JSR Corporation

With chemistry, we can.

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, 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.

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.

Corporate Philosophy

Materials Innovation

By offering new materials and through their value,
contribute to the realization of a wealthy human society
(people, society, and environment).

Management Policies

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

Corporate Slogan

With chemistry, we can.

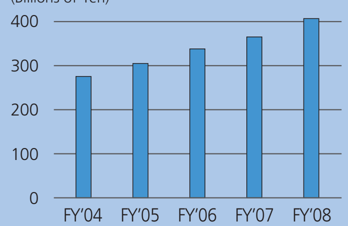
In commemoration of the 50th anniversary of its foundation, JSR has made its corporate slogan. "With chemistry, we can." appeals our technological strengths to make possible by chemistry what appears to be impossible and shows our corporate vision to pursue cutting-edge technologies to create new values,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

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

Consolidated Financial Highlights

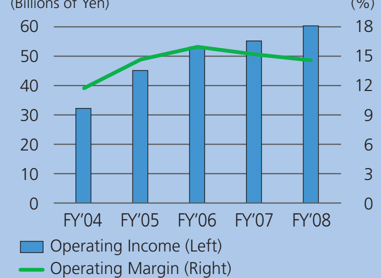
Net Sales

(Billions of Yen)



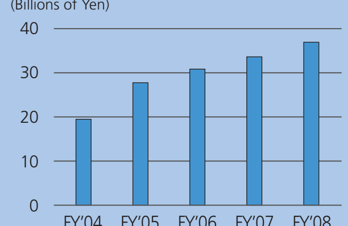
Operating Income / Operating Margin

(Billions of Yen) (%)



Net Income

(Billions of Yen)



Fiscal Years ended March 31

Millions of Yen

	FY1999	FY2000	FY2001	FY2002	FY2003
Results for the year					
Net sales	¥214,849	¥219,492	¥231,823	¥220,058	¥247,139
Costs and expenses	—	212,860	222,400	211,246	226,345
Operating income	7,807	6,632	9,423	8,812	20,794
Interest and dividend income	—	355	591	411	431
Interest expenses	—	(1,265)	(946)	(757)	(750)
Income before income taxes and minority interests	6,960	2,545	9,332	7,915	17,855
Net income	4,551	2,243	5,678	4,728	10,991
Capital expenditures	22,908	12,317	10,936	13,265	16,048
Depreciation	16,665	17,884	17,599	16,507	16,489
Year-end financial position					
Total assets	269,167	293,477	283,859	270,054	281,874
Long-term debt due after one year	—	24,760	24,222	22,934	24,208
Total liabilities	—	169,186	155,476	135,477	139,682
Equity	116,417	121,198	124,684	131,752	139,447
Current ratio (times)	—	1.3	1.4	1.5	1.6
Return on assets (%)	—	0.8	2.0	1.8	3.9
Return on equity (%)	—	1.9	4.6	3.6	7.9
Equity ratio (%)	43.3	41.3	43.9	48.8	49.5
Per share of common stock (Yen and U.S. Dollars)					
Net income	17.52	8.67	22.20	18.48	42.46
Cash dividends	6.00	6.00	6.00	6.00	7.00
Equity	448.22	473.80	487.42	514.93	544.94

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥100.19=$1, the exchange rate prevailing at March 31, 2008.

2002–2003

HOP JSRevolution

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

Net Sales: ¥275.1 billion
Operating Income: ¥32.6 billion

					Thousands of U.S. Dollars
FY2004	FY2005	FY2006	FY2007	FY2008	FY2008
¥275,071	¥305,368	¥338,160	¥365,831	¥ 406,968	$4,061,958
242,452	260,035	284,803	310,588	346,958	3,462,991
32,619	45,333	53,357	55,243	60,010	598,967
397	519	635	1,030	1,309	13,066
(693)	(475)	(420)	(399)	(256)	(2,553)
30,378	43,471	49,038	53,440	54,867	547,627
19,353	27,564	30,555	33,655	36,994	369,243
17,156	18,134	23,361	22,094	29,076	290,209
14,970	15,245	16,206	18,133	21,180	211,395
308,581	325,031	381,097	408,949	416,951	4,161,602
13,920	13,857	1,607	2,745	1,525	15,223
146,280	139,249	164,389	168,963	159,288	1,589,862
159,497	182,476	212,751	235,186	252,539	2,520,600
1.6	1.8	1.7	1.8	1.6	
6.3	8.7	8.7	8.2	14.8	
12.9	16.1	15.5	15.0	15.2	
51.7	56.1	55.8	57.5	60.6	
75.12	107.54	119.63	133.10	147.26	1.47
9.00	14.00	20.00	24.00	32.00	0.32
623.14	717.13	836.31	932.47	1,009.27	10.07

2004–2006

STEP JSRevolution II

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

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

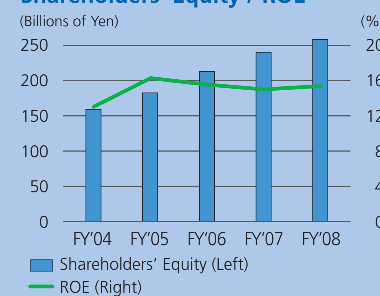
2007–2010

JUMP JUMP2010

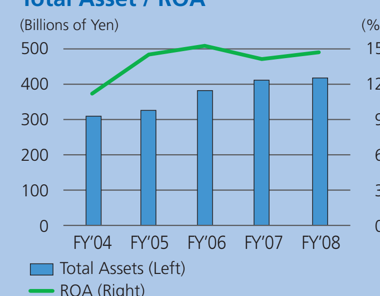
The period for accelerating reform and innovation to achieve a jump forward while continuing growth.

Net Sales: Over ¥500 billion yen
Operating Margin: 15% or higher

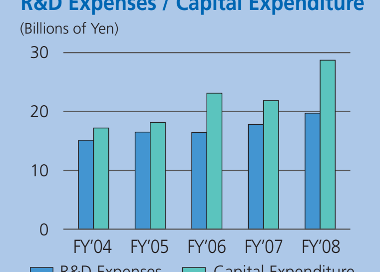
Shareholders' Equity / ROE



Total Asset / ROA



R&D Expenses / Capital Expenditure

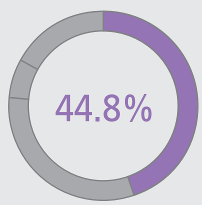


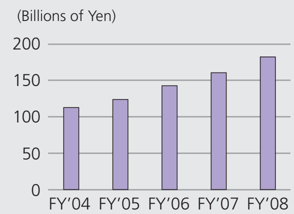
At a Glance

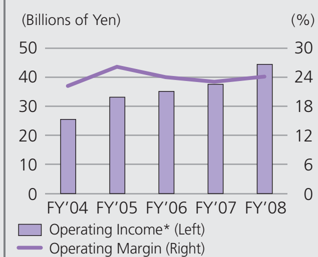
Segment	Proportion of Sales	Net Sales	Operating Income / Operating Margin

Fine Chemicals and Other Products

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





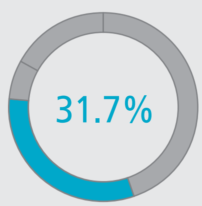


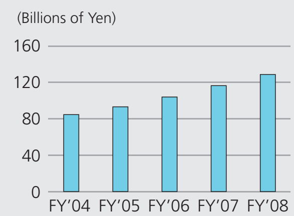
*Operating income includes company-wide costs for fundamental research and development.

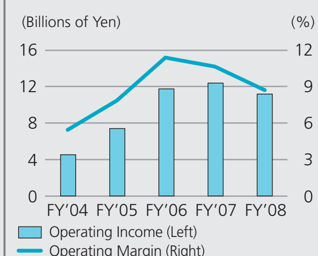
Petrochemicals

Elastomers

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

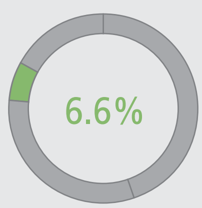


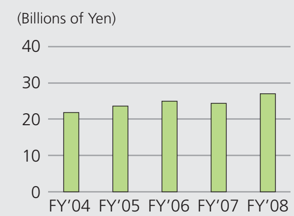


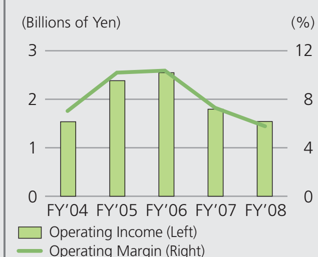


Emulsions

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

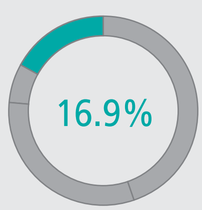


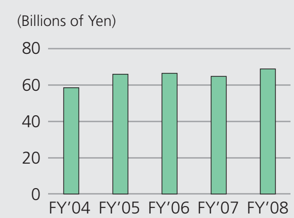


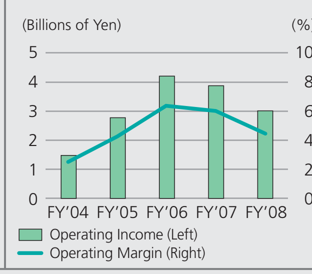


Plastics

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







1st Tier Products

Elastomer

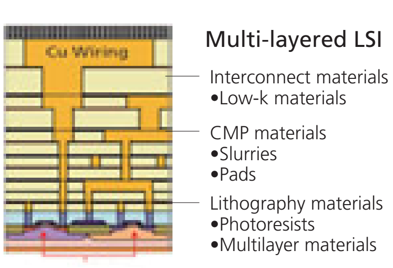
Styrene-butadiene rubber (SBR) and other JSR general-purpose synthetic rubbers are used in many applications across industries due to their advanced technology. JSR products are top class in the Japanese market. The largest application is automobile tires, and JSR is making a large contribution to increasing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

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

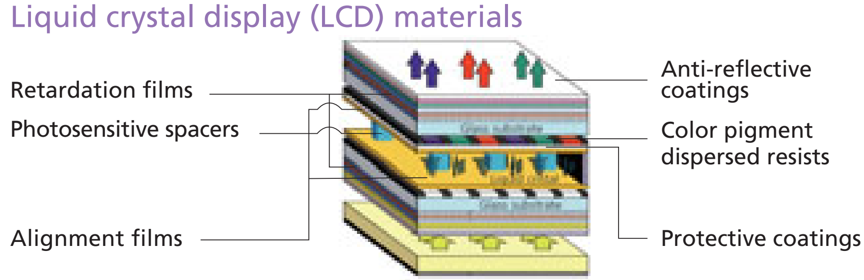
Semiconductor materials

JSR is developing materials for semiconductor production based on its many years of polymer chemistry in petrochemical businesses. JSR is meeting diverse global needs for high quality products in the trend of miniaturization and high integration in semiconductors. In particular, JSR photoresists, photo-sensitive resin materials, are recognized as being global top class.

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



Liquid crystal display (LCD) materials



To Our Shareholders

YOSHINORI YOSHIDA, Ph.D.
Representative Director and President

I hope this will find all of our shareholders well and prosperous.

We marked the 50th anniversary of the founding of our company on December 10, 2007. I would like to take this opportunity to express our deep gratitude to our shareholders for their continued support.

1. Operating Environment and Review of Business Results

In the first half of this year the Japanese economy followed a path of recovery, although moderate, on increased capital spending and an improvement in the employment situation, both backed by favorable corporate earnings. However, in addition to soaring prices of raw materials due to sharp rises in crude oil prices, the rapid appreciation of the yen against the dollar in the second half of the year proved to be an additional profit-squeezing factor.

Against this background, we have launched "JUMP2010," the new mid-term business plan with fiscal 2008 as its initial year, toward realizing what we have set for ourselves in fiscal 2011, and focused on responses to the challenges we should address during the period of the plan.

In the petrochemicals business, we endeavored to raise the prices of our products to maintain profit margins so as to stabilize earnings amidst continually climbing prices of main raw materials.

In the fine chemicals and other products business, which mainly comprises information electronics materials, we continued to launch cutting-edge materials based on our core technologies as we focused on our growth in the global market to enable further growth of the business. In addition, we continued to implement the Cost-Reduction Plan "E-100 Projects" throughout the entire JSR Group, working to reduce costs at all operational stages.

As a result of the above, net sales for fiscal 2008 increased 11.2% to ¥406.9 billion, operating income was up 8.6% to ¥60.0 billion, current income rose 2.5% to ¥56.0 billion, and current net income increased 9.9% to ¥36.9 billion, thus enabling us to achieve the initial-year goals under the JUMP2010 mid-term business plan. The Company as a whole was able to make a good start.

2. Dividends

We view the return of profits to our shareholders as one of important management tasks, along with the enhancement of corporate value through the development of new businesses.

We increased the interim dividend by ¥4 per share to ¥16, and based on the current year's earning performance, we decided to pay a year-end dividend of ¥16 per share, also up ¥4. This would translate into a dividend of ¥32 per share applicable to fiscal 2008, ¥8 higher than the previous fiscal year.

3. Fiscal 2009 Business Strategy

(I) Mid- and Long-Term Corporate Strategy and the Challenges We Should Address

Under the mid-term business plan "JUMP2010" and guided by our corporate philosophy "Materials Innovation," with a view to becoming an advanced chemical company in 2015, we will strive to make a great leap forward by creating a group of next-stage growth businesses and expanding existing businesses, with the focus kept on technologies and human resources, and to realize net sales of over ¥500 billion and an operating income ratio of at least 15%, as initially planned.

Furthermore, as what we envision for ourselves in 2015, we will aim to become an advanced chemical company widely recognized as contributing to the creation of a better world by establishing next-stage growth businesses as our third pillar built upon the growth of the fine chemicals and other products business and petrochemicals business. In fiscal 2009, the second year of the four-year mid-term plan, we will endeavor to put back on track businesses that failed to attain goals in the previous fiscal year, redouble efforts to speed up the start-up of next-stage growth businesses, and, on the basis of the above, to accelerate growth in the latter two years of the plan.

As business prospects for fiscal 2009, we project net sale of ¥437.0 billion, operating income of ¥61.0 billion, operating profit margin of 14.0% and ROE of 14.0%. We will push ahead with the further growth of the fine chemicals and other products business, stable earnings of the petrochemical business and the cost-reduction project.

