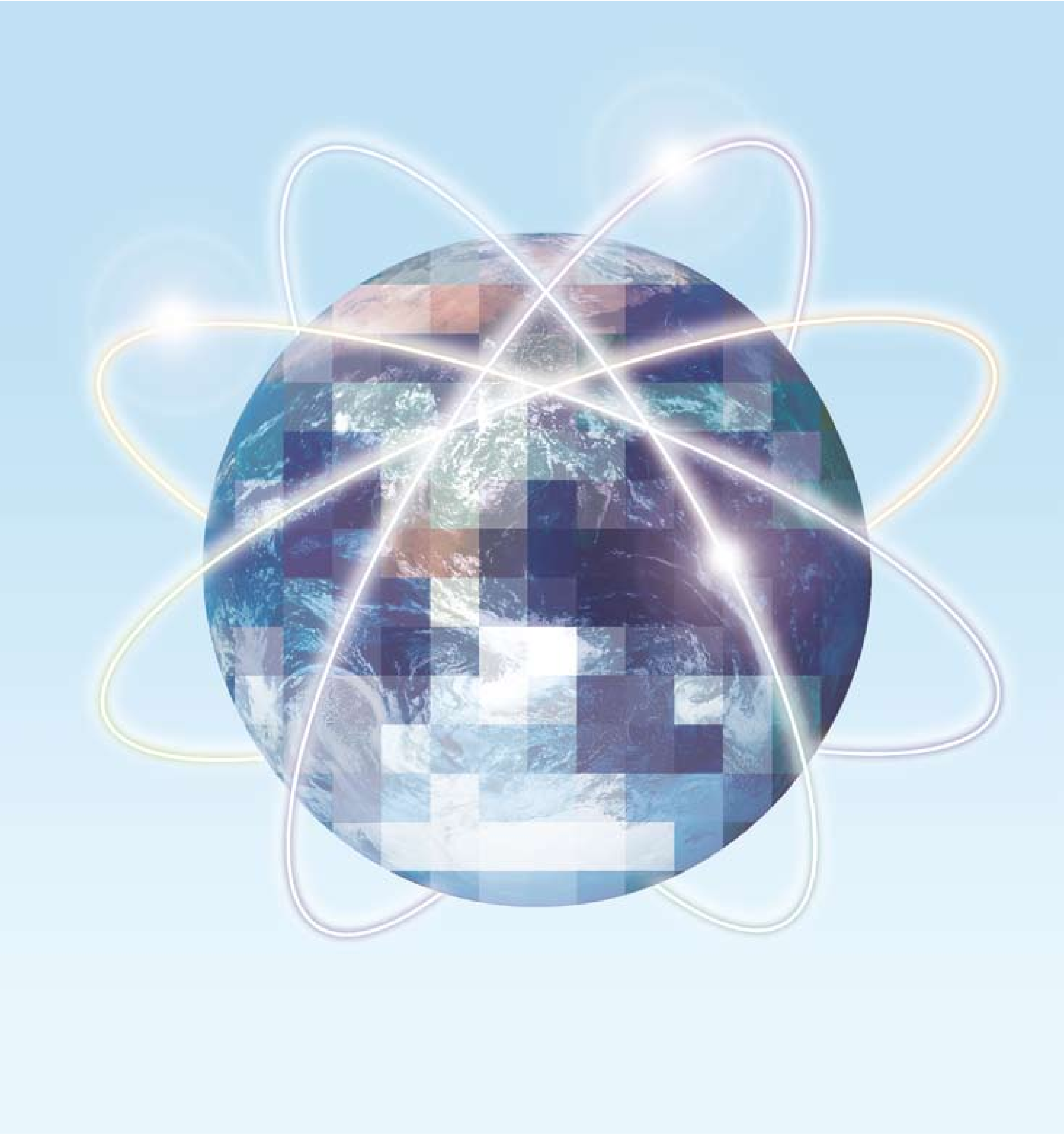
# Annual Report 2010

ASAHI KASEI CORPORATION



ASAHI KASEI CORPORATION

Contributing to human life and human livelihood through constant innovation and advances based in science and the human intellect.

## Contents

# Consolidated Financial Highlights

Asahi Kasei Corporation and consolidated subsidiaries

| | ¥ billion | | | | | US$ million* |
|---|---|---|---|---|---|---|
| Fiscal year beginning April 1 | 2009 | 2008 | 2007 | 2006 | 2005 | 2009 |
| **For the year** | | | | | | |
| Net sales | ¥1,433.6 | ¥1,553.1 | ¥1,696.8 | ¥1,623.8 | ¥1,498.6 | $ 15,415 |
| Operating income | 57.6 | 35.0 | 127.7 | 127.8 | 108.7 | 620 |
| Net income | 25.3 | 4.7 | 69.9 | 68.6 | 59.7 | 272 |
| **At year-end** | | | | | | |
| Total assets | ¥1,368.9 | ¥1,379.3 | ¥1,425.4 | ¥1,459.9 | ¥1,376.0 | $ 14,719 |
| Net worth† | 644.7 | 603.8 | 666.2 | 645.7 | 594.2 | 6,932 |

| | ¥ | | | | | US$* |
|---|---|---|---|---|---|---|
| **Per share** | | | | | | |
| Net income | ¥ 18.08 | ¥ 3.39 | ¥ 50.01 | ¥ 49.00 | ¥ 42.46 | $ 0.19 |
| Net worth‡ | 452.91 | 431.77 | 476.39 | 461.50 | 424.34 | 4.87 |
| Cash dividends | 10.00 | 10.00 | 13.00 | 12.00 | 10.00 | 0.11 |

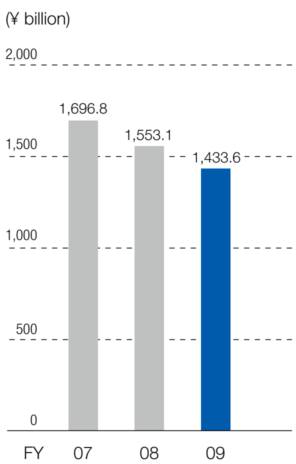
| | | | | | |
|---|---|---|---|---|---|
| **Key indexes** | | | | | |
| Operating margin | 4.0% | 2.3% | 7.5% | 7.9% | 7.3% |
| Payout ratio | 55.3% | 295.0% | 26.0% | 24.5% | 23.6% |
| ROA | 1.8% | 0.3% | 4.8% | 4.8% | 4.5% |
| ROE | 4.1% | 0.7% | 10.7% | 11.1% | 10.8% |
| Net worth to total assets‡ | 46.3% | 43.8% | 46.7% | 44.2% | 43.2% |
| D/E ratio‡ | 0.42 | 0.52 | 0.32 | 0.34 | 0.40 |

* U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥93=US$1 as described in Note 1 of Notes to Consolidated Financial Statements.

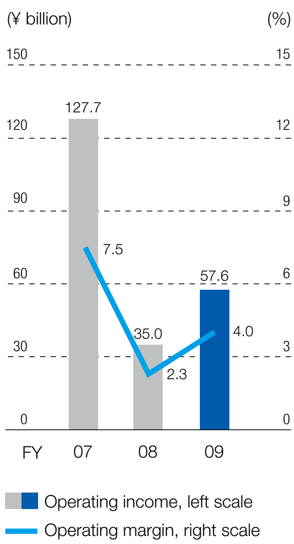
† Net assets less minority interest. For the year beginning April 1, 2005, figures for shareholders' equity shown.

‡ At fiscal year end.

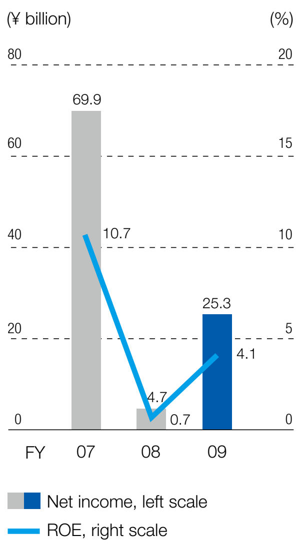
**Net Sales**



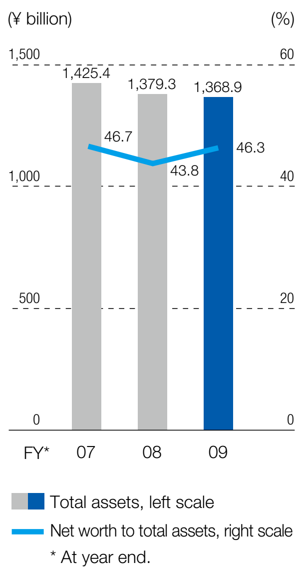

**Operating Income, Operating Margin**




**Net Income, ROE**




**Total Assets, Net Worth to Total Assets**



## Basic Tenets of the Asahi Kasei Group

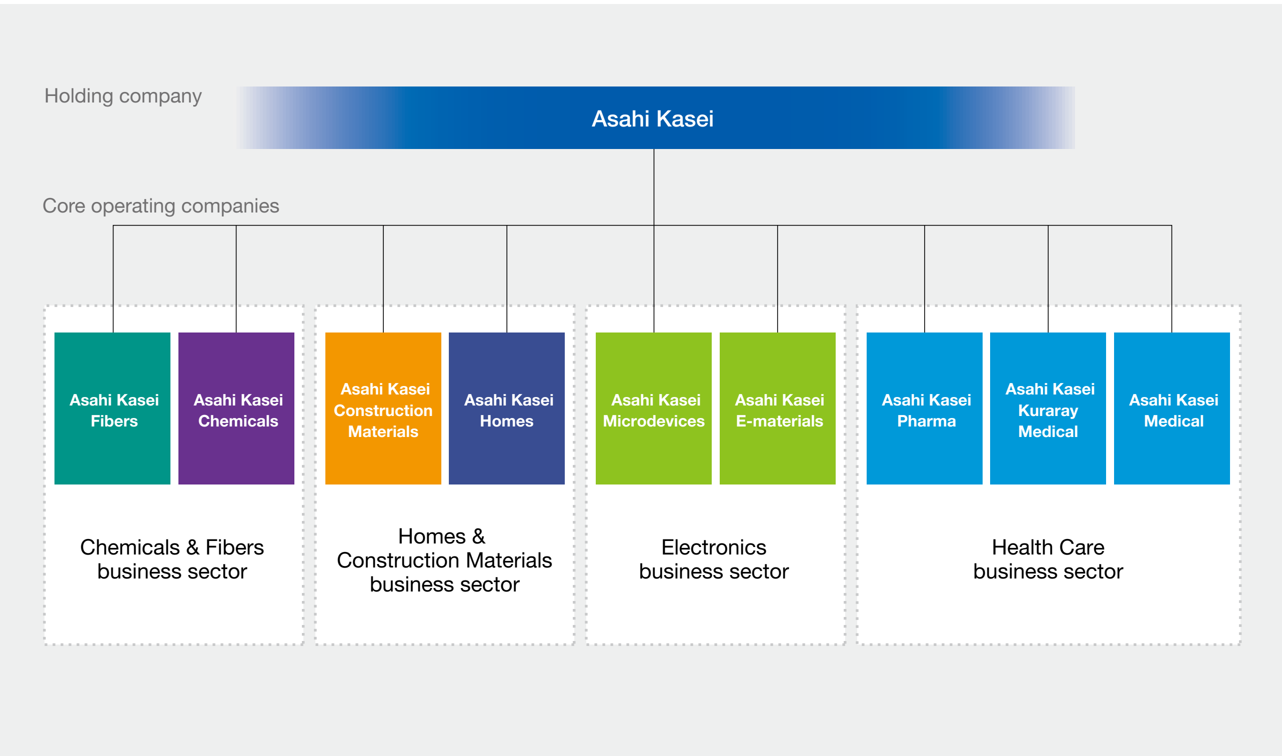
Contributing to human life and human livelihood

through constant innovation and advances

based in science and the human intellect.

**Asahi Kasei Group Management Configuration**

(as of April 1, 2010)



## To Our Shareholders

The global economy was generally recovering during fiscal 2009, led by growth in China and other emerging countries, as an effect of economic stimulus packages implemented in response to the 2008 financial crisis. Although corporate earnings improved with increased exports to Asian countries, the Japanese economy remained sluggish as the strong yen, curtailed domestic capital investment, and weak consumer spending continued.

The operating environment for the Asahi Kasei Group remained challenging due to volatile feedstock prices, the strong yen, and a sluggish recovery of domestic demand, which led to a decline in sales. Income nevertheless increased as an effect of cost reductions as well as increased exports buoyed by strong overseas demand.

Based on these results, we paid a year-end dividend of ¥5 per share, which, combined with the interim dividend, brought the total annual dividend to ¥10 per share.

Fiscal 2010 is the final year of our *Growth Action – 2010* initiative. As we continue to proceed with implementation of the current initiative based on our strategic review of June 2009, we are also advancing the formulation of the subsequent medium-term strategic management initiative.

Under the new management team installed on April 1, we are forging ahead with a revitalization of the Asahi Kasei Group in accordance with our basic tenets in order to achieve sustainable growth in the midst of this rapidly changing business climate, ensuring that we continue to further our contribution to our stakeholders and to society at large.

August 2010

N. Yamaguchi

**Nobuo Yamaguchi**
Honorary Chairman

I. Itoh

**Ichiro Itoh**
Chairman

## A Message from the President

Taketsugu Fujiwara, President

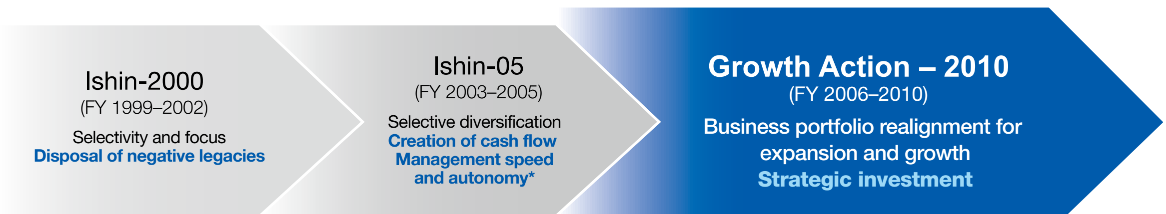
### Advancing *Growth Action – 2010* and Looking Ahead to the Next Strategic Management Initiative

Fiscal 2010 is the final year of *Growth Action – 2010*, the Asahi Kasei Group's five-year strategic initiative which began in fiscal 2006. Even as we continue to advance under our current strategy, we are also proceeding with formulation of the subsequent management initiative which will begin in fiscal 2011.

#### Succession and Development of Management Initiatives

The Asahi Kasei Group has continuously achieved growth by transforming its business portfolio to meet the changing needs of the times. Such transformations have been guided by a succession of strategic management initiatives. From fiscal 1999 to 2002, operations were reinforced through selectivity and focus under the *Ishin-2000* initiative. From fiscal 2003

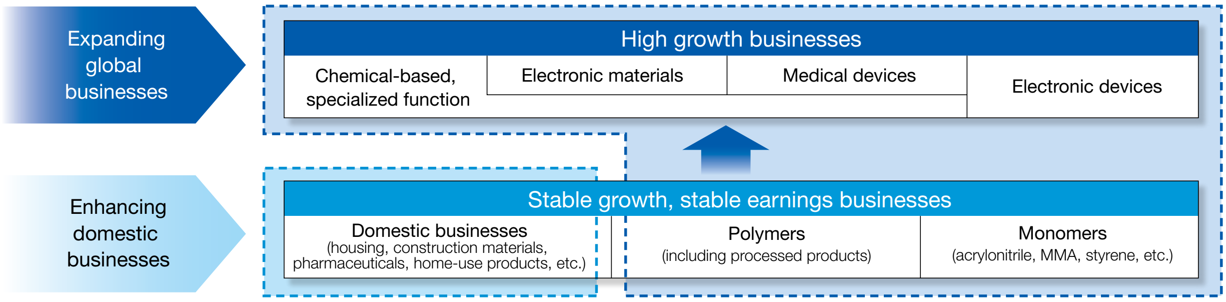
**Strategic Management Initiatives**




* Transition to holding company configuration in Oct. 2003.

# Advancing the ***Growth Action – 2010*** strategic initiative to transform our business portfolio and strengthen our operational base

### *Growth Action – 2010* Concept




Long-term investments

(¥ billion)

| | |
|---|---|
| Investment from FY 2003 to FY 2005 | 70–80/year |
| **Strategic investment for FY 2006 to FY 2010** | **400** |
| Total for FY 2006 to FY 2010 | 800 |

(¥ billion)

| | |
|---|---|
| **Organic** | **220** |
| **M&A** | **150** |
| **Resources for dividends** | **30** |

to 2005, under the *Ishin-05* initiative, further expansion of operations and strengthening of the financial constitution were advanced through a strategy of selective diversification.

These were followed by the current *Growth Action – 2010* initiative beginning in 2006, with the expansion of global businesses and the enhancement of domestic businesses as pillars of strategy, to achieve a business portfolio realignment for expansion and growth for heightened corporate value and brand strength. The plan provided for some ¥400 billion in strategic investment focused on the fields of chemical-based/specialized function products, electronics products, and health care. Together with ordinary investments, we targeted total capital expenditure of some ¥800 billion for the five-year term, with fiscal 2010 performance targets including sales of ¥1,800 billion and operating income of ¥150 billion.

Strategic investments, including M&A, were proactively performed, and global businesses were expanded, with results exceeding the initial plan through fiscal 2007.

### Revision of Financial Performance Forecasts

(¥ billion)

| | FY 2007 | FY 2008 | FY 2009 | FY 2010 original target | FY 2010 outlook (as of June 2009) | FY 2010 forecast (as of May 2010) |
|---|---|---|---|---|---|---|
| Net sales | 1,696.8 | 1,553.1 | 1,433.6 | **1,800.0** | **1,350.0–1,500.0** | **1,677.0** |
| Operating income | 127.7 | 35.0 | 57.6 | **150.0** | **60.0–80.0** | **80.0** |
| Net income | 69.9 | 4.7 | 25.3 | **80.0** | **—** | **42.5** |

## Strategic Review of *Growth Action – 2010*

As the global economic crisis in the second half of fiscal 2008 caused a severe deterioration in the operating climate, it became clear that achievement of our initial financial targets would be highly problematic. In June 2009, we therefore performed a strategic review of *Growth Action – 2010*, including a revision of our targets for financial performance. Although we found no need for fundamental change in our strategic pillars of expanding global businesses and enhancing domestic businesses, we did identify the need to further accelerate the expansion of high-growth businesses with a focus on the fields of electronics and health care, while streamlining businesses for which future competitiveness cannot be ensured, largely in commodity fields. The outlook for financial performance in fiscal 2010 was revised to ¥1,350–1,500 billion of net sales and ¥60–80 billion of operating income.

Although investment of ¥800 billion had been planned for the five-year period, this was reduced by ¥130 billion to ¥670 billion. Investments for simple expansion of capacity for volume-products were put on hold, and other investments were made subject to strict selectivity in consideration of the business environment.

Based on these criteria, we proceeded with proactive capacity expansions for products with strong growth prospects such as Hipore™ lithium-ion battery (LiB) separator, APS™ polysulfone-membrane artificial kidneys, and Sepacell™ leukocyte reduction filters. Developments in M&A and alliances were also advanced. In electronics, we acquired the semiconductor operations of Toko Inc. In health care, we established an alliance with NxStage Medical, Inc. and acquired majority ownership in Med-Tech Inc.

At the same time, we took steps to strengthen the

### Revision of Investment Plan

(Decision adopted, ¥ billion)

| | | Original 5-year plan (a) | Revised 5-year plan (b) | Decrease from original plan (b-a) | FY 2010 plan |
|---|---|---|---|---|---|
| Maintenance | | 200 | 195 | (5) | ¥40 billion |
| | Expansion | 360 | 240 | (120) | |
| | R&D | 40 | 40 | 0 | |
| | M&A | 150 | 150 | 0 | |
| Subtotal | | 550 | 430 | (120) | ¥50 billion |
| Renewing petrochemical complex | | 20 | 15 | (5) | ¥10 billion |
| Dividends, restructuring, etc | | 30 | 30 | 0 | |
| Total | | 800 | 670 | (130) | ¥100 billion+$\alpha$ (M&A) |

### Major Capital Expenditures

**Completed in FY 2009**

**Chemicals**
- New boiler and power generation turbine using SDA pitch
- Capacity expansion for ion-exchange membranes

**Health Care**
- New plant for Sepacell™ leukocyte reduction filters
- Expansion of capacity for spinning polysulfone hollow-fiber membrane for APS™ dialyzers
- New plant for spinning hollow-fiber membrane for Planova™ virus removal filters

**Fibers**
- Capacity expansion for Roica™ elastic polyurethane filament in Thailand

**Electronics**
- Capacity expansion for LSIs
- Capacity expansions for Hipore™ LiB separator in Moriyama

**Holding Company**
- New integrated research complex

**Under construction in FY 2009**

**Chemicals**
- New power generation facility for use with wood biomass fuel
- New AN and MMA plants in Thailand

**Health Care**
- New assembly plant for Planova™ virus removal filters
- New plant for therapeutic apheresis devices

**Electronics**
- New plant for Hipore™ LiB separator in Hyuga, expansion thereof

operational constitution by streamlining businesses with no firm prospects for significant growth, including the discontinuation of in-house production of polyester filament and the down-scaling of our autoclaved aerated concrete (AAC) production configuration. Throughout all other businesses, concerted efforts were applied to reduce fixed costs and hold down inventories. As a result, income growth was obtained in fiscal 2009 even as sales decreased.

## Strategies and Actions by Business Sector

*Chemicals & Fibers*

The basic strategy is to proactively invest in businesses which can be expanded globally, while reviewing businesses for which ongoing competitive superiority would be difficult to secure, in order to strengthen the operational configuration.

In fibers, in-house production of polyester filament was discontinued, and the monofilament and polytrimethylene terephthalate fiber businesses were withdrawn. In chemicals, structural improvement of fertilizer and industrial explosives operations were advanced through consolidation with other producers. Additionally, we and Mitsubishi Chemical Holdings agreed to establish a joint venture between Asahi Kasei Chemicals and Mitsubishi Chemical to unify naphtha cracker operations in Mizushima in April 2011, providing for a flexible operational configuration which will be able to swiftly adapt to changes in the operating climate for petrochemicals with reinforced competitiveness.

For global business expansion and growth, we increased production capacity for ion-exchange membranes and for synthetic rubber and elastomer, and began construction of acrylonitrile (AN) and methyl methacrylate (MMA) plants through a joint venture with PTT of Thailand. We also built a new plant in China for Duranate™ HDI-based polyisocyanate and a new plant in China for the assembly of Microza™ water-filtration modules.

*Homes & Construction Materials*

In homes, a new framing system was developed for next-generation energy conservation performance, and new products featuring advanced environmental compatibility were launched. The sales organization has been reconfigured and strengthened, and peripheral businesses such as remodeling and real estate have been expanded.

In construction materials, the operational configuration for Hebel™ AAC was strengthened by the closure of the Shiraoi plant and a reduction of production capacity at the Hozumi plant.

*Health Care*

Business acquisitions and alliances with overseas companies were advanced for the expansion and globalization of operations. In medical devices, an alliance was established with NxStage Medical, Inc. in the field of hemodialysis products as a key element in the strategic expansion of a world-leading position in blood purification systems. In bioprocess technology, we acquired the bioprocess operations of TechniKrom, Inc.

In pharmaceuticals, newly approved products include Recomodulin™ anticoagulant and Famvir™ anti-herpes agent. Overseas clinical development for Recomodulin™ is also advancing.

*Electronics*

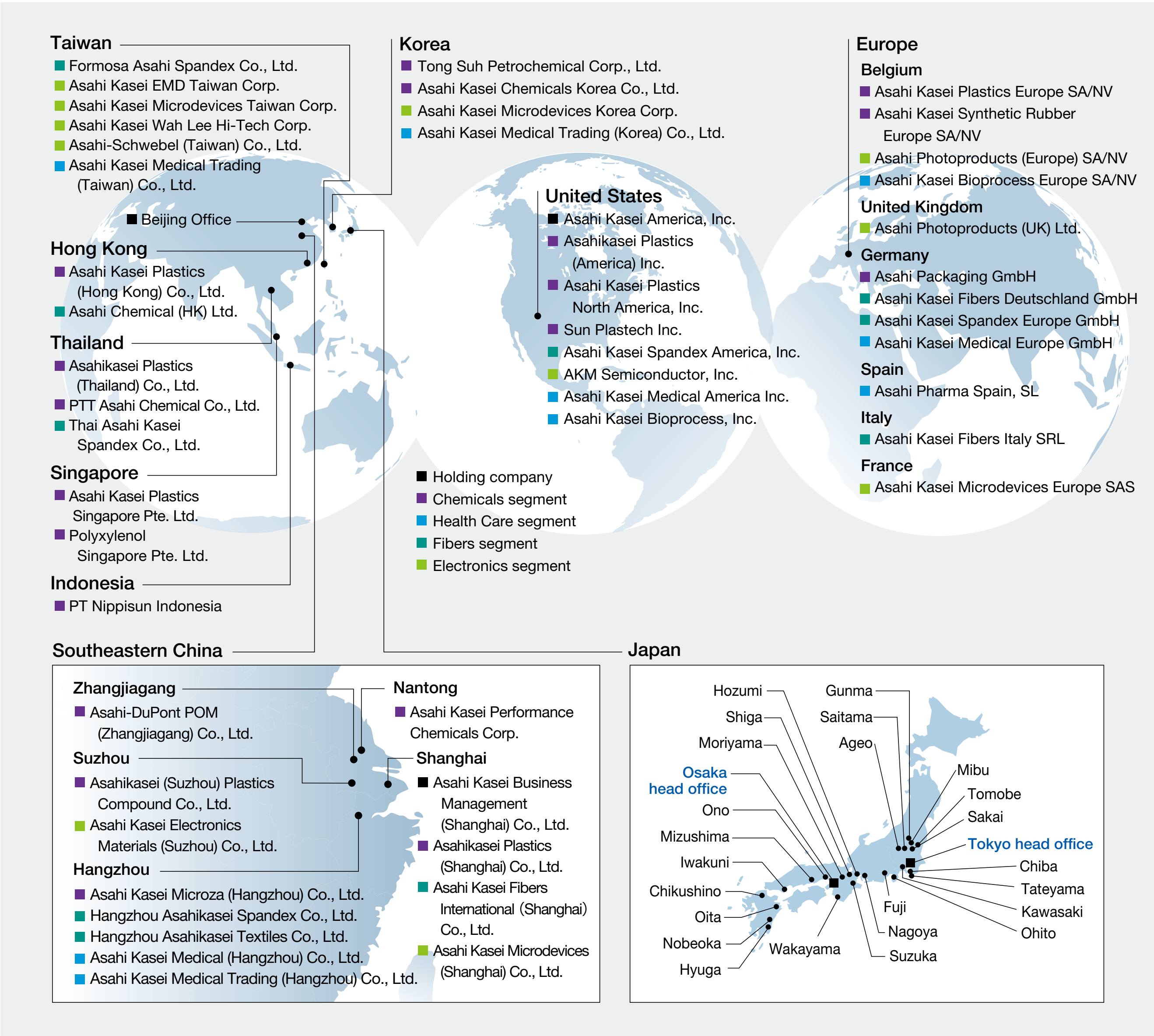
Production capacity expansions have been concentrated on products which address growing market needs related to energy and resource conservation. In devices, we acquired the semiconductor operations of Toko Inc. to enter the field of power management LSIs, and expanded the electronic compass business—a new field of LSI application. LSI sales functions in Korea, China, and Europe were incorporated as overseas subsidiaries.

In electronic materials, we increased production capacity for Hipore™ LiB separator by expanding our plant in Moriyama and building a new plant in Hyuga, and expanded production capacity for dry film photoresist at our plant in China, further reinforcing these globally competitive businesses.

## Outlook for Fiscal 2010

Although demand in developing countries is on a recovery trend, the operating climate for the Asahi Kasei Group in fiscal 2010 is expected to remain obscure, with lingering concerns over weak domestic Japanese demand, a strong yen, and volatile feedstock prices. Furthermore, the successive start-up of large petrochemical plants in the Middle East and China may lead to oversupply. Even in this climate, we expect to achieve an increase in both sales and operating income by implementing our strategy under *Growth Action – 2010* to further expand competitive businesses while advancing wide-ranging measures to strengthen the operational configuration.

### Global Business Operations



Chemicals & Fibers: Operating income is forecasted to grow in chemicals operations with continuing strong demand expected, mainly in China. Fibers operations are forecasted to return to profitability with increased shipments throughout all main products and the effect of structural reconfiguration.

Homes & Construction Materials: Operating income is forecasted to grow in homes operations as increased orders and deliveries are expected thanks to new products, such as the Hebel Haus™ Frex "G3," which match growing market needs. Operating income is forecasted to grow in construction materials operations as an effect of thorough cost-cutting.

Health Care: Operating income is forecasted to grow with increased shipments of Recomodulin™ expected in pharmaceuticals operations and increased shipments of APS™ and therapeutic apheresis devices expected in medical devices operations.

Electronics: Operating income is forecasted to grow with increased shipments of each product in both electronic devices and electronic materials due to recovering demand. The Hipore™ business in particular is being expanded with significant capacity expansions and developments to meet growing demand in automotive applications.

## Return to Shareholders

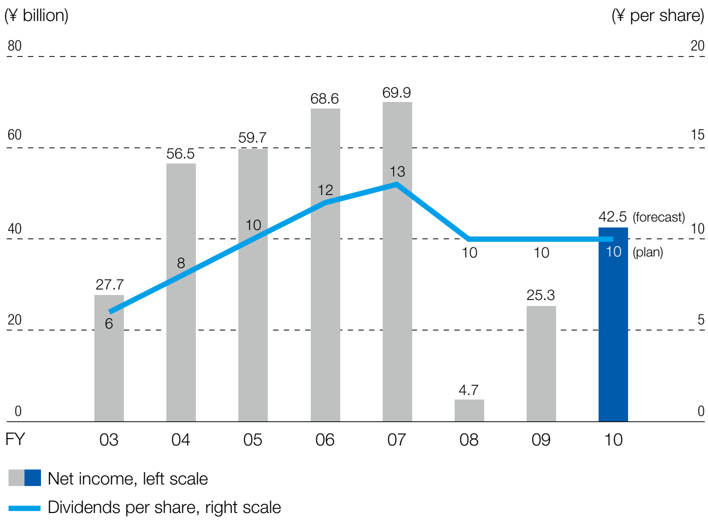
The annual dividend for fiscal 2009 was ¥10 per share in line with our basic policy to strive for increased dividends through continuous earnings growth while maintaining an appropriate cash reserve based on consolidated income. While we intend to increase the return to shareholders as consolidated income improves further, we plan an annual dividend of ¥10 per share in fiscal 2010.

