change in unrealized gains on securities, net of taxes	—	—	—	—	(9,011)	—	—	—
Increase of treasury stock	—	—	—	(45,841)	—	—	—	—
Disposal of treasury stock	—	—	(84)	84	—	—	—	—
Cash dividends paid	—	—	(47,174)	—	—	—	—	—
Bonuses to directors	—	—	(1,147)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	—	595	6,543
Balance at March 31, 2007	**$197,545**	**$213,294**	**$1,553,359**	**$(70,308)**	**$ 85,450**	**$12,923**	**$595**	**$40,064**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

JSR CORPORATION
Years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2007
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 43,471	¥ 49,038	**¥ 53,440**	**$ 452,693**
Adjustments to reconcile income before income taxes and minority interests to cash provided by operating activities:				
Depreciation and amortization	15,245	16,206	**18,133**	**153,608**
Interest and dividend income	(519)	(635)	**(1,030)**	**(8,728)**
Interest expenses	475	420	**399**	**3,376**
Equity in earnings of affiliated companies	(628)	(1,719)	**(1,439)**	**(12,189)**
Gain on sale and disposal of property, plant and equipment	678	269	**617**	**5,223**
Impairment loss of fixed assets	—	580	**—**	**—**
Changes in operating assets and liabilities — net:				
Decrease in allowance for doubtful accounts	(264)	(124)	**(32)**	**(271)**
Increase (decrease) in employees' retirement benefits	(1,835)	(1,057)	**861**	**7,293**
Increase in allowance for environmental expenses	—	3,094	**200**	**1,698**
Increase in notes and accounts receivable — trade	(6,105)	(7,516)	**(14,548)**	**(123,235)**
Increase in inventories	(7,659)	(7,330)	**(6,685)**	**(56,633)**
Increase in notes and accounts payable — trade	16	15,042	**8,814**	**74,663**
Other	47	(3,857)	**5,709**	**48,368**
Total	42,922	62,411	**64,439**	**545,866**
Interest and dividends received	1,262	1,261	**2,907**	**24,621**
Interest expenses paid	(529)	(420)	**(411)**	**(3,480)**
Income taxes paid	(12,410)	(18,371)	**(20,463)**	**(173,346)**
Net cash provided by operating activities	31,245	44,881	**46,472**	**393,661**
Cash flows from investing activities:				
Payments for purchase of property, plant and equipment and intangible assets	(17,642)	(24,845)	**(26,218)**	**(222,089)**
Proceeds from sale of property, plant and equipment and intangible assets	98	442	**347**	**2,939**
Payments for purchase of unconsolidated subsidiaries and affiliated companies	(671)	(1,145)	**—**	
Payments for purchase of investment securities	(214)	(65)	**(1,767)**	**(14,970)**
Proceeds from sale of investments in consolidated subsidiaries	101	—	**—**	**—**
Proceeds from sale of investment securities	256	410	**563**	**4,765**
Increase in loans receivable	(2,828)	(1,702)	**(2,194)**	**(18,585)**
Other — net	970	889	**(1,094)**	**(9,267)**
Net cash used in investing activities	(19,930)	(26,016)	**(30,363)**	**(257,207)**
Cash flows from financing activities:				
Proceeds from long-term debt	500	—	**1,558**	**13,198**
Repayments of bank loans and long-term debt	(11,133)	(600)	**(4,251)**	**(36,007)**
Payment for redemption of bond	—	—	**(10,000)**	**(84,710)**
Dividends paid to shareholders	(3,055)	(4,320)	**(5,566)**	**(47,149)**
Dividends paid to minority shareholders	(107)	(227)	**(106)**	**(900)**
Payments for purchase of treasury stock	(2,696)	(13)	**(5,412)**	**(45,841)**
Other — net	0	—	**—**	**—**
Net cash used in financing activities	(16,491)	(5,160)	**(23,777)**	**(201,409)**
Effect of exchange rate changes on cash and cash equivalents	0	390	**478**	**4,049**
Net increase (decrease) in cash	(5,176)	14,095	**(7,190)**	**(60,906)**
Cash and cash equivalents at beginning of year	51,519	46,474	**60,846**	**515,425**
Increase in cash resulting from change in consolidation of subsidiaries	131	277	**—**	**—**
Cash and cash equivalents at end of year (Note 4)	¥ 46,474	¥ 60,846	**¥ 53,656**	**$ 454,519**

See accompanying notes.

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 from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of change in net assets for 2007) 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 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, 2007, which was ¥118.05 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 consolidated financial statements include the accounts of the Company and its significant subsidiaries (26 subsidiaries in 2005, 2006 and 2007).

All significant intercompany accounts and transactions have been eliminated.

TECHNO POLYMER AMERICA, INC. and JSR Micro Korea Co., Ltd. were added to the scope of consolidation by the principle of materiality in 2005 and 2006, respectively. Japan Create Co., Ltd., which had ceased to be a subsidiary accompanying a transfer of shares, and Techno Polymer Singapore Pte Ltd., which had started liquidation, were excluded from the scope of consolidation in 2005 and 2006, respectively.

(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 shareholders' equity. 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 by the average method.

(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.

(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) Impairment of fixed assets — Effective April 1, 2005, the Companies adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of adopting the new accounting standards, income before income taxes and minority interests for the year ended March 31, 2006, decreased ¥580 million compared with what would have been reported under the previous accounting policy. Accumulated impairment losses are deducted directly from the related fixed assets.

(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 is not more than 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 those of consolidated subsidiaries use the straight-line method over ten years, which is not more than the estimated average remaining service lives, commencing with the following period.

(i) The accounting change — Effective April 1, 2005, the Companies adopted "Amendment of Accounting Standard for Retirement Benefits" (the Financial Accounting Standard No. 3 issued by the Accounting Standard Board of Japan on March 16, 2005) and "Implementation Guidance of Amendment of Accounting Standard for Retirement Benefits" (the Financial Accounting Standard Implementation Guidance No. 7 issued by the Accounting Standard Board of Japan on March 16, 2005).