(II) Strategy by Segment

1. Petrochemicals Business

Our basic strategy in the petrochemicals business is to maintain and expand earnings through the focus on value-added products, productivity enhancement and cost reductions. In fiscal 2009, the second year of the mid-term plan, we will aim to eliminate the impact of the time lag that emerged in the previous fiscal year between price rises in raw materials and price raises of our products, envisioning higher profits on increased net sales, with net sales projected at ¥243.0 billion and operating income at ¥18.0 billion.

Segment-by-segment business strategies for fiscal 2009 are outlined below:

(a) Elastomers Segment

We will make proactive efforts to expand sales of value-added products. For that purpose, specifically, we acquired last year the right to take delivery of 30,000 tons i.e. 50% of the total production amount of solution polymerization styrene-butadiene rubber (S-SBR) for high performance automobile tires from Dow Europe GmbH which will start up a new production line for value-added products. We will also strive to shorten the time lag between price rises in raw materials and price raises of our products to secure stable earnings.

(b) Emulsions Segment

We will aim to improve earnings through the development and increased sales of products in response to the additional installation of new coating equipment in the paper-manufacturing

Fiscal 2008 Business Performance

Net sales and operating income were higher than the initial goals under the JUMP2010 mid-term business plan.

(Billions of yen)

	FY2007	FY2008 (Plan)	FY2008	Compared with the initial goal
Net Sales	365.8	397.0	406.9	+10
Operating Income	55.2	56.0	60.0	+4
Operating Margin (%)	15.1	14.1	14.7	+0.6
ROE (%)	15.0	14.0	15.2	+1.2

Fiscal 2009 Business Target

We will redouble efforts to speed up the start-up of next-stage growth businesses, and accelerate growth in the latter two years of the mid-term business plan.

(Billions of yen)

	FY2008	FY2009 (Plan)	Difference	FY2011 (Target)
Net Sales	406.9	437.0	+30	500
Operating Income	60.0	61.0	+1	75
Operating Margin (%)	14.7	14.0	-0.7	15 or more over
ROE (%)	15.2	14.0	-1.2	14 or more over

industry, the main user of our products.

(c) Plastics Segment

We will strive to improve earnings by focusing on value-added and special products and also by pushing ahead with cost reductions in response to the stronger yen-induced deterioration in export profitability.

2. Fine Chemicals and Other Products Business

For the fine chemicals and other products business, which mainly comprises semiconductor materials, flat panel displays (FPD) materials and optical materials, our basic strategy is to expand the business scale by further expanding sales of existing materials and creating new materials in peripheral area, and to maintain and improve earnings by strongly pushing ahead with cost reduction on variable and other costs. For fiscal 2009, we expect to continue to post higher sales centering on semiconductor materials and project net sales of ¥194.0 billion. We project operating income at ¥43.0 billion for the entire fine chemicals and other products business, the same as the previous year's level, as we expect the introduction of cutting-edge research and development equipment and a temporary rise in depreciation and other fixed costs due to changes in the tax reform.

(a) Semiconductor Materials Segment

Semiconductor materials are expected to post continued growth over the long term, and technological needs for miniaturization and high integration are growing at an ever faster rate. Viewing these market and technological trends as an opportunity to develop new materials and generate new businesses, we will strive to expand the business by expanding sales of existing materials and actively promoting new materials in such fields as photoresist, multilayer materials, chemical mechanical planarization (CMP) materials, and packaging and interconnect materials. We aim to improve earnings by striving to expand sales by taking advantage of our strong relationships with global cutting-edge semiconductor manufacturers and our technological edges and by enhancing cost competitiveness through the optimization of supply chains.

(b) FPD Materials Segment

In the FPD materials segment, our basic strategy is to expand sales and maintain earnings by responding to quality enhancement needs for higher resolution and higher performance, and strengthening our price responsiveness. Regarding existing materials such as alignment films and color pigmented resists, we plan to expand sales of products with technological edge by responding to needs related to high-definition television sets and new processes. We will also strive to optimize the global production system in Japan, Korea and Taiwan to strengthen cost competitiveness. As for next-generation display materials, we will redouble efforts to put the development of new materials on track by making the most of technologies we have and also by promoting collaboration with leading makers.

(c) Optical Materials Segment

In fiscal 2009, we will strive to improve earnings for optical fiber coating (OFC) materials through redoubled efforts to reduce costs.

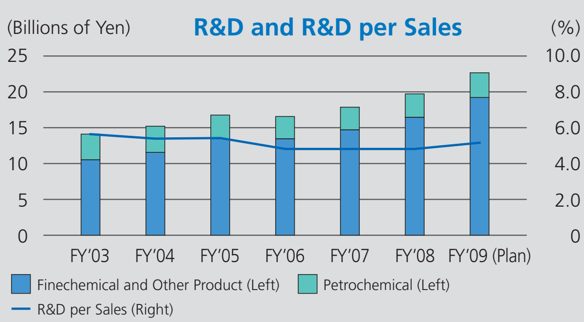
Regarding heat-resistant transparent resin ARTON® on top of retardation film products for high-definition television sets, we will add high-performance mobile applications, and other applications that can make use of the resin's performance advantages as strategic markets.

3. Next-Stage Growth Businesses

Under the current mid-term plan, we will focus on precision processing, the environment and energy, and medical care as areas with great growth potential in the 21st century. With the basic strategy to create new businesses that will develop into the pillar of growth in the future through the synergy effect of our competitive materials and processing technologies, we aim for net sales of at least ¥20.0 billion in fiscal 2011. In the precision processing field, we started a precision processing research laboratories within the compounds of the Yokkaichi

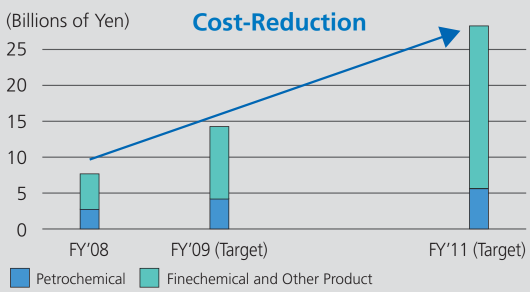
Research & Development

We will realize the expansion of business operations and an early start-up of new businesses by prioritizing the allocation of resources.



The Cost-Reduction Plan "E-100 Projects"

We achieved cost reductions of ¥7.7 billion in fiscal 2008. We will work on further cost reductions with concerted efforts.



Plant as a dedicated research laboratory in fiscal 2008. In the environment and energy field, we established JM Energy Corporation. in August 2007 to manufacture and sell lithium ion capacitors. A mass-production plant is currently under construction in preparation for a full-fledged launch into the lithium ion capacitor business.

4. The Cost-Reduction Plan "E-100 Projects"

Under the current mid-term business plan, we are promoting the Cost-Reduction Plan "E-100 Projects" activity, at all of the Group companies. We aim at cumulative cost reductions of ¥28.0 billion over the four years, covering the entire supply chain from the procurement of raw materials and production to distribution of products, by efforts toward productivity enhancement through process improvements and use of cost competitive raw materials. We are making steady progress under the project, achieving cost reductions of about ¥7.7 billion in the first year (fiscal 2008), higher than the initial target.

5. R&D Investment Program

We will invest a cumulative total of over ¥85.0 billion in the four years from fiscal 2008 to fiscal 2011. We will strive to speed up the expansion of business operations by prioritizing the allocation of resources. We are aiming for an early start-up of next-stage growth business, and as part of efforts to improve the infrastructure for achieving that goal, we established a precision processing research facility and a fine process development office in fiscal 2008.

Finally, we have taken specific actions in the area of CSR (Corporate Social Responsibility), and are making efforts toward realizing goals under our corporate philosophy and management policies we have adopted for our aim of becoming a corporate entity that contributes to society. With the phrase of "Materials Innovation," our corporate philosophy is to "supply new materials and using the value generated to help create a better world (for people, society and the environment)." In December 2007, on the occasion of marking the 50th anniversary of the Company's founding, we adopted a new corporate slogan, "With chemistry, we can." as a move to strengthen the value of our corporate brand. We plan to proactively make use of the slogan in a manner to complement our corporate philosophy, "Materials Innovation," and all employees of the Company share this slogan as the guiding principle for their activities.

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 2008

YOSHINORI YOSHIDA, Ph.D.
Representative Director and President

* Responsible care denotes "voluntary management activities of business entities that either manufacture or deal in chemical substances under which they make public commitments in their management policies to secure the 'environment and safety' and implement necessary measures."

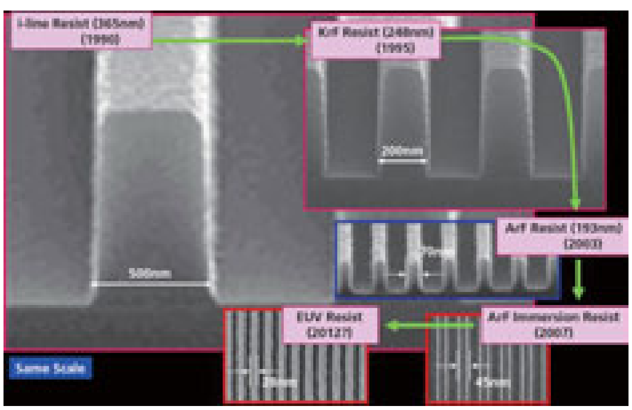
A Force behind the Scenes — JSR's Semiconductor Materials Business

1. Introduction: the Semiconductor Materials Market

(a) Market Environment and Market Scale

Demand for semiconductors is on the rise for a diversity of applications such as personal computers (PCs), cell phones, flat panel displays, digital consumer electronics and car electronics as well as for high-performance applications. The global semiconductor industry has continued to grow on the back of growth of information technology and electronics industries and expanding demand for digital appliances and other electronics products, and the semiconductor market is said to be set to sustain growth through 2010. The business environment for photoresists and other semiconductor materials calls for the development of new material technologies as technological requirements for semiconductor design and manufacturing are expected to increase with rising needs for miniaturization and high integration.

Circuit Line Width Miniaturization

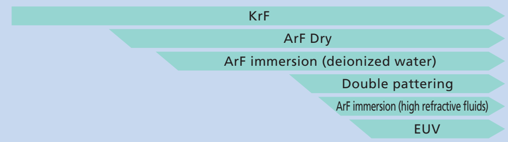


(b) Technology Road Map and Technological Trends

The semiconductor industry has presented the road map of challenges to be overcome to attain the future goals of circuit line width miniaturization. A great variety of semiconductor materials are being developed in tandem with the road map. This applies to the lithography field as well. Mass production of the 45nm generation started in 2007, with the focus of exposure technology beginning to shift from argon fluoride (ArF) dry exposure to immersion exposure. The current photoresist market is being led by ArF photoresist, and customers are striving to respond to market developments. JSR is carrying out active research and development in cutting-edge fields, and customers have adopted our top coats and ArF photoresists for immersion exposure.

Semiconductor Technology Roadmap

Production start-up	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Generation		65nm			45nm		32nm			22nm	
Flash hp	107nm	90nm	76nm	64nm	57nm	51nm	45nm	40nm	36nm	32nm	26nm



# of metal levels (Logic)	10	11	12	13
Directric film	CVD-Low-k	Next generation Low-k		
k-constant	2.9	2.4	2.1	
Conductor (Memory)	Aluminum		Cu	
Conductor (Logic)	Cu			

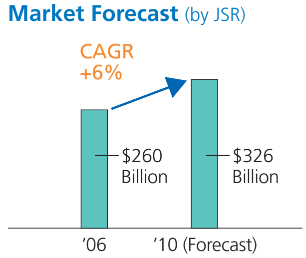
2. JSR's Semiconductor Materials Business

(a) Semiconductor Materials Business and Business Strategy

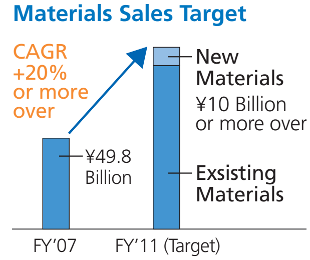
In the mid-term business plan "JUMP2010" the trend of miniaturization and high integration in semiconductors is viewed as an opportunity to develop new materials and generate new businesses, and in addition to existing materials such as photoresist, chemical mechanical planarization (CMP) materials and packaging materials, we will proactively pursue the development of new materials and new business development. In particular, we will seek to expand market share for lithography materials (ArF photoresists, multilayer materials, top coat materials and other materials for immersion lithography) on the strength of differentiating technology and superior quality, and also seek to expand sales to existing users and acquire new users for CMP materials.

In the business development for new materials, we will seek to create new business opportunities in response to the growing trend of manufacturing technology toward miniaturization and high integration on the strength of our relationships with customers and partner companies. In preparation for the 32nm generation from 2010 onward, we are researching a variety of shrinkage technologies in lithography processes, and are also developing next-generation

Semiconductor Market Forecast (by JSR)



Semiconductor Materials Sales Target



Lithography material evaluation facility

New manufacturing plant in Yokkaichi
(A conceptional image at its completion)

	Lithography Materials	CMP Materials	Interconnect Materials	Packaging Materials	Others
Existing Materials	g/i-line photoresist KrF photoresist ArF photoresist Top coat materials for immersion ArF photoresist for immersion Multilayer materials (middle layer / underlayer) Others	BM slurry Cu slurry CMP pad Others	Spin-on low-k materials	Thick film photoresist photosensitive insulation film Others	
Main New Materials	Materials for double exposure High refractive fluids for immersion EUV photoresist	New businesses other than wafer processes with the planarization as the keyword	Next-generation low-k materials precusors	SiP-related materials	Image sensor-related materials

low-k materials and precursors in interconnect materials. In CMP materials, in addition to slurries and pads already being marketed, we plan to develop new business fields other than wafer processes with "planarization" as the keyword. In packaging technology, we will develop and market materials in response to the growing trend toward system in package (SiP). In other areas, we will proactively develop various materials for CMOS image sensors by making use of technical knowledge we have acquired in the fields of semiconductor materials and liquid crystal displays (LCD) materials.