## Medium-term Management Perspective

The world's economic map and values have undergone major changes since the global financial crisis, and the emergence of many new markets and needs is expected. Under these circumstances, we must clearly discern the currents of the new era and ensure that the operations of the Asahi Kasei Group are executed in accordance with them.

Our basic tenets are to contribute to human life and human livelihood through constant innovation and advances based in science and the human intellect.

**Net Income, Dividends per Share**




By "human life" we mean people, and by "human livelihood" we mean society. Amidst the transformations taking place in the world around us, our path forward is to contribute to the development of a society that progresses in harmony with the natural environment and enables each individual to live in health and comfort. It is by making these ideals come to reality through our business operations worldwide that we fulfill our mission as a corporate enterprise, and we are well placed to do so by exerting the diverse strengths of the Asahi Kasei Group.

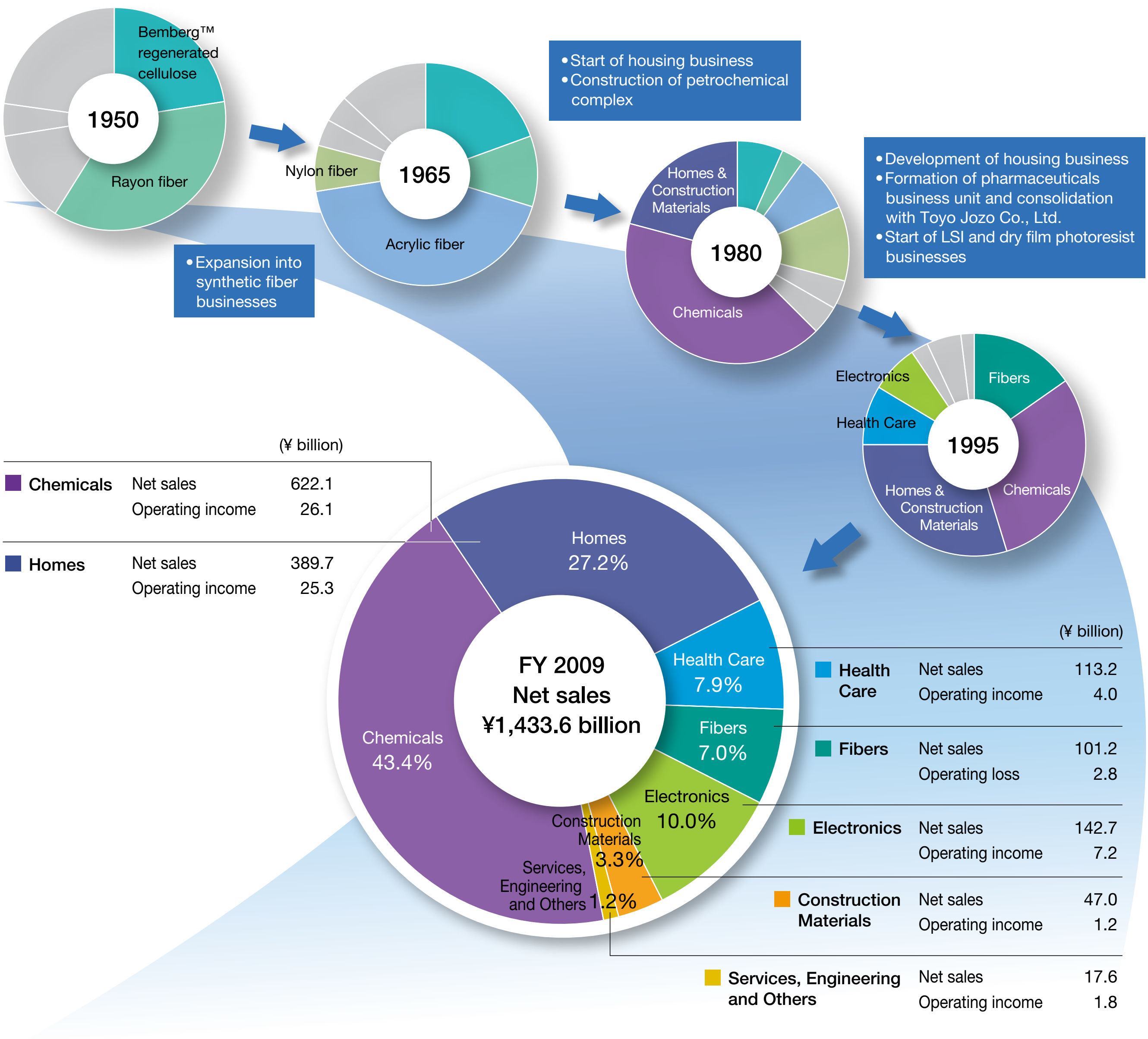
Based on this, reinforcement of established businesses will be advanced through identification of the ultimate operational configuration under which stable earnings can be secured, and businesses will be reviewed from the two perspectives of "harmony with the environment" and "living in health and comfort." Competitive businesses will be proactively expanded, with accelerated growth of businesses that have global potential. New businesses will be developed based on these two perspectives by combining the strengths of the diverse operations, technologies, and human resources of the Asahi Kasei Group, as well as by actively leveraging alliances and M&A. Rather than simply supplying materials and components, the ultimate objective in new business will be to develop comprehensive systems and services that meet emerging needs in society.

## At a Glance

# Contributing to human life and human livelihood through constant innovation and advances based in science and the human intellect

**Through strategic business expansion since the 1950s, Asahi Kasei has grown in step with the Japanese economy, developing into the selectively diversified enterprise group it is today. Across the decades, successful growth and development have been achieved through successive reconfigurations of our operational configuration to meet the needs of society for convenience and comfort in tune with the times.**

**History of Business Portfolio Transformation (Sales Composition)**




(¥ billion)

| Segment | | |
|---|---|---|
| Chemicals | Net sales | 622.1 |
| | Operating income | 26.1 |
| Homes | Net sales | 389.7 |
| | Operating income | 25.3 |
| Health Care | Net sales | 113.2 |
| | Operating income | 4.0 |
| Fibers | Net sales | 101.2 |
| | Operating loss | 2.8 |
| Electronics | Net sales | 142.7 |
| | Operating income | 7.2 |
| Construction Materials | Net sales | 47.0 |
| | Operating income | 1.2 |
| Services, Engineering and Others | Net sales | 17.6 |
| | Operating income | 1.8 |

The businesses of the Asahi Kasei Group are organized in nine core operating companies. Under our *Growth Action – 2010* mid-term management initiative, strategic investments have been implemented for the transformation of our business portfolio to achieve further expansion and growth.

With the expansion of global businesses and the enhancement of domestic businesses advancing in our four business sectors of Chemicals & Fibers, Homes & Construction Materials, Electronics, and Health Care, we are focused on helping society progress in harmony with the natural environment and enabling each individual to live in health and comfort as strategic perspectives, and working to create new businesses which combine the diverse strengths of our many operations.

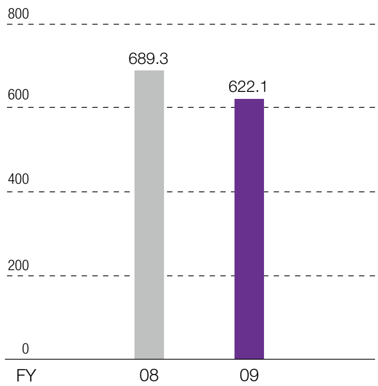
| Operating Segments, Core Operating Companies | Main Businesses | Major Consolidated Subsidiaries |
|---|---|---|
| Chemicals<br>**Asahi Kasei Chemicals Corp.** | Organic and inorganic industrial chemicals, synthetic resin, synthetic rubber, coating materials, latex, pharmaceutical and food additives, explosives, photopolymers and plate-making systems, separation and ion-exchange membranes, systems, and equipment. | Sanyo Petrochemical Co., Ltd.<br>Asahi Kasei Pax Corp.<br>Asahi Kasei Home Products Corp.<br>Japan Elastomer Co., Ltd.<br>Tong Suh Petrochemical Corp., Ltd.<br>Asahi Kasei Plastics Singapore Pte. Ltd.<br>Asahikasei Plastics (America) Inc.<br>Asahi Kasei Performance Chemicals Corp.<br>Asahi Kasei Microza (Hangzhou) Co., Ltd.<br>PS Japan Corp. |
| Homes<br>**Asahi Kasei Homes Corp.** | Hebel Haus™ houses, Hebel Maison™ apartments, condominiums, remodeling, real estate, residential land development, financial services. | Asahi Kasei Jyuko Co., Ltd.<br>Asahi Kasei Mortgage Corp.<br>Asahi Kasei Reform Co., Ltd.<br>Asahi Kasei Real Estate, Ltd.<br>Asahi Kasei Home Construction Corp. |
| Health Care<br>**Asahi Kasei Pharma Corp.**<br>**Asahi Kasei Kuraray Medical Co., Ltd.**<br>**Asahi Kasei Medical Co., Ltd.** | Pharmaceuticals, diagnostic reagents, hemodialyzers, therapeutic apheresis devices, Planova™ virus removal filters, Sepacell™ leukocyte reduction filters. | Asahikasei Aime Co., Ltd.<br>Med-Tech Inc.<br>Asahi Kasei Bioprocess, Inc.<br>Asahi Kasei Medical (Hangzhou) Co., Ltd. |
| Fibers<br>**Asahi Kasei Fibers Corp.** | Roica™ elastic polyurethane filament (spandex), Eltas™ spunbond, Lamous™ artificial suede, Bemberg™ cupro cellulosic fiber. | Kyokuyo Sangyo Co., Ltd.<br>Thai Asahi Kasei Spandex Co., Ltd.<br>Hangzhou Asahikasei Spandex Co., Ltd.<br>Asahi Kasei Spandex Europe GmbH<br>Asahi Kasei Spandex America, Inc.<br>Asahi Chemical (HK) Ltd.<br>Hangzhou Asahikasei Textiles Co., Ltd. |
| Electronics<br>**Asahi Kasei Microdevices Corp.**<br>**Asahi Kasei E-materials Corp.** | Mixed-signal LSIs, Hall elements, Hall effect ICs, Hipore™ Li-ion battery separator, Sunfort™ dry film photoresist, photomask pellicles, Pimel™ photosensitive polyimide precursor. | Asahi Kasei Toko Power Devices Corp.<br>AKM Semiconductor, Inc.<br>Asahi Kasei Electronics Materials (Suzhou) Co., Ltd.<br>Asahi-Schwebel (Taiwan) Co., Ltd.<br>Asahi Kasei Wah Lee Hi-Tech Corp.<br>Asahi Photoproducts (Europe) SA/NV |
| Construction Materials<br>**Asahi Kasei Construction Materials Corp.** | Hebel™ autoclaved aerated concrete, foundation piles, Neoma™ foam and other thermal insulation. | Asahi Kasei Foundation Systems Corp.<br>Asahi Kasei Extech Corp. |
| Services, Engineering and Others | Plant, equipment, process engineering, employment agency, think tank. | Asahi Research Center Co., Ltd.<br>Asahi Finance Co., Ltd.<br>Asahi Kasei Engineering Co., Ltd.<br>Asahi Kasei Amidas Co., Ltd. |

## Operating Segments
# Chemicals

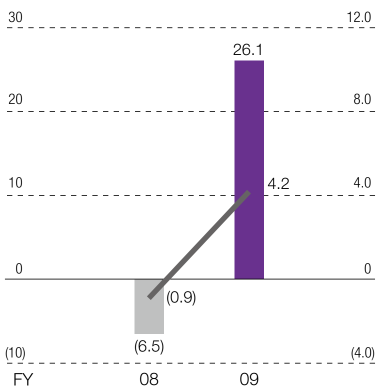
Holding *Creating the Future with Chemistry* as our basic ideal, we are dedicated to helping society to progress in harmony with the natural environment and enable each individual living in health and comfort, through our diverse business operations—advancing as a vigorous, high-earnings company.

**Masaki Sakamoto**
President, Asahi Kasei Chemicals

**Net Sales**




**Operating Income (Loss), Operating Margin**




## Growth Action – 2010

**To advance growth, each business is classified either as a strategic expansion business, with proactive, focused investment of management resources for global expansion, or as a stable growth, stable earnings business, with well-balanced investments to advance differentiation and higher added value.**

**Strategic expansion businesses:**
- AN, MMA, and synthetic rubber and elastomer—characterized by the potential to attain greater earnings through expanded scale and heightened market position.
- Water treatment systems and ion-exchange membrane systems—characterized by the potential to attain growth through the extension into peripheral fields based on established strengths.

**Stable earnings businesses:**
- Polymers/compounds and performance chemicals—characterized by the potential to attain greater added value and steady growth in earnings through a leading position in growing market segments.
- Petrochemicals and basic chemicals—characterized by the potential to maintain stable earnings through a strengthened operational base and structure.

### Fiscal 2009 Review

Sales decreased by ¥67.2 billion (9.8%) from a year ago to ¥622.1 billion and operating income increased by ¥32.6 billion to ¥26.1 billion.

Although market prices remained low during the first half of the fiscal year, operating income from chemicals and derivative products increased with high overseas market prices for acrylonitrile (AN) and adipic acid as an effect of recovering demand in China and other Asian markets in the second half of the fiscal year and with a decrease in inventory valuation loss.

Operating income from polymer products was flat, as low market prices due to decreased feedstock prices were offset by an increase in shipment volumes reflecting a recovery of demand in automotive and electronics applications in the second half of the fiscal year together with a decrease in inventory valuation loss.

Although recovery in water-treatment related business was sluggish and ion-exchange membrane related business was impacted by the strong yen, operating income from specialty products increased with strong performance both in home-use

Highlights

**Major Developments for Microza™**

In the spring of 2009, the Microza™ MF hollow-fiber filtration membrane was adopted for one of the Asia's largest waterworks facilities, located in Manila, the Philippines. Treating saline water with the Microza™ MF together with RO membranes, the facility now supplies 100,000 m³ of high-quality drinking water to some 800,000 residents. Microza™ membranes are also in operation at Korea's largest membrane bioreactor (MBR) facility to treat petrochemical plant effluent as well as at Sri Lanka's first waterworks facility using membrane filtration. In addition, a new high-flux submerged membrane module was launched, targeting expanded sales in Asia and new applications development.

Microza™ for water treatment

**R&D and Capital Expenditure** (¥ billion except %)

| | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
|---|---|---|---|---|
| Fiscal 2009 | 14.0 | 2.3% | 27.6 | 32.4 |
| Fiscal 2008 | 14.6 | 2.0% | 36.3 | 32.2 |

**Major Investments**

| | |
|---|---|
| Completed in fiscal 2009 | New boiler and power generation turbine using SDA pitch |
| | Capacity expansion for ion-exchange membranes |
| Under construction in fiscal 2009 | New power generation facility for use with wood biomass fuel |
| | New AN and MMA plants in Thailand |

products such as Saran Wrap™ and in coating materials and with steady performance in functional additives.

## Fiscal 2010 outlook

Sales and operating income for the year are forecasted to increase. Although terms of trade will deteriorate due to high feedstock prices, shipments are expected to increase particularly in overseas markets.

## R&D

R&D for new chemical products and production processes is performed in accordance with our basic ideal of *Creating the Future with Chemistry*. Through the enhancement of our established core technologies and the acquisition of new technologies, R&D focused on the environment, resources, and energy is advanced to help society to progress in harmony with the natural environment and enable each individual to live in health and comfort.

In chemicals and derivative products, current projects slated for completion within 1–2 years include the development of alternative chemical processes to enable feedstock diversification as with the propane process for acrylonitrile (AN), and the development of chemical production processes using $CO_2$ as feedstock.

In polymer products, current projects include the development of polyamide with ultra-high heat resistance, high rigidity, and excellent moldability using novel molecular design, as well as the development of new composite materials using interface control technology. Computer-aided engineering (CAE) technology we developed in-house has become an essential element of our R&D capability, and is playing an increasingly significant role in new market development and joint development with customers.

In specialty products, recent notable achievements include the industry's first photocatalytic paint which provides 30-year durability with one-layer coating—adopted for Hebel Haus™ homes. Low-cost, safe, and low-waste processes to manufacture active pharmaceutical ingredients (APIs) are under development utilizing our rich base in process development technology. In the field of membrane separation, the technology and commercial know-how gained with Microza™ is utilized in the development of a wide range of water-treatment systems as well as in the development of membranes for bacteria separation in bioprocess applications.

### Major Products

**Chemicals and derivative products**
Ammonia, nitric acid, caustic soda, acrylonitrile (AN), styrene, adipic acid, methyl methacrylate (MMA) and acrylic resin.

**Polymer products**
Stylac™-AS styrene-acrylonitrile, Stylac™-ABS acrylonitrile-butadiene-styrene, Tenac™ polyacetal, Xyron™ modified polyphenylene ether (mPPE), Leona™ nylon 66, Suntec™ polyethylene (PE), synthetic rubber and elastomer.

**Specialty products**
Coating materials, Ceolus™ microcrystalline cellulose, styrene-butadiene latex, explosives, Microza™ UF and MF membranes and systems, ion-exchange membranes and electrolysis systems, Saran Wrap™ cling film, Ziploc™ storage bags, plastic film, sheet, and foam.

### Core Operating Company Directors

**Asahi Kasei Chemicals**

**Masaki Sakamoto**
President & Representative Director, Presidential Executive Officer

**Masami Fujimori**
Director, Vice-Presidential Executive Officer

**Kyosuke Komiya**
Director, Senior Executive Officer

**Hajime Nagahara**
Director, Senior Executive Officer

**Yuji Kobayashi**
Director, Senior Executive Officer

**Yoshio Negishi**
Director, Senior Executive Officer

**Heiichiro Obanawa**
Director, Senior Executive Officer

### 50th Anniversary for Saran Wrap™

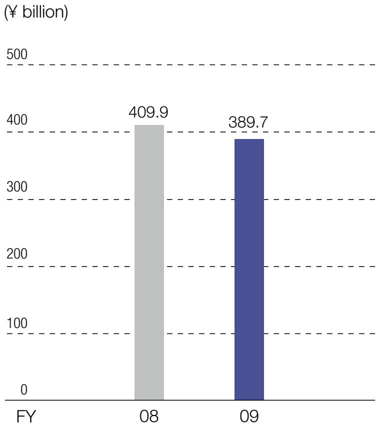
Saran Wrap™ cling film marks its 50th anniversary on the Japanese market in 2010. Since its launch in 1960, it has grown to become an indispensable partner in the kitchen. The adaptable, versatile wrap has kept up with the many changes that have taken place over the decades. From the advent and spread of refrigerators, freezers, and microwaves to the diversification of people's diets in recent years—Saran Wrap™ has always provided the performance and convenience to satisfy the expectations of demanding consumers. As the leading brand of food wrapping cling film in Japan, Saran Wrap™ will continue to advance with enhanced quality and ease of use for generations to come.

# Homes

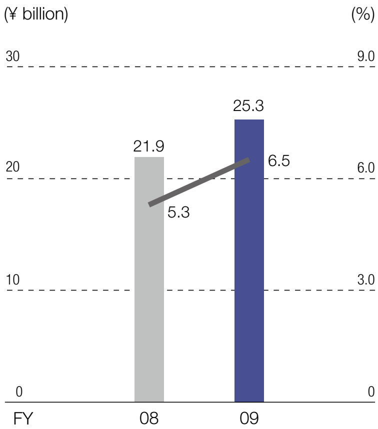
The order-built homes business will be expanded with dominant competitiveness as the differentiated market leader in the field of urban unit homes. Housing-related operations will be developed as an array of businesses, building and utilizing their own distinctive strengths.

**Masahito Hirai**
President, Asahi Kasei Homes

**Net Sales**




**Operating Income, Operating Margin**




## Growth Action – 2010

**Order-built homes operations are focused on the market for home rebuilding in major urban areas, as a high-earnings operational structure is reinforced and expanded.**

### Specific actions include:

- Successive development of new products tailored to specific market characteristics in different regions.
- Advancement of cost reductions through shared procurement and logistical networks with other home builders.
- Productivity enhancements through reduced home construction time.
- Advanced development of technology to enhance the Long Life Home product strategy.

**Long-term customer relationships are maintained through the provision of remodeling, real estate, and financial services.**

### Specific actions include:

- Expansion of real estate operations in brokerage of used Hebel Haus™ homes.
- Expansion of remodeling operations through high-value added services for long-term maintenance and enhancement of home asset value.
- Establishment of stable earnings in home financing operations with mortgage securitization and development of homeowners insurance business.
- Development of new businesses utilizing proprietary technology, know-how, and the asset value of Hebel Haus™ homes.

## Fiscal 2009 Review

Sales decreased by ¥20.2 billion (4.9%) from a year ago to ¥389.7 billion and operating income increased by ¥3.5 billion (15.9%) to ¥25.3 billion.

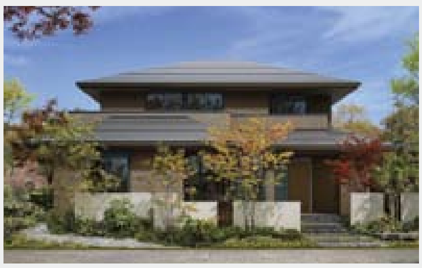
Operating income from order-built and pre-built homes increased with cost reductions and other measures to heighten operating efficiency offsetting a substantial decline in deliveries of order-built Hebel Haus™ unit homes. Orders for order-built homes received during the year increased to ¥306.9 billion, up by ¥15.8 billion from a year ago, reflecting a recovery in orders during the second half of the fiscal year.

Despite steady performance in

Highlights

### Launch of the Hebel Haus™ Shindaichi Premium

The Hebel Haus™ Shindaichi Premium, featuring a sedate Japanese aesthetic that stands out tastefully in mature neighborhoods, was launched in August 2009. Targeting the market for rebuilding in urban residential areas and older suburban subdivisions where excellent living climates endure, it is the latest rendition in the Shindaichi series of pitched-roof, two-story unit homes. With a design that appeals to every age group, the home will provide sustained value for successive generations of residents.



Hebel Haus™ Shindaichi Premium

| R&D and Capital Expenditure (¥ billion except %) | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
|---|---|---|---|---|
| Fiscal 2009 | 2.1 | 0.5% | 6.0 | 4.3 |
| Fiscal 2008 | 2.5 | 0.6% | 7.0 | 3.4 |

remodeling and real estate operations, operating income in housing-related operations decreased with slack performance in financing operations.

### Fiscal 2010 Outlook

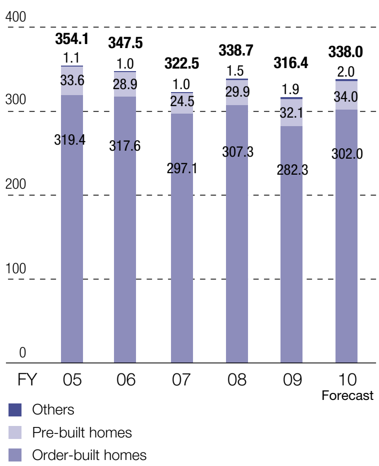
With increasing deliveries of unit homes and apartment buildings as well as significant cost reductions, sales and operating income are forecasted to increase.

### R&D

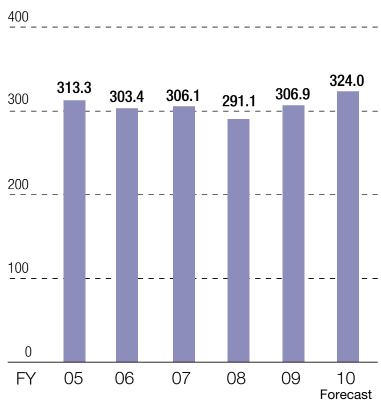
R&D is focused on enhancing core technologies. Shelter technology brings greater safety and security through earthquake resistance, seismic damping, and fire resistance; greater long-term usability through physical durability/evaluation, systematic maintenance, and ease of remodeling; enhanced livability through thermal insulation, air circulation, and sound barrier; and enhanced ecology through energy conservation and reduced $CO_2$ emissions.

Lifestyle technology brings greater comfort, convenience, and satisfaction. Evaluation/simulation technology is being enhanced to enable customers to more intuitively appreciate the real-world effects of variations and modifications, ensuring that the design of each home is optimized to match each customer's preferences. Additional research is focused on the physiological and psychological aspects of comfort, and how these can be utilized through technological development to achieve greater energy efficiency and environmental compatibility in homes optimized for health and comfort.

**Sales Trends**
(Asahi Kasei Homes non-consolidated)




**Orders Received**




**Major Products**

Hebel Haus™ houses, Hebel Maison™ apartments, condominiums, residential land development, remodeling, real estate, home financing.

**Core Operating Company Directors**

**Asahi Kasei Homes**

**Shingo Hatano**
Chairman & Director

**Masahito Hirai**
President & Representative Director, Presidential Executive Officer

**Eisuke Ikeda**
Director, Vice-Presidential Executive Officer

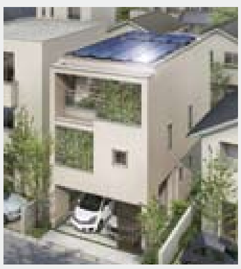
**Morio Watanabe**
Director, Primary Executive Officer

**Hideo Toumi**
Director, Executive Officer

**Hiroshi Kobayashi**
Director

### Hebel Haus Frex "G3"

The Hebel Haus™ Frex "G3" was launched in January 2009, targeting the market for three-story housing in urban areas. Eliminating the need for interior load-bearing walls, its robust steel framing system provides complete freedom in floorplan configuration—including the creation of large, open living spaces—and furthermore enables enhanced integration of natural light, wind, and greenery within confined urban plots. Positioned in a more moderate price bracket than conventional heavy steel framed homes, the Frex "G3" broadens the appeal of urban residency accentuating the natural environment.



Hebel Haus™ Frex "G3"

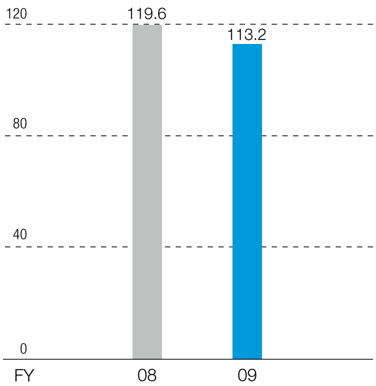
# Health Care

The pharmaceutical business is advancing as a specialized, R&D-centered operation, expanding earnings through the launch of new drugs and reinforcing the operational foundation through the steady advancement of R&D.

**Toshio Asano**
President, Asahi Kasei Pharma

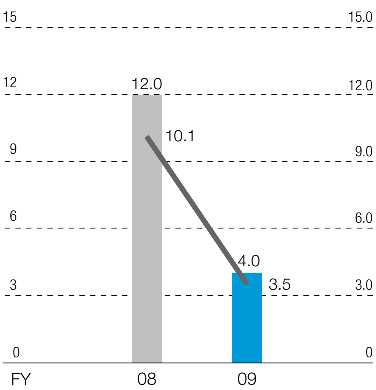
**Net Sales**

(¥ billion)




**Operating Income, Operating Margin**

(¥ billion) (%)




## Growth Action – 2010

### Pharmaceutical-related:

Advancement as a specialized, R&D-centered operation, with management resources focused on the development of new world-class drugs to build on an established presence in selected therapeutic fields. Maintaining slim, robust management while expanding operations. In diagnostics, investment of management resources is focused on products with strong growth prospects.

### Medical device-related:

Based on established leadership in devices for extracorporeal circulation, the business is being transformed for development as a comprehensive leader in blood-related healthcare systems, spanning from disease treatment to preventive medicine and blood-based risk-factor analysis/diagnosis. Over the longer term, healthcare systems will be developed in regenerative medicine, the nervous system, and other fields.

### Fiscal 2009 Review

Sales decreased by ¥6.4 billion (5.4%) from a year ago to ¥113.2 billion and operating income decreased by ¥8.0 billion (66.8%) to ¥4.0 billion.

Although increased shipments of the Flivas™ agent for treatment of benign prostatic hyperplasia and the Elcitonin™ calcitonin formulation contributed to sales growth in pharmaceuticals operations, operating income decreased due to a decline in licensing income.

Shipment volumes of APS™ polysulfone-membrane artificial kidneys and Sepacell™ leukocyte reduction filters grew mainly in export, but operating income in device-related operations decreased with a significant impact of the strong yen on each product family and with the effect of greater capital depreciation.

### Fiscal 2010 Outlook

The overall sales and operating income for the segment are forecasted to increase. In pharmaceuticals operations, NHI price revisions will have a negative impact on product prices, but shipments are expected to increase, most notably for Recomodulin™ recombinant thrombomodulin. In device-related operations, shipments of APS™ polysulfone-membrane artificial kidneys and Planova™ virus removal filters are expected to increase, especially in overseas markets.

Highlights

### Expansion of Bioprocess Business

Asahi Kasei Medical, a pioneer of virus removal filters, is advancing a strategic program of expansion of its bioprocess business. A substantial capacity expansion for Planova™ virus removal filters was achieved with the start-up of a new hollow-fiber spinning plant in Nobeoka, Miyazaki, in April 2009 as well as the completion of a new assembly plant in Oita in May 2010. The product lineup was expanded in June 2009 with the launch of Planova™ BioEX virus removal filters for biopharmaceutical production, opening up a new area of demand.

New plant for Planova™ hollow-fiber membrane

With the expansion of medical devices-related operations identified as a strategic objective for the group, global business development will be advanced through proactive capital investment and R&D for innovative therapeutic and medical-related devices and systems.

**Yasuyuki Yoshida**
President, Asahi Kasei Kuraray Medical & Asahi Kasei Medical

### R&D and Capital Expenditure

(¥ billion except %)

| | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
|---|---|---|---|---|
| Fiscal 2009 | 18.4 | 16.3% | 9.2 | 12.2 |
| Fiscal 2008 | 16.4 | 13.7% | 31.6 | 10.3 |

### Major Investments

| | |
|---|---|
| Completed in fiscal 2009 | Expansion of capacity for spinning polysulfone hollow-fiber membrane for APS™ dialyzers |
| | New plant for spinning hollow-fiber membrane for Planova™ virus removal filters |
| | New plant for Sepacell™ leukocyte reduction filters |
| Under construction in fiscal 2009 | New assembly plant for Planova™ virus removal filters |
| | New plant for therapeutic apheresis devices |

### Pharmaceutical Product Pipeline

(as of May 2010)

| Development stage | Product | Objective | Class | Indication |
|---|---|---|---|---|
| Phase III | AT-877 (injection) | Additional indication | Rho-kinase inhibitor | Acute cerebral infarction |
| | PTH (injection) | New biologic | Synthetic human parathyroid hormone | Osteoporosis |
| | AK-120 (oral) | Additional indication | Famiclovir antiviral | Herpes simplex |
| Phase II | AT-877 (oral) | Additional indication<br>New dosage form | Rho-kinase inhibitor | Pulmonary hypertension |
| | AK150 (injection) | New chemical entity | Pentosan polysulfate | Osteoarthritis |
| Phase II (overseas) | ART-123 (injection) | New biologic | Recombinant human thrombomodulin | Septicemia with disseminated intravascular coagulation |
| | AK106 | New chemical entity | Anti-inflammatory | Rheumatoid arthritis |

## R&D

In pharmaceuticals, the focus is on addressing unmet medical needs within the context of a mature market and an aging society, particularly in the fields of orthopedics and urology, helping to enable people to live in health and comfort. The development of new world-class drugs is being advanced with continuous innovation of our proprietary technology and enhanced collaboration with advanced technologies from around the world.

