NIPPON
SHOKUBAI

2009
ANNUAL REPORT

"Providing affluence and comfort to people and society, with our unique technology"

Profile

Basic Corporate Vision

NIPPON SHOKUBAI CO., LTD. has been undertaking numerous efforts to build a more solid business structure and gain a sharper competitive edge to keep pace with rapid changes in the world, under its corporate philosophy of "TechnoAmenitiy", which means Providing affluence and comfort to people and society, with our unique technology, and the following slogans :

Management Philosophy

1. We will conduct all of our corporate activities based upon a deep respect for humanity.
2. We will aim at coexisting with society, and working in harmony with the environment.
3. We will pursue futuristic technology.
4. We will act from an international perspective.

Business Fields

Since the establishment in 1941, we have been striving for technical innovation and contributing to society through a broad product range.

Our major products are 1) Basic Chemicals, such as acrylic acid, acrylates, ethylene oxide, ethanol amine, and higher alcohol surfactants, etc., 2) Functional Chemicals, such as superabsorbent polymers, polymers for concrete admixture, resins for paints / adhesives and electronic and information materials, etc., and 3) Environmental Systems and Catalysts, such as catalyst for cleaning automobile exhaust gases, process catalysts, De-NOx catalysts and dioxin decomposition / elimination equipments, etc.

In addition, our technologies for manufacturing chemical products receive recognition in foreign countries as well as our diversified line of products. We have licensed our technologies worldwide for manufacturing various chemicals such as acrylic acids and esters.

We will continue to pursue further potentials of technology, while supporting people's livelihood and also providing affluence.

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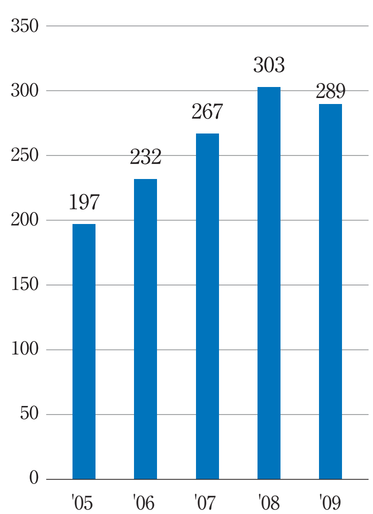
Financial Highlights

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

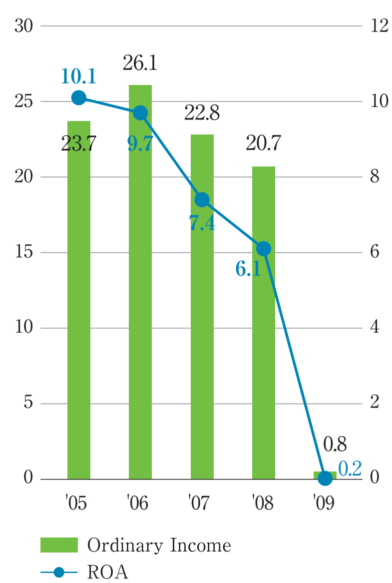
	Year ended March 31, 2009	2008	2009
	(Millions of Yen)		(Thousands of U.S. dollars)
Net sales	¥ 289,102	¥ 302,669	US$ 2,943,113
Operating Income	622	18,379	6,332
Ordinary Income	757	20,745	7,706
Net Income(loss)	(5,307)	11,875	(54,026)
At Year End			
Total Assets	¥ 302,948	¥ 352,783	US$ 3,084,068
Total Net Assets	151,662	175,634	1,543,948
	Yen		U.S. dollars
Per Share Amounts			
Net Income	¥ (29.61)	¥ 69.41	US$ (0.30)
Cash Dividends	15.50	16.00	0.16

Foreign Exchange Rate: US$ 1.00 = ¥98.23

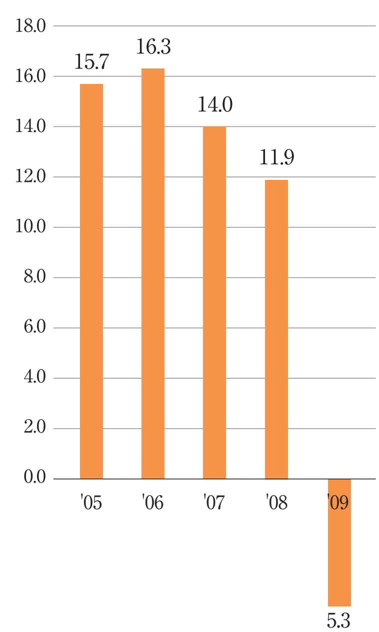
Net Sales (Billions of yen)



Ordinary Income (Billions of yen)
ROA (%)



Net Income (Billions of yen)



To Our Shareholders

It gives me pleasure to report on the performance of NIPPON SHOKUBAI GROUP (the "Company") for the fiscal year ended March 31, 2009.

Overview

The Japanese economy experienced an unprecedented slowdown in the fiscal year under review as the global economy retreated due to fallout from the US-originated financial crisis, and capital investment spending and exports declined.

The business environment for the chemicals industry became increasingly harsh due to sharp volatility in crude oil prices and foreign exchange rates, and a drop off in demand – never experienced before – caused by the economy's downturn.

In this business environment, consolidated net sales declined 4.5% year-over-year to 289,102 million yen (-13,567 million yen) in the fiscal year under review. NIPPON NYUKAZAI Co., Ltd., which we made a consolidated subsidiary, has began contributing sales in the current fiscal year, but sales volumes fell substantially following a drop off in global demand from last autumn, and repatriated sales declined due to yen appreciation.

As for profits, operating income declined 96.6% year-over-year to 622 million yen (-17,757 million yen). Although we cut costs through the consolidation of acrylic acid production to the Himeji Plant (we closed the Ehime Plant and increased capacity at the Himeji Plant) among other measures, the drop in production and sales volumes from the second half of the fiscal year, combined with the emergence of inventory valuation losses from plunging raw materials prices, weighed heavily on profits.

Ordinary income declined 96.4% year-over-year to 757 million yen (-19,988 million yen) as non-operating income declined 2,231 million yen due to a decrease in earnings from equity-method investments, an increase in foreign exchange losses, and a deterioration in the balance of finances. Net income declined 17,182 million yen year-over-year to a loss of 5,307 million yen because we booked loss on valuation of investment securities and impairment loss on noncurrent assets.

The Company's basic policy is to improve the dividend level in the medium to long-term in line with consolidated earnings, while ensuring sufficient retained earnings to expand the business and strengthen the corporate structure.

In consideration of the fact that the Company recorded a loss due to the rapid deterioration of the business environment and earnings, as well as the development of the Company's business going forward, the Company regrets to propose a year-end dividend of 7 yen per share for the fiscal year ended March 31, 2009. Together with the interim dividend, the annual dividend for the fiscal year ended March 31, 2009 will be 15.50 yen per share.

We would like to express our sincere appreciation and ask all of our shareholders for your continued support and guidance as we move forward.

June 2009

近藤忠夫

Tadao Kondo, President

Performance Highlights

(million yen)

	Year endrd March 31,		Change	
	2009	2008	Amount	%
Net sales	289,102	302,669	(13,567)	(4.5%)
Operating income	622	18,379	(17,757)	(96.6%)
Ordinary income	757	20,745	(19,988)	(96.4%)
Net Income(loss)	(5,307)	11,875	(17,182)	–
Net income per share	(¥ 29.61)	¥64.91	(¥ 94.52)	–
ROA	0.2%	6.1%	–	(5.9points)
ROE	(3.3%)	6.9%	–	(10.2points)
Exchanging rate	$ =¥100.58 EUR=¥143.66	$=¥114.38 EUR=¥161.59		(¥13.80) (¥17.93)
Naphtha price	¥ 58,900en/kl	¥61,500/kl		(2,600円/kl)

Review of Operations

Performance by Business Segment

Basic Chemicals

Sales of acrylic acid, acrylates, ethylene oxide, and higher alcohol declined, despite efforts to adjust selling prices in the first half of the fiscal year, due to a sharp drop in sales volumes in the second half.

Sales of ethylene glycol and ethanolamine declined, despite high market prices in the first half of the fiscal year, due to a sharp drop in sales volumes in the second half.

The consolidation of NIPPON NYUKAZAI Co., Ltd. as a subsidiary contributed to strong sales growth.

In summary, sales in the basic chemicals segment increased 7.8% year-over-year to 117,902 million yen.

Operating income decreased 76.4% year-over-year to 1,589 million yen, despite the consolidation of acrylic acid production to the Himeji Plant and other cost cutting efforts, due to a strong impact from the decline in production and sales volumes in the second half, and inventory valuation losses.

Paints (Acrylates)

Synthetic Detergents(SOFTANOL)

Functional Chemicals

Sales of superabsorbent polymers declined, despite an increase in sales volumes primarily in emerging markets, due to a decline in repatriated sales from yen appreciation.

Sales of specialty acrylates, raw materials for detergents, and resin modifiers declined, despite efforts to adjust selling prices in the first half of the fiscal year, due to a sharp drop in sales volumes in the second half.

Sales of electronic information materials, maleic anhydride, processed adhesive products, and iodine compounds declined due to a drop in sales volumes in the second half.

Sales of polymers for concrete admixtures, and resins for adhesive/paints, increased due to firm demand and efforts to adjust selling prices in the first half.

Sales of unsaturated polyester resins declined year by year as we discontinued production and marketing at the end of September 2007.

In summary, sales in the functional chemicals segment decreased 10.3% year-over-year to 139,862 million yen.

Operating income declined 10,664 million yen year-over-year to a loss of 1,895 million yen as we could not fully factor higher raw materials prices into selling prices, and due to a drop in production and sales volumes in the second half, as well as the emergence of inventory valuation losses.

Diapers(Superabsorbent polymer)

Flat Panel Display(Electronic Information associated Materials)

Performance by Business Segment

(unit : million of yen)

(Year ended March 31.)	2009			2008			Change		
Business Segment	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts
Net Sales	117,902	139,862	31,338	109,331	155,892	37,477	8,572	(16,030)	(6,109)
Operating income(loss)	1,589	(1,895)	1,222	6,721	8,769	2,812	(5,132)	(10,644)	(1,590)

Environment & Catalysts

Sales of process catalysts declined as sales volumes fell sharply due to seasonal weakness in replacement demand.

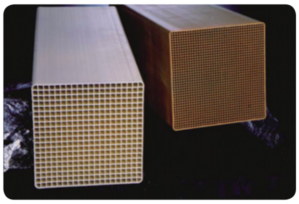
Sales of emission detoxification catalysts declined due to a drop in sales volumes.

Sales of automotive catalysts fell sharply, despite higher selling prices on the back of surging precious metal prices, as sales volumes declined due to a sharp drop in demand from the second half.

Sales of De-NOx catalysts rose due to an increase in sales volumes.

In summary, sales in the environment & catalysts segment decreased 16.3% year-over-year to 31,338 million yen.

Operating income declined 56.6% year-over-year to 1,222 million yen due to a decline in sales volumes of process catalysts, and an impact from inventory valuation losses.


Automotive Catalysts

Performance by Regions

Japan

Sales in Japan declined 1,011 million yen year-over-year to 212,782 million yen as a decline in sales volumes in the second half outweighed an expansion of sales volumes in the first half, higher product prices to reflect higher raw materials prices, and a contribution from the consolidation of NIPPON NYUKAZAI Co., Ltd. as a subsidiary.

Operating income declined 95.5% year-over-year to 774 million yen, despite cost cutting and efforts to adjust selling prices, as we failed to fully pass on the higher costs of raw materials, production and sales volumes dropped off sharply from the second half, and inventory valuation losses emerged.

Europe

Sales in Europe declined 21.3% year-over-year to 33,924 million yen, despite greater sales volumes of superabsorbent polymers, due to the negative impact of yen appreciation.

Operating income declined 742 million yen year-over-year to a loss of 460 million yen, despite higher sales volumes, as higher raw materials prices reduced profitability.

Asia

Sales in Asia declined 11.4% year-over-year to 26,406 million yen, despite higher sales volumes of superabsorbent polymers and polymers for concrete admixtures, due to a decline in sales volumes of acrylic acid and acrylates, and the negative impact of yen appreciation.

Operating income declined 499 million yen year-over-year to a loss of 64 million yen due to a deterioration in the profitability of primarily acrylic acid and acrylates.

Other regions

Sales in other regions rose slightly year-over-year to 15,991 million yen as the negative impact of yen appreciation was outweighed by an increase in sales volumes of superabsorbent polymers, polymers for concrete admixtures, and raw materials for detergents.

Operating income improved 334 million yen year-over-year due to higher sales volumes, but a loss of 1,058 million yen was booked because profitability remained low.

Performance by regions

(unit : million of yen)

(Year ended March 31,)	2009				2008				Change			
Region	Japan	Europe	Asia	Other Regions	Japan	Europe	Asia	Other Regions	Japan	Europe	Asia	Other Regions
Net Sales	212,782	33,924	26,406	15,991	213,793	43,130	29,816	15,930	(1,011)	(9,207)	(3,410)	61
Operating income(loss)	774	(460)	(64)	(1,058)	17,380	282	435	(1,392)	(16,605)	(742)	(499)	334

Medium- and Long-term Business Plans

The Company drew up a long-term business plan, “TechnoAmenity V3,” which sets out the management vision for the five years since fiscal year ending Mar. 2007(FY2006) to fiscal year ending Mar. 2011(FY2010), together with a mediumterm business plan as its action program, in a bid to deliver further growth.