(b) JSR's Technological Advantage and Strengthening of Competitiveness

The electronic materials, which mainly comprise photoresists and other semiconductor materials, are the linchpin of the mid-term business plan "JUMP2010." We are now implementing our global strategy in top gear and have successfully built solid relationships with the world's top research and development institutions as well as market-leading enterprises. On the back of these cooperative relationships, we are pushing ahead with the development of cutting-edge technologies while maintaining technological advantages. In addition, in the Cost-Reduction Plan "E-100 Projects" underway company-wide, we are carrying out a thorough review of the entire supply chain and manufacturing processes to put the efficient system in place.

In order to develop the above-mentioned systems that should lead to earnings growth, we have been aggressively allocating resources to the information electronic materials sector. In January. 2008, we installed cutting-edge evaluation equipment at the Yokkaichi Research Center to coincide with the full-fledged launch of immersion exposure technology. We have also decided to construct a manufacturing plant for cutting-edge lithography materials in response to rising quality requirements associated with miniaturization (completion set for April 2009). We plan to strengthen our competitive advantage by enhancing the supply chain with the addition of a new production line.

Global Operations for Semiconductor Materials

We established strategic relationships with several key customers through global channels by leveraging our global infrastructure.

JSR Micro NV

JSR Yokkaichi Plant

JSR Micro Inc

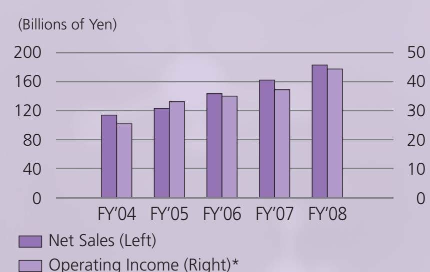
3. Conclusion

JSR's semiconductor materials business is an important key driver to ensure the success of the mid-term business plan "JUMP2010." In order to achieve success, we will leverage our technological edges as well as the relationships we have developed with customers and ensure sustained growth by aggressively seeking to enter not only existing visible markets but also business fields that will emerge over time.

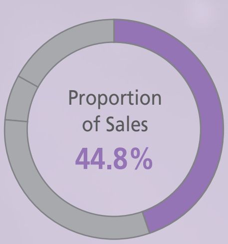
Fine Chemicals and Other Products

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

Net Sales and Operating Income



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



Fiscal 2008 Business Performance:

Semiconductor Materials

In the semiconductor materials segment, photoresists, the mainstream product, posted healthy gains reflecting expanded domestic sales and exports to Asian countries, due to increased production of semiconductor memories. Sales at subsidiaries in Europe and North America were also higher as demand for semiconductors remained firm in the European and North American markets. In particular, sales of ArF photoresists and multilayer materials increased substantially as a result of their expanded applications in cutting-edge fields as they progressed in miniaturization. As for new semiconductor materials, sales of chemical mechanical planarization (CMP) materials remained the same level as the previous year, while packaging materials posted healthy gains. As a result, net sales of semiconductor materials as a whole increased substantially over the previous year.

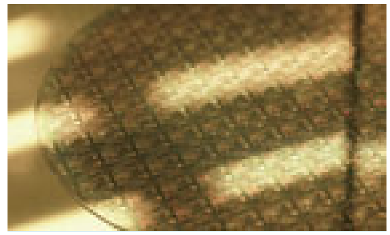
JSR has introduced a state-of-the-art facility to research immersion exposures at the Yokkaichi Research Center in a bid to step up its drives to develop next-generation technologies for semiconductor production. JSR has, moreover, decided to set up a new production facility for the most advanced lithography materials within the Yokkaichi Plant, in order to respond to quality enhancement needs following the surging demand and miniaturization. The construction of the new production facility is targeted for completion in April, 2009. Through these initiatives, we will seek to further enhance our competitive edge in the fields of most-advanced materials.

Flat Panel Display Materials

In flat panel display materials, sales of liquid crystal display (LCD) materials exceeded the previous year's levels. Their shipments, led by exports, recovered around the middle of the year, as LCD panel inventory adjustments that had continued until early in the fiscal year, came to an end and global sales of personal computers and LCD television sets expanded. In terms of production, our manufacturing site for LCD materials in Taiwan completed the second phase of construction to expand its product lines and supply capacities, following the same initiatives taken by our Korean manufacturing site. The new Taiwan facilities launched commercial production in November, 2007. Sales of plasma display panel (PDP) materials decreased sharply under the strong influences of production adjustments by our major users both domestically and overseas.

Optical Materials

Sales of optical fiber coating materials, the mainstream product of this sector, decreased in the wake of low investment in optical fiber cables in the domestic market. Sales of materials for anti-reflective coatings and surface-protective coatings increased



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

JSR LCD materials are used in high definition TVs.

as the demand for value-added products recovered reflecting the market's shift toward higher definition flat-panel television sets. Sales of ARTON®, a heat-resistant transparent resin, increased significantly as a result of efforts to increase sales to optical film makers, the primary users of the product, but still fell short of the initial target.

Earning:

Profits increased over the previous year as a result of increased sales of differentiated products and cost-reduction efforts through the Cost-Reduction Plan "E-100 Projects", despite downward pressures on prices stemming from price declines for products of the major user industries. As a result of the above, net sales of fine chemicals and other products increased 13.4 % to ¥182,176 million and operating income rose 19.0 % to ¥44,287 million.

Fiscal 2009 Business Strategy:

For the current fiscal year, fine chemicals and other products targets net sales of ¥194,000 million, seeking to further raise profit with a focus on semiconductor materials. On the other hand, further appreciation of the yen could affect the sales results in our overseas markets. Operating profit is projected to stay at ¥43,000 million. This figure reflects the introduction of advanced research and development facilities as investments and a temporal increase of depreciation expenses etc., due to tax reforms.

Semiconductor Materials

In the semiconductor material markets, sustainable growth is expected in the long run. We are able to take advantage of the market and technology trends such as miniaturization and high integration as opportunities to develop new materials and create new businesses. In fiscal 2009, we will seek an expansion of sales, capitalizing on our strong relations with global semiconductor manufacturers and our technological edge. Furthermore, by steadily implementing the Cost-Reduction Plan "E-100 Projects", we will strengthen our cost competitiveness and enhance our profitability. Moreover, we will prioritize the development of topcoatless ArF resists to respond to new immersion processes as well as double patterning materials based on the technologies of a further advanced generation. In addition, with CMP materials, we will seek a development into new fields such as memory, while striving to also develop new materials in the fields of packaging materials and interconnect materials.

FPD Materials

While the LCD panel market expanded both in terms of sales volume and amount in 2007, its rate of market growth in sales, is projected to slow down in 2008. The PDP market, which shrank in 2007, is also expected to grow by a very small amount in 2008.

As for FPD materials as a whole, we will seek to expand sales and maintain profitability by meeting the trends of enhanced performance and strengthening our capacity to respond to pricing movements. Concerning the existing materials including alignment films, we will further promote the sales of our technically advantageous products by meeting the technical demands of high-definition TVs and new processes. Moreover, by optimizing our global production system based on Japan, South Korea and Taiwan, we will strengthen our cost competitiveness. In addition, we will steadily establish next-generation display materials based on our technological assets.

Optical Materials

In optical fiber coating (OFC) materials, we will seek to boost profits by further promoting cost-reduction project in fiscal 2009.

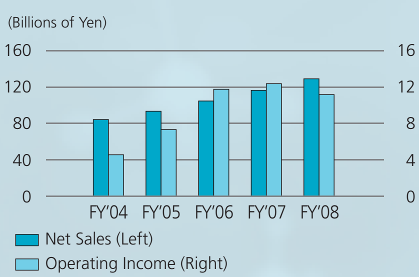
For ARTON® heat-resistant transparent resin, we will add new strategic markets: high-performing mobile applications, in which ARTON® can take advantage of its functions, as well as other applications, in addition to retardation film applications. At the same time, we will seek to improve profitability through thorough reduction of variable and fixed costs.

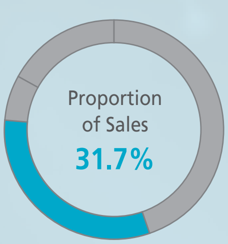
Elastomers

Since its foundation, JSR has offered a wide range of elastomer products for the world market including: general-purpose synthetic rubber represented by styrene-butadiene rubber (SBR) developed for car tires; and special-purpose synthetic rubbers such as acrylonitrile-butadiene rubber (NBR), butyl rubber (IIR), and ethylene-propylene rubber (EPR) .

Also, it offers thermoplastic elastomer materials (TPEs), which have unique characteristics between rubber and thermoplastic resins.

Net Sales and Operating Income





Fiscal 2008 Business Performance:

Synthetic Rubber

In the domestic synthetic rubber business, automobile tire production was robust for general-purpose synthetic rubbers such as styrene-butadiene rubber (SBR) and polybutadiene rubber (BR). But sales volume was lower because of limited availability of raw materials due to an accidental fire at one of the facilities of Mitsubishi Chemical Corporation. Net sales were nevertheless higher, due to efforts to raise the prices of our products in response to higher raw materials prices. Sales of high-performance special-purpose rubber was the same level as the previous year as increased sales of acrylonitrile-butadiene rubber (NBR) and butyl rubber (IIR) buoyed by higher automobile production was offset by decreased sales of ethylene-propylene rubber (EPR) due to the downsizing of our resin modifying business; nevertheless sales were higher than in the previous year as a result of price revision efforts. As for the exports of general-purpose synthetic rubber, sales increased substantially from the previous year, as demand expanded rapidly for solution polymerization styrene-butadiene rubber (S-SBR) for fuel-efficient and high-performance automobile tires, while demand for other general-purpose synthetic rubber also increased. Sales of high- performance special-purpose rubber increased, with NBR and IIR posting healthy gains reflecting higher demand in Southeast Asia and China.

Thermoplastic Elastomer (TPE)

Domestic sales of thermoplastic elastomers (TPEs), such as butadiene and styrene-butadiene thermoplastic elastomers, increased due to the efforts to expand sales in addition to the recovering demand and raised prices. Exports also rose as demand for butadiene thermoplastic elastomers (RB) recovered in Europe and Latin America.

Production:

JSR has entered into a capacity rights agreement with Dow Europe GmbH to receive 30,000 tons a year of S-SBR, equivalent to 50% of the capacity of Dow's planned new production line. This agreement is aimed at responding to the expanding demand of S-SBR for fuel-efficient and high-performance tires. Dow's new production line is due to be completed in the second half of fiscal 2009. This is one example of our initiatives to strengthen the supply system of high-quality products, further developing our global drives based in Japan and Europe. Concerning EPR, we concentrated our domestic production by increasing the output capacity of the Kashima Plant to 36,000 tons a year. We also expanded the output capacity of Kumho Polychem Co., Ltd. (KPC), a Korean joint venture, to 78,000 tons a year in August, 2007.

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

JSR TPE products are used in the soles of shoes.

Earning:

Profits dropped mainly because of sharp rises in raw materials prices, despite efforts to expand sales of value-added products and stepped-up cost reductions through the promotion of the Cost-Reduction Plan "E-100 Projects" as well as efforts to raise the prices of our products in response to higher raw materials prices.

Net sales in the elastomers segment grew 10.9% over the previous year to ¥128,952 million and operating income decreased 9.7% to ¥11,168 million.

Fiscal 2009 Business Strategy:

In the business environment, we expect tight supply-demand conditions for our main synthetic rubber business, due to the steady production of automobiles and tires. On the other hand, further hikes of material prices and volatile foreign exchange rates could worsen our profitability, suggesting a severe business environment ahead. Amidst these circumstances, we will aggressively expand the production of value-added products, such as S-SBR for fuel efficient and high performance tires, in our bid to increase our production capacity by efficient investments in response to a surge of synthetic rubber demand. Specifically, we will have Dow Europe, with which we entered into an agreement the previous year to receive 30,000 tons a year of S-SBR start up a new product line and expand sales of value-added products aggressively. We will also step up the price-revising cycle to reflect more swiftly rises in raw material prices.

Production Profile

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

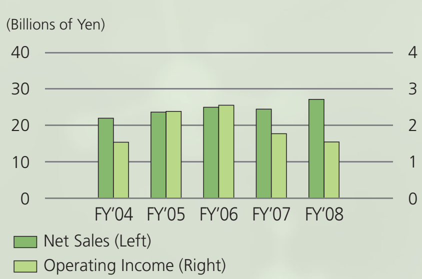
Review of Operations / Petrochemical Materials

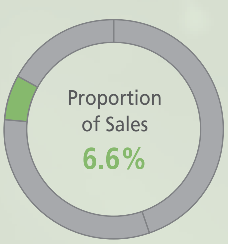
Emulsions

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

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

Net Sales and Operating Income





Fiscal 2008 Business Performance:

In the case of paper coating latex (PCL), although production amount of coated paper exceeded that of the previous year, owing to reduction in the amount of latex used by the users with the purpose of reducing the cost, the sales volume remained unchanged. Net sales were nevertheless higher, reflecting our efforts to raise the sales prices in response to higher raw materials prices.

On the other hand, sales of acrylic emulsion were lower due to decreased sales in the adhesive materials division that is mainly for use in building materials.

Earning:

Profits dropped due, for the most part, to sharp rises in raw material prices, despite efforts to reduce costs through the promotion of the Cost-Reduction Plan "E-100 Projects" as well as efforts to raise the sales prices in response to higher raw materials prices.

In the emulsion segment, net sales increased 10.8% to ¥26,993 million and operating income fell 13.2% to ¥1,542 million.

Fiscal 2009 Business Strategy:

While the coated paper segment is expected to fare well, we will increase profits through the development and sales expansion of differentiation products in respond to the newly added coating equipment in the paper manufacturing industry.

Production Profile

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

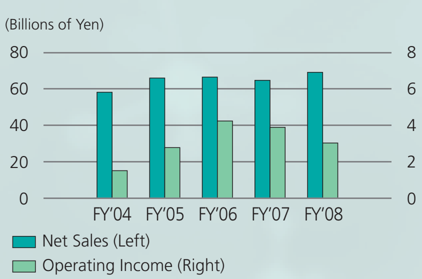
Review of Operations / Petrochemical Materials

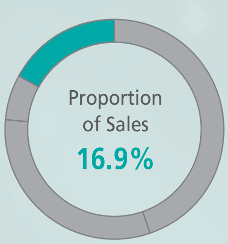
Plastics

ABS plastic products are being used for automotive parts.