In medical devices and related systems, developments are further advanced in hemodialysis, therapeutic apheresis, leukocyte reduction, and virus removal, with a focus on next-generation fields of research including regenerative medicine utilizing autohemotherapy.

### Alliance with NxStage Medical

In May 2009, Asahi Kasei Kuraray Medical concluded an agreement with NxStage Medical, Inc. on a multi-faceted alliance in the field of hemodialysis products, providing for the assembly of dialyzers on consignment at NxStage Medical's manufacturing facilities in Germany using hollow-fiber membrane from Asahi Kasei Kuraray Medical. This base for dialyzer assembly in Europe will enhance Asahi Kasei Kuraray Medical's competitiveness in global markets while minimizing exchange-rate risk.

Polysulfone-membrane artificial kidneys

### Major Products

**Pharmaceutical-related**

Pharmaceuticals including Recomodulin™, Elcitonin™, and Flivas™, diagnostic enzymes and reagents.

**Medical device-related**

APS™ polysulfone-membrane artificial kidneys (dialyzers), Cellsorba™ leukocyte adsorption columns, Planova™ virus removal filters, Sepacell™ leukocyte reduction filters.

### Core Operating Company Directors

**Asahi Kasei Pharma**

**Toshio Asano**
President & Representative Director, Presidential Executive Officer

**Akio Kobayashi**
Director, Primary Executive Officer

**Kazuyoshi Hori**
Director, Senior Executive Officer

**Yasuyuki Yoshida**
Director

**Asahi Kasei Kuraray Medical**

**Yasuyuki Yoshida**
President & Representative Director, Presidential Executive Officer

**Naoyuki Ohya**
Director, Primary Executive Officer

**Takao Kiyota**
Director, Primary Executive Officer

**Hideo Horii**
Director

**Toshio Asano**
Director

**Asahi Kasei Medical**

**Yasuyuki Yoshida**
President & Representative Director, Presidential Executive Officer

**Naoyuki Ohya**
Director, Primary Executive Officer

**Takao Kiyota**
Director, Primary Executive Officer

**Toshio Asano**
Director

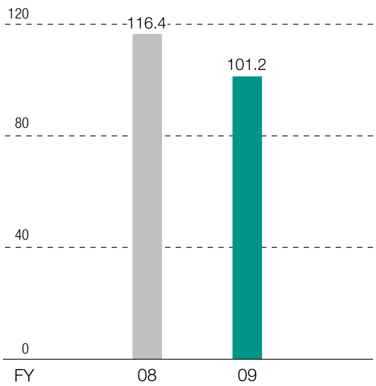
# Fibers

We are advancing a transformation of our business portfolio by expanding business in non-apparel and industrial-use materials, while enhancing domestic operations, reinforcing the operational foundation, and nurturing new businesses.

**Hidefumi Takai**
President, Asahi Kasei Fibers

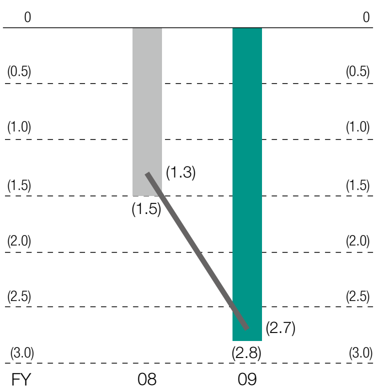
### Net Sales

(¥ billion)




### Operating Income (Loss), Operating Margin

(¥ billion) (%)




## Growth Action – 2010

**Expansion of overseas business and development of business in non-apparel and industrial-use materials to transform the business portfolio centered on the domestic market and material for apparel. Development of new businesses as next-generation core fields of operation while strengthening base for profitability in domestic business operations. Reviewing investments and working capital to improve cash flow.**

### Heightening earnings in core businesses:

- Expanding business in global markets and industrial-use materials.
- Raising operating rates to full capacity.
- Continuous cost reduction.

### Establishing and expanding new businesses:

- Developing new businesses using cellulose and new polymers; nurturing them into new core businesses.
- Advancing alliances and joint projects with partners within and outside the Asahi Kasei Group; connecting established fiber technology and know-how with growth fields.

Highlights

### New Developments in Nonwovens

As part of its focus on high-performance nonwovens for industrial use, in March 2009 Asahi Kasei Fibers completed a semi-commercial production line and began pre-marketing for nonwovens made with super engineering plastics. Made possible by proprietary innovations in manufacturing technology, these new nonwovens feature high uniformity, chemical resistance, and heat resistance. Another recent product is the Precisé™ polyester nonwoven featuring high barrier performance with ultrafine fiber layers. Its sales are expanding in growth fields such as the environment, energy, medical, and electronics.

Eutec™ oil-water separation filters made with ultrafine nonwovens

| R&D and Capital Expenditure | | | | (¥ billion except %) |
|---|---|---|---|---|
| | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
| Fiscal 2009 | 3.8 | 3.8% | 4.6 | 7.7 |
| Fiscal 2008 | 3.9 | 3.8% | 12.4 | 5.2 |

| Major Investments | |
|---|---|
| Completed in fiscal 2009 | Capacity expansion for Roica™ elastic polyurethane filament in Thailand |

## Fiscal 2009 Review

Sales decreased by ¥15.2 billion from a year ago to ¥101.2 billion and an operating loss of ¥2.8 billion was recorded as profitability decreased by ¥1.3 billion.

Overseas shipment volumes of Roica™ elastic polyurethane filament grew, but operating income decreased due to the significant impact of low market prices and the strong yen. Exports of Bemberg™ regenerated cellulose were steady overall, but operating income decreased mainly due to the strong yen. Operating income in nonwovens operations increased with growth in shipments of Lamous™ artificial suede for car seats and the effect of operating cost reductions, although shipments of spunbond decreased. Despite lower shipment volumes of Leona™ nylon 66 filament, operating income increased with declining feedstock prices and cost reductions.

## Fiscal 2010 Outlook

We forecast sales and operating income to increase during this fiscal year despite high feedstock prices. In addition to the positive effect of structural improvements, market prices are expected to rise and shipments of major products such as Roica™, Bemberg™, spunbond, and Leona™ filament are expected to increase.

## R&D

R&D is focused on the development of new materials and high-value added grades of existing materials such as Roica™ polyurethane, Bemberg™ cupro, Leona™ nylon 66, and various nonwovens. For the advancement of global development and the expansion of industrial-use materials based on the *Growth Action – 2010* mid-term initiative, we are enriching and enhancing our R&D functions to achieve results more quickly.

### Major Products

Roica™ elastic polyurethane filament, Bemberg™ cupro regenerated cellulosic fiber, nonwovens including Eltas™ spunbond and Lamous™ artificial suede, Leona™ nylon 66 filament.

### Core Operating Company Directors

**Asahi Kasei Fibers**

**Hidefumi Takai**
President & Representative Director, Presidential Executive Officer

**Fujio Nishimura**
Director, Senior Executive Officer

**Masaki Sakamoto**
Director

## Award for Fashion Design Creativity in China

Two of China's leading fashion designers were honored as recipients of the *Asahi Kasei Award for Fashion Design Creativity in China*, with fashion shows of apparel featuring Bemberg™ fabric held together with the 5th & 6th award ceremonies in Beijing in November 2009 and March 2010. The shows and award ceremonies, jointly held by Asahi Kasei and Asahi Kasei Fibers, contribute to heightened brand recognition for Asahi Kasei in China and reinforce a strong presence for Bemberg™ in the world of Chinese fashion and apparel.

November 2009 fashion show in China featuring Bemberg™

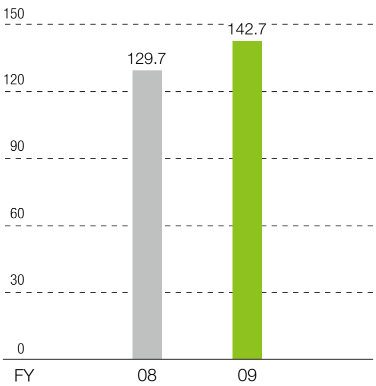
# Electronics

Growth of a high-earnings operational structure in electronic devices is obtained by establishing a position as the leading supplier in select product categories, meeting the needs of next-generation electronics.

**Hideki Kobori**
President, Asahi Kasei Microdevices

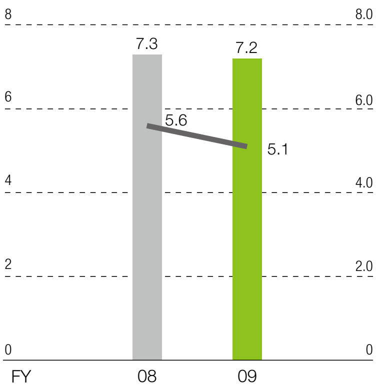
**Net Sales**

(¥ billion)




**Operating Income, Operating Margin**

(¥ billion) (%)




## Growth Action – 2010

**Advancement of high-earnings operations by securing industry leadership status in each market segment and functional category, building a presence as a vital partner which provides customers with materials and functions that are indispensable for production processes and final products, utilizing superior development, design, and production technologies and marketing strength.**

**In electronic devices:**
Expansion of business while maintaining high market share through addition of peripheral functions in established applications and market development in new high-growth fields, based on the two core technologies of sensor technology and mixed-signal LSI technology, including new developments which combine the two core technologies. Further business expansion through unified management of Asahi Kasei Toko Power Devices for greater synergies between our established technologies and the IP cores and process technologies related to power management semiconductors.

**In electronic materials:**
Expansion and reinforcement of industry-leading businesses including Hipore™ Li-ion battery (LiB) separator, dry film photoresist (DF), and large photomask pellicles, while launching new products which contribute to the reduction of environmental burden. For Hipore™, maintaining the No. 1 position in portable applications and establishing a leading position in the promising market for automotive applications. For DF, with the world's largest production capacity, solidifying the market position in high-end applications, and expanding supply to the global market while enhancing cost competitiveness in order to further increase market share.

### Fiscal 2009 Review

Sales increased by ¥13.0 billion (10.1%) from a year ago to ¥142.7 billion and operating income decreased slightly to ¥7.2 billion.

Operating income from electronic devices increased with substantial growth in shipments of LSIs in new applications outweighing a sharp impact of the strong yen. Shipments of electronic materials recovered, particularly for Hipore™ LiB separator, but operating

Highlights

**Growing Adoption of Electronic Compass Products**

Electronic compass products from Asahi Kasei Microdevices are increasingly adopted in mobile phones and smartphones all around the world. By enabling onscreen maps to automatically rotate to match the direction the user is facing, the electronic compass provides the key to a wide variety of new functions and services, including novel advertising media in combination with GPS location information and high-speed data networks.

Electronic compass

Growth with increasing global market share and solid profitability in electronic materials is obtained by reducing costs in existing products as well as developing competitive new grades and new products which provide new value to customers.

**Makoto Konosu**
President, Asahi Kasei E-materials

**R&D and Capital Expenditure** (¥ billion except %)

| | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
|---|---|---|---|---|
| Fiscal 2009 | 18.4 | 12.9% | 22.8 | 23.6 |
| Fiscal 2008 | 18.4 | 20.1% | 31.8 | 19.8 |

**Major Investments**

| | |
|---|---|
| Completed in fiscal 2009 | Capacity expansion for LSIs |
| | Capacity expansions for Hipore™ LiB separator in Moriyama |
| Under construction in fiscal 2009 | New plant for Hipore™ LiB separator in Hyuga, expansion thereof |

income decreased with the impact of falling market prices.

### Fiscal 2010 Outlook

We forecast an increase in both sales and operating income during this fiscal year. Sales volumes are projected to increase for both devices and materials thanks to recovering demand. Significant cost reductions will also be performed throughout the segment.

### R&D

Swift R&D to keep pace with the rapid technology innovation of the electronics industry is directed toward the creation of products that meet the emerging needs and demanding requirements which are identified through close interaction with customers. In electronic devices, advanced development of high-performance products is based on compound semiconductor process technology gained through development of high-sensitivity magnetic sensors and mixed-signal LSI technology.

Development of new electronic materials compatible with emerging standards for fine patterning, high density, and high transmission speeds in the field of semiconductors and package substrates is based on technologies for the design, synthesis, thin-film coating, and fine-pattern processing of photosensitive polymers. Other advanced developments include materials with new added value for flat-panel displays.

**Major Products**

Mixed-signal LSIs, Hall elements, Hall effect ICs, fine-pattern coils, Hipore™ Li-ion battery separator, photomask pellicles, plastic optical fiber, light-diffusion plates, APR™ photosensitive resin and printing plate making systems, epoxy resin, Pimel™ photosensitive polyimide precursor, Sunfort™ dry film photoresist (DF), glass fabric for printed wiring boards.

**Core Operating Company Directors**

**Asahi Kasei Microdevices**

**Hideki Kobori**
President & Representative Director, Presidential Executive Officer

**Masafumi Nakao**
Director, Executive Officer

**Makoto Konosu**
Director

**Asahi Kasei E-materials**

**Makoto Konosu**
President & Representative Director, Presidential Executive Officer

**Tetsuro Ota**
Director, Senior Executive Officer

**Shigeki Takayama**
Director, Executive Officer

### Successive Capacity Expansions for Hipore™

Asahi Kasei E-materials is advancing a program to significantly expand capacity for Hipore™ LiB separator. Its Hipore™ plant in Moriyama, Shiga, was expanded in two phases in July and September 2009. A new Hipore™ plant in Hyuga, Miyazaki, began operation in April 2010, and an expansion of this new plant is under way. Hipore™ enjoys a global market share of some 50%, and its applications are being expanded from laptop computers and mobile phones to hybrid-electric and all-electric vehicles, where rapid growth is forecasted.

Hipore™ LiB separator

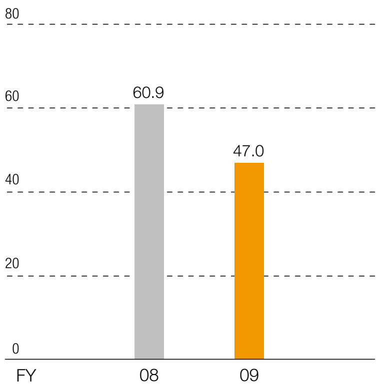
# Construction Materials

With a reinforced commitment to safety, security, and comfort, we are focused on the development of high-value added products and construction technologies that meet customer needs in our core areas of AAC-related products, foundation systems, insulation materials, and structural components.

**Hiroshi Kobayashi**
President, Asahi Kasei Construction Materials

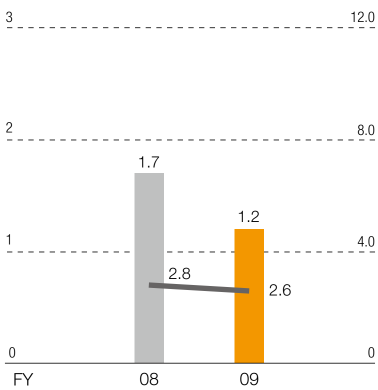
**Net Sales**

(¥ billion)




**Operating Income, Operating Margin**

(¥ billion) (%)




## Growth Action – 2010

**We provide solution-based products and services to meet increasingly sophisticated customer needs in our four core areas, contributing to enhanced infrastructure and advancing synergies with Asahi Kasei Homes.**

**AAC-related:**

Expanding operations through the incorporation of peripheral businesses, and further reinforcing the operational foundation through pervasive cost reduction.

**Foundation systems:**

Expanding new applications in the field of seismic reinforcement, with our competitive Eazet™ piling system based on small-diameter steel pipe and ATT Column™ hybrid piling system combining a cement column and a bladed steel pipe. Securing a distinctive position in the field of foundation systems with new developments to enhance the lineup of products and services.

**Insulation materials:**

Strengthening the product lineup through the development of new grades and a diverse range of composite products that meet growing demand as concern about global warming has increasingly brought energy conservation into focus.

**Structural materials:**

Expanding the business in steel-frame structural components and systems with a focus on enhancing the safety and security of steel frame structures and buildings.

Highlights

### Artmule Sicera™ Premium Panels

In the spring of 2009, Artmule Sicera™ was launched as a premium line of exterior wall panels with a special high-performance paint applied to Hebel™ and Hebel Lite™ to provide excellent durability and anti-fouling performance. The high-durability paint is a hybrid system comprising silicone resin and acrylic-silicone resin, featuring superior resistance to ultraviolet degradation. The silicone characteristics of high water repellency and low water absorbency serve to keep the surface dry, sustaining the anti-fouling effect for an extended duration. These panels thus maintain their beautiful matte-finish texture over a long term with a minimal maintenance cost requirement.


Artmule Sicera™ exterior wall panel

**R&D and Capital Expenditure** (¥ billion except %)

| | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
|---|---|---|---|---|
| Fiscal 2009 | 1.1 | 2.3% | 1.2 | 3.3 |
| Fiscal 2008 | 1.0 | 1.7% | 2.4 | 3.6 |

## Major Products

Hebel™ autoclaved aerated concrete (AAC) panels, Eazet™ and other piles and foundation systems, Neoma™ foam insulation panels, steel-frame structural components.

## Core Operating Company Directors

**Asahi Kasei Construction Materials**

**Hiroshi Kobayashi**
President & Representative Director, Presidential Executive Officer

**Masahumi Hunaki**
Director, Senior Executive Officer

**Masateru Sakai**
Director, Senior Executive Officer

**Masahito Hirai**
Director

## Fiscal 2009 Review

Sales decreased by ¥13.9 billion (22.8%) from a year ago to ¥47.0 billion and operating income decreased by ¥0.5 billion (28.6%) to ¥1.2 billion.

A decline in new construction starts resulted in lower shipments of Hebel™ autoclaved aerated concrete (AAC) panels and the BasePack™ earthquake-resistant column base attachment system, and operating income in building materials and housing materials operations decreased slightly.

Operating income in foundation systems operations decreased with lower shipment volumes of Eazet™ piling systems for small-scale construction and the DynaWing™ pre-cast concrete piling system featuring minimal soil disposal and high load-bearing capacity.

Although insulation materials operations were also affected by the decline in new construction starts, cost reductions enabled an increase in operating income.

## Fiscal 2010 Outlook

We forecast an increase in sales and operating income. Development of new applications in foundation systems is expected to advance, and shipments of insulation materials are expected to grow with demand buoyed by government policies to promote energy conservation. Shipments of Hebel™ AAC, however, are forecasted to remain sluggish as construction demand continues to be weak. Operating costs will be lower as an effect of optimization of the production infrastructure.

## R&D

R&D is focused on strengthening the operational base for established businesses of AAC, phenolic foam insulation, and high-performance foundation systems, as well as the proactive development of new products and services in peripheral areas.

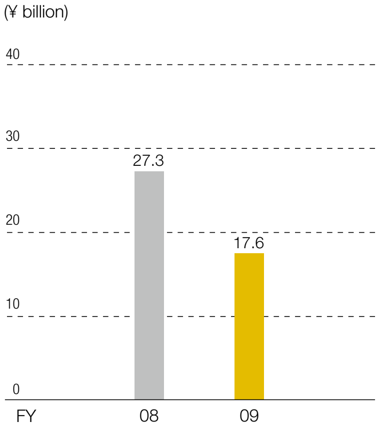
## Fire Insurance Product

In January 2010, Asahi Kasei Construction Materials began handling a fire insurance product called "Triangle A" as an agent for AIU Insurance Co. Developed jointly with AIU, "Triangle A" enables wood-frame homes built with AAC walls to continue to be subject to discounted premiums based on AAC's fire-resistant characteristics. While wood-fame/AAC homes had generally enjoyed this discount as a separate category of structure for the calculation of fire insurance premiums, a January 2010 revision of the structural categorization grouped all wood-frame homes into a single category regardless of exterior wall material. "Triangle A" fire insurance policies maintain the discount for wood-frame homes built with Hebel Powerboard™ and Hebel Lite™ AAC walls.

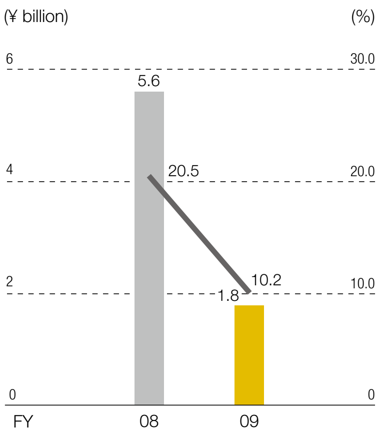
A house built with Hebel Powerboard™ exterior walls

# Services, Engineering and Others

## Net Sales




## Operating Income, Operating Margin




## R&D and Capital Expenditure

(¥ billion except %)

| | R&D expenditure | R&D expenditure as % of net sales | Capital expenditure | Depreciation and amortization |
|---|---|---|---|---|
| Fiscal 2009 | 0.21 | 1.2% | 0.9 | 0.8 |
| Fiscal 2008 | 0.09 | 0.3% | 1.1 | 0.8 |

### Fiscal 2009 Review

Sales decreased by ¥9.7 billion (35.4%) from a year ago to ¥17.6 billion and operating income decreased by ¥3.8 billion (67.6%) to ¥1.8 billion.

Operating income in engineering operations decreased as a curtailment of capital investments led to a decline in orders received.

### Fiscal 2010 Outlook

Overall sales and operating income are forecasted to remain largely unchanged from fiscal 2009 with steady performance expected in engineering operations.

### R&D

Engineering developments in progress include technology to inspect for internal pipe corrosion as well as a joint project for next-generation automotive safety features using computer simulation.

Note: From April 2010, operations previously classified in the Services, Engineering and Others segment are classified in a new “Others” category.

### Major Products

Plant engineering, environmental engineering, personnel staffing and placement, think tank services.

# Toward Sustainable Growth

## Contents

# Corporate Governance

## Basic Concept for Corporate Governance

We believe that constant effort to increase the efficiency and transparency of management is essential for continuous enhancement of the corporate value of the Asahi Kasei Group. One major reform for this purpose was the adoption of the structure of a holding company and core operating companies, since which time the Asahi Kasei Group has exercised corporate governance for the Group based on the following two principles.

1) Based on the structure of a holding company and core operating companies, the core operating companies are responsible for business execution and the holding company is responsible for oversight.

2) The Group Approval Authority Regulations are positioned as the highest ranking among all the regulations governing the overall Group for decision-making in executing business. Authority is distributed to each organ of the holding company and the core operating companies in accordance with the degree of influence on management.

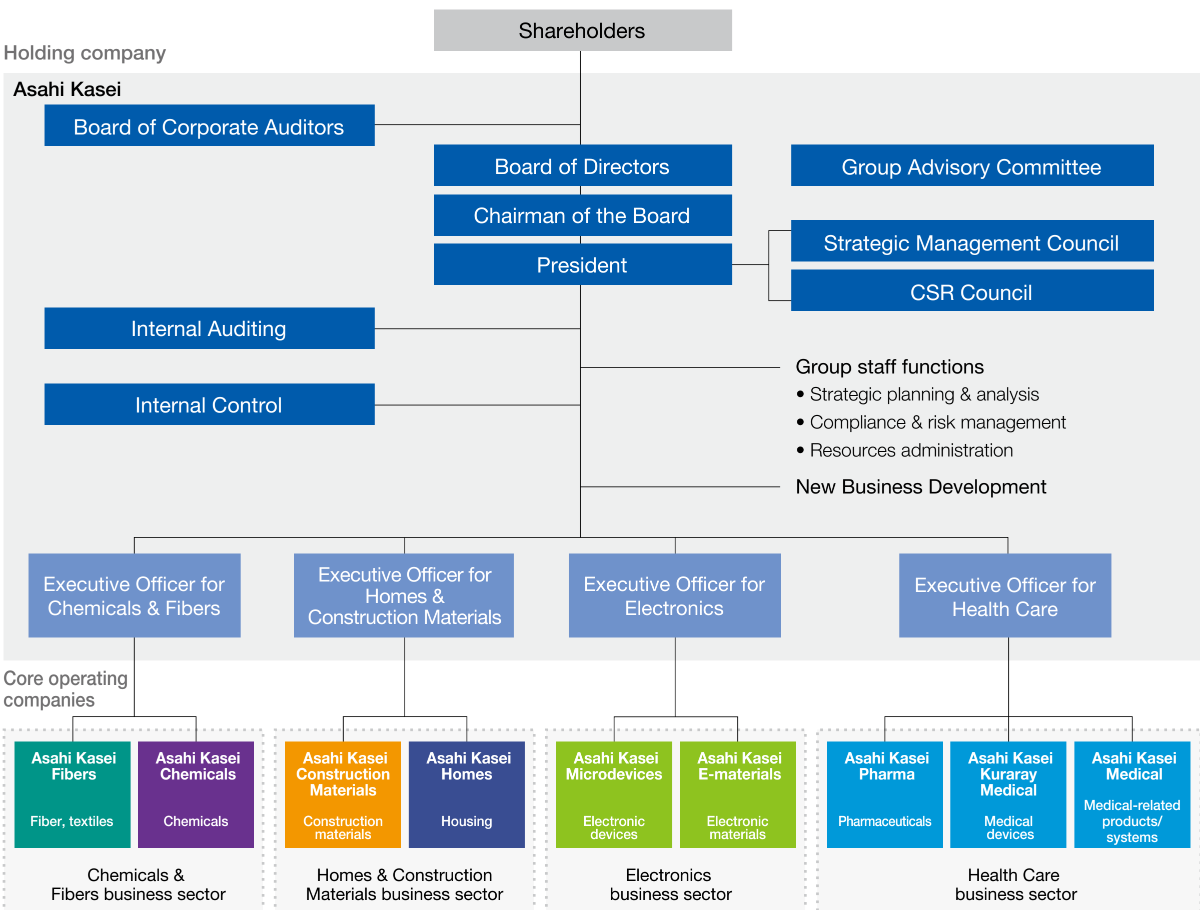
In this context, corporate governance is further enhanced by implementing various measures, including the election of multiple Outside Directors and the institutionalization of Internal Auditing and Internal Control.

We will continue to advance measures to heighten corporate governance for the further enhancement of corporate value.

## Structures Related to Management Decision-Making, Execution, and Oversight

### Management Configuration

(as of April, 2010)



### Board of Directors

Oversees group management, and deliberates and decides on basic group policy and strategy, and on substantive proposals by the Strategic Management Council. The Chairman of the holding company chairs meetings of the Board of Directors. Meets once or twice per month.

### Strategic Management Council

Deliberates and decides on substantive matters relating to the operation of the holding company and of the group. Its decisions are made by the President of the holding company, who chairs meetings of the council, after deliberation by the attending constituent members. Meets twice per month.

### Group Advisory Committee

The advisory body to the holding company's Board of Directors. Meets twice per year.

### Board of Corporate Auditors

Comprises four Corporate Auditors, two of whom are Outside Corporate Auditors. Corporate Auditors exchange views, deliberate, and decide on substantive matters relating to auditing. Meets at least once per quarter.

We employ an Executive Officer system, under which we have ten Directors, including three Outside Directors, and sixteen Executive Officers, including five who concurrently serve as Director, as well as a Corporate Auditor system, under which we have four Corporate Auditors, including two Outside Corporate Auditors. (as of June 30, 2010)

To help ensure that Directors and Corporate Auditors may perform their duties to the fullest extent, in accordance with Article 426 Paragraph 1 of the Corporation Law our Articles of Incorporation provide for the indemnification of Directors (including former Directors) and Corporate Auditors (including former Corporate Auditors) from liability stipulated in Article 423 Paragraph 1 of the Corporation Law, through resolution of the Board of Directors, within limitations set forth by law or ordinance.

## Corporate Governance System

An outline of the corporate governance system of the Asahi Kasei Group is as follows.

1) Asahi Kasei Corporation is a holding company and has elected to take the form of a company with a Board of Corporate Auditors
2) Two Outside Directors were elected in June 2007 to enable oversight of the management of the Asahi Kasei Group based on their wealth of experience and broad range of insight, for the further strengthening of the management oversight function of the Board of Directors. Furthermore, an additional Outside Director was installed in June 2008 and the Company currently has three Outside Directors out of ten Directors.
3) The company has a Group Advisory Committee as an advisory body to the Board of Directors, enabling the receipt of various advice and recommendations of knowledgeable persons from outside the Company for the benefit of the overall management of the Asahi Kasei Group.
4) Internal Auditing serves as the corporate organ for internal audits of the execution of duties in the Asahi Kasei Group in accordance with basic corporate regulations for internal audits. Results of the internal audits conducted by each group staff function are also reported to Internal Auditing, so that all information regarding results of internal audits in the Asahi Kasei Group are centralized at Internal Auditing.
5) In accordance with the audit policy adopted by the Board of Corporate Auditors, each Corporate Auditor audits Directors in the discharge of their duties by attending Board of Directors' meetings and examining business performance. Corporate Auditors of the Company and Corporate Auditors of the core operating companies exchange information on a regular basis. Our Corporate Auditors Office has multiple dedicated personnel who, independently from Directors, support the Corporate Auditors in their duties.
6) PricewaterhouseCoopers Aarata performs financial audits of the Company and the core operating companies in accordance with the Corporation Law and the Financial Instruments and Exchange Act.
7) Company standards stipulate that as a general rule a Director is not to concurrently serve as Director at four or more other companies whose shares are stock-market listed.
8) The Company has a performance-linked remuneration system as stated above, and remuneration of Directors is determined by the Board of Directors within the range stipulated therein.

Given the above, the current corporate governance system of the Asahi Kasei Group is considered to be optimum within the formulation of a holding company/core operating company configuration and a company with a Board of Corporate Auditors.

## Audits

Internal Auditing is a corporate organ under the direct authority of the President of the holding company. Each year, Internal Auditing prepares plans for an internal audit in accordance with basic corporate regulations for internal audits, obtains the President's approval for these plans, and then performs the internal audit.

In accordance with the audit policy adopted by the Board of Corporate Auditors, each Corporate Auditor attends meetings of the Board of Directors and audits Directors in the discharge of their duties through examination of business performance. The Corporate Auditors Office provides staff to support Corporate Auditors in their duties.

PricewaterhouseCoopers Aarata is contracted as the Independent Auditors to perform financial audits in accordance with the Companies Act and Financial Instruments and Exchange Act. Partners of the Independent Auditors designated to perform the audit for fiscal 2009 were Mr. Katsunori Sasayama and Mr. Masahiko Hagimori. The Independent Auditors form a team of assistants for performance of the audit in accordance with its audit plan. The team mainly comprises certified public accountants and junior accountants, and also includes certified information systems accountants and other specialist accountants.