As a result of adopting these accounting standards, income before income taxes and minority interests for the year ended March 31, 2006 increased ¥1,348 million compared with what would have been reported under the previous accounting policy.

(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:

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

b) 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 derivatives are deferred until maturity of the hedged transactions.

Short-term and long-term loan receivables denominated in foreign currencies, for which foreign currency swaps are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the forward contracts or the swap contracts qualify for specific hedge accounting.

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) Certain lease transactions — Finance lease transactions, which do not transfer ownership of the leased assets to lessees, are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

(o) 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.

(p) 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 shareholders' interests.

(q) 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. Diluted net income per share is not disclosed because the effects of the Company's stock option plans are immaterial (Note 11).

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

(r) Accounting Standard for Presentation of Changes in the Net Assets in the Balance Sheet — Effective for the year ended March 31, 2007, the Company and consolidated subsidiaries adopted Accounting Standards Board of Japan Statement No. 5 "Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on December 9, 2005 and Accounting Standards Board of Japan Guidance No. 8 "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan on December 9, 2005.

Under the New Accounting Standards, the balance sheet comprises three sections, which are the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Due to the adoption of the New Accounting Standards, the following items are presented differently compared to the previous presentation rules. Subscription right to shares and minority interests are included in net assets under the New Accounting Standards. Under the previous presentation rules, subscription right to shares were included in current liabilities, and minority interests were presented between non-current liabilities and the shareholders' equity section.

The consolidated balance sheets as of March 31, 2006 have been restated to conform to the 2007 presentation. As a result, minority interests amounting to ¥4,730 million are included in the net assets section as of March 31, 2006. But, there were no effects on the total assets or total liabilities at March 31, 2006 from applying the New Accounting Standards to the balance sheet as of March 31, 2005.

If the New Accounting Standards had not been adopted and the previous presentation method for shareholders' equity had been applied, the shareholders' equity at March 31, 2007, which comprised common stock, capital surplus, retained earnings, unrealized gain on securities net of taxes, foreign currency translation adjustments and treasury stock, would have been ¥235,186 million ($1,992,263 thousand).

The adoption of the New Accounting Standards had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

(s) Accounting Standard for Statement of Changes in Net Assets — Effective for the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Statement of Change in Net Assets" (Statement No. 6 issued by the Accounting Standard Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "New Accounting Standards").

Accordingly, the Company prepared the statements of changes in the net assets for the year ended March 31, 2007. In addition, the Company voluntarily prepared the consolidated statement of change in net assets for 2006 in accordance with the New 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.

(t) Stock options — Effective from the fiscal year ended March 31, 2007, the Company adopted Accounting Standards Board of Japan Statement No. 8 "Accounting Standard for Stock-Based Compensation", of December 27, 2005 and Accounting Standards Board of Japan Guidance No. 11 "Guidance on Accounting Standard for Stock-Based Compensation" of May 31, 2006, both issued by the Accounting Standards Board of Japan. The effects of the adoption of the New Accounting Standards on net income are not material.

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

Also, as described in Note 2 (r) and 2 (s), the consolidated balance sheet for 2006 has been restated to conform to the new presentation rules of 2007. Also, 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 statement of changes in the net assets for the year ended March 31, 2006 as well as for the year ended March 2007.

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

3. EFFECT OF BANK HOLIDAY ON MARCH 31, 2007

As financial institutions in Japan were closed on March 31, 2007, ¥871 million ($7,380 thousand) of notes receivable maturing on March 31, 2007 were settled on the following business day, April 2, 2007 and accounted for accordingly.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2005, 2006 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Cash	¥22,810	¥25,521	**¥15,586**	**$132,032**
Marketable securities	23,799	35,355	**38,418**	**325,440**
Time deposits over three months	(135)	(30)	**(348)**	**(2,953)**
Cash and cash equivalents	¥46,474	¥60,846	**¥53,656**	**$454,519**

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, 2006 and 2007:

(a) Securities with book value exceeding acquisition cost

	Millions of yen		
	2006		
	Acquisition cost	Book value	Difference
Equity securities	¥10,250	¥29,151	¥18,901

	Millions of yen		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	**¥11,070**	**¥28,177**	**¥17,107**

	Thousands of U.S. dollars		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	**$93,777**	**$238,689**	**$144,912**

(b) Securities with book value not exceeding acquisition cost

	Millions of yen		
	2006		
	Acquisition cost	Book value	Difference
Equity securities	¥42	¥39	¥(3)

	Millions of yen		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	**¥718**	**¥695**	**¥(23)**

	Thousands of U.S. dollars		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	**$6,081**	**$5,886**	**$(195)**

(2) The following tables summarize the book value of available-for-sale securities with no available fair value as of March 31, 2006 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Non-listed equity securities	¥ 3,227	**¥ 3,222**	**$ 27,294**
Commercial paper	35,355	**38,418**	**325,440**
Preferred subscription certificate	2,500	**2,500**	**21,178**
Total	¥41,082	**¥44,140**	**$373,912**

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

	Millions of yen				
	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
March 31, 2006:	¥35,355	¥—	¥—	¥—	¥35,355
March 31, 2007:	**¥38,418**	**¥—**	**¥—**	**¥—**	**¥38,418**

	Thousands of U.S. dollars				
	Within one year	Over one year within five years	Over five years within ten years	Over ten years	Total
March 31, 2007:	**$325,440**	**$—**	**$—**	**$—**	**$325,440**

(4) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2005, 2006 and 2007 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Total sales	¥256	¥410	**¥563**	**$4,765**
Gain	142	21	**282**	**2,393**
Loss	—	—	**—**	**—**

6. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable represent primarily overdrafts from banks bearing interest at 0.7% and 1.2% per annum (weighted average interest rate) at March 31, 2006 and 2007, respectively.

