Sanyo Chemical Industries

"Performance" Through Chemistry

FY2008
Annual Report

Fiscal Year 2008 : Year ended March 31, 2009

Company Profile

In 1949, Sanyo Chemical Industries, Ltd. was founded as a surfactant manufacturer in Kyoto, Japan. Since then, guided by our Company Motto, ***Let us contribute to building a better society through our corporate activities,*** we have been endeavoring to continually evolve along with our changing society. As the needs of society and industry have changed, we have responded by introducing new technologies, designing and developing high-value-added products.

Today's Sanyo Chemical is not just a surfactant manufacturer, but also a performance chemicals manufacturer with a variety of technologies and the capability to develop rapidly. We continue to evolve as we provide performance chemicals and chemical products that satisfy the performance and capability requirements of our customers in various industries.

Global environmental conservation and sustainable development are both demanded by today's society. As we continue our development of technologies and performance chemicals, we will endeavor to make an active contribution to society as good corporate citizens, and will strive to become a truly unique and excellent corporate group that operates on a global scale.

Contents

Cautionary Statement with Respect to Forward-Looking Statements

This annual report includes projections of future plans, strategies and performance results of Sanyo Chemical Group.

These projections were determined by Sanyo Chemical's executives based on information available to them at the time of writing. Please be advised that actual performance results may vary significantly due to a variety of factors affecting our group's sphere of business that include but are not limited to; economic climate, competitive position, changes in status of product development, related legislation and variations in exchange rates.

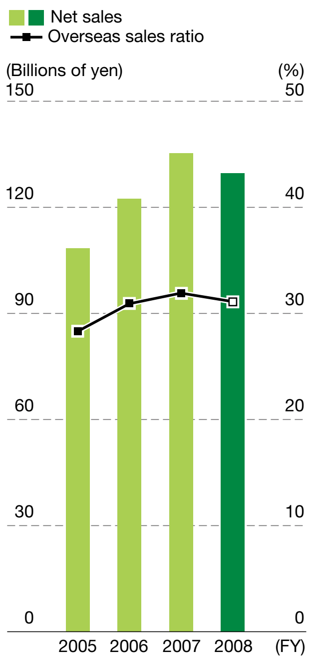
Consolidated Financial Highlights

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries

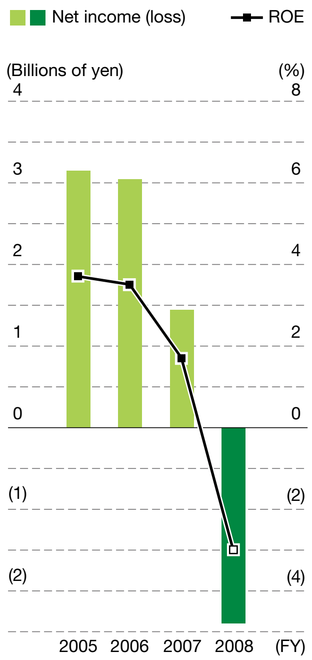
	FY2008 (Millions of Yen)	% Change	FY2007 (Millions of Yen)	FY2006 (Millions of Yen)	FY2008 (Thousands of U.S. Dollars)
For the fiscal year:					
Net sales	**129,555**	**(4.2)**	135,214	122,397	**1,318,894**
Overseas sales	**40,355**	**(6.5)**	43,173	37,764	**410,821**
Operating income	**640**	**(87.9)**	5,293	6,553	**6,515**
Ordinary income	**498**	**(91.5)**	5,836	8,024	**5,069**
Income before income taxes and minority interests (loss)	**(1,915)**	**–**	4,519	6,471	**(19,495)**
Net income (loss)	**(2,400)**	**–**	1,446	3,051	**(24,432)**
At fiscal year-end:					
Total assets	**123,901**	**(16.7)**	148,717	153,165	**1,261,335**
Shareholders' equity	**76,465**	**(10.1)**	85,016	88,466	**778,429**
Per share (yen and U.S. dollars):					
Net income (loss)	**(21.75)**	**–**	13.11	27.65	**(0.22)**
Cash dividends paid	**13.00**	**(13.3)**	15.00	15.00	**0.13**
Net assets	**693.00**	**(10.0)**	770.38	801.52	**7.05**
Ratios (%):					
Overseas sales ratio	**31.1**	**–**	31.9	30.9	**31.1**
Operating income ratio	**0.5**	**–**	3.9	5.4	**0.5**
Return on equity (loss)	**(3.0)**	**–**	1.7	3.5	**(3.0)**
Shareholders' equity ratio	**61.7**	**–**	57.2	57.8	**61.7**
Return on assets (loss)	**(1.8)**	**–**	1.0	2.1	**(1.8)**

Notes: 1. U.S. dollars have been converted at the rate of ¥98.23 to US$1, the effective rate of exchange at March 31, 2009.
2. The computations of net income (loss) per share of common stock are based on the weighted average number of shares outstanding during each fiscal year.

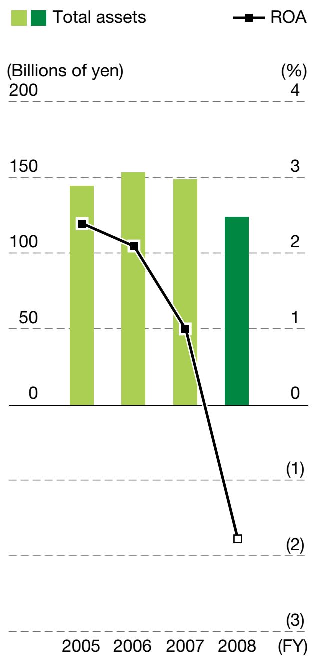
Net Sales / Overseas Sales Ratio



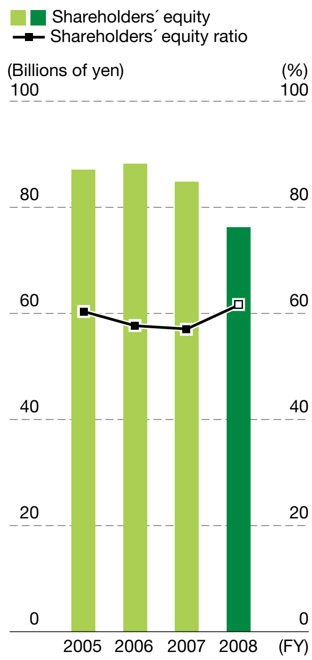
Net Income (loss) / ROE



Total Assets / ROA



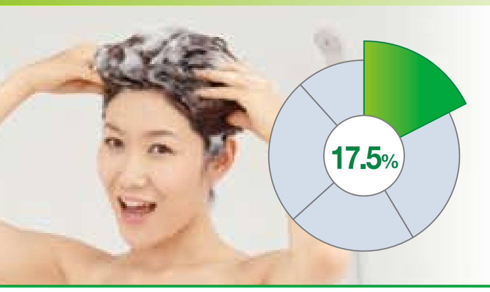
Shareholders´ Equity / Shareholders´ Equity Ratio



Business Review

Sales Amount Composition Ratio | Organization in Charge | Principal Products

Surfactants



- Narutaki Business Unit
- San Nopco
- Sanyo Kasei (Thailand)
- Sanyo Kasei (Nantong)
- San Chemical

Surfactants for textiles
Agents for textile manufacturing, agents for textile processing, agents for high-performance textiles

Industrial surfactants
Surfactants for hair care products, base materials for cosmetics, surfactants for laundry detergents and other cleaners, germicides/disinfectants, antibacterial agents, emulsifiers for emulsion polymerization, defoaming agents, dispersants, cleaners for electronic materials

Polyurethane chemicals

- Usami Business Unit
- Narutaki Business Unit
- Bessho Business Unit
- Sanyo Kasei (Thailand)
- San Chemical
- Sanyo Chemical & Resins
- Sanyo Chemical Texas Industries

Raw materials for polyurethane
Raw materials for polyurethane foam, raw materials for polyurethane resins

Polyurethane resins
Thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, polyurethane resins for synthetic leather, polyurethane resins for paint, polyurethane resins for gravure inks, polyurethane emulsions

Lipophilic high-molecular agents

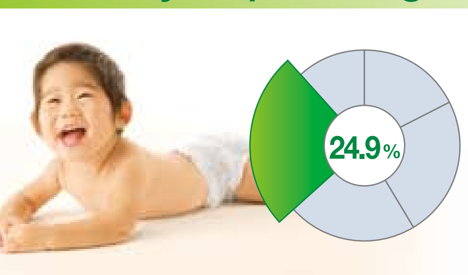
- Bessho Business Unit
- Sono Business Unit
- Narutaki Business Unit

Copier-related products
Polyester-type toner resins, styrene-acrylic type toner resins, polyester beads (PEB) used as a core component of polymerization toners

Lubricating oils and machining-related products
Viscosity index improvers, base materials for synthetic lubricating oils, machinery processing agents, fuel oil additives

Coating and adhesive-related products
UV/EB curing resins, potting resins for artificial kidneys, pressure-sensitive adhesives, sizing agents for fiberglass

Hydrophilic high-molecular agents



- Sono Business Unit
- SAP Application Intracorporation
- San-Dia Polymer
- San-Dia Polymers (Nantong)

Superabsorbent polymers
Superabsorbent polymers (SAP) for hygiene use, SAP for nonhygiene use

Water treatment-related products
Polymer flocculants for municipal wastewater treatment, polymer flocculants for industrial wastewater treatment

Specialty products

- Bessho Business Unit
- Narutaki Business Unit
- Sono Business Unit
- Construction Systems and Materials Intracorporation
- Polymer Application Intracorporation
- San-Apro

Electric/electronic-related products
Electrolytes for aluminum electrolytic capacitors, electrolytes for electric double-layer capacitors, agents for silicon wafer processing, special catalysts for epoxy resins

Resin and polymer modifier-related products
Permanent antistatic agents, pigment dispersants, resin modifiers for automobile paints

Others
Polymers for enhanced oil recovery, hot-melt adhesives, enteric-soluble coating agents for pharmaceuticals, civil engineering and construction-related products, paste resins for design models

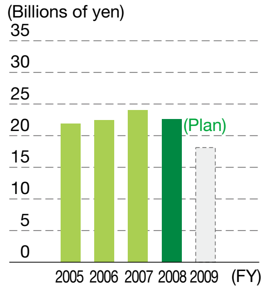
2008 Overall Conditions

Sales Amount

In the field of industrial surfactants, sales were generally sluggish. Sales of detergent base materials with superior biodegradability increased substantially due to the growing use of liquid detergents. Sales of resin emulsifiers also held steady; however, surfactants for other applications were sluggish from November 2008 due to weaker demand against the impact of the economic downturn.

Sales of surfactants for textiles decreased substantially because sales of agents used in textile manufacturing processes for industrial materials such as airbags and seat belts for automobiles, which had been strong, decreased. This was a direct effect of the economic recession and a decrease in exports due to the appreciation of the yen. Another negative factor was a steep decline in sales of textile agents for clothing as a result of the economic downturn and a shrinking of the Japanese market for such products.

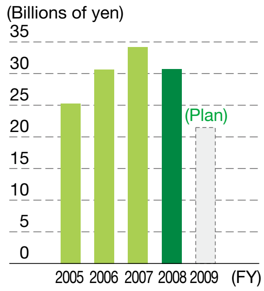
As a result, total net sales in this product group decreased by 6.1% from the previous fiscal year to ¥22,599 million.



In the field of raw materials for polyurethane, while brisk sales were recorded in raw materials for newly developed high-performance polyurethane foams, sales as a whole decreased substantially. This is attributable to a decline in exports caused mainly by the appreciation of the yen and a deterioration in Asian market prices, sudden weakening of demand in the Japanese market from November, 2008 and lower product selling prices accompanying a sharp decrease in the price of naphtha.

In the field of polyurethane resins, sales of thermoplastic polyurethane beads (TUB) for the interior parts of automobiles were also sluggish due to major production cutbacks in the automobile industry as well as a decrease in exports caused by the appreciation of the yen.

As a result, total net sales in this product group decreased by 10.3% from the previous fiscal year to ¥30,752 million.

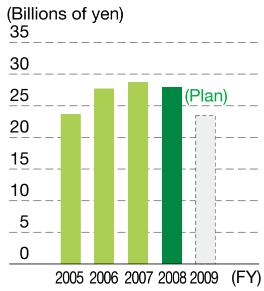


In the field of copier-related products, sales of polyester beads (PEB) used as a core component of polymerization toners held steady due to a strong increase in demand for new product types. Sales of toner resins for pulverized toners, however, decreased as a result of a decline in demand in the second half of the term. Consequently, sales of copier-related products as a whole decreased.

In lubricating oils and machining-related products, brisk sales were recorded for cold flow improver in compliance with low-sulfur diesel fuels, and for lubricating oil additives for automobile transmissions. Sales of other lubricating oil additives, however, were slightly sluggish due to the impact of the production cutbacks in the automobile industry.

Sales of coating and adhesive-related products increased steadily, supported particularly by stable demand for binders for fiberglass and adhesives for medical equipment.

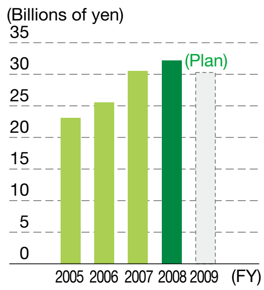
As a result, total net sales in this product group decreased by 2.9% from the previous fiscal year to ¥27,908 million.



Sales of superabsorbent polymers were positive thanks to increased demand in both the Japanese and overseas markets for hygiene use materials such as disposable diapers.

Sales of water treatment products increased favorably due to expanded sales of cationic polymer flocculants and cationic monomers.

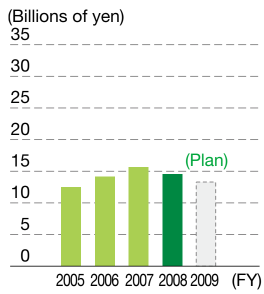
As a result, total net sales in this product group increased by 5.5% from the previous fiscal year to ¥32,232 million.



In resin and polymer modifier-related products, demand for permanent antistatic agents used in packaging materials for electronic components decreased substantially in the latter half of the term due to the sudden downturn in business activity by the electronic appliance industry. Demand for resin modifiers for automobile paints also decreased due to the impact of the production cutbacks in the automobile industry. As a result, overall sales of polymer modifier-related products decreased substantially from the previous term.

In electric/electronic-related products, sales of silicon wafer processing agents increased thanks to sharp growth in demand, but sales of electrolytes for aluminum electrolytic capacitors rapidly deteriorated, due to a sharp decline in demand.

As a result, total net sales in this product group decreased by 6.7% from the previous fiscal year to ¥14,591 million.



To Our Shareholders and Investors

I would like to thank all our shareholders and investors for their continued support and understanding. As the representative of Sanyo Chemical Group, I would like to report on the Group's business activities in FY2008 (April 1, 2008 to March 31, 2009) and the issues to be addressed in FY2009.

Masaaki Ienaga President, Representative Director

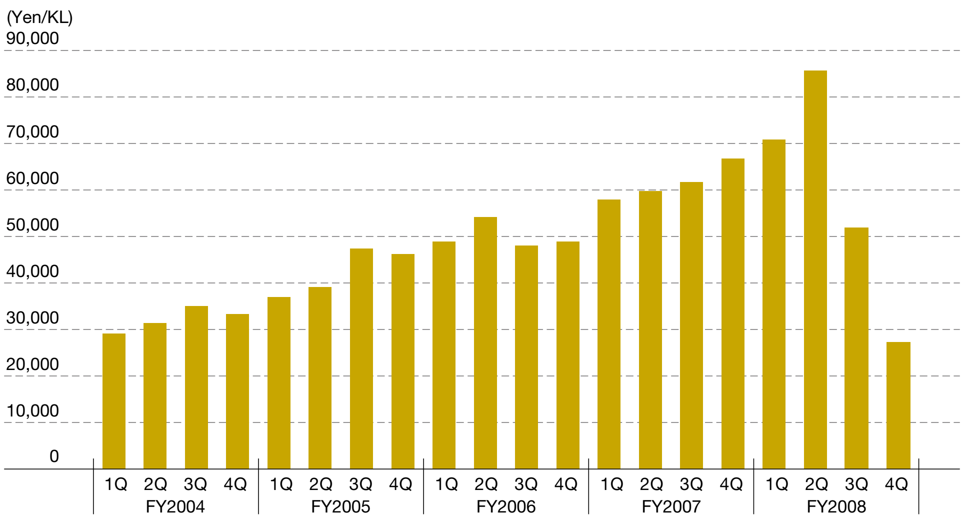
Review of Performance in FY2008

The Japanese economy moved into deep recession, with the economy slowing rapidly and the deterioration of the job market beginning in the autumn of 2008 because of the global recession triggered by the U.S. financial crisis. In the chemical industry, the economic recession led to a rapid drop in demand, while the naphtha price plummeted from October of 2008 after having soared to that point. This put more downward pressure on product prices, leading to an increasingly difficult business environment.

Against this backdrop, net sales of Sanyo Chemical on a consolidated basis, which had previously continued to grow steadily, reached only ¥129.5 billion in FY2008, marking a decrease of 4.2% from the previous fiscal year. This decline was chiefly attributable to a sudden drop in demand from the autumn of 2008.

In terms of profit, as sales volume declined substantially due to the rapid decrease in demand in the second half of the fiscal year, operating income decreased by ¥4.6 billion, or 87.9%, from the previous fiscal year to ¥0.6 billion. Ordinary income decreased by ¥5.3 billion, or 91.5%, from the previous fiscal year to ¥0.4 billion, mainly reflecting the decline in operating income and an exchange loss of ¥0.6 billion. Furthermore, net income decreased from ¥1.4 billion in the previous

» Transition of Price of Domestically-Produced Naphtha



fiscal year to a loss of ¥2.4 billion, primarily as a result of a loss on devaluation of investments in securities of ¥1.2 billion and an impairment loss on fixed assets of three overseas subsidiaries amounting to ¥1.1 billion.

Consequently, net income per share decreased from ¥13.11 in the previous fiscal year to a negative ¥21.75, and the return on equity (ROE) decreased from 1.7% to a negative 3.0%.

In response to the drastic deterioration in our business performance, as a quick-impact measure aimed at the “recovery of profitability,” which is our imperative, we have been implementing “emergency countermeasures” such as a reduction in compensation for executives and managerial staff, the postponement of capital investment, cuts in inventory levels, and a substantial reduction in expenses since January 2009.

Dividend Policy and Dividends

We regard increasing returns for all shareholders while attempting to reinforce the corporate base for the future through an improvement in the Group's profitability as an important management responsibility. Our fundamental policy is to maintain stable dividends while targeting a payout ratio of more than 30%. Based on this fundamental policy, we had previously maintained a stable annual dividend of ¥15.00 per share (comprising of an interim dividend and a year-end dividend of ¥7.50 each). However, profits declined sharply in FY2008, in particular, with net income ending up at a loss. This harsh management environment is also likely to continue for some time. Therefore, we have regrettably had to adopt the provisional measure of reducing the year-end dividend for FY2008 to ¥5.50 per share, which represents a decrease of ¥2.00 compared to the interim dividend distributed in December 2008.