Internal Auditing, the Board of Corporate Auditors, and the Corporate Auditors of core operating companies and other subsidiaries regularly meet to confirm the effectiveness of internal governance systems for legal compliance and risk management. The Board of Corporate Auditors provides counsel to the Independent Auditors with respect to its audit plan, and receives the results of the consolidated financial audit of Asahi Kasei each quarter and each fiscal year.

## Adoption of Shareholder Rights Plan

The Asahi Kasei Group has established a basic corporate policy concerning the nature of parties who would control the company's financial and operational decisions. The adoption of a Shareholder Rights Plan, comprising measures in response to large acquisition of shares to prevent control of the company's financial and operational decisions by inappropriate parties in light of this basic corporate policy, was approved at the Ordinary General Meeting of Shareholders held in June 2008.

The purpose of the Shareholder Rights Plan is to secure and heighten the company's corporate value and the common interest of shareholders in the event of a purchase of 20% or more of the company's shares, by ensuring necessary and sufficient information and time for shareholders to make proper judgment, by obtaining an opportunity to negotiate with the purchasing party, and otherwise. Please refer to the relevant news release at www.asahi-kasei.co.jp/asahi/en/news/2008/e080423.html for more details.

## Compliance

### Corporate Ethics

Our *Corporate Ethics – Basic Policy and Code of Conduct* is the standard and guide for ethical conduct throughout the day-to-day work of each and every member of the Asahi Kasei Group. It has been translated into English and Chinese, and it or an equivalent standard applies to all majority-held subsidiaries the world over.

### Protection of Personal Information

Asahi Kasei is committed to the proper handling and use of personal information, in accordance with our basic policy. Education and training for all employees, including the distribution of an information security handbook which covers issues related to personal information protection, is monitored by the Corporate Ethics Committee.

## Information Disclosure Policy

The Asahi Kasei Group has established an Information Disclosure Policy, enhancing the management and disclosure of corporate information to obtain greater corporate value. Corporate regulations for information disclosure based on this policy were adopted on July 1, 2008. The basic principles of the Information Disclosure Policy are shown below.

- With our Basic Credo of "contributing to human life and human livelihood through constant innovation and advances based in science and the human intellect," we hold "progressing in concert with society, and honoring the laws and standards of society as a good corporate citizen" as a Guiding Precept. "Ensuring transparency" is a fundamental element of our *Corporate Ethics – Basic Policy*. We proactively engage in information disclosure and communication based on these basic concepts.
- Corporate information is disclosed fairly, impartially, accurately, and as swiftly as possible to stakeholders such as customers, suppliers, shareholders, investors, employees, and local communities, and to the general public.
- In our communication with stakeholders and with the general public, we strive for dialog which fosters a relationship of trust, promoting greater understanding of the Asahi Kasei Group and its operations, to increase brand strength and heighten corporate value.

## Compliance Monitoring by the Corporate Ethics Committee

Monitoring of compliance and oversight of education and training for compliance throughout the Asahi Kasei Group are performed by the Corporate Ethics Committee, which was formed in July 1998. Where shortcomings are discovered, the committee formulates and implements measures for improvement.

The committee discusses the training programs implemented at each group company, measures for prevention of sexual harassment, environmental countermeasures, the state of compliance with laws and regulations including personal information protection law, and operation of the Compliance Hotline.

## Risk Management

### Risk Management Committee

The Risk Management Committee was established in April 2005 to enhance the risk management system for prevention of operational crises and minimization of the effects should a crisis occur. Our Basic Risk Management Regulations provide clear guidelines to heighten the capability and effectiveness for risk management and emergency response throughout the Asahi Kasei Group.

### Corporate Risk Management

Corporate Risk Management works with the various divisions and departments to guide the proper response to any major accidents, incidents, or problems which cause significant damage to Asahi Kasei Group operations or which may foreseeably cause Asahi Kasei Group operations to have adverse effects on the general public. In fiscal 2008, a New Influenza Response Manual was instituted in preparation for any global pandemic of a new strain of influenza. In fiscal 2009, we adopted a set of internal rules and procedures to guide the response to a major earthquake in the Kanto area of Japan, where our Tokyo head office is located.

# Corporate Social Responsibility

## CSR at the Asahi Kasei Group

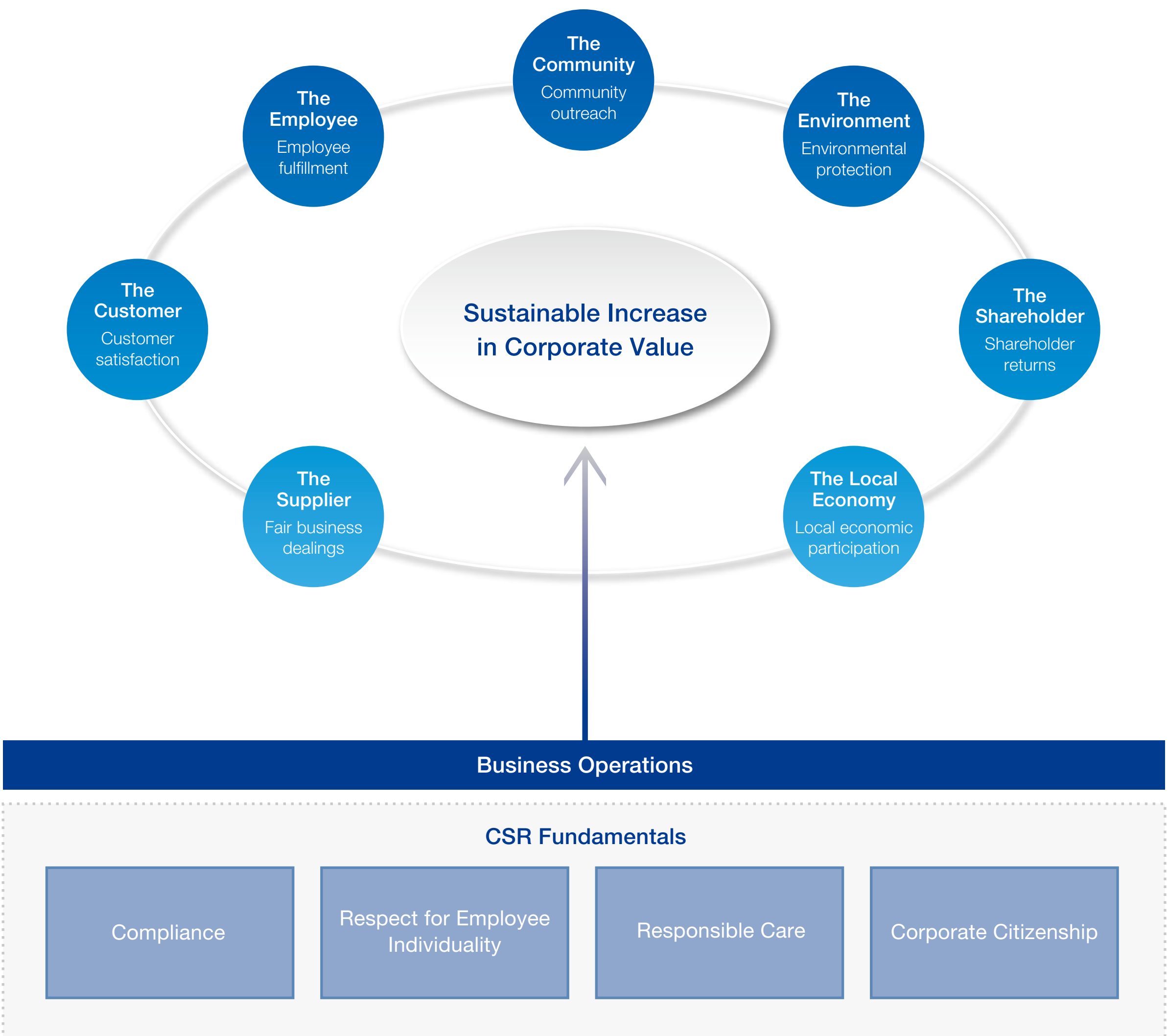
### CSR in Action

We believe that CSR is achieved by raising corporate value for our various stakeholders through our business operations in accordance with our basic tenets of contribution to human life and human livelihood through constant innovation and advances based in science and the human intellect.

### CSR Fundamentals

Based on a clear understanding of the effects of our operations on the global environment and the global community, our efforts and actions related to CSR are focused on four CSR Fundamentals: Compliance, Respect for Employee Individuality, Responsible Care*, and Corporate Citizenship.

**Asahi Kasei Group CSR**




* Responsible Care represents the commitment and initiative to secure and improve safety and environmental protection at every step of the product life-cycle through the individual determination and responsibility of each firm producing and handling chemical products. As of October 2009, fifty-three countries throughout the world have a Responsible Care program.

## Framework for Advancement

The CSR Council, formed in April 2005 with the holding company President serving as chair, formulates CSR policy and guides the CSR effort throughout the Asahi Kasei Group. At the same time, it monitors specific CSR initiatives implemented by its seven committees, including the Corporate Ethics Committee to ensure regulatory compliance and the Responsible Care Committee to guide efforts for environment, health, and safety.

**President of holding company**

**CSR Council**

- Formulation of unified policy and action plans
- Guidance and counsel for the subordinate committees
- Preparation of CSR Reports
- Monitoring of independent evaluation
- Disclosure of CSR information in concert with Corporate Communications and Investor Relations

**Corporate Ethics Committee**

- Preparation of Basic Policy and Code of Conduct for corporate ethics
- Advancement of ethics education and operation of compliance hotline

**Responsible Care Committee**

- Deliberation of plans and results in regard to environmental protection, product safety, operational safety, etc.

**Market Compliance Committee**

- Examination prior to all across-the-board price revisions for compliance with Antimonopoly Law

**Export Control Committee**

- Compliance with export-related regulations

**Risk Management Committee**

- Formulation of plans and measures to respond to actual or potential crises

**Community Fellowship Committee**

- Formulation of policy, plans, and courses of action in regard to community fellowship activities

**Global Warming Response Committee**

- Deliberation and adoption of group-wide measures to counter global warming

## Highlight

### Independent Drinking Water Supply Systems

Asahi Kasei Chemicals has installed drinking water supply systems at three Asahi Kasei Group plant sites: Moriyama, Shiga prefecture, in February 2008; Suzuka, Mie prefecture, in April 2009; and Nobeoka, Miyazaki prefecture, in June 2010.

The systems utilize Microza™ microfiltration membranes to purify deep well water. While serving to supply drinking water to personnel working at these sites on a daily basis, these systems also provide a vital independent back-up as a secure source of safe drinking water for residents as well as hospitals and other facilities nearby in the event of a disaster which damages the public drinking water supply.

Drinking water supply system

## Directors, Corporate Auditors, Executive Officers

(As of June 29, 2010)

Nobuo Yamaguchi

Honorary Chairman & Representative Director

Ichiro Itoh

Chairman & Representative Director

Taketsugu Fujiwara

President & Representative Director
Presidential Executive Officer

Tsutomu Inada

Director
Senior Executive Officer

Koji Fujiwara

Director
Senior Executive Officer

Yuji Mizuno

Director
Senior Executive Officer

Masanori Mizunaga

Director
Senior Executive Officer

Yuzo Seto

Outside Director

Yukiharu Kodama

Outside Director

Morio Ikeda

Outside Director

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Yuji Tsuchiya
Corporate Auditor

Kenji Nakamae
Corporate Auditor

Kazuo Tezuka
Outside Corporate Auditor

Yuji Aoki
Outside Corporate Auditor

Keiji Kamei
Senior Executive Officer

Katsuhiko Yamazoe
Senior Executive Officer

Ryo Matsui
Lead Executive Officer

Toshikatsu Sunami
Lead Executive Officer

Yutaka Shibata
Lead Executive Officer

Shinichiro Nei
Lead Executive Officer

Makoto Konosu
Executive Officer

Masaki Sakamoto
Executive Officer

Yasuyuki Yoshida
Executive Officer

Masahito Hirai
Executive Officer

Haruyuki Yoneda
Executive Officer

# Financial Section

## Contents

# Consolidated Eleven-Year Summary

Asahi Kasei Corporation and consolidated subsidiaries

| For the years ended March 31 | 2010 | 2009[d] | 2008 | 2007 |
|---|---|---|---|---|
| **Net sales** | ¥1,433,595 | ¥1,553,108 | ¥1,696,789 | ¥1,623,791 |
| **Chemicals** | 622,093 | 689,323 | 879,235 | 752,632 |
| Life & Living[a] | — | — | — | 52,558 |
| Chemical and Chemical-related | — | — | — | — |
| Chemicals and Plastics | — | — | — | — |
| **Homes** | 389,728 | 409,882 | 386,227 | 405,695 |
| Housing and Construction Materials | — | — | — | — |
| **Health Care[b]** | 113,207 | 119,619 | 111,232 | 104,474 |
| **Fibers[b]** | 101,201 | 116,405 | 114,072 | 106,639 |
| **Electronics[b]** | 142,700 | 129,655 | 113,267 | 112,094 |
| **Construction Materials** | 47,024 | 60,927 | 55,732 | 60,818 |
| Special Products and Services | — | — | — | — |
| Electronics | — | — | — | — |
| Membranes and Systems | — | — | — | — |
| Biotechnology and Medical Products | — | — | — | — |
| Engineering and Others[b] | — | — | — | — |
| **Services, Engineering and Others[b]** | 17,642 | 27,297 | 37,024 | 28,881 |
| **Domestic sales** | 1,063,186 | 1,159,143 | 1,209,452 | 1,195,751 |
| **Overseas sales** | 370,409 | 393,965 | 487,337 | 428,040 |
| **Operating income** | 57,622 | 34,959 | 127,656 | 127,801 |
| **Ordinary income** | 56,367 | 32,500 | 120,456 | 126,507 |
| **Income (loss) before income taxes** | 46,056 | 19,031 | 105,599 | 114,883 |
| **Net income (loss)** | 25,286 | 4,745 | 69,945 | 68,575 |
| **Net income (loss) per share, yen** | 18.08 | 3.39 | 50.01 | 49.00 |
| **Capital expenditure** | 83,990 | 126,725 | 82,911 | 84,413 |
| **Depreciation and amortization** | 86,166 | 79,436 | 73,983 | 71,646 |
| **R&D expenditures** | 62,924 | 60,849 | 56,170 | 52,426 |
| **Cash dividends per share, yen** | 10.00 | 10.00 | 13.00 | 12.00 |

| As of March 31 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| **Total assets** | ¥1,368,892 | ¥1,379,337 | ¥1,425,367 | ¥1,459,922 |
| **Inventories** | 251,084 | 273,539 | 272,372 | 240,006 |
| **Property, plant and equipment** | 447,497 | 441,271 | 424,193 | 426,959 |
| **Investments and other assets** | 226,331 | 218,477 | 234,873 | 281,502 |
| **Net worth[c]** | 633,343 | 603,846 | 666,244 | 645,655 |
| **Net worth per share, yen** | 452.91 | 431.77 | 476.39 | 461.50 |
| **Net worth/total assets, %** | 46.3 | 43.8 | 46.7 | 44.2 |
| **Number of employees** | 25,085 | 24,244 | 23,854 | 23,715 |

a. The Life & Living segment was combined with the Chemicals segment in the year ended March 31, 2008.

b. For continuity, figures for business categories which were renamed are shown on the same line.

- From the year ended March 31, 2004, through the year ended March 31, 2009: Figures shown as Health Care are for the previous Pharma segment, and figures shown as Electronics are for the previous Electronics Materials & Devices segment.
- Through the year ended March 31, 2003: Figures shown as Fibers are those for the previous Fibers and Textiles sector, and figures shown as Services, Engineering and Others are those for the previous Liquors, Services and Others sector.

c. Net assets less minority interest. Though the year ended March 31, 2006, figures for shareholders' equity shown.

d. For comparison purposes, results for the year ended March 31, 2009, are recalculated to reflect the April 2010 transfer of electronic materials operations from the Chemicals segment and from Corporate Expenses to the Electronics segment, and the April 2010 transfer of Leona™ nylon 66 filament operations from the Chemicals segment to the Fibers segment.

Millions of yen, except where noted

| 2006 | 2005[e] | 2004 | 2003[f] | 2003 | 2002 | 2001[g] | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|
| ¥1,498,620 | ¥1,377,697 | ¥1,253,534 | ¥1,193,614 | ¥1,193,614 | ¥1,195,393 | ¥1,269,415 | ¥1,269,415 | ¥1,194,462 |
| 660,402 | 570,182 | 453,707 | 424,673 | — | — | — | — | — |
| 51,942 | 59,149 | 59,813 | 52,908 | — | — | — | — | — |
| — | — | — | — | 477,581 | 440,698 | 449,470 | — | — |
| — | — | — | — | — | — | — | 430,934 | 379,677 |
| 404,539 | 375,755 | 361,273 | 320,553 | — | — | — | — | — |
| — | — | — | — | 383,654 | 408,474 | 433,440 | 433,440 | 412,954 |
| 105,842 | 103,933 | 105,965 | 105,463 | 105,463 | 98,686 | 95,481 | — | — |
| 89,704 | 91,518 | 101,514 | 110,551 | 110,551 | 125,908 | 134,791 | 134,791 | 139,181 |
| 102,859 | 93,024 | 82,484 | 71,579 | 71,579 | 64,062 | 95,999 | — | — |
| 56,512 | 59,908 | 60,622 | 63,101 | — | — | — | — | — |
| — | — | — | — | — | — | — | 270,250 | 262,650 |
| — | — | — | — | — | — | — | 96,228 | 80,653 |
| — | — | — | — | — | — | — | 18,307 | 17,967 |
| — | — | — | — | — | — | — | 95,481 | 93,460 |
| — | — | — | — | — | — | — | 60,234 | 70,570 |
| 26,821 | 24,228 | 28,156 | 44,786 | 44,786 | 57,565 | 60,234 | — | — |
| 1,125,454 | 1,067,893 | 1,011,366 | 981,064 | 981,064 | 1,006,810 | 1,086,219 | 1,086,219 | 1,044,630 |
| 373,166 | 309,804 | 242,168 | 212,550 | 212,550 | 188,583 | 183,196 | 183,196 | 149,832 |
| 108,726 | 115,809 | 60,932 | 61,555 | 61,555 | 45,664 | 96,024 | 96,024 | 74,323 |
| 104,166 | 112,876 | 53,643 | 50,389 | 50,389 | 39,849 | 86,747 | 86,747 | 85,853 |
| 94,481 | 91,141 | 54,820 | (100,869) | (100,869) | 10,679 | 50,318 | 50,318 | 39,615 |
| 59,668 | 56,454 | 27,672 | (66,791) | (66,791) | 5,180 | 25,177 | 25,177 | 20,525 |
| 42.46 | 40.16 | 19.62 | (47.63) | (47.63) | 3.61 | 17.45 | 17.45 | 14.23 |
| 66,310 | 68,479 | 86,387 | 93,985 | 93,985 | 74,826 | 69,188 | 69,188 | 63,213 |
| 69,399 | 71,531 | 64,408 | 60,808 | 60,808 | 60,676 | 62,222 | 62,222 | 63,629 |
| 51,467 | 50,715 | 48,420 | 49,311 | 49,311 | 49,574 | 49,768 | 49,768 | 50,015 |
| 10.00 | 8.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |

| 2006 | 2005 | 2004 | 2003 | 2003 | 2002 | 2001 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|
| ¥1,376,044 | ¥1,270,057 | ¥1,249,206 | ¥1,212,374 | ¥1,212,374 | ¥1,193,011 | ¥1,240,008 | ¥1,240,008 | ¥1,180,372 |
| 214,062 | 202,521 | 181,609 | 176,788 | 176,788 | 180,826 | 196,510 | 196,510 | 181,771 |
| 414,368 | 419,969 | 428,302 | 427,188 | 427,188 | 415,193 | 419,168 | 419,168 | 416,881 |
| 284,390 | 223,958 | 226,825 | 198,697 | 198,697 | 181,618 | 176,177 | 176,177 | 127,013 |
| 594,211 | 511,726 | 450,451 | 407,639 | 407,639 | 496,826 | 516,013 | 516,013 | 476,159 |
| 424.34 | 365.43 | 321.41 | 290.92 | 290.92 | 353.16 | 357.70 | 357.70 | 330.07 |
| 43.2 | 40.3 | 36.1 | 33.6 | 33.6 | 41.6 | 41.6 | 41.6 | 40.3 |
| 23,030 | 23,820 | 25,011 | 25,730 | 25,730 | 26,227 | 26,695 | 26,695 | 26,580 |

e. For comparison purposes, results for the year ended March 31, 2005, are recalculated to reflect the April 2005 transfer of Leona™ nylon 66 filament operations from the Fibers segment to the Chemicals segment.

f. For comparison purposes, results by business category for the year ended March 31, 2003, are recalculated in accordance with the revised categories for the year ended March 31, 2004, which are aligned with the core operating companies in the holding company configuration adopted on October 1, 2003.
- The "fabricated home products" segment of the Chemical and Chemical-related sector is separated to an independent Life & Living segment. The remainder of the Chemical and Chemical-related sector is reclassified as the Chemicals segment.
- The Housing and Construction Materials sector is separated into the Homes segment and the Construction Materials segment.
- The Fibers and Textiles sector is renamed the Fibers segment.
- With the divestment of liquors operations, the Liquors, Services and Others sector is renamed the Services, Engineering and Others segment.

g. For comparison purposes, results by business category for the year ended March 31, 2001, are recalculated in accordance with the revised categories for the year ended March 31, 2002.
- Operations of the "membranes and systems" segment combine with the Chemicals and Plastics sector to form the Chemical and Chemical-related sector.
- The "electronics" segment is reclassified as the Electronics sector.
- Operations of the "biotechnology and medical products" segment are reclassified as the Health Care sector.
- The remaining operations comprise the Liquors, Services and Others sector, in place of the "engineering and others" segment.

# Management's Discussion and Analysis

Fiscal year 2009 (April 1, 2009 – March 31, 2010)

## Overview of Fiscal 2009 Consolidated Results

### Operating Environment

The global economy was generally recovering during the year, led by growth in China and other emerging countries, as an effect of economic stimulus packages implemented in response to the 2008 financial crisis. Although corporate earnings improved with increased exports to Asian countries, the Japanese economy remained sluggish as the strong yen, curtailed domestic capital expenditure, and weak consumer spending continued.

Although exports were on a recovery path, the operating environment for the Asahi Kasei Group remained challenging due to the strong yen and a sluggish recovery of domestic demand.

### Net Sales, Operating Income

Consolidated net sales for the fiscal year decreased by ¥119.5 billion (7.7%) from a year ago to ¥1,433.6 billion. Overseas sales decreased, largely in Chemicals, by ¥23.6 billion (6.0%) to ¥370.4 billion, but increased by 0.4 percentage points as a portion of consolidated net sales from 25.4% to 25.8%. Domestic sales decreased by ¥96.0 billion (8.3%) to ¥1,063.2 billion with lower market prices as an effect of decreased feedstock prices in the Chemicals segment and with a decrease in deliveries of order-built unit homes in the Homes segment.

Operating income increased by ¥22.7 billion (64.8%) to ¥57.6 billion. As a percentage of net sales, cost of sales decreased by 2.9 percentage points to 76.8%, largely due to decreased feedstock prices and improved operating rates driven by demand recovery. SG&A decreased by ¥5.0 billion, but increased as a percentage of net sales by 1.2 percentage points to 19.2% as an effect of the large decline in sales. Operating income as a percentage of net sales increased by 1.7 percentage points to 4.0%.

### Non-operating Income and Expenses, Ordinary Income

Net non-operating expenses were ¥1.3 billion, ¥1.2 billion higher than the ¥2.5 billion of a year earlier, largely due to lower foreign exchange loss and an increase in equity in earnings of affiliates. As a result, ordinary income increased by ¥23.9 billion (73.4%) to ¥56.4 billion.

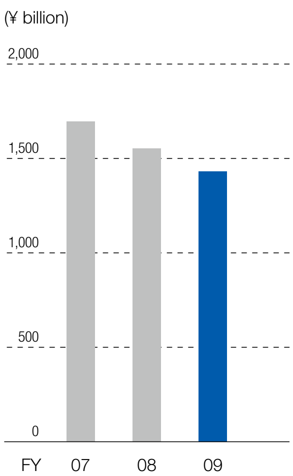
### Extraordinary Income and Loss

Extraordinary losses of ¥17.2 billion included ¥10.0 billion in business structure improvement expenses and a ¥2.9 billion loss on disposal of noncurrent assets. Extraordinary income of ¥6.9 billion included a ¥6.5 billion gain as a result of arbitration award. These combined for a net extraordinary loss of ¥10.3 billion, ¥3.2 billion lower than a year earlier.

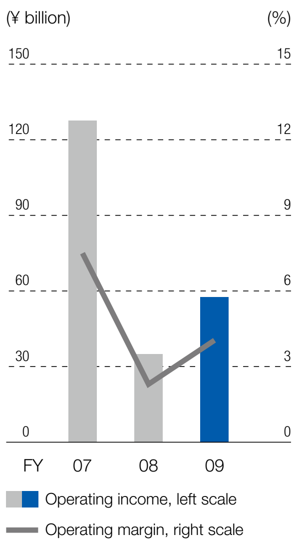
### Net Income

With ordinary income of ¥56.4 billion and the net extraordinary loss of ¥10.3 billion, income before income taxes was ¥46.1 billion. Currently payable income taxes of ¥17.1 billion and deferred income tax obligation of ¥3.4 billion combined for an income tax expense of ¥20.5 billion. Minority interest in income of consolidated subsidiaries was ¥0.3 billion. As a result, net income increased by ¥20.5 billion (433.0%) to ¥25.3 billion, and net income per share increased by ¥14.69 to ¥18.08 from the ¥3.39 of a year earlier.

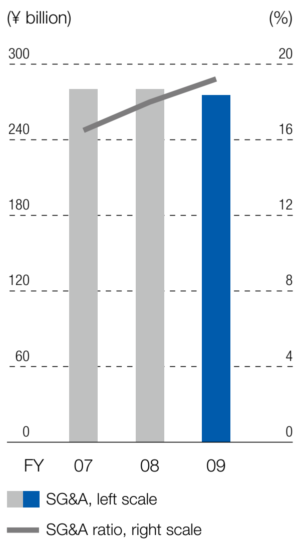
**Net Sales**



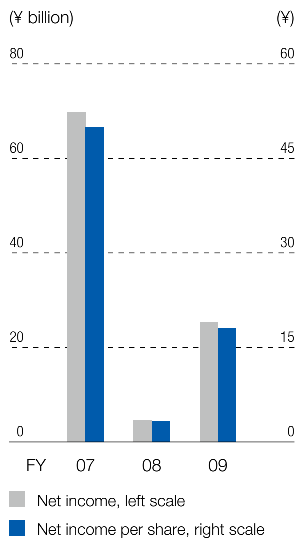

**Operating Income, Operating Margin**




**SG&A, SG&A Ratio**




**Net Income, Net Income per Share**



## Results by Segment

### Operating Segments

Consolidated sales and operating income by segment are shown below. Six operating segments correspond to the main fields of business, and the Services, Engineering and Others segment comprises the remainder of operations. The following segment names have been revised beginning with the first quarter of fiscal 2009 for greater clarity and correspondence with the fields of businesses under operation.

| *Previously* | | *Changed to* |
|---|---|---|
| Electronics Materials & Devices segment | → | Electronics segment |
| Pharma segment | → | Health Care segment |

The electronic materials operations of Asahi Kasei Corp., Asahi Kasei Chemicals, and Asahi Kasei EMD (renamed Asahi Kasei Microdevices on April 1, 2009) were transferred to Asahi Kasei E-materials on April 1, 2009. In consideration of the similarity of product types and characteristics to those of electronics operations, the operations of Asahi Kasei E-materials are reported in the Electronics segment. For comparison purposes, results for the previous year have been revised to reflect the transfer of the corresponding operations from the Chemicals segment and Corporate Expenses to the Electronics segment.

The Leona™ nylon 66 filament business of Asahi Kasei Chemicals was transferred to Asahi Kasei Fibers on April 1, 2009. For comparison purposes, results for the previous year in the Chemicals and Fibers segments have been revised to reflect this transfer.

### Chemicals

Sales decreased by ¥67.2 billion (9.8%) from a year ago to ¥622.1 billion and operating income increased by ¥32.6 billion to ¥26.1 billion.

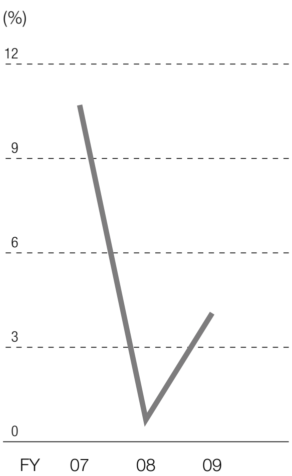
Although market prices remained low during the first half of the fiscal year, operating income from chemicals and derivative products increased with high overseas market prices for acrylonitrile (AN) and adipic acid as an effect of recovering demand in China and other Asian markets in the second half of the fiscal year and with a decrease in inventory valuation loss. Operating income from polymer products was flat, as low market prices due to decreased feedstock prices were offset by an increase in shipment volumes reflecting a recovery of demand in automotive and electronics applications in the second half of the fiscal year together with a decrease in inventory valuation loss. Although recovery in water-treatment related business was sluggish and ion-exchange membrane related business was impacted by the strong yen, operating income from specialty products increased with strong performance both in home-use products such as Saran Wrap™ and in coating materials and with steady performance in functional additives.

### Homes

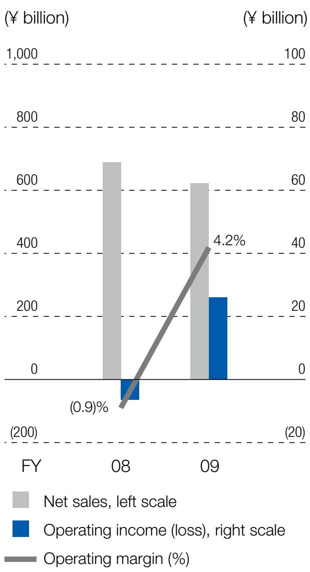
Sales decreased by ¥20.2 billion (4.9%) from a year ago to ¥389.7 billion and operating income increased by ¥3.5 billion (15.9%) to ¥25.3 billion.

