HITACHI

Hitachi Chemical
Working On Wonders

Promoting Change
Targeting Breakthroughs

Annual Report **2009**

Year ended March 31, 2009

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FORWARD-LOOKING STATEMENTS

This Annual Report may contain certain statements that Hitachi Chemical believes are, or may be considered to be, "forward-looking statements." These forward-looking statements generally include phrases such as "believe," "expect," "anticipate," "plan," "foresee," or other similar words or phrases. Similarly, statements that describe our objectives, plans, or goals are also forward-looking statements. All of these forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those contemplated by the relevant forward-looking statements. Please see "Business and Other Risks" in Management's Discussion and Analysis of Operations and Finances.

Hitachi Chemical discloses information about its activities in various annual publications.

ANNUAL REPORT

Disclosure of Management and Business Strategies and Related Financial Data

Primarily for shareholders and investors, the annual report explains management, business, and financial conditions of the previous fiscal year, as well as medium-term management and business policies.

SUSTAINABILITY REPORT

Disclosure of Information on Fulfilling Corporate Social Responsibility (CSR)

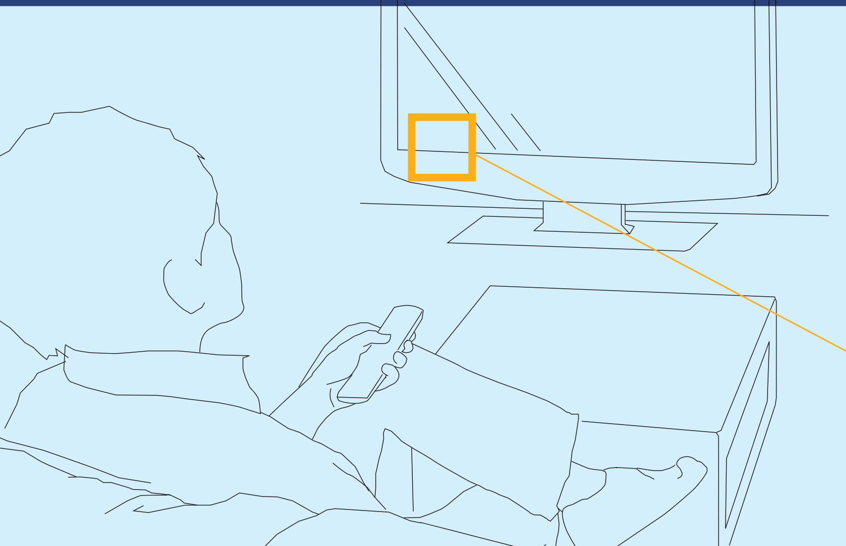
For all stakeholders, the sustainability report explains policies and details of the previous fiscal year's activities related to corporate social responsibilities, including environmental initiatives, social contribution, worker safety, corporate ethics, and compliance.

Promoting Change
Targeting Breakthroughs

Hitachi Chemical Co., Ltd. ("the Company") was established in 1962 and began operations in 1963 with the transfer of the business assets of the Chemical Products Division of Hitachi, Ltd. Since then, based on the extensive technology platform it has accumulated over many years, the Company has continuously worked to expand its field of operations, developing innovative technologies and new markets as a chemical manufacturer engaged in a wide range of areas, including Electronics Related Products and Advanced Performance Products.

As a "Technologically Innovative Corporation" that provides optimal solutions to its customers, Hitachi Chemical Co., Ltd. and its consolidated subsidiaries ("Hitachi Chemical" or "the Group") are combining and harmonizing the superior technologies they have accumulated over the years in order to maximize the value of the Group and contribute to a more prosperous society while maintaining a strong commitment to protecting the environment.

LIQUID-CRYSTAL DISPLAYS



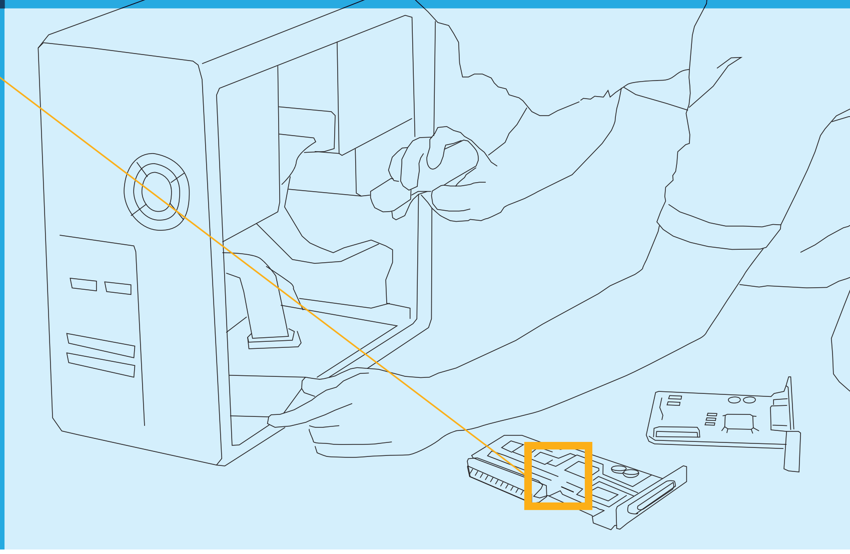
Anisotropic Conductive Films for Flat Panel Displays

ANISOLM, Hitachi Chemical's anisotropic conductive films for circuit connection, is widely used in flat panel displays for various applications such as mobile phones and LCD TVs. In 1984, the Company became the first in the world to commercially launch an anisotropic conductive film with metallic particles distributed in adhesive film, and it currently holds the leading share in the global market.

Slurry for Chemical Mechanical Planarization (CMP)

Hitachi Chemical's slurry for CMP plays a crucial supporting role in the manufacturing of the semiconductors that can be found in many of the products we use in our daily lives. Slurry is a polishing agent used to smooth the unwanted irregularities[1] generated on the surfaces of wafers during the semiconductor manufacturing process. Moreover, the Company has evolved the functionality of its slurry and successfully developed a ceria-based material that not only achieves a significant reduction in the volume of blemishes generated compared to conventional polishing processes, it does so without having to reduce polishing speed and at superior levels of smoothness. Sales of the Company's slurry for CMP are currently expanding, particularly for use with STI[2], which makes full use of its high-speed polishing and reduced blemishes capabilities.

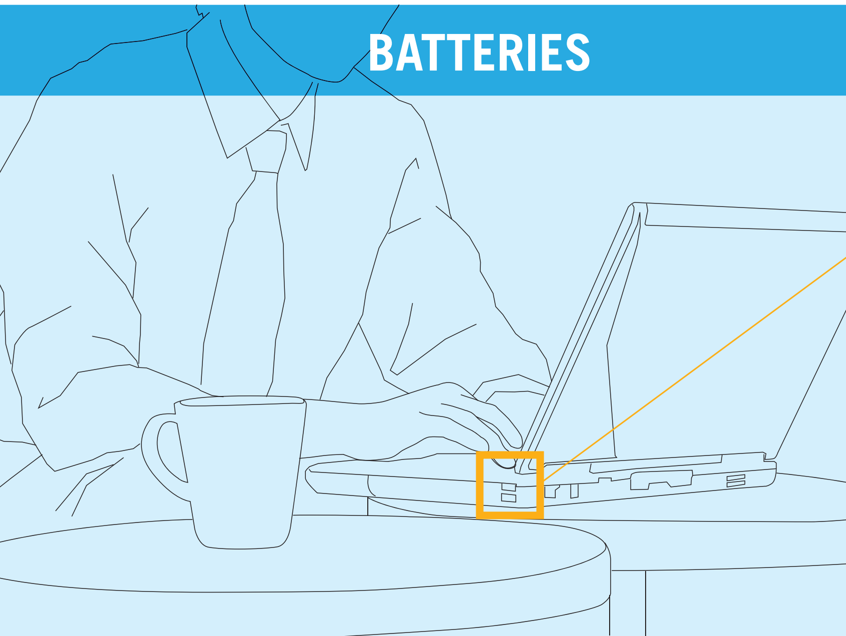
SEMICONDUCTORS



1 Wiring metal layer, silicon oxide layer, interlayer dielectric film, etc.
2 STI: Shallow trench isolation, the current mainstream method

Hitachi Chemical has acquired an extensive technology platform that it accumulated across the many years of product R&D since its foundation. Hitachi Chemical's products are playing an important role in daily lives, for example, by providing the materials used in digital consumer electronics and automobiles. In an era that constantly demands new technologies, Hitachi Chemical is forging ahead of its competitors to develop next-generation technologies that will help to create a truly prosperous society.

BATTERIES



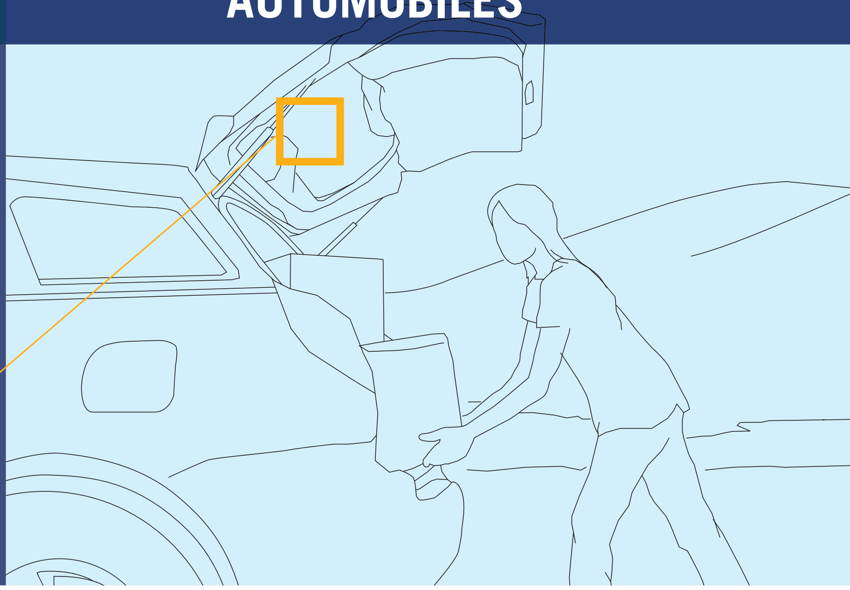
Carbon Anode Materials for Lithium Ion Batteries

Lithium ion batteries are already being utilized in a wide range of products, including mobile phones and notebook PCs. Moreover, demand is forecast to increase, and they are being developed for future use in electric vehicles. Hitachi Chemical began sales of carbon anode materials for lithium ion batteries in 1998, and its materials have established a strong reputation for their high capacities and superior electrical charge and discharge characteristics. As a result, the Company currently holds the top share in the global market, and its carbon anode materials have become an indispensable component of lithium ion batteries.