In FY2009, based on our current business performance plans, we intend to pay an interim dividend and year-end dividend of ¥5.50 per share each, which will result in an annual dividend of ¥11.00.

Review of Corporate Social Responsibility (CSR) Activities in FY2008

We understand that it is Sanyo Chemical's Corporate Social Responsibility (CSR) to achieve our Company Motto, *Let us contribute to building a better society through our corporate activities*. We have worked to enhance corporate value in order to achieve this motto by placing great importance on environmental consciousness and social contributions.

In FY2008, in the domain of CSR initiatives, the Group recognizes the need to build a company-wide promotion system to formulate, conduct, monitor and improve corporate plans in accordance with basic policies. Accordingly, in April 2009 we established the CSR Committee, chaired by the president, and the CSR Promotion Dept., also under the direct supervision of the president.

The CSR Committee deliberates and makes decisions about basic policies and important matters regarding CSR activities of the Group, determines action plans and scrutinizes their results, and recommends improvements from a company-wide perspective.

In its role as a bureau for the CSR Committee, the CSR Promotion Dept. proposes issues to be tackled after examining the direction to be taken in regards to CSR activities, and follows up on the progress achieved with the decisions and plans made by the CSR Committee. Moreover, the department works on the disclosure of CSR information and on implementing activities to raise awareness of CSR.

Issues to Be Addressed for FY2009

In FY2009, under the slogan *We are united in our firm resolve to rise to the challenge of overcoming the current severe economic recession*, we will address the following issues:

1. Recover profit margins
2. Reduce fixed costs by curbing capital investment and reducing expenses
3. Accelerate development of new products
4. Use funds efficiently by reducing inventories, etc.

Furthermore, it is assumed that the Japanese economy will continue to face challenging conditions due to the impact of the global recession. The Group is fully aware of this situation, and to recover profitability and achieve profitable growth over the medium to long term, we will strive to radically reform our corporate structure and strengthen our operating base by steadfastly implementing the following measures:

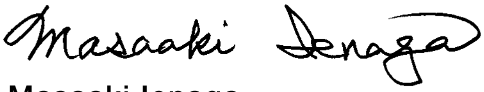
1. Careful selection of product and technology development items and concentration of personnel
2. Reinforcement of sales and marketing capabilities
3. Production innovation
4. Restructuring, including a review of organizational and management structures

In the Research and Development (R&D) Division, we will select major themes that we will be able to bring to market in the near future as “priority development items,” and by concentrating our personnel, we aim to rapidly produce actual results and create major high-value-added products. At the Katsura Research Laboratory, which commenced operations in August 2008, we are conducting research focused mainly on the creation of new products in such fields as electronic materials, biotechnology, and environmental technologies, as well as the creation of new processes, nano-processing technologies, and other future technologies. Based on integrated management with the Research Laboratory at our head office, the Katsura Research Laboratory will accelerate our R&D activities as a “network-type R&D base that is focused on cooperation between industry and academia.”

In the Production Division, we believe there are excellent opportunities to reform processes from their very foundations. We therefore improved promotion systems and commenced implementation of substantially improving production efficiency by thoroughly eliminating wasteful processes and losses through the streamlining of production processes, energy conservation, and labor saving.

November 1, 2009 will mark the 60th anniversary of the foundation of Sanyo Chemical Industries. We will reach our 60th anniversary in a harsh management environment that has been called a great depression. However, to recover our profitability and achieve profitable growth while aiming to become a truly unique and excellent corporate group that operates on a global scale, we will unite the Group’s entire efforts as we implement the measures mentioned above and boldly take on the challenge of restructuring.

As always, we appreciate your continued understanding, trust and support for our activities.



Masaaki Ienaga
President, Representative Director

The Seventh Medium-Term Management Plan and Its Progress Status

The Seventh Medium-Term Management Plan and Its Progress Status

Based on the Seventh Medium-Term Management Plan, covering the period from FY2007 to FY2010 (April 2007 to March 2011), we will work to expand sales of Strategic Products* and other products by further strengthening our R&D capabilities and driving globalization. By the final fiscal year, FY2010, we aim for net sales of ¥170 billion or higher, ordinary income of ¥18 billion or higher, and an ROE of 10% or higher. However, owing to the dramatic change in the management environment, namely the global recession, we have been forced to abandon our attempt to achieve the numerical targets of the Seventh Medium-Term Management Plan.

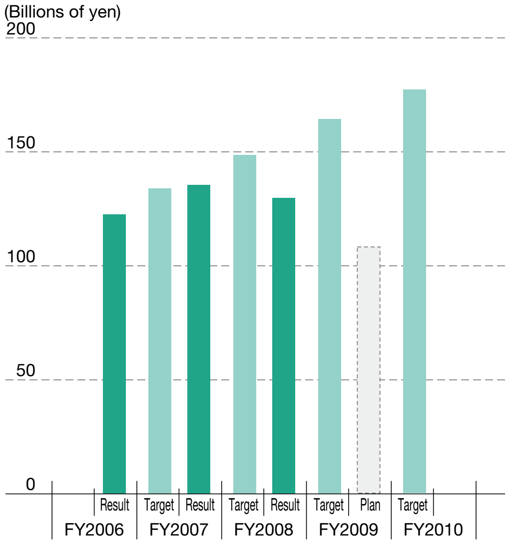
During the two-year period of FY2009 to FY2010, because the outlook for the economic environment is very uncertain, we intend to manage operations flexibly based mainly on plans for each fiscal year respectively. In tandem with our aim to achieve our business performance recovery, we will devote all our efforts to promoting restructuring and overcoming the recession.

While striving for our business performance recovery in the near term, we will commence work aimed at the formulation of the Eighth Medium-Term Management Plan, beginning in two years starting in FY2011. This plan will enable the group to achieve further growth in a new stage.

* "Strategic Products" refers to the products developed as a priority to improve profitability and expand business areas. There are a total of 15 items designated as Strategic Products in our Seventh Medium-Term Management Plan. Five products have been carried over from the preceding Sixth Medium-Term Management Strategy, and 10 items are new.

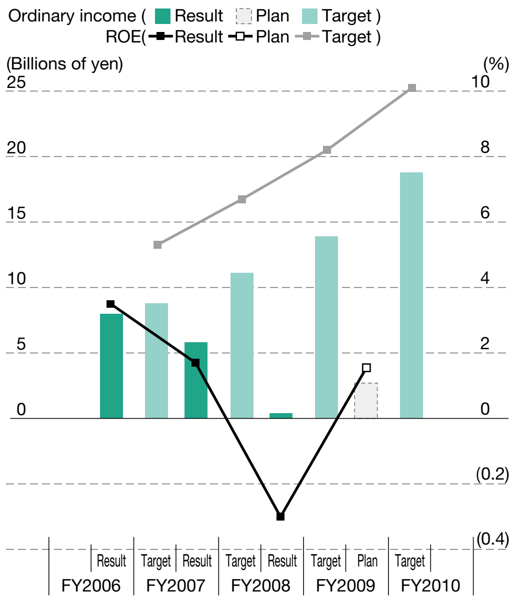
»Sales Target

Net sales: ¥170 billion or higher



»Profitability Target

Ordinary income: ¥18 billion or higher
ROE: 10% or higher



Corporate Governance and Corporate Social Responsibility (CSR)

Management Philosophy

We have been enhancing our corporate governance system to enable us to realize the aims of our Company Motto, ***Let us contribute to building a better society through our corporate activities.***

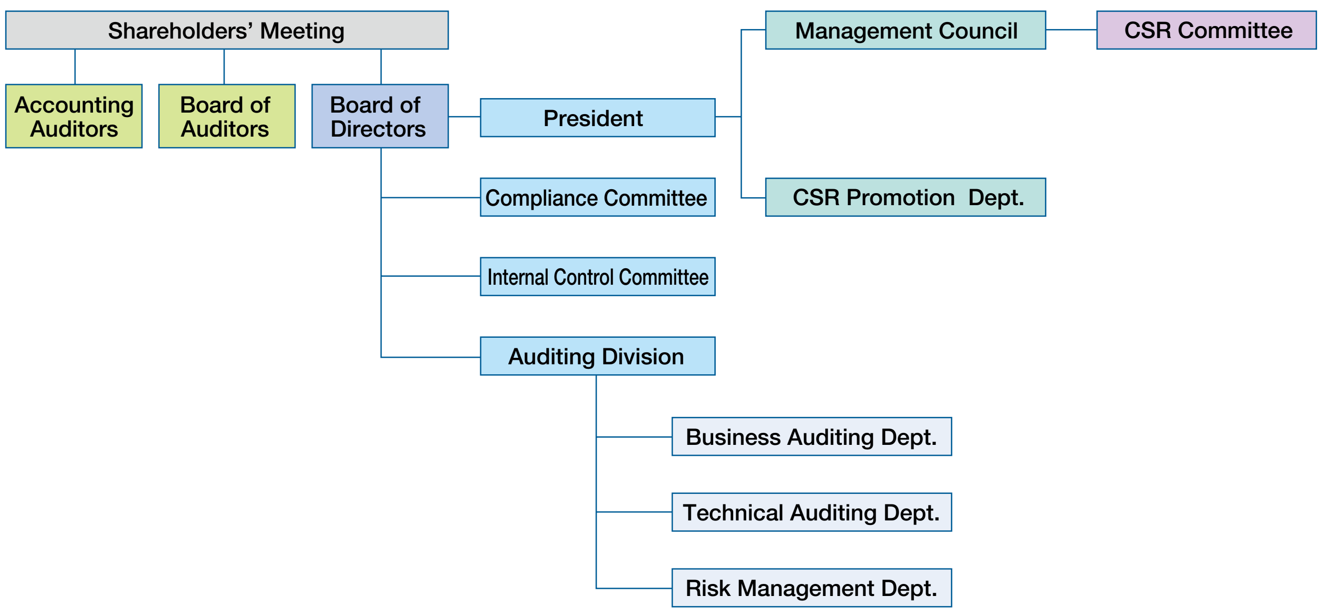
Our management philosophy serves as a guide in fulfilling our corporate social responsibility by operating a strict corporate governance system and enhancing our corporate value. We have also adopted an individual-based management style that places importance upon self-set commitments as well as acting while thinking. Additionally, we encourage our employees not to be afraid of taking on challenges in their work. We do our utmost to promote the realization of individual potential, as well as the evolution of the Sanyo Chemical Group.

Corporate Governance

The management of all member companies in the Group have positioned corporate governance as one of their top-priority management issues in recognition of the responsibilities they bear toward their shareholders and all the Group's other stakeholders. To clearly define managerial decision-making and the segmentation of business execution, our corporate governance is based on the executive officer system and the auditor system, which together enable business execution pursuant to the management policies, resolved by the Board of Directors.

In addition, we have the Compliance Committee and the Internal Control Committee established under the direct jurisdiction of the Board of Directors. To ensure compliance within our Group, the Compliance Committee deliberates the fundamental policies and measures to thoroughly ensure compliance with laws and regulations, social norms, the Code of Corporate Ethics and the company regulations. The Internal Control Committee deliberates the Group's fundamental policies for the internal control system as a whole as well as guides and supervises activities such as the creation and operation of the system itself.

»**Sanyo Chemical's Corporate Governance Organization and CSR System** (as of June 19, 2009)



Board of Directors

The Board of Directors consists of eight members and is convened by the chairman of the Board. Auditors also attend and participate in discussions. Of the eight members, one is an outside director, and seven serve concurrently as executive officers. The Board of Directors operates in accordance with all applicable laws and ordinances as well as the regulations of the Board of Directors. According to this regulations, the Board of Directors also appoint executive officers to perform such duties as prescribed to them by the Board. In FY2008, an outside director was appointed as the chairman of the Board.

Management Council

The Company president serves as the chairman of the Management Council, and the council members comprise directors who concurrently serve as executive officers, full-time auditors, and other executive officers. The Management Council is convened regularly twice a month to discuss and make decisions on important business matters in accordance with the fundamental policies determined by the Board of Directors.

Auditing System

Accounting auditors conduct external audits in compliance with the Japanese Corporate Law and the Financial Instruments and Exchange Law. The audit and review results are reported to the Board of Auditors four times a year. The Board of Auditors consists of four auditors including three outside auditors, and presents the audit report to the Representative Directors and also at the general shareholders' meeting.

Internal auditing is conducted by the Business Auditing Department and the Technical Auditing Department that are contained within the Auditing Division. Both these departments cooperate with audits conducted by auditors, based on requests from the auditors, and work to raise the quality and ensure the effectiveness of audits through the timely exchange of information.

CSR Promotion System

To implement and promote CSR activities company-wide in a uniform manner, the Group is establishing eleven CSR guidelines that cover compliance, corporate governance, the environment, safety, human rights, employment and other areas. The Group is disseminating and implementing these guidelines. In April 2009 we established the CSR Committee and the CSR Promotion Dept. to comprehensively administer CSR activities conducted under these guidelines and to promote such activities in a coordinated manner throughout the Group.

On the basis of these CSR activities, the Group will communicate with all stakeholders with the aim of becoming a truly unique and excellent corporate group that operates on a global scale.

Compliance System

As part of our compliance efforts, we have placed one of our senior managing executive officers in charge of corporate ethics, instituted the Compliance Committee (chaired by the chairman of the Board of Directors) and established an Auditing Division under the direct jurisdiction of the Board of Directors, in order to ensure the effectiveness of our internal auditing function. The Compliance Committee was established to take responsibility for deliberations and decisions made concerning compliance matters within Sanyo Chemical. This committee meets regularly once every quarter and at other times when deemed necessary. In FY2008, we thoroughly revised our public information system used in the event of misconduct, contained within the Rules on the Compliance Committee, to make it easier to understand in terms of reporting and responding to a discovery of a compliance violation. We also revised the Action Guidelines for Employees and Rules for Internal Reporting to ensure compliance by means of action standards for each paragraph of the Code of Corporate Ethics.

Company Motto/Code of Corporate Ethics/Advice on Compliance Leaflet

To ensure awareness of compliance issues throughout the company, all company executives and employees carry with them a Company Motto/Code of Corporate Ethics/Advice on Compliance leaflet. It goes without saying that as our company deals with chemical products, we take great care to ensure that all the stipulations in Japan’s 1973 Chemical Substances Control Law are followed to the letter. Leaflets on how to comply with this important law are distributed to all company executives and employees. Study sessions are also held, and we require all of our employees to pass an internal certification exam. As regards IT security measures, as well as implementing various regulations, we have introduced a license system by which personnel take tests concerning using information systems and, if successful, are issued licenses.

In addition, we always monitor the formulation, revision, and elimination of laws and regulations, as well as rules that provide the basis for business activities and hold study sessions to keep directors and employees fully informed. In FY2008, amid the rapidly worsening economic slowdown, we conducted study sessions about the Subcontracting Law primarily in the production and R&D divisions to ensure thorough compliance with this law.

In the event that any question arises in respect to compliance, we resolve it through consultations with superiors and parties concerned. In the case that there is no way to do so, however, we make it a rule to consult a lawyer through the contact for internal reporting (hotline) set up within our company or at an external law office.

Risk Management

With regard to major risks surrounding the Group, the departments in charge are managing risk under rules such as the designated rules for responsibility for business operations, rules for the person responsible for business execution and the procedures thereof, rules for internal auditing, rules for transactions (sales), rules for accounting, rules for product liability (PL), and rules for information security. In addition, the Risk Management Department, established in the Auditing Division, which is under the direct jurisdiction of the Board of Directors, monitors the implementation status of risk management and risks incurred are handled in an appropriate and timely manner. Recurrence prevention measures are also formulated by the Risk Management Department as the contact section. Turning to our BCP (Business Continuity Plan), in FY2007 we prepared a BCP for the Nagoya Factory and installed an Earthquake Early Warning and Emergency Information Service System. Since FY2008, we have been preparing a BCP for our Head Office.

Internal Control System

Guided by our Company Motto, *Let us contribute to building a better society through our corporate activities*, we have created an internal control system. The system not only ensures that the Group, in its business activities, strictly observes all relevant laws and regulations, but also helps to improve the effectiveness and efficiency of business operations and ensures the reliability of our financial reports.

The fundamental policy for establishing the system of internal control pursuant to the Japanese Corporate Law and its enforcement regulations, after being resolved at the Board of Directors and publicized in May 2006, has been reviewed as necessary and publicized on each occasion as a Corporate Governance Report.

We have established the Internal Control System (Financial Reporting) Promotion Department in the General Affairs Division as a group to promote the detailed creation, operation, and assessment of the system of internal control on financial reporting stipulated in the Financial Instruments and Exchange Law. We are implementing written descriptions of actual operations (documentation), assessing company-wide internal controls and the control systems for operational procedures for everything from sales to the financial reporting process, as well as IT procedures. The results are collated in the Internal Control Report which is then presented to the Internal Control Committee to obtain their approval. In June 2009, we submitted the FY2008 Internal Control Report which we validated, with the attached Internal Control Audit Report made by accounting auditors, to the Kanto Local Finance Bureau.

Board of Directors & Auditors

(as of June 19, 2009)

Hideki Matsui
Chairman of the Board

Masaaki Ienaga
President,
Representative Director

Dr. Fusayoshi Masuda
Representative Director

Yoshihide Yamamoto
Director

Masaaki Honjo
Director

Kazuyuki Hirakawa
Director

Koji Hirose
Director

Tatsushi Yano
Director

Hajime Akiyama
Auditor

Isao Hama
Auditor

Junzo Shimizu
Auditor

Kan Ueno
Auditor

Company Motto

Let us contribute to building a better society through our corporate activities

To achieve this purpose, we will endeavor to promote the followings:

1. We believe that the Company is an organic entity of capital, management, and labor harmoniously linked together. Keeping this in mind, we will strive to achieve dynamic growth.
2. Trusting that our inventive power has no limits, we will ceaselessly try to develop new business areas and supply original and high-quality products to the market.
3. We believe that perpetual profits come only from the creation of value, and we do not seek superficial profits.
4. We will fulfill the customers' expectation and earn their trust by providing high-quality cost-effective products and superior technical service.
5. When all the members of the Company share the same vision for the Company's future and challenge for innovation on our own initiative, we will be rewarded with an abundant profit. This profit will then be fairly distributed among internal reserves, shareholders, management and employees.
6. We will strive for perfection in safety and harmony with the environment, which is the first required mission in the society.

Compliance Philosophy

Believing that it is essential corporate behavior to ensure legal compliance and to fulfill Corporate Social Responsibility, we Sanyo Chemical Group are introducing a Code of Corporate Ethics, which will be applied to maintain sustainable society. With good sense and integrity we are committed to improving our society and are following our Company motto *Let us contribute to building a better society through our corporate activities*.

Based on these company business ethics, we prescribe our principles of corporate behavior as follows:

1. We Sanyo, by the development and provision of socially beneficial goods and services, in a safe and responsible manner, shall strive to earn the confidence of our consumers and clients.
2. We shall promote fairness, transparency, free competition and right trade. We shall also ensure to protect our own intellectual property as well as that of any third party while taking necessary measures to protect personal data and customer related information.
3. We shall recognize that a positive involvement in environmental issues and an active effort towards accident prevention are indispensable requirements for the sustainability and activity of our business.
4. We shall engage in active and fair disclosure of corporate information, not only to shareholders, but also to a wide range of members of society.
5. As "good corporate citizens," we shall actively engage in philanthropy and other activities of social benefit.
6. We shall strive to respect the diversity and individuality of our employees, to promote safe and comfortable workplaces, and to ensure the physical and mental well being of our employees.
7. We shall observe all laws and regulations applying to our overseas activities, respect the culture and customs of other nations and strive to manage our overseas activities in such a way as to promote and contribute to the development of local communities.
8. We shall reject all contacts with organizations involved in activities in violation of the law or accepted standards of responsible social behavior.