Operating income from order-built and pre-built homes

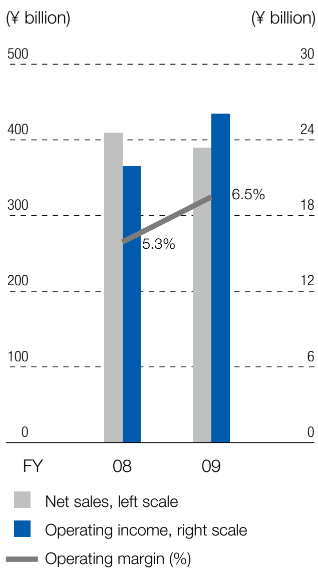
ROE




Chemicals




Homes



increased with cost reductions and other measures to heighten operating efficiency offsetting a substantial decline in deliveries of order-built Hebel Haus™ unit homes. Orders for order-built homes received during the year increased to ¥306.9 billion, up by ¥15.8 billion from a year ago, reflecting a recovery in orders during the second half of the fiscal year.

Despite steady performance in remodeling and real estate operations, operating income in housing-related operations decreased with slack performance in financing operations.

### Health Care

Sales decreased by ¥6.4 billion (5.4%) from a year ago to ¥113.2 billion and operating income decreased by ¥8.0 billion (66.8%) to ¥4.0 billion.

Although increased shipments of the Flivas™ agent for treatment of benign prostatic hyperplasia and the Elcitonin™ calcitonin formulation contributed to sales growth in pharmaceuticals operations, operating income decreased due to a decline in licensing income.

Shipment volumes of APS™ polysulfone-membrane artificial kidneys and Sepacell™ leukocyte reduction filters grew mainly in export, but operating income in device-related operations decreased with a significant impact of the strong yen on each product family and with the effect of greater capital depreciation.

### Fibers

Sales decreased by ¥15.2 billion (13.1%) from a year ago to ¥101.2 billion and an operating loss of ¥2.8 billion resulted as profitability decreased by ¥1.3 billion.

Overseas shipment volumes of Roica™ elastic polyurethane filament grew, but operating income decreased due to the significant impact of low market prices and the strong yen. Exports of Bemberg™ regenerated cellulose were steady overall, but operating income decreased mainly due to the strong yen. Operating income in nonwovens operations increased with growth in shipments of Lamous™ artificial suede for car seats and the effect of operating cost reductions, although shipments of spunbond decreased. Despite lower shipment volumes of Leona™ nylon 66 filament, operating income increased with declining feedstock prices and cost reductions.

### Electronics

Sales increased by ¥13.0 billion (10.1%) from a year ago to ¥142.7 billion and operating income decreased slightly to ¥7.2 billion.

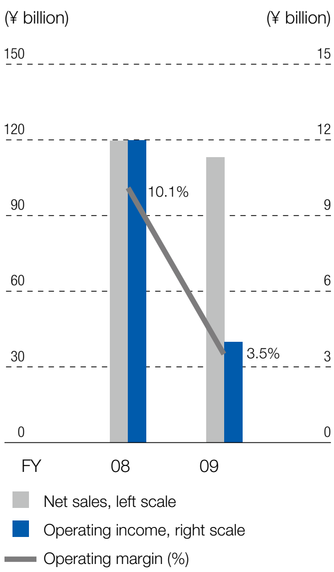
Operating income from electronic devices increased with substantial growth in shipments of LSIs in new applications outweighing a sharp impact of the strong yen. Shipments of electronic materials recovered, particularly for Hipore™ Li-ion battery (LiB) separator, but operating income decreased with the impact of falling market prices.

### Construction Materials

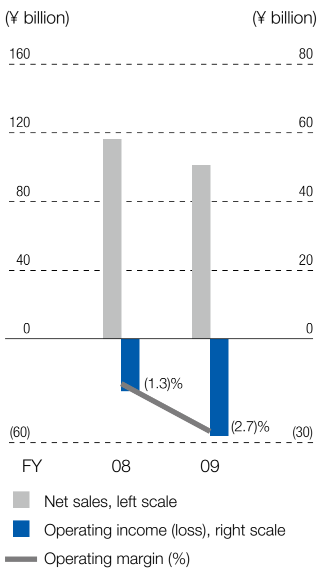
Sales decreased by ¥13.9 billion (22.8%) from a year ago to ¥47.0 billion and operating income decreased by ¥0.5 billion (28.6%) to ¥1.2 billion.

A decline in new construction starts resulted in lower shipments of Hebel™ autoclaved aerated concrete (AAC) panels and the BasePack™ earthquake-resistant column

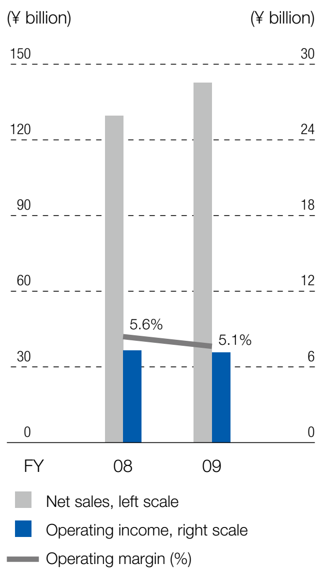
**Health Care**




**Fibers**




**Electronics**



base attachment system, and operating income in building materials and housing materials operations decreased slightly.

Operating income in foundation systems operations decreased with lower shipment volumes of Eazet™ piling systems for small-scale construction and the DynaWing™ pre-cast concrete piling system featuring minimal soil disposal and high load-bearing capacity.

Although insulation materials operations were also affected by the decline in new construction starts, cost reductions enabled an increase in operating income.

### Services, Engineering and Others

Sales decreased by ¥9.7 billion (35.4%) from a year ago to ¥17.6 billion and operating income decreased by ¥3.8 billion (67.6%) to ¥1.8 billion.

Operating income in engineering operations decreased as a curtailment of capital investments led to a decline in orders received.

## Geographical Information

Geographic segment information is not shown because over 90% of total sales were from operations domiciled in Japan and over 90% of total assets were located in Japan.

## Liquidity and Capital Resources

### Financial position

Total assets at fiscal year end were ¥1,368.9 billion, ¥10.4 billion (0.8%) lower than a year earlier.

Current assets decreased by ¥21.8 billion (3.2%) to ¥660.4 billion, mainly due to a ¥22.5 billion decrease in inventories (merchandise and finished goods, work in process, raw materials and supplies) and a ¥31.6 billion decrease in other, although notes and accounts receivable, trade, increased by ¥30.1 billion primarily due to a year-on-year increase in fourth quarter net sales.

Although deferred tax assets decreased by ¥13.5 billion, noncurrent assets increased by ¥11.4 billion (1.6%) to ¥708.5 billion, with property, plant and equipment increasing by ¥6.2 billion largely due to an increase in newly consolidated subsidiaries, and investment securities increasing by ¥18.0 billion mainly due to increased fair value.

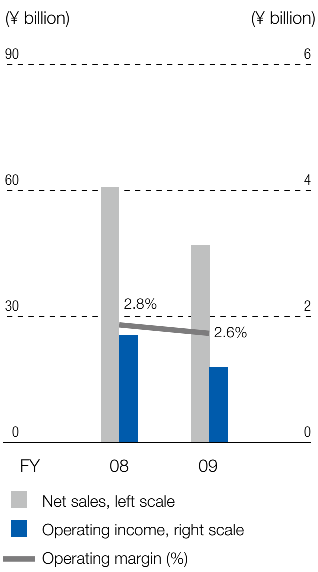
Current liabilities decreased by ¥53.1 billion (10.9%) to ¥434.8 billion, with a ¥36.0 billion decrease in commercial paper and a ¥20.0 billion decrease in the current portion of bonds.

Although long-term loans payable decreased by ¥10.6 billion, noncurrent liabilities increased by ¥9.3 billion (3.3%) to ¥289.4 billion largely due to a ¥20.0 billion bond issue.

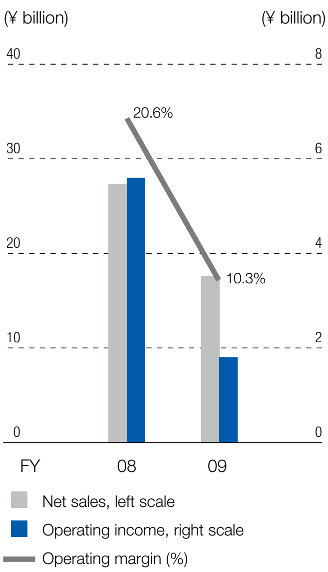
Interest-bearing debt decreased by ¥51.0 billion to ¥264.6 billion.

Net assets increased by ¥33.3 billion (5.5%) from ¥611.4 billion to ¥644.7 billion despite ¥11.2 billion in dividend payments, with net income of ¥25.3 billion, a ¥13.4 billion increase in valuation difference on available-for-sale securities, and a ¥3.8 billion increase in minority interests due to an increase in newly consolidated subsidiaries. As a result, net worth per share increased by ¥21.14 to ¥452.91. Net worth/total assets increased from 43.8% to 46.3%, and debt-to-equity ratio decreased by 0.10 to 0.42.

**Construction Materials**




**Services, Engineering and Others**



## Capital Expenditure

Capital expenditure (capex) was primarily for new and expanded production plant and equipment in long-term growth fields. Investments were also made for rationalization, modification, maintenance, and IT systems to bring greater product reliability and cost reductions.

Capex by operating segment shown below is for property, plant and equipment and intangible assets, combined, before consumption tax.

The electronic materials operations of Asahi Kasei Corp., Asahi Kasei Chemicals, and Asahi Kasei EMD (renamed Asahi Kasei Microdevices on April 1, 2009) were transferred to Asahi Kasei E-materials on April 1, 2009. In consideration of the similarity of product types and characteristics to those of electronics operations, the operations of Asahi Kasei E-materials are reported in the Electronics segment. For comparison purposes, results for the previous year have been revised to reflect the transfer of the corresponding operations from the Chemicals segment and corporate assets to the Electronics segment.

The Leona™ nylon 66 filament business of Asahi Kasei Chemicals was transferred to Asahi Kasei Fibers on April 1, 2009. For comparison purposes, results for the previous year in the Chemicals and Fibers segments have been revised to reflect this transfer.

A total of ¥84.0 billion was invested during the fiscal year for the expansion of businesses with competitive superiority, particularly in the Chemicals, Electronics, and Health Care segments, as well as for modification and rationalization.

| | Totals for the year (¥ million) | Compared to previous year (%) |
|---|---|---|
| Chemicals | 27,649 | 76.1 |
| Homes | 6,009 | 85.4 |
| Health Care | 9,173 | 29.1 |
| Fibers | 4,556 | 36.7 |
| Electronics | 22,761 | 71.6 |
| Construction Materials | 1,191 | 49.0 |
| Services, Engineering and Others | 927 | 85.7 |
| Combined | 72,266 | 58.9 |
| Corporate assets and eliminations | 11,724 | 288.9 |
| Consolidated | 83,990 | 66.3 |

Notable capex by operating segment was as follows.

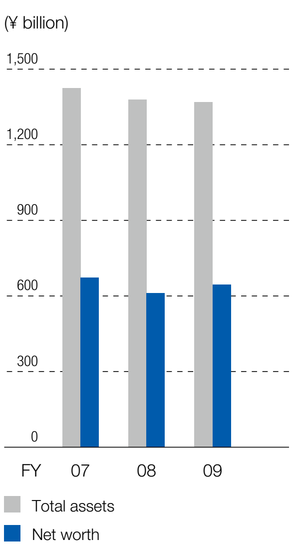
### Chemicals

Energy conservation equipment in Mizushima; capacity expansion for ion-exchange membranes for chlor-alkali electrolysis; plant modification, rationalization, and maintenance.

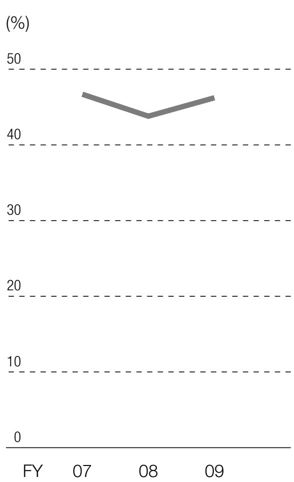
### Homes

Leases; construction system modification, rationalization, and maintenance.

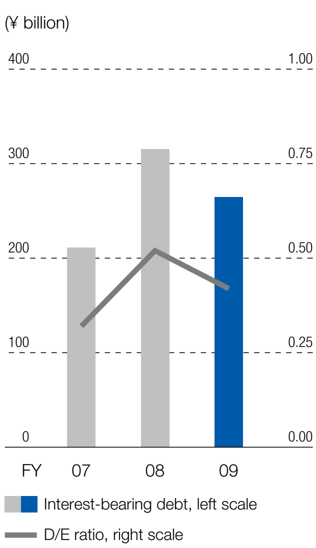
**Total Assets, Net Worth**



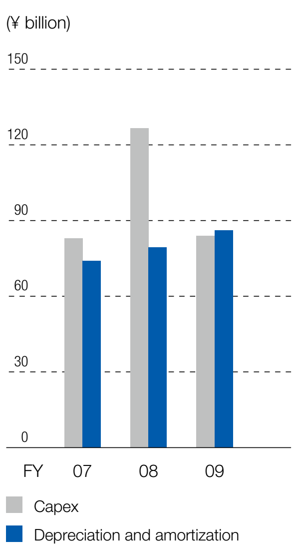

**Net Worth to Total Assets**




**Interest-Bearing Debt, D/E Ratio**




**Capex, Depreciation and Amortization**



### Health Care
Capacity expansion for polysulfone hollow-fiber membrane for APS™ artificial kidneys, Planova™ virus removal filters, and Sepacell™ leukocyte reduction filters; plant modification, rationalization, and maintenance.

### Fibers
Capacity expansion in Thailand for Roica™ elastic polyurethane filament; plant modification, rationalization, and maintenance.

### Electronics
Capacity expansion for Hipore™ LiB separator and LSIs; plant modification, rationalization, and maintenance.

### Construction Materials
Plant modification, rationalization, and maintenance.

### Services, Engineering and Others
Rationalization, labor-saving, and maintenance.

### Corporate Assets
Construction of a new integrated research complex, R&D equipment, IT systems, maintenance.

## Cash Flows
Free cash flows* were a positive ¥69.1 billion, as cash generated, principally from operating income and depreciation and amortization, exceeded cash used, principally for acquisition of noncurrent assets and investment securities. Cash flows from financing activities were a net ¥75.1 billion cash used, principally due to redemption of commercial paper. As a result, cash and cash equivalents at fiscal year end were ¥93.1 billion, ¥5.0 billion less than a year earlier.

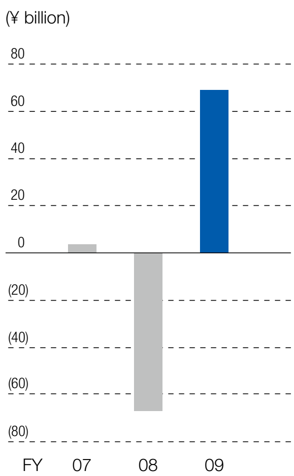
### Cash Flows from Operating Activities
Cash used included ¥25.1 billion of increase in notes and accounts receivable, trade, as an effect of a recovery of business, largely in Chemicals and Electronics. Income before income taxes generated ¥46.1 billion, depreciation and amortization generated ¥86.2 billion, and decrease in inventories generated ¥34.0 billion largely in Chemicals. Net cash generated from operating activities was ¥169.3 billion, ¥100.5 billion more than a year earlier.

### Cash Flows from Investing Activities
Cash used included ¥84.5 billion for purchase of property, plant and equipment for continuing expansion of competitively superior operations and enhancement of overall competitiveness, ¥6.9 billion for purchase of intangible assets, and ¥11.3 billion for purchase of investment securities. Net cash used in investing activities was ¥100.2 billion, ¥35.5 billion less than a year earlier.

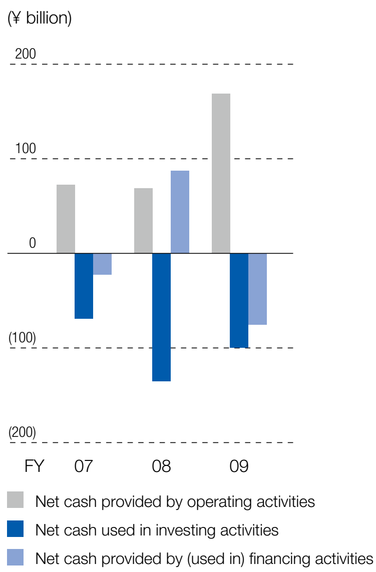
### Cash Flows from Financing Activities
In addition to ¥63.4 billion of net cash used to reduce interest-bearing debt, including bonds and loans, ¥11.2 billion was used for dividend payments. Net cash used in financing activities was ¥75.1 billion, ¥162.4 more than a year earlier.

* Total of net cash provided by (used in) operating activities and net cash provided by (used in) investment activities.

**Free Cash Flows**




**Cash Flows**



# Risk Analysis

Operating risks and non-operating risks which may materially influence investor decisions are described below. The management maintains awareness of the possibility that these scenarios may emerge and, to the fullest possible extent, implements measures to avoid their emergence and to minimize their impact on corporate performance in the event that they do emerge.

The description of risks given here includes elements which may emerge in the future, but as it is based on current evaluations at the time of preparation of this report, it does not include risks which could not be foreseen.

## Crude oil and naphtha prices

Operating costs in operations based on petrochemicals are affected by prices for crude oil and naphtha. If crude oil and naphtha prices rise, selling prices for products derived from these feedstocks must be increased in a timely manner to maintain sufficient price spreads. Price spreads may diminish, thereby affecting our consolidated performance and financial condition.

## Exchange rate fluctuation

Operations based overseas maintain accounts in the local currency where they operate. The yen value of items carried in these accounts is affected by the rate of exchange at the time of conversion to yen. Although measures such as currency exchange hedges are utilized to minimize the short-term effects of exchange rate fluctuations, such fluctuations may exceed the foreseeable range over the short to long term, thereby affecting our consolidated performance and financial condition.

## Overseas operations

Overseas operations may face a variety of risks which cannot be foreseen, including the existence or emergence of economically unfavorable circumstances due to legal and regulatory changes, vulnerability of infrastructure, difficulty in hiring/retaining qualified employees, or other factors, and social or political instability due to terrorism, war, or other factors. Overseas operations may be impaired by such scenarios, thereby affecting our consolidated performance and business plans.

## Housing-related tax policy, interest rate fluctuation

Operations in the Homes segment are affected by Japanese tax policies as they relate to home acquisition and by fluctuations in Japanese interest rates. Changes in Japanese tax policy, including consumption taxes, or fluctuations in Japanese interest rates may result in diminished housing demand, thereby affecting our consolidated performance and financial condition.

## Profitability of electronics-related businesses

The electronics industry is characterized by sharp market cycles. The profitability of electronics-related businesses may decline significantly in a relatively short time, thereby affecting our consolidated performance and financial condition. Because products in this field rapidly become obsolete, the timely development and commercialization of leading-edge devices and materials is required. New product development may be delayed, or demand fluctuations may exceed expectations, thereby affecting our consolidated performance and financial condition.

## Pharmaceuticals and medical devices

Pharmaceutical and medical device businesses may be significantly affected by government measures to curtail health care expenditure or other changes in government policy. Unforeseeable side effects or complications may emerge, significantly affecting these businesses. The pharmaceutical business additionally faces the possibility that product approval may be withdrawn as a result of Japan's reexamination system, and that competition may intensify as a result of the market entry of generics. For pharmaceuticals and medical devices under development, regulatory approval may fail to be obtained, market demand may be lower than expected, and the national reimbursement prices may be lower than expected. Such scenarios may affect our consolidated performance and financial condition.

### Industrial accidents and natural disasters

The occurrence of a significant industrial accident or natural disaster at a plant or elsewhere may result in a loss of public trust, the emergence of costs associated with accident response, including compensation, and the emergence of costs associated with plant shutdown, including opportunity loss and compensation to customers, thereby affecting our consolidated performance and financial condition.

### Intellectual property, product liability, and legal regulation

An unfavorable ruling may emerge in a dispute relating to intellectual property, a product defect resulting in a large-scale recall and compensation whose costs exceed insurance coverage may emerge, and detrimental legal and regulatory changes may emerge in any country where we operate. Such scenarios may affect our consolidated performance and financial condition.

### Irrecoverable credits

Credits extended to customers may become irrecoverable to an unforeseeable extent, necessitating additional losses or allowances to be recorded in financial accounts, and thereby affecting our consolidated performance and financial condition.

# Consolidated Balance Sheets

Asahi Kasei Corporation and consolidated subsidiaries
March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2010 | 2009 | 2010 |
| **Current assets:** | | | |
| Cash and deposits (Note 8 and 10) | ¥ 93,928 | ¥ 97,969 | $ 1,009,984 |
| Notes and accounts receivable, trade (Notes 10) | 238,931 | 208,868 | 2,569,150 |
| Short-term investment securities (Notes 8, 10 and 11) | 985 | 406 | 10,591 |
| Merchandise and finished goods | 124,557 | 138,098 | 1,339,318 |
| Work in progress | 75,044 | 82,832 | 806,924 |
| Raw materials and supplies | 51,484 | 52,609 | 553,587 |
| Deferred tax assets (Note 14) | 23,106 | 18,444 | 248,448 |
| Other | 54,027 | 85,626 | 580,940 |
| Allowance for doubtful accounts | (1,654) | (2,648) | (17,782) |
| Total current assets | 660,408 | 682,205 | 7,101,159 |
| **Noncurrent assets:** | | | |
| Property, plant and equipment | | | |
| Buildings and structures (Note 5 (b), (d)) | 404,974 | 381,725 | 4,354,559 |
| Accumulated depreciation | (224,608) | (217,710) | (2,415,135) |
| Buildings and structures, net | 180,366 | 164,014 | 1,939,424 |
| Machinery, equipment and vehicles (Note 5 (b), (d)) | 1,169,979 | 1,138,427 | 12,580,424 |
| Accumulated depreciation | (1,005,094) | (977,646) | (10,807,467) |
| Machinery, equipment and vehicles, net | 164,885 | 160,781 | 1,772,957 |
| Land (Note 5 (d)) | 55,031 | 53,740 | 591,735 |
| Lease assets (Note 9) | 5,808 | 2,540 | 62,449 |
| Accumulated depreciation | (1,132) | (227) | (12,168) |
| Lease assets, net | 4,676 | 2,313 | 50,282 |
| Construction in progress | 27,380 | 44,140 | 294,411 |
| Other (Note 5 (b), (d)) | 115,024 | 109,437 | 1,236,822 |
| Accumulated depreciation | (99,867) | (93,155) | (1,073,835) |
| Other, net | 15,158 | 16,282 | 162,987 |
| Subtotal | 447,497 | 441,271 | 4,811,796 |
| Intangible assets— | | | |
| Goodwill | 5,927 | 7,449 | 63,729 |
| Other | 28,729 | 29,935 | 308,917 |
| Subtotal | 34,656 | 37,384 | 372,646 |
| Investments and other assets— | | | |
| Investment securities (Notes 5 (a), 10 and 11) | 175,059 | 157,091 | 1,882,359 |
| Long-term receivables (Note 10) | 6,074 | 2,670 | 65,314 |
| Deferred tax assets (Note 14) | 15,383 | 28,874 | 165,406 |
| Other | 29,962 | 29,993 | 322,172 |
| Allowance for doubtful accounts | (147) | (151) | (1,579) |
| Subtotal | 226,331 | 218,477 | 2,433,671 |
| Total noncurrent assets | 708,485 | 697,132 | 7,618,114 |
| Total assets | ¥ 1,368,892 | ¥1,379,337 | $ 14,719,273 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2010 | Millions of yen 2009 | Thousands of U.S. dollars (Note 1) 2010 |
|---|---|---|---|
| **Liabilities:** | | | |
| **Current liabilities—** | | | |
| Notes and accounts payable, trade (Note 10) | ¥ 121,409 | ¥ 113,378 | $ 1,305,472 |
| Short-term loans payable (Notes 5 (b), 10 and 18) | 93,962 | 100,786 | 1,010,348 |
| Commercial paper (Notes 10 and 18) | 19,000 | 55,000 | 204,301 |
| Current portion of bonds (Notes 10 and 18) | — | 20,000 | — |
| Lease obligations (Notes 9, 10 and 18) | 1,123 | 489 | 12,080 |
| Income taxes payable (Note 10) | 12,160 | 4,097 | 130,752 |
| Accrued expenses | 91,371 | 86,947 | 982,487 |
| Advances received | 37,815 | 40,203 | 406,610 |
| Provision for repairs | 8,191 | 1,674 | 88,072 |
| Provision for product warranties | 3,607 | 9,396 | 38,783 |
| Other | 46,189 | 55,951 | 496,652 |
| Total current liabilities | 434,827 | 487,921 | 4,675,556 |
| **Noncurrent liabilities—** | | | |
| Bonds payable (Note 10 and 18) | 25,000 | 5,000 | 268,817 |
| Long-term loans payable (Notes 5 (b), 10 and 18) | 121,921 | 132,474 | 1,310,982 |
| Lease obligations (Notes 9, 10 and 18) | 3,593 | 1,845 | 38,631 |
| Deferred tax liabilities (Note 14) | 7,597 | 4,257 | 81,692 |
| Provision for retirement benefits (Notes 3 (a) and 13) | 109,450 | 109,864 | 1,176,880 |
| Provision for directors' retirement benefits | 1,225 | 1,046 | 13,171 |
| Provision for repairs | 169 | 4,499 | 1,818 |
| Long-term guarantee deposited (Note 10) | 18,321 | 19,149 | 197,005 |
| Other | 2,101 | 1,931 | 22,590 |
| Total noncurrent liabilities | 289,378 | 280,065 | 3,111,586 |
| Total liabilities | 724,204 | 767,986 | 7,787,142 |
| **Net assets:** | | | |
| Shareholders' equity: | | | |
| Capital stock— | | | |
| Authorized—4,000,000,000 shares | | | |
| Issued and outstanding—1,402,616,332 shares | 103,389 | 103,389 | 1,111,705 |
| Capital surplus | 79,403 | 79,404 | 853,791 |
| Retained earnings (Note 7 (b) ii)) | 432,114 | 418,292 | 4,646,382 |
| Treasury stock—<br>(2010—4,228,468 shares, 2009—4,070,731 shares) | (2,017) | (1,946) | (21,684) |
| Total shareholders' equity | 612,888 | 599,139 | 6,590,193 |
| Valuation and translation adjustments | | | |
| Valuation difference on available-for-sale securities | 36,692 | 23,301 | 394,540 |
| Deferred gains or losses on hedges | (109) | (178) | (1,175) |
| Foreign currency translation adjustment | (16,128) | (18,416) | (173,423) |
| Total valuation and translation adjustments | 20,455 | 4,708 | 219,941 |
| Minority interest | 11,346 | 7,504 | 121,997 |
| Total net assets | 644,688 | 611,351 | 6,932,131 |
| Commitments and contingent liabilities (Notes 5 (c) and 9) | | | |
| Total liabilities and net assets | ¥1,368,892 | ¥1,379,337 | $14,719,273 |

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

Asahi Kasei Corporation and consolidated subsidiaries
Years ended March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Net sales (Note 16) | ¥1,433,595 | ¥1,553,108 | $15,414,999 |
| Cost of sales (Note 6 (a), (b)) | 1,100,688 | 1,237,815 | 11,835,352 |
| Gross profit | 332,907 | 315,293 | 3,579,647 |
| Selling, general and administrative expenses (Note 6 (a)) | 275,285 | 280,333 | 2,960,057 |
| Operating income (Note 16) | 57,622 | 34,959 | 619,590 |
| Non-operating income: | | | |
| Interest income | 1,071 | 1,021 | 11,516 |
| Dividends income | 2,276 | 2,594 | 24,470 |
| Equity in earnings of affiliates | 1,151 | 831 | 12,371 |
| Insurance income | — | 1,131 | — |
| Other | 3,394 | 2,963 | 36,494 |
| Total non-operating income | 7,891 | 8,540 | 84,851 |
| Non-operating expenses: | | | |
| Interest expense | 3,714 | 4,284 | 39,938 |
| Foreign exchange loss | 702 | 1,359 | 7,544 |
| Other | 4,730 | 5,356 | 50,861 |
| Total non-operating expenses | 9,146 | 10,999 | 98,343 |
| Ordinary income | 56,367 | 32,500 | 606,098 |
| Extraordinary income: | | | |
| Gain on sales of investment securities | 112 | 17 | 1,203 |
| Gain on sales of noncurrent assets (Note 6 (c)) | 152 | 524 | 1,634 |
| Gain on change in equity | 153 | — | 1,646 |
| Gain as a result of arbitration award (Note 4) | 6,502 | — | 69,916 |
| Total extraordinary income | 6,919 | 540 | 74,399 |
| Extraordinary loss: | | | |
| Loss on sales of investment securities | — | 70 | — |
| Loss on valuation of investment securities | 1,918 | 721 | 20,626 |
| Loss on disposal of noncurrent assets (Note 6 (d)) | 2,944 | 5,943 | 31,657 |
| Impairment loss (Notes 6 (e) and 16) | 836 | 343 | 8,994 |
| Environmental expenses (Note 6 (f)) | 1,482 | 1,932 | 15,934 |
| Business structure improvement expenses (Notes 6 (g) and 16) | 10,050 | 5,001 | 108,062 |
| Total extraordinary loss | 17,230 | 14,009 | 185,273 |
| Income before income taxes | 46,056 | 19,031 | 495,224 |
| Income taxes (Note 14)—current | 17,107 | 8,521 | 183,941 |
| —deferred | 3,377 | 5,174 | 36,307 |
| Total income taxes | 20,483 | 13,695 | 220,249 |
| Minority interest in income | 286 | 592 | 3,078 |
| Net income | ¥ 25,286 | ¥ 4,745 | $ 271,897 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Asahi Kasei Corporation and consolidated subsidiaries
Years ended March 31, 2010 and 2009

