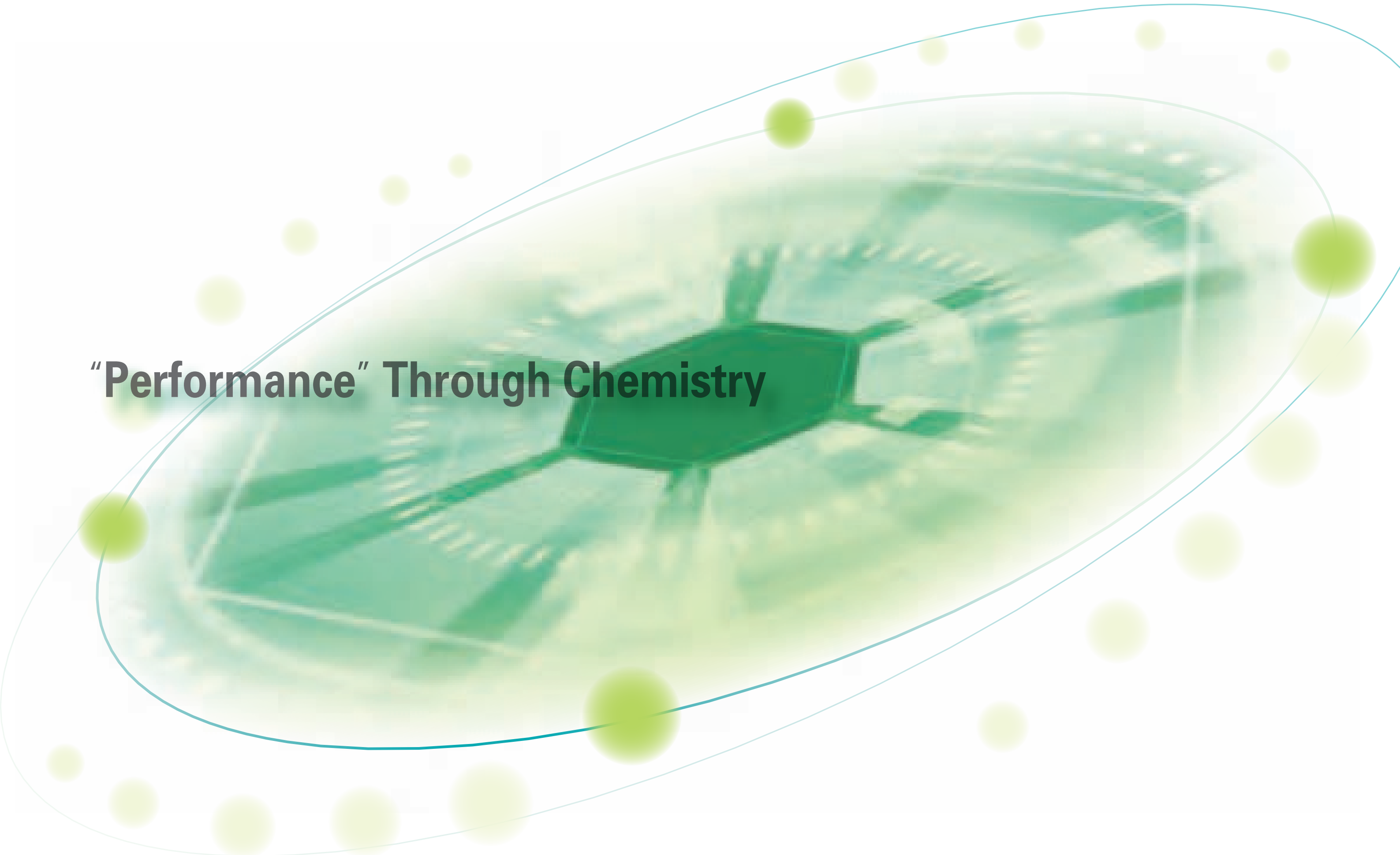
Annual Report 2010

Fiscal Year 2009 : Year ended March 31, 2010



"Performance" Through Chemistry

sanyo
CHEMICAL INDUSTRIES

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.

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Notice with Respect to Changes in Product Groups

In order to ensure a greater understanding of the business activities of Sanyo Chemical Group, from FY2009 onward we have changed our product groups from one based on chemical properties to one based on product application. Percentages for each product segment in comparison with the same period of FY2008 have been recalculated to reflect the new segmentation.

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.

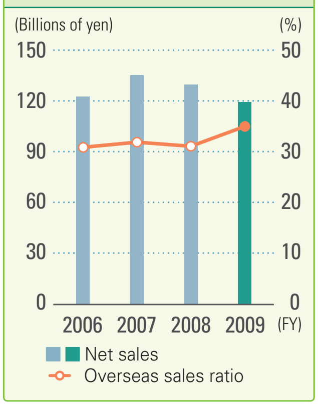
Consolidated Financial Highlights

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries

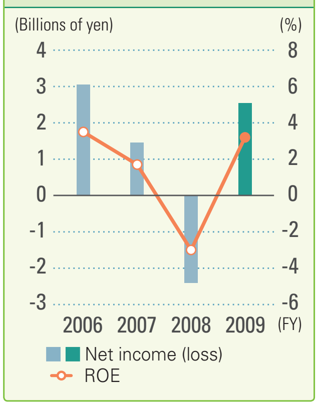
	(Millions of Yen)			(Thousands of U.S. Dollars)	(%)
	FY2009	FY2008	FY2007	FY2009	Change (09/08)
For the fiscal year:					
Net sales	**119,193**	129,555	135,214	1,280,956	(8.0)
Operating income	**6,146**	640	5,293	66,050	859.9
Ordinary income	**6,017**	498	5,836	64,664	1,108.2
Income before income taxes and minority interests (loss)	**5,259**	(1,915)	4,519	56,518	—
Net income (loss)	**2,544**	(2,400)	1,446	27,340	—
At fiscal year-end:					
Total assets	**136,991**	123,901	148,717	1,472,229	10.6
Shareholders' equity	**81,175**	76,465	85,016	872,380	6.2
Per share:		(Yen)		(U.S. Dollars)	
Net income (loss)	**23.06**	(21.75)	13.11	0.24	—
Cash dividends paid	**13.00**	13.00	15.00	0.13	0.0
Net assets	**735.79**	693.00	770.38	7.90	6.2
Ratios:		(%)			
Operating income ratio	**5.2**	0.5	3.9		—
Return on equity (loss)	**3.2**	(3.0)	1.7		—
Shareholders' equity ratio	**59.3**	61.7	57.2		—
Return on assets (loss)	**2.0**	(1.8)	1.0		—

Notes: 1. U.S. dollars have been converted at the rate of ¥93.05 to US$1, the effective rate of exchange at March 31, 2010.
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.

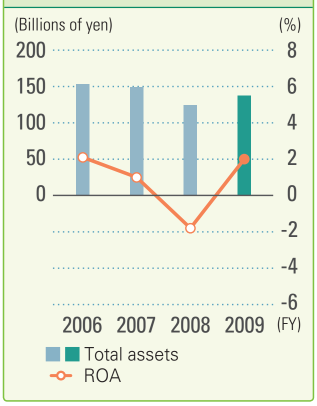
Net Sales/ Overseas Sales Ratio



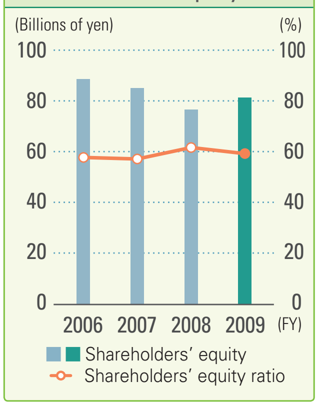
Net Income (loss)/ROE



Total Assets/ROA



Shareholders' Equity/ Shareholders' Equity Ratio



Net Sales by Product Group

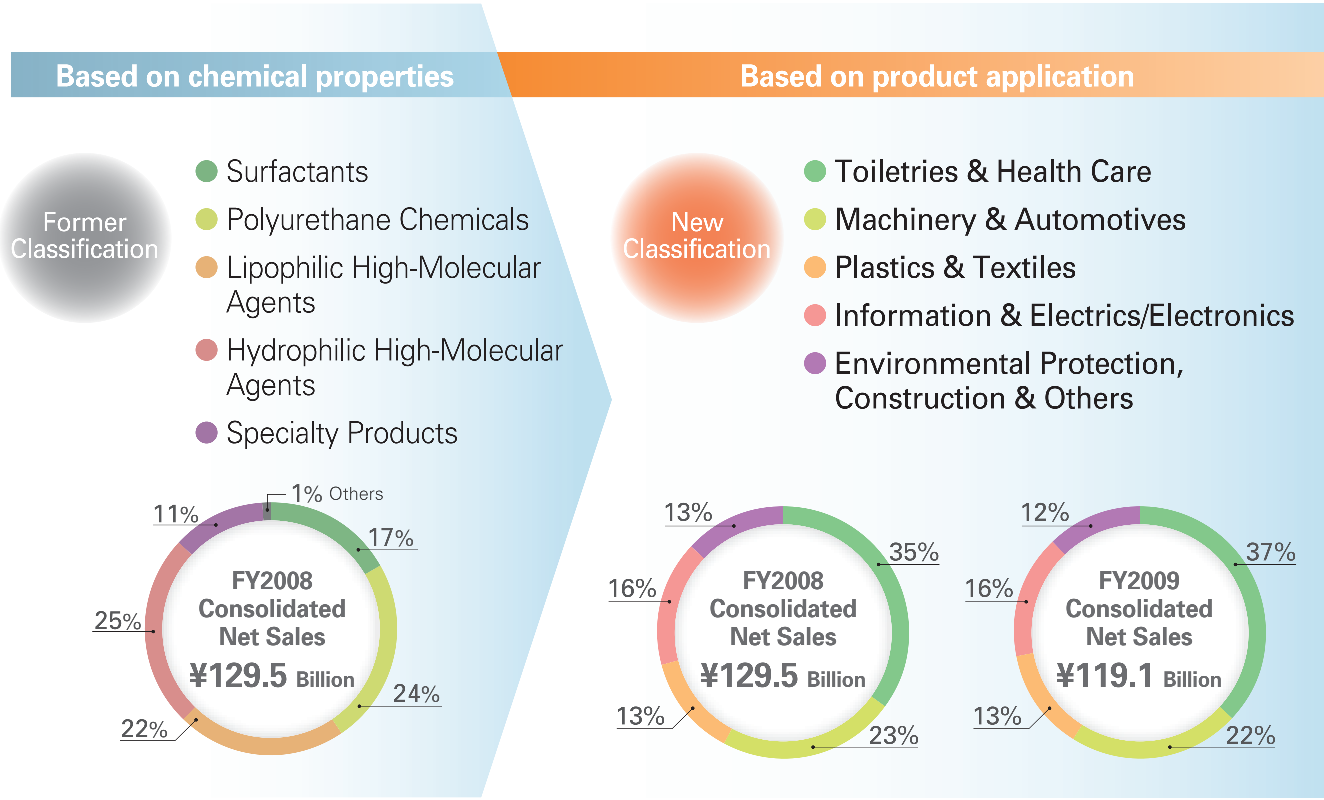
Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries

	(Millions of Yen)			(Thousands of U.S. Dollars)	(%)
	FY2009	FY2008	FY2010 (Plan)	FY2009	Change (09/08)
Net sales:					
Toiletries & Health Care	¥ 44,186	¥ 44,996	¥ 47,257	$ 474,862	(1.8)
Machinery & Automotives	26,609	30,064	27,064	285,964	(11.5)
Plastics & Textiles	15,550	16,217	16,752	167,114	(4.1)
Information & Electrics/Electronics	18,502	21,245	20,698	198,839	(12.9)
Environmental Protection, Construction & Others	14,343	17,031	15,226	154,142	(15.8)
Total	¥119,193	¥129,555	¥127,000	$1,280,956	(8.0)

Note: U.S. dollars have been converted at the rate of ¥93.05 to US$1, the effective rate of exchange at March 31, 2010.

Notice with Respect to Changes in Product Groups

In order to ensure a greater understanding of the business activities of Sanyo Chemical Group, from FY2009 onward we have changed our product groups from one based on chemical properties to one based on product application.



Overseas Sales

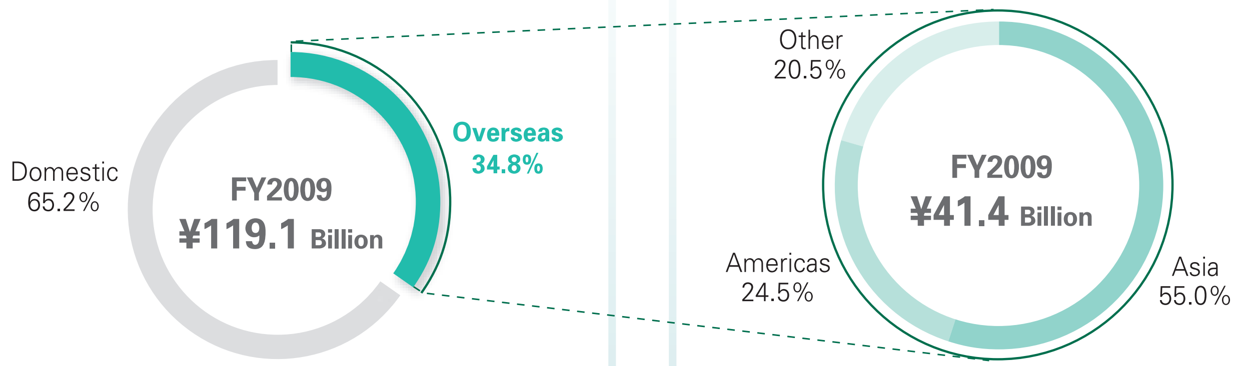
Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries

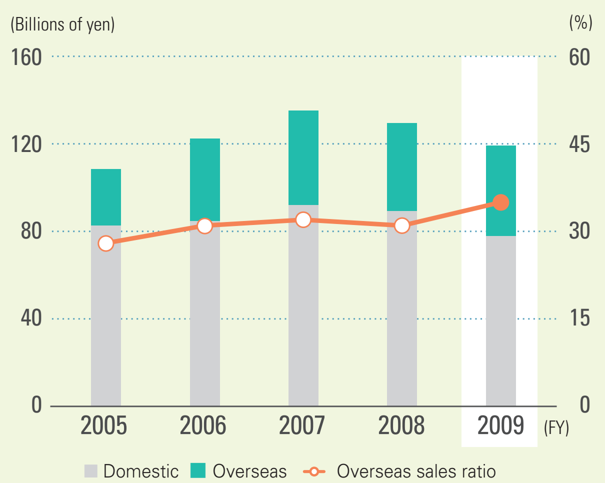
	(Millions of Yen) FY2009	FY2008	(Thousands of U.S. Dollars) FY2009	(%) Change (09/08)
Asia	¥22,798	¥21,756	$245,008	4.8
China	12,834	11,739	137,925	9.3
Americas	10,170	11,251	109,296	(9.6)
Other	8,498	7,347	91,327	15.7
Total	¥41,467	¥40,355	$445,642	2.8
Sales ratio (%)	34.8	31.1	34.8	—
Rate of exchange (¥/$)	93.05	98.23	93.05	—

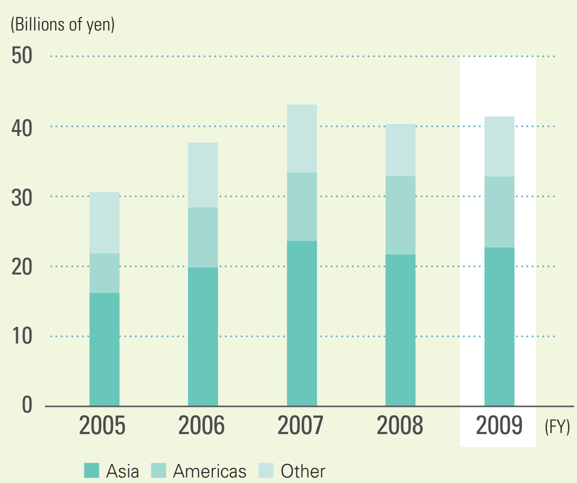
Notes: 1. U.S. dollars have been converted at the rate of ¥93.05 to US$1, the effective rate of exchange at March 31, 2010.
2. Overseas sales are the sales amounts of Sanyo Chemical Industries, Ltd. (non-consolidated) and its consolidated subsidiaries in countries or regions other than Japan.
3. Geographic segmentation is based on countries or regions' geographic proximity.
4. Major countries or regions other than Japan
1) Asia: South Korea, China, Indonesia, India, Thailand and others
2) Americas: U.S.A., Mexico, Brazil and others
3) Other: Australia, Europe, Russia, Middle East and others

Consolidated Net Sales

Overseas Sales







Note: Effective from the fiscal year ended March 31, 2007 (FY2006), Sanyo Chemical Group changed the standard for collating overseas net sales to present a truer picture of actual overseas sales. The figure FY2005 indicates sales restated to conform to the new standards.