Challenges and Medium- and Long-term Management Strategies

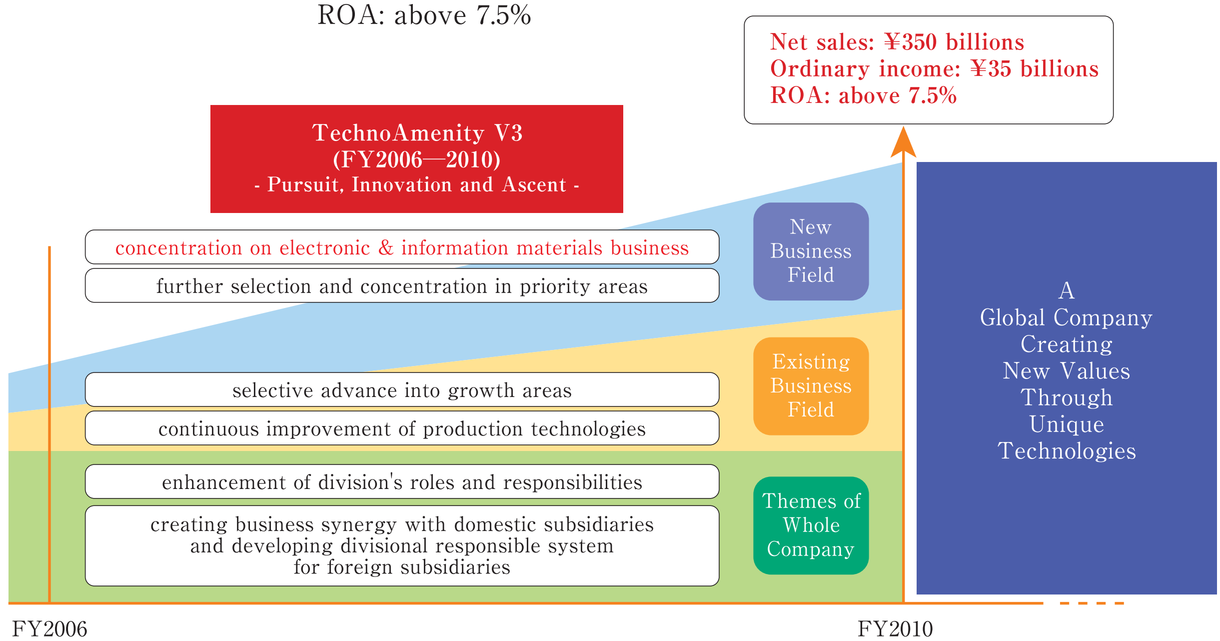
The Company seeks further growth under the long-term business plan “TechnoAmenity V3” (for fiscal 2006 to 2010), which sets out a long-term management vision, coupled with the Medium-term Business Plan (for FY 2006 to 2008), which provides a concrete action plan to realize the long-term business plan.

1) Outline of the Long-term Business Plan “TechnoAmenity V3”

1. Vision for the future: “A global company creating new values through unique technologies”

2. Slogan: “Obsessiveness” to our strength such as key technologies and key materials
“Transformation” of way of marketing and research
“Leap” to be realized through “Pursuit” and “Innovation”

3. Target for FY 2010: Net Sales: ¥350 billions
Ordinary Income: ¥35 billions
ROA: above 7.5%



2) Outline of the Medium-term Business Plan

The Company seeks to enter into growth areas (fields; overseas) outside the domain of its existing business, and at the same time, continue to pursue innovative production technologies in order to enhance its cost competitiveness. As for new lines of business, the Company will concentrate its management resources on the electronic and information materials business as the top priority for the “TechnoAmenity V3” plan, while searching for more sharply focused next-generation business themes.

Progress on the Medium-term Business Plan

(1) Existing Business

With respect to the progress on the business plan, for the superabsorbent polymers business, a new plant is currently under construction at the Himeji Plant, which is scheduled to be completed in autumn 2010. After completion, the Group's annual production capacity for superabsorbent polymers will be 470,000 tons, allowing the Company to maintain its leadership position in the global market. For the acrylic acid business, under a scrap-and-build plan, the Ehime Plant (an acrylic acid plant) was shut down, and a new acrylic acid manufacturing plant with an annual production capacity of 80,000 tons is currently under construction at the Himeji Plant, which is scheduled to be completed at the end of 2009. By taking these measures, the Company will have an acrylic acid production capacity of 620,000 tons, and the Company will strive for further efficiency in the acrylic acid business by gathering the domestic production sites.

For the ethylene oxide business, a facility expansion at the Ukishima Plant (Kawasaki) that will add an extra 70,000 tons of annual production capacity is scheduled to be completed in August 2009. After completion, production capacity of ethylene oxide, together with the Chidori Plant (Kawasaki), will reach 320,000 tons per year, which is the largest in Japan. The Company aims to establish a stable business foundations that is less sensitive to market fluctuations by maximizing synergies between NIPPON NYUKAZAI Co., Ltd. and SINO-JAPAN CHEMICAL Co., Ltd., two companies which became subsidiaries of the Company, and boosting sales of ethylene oxide and derivative products up to the target ratio of 80% or higher for non-EG (ethylene glycol) products.

For other business areas, the Company aims to introduce more of its globally competitive products into the world market. Polymers for concrete admixtures have now grown into one of the core businesses of the Company with a Group-wide annual production capacity of 85,000 tons.

(2) New Business

For the electronic and information materials business, the Company has been carrying out development and commercialization of new products in order to strengthen and develop the business into one of the future core businesses of the Company. Acrylic resins for optical materials (ACRYVIEWA) have been delivered for LCD panels, and business development in the areas of spherical fine particles and functional dye has also made steady progress.

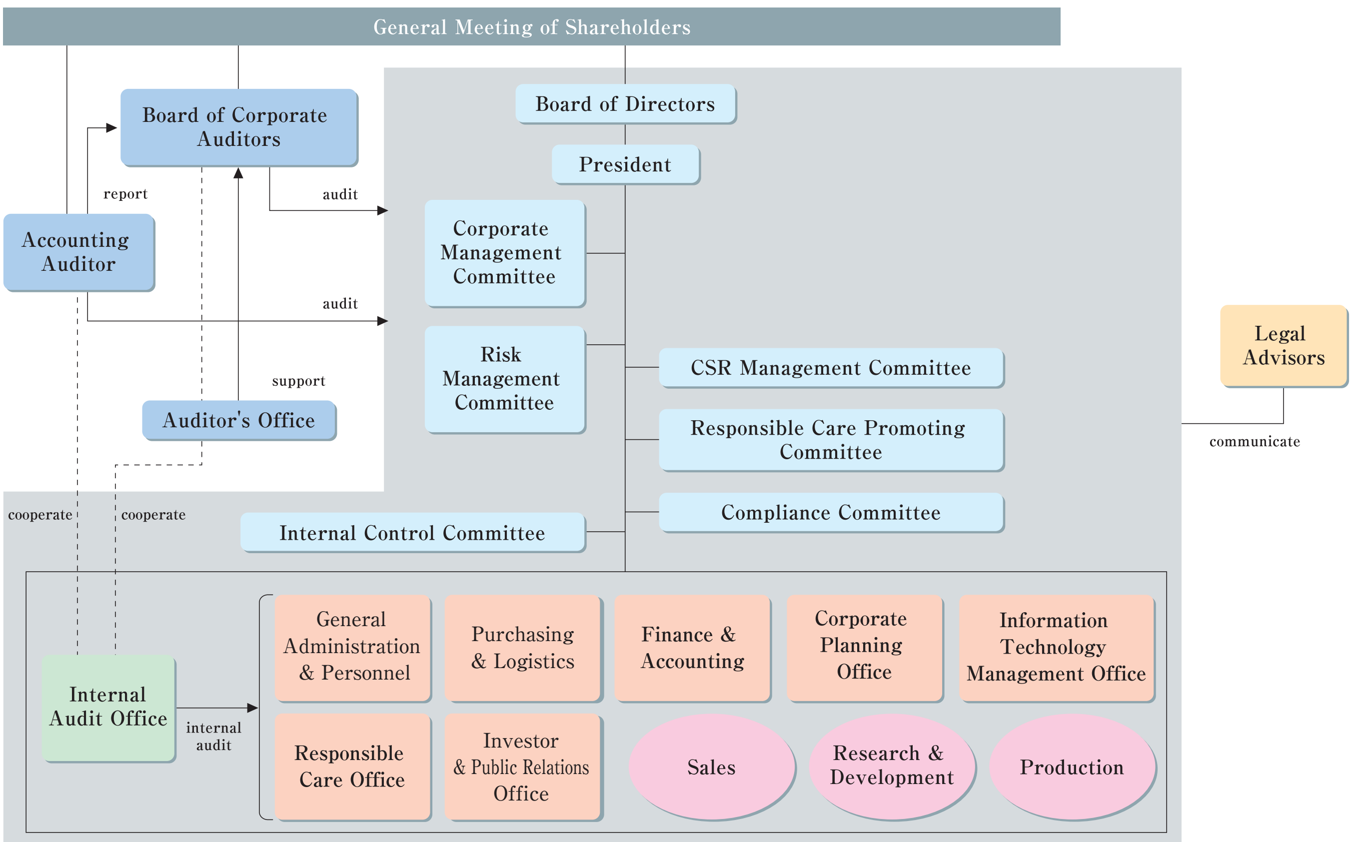
The Company will continue to focus on development and commercialization in health & medical care and new energy which are fields that are considered future growth areas.

Corporate Governance

We have strived toward reinforcing our staying power and competitive edge so that we can cope flexibly with any fluctuation of the world, and regard corporate governance as key for achieving the goal. We are taking steps to revitalize the board of directors, strengthen the audit system, increase the efficiency and effectiveness of operation, and improve compliance system.

The diagram below shows the frame of our corporate governance system.

Corporate Governance System



Board of Directors, comprised of 16 directors as of April 1, 2009, deliberates and resolves the matters relating to the execution of business operations, and supervises each director' s execution of operation. In principle, the Board of Directors convenes once a month, chaired by the president, at which four corporate auditors, including two from outside, are in attendance.

The corporate auditors present statements when deemed necessary.

Corporate Management Committee, as an advisory organ to the president, deliberates basic management policies, the matters related to the policies, and the execution of important business operations by individual divisions. Agenda items that come up to this Committee and are regarded as important will be forwarded to the Board of Directors for deliberation.

The member of the Corporate Management Committee are the president, senior managing directors managing directors and directors nominated by the president.

Board of Corporate Auditors is comprised of four corporate auditors, including two from outside. In principle, the Board convenes once a month to report, discuss and resolve important matters. In addition to attending the Board of Directors, the corporate auditors attend the Corporate Management Committee and other important meetings to monitor the decisionmaking process, and grasp the execution of directors' operation, receive reports from the accounting auditors, directors and others, and put forward an audit opinion following due consultation.

The two current Corporate Auditors from outside have no personal or any other relationship through investments that could create a conflict of interest in the performance of their duties.

Risk Management Committee, chaired by the president, explores and analyzes the risks surrounding the Company. On the basis of the analysis, the Committee discusses the preventive measures or countermeasures for the risks.

CSR (Corporate Social Responsibility) Management Committee, chaired by the president, discusses and decides the CSR policy and activities that would make all the stakeholders beneficial, in cooperation with the other committees such as Risk Management Committee or the Compliance Committee.

Responsible Care Promoting Committee, chaired by the president, discusses and decides the policy and plans of activities for "Responsible Care (RC)" placing a special emphasis on environmental preservation, safety and quality throughout the entire life cycle of our products from the development to disposal. The Committee established the "6th(for FY 2009 to 2011)Medium-term RC Promotion Basic Plan" to reinforce our RC more active.

Moreover, **Responsible Care Office** implements plans and internal audits on responsible care activities in each division.

Compliance Committee, chaired by the president, discusses and decides measures to enhance our company-wide compliance management.

The Internal Control Committee concerning financial reporting, chaired by the president, discusses and prepares for the highly efficient Internal Control System enforced by Financial Instruments and Exchange Law as of April 1st 2008, not only aim to ensure the reliability of the company's financial reporting, but also to ensure the effectiveness and efficiency of the company's business activities.

Legal Advisers provide their opinions for us when solicited. None of the Legal Advisors is involved in the management of the Company.

Accounting Auditors perform their services under the Commercial Code and Securities and Exchange Law of Japan, and provide their opinions when we call for it to make decisions on accounting issues. None of the Accounting Auditors is involved in the management of the Company.

Internal Audit Office carries out internal audits (verify the adequacy and effectiveness of the business process in each division and report the results to the directors) in cooperation with the Board of Corporate Auditors and Accounting Auditors.

Topics

Kawasaki Plants Marked 50th Anniversary

Nippon Shokubai's Kawasaki Plants marked their 50th anniversary in June, 2009. The first Kawasaki plant (current Chidori plant) opened in 1959, and the second plant (current Ukishima plant) opened in 1967. Ever since becoming Japan's first company to industrialize ethylene oxide using our proprietary technology, these plants have thrived as the key plants of our core ethylene oxide business.