All high levels of management, cooperating with other managers, must assume the responsibility for implementing this code and take all necessary action in order to promote awareness within Sanyo Chemical Group and inform the group companies and business partners of their responsibility. Management must also promote the development and implementation of systems that will contribute to the achievement of ethical corporate behavior.

In the event of any violation of these principles, members of management must investigate the cause of the violation, develop reforms to prevent its recurrence, and make information publicly available regarding the intended actions for reform. After the prompt public disclosure of appropriate information regarding the violation, responsibility for the violation and its effect should be clarified, and disciplinary action should be taken, regardless of the offending member's position in the Company.

Established: April 1, 2003
3rd version revised: May 26, 2008

Individual-Based Management

Sanyo Chemical is adapting to the new age by introducing *Individual-based management*, a concept unique to Sanyo Chemical.

Individual-based management is aimed at enhancing people's capabilities and placing value on *honoring self-set commitments* and *acting while thinking*. It is said that people make the company, and in the years to come, the quality and challenging spirit of each individual will become more and more important. In FY2007, we distributed a booklet entitled "An Explanation of Individual-Based Management" to all employees to deepen their understanding.

Based on the motto "With Enthusiasm and Passion," Sanyo Chemical is striving to create a shared vision, and in unison with all group companies, is aiming to become a truly unique and excellent corporate group that operates on a global scale.

◎Cost accounting: Evaluation accounting for profit center managers, financial accounting, managerial accounting
◎Profit center system in R&D, production and sales
◎On-the-job training for three types of accounting (evaluation, financial and managerial)
◎Ordinary profit passbook
◎Accounting exams (level: primary/intermediate)
◎Requirement qualification system

◎Commendations from the president (by self-declaration)
◎Challenge System
◎Personal Challenge for Research
◎Awards from General Managers to encourage challenges
◎TQC activities
◎Inventor of the Year award
◎Personal evaluation of each manager by multiple division directors

◎Personnel system
◎Guidebook for company welfare system
◎On-the-job-training: Job exchange training, training retreats
◎Informal seminars for employees
◎Research/sales introduction education
◎New technical school in the Production Division
◎Medium-Term Management Plan making committee
◎Certification exam systems: Surfactants, high-molecular agents, Japan's 1973 Chemical Substances Control Law, TOEIC, PC skill license, Info-system skill license, operator skill licenses

◎Company Motto, Code of Corporate Ethics,
◎Rules defining business responsibilities
◎Rules defining procedures for approvals
◎Matrix management system (sales and R&D)
◎Functional committee/council system
◎Two-Boss System in Sales & Marketing Division
◎Manuals for sales representatives
◎Flexible assignment for R&D personnel
◎R&D operation system's manual
◎Production/quality control system

◎Support and evaluation system for technological development
◎Intellectual property rights system: Patent and trademark awards
◎NeeSeeds-oriented R&D
◎Expansion into peripheral fields, including development of applied products

◎Functional R&D division
◎Flat R&D structure: Research unit system
◎Business unit system
◎Intracorporation system
◎Overseas sales networks
◎Overseas liaison offices

◎Diversification of financing and fund management
◎Group-wide fund management
◎Exchange rate risk hedge
◎Investment criteria: investment for streamlining, labor-saving, overseas market and R&D

◎Computer system: E-mail, Intranet
◎Manager's monthly self-action report forwarded directly to the management
◎Personal information protection
◎Report system (internal/external hot-line)
◎Daily & weekly reports by sales representatives

The Environment, Safety and Social Activities

Guided by our Company Motto, ***Let us contribute to building a better society through our corporate activities***, we are fully aware that companies are also members of society. We have been actively involving ourselves with social activities as well as implementing such responsible care activities that aimed at protecting the environment and ensuring safety in our business activities. In addition, we are continuing our BCP (Business Continuity Plan), which is advance planning to minimize the degradation of business activities and recover business in a short period of time even if the business activities are damaged by disasters or accidents.

Responsible Care

Responsible care is an activity where businesses dealing with chemical substances take the initiative in protecting the environment and ensuring safety through the entire lifecycle of its chemical products, from development through manufacturing, distribution, application, final consumption and finally disposal. This means, we engage in environmental protection, process safety and disaster prevention, occupational safety and health, and chemical and product safety where the results are publicized to communicate with society.

Since joining the Japan Responsible Care Council in 1996, we have been actively engaged in environmental protection and safety as our first and foremost issues.

Environmental Conservation Priority Project: S-TEC21 TM6 (FY2007 to FY2010)

We have formulated S-TEC21, an activities campaign that gives priority to conserving the environment by focusing on energy conservation, the reduction of chemical substance emissions, the reduction of the generation of waste, and the recycling of waste, and have been conducting it on a company-wide basis from FY2000. We named our fourth campaign that conducted from FY2007 to FY2010 "S-TEC21 TM6," reflecting our national movement of "Team Minus 6%," because the major activity of the campaign focuses on the reduction of greenhouse gas emissions. It targets a 6% reduction in greenhouse gas emissions from the 1990 level by FY2010, halving the emissions of volatile organic compounds (VOCs), minimizing solid waste in landfills and reducing the generation of waste.

* S-TEC 21 : Sanyo Tactics for Eco Challenge 21st Century

Activities	Objectives by End of FY2010	FY2008 Results
Reduction of greenhouse gas emissions	Reduce the total amount of greenhouse gas emitted from all Japanese business places by 6% from FY1990 level	Japan Consolidated: 54% increase from FY1990 (190 thousand tons of emissions, down 24 thousand tons from the previous fiscal year) Non-consolidated: down 3.5% reduction from FY1990 (102 thousand tons) On a non-consolidated basis, participated in Trial Implementation of Emissions Trading Scheme by the government
Energy conservation	Reduce energy intensity (energy consumption per unit of production) by 6.1% from FY2006 levels (1.6% annual ratio reduction)	1.6% increase from FY2006 level (up 4% from the previous fiscal year)
Reduction of chemical substance emissions	Halve domestic VOCs emission amount from FY2006 level	27% reduction from FY2006 level (VOC emissions: 304 tons) (Down 104 tons from the previous fiscal year; reduction of 114 tons compared with FY2006) Equipment to recover and eliminate VOCs were operated in the Nagoya and Kyoto factories
Zero waste	(1) Reduce final disposal (landfill) waste volume to less than 0.1% of overall waste volume (2) Target for reduction of industrial waste volume generated per unit of production set at 19% or more since FY2006	(1) Ratio of landfill waste to total waste volume: 0.06% (2) 22% reduction from FY2006 level (down 19% from the previous fiscal year)
Promotion of C&C (Check & Clean) activities	Voluntarily investigate contamination of groundwater and soil at our factories; take appropriate action if problems are found	A voluntary investigation of contamination of groundwater and soil at our factories was continued, and no problems were found

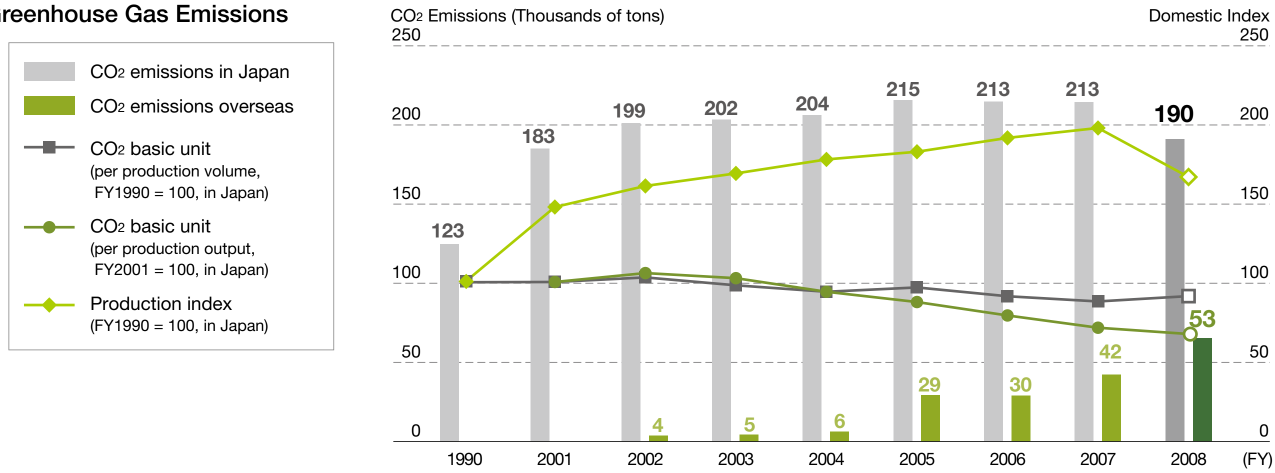
Reduction of Greenhouse Gas Emissions

In view of the targets set under the Kyoto Protocol, we determined our action programs and are striving to achieve product development that is conducive to the conservation of energy and other precious resources, as well as the reduction of greenhouse gas emissions at both the manufacturing and distribution stages.

In recent years, the amount of greenhouse gas emissions has been increasing as production has increased, and in FY2005 we organized an Antiwarming Task Group together with our group companies in Japan and overseas and started taking measures. Since then, production has continued to increase; however, we have successfully prevented an increase in greenhouse gas emissions in Japan. In FY2008, greenhouse gas emissions in Japan decreased 24 thousand tons from the previous fiscal year (11%) accompanying decreases in production volumes. Moreover, in FY2008 we participated on a non-consolidated basis in the Trial Implementation of Emissions Trading Scheme by the government.

In addition to the reduction of greenhouse gas emissions through these business activities, we have been promoting our ABC Activities* to reduce greenhouse gas emissions in our private lives as a company-wide movement since 2008.

»Greenhouse Gas Emissions



* ABC Activities: Abbreviation for "Accelerate By Chemical Industry for Cool Earth," an activity initiated by the Japan Chemical Industry Association, which is based on the idea that the chemical industry should lead the acceleration of the "elimination of 1 kg of CO_2 per person per day," which Team Minus 6% has been conducting.

Zero Waste

We have been addressing the reduction, reuse and recycling of waste and achieved nearly complete in-house recycling of recyclable waste. Landfill waste, which was 2,800 tons in FY1998, was reduced to 31 tons in FY2008 (0.06% of overall waste volume), achieving the Sanyo Chemical standard for Zero Waste*. Achievement of another target, the reduction of industrial waste volume generated per unit of production, is also progressing successfully.

* Sanyo Chemical standard for Zero Waste: the landfill waste volume being lower than 0.1% of the overall waste volume.

BCP: Business Continuity Plan

BCP indicates advance planning to minimize the degradation of business activities and recover business in a short period of time even if the business activities are damaged by disasters or accidents.

In FY2007, we installed an Earthquake Early Warning and Emergency Information Service System to be the foundation of a BCP, and prepared a BCP for the Nagoya Factory, which has our largest production capacity. In FY2008, we refined this BCP and started to prepare a BCP for our Head Office that includes countermeasures against new types of influenza. Going forward, we will expand the scope of the BCP to our Sales and Marketing Division and other factories.

Social Contributions

We are actively engaged in supporting activities in the community and making a contribution to society so as to be trusted as good corporate citizens, while promoting harmonious coexistence with society.

We extend our cooperation and support to cleaning factory peripheries and to local events. Since our Head Office and the Kyoto Factory are located in a residential area, we have also asked four local residents to serve as local monitors. We hold a local monitors' meeting twice a year to facilitate mutual understanding with the local community.

Communication with the Local Community

Sanyo Chemical conducts factory tours and joint disaster-prevention drills with local administrations. In addition, our researchers visit nearby elementary schools to perform chemistry experiments with students and give lectures to help students understand the relationship between chemistry around us and the environment. We also organize hands-on-work study sessions that provide junior high school students with opportunities to experience how the company works.

Donation/Disaster Support Activities

Sanyo Chemical contributes to a wide variety of charitable activities including providing relief money for the Sichuan Earthquake in China, providing research grants, dispatching instructors to universities and study institutions, and making donations to the Japanese Committee on Nature Conservation.

Participation in the Japan Challenge Program

The Japan HPV* Challenge Program is a joint program among the private and the public sectors for collecting and releasing safety information of Japan HPV existing chemical substances that aims to accelerate the collection of safety information on existing chemical substances and widely disseminate safety assessments to the public through cooperation between industry and government, including the Ministry of Economy, Trade and Industry, the Ministry of Health, Labour and Welfare and the Ministry of the Environment.

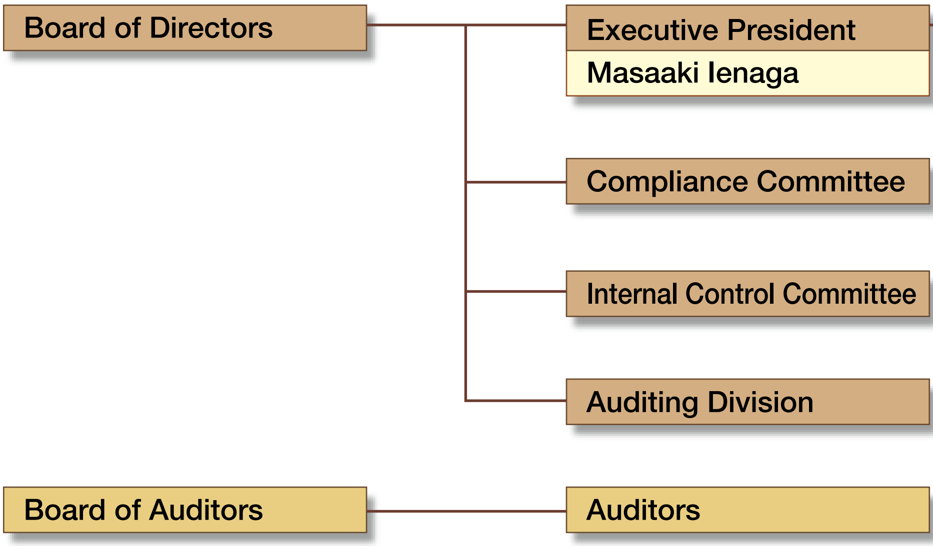
This program, in harmony with international approaches in the OECD, etc., is being carried forward while gathering sponsor companies from industry that voluntarily collect safety information. Sanyo Chemical participates in this program and is in charge of a total of four substances including three substances as the organizer.

* HPV: High Production Volume Chemicals

Organization Chart

(as of June 19, 2009)

Organization Chart



Executives


M. Ienaga
Executive President


Dr. F. Masuda
Executive Vice President


Y. Yamamoto
Senior Managing Executive Officer


M. Honjo
Senior Managing Executive Officer


K. Hirakawa
Senior Managing Executive Officer


K. Usami
Managing Executive Officer


K. Hirose
Managing Executive Officer


Dr. T. Ando
Managing Executive Officer


T. Yoshino
Managing Executive Officer


T. Yano
Executive Officer


M. Kawai
Executive Officer


H. Azuma
Executive Officer


T. Bessho
Executive Officer


K. Horii
Executive Officer


O. Watada
Executive Officer

- Secretary Dept.
- Public Relations Dept.
  - Masaaki Honjo, Senior Managing Executive Officer
- Computer Systems Dept.
  - Kazuyuki Hirakawa, Senior Managing Executive Officer
- Corporate Social Responsibility Promotion Dept.
  - Masaaki Honjo, Senior Managing Executive Officer
- Sales and Marketing — Yoshihide Yamamoto, Senior Managing Executive Officer
  - Tsuruta Business Unit
  - Usami Business Unit — Ken Usami, Managing Executive Officer
  - Bessho Business Unit — Toshiharu Bessho, Executive Officer
  - Narutaki Business Unit
  - Purchasing Division — Koji Hirose, Managing Executive Officer
  - Sales & Marketing Administration Division — Osamu Watada, Executive Officer
  - International Project Promotion Division — Tatsushi Yano, Executive Officer
- Intracorporations
- Research & Development — Dr. Fusayoshi Masuda, Executive Vice President
  - Research & Application Division
  - Research & Development Division
  - Research & Administration Division
- Production — Kazuyuki Hirakawa, Senior Managing Executive Officer
  - Production Division — Keiyu Horii, Executive Officer
  - Production Technology Division — Takashi Yoshino, Managing Executive Officer
  - Production Administration Division
- General Affairs — Masaaki Honjo, Senior Managing Executive Officer
  - General Affairs Division — Masaaki Honjo, Senior Managing Executive Officer
  - Personnel Division — Minoru Kawai, Executive Officer
- Tokyo Branch Office — Yoshihide Yamamoto, Senior Managing Executive Officer
- Osaka Branch Office
- Management Council
  - Committees

Research and Development Division

Dr. Fusayoshi Masuda
in charge of Research & Technology Development

Our Research and Development Activities

Sanyo Chemical, by blending our technologies honed over many years with new technologies, has been able to meet the diverse needs of its customers with its original performance chemicals which possess functional characteristics not found in existing products. This responsiveness, in turn, has translated into increased sales and profits.

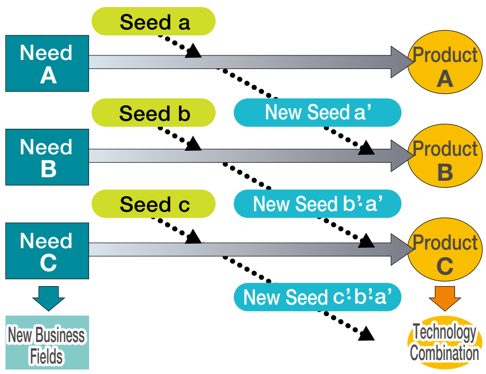
Recently, we have concentrated our resources primarily on polyester beads (PEB) used as a core component of polymerization toners, and thermoplastic polyurethane beads (TUB) for the interior parts of automobiles. Here, we are leveraging our proprietary technology for manufacturing spherical and uniform beads to try to achieve speedy development of large-scale businesses. In the Seventh Medium-Term Management Plan, we have focused our efforts on development in the fields of copiers and electronics, automobiles, and the environment and biotechnology, where the markets are undergoing significant expansion. Over the years, we have provided many different types of products to a variety of markets by fully leveraging our unique technologies. By constantly innovating these technologies, making existing products highly functional and further developing products in relevant markets, we remain committed to meeting our customer needs going forward.

In research and development (R&D), our continued efforts on both the creation of a new product lineup incorporating unique technologies and the upgrading of existing products through technological innovation, proceed together in a highly coordinated manner. We actively uphold these policies by assigning approximately 30% of all employees to the R&D Division. Moreover, the Research Laboratory at our head office (in Higashiyama-ku, Kyoto) is now joined by the newly built Katsura Research Laboratory, located in the Katsura Innovation Park (in Nishikyo-ku, Kyoto). By utilizing this new laboratory to promote interaction and closer ties between government, academia and industry, we intend to accelerate development speed while gaining access to cutting-edge technologies.