JSR is operating its plastics business under Techno Polymer Co., Ltd., a joint venture with Mitsubishi Chemical Corporation. Techno Polymer offers various kinds of ABS plastic products that customers seek. The company's ABS products are noted for uniqueness, based on the combined characteristics of various kinds of polymers. The company presents ABS products, which are consistent in quality, backed by its worldwide bases of sales, and technical services.

Net Sales and Operating Income





Fiscal 2008 Business Performance:

In the domestic market, sales volume declined due to sluggish demand for plastics used in building materials as a result of the fall in new housing starts coupled with our withdrawals from unprofitable product lines, even though heat-resistant ABS plastics and weatherproof AES plastics posted healthy gains. However, net sales were higher as a result of increased sales in the special and value-added fields as well as efforts to raise prices of our products in response to higher raw materials prices.

Exports increased in terms of sales, as a result of increased sales in the special and value-added fields and higher demand from the entertainment sector, on top of efforts to raise prices of our products.

Earning:

Profits nonetheless dropped, mainly because of the deterioration in export profitability due to the yen's sharp appreciation since the beginning of 2008, despite stepped-up efforts to reduce costs through the promotion of the Cost-Reduction Plan "E-100 Projects" as well as efforts to raise prices of our products in response to higher raw materials prices.

As a result of the above, net sales of plastics increased 6.5 % to ¥68,844 million and operating income decreased 22.1 % to ¥3,012 million.

Fiscal 2009 Business Strategy:

While seeking to focus on production of unique and added-value products, we will strive to increase earnings through cost-reduction measures to cope with worsened export profitability caused by a stronger yen.

Production Profile

Products	Application / Features	Production Capacity of Plant
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 styrene plastics (AES)	same mechanical properties as ABS plastics; superior weatherability; for automotive parts	
Acrylonitrile styrene plastics (AS)	transparent plastics; applications similar to those of ABS plastics	

Research and Development, Intellectual Property

1. Core Technologies and the JSR Business Model

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

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

(1) Global Leadership

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

(2) De Facto Standards

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

(3) Clusters

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

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

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

(1) R&D and Intellectual Property Organization

As of June 13, 2008

Yokkaichi Research Center	Polymer Research Laboratories	Elastomer Lab.	Rubber for tires, specialty rubber, functional elastomer, thermoplastic elastomer, etc.
		Emulsion Lab.	Latex for paper coating, functional emulsions, etc.
	Performance Materials Research Laboratories	Performance polymers Lab.	ARTON®, optical materials for films, etc.
		Performance chemicals Lab.	Functional particles, water soluble polymer, etc.
	Semiconductor Materials Research Laboratories	Semiconductor materials Lab.	Photoresist for semiconductors, etc.
	Fine Electronic Materials Research Laboratories	Microfabrication process materials Lab.	CMP materials (slurries, pads), etc.
		Packaging and assembly materials Lab.	Thick photoresists, photo sensitive insulation materials for LSI, etc.
		Hidaka Lab.	Pressure conductive rubber, circuit testing fixture for PCB and IC, etc.
	Display Materials Research Laboratories	Display materials Lab.	Dry films for PDP dielectric layer and PDP electrode, etc.
		LCD materials 1st Lab.	Protective coatings, and color pigment dispersed resists for LCDs, etc.
		LCD materials 2nd Lab.	Alignment films for LCD, etc.
	Fine Process Development Department		Review possibilities to industrialize new raw materials and products in the fine material/product area.
	Material Characterization & Analysis Lab.		Physical properties, analysis, characterization, CAC, etc.
Precision Process Technology Center	Precision Process Research Laboratories	Process Technology Lab.	Research on fine converting technology, etc.
		Process materials Lab.	Converting products on optical films, ARTON® films, etc.
	Precision Process High Performance Film Department		Manufacturing technology and manufacture of film.
Tsukuba Research Laboratories			Optical fiber coating, radiation curing materials, particles for diagnosis, etc.
Research Fellow Lab. (Tsukuba)			Fuel battery,etc.
Research and Development Dept.			R&D strategic initiatives and administration.
Intellectual Property Dept.			Business related to intellectual property rights.

(2) R&D Alliances

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

3. Summary of R&D Segments and Intellectual Property

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

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

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

4. Policy for Acquisition and Management of Intellectual Property

(1) Strategy for Intellectual Property

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

a. Participation in the creation of intellectual property

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

b. Acquisition of intellectual property

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

c. Use of intellectual property rights

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

d. A global perspective

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

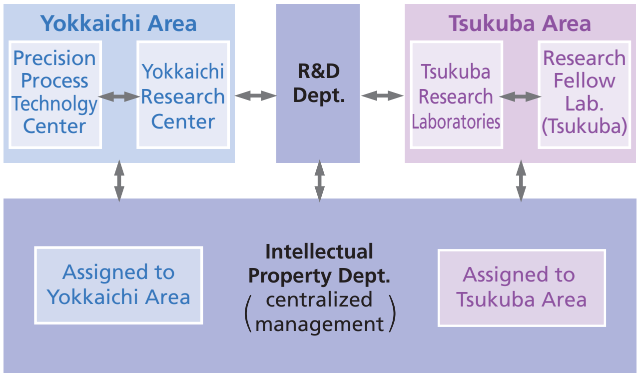
(2) Framework for Using Intellectual Property

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

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

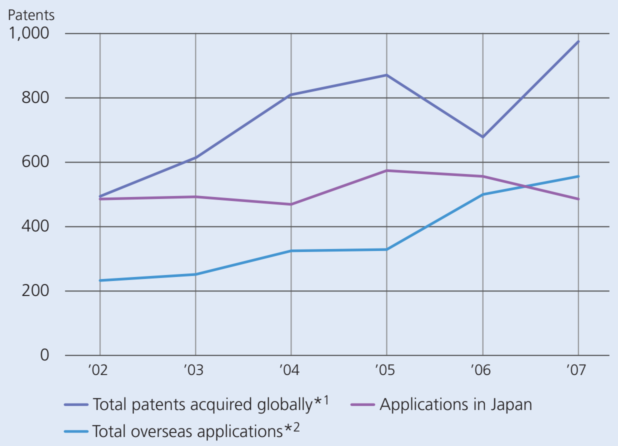
In addition, JSR and its group companies use an organized approach to effectively use their intellectual property and obtain worldwide patents. All matters concerning intellectual property are managed by the JSR head office to keep this information confidential and prevent leaks of technological information.

R&D Organization



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

The following graph shows the number of patents acquired by JSR. It shows that applications are being made and patents acquired along with the globalization of JSR business. It also shows that total patents acquired globally and total overseas applications are increasing in total.

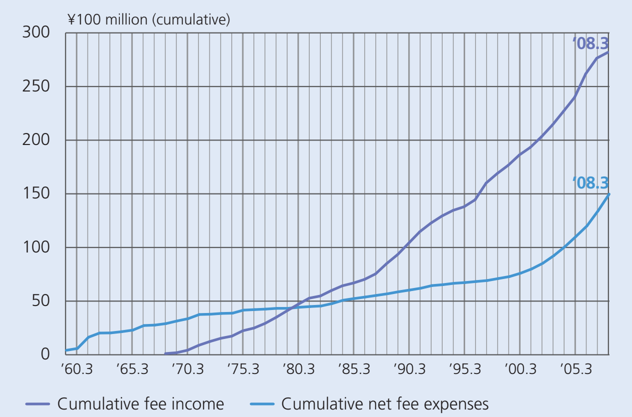


*1: Total patents acquired globally = patents acquired both in Japan and overseas
*2: Total overseas applications = applications made in countries overseas, which can include multiple patents filed based on a single Japanese application.

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 mid-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	07.3.31	08.3.31	07.3.31	08.3.31	07.3.31	08.3.31	07.3.31	08.3.31
Patents (Japan)	500	428	894	1,103	73	67	1,467	1,598
Patents (Overseas)	516	493	1,415	1,721	30	36	1,961	2,250

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.

The JSR Corporate Social Responsibility Report

Fiscal 2008 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 2008 major accomplishments are listed below.

1. Consider Safety and the Environment When Developing Products

Established JM Energy Corporation, which is working on the development, production and sales of lithium ion capacitors, which are electricity storage devices that hold strong promise as an economical and ecological solution for effectively using large bursts of energy that conventional storage batteries cannot use.

2. Provide Safety and Environmental Information Related to Products

JSR operates a Material Safety Data Sheets (MSDS) electronic data management system to ensure that customers are provided with accurate MSDS information for their prototypes and products.

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

The company conducted an audit of voluntary measurements and reporting of waste gas data for the Yokkaichi Plant, in which it was found that nitrogen oxide (NOx) emissions were higher than permissible under the Air Pollution Control Law, and that erroneous information had been reported to government authorities. In response to the exceeding of permissible emission levels, JSR implemented measures to further strengthen its framework for operational management at the Yokkaichi Plant. JSR will make every effort to prevent similar incidents from occurring again and achieve strict regulatory compliance at the Yokkaichi Plant.

The Yokkaichi Plant is involved in various initiatives such as hosting field trips by junior high school students as part of their social studies, and conducting special science classes at junior high schools in Yokkaichi City at the request of the Yokkaichi Board of Education. The Yokkaichi Plant also contributes staff to act as instructors for the Kids ISO 14001 environmental education program, which engages in activities under Mie Prefecture's basic policies on environmental activities and environmental education. In addition, the Chiba Plant conducted a special lecture on industrial engineering for students of the College of Industrial Technology Nihon University, as part of an initiative organized by the Ichihara City municipality to promote collaboration between industry and academia.

4. Reduce the Environmental Impact

Starting from April 2008, JSR launched a campaign to encourage household energy conservation by employees at their home, as part of measures to address global warming.

For all years from fiscal 2004 through fiscal 2008, JSR achieved its zero waste goals for industrial waste through the implementation of comprehensive initiatives at all JSR plants. These initiatives included reduction of waste generation, stringent separation of materials, and identification of sources to accept and recycle waste materials. As a result of these initiatives, the amount of final landfill waste was reduced to 19 tons per year.

5. Ensure Safety and Protect the Environmental in International Operations

As part of the company's voluntary initiatives to train human personnel that can work as a professional in the global society, JSR arranged for students of the Trier University of Applied Sciences in Germany to visit the Yokkaichi Plant in January 2008, in order to tour the facility and learn about environmental and safety initiatives at the chemical plant.

JSR provided energy conservation technology as well when JSR exported technology to be used by a manufacturing facility for 1,3-butadiene in the Czech Republic.

6. Ensure Employee Health and Safety

The company adopted a Mental Toughness Orientation Program (MTOP) in order to provide employees with tools to periodically assess and help manage the state of their own mental health.

In order to further assist employees in balancing their work and personal lives, JSR adopted new rules that enable employees to return to the workplace if they leave the company for reasons such as marriage, pregnancy, parenting, work transfer by a spouse, or in order to care for relatives or family. The new rules were introduced on April 1, 2008.

Acquired "Kurumin" certification in August 2007 from the Ministry of Health, Labour and Welfare, which is given to enterprises that meet certain Ministry criteria for supporting young parents.

7. Make All Employees Aware of their Responsibilities

Implemented corporate ethics training for all JSR Group managers, and conducted a survey concerning JSR Group corporate ethics. The survey, which was conducted among JSR Group companies in Japan, is designed to measure employees' understanding of the JSR Group Principles of Corporate Ethics as well as the corporate philosophy and management policies. The survey is also designed to gauge employee attitudes on corporate ethics and examine the corporate culture of the JSR Group.

In the current fiscal year, JSR established training centers in Kashima and Chiba in addition to its existing training center in Yokkaichi, in order to provide a better framework to support continuing education for employees.

Corporate Governance and Compliance

Fundamental Position Regarding Corporate Governance

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

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

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

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

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

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

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

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

1. Board of Directors

As of June 13, 2008, 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 three 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 three external auditors, this board meets every month as stipulated in the regulations governing this body. The corporate auditors receive reports on important matters, hold discussions and reach decisions. In accordance with standards for audits by corporate auditors, the auditors attend meetings of the Board of Directors, Executive Committee and other important committees to monitor how important decisions are reached and business activities are executed. The auditors also receive reports from the independent financial accountants, directors and others. Through these activities, the Board of Auditors holds discussions in order to form auditing opinions.

5. CSR Committee

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

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

6. Corporate Ethics Committee

The Corporate Ethics Committee chaired by managing director for general affairs was established to implement corporate ethics standards and prevent improper actions throughout the JSR Group. The JSR Group Principles of Corporate Ethics 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.

7. Responsible Care Committee

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

This committee approves Responsible Care plans, evaluates and verifies results of activities, and helps 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).

8. Risk Management Committee

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

9. Social Contribution Committee

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

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

JSR has adopted the corporate auditor system. There are currently 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.

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

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

12. Consulting Attorneys

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

Actions during Past Fiscal Year to Improve Corporate Governance

1. JSR revamped its Sustainability Report, which is centered on the company's stance regarding the three core elements of CSR—economy, environment and community—by enhancing information on CSR activities and renaming it the JSR CSR Report (June 2006). The report data undergoes third-party checks to heighten transparency and reliability (June 2007).

2. To further strengthen efforts in corporate ethics, in April 2005 the company enacted the JSR Group Corporate Ethics Platform as a set of basic rules for JSR and Group companies. JSR is working to disseminate and enforce these basic philosophies.

In fiscal 2008 JSR worked to increase corporate ethics awareness among all employees. The company held ethics training for executives conducted by outside experts (August 2007) and such training for domestic managers of JSR and group companies (18 seminars, November-December 2007).