Long-term debt at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
1.84% domestic unsecured bonds due 2007	¥ 10,000	**¥ —**	**$ —**
Loans principally from banks and insurance companies due through 2013 with interest rates ranging from 0.8% to 10.2% in 2006 and 2007:			
Secured	1	**1**	**8**
Unsecured	3,879	**3,199**	**27,100**
	13,880	**3,200**	**27,108**
Less amount due within one year	(12,273)	**(455)**	**(3,854)**
	¥ 1,607	**¥2,745**	**$23,254**

At March 31, 2007, property, plant and equipment, at book value of ¥13,637 million ($115,520 thousand) were pledged as collateral for secured loans.

The annual maturities of long-term debt at March 31, 2007 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 455	$ 3,854
2009	1,245	10,547
2010	—	—
2011	—	—
2012	—	—
2013 and thereafter	1,500	12,707
	¥3,200	$27,108

7. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Projected benefit obligation	¥ 48,799	**¥ 49,230**	**$ 417,030**
Less fair value of pension assets	(35,361)	**(35,724)**	**(302,620)**
Unfunded retirement benefit liabilities	13,438	**13,506**	**114,410**
Unrecognized prior service costs	—	**123**	**1,038**
Unrecognized actuarial differences	438	**(14)**	**(116)**
Net retirement benefit liabilities	13,876	**13,615**	**115,332**
Prepaid pension costs	(45)	**(1,167)**	**(9,889)**
Employees' retirement benefits	¥ 13,921	**¥ 14,782**	**$ 125,221**

Included in the consolidated statements of income for the years ended March 31, 2005, 2006 and 2007 were severance and retirement benefit expenses consisting of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Service costs — benefits earned during the year	¥ 1,857	¥ 1,741	**¥1,729**	**$14,643**
Interest cost on projected benefits obligation	906	902	**878**	**7,439**
Expected return on plan assets	(213)	(243)	**(341)**	**(2,885)**
Amortization of prior service costs	—	—	**(61)**	**(519)**
Amortization of actuarial differences	(2,226)	(1,517)	**(525)**	**(4,445)**
Severance and retirement benefit expenses	¥ 324	¥ 883	**¥1,680**	**$14,233**

The discount rate used by the Companies for the years ended March 31, 2006 and 2007 is mainly 1.9%. The rates of expected return on plan assets used by the Company for the years ended March 31, 2006 and 2007 are 0.7% and 1.0%, 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.

Changes of the Company's accounting policy of severance and retirement benefits were outlined in Note 2 (j).

8. INCOME TAXES

Income taxes in the accompanying consolidated statements of income comprise corporation, enterprise and inhabitants' taxes. The aggregated normal effective tax rates were 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, 2005, 2006 and 2007:

	2005	2006	**2007**
Statutory tax rate	40.7%	40.7%	**40.7%**
Dividend income from foreign consolidated subsidiaries and foreign affiliated companies	0.4	0.4	**0.6**
Non-deductible entertainment expenses	0.3	0.3	**0.2**
Tax credit on research and development costs	(3.9)	(3.2)	**(2.3)**
Equity in earnings of affiliated companies	(0.6)	(1.4)	**(1.1)**
Lower tax rates for foreign consolidated subsidiaries	(0.6)	(0.5)	**(1.9)**
Foreign tax credits	(0.3)	(0.4)	**(0.6)**
Non-taxable dividend income	(0.1)	(0.1)	**(0.1)**
Other	(0.7)	0.4	**0.0**
Effective tax rate	35.2%	36.2%	**35.5%**

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Deferred tax assets:			
Excess retirement benefits	¥ 5,627	**¥ 5,468**	**$ 46,318**
Excess bonuses accrued	1,597	**1,646**	**13,940**
Provision for environmental expenses	1,258	**1,337**	**11,329**
Enterprise taxes payable	963	**905**	**7,670**
Loss on write down of finished products	910	**991**	**8,392**
Unrealized gain on sale of property, plant and equipment	827	**959**	**8,123**
Unrealized gain on sale of inventories	467	**939**	**7,956**
Loss on devaluation of investment securities	315	**294**	**2,487**
Other	2,188	**2,306**	**19,542**
Sub-total	14,152	**14,845**	**125,757**
Valuation allowance	(259)	**(298)**	**(2,526)**
Total deferred tax assets	13,893	**14,547**	**123,231**
Deferred tax liabilities:			
Net unrealized holding gains on securities	7,692	**6,956**	**58,925**
Deferred gain on sale of fixed assets	2,767	**2,607**	**22,089**
Special depreciation reserve	884	**576**	**4,881**
Other	863	**793**	**6,715**
Total deferred tax liabilities	12,206	**10,932**	**92,610**
Net deferred tax assets	¥ 1,687	**¥ 3,615**	**$ 30,621**

9. IMPAIRMENT OF FIXED ASSETS

The loss on impairment of fixed assets for the year ended March 31, 2006 consisted of the following.

Location : Yokkaichi City, Mie Prefecture
Major use : Some sections of production facilities for ABS resin
Asset category : Machinery and equipment, structures
Amount : ¥580 million
Remarks : Not for business activities

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.

In case the recoverable amount for fixed assets, which are idle or not being used for business activities, is below their book value, a specific plan of use is taken into consideration. Hence, the book value is reduced to a recoverable amount. The resulting impairment loss was recorded as other expenses. This recoverable amount is measured as zero because of planned use and attendant costs.

10. NET ASSETS

As described in Note 2 (r), net assets comprises four subsections, which are the shareholders' equity, valuation and translation adjustments, subscription rights to shares and minority interests.