Business Review (Sanyo Chemical at a Glance)

Product Group | **Principal Products** | **Organization in Charge**

Toiletries & Health Care

Toiletries
Surfactants for detergents, surfactants for hair care products, antibacterial agents, agents for papermaking

Health Care
Superabsorbent polymers, base materials for pharmaceuticals, EIA diagnostic reagents, potting resins for artificial kidneys

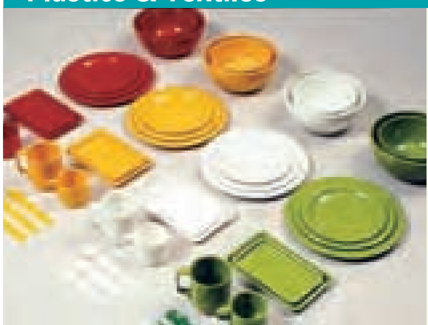
- ● Narutaki Business Unit
- ○ SAP Application Intracorporation
- ○ San-Dia Polymer
- ○ San Nopco
- ○ San Chemical
- ○ San-Dia Polymers (Nantong)

Machinery & Automotives

Machinery & Automotives
Thermoplastic polyurethane beads for interior parts of automobiles (TUB), raw materials for polyurethane foams, lubricating oil additives, additives for fuel oils, water-soluble cutting fluids, CFC-free cleaning agents, base materials for synthetic lubricants, paste resin for design model, paint resins

- ● Usami Business Unit
- ● Tsuruta Business Unit
- ○ San Chemical
- ○ Sanyo Kasei (Thailand)
- ○ Sanyo Chemical Texas Industries

Plastics & Textiles



Plastics
Permanent antistatic agents, pigment dispersants, resin modifiers, base materials for polyurethane elastomers, paint resins, chemical boards for models

Textiles
Agents for textile manufacturing, agents for fiber-glass, polyurethane resins for synthetic leather

- ● Narutaki Business Unit
- ● Bessho Business Unit
- ○ Polymer Application Intracorporation
- ○ San Nopco
- ○ Sanyo Kasei (Nantong)

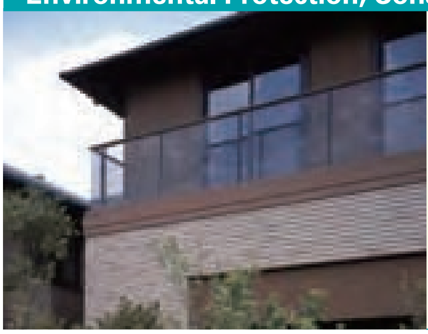
Information & Electrics/Electronics

Information
Polyester beads (PEB) used as a core component of polymerization toners, toner resins

Electrics/Electronics
UV/EB curing resins, electrolytes for aluminum electrolytic capacitors, electrolytes for electric double-layer capacitors, processing agents for semiconductors

- ● Narutaki Business Unit
- ● Bessho Business Unit
- ○ Sanyo Chemical & Resins

Environmental Protection, Construction & Others



Environmental Protection, Construction & Others
Polymer flocculants, polyurethane for heat-insulating materials, water-swellable sealants, slurry agents, reactive hot-melt adhesives

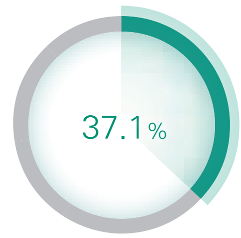
- ● Usami Business Unit
- ● Tsuruta Business Unit
- ○ Construction Systems and Materials Intracorporation
- ○ San Chemical

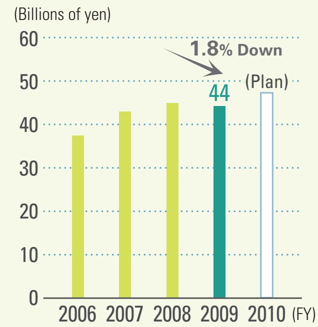
● Business Unit
○ Intracorporation & Consolidated Subsidiaries

Review of FY2009	Sales Amount Composition Ratio of FY2009	Sales

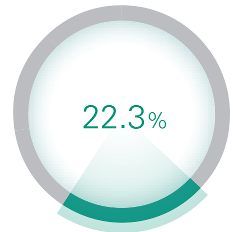
In Toiletries, sales of surfactants for detergents increased steadily due to the growing popularity of liquid detergents. Sales of polyethylene glycol were also steady on increased exports. Other products, however, were weak.

In Health Care, sales volumes for superabsorbent polymers were brisk due to sustained higher demand for disposable diapers both in Japan and overseas. However, sales increased slightly overall due to a decrease in product prices.



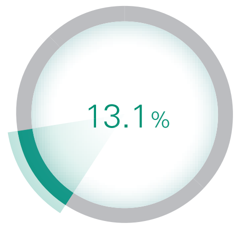


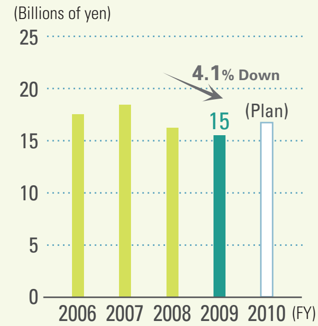
In Machinery & Automotives, sales increased on the back of the unique features of our raw materials for new high-performance polyurethane foams used mainly in automobile seats. Demand and sales for lubricating oil additives and such additives for engine oils designed for better fuel efficiency increased due to growing adoption in the automotive industry of Continuously Variable Transmissions (CVTs), which help save fuel. However, recovery in demand for thermoplastic polyurethane beads (TUB) for the interior parts of automobiles and raw materials for general-purpose polyurethane foams was not enough to offset the downturn lasting into the second quarter. Sales of these products decreased substantially. Total net sales were sluggish due partly to automobile production cutbacks.



In Plastics, sales of permanent antistatic agents, partially used in the production of packaging materials for electronic components, increased steadily due to growing demand in China, South Korea and other overseas markets. However, sales of chemical boards for models and other plastics agents decreased due to a demand slump.

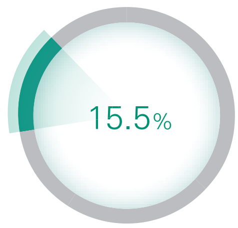
In Textiles, there were signs of recovery in demand for agents used in textile manufacturing processes for industrial materials such as airbags and seat belts for automobiles, and binders for fiberglass. However, sales decreased due to a fall in product prices and stagnant demand for agents for carbon fibers.

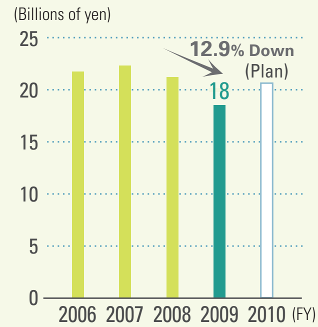




In Information, sales were sluggish due to lower product prices and a decrease in demand for polyester beads (PEB) used as a core component of polymerization toners and toner resins for pulverized color toners, due to companies' efforts to cut back on numbers of copies.

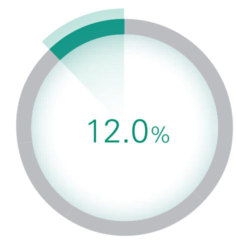
In Electrics/Electronics, sales of electrolytes for aluminum electrolytic capacitors increased significantly due to a rebound in demand for the electronic appliance industry. However, sales of silicon wafer processing agents decreased due to a decline in overseas demand, especially in China.

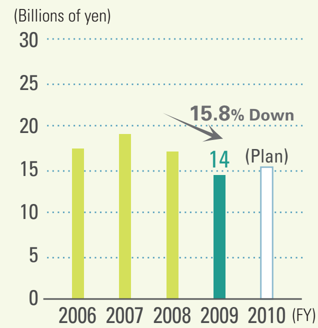




In Environmental Protection, sales decreased slightly despite growth in sales of cationic monomers, because sales of cationic polymer flocculants were weak due to production cutbacks in the paper industry.

In Construction, sales decreased steeply for raw materials for polyurethane foams used in heat insulating materials for housing, and for raw materials for building sealants, due to the slump in housing construction.





To Our Shareholders and Investors

Masaaki Ienaga

President, Representative Director

I would like to thank 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 FY2009 (April 1, 2009 to March 31, 2010), and policies for FY2010.

I hope I can count on our shareholders and investors for their further support and continued cooperation going forward.

Q. What kind of business environment did Sanyo Chemical face during FY2009?

A. Business conditions remained difficult in Japan in FY2009. Despite signs of recovery due to government stimulus measures and growth in China and other emerging countries, a worsening employment picture kept consumer spending in Japan at a low ebb while capital investment was also sluggish.

In the chemical industry, operating conditions likewise remained difficult. Although recovery momentum was seen in demand, there were signs that raw material and fuel costs are set to soar again despite deflationary trends while the exchange rate outlook was also uncertain.

Q. Against this backdrop, how did Sanyo Chemical perform in FY2009?

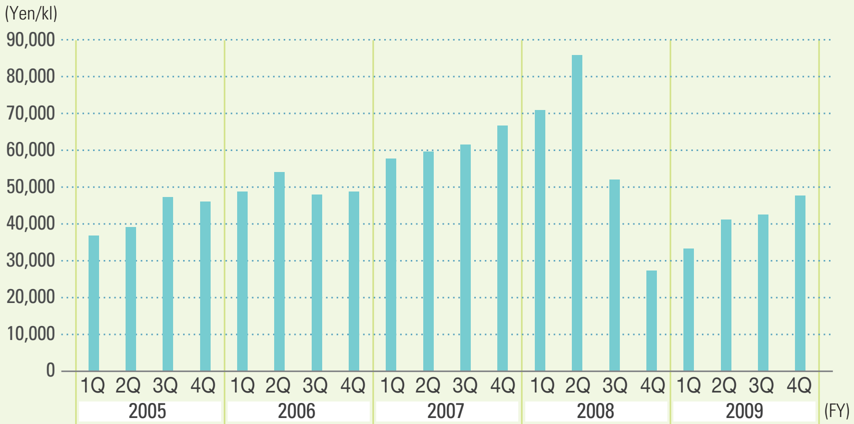
A. Net sales of Sanyo Chemical Group decreased by 8.0% from the previous fiscal year to ¥119.1 billion. A decline in product prices due to falling raw material and fuel costs outweighed an increase in sales volume thanks to the recovery seen in demand after the steep fall triggered by the global recession.

In terms of profit, both operating and ordinary income posted substantial increases, of ¥6.1 billion (up 9.6 times) and ¥6.0 billion (up 12.1 times) from the previous fiscal year respectively. This performance was the result of rebounding demand, a decrease in raw material and fuel costs compared with FY2008, as well as cost reductions targeting business expenses to combat the global recession.

We posted a substantial net income of ¥2.5 billion, overturning the previous fiscal year's loss of ¥2.4 billion.

As a result of the foregoing, net income per share increased to ¥23.06 from a net loss per share of ¥21.75 in the previous fiscal year and return on equity (ROE) increased to 3.2% from a negative 3.0% in the previous fiscal year.

Transition of Price of Domestically-Produced Naphtha



Q. What were the priority measures carried out during FY2009?

A. Measures taken to deal with the impact of the global recession included reduction in compensation for executives and managerial staff, postponement of capital investment, cuts in inventory levels, and a reduction in business expenses.

In medium-to-longer-term measures ahead of an expected resurgence in the economy, we are taking the following steps to rebuild profitability through drastic reform of the company's organizational structure and strengthening of its fundamentals:

(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 our Research and Development (R&D) Division, we have concentrated resources and funding on designated "priority development items," following rigorous screening of development products which can be rapidly commercialized and which promise dramatic sales growth.

In the Sales and Marketing Division, we were able to get back to profitability by correctly responding to trends in raw material and fuel costs, while reinforcing sales and marketing capabilities.

In the Production Division, we took thorough measures to eliminate wastefulness, impracticalities and inconsistencies in production activities while undertaking production innovation aimed at significantly increasing efficiency through drastic streamlining.

In groupwide initiatives, we overhauled organizations and operational frameworks to bolster management, with measures including the folding of administrative responsibilities of subsidiaries into the Head Office. We also reviewed our employee education systems.

We are now seeing the emergence of a firmer basis for profitable growth as a result of the steady success of these policies.

Q. Could I ask you to talk about return of profits to shareholders?

A. We regard increasing returns for shareholders while attempting to reinforce the corporate base for the future through an improvement in Sanyo Chemical Group's profitability as an important management responsibility. Our fundamental policy is to maintain stable dividends, 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 and a year-end dividend of ¥7.50 each). However, business performance slumped in FY2008, resulting in a direct for the year owing to a dramatic deterioration in results due to the global recession. Difficult business conditions have continued, forcing us to cut the dividend by ¥2.00 to ¥5.50 per share, for both the end of FY2008 year-end and FY2009 interim payment.

However, with recovery in demand and successful groupwide countermeasures against the recession, profitability improved significantly in FY2009. In addition, in light of our forecast of increased sales and profits in FY2010, we decided to increase the dividend by ¥2.00 per share, bringing it back up to ¥7.50 for the end of FY2009 year-end. We plan to pay a dividend of ¥7.50 for FY2010 (interim and year-end, for a total annual dividend of ¥15.00), assuming current performance forecasts are met.

We will continue its commitment to increasing returns to shareholders and enhancing corporate value.

Q. What CSR measures has Sanyo Chemical undertaken in the year?

A. We believe it is Sanyo Chemical Group'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 achieve this motto in order to enhance corporate value by placing great importance on environmental consideration and social contributions.

In FY2009, we took measures to implement a compliance program and compile an 11-field set of guidelines for CSR activities for the Group, by appointing of officers to take responsibility for implementation in each one.

Based on these guidelines, the Group will commit itself wholeheartedly to CSR activities in organizational and systemic terms. The newly launched CSR Committee and CSR Promotion Dept. support the Groupwide CSR activities and strengthen CSR-related disclosure and training activities.

Q. What plans does Sanyo Chemical have for FY2010?

A. FY2010 will be an important year ahead of the Eighth Medium-Term Management Plan covering the period from FY2011 to FY2014, which we are currently developing. Because of the severe impact of the global recession on the business environment, numerical targets in the Seventh Medium-Term Management Plan, covering the period from FY2007 to FY2010 have had to be abandoned. We had targeted consolidated sales of more than ¥170 billion, ordinary income of at least ¥18 billion, and ROE of 10% or more for FY2010. However, we have made solid progress in basic strategic aims such as strengthening the Group management, enhancing R&D capabilities and promoting globalization, initiatives for the future, and we expect to enjoy the fruits of these measures going forward.