In August 2009, we completed the expansion of our Ukishima plant, adding on additional 70,000 tons of annual production capacity, making us the largest manufacturer of ethylene oxide in Japan at 320,000 tons per year. By making our Kawasaki Plants "EO center", we will dedicate our efforts diligently while working in collaboration with our group companies.

Ethylene oxide production equipment

Chidori plant

Ukishima plant

Building Nippon Shokubai's Forest of Water Supply

In an effort to address the prevention of global warming, a prime issue for the 21st century, Nippon Shokubai has been involved in the program for "Prevention of Global Warming and the Japan-China Forest of Friendship" (Inner Mongolia). Now, we have launched a new social action program, the building of "Nippon Shokubai's Forest of Water Supply" in Shiso City, Hyogo Prefecture.

Employee volunteers work to protect the rich forest in Akazai valley, which is one of the Ibogawa riverheads and the location of our Himeji Plant, by following a systematic forest maintenance and preservation program.

On November 15, 2008, approximately 70 employees and their families, as well as other related personnel, participated in an event to formerly open the forest, and experience its benefits and importance through maintenance and preservation activities, as well as observation parties.

These activities allow each and every employee to develop a proactive stance toward environmental preservation.

Nature trail construction

Responsible Care

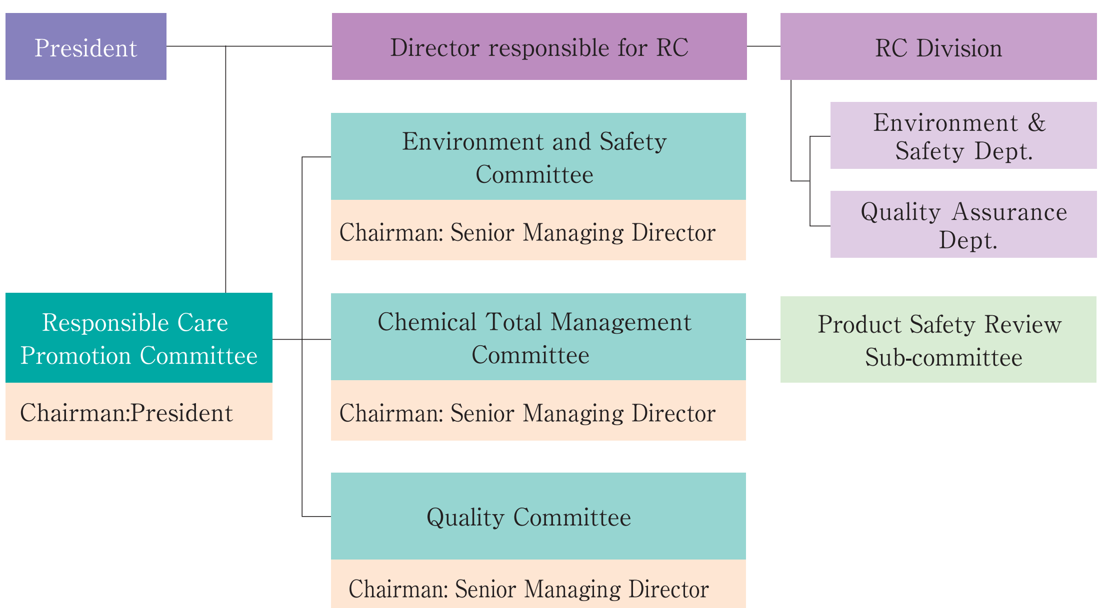
1. Our Fundamental Policy on Environment, Safety and Quality

The Company has set the corporate philosophy as "TechnoAmenity: providing affluence and comfort to society through technology". Adhering to the philosophy, the Company has defined the four priorities regarding Environment, Safety and Quality, which will bring our business activities into harmony with global environmental preservation and conservation:

1. Acknowledging environmental preservation throughout the entire life cycle of a product, from development to disposal
2. Aiming for zero accidents and disasters and keeping society, including our employees, safe
3. Confirming the safety of chemical materials, intermediates and products, and considering the health of respective people such as our customers, employees of logistics, and our employees, etc.
4. Stably supplying products and associated services that meet customer satisfaction and inspire their trust

2. RC Promotion Organization

(1) RC Promotion Organization



(2) RC Management System

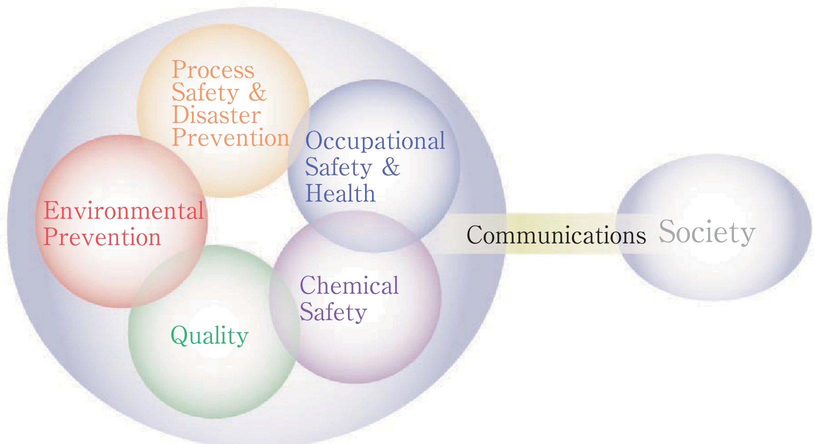
ISO 14001(EMS)

Registration of all operations completed in July 2001. Up grading to improved 2004 standards completed in 2005.

ISO 9001(QMS)

Registration of all operations completed. Up grading to improved 2000 standards completed in 2003.

3. The 5th Medium-Term RC Promotion Basic Plan (FY2006-FY2008)



Goals

(1) Voluntarily pursuing goals in each of the related areas within the company

Environmental Preservation
- 6% reduction of energy per unit of production on FY2008 (vs.FY2005) (3% reduction of CO_2 emission per unit of production on FY2008 (vs.FY2005))
- Accession to zero emission* and its maintenance
- 40% reduction of emission of PRTR* chemical substances (vs.FY2005)
- Establishment of eco-friendly product design system

Process Safety and Disaster Prevention
- Zero disasters
- Zero accidents

Occupational Safety and Health
- Zero industrial injuries with lost workdays (including contractors)
- Zero industrial injuries without lost workdays (including contractors)

Chemical Safety
- Zero problem on chemical safety(legal or social)

Quality
- Zero serious claims

Communication with Society
- Promotion of dialogue with stake holders and adequate disclosure of the information regarding RC

(2) Group RC activities in domestic and overseas

Attainment of common targets to all NIPPON SHOKUBAI GROUP

<Group common targets>

1) Environmental preservation
- Promotion of energy saving activities
- Reduction of emission of PRTR chemical substances
- Reduction of amount of waste generated

2) Process Safety and Disaster Prevention
- Zero disasters
- Zero accidents

3) Occupational Safety and Health
- 50% reduction of industrial injuries with lost workdays (vs.FY2004 - FY2005)

4) Chemical Safety
- Zero problems on chemical safety(legal or social)

5) Quality
- Zero serious claims

6) Communication with Society
- Promotion of dialogue to stakeholders and adequate disclosure of the information

7) Management System
- Introduction of ISO14001 and risk assessment of OHSAS18001.

4. RC Performance in FY 2008

(1) Environmental Preservation

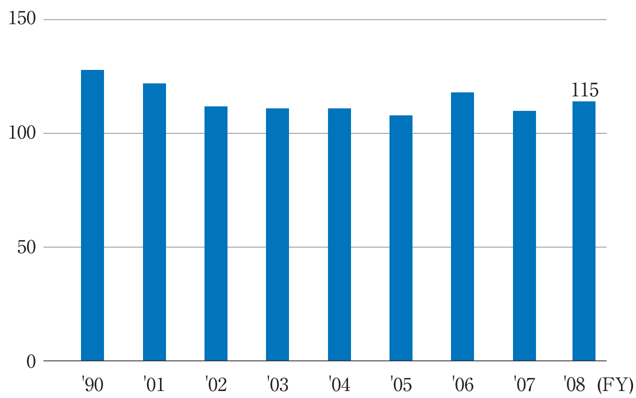
① Action to save energy

The Company is taking action to save energy in all divisions, and has managed to reduce its consumption of energy per unit of production by 10% from the level in FY1990.

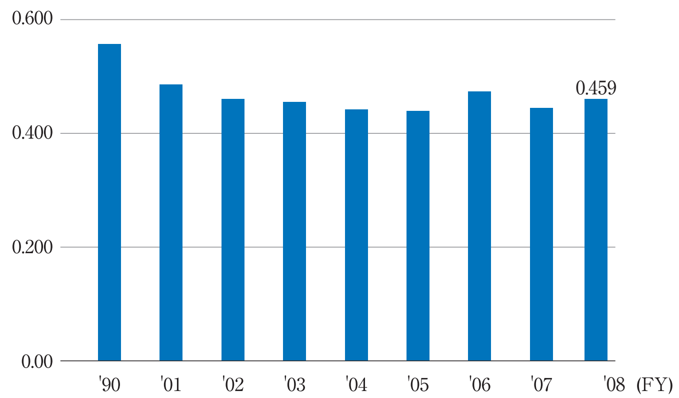
② Lower GHG emissions

The Company is committed to curtailing its CO_2 emissions by an all-out campaign to save energy. It has cut its CO_2 emissions per unit of production by 18% relative to the 1990 level.

Energy Consumption Rate
(crude oil equivalent (L) / production volume (ton))



CO_2 Emissions Rate (CO_2 (ton) / production volume (ton))



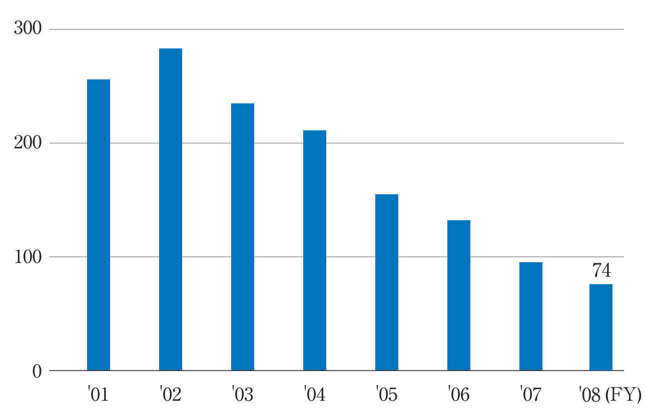
③ Less chemical emissions

The Company has been making efforts to release less chemical substances into the environment since 1995 before enforcement of legal regulation. In FY 2008, it attained more than its target of 40% reduction from FY 2005, and assures continuing efforts to reduce PRTR emissions.

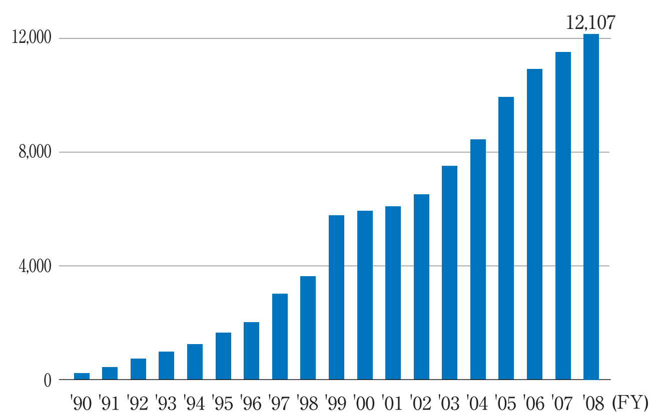
④ Investment for preserving the environment

Every year, the Company makes extensive investments in initiatives for preserving the environment. The table below presents cumulative figures for this investment over the period FY1990 to FY2008.

PRTR Total Release Performance (ton)



Total Amounts of Investment in Environmental Preservation since FY1990 (Million of Yen)



(2) Process Safety and Disaster Prevention

① Implementation of safety assessment by HAZOP*
② Reduction of change risk through Management of Changes*
③ Training for emergency
④ Logistic safety using Yellow Card* system and training for transportation emergency

A Fire Drill

Training for Transportation Emergency

(3) Occupational Safety and Health

① Reduction of risk in workspace through Occupational Safety and Health Management System
② Prevention of injuries caused by unsafe action

(4) Chemical Safety

① Safety assessment of new products through Stage Gate System
② Global Product Stewardship through REACH* and GHS*

(5) Quality

① Prevention of quality complaint by improving Quality Management System
②Disclosing information concerning green procurement to the customers

(6) Communication with Society

Regional activities such as conserving local chrysanthemum Noji-Giku in danger of extinction, and inviting children to potato digging in Himeji Plant.