Molded Plastic Rear Door Modules

Hitachi Chemical's molded plastic rear door modules integrate a vehicle's body, glass, and frame to transform the rear door into a single unit. Plastic can provide the module's unique strengths of enhanced manufacturing flexibility combined with reduced manufacturing costs. Further, the Company's molded plastic rear door modules achieve significant weight reduction, being 20% lighter than conventional steel doors. Reducing vehicle weight to realize improved fuel efficiency and lower CO_2 emissions is currently a major issue in the automobile industry, and as a result this product is expected to attract more and more attention in the future.

AUTOMOBILES

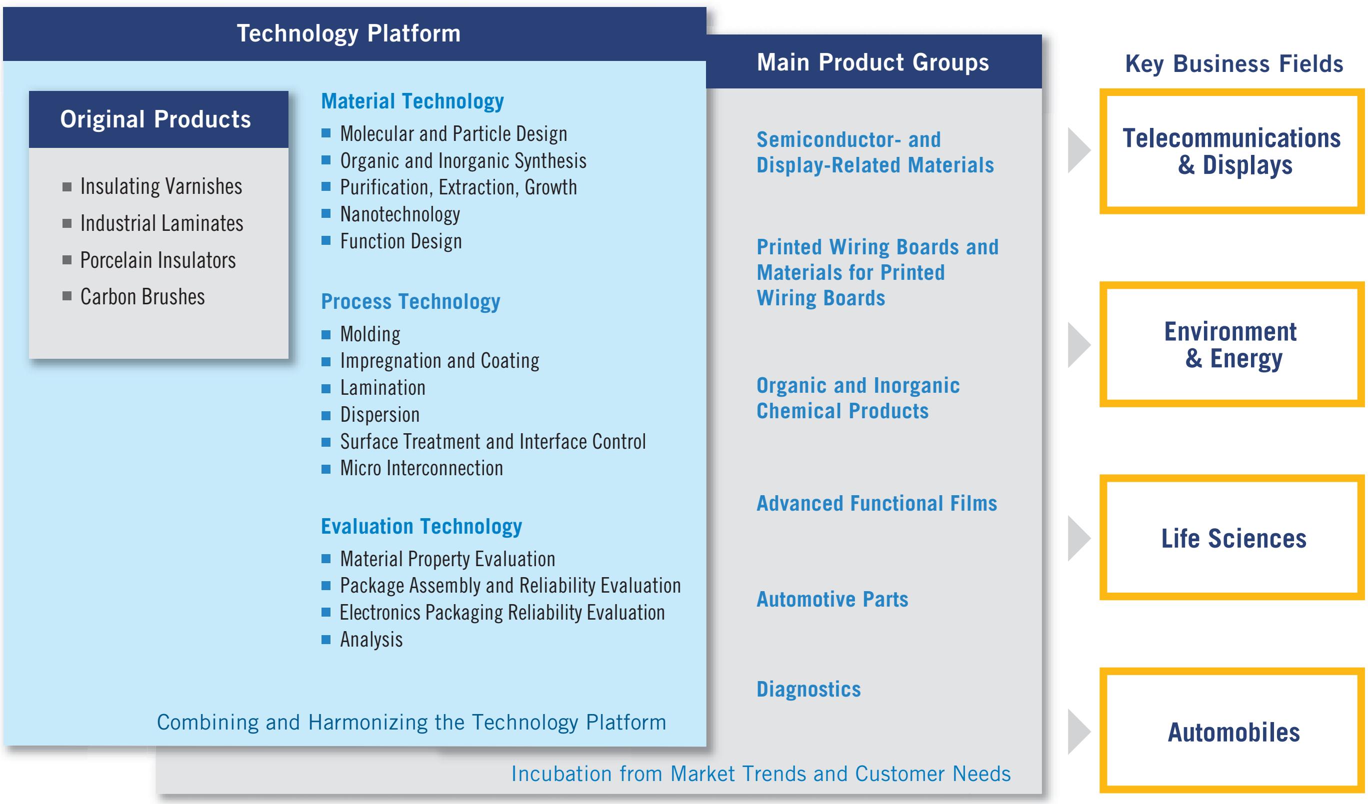


Technological and Business Fields

A wide range of technology platforms developed from four original product groups—insulating varnishes, industrial laminates, porcelain insulators, and carbon brushes for motors—has been the springboard behind Hitachi Chemical's product development ever since the Company's establishment.

Hitachi Chemical has extended its scope of business activities through the borderless expansion, combination, and harmonization of these technology platforms, and by making active use of customer communication.

Hitachi Chemical will prioritize four key business fields with high growth potential—telecommunications & displays, environment & energy, life sciences, and automobiles—which allows the Group to make the most of its strengths and will further enhance and promote its efforts to provide customers with optimal solutions.



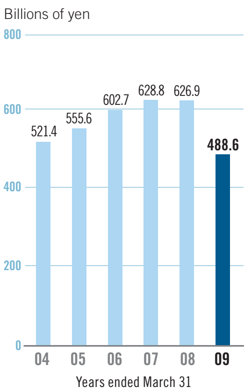
Financial Highlights

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2008 and 2007

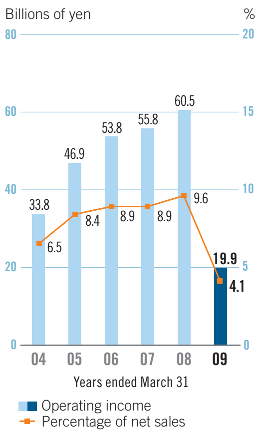
	Millions of yen (except per share data)			Thousands of U.S. dollars (except per share data) (Note)	2009/2008 % change
	2009	2008	2007	**2009**	
For the year:					
Net sales	¥488,638	¥626,929	¥628,805	$4,986,102	(22.1)%
Operating income	19,938	60,493	55,750	203,449	(67.0)
Net income	2,740	31,438	32,766	27,959	(91.3)
Capital expenditures	35,972	37,383	37,661	367,061	(3.8)
Research and development expenses	27,617	28,166	27,835	281,806	(1.9)
At year-end:					
Total assets	¥391,350	¥458,741	¥470,864	$3,993,367	(14.7)%
Total net assets	263,588	274,970	268,356	2,689,673	(4.1)
Per share data:					
Net income (basic)	¥ 13.15	¥ 151.60	¥ 158.02	$ 0.13	(91.3)%
Net income (diluted)	13.15	151.57	157.95	0.13	(91.3)
Cash dividends declared	32.00	32.00	28.00	0.33	—
Net assets	1,203.92	1,251.66	1,175.49	12.28	(3.8)
Value indicators:					
Return on sales (%)	0.6	5.0	5.2		
Return on equity (ROE) (%)	1.1	12.5	14.3		
Return on assets (ROA) (%)	0.6	6.8	7.2		
Debt/Equity ratio (DER) (times)	0.1	0.1	0.2		

Note: U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥98=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2009.

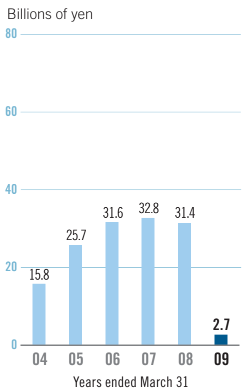
Net Sales



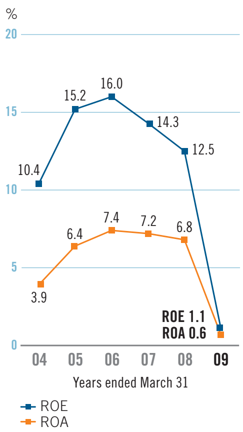
Operating Income / Percentage of Net Sales



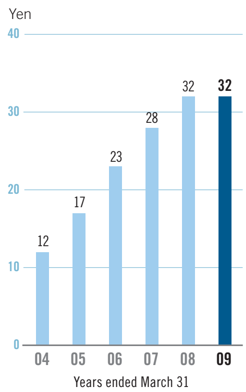
Net Income



Return on Equity (ROE) / Return on Assets (ROA)



Cash Dividends per Share



* The Housing Equipment and Environmental Facilities segment was removed from the scope of consolidation in October 2007 due to the scale of its shares. For this reason, the earnings of the segment has not been included in the Company's consolidated financial results from October 1, 2007.

First, I would like to thank our shareholders and investors for their continued support and understanding.

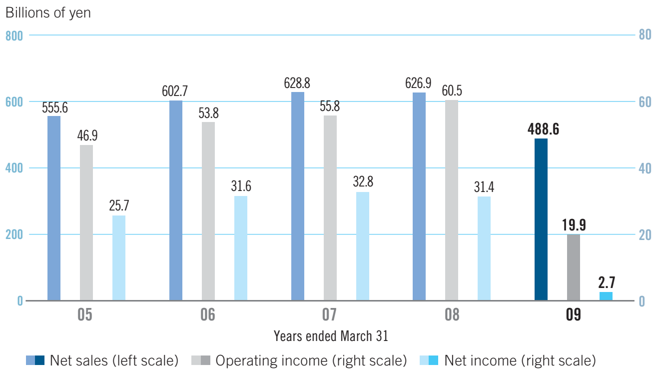
Following a resolution at the Board of Directors' meeting convened on January 28, 2009, I was appointed the Company's President and Chief Executive Officer. In addition to our results for this fiscal year, in this interview I will explain the management issues we currently face and our strategies to address them.

Q. Could you summarize Hitachi Chemical's performance in fiscal 2008, the year ended March 31, 2009?

A. Due to the severe global business environment, we strove to secure profits by implementing a range of self-imposed measures, such as reducing fixed costs. However, despite these actions, the impact from substantially reduced sales volumes resulted in major declines in both income and profit for the year.