NeeSeeds-Oriented R&D Spawns a Stream of New Products and New Technologies

The NeeSeeds-oriented R&D created by Sanyo Chemical is a combination of "needs-oriented R&D" and "seeds-oriented R&D." With this approach, a technology developed to meet a certain need is blended with another technology to create a new seed technology for new products. By blending technologies for different fields, we can develop highly original products in new areas.

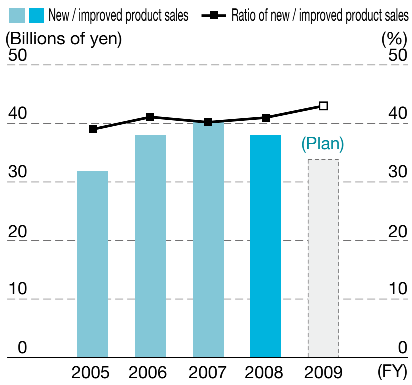
Sanyo Chemical manufactures a wide variety of products while diversifying its technologies through its NeeSeeds-oriented R&D activities.



R&D Index (ratio of new/improved products)

The "ratio of new/improved products" refers to the ratio of new or improved product sales that have been introduced to the market in the past five years to total net sales. This is the most important index for our R&D activities. The ratio of new/improved products was 40% in FY2008. Under our Seventh Medium-Term Management Plan, we aim to keep this ratio above the 40% level.

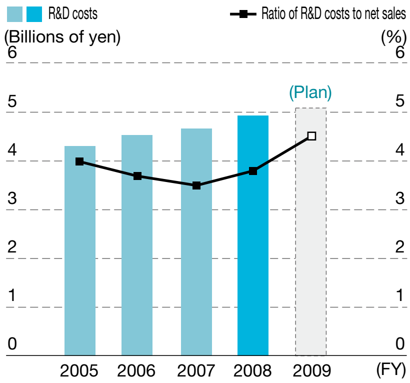
»Ratio of New/Improved Products (non-consolidated)



R&D Investment

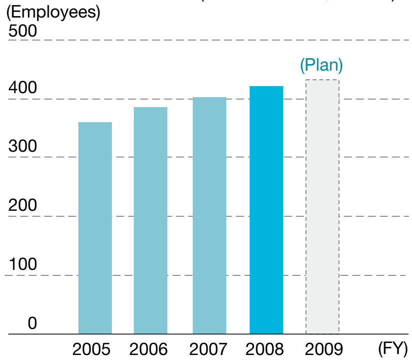
In order to develop unique products while promptly responding to diverse needs, we assigned approximately 400 employees and invested 4.9 billion yen (with a ratio of R&D costs to net sales of 3.8%) in R&D activities in FY2008. We plan to increase investment to enhance our R&D capabilities going forward.

»R&D Costs and Ratio of R&D Costs to Net Sales



»Research Staff

(as of Oct. 1, 2008)



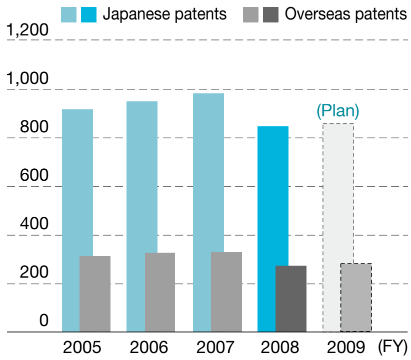
Katsura Research Laboratory Becomes Operational

The rise in the number of researchers has led to crowding at our existing research facility (in Higashiyama-ku, Kyoto). For this reason, we have acquired a 6,000 m^2 site and began first-stage construction on a new research facility at Katsura Innovation Park (in Nishikyou-ku, Kyoto), adjacent to Kyoto University Katsura campus. In August 2008, the first stage of this construction—a laboratory with a floor space of 6,500 m^2 and approx. 100 employees—became operational. Once fully completed, the laboratory will have a total floor space of 9,000 m^2 and accommodate 200 employees.

The Katsura Research Laboratory, working together with the Research Laboratory at our head office, will focus mainly on the development of electronic materials, biotechnology, and special catalysts, as well as process innovation for existing products. Furthermore, by taking advantage of the laboratory's close proximity to Kyoto University Katsura campus, Osaka University, and Kansai University, we are striving to develop a network for promoting collaborative research through interaction with people from a variety of different fields.

Katsura Research Laboratory

»Number of Patents Held



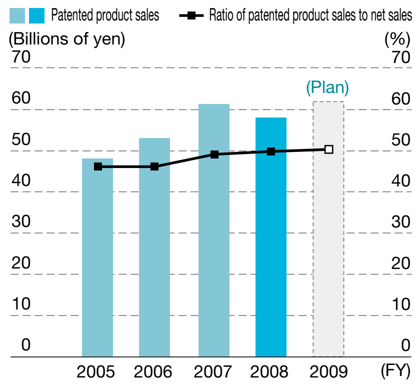
Strategic Accumulation and Utilization of Intellectual Property

By actively claiming patent rights for the innovative technologies that we develop, we are working to raise the competitiveness of our products. Our target is to make an average of 1.2 patent applications per researcher each year, and as a company, we apply for over 350 patents annually. We currently have two tools to encourage the submission of patent applications and to raise the quality of the applications—the ratio of sales of patented products to total sales and an "Invention Fiesta."

We employ the ratio of sales of patented products to total sales as an indicator of competitiveness, in order to show the extent to which the products we sell are protected by patents. The ratio of sales of patented products to total sales has risen to approx. 50% in FY2008. Meanwhile, at the "Invention Fiesta" held every year, we work to raise patent awareness among researchers by presenting our "Inventor of the Year" award to the researcher whose invention is judged to be the most outstanding.

Inventor of the Year in FY2008
Hidenobu Ishida

»Patented Product Sales and Ratio of Patented Product Sales to Net Sales



Production Division

Kazuyuki Hirakawa
in charge of Production

Summary of Production Activities in FY2008

During FY2008, we worked to raise awareness within our organization using the key concepts of *thoroughness* and *mutual learning*, focusing on safety and quality control.

Regarding our production facilities, at the Kashima Factory we operated the semi-commercial facilities for the newly developed high-performance polymer flocculants and expanded the capacity for producing permanent antistatic agents used in the electronics industry. Meanwhile, at the Kinuura Satellite Factory, our core distribution base, we had been enlarging the alkylene oxide adducts (AOA) production facilities that were initiated in the previous fiscal year as the first production facilities for the factory. However, we suspended the construction work in view of the recent adverse market trends.

Regarding cost reductions, we gave priority to implementing stable production and yield improvement for our Strategic Products, such as the polyester beads (PEB) used as a core component of polymerization toners and thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, and also worked to reduce the variable costs with other products. In particular, we focused on reducing the generation of industrial waste and external processing costs.

Amid the worsening economic climate caused by the simultaneous worldwide slowdown that started toward the end of 2008, Sanyo Chemical commenced various emergency measures to improve profitability such as reducing business expenses and fixed costs, and commenced implementing structural reforms in production with an eye to the next generation such as the advancement of automation and mechanization and drastic reviews aimed at streamlining operations.

We will continue working to achieve our goal of completely eliminating all accidents, and maintain our unyielding emphasis on safety first in our production activities even in a severe economic environment which is likely to continue. We are supplying high quality products on time and at competitive prices to our customers.

Nagoya Factory

Kinuura Satellite Factory

Kashima Factory

Kyoto Factory

Topics FY2008

Semi-Commercial Facilities Operational at the Kashima Factory for Newly Developed High-Performance Polymer Flocculants

In preparation for starting sales of the newly developed high-performance polymer flocculants, we established their semi-commercial facilities at the Kashima Factory that have been operational since October 2008.

The semi-commercial facilities for newly developed high-performance polymer flocculants at the Kashima Factory.

Establishment of a Facility for Condensation of Waste Liquids at the Nagoya Factory

With the aim of reducing the volume of waste liquids generated by production processes, we have introduced a direct-combustion vaporization and condensation facility at the Nagoya Factory.

The facility, which has been operational since January 2009, condenses waste liquids in the heat generated by combusting waste oils with a burner, thermally decomposing at 800 °C the volatile organic compounds (VOCs) included in the vapor to detoxify them for release into the atmosphere.

Awarded Fire and Disaster Management Agency's Prize in the Seventh Essay Competition on Accident Prevention for Hazardous Materials

An essay entitled "Accident Prevention for Hazardous Materials and Sanyo Chemical's Initiatives—Effective Training Grounded in Thoroughness and Mutual Learning" written by three volunteers at the Kyoto Factory has won the top Director's Prize from the Fire and Disaster Management Agency at the FY2008 Hazardous Materials Safety Competition

Sales and Marketing Division

Yoshihide Yamamoto
in charge of Sales & Marketing

Summary of FY2008 Business Activities (non-consolidated)

In FY2008, although sales developed steadily until October, from November sales decreased steeply due to such factors as a sharp decline in sales volumes caused by the global recession and a decrease in product prices due to a fall in naphtha prices. As a result, net sales decreased by 7% from the previous fiscal year to ¥93 billion. The overseas sales ratio decreased by 2 percentage points from the previous fiscal year, to 21%.

In FY2009, under the slogan “Reinforcement to establish sales and marketing capabilities resilient to harsh economic conditions”, we will concentrate on the development of new high-value-added products to improve profitability while simultaneously focusing efforts on increasing production items and sales volume in our overseas bases, with a view to further strengthening overseas business. We expect that our business operations in Japan and overseas will proceed together in a highly coordinated manner.

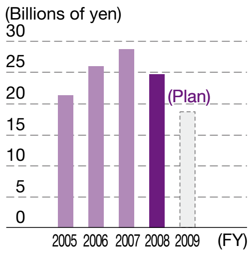
Four Business Units (at a glance)

Usami Business Unit

»Principal products

Polyurethane beads: THERPUS
Raw materials for polyurethane foam: SANNIX
Raw materials for high-performance polyurethane foam: ULTIFLOW, PRIMEPOL and EXELFLOW

»Sales Amount

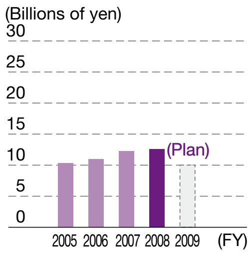


Sono Business Unit

»Principal products

Polymer flocculants for wastewater treatment: SANFLOC
Viscosity index improvers: ACLUBE
Fuel oil additives: CARRYOL
Lubricity improvers for low-sulfur diesel fuels: SANFRIC
Base materials for environmentally-friendly water-soluble cutting fluids: BLEMBER and HIGHCLEAN

»Sales Amount

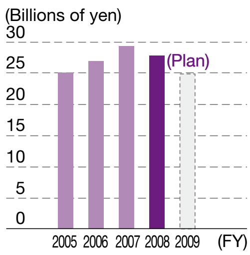


Narutaki Business Unit

»Principal products

Permanent antistatic agents for plastics: PELESTAT
Processing agents for semiconductors: HISTAT
Nonionic surfactants derived from higher alcohol: NAROACTY, EMULMIN and SANNOIC
Pharmaceutical additives: MACROGOL
Oil for synthetic fibers: SANOIL
Agents for carbon fibers and fiberglass: CHEMITYLEN

»Sales Amount

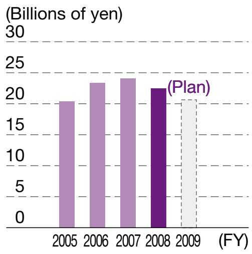


Bessho Business Unit

»Principal products

Toner resins: HIGHMER
PEB used as a core component for polymerization toners: APEXNARROW
Electrolytes for aluminum electrolytic capacitors: SANELEK
Electrolytes for electric double-layer capacitors: POWERELEK
Paint resins: UCOAT and SANPRENE
UV/EB curing resins: SANRAD and NEOMER

»Sales Amount



Sales and Marketing Division

Ken Usami
General Manager of Usami Business Unit

Usami Business Unit

This unit handles polyurethane chemicals used in automobiles. In FY2008, we boosted sales, primarily for automobile applications, by introducing various highly-reactive polyol products produced using our original technology. In the USA, the unit also initiated local production of thermoplastic polyurethane beads (TUB) for the interior parts of automobiles and commenced sales to the US market, gradually replacing imports from Japan with locally produced products. However, the global recession hit the automobile industry with full force, and the business unit felt the impact of the downturn severely. Nevertheless, the automobile industry is a core industry worldwide, and we believe that eventual recovery is certain, although a turnaround will require some time. In the coming years, the unit plans to maintain its focus on products for the automobile industry while also expanding sales of products with applied technologies which are used with TUB, highly-reactive polyol and similar products to non-automobile industries.

Sunao Sono
General Manager of Sono Business Unit

Sono Business Unit

This unit handles polymer flocculants for wastewater treatment in the environmental industry, as well as additives for lubricating oils and fuel oils, and base materials for cutting fluids and hydraulic fluids in the petroleum and machinery industry. In FY2008, sales of polymer flocculants for wastewater treatment performed steadily even amid the rapid worsening of the business environment caused by the global recession. The market is mature; however, the unit is seeking to expand by introducing new high-performance products. Although sales of viscosity index improvers for automobile automatic transmissions, which had been strong, suffered the full impact of the business slowdown, we were able to develop and prepare a line of promising new products including viscosity index improvers for fuel-saving engine oils. In FY2009, we plan to expand business through increased sales of these new products.

Hideya Narutaki
General Manager of Narutaki Business Unit

Narutaki Business Unit

This unit handles business in the resin, electronics, toiletry, detergent, pharmaceutical, agrochemical and textile industries. In FY2008, business expansion was driven by surfactants and high-performance alkylene oxide adduct applied products, which are Sanyo Chemical's core businesses. The unit's mainstay products include permanent antistatic agents and binders for artificial kidneys in the resin industry, processing agents for semiconductors in the electronics industry, base materials for shampoos and hair conditioners with low-irritancy and superior biodegradability in the toiletry industry, base materials for household detergents and detergents for industrial use in the detergent industry, pharmaceutical additives produced at a GMP*-compliant plant in the pharmaceutical industry, and chemicals for high-performance textiles such as agents for carbon fibers and fiberglass in the textile industry. We will continue to pursue global business development and expansion by emphasizing the concepts of high performance, the environment, safety, and comfort.

* Good Manufacturing Practices

Toshiharu Bessho
General Manager of Bessho Business Unit

Bessho Business Unit

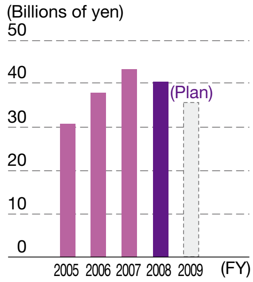
This unit handles business in the copier and printer, battery materials, and paint and ink industries. In FY2008, we successfully increased sales of polyester beads (PEB) as a core component of polymerization toners in the copier and printer industry. However, following the onset of the global recession, sales of electrolytes for capacitors decreased sharply due to a decline in the production of LCD televisions and other home appliances in the battery materials industry. Similarly, in the automobile industry, sales of resins for automobile paints decreased precipitously because production of automobiles declined. In these circumstances, we endeavored to enhance product lines by introducing new products such as electrolytes for high-voltage electric double-layer capacitors as an auxiliary power source for hybrid cars, and electric cars and environmentally-friendly waterborne resins for automobile paints. Future plans call for the development of environmentally-friendly, energy-saving product lines, for which tremendous growth is expected across each industry.

Tatsushi Yano
General Manager of International Project Promotion Division

International Project Promotion Division

The International Project Promotion Division is in charge of overseas production bases, sales bases, and liaison offices, and promotes the globalization of business operations. In international operations, Sanyo Kasei (Nantong) Co., Ltd., a production base in China, is substantially expanding its business, achieving a sharp 154% increase in sales from the previous fiscal year in FY2008. In FY2009, the company expects to achieve profitability. Sanyo Chemical (Shanghai) Trading Co., Ltd. and Sanyo Kasei Korea, Ltd., which are sales companies established in China and South Korea, respectively, commenced full-scale sales activities in FY2008, while in North America Sanyo Chemical Texas Industries, LLC commenced commercial production of TUB. Despite these positive developments, effective management is required on the part of all overseas subsidiaries to successfully steer through this harsh global recession which beset in FY2008. We aim to overcome this recession by demonstrating originality and ingenuity.

»Overseas Sales



Koji Hirose
General Manager of Purchasing Division

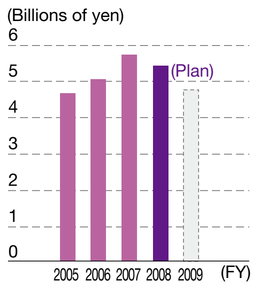
Purchasing Division

The Purchasing Division engages in day-to-day business activities for the purpose of inexpensive, stable procurement of superior raw materials in accordance with five basic policies: 1) global perspective, 2) fair and equitable dealings, 3) legal compliance, 4) environmental consideration, and 5) mutual trust. FY2008 brought an adverse business environment marked by violent fluctuations in the prices of crude oil and naphtha, in addition to drastic changes in the economic environment. However, we seized upon the turmoil as an opportunity to strengthen purchasing power and applied a global perspective to positive raw materials procurement, purchasing from suppliers irrespective of whether they are located in Japan or overseas. In FY2009, we will enhance and reinforce our Corporate Social Responsibility (CSR) activities and endeavor to further increase purchasing power by establishing a new Purchasing Planning Section to construct an optimal purchasing system by taking a broad global perspective.

Intracorporations (in-house companies)

Intracorporations are development-oriented internal corporate ventures with sales and marketing, research and development (and sometimes production) capabilities. Intracorporations act as "incubators" for these start-up businesses, which have developed by taking full advantage of Sanyo Chemical technologies and materials. Following the successful launch of an intracorporation initiative, options regarding operation and centralization, including the question of whether to transfer the operation to our business units, are aggressively pursued. The four intracorporations described below are operating in FY2009.

»Sales Amount

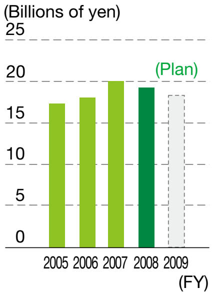


Company Name	Business	Related Products
Medical Care Intracorporation	Enzyme immunoassay diagnostic reagents and biochemical-related products	SphereLight, cell culture materials, etc.
Polymer Application Intracorporation	Chemical boards, paste resins for design models and other molding products	SANMODUR, etc.
Construction Systems and Materials Intracorporation	Products that meet the needs of new civil engineering techniques and new building materials	Super Slurry, LEVEFLOW, etc.
SAP Application Intracorporation	SAP for non-hygiene use (absorbent for cat litter, seedbed for rice plants) and applied products	SANFRESH, SANYO SEEDBED SHEET, etc.

Major Consolidated Subsidiaries

San-Dia Polymers, Ltd.