"Noji-Giku"(Himeji Plant)

Poteto Diggung Party for Children in Himeji Plant

(7) RC activities of the Company in Japan & overseas

■Reduction of environmental emission, labor accident, equipment trouble and quality claim & nonconformity
■Information sharing for RC activity
① Affiliated companies in Japan:
■RC Hearing(the consolidated subsidialies and affiliates)
■RC audit(Nippoh Chemicals Co., Ltd. Nihon Polymer Industries Co., Ltd.)
■Eco-Action 21*(Tokyo Fine Chemical Co., Ltd.)
② Overseas affiliated companies:
■RC meeting in Himeji Plant

PRTR : Pollutant Release and Transfer Register
A regulatory system which requires reporting of emission volumes of wastes. Data compiled to the government bodies are disclosed to the public.

Zero Emission
Less quantity of final off-site landfill than 0.1% of total amount of waste generated.

HAZOP : Hazard and Operability Studies
An execution to estimate the safety of plants.

Management of Changes
Program to ensure that proposed changes to plant operations are evaluated changes are prevented so as to public, and the environmental, etc.

Yellow Card
A card staring the producers to be taken and contact information for transporters, fire squads, and police in the event of an accident during the road transport of chemicals.

REACH:Registration, Evaluation, and Authorization of Chemicals
A new EU regulatory framework for the Registration, Evaluation and Authorization of Chemicals aiming to improve the protection of human health and the environment through the better and earlier identification of the properties of chemical substances.

GHS : Globally Harmonized System of Classification and Labeling of Chemicals
A system for classification and labeling of chemicals hazard according to the globally harmonized rule.

Eco-Action 21
Eco-Action 21 is a certificate / registration system that enables a wide variety of organizations to adopt effective and efficient systems that promotes environmental activities, to establish objectives of environmental activities, and to compose, evaluate and reportthe results of these activities based on the guideline published by the Ministry of the Environment Japan in 2004.

Management Indices

(1) Consolidated Management Indices

Year ended March 31	2005	2006	2007	2008	2009
					(Millions of yen)
Net Sales	197,222	232,441	266,513	302,669	289,102
Ordinary Income	23,709	26,148	22,754	20,745	757
Net Income(loss)	15,705	16,257	13,988	11,875	(5,307)
Total Assets	249,349	291,564	323,675	352,783	302,948
Total Shareholders' Equity	144,660	164,631	−	−	−
Total Net Assets	−	168,704	179,368	175,634	151,662
					(Yen)
Net Assets per Share	757.72	875.00	948.34	947.34	831.11
Net Income(loss) per Share	81.37	85.89	74.92	64.91	(29.61)
Fully Diluted Net Income per Share	−	−	−	−	−
Capital Ratio(%)	58.0	56.5	54.1	48.6	48.8
Return on Equity(%)	11.4	10.5	8.2	6.9	(3.3)
Price Earning Ratio(times)	11.9	16.3	17.0	10.2	−
					(Thousands of U.S. dollars)
Cash Flow from Operating Activities	22,161	17,468	16,087	20,219	17,613
Cash Flow from Investing Activities	(16,934)	(20,663)	(23,109)	(33,100)	(16,675)
Cash Flow from Financing Activities	(861)	(2,562)	4,037	17,495	8,099
Cash and Cash Equivalents at Year-end	24,160	19,856	16,991	21,371	29,450
Number of Employees	2,721	2,806	2,841	3,290	3,415

Note 1: Net Sales do not include consumption taxes.

Note 2: Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Note 3: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.
Diluted Earnings per Share for the fiscal year 2008 ended Mar. 31, 2009 is not disclosed because of the net loss in the consolidated results, and the anti-dilutive effect.

Note 4: Price Earnings Ratio for the fiscal year ended Mar. 31, 2009 is not disclosed because of the net loss in the consolidated results.

(2) Non-consolidated Management Indices

Year ended March 31	2005	2006	2007	2008	2009
					(Millions of yen)
Net Sales	146,789	170,510	192,177	231,151	207,870
Ordinary Income	17,795	23,008	20,378	19,815	4,262
Net Income(loss)	11,063	14,502	12,378	11,707	(7,353)
Capital	16,529	16,529	16,529	16,529	16,529
Issued and Outstanding Shares (Thousands shares)	194,881	194,881	194,881	194,881	187,000
					(Millions of yen)
Total Assets	207,303	237,571	262,059	280,080	246,636
Total Shareholders' Equity	133,100	148,283	–	–	–
Total Net Assets	–	148,283	151,266	148,553	133,625
					(Yen)
Net Assets per Share	697.19	788.11	819.47	820.49	750.53
Dividend per Share	13.00	16.00	16.00	16.00	15.50
(Interim Dividend per Share)	(5.00)	(7.50)	(8.00)	(8.00)	(8.50)
Net Income(loss) per Share	57.20	76.61	66.30	63.49	(41.01)
Fully Diluted Net Income per Share	–	–	–	–	–
Capital Ratio(%)	64.2	62.4	57.7	53.0	54.2
Return on Equity(%)	8.6	10.3	8.3	7.8	(5.2)
Price Earning Ratio(times)	17.0	18.3	19.2	10.3	–
Dividend Payout Ratio(%)	22.7	20.9	24.1	25.0	–
Number of Employees	1,731	1,730	1,742	1,798	1,862

Note 1: Net Sales do not include consumption taxes.

Note 2: Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Note 3: The dividend per share for the fiscal year ended March 31, 2005 (fiscal 2004) include a¥2 memorial dividend our 65th annuversary of the company's foundation.

Note 4: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.
Diluted Earnings per Share for the fiscal year ended Mar.31, 2009 is not disclosed because of the net loss in the unconsolidated results, and the anti-dilutive effect.

Note 5: Price Earnings Ratio and Payout for the fiscal year ended Mar.31, 2009 is not disclosed because of the net loss in the unconsolidated resuls.

Nippon Shokubai Co., Ltd.
Consolidated Financial Statements

Years ended March 31, 2009 and 2008
with Report of Independent Auditors

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Ernst & Young ShinNihon LLC

Report of Independent Auditors

The Board of Directors
Nippon Shokubai Co., Ltd.

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

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Nippon Shokubai Co., Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Osaka, Japan
June 19, 2009

Ernst & Young ShinNihon LLC

Consolidated Balance Sheets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31, 2009	March 31, 2008	2009
	(Millions of yen)		(Thousands of U.S. dollars) (Note2)
Assets			
Current assets :			
Cash and cash equivalents	¥29,450	¥21,371	$299,807
Time deposits (Note 6)	475	215	4,836
Notes and accounts receivable :			
Unconsolidated subsidiaries and affiliates	6,761	12,056	68,828
Trade	46,143	69,262	469,744
Allowance for doubtful receivables	(251)	(308)	(2,555)
Short-term investments (Note 3)	–	200	–
Inventories (Note 4)	42,361	54,353	431,243
Deferred income taxes (Note 8)	4,618	3,874	47,012
Other current assets	8,343	7,438	84,933
Total current assets	137,900	168,461	1,403,848
Property, plant and equipment, at cost (Note 6) :			
Land	30,753	32,058	313,071
Buildings and structures	76,701	77,009	780,831
Machinery and equipment	263,634	274,929	2,683,844
Construction in progress	12,529	5,573	127,548
Leased assets	612	–	6,230
Accumulated depreciation	(267,775)	(265,606)	(2,726,000)
Property, plant and equipment, net	116,454	123,963	1,185,524
Investments and other assets :			
nvestments in securities (Notes 3 and 6)	15,562	22,996	158,424
Investments in unconsolidated subsidiaries and affiliates	16,514	20,970	168,116
Deferred income taxes (Note 8)	4,335	3,521	44,131
Prepaid pension cost (Note 7)	3,948	3,874	40,191
Other assets (Notes 6 and 9)	8,235	8,998	83,834
Total investments and other assets	48,594	60,359	494,696
Total assets	¥302,948	¥352,783	$3,084,068

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets (continued)

	March 31, 2009	March 31, 2008	2009
	(Millions of yen)		(Thousands of U.S. dollars) (Note2)
Liabilities and Net Assets			
Current liabilities :			
Short-term bank loans (Note 6)	¥ 28,950	¥ 27,571	$ 294,716
Current portion of long-term debt (Note 6)	17,614	6,998	179,314
Notes and accounts payable :			
Unconsolidated subsidiaries and affiliates	3,141	9,141	31,976
Trade	20,055	48,143	204,164
Construction	8	38	81
Lease obligations	26	–	265
Accrued bonuses to employees	2,235	2,485	22,753
Accrued bonuses to directors and corporate auditors	15	157	153
Reserve for periodic repairs	1,914	2,673	19,485
Accrued income taxes (Note 8)	405	2,982	4,123
Reserve for loss on shutdown of a plant	–	1,236	–
Other current liabilities	12,479	10,692	127,038
Total current liabilities	86,842	112,116	884,068
Long-term liabilities :			
Long-term debt (Note 6)	53,775	54,797	547,440
Lease obligations	294	–	2,993
Accrued retirement benefits for employees (Note 7)	8,465	8,153	86,175
Deferred income taxes (Note 8)	275	710	2,800
Other	1,635	1,373	16,644
Total long-term liabilities	64,444	65,033	656,052
Contingent liabilities (Note 15)			
Net assets :			
Shareholders' equity (Note 10) :			
Common stock : Authorized – 424,000,000 shares; Issued – 187,000,000 shares in 2009 and 194,881,287 shares in 2008	16,529	16,529	168,268
Capital surplus	13,562	13,567	138,064
Retained earnings	132,778	148,955	1,351,705
Less treasury stock, at cost	(7,969)	(13,552)	(81,126)
Total shareholders' equity	154,900	165,499	1,576,911
Valuation and translation adjustments :			
Net unrealized holding gain on securities	41	2,644	417
Translation adjustments	(6,841)	3,368	(69,643)
Net unrealized deferred loss on hedges	(155)	(22)	(1,577)
Total valuation and translation adjustments	(6,955)	5,990	(70,803)
Minority interests	3,717	4,145	37,840
Total net assets	151,662	175,634	1,543,948
Total liabilities and net assets	¥ 302,948	¥ 352,783	$ 3,084,068

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars) (Note2)
Net sales (Note 19)	¥ 289,102	¥ 302,669	$ 2,943,113
Cost of sales (Note 11)	250,891	248,023	2,554,118
Gross profit	38,211	54,646	388,995
Selling, general and administrative expenses (Note 11)	37,589	36,267	382,663
Operating income (Note 19)	622	18,379	6,332
Other income (expenses):			
Interest and dividend income	1,108	1,377	11,280
Interest expense	(1,456)	(1,349)	(14,822)
Royalty income	723	994	7,360
Equity in earnings of an unconsolidated subsidiary and affiliates	374	1,671	3,807
Foreign exchange loss	(1,921)	(1,390)	(19,556)
Loss on devaluation of investments in securities	(3,886)	–	(39,560)
Loss on shutdown of a plant (Note 13)	–	(1,873)	–
Loss on impairment of property, plant and equipment (Note 5)	(2,011)	(355)	(20,472)
Rent from real estate	1,000	998	10,180
Loss on discontinued operations (Note 14)	(46)	(686)	(468)
Loss on disposal of property, plant and equipment	(923)	(116)	(9,396)
Loss on damages	(246)	–	(2,504)
Other, net	611	196	6,219
(Loss) income before income taxes and minority interests	(6,051)	17,846	(61,600)
Income taxes (Note 8):			
Current	166	5,945	1,690
Deferred	(1,009)	21	(10,272)
	(843)	5,966	(8,582)
(Loss) income before minority interests	(5,208)	11,880	(53,018)
Minority interests in earnings of consolidated subsidiaries	(99)	(5)	(1,008)
Net (loss) income (Note 16)	¥ (5,307)	¥ 11,875	$ (54,026)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
			(Millions of yen)		
Balance at March 31, 2007	¥ 16,529	¥ 13,567	¥ 140,350	¥ (10,079)	¥ 160,367
Changes during the year :					
Cash dividends	–	–	(2,941)	–	(2,941)
Net income	–	–	11,875	–	11,875
Purchases of treasury stock	–	–	–	(3,478)	(3,478)
Disposition of treasury stock	–	(0)	–	5	5
Adjustments due to decrease in affiliates accounted for by the equity method	–	–	(329)	–	(329)
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	(0)	8,605	(3,473)	5,132
Balance at March 31, 2008	¥ 16,529	¥ 13,567	¥ 148,955	¥ (13,552)	¥ 165,499

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred loss on hedges	Total valuation and translation adjustment	Minority interests	Total net assets
			(Millions of yen)			
Balance at March 31, 2007	¥ 10,686	¥ 4,000	–	¥ 14,686	¥ 4,315	¥ 179,368
Changes during the year :						
Cash dividends	–	–	–	–	–	(2,941)
Net income	–	–	–	–	–	11,875
Purchases of treasury stock	–	–	–	–	–	(3,478)
Disposition of treasury stock	–	–	–	–	–	5
Adjustments due to decrease in affiliates accounted for by the equity method	–	–	–	–	–	(329)
Net changes in items other than shareholders' equity	(8,042)	(632)	(22)	(8,696)	(170)	(8,866)
Total changes during the year	(8,042)	(632)	(22)	(8,696)	(170)	(3,734)
Balance at March 31, 2008	¥ 2,644	¥ 3,368	¥ (22)	¥ 5,990	¥ 4,145	¥ 175,634