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

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 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 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 15, 2007, the shareholders resolved cash dividends amounting to ¥3,026 million ($25,638 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they were 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 17, 2005	June 16, 2006
The maximum number of shares to be issued	62,500 shares	39,100 shares
Exercisable period of the stock options	From June 18, 2005 to June 17, 2025	From August 2, 2006 to June 16, 2026
Exercise price per share	¥1 $0.01	¥1 $0.01

At the 62nd ordinary general meeting of shareholders held on June 15, 2007, the Company received approval to issue stock acquisition rights as stock options to its Directors by the resolution of the Board of Directors. An annual maximum amount of stock acquisition rights will not exceed ¥100 million (calculated by the fair value of the share price of the Company on the day of allotment of the share acquisition right).

12. DERIVATIVE TRANSACTIONS

(1) Qualitative disclosure about derivatives

The Companies enter into foreign exchange forward contracts, currency swap contracts and interest rate swap contracts as derivative financial instruments. The Companies deal with foreign exchange forward transactions to hedge exchange rate risk of trade receivables and payables denominated in foreign currency. Currency swap transactions are made in order to mitigate 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 currency swaps and 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 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 derivatives

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, 2006 and 2007 were as follows:

(a) Related to currencies

	Millions of yen			
	Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2006:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	¥2,634	¥—	¥2,653	¥(19)
Buying: U.S. Dollars	199	—	199	(0)
Euro	13	—	13	0
Swiss Franc	1	—	1	0
Total	¥2,847	¥—	¥2,866	¥(19)

	Millions of yen			
	Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2007:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	**¥2,713**	**¥—**	**¥2,700**	**¥13**
Buying: U.S. Dollars	**174**	**—**	**175**	**1**
Euro	**31**	**—**	**31**	**(0)**
Swiss Franc	**1**	**—**	**1**	**(0)**
Total	**¥2,919**	**¥—**	**¥2,907**	**¥14**

	Thousands of U.S. dollars			
	Contract amount	Over one year	Market value	Recognized gains or losses
March 31, 2007:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	**$22,976**	**$—**	**$22,872**	**$104**
Buying: U.S. Dollars	**1,472**	**—**	**1,479**	**7**
Euro	**265**	**—**	**264**	**(1)**
Swiss Franc	**12**	**—**	**12**	**(0)**
Total	**$24,725**	**$—**	**$24,627**	**$110**

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

The Company and its domestic consolidated subsidiaries' finance lease contracts that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases with appropriate footnote disclosures. As if capitalized information for significant leased assets under the finance lease contracts of the Company and its domestic consolidated subsidiaries as of and for the years ended March 31, 2007 and 2006 are as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Machinery, equipment and vehicles:			
Purchase price equivalent	¥ 47	**¥ 42**	**$ 356**
Accumulated depreciation equivalent	22	**12**	**101**
Book value equivalent	¥ 25	**¥ 30**	**$ 255**
Tools, furniture and fixtures:			
Purchase price equivalent	¥711	**¥614**	**$5,199**
Accumulated depreciation equivalent	347	**370**	**3,133**
Book value equivalent	¥364	**¥244**	**$2,066**
Total:			
Purchase price equivalent	¥758	**¥656**	**$5,555**
Accumulated depreciation equivalent	369	**382**	**3,234**
Book value equivalent	¥389	**¥274**	**$2,321**

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

	Millions of yen		Thousands of U.S. dollars
	2006	**2007**	**2007**
Due within one year	¥143	**¥140**	**$1,185**
Due over one year	246	**134**	**1,136**
	¥389	**¥274**	**$2,321**

(3) Lease expenses and depreciation equivalent:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
Lease expenses	¥135	¥129	**¥145**	**$1,230**
Depreciation equivalent	135	129	**145**	**1,230**

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, 2007, the Company and certain consolidated subsidiaries were contingently liable as guarantors for loans of employees and others in the amount of ¥462 million ($3,914 thousand) and discounted bills of export exchange at March 31, 2007 were ¥273 million ($2,312 thousand).

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of the Companies for the years ended March 31, 2005, 2006 and 2007 were ¥16,029 million, ¥15,829 million and ¥17,390 million ($147,312 thousand), respectively, which are included in selling, general and administrative expenses or manufacturing costs.

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, current and Investment Securities of the Company. Capital expenditures are recognized on an accrual basis.

Geographic segment information with respect to net sales, costs and expenses, operating income, and identifiable assets for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Millions of yen				
	Japan	Others	Total	Elimination and/or Corporate	Consolidated
For 2005:					
Sales to outside customers	¥269,858	¥35,510	¥305,368	¥ —	¥305,368
Costs and expenses	224,724	32,412	257,136	2,899	260,035
Operating income	¥ 45,134	¥ 3,098	¥ 48,232	¥ (2,899)	¥ 45,333
Identifiable assets	¥240,157	¥22,224	¥262,381	¥62,650	¥325,031
For 2006:					
Sales to outside customers	¥292,964	¥45,196	¥338,160	¥ —	¥338,160
Costs and expenses	238,984	42,450	281,434	3,369	284,803
Operating income	¥ 53,980	¥ 2,746	¥ 56,726	¥ (3,369)	¥ 53,357
Identifiable assets	¥269,304	¥32,006	¥301,310	¥79,787	¥381,097
For 2007:					
Sales to outside customers	**¥308,459**	**¥57,372**	**¥365,831**	**¥ —**	**¥365,831**
Inter-segment sales/transfers	**31,583**	**1,969**	**33,552**	**(33,552)**	**—**
Costs and expenses	**287,357**	**53,283**	**340,640**	**(30,052)**	**310,588**
Operating income	**¥ 52,685**	**¥ 6,058**	**¥ 58,743**	**¥ (3,500)**	**¥ 55,243**
Identifiable assets	**¥299,981**	**¥38,146**	**¥338,127**	**¥70,822**	**¥408,949**