During the year ended March 31, 2009, the Group encountered a worldwide financial crisis that began in the United States and spread across the real economy. In particular, during the second half of the year demand declined dramatically in a number of industries, including digital electronic appliances and automotive products. Reflecting the rapid deterioration of the global economy, we recorded a substantial fall in sales in both the Electronics Related Products segment, centered on materials for semiconductors and displays, and the Advanced Performance Products segment, particularly for automotive parts.

Financial Results



Despite this severe operating environment, in order to stably secure earnings the Group prioritized the allocation of its management into areas that strengthened the competitiveness of its products. We also implemented a range of initiatives that involved cutting manufacturing costs and fixed costs.

Despite this severe operating environment, in order to stably secure earnings the Group prioritized the allocation of its management into areas that strengthened the competitiveness of its products. We also implemented a range of initiatives that involved cutting manufacturing costs and fixed costs. However, we were unable to entirely compensate for the dramatic deterioration in our business environment.

As a result, in the year ended March 31, 2009, net sales were down 22.1% year on year, to ¥488.6 billion, operating income decreased 67.0%, to ¥19.9 billion, and net income fell 91.3%, to ¥2.7 billion.

Q. What actions by management do you consider particularly important during this challenging operating environment?

A. We must strive to create new products and develop new businesses in advance of the market's recovery.

I believe that even if the economy fully recovers, the overall structure of the global economy will be transformed as a result of the changes currently taking place. The economies of emerging countries are becoming more important which is acting to mitigate the dominance currently held by more developed nations. As a result, global conditions are diversifying with shifting flows of money and goods as well as significant changes in workforces. Every aspect of competition will become increasingly fierce—from securing human resources and the speed of product development through product pricing and quality assurance—underscoring the point that previous ways of thinking will no longer apply. Even in conditions as severe as these, if we are to respond to the needs of the next generation, I think changes affecting every part of the Company are essential.

Over many years, the Group has grown and prospered because it adhered to its management philosophy of *contributing to society through the development of superior technologies and products.* We will continue to follow this philosophy as we implement changes. It is precisely at a time like this, prior to the market's recovery, that we need to return to our manufacturing (Monozukuri) base and rejuvenate our ability to create new products and develop new businesses.

We are formulating a new management strategy that encompasses a spirit of boldness. This will empower us to transform our current business structure and enable us to effectively compete on a global level. In doing so, I believe we must take aggressive steps and not neglect to make the necessary preparations in products, business, organizational structure, and human resources to get ready for the coming recovery phase. To achieve this end, my most important mission is conveying to as many people as possible our basic policies and the true meaning of our management philosophy that has been our *raison d'être* over these many years.

Q. Can you provide any specific examples of changes you will make to achieve the next phase of growth?

A. We will implement changes in three key areas: business, organization, and human resources.

The transition from the current business environment to our next stage of growth will require changes in three key areas: business, organization, and human resources.

First, changes in business. The Hitachi Chemical Group has always remained ahead of its time by continuously creating new products and developing new businesses. By fulfilling our role of contributing to society and actualizing the management philosophy that I previously described, we have been able to overcome a number of past economic crises (e.g., oil shocks and the collapse of the IT bubble) and continued to achieve growth. In particular, in the field

President's Policies

Changes in Business

- Strengthen and combine existing technological foundations
- Build and introduce new technological foundations
- Cater fully to customer needs

Changes in Organization

- Streamline and flatten organization structure
- Boldly delegate authority
- Build an open corporate culture

Changes in Human Resources

- Promote personnel regardless of nationality or gender
- Cultivate a pioneering spirit
- Provide self-development opportunities

Further, in advance of the coming economic recovery we will aim to establish and strengthen growth foundations to ensure we do not let any opportunity pass us by and not only recover our business performance to the previous high levels, but surpass them.

of functional chemistry the driving force behind our growth has been our ability to develop products from the development stage until delivery to the customer workplace while constantly taking into consideration customer needs.

Moreover, we have established a reputation for consistent excellence because of our ability to incorporate customers' latent needs into the development of new products. We grew our businesses by utilizing a business model that emphasizes the use of materials within systems. However, currently our competitors are also poised to implement the same business model. In order to be competitive in the global markets we must not only strengthen and integrate our existing technological foundations that have been cultivated over many years, but also rapidly strive to build new technological foundations and to create technologies that reflect our uniqueness as a company. To achieve this, while constantly communicating with our customers I believe we need to rapidly construct a new business model that will enable us to be the winner in global competition.

Next, changes in organization. As a result of the rapid decline in sales, we implemented measures that streamlined operations to a level commensurate in scale with current business activities. However, there is still room for improvement in an organization that has become somewhat inflexible over the past several years. To further improve operational performance and increase efficiency, we must continuously develop new procedures and processes and identify any areas for improvement. In addition, we need to implement new initiatives directed at streamlining and flattening the organization, and assertively delegate greater authority throughout the Group. These steps will raise the quality of new products and reduce development time, stimulate new business development, and establish a corporate structure that will enable us to surpass our competitors.

Finally, human resources. In order to compete in the global market we must have a workforce comprised of individuals who possess high levels of expertise, strong leadership skills, and the ability to work anywhere in the world. We seek to employ this type of person, not only in Japan but also around the globe, with the objective of developing teams of professionals that excel in their work. I believe that in order for the Company to continuously provide new value, we must proactively recruit world-class personnel from diverse backgrounds, regardless of race, nationality, and gender.

Q. What do you think are the key points leading to business reform?

A. Strengthening new product development by further diversifying our technical expertise and expanding our technical foundations.

The Group has established a strong reputation for providing customers with a wide range of products. As we move forward, I think we need to pause and reflect on the key technologies that are the source of new products.

Our technical expertise is based on resin technologies that were developed at the founding of the Company. By identifying new ways to utilize and expand our technology platform, we will develop new technologies and create diverse product lineups in each of our four key business fields—*Telecommunications & Displays, Automobiles, Environment & Energy, and Life Sciences.*

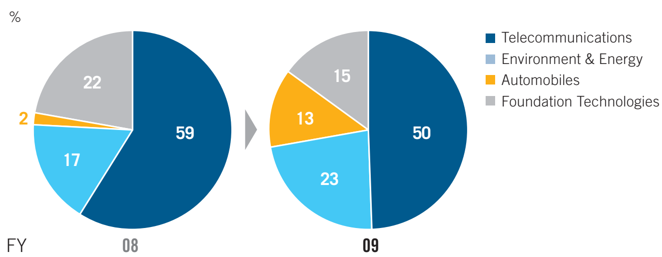
As part of our efforts to achieve these objectives, in fiscal 2009 we will shift R&D spending away from the telecommunications field and redirect our priorities to such growth markets as electric vehicles (HEV, EV) and the environment & energy. Our goal is to accelerate the commercial launch of products in these areas.

Q. What do you forecast for fiscal 2009, the year ending March 31, 2010?

A. We will continue to build a stronger and more vibrant business structure. Our aim is to achieve operating income of ¥10.0 billion.

In spite of the changes in our operating environment—including the progress made in inventory adjustments that accompanied the rapid decline in demand from the second half of fiscal 2008 and

Reorganization of Corporate Research Priorities



companies refraining from further reduction in production levels—the future remains uncertain and some fear that the economic recession will be long term. In these kinds of conditions, we are unable to forecast an increase in sales in fiscal 2009. As such, we will continue the measures we began in the second half of fiscal 2008, rigorously selecting capital investment targets, reviewing our production systems, modifying our business structure to match the scale of sales, and implementing far reaching fixed cost-cutting measures.

Moreover, so that we succeed in global competition regardless of the upheavals occurring in the economic environment, we will return to our manufacturing (Monozukuri) origins to establish a powerful business management structure capable of steadily and continuously achieving growth. We will pursue reforms in our business, organizational structures, and human resources. Further, in advance of the coming economic recovery we will aim to establish and strengthen growth foundations to ensure we do not let any opportunity pass us by and not only recover our business performance to the previous high levels, but surpass them. Based upon these efforts, in the year ending March 31, 2010, we forecast net sales of ¥405.0 billion, operating income of ¥10.0 billion, and net income of ¥3.0 billion.

Q. Finally, please explain the philosophy underpinning the Company's policy of returning profit to shareholders.

A. We aim to return profit to shareholders in a stable manner while taking a long-term perspective.

The Group's basic policy is to fully consider a wide range of factors when allocating earnings to dividends. This process includes a comprehensive review of our operating environment, overall performance, and future business prospects. Also, we use cash reserves in ways that strengthen our financial framework, while at the same time investing in the R&D of promising new high-value-added products and programs that add to the vitality of our current businesses.

Based on these policies, for the year ended March 31, 2009, we maintained cash dividends per share at ¥32—the same level as the previous fiscal year. We take a long-term view when issuing dividends to shareholders; and to this end, we consistently implement R&D programs and make capital investments in areas that raise the Company's value. Consequently, we will continue to pioneer new areas and provide customers with world-class technologies and products.

Finally, in March 2009 the Company received a cease and desist order and an order for payment of administrative surcharges from the Japan Fair Trade Commission for acted violations of the Antimonopoly Law related to the sale of cross-linked foamed polyethylene sheets. I sincerely apologize to all our shareholders, investors, and stakeholders for any concern this action may have caused. We consider this to be an extremely serious matter and are striving to regain any loss of trust by taking steps to improve our compliance procedures. New safeguards have been implemented that will ensure our full observance of laws and regulations and prevent future occurrences. Our goal is to fulfill stakeholders' expectations, to make sure we always meet safety and environmental standards in all areas of our business activities, and to continue to build strong bonds based on trust with the communities where we do business around the world.

In conclusion, going forward I would like to ask our shareholders and investors for their continued support and understanding.

July 2009

Kazuyuki Tanaka.

Kazuyuki Tanaka
President and Chief Executive Officer

Major Results in the Year Under Review

2008

News Release Date

July 15

■ Development of RFID label with μ-Chip for metal products

Hitachi Chemical has developed the new μ-Chip RFID label for metal products and market launched it in August 2008. The thickness of the RFID label can be reduced to approximately 0.5mm by using "μ-Chip," which is the world's smallest class 2.45GHz-band contactless IC chip. In recent years, the market for RFID tag labels has expanded. We will actively work to increase its sales by promoting its use in a variety of applications: nameplates for maintenance and inspection of facilities and equipment, management of assets and equipment, and traceability of various fabricated metal products.