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Valuation, translation adjustments | | | | | |
| | Capital stock | Capital surplus | Retained earnings (Note 7 (b)) | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Total valuation, translation adjustments | Minority interest | Total net assets |
| Balance at March 31, 2009 | ¥103,389 | ¥79,404 | ¥418,292 | ¥(1,946) | ¥599,139 | ¥23,301 | ¥(178) | ¥(18,416) | ¥ 4,708 | ¥ 7,504 | ¥611,351 |
| Changes during the fiscal year | | | | | | | | | | | |
| Dividends from surplus | | | (11,188) | | (11,188) | | | | | | (11,188) |
| Net income | | | 25,286 | | 25,286 | | | | | | 25,286 |
| Purchase of treasury stock | | | | (96) | (96) | | | | | | (96) |
| Disposal of treasury stock | | (1) | | 25 | 24 | | | | | | 24 |
| Change of scope of consolidation | | | (10) | | (10) | | | | | | (10) |
| Change of scope of equity method | | | (267) | | (267) | | | | | | (267) |
| Net changes of items other than shareholders' equity | | | | | | 13,391 | 68 | 2,287 | 15,747 | 3,841 | 19,588 |
| Total changes of items during the period | — | (1) | 13,821 | (71) | 13,749 | 13,391 | 68 | 2,287 | 15,747 | 3,841 | 33,338 |
| Balance at March 31, 2010 | ¥103,389 | ¥79,403 | ¥432,114 | ¥(2,017) | ¥612,888 | ¥36,692 | ¥(109) | ¥(16,128) | ¥20,455 | ¥11,346 | ¥644,688 |

| | Millions of yen | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Valuation, translation adjustments | | | | | | |
| | Capital stock | Capital surplus | Retained earnings (Note 7 (b)) | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation surplus | Foreign currency translation adjustment | Total valuation, translation adjustments | Minority interest | Total net assets |
| Balance at March 31, 2008 | ¥103,389 | ¥79,427 | ¥432,246 | ¥(2,019) | ¥613,042 | ¥ 51,091 | ¥ 11 | ¥ 873 | ¥ 1,226 | ¥ 53,201 | ¥7,912 | ¥674,156 |
| Reversal of revaluation reserve due to unification of accounting standards at overseas subsidiaries | | | 873 | | 873 | | | (873) | | (873) | | — |
| Changes during the fiscal year | | | | | | | | | | | | |
| Dividends from surplus | | | (19,581) | | (19,581) | | | | | | | (19,581) |
| Net income | | | 4,745 | | 4,745 | | | | | | | 4,745 |
| Purchase of treasury stock | | | | (241) | (241) | | | | | | | (241) |
| Disposal of treasury stock | | (23) | | 314 | 291 | | | | | | | 291 |
| Change of scope of equity method | | | 10 | | 10 | | | | | | | 10 |
| Net changes of items other than shareholders' equity | | | | | | (27,790) | (189) | — | (19,642) | (47,621) | (408) | (48,029) |
| Total changes of items during the period | — | (23) | (14,826) | 73 | (14,777) | (27,790) | (189) | — | (19,642) | (47,621) | (408) | (62,805) |
| Balance at March 31, 2009 | ¥103,389 | ¥79,404 | ¥418,292 | ¥(1,946) | ¥599,139 | ¥ 23,301 | ¥(178) | ¥ — | ¥(18,416) | ¥ 4,708 | ¥7,504 | ¥611,351 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | Valuation, translation adjustments | | | | | |
| | Capital stock | Capital surplus | Retained earnings (Note 7 (b)) | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Total valuation, translation adjustments | Minority interest | Total net assets |
| Balance at March 31, 2009 | $1,111,705 | $853,805 | $4,497,765 | $(20,925) | $6,442,350 | $250,550 | $(1,910) | $(198,019) | $ 50,620 | $ 80,692 | $6,573,662 |
| Changes during the fiscal year | | | | | | | | | | | |
| Dividends from surplus | | | (120,300) | | (120,300) | | | | | | (120,300) |
| Net income | | | 271,897 | | 271,897 | | | | | | 271,897 |
| Purchase of treasury stock | | | | (1,031) | (1,031) | | | | | | (1,031) |
| Disposal of treasury stock | | (14) | | 272 | 258 | | | | | | 258 |
| Change of scope of consolidation | | | (105) | | (105) | | | | | | (105) |
| Change of scope of equity method | | | (2,875) | | (2,875) | | | | | | (2,875) |
| Net changes of items other than shareholders' equity | | | | | | 143,990 | 735 | 24,596 | 169,321 | 41,305 | 210,626 |
| Total changes of items during the period | — | (14) | 148,616 | (759) | 147,843 | 143,990 | 735 | 24,596 | 169,321 | 41,305 | 358,469 |
| Balance at March 31, 2010 | $1,111,705 | $853,791 | $4,646,382 | $(21,684) | $6,590,193 | $394,540 | $(1,175) | $(173,423) | $219,941 | $121,997 | $6,932,131 |

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

Asahi Kasei Corporation and consolidated subsidiaries
Years ended March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥ 46,056 | ¥ 19,031 | $ 495,224 |
| Depreciation and amortization | 86,166 | 79,436 | 926,517 |
| Impairment loss | 836 | 343 | 8,994 |
| Amortization of goodwill | 1,089 | 619 | 11,713 |
| Amortization of negative goodwill | (190) | (90) | (2,047) |
| Increase (decrease) in provision for repairs | 2,187 | (621) | 23,521 |
| Increase (decrease) in provision for product warranties | (5,790) | 3,380 | (62,255) |
| Decrease in provision for retirement benefits | (1,284) | (6,011) | (13,806) |
| Interest and dividend income | (3,347) | (3,615) | (35,986) |
| Interest expense | 3,714 | 4,284 | 39,938 |
| Equity in earnings of affiliates | (1,151) | (831) | (12,371) |
| Loss (gain) on sales of investment securities | (112) | 53 | (1,203) |
| Loss on valuation of investment securities | 1,918 | 721 | 20,626 |
| Gain on sale of property, plant and equipment | (152) | (524) | (1,634) |
| Loss on disposal of noncurrent assets | 2,944 | 5,943 | 31,657 |
| Gain as a result of arbitration award | (6,502) | — | (69,916) |
| Decrease (increase) in notes and accounts receivable, trade | (25,106) | 83,714 | (269,952) |
| Decrease (increase) in inventories | 33,994 | (6,737) | 365,522 |
| Increase (decrease) in notes and accounts payable, trade | 1,603 | (37,272) | 17,234 |
| Increase (decrease) in accrued expenses | 2,555 | (21,530) | 27,477 |
| Decrease in advances received | (2,476) | (9,498) | (26,626) |
| Other, net | 20,048 | (18,728) | 215,574 |
| Subtotal | 157,003 | 92,068 | 1,688,202 |
| Interest and dividend income, received | 4,418 | 5,925 | 47,505 |
| Interest expense, paid | (3,758) | (4,185) | (40,408) |
| Proceeds from arbitration award | 6,502 | — | 69,916 |
| Income taxes, paid | — | (24,996) | — |
| Income taxes refunded | 5,143 | | 55,302 |
| Net cash provided by operating activities | 169,308 | 68,812 | 1,820,518 |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | (84,482) | (97,214) | (908,409) |
| Proceeds from sales of property, plant and equipment | 675 | 1,948 | 7,257 |
| Purchase of intangible assets | (6,876) | (22,016) | (73,936) |
| Purchase of investment securities | (11,291) | (17,518) | (121,409) |
| Proceeds from sales of investment securities | 5,272 | 516 | 56,688 |
| Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation | 914 | — | 9,827 |
| Payments of loans receivable | (12,623) | (6,374) | (135,728) |
| Collection of loans receivable | 11,665 | 5,791 | 125,427 |
| Other, net | (3,438) | (839) | (36,973) |
| Net cash used in investing activities | (100,185) | (135,707) | (1,077,257) |
| **Cash flows from financing activities:** | | | |
| Increase in short-term loans payable | 7,744 | 81,230 | 83,271 |
| Decrease in short-term loans payable | (9,956) | (34,439) | (107,059) |
| Proceeds from issuance of commercial paper | 59,000 | 135,000 | 634,409 |
| Redemption of commercial paper | (95,000) | (135,000) | (1,021,505) |
| Proceeds from long-term loans payable | 5,633 | 97,131 | 60,566 |
| Decrease in long-term loans payable | (29,863) | (11,947) | (321,112) |
| Proceeds from issuance of bonds | 20,000 | — | 215,054 |
| Redemption of bonds | (20,000) | (25,000) | (215,054) |
| Repayment of lease obligations | (908) | (206) | (9,762) |
| Purchase of treasury stock | (99) | (249) | (1,069) |
| Proceeds from disposal of treasury stock | 24 | 147 | 258 |
| Cash dividends paid | (11,188) | (19,581) | (120,300) |
| Cash dividends paid to minority shareholders | (342) | (352) | (3,678) |
| Other | (115) | 581 | (1,234) |
| Net cash provided by (used in) financing activities | (75,071) | 87,314 | (807,214) |
| Effect of exchange rate change on cash and cash equivalents | 620 | (5,360) | 6,669 |
| Net increase (decrease) in cash and cash equivalents | (5,327) | 15,059 | (57,284) |
| Cash and cash equivalents at beginning of year | 98,092 | 83,033 | 1,054,752 |
| Increase in cash and cash equivalents resulting from change of scope of consolidation | 360 | — | 3,876 |
| Cash and cash equivalents at end of year (Note 8) | ¥ 93,125 | ¥ 98,092 | $ 1,001,345 |

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Asahi Kasei Corporation and consolidated subsidiaries

## 1. Major policies for preparing the consolidated financial statements:

The consolidated financial statements, which are filed with the prime minister of Japan as required by the Financial Instruments and Exchange Act in Japan, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements are a translation of those filed with the prime minister of Japan and incorporate certain modifications to enhance foreign readers' understanding of the financial statements. In addition, the notes to the consolidated financial statements include certain financial information which is not required under the disclosure regulations in Japan, but is presented herein as additional information. In addition, certain reclassifications of previously reported amounts have been made to conform to current classifications. Such modifications or reclassifications have no effect on net income or retained earnings.

The U.S. dollar amounts presented in the financial statements are included solely for the convenience of readers. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the approximate current exchange rate of ¥93=US$1 prevailing on March 31, 2010, has been used.

**Consolidation and investments in affiliated companies—**
The consolidated financial statements consist of the accounts of the parent company and 98 subsidiaries (103 subsidiaries at March 31, 2009, hereinafter collectively referred to as the "Company") which, with minor exceptions due to materiality, are all majority and wholly owned companies, including 9 core operating companies (Asahi Kasei Chemicals Corp., Asahi Kasei Homes Corp., Asahi Kasei Pharma Corp., Asahi Kasei Kuraray Medical Co., Ltd., Asahi Kasei Medical Co., Ltd., Asahi Kasei Fibers Corp., Asahi Kasei Microdevices Corp., Asahi Kasei E-materials Corp. and Asahi Kasei Construction Materials Corp.), Tong Suh Petrochemical Corp. Ltd. (Korea), and Sanyo Petrochemical Co., Ltd. Material inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and 20% to 50% owned companies in which the Company exercises significant influence are accounted for, with minor exceptions due to materiality, using the equity method of accounting. There were 49 such unconsolidated subsidiaries and 20% to 50% owned companies to which the equity method is applied at March 31, 2010 (51 at March 31, 2009), including Asahi Kasei Metals Ltd., Asahi Kasei Geotechnologies Co., Ltd., and Asahi Organic Chemicals Industry Co., Ltd.

Certain subsidiaries results are reported in the consolidated financial statements using a December 31 or a February 28 year-end. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted for through consolidation procedures.

All assets and liabilities of consolidated subsidiaries are valued using the partial fair value method. The excess of the cost over the underlying net equity of investments in subsidiaries and affiliated companies accounted for using the equity method of accounting is allocated to identifiable assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill or negative goodwill. The Company amortizes goodwill and negative goodwill using the straight-line method over the estimated period of benefit over a five or twenty-year period, with the exception of minor amounts, which are charged to income in the year of acquisition.

## 2. Significant accounting policies:

### (a) Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of changes in value due to changes in interest rates.

### (b) Inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net sales value. Residential lots and dwellings for sale are stated at specifically identified costs.

### (c) Noncurrent assets and depreciation/amortization

Property, plant and equipment (except lease assets) are stated at cost. Significant renewals and improvements are capitalized at cost, while maintenance and repairs are charged to income as incurred. Depreciation is provided for under the declining-balance method for property, plant and equipment, except for buildings which are depreciated using the straight-line method, at rates based on estimated useful lives of the assets, principally ranging from five to sixty years for buildings and from four to twenty-two years for machinery and equipment.

Intangible fixed assets (except lease assets), including software for internal use, are amortized using the straight-line method over the estimated useful lives of the assets. The estimated useful life of software for internal use is mainly five years.

Lease assets are depreciated/amortized on a straight-line basis over the period of the lease with no residual value. For financial lease transactions without title transfer whose transaction date is before March 31, 2008, the previous method of accounting for lease transactions continues to be applied, with periodic lease charges for financing leases charged to income as incurred.

### (d) Significant allowances

**i) Allowance for doubtful accounts**
Estimates of the unrecoverable portion of receivables, generally based on historical rates and for specific receivables of particular concern based on individual estimates of recoverability, are recognized as allowance for doubtful accounts.

**ii) Provision for repairs**
The portion of foreseeable repair expenses deemed to correspond to normal wear and tear of plant and equipment as of the closing date of the consolidated fiscal period is recognized as provision for repairs.

**iii) Provision for product warranties**
Estimates of product warranty expenses based on historical rates and the amount required for remediation of deficient eave assembly specification are recognized as provision for product warranties.

**iv) Provision for retirement benefits**
Provision for retirement benefits represent the estimated

present value of projected benefit obligations in excess of the fair value of the plan assets. Unrecognized actuarial gains/losses, resulting from variances between actual results and economic estimates or actuarial assumptions, are amortized on a straight-line basis primarily over the following ten years. Unrecognized prior service costs are amortized on a straight-line basis primarily over the following ten years.

**v) Provision for directors' retirement benefits**

Provision is made for lump-sum indemnities to directors and corporate auditors equal to the estimated liability calculated under the internal rules of the Company.

### (e) Significant revenue and expense recognition

**i) Construction activities that are realizable as of current fiscal year end.**

The percentage-of-completion method (progress of work is estimated using the percentage of costs incurred to the total projected costs).

**ii) Other construction activity**

The completed-contract method

### (f) Financial instruments

**i) Securities**

Securities are classified into four categories; trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and other securities. At March 31, 2010 and 2009, the Company did not have trading securities or held-to-maturity debt securities.

Equity securities of unconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to materiality, using the equity method of accounting.

Other securities whose fair values are readily determinable are carried at fair value with net unrealized gains or losses included as a component of net assets, net of related taxes. Other securities whose fair values are not readily determinable are stated at cost. In cases where any significant decline in the realizable value is assessed to be other than temporary, the cost of other securities is devalued by the impaired amount and is charged to income.

Realized gains and losses are determined using the average cost method and are reflected in the income statement.

**ii) Derivative financial instruments**

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are charged or credited to income for the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of these qualifying hedges are deferred as "Deferred gains or losses on hedges" to be offset against gains or losses of the underlying hedged assets and liabilities.

### (g) Taxes

Accrued income taxes are stated at the estimated amount payable for corporation, enterprise, and inhabitant taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

In Japan, the consumption tax system is designed so that all goods and services are taxed at a flat rate of 5% unless specified otherwise. Assets, liabilities, and profit and loss accounts are stated net of consumption tax.

The Company has elected to file its return under the consolidated tax filing system.

### (h) Translation of foreign currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are charged or credited to income for the period.

Assets and liabilities of foreign subsidiaries and 20% to 50% owned companies accounted for using the equity method of accounting are translated into Japanese yen at year-end exchange rates, and income and expenses of same are translated into Japanese yen at the average exchange rate for the fiscal year. Shareholders' equity of foreign subsidiaries and 20% to 50% owned companies is translated into Japanese yen at the historical exchange rates. The translation differences in Japanese yen amounts arising from the use of different rates are recognized as foreign currency translation adjustment in the balance sheets.

A portion of the foreign currency translation adjustment is allocated to "Minority interest" and the Company's portion is presented as a separate component of net assets in the balance sheets.

## 3. Changes in significant accounting policies:

### (a) Application of Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)

Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (ASBJ Statement No. 19, July 31, 2008) has been applied beginning from the fiscal year ended March 31, 2010. This has results in no effect on operating income, ordinary income, or income before income taxes.

### (b) Application of Accounting Standard for Construction Contracts

Accounting Standard for Construction Contracts (ASBJ Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, December 27, 2007) have been applied beginning from the fiscal year ended March 31, 2010. The revenue for construction activity for which construction activities are realizable has been recognized based on the percentage-of-completion method (progress of work is estimated using the percentage of costs incurred to the total projected costs) and the completed-contract method is applied to other work. This change has been result in no effect on the consolidated financial statements.

## 4. Additional information:

Consolidated subsidiary Asahi Kasei Pharma Corp. had claimed for compensation from CoTherix, Inc. of the US to the breach a license agreement for Fasudil rho-kinase inhibitor, and a final arbitration ruling was issued in December, 2009. Deducting expenses incurred in the arbitration proceedings, etc., from the arbitration award received by Asahi Kasei Pharma, ¥6,502 million (US $ 69,916 thousand) is recorded in the consolidated statements of income as "gain as a result of arbitration award" under extraordinary income.

## 5. Notes to Consolidated Balance Sheets:

### (a) Investment securities

Among investment securities, shares of unconsolidated subsidiaries and affiliates as of March 31, 2010 and 2009, amounted to ¥61,501 million (US$661,297 thousand) and ¥62,170 million, respectively.

Included in those amounts are investments in joint ventures of ¥33,654 million (US$361,874 thousand) and ¥25,583 million, respectively.

### (b) Hypothecated assets and secured debt

A summary of assets pledged as collateral and secured debt as of March 31, 2010 and 2009, is shown below:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Hypothecated assets | | | |
| Buildings and structures | ¥433 | ¥534 | $4,652 |
| Machinery, equipment and vehicles | 16 | 21 | 176 |
| Other | 0 | 1 | 4 |
| | ¥449 | ¥556 | $4,832 |
| Secured debt | | | |
| Short-term loans payable | ¥ 24 | ¥ 4 | $ 258 |
| Long-term loans payable | 620 | 8 | 6,667 |
| | ¥644 | ¥ 12 | $6,925 |

Besides the above, investment securities pledged to suppliers as transaction guarantee at March 31, 2010 and 2009, were ¥98 million (US$1,052 thousand) and ¥80 million, respectively.

### (c) Contingent liabilities

Contingent liabilities at March 31, 2010 and 2009, arising in the ordinary course of business are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Loans guaranteed | ¥ 8,920 | ¥ 8,525 | $ 95,916 |
| Commitment for guarantees | 1,144 | 1,394 | 12,302 |
| Letters of awareness | 797 | 637 | 8,566 |
| Completion guarantees | 10,605 | 4,764 | 114,036 |
| Notes discounted | 13 | 152 | 138 |
| | ¥21,479 | ¥15,472 | $230,959 |

The parent company and certain of its subsidiaries and affiliates are defendants in several pending lawsuits. However, based upon the information currently available to both the Company and its legal counsel, management of the Company believes that any damages from such lawsuits will not have a material effect on the Company's consolidated financial statements.

### (d) Reduction entries due to state subsidies, etc.

Cumulative reduction entries due to state subsidies, etc. for the acquisition of property, plant and equipment as of March 31, 2010 and 2009, were ¥5,936 million (US$63,829 thousand) and ¥4,078 million, respectively. The breakdown of reduction entries as of March 31, 2010, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Buildings and structures | ¥2,612 | ¥2,105 | $28,089 |
| Machinery, equipment and vehicles | 2,958 | 1,622 | 31,809 |
| Land | 252 | 238 | 2,714 |
| Other | 113 | 112 | 1,217 |
| | ¥5,936 | ¥4,078 | $63,829 |

## 6. Notes to Consolidated Statements of Income:

### (a) Selling, general and administrative expenses

Major components of selling, general and administrative expenses are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Freight and storage | ¥32,102 | ¥33,940 | $345,183 |
| Salaries and benefits | 90,623 | 88,988 | 974,441 |
| Research and development (*) | 44,846 | 43,249 | 482,218 |

(*) The aggregate amounts of research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2010 and 2009, were ¥62,924 million (US$676,597 thousand) and ¥60,849 million, respectively.

### (b) Loss on devaluation of inventories

Inventories held for sale in the ordinary course of business are stated at the lower of cost or net sales value. Loss on devaluation of inventories for the years ended March 31, 2010 and 2009, was as follows:

| Millions of yen | | Thousands of U.S. dollars |
|---|---|---|
| 2010 | 2009 | 2010 |
| ¥(5,241) | ¥12,923 | $(56,357) |

### (c) Gain on sales of noncurrent assets

Gain on sales of noncurrent assets for the year ended March 31, 2010, was comprised of the gain on the sales of machinery and equipment, etc. amounting to ¥152 million (US$1,634 thousand). Gain on sales of noncurrent assets for the year ended March 31, 2009, was primarily the gain on the sale of land, etc. amounting to ¥514 million.

### (d) Loss on disposal of noncurrent assets

Loss on disposal of noncurrent assets for the years ended March 31, 2010 and 2009, was primarily the loss on abandonment and sale of buildings, machinery and equipment, etc. The abandonment and sale of buildings, machinery and equipment, etc. was performed under a single, all-inclusive contract for each facility.

### (e) Impairment loss

Impairment loss for the years ended March 31, 2010 and 2009, were as follows:

| | | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| Use | Asset class | Location | 2010 | 2009 | 2010 |
| Production facility for autoclaved aerated concrete (AAC) panels | Machinery and equipment, etc. | Mizuho, Gifu | ¥1,365 | ¥ — | $14,675 |
| Production facility for autoclaved aerated concrete (AAC) panels and others | Machinery and equipment, etc. | Shiraoi, Hokkaido, and elsewhere | — | 754 | — |
| Production facility for synthetic resin | Machinery and equipment, etc. | Sodegaura, Chiba | 955 | — | 10,269 |
| Production facility for polyester filament | Machinery and equipment, etc. | Nobeoka, Miyazaki | — | 264 | — |
| Production facility for performance Paper | Machinery and equipment, etc. | Gobo, Wakayama | 531 | — | 5,707 |
| Production facility for functional food additives | Machinery and equipment, etc. | Shiraoi, Hokkaido | — | 112 | — |
| Idle assets | Land | Atsukgi, Kanagawa, and elsewhere | 198 | — | 2,128 |
| Production facility for fine-pattern devices | Machinery and equipment, etc. | Hyuga, Miyazaki | 108 | 79 | 1,160 |

Grouping of operating assets is based on managerial accounting categories, with consideration given to production process, geographic location, and domain of authority for making investment decisions. Idle assets are recorded separately in each fixed assets class.

With respect to assets shown in the above table, the book value was reduced to the recoverable amount due to diminished profitability. The recoverable amount is stated as future cash flow less 5% as measured by usability value. The resulting extraordinary loss for production facility for autoclaved aerated concrete (AAC) panels and for production facility for synthetic resin was recorded under business structure improvement expenses for the year ended March 31, 2010. The resulting extraordinary loss for production facility for autoclaved aerated concrete (AAC) panels and others and for production facility for functional food additives was recorded under business structure improvement expenses for the year ended March 31, 2009. For idle land of which the market value has significantly decreased, the book value is reduced to the recoverable amount. The recoverable amount is measured at the net selling price primarily based on the value appraised by real estate appraisers.

### (f) Environmental expenses

Environmental expenses for the years ended March 31, 2010 were mainly for abandonment of polychlorinated biphenyl (“PCB”) wastes, etc. and for the year ended March 31, 2009, were mainly for decontamination of idle land, etc.

### (g) Business structure improvement expenses

Major components of the business structure improvement expenses are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Loss on disposal and devaluation of assets and others | ¥ 7,730 | ¥3,271 | $ 83,118 |
| Impairment of fixed assets | 2,320 | 866 | 24,944 |
| Loss on liquidation of subsidiaries and others | — | 865 | — |
| | ¥10,050 | ¥5,001 | $108,062 |

## 7. Notes to Consolidated Statements of Changes in Net Assets:

### For the year ended March 31, 2010

### (a) Class and total number of issued and outstanding shares and treasury stock

| | Thousands of shares | | | |
|---|---|---|---|---|
| | Number of shares as of March 31, 2009 | Increase in number of shares during the fiscal year | Decrease in number of shares during the fiscal year | Number of shares as of March 31, 2010 |
| Issued and outstanding shares | | | | |
| Capital stock | 1,402,616 | — | — | 1,402,616 |
| Total | 1,402,616 | — | — | 1,402,616 |
| Treasury stock | | | | |
| Capital stock (Notes 1 & 2) | 4,071 | 211 | 53 | 4,228 |
| Total | 4,071 | 211 | 53 | 4,228 |

Notes: 1. The increase of 211 thousand shares in capital stock of treasury stock was due to purchase of shares in quantities of less than one share unit.
2. The decrease of 53 thousand shares in capital stock of treasury stock was due to sale of shares in quantities of less than one share unit.

### (b) Dividends

#### i) Cash dividends paid

1) The following was resolved by the Board of Directors on May 12, 2009.

Regarding dividends for capital stock

| | |
|---|---|
| Total dividends | ¥4,196 million (US$45,114 thousand) |
| Dividend per share | ¥3.00 (US$0.03) |
| Date of record | March 31, 2009 |
| Payment date | June 3, 2009 |

2) The following was resolved by the Board of Directors on November 2, 2009.

Regarding dividends for capital stock

| | |
|---|---|
| Total dividends | ¥6,992 million (US$75,186 thousand) |
| Dividend per share | ¥5.00 (US$0.05) |
| Date of record | September 30, 2009 |
| Payment date | December 1, 2009 |

#### ii) Dividends for which the date of record falls within the fiscal year under review but the payment date occurs in the following fiscal year

The following was resolved by the Board of Directors on May 10, 2010.

Regarding dividends for capital stock

| | |
|---|---|
| Total dividends | ¥6,992 million (US$75,182 thousand) |
| Source of dividends | Retained earnings |
| Dividend per share | ¥5.00 (US$0.05) |
| Date of record | March 31, 2010 |
| Payment date | June 7, 2010 |

### For the year ended March 31, 2009

### (a) Class and total number of issued and outstanding shares and treasury stock

| | Thousands of shares | | | |
|---|---|---|---|---|
| | Number of shares as of March 31, 2008 | Increase in number of shares during the fiscal year | Decrease in number of shares during the fiscal year | Number of shares as of March 31, 2009 |
| Issued and outstanding shares | | | | |
| Capital stock | 1,402,616 | — | — | 1,402,616 |
| Total | 1,402,616 | — | — | 1,402,616 |
| Treasury stock | | | | |
| Capital stock (Notes 1 & 2) | 4,081 | 530 | 540 | 4,071 |
| Total | 4,081 | 530 | 540 | 4,071 |

Notes: 1. The increase of 530 thousand shares in capital stock of treasury stock was due to purchase of shares in quantities of less than one share unit.
2. Of the decrease of 540 thousand shares in capital stock of treasury stock, a decrease of 348 thousand was due to sale of shares in quantities of less than one share unit, and a decrease of 193 thousand was the portion of the Company's shares which had been recorded as the Company's treasury stock which were sold by an affiliate for which the equity method applies.

### (b) Dividends

#### i) Cash dividends paid

1) The following was resolved by the Board of Directors on May 8, 2008.

Regarding dividends for capital stock

| | |
|---|---|
| Total dividends | ¥9,791 million |
| Dividend per share | ¥7.00 |
| Date of record | March 31, 2008 |
| Payment date | June 6, 2008 |

2) The following was resolved by the Board of Directors on November 5, 2008.

Regarding dividends for capital stock

| | |
|---|---|
| Total dividends | ¥9,790 million |
| Dividend per share | ¥7.00 |
| Date of record | September 30, 2008 |
| Payment date | December 1, 2008 |

#### ii) Dividends for which the date of record falls within the fiscal year under review but the payment date occurs in the following fiscal year

The following was resolved by the Board of Directors on May 12, 2009.

Regarding dividends for capital stock

| | |
|---|---|
| Total dividends | ¥4,196 million |
| Source of dividends | Retained earnings |
| Dividend per share | ¥3.00 |
| Date of record | March 31, 2009 |
| Payment date | June 3, 2009 |

## 8. Note of Consolidated Statements of Cash Flows:

### Cash and cash equivalents

Reconciliation of cash and cash equivalents on the consolidated statements of cash flows to the amounts disclosed on the balance sheets at March 31, 2010 and 2009, is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Cash and deposits | ¥93,928 | ¥97,969 | $1,009,984 |
| Time deposits with deposit term of over 3 months | (1,788) | (163) | (19,230) |
| Money market funds, medium-term government bond funds, and others included in marketable securities | 985 | 286 | 10,591 |
| Cash and cash equivalents | ¥93,125 | ¥98,092 | $1,001,345 |

## 9. Leases:

### (a) Financial lease transactions

Financial lease transactions without title transfer

**i) Components of lease assets are as follows:**

1) Property, plant and equipment: Mainly model homes (buildings and structures) for housing operations.
2) Intangible fixed assets: Software.

**ii) Depreciation of lease assets:**

As stated in 2. Significant accounting policies (c) Noncurrent assets and depreciation/amortization. For financial lease transactions without title transfer whose transaction date is before March 31, 2008, the previous method of accounting for lease transactions continues to be applied.

The cost of the assets and the related accumulated amortization, computed using the straight-line method over the term of the lease, at March 31, 2010 and 2009, would have been as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Cost | Accumulated amortization | Net amount |
| Buildings and structures | ¥5,863 | ¥4,503 | ¥1,360 |
| Machinery, equipment and vehicles | 269 | 156 | 113 |
| Property, plant and equipment—other | 981 | 678 | 303 |
| Intangible fixed assets—other | 259 | 149 | 110 |
| | ¥7,372 | ¥5,486 | ¥1,886 |

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Cost | Accumulated amortization | Net amount |
| Buildings and structures | ¥ 9,851 | ¥6,418 | ¥3,433 |
| Machinery, equipment and vehicles | 351 | 191 | 160 |
| Property, plant and equipment—other | 1,460 | 926 | 534 |
| Intangible fixed assets—other | 410 | 223 | 187 |
| | ¥12,072 | ¥7,758 | ¥4,315 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Cost | Accumulated amortization | Net amount |
| Buildings and structures | $63,040 | $48,414 | $14,625 |
| Machinery, equipment and vehicles | 2,888 | 1,673 | 1,215 |
| Property, plant and equipment—other | 10,551 | 7,293 | 3,258 |
| Intangible fixed assets—other | 2,786 | 1,606 | 1,180 |
| | $79,265 | $58,987 | $20,278 |

The future lease payments under the Company's financing leases at March 31, 2010 and 2009, including amounts representing interest, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Due within one year | ¥1,333 | ¥2,353 | $14,339 |
| Due after one year | 552 | 1,961 | 5,939 |
| | ¥1,886 | ¥4,315 | $20,278 |

Lease charges were ¥ 2,229 million (US$23,968 thousand) and ¥3,459 million for the years ended March 31, 2010 and 2009, respectively. The amortization amounts of the leased assets, computed using the straight-line method over the term of the leases and no residual value, were ¥2,229 million (US$23,968 thousand) and ¥3,459 million for the years ended March 31, 2010 and 2009, respectively.

No impairment loss is allocated to the leased assets.