	Thousands of U.S. dollars				
	Japan	Others	Total	Elimination and/or Corporate	Consolidated
For 2007:					
Sales to outside customers	**$2,612,955**	**$485,996**	**$3,098,951**	**$ —**	**$3,098,951**
Inter-segment sales/transfers	**267,541**	**16,678**	**284,219**	**(284,219)**	**—**
Costs and expenses	**2,434,198**	**451,361**	**2,885,559**	**(254,571)**	**2,630,988**
Operating income	**$ 446,298**	**$ 51,313**	**$ 497,611**	**$ (29,648)**	**$ 467,963**
Identifiable assets	**$2,541,137**	**$323,129**	**$2,864,266**	**$ 599,937**	**$3,464,203**

The Companies' business is segmented into Japan and others including China, Thailand, Korea, the U.S.A. and Belgium.

Overseas sales for the years ended March 31, 2005, 2006 and 2007 were as follows:

	Millions of yen			
	Asia	North America	Others	Total
For 2005:				
Overseas sales	¥ 81,697	¥12,070	¥10,743	¥104,510
Consolidated net sales				305,368
Percentage of overseas sales to consolidated sales	26.8%	3.9%	3.5%	34.2%
For 2006:				
Overseas sales	¥107,687	¥12,955	¥10,901	¥131,543
Consolidated net sales				338,160
Percentage of overseas sales to consolidated sales	31.9%	3.8%	3.2%	38.9%
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%**

	Thousands of U.S. dollars			
	Asia	North America	Others	Total
For 2007:				
Overseas sales	**$943,926**	**$119,349**	**$128,354**	**$1,191,629**
Consolidated net sales				**3,098,951**

Sales areas are segmented into Asia, North America and others. Asia consists of China, Korea, Taiwan, Thailand and Singapore; North America consists of the U.S.A.; and others are the EU.

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, and capital expenditures by segment of business activities for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Millions of yen						
	Elastomers	Emulsions	Plastics	Fine chemicals and other products	Total	Elimination and/or corporate	Consolidated
For 2005:							
Sales to outside customers	¥ 93,233	¥23,602	¥65,941	¥122,592	¥305,368	¥ —	¥305,368
Costs and expenses	85,931	21,221	63,169	86,815	257,136	2,899	260,035
Operating income	¥ 7,302	¥ 2,381	¥ 2,772	¥ 35,777	¥ 48,232	¥ (2,899)	¥ 45,333
Identifiable assets	¥ 96,928	¥22,058	¥33,801	¥109,594	¥262,381	¥62,650	¥325,031
Depreciation	4,402	1,279	1,627	7,417	14,725	520	15,245
Capital expenditures	5,042	1,851	1,279	9,061	17,233	901	18,134
For 2006:							
Sales to outside customers	¥104,021	¥24,944	¥66,451	¥142,744	¥338,160	¥ —	¥338,160
Costs and expenses	92,277	22,389	62,249	104,519	281,434	3,369	284,803
Operating income	¥ 11,744	¥ 2,555	¥ 4,202	¥ 38,225	¥ 56,726	¥ (3,369)	¥ 53,357
Identifiable assets	¥110,449	¥22,324	¥32,717	¥135,820	¥301,310	¥79,787	¥381,097
Depreciation	4,060	1,246	1,391	8,935	15,632	574	16,206
Capital expenditures	3,982	1,430	1,374	15,434	22,220	1,141	23,361
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	**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**

	Thousands of U.S. dollars						
For 2007:							
Sales to outside customers	**$ 984,749**	**$206,371**	**$547,348**	**$1,360,483**	**$3,098,951**	**$ —**	**$3,098,951**
Inter-segment sales/transfers	**4,541**	**30,290**	**—**	**109,838**	**144,669**	**(144,669)**	**—**
Costs and expenses	**884,514**	**221,611**	**514,600**	**1,125,284**	**2,746,009**	**(115,021)**	**2,630,988**
Operating income	**$ 104,776**	**$ 15,050**	**$ 32,748**	**$ 345,037**	**$ 497,611**	**$ (29,648)**	**$ 467,963**
Identifiable assets	**$1,100,350**	**$212,039**	**$298,177**	**$1,253,700**	**$2,864,266**	**$599,937**	**$3,464,203**
Depreciation	**36,908**	**11,700**	**12,896**	**85,068**	**146,572**	**7,036**	**153,608**
Capital expenditures	**50,113**	**13,765**	**10,648**	**104,888**	**179,414**	**7,741**	**187,155**

17. RELATED PARTIES

Significant transactions and balances with related parties as of and for the years ended March 31, 2005, 2006 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	**2007**	**2007**
BRIDGESTONE Corporation (a major shareholder):				
Sales	¥28,016	¥31,951	**¥36,542**	**$309,549**
Notes and accounts receivable	9,639	11,010	**16,180**	**137,062**
KRATON JSR Elastomers K.K. (an affiliated company):				
Purchases	8,002	—	**10,650**	**90,217**
Notes and accounts payable	3,351	—	**5,613**	**47,544**
Provision of materials for processing	4,032	—	**5,604**	**47,469**
Accounts receivable — other	1,871	—	**3,273**	**27,726**
Tobu Butadiene Co., Ltd. (an affiliated company):				
Purchases	8,477	9,624	**12,419**	**105,203**
Notes and accounts payable	3,162	4,455	**5,953**	**50,427**
Provision of materials for processing	7,048	7,433	**10,196**	**86,366**
Accounts receivable — other	2,770	3,772	**5,077**	**43,009**
JSR Micro Korea Co., Ltd. (an unconsolidated subsidiary):				
Loan of funds	3,065	—	**—**	**—**
Long-term loans receivable	4,315	—	**—**	**—**

JSR Micro Korea Co., Ltd. became a consolidated subsidiary in 2006.