July 17

■ Established development center for photosensitive dry films for printed wiring boards in Suzhou, China

To promote development and strengthen competitiveness of its new products in the Chinese market, Hitachi Chemical (Suzhou) Co., Ltd., a subsidiary of Hitachi Chemical, has decided to establish a development center at the site of Hitachi Chemical (Suzhou). Hitachi Chemical spent ¥520 million to establish the development center, which began operations in May 2009. Development staff will be recruited locally and the company is aiming to further increase sales in its China market by utilizing the center to shorten product development periods until market launch and to accelerate the acquisition of customer approval.

September 16

■ Hitachi, Ltd. transferred its personal health care business to Hitachi Chemical Co., Ltd.

With Hitachi's point-of-care testing systems, such as conducting on-the-spot clinical laboratory tests, incorporated into both Hitachi Chemical's advantage diagnostic business and contract testing services, Hitachi Chemical's life sciences business will be further strengthened with the expanded line of life sciences products and health checkup solutions designed to prevent lifestyle-related diseases.

October 22

■ Building a new plant for carbon anode materials for lithium ion batteries

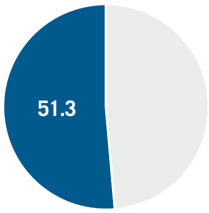
Responding to increased demand for lithium ion batteries for consumer applications, Hitachi Chemical has decided to build a new plant for carbon anode materials for lithium ion batteries at its Yamazaki Works (Katsuta) (Hitachinaka-shi, Ibaraki), and to enhance the production capacity of its existing Yamazaki Works (Sakuragawa) (Hitachi-shi, Ibaraki). The amount of the investment is approximately ¥1.5 billion, and the Company intends to future expansion into automotive applications. The project is expected to be completed in the autumn of 2009, and the Company intends to increase production capacity for anode materials by approximately 50%.

Results by Business Segment

Electronics Related Products

Net Sales

%



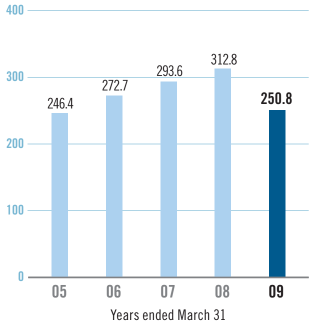
In the Electronics Related Products segment, sales fell 19.8%, or ¥61.9 billion, year on year to ¥250.8 billion, and operating income was down 62.3%, or ¥28.5 billion, to ¥17.2 billion. The decline was primarily attributable to the fall in demand due to the slumping semiconductor, flat panel display, and automotive markets.

In fiscal 2008, Hitachi Chemical pushed forward with the development of new products to meet the needs of the continually expanding Chinese market. In addition, the Company established a development center at its Chinese subsidiary, Hitachi Chemical (Suzhou) Co., Ltd., to strengthen product competitiveness. Further, aiming to achieve stable supply of products in response to the anticipated growth in the lithium ion batteries market, the Company began construction of a new plant for carbon anode materials for lithium ion batteries and also implemented measures to enhance the production capacity of its existing plant.

On April 1, 2008, the printing wiring boards segments, the business department, and development function within Hitachi AIC Inc. was consolidated into Hitachi Chemical. In addition, through the absorption merger of Hitachi Chemical Electronics Co., Ltd., by Hitachi AIC, the Company was able to complete the reorganization of its domestic printed wiring boards operations by integrating each of its printing wiring boards segments.

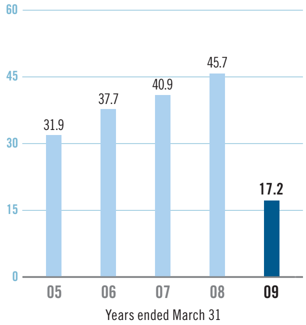
Net Sales

Billions of yen



Operating Income

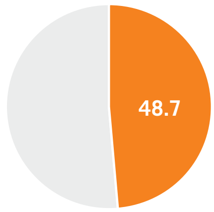
Billions of yen



Advanced Performance Products

Net Sales

%

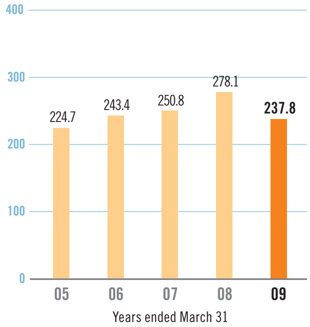


In the Advanced Performance Products segment, sales fell 14.5%, or ¥40.3 billion, year on year to ¥237.8 billion, and operating income declined 81.3%, or ¥12.6 billion, to ¥2.9 billion. The primary factor in this segment was the fall in sales of automotive parts accompanying the global slowdown in automobile production.

To maintain and strengthen its systems for the supply of parts to automobile manufacturing plants in North America, and to steadily capture demand in the North American market, Hitachi Chemical established a consolidated subsidiary, Hitachi Chemical Mexico S.A. de C.V., for the manufacture of automotive parts in Mexico. In addition, the Company began the manufacture and sale for the first time in Japan of a diagnostic kit for allergic conjunctivitis able to measures antibodies within tear fluid. Further, the Company is expanding its life sciences business by taking over from Hitachi, Ltd., its high-speed tabletop clinical testing system related business. These systems enable medical facilities without specialist laboratory technicians to carry out clinical testing.

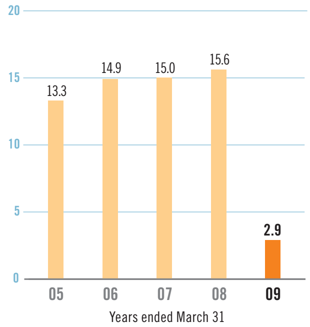
Net Sales

Billions of yen



Operating Income

Billions of yen



Main Products

Electronics Related Products

SEMICONDUCTOR AND DISPLAY RELATED MATERIALS

Slurry for Chemical Mechanical Planarization
Heat-Resistant Fine Polymers
Die Bonding Materials
Epoxy Molding Compounds
Anisotropic Conductive Films for Displays
Light Guides for Liquid Crystal Displays

PRINTED WIRING BOARDS AND RELATED PRODUCTS

Multilayer Printed Wiring Boards
Multiwire Boards
Flexible Printed Wiring Boards
Package Substrates
Copper-Clad Laminates for Printed Wiring Boards
Copper-Clad Laminates with Inner Layer Circuits
Photosensitive Dry Films for Printed Wiring Boards
Plating Chemicals for Printed Wiring Boards

OTHERS

Carbon Anode Materials for Lithium Ion Batteries
Capacitors

Advanced Performance Products

INDUSTRIAL MATERIALS

Electrical Insulating Varnishes
Solder Resists
Conformal Coating Resins
Alkyd Resins
Acrylic Resins
Amino Resins
Alkyl Phenol Resins
Furan Resins
Epoxy Resin Hardeners
Specialty Chemicals
Shell Molding Resins
Phenolic Resin Molding Compounds
Molds for High-Voltage Insulation
Adhesives
Road Sign Materials
FRP Molding Compounds

CARBON AND CERAMICS

Carbon Brushes
Carbon Sliding Materials
Glass-Like Carbon Products
Silicon Carbide Ceramics
Alumina Ceramics
Single Crystals

AUTOMOTIVE PARTS

Interior and Exterior Plastic Molded Products
Molded Plastic Rear Door Modules
Planar Antennas for Millimeter-Wave Radar
Disc Brake Pads
Drum Brake Units
Brake Shoes, Brake Linings
Flexible Graphite Gasket Materials

ADVANCED FUNCTIONAL FILMS

Adhesive Films
Contactless IC Cards and Tags
Cross-Linked Foamed Polyethylene
Food Wrapping Films

OTHERS

Diagnostics
Decorative Laminates
Batteries
Power Supply Units
Golf Carts
Powdered Metal Products
Materials for Foundries

Electronics Related Products

In the Electronics Related Products segment, sales fell 19.8%, or ¥61.9 billion, year on year to ¥250.8 billion, and operating income was down 62.3%, or ¥28.5 billion, to ¥17.2 billion. The decline was primarily attributable to the fall in demand due to the slumping semiconductor, flat panel display, and automotive markets.


SEMICONDUCTOR AND DISPLAY-RELATED MATERIALS

In semiconductor-related materials, sales of slurry for chemical mechanical planarization, die bonding materials, and epoxy molding compounds decreased compared with the previous fiscal year, due to the sluggish semiconductor market caused by a plateau in demand.

In display-related materials, anisotropic conductive films for displays decreased compared with the previous fiscal year due to product price drops and reduced demand for components used in liquid crystal TV displays.

PRINTED WIRING BOARDS AND MATERIALS FOR PRINTED WIRING BOARDS

With respect to printed wiring boards (PWBs), sales of multilayer PWBs decreased in comparison with the previous fiscal year, due to slowdowns in automobile and semiconductor markets.

In materials for PWBs, sales of copper-clad laminates for PWBs and photosensitive dry films decreased compared with the previous fiscal year, reflecting the sluggish demand of PWBs.

OTHERS

Sales of carbon anode materials for lithium ion batteries decreased compared with the previous fiscal year due to sharp decrease in demand.

In the capacitor market, sales of tantalum capacitors and aluminum electrolytic capacitors decreased compared with the previous fiscal year.

Advanced Performance Products

In the Advanced Performance Products segment, sales fell 14.5%, or ¥40.3 billion, year on year to ¥237.8 billion, and operating income declined 81.3%, or ¥12.6 billion, to ¥2.9 billion. The primary factor in this segment was the fall in sales of automotive parts accompanying the global slowdown in automobile production.

INDUSTRIAL MATERIALS

Sales of epoxy resin hardeners decreased compared with the previous fiscal year due to a declining demand for LEDs and automobiles. Electrical insulating varnishes also decreased compared with the previous fiscal year due to a decrease in demand for the surface protection of LCD circuits and for automobiles. There was a significant decrease in sales for expanded polystyrene after the business transfer at the end of March 2008.

CARBON AND CERAMICS

In carbon products, sales of carbon brushes decreased compared with the previous fiscal year due to a decrease in demand for automotive products.

Sales of ceramics-related products also decreased compared with the previous fiscal year due to a decrease in sales for semiconductor manufacturing equipment.