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Asset (continued)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
			(Millions of yen)		
Balance at March 31, 2008	¥16,529	¥ 13,567	¥ 148,955	¥ (13,552)	¥ 165,499
Decrease due to changes in accounting policies applied to overseas subsidiaries			(231)		(231)
Changes during the year :					
Cash dividends	–	–	(2,970)	–	(2,970)
Net loss	–	–	(5,307)	–	(5,307)
Purchases of treasury stock	–	–	–	(2,100)	(2,100)
Disposition of treasury stock	–	(0)	(5)	14	9
Retirement of shares of common stock held in treasury	–	(5)	(7,664)	7,669	–
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	(5)	(15,946)	5,583	(10,368)
Balance at March 31, 2009	¥ 16,529	¥ 13,562	¥ 132,778	¥ (7,969)	¥ 154,900

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred loss on hedges	Total valuation and translation adjustments	Minority interests	Total net assets
			(Millions of yen)			
Balance at March 31, 2008	¥ 2,644	¥ 3,368	¥ (22)	¥ 5,990	¥ 4,145	¥ 175,634
Decrease due to changes in accounting policies applied to overseas subsidiaries	–	–	–	–	–	(231)
Changes during the year :						
Cash dividends	–	–	–	–	–	(2,970)
Net loss	–	–	–	–	–	(5,307)
Purchases of treasury stock	–	–	–	–	–	(2,100)
Disposition of treasury stock	–	–	–	–	–	9
Retirement of shares of common stock held in treasury	–	–	–	–	–	–
Net changes in items other than shareholders' equity	(2,603)	(10,209)	(133)	(12,945)	(428)	(13,373)
Total changes during the year	(2,603)	(10,209)	(133)	(12,945)	(428)	(23,741)
Balance at March 31, 2009	¥ 41	¥ (6,841)	¥ (155)	¥ (6,955)	¥ 3,717	¥ 151,662

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets (continued)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) (Note2)				
Balance at March 31, 2008	$ 168,268	$ 138,115	$ 1,516,390	$ (137,962)	$ 1,684,811
Decrease due to changes in accounting policies applied to overseas subsidiaries	–	–	(2,352)	–	(2,352)
Changes during the year :					
Cash dividends	–	–	(30,235)	–	(30,235)
Net loss	–	–	(54,026)	–	(54,026)
Purchases of treasury stock	–	–	–	(21,379)	(21,379)
Disposition of treasury stock	–	(0)	(51)	143	92
Retirement of shares of common stock held in treasury	–	(51)	(78,021)	78,072	–
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	(51)	(162,333)	56,836	(105,548)
Balance at March 31, 2009	$ 168,268	$ 138,064	$ 1,351,705	$ (81,126)	$ 1,576,911

	Valuation and translation adjustments					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred loss on hedges	Total valuation and translation adjustments	Minority interests	Total net assets
	(Thousands of U.S. dollars) (Note2)					
Balance at March 31, 2008	$ 26,916	$ 34,287	$ (223)	$ 60,980	$ 42,197	$ 1,787,988
Decrease due to changes in accounting policies applied to overseas subsidiaries	–	–	–	–	–	(2,352)
Changes during the year :						
Cash dividends	–	–	–	–	–	(30,235)
Net loss	–	–	–	–	–	(54,026)
Purchases of treasury stock	–	–	–	–	–	(21,379)
Disposition of treasury stock	–	–	–	–	–	92
Retirement of shares of common stock held in treasury	–	–	–	–	–	–
Net changes in items other than shareholders' equity	(26,499)	(103,930)	(1,354)	(131,783)	(4,357)	(136,140)
Total changes during the year	(26,499)	(103,930)	(1,354)	(131,783)	(4,357)	(241,688)
Balance at March 31, 2009	$ 417	$ (69,643)	$ (1,577)	$ (70,803)	$ 37,840	$ 1,543,948

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31, 2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars) (Note2)
Operating activities:			
(Loss) income before income taxes and minority interests	¥ (6,051)	¥ 17,846	$ (61,600)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	17,958	18,230	182,816
Gain on sales of investments in securities	–	(328)	–
Loss on shutdown of a plant	–	1,873	–
Loss on discontinued operations	46	686	468
Loss on impairment of property, plant and equipment	2,011	355	20,472
Casualty loss	–	185	–
Loss on disposal of inventories	–	128	–
Loss on devaluation of investments in other securities	3,886	–	39,560
Loss on damages	246	–	2,504
Increase in accrued retirement benefits for employees	324	134	3,298
Interest and dividend income	(1,108)	(1,377)	(11,280)
Interest expense	1,456	1,349	14,822
Equity in earnings of an unconsolidated subsidiary and affiliates	(374)	(1,671)	(3,807)
Loss on disposal of property, plant and equipment	923	116	9,396
Other, net	(486)	216	(4,947)
Changes in operating assets and liabilities:			
Notes and accounts receivable	25,990	(3,229)	264,584
Inventories	8,993	(4,969)	91,550
Notes and accounts payable	(30,832)	(2,471)	(313,875)
Other current liabilities	(5)	106	(51)
Subtotal	22,977	27,179	233,910
Interest and dividends received	2,025	2,125	20,615
Interest paid	(1,367)	(1,332)	(13,916)
Payment related to shutdown of a plant	(1,060)	(333)	(10,791)
Payment related to discontinued operations	(222)	(190)	(2,260)
Payment related to casualty loss	–	(185)	–
Payment related to damages	(246)	–	(2,504)
Payment related to disposal of inventories	–	(128)	–
Income taxes paid	(4,494)	(7,007)	(45,750)
Net cash provided by operating activities	17,613	20,129	179,304
Investing activities:			
Purchases of property, plant and equipment	(17,757)	(20,478)	(180,770)
Proceeds from sales of property, plant and equipment	444	86	4,520
Purchases of short-term investments and investments in securities	(750)	(4,370)	(7,635)
Proceeds from sales of short-term investments and investments in securities	826	785	8,409
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	–	(5,793)	–
Payments for purchases of shares of affiliates	(8)	(4,025)	(81)
Collection of loans receivable	900	1,069	9,162
Other, net	(331)	(374)	(3,370)
Net cash used in investing activities	¥ (16,676)	¥ (33,100)	$ (169,765)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows (continued)

	Year ended March 31,		
	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars) (Note2)
Financing activities:			
Increase in short-term bank loans, net	¥ 2,675	¥ 4,746	$ 27,232
Proceeds from long-term debt	17,355	10,167	176,677
Repayment of long-term debt	(6,832)	(5,994)	(69,551)
Issuance of bonds	–	15,000	–
Cash dividends paid	(2,970)	(2,941)	(30,235)
Purchases of treasury stock	(2,100)	(3,472)	(21,378)
Other, net	(29)	(11)	(296)
Net cash provided by financing activities	8,099	17,495	82,449
Effect of exchange rate changes on cash and cash equivalents	(957)	(144)	(9,742)
Increase in cash and cash equivalents	8,079	4,380	82,246
Cash and cash equivalents at beginning of year	21,371	16,991	217,561
Cash and cash equivalents at end of year	¥ 29,450	¥ 21,371	$ 299,807

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries March 31, 2009

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Nippon Shokubai Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

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.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany items have been eliminated in consolidation.

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, a date which differs from the balance sheet date 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.

Investments in an unconsolidated subsidiary and significant affiliates are accounted for by the equity method.

Investments in an unconsolidated subsidiary and affiliates not accounted for by the equity method are carried at cost.

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 five years on a straight-line basis, except that immaterial amounts are charged or credited to income as incurred.

(Change in accounting policy)

Effective the year ended March 31, 2009, the Company and overseas subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18 issued on May 17, 2006). The impact on operating income and loss before income taxes and minority interests was immaterial. The effect of this change on segment information has not been disclosed because it was also immaterial.

(c) Foreign currency translation

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of net income but are reported as translation adjustments and minority interests the accompanying consolidated balance sheets at March 31, 2009 and 2008.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

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.

(d) 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.

(e) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables 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.

(f) Inventories

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

(Change in accounting policy)

Up to the year ended March 31, 2008, inventories of the Company and its domestic consolidated subsidiaries were valued at the lower of cost or market, cost being determined by the moving average method.

Effective the year ended March 31, 2009, as the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006) has been applied, inventories of the Company and its domestic consolidated subsidiaries are stated at the lower of cost or net selling value, cost being determined primarily by the moving average method. As a result of this change, operating income increased by ¥266 million ($2,708 thousand), and loss before income taxes and minority interests decreased by ¥311 million ($3,166 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous method. The impact on segment information is outlined in Note

(g) Property, plant and equipment

Property, plant and equipment are stated on the basis of cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets, except that the overseas consolidated subsidiaries compute depreciation by the straight-line method over the estimated useful lives of the respective assets.

(Supplementary information)

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their useful lives for depreciation of machinery and equipment. This change was made based on an amendment to the Corporation Tax Law. As a result of this change, operating income increased by ¥429 million ($4,367 thousand), and loss before income taxes and minority interests decreased by ¥429 million ($4,367 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the previous useful lives. The impact on segment information is outlined in Note 19.

(Change in accounting policy)

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 in accordance with an amendment to the Corporation Tax Law. As a result of this change, operating income decreased by ¥539 million, and income before income taxes and minority interests decreased by ¥541 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method. The impact on segment information is outlined in Note 19.

(Supplementary information)

In addition, effective the year ended March 31, 2008, depreciation expense for property, plant and equipment acquired before April 1, 2007 is computed based on the salvage value of 5% of acquisition cost, and the amount between the salvage value (5% of acquisition cost) and memorandum value is depreciated from the year following the year in which the book value of an asset reaches 5% of its acquisition cost by the straight-line method over a period of 5 years. This change was made based on an amendment to the Corporation Tax Law.

The effect of this change was to decrease operating income by ¥1,482 million, and income before income taxes and minority interests by ¥1,506 million for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method. The impact on segment information is outlined in Note 19.

(h) 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 contract term as the useful life.

For finance lease transactions that do not transfer ownership to the lessee, those that started on or before March 31, 2008 continue to be accounted for as operating lease transactions.

(Change in accounting policy)

Up to the year ended March 31, 2008, finance lease transactions that do not transfer ownership to lessee were accounted for as operating leases.

Effective the year ended March 31, 2009, the "Accounting Standard for Lease Transactions" (ASBJ 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 the "Guidance on Accounting Standard for Lease Transactions" (ASBJ 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) have been applied. Lease transactions of the Company and its domestic consolidated subsidiaries are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee. The impact of the adoption of this standard on operating income and loss before income taxes and minority interests was immaterial. The effect of this change on segment information has not been disclosed because it was also immaterial.

(i) Short-term investments and investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gain and loss, both realized and unrealized, are credited and 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, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(j) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to 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 a period of 5 years.

(k) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are computed based on the temporary differences between financial reporting and the tax bases of the assets and liabilities which will result in taxable or tax-deductible amounts in the future. The calculation of deferred income tax assets and liabilities is based on the enacted tax laws.

(l) Hedge accounting

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

Forward foreign exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

(m) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which is charged to income in the current year.

(n) Accrued bonuses to directors and corporate auditors

Accrued bonuses to directors and corporate auditors are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

(o) Reserve for periodic repairs

The Company provides a reserve for the cost of periodic repairs to production facilities at plants based on their estimates of the future cost of such repairs.

(p) Reserve for loss on shutdown of a plant

The reserve for loss on shutdown of a plant is stated at the estimated amount of removal cost and so forth to be incurred as a result of the closure of the Ehime factory at the Himeji plant.

(q) Retirement benefits

The Company's employees are covered by an employees' retirement benefit plan and an employees' pension plan. The employees' retirement benefit plan provides for lump-sum payments determined by reference to their basic salary, years of service and certain other factors. The domestic consolidated subsidiaries have either unfunded employees' retirement benefit plans and/or pension plans which are noncontributory and funded and which cover substantially all their employees. These plans provide for lump-sum payments and/or annuity payments payable upon termination of employment.

Accrued retirement benefits for employees have been provided based on the retirement 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 5 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 10 years, which is within the estimated average remaining years of service of the eligible employees.

(Change in accounting policy)

Effective the year ended March 31, 2009, the Company has early adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19 issued on July 31, 2008). There was no impact on the retirement benefit obligation as a result of this change.

(Supplementary information)

One domestic consolidated subsidiary has changed its pension plan from a tax-qualified pension plan to a defined contribution plan. Upon transition, "Guidance on Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No. 1 issued on January 31, 2002) has been applied. The impact on operating income and loss before income taxes and minority interests was immaterial. The effect of this change on segment information has not been disclosed because it was also immaterial.

(r) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 21).