»Sales Amount



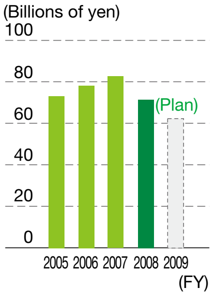
San-Dia Polymers, Ltd. (SDP) is a joint venture comprised of 60% equity participation by Sanyo Chemical Industries, Ltd. and 40% participation by Mitsubishi Chemical Corporation. SDP manufactures and sells superabsorbent polymers (SAP). In FY2008, to accommodate demand from steadily expanding overseas markets, the company augmented production capacity, including implementing production process improvements at its bases in Japan and at San-Dia Polymer (Nantong) Co., Ltd. (SDN) in China. In the coming years, it will continue to develop high-performance products using its two different types of polymerization technologies and work to open up new markets.

Note : This graph does not include data for San-Dia Polymers (Nantong) Co.,Ltd.

Hiroshi Azuma
President

SAN NOPCO LIMITED

»Sales Amount



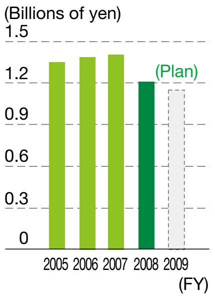
SAN NOPCO LIMITED (SNL), a wholly owned subsidiary of Sanyo Chemical Industries, Ltd. has competitive advantages in the fields of pulp, paper, paint, and ink. SNL launched radical profit improvement measures in the second half of FY2008 such as the diversification of raw materials procurement and modifications to its employment system. Through these initiatives, SNL will lower the break-even point and shift to a business structure that delivers profitability even with low capacity utilization.

To achieve further growth, SNL intends to continue improving research and development (R&D) activities while enhancing existing technologies. SNL will also endeavor to discover and cultivate market sectors to become the third and fourth pillars of its business.

Dr. Takao Ando
President

San-Apro Ltd.

»Sales Amount



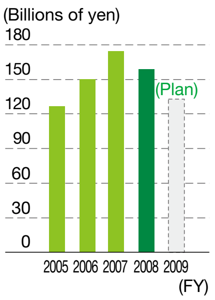
San-Apro Ltd. (SA) is a 50-50 joint venture of Sanyo Chemical Industries, Ltd. and Air Products and Chemicals, Inc. of the USA that manufactures and sells super-base compounds (DBU) and other special catalysts. In FY2008, SA introduced new products in the non-antimony based photo-acid generator and non-CFC urethane catalyst lines. SA also relocated its research laboratories to within the Sanyo Chemical Katsura Research Laboratory.

With synthetic organic technology and various application evaluation technologies as its core technologies, SA aims to expand its business activities through the expansion of urethane catalysts and epoxy resin curing accelerators, as well as the development of high-performance special catalysts such as photo-acid generators.

Toshihiro Saji
President

San Chemical Co., Ltd.

»Sales Amount



San Chemical Co., Ltd. (SCC), a 50-50 joint venture of Sanyo Chemical Industries, Ltd. and Nippon Oil Corporation, is a specialty manufacturer of alkylene oxide adducts (AOA), which are used in a number of industries in applications such as raw materials for polyurethane foam, cosmetics, and detergents.

Although demand decreased in the second half of FY2008 due to the impact of the global recession, SCC is taking advantage of its favorable location in the Keihin Industrial Zone to pursue further improvements in production efficiency in preparation for eventual economic recovery.

Yuji Imaru
President

Main Indexes Over a Six-Year Period

(Millions of Yen)	FY2008	FY2007	FY2006	FY2005	FY2004	FY2003
For the fiscal year:						
Net sales	**129,555**	135,214	122,397	108,413	93,454	85,061
Japan	**89,200**	92,041	84,632	82,678	73,409	67,427
Overseas	**40,355**	43,173	37,764	25,734	20,044	17,634
Cost of sales	**110,882**	111,063	97,639	83,884	71,054	64,119
Selling, general and administrative expenses	**18,032**	18,858	18,204	17,331	16,411	16,051
Operating income	**640**	5,293	6,553	7,197	5,988	4,890
Interest and dividend income	**417**	450	462	255	167	127
Interest expense	**303**	279	187	86	54	45
Ordinary income	**498**	5,836	8,024	7,946	6,433	5,308
Income before income taxes and minority interests (loss)	**(1,915)**	4,519	6,471	6,570	5,955	5,072
Income taxes	**500**	2,822	2,687	2,826	2,272	1,876
Minority interests (loss)	**(15)**	250	732	588	83	95
Net income (loss)	**(2,400)**	1,446	3,051	3,155	3,598	3,101
Return on equity (loss) (%)	**(2.97)**	1.67	3.47	3.74	4.49	3.95
Investment in plant and equipment	**10,452**	9,946	10,468	11,171	11,368	7,412
Depreciation and amortization	**8,476**	8,483	8,146	6,976	6,476	6,566
Research and development cost	**4,942**	4,682	4,540	4,317	4,077	3,885
Net cash provided by (used in):						
Operating activities	**7,255**	8,987	9,289	9,067	10,450	8,835
Investing activities	**(10,430)**	(11,055)	(10,643)	(16,844)	(10,767)	(13,296)
Financing activities	**(1,064)**	(1,320)	1,758	8,148	(1,675)	(2,927)
Cash and cash equivalents at the end of the year	**7,031**	11,482	15,287	14,405	13,790	15,709
At fiscal year-end:						
Total assets	**123,901**	148,717	153,165	144,263	120,865	112,632
Long-term debt less current portion	**12,946**	14,275	15,138	11,397	1,634	1,473
Shareholders' equity	**76,465**	85,016	88,466	87,322	81,397	78,871
Shareholders' equity ratio (%)	**61.7**	57.2	57.8	60.5	67.4	70.0
Per share data and others:						
Net income (loss) (yen)	**(21.75)**	13.11	27.65	27.95	32.01	27.38
Cash dividends paid (yen)	**13.00**	15.00	15.00	15.00	15.00	15.00
Net assets (yen)	**693.00**	770.38	801.52	790.38	736.91	713.88
Stock price at the end of period (yen)	**461**	489	809	1,065	830	715
Price earnings ratio (times)	**–**	37.30	29.26	38.10	25.93	26.11
Price book-value ratio (times)	**0.67**	0.63	1.01	1.35	1.13	1.00
Weighted average number of shares (thousands of shares)	**110,347**	110,361	110,383	110,359	110,387	111,176
Employees	**1,742**	1,675	1,623	1,555	1,477	1,398

Management Discussion and Analysis

Highlights of FY2008

- **Net sales totaled ¥129,555 million, a decrease of 4.2% from the previous fiscal year, due to a rapid drop in demand from November of 2008 resulting from the global recession.**
- **Operating income decreased steeply by 87.9% from the previous fiscal year to ¥640 million on account of the sharply lower net sales due to the economic recession.**
- **Sanyo Chemical Group recorded a net loss of ¥2,400 million, compared with net income of ¥1,446 million last year. This result reflected foreign exchange losses due to the rapid appreciation of the yen, the recognition of impairment loss on fixed assets of three subsidiaries, and the loss on devaluation of investments in securities as a result of a decline in stock prices.**

The details are as follows.

Business Environment

The Japanese economy moved into deep recession, with the economy slowing rapidly and the deterioration of the job market beginning in the autumn of 2008 because of the global recession triggered by the U.S. financial crisis.

In the chemical industry, the economic recession led to a rapid drop in demand, while the naphtha price plummeted from October of 2008 after having soared to that point. This put more downward pressure on product prices, leading to an increasingly difficult business environment.

Under these conditions, the Group formulated measures to counter the recessionary environment, stepping up efforts to reduce costs and strengthen sales capabilities, as it worked to improve operating performance in the face of a rapidly deteriorating business environment.

Net Sales

Consolidated net sales decreased 4.2% from the previous fiscal year to ¥129,555 million, reflecting a rapid drop in demand from November of 2008 due to the impact of the global recession.

Net sales by product group were as follows:

»Net Sales by Product Group

(Millions of yen)

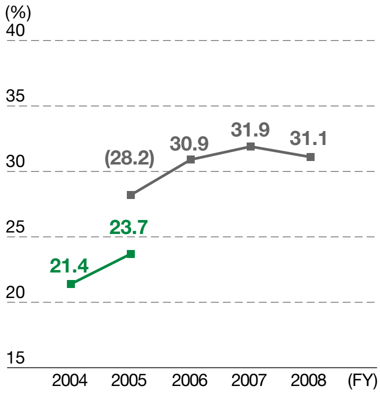
	FY2008		FY2007		Growth (%)
	Amount	Ratio (%)	Amount	Ratio (%)	
Surfactants	22,599	17.5	24,073	17.8	(6.1)
Polyurethane chemicals	30,752	23.7	34,279	25.4	(10.3)
Lipophilic high-molecular agents	27,908	21.5	28,729	21.2	(2.9)
Hydrophilic high-molecular agents	32,232	24.9	30,562	22.6	5.5
Specialty products	14,591	11.3	15,641	11.6	(6.7)
Total chemical product net sales	128,085	98.9	133,285	98.6	(3.9)
Net sales of non-chemical products and revenue from technical service	1,469	1.1	1,929	1.4	(23.8)
Total	129,555	100.0	135,214	100.0	(4.2)

Superabsorbent polymers (hydrophilic high-molecular agents) showed strong sales growth attributable to expanding demand. However, the overall decline in net sales resulted from a steep drop in demand in all product groups other than hydrophilic high-molecular agents, most prominently products for automobiles which account for approx. 30% of the Group’s sales, because of the global recession. This included Strategic Products such as thermoplastic polyurethane beads (TUB) for the interior parts of automobiles (polyurethane chemicals).

Overseas sales accounted for 31.1% of total net sales in FY2008, a decrease of 0.8 of a percentage point from the previous fiscal year, due to lower exports stemming from the global recession.

Note: Effective from the fiscal year ended March 31, 2007 (FY2006), the Group changed the standard for collating overseas net sales to present a truer picture of actual overseas sales. The figures in green in the graph indicate sales for FY2004 and FY2005 based on the old standard and the figure in parentheses indicates sales for FY2005 restated to conform to the new standards.

»Overseas Sales Ratio



Cost of Sales and SG&A Expenses

The ratio of the cost of sales increased 3.5 percentage points from 82.1% to 85.6%. This was attributable to continued high costs for raw materials and fuel in the first half of FY2008, in addition to the sharp slide in sales due to rapidly dropping demand from November of 2008.

The ratio of selling, general, and administrative (SG&A) expenses to net sales decreased 0.1 of a percentage point from 14.0% to 13.9%, despite the decrease in net sales. This was the result of efforts to reduce logistics-related expenses and fixed costs.

Research and development expenses increased ¥260 million from the previous fiscal year, mainly due to the commencement of operations at the Katsura Research Laboratory. The ratio of R&D costs to net sales increased 0.3 of a percentage point from 3.5% to 3.8%, also due in part to the lower net sales.

Operating and Net Income

Consolidated operating income for FY2008 decreased 87.9% from the previous fiscal year to ¥640 million due to the sharp drop in sales caused by the economic recession. Also, the ratio of operating income to net sales worsened 3.4 percentage points from the previous fiscal year to 0.5%.

The Group recorded a net loss of ¥2,400 million, in comparison with net income of ¥1,446 million in the previous fiscal year. This result reflected foreign exchange losses due to the rapid appreciation of the yen, the recognition of impairment losses on fixed assets of three overseas subsidiaries and the loss on devaluation of investments in securities as a result of a decline in stock prices.

As a result, the Group recorded a net loss per share of ¥21.75, in comparison with net income per share of ¥13.11 in the previous fiscal year.

Investment in Plant and Equipment

Capital expenditures totaled ¥10,452 million on a consolidated basis and ¥9,555 million on a non-consolidated basis, with the majority of funds being allocated to raising production capacity, streamlining operations, and R&D expenditures including construction of the Katsura Research Laboratory.

Investments by Sanyo Chemical to boost production capacity including construction of production facilities at the Kinuura Satellite Factory, totaled ¥4,081 million, while ¥814 million was invested in streamlining operations.

Looking overseas, Sanyo Kasei (Nantong) Co., Ltd. in China invested ¥135 million in expanding production facilities for organic synthesis.

To bolster its R&D capabilities, the Group invested a total of ¥1,358 million including ¥890 million for construction of the Katsura Research Laboratory in Kyoto.

The major capital investment projects completed during FY2008 included the Katsura Research Laboratory, production facilities for permanent antistatic agents and for water treatment products at the Kashima Factory of Sanyo Chemical, for surfactants for textiles at San Nopco Ltd., and for organic synthesis at Sanyo Kasei (Nantong) Co., Ltd.

All of the capital expenditures described above were financed from internal sources and loans as well as funds raised by unsecured convertible bonds issued in FY2005.

Depreciation and amortization expenses for FY2008 decreased 0.1% from the previous fiscal year to ¥8,476 million.

In FY2009, we plan to invest a total of ¥8.5 billion in plant and equipment, ¥1.9 billion less than in FY2008, in part because the severe operating environment caused by the global recession is expected to continue for some time.

Financial Position

Total assets at the end of FY2008 totaled ¥123,901 million, a decrease of ¥24,815 million from the previous fiscal year-end.

Current assets decreased ¥18,172 million from the previous fiscal year-end to ¥52,835 million. This is primarily attributable to a ¥4,450 million decrease in cash and time deposits, mainly due to capital expenditures, a ¥9,706 million decrease in notes and accounts receivable – trade due lower sales, and a ¥4,158 million decrease in inventories due to production cutbacks.

Property, plant and equipment decreased ¥974 million from the previous fiscal year-end to ¥50,614 million due to the recognition of impairment loss on fixed assets of ¥1,170 million at three overseas subsidiaries.

Investments and other assets decreased ¥5,667 million from the previous fiscal year-end to ¥20,451 million because investments in securities decreased ¥6,174 million mainly due to the recording of the loss on devaluation of investments in securities as a result of a decline in stock prices.

Current liabilities decreased by ¥13,701 million to ¥26,013 million because notes and accounts payable – trade decreased ¥13,644 million due to the impact of production cutbacks and falling prices of raw materials.

Long-term liabilities totaled ¥19,330 million, a decrease of ¥2,116 million from the previous fiscal year-end mainly as a result of a decrease in long-term debt of ¥1,329 million.

Working capital, obtained by subtracting current liabilities from current assets, came to ¥26,821 million, and the current ratio was 203.1%

Net assets at the end of FY2008 totaled ¥78,557 million, a decrease of ¥8,998 million from the previous fiscal year-end. This result is mainly attributable to the net loss of ¥2,400 million, dividend payments of ¥1,655 million, and a ¥2,666 million decrease in unrealized gains on other securities due to the decline in stock prices. As a result of the decrease in total assets exceeding the decrease in shareholders' equity, the equity ratio (net assets after deduction of minority interest to total assets) rose 4.5 percentage points to 61.7%, from 57.2% at the previous fiscal year-end. Meanwhile, net assets per share (after deduction of minority interest) decreased ¥77.38 to ¥693.00, from ¥770.38 at the previous fiscal year-end.

Cash Flow

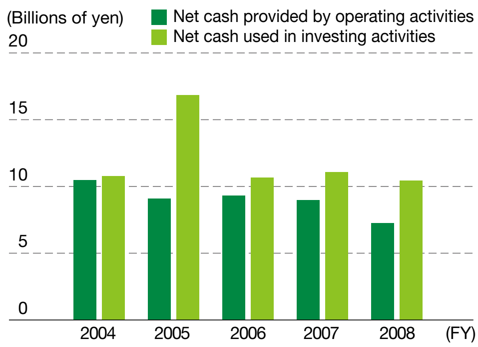
Net cash from operating activities came to ¥7,255 million. Although a loss before income taxes and minority interests of ¥1,915 million was recorded, this was outweighed by depreciation and amortization amounting to ¥8,696 million, impairment losses of ¥1,170 million, losses on devaluation of investments in securities of ¥1,230 million and a decrease in inventories of ¥3,633 million due to inventory reductions.

Net cash used in investment activities totaled ¥10,430 million. This figure included ¥10,140 million in payments for the purchase of property, plant and equipment.

The graph below shows the comparison of net cash provided by operating activities with net cash used in investing activities over the past five years. As a result of large-scale investments made by the Group over the past five years in furthering its globalization strategy and in developing Strategic Products, and investments in the Katsura Research Laboratory in preparation for future growth, net cash used in investing activities has consistently surpassed net cash provided by operating activities.

Net cash used by financing activities totaled ¥1,064 million. The main cash outflow was cash dividends paid of ¥1,655 million.

As a result of the above, cash and cash equivalents at the end of FY2008 totaled ¥7,031 million, a decrease of ¥4,450 million over the previous fiscal year-end.



Business Risks

The following factors may have a significant impact on business performance, stock values, and the financial position of the Group.

(1) Economic Conditions

Demand for Sanyo Chemical products is affected by the conditions of the economies of the countries and regions where the Group's products are sold.

Consequently, if demand diminishes due to a recession in any of our main markets of Japan, North America, Europe and Asia, it may have a negative impact on the Group's performance and financial position.

(2) Foreign Exchange Rates

As the Group's businesses develop overseas, there is an increased possibility of foreign exchange rates adversely affecting our performance and financial position.

(3) Change in Raw Material Costs

While the majority of the raw materials used by the Group are derived from petroleum, oil prices vary due to a variety of reasons including the situation in the Middle East, the balance of supply and demand, and foreign exchange rates. A rise in raw material costs in conjunction with increased oil prices would likely have an adverse impact on the Group's business performance.

(4) Earthquakes and Other Natural Disasters

The Tokai region, which includes Aichi Prefecture where our facility with the largest production capacity in Japan, the Nagoya Factory, is located, has a relatively high likelihood of being hit by a major earthquake in the foreseeable future.

The Group has implemented earthquake preparedness measures such as improving the seismic integrity of structures at facilities and by decentralizing production sites.

However, in the case of a major earthquake, shutdown of or damage to production facilities may have an adverse impact on the Group's performance.

(5) Country Risks

The Group has been expanding its overseas businesses by constructing production sites in China, following those in the USA and Thailand.

Such advances in globalization may have an adverse impact on the Group's performance and financial position through (a) an unexpected change in laws or regulations, or (b) social upheaval for political reasons in regions in which we operate.