AUTOMOTIVE PARTS

As of molded products for the interior and exterior of automobiles and friction materials decreased compared with the previous fiscal year, due to worldwide manufacture decrease of automobiles.

ADVANCED FUNCTIONAL FILMS

Sales of contactless IC cards and tags increased compared with the previous fiscal year due to its expanded use in the amusement field. However, sales of adhesive films decreased due to a decrease in demand for the surface protection of optical sheets used for LCDs.

OTHERS

In powdered metal products, sales of automotive mechanical parts decreased compared with the previous fiscal year because of sluggish demand.

With respect to rechargeable batteries, sales of industrial batteries increased due to the update demand for telecommunications, but overall sales remained almost the same compared with the previous fiscal year, because sales of batteries for new automobiles decreased, affected by significant manufacturing decrease of automobiles.

Board of Directors and Executive Officers

As of June 24, 2009

Yasuji Nagase

Kazuyuki Tanaka

Takashi Urano

Keiichi Takeda

Tetsuo Odashiro

Hajime Nakajima

Junzo Kawakami

Naoya Takahashi

DIRECTORS

Yasuji Nagase
Chairman of the Board

Kazuyuki Tanaka*
Director

Takashi Urano*
Director

Keiichi Takeda*
Director

Tetsuo Odashiro
Director

Hajime Nakajima
Outside Director (Senior Advisor, Kepner-Tregoe Japan, LLC, Japan Branch)

Junzo Kawakami
Outside Director (Advisor, Hitachi, Ltd.)

Naoya Takahashi
Outside Director (Representative Executive Officer, Executive Vice President and Executive Officer, Hitachi, Ltd.)

* Serves concurrently as Executive Officer

COMMITTEE MEMBERS

Nominating Committee:

Yasuji Nagase
Committee Chairman

Kazuyuki Tanaka
Committee Member

Hajime Nakajima
Committee Member

Junzo Kawakami
Committee Member

Naoya Takahashi
Committee Member

Audit Committee:

Tetsuo Odashiro
Committee Chairman

Hajime Nakajima
Committee Member

Junzo Kawakami
Committee Member

Compensation Committee:

Kazuyuki Tanaka
Committee Chairman

Junzo Kawakami
Committee Member

Naoya Takahashi
Committee Member

EXECUTIVE OFFICERS

Kazuyuki Tanaka
President and Chief Executive Officer

Takashi Urano
Executive Vice President and Executive Officer
(Oversight of New business development, Corporate planning, New product development, Purchasing)

Keiichi Takeda
Senior Vice President and Executive Officer
(Oversight of Administration, Internal control, Finance)

Kiyoshi Togawa
Senior Vice President and Executive Officer
(Oversight of Sales)

Kazuyoshi Tsunoda
Vice President and Executive Officer
(Advanced performance materials, Technology innovation management, Quality assurance)

Shigeru Hayashida
Executive Officer
(CSR activities, New business development)

Shoichi Hanaeda
Executive Officer (Personnel, General affairs, Group company management)

Hiroki Sashima
Executive Officer (Printed wiring boards)

Yoshihiro Nomura
Executive Officer (Electronic materials)

Yushi Kusunose
Executive Officer (Sales)

Shunichiro Uchimura
Executive Officer (Automotive parts)

Corporate Governance

BOARD OF DIRECTORS

The Board of Directors of Hitachi Chemical Co., Ltd., which is composed of eight Directors including three Outside Directors, holds regular monthly meetings and extraordinary meetings when necessary. Outside Directors are management executives, professionals, and others selected for their familiarity with the Company's management conditions and knowledge of relevant fields such as R&D, where the Company has important management tasks.

In addition to approving the budgets and accounts, the Board of Directors uses the monthly and quarterly performance reports it receives from the Executive Officers to manage the budget and business results. In order to ensure the separation of operational and supervisory functions, the Company does not allow the Chairman of the Board to serve concurrently as an Executive Officer, and limits the number of Directors concurrently serving as Executive Officers to the required minimum of three. During fiscal 2008, the Board of Directors met 15 times, with a 99 percent participation rate among Directors.

To strengthen the supervisory function of the Board of Directors, a Nominating Committee, Audit Committee and Compensation Committee, each of which includes Outside Directors, have been established under the Board of Directors. During fiscal 2008, the Nominating Committee met twice, the Audit Committee met 13 times, and the Compensation Committee met five times. The Nominating Committee selected Director candidates for presentation to the Annual General Shareholders' Meeting. The Audit Committee audited the execution of the duties of the Directors and Executive Officers. The Compensation Committee set the policies for deciding the compensation of the Directors and the Executive Officers, based on which it determined the content of compensation for each individual. To ensure its independence, the Audit Committee conducts audit activities with specialized staff who are employees independent from the Executive Officers. The Auditing Office performs internal audit work by order of the Chief Executive Officer, and cooperates in conducting audits if instructed to do so by the Audit Committee.

EXECUTIVE OFFICERS' MEETING

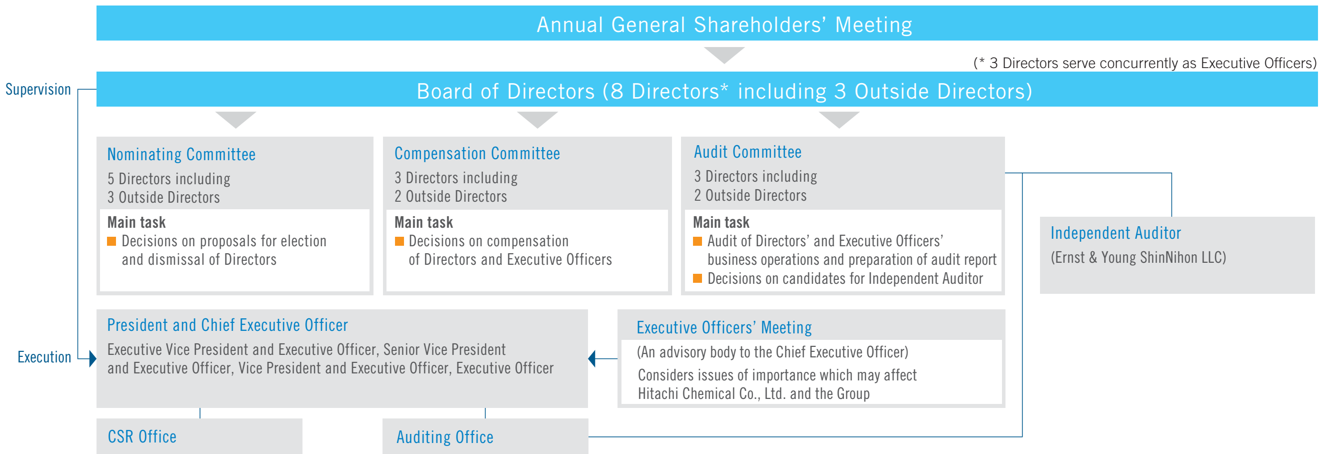
Composed of all Executive Officers, the Executive Officers' Meeting acts as an advisory body to the Chief Executive Officer to ensure prudent decisions through multifaceted study of important issues that may affect Hitachi Chemical Co., Ltd. or the Group. The Executive Officers' Meeting, as a rule, holds regular meetings twice a month and extraordinary meetings when necessary to accelerate decision-making and business operations. It participates in managing the budget and business results by executing the decisions of the Board of Directors when the budget is determined or revised, and by presenting monthly and quarterly performance reports to the Board of Directors.

Executive Officers and employees promptly report matters required by law to the Audit Committee, as well as decisions by Executive Officers in connection with important matters that affect the Company as a whole, the results of internal audits conducted by the divisions in charge, and the status of reports made by the internal reporting system maintained by the Executive Officers.

COMPENSATION OF DIRECTORS, EXECUTIVE OFFICERS AND AUDITORS

Compensation of Directors and Executive Officers is composed of monthly base compensation and a year-end distribution (performance-based compensation for the Executive Officers). The year-end distribution for the Directors is set at an amount equivalent to one and a half months of the monthly base compensation (however, this amount may be reduced according to the Company's performance). The performance-based compensation for the Executive

Business Execution and Management Supervision Framework



Hitachi Chemical believes that one of its most important management tasks is establishing a management structure that is sound, highly transparent, and capable of responding swiftly to changes in the market. As part of these efforts, in June 2003 the Company adopted the "Company with Committees" system, which separates operational and supervisory functions to achieve highly objective, transparent management.

Officers is set in proportion to the Company's results for the fiscal year, the results of the departments in which each Executive Officer divides his duties, and individual performance and degree of performance improvement.

Compensation of Directors and Executive Officers for Fiscal 2008

Classifications	Number	Amount of Compensation (Millions of yen)
Directors (Outside Directors)	7 (3)	84 (42)
Executive Officers	14	506
Total	21	590

Notes: 1. Compensation amounts presented are rounded down to the nearest one million yen.
2. The compensation amount for Directors who served concurrently as Executive Officers is shown separately as the Director compensation amount and the Executive Officer compensation amount, and then total compensation is presented as the sum of the two amounts.
3. The compensation amount includes a year-end distribution of ¥9 million paid to Directors in June 2009, and performance-based compensation of ¥43 million paid to Executive Officers.
4. Other than the amounts presented above, retirement benefits paid to the four Executive Officers who had retired as of March 31, 2009, was ¥78 million. This amount includes a reserve for retirement benefits of ¥52 million as the total amount of compensation and other benefits paid to Executive Officers in previous fiscal years.

Compensation of Independent Auditor for Fiscal 2008

Classifications	Amount of Compensation (Millions of yen)
Total amount of monetary and other financial benefits payable by the Company and its subsidiaries	119
The amount of compensation payable to the independent auditor by the Company (*)	55

Notes: 1. There were payments between the Company and the Independent Auditor in consideration of non-audit duties pertaining to the verification of declarations of income from employees stationed overseas.
2. In the audit contract between the Company and the Independent Auditor, the compensation paid for audits under the Corporation Law and audits under the Securities Exchange Law are not broken down and cannot be practically separated, and therefore both are included in the amount in (*).
3. The Company's audit of overseas subsidiaries is carried out by a certified public accountant or independent auditor (including persons or organizations with equivalent qualifications in the foreign country in which the subsidiary operates) other than the Company's Independent Auditor.