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

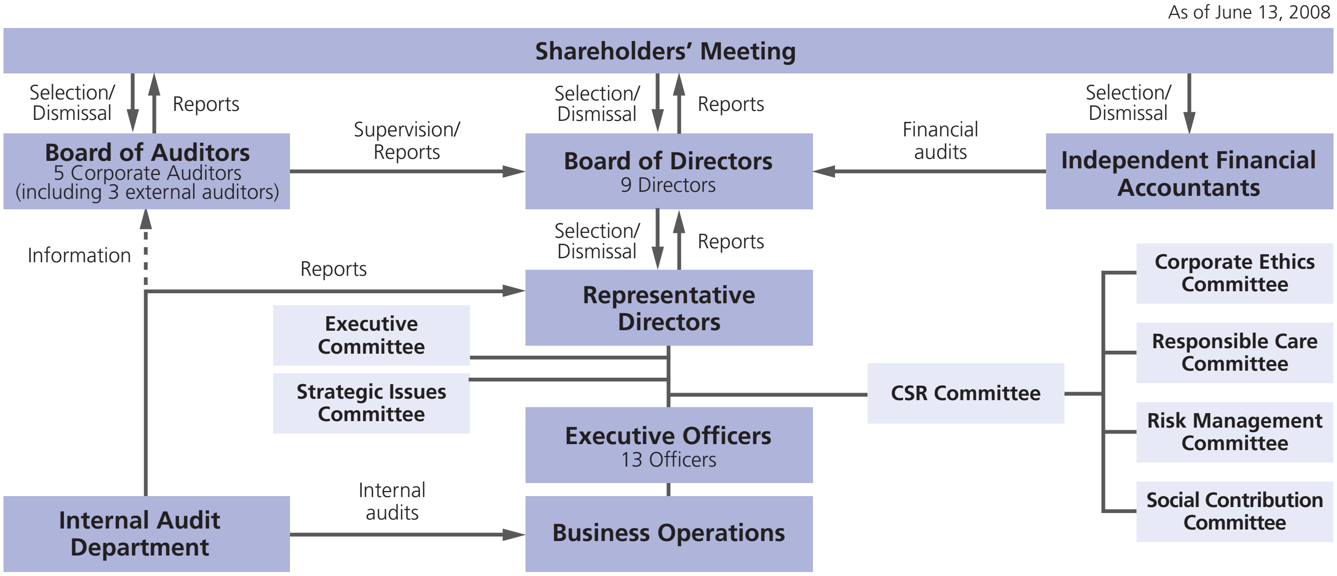
3. A risk management drill was conducted by the JSR head office and plants to strengthen the risk management framework. This drill confirmed that JSR can respond properly to an accident, fire or damage from a natural disaster at a plant. Drills cover the head office Disaster Response Headquarters, the disaster response departments at plants, corporate communications units and other components of the JSR organization (November 2007).

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

4. JSR conducts environmental and safety audits at all of its plants, research facilities and manufacturing subsidiaries in Japan. In fiscal 2006, these audits were extended to include JSR Group companies outside Japan. In fiscal 2008, audits were conducted at 13 domestic group companies and three overseas group companies.

5. To reinforce compliance measures, JSR specified laws that apply uniformly for JSR and Group companies and put in place a framework to assess and improve the levels of compliance. Periodic compliance checks began in fiscal 2008. Going forward JSR will conduct these checks on a yearly basis and make improvements as needed. Through these efforts the company will strengthen its compliance framework.

As of June 13, 2008



Financial Section

Management's Discussion and Analysis

Business Results for fiscal 2008

The Japanese economy in fiscal 2008 (April 1, 2007 to March 31, 2008) remained on a path of moderate recovery, supported by increased capital spending backed by expanding exports and steady corporate earnings and improvements in the employment environment, despite setbacks in the first half of the year such as sharp rises in crude oil prices and decreased housing investment. However, Japan's economic prospects grew increasingly uncertain as crude oil prices continued to rise further after the summer, followed by turmoil in the financial markets triggered by the US subprime loan crisis, a slowdown in the US economy and the Japanese yen's advances against the US dollar in the latter half of the year.

In the major industries that use our products, production of automobiles, tires and paper was higher than in the previous year. Production of semiconductors also exceeded the previous year's level, thanks to increased demand from personal computer, cell phone and digital home electronics manufacturers, despite price decreases experienced by memory products. Flat display panel (FDP) performed steadily, as liquid crystal display (LCD) panels, for which inventory adjustment that continued until early in fiscal 2008 came to an end, saw a recovery in production from the middle of the year and also because global demand for flat panel television sets increased.

As for raw materials, increased global demand for crude oil coupled with an inflow of speculative funds in the oil market sent prices of crude oil and naphtha soaring, and the prices of raw materials for the Group's petrochemicals business rose across the board to squeeze profitability.

Under these circumstances, in the petrochemicals business we endeavored to raise the prices of our products to maintain profit margins so as to stabilize earnings amidst continually climbing prices of main raw materials. In the fine chemicals and other products business, which mainly comprises information electronics materials, we continued to deliver cutting-edge materials based on our core technologies as we focused on our growth in the global market to enable further growth of the business.

In addition, we continued to implement the Cost-Reduction Plan "E-100 Projects" throughout the entire JSR Group, working to reduce costs at all operational stages from raw materials to distribution to improve earnings.

As a result of the above, net sales increased 11.2% to ¥406,967 million, operating income was up 8.6% to ¥60,010 million, ordinary income rose 2.5% to ¥56,063 million, and net income for the current fiscal year increased 9.9% to ¥36,994 million.

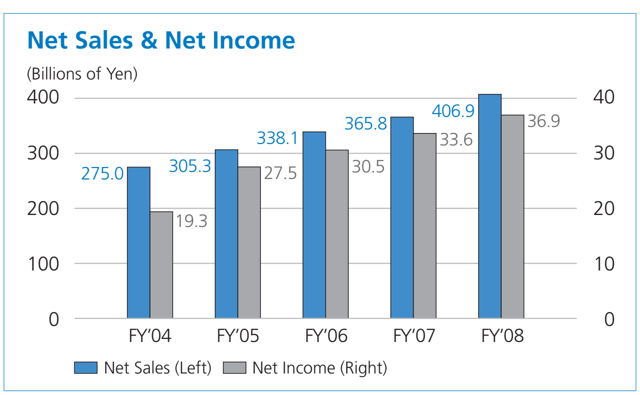
Results by Business Segment

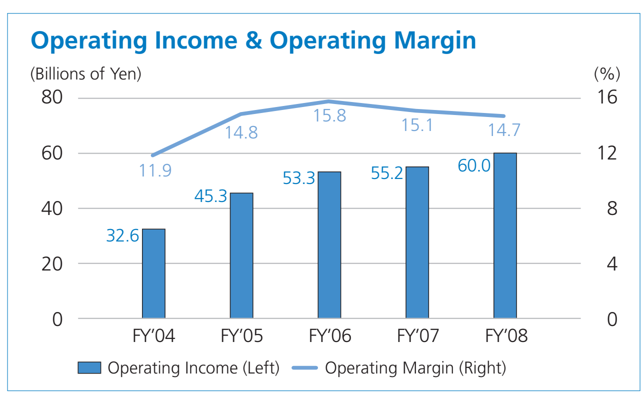
Petrochemicals

Net sales in the elastomers segment grew 10.9% over the previous year to ¥128,952 million and operating income increased 9.7% to ¥11,168 million.

In the domestic synthetic rubber business, automobile tire production was robust for general-purpose synthetic rubbers such as styrene-butadiene rubber (SBR) and polybutadiene rubber (BR). But sales volume was lower because of limited availability of raw materials due to an accidental fire at one of the facilities of Mitsubishi Chemical Corporation. Sales were higher, however, as a result of efforts to raise prices of our products in accordance with an increase in raw materials prices. Sales volume of high-performance special-purpose rubber was the same level as the previous year as increased sales of acrylonitrile-butadiene rubber (NBR) and butyl rubber (IIR) buoyed by higher automobile production was offset by decreased sales of ethylene-propylene rubber (EPR) due to the downsizing of our resin modifying business; nevertheless net sales were higher than in the previous year as a result of price revision efforts.

As for exports of general-purpose synthetic rubber, sales increased substantially from the previous year, as demand expanded rapidly for solution polymerization styrene-butadiene rubber (S-SBR) for fuel-efficient, high-performance automobile tires and demand for other general-purpose synthetic rubber also increased. Sales of high-performance special-purpose rubber increased, with NBR and IIR posting healthy gains thanks to higher demand in Southeast Asia and China. Domestic sales of thermoplastic elastomers (TPEs), such as butadiene and styrene-





butadiene thermoplastic elastomers, increased thanks to efforts to expand sales in addition to the recovering demand and raised prices. Exports also rose as demand for butadiene thermoplastic elastomers (RB) recovered in Europe and Latin America.

Profits dropped mainly because of sharp rises in raw materials prices, despite efforts to expand sales of value-added products and stepped-up cost reductions through the promotion of the Cost-Reduction Plan “E-100 Projects” as well as efforts to raise the prices of our products in response to higher raw materials prices.

In the emulsion segment, net sales rose 10.8% to ¥26,993 million but operating income fell 13.2% to ¥1,542 million.

As for paper coating latex (PCL) which is the mainstream product in the emulsion segment, although the production amount of coated paper exceeded that of the previous year, owing to reduction in the amount of latex used by the users with the purpose of reducing the cost, the sales volume remained unchanged. Sales were higher, however, thanks to efforts to raise the prices of our products in response to higher raw materials prices. Sales of acrylic emulsion were lower due to decreased sales in the adhesive and impregnated materials division mainly for use in building materials. Profits dropped mainly because of sharp rises in raw materials prices, despite efforts to expand sales of value-added products and stepped-up cost reductions through the promotion of the Cost-Reduction Plan “E-100 Projects” as well as efforts to raise the prices of our products in response to higher raw materials prices.

In the plastics segment, net sales increased 6.5% to ¥68,844 million but operating income decreased 22.1% to ¥3,012 million.

In the domestic market, sales declined due to sluggish demand for plastics used in building materials as a result of the fall in new housing starts coupled with our withdrawals from unprofitable product lines, even though heat-resistant ABS plastics and weatherproof AES plastics posted healthy gains. However, sales were higher as a result of increased sales in the special and value-added fields as well as efforts to raise prices of our products in response to higher raw materials prices.

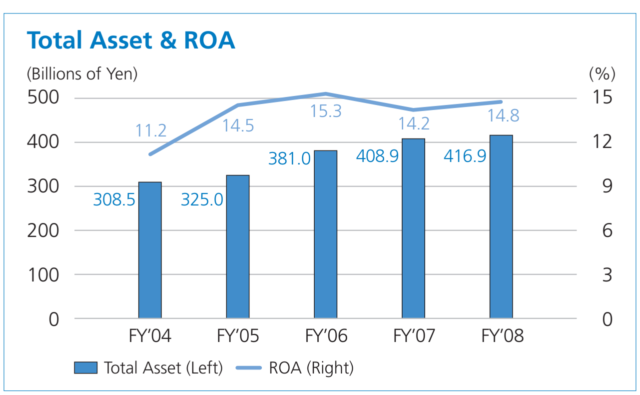
Exports increased in terms of sales, as a result of increased sales in the special and value-added fields and higher demand from the entertainment sector, on top of efforts to raise prices of our products.

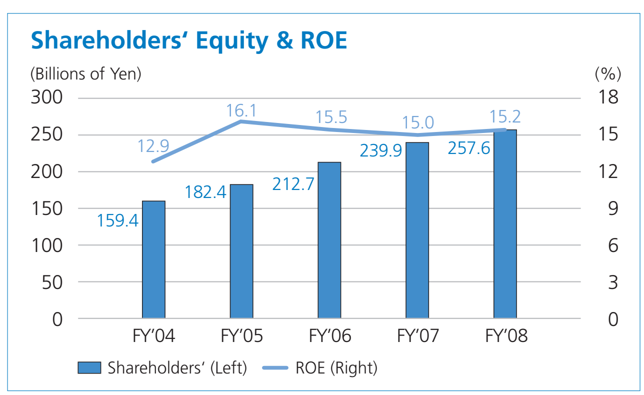
Profits nonetheless dropped, mainly because of the deterioration in export profitability due to the yen’s sharp appreciation since the beginning of 2008, despite stepped-up efforts to reduce costs through the promotion of the Cost-Reduction Plan “E-100 Projects” as well as efforts to raise prices of our products in response to higher raw materials prices.

Fine Chemicals and Other Products

In the semiconductor materials segment, domestic sales and exports to Asia of photoresists, the mainstream product, posted healthy gains thanks to increased production of semiconductor memories. In particular, sales of argon fluoride (ArF) photoresists increased substantially as a result of expanded applications in cutting-edge fields with further progress in miniaturization. Moreover, lithography-related sales rose sharply, thanks to increased demand for multi-layer materials necessary for miniaturization and ArF immersion lithography as well as higher sales resulting from stepped-up sales and marketing. Sales at subsidiaries in Europe and North America were also higher as demand for semiconductors remained firm in the European and North American markets. As for new semiconductor materials, sales of chemical mechanical planarization (CMP) materials remained the same level as in the previous year, while packaging materials posted healthy gains. As a result of the above, sales of semiconductor materials as a whole increased substantially over the previous year.

In flat panel display (FPD) materials, both sales volume and sales amount of liquid crystal display (LCD) materials exceeded the previous year’s levels. Shipments, led by exports, recovered around the middle of the year, as LCD panel inventory adjustments, that had continued until early in the fiscal year, ran their course and global sales of personal computers and LCD television sets expanded. Sales of plasma display panel (PDP) materials decreased sharply under the strong influences of production adjustments by major users both domestically and overseas.





In optical functional materials, sales of optical fiber coating materials, the mainstream product of this sector, decreased in the wake of low investment in optical fiber cables in the domestic market. Sales of materials for anti-reflective coatings and surface-protective coatings increased as demand for value-added products recovered as a result of the market shift toward higher definition flat panel television sets. Sales of ARTON®, a heat-resistant transparent resin, increased significantly as a result of efforts to increase sales to optical film makers, the primary users of the product, but still fell short of the initial target.

Profits in this segment increased over the previous year as a result of increased sales of differentiated products and cost-reduction efforts through the Cost-Reduction Plan "E-100 Projects", despite downward pressures on prices stemming from price declines for products of the major user industries.

As a result of the above, net sales of fine chemicals and other products increased 13.4% to ¥182,176 million and operating income rose 19.0% to ¥44,287 million.

Outlook

The Japanese economy is likely to remain challenging in fiscal 2009 amid concerns over a global economic slowdown in the wake of a possible US recession, sluggish corporate earnings due to the yen's further rise against the US dollar, and soaring prices of crude oil and other raw materials as well as concerns over restrained personal consumption due to economic uncertainties.

In fiscal 2008, the JSR Group launched "JUMP2010," the new mid-term business plan for a period of four years beginning in fiscal 2008. Recognizing the importance of fiscal 2009 as the year concluding the first two years of the business plan, we will strengthen efforts to tackle the challenges ahead in order to ensure the achievement of the goals under the business plan and carry the results of the first half over to the later half beginning in fiscal 2010.