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006, and 2007 are as follows:

	Net income Millions of yen	Weighted-average shares Thousands of shares	EPS Yen	EPS U.S. dollars
For the year ended March 31, 2006:				
Basic EPS				
Net income available to common shareholders	¥30,412	254,224	¥119.63	
Effect of dilutive securities				
Stock options		48		
Diluted EPS				
Net income for computation	¥30,412	254,272	¥119.61	
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	**¥33,655**	**252,850**	**¥133.10**	**$1.13**
Effect of dilutive securities				
Stock options		**83**		
Diluted EPS				
Net income for computation	**¥33,655**	**252,933**	**¥133.06**	**$1.13**

The Company had no dilutive securities for the year ended December 31, 2005.

19. SUBSEQUENT EVENTS

At the June 15, 2007 annual meeting, the Company's shareholders approved the following appropriations of retained earnings:
Payment of a year-end cash dividend of ¥12.00 per share aggregating ¥3,026 million ($25,638 thousand)

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, 2007 and 2006, 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, 2007, 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2 (h) to the consolidated financial statements, effective April 1, 2005, JSR Corporation adopted the new accounting standard for impairment of fixed assets.

(2) As discussed in Note 2 (J) (i) to the consolidated financial statements, effective April 1, 2005, JSR Corporation adopted "Amendment of Accounting Standard for Retirement Benefits" and "Implementation Guidance of Amendment of Accounting Standard for Retirement Benefits".

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 15, 2007

PRODUCTION PROFILE

SEGMENT	PRODUCTS	Application/Features	Production Capacity of Plant
Elastomers	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 SBR	specialty SBR for fuel-efficient and high-performance tires	Yokkaichi—45,000 tons/year
	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	Yokkaichi—45,000 tons/year Kashima—36,000 tons/year
	Butadiene resin (JSR RB®)	a plastic with rubberlike properties; for plastics modifiers, adhesives	Chiba—24,000 tons/year
	Styrenic thermoplastic elastomer (SBS, JSR SIS®)	for adhesives, plastics modifiers, footwear	Kashima—45,000 tons/year (Manufactured by KRATON JSR Elastomers K.K.)
	Butadiene		Yokkaichi—148,000 tons/year Chiba—130,000 tons/year (Manufactured by Kashima-Tobu Butadiene Co., Ltd.) Kashima—120,000 tons/year
	Isoprene		Kashima—36,000 tons/year
Emulsions	Latex	for paper coating, carpet backing, tire cord dipping, adhesive agents, ABS plastics	Yokkaichi—120,000 tons/year
Plastics	Acrylonitrile-butadiene styrene plastics (TECHNO 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-diene-styrene plastics (AES)	same mechanical properties as ABS plastics; superior weatherability; for automotive parts	
	Acrylonitrile styrene plastic (AS)	transparent plastics; applications similar to those of ABS plastics	
Fine Chemicals and Other Products	ARTON®	heat-resistant transparent resin	Chiba—5,000 tons/year
	Photoresists for semiconductors		Yokkaichi—400,000 gallons/year Other—50,000 gallons/year (Manufactured by JSR Micro N.V.) 125,000 gallons/year (Manufactured by JSR Micro, Inc.) 125,000 gallons/year (Manufactured by JSR Micro Kyushu Co., Ltd.)

COMPANY NETWORK

HEAD OFFICE

JSR Corporation
6-10, Tsukiji 5-chome, Chuo-ku, Tokyo 104-8410, Japan
Phone: (03) 5565-6500
Facsimile: (03) 5565-6630

BRANCH OFFICES

Osaka, Nagoya

PLANTS

Yokkaichi Plant
100, Kawajiri-cho, Yokkaichi, Mie 510-8552, Japan

Chiba Plant
5, Chigusakaigan, Ichihara, Chiba 299-0108, Japan

Kashima Plant
34-1, Tohwada, Kamisu, Ibaraki 314-0102, Japan

RESEARCH LABORATORIES

Yokkaichi Research Center
Polymer Research Laboratories
Performance Materials Research Laboratories
Semiconductor Materials Research Laboratories
Fine Electronic Materials Research Laboratories
Display Research Laboratories
Fine Converting Laboratories

100, Kawajiri-cho, Yokkaichi, Mie 510-8552, Japan

Tsukuba Research Laboratories
25, Miyukigaoka, Tsukuba, Ibaraki 305-0841, Japan

OVERSEAS OFFICES

Wallisellen Branch
Hertistrasse 2, Bld.C, 8304 Wallisellen, Switzerland

Shanghai Office
6Fl., Suite D, Orient International Plaza,
85 Loushanguan Road, Shanghai 200336, China

Seoul Office
29th Fl., STAR TOWER
737 Yeoksam-Dong, Kangnam-ku, Seoul 135-984, South Korea

Taiwan Office
6F-3, No. 55, Tungkuang Road, Hsin Chu, Taiwan R.O.C.

CONSOLIDATED SUBSIDIARIES

Domestic

JSR Trading Co., Ltd.
6-10, Tsukiji 5-chome, Chuo-ku, Tokyo 104-0045, Japan

Sales of synthetic rubber, emulsions and plastics, chemicals, packaging materials and mechanical goods

Elastomix Co., Ltd.
100, Kawajiri-cho, Yokkaichi, Mie 510-0871, Japan

Production and sales of rubber masterbatch

Emulsion Technology Co., Ltd.
6-16, Obata 1-chome, Yokkaichi, Mie 510-0875, Japan

Sales of latex compounding for carpet backing, construction and waterproofing, and production of acrylic emulsions