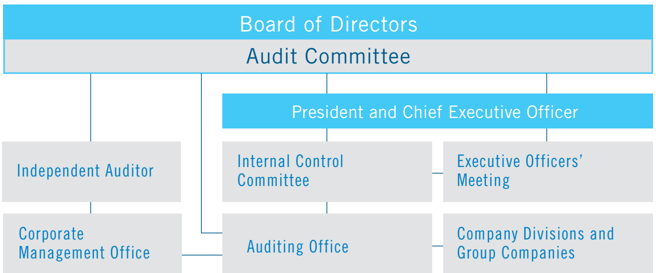
INTERNAL CONTROL SYSTEM

The Company has built and operates a system to ensure that execution of business operations conforms to laws and the Company's Articles of Incorporation, and to ensure that other business operations are appropriate.

Specifically, the Company's standards of corporate conduct serve as a basic code of conduct throughout Hitachi Chemical, and the key parts of other important rules and basic systems are also shared across the Group. While protecting the independence of each Group company, this promotes smooth coordination, raises the efficiency of internal audits and makes the internal control system effective.

Effective from the fiscal year ended March 31, 2009, J-SOX also requires the inclusion of a management report on the Company's internal control over financial reporting in the "Yuho" business report. Based on the results of an evaluation conducted in accordance with the standards on management assessment of internal controls published by the Business Accounting Council of the Financial Services Agency (FSA) (Standards for Management Assessment and Audit Concerning Internal Control over Financial Reporting), management has concluded that the Company has maintained effective internal control over financial reporting as of March 31, 2009. The Independent Auditor has expressed its opinion that the management report fairly represents actual conditions.

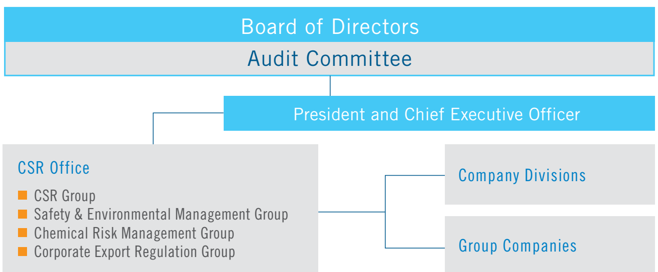
Internal Control System



RISK MANAGEMENT SYSTEM

The Company has created the Guidelines for Implementing Measures to Counter Risk at Hitachi Chemical. This document prepares for target risk scenarios for the entire Company by specifying the responsibilities of all executives and employees in preventing risks, the composition and role of the Emergency Response Task Force to be put in place during emergencies, and the communication standards to be observed. Additionally, the CSR Office conducts regular audits of each Company division internally and the Group companies to check the status of the risk management systems and carries out comprehensive auditing in preventing risks from occurring and dealing with them if they occur. It also requires each division to undertake self-audits.

Risk Management System



Six-Year Summary

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2008, 2007, 2006, 2005 and 2004

	Millions of yen (except per share data)						Thousands of U.S. dollars (except per share data) (Note 1)
	2009	2008	2007	2006	2005	2004	**2009**
For the year:							
Net sales	¥488,638	¥626,929	¥628,805	¥602,703	¥555,568	¥521,358	$4,986,102
Operating income	19,938	60,493	55,750	53,833	46,910	33,774	203,449
Net income	2,740	31,438	32,766	31,593	25,714	15,784	27,959
Cash dividends declared	6,665	6,636	5,806	4,768	3,523	2,487	68,010
Capital expenditures	35,972	37,383	37,661	38,687	33,159	26,331	367,061
Depreciation and amortization of tangible and intangible fixed assets	34,560	32,866	28,077	27,200	25,904	26,505	352,653
Research and development expenses	27,617	28,166	27,835	26,934	25,059	24,908	281,806
At year-end:							
Total assets	¥391,350	¥458,741	¥470,864	¥444,185	¥411,485	¥393,835	$3,993,367
Total liabilities	127,762	183,771	202,508	205,148	209,029	216,144	1,303,694
Interest-bearing liabilities (Note 2)	30,806	37,210	39,312	37,522	36,235	46,997	314,347
Total net assets (Stockholders' equity) (Note 3)	263,588	274,970	268,356	215,235	180,910	157,311	2,689,673
Per share data:							
Net income (basic)	¥ 13.15	¥ 151.60	¥ 158.02	¥ 152.01	¥ 123.46	¥ 75.47	$ 0.13
Net income (diluted)	13.15	151.57	157.95	151.95	123.44	75.44	0.13
Cash dividends declared	32.00	32.00	28.00	23.00	17.00	12.00	0.33
Net assets (Note 3)	1,203.92	1,251.66	1,175.49	1,037.83	872.20	758.44	12.28
Value indicators:							
Operating margin (%)	4.1	9.6	8.9	8.9	8.4	6.5	
Return on sales (%)	0.6	5.0	5.2	5.2	4.6	3.0	
Return on equity (ROE) (%) (Note 3)	1.1	12.5	14.3	16.0	15.2	10.4	
Return on assets (ROA) (%)	0.6	6.8	7.2	7.4	6.4	3.9	
Net worth ratio (Stockholders' equity ratio) (%) (Note 3)	64.1	56.6	51.8	48.5	44.0	39.9	
Debt/Equity ratio (DER) (times) (Note 3)	0.1	0.1	0.2	0.2	0.2	0.3	
Inventory turnover (times)	12.4	13.7	13.6	14.1	14.3	14.4	
Net property, plant and equipment turnover (times)	3.4	4.2	4.1	4.2	4.1	3.8	
Number of employees	15,289	15,303	17,502	17,065	16,551	16,764	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥98=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2009.
2. Interest-bearing liabilities include trade notes discounted.
3. From the fiscal year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet, which reclassifies former stockholders' equity, minority interests and valuation and translation adjustments as net assets. The methods of determining the amounts of each category have not changed from the previous fiscal year. Amounts for prior years have not been restated.

RESULTS OF OPERATIONS

CONSOLIDATED SUBSIDIARIES

Hitachi Chemical consists of 53 companies as of March 31, 2009. This is unchanged from a year earlier, as while Hitachi Chemical Electronics, Co., Ltd., was removed from the scope of consolidation following the absorption merger with Hitachi AIC Inc., Hitachi Chemical Mexico S.A. de C.V. was newly established as the Company's Mexican subsidiary manufacturing automotive parts.

ECONOMIC TRENDS DURING THE YEAR ENDED MARCH 31, 2009

During the year ended March 31, 2009, the effects of the financial crisis that began in the United States spread to the real economies of countries throughout the world. In particular, from the second half of the year the operating environment became extremely severe, and both demand and production in industries such as automotive and digital electronic appliances rapidly declined. Even in regions such as China, the newly industrializing economies (NIEs), and ASEAN—which had maintained a steady performance until the fiscal year under review—production fell dramatically. Consequently, the downward economic trend was readily apparent. Moreover, not only was there a significant reduction in global production that occurred against the backdrop of the global slump in demand, employment and salary conditions also deteriorated and individual consumption was sluggish.

The Japanese economy was impacted by the worsening global economic conditions, and corporate earnings declined substantially. Further, conditions were exacerbated by employment insecurity and slumping consumer spending, and the economic conditions became as tough as any time since the collapse of the IT bubble.

Under these economic conditions, the Group prioritized the investment of its management resources toward stably securing profits and strengthening product competitiveness. In addition, it pushed forward with a range of policies to substantially reduce fixed costs and keep down manufacturing costs, and worked to secure earnings. However, these efforts could not compensate entirely for the adverse effects of the dramatic deterioration in the operating environment.

NET SALES

Net sales decreased 22.1%, or ¥138.3 billion, year on year to ¥488.6 billion. This was mainly due to the impact of the rapid global economic slowdown and the appreciation of the yen, which resulted in substantial declines in sales for main products in both the Electronics Related Products segment and the Advanced Performance Products segment. In addition, the Housing Equipment and Environmental Facilities segment was removed from consolidation from October 2007.

Sales in the Electronics Related Products segment fell 19.8%, or ¥61.9 billion, year on year to ¥250.8 billion. In addition to the rapid fall in demand in digital electronic appliances and the slump in the semiconductor and flat panel display markets, demand for automotives also declined dramatically. Consequently, sales of a wide range of products were down year on year, including slurry for chemical mechanical planarization, die bonding materials, epoxy molding compounds, anisotropic conductive films for displays, and printed wiring boards (PWBs) and related products.

Sales in the Advanced Performance Products segment fell 14.5%, or ¥40.3 billion, year on year to ¥237.8 billion. While sales of contactless IC cards and tags grew due to their increased use in the amusement sector, the reduction in the number of automobiles produced globally meant the decline in sales of automobile-related products was particularly pronounced, such as interior and exterior plastic molded products, friction materials, and powdered metal products.

Overseas sales decreased 18.3%, or ¥43.8 billion, to ¥195.5 billion, as our efforts to strengthen operations at overseas plants were not sufficient to compensate for the rapid slowdown in global markets, particularly in Asia, which had previously maintained a steady growth trend. As a result, overseas sales accounted for 40.0% of total net sales, up 180 basis points from the previous fiscal year.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of sales decreased 17.1%, or ¥80.2 billion, year on year to ¥387.9 billion, accompanying the decline in sales that occurred against the backdrop of the rapid fall in demand brought about by the economic recession.

While Hitachi Chemical worked to reduce manufacturing costs, these efforts could not totally compensate for a number of negative factors, such as the surging prices of raw materials, an increase in depreciation expenses due to a tax code revision and the expansion of capital expenditures in recent years, and particularly the major fall in sales from the second half of the fiscal year. As a consequence, cost of sales as a percentage of net sales increased 470 basis points, to 79.4%.

Selling, general and administrative expenses decreased 17.8%, or ¥17.5 billion, to ¥80.8 billion, and increased 80 basis points as a percentage of net sales, to 16.5%. The primary factor was that the Housing Equipment and Environmental Facilities segment was transferred to another company and removed from consolidation from October 2007.

Research and development expenses were positively focused on the development of high-value-added products and in fields forecast for growth, and were practically unchanged from the previous fiscal year, at ¥27.6 billion. Research and development expenses represented 5.7% of net sales, 120 basis points increase year on year.

OPERATING INCOME

Operating income decreased 67.0%, or ¥40.6 billion, year on year to ¥19.9 billion, representing 4.1% of sales, a decrease of 550 basis points.