While we expect the difficult situation to continue in the petrochemicals segment where upward pressures on raw materials prices persist due to higher crude oil prices, we will double our efforts to generate earnings by increasing total sales as well as by raising the share of sales from value-added products. In the fine chemicals and other products segment, we expect even more intense competition. Nevertheless we plan to generate earnings in this segment by continuing to allocate resources into growth areas and mount proactive efforts to expand sales both in the domestic and overseas markets, while maintaining cost-reduction efforts.

Consequently, for fiscal 2009, we project net sales of ¥437.0 billion (up 7.4% over the previous year), operating income of ¥61.0 billion (up 1.6%), ordinary income of ¥62.0 billion (up 10.6%) and net income of ¥37.5 billion (up 1.4%).

The above projections assume a yen exchange rate of 100 to the dollar and a naphtha price of ¥68,000 per kiloliter.

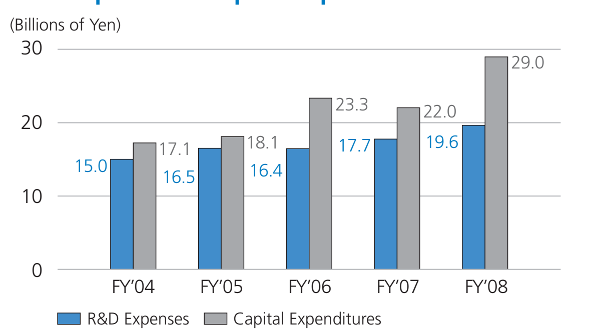
R&D Expenditures

R&D expenditures in fiscal 2008 amounted to ¥19,612 million as we proactively made substantial investments in the fine chemicals and other products segment and in next-stage growth businesses. In the field of precision processing, one of next-generation businesses, we established a new precision processing research facility. We plan to continue proactive R&D investments for the product development in cutting-edge areas of information electronics materials and the development of new products in next-stage growth businesses.

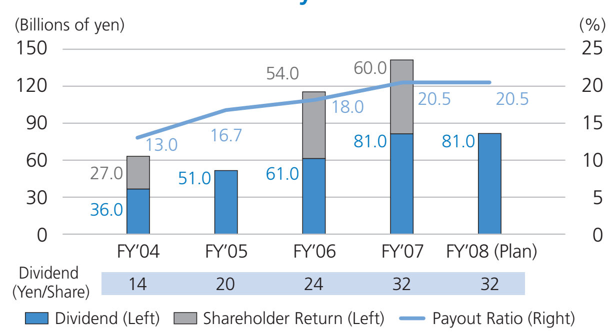
Capital Expenditures

Capital expenditures amounted to ¥29,076 million in fiscal 2008.In the fine chemicals and other products segment, we plan to enhance R&D facilities and production capacity in response to cutting-edge technologies in semiconductor materials and next-stage businesses. We will continue to proactively direct resources into the fine chemicals and other products business. In the petrochemicals segment, we will also proactively invest in the enhancement of production capacity for value-added products and in environmental and safety measures. In fiscal 2009 in particular, a new production line is scheduled to be completed for S-SBR, of which we acquired 50% delivery rights from Dow Europe GmbH.

R&D Expenses & Capital Expenditures



Shareholder Return & Payout Ratio



RISKS

The JSR Group is exposed to the following risks that may impact its operating results, financial position, cash flows and other aspects of performance. Forward-looking statements in this discussion are based on JSR's judgment as of March 31, 2008.

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.

(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, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2007	2008	2008
Current assets:			
Cash (Note 4)	¥ 14,586	¥ 16,537	$ 165,060
Notes and accounts receivable — trade (Note 3)	93,341	87,069	869,036
Marketable securities (Notes 4 and 5)	39,418	46,836	467,470
Inventories	67,221	72,317	721,801
Accounts receivable — other	24,691	25,062	250,143
Deferred tax assets (Note 8)	5,074	4,973	49,639
Other current assets (Note 12)	5,005	5,970	59,585
Allowance for doubtful accounts	(97)	(114)	(1,139)
Total current assets	249,239	258,650	2,581,595
Property, plant and equipment (Notes 6 and 9):			
Buildings and structures	85,803	89,884	897,129
Machinery, equipment and vehicles	217,105	218,436	2,180,221
Tools, furniture and fixtures	38,745	42,013	419,334
Land	16,957	16,778	167,464
Construction in progress	7,580	8,142	81,265
	366,190	375,253	3,745,413
Accumulated depreciation	(268,008)	(269,721)	(2,692,095)
Net property, plant and equipment	98,182	105,532	1,053,318
Intangible assets	5,713	6,466	64,542
Investments and other non-current assets:			
Investment securities (Note 5)	34,594	26,619	265,688
Investments in unconsolidated subsidiaries and affiliated companies	9,713	9,037	90,196
Other assets (Note 8 and 12)	11,694	10,888	108,672
Allowance for doubtful accounts	(186)	(241)	(2,409)
	55,815	46,303	462,147
	¥ 408,949	¥ 416,951	$ 4,161,602

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2007	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Notes and accounts payable — trade	¥ 87,952	¥ 83,445	$ 832,868
Short-term loans payable and current portion of long-term debt (Note 6)	15,524	16,808	167,764
Income taxes payable (Note 8)	10,795	8,366	83,506
Other current liabilities (Note 8 and 12)	27,829	29,097	290,413
Total current liabilities	142,100	137,716	1,374,551
Long-term liabilities:			
Long-term debt (Note 6)	2,745	1,525	15,223
Employees' retirement benefits (Note 7)	14,782	14,679	146,513
Allowance for environmental expenses	3,294	3,294	32,880
Other long-term liabilities (Note 8 and 12)	6,042	2,074	20,695
Total long-term liabilities	26,863	21,572	215,311
Contingent liabilities (Note 14)			
Net assets (Note 10)			
Shareholders' equity			
Common stock:			
Authorized — 696,061,000 shares			
Issued — 255,885,166 shares in 2007 and 2008	23,320	23,320	232,759
Capital surplus	25,179	25,179	251,317
Retained earnings	183,374	212,503	2,121,003
Less treasury stock, at cost			
— 3,664,774 shares in 2007 and 5,666,693 shares in 2008	(8,300)	(13,623)	(135,973)
Valuation and translation adjustments			
Unrealized gains on securities, net of taxes	10,087	4,807	47,976
Foreign currency translation adjustments	1,526	353	3,518
Subscription rights to shares (Note 11)	70	194	1,936
Minority interests	4,730	4,930	49,204
Total net assets	239,986	257,663	2,571,740
	¥ 408,949	¥ 416,951	$ 4,161,602

Consolidated Statements of Income

JSR Corporation

Years ended March 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Net sales (Note 16)	¥ 338,160	¥ 365,831	¥ 406,968	$ 4,061,958
Costs and expenses (Notes 15 and 16):				
Cost of sales	230,012	252,752	284,431	2,838,913
Selling, general and administrative expenses	54,791	57,836	62,527	624,078
	284,803	310,588	346,958	3,462,991
Operating income (Note 16)	53,357	55,243	60,010	598,967
Other income (expenses):				
Interest and dividend income	635	1,030	1,309	13,066
Interest expenses	(420)	(399)	(256)	(2,553)
Loss on disposal of inventories	(3,350)	(2,791)	(1,799)	(17,956)
Gain (loss) on sale and disposal of property, plant and equipment	(269)	(617)	(1,574)	(15,708)
Foreign exchange gains (losses)	1,179	352	(2,036)	(20,323)
Equity in earnings of affiliated companies	1,719	1,439	1,249	12,466
Loss on disposal of asbestos	—	(461)	—	—
Impairment loss of fixed assets (Note 9)	(580)	—	—	—
Loss on allowance for environmental expenses	(3,094)	(201)	—	—
Gain on sales of investment securities	21	282	377	3,767
Other — net	(160)	(437)	(2,413)	(24,099)
	(4,319)	(1,803)	(5,143)	(51,340)
Income before income taxes and minority interests	49,038	53,440	54,867	547,627
Income taxes (Note 8):				
Current	19,222	20,127	18,112	180,777
Deferred	(1,487)	(1,136)	(776)	(7,746)
	17,735	18,991	17,336	173,031
	31,303	34,449	37,531	374,596
Minority interests in net income of consolidated subsidiaries	(748)	(794)	(537)	(5,353)
Net income	¥ 30,555	¥ 33,655	¥ 36,994	$ 369,243

	Yen			U.S. dollars (Note 1)
	2006	2007	2008	2008
Amounts per share of common stock:				
Net income (Note 18)	¥ 119.63	¥ 133.10	¥ 147.26	$ 1.47
Cash dividends applicable to the year	20.00	24.00	32.00	0.32

See accompanying notes.

Consolidated Statements of Changes of Net Assets

JSR Corporation

Years ended March 31, 2006, 2007 and 2008

	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, 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	—	—	—	—	—
Increase of treasury stock	—	—	—	—	(13)	—	—	—	—
Cash dividends paid	—	—	—	(4,322)	—	—	—	—	—
Bonuses to directors	—	—	—	(159)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	4,560	1,066	—	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	—	—	—	—	—
Increase of treasury stock	—	—	—	—	(5,412)	—	—	—	—
Disposal of treasury stock	—	—	—	(10)	10	—	—	—	—
Cash dividends paid	—	—	—	(5,569)	—	—	—	—	—
Bonuses to directors	—	—	—	(136)	—	—	—	—	—
Net changes other than shareholders' equity	—	—	—	—	—	(1,064)	961	70	773
Balance at March 31, 2007	255,885	23,320	25,179	183,374	(8,300)	10,087	1,526	70	4,730
Net income	**—**	**—**	**—**	**36,994**	**—**	**—**	**—**	**—**	**—**
Increase of treasury stock	**—**	**—**	**—**	**—**	**(5,328)**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**—**	**(5)**	**5**	**—**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**—**	**(7,044)**	**—**	**—**	**—**	**—**	**—**
Decrease resulting from increase in consolidated subsidiaries	**—**	**—**	**—**	**(1,048)**	**—**	**—**	**—**	**—**	**—**
Increase resulting from increase in affiliated companies by equity method	**—**	**—**	**—**	**232**	**—**	**—**	**—**	**—**	**—**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(5,280)**	**(1,173)**	**124**	**200**
Balance at March 31, 2008	**255,885**	**¥ 23,320**	**¥ 25,179**	**¥ 212,503**	**¥ (13,623)**	**¥ 4,807**	**¥ 353**	**¥ 194**	**¥ 4,930**

	Thousands of U.S. dollars (Note 1)							
Balance at March 31, 2007	$ 232,759	$ 251,317	$1,830,263	$ (82,841)	$ 100,682	$ 15,227	$ 701	$ 47,206
Net income	**—**	**—**	**369,243**	**—**	**—**	**—**	**—**	**—**
Increase of treasury stock	**—**	**—**	**—**	**(53,186)**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**(54)**	**54**	**—**	**—**	**—**	**—**
Cash dividends paid	**—**	**—**	**(70,306)**	**—**	**—**	**—**	**—**	**—**
Decrease resulting from increase in consolidated subsidiaries	**—**	**—**	**(10,463)**	**—**	**—**	**—**	**—**	**—**
Increase resulting from increase in affiliated companies by equity method	**—**	**—**	**2,320**	**—**	**—**	**—**	**—**	**—**
Net changes other than shareholders' equity	**—**	**—**	**—**	**—**	**(52,706)**	**(11,709)**	**1,235**	**1,998**
Balance at March 31, 2008	**$ 232,759**	**$ 251,317**	**$2,121,003**	**$ (135,973)**	**$ 47,976**	**$ 3,518**	**$ 1,936**	**$ 49,204**

See accompanying notes.

Consolidated Statements of Cash Flows

JSR Corporation

Years ended March 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 49,038	¥ 53,440	¥ 54,867	$ 547,627
Adjustments to reconcile income before income taxes and minority interests to cash provided by operating activities:				
Depreciation and amortization	16,206	18,133	21,180	211,395
Interest and dividend income	(635)	(1,030)	(1,309)	(13,066)
Interest expenses	420	399	256	2,553
Equity in earnings of affiliated companies	(1,719)	(1,439)	(1,249)	(12,466)
Loss (gain) on sales and disposal of property, plant and equipment	269	617	1,574	15,708
Impairment loss of fixed assets	580	—	—	—
Loss (gain) on sales of investment securities	(21)	(282)	(377)	(3,767)
Changes in operating assets and liabilities — net:				
Increase (decrease) in allowance for environmental expenses	3,094	200	—	—
Decrease (increase) in notes and accounts receivable — trade	(7,516)	(14,548)	5,379	53,690
Decrease (increase) in inventories	(7,330)	(6,685)	(5,693)	(56,817)
Increase (decrease) in notes and accounts payable — trade	15,042	8,814	(2,352)	(23,478)
Other	(5,017)	6,820	(79)	(775)
Total	62,411	64,439	72,197	720,604
Interest and dividends received	1,261	2,907	2,530	25,254
Interest expenses paid	(420)	(411)	(254)	(2,538)
Income taxes paid	(18,371)	(20,463)	(20,583)	(205,439)
Net cash provided by operating activities	44,881	46,472	53,890	537,881
Cash flows from investing activities:				
Purchase of property, plant and equipment and intangible assets	(24,845)	(26,218)	(27,122)	(270,708)
Payments for investments in capital of unconsolidated subsidiaries and affiliated companies	(1,145)	—	(491)	(4,899)
Proceeds from sales of property, plant and equipment and intangible assets	442	347	—	—
Purchase of investment securities	(65)	(1,767)	(1,653)	(16,496)
Proceeds from sales of investment securities	410	563	601	5,997
Proceeds from redemption of investment securities	—	—	500	4,991
Decrease (increase) in loans receivable	(1,702)	(2,194)	(1,107)	(11,053)
Other — net	889	(1,094)	(2,968)	(29,618)
Net cash used in investing activities	(26,016)	(30,363)	(32,240)	(321,786)
Cash flows from financing activities:				
Net increase (decrease) in short-term loans payable	(47)	(1,945)	(222)	(2,214)
Repayment of long-term debt	(553)	(2,306)	(476)	(4,748)
Proceeds from long-term debt	—	1,558	—	—
Redemption of bonds	—	(10,000)	—	—
Cash dividends paid	(4,320)	(5,566)	(7,033)	(70,199)
Cash dividends paid to minority shareholders	(227)	(106)	(341)	(3,407)
Purchase of treasury stock	(13)	(5,412)	(5,329)	(53,186)
Other — net	—	0	0	0
Net cash used in financing activities	(5,160)	(23,777)	(13,401)	(133,754)
Effect of exchange rate changes on cash and cash equivalents	390	478	(819)	(8,187)
Net increase (decrease) in cash and cash equivalents	14,095	(7,190)	7,430	74,154
Cash and cash equivalents at beginning of year	46,474	60,846	53,656	535,541
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	277	—	639	6,382
Cash and cash equivalents at end of year (Note 4)	¥ 60,846	¥ 53,656	¥ 61,725	$ 616,077

See accompanying notes.