### (b) Operating lease transactions

Future lease payments for the non-cancelable portion of the Company's operating leases at March 31, 2010 and 2009, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Due within one year | ¥ 4,651 | ¥ 4,525 | $ 50,015 |
| Due after one year | 11,697 | 16,172 | 125,780 |
| | ¥16,349 | ¥20,696 | $175,795 |

## 10. Financial instruments:

### (a) State of financial instruments

**i) Policy related to financial instruments**

The Company raises long-term funds as required mainly for its planned capital expenditure by borrowing from banks, borrowing from life insurance companies, issuing bonds, etc. A portion of surplus funds is invested only in highly stable financial assets. Short-term working funds are raised by bank borrowings, issuance of commercial paper, etc. Derivatives are mainly used for the purpose of reducing risks related to assets and liabilities which are exposed to risks of fluctuations of exchange rate and interest rate. Derivatives are not traded for speculative purposes.

**ii) Components of financial instruments, their risks, and management of risks**

As operating receivables, notes and accounts receivable, trade, are exposed to credit risk of customers. As the business of the Company spans a wide range of fields, operating receivables are not excessively concentrated on specific customers, but each group company monitors and manages the state of credit for each supplier.

Investment securities are exposed to the risk of fluctuations in market price, but they are mainly shares in supplier companies, etc., held for policy purposes. Fair value is periodically evaluated, and the financial condition of the issuing company is monitored.

As operating liabilities, notes and accounts payable, trade, generally have a payment term of one year or less.

Variable interest-rate borrowings are exposed to the risk of interest rate fluctuations, but derivatives (interest currency swaps, interest-rate swaps) are used as hedges to fix interest expenses for a portion of long-term variable interest-rate borrowings.

Operating receivables and operating liabilities include those denominated in currencies other than Japanese yen, and are thus exposed to the risk of exchange rate fluctuations. In order to minimize the effects of short-term exchange-rate fluctuations, the Company hedges with derivative transactions (forward exchange contracts) in principle within the range of the underlying receivables and liabilities.

Derivative transactions are exposed to the credit risk of transacting financial institutions, but the state of credit is verified through periodical monitoring. Such transactions are performed and managed in accordance with each company's internal regulations which stipulate the related authority, procedures, limits, etc.

Borrowings are exposed to liquidity risk, but the parent company specifies standards for required on-hand funds based on the Company's funding plans, prepares and revises plans for cash receipts and disbursements as appropriate, and enters into commitment-line agreements with transacting financial institutions to manage such risk.

Loan securitization in housing operations are exposed to the risk of interest rate fluctuation between the time of execution of housing loans and the time of execution of their securitizations, but derivative transactions (interest rate swaps) are performed to reduce such risk.

**iii) Supplementary explanation of fair value of financial instruments**

Fair value of financial instruments includes value based on market value, and, in the case where no market value exists, reasonably calculated value. As variable factors are incorporated in its calculation, fair value may change due to the adoption of different assumptions, conditions, etc. "Amount of contract" regarding derivative transactions in the note 12. "Derivative financial instruments" is not itself an indication of the market risk of the derivative transactions.

### (b) Fair value of financial instruments

Amounts carried on the consolidated balance sheets, their fair values, and the differences between them as of March 31, 2010, are as shown below.

Financial instruments whose fair values are deemed extremely difficult to determine are not included in this table (See Note 2, below).

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Carrying amount | Fair value | Difference |
| Cash and deposits | ¥ 93,928 | ¥ 93,928 | ¥ — |
| Notes and accounts receivable, trade | 238,931 | | |
| Allowance for doubtful accounts(*1) | (1,543) | | |
| | 237,388 | 237,388 | — |
| Short-term investment securities | | | |
| Other securities | 112 | 112 | — |
| Investment securities | | | |
| Other securities | 105,303 | 105,303 | — |
| Long-term receivables | 6,844 | | |
| Allowance for doubtful accounts(*1) | (73) | | |
| | 6,770 | 7,125 | 355 |
| Total assets | 443,501 | 443,856 | 355 |
| Notes and accounts payable, trade | 121,409 | 121,409 | — |
| Short-term loans payable | 78,302 | 78,302 | — |
| Commercial paper | 19,000 | 19,000 | — |
| Income taxes payable | 12,160 | 12,160 | — |
| Bonds payable | 25,000 | 24,808 | 192 |
| Long-term loans payable | 137,406 | 138,385 | (980) |
| Lease obligations | 4,716 | 4,774 | (58) |
| Long-term guarantee deposited | 5,694 | 5,583 | 111 |
| Total liabilities | 403,686 | 404,421 | (735) |
| Derivative financial instruments(*2) | (200) | (200) | — |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Carrying amount | Fair value | Difference |
| Cash and deposits | $1,009,984 | $1,009,984 | $ — |
| Notes and accounts receivable, trade | 2,569,150 | | |
| Allowance for doubtful accounts(*1) | (16,593) | | |
| | 2,552,557 | 2,552,557 | — |
| Short-term investment securities | | | |
| Other securities | 1,199 | 1,199 | — |
| Investment securities | | | |
| Other securities | 1,132,286 | 1,132,286 | — |
| Long-term receivables | 73,587 | | |
| Allowance for doubtful accounts(*1) | (787) | | |
| | 72,800 | 76,616 | 3,816 |
| Total assets | 4,768,826 | 4,772,642 | 3,816 |
| Notes and accounts payable, trade | 1,305,472 | 1,305,472 | — |
| Short-term loans payable | 841,957 | 841,957 | — |
| Commercial paper | 204,301 | 204,301 | — |
| Income taxes payable | 130,752 | 130,752 | — |
| Bonds payable | 268,817 | 266,755 | 2,062 |
| Long-term loans payable | 1,477,481 | 1,488,015 | (10,534) |
| Lease obligations | 50,710 | 51,333 | (622) |
| Long-term guarantee deposited | 61,221 | 60,028 | 1,193 |
| Total liabilities | 4,340,713 | 4,348,614 | (7,901) |
| Derivative financial instruments(*2) | (2,152) | (2,152) | — |

(*1) Specific allowance for doubtful accounts is specifically deducted from notes and accounts receivable, trade, and long-term loans receivable.
(*2) Net amount of assets and liabilities from derivative transactions is shown. In the case of a net liability, the amount is shown in parentheses.

Notes: 1. Method of calculating fair value of financial instruments; securities and derivative financial instruments

i) Assets

1) Cash and deposits; notes and accounts receivable, trade

As their fair value approximates book value due to their short maturity, the corresponding book value amount is used as fair value.

2) Short-term investment securities, investment securities

The stock exchange price is used to determine fair value of these traded stocks. Refer to the Note 11 "Marketable securities and investment securities" for information regarding securities based on each objective for which they are held.

3) Long-term loans receivable

The carrying amount shown includes long-term loans receivable scheduled for repayment within one year. Their fair value is determined by a method of calculation in which the total amount of capital and interest is discounted using the interest rate that would apply if equivalent long-term loans were newly issued. For long-term loans receivable that have a variable interest rate, as they are deemed to reflect market interest rates within a short term, book value is used as fair value.

ii) Liabilities

1) Notes and accounts payable, trade; short-term loans payable; commercial paper; income taxes payable

As their fair value approximates book value due to their short maturity, the corresponding book value amount is used as fair value.

2) Bonds payable

With regard to fair value of the bonds payable issued by the parent company, for those with market value, fair value is determined by the market value. For those without market value that are subject to exceptional treatment for interest rate swaps, fair value is determined by a method of calculation in which the total amount of capital and interest, treated as a unit with such interest rate swaps, is discounted using the interest rate that would apply if equivalent bonds were newly issued.

3) Long-term loans payable

The carrying amount shown includes long-term loans payable that are scheduled for repayment within one year of ¥15,660 million (US$168,391 thousand). Their fair value is determined by a method of calculation in which the total amount of capital and interest is discounted using the interest rate that would apply if equivalent long-term loans were newly entered. Of long-term loans payable that have a variable interest rate, fair value of those subject to exceptional treatment of interest rate swaps is determined by a method of calculation in which the total amount of capital and interest, treated as a unit with such interest rate swaps, is discounted using the interest rate that would apply if equivalent long-term loans were newly entered, and book value is used as fair value of others, as they are deemed to reflect market interest rates within a short term.

4) Lease obligations

The carrying amount shown is the total amount combining lease obligations under current liabilities and lease obligations under noncurrent liabilities. Present value is calculated by discounting the total amount of capital and interest using the presumed interest rate that would apply if lease transactions were newly made is used as fair value.

5) Long-term guarantee deposited

In the case where the deposit period can be estimated, fair value of long-term guarantee deposited is determined through calculation of the discount over that period.

iii) Derivative transactions

Refer to the note 12 “Derivative financial instruments.”

2. For equity investment in nonpublic companies, with a carrying amount of ¥70,630 million (US$759,465 thousand), fair value is not included in short-term investment securities or in investment securities, as no market value exists and it is deemed extremely difficult to determine fair value due to the impossibility of estimating future cash flows.

3. Of the carrying amount of long-term loans payable, ¥176 million (US$1,891 thousand) is for loans from the Japan Science and Technology Agency, and the timing of repayment is yet to be determined as it begins after development success is certified. Fair value is not included as it is deemed extremely difficult to determine due to the impossibility of estimating future cash flows.

4. Within long-term guarantee deposited, the fair value of a portion having a carrying amount of ¥12,628 million (US$135,784 thousand) is not included as no market value exists and it is deemed extremely difficult to determine fair value due to the impossibility of estimating future cash flows.

5. For monetary credits and securities with maturity, amount scheduled for redemption subsequent to the closing date.

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Due within one year | Due after one year, within five years | Due after five years, within ten years | Due after more than ten years |
| Cash and deposits | ¥ 93,928 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable, trade | 238,931 | — | — | — |
| Short-term investment securities, investment securities | | | | |
| Government and municipal bonds | 2 | 5 | — | — |
| Long-term receivables | 769 | 6,059 | 15 | — |
| | ¥333,631 | ¥ 6,064 | ¥15 | ¥ — |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Due within one year | Due after one year, within five years | Due after five years, within ten years | Due after more than ten years |
| Cash and deposits | $1,009,984 | $ — | $ — | $ — |
| Notes and accounts receivable, trade | 2,569,150 | — | — | — |
| Short-term investment securities, investment securities | | | | |
| Government and municipal bonds | 24 | 49 | — | — |
| Long-term receivables | 8,273 | 65,152 | 161 | — |
| | $3,587,431 | $ 65,201 | $161 | $ — |

6. For bonds payable, long-term loans payable, lease obligations, and other interest-bearing debt, amount scheduled for repayment subsequent to the closing date.

Refer to Note 18 “Borrowings”.

(Additional information)

Accounting Standard for Financial Instruments (ASBJ statement No. 10) and Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19) are applied beginning with the fiscal year ended March 31, 2010.

## 11. Marketable securities and investment securities:

### (a) Other securities with available fair value

The aggregate cost, carrying amount which was identical to fair value, and gross unrealized gains and losses of debt and equity securities classified as other securities for which fair values were available at March 31, 2010 and 2009, were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Carrying amount | Cost | Unrealized gains (losses) |
| Securities with unrealized gains: | | | |
| Equity securities | ¥ 96,284 | ¥33,280 | ¥63,004 |
| Securities with unrealized losses: | | | |
| Equity securities | 9,019 | 10,415 | (1,396) |
| Debt securities | 0 | 0 | — |
| | 9,019 | 10,415 | (1,396) |
| | ¥105,303 | ¥43,695 | ¥61,608 |

Note: For equity investment in nonpublic companies, with a carrying amount of ¥70,630 million, fair value is not included in short-term investment securities or in investment securities, as no market value exists and it is deemed extremely difficult to determine fair value.

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Carrying amount | Cost | Unrealized gains (losses) |
| Securities with unrealized gains: | | | |
| Equity securities | ¥73,118 | ¥32,070 | ¥41,048 |
| Securities with unrealized losses: | | | |
| Equity securities | 9,478 | 11,177 | (1,700) |
| Debt securities | 0 | 0 | — |
| | 9,478 | 11,177 | (1,700) |
| | ¥82,596 | ¥43,247 | ¥39,349 |

Note: Loss on devaluation of other securities whose fair values are readily determinable for the year ended March 31, 2009, totaled ¥497 million.

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Carrying amount | Cost | Unrealized gains (losses) |
| Securities with unrealized gains: | | | |
| Equity securities | $1,035,307 | $357,848 | $677,460 |
| Securities with unrealized losses: | | | |
| Equity securities | 96,979 | 111,986 | (15,008) |
| Debt securities | 1 | 1 | — |
| | 96,979 | 111,987 | (15,008) |
| | $1,132,286 | $469,835 | $662,452 |

Note: For equity investment in nonpublic companies, with a carrying amount of US$759,465 thousand, fair value is not included in short-term investment securities or in investment securities, as no market value exists and it is deemed extremely difficult to determine fair value.

(b) The realized gains and losses on the sale of other securities during the year ended March 31 2010 and 2009, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Selling amount | ¥275 | ¥463 | $2,954 |
| Gain on sales of securities | 112 | 17 | 1,203 |
| Loss on sales of securities | — | 70 | — |

(c) Loss on devaluation of investment securities whose fair values are readily determinable for the years ended March 31, 2010, totaled ¥1,918 million (US$20,626 thousand).

## 12. Derivative financial instruments:

### (a) Derivative financial instruments—Hedge accounting is not applied

#### i) Foreign exchange forward contracts

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | 2010 | | | |
| Classification | Items | Amount of contract | Amount of contract over one year | Fair value | Profit (loss) from valuation |
| Dealings other than market dealings | Foreign exchange forward contract | | | | |
| | Selling | | | | |
| | U.S. dollar | ¥11,406 | ¥ — | ¥ (105) | ¥ (105) |
| | Euro | 3,518 | — | (8) | (8) |
| | Thai baht | 479 | — | (27) | (27) |
| | Buying | | | | |
| | U.S. dollar | 1,311 | — | 16 | 16 |
| Total | | ¥16,714 | ¥ — | ¥ (124) | ¥ (124) |

| | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|
| | | 2010 | | | |
| Classification | Items | Amount of contract | Amount of contract over one year | Fair value | Profit (loss) from valuation |
| Dealings other than market dealings | Foreign exchange forward contract | | | | |
| | Selling | | | | |
| | U.S. dollar | $122,640 | $ — | $ (1,126) | $ (1,126) |
| | Euro | 37,830 | — | (81) | (81) |
| | Thai baht | 5,154 | — | (292) | (292) |
| | Buying | | | | |
| | U.S. dollar | 14,092 | — | 170 | 170 |
| Total | | $179,716 | $ — | $ (1,329) | $ (1,329) |

#### ii) Interest rate swaps and interest currency rate swaps

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | 2009 | | | |
| Classification | Items | Amount of contract | Amount of contract over one year | Fair value | Profit (loss) from valuation |
| Dealings other than market dealings | Interest rate swap receive floating / pay fixed | ¥750 | ¥ — | ¥8 | ¥8 |
| Total | | ¥750 | ¥ — | ¥8 | ¥8 |

### (b) Derivative financial instruments—Hedge accounting is applied

#### i) Foreign exchange forward contracts

| | | | Millions of yen | | |
|---|---|---|---|---|---|
| | | | 2010 | | |
| Classification | Items | Hedged assets / liabilities | Amount of contract | Amount of contract over one year | Fair value |
| Principled treatment | Foreign exchange forward contracts | | | | |
| | Selling | | | | |
| | U.S. dollar | Accounts receivable, trade | ¥3,263 | ¥ — | ¥(79) |
| | Euro | Accounts receivable, trade | 698 | — | 5 |
| | Buying | | | | |
| | U.S. dollar | Accounts payable, trade | 53 | — | (1) |
| | Euro | Accounts payable, trade | 60 | — | (1) |
| Total | | | ¥4,075 | ¥ — | ¥(77) |

| Classification | Items | Hedged assets / liabilities | Thousands of U.S. dollars 2010 Amount of contract | Amount of contract over one year | Fair value |
|---|---|---|---|---|---|
| Principled treatment | Foreign exchange forward contracts | | | | |
| | Selling | | | | |
| | U.S. dollar | Accounts receivable, trade | $35,090 | $— | $(849) |
| | Euro | Accounts receivable, trade | 7,509 | — | 49 |
| | Buying | | | | |
| | U.S. dollar | Accounts payable, trade | 566 | — | (14) |
| | Euro | Accounts payable, trade | 646 | — | (9) |
| Total | | | $43,812 | $— | $(823) |

### ii) Interest rate swaps and interest currency rate swaps

| Classification | Items | Hedged assets / liabilities | Millions of yen 2010 Amount of contract | Amount of contract over one year | Fair value |
|---|---|---|---|---|---|
| Exceptional treatment for an interest rate swap | Interest rate swaps | | | | |
| | Receive fixed/ pay floating | Long-term loans payable | ¥ 5,000 | ¥ 5,000 | (*) |
| | Pay fixed / receive floating | Long-term loans payable | 45,178 | 44,054 | (*) |
| Exceptional treatment for an interest rate swap and foreign exchange swap | Interest currency rate swaps | | | | |
| | U.S. dollar receive fixed/ Japanese yen pay floating | Bonds payable | 5,000 | 5,000 | (*) |
| | U.S. dollar receive floating / Thai baht pay fixed | Long-term loans payable | 731 | 585 | (*) |
| Total | | | ¥55,909 | ¥54,638 | — |

| Classification | Items | Hedged assets / liabilities | Thousands of U.S. dollars 2010 Amount of contract | Amount of contract over one year | Fair value |
|---|---|---|---|---|---|
| Exceptional treatment for an interest rate swap | Interest rate swaps | | | | |
| | Receive fixed/ pay floating | Long-term loans payable | $ 53,763 | $ 53,763 | (*) |
| | Pay fixed / receive floating | Long-term loans payable | 485,788 | 473,695 | (*) |
| Exceptional treatment for an interest rate swap and foreign exchange swap | Interest currency rate swaps | | | | |
| | U.S. dollar receive fixed/ Japanese yen pay floating | Bonds payable | 53,763 | 53,763 | (*) |
| | U.S. dollar receive floating / Thai baht pay fixed | Long-term loans payable | 7,858 | 6,286 | (*) |
| Total | | | $601,173 | $587,508 | — |

(*) Fair value of interest rate swaps and interest currency rate swaps by exceptional treatment is included in fair value of the corresponding long-term loans payable to which hedge accounting is applied.

## 13. Provision for retirement benefits:

Upon terminating employment, employees of the parent company and its major subsidiaries in Japan are entitled, under most circumstances, to lump-sum severance indemnities and/or pension payments determined by reference mainly to their current basic rate of pay and length of service. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs. Certain foreign subsidiaries have defined benefit pension plans or defined contribution plans.

The obligation for these severance indemnity benefits is provided for through accruals, contributory funded defined benefit pension plans, contributory funded defined benefit enterprise pension plans and non-contributory funded tax-qualified pension plans.

Information on provision for retirement benefits at March 31, 2010 and 2009, was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| (a) Projected benefit obligations | ¥(295,842) | ¥(296,676) | $(3,181,099) |
| (b) Fair value of plan assets | 170,895 | 152,927 | 1,837,580 |
| (c) Unfunded benefit obligations [(a)+(b)] | (124,947) | (143,749) | (1,343,519) |
| (d) Unrecognized actuarial gains/losses | 24,478 | 45,072 | 263,199 |
| (e) Unrecognized prior service costs | (4,019) | (5,615) | (43,211) |
| (f) Amount shown on balance sheet [(c)+(d)+(e)] | (104,488) | (104,292) | (1,123,531) |
| (g) Prepaid pension cost | 4,961 | 5,572 | 53,349 |
| (h) Provision for retirement benefits [(f)-(g)] | ¥(109,450) | ¥(109,864) | $(1,176,880) |

Note: The figures in the above table do not include additional benefit payables amounting to ¥45 million (US$489 thousand) and ¥59 million at March 31, 2010 and 2009, respectively. The amounts were recorded as part of current liabilities on the consolidated balance sheets at March 31, 2010 and 2009.

Periodic retirement benefit expenses for employees for the years ended March 31, 2010 and 2009, include the following components:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Service cost* | ¥ 9,235 | ¥ 8,896 | $ 99,305 |
| Interest cost | 7,313 | 7,282 | 78,639 |
| Expected return on plan assets | (3,797) | (4,728) | (40,825) |
| Amortization of unrecognized actuarial gains/losses | 3,969 | (249) | 42,680 |
| Amortization of unrecognized prior service costs | (1,375) | (1,394) | (14,787) |
| Retirement benefit expenses | ¥15,346 | ¥ 9,807 | $165,011 |

Note: In addition to the above costs, additional benefits amounting to ¥717 million (US$7,706 thousand) and ¥453 million were charged to income for the years ended March 31, 2010 and 2009, respectively.

* Not including contributions made by employees.

The assumptions used in calculation of the above information are as follows:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | Mainly 2.5% | 2.5% |
| Expected rate of return on plan assets | Mainly 2.5% | 2.5% |
| Method of attributing the projected benefits to periods of employee service | Straight-line basis | Straight-line basis |
| Amortization of unrecognized prior service costs | Mainly 10 years | Mainly 10 years |
| Amortization of unrecognized actuarial gains/losses | Mainly 10 years | Mainly 10 years |

## 14. Taxes:

Income taxes applicable to the parent company and subsidiaries in Japan include (1) corporation tax, (2) enterprise tax, and (3) inhabitants tax.

Significant components of the deferred tax assets and liabilities at March 31 2010 and 2009, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Deferred tax assets: | | | |
| Provision for retirement benefits | ¥ 44,158 | ¥ 44,448 | $ 474,813 |
| Tax loss carryforwards | 11,377 | 14,736 | 122,332 |
| Accrued bonuses | 6,994 | 6,496 | 75,204 |
| Loss on disposal of noncurrent assets | 4,061 | 3,764 | 43,671 |
| Unrealized gain on noncurrent assets and others | 4,053 | 3,225 | 43,580 |
| Provision for repairs | 3,346 | 2,396 | 35,977 |
| Devaluation of investment securities | 2,853 | 2,141 | 30,674 |
| Impairment loss | 2,684 | 2,887 | 28,855 |
| Provision for product warranties | 1,636 | 1,418 | 17,595 |
| Accrued enterprise tax | 1,330 | 692 | 14,297 |
| Devaluation of inventories | 1,296 | 1,947 | 13,940 |
| Environmental expenses | 1,146 | 1,030 | 12,328 |
| Allowance for doubtful accounts | 823 | 801 | 8,847 |
| Depreciation | 649 | 934 | 6,978 |
| Other | 9,267 | 8,452 | 99,649 |
| Subtotal deferred tax assets | 95,673 | 95,366 | 1,028,740 |
| Less: Valuation allowance | (18,336) | (15,016) | (197,166) |
| Total deferred tax assets | 77,336 | 80,350 | 831,574 |
| Deferred tax liabilities: | | | |
| Valuation difference on available-for-sale securities | (27,166) | (18,479) | (292,106) |
| Reserve for noncurrent assets reduction | (13,316) | (13,585) | (143,178) |
| Reserve for special depreciation | (149) | (164) | (1,607) |
| Other | (5,814) | (5,061) | (62,521) |
| Total deferred tax liabilities | (46,445) | (37,289) | (499,412) |
| Net deferred tax assets | ¥ 30,891 | ¥ 43,061 | $ 332,162 |

Net deferred tax assets (liabilities) at March 31, 2010 and 2009, were included in the following entries on the consolidated balance sheets.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Current assets—Deferred tax assets | ¥23,106 | ¥18,444 | $248,448 |
| Non-current assets—Deferred tax assets | 15,383 | 28,874 | 165,406 |
| Current liabilities—Deferred tax liabilities | — | — | — |
| Non-current liabilities—Deferred tax liabilities | (7,597) | (4,257) | (81,692) |

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2010 and 2009 was as follows:

| | 2010 |
|---|---|
| Statutory tax rate | 40.7% |
| Increase (reduction) in taxes resulting from: | |
| Non-deductible expenses and non-taxable income | 4.0 |
| Equalization of inhabitants taxes | 1.0 |
| Amortization of goodwill | 0.4 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (0.8) |
| Difference of tax rates for foreign subsidiaries | 1.5 |
| Valuation allowance | 7.2 |
| Unrealized profit | (2.2) |
| R&D expenses deductible from income taxes | (8.1) |
| Other | 0.8 |
| Effective income tax rate | 44.5% |

| | 2009 |
|---|---|
| Statutory tax rate | 40.7% |
| Increase (reduction) in taxes resulting from: | |
| Non-deductible expenses and non-taxable income | 15.0 |
| Equalization of inhabitants taxes | 2.2 |
| Amortization of goodwill | 0.9 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (2.4) |
| Difference of tax rates for foreign subsidiaries | (5.5) |
| Valuation allowance | 17.1 |
| Unrealized profit | 8.0 |
| Consolidated tax filing system | (3.8) |
| Other | (0.3) |
| Effective income tax rate | 72.0% |

## 15. Business combinations, etc.:

### Transactions under common control, etc.

Transactions under common control, etc. in the fiscal year ended March 31, 2010, were as follows:

(a) Establishment of Asahi Kasei E-materials Corp. through a business split of electrochemicals-related operations of Asahi Kasei Chemicals Corp. and Asahi Kasei Microdevices Corp.

i) Name and nature of business subject to transaction, statutory form of business combination, name of company after transaction, and outline and purpose of transaction

1) Name and nature of business subject to transaction
Name of business:
Electronics-related operations of the parent company and of consolidated subsidiaries Asahi Kasei Chemicals Corp. and Asahi Kasei Microdevices Corp.
Nature of business:
Production and sales of Hipore™ Li-ion rechargeable battery separators, light diffusion plates, APR™ photopolymer and printing plate making systems, Pimel™ photosensitive polyimide precursor, Sunfort™ dry film photoresist, glass fabric for printed wiring boards, photomask pellicles, etc.

2) Statutory form of business combination
Establishment of Asahi Kasei E-materials Corp. by business split of electrochemicals-related operations of the parent company, Asahi Kasei Chemicals Corp., and Asahi Kasei Microdevices Corp.

3) Name of company after transaction
Asahi Kasei E-materials Corp.

4) Outline and purpose of transaction
Asahi Kasei E-materials Corp. was established through a business split of electrochemicals-related operations of the parent company, Asahi Kasei Chemicals Corp., and Asahi Kasei Microdevices Corp. in order to clarify those operations as a field of focus for growth for the Asahi Kasei Group and to facilitate greater management efficiency in a structure for swift execution of strategic decisions and resource investment.

ii) Outline of the accounting treatment implemented
This transaction was accounted for as a transaction under common control based on the Accounting Standard for Business Combinations issued by the Business Accounting Council in Japan and the Accounting Standard for Business Divestitures (Accounting Standard No. 7) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standard Guidance No. 10) issued by the Accounting Standards Board of Japan.

(b) Business split of Leona™ filament business from Asahi Kasei Chemicals Corp. to Asahi Kasei Fibers Corp.

i) Name and nature of business subject to transaction, statutory form of business combination, name of company after transaction, and outline and purpose of transaction

1) Name and nature of business subject to transaction
Name of business:
Leona™ filament business of consolidated subsidiary Asahi Kasei Chemicals Corp.
Nature of business:
Production and sale of Leona™ nylon 66 filament

2) Statutory form of business combination
Business split from Asahi Kasei Chemicals Corp. to Asahi Kasei Fibers Corp.

3) Name of company after transaction
Asahi Kasei Fibers Corp.

4) Outline and purpose of transaction
For the further expansion and development of the Leona™ filament business, it is essential to reinforce and accelerate applications development based on advanced technical know-how in the field of fibers. Asahi Kasei Fibers Corp. holds the realignment of its business portfolio from apparel to industrial-use materials as a pillar of mid-term management strategy, and it can be expected that by transferring the Leona™ filament business, which is focused on industrial applications such as tire cord and air bags, this portfolio realignment can be accelerated through the pursuit of synergies with existing fiber business, in both technology and marketing. The Leona™ filament business of Asahi Kasei Chemicals Corp. was therefore split off to be absorbed by Asahi Kasei Fibers Corp.

ii) Outline of the accounting treatment implemented
This transaction was accounted for as a transaction under common control based on the Accounting Standard for Business Combinations issued by the Business Accounting Council in Japan and the Accounting Standard for Business Divestitures (Accounting Standard No. 7) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standard Guidance No. 10) issued by the Accounting Standards Board of Japan.