CONSOLIDATED BALANCE SHEETS

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2009 (FY2008) and 2008 (FY2007)

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	**FY2008**	FY2007	**FY2008**
Current assets:			
Cash and deposits (Note 5)	**¥ 7,031**	¥ 11,482	**$ 71,576**
Notes and accounts receivable—trade (Note 16)	**29,225**	38,932	**297,516**
Inventories (Note 6)	**14,283**	18,442	**145,403**
Deferred income taxes (Note 11)	**1,086**	1,152	**11,055**
Other current assets	**1,231**	1,028	**12,531**
Allowance for doubtful accounts	**(22)**	(29)	**(223)**
Total current assets	**52,835**	71,008	**537,870**
Property, plant and equipment, at cost (Note 8):			
Buildings and structures	**32,305**	31,268	**328,871**
Machinery and vehicles	**96,997**	94,145	**987,447**
Equipment	**10,982**	10,639	**111,798**
Land	**7,604**	7,808	**77,410**
Construction in progress	**4,760**	3,621	**48,457**
	152,651	147,483	**1,554,016**
Accumulated depreciation	**(102,037)**	(95,893)	**(1,038,755)**
Property, plant and equipment, net	**50,614**	51,589	**515,260**
Investments and other assets:			
Investments in securities (Note 7)	**11,323**	16,209	**115,270**
Investments in unconsolidated subsidiaries and affiliates (Note 7)	**5,134**	6,423	**52,265**
Long-term loans receivable	**9**	17	**91**
Software	**483**	484	**4,917**
Goodwill	**342**	548	**3,481**
Deferred income taxes (Note 11)	**1,917**	1,035	**19,515**
Other	**1,297**	1,457	**13,203**
Allowance for doubtful accounts	**(57)**	(57)	**(580)**
Total investments and other assets	**20,451**	26,119	**208,195**
Total assets (Note 18)	**¥ 123,901**	¥148,717	**$ 1,261,335**

LIABILITIES AND NET ASSETS	Millions of Yen FY2008	FY2007	Thousands of U.S. Dollars (Note 3) FY2008
Current liabilities:			
Short-term loans (Note 9)	**¥ 3,339**	¥ 1,867	**$ 33,991**
Current portion of long-term debt (Note 9)	**1,091**	980	**11,106**
Notes and accounts payable—trade (Note 16)	**13,342**	26,986	**135,824**
Notes payable—other	**3,283**	2,310	**33,421**
Accrued expenses	**1,997**	2,698	**20,329**
Accrued income taxes (Note 11)	**89**	525	**906**
Accrued bonuses to employees	**1,212**	1,703	**12,338**
Accrued bonuses to directors and corporate auditors	**41**	60	**417**
Other current liabilities	**1,616**	2,582	**16,451**
Total current liabilities	**26,013**	39,715	**264,817**
Long-term liabilities:			
Long-term debt less current portion (Note 9)	**12,946**	14,275	**131,792**
Accrued retirement benefits for employees (Note 10)	**4,648**	5,113	**47,317**
Accrued retirement benefits for directors and corporate auditors	**887**	1,123	**9,029**
Deferred income taxes (Note 11)	**–**	108	**–**
Other Long—term liabilities	**848**	824	**8,632**
Total long-term liabilities	**19,330**	21,446	**196,783**
Total liabilities	**45,344**	61,161	**461,610**
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized: 257,956,000 shares			
Issued: 117,673,760 shares at March 31, 2009 and 2008	**13,051**	13,051	**132,861**
Capital surplus	**12,194**	12,198	**124,137**
Retained earnings (Note 19)	**57,686**	61,742	**587,254**
Treasury stock, at cost	**(5,675)**	(5,670)	**(57,772)**
Total shareholders' equity	**77,257**	81,321	**786,490**
Valuation and translation adjustments:			
Unrealized gains on other securities (Note 7)	**674**	3,340	**6,861**
Translation adjustments	**(1,466)**	353	**(14,924)**
Total valuation and translation adjustments	**(792)**	3,694	**(8,062)**
Minority interests	**2,092**	2,539	**21,296**
Total net assets	**78,557**	87,555	**799,725**
Total liabilities and net assets	**¥123,901**	¥148,717	**$1,261,335**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 (FY2008) and 2008 (FY2007)

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	FY2008	FY2007	FY2008
Net sales (Notes 16 and 18)	**¥129,555**	¥135,214	**$1,318,894**
Cost of sales (Note 16)	**110,882**	111,063	**1,128,799**
Gross profit	**18,672**	24,151	**190,084**
Selling, general and administrative expenses (Note 15)	**18,032**	18,858	**183,569**
Operating income (Note 18)	**640**	5,293	**6,515**
Other income (expenses):			
Interest and dividend income	**417**	450	**4,245**
Interest expense	**(303)**	(279)	**(3,084)**
Equity in earnings of unconsolidated subsidiaries and affiliates	**204**	511	**2,076**
Rent income of real estate	**349**	384	**3,552**
Exchange loss, net	**(646)**	(394)	**(6,576)**
Loss on disposal of property, plant and equipment	**(145)**	(287)	**(1,476)**
Loss on impairment of tangible fixed assets (Note 8)	**(1,170)**	(240)	**(11,910)**
Loss on devaluation of investments in securities (Note 7)	**(1,230)**	(721)	**(12,521)**
Other, net	**(32)**	(197)	**(325)**
Total other expenses, net	**(2,555)**	(773)	**(26,010)**
(Loss) income before income taxes and minority interests	**(1,915)**	4,519	**(19,495)**
Income taxes (Note 11):			
Current	**344**	1,769	**3,501**
Deferred	**155**	1,053	**1,577**
Total income taxes	**500**	2,822	**5,090**
Minority interests	**(15)**	250	**(152)**
Net (loss) income	**¥ (2,400)**	¥ 1,446	**$ (24,432)**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 (FY2008) and 2008 (FY2007)

	Millions of Yen							
	Shareholders' equity				Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on other securities	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2007	¥ 13,051	¥ 12,200	¥ 61,951	¥ (5,657)	¥ 6,616	¥ 305	¥ 2,734	¥ 91,200
Cash dividends paid	–	–	(1,655)	–	–	–	–	(1,655)
Net income	–	–	1,446	–	–	–	–	1,446
Loss on disposition of treasury stock	–	(1)	–	–	–	–	–	(1)
Purchases of treasury stock	–	–	–	(20)	–	–	–	(20)
Disposition of treasury stock	–	–	–	7	–	–	–	7
Net changes in items other than shareholders' equity	–	–	–	–	(3,275)	48	(194)	(3,421)
Balance at March 31, 2008	13,051	12,198	61,742	(5,670)	3,340	353	2,539	87,555
Cash dividends paid	**–**	**–**	**(1,655)**	**–**	**–**	**–**	**–**	**(1,655)**
Net loss	**–**	**–**	**(2,400)**	**–**	**–**	**–**	**–**	**(2,400)**
Loss on disposition of treasury stock	**–**	**(4)**	**–**	**–**	**–**	**–**	**–**	**(4)**
Purchases of treasury stock	**–**	**–**	**–**	**(17)**	**–**	**–**	**–**	**(17)**
Disposition of treasury stock	**–**	**–**	**–**	**12**	**–**	**–**	**–**	**12**
Net changes in items other than shareholders' equity	**–**	**–**	**–**	**–**	**(2,666)**	**(1,819)**	**(447)**	**(4,933)**
Balance at March 31, 2009	**¥ 13,051**	**¥ 12,194**	**¥ 57,686**	**¥ (5,675)**	**¥ 674**	**¥ (1,466)**	**¥ 2,092**	**¥ 78,557**

	Thousands of U.S. Dollars (Note 3)							
	Shareholders' equity				Valuation and translation adjustments			
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on other securities	Translation adjustments	Minority interests	Total net assets
Balance at March 31, 2008	**$132,861**	**$124,177**	**$628,545**	**$(57,721)**	**$ 34,001**	**$ 3,593**	**$25,847**	**$891,326**
Cash dividends paid	**–**	**–**	**(16,848)**	**–**	**–**	**–**	**–**	**(16,848)**
Net loss	**–**	**–**	**(24,432)**	**–**	**–**	**–**	**–**	**(24,432)**
Loss on disposition of treasury stock	**–**	**(40)**	**–**	**–**	**–**	**–**	**–**	**(40)**
Purchases of treasury stock	**–**	**–**	**–**	**(173)**	**–**	**–**	**–**	**(173)**
Disposition of treasury stock	**–**	**–**	**–**	**122**	**–**	**–**	**–**	**122**
Net changes in items other than shareholders' equity	**–**	**–**	**–**	**–**	**(27,140)**	**(18,517)**	**(4,550)**	**(50,218)**
Balance at March 31, 2009	**$132,861**	**$124,137**	**$587,254**	**$(57,772)**	**$ 6,861**	**$(14,924)**	**$21,296**	**$799,725**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2009 (FY2008) and 2008 (FY2007)

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	FY2008	FY2007	FY2008
Operating activities:			
(Loss) income before income taxes and minority interests	**¥ (1,915)**	¥ 4,519	**$ (19,495)**
Depreciation and amortization	**8,696**	8,687	**88,526**
Loss on disposal of property, plant and equipment	**145**	287	**1,476**
Loss on impairment of tangible fixed assets	**1,170**	240	**11,910**
(Decrease) increase in accrued bonuses to employees	**(490)**	25	**(4,988)**
Decrease in accrued retirement benefits for employees	**(465)**	(550)	**(4,733)**
Interest and dividend income	**(417)**	(450)	**(4,245)**
Interest expense	**303**	279	**3,084**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(204)**	(511)	**(2,076)**
Loss on devaluation of investments in securities	**1,230**	721	**12,521**
Decrease (increase) in notes and accounts receivable	**9,229**	(715)	**93,952**
Decrease (Increase) in inventories	**3,633**	(1,290)	**36,984**
(Decrease) increase in notes and accounts payable	**(12,939)**	442	**(131,721)**
Decrease in other liabilities	**(603)**	(794)	**(6,138)**
Other, net	**(25)**	(316)	**(254)**
Subtotal	**7,346**	10,575	**74,783**
Interest and dividend income received	**1,058**	895	**10,770**
Interest expense paid	**(283)**	(275)	**(2,880)**
Income taxes paid	**(1,178)**	(2,362)	**(11,992)**
Other, net	**312**	154	**3,176**
Net cash provided by operating activities	**7,255**	8,987	**73,857**
Investing activities:			
Proceeds from redemption of held-to-maturity debt security	**100**	–	**1,018**
Purchases of property, plant and equipment	**(10,140)**	(8,578)	**(103,227)**
Acquisition of investments in securities	**(177)**	(2,154)	**(1,801)**
Other, net	**(212)**	(322)	**(2,158)**
Net cash used in investing activities	**(10,430)**	(11,055)	**(106,179)**
Financing activities:			
Increase in short-term loans, net	**1,892**	1,036	**19,260**
Proceeds from long-term debt	**–**	200	**–**
Repayment of long-term debt	**(1,107)**	(383)	**(11,269)**
Proceeds from disposition of treasury stock	**8**	6	**81**
Purchase of treasury stock	**(17)**	(20)	**(173)**
Cash dividends paid	**(1,655)**	(1,654)	**(16,848)**
Cash dividends paid to minority shareholders of consolidated subsidiaries	**(185)**	(504)	**(1,883)**
Net cash used in financing activities	**(1,064)**	(1,320)	**(10,831)**
Effects of exchange rate changes on cash and cash equivalents	**(358)**	(416)	**(3,644)**
Net decrease in cash and cash equivalents	**(4,596)**	(3,804)	**(46,788)**
Cash and cash equivalents at beginning of the year	**11,482**	15,287	**116,888**
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	**145**	–	**1,476**
Cash and cash equivalents at end of the year (Note 5)	**¥ 7,031**	¥ 11,482	**$ 71,576**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
Year ended March 31, 2009 (FY2008)

1. Basis of Presentation of Consolidated Financial Statements

Sanyo Chemical Industries, Ltd. (the "Company") and its domestic subsidiaries maintain their books of account in conformity with accounting principles and practices generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (the "Group") have been prepared on the basis of accounting principles and practices generally accepted in Japan, as well as in accordance with the provisions set forth in the Corporation Law of Japan (the "Law") and the Financial Instruments and Exchange Act of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2008 (FY2007) to the 2009 (FY2008) presentation. Such reclassifications had no effect on consolidated net income or net assets.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The Company had 17 subsidiaries as of March 31, 2009 (FY2008) as opposed to 16 as of March 31, 2008 (FY2007). The accompanying consolidated financial statements for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) include the accounts of the Company and its 11 and 10 subsidiaries, respectively, which are listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 2009 and 2008	Fiscal year end
San-Dia Polymers, Ltd.	Japan	60.0%	March 31
San Nopco Ltd.	Japan	100.0	March 31
San Chemical Co., Ltd.	Japan	50.0	March 31
San-Apro Ltd.	Japan	50.0	March 31
Sanyo Kasei (Thailand) Ltd.	Thailand	89.0	December 31
SANAM Corporation	U.S.	100.0	December 31
Sanyo Chemical & Resins LLC	U.S.	100.0	December 31
Sanyo Chemical Texas Industries LLC	U.S.	100.0	December 31
Sanyo Kasei (Nantong) Co., Ltd.	China	100.0	December 31
San-Dia Polymers (Nantong) Co., Ltd.	China	60.0	December 31
Sanyo Chemical (Shanghai) Trading Co., Ltd.	China	100.0	December 31

Sanyo Chemical (Shanghai) Trading Co., Ltd was included in the scope of consolidation for the year ended March 31, 2009 (FY2008) because of the increased significance of this subsidiary in the Group.

The accounts of the remaining 6 subsidiaries were excluded from the scope of consolidation as of March 31, 2009 (FY2008) and 2008 (FY2007), because their combined assets, net sales, net income and retained earnings in the aggregate were not material to the consolidated financial statements.

The overseas consolidated subsidiaries have a December 31 year end which differs from that of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these overseas consolidated subsidiaries and the year end of the Company.

All significant intercompany transactions, account balances and unrealized profits among the Group have been eliminated and the portion attributable to minority interests has been charged to minority interests.

Goodwill and negative goodwill arising from the difference of cost and underlying net assets at the date of acquisition are amortized over a period of 10 years on a straight-line basis, except that immaterial amounts are charged to income as incurred.

2. Summary of Significant Accounting Policies (continued)

At March 31, 2009 and 2008, the Company had 6 unconsolidated subsidiaries and 5 affiliates. The Company has applied the equity method to investments in 3 unconsolidated subsidiaries, including Sanyo Transport Co., Ltd., and 3 affiliates, including San-Petrochemicals Co., Ltd., for the years ended March 31, 2009 (FY2008) and 2008 (FY2007). For the years ended March 31, 2009 (FY2008) and 2008 (FY2007), the equity method was not applied to the investments in the remaining 3 unconsolidated subsidiaries and 2 affiliates since their total net income and retained earnings were not material.

(2) Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the year in which the gain or loss is recognized for financial reporting purposes.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

All assets and liabilities of the overseas consolidated subsidiaries are translated at the current rates in effect at each balance sheet date while the components of net assets excluding minority interests are translated at historical rates, and revenue and expense items are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are reported as translation adjustments and minority interests in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(4) Allowance for Doubtful Accounts

The Group provides an allowance for doubtful accounts at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(5) Investments in Securities

Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities.

Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is credited or charged to income.

Held-to-maturity debt securities are carried at amortized cost.

Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

(6) Inventories

Inventories are stated at lower of cost or net selling value, cost being determined by the average method.

(7) Property, Plant and Equipment (except for leased assets)

Depreciation of buildings (except for the structures attached to the buildings) which were acquired on or after April 1, 1998 for the Company and its domestic consolidated subsidiaries is computed principally by the straight-line method based on the estimated useful lives of the respective assets. Depreciation of other property, plant and equipment is computed principally by the declining-balance method based on the estimated useful lives of the respective assets.

Depreciation for overseas consolidated subsidiaries is principally computed by the straight-line method based on the estimated useful lives of the respective assets.

The principal estimated useful lives used for computing depreciation are as follows:

Buildings and structures:	3 – 50 years
Machinery, vehicles and equipment:	4 – 8 years

2. Summary of Significant Accounting Policies (continued)

(Supplementary Information)

Effective the year ended March 31, 2009 (FY2008), the Company and its domestic consolidated subsidiaries have changed their useful lives of primarily machinery to 8 years. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income increased by ¥231 million ($2,351 thousand) and loss before income taxes and minority interests decreased by ¥232 million ($2,361 thousand) for the year ended March 31, 2009 (FY2008) from the corresponding amounts which would have been recorded under the method applied in the previous year.

Depreciation expense for property, plant and equipment acquired on or before March 31, 2007 is computed based on the salvage value of 5% of acquisition cost, and the amount between the salvage value and memorandum value is depreciated from the year following the year in which the book value of an asset reaches 5% of its acquisition cost by the straight-line method over a period of 5 years. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income decreased by ¥398 million and income before income taxes and minority interests decreased by ¥412 million for the year ended March 31, 2008 (FY2007) from the corresponding amounts which would have been recorded under the method applied in the previous year.

(8) Research and Development Costs and Computer Software (except for leased assets)

Research and development costs are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income when incurred. If these expenditures contribute to the generation of future income or cost savings, such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally 5 years.

(9) Leases

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of contract as the useful life.

Finance lease transactions that do not transfer ownership to the lessee, starting on or before March 31, 2008 are accounted for as operating lease transactions.

(10) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income taxes are provided for temporary differences between the balances of assets and liabilities for financial reporting purposes and the corresponding balances for tax reporting purposes.

(11) Accrued Bonuses to Employees

Accrued bonuses to employees are computed based on the estimated amount of bonus payments.

(12) Accrued Bonuses to Directors and Corporate Auditors

Accrued bonuses to directors and corporate auditors are computed based on the estimated amount of bonus payments.

(13) Accrued Retirement Benefits for Employees

The Company and its domestic consolidated subsidiaries have defined benefit pension plans (a comparable form of cash balance plan). Accrued retirement benefits for employees are provided based on the amount of the projected benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost.

Prior service cost is amortized principally by the straight-line method over a period of 14 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over a period of 14 years, which is within the estimated average remaining years of service of the eligible employees.

(14) Accrued Retirement Benefits for Directors and Corporate Auditors

Directors and corporate auditors of the Company and its domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits for directors and corporate auditors has been made at an estimated amount based on the internal regulations.

(15) Distribution of Retained Earnings

Under the Corporation Law of Japan and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given financial period is made by resolution of the Board of Directors held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such distributions. (Refer to Note 19.)

3. U.S. Dollar Amounts

The Company and its domestic consolidated subsidiaries maintain their accounting records in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and the notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥98.23 to U.S.$1, the approximate exchange rate prevailing on March 31, 2009 (FY2008). The inclusion of such U.S. dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the rate of ¥98.23 to U.S.$1 or at any other rate.

4. Changes in the Significant Accounting Policies

(1) Accounting Standard for Measurement of Inventories

Effective the year ended March 31, 2009 (FY2008), the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan ("ASBJ") Statement No. 9 issued on July 5, 2006). As a result of the adoption of this accounting standard, operating income decreased by ¥367 million ($3,736 thousand) and loss before income taxes and minority interests increased by ¥367 million ($3,736 thousand) for the year ended March 31, 2009 (FY2008) from the corresponding amounts which would have been recorded under the method applied in the previous year.

The effect of the adoption of this accounting standard on geographic segment information was described in Note 18.

(2) Accounting Standard for Lease Transactions

Effective the year ended March 31, 2009 (FY2008), the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (Statement No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the ASBJ on March 30, 2007).

However, there was no effect on the operating result for the year ended as a result of the adoption of these accounting standards.

As described in Note 2 (9), finance lease transactions that do not transfer ownership to the lessee, starting on or before March 31, 2008 are accounted for as operating lease transaction.

(3) Partial Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective the year ended March 31, 2009 (FY2008), the Company and its overseas subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18 ("PITF No. 18") issued on May 17, 2006).

The effect of the adoption of PITF No.18 on the consolidated financial statements for the year ended March 31, 2009 (FY2008) was immaterial.

(4) Method of Depreciation of Property, Plant and Equipment

Effective the year ended March 31, 2008 (FY2007), the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income decreased by ¥208 million and income before income taxes and minority interests decreased by ¥212 million for the year ended March 31, 2008 (FY2007) from the corresponding amounts which would have been recorded under the method applied in the previous year.