Notes to Consolidated Financial Statements

JSR Corporation
Years ended March 31, 2006, 2007 and 2008

1. Basis of Consolidated Financial Statements

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation — The accompanying consolidated financial statements include the accounts of the Company and its 28 significant subsidiaries in 2008 (26 significant subsidiaries in 2006 and 2007).

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

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

JSR Micro Korea Co., Ltd. has been consolidated since 2006 due to the principle of materiality and Techno Polymer Singapore Pte Ltd., which had been liquidated, were excluded from the scope of consolidation in 2006.

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

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

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

(e) Inventories — Inventories are stated at cost, which is determined 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.

(i) The accounting change

Effective April 1, 2007, the Company and domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2007 in accordance with the revised Corporation Tax Law of Japan. As a result of this change, income before income taxes and minority interests decreased by ¥851 million ($8,492 thousand) for the year ended March 31,2008 from the corresponding amounts which would have been recorded under the previous method.

Effective from the year ended March 31, 2008, the property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year. As a result of this change, income before income taxes and minority interests decreased by ¥1,429 million ($14,262 thousand) for the year ended March 31, 2008.

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

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

(h) Impairment of fixed assets — Effective April 1, 2005, the Companies adopted newly "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 "Implementation Guidance for Accounting Standards for Impairment of Fixed Assets" (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan (the "ASBJ") on October 31, 2003).

As result of adopting these 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 falls within the estimated average remaining service lives, commencing with the following period. Actuarial differences of the Company are recognized as expenses at once in the following period, and some of consolidated subsidiaries use the straight-line method over 10 years within 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 ASBJ 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 ASBJ 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 these 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 these derivatives are deferred until maturity of the hedged transactions.

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

(n) 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 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 Net Assets in the Balance Sheet — Effective for the year ended March 31, 2007, the Companies adopted newly "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the ASBJ on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Guidance No.8 issued by the ASBJ on December 9, 2005) .

Under these 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 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 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.

If the 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.

The adoption of the accounting standards had no effect 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 Companies adopted newly "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the ASBJ on December 27, 2005), and "Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets" (Financial Accounting Standard Implementation Guidance No.9 issued by the ASBJ on December 27, 2005).

Accordingly, the Company prepared the statement of changes in net assets for the year ended March 31, 2007. In addition, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with these accounting standards. Previously, the consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

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

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

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

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

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

3. Effect of Bank Holiday on March 31, 2007

As financial institutions in Japan were closed on March 31, 2007, ¥871 million 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, 2006, 2007 and 2008 consisted of the following:

	Millions of Yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Cash	¥ 13,021	¥ 14,586	¥ 16,537	$ 165,060
Marketable securities	47,855	39,418	46,484	463,962
Time deposits over three months	(30)	(348)	(1,296)	(12,945)
Cash and cash equivalents	¥ 60,846	¥ 53,656	¥ 61,725	$ 616,077

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, 2007 and 2008:

(a) Securities with book value exceeding acquisition cost

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

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

	Thousands of U.S. dollars		
	2008		
	Acquisition cost	Book value	Difference
Equity securities	$ 98,849	$ 192,358	$ 93,509

(b) Securities with book value not exceeding acquisition cost

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

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

	Thousands of U.S. dollars		
	2008		
	Acquisition cost	Book value	Difference
Equity securities	$ 34,214	$ 22,348	$ (11,866)

(2) The following tables summarize the book value of available-for-sale securities with no available fair value as of March 31, 2007 and 2008:

	Millions of Yen		Thousands of U.S. dollars
	2007	2008	2008
Non-listed equity securities	¥ 3,222	¥ 3,108	$ 31,020
Commercial paper	38,418	33,984	339,200
Preferred subscription certificate	2,500	2,000	19,962
Certificate of deposit	1,000	9,500	94,820
Other	—	3,352	33,450
Total	¥ 45,140	¥ 51,944	$518,452

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

	Millions of Yen				
	Within one year	Over one years within five years	Over five years within ten years	Over ten years	Total
March 31, 2007:	¥ 39,418	¥ —	¥ —	¥ —	¥ 39,418
March 31, 2008:	¥ 46,484	¥ —	¥ —	¥ —	¥ 46,484

	Thousands of U.S. dollars				
	Within one year	Over one years within five years	Over five years within ten years	Over ten years	Total
March 31, 2008:	$463,963	$ —	$ —	$ —	$463,963

(4) Total sales of available-for-sale securities sold and the related gains and losses for the years ended March 31, 2006, 2007 and 2008 are as follows:

	Millions of Yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Total sales	¥ 410	¥ 563	¥ 493	$ 4,918
Gain	21	282	377	3,767
Loss	—	—	—	—

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

Short-term loans payable represent primarily overdrafts from banks bearing interest at 1.2% and 1.4% per annum (weighted average interest rate) at March 31, 2007 and 2008, respectively.

Long-term debt at March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2007	2008	2008
Loans principally from banks and insurance companies due through 2013 with interest rates ranging from 0.8% to 6.8% in 2007 and 2008:			
Secured	1	1	10
Unsecured	3,199	2,739	27,343
	3,200	2,740	27,353
Less amount due within one year	(455)	(1,215)	(12,130)
	¥ 2,745	¥ 1,525	$ 15,223

At March 31, 2008, property, plant and equipment, at book value of ¥12,202 million ($121,788thousand) were pledged as collateral for secured loans.

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. dollars
2009	¥ 1,215	$12,130
2010	25	252
2011	—	—
2012	500	4,990
2013	1,000	9,981
2014 and thereafter	—	—
	¥ 2,740	$27,353

7. Employees' Severance and Retirement Benefits

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2007	2008	2008
Projected benefit obligation	¥ 49,230	¥ 49,067	$ 489,743
Less fair value of pension assets	(35,724)	(35,038)	(349,715)
Unfunded retirement benefit liabilities	13,506	14,029	140,028
Unrecognized prior service costs	123	61	612
Unrecognized actuarial differences	(14)	(536)	(5,357)
Net retirement benefit liabilities	13,615	13,554	135,283
Prepaid pension costs	(1,167)	(1,125)	(11,230)
Employees' retirement benefits	¥ 14,782	¥ 14,679	$ 146,513

Included in the consolidated statements of income for the years ended March 31, 2006, 2007 and 2008 were severance and retirement benefit expenses consisting of the following:

	Millions of Yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Service costs — benefits earned during the year	¥ 1,741	¥ 1,729	¥ 1,789	$17,856
Interest cost on projected benefits obligation	902	878	896	8,943
Expected return on plan assets	(243)	(341)	(445)	(4,443)
Amortization of prior service costs	—	(61)	(61)	(611)
Amortization of actuarial differences	(1,517)	(525)	(51)	(508)
Severance and retirement benefit expenses	¥ 883	¥ 1,680	¥ 2,128	$21,237

The discount rates used by the Companies for the years ended March 31, 2007 and 2008 are mainly 1.9% and 2.0%, respectively. The rates of expected return on plan assets used by the Companies for the years ended March 31, 2007 and 2008 are mainly 1.0% and 1.3%, 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 rate was approximately 40.7%.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2006, 2007 and 2008:

	2006	2007	2008
Statutory tax rate	40.7%	40.7%	40.7%
Dividend income from foreign consolidated subsidiaries and foreign affiliated companies	0.4	0.6	0.4
Non-deductible entertainment expenses	0.3	0.2	0.2
Lower tax rates for foreign consolidated subsidiaries	(0.5)	(1.9)	(5.0)
Tax credit on research and development costs	(3.2)	(2.3)	(3.2)
Equity in earnings of affiliated companies	(1.4)	(1.1)	(0.9)
Foreign tax credits	(0.4)	(0.6)	(0.5)
Non-taxable dividend income	(0.1)	(0.1)	(0.2)
Other	0.4	0.0	0.1
Effective tax rate	36.2%	35.5%	31.6%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Excess retirement benefits	¥ 5,468	¥ 5,436	$ 54,254
Excess bonuses accrued	1,646	1,711	17,076
Provision for environmental expenses	1,337	1,337	13,349
Unrealized gain on sale of inventories	939	1,135	11,324
Unrealized gain on sale of property, plant and equipment	959	1,130	11,282
Enterprise taxes payable	905	799	7,976
Loss on write down of finished products	991	708	7,068
Loss on devaluation of investment securities	294	258	2,575
Other	2,306	2,751	27,458
Sub-total	14,845	15,265	152,362
Valuation allowance	(298)	(92)	(925)
Total deferred tax assets	14,547	15,173	151,437
Deferred tax liabilities:			
Net unrealized holding gains on securities	6,956	3,315	33,090
Deferred gain on sale of fixed assets	2,607	2,656	26,505
Special depreciation reserve	576	323	3,223
Other	793	876	8,741
Total deferred tax liabilities	10,932	7,170	71,559
Net deferred tax assets	¥ 3,615	¥ 8,003	$ 79,878

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.

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 13, 2008, the shareholders resolved cash dividends amounting to ¥4,003 million ($39,959 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are resolved.

11. Stock Option Plans

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

Date of resolution of the general shareholders' meeting	June 17, 2005	June 16, 2006	June 15, 2007
The maximum number of shares to be issued	62,500 shares	39,100 shares	48,500 shares
Exercisable period of the stock options	From June 18, 2005	From August 2, 2006	From July 11, 2007
	to June 17, 2025	to June 16, 2026	to July 10, 2027
Stock subscription rights which have been vested			
Outstanding as of March 31, 2008	55,300 shares	39,100 shares	48,500 shares
Exercise price per share	1	1	1
	$0.01	$0.01	$0.01

12. Derivative Transactions

(1)Qualitative disclosure about derivatives

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

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

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

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

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

(2) Quantitative disclosure about 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, 2007 and 2008 were as follows:

(a) Related to currencies

	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
March 31, 2008:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	¥ 3,504	¥ —	¥ 3,332	¥ 172
Euro	104	—	106	(2)
Buying: U.S. Dollars	310	—	293	(17)
Euro	165	—	165	(0)
Swiss Franc	71	—	73	2
Foreign currency swaps				
Receiving Japanese Yen paying, Korean Won	4,315	3,065	(311)	(311)
Receiving Japanese Yen paying, Taiwan Dollar	5,739	5,739	137	137
Total	¥ —	¥ —	¥ —	¥ (19)

	Thousands of U.S. dollars			
March 31, 2008:				
Items not traded on exchanges				
Foreign exchange forward contracts				
Selling: U.S. Dollars	$34,969	$ —	$33,261	$ 1,708
Euro	1,042	—	1,057	(15)
Buying: U.S. Dollars	3,097	—	2,930	(167)
Euro	1,647	—	1,645	(2)
Swiss Franc	709	—	724	15
Foreign currency swaps				
Receiving Japanese Yen paying, Korean Won	43,069	30,593	(3,100)	(3,100)
Receiving Japanese Yen paying, Taiwan Dollar	57,277	57,277	1,371	1,371
Total	$ —	$ —	$ —	$ (190)

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 2008 were as follows:

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

	Millions of Yen		Thousands of U.S. dollars
	2007	2008	2008
Machinery, equipment and vehicles:			
Purchase price equivalent	¥ 42	¥ 42	$ 420
Accumulated depreciation equivalent	12	17	169
Book value equivalent	¥ 30	¥ 25	$ 251
Tools, furniture and fixtures:			
Purchase price equivalent	¥ 614	¥ 660	$6,589
Accumulated depreciation equivalent	370	506	5,053
Book value equivalent	¥ 244	¥ 154	$1,536
Total:			
Purchase price equivalent	¥ 656	¥ 702	$7,010
Accumulated depreciation equivalent	382	523	5,223
Book value equivalent	¥ 274	¥ 179	$1,787

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

	Millions of Yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 140	¥ 120	$1,195
Due over one year	134	59	592
	¥ 274	¥ 179	$1,787

(3) Lease expenses and depreciation equivalent:

	Millions of Yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Lease expenses	¥ 129	¥ 145	¥ 147	$1,465
Depreciation equivalent	129	145	147	1,465

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, 2008, the Company and certain consolidated subsidiaries were contingently liable as guarantors for loans of employees and others in the amount of ¥163 million ($1,623 thousand) and discounted bills of export exchange at March 31, 2008 were ¥274 million ($2,733 thousand).

15. Research and Development Expenses

Research and development expenses of the Companies for the years ended March 31, 2006, 2007 and 2008 were ¥15,829 million, ¥17,390 million and ¥19,118 million ($190,814 thousand), respectively, which are included in selling, general and administrative expenses or manufacturing costs.