In addition to policies under the Seventh Medium-Term Management Plan, we will continue medium-to-longer-term measures initially launched to deal with a more difficult business conditions in the wake of the global recession, and strengthen our basis of operations so as to achieve sustainable growth even under adverse conditions.

We regard FY2010 as a springboard for addressing new challenges. As always, we appreciate your continued understanding, trust and support.

Sales and Marketing Division

Yoshihide Yamamoto
in charge of Sales & Marketing

Summary of FY2009 Business Activities (non-consolidated)

In FY2009, demand recovered from the sharp fall caused by the global recession of 2008, and sales volumes increased from the previous fiscal year. However, net sales by value decreased 10% to ¥83.5 billion due to falling product prices amid steeply declining naphtha prices since the autumn of 2008. The overseas sales ratio reached 24%, up three percentage points from the previous year, due to the rapid rebound in demand in Asian countries and further globalization.

In FY2010, while concentrating on the development of new high-value-added products to improve profitability, under the slogan "Building a springboard to get non-consolidated net sales back to ¥100 billion and keep them at that level," we will enhance our marketing capabilities. In addition, to further strengthen overseas business, we are stepping up overseas production to ensure operating activities in Japan and overseas are highly coordinated.

Usami Business Unit

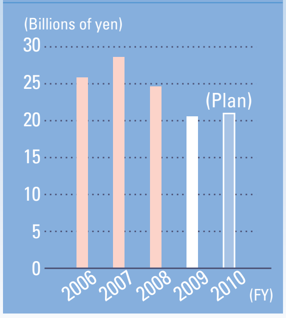
1st Sales & Marketing Dept. of: Transport & Polyurethane Foam Industry

2nd Sales & Marketing Dept. of: Transport & Polyurethane Foam Industry

Principal products

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

Sales Amount



This unit handles polyurethane chemicals used in the automotive and construction industries. In FY2009, we launched extremely high-concentrated polymer polyol (POP) products developed using our proprietary technology. We completed the localization in the USA, begun in 2008, of production of thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, with the transfer of all such operations to a subsidiary. Although an extremely harsh business environment surrounding this unit meant that FY2009 was a difficult year, demand recovered more than anticipated and earnings only fell slightly. Nonetheless, despite renewed momentum in the automotive industry, the peaks of recent years remain a long way off, and the construction industry still shows no sign of recovery. However, in these two industries, significant new energy conservation and eco-friendly technologies are being developed, and we hope to boost our results by feeding such innovation into our new product development. Amid deepening globalization, we are aggressively expanding sales through stronger exports and greater use of overseas production sites.

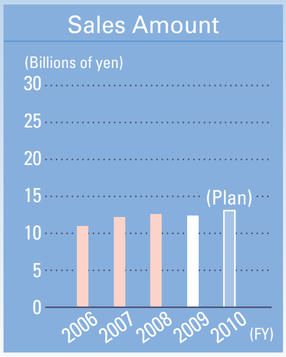
Ken Usami
General Manager of
Usami Business Unit

Tsuruta Business Unit

Sales & Marketing Dept. of:
Environment Industry,
Petroleum & Machinery Industry

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-solublecutting fluids: BLEMBER and HIGHCLEAN



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 FY2009, we launched new, higher performance products capable of reducing use of additives in our lineup of polymer flocculants for wastewater treatment. We also greatly expanded sales volumes for new, higher performance products such as viscosity index improvers for CVT (continuously variable transmission) fluids and for fuel-efficient engine oils, which have gained market recognition as eco-friendly products. We are aggressively expanding exports of these products.

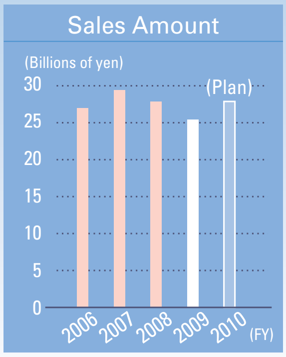
Hiroyuki Tsuruta
General Manager of
Tsuruta Business Unit

Narutaki Business Unit

Sales & Marketing Dept. of:
Resins Industry, Toiletry Industry,
Pharmaceutical & Agrochemicals Industry,
Textile Industry, Electronic Materials Industry

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

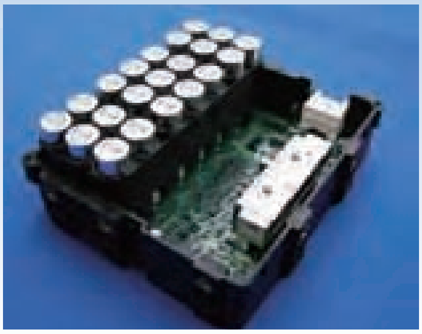


This unit handles business in the resin, electronics, toiletry, detergent, pharmaceutical, agrochemical and textile industries. In FY2009, we expanded business through new product launches such as cleaning agents for use in hard disk manufacturing, base materials for highly concentrated liquid detergents, and resins for polyurethane textiles. The unit's mainstay products include permanent antistatic agents and potting resins for artificial kidneys (in the resin industry); processing agents for semiconductors (electronics); base materials for shampoo and hair conditioners with low-irritancy and super biodegradability (toiletries); base materials for household and industrial detergents (detergents); pharmaceutical additives produced at GMP*-compliant plant (pharmaceuticals); and agents for high-performance textiles such as carbon fibers and fiberglass (textiles). We will continue to expand our sales and development activities.

Hideya Narutaki
General Manager of
Narutaki Business Unit

*Good Manufacturing Practices

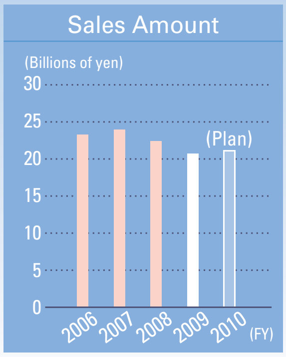
Bessho Business Unit



Sales & Marketing Dept. of:
Information Industry, Battery Materials Industry, Coloring Materials Industry

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

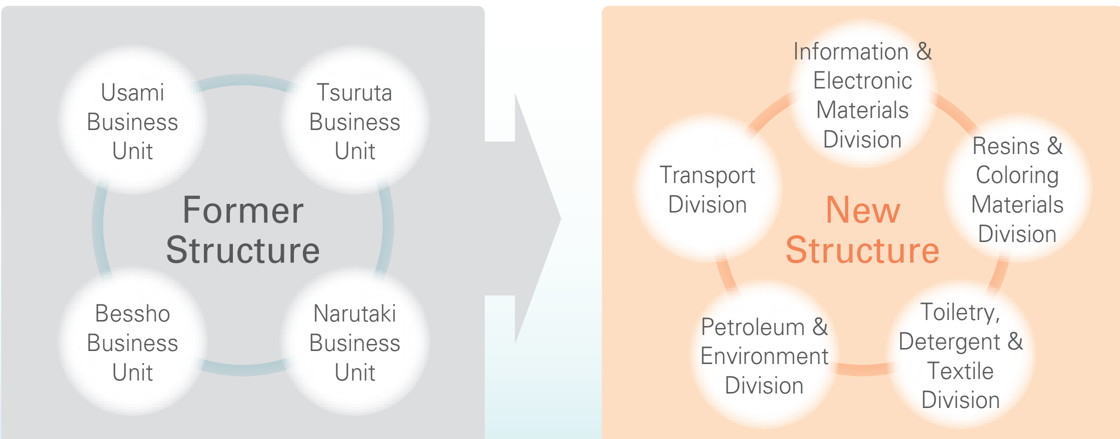


This unit handles business in the copier and printer, battery materials, and paint and ink industries. In FY2009, a decline in net sales due to the global recession in the previous fiscal year was unavoidable. Particularly striking was the impact of falling demand in the copier and printer industry, a major contributor to sales. At the same time, sales grew for electrolytes for capacitors, supported by the significant growth in LCD televisions, personal computers and other digital home appliances in the battery materials industry, and likewise, in the paint and ink industry, sales of resins for automobile paints increased, driven by recovery in production of automobiles. We plan to further penetrate the promising hybrid and electric car industry more deeply through various lines of products such as electrolytes for electric double-layer capacitors as auxiliary power sources, waterborne resins for automobile paints, and polyester beads (PEB) used as a core component of polymerization toners for high-resolution copiers.

Toshiharu Bessho
General Manager of
Bessho Business Unit

Structural Overhaul, Effective April 2010

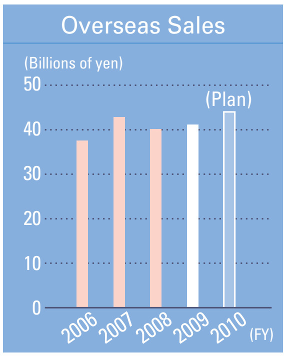
We have transformed our four-pillar business unit structure, using General Managers' family names, in favor of a system named for each business unit, to achieve a more clear designation of business responsibilities. Furthermore, we have divided our organization into five divisions, to speed up decision-making. This new system with five divisions will strengthen our operating activities.



Tatsushi Yano
General Manager of International Project Promotion Division

International Project Promotion Division

The International Project Promotion Division is in charge of coordination of overseas production sites, sales offices, and liaison offices, while promoting the globalization of business operations. Despite the impact of the global recession at the beginning of the year at our overseas subsidiaries and affiliates, in FY2009 rapid economic recovery in Asia propelled our production sites, Sanyo Kasei (Nantong) Co., Ltd. in China and Sanyo Kasei (Thailand) Ltd. in Thailand to their first full-year profit since their founding. Meanwhile, in January 2010, we transferred our Taipei Liaison Office (Taiwan) operations to the newly established Sanyo Kasei (Taiwan) Ltd., which handles sales and marketing in Taiwan. We are developing alliances with our business units and these bases in Asia, where economic growth remains remarkable, to more effectively globalize our business development.



Purchasing Division

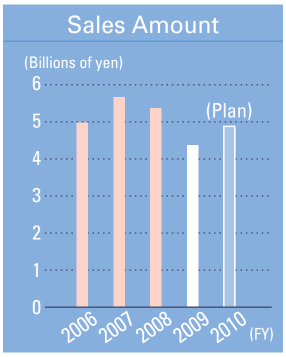
The Purchasing Division engages in day-to-day business activities for the purpose of inexpensive, stable procurement of superior raw materials in accordance with five basic policies: ensuring 1) a global perspective, 2) fair and equitable dealings, 3) legal compliance, 4) environmental consideration, and 5) mutual trust. FY2009 was another challenging year for the Division, despite recovery momentum in the economy, with inflationary pressures emerging in upstream operations (raw materials) while deflation deepened in downstream (final products) activities. Against this backdrop, our newly established Purchasing Planning section sought to improve purchasing power by globalizing raw materials procurement, purchasing from suppliers irrespective of whether they are located in Japan or overseas. In FY2010, we are enhancing and reinforcing our corporate social responsibility (CSR) activities across our supply chain, while deepening our commitment to green procurement.

Koji Hirose
General Manager of Purchasing Division

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 start-up businesses developed by taking full advantage of Sanyo Chemical technologies and materials. Once the intracorporation initiative is fully underway, we will transfer its operations to our business units, as part of our selection and focus measures. The four intracorporations described below will continue operations in FY2010.

Intracorporation Name	Business Lines	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	Civil engineering and construction products that meet the needs of new civil engineering techniques and new building materials	Super Slurry, LEVEFLOW, YT-MELT, etc.
SAP Application Intracorporation	SAP (superabsorbent polymer) for non-hygiene use (absorbent for cat litter, seedbed for rice plants) and applied products	SANFRESH, SANYO SEEDBED SHEET, etc.



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 established products. This approach is key to increased sales and profits.

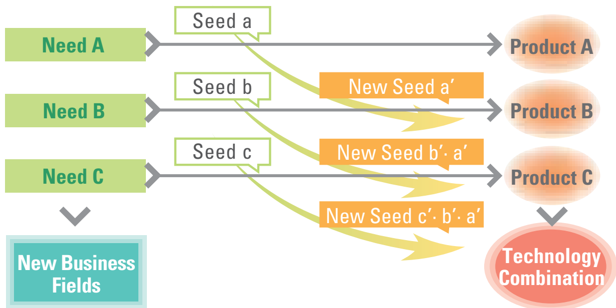
Since the early 2000s, we have concentrated our resources primarily on polyester beads (PEB) used as a core component of polymerization toners, and thermoplastic polyurethane beads (TUB) for the interior parts of automobiles. Here, we are leveraging our proprietary technology for manufacturing spherical and uniform beads to try to achieve speedy development of large-scale businesses. In the Seventh Medium-Term Management Plan, with FY2010 as its final fiscal year, we have focused our efforts on development in the fields of information and electronics, automobiles, and the environment and biotechnology, where the markets are undergoing significant expansion. Ahead of the Eighth Medium-Term Management Plan starting in FY2011, we have identified development items with exceptional sales growth potential in the current fiscal year and are focusing resources on them as "priority development items." Over the years, we have provided many different types of products to a variety of markets by fully leveraging our unique technologies. Through our emphasis on constantly innovating these technologies, we will continue to ensure established products become more functional and also develop products in relevant markets.

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 established 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 Katsura Research Laboratory, located in the Katsura Innovation Park (in Nishikyo-ku, Kyoto). By utilizing this Katsura 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 unique 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 such "chain-reaction" technologies for different fields, we can develop highly original products in new areas.

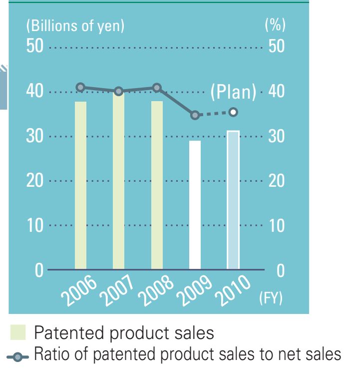
Sanyo Chemical manufactures a wide variety of products while diversifying its technologies through its NeeSeeds-oriented R&D activities.



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

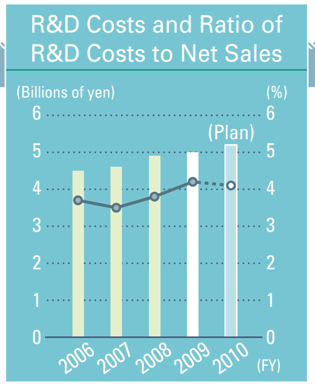
The "ratio of new/improved products" refers to the ratio of new or improved product sales that have been introduced to the market in the past five years to total net sales. This is the most important index for our R&D activities. The ratio of new/improved products was 34.8% in FY2009. We aim to keep it 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 420 employees and invested 5 billion yen (with a ratio of R&D costs to net sales of 4.2%) in R&D activities in FY2009. We plan to increase investment to enhance our R&D capabilities going forward.



R&D costs
Ratio of R&D costs to net sales

"Priority Development Item" for Fast Growth

We have identified "priority development items" with exceptional sales growth potential, and plan to focus resources on them—research as well as funding

These priority items can be broadly divided into development of established products for global markets, and products with future development potential. Established products earmarked for global expansion include superabsorbent polymers and raw materials for polyurethane and toner materials. Products with future development potential include battery materials, resins for flat panel displays, and surgical sealants. By combining multiple technologies in which we have many years of experience, we are developing highly differentiated new products.

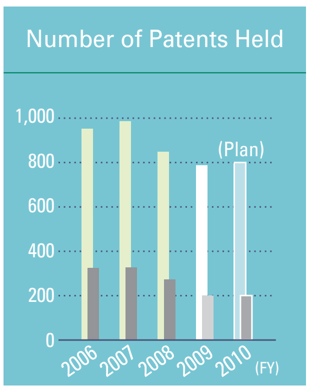
At the end of March 2010, we had designated 20 items, mainly in information and electronics, for priority development. Product launches are planned before the end of FY2010, with a total sales target for this category of ¥71 billion by FY2014.