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥98.23 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2009. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Short-Term Investments and Investments in Securities

Marketable securities classified as other securities at March 31, 2009 and 2008 are summarized as follows:

	2009			2008		
	(Millions of yen)					
	Cost	Book value (fair market value)	Unrealized gain (loss)	Cost	Book value (fair market value)	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:						
Equity securities	¥ 3,232	¥ 5,797	¥ 2,565	¥ 6,612	¥ 13,472	¥ 6,860
Subtotal	3,232	5,797	2,565	6,612	13,472	6,860
Securities whose cost exceeds their fair market value:						
Equity securities	11,648	8,619	(3,029)	12,081	8,070	(4,011)
Subtotal	11,648	8,619	(3,029)	12,081	8,070	(4,011)
Total	¥ 14,880	¥ 14,416	¥ (464)	¥ 18,693	¥ 21,542	¥ 2,849

	2009		
	(Thousands of U.S. dollars)		
	Cost	Book value (fair market value)	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:			
Equity securities	$ 32,902	$ 59,015	$ 26,113
Subtotal	32,902	59,015	26,113
Securities whose cost exceeds their fair market value:			
Equity securities	118,579	87,743	(30,836)
Subtotal	118,579	87,743	(30,836)
Total	$ 151,481	$ 146,758	$ (4,723)

The proceeds from and gross realized gain on, sales of securities classified as other securities for the years ended March 31, 2009 and 2008 were as follows:

2009			2008		
(Millions of yen)					
Proceeds	Gross realized gain	Gross realized loss	Proceeds	Gross realized gain	Gross realized loss
¥ 600	¥ 92	¥ 5	¥ 528	¥ 407	¥ –

2009		
(Thousands of U.S. dollars)		
Proceeds	Gross realized gain	Gross realized loss
$ 6,108	$ 937	$ 51

A breakdown of other securities whose market value was not determinable at March 31, 2009 and 2008 is presented as follows :

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Held-to-maturity bonds	¥ 400	¥ 400	$ 4,072
Other securities	746	1,254	7,594

The redemption schedule for other securities with maturity dates at March 31, 2009 is summarized as follows :

	2009			
	(Millions of yen)		(Thousands of U.S. dollars)	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Held-to-maturity bonds	¥ –	¥ 400	$ –	$ 4,072

4. Inventories

Inventories at March 31, 2009 and 2008 were as follows :

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	¥ 21,363	¥ 28,740	$ 217,479
Raw materials	11,155	13,574	113,560
Work in process	7,068	8,885	71,954
Supplies	2,775	3,154	28,250
Total	¥ 42,361	¥ 54,353	$ 431,243

5. Loss on Impairment of Property, Plant and Equipment

Property, plant and equipment are primarily grouped based on the business segment categories designated for management control purposes. In addition, idle assets for which no immediate use is recognized are grouped individually.

The carrying values of assets expected to record a loss has been reduced to their respective net recoverable amounts and the resulting aggregate losses on impairment have been recognized in the accompanying consolidated statements of operations for the years ended March 31, 2009 and 2008.

The recoverable amounts of the assets other than machines that produce super absorbent polymer and assets leased to others were determined based on their respective estimated sales prices or value in use, which was calculated as the sum of the anticipated future cash flows discounted at annual rates of 2.7% and 2.8% in 2009 and 2008, respectively. Machines that produce super absorbent polymer are not anticipated to be utilized in the future as they are obsolete and their carrying values have been reduced to ¥1 ($0.01). The net recoverable amounts of assets leased to others were measured at net selling value based on appraisals issued by professional real estate appraisers.

Details of the loss on impairment of property, plant and equipment for the years ended March 31, 2009 and 2008 are summarized as follows:

2009

Company	Application	Classification	(Millions of yen)	(Thousands of U.S. dollars)
NA Industries, Inc.	Machines that produce super absorbent polymer	Land, buildings and structures, machinery and equipment, automotive equipment and software	¥ 1,413	$ 14,384
Nippon Shokubai Co., Ltd.	Assets leased to others, machines that produce vinyl pyrrolidone and fluoroaromatic compounds	Land, buildings and structures, machinery and equipment and automotive equipment	598	6,088
Total			¥ 2,011	$ 20,472

2008

Company	Application	Classification	(Millions of yen)
NA Industries, Inc.	Machines that produce acrylic acid built detergents	Machinery and structures	¥ 208
Nippon Shokubai Co., Ltd.	Machines that manufacture catalysts for the removal of NOx and dioxins	Buildings and structures, machinery and equipment and automotive equipment	147
Total			¥ 355

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

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2009 and 2008 were 1.74% and 2.06%, respectively.

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

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured bonds payable in yen, at rates from 0.81% to 1.66%, due through 2014	¥ 20,000	¥ 20,000	$ 203,604
Unsecured loans from banks and insurance companies, payable in yen, at rates from 0.49% to 2.03%, due through 2014	46,615	33,479	474,550
Unsecured loans from banks, payable in U.S. dollars, at rates from 2.63% to 5.63%, due through 2012	2,267	3,310	23,078
Unsecured loans from banks, payable in Euro, at rates from 2.55% to 3.17%, due through 2009	691	2,700	7,035
Secured loans from banks and insurance companies, payable in yen, at rates from 0.95% to 4.84%, due through 2013	1,634	1,850	16,634
Secured loans from banks, payable in U.S. dollars, at rates from 3.60% to 5.83%, due through 2009	182	456	1,853
Subtotal	71,389	61,795	726,754
Less current portion	(17,614)	(6,998)	(179,314)
Total	¥ 53,775	¥ 54,797	$ 547,440

The aggregate annual maturities of long-term debt subsequent to March 31, 2009 are summarized below:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2010	¥ 17,614	$ 179,314
2011	7,485	76,199
2012	4,673	47,572
2013	14,199	144,549
2014 and thereafter	27,418	279,120
	¥ 71,389	$ 726,754

Assets pledged as collateral for short-term bank loans, long-term debt, including the current portion thereof, and notes and accounts payable at March 31, 2009 and 2008 were as follows:

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Time deposits	¥ 8	¥ 8	$ 81
Land	293	293	2,983
Buildings and structures	157	166	1,598
Machinery and equipment	226	291	2,301
Other assets	5	5	51
Total	¥ 689	¥ 763	$ 7,014

7. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation at end of year	¥(31,739)	¥(31,493)	$(323,109)
Fair value of plan assets at end of year	17,400	22,389	177,135
Unfunded retirement benefit obligation	(14,339)	(9,104)	(145,974)
Unrecognized actuarial gain	10,020	5,210	102,005
Unrecognized prior service cost	(198)	(385)	(2,015)
Net retirement benefit obligation	(4,517)	(4,279)	(45,984)
Prepaid pension cost	3,948	3,874	40,191
Accrued retirement benefits	¥ (8,465)	¥ (8,153)	$ (86,175)

The components of retirement benefit expenses for the years ended March 31, 2009 and 2008 are outlined as follows:

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 1,678	¥ 1,410	$ 17,083
Interest cost	543	542	5,528
Expected return on plan assets	(550)	(625)	(5,599)
Amortization:			
Prior service cost	(186)	(186)	(1,894)
Actuarial loss	978	485	9,956
Retirement benefit expenses	¥ 2,463	¥ 1,626	$ 25,074

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate	Principally 1.9%	Principally 1.9%
Expected rate of return on plan assets	Principally 3.0%	Principally 3.0%

The following table sets forth the status of the multi-employer pension plan at March 31, 2008, the most recent date on which such data was available.

	(Millions of yen)	(Thousands of U.S. dollars)
Plan assets at fair value	¥ 415,833	$4,233,259
Benefit obligation used in the calculation of pension financing	497,473	5,064,369
Difference	¥(81,640)	$(831,110)

(Supplementary information)

Effective the year ended March 31, 2008, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 2)" (ASBJ Statement No.14 issued on May 15, 2007).

8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2009 and 2008 was, in the aggregate, approximately 40.6%.

The effective tax rate reflected in the accompanying consolidated statements of operations for the year ended March 31, 2008 differed from the above statutory tax rate for the following reasons :

	2008
Statutory tax rate	40.6 %
Effect of :	
Valuation allowance	2.4
Tax credit for research and development costs	(5.2)
Equity in earnings of an unconsolidated subsidiary and affiliates	(3.8)
Other, net	(0.6)
Effective tax rate	33.4 %

A reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2009 has not been presented because loss before income taxes and minority interests was recorded.

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 Company and its consolidated subsidiaries at March 31, 2009 and 2008 are summarized as follows :

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets :			
Accrued retirement benefits for employees	¥ 1,950	¥ 1,856	$ 19,851
Intercompany profit on inventories and property, plant and equipment	970	1,060	9,875
Tax loss carryforwards	4,227	2,040	43,032
Reserve for periodic repairs	768	1,078	7,818
Depreciation and amortization (including impairment loss)	1,763	2,357	17,948
Loss on impairment of land	1,267	–	12,898
Accrued bonuses to employees	875	970	8,908
Impairment of investments in securities and other	3,446	1,868	35,081
Reserve for loss on shutdown of a plant	–	502	–
Other	2,225	1,832	22,651
Gross deferred tax assets	17,491	13,563	178,062
Less : Valuation allowance	(6,646)	(4,024)	(67,658)
Total deferred tax assets	10,845	9,539	110,404
Deferred tax liabilities :			
Equity in earnings of an overseas affiliate	1,089	1,472	11,086
Depreciation and amortization	400	634	4,072
Deferred capital gain on property	380	385	3,869
Reserve for depreciation for tax purposes	59	114	601
Other	239	249	2,433
Total deferred tax liabilities	2,167	2,854	22,061
Net deferred tax assets	¥ 8,678	¥ 6,685	$ 88,343

9. Goodwill and Negative Goodwill

Goodwill and negative goodwill are netted against each other. Goodwill and negative goodwill as of March 31, 2009 and 2008 are summarized as follows :

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Goodwill	¥ 1,979	¥ 2,658	$ 20,147
Negative goodwill	(131)	(340)	(1,334)
Goodwill, net	¥ 1,848	¥ 2,318	$ 18,813

10. Shareholders' Equity

The Corporation Law of Japan (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 ¥3,920 million ($39,906 thousand) and ¥3,920 million at March 31, 2009 and 2008, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2009 and 2008 are summarized as follows:

	2009			
	Number of shares (Thousands)			
	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock	194,881	–	7,881	187,000
Treasury stock	13,859	3,029	7,897	8,991

	2008			
	Number of shares (Thousands)			
	March 31, 2007	Increase	Decrease	March 31, 2008
Common stock	194,881	–	–	194,881
Treasury stock	10,291	3,574	6	13,859

11. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2009 and 2008 totaled ¥12,082 million ($122,997 thousand) and ¥11,179 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of property leased to the Company and its domestic consolidated subsidiaries at March 31, 2009 and 2008, which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery and equipment and software:			
Acquisition costs	¥ 1,115	¥ 1,272	$ 11,351
Accumulated depreciation/amortization	(409)	(388)	(4,164)
Net book value	¥ 706	¥884	$ 7,187

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance leases amounted to ¥177 million ($1,802 thousand) and ¥71 million for the years ended March 31, 2009 and 2008, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥177 million ($1,802 thousand) and ¥71 million for the years ended March 31, 2009 and 2008, respectively, if it had been reflected in the accompanying consolidated balance sheets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 under finance lease transactions, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that were entered into on or before March 31, 2008 are summarized as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2010	¥ 160	$ 1,629
2011 and thereafter	546	5,558
	¥ 706	$ 7,187

13. Loss on Shutdown of a Plant

For the year ended March 31, 2008, the Company and consolidated subsidiaries recorded a loss on shutdown of the Ehime factory at the Himeji plant which consisted of the following:

	(Millions of yen)
Dismantlement cost of a plant	¥ 1,269
Loss on disposal of a plant	304
Other	300
Total	¥ 1,873

14. Loss on Discontinued Operations

For the year ended March 31, 2008, the Company and consolidated subsidiaries recorded loss on discontinued operations of the unsaturated polyester business which consisted of the following:

	(Millions of yen)
Dismantlement cost of a business	¥ 339
Loss on disposal of a business	233
Other	114
Total	¥ 686

15. Contingent Liabilities

At March 31, 2009, the Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates in the aggregate amount of ¥ 2,182 million ($22,213 thousand).

In addition, at March 31, 2009, two consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed in the aggregate amount of ¥662 million ($6,739 thousand).

16. Amounts per Share

	2009	2008	2009
	(yen)		(U.S. dollars)
Net (loss) income	¥ (29.61)	¥ 64.91	$ (0.30)
Cash dividends	15.50	16.00	0.16
Net assets	831.11	947.34	8.46

Net (loss) income per share has been computed based on the net (loss) income available to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net (loss) income per share has not been presented for the years ended March 31, 2009 and 2008 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2009 and 2008.

The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of net (loss) income per share for the years ended March 31, 2009 and 2008 is summarized as follows:

	2009	2008	2009
	(Millions of yen)		(Thousands of U.S. dollars)
Net (loss) income	¥(5,307)	¥11,875	$(54,026)
Deductions from net (loss) income	–	–	–
Adjusted net (loss) income available to shareholders of common stock	(5,307)	11,875	$(54,026)
Weighted-average number of shares of common stock outstanding during the year (thousands of shares)	179,244	182,948	179,244

17. Derivatives

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally to reduce the risk arising from fluctuation in interest rates and foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivatives. The Company and its consolidated subsidiaries do not hold or issue derivatives for speculative trading purposes.