JAPAN COLORING Co., Ltd.
4-6, Tomarikoyanagi-cho, Yokkaichi, Mie 510-0883, Japan

Coloring and compounding of plastics

Excel Tokai Co., Ltd.
335-1, Higashitanaka, Gotenba, Shizuoka 412-0026, Japan

Production and sales of plastic extrusions

JSR Logistics Co., Ltd.
16-13, Obata 2-chome, Yokkaichi, Mie 510-0875, Japan

Transportation and warehousing

Techno Polymer Co., Ltd.
2-15-5, Shintomi, Chuo-ku, Tokyo 104-0031, Japan

Research, production and sales of plastics

Kyushu Gomu Kako Co., Ltd.
1250, Murata-cho, Tosu, Saga 841-0072, Japan

Compounding of crude rubber and sales of compounded products

JSR MICROTECH INC.
289-1, Yaenda, Hidaka, Saitama 350-1236, Japan

Production and sales of printed circuit boards and IC testing fixtures

JSR Micro Kyushu Co., Ltd.
1580-1, Oaza Kamiizumi, Kuboizumi-cho,
Saga 849-0902, Japan

Production of photoresists and materials for flat panel displays

D-MEC LTD.
6-10, Tsukiji 5-chome, Chuo-ku, Tokyo 104-0045, Japan

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

JNT SYSTEM Co., Ltd.
6-10, Tsukiji 5-chome, Chuo-ku, Tokyo 104-0045, Japan

Development and sales of computer software and sales of hardware

JSR ENGINEERING CO., LTD.
100 Kawajiri-cho, Yokkaichi, Mie 510-0871, Japan

Engineering and consultation for chemical engineering equipment

JSR Service Co., Ltd.
6-10, Tsukiji 5-chome, Chuo-ku, Tokyo 104-0045, Japan

Nonlife insurance agency, purchase, sales, and leasing of real estate, financing, leasing, management of dormitories, company housing, and facilities

Nichigo Kogyo Co., Ltd.
34-1, Tohwada, Kamisu, Ibaraki 314-0102, Japan

Product packaging, civil engineering and construction

JSR Optech Tsukuba Co., Ltd.
57-1 Sawabe, Tsuchiura, Ibaraki 300-4104, Japan

Production of UV curing-type optical fiber coating materials

Overseas

JSR AMERICA, INC.
312 Elm St., Suite 1585, Cincinnati, Ohio 45202, U.S.A.

Sales of synthetic rubber

TECHNO POLYMER AMERICA, INC.
38777 West Six Mile Road, Suite 204, Livonia, Michigan 48152, U.S.A.

Sales of plastics, technical services related to plastics in North America

TECHNO POLYMER HONG KONG CO., LTD.
Room 2103A, 21/F, Tower 1,
Admiralty Centre, 18 Harcourt Road, Hong Kong

Plastics sales and technical services in Hong Kong and neighboring regions

Techno Polymer (Thailand) Co., Ltd.
The Millennia 19th Floor Room #1902-3, 62 Langsuan Road, Lumpini, Patumwan, Bangkok 10330, Thailand

Plastics sales and technical services in Thailand

Techno Polymer (Shanghai) Co., Ltd.
6Fl., Suite D, Orient International Plaza, 85 Loushanguan Road, Shanghai 200336, China

Plastics sales and technical services in China

JSR Micro N.V.
Technologielaan 8, B-3001 Leuven, Belgium

Production and sales of photoresists

JSR Micro, Inc.
1280 North Mathilda Ave., Sunnyvale, CA 94089, U.S.A.

Production and sales of photoresists

JSR Micro Korea Co., Ltd.
Ochang Scientific Industrial Complex #7 block, 11115, Namchon-ri, Okasan-myeon, Cheongwon-gun, Choongcheongbuk-do, Korea

Production, process, import and export, and sales of industrial-use chemical products, including materials for flat panel displays and for semiconductors

Shanghai Rainbow Color Plastics Co., Ltd.
207 Zhongqing Road, Maqiao, Minhang, Shanghai 201111, China

Coloring and compounding of plastics

Elastomix (Thailand) Co., Ltd.
No. 7/116, Moo 4,
Tumbol-Mapyangporn A-Pluakdaeng, Rayoug 21140, Thailand
(In Amata City Industrial Estate)

Manufacture and R&D of compounded materials, and sales of such materials mainly in Thailand

NON-CONSOLIDATED AFFILIATES ACCOUNTED FOR BY THE EQUITY METHOD

Japan Butyl Co., Ltd.
Japan Fine Coatings Co., Ltd.
KRATON JSR Elastomers K. K.
Kumho Polychem Co., Ltd.

OTHER PRINCIPAL AFFILIATE

Tobu Butadiene Co., Ltd.

CORPORATE DATA

DIRECTORS AND CORPORATE AUDITORS

(As of June 15, 2007)

Yoshinori Yoshida
Representative Director and President

Tadahiko Ito
Representative Director and Executive Vice President, Petrochemicals Sector

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

Seiichi Hasegawa
Managing Director, Strategic Planning, Group Companies, Information Technology, Purchasing

Mitsunobu Koshiba
Managing Director, Fine Chemicals Sector, Safety Environmental Affairs

Masaki Hirose
Managing Director, Human Resouces, Legal and General Affairs

Hozumi Sato
Managing Director, Research & Development, Business Development

Yasuki Sajima
Director, Senior Officer, Fine Chemicals Sector, General Manager, Display Materials Div.

Koichi Kawasaki
Director, Senior Officer, Manufacturing & Technology, Product Safety & Quality Assurance, Petrochemicals Sector, General Manager, Manufacturing & Technology Dept.

Fumio Ozaki
Corporate Auditor (Full-time)

Nobuo Bessho
Corporate Auditor (Full-time)

Kunihiro Fukasawa
Corporate Auditor (Full-time)

Akira Nozawa
Corporate Auditor

Kenji Ito
Corporate Auditor

OFFICERS

Tomokazu Ito
Senior Officer, President, Techno Polymer Co., Ltd.