5. Cash and Cash Equivalents

A reconciliation between cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) and cash and deposits in the consolidated balance sheets as of March 31, 2009 (FY2008) and 2008 (FY2007) is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Cash and deposits	**¥7,031**	¥11,482	**$71,576**
Time deposits with deposit terms of over 3 months	**–**	–	**–**
Cash and cash equivalents at end of the year	**¥7,031**	¥11,482	**$71,576**

6. Inventories

Inventories as of March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Finished goods and merchandise	**¥ 7,929**	¥10,353	**$ 80,718**
Semifinished goods	**3,341**	3,808	**34,012**
Work in process	**207**	538	**2,107**
Raw materials, cases and supplies	**2,805**	3,742	**28,555**
Total	**¥14,283**	¥18,442	**$145,403**

7. Investments in Securities

At March 31, 2009 (FY2008) and 2008 (FY2007), the Group held no trading securities.

Held-to-maturity debt securities for which market value as of March 31, 2009 (FY2008) and 2008 (FY2007) was available are summarized as follows:

	Millions of Yen					
	FY2008			FY2007		
	Carrying value	**Market value**	**Unrealized gain**	Carrying value	Market value	Unrealized gain
Bonds whose market value exceeds their carrying value:						
Government bonds, municipal bonds, etc.	**¥–**	**¥–**	**¥–**	¥100	¥100	¥0
Total	**¥–**	**¥–**	**¥–**	¥100	¥100	¥0

	Thousands of U.S. Dollars		
	FY2008		
	Carrying value	**Market value**	**Unrealized gain**
Bonds whose market value exceeds their carrying value:			
Government bonds, municipal bonds, etc.	**$–**	**$–**	**$–**
Total	**$–**	**$–**	**$–**

Marketable securities classified as other securities as of March 31, 2009 (FY2008) and 2008 (FY2007) are summarized as follows:

	Millions of Yen					
	FY2008			FY2007		
	Acquisition cost	**Carrying value**	**Unrealized gain (loss)**	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥5,572**	**¥ 7,713**	**¥2,141**	¥ 7,181	¥12,575	¥5,393
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	**4,001**	**3,352**	**(649)**	3,516	3,376	(140)
Total	**¥9,574**	**¥11,065**	**¥1,491**	¥10,698	¥15,951	¥5,253

7. Investments in Securities (continued)

	Thousands of U.S. Dollars		
	FY2008		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$56,724	$ 78,519	$21,795
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	40,730	34,123	(6,606)
Total	$97,465	$112,643	$15,178

For the years ended March 31, 2009 (FY2008) and 2008 (FY2007), the Group has recognized loss on impairment of marketable securities classified as other securities of ¥1,207 million ($12,287 thousand) and ¥711 million, respectively.

The Group recognizes loss on impairment of marketable securities classified as other securities if the market value of a security at year end declines by more than 30% compared with its acquisition cost.

Proceeds from sales of other securities for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	FY2008
Proceeds	¥11	¥–	$111
Gross realized gain	4	–	40

Held-to-maturity debt securities, investments in unconsolidated subsidiaries and affiliates, and other securities without determinable market value as of March 31, 2009 (FY2008) and 2008 (FY2007) are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	FY2008
Held-to-maturity debt securities:			
Corporate bonds	¥ 50	¥ 50	$ 509
Investments in unconsolidated subsidiaries and affiliates:			
Unlisted securities	5,134	6,423	52,265
Other securities:			
Unlisted securities	207	207	2,107

The redemption schedule for securities classified as held-to-maturity debt securities and other securities with maturity dates as of March 31, 2009 (FY2008) was as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	FY2008		FY2008	
	Held-to-maturity debt securities	Other securities	Held-to-maturity debt securities	Other securities
Due within one year	¥ –	¥–	$ –	$–
Due after one year through five years	50	–	509	–

8. Loss on Impairment of Tangible Fixed Assets

The Company and its consolidated subsidiaries group their property, plant and equipment primarily based on product category and factory.

Certain consolidated subsidiaries have recognized loss on impairment of the following classes of tangible fixed assets for the years ended March 31, 2009 (FY2008) and 2008 (FY2007):

Location	Main use	Class	Millions of Yen FY2008	Thousands of U.S. Dollars FY2008
Texas, U.S.	Polyurethane chemicals production facilities	Buildings and machinery	**¥473**	**$4,815**
Pennsylvania, U.S.	Lipophilic high-molecular agents production facilities	Buildings and machinery	**307**	**3,125**
Rayong, Thailand	Surfactants production facilities	Buildings and machinery	**388**	**3,949**

Location	Main use	Class	Millions of Yen FY2007
Ogaki city, Gifu	Lipophilic high-molecular agents production facilities	Buildings and machinery	¥240

For the year ended March 31, 2009 (FY2008), 3 overseas consolidated subsidiaries reduced the carrying value of operating assets, which have continuously generated operating losses, to their respective recoverable amounts. The recoverable amounts of these groups of assets are measured at value in use. Value in use is measured as the sum of the anticipated future cash flows discounted at an annual rates ranging between 6.5% and 8.4%.

For the year ended March 31, 2008 (FY2007), a domestic consolidated subsidiary reduced the carrying values of idle assets, whose market value, had decreased significantly, and operating assets, which continuously generated operating losses to their respective recoverable amounts. The recoverable amounts of these groups of assets were measured at value in use. Value in use was measured as the sum of the anticipated future cash flows discounted at annual rate of 2.9%.

9. Short-Term Loans and Long-Term Debt

The average annual interest rates applicable to short-term loans outstanding at March 31, 2009 (FY2008) and 2008 (FY2007) were 3.30% and 4.22%, respectively.

Long-term debt as of March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	FY2008
0.0% unsecured convertible bonds with stock acquisition rights due 2011	**¥10,000**	¥10,000	**$101,801**
Unsecured long-term loans from banks with annual average interest rates of 2.908% for current portion and 3.015% for non-current portion, due in installments through 2013	**4,037**	5,255	**41,097**
Total long-term debt	**14,037**	15,255	**142,899**
Less current portion	**(1,091)**	(980)	**(11,106)**
Total	**¥12,946**	¥14,275	**$131,792**

The 0.0% unsecured convertible bonds, unless previously redeemed, are convertible at any time up to and including March 30, 2011 into shares of common stock of the Company at a conversion price of ¥1,127 ($11.47) per share.

9. Short-Term Loans and Long-Term Debt (continued)

The aggregate amounts of annual maturities of long-term debt subsequent to March 31, 2009 (FY2008) are summarized as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2010 (FY2009)	¥ 1,091	$ 11,106
2011 (FY2010)	10,951	111,483
2012 (FY2011)	903	9,192
2013 (FY2012)	825	8,398
2014 (FY2013)	266	2,707
Total	¥14,037	$142,899

10. Accrued Retirement Benefits

The following table sets forth the funded and accrued status and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 (FY2008) and 2008 (FY2007) for the Company and its domestic consolidated subsidiaries' defined benefit pension plan.

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Projected benefit obligation	**¥(13,178)**	¥(13,410)	**$(134,154)**
Fair value of plan assets	**7,096**	8,038	**72,238**
Unfunded retirement benefit obligation	**(6,082)**	(5,371)	**(61,915)**
Unrecognized actuarial loss	**2,301**	1,205	**23,424**
Unrecognized prior service cost	**(867)**	(947)	**(8,826)**
Accrued retirement benefits for employees	**¥ (4,648)**	¥ (5,113)	**$ (47,317)**

Effective April 1, 2007, the Company transferred its pension plan from a tax-qualified pension plan to a defined benefit pension plan (a comparable form of cash balance plan). As a result, the projected benefit obligation decreased by ¥865 million, and the decrease is accounted for as prior service cost and is being amortized over a period of 14 years.

The components of retirement benefit expenses for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Service cost	**¥ 677**	¥ 673	**$ 6,891**
Interest cost	**262**	267	**2,667**
Expected return on plan assets	**(160)**	(176)	**(1,628)**
Amortization of unrecognized actuarial loss	**153**	72	**1,557**
Amortization of unrecognized prior service cost	**(79)**	(79)	**(804)**
Retirement benefit expenses	**¥ 852**	¥ 756	**$ 8,673**

The assumptions used in accounting for the above pension plan for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	FY2008	FY2007
Method of attributing benefits to period of service	**Straight-line basis**	Straight-line basis
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) was, in the aggregate, approximately 40.3%.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Group at March 31, 2009 (FY2008) and 2008 (FY2007) are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 21**	¥ 77	**$ 213**
Accrued retirement benefits for employees	**1,874**	2,061	**19,077**
Accrued retirement benefits for directors and corporate auditors	**363**	460	**3,695**
Accrued bonuses to employees	**488**	679	**4,967**
Loss on devaluation of inventories	**419**	–	**4,265**
Social insurance premiums of bonuses payable	**47**	62	**478**
Loss on devaluation of investments in securities	**401**	304	**4,082**
Loss on devaluation of investments in affiliates	**1,485**	1,095	**15,117**
Valuation loss on capital contribution in affiliates	**631**	622	**6,423**
Loss on impairment of tangible fixed assets	**287**	327	**2,921**
Loss carryforwards	**807**	721	**8,215**
Other	**909**	780	**9,253**
	7,737	7,193	**78,764**
Gross deferred tax assets			
Valuation allowance	**(3,878)**	(3,074)	**(39,478)**
Total deferred tax assets	**3,858**	4,119	**39,275**
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	**(16)**	(17)	**(162)**
Unrealized gains on other securities	**(817)**	(1,912)	**(8,317)**
Other	**(20)**	(108)	**(203)**
Total deferred tax liabilities	**(854)**	(2,039)	**(8,693)**
Net deferred tax assets	**¥ 3,004**	¥ 2,079	**$ 30,581**

A reconciliation between the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2009 (FY2008) has been omitted because loss before income taxes and minority interests for the year was recorded.

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2008 (FY2007) differs from the statutory rate for the following reasons:

	FY2007
	(%)
Statutory tax rate	40.3
Non-deductible expenses (including entertainment expenses)	1.6
Non-taxable income (including dividend income)	(1.1)
Tax credit	(4.4)
Equity in earnings of unconsolidated subsidiaries and affiliates	(2.2)
Amortization of goodwill	1.6
Net loss of certain consolidated subsidiaries	4.7
Differences between the Japanese statutory tax rate and the overseas consolidated subsidiaries' tax rates	(1.7)
Changes in valuation allowance	27.3
Other	(3.7)
Effective tax rate	62.4

12. Shareholders' Equity

The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥2,775 million ($28,250 thousand) at March 31, 2009 (FY2008) and 2008 (FY2007).

Movements in shares outstanding and treasury stock during the years ended March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	(Thousands of shares)			
	March 31, 2008	Increase in the year	Decrease in the year	March 31, 2009
Shares outstanding:				
Common stock	**117,673**	**–**	**–**	**117,673**
Total	**117,673**	**–**	**–**	**117,673**
Treasury stock:				
Common stock	**7,318**	**33**	**16**	**7,335**
Total	**7,318**	**33**	**16**	**7,335**

	(Thousands of shares)			
	March 31, 2007	Increase in the year	Decrease in the year	March 31, 2008
Shares outstanding:				
Common stock	117,673	–	–	117,673
Total	117,673	–	–	117,673
Treasury stock:				
Common stock	7,299	28	9	7,318
Total	7,299	28	9	7,318

13. Contingent Liabilities

At March 31, 2009 (FY2008) and 2008 (FY2007), contingent liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Guarantees for:			
Employees' housing loans	**¥ –**	¥ 0	**$ –**
Account payable of Sunrise Chemical LLC related to fuel gas purchases	**2**	19	**20**
Lease contracts of Sunrise Chemical LLC	**769**	959	**7,828**

14. Lease Commitments

As the finance leases accounted for as operating leases as of March 31, 2009 (FY2008) were immaterial, the disclosure of the *pro forma* amounts and other information has been omitted.

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of the leased property as of March 31, 2008 (FY2007) which would have been reflected in the accompanying consolidated balance sheet at March 31, 2009 if finance lease accounting had been applied to the finance leases under which the Group are lessees and which were accounted for as operating leases:

	Millions of Yen
	FY2007
Machinery and equipment:	
Acquisition cost	¥26
Accumulated depreciation	(7)
Net book value	¥18

14. Lease Commitments (continued)

Lease payments relating to finance leases accounted for as operating leases amounted to ¥4 million for the year ended March 31, 2008 (FY2007). Depreciation of the leased assets calculated by the straight-line method over the respective lease terms amounted to ¥4 million for the year ended March 31, 2008 (FY2007).

15. Selling, General and Administrative Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Freight and storage charges	**¥ 4,847**	¥ 5,397	**$ 49,343**
Employees' salaries and bonuses	**3,540**	3,727	**36,037**
Research and development cost	**4,942**	4,682	**50,310**
Other	**4,701**	5,050	**47,857**
	¥18,032	¥18,858	**$183,569**

16. Related Party Transactions

(1) Related party transactions between the Company and its related companies

Principal transactions between the Company and its related companies for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Sales of finished goods:			
Toyota Tsusho Corporation	**¥ 5,751**	¥ 7,044	**$ 58,546**
Tomen Chemical Co., Ltd.	**7,993**	8,875	**81,370**
Purchases of raw materials:			
Toyota Tsusho Corporation	**¥14,573**	¥16,494	**$148,355**
Tomen Chemical Co., Ltd.	**2,560**	2,783	**26,061**

The price for the above related party transactions determined in reference to market value.

The balances due from and due to its related companies at March 31, 2009 (FY2008) and 2008 (FY2007) were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	FY2008	FY2007	**FY2008**
Accounts receivable—trade:			
Toyota Tsusho Corporation	**¥1,092**	¥1,971	**$11,116**
Tomen Chemical Co., Ltd.	**2,578**	4,556	**26,244**
Accounts payable—trade:			
Toyota Tsusho Corporation	**¥2,166**	¥6,647	**$22,050**
Tomen Chemical Co., Ltd.	**588**	1,085	**5,985**

Toyota Tsusho Corporation is a related company which directly owns 19.5% and 19.6% of the shares of common stock of the Company at March 31, 2009 (FY2008) and 2008 (FY2007), respectively.

Tomen Chemical Co., Ltd. Is a wholly owned subsidiary of Toyota Tsusho Corporation which directly owns 0.01% of the shares of common stock of the Company at March 31, 2009 (FY2008).

16. Related Party Transactions (continued)

(2) Related party transactions between the Company's consolidated subsidiaries and its related companies

Principal transactions between the Company's consolidated subsidiaries and its related companies for the year ended March 31, 2009 (FY2008) were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
	FY2008	FY2008
Sales of finished goods:		
Toyota Tsusho Corporation	¥14,672	$149,363
Tomen Chemical Co., Ltd.	319	3,247
Purchases of raw materials:		
Toyota Tsusho Corporation	¥ 1,108	$ 11,279
Tomen Chemical Co., Ltd.	165	1,679

The price for the above related party transactions is determined in reference to market value.

The balances due from and due to its related companies at March 31, 2009 (FY2008) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	FY2008	FY2008
Accounts receivable—trade:		
Toyota Tsusho Corporation	¥2,824	$28,748
Tomen Chemical Co., Ltd.	71	722
Accounts payable—trade:		
Toyota Tsusho Corporation	¥ 294	$ 2,992
Tomen Chemical Co., Ltd.	29	295

(Supplementary Information)

Effective the year ended March 31, 2009 (FY2008), the Company has adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13 issued on October 17, 2006). As a result of the adoption of these standards, the Company is required to disclose more comprehensive information on related party transactions, however, there was no effect on the disclosure of related party transactions for the year ended March 31, 2009 (FY2008) from that which would have been disclosed under the method applied in the previous year.

17. Amounts per Share

Amounts per share at March 31, 2009 (FY2008) and 2008 (FY2007) and for the years then ended were as follows:

	Yen		U.S. Dollars
	FY2008	FY2007	FY2008
Net assets	¥693.00	¥770.38	$ 7.05
Net (loss) income:			
Basic	(21.75)	13.11	(0.22)
Diluted	–	12.13	–
Cash dividends	13.00	15.00	0.13

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end.

17. Amounts per Share (continued)

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds and the exercise of stock options.

Diluted net income per share for the year ended March 31, 2009 (FY2008) is omitted because the Group recorded net loss for the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

18. Segment Information

Segment information of the Group for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) are presented below:

(1) Industry segments

The main operations of the Group are manufacturing and distributing chemical products. As most of the products have common characteristics, manufacturing methods and markets, the disclosure of industry segments information for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) has been omitted.

(2) Geographic segments

Geographic segments information for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) consisted of the following:

	Millions of Yen						
	FY2008						
	Japan	**U.S.A.**	**China**	**Other**	**Segment total**	**Elimination or common assets**	**Consolidated total**
Net sales and operating income (loss):							
Sales to third parties	**¥113,246**	**¥4,828**	**¥ 9,942**	**¥1,538**	**¥129,555**	**¥ –**	**¥129,555**
Intersegment sales	**4,013**	**3**	**372**	**–**	**4,390**	**(4,390)**	**–**
Net sales	**117,260**	**4,831**	**10,315**	**1,538**	**133,945**	**(4,390)**	**129,555**
Total operating expenses	**115,709**	**5,346**	**10,690**	**1,649**	**133,397**	**(4,482)**	**128,915**
Operating income (loss)	**¥ 1,550**	**¥ (515)**	**¥ (375)**	**¥ (111)**	**¥ 548**	**¥ 92**	**¥ 640**
Total assets:							
Total assets	**¥121,649**	**¥6,203**	**¥ 8,699**	**¥1,185**	**¥137,737**	**¥(13,835)**	**¥123,901**

	Millions of Yen						
	FY2007						
	Japan	U.S.A.	China	Other	Segment total	Elimination or common assets	Consolidated total assets
Net sales and operating income (loss):							
Sales to third parties	¥121,040	¥5,272	¥ 7,320	¥1,580	¥135,214	¥ –	¥135,214
Intersegment sales	4,588	47	37	–	4,673	(4,673)	–
Net sales	125,628	5,320	7,358	1,580	139,888	(4,673)	135,214
Total operating expenses	120,023	5,665	7,230	1,688	134,607	(4,686)	129,921
Operating income (loss)	¥ 5,605	¥ (344)	¥ 127	¥ (107)	¥ 5,280	¥ 12	¥ 5,293
Total assets:							
Total assets	¥141,983	¥8,892	¥10,237	¥2,347	¥163,461	¥(14,744)	¥148,717

18. Segment Information (continued)

	Japan	U.S.A.	China	Other	Segment total	Elimination or common assets	Consolidated total
	Thousands of U.S. Dollars						
	FY2008						
Net sales and operating income (loss):							
Sales to third parties	**$1,152,865**	**$49,149**	**$101,211**	**$15,657**	**$1,318,894**	**$ –**	**$1,318,894**
Intersegment sales	**40,853**	**30**	**3,787**	**–**	**44,691**	**(44,691)**	**–**
Net sales	**1,193,729**	**49,180**	**105,008**	**15,657**	**1,363,585**	**(44,691)**	**1,318,894**
Total operating expenses	**1,177,939**	**54,423**	**108,826**	**16,787**	**1,358,006**	**(45,627)**	**1,312,379**
Operating income (loss)	**$ 15,779**	**$ (5,242)**	**$ (3,817)**	**$ (1,130)**	**$ 5,578**	**$ 936**	**$ 6,515**
Total assets:							
Total assets	**$1,238,409**	**$63,147**	**$ 88,557**	**$12,063**	**$1,402,188**	**$(140,842)**	**$1,261,335**

As described in Note 4 (1), effective the year ended March 31, 2009 (FY2008), the Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9 issued on July 5, 2006). As a result of the adoption of this accounting standard, operating income in the Japan segment decreased by ¥367 million ($3,736 thousand) for the year ended March 31, 2009 (FY2008) from the corresponding amount which would have been recorded under the method applied in the previous year.