The Company and its consolidated subsidiaries are exposed to certain market risk arising from forward foreign exchange contracts and interest-rate swaps. The Company and its consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these forward foreign exchange contracts and interest-rate swap contracts; however, the Company and its consolidated subsidiaries do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

18. Supplementary Information on Statements of Cash Flows

During the year ended March 31, 2008, the Company purchased shares of Nippon Nyukazai Co., Ltd. and initially consolidated its accounts for the year ended March 31, 2008. The following total summarizes the assets and liabilities included in consolidation and presents information on the related acquisition cost and cash disbursement:

	(Millions of yen)
Current assets	¥ 12,109
Non-current assets	8,739
Goodwill	2,342
Current liabilities	(12,158)
Non-current liabilities	(3,859)
Other	7
Acquisition cost	7,180
Cash and cash equivalents of Nippon Nyukazai Co., Ltd.	1,387
Cash disbursement	¥ 5,793

19. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas.

Business Segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 is outlined as follows:

Year ended March 31, 2009 *(Millions of yen)*

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
I. Sales and operating income:						
Sales to third parties	¥ 117,902	¥ 139,862	¥ 31,338	¥ 289,102	¥ –	¥ 289,102
Intragroup sales and transfers	31,735	1,624	1,656	35,015	(35,015)	–
Net sales	149,637	141,486	32,994	324,117	(35,015)	289,102
Operating expenses	148,048	143,381	31,772	323,201	(34,721)	288,480
Operating income (loss)	¥ 1,589	¥ (1,895)	¥ 1,222	¥ 916	¥ (294)	¥ 622
II. Total assets, depreciation and amortization, loss on impairment of property, plant and equipment and capital expenditures:						
Total assets	¥ 117,680	¥ 141,205	¥ 25,462	¥ 284,347	¥ 18,601	¥ 302,948
Depreciation and amortization	7,687	10,737	485	18,909	–	18,909
Loss on impairment of property, plant and equipment	–	2,011	–	2,011	–	2,011
Capital expenditures	12,728	7,434	452	20,614	–	20,614

Year ended March 31, 2009 *(Millions of yen)*

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
I. Sales and operating income:						
Sales to third parties	¥ 109,330	¥ 155,892	¥ 37,447	¥ 302,669	¥ –	¥302,669
Intragroup sales and transfers	34,188	1,357	718	36,263	(36,263)	–
Net sales	143,518	157,249	38,165	338,932	(36,263)	302,669
Operating expenses	136,797	148,480	35,352	320,629	(36,339)	284,290
Operating income	¥ 6,721	¥ 8,769	¥ 2,813	¥ 18,303	¥ 76	¥ 18,379
II. Total assets, depreciation and amortization and capital expenditures:						
Total assets	¥ 133,265	¥ 164,435	¥ 30,194	¥ 327,894	¥ 24,889	¥ 352,783
Depreciation and amortization	8,236	10,762	456	19,454	–	19,454
Loss on impairment of property, plant and equipment	–	208	147	355	–	355
Capital expenditures	5,809	11,484	331	17,624	–	17,624

Year ended March 31, 2009 *(Thousands of U.S. dollars)*

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
I. Sales and operating income:						
Sales to third parties	$ 1,200,265	$ 1,423,821	$ 319,027	$2,943,113	$ –	$ 2,943,113
Intragroup sales and transfers	323,068	16,533	16,858	356,459	(356,459)	–
Net sales	1,523,333	1,440,354	335,885	3,299,572	(356,459)	2,943,113
Operating expenses	1,507,157	1,459,645	323,445	3,290,247	(353,466)	2,936,781
Operating income (loss)	$ 16,176	$ (19,291)	$ 12,440	$ 9,325	$ (2,993)	$ 6,332
II. Total assets, depreciation and amortization, loss on impairment of property, plant and equipment and capital expenditures:						
Total assets	$ 1,198,005	$ 1,437,493	$ 259,208	$ 2,894,706	$ 189,362	$ 3,084,068
Depreciation and amortization	78,255	109,305	4,937	192,497	–	192,497
Loss on impairment of property, plant and equipment	–	20,472	–	20,472	–	20,472
Capital expenditures	129,573	75,680	4,601	209,854	–	209,854

As mentioned in Note 1(f), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the method of valuation of inventories. As a result of this change, operating income decreased by ¥50 million ($509 thousand) in the basic chemicals business segment and increased by ¥441 million ($4,489 thousand) in the environment and catalysts business segment and operating loss increased by ¥125 million ($1,272 thousand) in the functional chemicals business segment for the year ended March 31, 2009 as compared to the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 1(g), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their useful lives for depreciation of machinery and equipment. As a result of this change, operating income increased by ¥305 million ($3,104 thousand) in the basic chemicals business segment and by ¥3 million ($31 thousand) in the environment and catalysts business segment and operating loss decreased by ¥121 million ($1,232 thousand) in the functional chemicals business segment for the year ended March 31, 2009 as compared to the corresponding amounts which would have been recorded under the previous useful lives.

As mentioned in Note 1(g), the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 to the procedure stipulated in the revised law. As a result of this change, operating income decreased by ¥104 million in the basic chemicals business segment, by ¥412 million in the functional chemicals business segment and by ¥22 million in the environment and catalysts business segment for the year ended March 31, 2008 as compared to the corresponding amounts which would have been recorded under the previous method.

As mentioned in Note 1(g), the Company and its domestic consolidated subsidiaries have changed their method of accounting for property, plant and equipment acquired before April 1, 2007. As a result of this change, operating expenses in the basic chemicals business segment increased by ¥695 million, the functional chemicals business segment increased by ¥715 million and the environment and catalysts business segment increased by ¥72 million, and operating income decreased by the same amounts as compared to the corresponding amounts which would have been recorded under the previous method.

Geographical Segments

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 is outlined as follows:

Year ended March 31, 2009 *(Millions of yen)*

	Japan	Europe	Asia	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss):							
Sales to third parties	¥212,781	¥	¥26,406	¥15,991	¥289,102	¥ –	¥289,102
Intragroup sales and transfers	29,602	33,924	1,289	190	31,176	(31,176)	–
Net sales	242,383	95	27,695	16,181	320,278	(31,176)	289,102
Operating expenses	241,609	34,019	27,759	17,239	321,086	(32,606)	288,480
Operating income (loss)	¥ 774	34,479	¥ (64)	¥ (1,058)	¥ (808)	¥ 1,430	¥ 622
		¥ (460)					
II. Total assets	¥243,696		¥25,113	¥8,819	¥294,568	¥8,380	¥302,948
		¥16,940					

Year ended March 31, 2009 *(Millions of yen)*

	Japan	Europe	Asia	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss):							
Sales to third parties	¥213,793	¥43,130	¥29,816	¥15,930	¥302,669	¥ –	¥302,669
Intragroup sales and transfers	33,718	78	3,721	244	37,761	(37,761)	–
Net sales	247,511	43,208	33,537	16,174	340,430	(37,761)	302,669
Operating expenses	230,131	42,925	33,103	17,566	323,725	(39,435)	284,290
Operating income (loss)	¥ 17,380	¥ 283	¥ 434	¥ (1,392)	¥16,705	¥1,674	¥ 18,379
II. Total assets	¥263,558	¥23,090	¥36,922	¥13,984	¥337,554	¥15,229	¥352,783

	Year ended March 31, 2009					(Thousands of U.S. dollars)	
	Japan	Europe	Asia	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income (loss):							
Sales to third parties	$2,166,151	$345,353	$268,818	$162,791	$2,943,113	$ –	$2,943,113
Intragroup sales and transfers	301,354	967	13,122	1,934	317,377	(317,377)	–
Net sales	2,467,505	346,320	281,940	164,725	3,260,490	(317,377)	2,943,113
Operating expenses	2,459,625	351,003	282,592	175,496	3,268,716	(331,935)	2,936,781
Operating income (loss)	$ 7,880	$ (4,683)	$ (652)	$(10,771)	$ (8,226)	$ 14,558	$ 6,332
II. Total assets	$2,480,871	$172,452	$255,655	$89,780	$2,998,758	$85,310	$3,084,068

As mentioned in Note 1(f), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed the method of valuation of inventories. As a result of this change, operating income in the Japan segment increased by ¥266 million ($2,708 thousand) for the year ended March 31, 2009 from the corresponding amount which would have been recorded under the previous method.

As mentioned in Note 1(g), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have changed their useful lives for depreciation of machinery and equipment. As a result of this change, operating income in the Japan segment increased by ¥429 million ($4,367 thousand) for the year ended March 31, 2009 from the corresponding amount which would have been recorded under the previous useful lives.

As mentioned in Note 1(g), the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 to the procedure stipulated in the revised law. As a result, operating income in the Japan segment decreased by ¥539 million from the corresponding amount which would have been recorded under the previous method.

As mentioned in Note 1(g), the Company and its domestic consolidated subsidiaries have changed their method of accounting for property, plant and equipment acquired before April 1, 2007. As a result, operating income in the Japan segment decreased by ¥1,482 million from the corresponding amount which would have been recorded under the previous method.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2009 and 2008 are summarized as follows:

	Year ended March 31, 2009				
	Asia	Europe	America	Other	Total
			(Millions of yen)		
Overseas sales	¥ 46,398	¥ 39,109	¥ 22,643	¥17,150	¥125,300
Overseas sales as a percentage of consolidated net sales	16.1%	13.5%	7.8%	5.9%	43.3%

	Year ended March 31, 2008				
	Asia	Europe	America	Other	Total
			(Millions of yen)		
Overseas sales	¥ 57,458	¥ 48,683	¥ 23,667	¥ 15,434	¥ 145,242
Overseas sales as a percentage of consolidated net sales	19.0%	16.1%	7.8%	5.1%	48.0%

	Year ended March 31, 2009				
	Asia	Europe	America	Other	Total
			(Thousands of U.S. dollars)		
Overseas sales	$ 472,341	$ 398,137	$ 230,510	$ 174,590	$1,275,578

20. Related Party Transactions

(a) Principal transactions between the Company and its related parties for the years ended March 31, 2009 and 2008 are summarized as follows:

	2009	2008	2009
	(Millions of yen)		*(Thousands of U.S. dollars)*
ICT Co., Ltd.:			
Sales of finished goods	¥ 24,246	¥ 26,561	$ 246,829
Purchases of raw materials	21,997	25,631	223,934
Yatagai Real Estate Co., Ltd.:			
Rental expense of buildings	18	18	183
Nippon Petrochemicals Co., Ltd.:			
Rental expense of land and equipment	¥ –	¥ 99	$ –

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

The balances due from and to its related parties at March 31, 2009 and 2008 were as follows:

	2009	2008	2009
	(Millions of yen)		*(Thousands of U.S. dollars)*
ICT Co., Ltd.:			
Notes and accounts receivable	¥ 4,557	¥ 10,321	$ 46,391
Notes and accounts payable	308	6,464	3,135
Nippon Petrochemicals Co., Ltd.			
Other current liabilities	¥ –	¥ 24	$ –

(b) Principal transactions between the consolidated subsidiaries and its related parties for the years ended March 31, 2009 and 2008 are summarized as follows:

	2009	2008	2009
	(Millions of yen)		*(Thousands of U.S. dollars)*
ICT Co., Ltd.:			
Transportation of finished goods	¥100	¥ –	$ 1,018
Yatagai Real Estate Co., Ltd.:			
Rental expense of buildings	¥ 28	¥ –	$ 285

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

The balances due from and to its related parties at March 31, 2009 and 2008 were as follows:

	2009	2008	2009
	(Millions of yen)		*(Thousands of U.S. dollars)*
ICT Co., Ltd.:			
Notes and accounts receivable	¥ 12	¥ –	$ 122

ICT Co., Ltd. is a related company in which the Company owns 50% of the shares of common stock.

A director of the Company and his family wholly own the shares of common stock of Yatagai Real Estate Co., Ltd.

A corporate auditor of the Company is a managing director of Nippon Petrochemicals Co., Ltd.

21. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009, was approved at a shareholders' meeting held on June 19, 2009:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥7.00 = $0.071 per share)	¥ 1,246	$ 12,685

Coporate Data

NIPPON SHOKUBAI CO., LTD.