Operating income in the Electronics Related Products segment was down 62.3%, or ¥28.5 billion, to ¥17.2 billion, adversely affected by the substantial fall in demand and the appreciation of the yen. Operating margin in this segment was down 770 basis points, to 6.9%. Operating income for the Advanced Performance Products segment declined 81.3%, or ¥12.6 billion, to ¥2.9 billion, because of the impact of the major slump in demand. Operating margin in this segment fell 440 basis points, to 1.2%.

OTHER INCOME (EXPENSES)

Net other expenses totaled ¥7.1 billion, an increase of ¥4.5 billion from ¥2.6 billion in the previous fiscal year. The main components of other expenses were impairment losses for fixed assets of ¥3.1 billion, equity in losses of affiliated companies of ¥1.1 billion, and the recording of ¥0.4 billion for restructuring charges. As a result, income before income taxes and minority interests declined 77.9%, or ¥45.1 billion, to ¥12.8 billion.

NET INCOME

Reflecting the significant downturn in business results in the fiscal period under review, incomes taxes decreased 61.2%, or ¥14.6 billion, year on year to ¥9.2 billion. Mainly due to the reversal of deferred tax assets of some consolidated subsidiaries, the effective income tax rate, defined as the ratio of income taxes to income before income taxes and minority interests, increased 3100 basis points, to 72.1%. Minority interests decreased 68.8%, or ¥1.8 billion, to ¥0.8 billion, principally due to Hitachi Powdered Metals Co., Ltd. becoming a wholly owned subsidiary and therefore ceasing to be included in minority interests.

As a result, net income fell 91.3%, or ¥28.7 billion, to ¥2.7 billion, while the ratio of net income to net sales was down 440 basis points, to 0.6%. Return on total stockholders' equity (ROE) decreased 1140 basis points, to 1.1%, and return on total assets (ROA) declined 620 basis points, to 0.6%. Net income per share (basic) fell to ¥13.15 from ¥151.60 in the previous fiscal year.

FINANCIAL CONDITION

CASH FLOWS

Cash and cash equivalents as of March 31, 2009 decreased ¥2.1 billion from the previous fiscal year-end to ¥74.0 billion.

Net cash provided by operating activities was ¥55.5 billion, ¥2.8 billion less than the previous fiscal year, mainly due to the fall in income before income taxes and minority interests.

Net cash used in investing activities was ¥41.6 billion, ¥7.9 billion more than the previous fiscal year, principally because of a decrease in proceeds from sale of subsidiaries' and affiliated companies' stock and investments in securities

Net cash used in financing activities was ¥13.8 billion, ¥3.3 billion greater than the previous fiscal year, primarily due to the increase in redemption of bonds payable.

CASH FLOWS

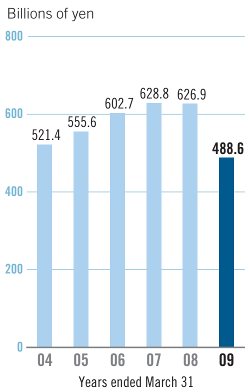
Years ended March 31, Billions of yen

	2009	2008	2007
Cash flows from operating activities	¥ 55.5	¥ 58.3	¥ 46.4
Cash flows from investing activities	(41.6)	(33.7)	(37.1)
Cash flows from financing activities	(13.8)	(10.5)	(5.3)
Cash and cash equivalents at end of year	74.0	76.1	65.6

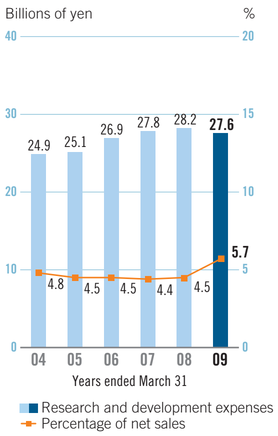
ASSETS

Total assets as of March 31, 2009 were ¥391.4 billion, a decrease of ¥67.4 billion from the end of the previous fiscal year.

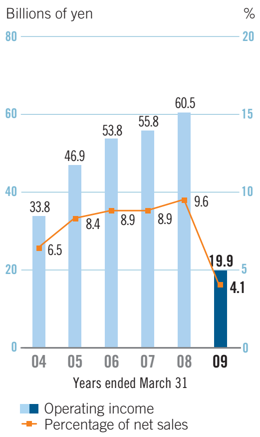
Net Sales



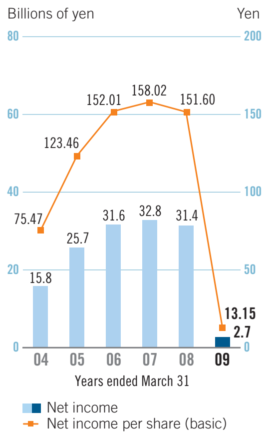
Research and Development Expenses / Percentage of Net Sales



Operating Income / Percentage of Net Sales



Net Income / Net Income per Share (basic)



Total current assets decreased ¥57.7 billion, to ¥207.5 billion. Due to the fall in sales, trade receivables declined ¥49.3 billion, to ¥77.2 billion. Inventories decreased ¥8.5 billion from ¥43.5 billion at the end of the previous fiscal year, to ¥35.0 billion. The primary factor was the reduction in production output in response to the fall in demand. In response to the rapid decline in demand, Hitachi Chemical worked to reduce inventories, but was unable to maintain or improve inventory turnover, which fell to 12.4 times from 13.7 times at the end of the previous fiscal year.

Net property, plant and equipment decreased ¥5.8 billion, to ¥139.0 billion, principally due to impairment losses of ¥3.1 billion pertaining to the fall in the profitability of assets.

Intangible assets declined ¥1.0 billion, to ¥6.6 billion, while total investments and other assets decreased ¥2.9 billion, to ¥38.3 billion. The primary factor behind the change was a ¥4.2 billion decrease due to a fall in the market value of investments in securities.

CAPITAL EXPENDITURES

During the year ended March 31, 2009, capital expenditures decreased ¥1.4 billion, to ¥36.0 billion, as within the severe operating environment Hitachi Chemical rigorously selected investment targets—focusing on strengthening product capabilities for high-value-added products and rationalizing domestic production facilities. Specifically, it prioritized capital investment toward bolstering production capabilities for slurry for chemical mechanical planarization and carbon anode materials for lithium ion batteries, and rationalizing production facilities for PWBs and related products. Depreciation and amortization of tangible and intangible fixed assets increased ¥1.7 billion, to ¥34.6 billion.

LIABILITIES AND NET ASSETS

Total liabilities as of March 31, 2009 decreased ¥56.0 billion, to ¥127.8 billion.

Total current liabilities decreased ¥51.0 billion, to ¥95.3 billion. The primary factor was a decline in trade payables due to the decrease in the volume of materials purchased that accompanied the reduction in production output.

The current ratio, defined as the ratio of total current assets to total current liabilities, rose to 217.7% from 181.3% at the end of the previous fiscal year. Working capital, defined as total current assets minus total current liabilities, decreased ¥6.8 billion, to ¥112.1 billion.

Total interest-bearing liabilities fell ¥6.4 billion, to ¥30.8 billion.

Total net assets were down ¥11.4 billion, to ¥263.6 billion, as in addition to a decline of ¥4.3 billion in earnings surplus, total valuation and translation adjustments fell ¥6.3 billion. The ratio of net assets to total assets (the “net worth ratio”) rose to 64.1% from 56.6% at the end of the previous fiscal year. The debt-to-equity ratio, defined as total interest-bearing liabilities divided by net assets (excluding minority interests) remained unchanged from the previous fiscal year, at 0.1 times.

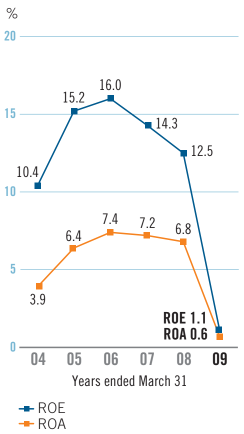
Net assets per share of common stock outstanding as of March 31, 2009 decreased to ¥1,203.92 from ¥1,251.66 at the end of the previous fiscal year.

DIVIDEND POLICY

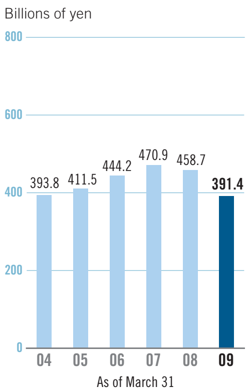
The Company considers its operating environment, performance, future business prospects, and the payout ratio in allocating earnings to dividends and internal capital reserves. The Company uses internal capital reserves to effectively build on its strong financial structures while investing in the R&D of promising new high-value-added products and adding vitality to existing businesses.

Based on these policies, the Company maintained cash dividends per share of common stock at ¥32 for the year ended March 31, 2009, the same level as the previous fiscal year.

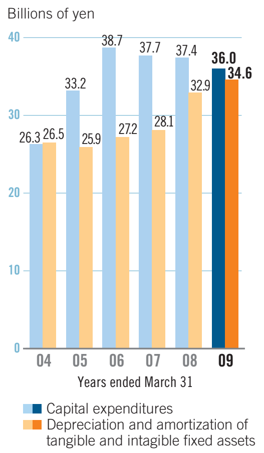
Return on Equity (ROE) / Return on Assets (ROA)



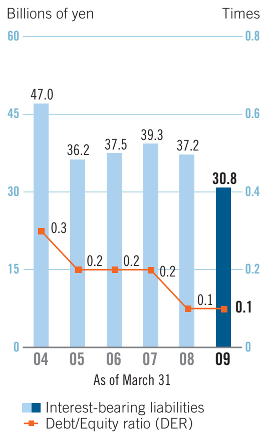
Total Assets



Capital Expenditures / Depreciation and Amortization of Tangible and Intangible Fixed Assets



Interest-bearing Liabilities / Debt/Equity Ratio (DER)

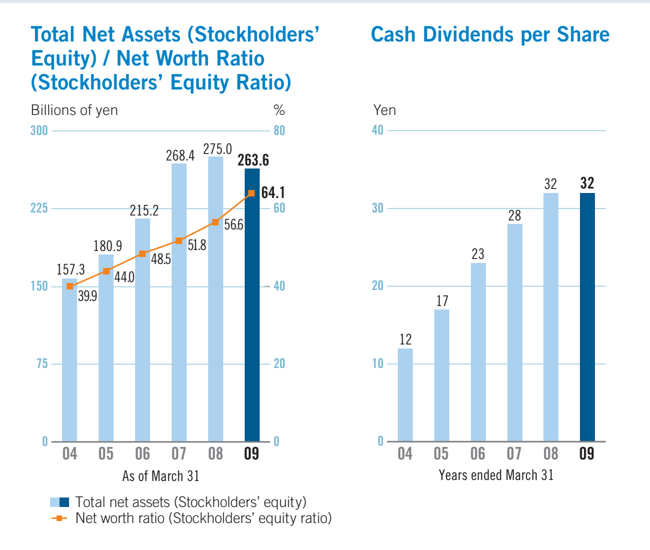


OUTLOOK FOR THE YEAR ENDING MARCH 31, 2010

In the year ending March 31, 2010, it is forecast that there will be slight signs of improvement in the turbulent Japanese economy, such as companies refraining from further cuts in production due to the progress made in inventory adjustments. However, in addition to the continued slowdown in consumer spending as the adjustments to employment and salary conditions become full fledged, it is anticipated that demand will fail to substantially improve because of the delay in the recovery of the global economy, and there are fears that the economic recession will become long term.