(3) Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2009 (FY2008) and 2008 (FY2007) consisted of the following:

	Millions of Yen							
	FY2008				FY2007			
	Asia	America	Other	Total	Asia	America	Other	Total
Overseas sales	**¥21,756**	**¥11,251**	**¥7,347**	**¥ 40,355**	¥23,714	¥9,843	¥9,615	¥ 43,173
Consolidated net sales	**–**	**–**	**–**	**129,555**	–	–	–	¥135,214
Percentage of overseas sales to consolidated net sales	**16.8%**	**8.7%**	**5.6%**	**31.1%**	17.5%	7.3%	7.1%	31.9%

	Thousands of U.S. Dollars			
	FY2008			
	Asia	America	Other	Total
Overseas sales	**$221,480**	**$114,537**	**$74,793**	**$ 410,821**
Consolidated net sales	**–**	**–**	**–**	**$1,318,894**

19. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009 (FY2008), was approved by the Board of Directors at a meeting held on May 18, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends (¥5.50 = $0.05 per share)	¥606	$6,169

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Sanyo Chemical Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Sanyo Chemical Industries, Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sanyo Chemical Industries, Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 4 (1), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translations of yen amounts into U.S. dollar amounts and, in our opinion, such translations has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

Osaka, Japan
June 19, 2009

Subsidiaries and Affiliates

Subsidiaries

Name	Abbr.	Est.	Head Office
San-Dia Polymers, Ltd.	SDP	2001	No.10 Chuo Bldg., 5-6, Honcho 1-chome, Nihonbashi, Chuo-ku, Tokyo 103-0023, Japan
SAN NOPCO LIMITED	SNL	1966	11 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan
San Chemical Co., Ltd.	SCC	1982	13-2 Chidori-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0865, Japan
San-Apro Ltd.	SA	1966	11-1 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan
Sanyo Kasei (Thailand) Ltd.	SKT	1997	22 Soi Sukhumvit 42, Sukhumvit Road, Prakanong, Klongtoey, Bangkok 10110, Thailand
SANAM Corporation	SANAM	1989	State Highway 837, P.O. Box 567, West Elizabeth, Pennsylvania 15088-0567, USA
Sanyo Chemical & Resins, LLC	SCR	1992	State Highway 837, P.O. Box 567, West Elizabeth, Pennsylvania 15088-0567, USA
Sanyo Chemical Texas Industries, LLC	SCTI	2005	10536 Bay Area Boulevard, Pasadena, Texas 77507, USA
Sanyo Kasei (Nantong) Co., Ltd.	SKN	2003	Nantong Jingji Jishu Kaifaqu 7 Xinkai South Road, Jiangsu 226009, China
San-Dia Polymers (Nantong) Co., Ltd.	SDN	2003	Nantong Jingji Jishu Kaifaqu 5 Xinkai South Road, Jiangsu 226009, China
Sanyo Chemical (Shanghai) Trading Co., Ltd.	SCST	2008	Rm. 1611, Ruijin Bldg., 205, Maoming Road (S), Shanghai 200020, China

Affiliates

Name	Abbr.	Est.	Head Office
San-Petrochemicals Co., Ltd.	SPCC	1977	11-2 Sunayama, Kamisu, Ibaraki 314-0255, Japan
Sunrise Chemical LLC	SRC	2000	10500 Bay Area Boulevard, Pasadena, Texas 77507, USA
Sanyo Transport Co., Ltd.	–	1964	1-35 Karasakinaka 3-chome, Takatsuki, Osaka 569-0832, Japan
Nagoya Sanyo Warehouse Co., Ltd.	–	1979	31-1 Shinpo-cho, Tokai, Aichi 476-0005, Japan
Shiohama Chemicals Warehouse Co., Ltd.	–	1983	2-6 Yakou 2-chome, Kawasaki-ku, Kawasaki, Kanagawa 210-0863, Japan
Sanliving Ltd.	SL	1973	11-1 Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan

	Lines of Business	Capital	Equity Ownership	Tel.
	Manufacture and sales of superabsorbent polymers	¥2,000 million	Sanyo Chemical 60%, Mitsubishi Chemical 40%	+81-3-5200-3939
	Manufacture and sales of industrial agents for pulp and paper, paints, latex, ceramics, electronics	¥400 million	Sanyo Chemical 100%	+81-3-3279-3030
	Manufacture and sales of raw materials for polyurethane foam and polyethylene glycols	¥400 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-44-276-1811
	Manufacture and sales of DBU and DBN super base compounds, urethane catalysts, curing accelerators for epoxy resin, photo-acid generators, water-soluble rust inhibitors, etc.	¥60 million	Sanyo Chemical 50%, Air-Products 50%	+81-3-3241-2491
	Manufacture and sales of surfactants	490.95 million baht	Sanyo Chemical 89%, Toyota Tsusho 10%, VIV Interchem 1%	+66-2-390-2061
	Sales of Sanyo Chemical Group's products	US$0.4 million	Sanyo Chemical 100%	+1-412-384-5700
	Manufacture of toner resins, polyurethane resins	US$1	SANAM 100%	+1-412-384-5700
	Manufacture of TUB	US$1	SANAM 100%	+1-281-909-8971
	Manufacture and sales of spin finish, surfactants, chemicals for papermaking, and paint & ink resins	US$20.5 million	Sanyo Chemical 100%	+86-513-8596-0205
	Manufacture and sales of superabsorbent polymers	US$24 million	San-Dia Polymers 100%	+86-513-8598-1251
	Import and export of chemicals, market surveys in China, and sales-related activities	US$1.8 million	Sanyo Chemical 100%	+86-21-5466-7676

	Lines of Business	Capital	Equity Ownership	Tel.
	Manufacture and sales of EPDM rubber materials (e.g. ENB: Ethylidene norbornene)	¥400 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-479-46-3031
	Manufacture and sales of EPDM rubber materials (e.g. ENB: Ethylidene norbornene)	US$37.4 million	SANAM 50%, Nisseki Chemical Texas 50%	+1-713-754-1000
	General trucking	¥65 million	Sanyo Chemical 100%	+81-72-678-2934
	Warehousing in the Nagoya and Kashima factories	¥30 million	Sanyo Chemical 100%	+81-52-601-0777
	Warehousing for dangerous goods	¥30 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-44-266-1086
	Insurance and travel agency, real estate, sales of livingware, and rental business	¥55 million	Sanyo Chemical 100%	+81-75-525-1982

Offices, Laboratories and Factories

Head Office & Research Laboratories

Name	Address	Tel.
Head Office & Research Laboratory	11-1, Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan	+81-75-541-4311
Katsura Research Laboratory	1-40, Goryo Ohara, Nishikyo-ku, Kyoto 615-8245, Japan	+81-75-382-1411

Domestic Offices

Name	Address	Tel.
Tokyo Branch Office	No.10 Chuo Bldg., 5-6, Honcho 1-chome, Nihonbashi, Chuo-ku, Tokyo 103-0023, Japan	+81-3-5200-3400
Osaka Branch Office	Nihonseimei Sakai-suji Honmachi Bldg., 8-12, Honmachi 1-chome, Chuo-ku, Osaka 541-0053, Japan	+81-6-6267-3410
Nagoya Area Sales & Marketing Office	Nagoya Mitsui North Bldg., 8-14, Meieki 4-chome, Nakamura-ku, Nagoya, Aichi 450-0002, Japan	+81-52-581-8511
Hokuriku Area Sales & Marketing Office	Daidoseimei Toyama Bldg., 9-10, Honmachi, Toyama 930-0029, Japan	+81-76-442-8900
Chugoku Area Sales & Marketing Office	Hiroshima Daiichiseimei OS Bldg., 2-21, Matoba-cho 1-chome, Minami-ku, Hiroshima 732-0824, Japan	+81-82-264-6743
Nishi-Nihon Area Sales & Marketing Office	Kogin Bldg., 13-2, Tenjin 1-chome, Chuo-ku, Fukuoka 810-0001, Japan	+81-92-714-3436

Overseas Offices

Name	Address	Tel.
Taipei Liaison Office	7th. Fl., NO46., SEC.2, Chung Shan N. Road, Taipei 104, Taiwan	+886-2-2563-1620

Domestic Factories

Name	Address	Tel.
Nagoya Factory	31-1, Shinpo-cho, Tokai, Aichi 476-0005, Japan	+81-52-604-1161
	The Nagoya Factory has Sanyo Chemical's largest production capacity and is located in the South of Nagoya Coastal Industrial Areas. Products manufactured at this facility include TUB, polyurethane chemicals, polymer flocculants, surfactants and specialty products. It went into operation in 1968. The factory site is approximately 100,000 m^2.	
Kinuura Satellite Factory	4-43, Nitto-cho, Handa, Aichi 475-0033, Japan	+81-569-25-7855
	The Kinuura Satellite Factory began operations as a distribution base in 1999. The production plant is currently under construction. The factory site is approximately 77,000 m^2.	
Kashima Factory	11-2, Sunayama, Kamisu, Ibaraki 314-0255, Japan	+81-479-46-3131
	The Kashima Factory is Sanyo Chemical's principal production and distribution facility in the Kanto area. Located on a 130,000 m^2 site in Ibaraki Prefecture, this factory is responsible for the manufacture of products such as PEB, toner resins, polymer flocculants for municipal wastewater treatment, water-soluble polymers, and permanent antistatic agents. It went into operation in 1976.	
Kyoto Factory	11-721, Honmachi, Higashiyama-ku, Kyoto 605-0981, Japan	+81-75-541-6380
	The Kyoto Factory, located on a 26,000 m^2 site (including the research division and head office), is the company's first production facility. Products manufactured at this factory include lubricating oil additives, coating agents, adhesives and surfactants. In addition, it also contains a development plant that produces trial products.	

Corporate Information / History

(as of March 31, 2009)

Corporate Information

Company Name	SANYO CHEMICAL INDUSTRIES, LTD.
Date of Establishment	November 1,1949
Number of Employees	1,742 (consolidated)
Capital	¥13,051 million
Head Office	11-1, Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan Tel: +81-75-541-4311 Fax: +81-75-551-2557
URL	http://www.sanyo-chemical.co.jp/

History

Management		Development of New Products
Establishment under the name of Sanyo Oil & Fat Industrial Co., Ltd.	1949	
Kawasaki Factory, now San Chemical, began operation.	1960	SANNIX, a base material for polyurethane foam, and PEG, polyethylene glycol developed.
Corporate name changed to Sanyo Chemical Industry Co.	1963	ACLUBE, a lubricating oil additive developed.
Nagoya Factory began operation. Stock listed on the Second Section of Osaka Stock Exchange.	1968	
	1969	SANFLOC, a polymer flocculant developed.
	1972	HIMER, a toner resin developed.
Kashima Factory began operation.	1976	
San-Petrochemicals Co., Ltd., established.	1977	SANWET, a superabsorbent polymer developed.
Stock listed on the First Section of Tokyo and Osaka Stock Exchanges.	1978	EIA diagnostic reagent developed.
San Chemical Co., Ltd., established.	1982	CARRYOL, a cold flow improver for fuel oil developed.
	1986	SANELEK, an electrolyte for aluminum electrolytic capacitors, and SANMODUR, a chemical board developed.
SANAM Corporation, established. Chugoku Sales & Marketing Office opened.	1989	
Hercules-Sanyo Inc., now Sanyo Chemical & Resins, LLC., established. No.2 Research Laboratory built.	1992	UCOAT, a polyurethane emulsion developed.
	1994	PELESTAT, a permanent antistatic agent for thermoplastic resins developed.
Sanyo Kasei (Thailand) Ltd., established.	1997	
Kinuura Satellite Factory began operation.	1999	POWERELEK, an electrolyte for electric double-layer capacitors developed.
All of our factories obtained ISO 9002 certification.	2000	NAROACTY, a nonionic surfactant derived from higher alcohol, and THERPUS, a polyurethane bead resin developed.
San-Dia Polymers, Ltd., established. All of our factories obtained ISO14001 certification.	2001	
	2002	ULTIFLOW, EXCELFLOW, & PRIMEPOL, base materials for polyurethane foam developed.
Sanyo Kasei (Nantong) Co., Ltd., established. Added Sunrise Chemical LLC., to affiliate. Code of Corporate Ethics enacted.	2003	APEXNARROW, polyester beads (intermediates for polymerization toners) developed.
	2004	Super Slurry, an agent for slurry excavation developed.
Sanyo Chemical Texas, Inc., now Sanyo Chemical Texas Industries, LLC., established. Taipei Liaison Office opened.	2005	EIA diagnostic reagent for small cell lung cancer developed.
	2006	LAUROMACROGOL 100, medical drug exclusively used in manufacturing developed.
SANYO CHEMICAL (SHANGHAI) TRADING CO., LTD., established.	2007	Developed HISTAT SK, a cutting fluid for silicon ingots. Developed CHEMICLEAN PR, a cleaning agent for use in hard disk manufacturing.
Katsura Research Laboratory built. Sanyo Kasei Korea, Ltd., established.	2008	Developed SphereLight proBNP, a clinical reagent for diagnosis of heart failure.

Investor Information

Common Stock

(as of March 31, 2009)

Authorized	257,956 thousand shares
Issued	117,673 thousand shares
Number of shareholders	8,311

Note: The number of shares is rounded down to the nearest thousand for this entire section

Major Shareholders

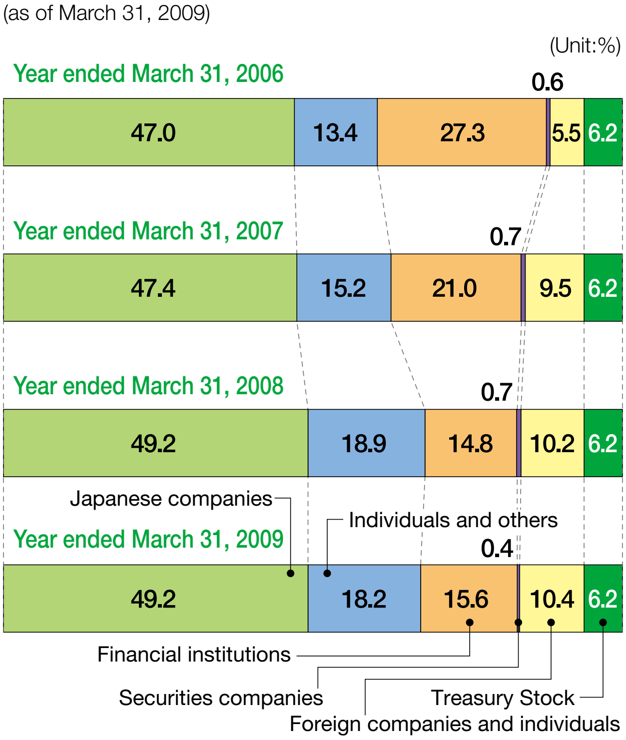
(as of March 31, 2009)

Name	Number of Shares (thousand shares)	Ratio of Voting Rights (%)
Toyota Tsusho Corporation	21,431	18.2
Toray Industries, Inc.	19,133	16.3
Nippon Shokubai Co., Ltd.	5,529	4.7
Nippon Oil Corporation	5,306	4.5
Northern Trust Company AVFC Sub-Account American Clients	3,798	3.2
Japan Trustee Services Bank, Ltd. (trust account 4G)	3,255	2.8
National Mutual Insurance Federation of Agricultural Cooperatives	2,546	2.2
Japan Trustee Services Bank, Ltd. (trust account)	2,183	1.9
Sanyo Chemical Industries	1,952	1.7
Employees' Stockholding Association Mitsui Sumitomo Insurance Co., Ltd.	1,469	1.2

Note: Treasury stock of 7,335 thousand shares are excluded from the above.

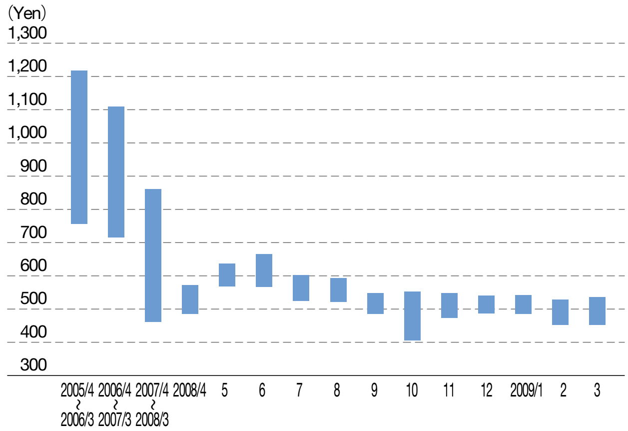
Trend in Ownership Structure

(as of March 31, 2009)

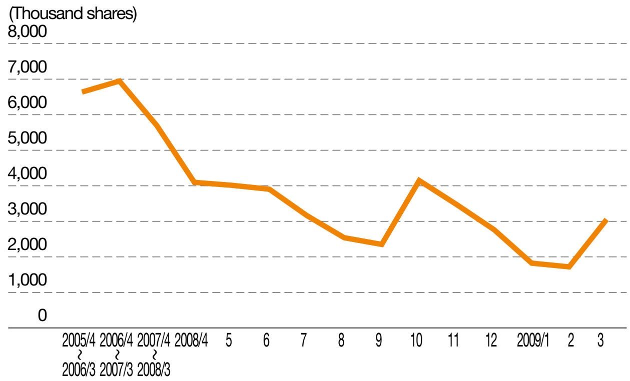


Stock Price Range and Trading Volume

● Stock Price Range



● Trading Volume



Notes: 1. According to Tokyo Stock Exchange
2. Trading volumes from April 2005 to March 2008 are the average of monthly turnover.

Shareholder Information

Fiscal year end	March 31
Year-end dividend record date	March 31
Interim dividend record end	September 30
General shareholders' meeting	Latter half of June
Transfer agent	The Chuo Mitsui Trust & Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-0014, Japan
Main address:	The Chuo Mitsui Trust & Banking Co., Ltd. Transfer Agency Department 8-4, Izumi 2-chome, Suginami-ku, Tokyo, 168-0063, Japan **Telephone: +81-3-3323-7111(main)** Transfer agent offices are all branches of the Chuo Mitsui Trust & Banking Co., Ltd. nationwide, and the head office and all branches of Japan Securities Agents, Ltd. nationwide
Publicity available	Sanyo Chemical web site at http://www.sanyo-chemical.co.jp/
Stock listings	Tokyo and Osaka Exchanges (Ticker Symbol Number 4471)

http://www.sanyo-chemical.co.jp/

For further information, please contact us.

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