Strategic Accumulation and Utilization of Intellectual Property

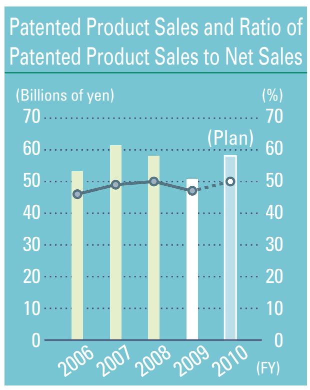
By actively claiming patent rights for the innovative technologies that we develop, we are working to raise the competitiveness of our products. Our target is to make an average of 1.2 patent applications per researcher each year, and as a company, we are applying for over 350 patents annually. To improve the quality of our patent applications, we organize an "Invention Fiesta" every year, through which 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.

In addition, we are committed to raising the proportion of total product sales accounted for products under our patents, a ratio we refer to as the "ratio of sales of patented products to total sales." It stood at approximately 47% for FY2009.

Inventor of the Year in FY2009
Masashi Minaki



Japanese patents
Overseas patents



Patented product sales
Ratio of patented product sales to net sales

Production Division

Kazuyuki Hirakawa
in charge of Production

Summary of Production Activities in FY2009

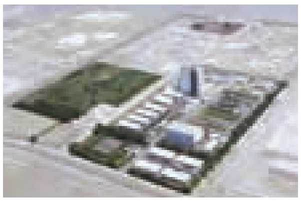
During FY2009, we continued to work to raise awareness within our organization using the key concepts of thoroughness and mutual learning, based on a focus on safety and implementation of a compliance program. In light of deterioration in the economic environment since the global recession that began in the autumn 2008, we have undertaken a range of emergency countermeasures such as cutting fixed costs and other business expenses to improve profitability. In addition, we have created specialist task forces under our structural reforms designed to carry us to the next stage, who will oversee progress towards automation and mechanization as well as radical production innovations aimed at streamlining operations.

Regarding our production facilities, semi-commercial facilities for highly purified electrolytes for electric double-layer capacitors came onstream at the Nagoya Factory. We also acquired an approximately 30,000 square-meter plot of idle land belonging to Dow Chemical Japan Limited to the north of Kinuura Satellite Factory (now Kinuura Factory), which we have earmarked for additional facilities and logistics premises.

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. We also worked hard to reduce variable costs with other products. In particular, we continued measures to reduce generation of industrial waste and external processing costs, following our progress in FY2008. In addition to these measures to uphold cost-performance levels, we have focused during the current fiscal year on reducing utility expenses as well as general costs by optimizing inventory levels.

Looking ahead, 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, thereby supplying high quality products on time and at competitive prices to our customers.


Nagoya Factory


Kinuura Factory


Kashima Factory


Kyoto Factory

Topics FY2009

Semi-Commercial Facilities Electrolytes for High-Performance Electric Double-Layer Capacitors

In connection with the launch of sales of highly purified electrolytes for high-performance electric double-layer capacitors, we launched operations of semi-commercial highly purified electrolyte facilities at the Nagoya Factory in December 2009.


Semi-Commercial Facilities

Launch of Production Innovation Drive

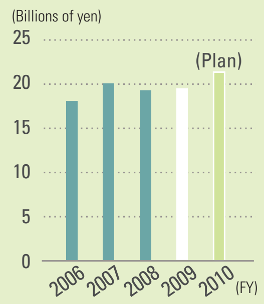
We have launched a five-year plan aiming for a radical improvement in production efficiency, with numerical targets for improving productivity per employee and for lowering the operational break-even point.

After carrying out a full inspection of all production operations, and launching a rigorous campaign to eliminate wastefulness, impracticalities, and inconsistencies, we launched process improvements that increased the efficiency of 50 personnel (by simplification, automation and mechanization) by the end of FY2009.

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. To respond to increased demand from China and other emerging countries, in FY2009 SDP added capacity to support low-speed production in continuous processes at established plants. SDP also decided to invest in new plant construction in spring 2010.

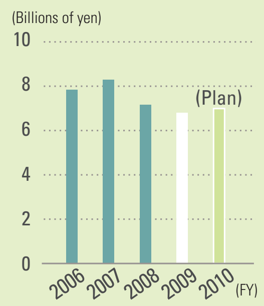
Looking ahead, using both Sanyo chemical's and Mitsubishi's proprietary production technologies SDP plans to meet customer needs by bringing to market environmentally-friendly products and developing highly functional superabsorbent polymers.

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

Hiroshi Azuma
President

SAN NOPCO LIMITED

Sales Amount



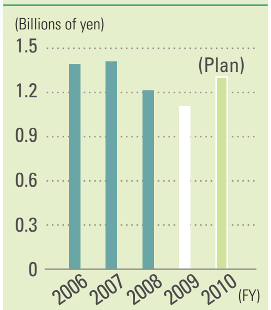
SAN NOPCO LIMITED (SNL), a wholly owned subsidiary of SANYO CHEMICAL INDUSTRIES, LTD. has competitive advantages in the fields of pulp, paper, paint, and ink. To bring net sales to levels prior to the economic slowdown, SNL made business efficiency improvements in FY2009, such as increasing the frequency of customer visits, as well as new product development through a stronger commitment to research. SNL also took measures to improve profitability through raw material and fixed cost reductions.

To achieve further growth, SNL intends to continue improving research and development 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.

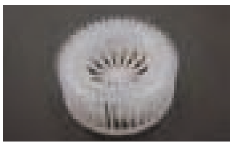
Sales Amount



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 DBU and DBN super-base compounds and other special catalysts. In FY2009, SA introduced new products in the non-antimony based photo-acid generator and non-CFC urethane catalyst businesses.

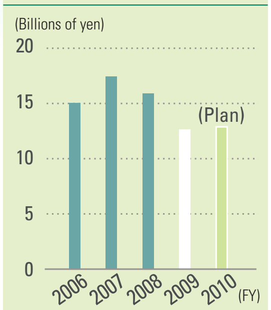
With synthetic organic technology and various application evaluation technologies as its core technologies, SA aims to expand its business activities through the expansion of urethane catalysts and epoxy resin curing accelerators, as well as the development of high-performance special catalysts such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

Toshihiro Saji
President



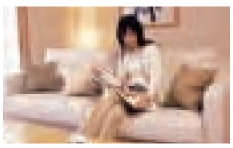
San Chemical Co., Ltd.

Sales Amount



San Chemical Co., Ltd. (SCC), a 50-50 joint venture of SANYO CHEMICAL INDUSTRIES, LTD. and Nippon Oil Corporation, Inc., 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. In FY2009, SCC began working on improving production innovation in alliance with Sanyo Chemical, to raise core productivity.

Kazuyuki Hirakawa
President



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 creating a more rigorous corporate governance system and enhancing our corporate value. We have also adopted an *individual-based management* style that places importance upon *honoring 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.

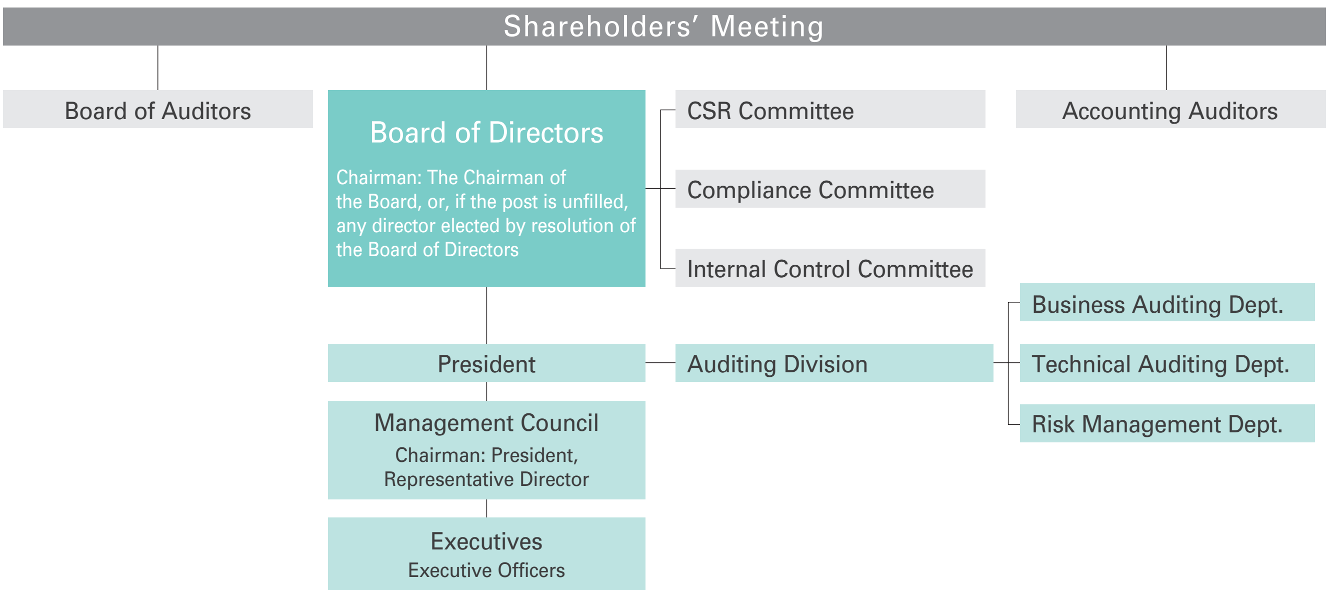
Corporate Governance

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 separate managerial decision-making and 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.

In FY2009, we reported the appointment of one outside director and one outside auditor to the Tokyo Stock Exchange Group, Inc. To strengthen corporate governance, since FY2010, we have placed our CSR Committee, which formerly reported directly to the Management Council, under the Board of Directors.

Sanyo Chemical's Corporate Governance Organization and CSR System (as of June 18, 2010)



Board of Directors

The Board of Directors has eight members, of whom seven concurrently serve as executive officers. An outside director serves as the Chairman of the Board, which meets regularly once a month. At these meetings, auditors also attend to express their opinions. 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 these regulations, the Board of Directors also appoints executive officers to perform such duties as prescribed to them by 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 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 appropriate exchange of information.

CSR Promotion System

The CSR officer is appointed to ensure that Sanyo Chemical Group's CSR activities fully meet the wishes and expectations of the community at large and contribute to the creation of a sustainable society, in line with our Company Motto. Furthermore, we have established a CSR Committee chaired by the Chairman of the Board of Directors, and a CSR Promotion Dept., which organizes CSR activities for the entire Group.

The CSR Committee, meeting twice a year, reviews and decides on basic policy and major issues regarding the Group's CSR activities, and makes suggestions for improvement based on a Groupwide perspective.

The CSR Promotion Dept. which serves as a bureau for the CSR Committee, lays down general CSR policy directions and raises issues that need to be addressed. At the same time, it monitors progress in implementation of decisions reached by the CSR Committee, and is also involved in CSR disclosure and awareness-raising.

To ensure an integrated Groupwide CSR approach, we have established CSR guidelines that cover 11 fields including compliance, corporate governance, the environment, safety, human rights and employment. Based on these guidelines, specific action plans are carried out, backed by the official in charge of each field. In addition, the guidelines are also printed on a credit-card sized leaflet, and distributed to management and employees. The leaflet also includes the Company Motto, our Code of Corporate Ethics, our Advice on Compliance and our security systems response manual.

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.

CSR Guidelines

1. Basic stance
2. Thoroughness of compliance
3. Thoroughness of safety and accident prevention
4. Promotion of product development that contributes to society
5. Improvement of product liability and quality control
6. Strengthening of environmental protection measures
7. Promotion of risk management and strengthening of internal control systems
8. Promotion of dialogue with stakeholders
9. Secure and train the best human resources and promote human rights
10. Promotion of green procurement
11. Promotion of social contribution activities

(Established: August 2009)

CSR Guidelines

Compliance System

As part of our compliance efforts, we have appointed an officer in charge of corporate ethics, instituted the Compliance Committee (chaired by the chairman of the Board of Directors), and have established an Auditing Division reporting directly to the president, 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 whenever otherwise deemed necessary. It goes without saying that as our Group 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 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 FY2009, we completely revised the Action Guidelines for Employees, including action standards for each paragraph of the Code of Corporate Ethics. We also proposed policies for strengthening compliance based on a report outlining the findings of employment regulation seminars arranged as part of our enterprise ethics month. We will implement these measures within our compliance education in the training program for new employees in FY2010.

In the event that any question arises in respect to compliance, we resolve it through consultations with the superiors and parties concerned. In the case that there is no way to do so, employees may use an internal hotline or a hotline connecting to an outside 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 reports directly to the president and is the first office to be contacted when risks arise, 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. Turning to our BCP (Business Continuity Plan), we have installed an Earthquake Early Warning and Emergency Information Service System, in preparation for a major earthquake. We are developing a BCP specifically for our core Nagoya Factory, and have also been working to create a BCP for disastrous new types of influenza outbreak.

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 internal control system 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 internal control system on financial reporting stipulated in the Financial Instruments and Exchange Law. We are implementing written descriptions of actual operations (documentation), assessing companywide 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. In June 2010, we submitted the FY2009 Internal Control Report which we validated, with the attached Internal Control Audit Report made by accounting auditors, to the Kanto Local Finance Bureau.

In addition, we have begun creating systems for creation, operation and assessment of internal control systems in risk areas other than financial reporting.

Board of Directors & Auditors

(as of June 18, 2010)

Hideki Matsui

Director and Chairman of the Board

Masaaki Ienaga

President, Representative Director

Dr. Fusayoshi Masuda

Representative Director

Masaaki Honjo

Director

Koji Hirose

Director

Dr. Takao Ando

Director

Tatsushi Yano

Director

Takashi Yoshino

Director

Isao Hama

Auditor

Go Fusaka

Auditor

Junzo Shimizu

Auditor

Haruo Nakano

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 fending member's position in the company.

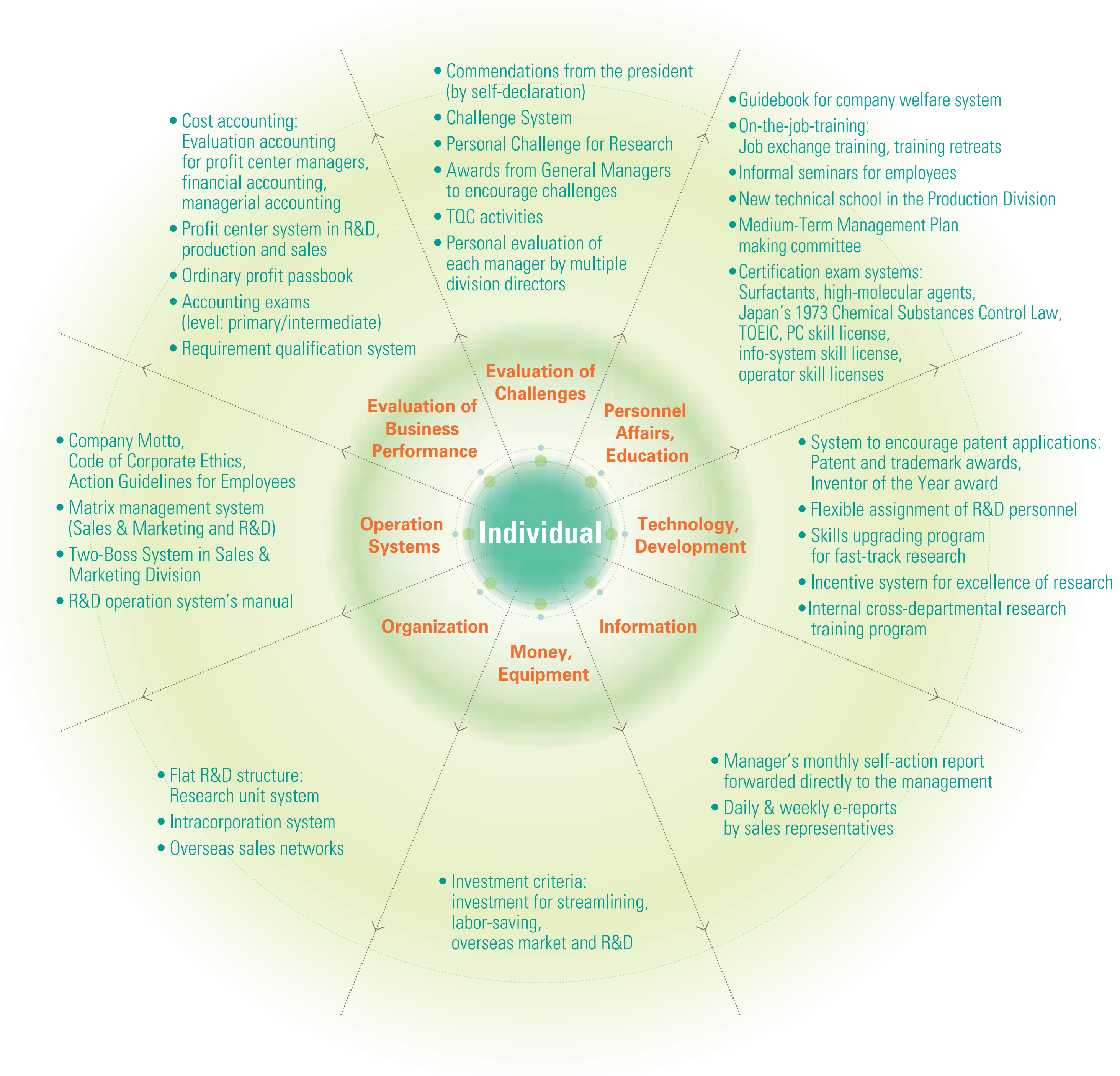
Established: April 1, 2003 3rd version revised: May 26, 2008

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. We have 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.