16. Segment Information

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

A summary of net sales, costs and expenses, operating income, identifiable assets, depreciation, and capital expenditures by segment of business activities for the years ended March 31, 2006, 2007 and 2008 was as follows:

	Millions of Yen						
	Elastomers	Emulsions	Plastics	Fine chemicals and other products	Total	Elimination and/or corporate	Consolidated
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
For 2008:							
Sales to outside customers	¥ 128,953	¥ 26,994	¥ 68,845	¥ 182,176	¥ 406,968	¥ —	¥ 406,968
Inter-segment sales/transfers	537	4,300	—	15,358	20,195	(20,195)	—
Costs and expenses	118,322	29,752	65,832	153,247	367,153	(20,195)	346,958
Operating income	¥ 11,168	¥ 1,542	¥ 3,013	¥ 44,287	¥ 60,010	¥ —	¥ 60,010
Identifiable assets	¥ 130,586	¥ 24,861	¥ 34,375	¥ 160,524	¥ 350,346	¥ 66,605	¥ 416,951
Depreciation	5,075	1,501	1,546	13,058	21,180	—	21,180
Capital expenditures	7,185	1,226	1,835	18,831	29,077	—	29,077

	Thousands of U.S. dollars						
For 2008:							
Sales to outside customers	$ 1,287,081	$ 269,428	$ 687,142	$ 1,818,307	$ 4,061,958	$ —	$ 4,061,958
Inter-segment sales/transfers	5,359	42,919	—	153,289	201,567	(201,567)	—
Costs and expenses	1,180,968	296,955	657,073	1,529,562	3,664,558	(201,567)	3,462,991
Operating income	$ 111,472	$ 15,392	$ 30,069	$ 442,034	$ 598,967	$ —	$ 598,967
Identifiable assets	$ 1,303,387	$ 248,142	$ 343,095	$ 1,602,193	$ 3,496,817	$ 664,785	$ 4,161,602
Depreciation	50,651	14,987	15,429	130,328	211,395	—	211,395
Capital expenditures	71,717	12,240	18,309	187,949	290,215	—	290,215

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

Effective from the year ended March 31, 2008, fundamental research and development costs previously reflected as Costs and expenses in elimination and/or corporate have been involved in Costs and expenses in Fine chemicals and other products, as a result of research and development activities. Those of the Companies for the years ended March 31, 2006 and 2007 were ¥3,369 million and ¥3,500 million , respectively.

As noted in Note 2. (f) (i), effective April 1,2007, the Company and its domestic consolidated subsidiaries changed depreciation method. As a result of this change, depreciation expenses increased ¥178 million ($1,781 thousand) in Elastomers segment, ¥41 million ($404 thousand) in Emulsions segment, ¥51 million ($506 thousand) in Plastics segment and ¥581 million ($5,801 thousand) in Fine chemicals and other products segment.

Also, effective from the year ended March 31, 2008, the property, plant and equipment acquired before April 1, 2007 for which the allowable limit on the depreciable amount has been reached are to be depreciated evenly over five years from the following fiscal year. As a result of this change, depreciation expenses increased ¥889 million ($8,875 thousand) in Elastomers segment, ¥252 million ($2,520 thousand) in Emulsions segment, ¥60 million ($599 thousand) in Plastics segment and ¥180 million ($1,800 thousand) in Fine chemicals and other products segment.

Geographic segment information with respect to net sales, costs and expenses, operating income, and identifiable assets for the years ended March 31, 2006, 2007 and 2008 was as follows:

	Millions of Yen					
	Japan	Asia	Others	Total	Elimination and/or Corporate	Consolidated
For 2006:						
Sales to outside customers	¥ 292,964	¥ 27,806	¥ 17,390	¥ 338,160	¥ —	¥ 338,160
Costs and expenses	238,984	27,524	14,926	281,434	3,369	284,803
Operating income	¥ 53,980	¥ 282	¥ 2,464	¥ 56,726	¥ (3,369)	¥ 53,357
Identifiable assets	¥ 269,304	¥ 16,051	¥ 15,955	¥ 301,310	¥ 79,787	¥ 381,097
For 2007:						
Sales to outside customers	¥ 308,459	¥ 36,447	¥ 20,925	¥ 365,831	¥ —	¥ 365,831
Inter-segment sales/transfers	31,583	1,181	788	33,552	(33,552)	—
Costs and expenses	287,357	35,366	17,917	340,640	(30,052)	310,588
Operating income	¥ 52,685	¥ 2,262	¥ 3,796	¥ 58,743	¥ (3,500)	¥ 55,243
Identifiable assets	¥ 299,981	¥ 18,425	¥ 19,721	¥ 338,127	¥ 70,822	¥ 408,949
For 2008:						
Sales to outside customers	¥ 308,758	¥ 74,552	¥ 23,658	¥ 406,968	¥ —	¥ 406,968
Inter-segment sales/transfers	64,878	67	4,423	69,368	(69,368)	—
Costs and expenses	319,680	70,236	26,410	416,326	(69,368)	346,958
Operating income	¥ 53,956	¥ 4,383	¥ 1,671	¥ 60,010	¥ —	¥ 60,010
Identifiable assets	¥ 296,347	¥ 34,874	¥ 19,125	¥ 350,346	¥ 66,605	¥ 416,951

	Thousands of U.S. dollars					
For 2008:						
Sales to outside customers	$ 3,081,722	$ 744,109	$ 236,127	$ 4,061,958	$ —	$ 4,061,958
Inter-segment sales/transfers	647,555	668	44,145	692,368	(692,368)	—
Costs and expenses	3,190,736	701,030	263,593	4,155,359	(692,368)	3,462,991
Operating income	$ 538,541	$ 43,747	$ 16,679	$ 598,967	$ —	$ 598,967
Identifiable assets	$ 2,957,852	$ 348,076	$ 190,889	$ 3,496,817	$ 664,785	$ 4,161,602

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

Asia : China, Korea, Taiwan, Thailand
Others : United States, Belgium

Overseas sales for the years ended March 31, 2006, 2007 and 2008 were as follows:

	Millions of Yen			
	Asia	North America	Others	Total
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%
For 2008:				
Overseas sales	¥ 133,837	¥ 15,864	¥ 16,689	¥ 166,390
Consolidated net sales				406,968
Percentage of overseas sales to consolidated sales	32.9%	3.9%	4.1%	40.9%
	Thousands of U.S. dollars			
For 2008:				
Overseas sales	$ 1,335,836	$ 158,337	$ 166,574	$ 1,660,747
Consolidated net sales				4,061,958

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

Asia : China, Korea, Taiwan, Thailand, Singapore

North America : United States

Others : Europe

17. Related Parties

Significant transactions and balances with related parties as of and for the years ended March 31, 2006, 2007 and 2008 were as follows:

	Millions of Yen			Thousands of U.S. dollars
	2006	2007	2008	2008
BRIDGESTONE Corporation (a major shareholder):				
Sales	¥ 31,951	¥ 36,542	¥ 38,878	$ 388,046
Notes and accounts receivable	11,010	16,180	12,855	128,305
KRATON JSR Elastomers K.K. (an affiliated company):				
Purchases	—	10,650	12,117	120,939
Notes and accounts payable	—	5,613	5,435	54,243
Provision of materials for processing	—	5,604	—	—
Accounts receivable — other	—	3,273	—	—
Tobu Butadiene Co., Ltd. (an affiliated company):				
Purchases	9,624	12,419	13,632	136,058
Notes and accounts payable	4,455	5,953	6,507	64,942
Provision of materials for processing	7,433	10,196	11,642	116,195
Accounts receivable — other	3,772	5,077	5,327	53,172

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, 2007 and 2008 were as follows:

			EPS	
	Net income Millions of yen	Weighted-average shares Thousands of shares	Yen	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	
Effect of dilutive securities				
Stock options		83		
Diluted EPS				
Net income for computation	¥ 33,655	252,933	¥ 133.06	
For the year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	¥ 36,994	251,217	¥ 147.26	$ 1.47
Effect of dilutive securities				
Stock options		129		
Diluted EPS				
Net income for computation	¥ 36,994	251,346	¥ 147.19	$ 1.47

19. Subsequent Events

At the June 13, 2008 annual meeting, the Company's shareholders approved the following appropriations of retained earnings: Payment of a year-end cash dividend of ¥16.00 per share aggregating ¥4,003 million ($39,959 thousand)

Independent Auditors' Report

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of
JSR Corporation

We have audited the accompanying consolidated balance sheets of JSR Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, 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, 2008 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 13, 2008

Company Network

HEAD OFFICE

JSR Corporation : 6-10, Tsukiji 5-chome, Chuo-ku, Tokyo 104-8410, Japan

BRANCH OFFICES

Nagoya Branch, Wallisellen Branch, Shanghai Office, Taiwan Office

PLANTS

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

Business Segment / Company Name / Purpose of Enterprise

*Equity method affiliate

●Fine Chemicals Business

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

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

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

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

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

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

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

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

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

●Business in Other Fields

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

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

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

JSR Service Co., Ltd.
Nonlife insurance agency, purchase, sales and leasing of real estate, undertaking of financing, payroll accounting calculation.

JNT SYSTEM Co., Ltd.
Development and sales of computer software and sales of hardware.

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

●Elastomers Business

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

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

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

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

JSR AMERICA, INC.
Sales of synthetic rubber.

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

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

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

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

●Emulsions Business

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

●Plastics Business

EXCEL TOKAI CO., LTD.
Production and sales of extruded synthetic resin products.

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

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

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

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

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

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

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

Corporate Data

(As of June 13, 2008)

Directors and Corporate Auditors

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

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

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

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

Hozumi Sato
Managing Director, Research & Development, Business Development, Precision Process Technology

Yasuki Sajima
Director, Senior Officer, General Manager, Electronic Materials Div.

Koichi Kawasaki
Director, Senior Officer, Manufacturing & Technology, Product Safety & Quality Assurance, General Manager, Elastomer Div.

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, Vice President, Emulsion Technology Co., Ltd.

Goro Miyabe
Senior Officer, President, JM Energy Corporation

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

Hisao Hasegawa
Senior Officer, Yokkaichi Plant Manager, Health Insurance Union Chair

Toshiyuki Fujimoto
Senior Officer, General Manager, Purchasing Dept.

Atsushi Kumano
Senior Officer, General Manager, Yokkaichi Research Center

Shinichiro Iwanaga
Officer, General Manager, Tsukuba Research Lab.

Yoshiyuki Ohashi
Officer, President, JSR Micro Taiwan Co LTD.

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

Tatsushi Kawai
Officer, General Manager, Emulsion Div.

Takashi Ukachi
Officer, General Manager, Optical Materials Div, President, D-MEC LTD.

Nobuo Kawahashi
Officer, General Manager, Display Materials Div, New FPD Materials Dept.

Company Name

JSR Corporation

Established

December 10, 1957

Capital

¥23,320,165,484

Employees

5,122

Main Products (Businesses)

<Petrochemicals>

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

Emulsions:
Paper coating latex, general-purpose latex

Plastics:
ABS, AES, AS, ASA plastics

<Fine Chemicals and Other Products>

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

Display Materials:
Color LCD materials, PDP materials

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

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

Closing Date

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

Regular General Meeting

The regular general meeting of shareholders is held in June each year. The 2008 regular general meeting was held on June 13.

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, 2008)

Number of Shares Issued

255,885,166 shares

Number of Shareholders

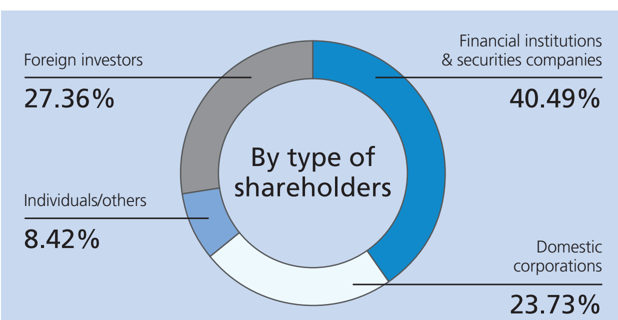
20,292

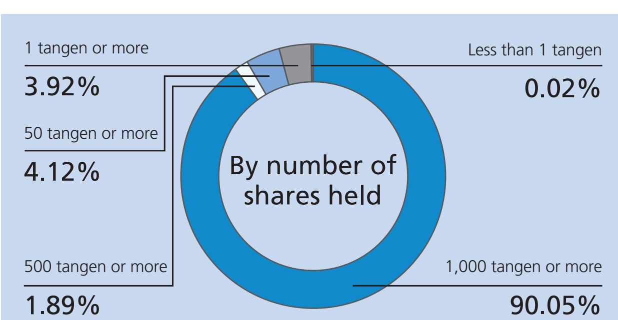
Major Shareholders

Name	Percentage of shares held (%)	Number of shares held (thousands)
Bridgestone Corporation	15.97	40,866
The Master Trust Bank of Japan, Ltd. (Trust Account)	6.32	16,188
Japan Trustee Services Bank, Ltd. (Trust Account)	5.53	14,162
Mizuho Corporate Bank, Ltd.	4.00	10,249
The Master Trust Bank of Japan, Ltd. (Number of Retirement Allowance Trust Shares of Mitsubishi Chemical Corporation)	3.86	9,888
JP Morgan Chase Bank 380055	3.04	7,794
Nippon Life Insurance Company	2.34	5,998
State Street Bank and Trust Company 505103	2.23	5,716
The Chase Manhattan Bank 385036	1.83	4,690
State Street Bank and Trust Company	1.66	4,256

Composition of Shareholders

Shareholders by category	Number	Shares held (thousands)
Individuals and Others	19,422	102,941
Foreign Corporation and Individuals	404	70,006
Other Corporations	295	60,717
Financial Institutions	133	21,551
Securities Companies	38	668
Total	20,292	255,885





Common Stock Price Range

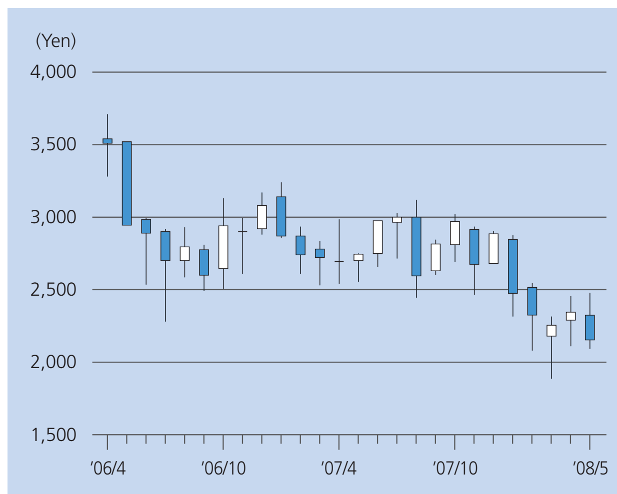
(Tokyo Stock Exchange)

		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
FY2008	**High**	**2,985**	**3,120**	**3,020**	**2,845**
	Low	**2,540**	**2,445**	**2,465**	**1,886**

Securities Traded Common Stock

Tokyo Stock Exchange
Osaka Securities Exchange

Monthly Stock Price



Materials Innovation

JSR

With chemistry, we can.

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