Akira Tsuji
Senior Officer, President, JSR Micro Taiwan Co., Ltd.

Goro Miyabe
Senior Officer, General Manager, Opto-Electronic Materials Business Center

Eitaro Nakamura
Senior Officer, President, ELASTOMIX CO., LTD.

Hisao Hasegawa
Senior Officer, Yokkaichi Plant Manager

Toshiyuki Fujimoto
Senior Officer, General Manager, Purchasing Dept.

Atsushi Kumano
Senior Officer, General Manager, R&D Dept. and Tsukuba Lab.

Shinichiro Iwanaga
Officer, General Manager, Yokkaichi R&D Center

Yoshiyuki Ohashi
Officer, General Manager, Process Technical Center and Functional Film Dept.

Takashi Wakabayashi
Officer, General Manager, Accounting & Finance Dept.

Tatsushi Kawai
Officer, General Manager, Elastomer Div. and Elastomer Dept.

Takashi Ukaji
Officer, General Manager, Optical Materials Div.

COMPANY NAME

JSR Corporation

ESTABLISHED

December 10, 1957

CAPITAL

¥23,320,165,484

EMPLOYEES

4,693

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 Consumables, 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 2007 regular general meeting was held on June 15.

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, 2007)

NUMBER OF SHARES ISSUED

255,885,166 shares

NUMBER OF SHAREHOLDERS

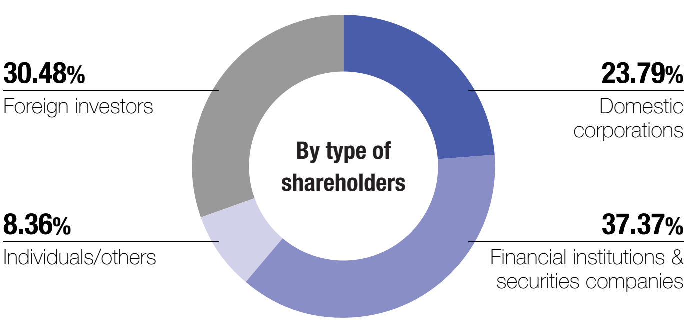
23,972

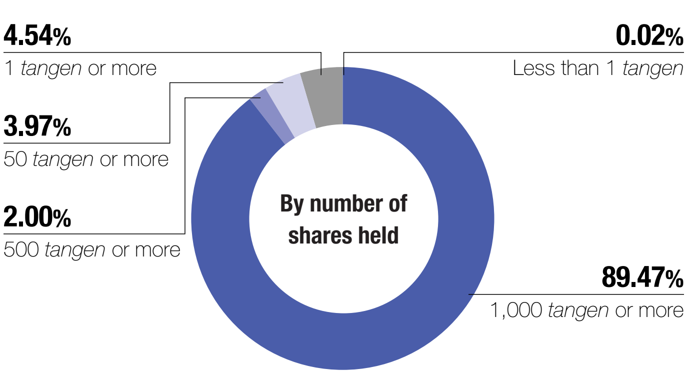
MAJOR SHAREHOLDERS

Name	Percentage of shares held (%)	Number of shares held (thousands)
BRIDGESTONE Corporation	15.97	40,866
Japan Trustee Services Bank, Ltd. (Trust Account)	4.72	12,088
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.65	11,899
Mizuho Corporate Bank, Ltd.	4.00	10,249
The Master Trust Bank of Japan, Ltd. (Pension Account — Pension Trust Account held for Mitsubishi Chemical Corporation)	3.86	9,888
State Street Bank & Trust Company 505103	2.50	6,404
Chase Manhattan Bank N.A. London	2.43	6,227
Chase Manhattan Bank 385036	2.43	6,223
Nippon Life Insurance Company	2.34	5,998
State Street Bank & Trust Company	2.10	5,389

COMPOSITION OF SHAREHOLDERS

Shareholders by category	Number	Shares held (thousands)
Financial Institutions	133	93,917
Securities Companies	43	1,710
Other Corporations	320	60,884
Foreign Corporations and Individuals	383	77,978
Individuals and Others	23,093	21,394
Total	23,972	255,885





COMMON STOCK PRICE RANGE

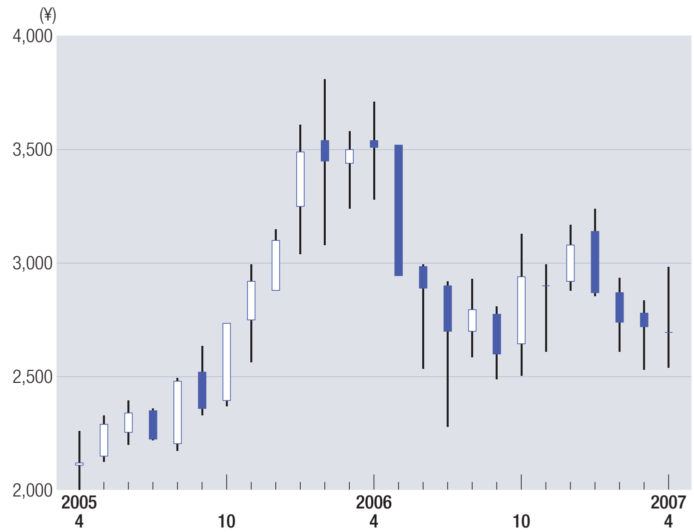
(Tokyo Stock Exchange)

		1st quarter	2nd quarter	3rd quarter	4th quarter
FY2001	High	1,021	945	805	772
	Low	716	650	665	600
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**	**2,935**
	Low	**2,535**	**2,280**	**2,505**	**2,530**

SECURITIES TRADED COMMON STOCK

Tokyo Stock Exchange
Osaka Securities Exchange

MONTHLY STOCK PRICE



Printed in Japan
(1,200)