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 responsible care activities that are aimed at protecting the environment and ensuring safety in our business activities. In addition, we are continuing our BCP (Business Continuity Plan), which is advanced planning to minimize the degradation of business activities and to recover business in a short period of time even if the business activities are damaged by disasters or accidents.

Responsible Care

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.

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 their 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.

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 since FY2000. We named our fourth campaign that has been conducted from FY2007 to FY2010 and beyond "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-TEC21: Sanyo Tactics for Eco Challenge 21st Century

Activities	Objectives by End of FY2010	FY2009 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: 59% increase from FY1990 (total increase in production volume from FY1990: 85%) • Emissions: 195,000 tons (up 5,000 tons from the previous fiscal year) • Non-consolidated basis: 9.0% decrease (96,000 tons) from FY1990 • Thinning works began as part of the Sanyo Chemical Woodland Project
Energy conservation	Reduce energy intensity (energy consumption per unit of production) by 6.1% from FY2006 levels (1.6% annual ratio reduction)	3.6% decrease from FY2006 level (down 5.1% from the previous fiscal year)
Reduction of chemical substance emissions	Halve Japan consolidated VOCs emission amount from FY2006 level	23% reduction from FY2006 level (VOC emissions: 320 tons) (an increase of 16 tons, down by 98 tons from FY2006) • Installation of VOC recovery and elimination equipment at the Nagoya Factory
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: 0.03% (2) 35% reduction from FY2006 level (down 16% 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

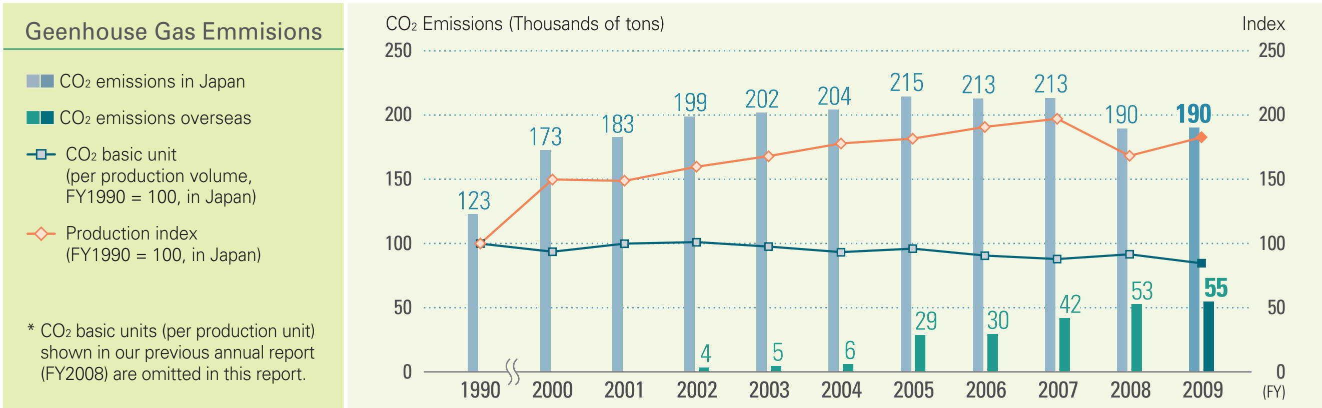
Reduction of Greenhouse Gas Emissions

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.

Between FY2005 and FY2007, these activities included per-unit reductions in greenhouse gas emissions relative to production increases, enabling us to hold emission volumes in Japanese operations at prior fiscal year levels. During FY2008, the global recession caused production volumes to fall, which in turn reduced emissions of greenhouse gases. In FY2009, in addition to activities under our greenhouse gas working group, we aggressively promoted energy conservation through production innovation activities, with greenhouse gas emission volumes rising only slightly by 3% from FY2008 levels despite a 10% increase in production.

It will be difficult to achieve our targets by our own efforts alone. We are therefore continuing to consider acquisition of carbon credits.

In the Sanyo Chemical Woodland Project launched in FY2009, we undertake woodland management activities including thinning to help reduce greenhouse gas emissions.



Zero Waste Activities

In FY2009, we launched production innovations aimed at improving productivity by thoroughly eliminating wastefulness, impracticalities, and inconsistencies. Steps for energy- and resource-saving included reduction of waste in lighting, heating and other utility items, and efficient recycling of waste materials and curbs on their generation. In FY2009, we made a 5.1% per-unit cut in energy used in production compared with FY2008, enabling us to achieve our Zero-Waste target for the third year in succession, and cut industrial waste volume generated per unit by 16%.

* 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 uses advanced planning to minimize disruption to business activities and restore operations in a short period of time even if the business activities are damaged by disasters or accidents.

The first step was the creation of a BCP for the main Nagoya Factory, which has our largest production capacity, to be followed by plans for other factories. We will also create plans for the Head Office, and the Sales and Marketing as well as Purchasing divisions.

In FY2009, we carried out earthquake protection and damping works at our Head Office, and exercises based on various disaster scenarios after fine-tuning the BCP at the Nagoya Factory. We also incorporated action guidelines for the organization and our systems, and compiled a manual for individual employees, in the event of disastrous new types of influenza outbreak.

Social Contributions

We are actively engaged in community support and contribution activities, so as to be trusted as good corporate citizens, and to promote harmonious coexistence with society.

We extend our cooperation and support to local events and to cleaning factory peripheries. Since our Head Office and 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 disasters such as the recent Haiti and Chile earthquakes, providing research grants, dispatching instructors to universities and study institutions, and making donations to the Japanese Committee on Nature Conservation.

Sanyo Chemical Woodland Project

To mark our 60th anniversary, and as a part of our corporate social responsibility activities, we have launched the Sanyo Chemical Woodland Project in Wazuka Town in Kyoto Prefecture. In addition to providing funding for woodland management, we encourage employees and their family members and friends to engage in voluntary forest protection activities, under the auspices of Kyoto Modelforest Association and other organizations.

Sanyo Chemical Woodland Project does not refer to a Company-owned plot but to an area of woodland in Yubune, Wazuka Town, to which we supply funding and manpower needed for thinning and weeding work, undertaken in support of Kyoto Modelforest Association.

The amount of CO_2 effectively absorbed in FY2009 through forestry-thinning activities increased by 37 tons in FY2009. This is a small figure, but we will continue to contribute to the prevention of global warming in the future.

"Moritaro," Sanyo Chemical's promotional character for its Woodland Project

Sanyo Chemical Woodland Project Activities

Location	Main Activities
Yubune, Wazuka Town in Kyoto Prefecture	• Weeding and thinning alongside paths • Weeding and thinning of broadleaf trees • Use of thinning for footpath maintenance and woodworking activities • Forestry and environmental study sessions • Plantation thinning
Voluntary activities by Company employees: 44 ha, within Yubune Forest park	
Woodland management area covered by our funding: 122 ha	

Opening Ceremony for Sanyo Chemical Woodland Project

Organization Chart, Executives and General Managers

(as of June 18, 2010)

Organization Chart

- Board of Directors
  - President — Masaaki Ienaga
    - CSR Committee
    - Compliance Committee
    - Internal Control Committee
    - Auditing Division — Tadami Ohbayashi
    - Secretarial Dept.
    - Sales & Marketing-I — Dr. Takao Ando, Senior Managing Executive Officer
      - Transport Division — Shoji Yoshida
      - Petroleum & Environment Division — Hiroyuki Tsuruta, Executive Officer
      - Information & Electronic Materials Division — Hiroyuki Tsuruta, Executive Officer
      - Resins & Coloring Materials Division — Masafumi Kimura
      - Toiletry, Detergent & Textile Division — Hideya Narutaki, Executive Officer
    - Sales & Marketing-Ⅱ — Koji Hirose, Senior Managing Executive Officer
      - Purchasing Division — Koji Hirose, Senior Managing Executive Officer
      - Sales & Marketing Administration Division — Osamu Watada, Executive Officer
      - International Project Promotion Division — Tatsushi Yano, Managing Executive Officer
    - Intracorporations
    - Research & Development — Dr. Fusayoshi Masuda, Executive Vice President
      - Research & Application Division — Kohei Maeda, Executive Officer
      - Research & Development Division — Keiji Tanaka
      - Research & Administration Division — Kohei Maeda, Executive Officer
    - Production — Takashi Yoshino, Managing Executive Officer
      - Production Division — Keiyu Horii, Managing Executive Officer
      - Production Technology Division — Takashi Yoshino, Managing Executive Officer
      - Production Administration Division — Keiyu Horii, Managing Executive Officer
    - General Affairs — Masaaki Honjo, Executive Vice President
      - General Affairs Division — Masaaki Honjo, Executive Vice President
      - Personnel Division — Minoru Kawai
    - Tokyo Branch Office — Koji Hirose, Senior Managing Executive Officer
    - Osaka Branch Office
    - Management Council
      - Committees
- Board of Auditors
  - Auditors

Executives

Masaaki Ienaga
President

Dr. Fusayoshi Masuda
Executive Vice President

Masaaki Honjo
Executive Vice President

Koji Hirose
Senior Managing Executive Officer

Dr. Takao Ando
Senior Managing Executive Officer

Tatsushi Yano
Managing Executive Officer

Takashi Yoshino
Managing Executive Officer

Hiroshi Azuma
Managing Executive Officer

Keiyu Horii
Managing Executive Officer

Osamu Watada
Executive Officer

Masao Yamaoka
Executive Officer

Hideya Narutaki
Executive Officer

Hiroyuki Tsuruta
Executive Officer

Kohei Maeda
Executive Officer

Main Indexes Over a Six-Year Period

(Millions of yen)	FY2009	FY2008	FY2007	FY2006	FY2005	FY2004
For the fiscal year:						
Net sales	**119,193**	129,555	135,214	122,397	108,413	93,454
Japan	**77,725**	89,200	92,041	84,632	82,678	73,409
Overseas*	**41,467**	40,355	43,173	37,764	25,734	20,044
Cost of sales	**95,343**	110,882	111,063	97,639	83,884	71,054
Selling, general and administrative expenses	**17,703**	18,032	18,858	18,204	17,331	16,411
Operating income	**6,146**	640	5,293	6,553	7,197	5,988
Interest and dividend income	**314**	417	450	462	255	167
Interest expense	**239**	303	279	187	86	54
Ordinary income	**6,017**	498	5,836	8,024	7,946	6,433
Income before income taxes and minority interests (loss)	**5,259**	(1,915)	4,519	6,471	6,570	5,955
Income taxes	**1,992**	500	2,822	2,687	2,826	2,272
Minority interests (loss)	**723**	(15)	250	732	588	83
Net income (loss)	**2,544**	(2,400)	1,446	3,051	3,155	3,598
Return on equity (loss) (%)	**3.23**	(2.97)	1.67	3.47	3.74	4.49
Investment in plant and equipment	**7,145**	10,452	9,946	10,468	11,171	11,368
Depreciation and amortization	**8,013**	8,476	8,483	8,146	6,976	6,476
Research and development cost	**5,059**	4,942	4,682	4,540	4,317	4,077
Net cash provided by (used in):						
Operating activities	**20,103**	7,255	8,987	9,289	9,067	10,450
Investing activities	**(8,651)**	(10,430)	(11,055)	(10,643)	(16,844)	(10,767)
Financing activities	**(2,858)**	(1,064)	(1,320)	1,758	8,148	(1,675)
Cash and cash equivalents at the end of the year	**15,565**	7,031	11,482	15,287	14,405	13,790
At fiscal year-end:						
Total assets	**136,991**	123,901	148,717	153,165	144,263	120,865
Long-term debt less current portion	**1,991**	12,946	14,275	15,138	11,397	1,634
Shareholders' equity	**81,175**	76,465	85,016	88,466	87,322	81,397
Shareholders' equity ratio (%)	**59.3**	61.7	57.2	57.8	60.5	67.4
Per share data and others:						
Net income (loss) (yen)	**23.06**	(21.75)	13.11	27.65	27.95	32.01
Cash dividends paid (yen)	**13.00**	13.00	15.00	15.00	15.00	15.00
Net assets (yen)	**735.79**	693.00	770.38	801.52	790.38	736.91
Stock price at the end of period (yen)	**559**	461	489	809	1,065	830
Price earnings ratio (times)	**24.24**	—	37.30	29.26	38.10	25.93
Price book-value ratio (times)	**0.76**	0.67	0.63	1.01	1.35	1.13
Weighted average number of shares (thousands of shares)	**110,331**	110,347	110,361	110,383	110,359	110,387
Employees	**1,748**	1,742	1,675	1,623	1,555	1,477

* To present as accurate a picture as possible of overseas sales, we have shifted from a method of presentation effective from FY2006 based on figures from sales divisions responsible for overseas sales, to a system in which sales are recognized as overseas if the final product destination is overseas. In the above chart, figures for FY2004 and FY2005 are based on the older standard.

Highlights of FY2009

Net sales decreased 8.0% from the previous fiscal year to ¥119,193 million, due to lower product prices and other negatives outweighing improvement in sales volume thanks to recovery in demand.

Operating income increased substantially, by 9.6 times, from the previous fiscal year to ¥6,146 million on a combination of recovering demand, low raw material and fuel costs, and cost-reduction measures. Net income totaled ¥2,544 million, overturning a net loss of ¥2,400 million in the previous fiscal year.

The details are as follows.

Business Environment

During the period under review, the Japanese economy continued to struggle, held back by persistent sluggishness in consumer spending and capital expenditure, despite government stimulus measures and recovery on the back of growth in China and other emerging countries.

Operating conditions likewise remained difficult in the chemical industry, with recovery momentum seen in demand offset by increasing deflationary pressures and signs that raw materials costs are set to soar again.

Under these circumstances, Sanyo Chemical Group continued measures to counter the recessionary environment, stepping up efforts to reduce costs further and strengthen sales and marketing capabilities.

Net Sales

Consolidated net sales decreased 8.0% from the previous fiscal year to ¥119,193 million, due to lower product prices more than offsetting increased sales volume from the previous year due to rebounding demand.

Net sales by product group were as follows:

To give a clearer idea of the nature of the businesses operated by Sanyo Chemical Group, from the fiscal year under review we have recategorized our product groups. They are now classified by product application rather than chemical composition.