## 16. Business segment information:

### (a) Industry segments

Sales and operating income (loss) for the year ended March 31:

Millions of yen

| 2010 | Chemicals | Homes | Health Care | Fibers | Electronics | Construction Materials | Services, Engineering and Others | Combined | Corporate expenses and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales: | | | | | | | | | | |
| Customers | ¥622,093 | ¥389,728 | ¥113,207 | ¥101,201 | ¥142,700 | ¥47,024 | ¥17,642 | ¥1,433,595 | ¥ — | ¥1,433,595 |
| Intersegment | 16,495 | 24 | 96 | 1,772 | 1,159 | 13,048 | 23,541 | 56,134 | (56,134) | — |
| Total | 638,588 | 389,752 | 113,303 | 102,973 | 143,859 | 60,072 | 41,182 | 1,489,729 | (56,134) | 1,433,595 |
| Operating expenses | 612,520 | 364,412 | 109,304 | 105,737 | 136,616 | 58,870 | 39,360 | 1,426,820 | (50,847) | 1,375,973 |
| Operating income (loss) | ¥ 26,068 | ¥ 25,340 | ¥ 3,999 | ¥ (2,764) | ¥ 7,243 | ¥ 1,202 | ¥ 1,822 | ¥ 62,909 | ¥ (5,287) | ¥ 57,622 |

Millions of yen

| 2009 | Chemicals | Homes | Pharma | Fibers | Electronics Materials & Devices | Construction Materials | Services, Engineering and Others | Combined | Corporate expenses and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales: | | | | | | | | | | |
| Customers | ¥741,486 | ¥409,882 | ¥119,619 | ¥102,176 | ¥91,721 | ¥60,927 | ¥27,297 | ¥1,553,108 | ¥ — | ¥1,553,108 |
| Intersegment | 15,728 | 71 | 11 | 1,990 | 654 | 12,676 | 32,567 | 63,697 | (63,697) | — |
| Total | 757,214 | 409,952 | 119,630 | 104,166 | 92,375 | 73,603 | 59,864 | 1,616,804 | (63,697) | 1,553,108 |
| Operating expenses | 757,632 | 388,082 | 107,590 | 105,027 | 89,030 | 71,919 | 54,237 | 1,573,519 | (55,370) | 1,518,148 |
| Operating income (loss) | ¥ (419) | ¥ 21,871 | ¥ 12,040 | ¥ (861) | ¥ 3,345 | ¥ 1,683 | ¥ 5,627 | ¥ 43,286 | ¥ (8,326) | ¥ 34,959 |

Thousands of U.S. dollars

| 2010 | Chemicals | Homes | Health Care | Fibers | Electronics | Construction Materials | Services, Engineering and Others | Combined | Corporate expenses and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales: | | | | | | | | | | |
| Customers | $6,689,171 | $4,190,629 | $1,217,279 | $1,088,180 | $1,534,410 | $505,637 | $189,694 | $15,414,999 | $ — | $15,414,999 |
| Intersegment | 177,365 | 254 | 1,033 | 19,058 | 12,460 | 140,298 | 253,126 | 603,593 | (603,593) | — |
| Total | 6,866,535 | 4,190,883 | 1,218,312 | 1,107,238 | 1,546,869 | 645,935 | 442,820 | 16,018,592 | (603,593) | 15,414,999 |
| Operating expenses | 6,586,239 | 3,918,410 | 1,175,307 | 1,136,959 | 1,468,993 | 633,014 | 423,227 | 15,342,149 | (546,740) | 14,795,409 |
| Operating income (loss) | $ 280,296 | $ 272,473 | $ 43,005 | $ (29,721) | $ 77,876 | $ 12,921 | $ 19,593 | 676,444 | $ (56,853) | 619,590 |

Identifiable assets, depreciation and amortization, impairment loss and capital expenditure as of and for the year ended March 31:

Millions of yen

| 2010 | Chemicals | Homes | Health Care | Fibers | Electronics | Construction Materials | Services, Engineering and Others | Combined | Corporate expenses and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Identifiable assets | ¥533,296 | ¥232,031 | ¥164,161 | ¥110,426 | ¥174,131 | ¥39,981 | ¥395,449 | ¥1,649,475 | ¥(280,583) | ¥1,368,892 |
| Depreciation and amortization | 32,416 | 4,309 | 12,191 | 7,719 | 23,594 | 3,263 | 799 | 84,290 | 2,965 | 87,255 |
| Impairment loss | 1,486 | — | — | — | 108 | 1,365 | — | 2,959 | 198 | 3,156 |
| Capital expenditure | 27,649 | 6,009 | 9,173 | 4,556 | 22,761 | 1,191 | 927 | 72,266 | 11,724 | 83,990 |

Millions of yen

| 2009 | Chemicals | Homes | Pharma | Fibers | Electronics Materials & Devices | Construction Materials | Services, Engineering and Others | Combined | Corporate assets and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Identifiable assets | ¥583,614 | ¥216,716 | ¥176,699 | ¥107,781 | ¥115,154 | ¥43,736 | ¥449,637 | ¥1,693,337 | ¥(314,000) | ¥1,379,337 |
| Depreciation and amortization | 36,666 | 3,439 | 10,275 | 6,440 | 15,428 | 3,619 | 806 | 76,673 | 2,763 | 79,436 |
| Impairment loss | — | — | 112 | 264 | 79 | 754 | — | 1,208 | — | 1,208 |
| Capital expenditure | 45,667 | 7,037 | 31,569 | 12,257 | 21,557 | 2,430 | 1,082 | 121,598 | 5,127 | 126,725 |

| | Thousands of U.S. dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | | | | | | | |
| | Chemicals | Homes | Health Care | Fibers | Electronics | Construction Materials | Services, Engineering and Others | Combined | Corporate expenses and eliminations | Consolidated |
| Identifiable assets | $5,734,366 | $2,494,959 | $1,765,171 | $1,187,381 | $1,872,378 | $429,901 | $4,252,135 | $17,736,291 | $(3,017,018) | $14,719,273 |
| Depreciation and amortization | 348,558 | 46,338 | 131,089 | 83,000 | 253,695 | 35,083 | 8,586 | 906,349 | 31,881 | 938,230 |
| Impairment loss | 15,977 | — | — | — | 1,160 | 14,675 | — | 31,812 | 2,128 | 33,940 |
| Capital expenditure | 297,305 | 64,614 | 98,635 | 48,986 | 244,744 | 12,803 | 9,972 | 777,057 | 126,063 | 903,120 |

Notes: 1. The following segment names have been revised on April 1, 2009 for greater clarity and correspondence with the fields of businesses under operation.

| Previously | Changed to |
|---|---|
| Electronics Materials & Devices segment | Electronics segment |
| Pharma segment | Health Care segment |

2. The Company's industry segments are aggregated into seven segments based primarily upon similarities of products, services, and economic characteristics.
Chemicals—
The Company produces, processes and sells chemicals and derivative products (such as ammonia, nitric acid, caustic soda, acrylonitrile, styrene monomer, methyl methacrylate (MMA) monomer, PMMA resin, and adipic acid), polymer products (such as Suntec™ polyethylene (PE), Stylac™-AS (styrene-acrylonitrile), Stylac™-ABS (acrylonitrile-butadiene-styrene), synthetic rubber, Tenac™ polyacetal, Xyron™ modified polyphenylene ether (mPPE), Leona™ nylon 66 polymer, and polystyrene), specialty products (such as coating materials, latex, Ceolus™ microcrystalline cellulose, explosives, explosion-bonded metal clad, Microza™ UF and MF membranes and systems, ion-exchange membranes and electrolysis systems, Saran Wrap™ cling film, Ziploc™ storage bags, and plastic films, sheets, and foams).
Homes—
The Company builds Hebel Haus™ custom-built pre-fabricated homes and Hebel Maison™ apartments, and operates related businesses such as condominiums, remodeling, real estate, residential land development, and home financing.
Health Care—
The Company produces and sells pharmaceuticals (such as Elcitonin™, Bredinin™, Flivas™, and Toledomin™), pharmaceutical intermediates, and diagnostics reagents. The Company also manufactures APS™ artificial kidneys, Sepacell™ leukocyte reduction filters, Cellsorba™ leukocyte adsorption columns, Planova™ virus removal filters, and contact lenses.
Fibers—
The Company produces and sells Roica™ elastic polyurethane filament, nonwoven fabrics (such as Eltas™ spunbond and Lamous™ artificial suede), Leona™ nylon 66 filament , Bemberg™ cuprammonium rayon, and polyester filament.
Electronics—
The Company produces and sells Hipore™ microporous membrane, APR™ photosensitive resin and printing plate making systems, Pimel™ photosensitive polyimide, Sunfort™ dry-film photoresist (DF), photomask pellicles, LSIs, Hall elements, and glass fabric.
Construction Materials—
The Company produces and sells autoclaved aerated concrete (AAC) panels (such as Hebel™), piles, and Neoma™ foam insulation panels.
Services, Engineering and Others—
The Company provides plant engineering, environmental engineering, personnel staffing and placement, and think tank services.
3. Corporate operating expenses included in "Corporate expenses and eliminations" for the years ended March 31, 2010 and 2009, amounted to ¥13,831 million (US$148,718 thousand) and ¥14,726 million, respectively.
4. Corporate assets such as surplus funds (cash and deposits), long-term-investment funds (investment securities etc.), and land etc. included in "Corporate assets and eliminations" for the years ended March 31, 2010 and 2009, amounted to ¥404,144 million (US$4,345,636 thousand) and ¥457,979 million, respectively.
5. Among impairment losses for the year ended March 31, 2010, ¥955 million (US$10,269 thousand) in Chemicals and ¥1,365 million (US$14,675 thousand) in Construction Materials, and for the year ended March 31, 2009, ¥112 million in Pharma and ¥754 million in Construction Materials, are included in business structure improvement expenses under extraordinary losses.
6. The electronic materials operations of Asahi Kasei Corp., Asahi Kasei Chemicals, and Asahi Kasei EMD (renamed Asahi Kasei Microdevices on April 1, 2009) were transferred to Asahi Kasei E-materials on April 1, 2009. In consideration of the similarity of product types and characteristics to those of electronics operations, the operations of Asahi Kasei E-materials are reported in the Electronics segment. For comparison purposes, results for the previous year have been revised to reflect the transfer of the corresponding operations from the Chemicals segment and Corporate Expenses to the Electronics segment. The Leona™ nylon 66 filament business of Asahi Kasei Chemicals was transferred to Asahi Kasei Fibers on April 1, 2009. For comparison purposes, results for the previous year in the Chemicals and Fibers segments have been revised to reflect this transfer.

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | | | | | | |
| | Chemicals | Homes | Health Care | Fibers | Electronics | Construction Materials | Services, Engineering and Others | Combined | Corporate expenses and eliminations | Consolidated |
| Sales: | | | | | | | | | | |
| Customers | ¥689,323 | ¥409,882 | ¥119,619 | ¥116,405 | ¥129,655 | ¥60,927 | ¥27,297 | ¥1,553,108 | ¥ — | ¥1,553,108 |
| Intersegment | 19,927 | 71 | 11 | 1,904 | 469 | 12,676 | 32,567 | 67,625 | (67,625) | — |
| Total | 709,250 | 409,952 | 119,630 | 118,309 | 130,124 | 73,603 | 59,864 | 1,620,732 | (67,625) | 1,553,108 |
| Operating expenses | 715,779 | 388,082 | 107,590 | 119,818 | 122,838 | 71,919 | 54,237 | 1,580,264 | (62,116) | 1,518,148 |
| Operating income (loss) | ¥ (6,529) | ¥ 21,871 | ¥ 12,040 | ¥ (1,509) | ¥ 7,286 | ¥ 1,683 | ¥ 5,627 | ¥ 40,469 | ¥ (5,509) | ¥ 34,959 |

| | Chemicals | Homes | Health Care | Fibers | Electronics | Construction Materials | Services, Engineering and Others | Combined | Corporate assets and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | | | |
| | 2009 | | | | | | | | | |
| Identifiable assets | ¥531,724 | ¥216,716 | ¥176,699 | ¥119,889 | ¥157,551 | ¥43,736 | ¥449,637 | ¥1,695,952 | ¥(316,615) | ¥1,379,337 |
| Depreciation and amortization | 32,245 | 3,439 | 10,275 | 7,156 | 19,828 | 3,619 | 806 | 77,367 | 2,069 | 79,436 |
| Impairment loss | — | — | 112 | 264 | 79 | 754 | — | 1,208 | — | 1,208 |
| Capital expenditure | 36,335 | 7,037 | 31,569 | 12,404 | 31,811 | 2,430 | 1,082 | 122,667 | 4,058 | 126,725 |

Note: Corporate operating expenses included in "Corporate expenses and eliminations" for the year ended March 31, 2009, amounted to ¥11,908 million.
Corporate assets such as surplus funds (cash and deposits), long-term-investment funds (investment securities etc.), and land etc. included in "Corporate assets and eliminations" for the year ended March 31, 2009 amounted to ¥455,318 million.

### (b) Geographic areas

Total sales and assets of consolidated subsidiaries located in countries or regions outside of Japan as of and for the years ended March 31, 2010 and 2009, were not significant.

### (c) Overseas sales

Overseas sales for the years ended March 31, 2010 and 2009, were as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | | 2010 | | |
| | East Asia | Others | Total | East Asia | Others | Total | East Asia | Others | Total |
| Overseas sales | ¥237,271 | ¥133,138 | ¥ 370,409 | ¥233,219 | ¥160,746 | ¥ 393,965 | $2,551,301 | $1,431,589 | $ 3,982,890 |
| Consolidated net sales | — | — | 1,433,595 | — | — | 1,553,108 | — | — | 15,414,999 |
| Percentage of consolidated net sales (%) | 16.6% | 9.3% | 25.8% | 15.0% | 10.3% | 25.4% | | | |

Notes: 1. Geographical distance is considered in the classification of country or area.
2. Major countries or areas included in each category are as follows;
East Asia: China, Korea, and Taiwan
Others: Southeast Asia (except East Asia), U.S.A., Europe, and others.
3. Overseas sales represent the sales of the Company to countries and areas outside of Japan.

## 17. Reconciliation of the differences between basic and diluted net income per share:

Reconciliation of the differences between basic and diluted net income per share for the years ended March 31, 2010 and 2009, was as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Basic net assets per share | ¥452.91 | ¥431.77 | $4.87 |
| Basic net income per share | ¥ 18.08 | ¥ 3.39 | $0.19 |

### (a) Net assets per share

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Total net assets | ¥ 644,688 | ¥ 611,351 | $6,932,131 |
| Amount deducted from total net assets | 11,346 | 7,504 | 121,997 |
| *Of which, minority interest* | *11,346* | *7,504* | *121,997* |
| Net assets allocated to capital stock | ¥ 633,343 | ¥ 603,846 | $6,810,134 |
| Number of shares of capital stock outstanding at fiscal year end used in calculation of net assets per share (thousand) | 1,398,388 | 1,398,546 | 1,398,388 |

### (b) Net income per share

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Net income | ¥ 25,286 | ¥ 4,745 | $ 271,897 |
| Amount not allocated to capital stock | — | — | — |
| Net income allocated to capital stock | ¥ 25,286 | ¥ 4,745 | $ 271,897 |
| Weighted-average number of shares of capital stock (thousand) | 1,398,463 | 1,398,428 | 1,398,463 |

As the Company had no dilutive securities at March 31, 2010 and 2009, the Company does not disclose diluted net income for the years ended March 31, 2010 and 2009.

## 18. Borrowings:

### (a) Bonds payable at March 31, 2010 and 2009, comprised the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Unsecured 1.02% yen bonds due to 2009 | ¥ — | ¥20,000 | $ 53,763 |
| Unsecured 1.46% yen bonds due to 2019 | 20,000 | — | 215,054 |
| Unsecured 1.90% Euro yen bonds due to 2013 | 5,000 | 5,000 | 53,763 |
| | ¥25,000 | ¥25,000 | $268,817 |

Notes: 1. Current portion of bonds payable is recorded under current liabilities on the consolidated balance sheets.
2. In the case of floating interest rates, the rate at the end of March is shown.
3. The aggregate annual maturities of long-term debt after March 31, 2010, are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2011 | ¥ — | $ — |
| 2012 | — | — |
| 2013 | — | — |
| 2014 | 5,000 | 53,763 |
| 2015 and thereafter | 20,000 | 215,054 |
| | ¥25,000 | $268,817 |

### (b) Loans payable at March 31, 2010 and 2009, are comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2010 | 2009 | 2010 |
| Short-term loans payable with interest rate 0.84% | ¥ 77,763 | ¥ 78,373 | $ 836,162 |
| Current portion of long-term loans payable with interest rate 1.31% | 16,199 | 22,413 | 174,186 |
| Current portion of lease obligations with interest rate 2.61% | 1,123 | 489 | 12,080 |
| Long-term loans payable (except portion due within one year) with interest rate 1.18% | 121,921 | 132,474 | 1,310,982 |
| Lease obligations (except portion due within one year) with interest rate 2.68% | 3,593 | 1,845 | 38,631 |
| Commercial papers with interest rate 0.11% | 19,000 | 55,000 | 204,301 |
| | ¥239,600 | ¥290,594 | $2,576,341 |

Notes: 1. Interest rates shown are weighted average interest rates for the balance outstanding at the end of March.
2. The aggregate annual maturities of Long-term loans payable and lease obligations (except portion due within one year) after March 31, 2010, are as follows:

| | Long-term loans payable | | Lease obligations | |
|---|---|---|---|---|
| Year ending March 31 | Millions of yen | Thousands of U.S. dollars | Millions of yen | Thousands of U.S. dollars |
| 2012 | ¥28,256 | $308,823 | ¥1,160 | $12,477 |
| 2013 | 30,192 | 324,650 | 1,181 | 12,695 |
| 2014 | 23,646 | 254,257 | 983 | 10,571 |
| 2015 and thereafter | 3,720 | 40,005 | 266 | 2,855 |

3. The timing of repayments for the loan payables from Japan Science and Technology Agency have yet to be determined as they begin after the development success is certified. Thus, the related aggregate annual maturities for these long-term loans payable after March 31, 2010 are not included in the above.
Loan Payables from Japan Science and Technology Agency are excluded in the presentation of maturity and repayment as its repayment term is uncertain that repayment begins after the day of development success.

PRICEWATERHOUSECOOPERS

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## Report of Independent Auditors

To the Board of Directors of Asahi Kasei Corporation

We have audited the accompanying consolidated balance sheet of Asahi Kasei Corporation ("the Company") and its subsidiaries as of March 31, 2010, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2010, and the results of their operations and their cash flows for the year 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, 2010 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata
July 21, 2010

## Major Subsidiaries and Affiliates

As of April 1, 2010

| Company | Main products/business line | Paid-in capital (million) | | Equity interest (%) |
|---|---|---|---|---|
| **Chemicals Segment** | | | | |
| Asahi Kasei Chemicals Corp.* | Chemicals | ¥ | 3,000 | 100.0 |
| Sanyo Petrochemical Co., Ltd.* | Benzene, ethylene | ¥ | 2,000 | 100.0 |
| Asahi Kasei Pax Corp.* | Packaging products and solutions | ¥ | 490 | 100.0 |
| Asahi Kasei Home Products Corp.* | Cling film, other household products | ¥ | 250 | 100.0 |
| Asahi Kasei Metals Ltd. | Aluminum paste | ¥ | 250 | 100.0 |
| Asahi Kasei Finechem Co., Ltd.* | Specialty chemicals | ¥ | 175 | 100.0 |
| Asahi Kasei Geotechnologies Co., Ltd. | Sale of civil engineering materials | ¥ | 132 | 100.0 |
| Asahi SKB Co., Ltd. | Shotgun cartridges | ¥ | 100 | 100.0 |
| Asahi Kasei Clean Chemical Co., Ltd. | Water treatment equipment, environmental chemicals | ¥ | 100 | 100.0 |
| Asahi Kasei Technoplus Co., Ltd.* | Processing of plastic and fiber | ¥ | 160 | 99.4 |
| Japan Elastomer Co., Ltd.* | Synthetic rubber | ¥ | 1,000 | 75.0 |
| Sundic Inc. | Biaxially oriented polystyrene sheet | ¥ | 1,050 | 50.0 |
| Wacker Asahikasei Silicone Co., Ltd. | Silicone | ¥ | 1,050 | 50.0 |
| Okayama Chemical Co., Ltd. | Caustic soda, chlorine | ¥ | 1,000 | 50.0 |
| Kayaku Japan Co., Ltd. | Industrial explosives | ¥ | 60 | 50.0 |
| PS Japan Corp.* | Polystyrene | ¥ | 5,000 | 62.1 |
| Asahikasei Plastics (America) Inc.* | Compounded performance resin operations | US$ | 17.8** | 100.0 |
| Asahi Kasei Plastics North America, Inc.* | Coloring and compounding of performance resin | US$ | 21.7** | 100.0 |
| Sun Plastech Inc.* | Sale of purging compound | US$ | 1.0 | 100.0 |
| Tong Suh Petrochemical Corp., Ltd.* | Acrylonitrile, sodium cyanide | W | 50,642 | 100.0 |
| Asahi Kasei Chemicals Korea Co., Ltd. | Sale of adipic acid | W | 1,500 | 100.0 |
| Asahikasei Plastics (Shanghai) Co., Ltd. | Sale of performance resin | CNY | 18 | 100.0 |
| Asahikasei (Suzhou) Plastics Compound Co., Ltd. | Coloring and compounding of performance resin | CNY | 50 | 51.0 |
| Asahi-DuPont POM (Zhangjiagang) Co., Ltd. | Polyacetal | US$ | 32.0 | 50.0 |
| Asahi Kasei Performance Chemicals Corp.* | High-performance HDI-based polyisocyanate | CNY | 149 | 100.0 |
| Asahi Kasei Microza (Hangzhou) Co., Ltd.* | Industrial membranes and systems | CNY | 49 | 100.0 |
| Asahi Kasei Plastics (Hong Kong) Co., Ltd. | Sale of performance resin | US$ | 2.6 | 100.0 |
| Asahi Kasei Plastics Singapore Pte. Ltd.* | Performance resin | US$ | 46.0 | 100.0 |
| Polyxylenol Singapore Pte. Ltd.* | PPE powder | US$ | 35.0 | 70.0 |
| PTT Asahi Chemical Co., Ltd. | Acrylonitrile, methyl methacrylate | B | 12,400 | 48.5 |
| Asahikasei Plastics (Thailand) Co., Ltd. | Coloring and compounding of performance resin | B | 140 | 100.0 |
| PT Nippisun Indonesia | Coloring and compounding of styrenic resin | US$ | 6.3 | 25.7 |
| Asahi Kasei Plastics Europe SA/NV* | Sale of compounded performance resin | € | 5.0 | 100.0 |
| **Homes Segment** | | | | |
| Asahi Kasei Homes Corp.* | Housing | ¥ | 3,250 | 100.0 |
| Asahi Kasei Jyuko Co., Ltd.* | Steel frames | ¥ | 2,820 | 100.0 |
| Asahi Kasei Mortgage Corp.* | Financial services | ¥ | 1,000 | 100.0 |
| Asahi Kasei Reform Co., Ltd.* | Home maintenance and remodeling | ¥ | 250 | 100.0 |
| Asahi Kasei Real Estate, Ltd.* | Home leasing, real estate brokerage | ¥ | 200 | 100.0 |
| Asahi Kasei Home Construction Corp. | Construction of homes | ¥ | 100 | 100.0 |
| **Health Care Segment** | | | | |
| Asahi Kasei Pharma Corp.* | Pharmaceuticals | ¥ | 3,000 | 100.0 |
| Asahi Kasei Kuraray Medical Co., Ltd.* | Hemodialyzers, therapeutic apheresis devices | ¥ | 800 | 93.0 |
| Asahi Kasei Medical Co., Ltd.* | Medical devices, medical systems | ¥ | 200 | 100.0 |
| Asahikasei Aime Co., Ltd.* | Contact lenses | ¥ | 480 | 100.0 |
| Med-Tech Inc.* | Medical devices | ¥ | 140 | 68.3 |
| Asahi Kasei Bioprocess, Inc.* | Bioprocess equipment and systems | US$ | 30.0 | 100.0 |
| Asahi Kasei Medical America Inc. | Sale of medical devices, medical systems | US$ | 0.5 | 93.0 |
| Asahi Kasei Medical Trading (Korea) Co., Ltd.* | Sale of medical devices, medical systems | W | 1,000 | 100.0 |
| Asahi Kasei Medical (Hangzhou) Co., Ltd.* | Hemodialyzers | CNY | 163 | 93.0 |
| Asahi Kasei Medical Trading (Hangzhou) Co., Ltd.* | Sale of hemodialyzers | CNY | 2.4 | 100.0 |

* Consolidated subsidiary
** Including capital reserve

| Company | Main products/business line | Paid-in capital (million) | | Equity interest (%) |
|---|---|---|---|---|
| Asahi Kasei Medical Trading (Taiwan) Co. Ltd.* | Sale of medical devices, medical systems | NT$ | 5 | 100.0 |
| Asahi Kasei Medical Europe GmbH* | Sale of medical devices, medical systems | € | 0.2 | 93.0 |
| Asahi Kasei Planova Europe SA/NV* (renamed Asahi Kasei Bioprocess Europe SA/NV on July 1, 2010) | Sale of virus removal filters | € | 0.5 | 100.0 |
| Asahi Pharma Spain, SL | Pharmaceuticals | € | 0.1 | 100.0 |
| **Fibers Segment** | | | | |
| Asahi Kasei Fibers Corp.* | Fiber, textiles | ¥ | 3,000 | 100.0 |
| Kyokuyo Sangyo Co., Ltd.* | Processing of fiber, textiles | ¥ | 80 | 100.0 |
| DuPont-Asahi Flash Spun Products Co., Ltd. | Flash spun | ¥ | 450 | 50.0 |
| Asahi Kasei Spandex America, Inc.* | Spandex | US$ | 32.3** | 100.0 |
| Hangzhou Asahikasei Spandex Co., Ltd.* | Spandex | CNY | 132 | 100.0 |
| Hangzhou Asahikasei Textiles Co., Ltd.* | Warp-knit spandex textiles | CNY | 78 | 82.5 |
| Formosa Asahi Spandex Co., Ltd. | Spandex | NT$ | 802 | 50.0 |
| Asahi Chemical (HK) Ltd.* | Promotion and marketing of fiber and textiles | HK$ | 65 | 100.0 |
| Thai Asahi Kasei Spandex Co., Ltd.* | Spandex | B | 1,350 | 60.0 |
| Asahi Kasei Spandex Europe GmbH* | Spandex | € | 19.6** | 100.0 |
| Asahi Kasei Fibers Italy SRL* | Sale of spandex and cupro cellulosic fiber | € | 3.0 | 100.0 |
| Asahi Kasei Fibers Deutschland GmbH | Sale of artficial suede | € | 0.3 | 100.0 |
| **Electronics Segment** | | | | |
| Asahi Kasei Microdevices Corp.* | Electronic devices | ¥ | 3,000 | 100.0 |
| Asahi Kasei E-materials Corp.* | Electronic materials | ¥ | 3,000 | 100.0 |
| Asahi Kasei Epoxy Co., Ltd.* | Epoxy resin | ¥ | 300 | 100.0 |
| Asahi Kasei Microsystems Co., Ltd.* | LSIs | ¥ | 50 | 100.0 |
| Asahi-Schwebel Co., Ltd.* | Glass fabric | ¥ | 50 | 100.0 |
| Asahi Kasei Electronics Co., Ltd.* | Hall elements | ¥ | 50 | 100.0 |
| Asahi Kasei Toko Power Devices Corp.* | Power management semiconductors | ¥ | 100 | 80.0 |
| AKM Semiconductor, Inc.* | Sale of LSIs | US$ | 2.9 | 100.0 |
| Asahi Kasei Microdevices Korea Corp. | Marketing of electronic devices | W | 820 | 100.0 |
| Asahi Kasei Electronics Materials (Suzhou) Co., Ltd.* | Dry film photoresist | CNY | 181 | 100.0 |
| Asahi Kasei Microdevices (Shanghai) Co., Ltd. | Marketing of electronic devices | CNY | 14 | 100.0 |
| Asahi Kasei Microdevices Taiwan Corp. | Marketing of electronic devices | NT$ | 10 | 100.0 |
| Asahi Kasei EMD Taiwan Corp. | Sale of pellicles | NT$ | 1 | 100.0 |
| Asahi Kasei Wah Lee Hi-Tech Corp.* | Dry film photoresist | NT$ | 49 | 80.6 |
| Asahi-Schwebel (Taiwan) Co., Ltd.* | Glass fabric | NT$ | 326 | 51.0 |
| Asahi Kasei Microdevices Europe SAS | Marketing of electronic devices | € | 0.4 | 100.0 |
| Asahi Photoproducts (Europe) SA/NV* | Sale of photopolymer, printing plate making systems | € | 3.4 | 100.0 |
| Asahi Photoproducts (UK) Ltd.* | Sale of photopolymer, printing plate making systems | £ | 0.3 | 100.0 |
| **Construction Materials Segment** | | | | |
| Asahi Kasei Construction Materials Corp.* | Construction materials | ¥ | 3,000 | 100.0 |
| Asahi Kasei Foundation Systems Corp.* | Installation of piles | ¥ | 200 | 100.0 |
| Asahi Kasei Extech Corp.* | Exterior wall panel installation | ¥ | 50 | 100.0 |
| **Others (formerly Services, Engineering and Others segment)** | | | | |
| Asahi Research Center Co., Ltd.* | Information and analysis | ¥ | 1,000 | 100.0 |
| Asahi Kasei Engineering Co., Ltd.* | Plant, equipment, process engineering | ¥ | 400 | 100.0 |
| Asahi Kasei Trading Co., Ltd.* | Sale of Asahi Kasei products | ¥ | 98 | 100.0 |
| Sun Trading Co., Ltd.* | Sale of Asahi Kasei products | ¥ | 94 | 100.0 |
| Asahi Kasei Amidas Co., Ltd.* | Employment agency, consulting | ¥ | 80 | 100.0 |
| AJS Inc. | Computer software, IT systems | ¥ | 800 | 49.0 |
| Asahi Organic Chemicals Industry Co., Ltd. | Synthetic resin, fabricated plastic products | ¥ | 5,000 | 30.1 |
| Asahi Kasei America, Inc.* | Business support services | US$ | 0.1 | 100.0 |
| Asahi Kasei Business Management (Shanghai) Co., Ltd. | Business support services | US$ | 3.0 | 100.0 |

* Consolidated subsidiary
** Including capital reserve

# Corporate Profile

As of March 31, 2010

| | |
|---|---|
| **Company Name** | Asahi Kasei Corporation |
| **Date of Establishment** | May 21, 1931 |
| **Paid-in Capital** | ¥103,388,521,767 |
| **Employees** | 25,085 (consolidated) |
| | 780 (non-consolidated) |

## Asahi Kasei Group Offices

### Asahi Kasei Corporation

**Tokyo Head Office**
1-105 Kanda Jinbocho, Chiyoda-ku
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### Core Operating Companies

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**Asahi Kasei E-materials**
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# Investors Information

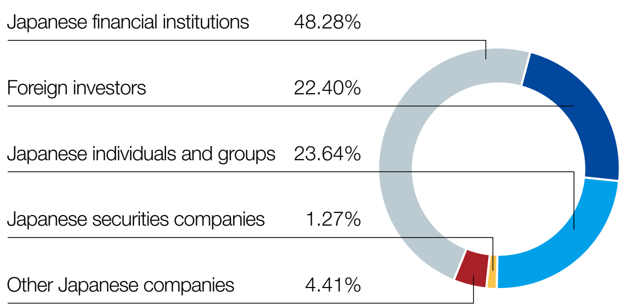
As of March 31, 2010

| | |
|---|---|
| **Stock Listings** | Tokyo, Osaka, Nagoya, Fukuoka, Sapporo |
| **Stock Code** | 3407 |
| **Authorized Shares** | 4,000,000,000 |
| **Outstanding Shares** | 1,402,616,332 |
| **Transfer Agent** | Sumitomo Trust & Banking Co., Ltd.<br>4-5-33 Kitahama, Chuo-ku<br>Osaka 541-8639 Japan |
| **Independent Auditors** | PricewaterhouseCoopers Aarata |
| **Number of Shareholders** | 129,231 |

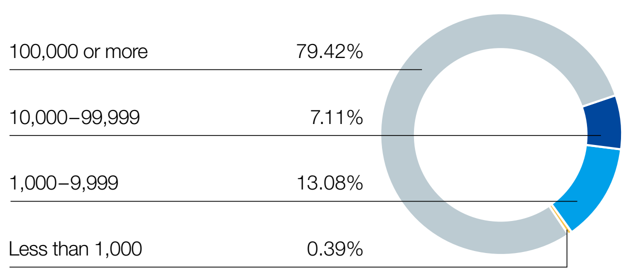
| **Largest Shareholders** | % of equity* |
|---|---|
| Master Trust Bank of Japan, Ltd. (trust account) | 6.78 |
| Japan Trustee Services Bank, Ltd. (trust account) | 5.65 |
| Nippon Life Insurance Co. | 5.22 |
| Employees' Stockholding | 3.11 |
| Sumitomo Mitsui Banking Corp. | 2.53 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 2.22 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 1.81 |
| Meiji Yasuda Life Insurance Co. | 1.49 |
| Mizuho Corporate Bank, Ltd. | 1.45 |
| Sumitomo Life Insurance Co. | 1.40 |

* Percentage of equity ownership after exclusion of treasury stock.

**Distribution by Type of Shareholder**




**Distribution by Number of Shares Held**

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