Incorporated	August 21, 1941
Common Stock	Authorized: 424,000,000
	Issued : ¥ 187,000,000
Capital	¥16,529,413,238
Number of Employees	Consolidated: 3,415
	Non-consolitated: 1,862
Stock Listings	First Section, Tokyo Stock Exchange
	First Section, Osaka Stock Exchange

Transfer Agent

Mitsubishi UFJ Trust & Banking Corporation
4-5, Marunouchi, 1-chome, Chiyoda-ku
Tokyo , 100-8212, Japan

Organization

(as of March 31, 2009)

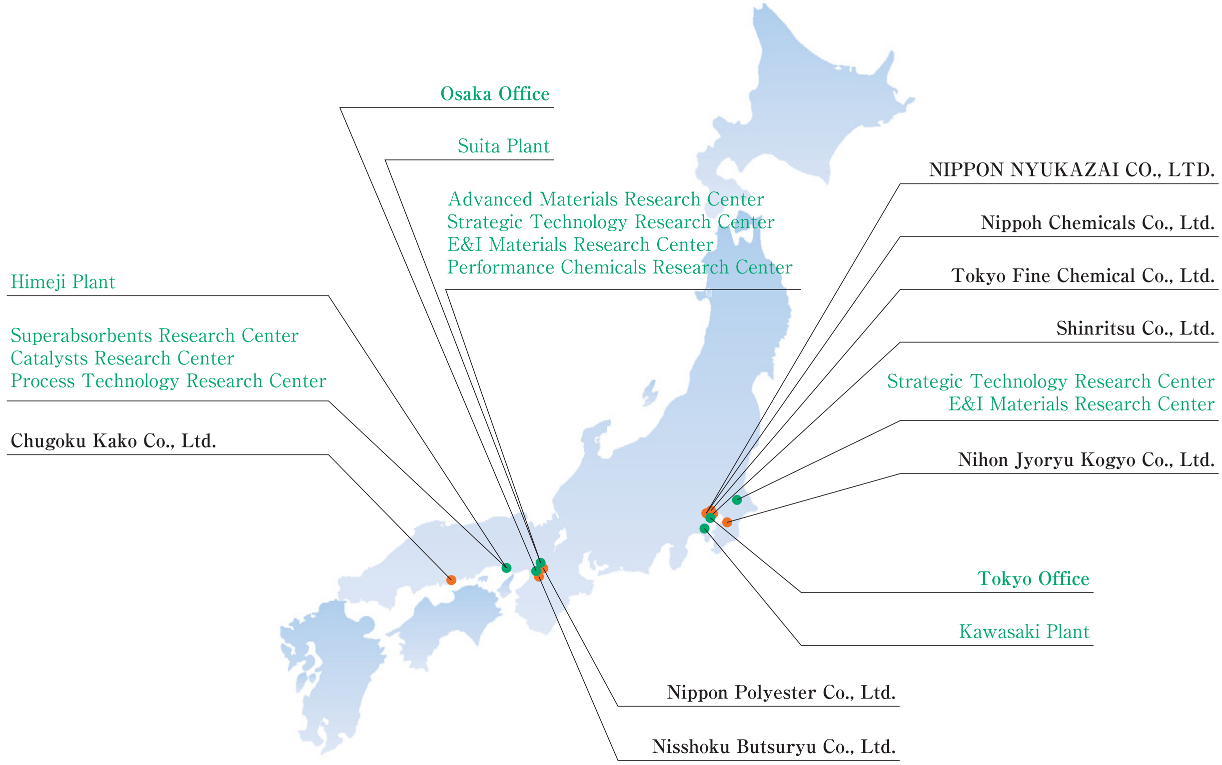
Division / Department

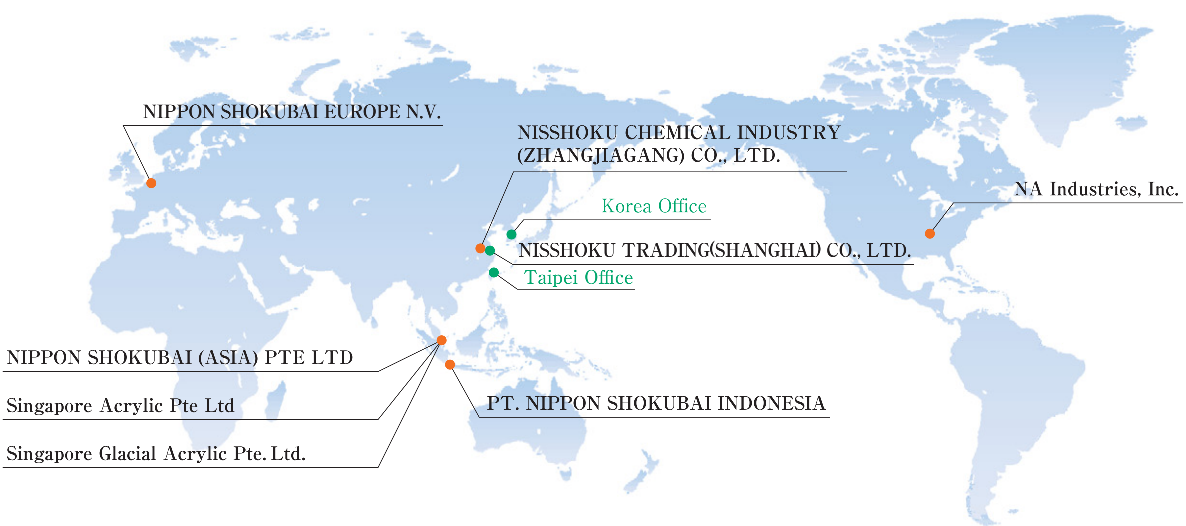
- Board of Directors
  - President
    - Corporate Management Committee
    - Internal Audit Office
    - Corporate Planning
    - General Administration & Personnel
    - Purchasing & Logistics
    - Finance & Accounting
    - Informational Technology Managment Office
    - Investor & Public Relations
    - Responsible Care
    - Production
    - Engineering
    - Research & Development
    - Ethylene Oxide Business
    - Acrylic Business
    - Fine & Perfotmance Chemicals Business
    - E&I Materials Business *
    - Environment & Catalysts Business
    - Kawasaki Plant
    - Himeji Plant
    - Suita Plant
    - Taipei Office
- Board of Corporate Auditors
- Corporate Auditors
  - Auditors' Office

* E&I : Electronic & Information

Coporate Data

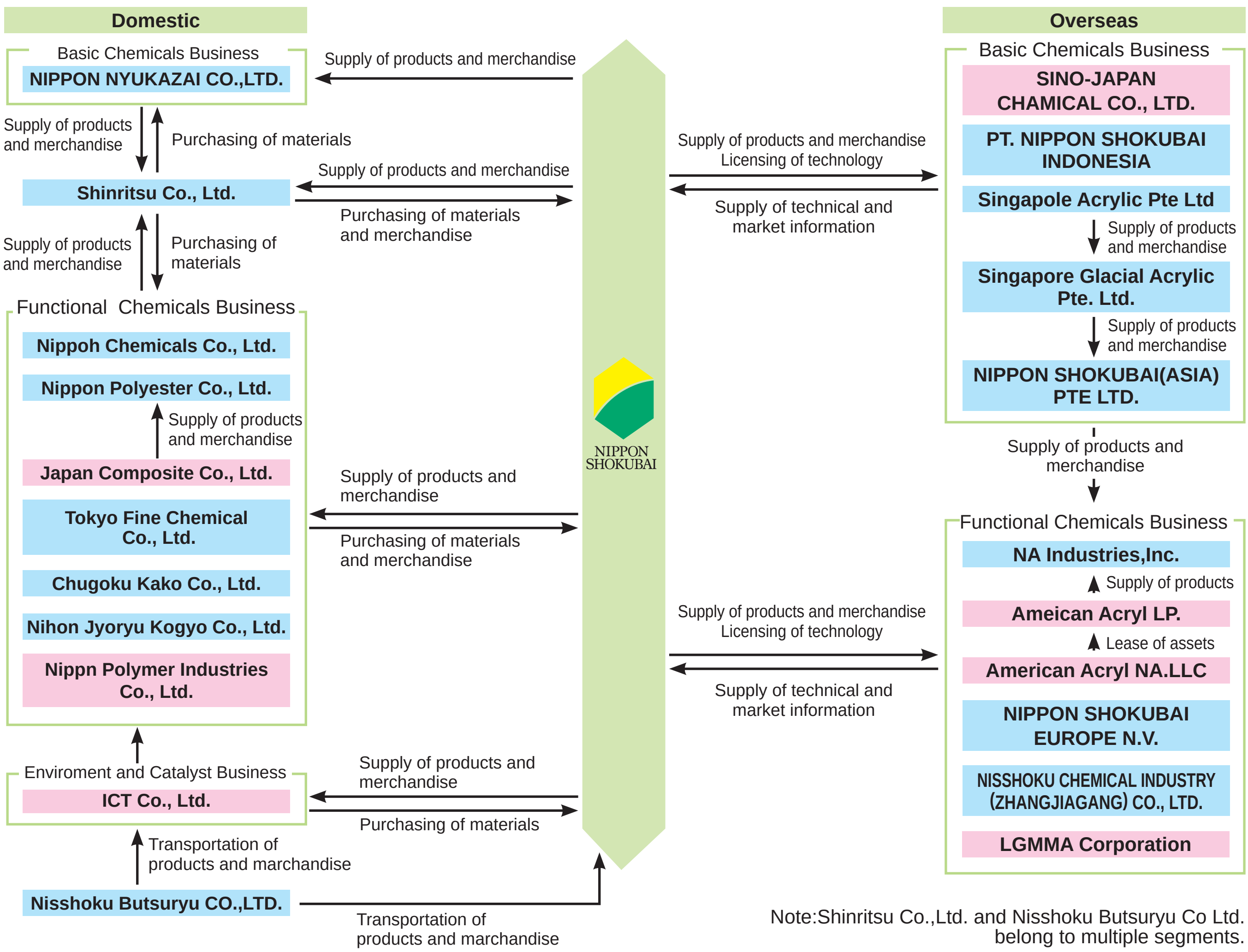
Offices, Plants Consolidated Subsidiaries and Affiliates





Coporate Data

Situation of consolidated group



Note:Shinritsu Co.,Ltd. and Nisshoku Butsuryu Co Ltd. belong to multiple segments.

Consolidated subsidearies
Equity method affiliates

Coporate Data

Consolidated Subsidiaries and Affiliates

Name	Principle Business	President
Nippoh Chemicals Co., Ltd. *	Manufacture and sale of iodine, natural gas, intermediates for API and agro-chemicals and photo/electro chemicals	Shinichi Nagase
Nippon Polyester Co., Ltd. *	Manufacture and sale of synthetic resins and related additives	Shigeo Yasumoto
Nisshoku Butsuryu Co., Ltd. *	Logistics	Masao Kitano
Tokyo Fine Chemical Co., Ltd. *	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze	Tadayoshi Honda
Chugoku Kako Co., Ltd. *	Manufacture and sale of adhesive tape and fine sphere particle	Tadashi Kawai
Nihon Jyoryu Kogyo Co., Ltd. *	Manufacture and sale of authraquinone, carbozole, and their derivatives	Yoshinori Yokoyama
Shinritsu Co., Ltd. *	Sale of chemical products	Masayoshi Sugimoto
NIPPON NYUKAZAI CO., LTD. *	Manufacture and sale of organic chemicals such as surfactant	Tsukasa Tanihara
NA Industries, Inc. **	Manufacture and sale of superabsorbent polymers, polymers for concrete admixture and water soluble polymers Technical Liaison and business development	Hidetaka Yatagai
NIPPON SHOKUBAI (ASIA) PTE LTD *	Sale of chemical products	Hisakazu Fujita
NIPPON SHOKUBAI EUROPE N.V. *	Manufacture and sale of superabsorbent polymers	Hideki Sogabe
PT. NIPPON SHOKUBAI INDONESIA *	Manufacture and sale of acrylic acid and acrylic esters	Yoshinao Hirano
Singapore Acrylic Pte Ltd *	Manufacture and sale of crude acrylic acid	Koichiro Yamada
Singapore Glacial Acrylic Pte. Ltd. *	Manufacture and sale of glacial acrylic acid	Koichiro Yamada
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD. *	Manufacture and sale of superabsorbent polymers and polymers for concrete admixture	Kazumi Fujioka
ICT Co., Ltd.	Sale of automobile exhaust catalyst	Yojiro Takahashi
Nihon Polymer Industries Co., Ltd.	Manufacture and sale of acrylic emulsions	Hideyuki Tahara
Japan Composite Co., Ltd.	Manufacture and sale of unsaturated polyeters resin and plastic molded materials	Tetsuyuki Matsubara
LGMMA Corp.	Manufacture and sale of MMA and PMMA	Dae Hyun Jun
SINO-JAPAN CHEMICAL CO., LTD.	Manufacture and sale of organic chemicals such as surfactant	Hajime Uchida

* Included in consolidation ** American Acryl NA LLC and American Acryl L.P. are consolidated into NA industries, Inc. by the equity method. (as of June 30 2008)

Coporate Data

Directory

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Tokyo 100-0011, Japan
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14-1 Chidori-cho, Kawasaki-ku
Kawasaki, Kanagawa
210-0865, Japan

Kawasaki Ukishima Plant
10-12 Ukishima-cho, Kawasaki-ku
Kawasaki, Kanagawa
210-0862, Japan

Himeji Plant
992-1 Aza-Nishioki Okihama,
Aboshi-ku, Himeji, Hyogo
671-1282, Japan

Suita Plant
5-8 Nishi Otabi-cho, Suita, Osaka
564-0034, Japan

LABORATORIES

Advanced Materials Research Center
5-8, Nishi Otabi-cho, Suita, Osaka
564-0034, Japan

Strategic Technology Research Center
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564-0034, Japan

Superabsorbents Research Center
992-1 Aza-Nishioki Okihama,
Aboshi-ku, Himeji, Hyogo
671-1282, Japan

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E&I Materials Research Center
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Facsimile : 82-31-718-9693

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Facsimile : 886-2-2396-9076

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Zwijindrecht, Belgium
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Facsimile : 32-3-250-3712

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Facsimile : 65-6532-0079

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China, 200031
Telephone: 86-21-54075959
Facsimile: 86-21-54075673

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Facsimile: +81-3-3506-7598
URL http://www.shokubai.co.jp

NIPPON
SHOKUBAI