Sales under the New Product Classification

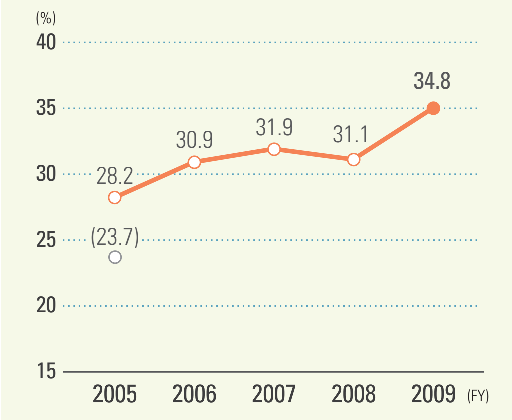
New Product Group	FY2009		FY2008		Growth (%)
	Sales Amount (millions of yen)	Ratio (%)	Sales Amount (millions of yen)	Ratio (%)	
Toiletries & Health Care	44,186	37.1	44,996	34.8	(1.8)
Machinery & Automotives	26,609	22.3	30,064	23.2	(11.5)
Plastics & Textiles	15,550	13.1	16,217	12.5	(4.1)
Information & Electrics/Electronics	18,502	15.5	21,245	16.4	(12.9)
Environmental Protection, Construction & Others	14,343	12.0	17,031	13.1	(15.8)
Total	119,193	100.0	129,555	100.0	(8.0)

(For Reference) Sales according to product classification for the previous fiscal year as follows:

Sales under the Former Product Classification

Former Product Group	FY2008	
	Sales Amount (millions of yen)	Ratio (%)
Surfactants	22,599	17.5
Polyurethane Chemicals	30,752	23.7
Lipophilic High-Molecular Agents	27,908	21.5
Hydrophilic High-Molecular Agents	32,232	24.9
Specialty Products	14,591	11.3
Total chemical product net sales	128,085	98.9
Net sales of non-chemical products and revenue from technical service	1,469	1.1
Total	129,555	100.0

Overseas Sales Ratio



In the Toiletries & Health Care product group, sales of superabsorbent polymers edged up on strong volumes despite the impact of lower product prices. On the other hand, in the Machinery & Automotives product group, thermoplastic polyurethane beads (TUB) for the interior parts of automobiles had a poor year amid automobile production cutbacks, as did polyester beads (PEB) used as a core component of polymerization toners, in the Information & Electrics/Electronics product group. This was due to reduced demand following corporate efforts to cut back on numbers of copies, as well as the impact of lower product prices. As a result, net sales decreased from the previous fiscal year across the board.

Overseas sales accounted for 34.8% of total net sales in FY2009, up 3.7 percentage points from the previous fiscal year, due to increased sales in China and other Asian countries.

Note: Effective from the fiscal year ended March 31, 2007 (FY2006), Sanyo Chemical Group changed the standard for collating overseas net sales to present a truer picture of actual overseas sales. The figure FY2005 indicates sales restated to conform to the new standards. The figure within parentheses is based on the older standard.

Cost of Sales and SG&A Expenses

The ratio of the cost of sales decreased 5.6 percentage points from 85.6% to 80.0%. This was attributable to low raw material and fuel costs compared with the previous fiscal year as well as continuing cost reductions undertaken by Sanyo Chemical Group to counter the recessionary environment.

The ratio of selling, general and administrative (SG&A) expenses to net sales increased 1.0 of a percentage point to 14.9% from 13.9% in the previous fiscal year, as a result of the decline in net sales, which more than offset a ¥328 million decrease in logistics and fixed costs resulting from our cost reduction efforts.

Research and development (R&D) expenses increased ¥116 million from the previous fiscal year, mainly due to increased personnel costs, which more than offset the results of cost reductions to counter the recessionary environment. The ratio of R&D expenses to net sales increased 0.4 of a percentage point from the previous fiscal year to 4.2% from 3.8%, partly due to lower net sales.

Operating and Net Income

Operating income increased a hefty 9.6 times from the previous fiscal year to ¥6,146 million on recovering demand, lower raw material and fuel prices and the effects of ongoing cost reduction measures across the Group to counter the recessionary environment. The ratio of operating income to net sales increased by 4.7 percentage points to 5.2% from 0.5% of the previous fiscal year.

Net income also increased to ¥2,544 million, a significant improvement from the net loss of ¥2,400 million of the previous fiscal year.

As a result, net income per share was ¥23.06, compared with a net loss per share of ¥21.75 in the previous fiscal year.

Investment in Plant and Equipment

Capital expenditures totaled ¥7,145 million on a consolidated basis, and ¥6,227 million on a non-consolidated basis.

Investments by Sanyo Chemical to boost production capacity totaled ¥887 million, while streamlining operations came to ¥828 million. We also spent ¥923 million on acquisition of a plot of land adjacent to Kinuura Satellite Factory (now renamed Kinuura Factory), which we have set aside as a future factory and logistics site. To bolster R&D capabilities, companies of the Group invested a total of ¥179 million in R&D facilities. These capital expenditures were financed from internal funds and loans. Depreciation and amortization expenses decreased 5.5% from the previous fiscal year to ¥8,013 million.

At a meeting of the board of directors held on the April 26, 2010, approval was given for the following additional investment in San-Dia Polymers (Nantong) Co. Ltd., a consolidated subsidiary in China, to meet globally increasing demand for superabsorbent polymer.

Total investment	Approximately ¥4.0 billion
Additional capacity	70,000 tons / year
Operation to start	July 2011
Method of funding	Internal funds and loans (planned)

Financial Position

Current assets increased by ¥12,028 million from the previous fiscal year-end to ¥64,864 million, reflecting increases in cash and time deposits (of ¥8,549 million) and notes and accounts receivable—trade (of ¥4,196 million) due to the recovery in net sales and our significantly improved profitability.

Fixed assets increased by ¥1,060 million to ¥72,127 million from the previous fiscal year-end, due to a ¥3,491 million increase in investments in securities on the back of rising stock prices.

Current liabilities increased by ¥19,219 million from the previous fiscal year-end to ¥45,232 million. This was attributable to an ¥8,384 million increase in notes and accounts payable—trade, due to recovery in production volumes and rising raw material and fuel costs, as well as a ¥10,000 million increase from the reclassification of convertible bonds now due within one year as current rather than long-term liabilities.

Long-term liabilities decreased by ¥11,315 million from the previous fiscal year-end to ¥8,015 million, due to the above-mentioned reclassification of convertible bonds due within one year as current liabilities.

Working capital, obtained by subtracting current liabilities from current assets, came to ¥19,631 million, and the current ratio was 143.4%.

Net assets as of the end of the current fiscal year increased by ¥5,185 million to ¥83,743 million. This increase was mainly attributable to positives such as net income of ¥2,544 million and ¥3,270 million in unrealized gains on other securities, which outweighed negatives including ¥1,213 million in cash dividends paid. As a result of the increase in total assets exceeding the increase in shareholders' equity, the equity ratio (net assets after deduction of minority interest to total assets) decreased 2.4 percentage points to 59.3% from 61.7% at the previous fiscal year-end. However, net assets per share (after deduction of minority interest) increased by ¥42.79 to ¥735.79 from ¥693.00 as of the end of the previous fiscal year.

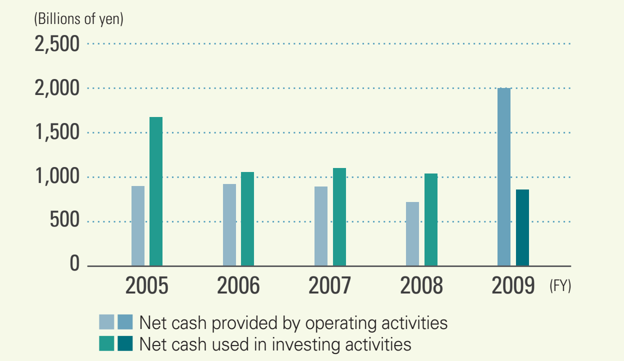
Cash Flow

Net cash provided by operating activities came to ¥20,103 million (¥7,255 million for the previous fiscal year). Inflows of ¥5,259 million in income before income taxes and minority interests, ¥8,050 million in depreciation and amortization expenses, and an ¥8,345 million increase in notes and accounts payable outweighed outflows including ¥4,172 million in notes and accounts receivable.

Net cash used in investing activities totaled ¥8,651 million, compared with ¥10,430 million in the previous fiscal year. This was mainly due to purchases of property, plant and equipment totaling ¥8,538 million.

The following graph is a comparison of net cash provided by operating activities and net cash used in investing activities, over the last five fiscal years. As a result of large-scale investments made by the Group prior to FY2009 in furthering its globalization strategy and in developing Strategic Products, and outlays for the Katsura Research Laboratory in preparation for future growth, net cash used in investing activities consistently surpassed net cash provided by operating activities. However, due to the dramatic improvements in business performance in the period under review, and non-urgent capital investment curbs undertaken to counter the recessionary environment, free cash flow (net cash provided by operating activities minus net cash used in investing activities) turned positive in FY2009.

Cash Flow



Net cash used in financing activities totaled ¥2,858 million, a significant increase compared with the outflow of ¥1,064 million in the previous fiscal year. The main items in outflows were cash dividends paid totaling ¥1,213 million, and repayment of long-term debt in the amount of ¥1,099 million.

As a result of the above, cash and cash equivalents at the end of FY2009 totaled ¥15,565 million, an increase of ¥8,533 million from the previous fiscal year-end.

Business Risks

The following factors may have a significant impact on business performance, stock values, and the financial condition 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 including Japan, North America, Europe and Asia, it could have a negative impact on the Group's business performance and financial condition.

(2) Foreign Exchange Rates

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

(3) Change in Raw Material Costs

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 political situation in the Middle East, the balance of supply and demand, and foreign exchange rates. A rise in raw material costs arising from increased oil prices could adversely impact the Group's business performance.

(4) Earthquakes and Other Natural Disasters

The Tokai region, which includes Aichi Prefecture, where the Nagoya Factory, which has our largest production capacity, 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 decentralizing production sites.

However, in the case of a major earthquake, shutdown of or damage to production facilities could 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 globalization moves could have an adverse impact on the Group's business performance and financial condition 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, 2010 (FY2009) and 2009 (FY2008)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2009	FY2008	FY2009
ASSETS			
Current assets:			
Cash and deposits (Notes 5, 9 and 17)	¥ 15,581	¥ 7,031	$ 167,447
Notes and accounts receivable—trade (Notes 15 and 17)	33,421	29,225	359,172
Inventories (Note 6)	14,163	14,283	152,208
Deferred income taxes (Note 11)	1,341	1,086	14,411
Other current assets	385	1,231	4,137
Allowance for doubtful accounts	(29)	(22)	(311)
Total current assets	64,864	52,835	697,087
Property, plant and equipment, at cost (Note 8):			
Buildings and structures	32,481	32,305	349,070
Machinery and vehicles	99,768	96,997	1,072,197
Equipment	11,025	10,982	118,484
Land	8,548	7,604	91,864
Construction in progress	6,389	4,760	68,662
	158,213	152,651	1,700,300
Accumulated depreciation	(108,602)	(102,037)	(1,167,135)
Property, plant and equipment, net	49,611	50,614	533,164
Investments and other assets:			
Investments in securities (Notes 7 and 17)	15,237	11,323	163,750
Investments in unconsolidated subsidiaries and affiliates (Note 7)	4,712	5,134	50,639
Long-term loans receivable	4	9	42
Software	494	483	5,308
Goodwill	171	342	1,837
Deferred income taxes (Note 11)	630	1,917	6,770
Other	1,326	1,297	14,250
Allowance for doubtful accounts	(59)	(57)	(634)
Total investments and other assets	22,515	20,451	241,966
Total assets (Note 18)	¥136,991	¥123,901	$1,472,229

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2009	FY2008	FY2009
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Notes 9 and 17)	¥ 3,089	¥ 3,339	$ 33,197
Current portion of long-term debt (Notes 9 and 17)	10,950	1,091	117,678
Notes and accounts payable—trade (Notes 15 and 17)	21,727	13,342	233,498
Notes payable—other	1,545	3,283	16,603
Accrued expenses	2,610	1,997	28,049
Accrued income taxes (Note 11)	1,690	89	18,162
Accrued bonuses to employees	1,607	1,212	17,270
Accrued bonuses to directors and corporate auditors	65	41	698
Other current liabilities	1,946	1,616	20,913
Total current liabilities	45,232	26,013	486,104
Long-term liabilities:			
Long-term debt less current portion (Notes 9 and 17)	1,991	12,946	21,397
Accrued retirement benefits for employees (Note 10)	4,299	4,648	46,200
Accrued retirement benefits for directors and corporate auditors	928	887	9,973
Other long-term liabilities	795	848	8,543
Total long-term liabilities	8,015	19,330	86,136
Total liabilities	53,248	45,344	572,251
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, 2010 and 2009	13,051	13,051	140,257
Capital surplus	12,194	12,194	131,047
Retained earnings (Note 19)	59,017	57,686	634,250
Treasury stock, at cost	(5,682)	(5,675)	(61,063)
Total shareholders' equity	78,580	77,257	844,492
Valuation and translation adjustments:			
Unrealized gains on other securities (Note 7)	3,944	674	42,385
Translation adjustments	(1,349)	(1,466)	(14,497)
Total valuation and translation adjustments	2,595	(792)	27,888
Minority interests	2,567	2,092	27,587
Total net assets	83,743	78,557	899,978
Total liabilities and net assets	¥136,991	¥123,901	$1,472,229

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 (FY2009) and 2009 (FY2008)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2009	FY2008	FY2009
Net sales (Notes 15 and 18)	¥119,193	¥129,555	$1,280,956
Cost of sales (Note 15)	95,343	110,882	1,024,642
Gross profit	23,850	18,672	256,313
Selling, general and administrative expenses (Note 14)	17,703	18,032	190,252
Operating income (Note 18)	6,146	640	66,050
Other income (expenses):			
Interest and dividend income	314	417	3,374
Interest expense	(239)	(303)	(2,568)
Equity in (loss) earnings of unconsolidated subsidiaries and affiliates	(365)	204	(3,922)
Rent income of real estate	362	349	3,890
Exchange loss, net	(4)	(646)	(42)
Loss on disposal of property, plant and equipment	(231)	(145)	(2,482)
Loss on impairment of tangible fixed assets (Note 8)	(62)	(1,170)	(666)
Loss on devaluation of investments in securities (Note 7)	(449)	(1,230)	(4,825)
Other, net	(210)	(32)	(2,256)
Total other expenses, net	(886)	(2,555)	(9,521)
Income (loss) before income taxes and minority interests	5,259	(1,915)	56,518
Income taxes (Note 11):			
Current	2,080	344	22,353
Deferred	(88)	155	(945)
Total income taxes	1,992	500	21,407
Minority interests	723	(15)	7,770
Net income (loss)	¥ 2,544	¥ (2,400)	$ 27,340

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, 2010 (FY2009) and 2009 (FY2008)

	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, 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
Cash dividends paid	—	—	(1,213)	—	—	—	—	(1,213)
Net income	—	—	2,544	—	—	—	—	2,544
Loss on disposition of treasury stock	—	(0)	—	—	—	—	—	(0)
Purchases of treasury stock	—	—	—	(7)	—	—	—	(7)
Disposition of treasury stock	—	—	—	0	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	3,270	117	474	3,862
Balance at March 31, 2010	¥13,051	¥12,194	¥59,017	¥(5,682)	¥3,944	¥(1,349)	¥2,567	¥83,743

	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, 2009	$140,257	$131,047	$619,946	$(60,988)	$ 7,243	$(15,754)	$22,482	$844,245
Cash dividends paid	—	—	(13,036)	—	—	—	—	(13,036)
Net income	—	—	27,340	—	—	—	—	27,340
Loss on disposition of treasury stock	—	(0)	—	—	—	—	—	(0)
Purchases of treasury stock	—	—	—	(75)	—	—	—	(75)
Disposition of treasury stock	—	—	—	0	—	—	—	0
Net changes in items other than shareholders' equity	—	—	—	—	35,142	1,257	5,094	41,504
Balance at March 31, 2010	$140,257	$131,047	$634,250	$(61,063)	$42,385	$(14,497)	$27,587	$899,978

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sanyo Chemical Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2010 (FY2009) and 2009 (FY2008)

	Millions of yen		Thousands of U.S. dollars (Note 3)
	FY2009	FY2008	FY2009
Operating activities:			
Income (loss) before income taxes and minority interests	¥ 5,259	¥ (1,915)	$ 56,518
Depreciation and amortization	8,222	8,696	88,361
Loss on disposal of property, plant and equipment	231	145	2,482
Loss on impairment of tangible fixed assets	62	1,170	666
Increase (decrease) in accrued bonuses to employees	394	(490)	4,234
Decrease in accrued retirement benefits for employees	(349)	(465)	(3,750)
Interest and dividend income	(314)	(417)	(3,374)
Interest expense	239	303	2,568
Equity in loss (earnings) of unconsolidated subsidiaries and affiliates	365	(204)	3,922
Loss on devaluation of investments in securities	449	1,230	4,825
(Increase) decrease in notes and accounts receivable	(4,172)	9,229	(44,836)
Decrease in inventories	177	3,633	1,902
Increase (decrease) in notes and accounts payable	8,345	(12,939)	89,682
Increase (decrease) in other liabilities	552	(603)	5,932
Other, net	163	(25)	1,751
Subtotal	19,627	7,346	210,929
Interest and dividend income received	449	1,058	4,825
Interest expense paid	(244)	(283)	(2,622)
Income taxes refund (paid)	96	(1,178)	1,031
Other, net	174	312	1,869
Net cash provided by operating activities	20,103	7,255	216,045
Investing activities:			
Proceeds from redemption of held-to-maturity debt security	—	100	—
Purchases of property, plant and equipment	(8,538)	(10,140)	(91,757)
Acquisition of investments in securities	(37)	(177)	(397)
Other, net	(76)	(212)	(816)
Net cash used in investing activities	(8,651)	(10,430)	(92,971)
Financing activities:			
(Decrease) increase in short-term loans, net	(280)	1,892	(3,009)
Repayment of long-term debt	(1,099)	(1,107)	(11,810)
Proceeds from disposition of treasury stock	0	8	0
Purchase of treasury stock	(7)	(17)	(75)
Cash dividends paid	(1,213)	(1,655)	(13,036)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(259)	(185)	(2,783)
Net cash used in financing activities	(2,858)	(1,064)	(30,714)
Effects of exchange rate changes on cash and cash equivalents	(58)	(358)	(623)
Net increase (decrease) in cash and cash equivalents	8,533	(4,596)	91,703
Cash and cash equivalents at beginning of the year	7,031	11,482	75,561
Increase in cash and cash equivalents resulting from initial consolidation of a subsidiary	—	145	—
Cash and cash equivalents at end of the year (Note 5)	¥15,565	¥ 7,031	$167,275

See accompanying notes to consolidated financial statements.

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, 2009 (FY2008) to the 2010 (FY2009) presentation. Such reclassifications had no effect on consolidated net loss or net assets.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (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 18 subsidiaries as of March 31, 2010 (FY2009) as opposed to 17 as of March 31, 2009 (FY2008). The accompanying consolidated financial statements for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) include the accounts of the Company and its 11 subsidiaries, which are listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 2010 and 2009	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

The accounts of the remaining 7 and 6 subsidiaries were excluded from the scope of consolidation as of March 31, 2010 (FY2009) and 2009 (FY2008), respectively, 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.

At March 31, 2010 and 2009, the Company had 7 and 6 unconsolidated subsidiaries, respectively, 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, 2010 (FY2009) and 2009 (FY2008). For the years ended March 31, 2010 (FY2009) and 2009 (FY2008), the equity method was not applied to the investments in the remaining 4 and 3 unconsolidated subsidiaries, respectively, 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 (loss), but 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

(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 and loss before income taxes and minority interests decreased by ¥232 million 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.

(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 Law 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 (1).)

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 ¥93.05 to U.S.$1, the approximate exchange rate prevailing on March 31, 2010 (FY2009). 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 ¥93.05 to U.S.$1 or at any other rate.

4. Changes in the Significant Accounting Policies

(1) Accounting Standard on Scope of Subsidiaries and Affiliates for Consolidated Financial Statements

Effective the year ended March 31, 2010 (FY2009), the Company has adopted "Guidance on Determining a Subsidiary and an Affiliate" (Accounting Standards Board of Japan ("ASBJ") Guidance No.22 issued on May 13, 2008).

However, there was no effect on the operating result for the year ended March 31, 2010 (FY2009) as a result of the adoption of this accounting standard.

(2) 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" (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 and loss before income taxes and minority interests increased by ¥367 million 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 is described in Note 18 (2).

(3) 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 March 31, 2009 (FY2008) 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 transactions.

(4) Practical 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.

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, 2010 (FY2009) and 2009 (FY2008) and cash and deposits in the consolidated balance sheets as of March 31, 2010 (FY2009) and 2009 (FY2008) is as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Cash and deposits	¥15,581	¥7,031	$167,447
Time deposits with deposit terms in excess of 3 months	(15)	—	(161)
Cash and cash equivalents at end of the year	¥15,565	¥7,031	$167,275

6. Inventories

Inventories as of March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Finished goods and merchandise	¥ 7,495	¥ 7,929	$ 80,548
Semifinished goods	3,166	3,341	34,024
Work in process	389	207	4,180
Raw materials, cases and supplies	3,111	2,805	33,433
Total	¥14,163	¥14,283	$152,208

7. Investments in Securities

At March 31, 2010 (FY2009) and 2009 (FY2008), the Group held no trading securities.

Held-to-maturity debt securities for which market value as of March 31, 2010 (FY2009) and 2009 (FY2008) was available are summarized as follows:

	Millions of yen					
	FY2009			FY2008		
	Carrying value	Market value	Unrealized gain (loss)	Carrying value	Market value	Unrealized gain (loss)
Bonds whose market value does not exceed their carrying value:						
Corporate bonds	¥50	¥49	¥(0)	¥—	¥—	¥—
Total	¥50	¥49	¥(0)	¥—	¥—	¥—

	Thousands of U.S. dollars		
	FY2009		
	Carrying value	Market value	Unrealized gain (loss)
Bonds whose market value does not exceed their carrying value:			
Corporate bonds	$537	$526	$(0)
Total	$537	$526	$(0)

Marketable securities classified as other securities as of March 31, 2010 (FY2009) and 2009 (FY2008) are summarized as follows:

	Millions of yen					
	FY2009			FY2008		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥9,076	¥14,963	¥5,887	¥5,572	¥ 7,713	¥2,141
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	24	21	(3)	4,001	3,352	(649)
Total	¥9,100	¥14,984	¥5,884	¥9,574	¥11,065	¥1,491

	Thousands of U.S. dollars		
	FY2009		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$97,538	$160,806	$63,267
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	257	225	(32)
Total	$97,796	$161,031	$63,234

Unlisted equity securities of ¥202 million ($2,170 thousand) at March 31, 2010 (FY2009) that do not have market value and for which it is difficult to determine the fair value are not included in the above table.

For the year ended March 31, 2010 (FY2009), the Group has recognized loss on impairment of equity securities classified as other securities of ¥449 million ($4,825 thousand) including loss on impairment of marketable equity securities of ¥445 million ($4,782 thousand).

For the year ended March 31, 2009 (FY2008), the Group has recognized loss on impairment of marketable securities classified as other securities of ¥1,207 million.

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, 2010 (FY2009) and 2009 (FY2008) are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Proceeds	¥70	¥11	$752
Gross realized gain	32	4	343

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

	Millions of yen
	FY2008
Held-to-maturity debt securities:	
Corporate bonds	¥ 50
Investments in unconsolidated subsidiaries and affiliates:	
Unlisted securities	5,134
Other securities:	
Unlisted securities	207

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, 2010 (FY2009) and 2009 (FY2008):

			Millions of yen	Thousands of U.S. dollars
Location	Main use	Class	FY2009	FY2009
Pennsylvania, U.S.	Facilities related to machinery and transportation equipment industry	Design cost of facilities (Construction in progress)	¥62	$666

			Millions of yen
Location	Main use	Class	FY2008
Texas, U.S.	Polyurethane chemicals production facilities	Buildings and machinery	¥ 473
Pennsylvania, U.S.	Lipophilic high-molecular agents production facilities	Buildings and machinery	307
Rayong, Thailand	Surfactants production facilities	Buildings and machinery	388
			¥1,170

For the year ended March 31, 2010 (FY2009), an overseas consolidated subsidiary reduced the carrying value of construction in progress, which consists of design cost of facilities construction, mainly because the plan for facilities construction had been postponed and has not been restarted due to the drop in demand, and it is difficult to convert the above design cost into other facilities construction.

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%.

9. Short-Term Loans and Long-Term Debt

The average annual interest rates applicable to short-term loans outstanding at March 31, 2010 (FY2009) and 2009 (FY2008) were 2.18% and 3.30%, respectively.

Long-term debt as of March 31, 2010 (FY2009) and 2009 (FY2008) was as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
0.0% unsecured convertible bonds with stock acquisition rights due 2011	¥10,000	¥10,000	$107,469
Unsecured long-term loans from banks with annual average interest rates of 2.966% for current portion and 2.961% for non-current portion, due in installments through 2013	2,942	4,037	31,617
Total long-term debt	12,942	14,037	139,086
Less current portion	(10,950)	(1,091)	(117,678)
Total	¥ 1,991	¥12,946	$ 21,397

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 ($12.11) per share at March 31, 2010.

The aggregate amounts of annual maturities of long-term debt subsequent to March 31, 2010 (FY2009) are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011 (FY2010)	¥10,950	$117,678
2012 (FY2011)	902	9,693
2013 (FY2012)	823	8,844
2014 (FY2013)	266	2,858
Total	¥12,942	$139,086

In order to better ensure financing, the Company has concluded line of credit agreements with four financial institutions. The status of these lines of credit at March 31, 2010 (FY2009) is as follows:

	Millions of yen	Thousands of U.S. dollars
	FY2009	FY2009
Line of credit	¥7,000	$75,228
Credit utilized	—	—
Available credit	¥7,000	$75,228

Time deposits of ¥15 million ($161 thousand) were pledged as collateral for a letter of credit issued by banks as of March 31, 2010 (FY2009).

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, 2010 (FY2009) and 2009 (FY2008) for the Company and its domestic consolidated subsidiaries' defined benefit pension plan.

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Projected benefit obligation	¥(12,546)	¥(13,178)	$(134,830)
Fair value of plan assets	7,461	7,096	80,182
Unfunded retirement benefit obligation	(5,085)	(6,082)	(54,648)
Unrecognized actuarial loss	1,574	2,301	16,915
Unrecognized prior service cost	(787)	(867)	(8,457)
Accrued retirement benefits for employees	¥ (4,299)	¥ (4,648)	$ (46,200)

The components of retirement benefit expenses for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Service cost	¥685	¥677	$ 7,361
Interest cost	256	262	2,751
Expected return on plan assets	(141)	(160)	(1,515)
Amortization of unrecognized actuarial loss	242	153	2,600
Amortization of unrecognized prior service cost	(79)	(79)	(849)
Retirement benefit expenses	¥963	¥852	$10,349

The assumptions used in accounting for the above pension plan for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	FY2009	FY2008
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, 2010 (FY2009) and 2009 (FY2008) 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, 2010 (FY2009) and 2009 (FY2008) are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Deferred tax assets:			
Accrued enterprise taxes	¥ 151	¥ 21	$ 1,622
Accrued retirement benefits for employees	1,733	1,874	18,624
Accrued retirement benefits for directors and corporate auditors	379	363	4,073
Accrued bonuses to employees	653	488	7,017
Loss on devaluation of inventories	309	419	3,320
Social insurance premiums of bonuses payable	70	47	752
Loss on devaluation of investments in securities	576	401	6,190
Loss on devaluation of investments in affiliates	641	1,485	6,888
Valuation loss on capital contribution in affiliates	20	631	214
Loss on impairment of tangible fixed assets	261	287	2,804
Loss carryforwards	1,139	807	12,240
Other	620	909	6,663
Gross deferred tax assets	6,556	7,737	70,456
Valuation allowance	(2,629)	(3,878)	(28,253)
Total deferred tax assets	3,926	3,858	42,192
Deferred tax liabilities:			
Deferred gain on sales of property, plant and equipment	(15)	(16)	(161)
Unrealized gains on other securities	(1,939)	(817)	(20,838)
Other	—	(20)	—
Total deferred tax liabilities	(1,955)	(854)	(21,010)
Net deferred tax assets	¥1,971	¥3,004	$21,182

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2010 (FY2009) differs from the statutory rate for the following reasons:

	FY2009
Statutory tax rate	40.3%
Non-deductible expenses (including entertainment expenses)	1.2
Non-taxable income (including dividend income)	(0.9)
Tax credit	(7.6)
Equity in loss of unconsolidated subsidiaries and affiliates	(1.0)
Amortization of goodwill	1.3
Differences between the Japanese statutory tax rate and the overseas consolidated subsidiaries' tax rates	(1.0)
Changes in valuation allowance	4.8
Other	0.8
Effective tax rate	37.9%

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.

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 ($29,822 thousand) at March 31, 2010 (FY2009) and 2009 (FY2008).

Movements in shares outstanding and treasury stock during the years ended March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	Thousands of shares			
	March 31, 2009	Increase in the year	Decrease in the year	March 31, 2010
Shares outstanding:				
Common stock	117,673	—	—	117,673
Total	117,673	—	—	117,673
Treasury stock:				
Common stock	7,335	15	1	7,349
Total	7,335	15	1	7,349

	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

13. Contingent Liabilities

At March 31, 2010 (FY2009) and 2009 (FY2008), contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
	FY2009	FY2009
Guarantees for:		
Accounts payable of Sunrise Chemical LLC related to fuel gas purchases	¥ 10	$ 107
Lease contracts of Sunrise Chemical LLC	465	4,997

14. Selling, General and Administrative Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Freight and storage charges	¥ 4,642	¥ 4,847	$ 49,887
Employees' salaries and bonuses	3,333	3,179	35,819
Research and development cost	5,059	4,942	54,368
Other	4,668	5,061	50,166
	¥17,703	¥18,032	$190,252

15. 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, 2010 (FY2009) and 2009 (FY2008) were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Sales of finished goods:			
Toyota Tsusho Corporation	¥ 5,695	¥ 5,751	$ 61,203
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	6,019	7,993	64,685
Purchases of raw materials:			
Toyota Tsusho Corporation	¥12,001	¥14,573	$128,973
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	2,543	2,560	27,329

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

The balances due from and due to its related companies at March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Accounts receivable—trade:			
Toyota Tsusho Corporation	¥1,768	¥1,092	$19,000
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	3,023	2,578	32,487
Accounts payable—trade:			
Toyota Tsusho Corporation	¥4,822	¥2,166	$51,821
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	945	588	10,155

Toyota Tsusho Corporation is a related company which directly owns 19.5% of the shares of common stock of the Company at March 31, 2010 (FY2009) and 2009 (FY2008).

Toyotsu Chemiplas Corporation 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, 2010 (FY2009).

Tomen Chemical Co., Ltd. and two other companies were merged into Toyotsu Chemiplas Corporation at April 1, 2009.

(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 years ended March 31, 2010 (FY2009) and 2009 (FY2008) were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Sales of finished goods:			
Toyota Tsusho Corporation	¥11,529	¥14,672	$123,901
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	302	319	3,245
Purchases of raw materials:			
Toyota Tsusho Corporation	¥ 821	¥ 1,108	$ 8,823
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	89	165	956

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

The balances due from and due to its related companies at March 31, 2010 (FY2009) and 2009 (FY2008) were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2009	FY2008	FY2009
Accounts receivable—trade:			
Toyota Tsusho Corporation	¥2,189	¥2,824	$23,524
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	116	71	1,246
Accounts payable—trade:			
Toyota Tsusho Corporation	¥ 283	¥ 294	$ 3,041
Toyotsu Chemiplas Corporation (Former Tomen Chemical Co., Ltd.)	39	29	419

(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.

16. Amounts per Share

Amounts per share at March 31, 2010 (FY2009) and 2009 (FY2008) and for the years then ended were as follows:

	Yen		U.S. dollars
	FY2009	FY2008	FY2009
Net assets	¥735.79	¥693.00	$7.90
Net income (loss):			
Basic	23.06	(21.75)	0.24
Diluted	21.35	—	0.22
Cash dividends	13.00	13.00	0.13

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

Basic net income (loss) per share is computed based on the net income (loss) attributable 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.

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.

17. Financial Instruments

Effective the year ended March 31, 2010 (FY2009), the Group has adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No.10 revised on March 10, 2008) and "Guidance on Disclosure about Fair Value of Financial Instruments" (ASBJ Guidance No.19 revised on March 10, 2008).

(1) Current status of financial instruments

1) Policy for financial instruments

The Group adopts an investment policy which places the highest priority on safety while balancing liquidity and the benefits of investment. In terms of fund raising, the Group obtains financing from established financial institutions in order to meet capital requirements. The Group does not enter into any derivative contracts and does not have any outstanding derivative transactions as of and for the year ended March 31, 2010 (FY2009).

2) Types of financial instruments, related risk and risk management for financial instruments

Notes and accounts receivable-trade are exposed to credit risk of customers. In order to control this risk, the Group monitors balances and due dates for each customer as well as annually reviews credit limits for all customers based on sales management policy.

Investments in securities, including held-to-maturity debt securities and other securities mainly consisting of stocks of business partners, are also exposed to market price volatility risk.

All notes and accounts payable—trade are settled within one year. Short-term loans are mainly appropriated for operating activities and long-term loans are mainly appropriated for capital expenditures.

Long-term debt consists of convertible bonds and long-term loans from banks. Variable interest rate loans are exposed to interest rate volatility risk, but all long-term loans are financed with fixed interest rates. The Group monitors its cash-flow statement on a monthly basis in order to control liquidity risk in terms of notes and accounts payable, and loans.

(2) Fair value of financial instruments

Fair value and carrying value of major financial instruments at March 31, 2010 (FY2009) are as follows:

	Millions of yen			Thousands of U.S. dollars		
	FY2009			FY2009		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets:						
Cash and deposits	¥15,581	¥15,581	¥ —	$167,447	$167,447	$ —
Notes and accounts receivable—trade	33,421	33,421	—	359,172	359,172	—
Investments in securities:						
Held-to-maturity debt securities	50	49	(0)	537	526	(0)
Other securities	14,984	14,984	—	161,031	161,031	—
Total assets	¥64,038	¥64,037	¥ (0)	$688,210	$688,199	$ (0)
Liabilities:						
Short-term loans	¥ 3,089	¥ 3,089	¥ —	$ 33,197	$ 33,197	$ —
Current portion of long-term debt:						
Current portion of long-term loans	950	1,014	64	10,209	10,897	687
Convertible bonds	10,000	9,865	(135)	107,469	106,018	(1,450)
Notes and accounts payable—trade	21,727	21,727	—	233,498	233,498	—
Long-term debt less current portion	1,991	1,990	(0)	21,397	21,386	(0)
Total liabilities	¥37,758	¥37,687	¥ (71)	$405,781	$405,018	$ (763)

Calculation method of fair value of financial instruments is as follows:

Assets:

Cash and deposits, and notes and accounts receivable—trade

Cash and deposits, notes and accounts receivable—trade are valued at carrying value, which approximates fair value due to maturities of less than one year.

Investments in securities

Investments in securities are valued at market prices. The fair value of bonds represents present value of the total amount of the interest and principal discounted at the interest rate reflecting the remaining periods until maturity and credit risk. Information on securities by category is described in Note 7.

Liabilities:

Short-term loans and notes and accounts payable—trade:

Notes and accounts payable—trade and short-term loans are valued at carrying value which approximates fair value due to maturities of less than one year.

Current portion of long-term debt and long-term debt less current portion

Convertible bonds are valued using the market price.

The fair value of long-term loans represents present value of the total interest and principal amount discounted at interest rates applicable to incremental loans.

Unlisted securities of ¥4,915 million ($52,821 thousand) at March 31, 2010 (FY2009) that do not have market value and for which it is difficult to determine the fair value, are not included in investment in securities in the above table.

The redemption schedule for monetary receivables and securities classified as held-to-maturity debt securities with maturity dates as of March 31, 2010 (FY2009) is as follows:

	Millions of yen		Thousands of U.S. dollars	
	FY2009		FY2009	
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Deposits	¥15,530	¥—	$166,899	$ —
Notes and accounts receivable—trade	33,421	—	359,172	—
Investments in securities:				
Held-to-maturity debt securities	—	50	—	537
	¥48,952	¥50	$526,082	$537

The aggregate amounts of annual maturities of long-term debt subsequent to March 31, 2010 (FY2009) are summarized at Note 9.

18. Segment Information

Segment information of the Group for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) 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 segment information for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) has been omitted.

(2) Geographic segments

Geographic segment information for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) consisted of the following:

	Millions of yen						
	FY2009						
	Japan	U.S.A.	China	Other	Segment total	Elimination or common assets	Consolidated total
Net sales and operating income (loss):							
Sales to third parties	¥104,324	¥3,620	¥ 9,844	¥1,403	¥119,193	¥ —	¥119,193
Intersegment sales	3,719	0	509	—	4,229	(4,229)	—
Net sales	108,044	3,620	10,354	1,403	123,422	(4,229)	119,193
Total operating expenses	102,861	3,894	9,201	1,420	117,377	(4,330)	113,046
Operating income (loss)	¥ 5,182	¥ (273)	¥ 1,152	¥ (17)	¥ 6,044	¥ 101	¥ 6,146
Total assets:							
Total assets	¥135,138	¥5,518	¥ 8,615	¥1,489	¥150,762	¥(13,770)	¥136,991

	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

	Thousands of U.S. dollars						
	FY2009						
	Japan	U.S.A.	China	Other	Segment total	Elimination or common assets	Consolidated total
Net sales and operating income (loss):							
Sales to third parties	$1,121,160	$38,903	$105,792	$15,077	$1,280,956	$ —	$1,280,956
Intersegment sales	39,967	0	5,470	—	45,448	(45,448)	—
Net sales	1,161,139	38,903	111,273	15,077	1,326,405	(45,448)	1,280,956
Total operating expenses	1,105,437	41,848	98,882	15,260	1,261,440	(46,534)	1,214,895
Operating income (loss)	$ 55,690	$ (2,933)	$ 12,380	$ (182)	$ 64,954	$ 1,085	$ 66,050
Total assets:							
Total assets	$1,452,315	$59,301	$ 92,584	$16,002	$1,620,225	$(147,984)	$1,472,229

As described in Note 4(2), 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 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) Overseas sales

Overseas sales for the years ended March 31, 2010 (FY2009) and 2009 (FY2008) consisted of the following:

	Millions of yen							
	FY2009				FY2008			
	Asia	America	Other	Total	Asia	America	Other	Total
Overseas sales	¥22,798	¥10,170	¥8,498	¥ 41,467	¥21,756	¥11,251	¥7,347	¥ 40,355
Consolidated net sales	—	—	—	119,193	—	—	—	129,555
Percentage of overseas sales to consolidated net sales	19.1%	8.6%	7.1%	34.8%	16.8%	8.7%	5.6%	31.1%

	Thousands of U.S. dollars			
	FY2009			
	Asia	America	Other	Total
Overseas sales	$245,008	$109,296	$91,327	$ 445,642
Consolidated net sales	—	—	—	1,280,956

19. Subsequent Events

(1) Distribution of retained earnings

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, 2010 (FY2009), was approved by the Board of Directors at a meeting held on May 17, 2010:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.50 = $0.08 per share)	¥827	$8,887

(2) Major capital expenditures

At the Board of Directors' meeting held on April 26, 2010, the Company approved a capital expenditure at San-Dia Polymers (Nantong) Co., Ltd., a consolidated subsidiary of the Company.

The capital expenditure is outlined as follows:

1. Purpose of the capital expenditure

The investment is aimed at increasing production capacity in response to an increase in demand worldwide for superabsorbent polymers.

2. Details of the capital expenditure

1) Location: Nantong city, Jiangsu province, China
2) Planned investment amount: Approximately ¥4,000 million ($42,987 thousand)
3) Production capacity: 70,000 tons per year

3. Construction schedule

June 2010 Construction scheduled to commence
July 2011 Planned construction completion

4. Fund raising method

Funds on hand and bank borrowings (Planned)

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, 2010 and 2009, 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, 2010 and 2009, 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(2), 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, 2010 are presented solely for convenience. Our audit also included the translation 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 18, 2010

Subsidiaries and Affiliates

Subsidiaries

Name	Abbr.	Est.	Head Office
San-Dia Polymers, Ltd.	SDP	2001	4th Fl., 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	2007	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 of raw materials for polyurethane foam and polyethylene glycols	¥400 million	Sanyo Chemical 50%, Nippon Oil Corporation 50%	+81-44-276-1811
Manufacture and sale 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	US$1	SANAM 100%	+1-412-384-5700
Manufacture of thermoplastic polyurethane beads	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 sale 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

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	10th Fl., 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	16th Fl., Nagoya Mitsui Main Bldg., 24-30, Meieki Minami 1-chome, Nakamura-ku, Nagoya, Aichi 450-0003, Japan	+81-52-581-8511
Hokuriku Area Sales & Marketing Office	8th Fl., Daidoseimei Toyama Bldg., 9-10, Honmachi, Toyama 930-0029, Japan	+81-76-442-8900
Chugoku Area Sales & Marketing Office	7th Fl., 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	9th Fl., Kogin Bldg., 13-2, Tenjin 1-chome, Chuo-ku, Fukuoka 810-0001, Japan	+81-92-714-3436

☐ 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 100,000m^2.	
Kinuura Factory	4-43, Nitto-cho, Handa, Aichi 475-0033, Japan	+81-569-23-3455
	The Kinuura Factory began operations as a distribution base in 1999. The production plant is currently under construction. The factory site is approximately 106,000m^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 130,000m^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 26,000m^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 (as of March 31, 2010)

Company Name	SANYO CHEMICAL INDUSTRIES, LTD.
Date of Establishment	November 1, 1949
Number of Employees	1,748 (consolidated)
Capital	¥13,051 million
Head Office	11-1, Ikkyo Nomoto-cho, Higasiyama-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 ISO9002 certification.	2000	THERPUS, a polyurethane bead resin, and NAROACTY, a nonionic surfactant derived from higher alcohol 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.
	2009	Developed SHARPFLOW, a raw material for polyurethane foam.
Sanyo Kasei (Taiwan) Ltd., established.	2010	

Common Stock (as of March 31, 2010)

Authorized	257,956 thousand shares
Issued	117,673 thousand shares
Number of shareholders	8,502

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

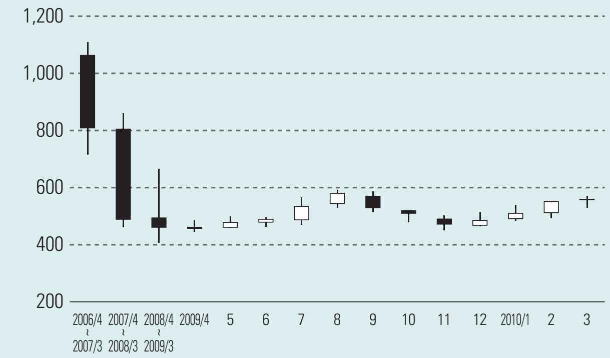
Major Shareholders (as of March 31, 2010)

Name	Number of Shares (thousand shares)	Ratio of Voting Rights (%)
Toyota Tsusho Corporation	21,431	19.4
Toray Industries, Inc.	19,133	17.3
Nippon Shokubai Co., Ltd.	5,529	5.0
Nippon Oil Corporation	5,306	4.8
Japan Trustee Services Bank, Ltd. (trust account)	3,636	3.3
Northern Trust Company AVFC Sub-account American Clients	3,268	3.0
National Mutual Insurance Federation of Agricultural Cooperatives	2,546	2.3
Sanyo Chemical Industries Employees' Stockholding Association	2,193	2.0
The Master Trust Bank of Japan, Ltd. (trust account)	1,982	1.8
Mitsui Sumitomo Insurance Co., Ltd.	1,469	1.3

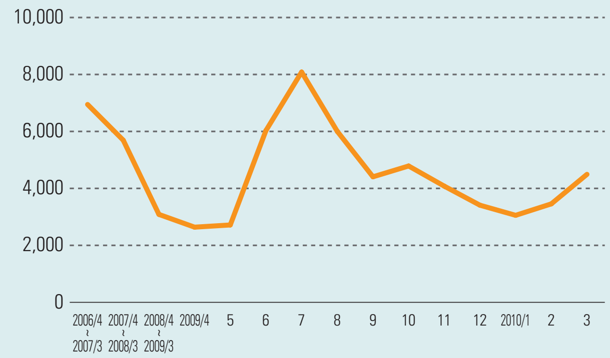
Notes: 1. Treasury stock of 7,349 thousand shares are excluded from the above.
2. Ratio of voting rights is calculated based on the number of issued shares excluding treasury shares.

Stock Price Range and Trading Volume

Stock Price Range (Yen)

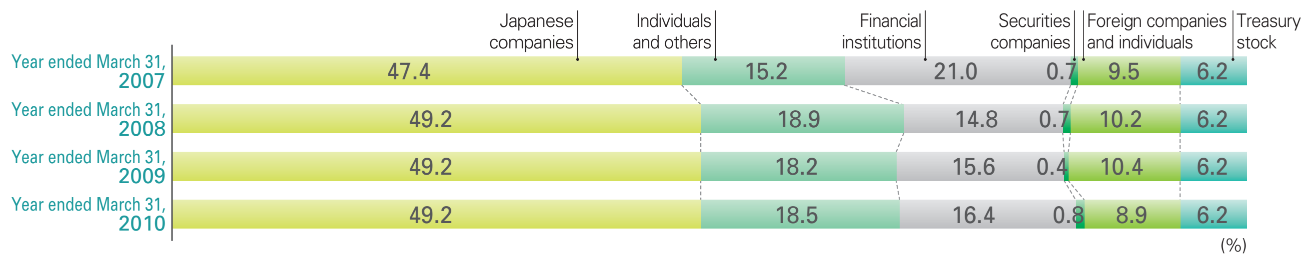


Trading Volume (Thousand shares)



Notes: 1. According to Tokyo Stock Exchange
2. Trading volumes from April 2006 to March 2009 are the average of monthly turnover.

Trend in Ownership Structure (as of March 31, 2010)



Shareholder Information

Fiscal year end	March 31
Year-end dividend record date	March 31
Interim dividend record end	September 30
General shareholders' meeting	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.

Public Relations Dept.

SANYO CHEMICAL INDUSTRIES, LTD.

11-1, Ikkyo Nomoto-cho, Higashiyama-ku, Kyoto 605-0995, Japan

TEL: +81-75-541-4312 FAX: +81-75-551-2557

E-mail: pr-group@sanyo-chemical.com

As a member of the Japan Responsible Care Council (JRCC), Sanyo Chemical places top priority on management methods that protect the environment and ensure safety.

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