However, so that it may succeed in global competition regardless of the upheavals occurring in the economic environment, Hitachi Chemical will return to its manufacturing origins and establish a powerful business management structure capable of steadily and continuously achieving growth. The Company will pursue business, organizational, and human resource reforms. Further, in advance of the coming economic recovery it will aim to establish and strengthen growth foundations to ensure it does not let any opportunity pass it by and not only recovers its business performance to the previous high levels, but surpasses them.

As a result of these efforts, in the year ending March 31, 2010, Hitachi Chemical forecasts net sales of ¥405.0 billion, a decrease of 17.1% year on year; operating income of ¥10.0 billion, down 49.8%; and net income of ¥3.0 billion, an increase of 9.5%.



BUSINESS AND OTHER RISKS

Hitachi Chemical operates globally in a diverse range of fields, using sophisticated, specialized technologies. For this reason, a variety of factors may materially impact Group operations. These major business and other risks are described below. Statements concerning the future represent the judgment of Hitachi Chemical as of March 31, 2009.

(1) EXCHANGE RATE FLUCTUATIONS

Hitachi Chemical holds assets and liabilities from overseas operations that are affected by fluctuations in foreign exchange rates. Due to product exports and raw material imports usually denominated in U.S. dollars, and at times in other local currencies, exchange rate fluctuations may exert a material impact on the performance of the Group. The appreciation of the yen against the U.S. dollar and other currencies may exert a material impact on earnings by weakening the competitiveness of products exported to overseas markets. The Group pursues measures to attenuate the risk from exchange rate fluctuations, but cannot guarantee that exchange rate fluctuations will not affect performance.

(2) MAJOR RAW MATERIAL PRICE FLUCTUATIONS

Many of Hitachi Chemical's products use petrochemical products as raw materials. The purchase prices of petrochemical products are susceptible to fluctuations in crude oil prices. In addition, fluctuations in the markets for other raw materials may increase procurement costs and exert a material impact on Group performance.

(3) ACQUISITIONS, JOINT VENTURES AND STRATEGIC ALLIANCES

Hitachi Chemical may acquire outside companies, establish joint ventures, and implement strategic alliances in order to develop new technologies and products, and raise competitiveness. These complex initiatives involve integration of businesses, technologies, products, and personnel that requires time and expense. Failure to implement these initiatives as planned may exert a material impact on Group operations. The success of these business alliances is determined in part by factors beyond the Group's control including alliance partner decisions and capabilities, and market trends. Implementation of these initiatives may cause the Group to incur acquisition-related expenses including expenses for integration and restructuring of acquired businesses. In addition, the Group cannot guarantee that it will succeed in integrating acquired businesses or that its initiatives will achieve all or part of initial objectives.

(4) POTENTIAL RISKS IN OVERSEAS ACTIVITIES

Hitachi Chemical produces and sells products in Japan, countries in Asia, the United States, and in other regions. Exposure to political and social risks in these overseas markets may exert a material impact on the financial position and performance of the Group.

(5) PUBLIC REGULATIONS

Hitachi Chemical's business activities are subject to various regulations in the countries in which it operates. The regulations include legal obligations related to foreign investment, trade, competition, intellectual properties, taxes, exchange rates, the environment, and recycling. Significant changes to these regulations could restrict operations, increase costs, and exert a material impact on Group performance.

(6) FINANCIAL RISK

Hitachi Chemical holds equities and other marketable securities. A decrease in the value of these marketable securities may exert a material impact on the financial position and performance of the Group. In addition, long-term procurement of funds from capital markets exposes the Group to risk associated with interest rate fluctuations and credit.

(7) RETIREMENT BENEFIT OBLIGATIONS

Hitachi Chemical bears considerable retirement benefit expense obligations that are computed using actuarial calculations. These appraisals involve important assumptions about conditions for estimating the fair value of pension assets including mortality rates, decrement rates, retirement rates, salary changes, discount rates, and expected rates of return on pension assets. In making these assumptions, the Group must take into account numerous factors including personnel conditions, current market conditions, and future interest rate trends. Although the Group makes reasonable assumptions about conditions based on key factors, it cannot guarantee that projections will agree with actual results. Lower discount rates lead to an increase in actuarial retirement benefit obligations. An increase or decrease in retirement benefit obligations may influence the actuarial difference amortized over the period of employment. Accordingly, changes in conditions may exert a material impact on the financial position and performance of the Group.

(8) RELATIONSHIP WITH THE PARENT COMPANY

As of March 31, 2009, Hitachi, Ltd., the parent company of Hitachi Chemical Co., Ltd., holds 50.9 percent of the Company's total number of shares issued and 51.0 percent of the total number of shares with voting rights (exclusive of indirect shareholdings). Hitachi, Ltd. oversees numerous associated companies, and engages in a wide variety of operations covering the manufacture, sale, and service of products in seven industrial fields: information and telecommunication systems, electronic devices, power and industrial systems, digital media and consumer products, high functional materials and components, logistics and services, and financial services. Hitachi Chemical Co., Ltd. is part of the Hitachi Group's high-performance materials and components business, and one of its eight directors serve concurrently as Director or Executive Officer of Hitachi, Ltd. (as of June 19, 2009). The close relations between Hitachi Chemical Co., Ltd. and its parent company in areas including technical and personnel cooperation and product supply may lead to situations in which Hitachi Group developments exert a material impact on the management strategy and other policies of Hitachi Chemical.

Consolidated Balance Sheets

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	**2009**	2008	**2009**
Current assets:			
Cash and cash equivalents (Note 1 (c))	¥ 73,964	¥ 76,084	$ 754,735
Trade receivables:			
Notes	10,236	17,615	104,449
Accounts	66,999	108,911	683,663
	77,235	126,526	788,112
Inventories (Note 4)	35,002	43,528	357,163
Other current assets (Note 5)	25,562	23,359	260,837
Less allowance for doubtful receivables	(4,305)	(4,318)	(43,929)
Total current assets	207,458	265,179	2,116,918
Property, plant and equipment, at cost (Notes 6 and 7):	541,853	535,923	5,529,112
Less accumulated depreciation	(402,855)	(391,124)	(4,110,765)
Net property, plant and equipment	138,998	144,799	1,418,347
Intangible assets	6,556	7,515	66,898
Investments and other assets:			
Investments in affiliated companies under the equity method	6,701	9,119	68,377
Investments in securities (Note 3)	9,759	11,540	99,582
Other assets (Notes 5 and 8)	22,666	21,173	231,286
Less allowance for doubtful receivables	(788)	(584)	(8,041)
Total investments and other assets	38,338	41,248	391,204
	¥ 391,350	¥ 458,741	$ 3,993,367

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 2) 2009
Current liabilities:			
Short-term debt (Note 7)	¥ 13,434	¥ 16,064	$ 137,082
Current portion of long-term debt (Note 7)	5,000	4,040	51,020
Trade payables:			
Notes	168	437	1,714
Accounts	36,758	71,155	375,082
	36,926	71,592	376,796
Accrued expenses	20,960	24,733	213,878
Income taxes (Note 5)	2,297	10,912	23,439
Other current liabilities (Note 5)	16,692	18,919	170,326
Total current liabilities	95,309	146,260	972,541
Long-term debt (Note 7)	12,126	17,100	123,735
Retirement and severance benefits (Note 8)	14,940	14,423	152,449
Other liabilities (Note 5)	5,387	5,988	54,969
Total liabilities	127,762	183,771	1,303,694
Net Assets:			
Stockholders' equity			
Common stock (Note 11)			
Authorized—800,000,000 shares;			
Issued—208,364,913 shares in 2009 and			
207,452,608 shares in 2008 (Note 9)	15,454	15,443	157,694
Capital surplus (Note 11)	36,113	34,334	368,500
Earnings surplus (Note 11)	210,554	214,881	2,148,510
Treasury stock, at cost,			
74,981 shares in 2009 and 64,765 shares in 2008 (Note 12)	(138)	(121)	(1,408)
Total stockholders' equity	261,983	264,537	2,673,296
Valuation and translation adjustments			
Net unrealized holding gains on securities	533	2,200	5,439
Net unrealized gains on hedge transactions	(7)	74	(72)
Foreign currency translation adjustments	(11,744)	(7,231)	(119,837)
Total valuation and translation adjustments	(11,218)	(4,957)	(114,470)
Minority interests	12,823	15,390	130,847
Total net assets	263,588	274,970	2,689,673
Commitments and contingencies (Note 13)			
	¥391,350	¥458,741	$3,993,367

Consolidated Statements of Income

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	**2009**
Net sales	¥ 488,638	¥ 626,929	¥ 628,805	$4,986,102
Cost of sales (Note 14)	(387,864)	(468,077)	(463,849)	(3,957,796)
Gross profit	100,774	158,852	164,956	1,028,306
Selling, general and administrative expenses (Note 14)	(80,836)	(98,359)	(109,206)	(824,857)
Operating income	19,938	60,493	55,750	203,449
Other income (expenses):				
Interest income	653	1,127	975	6,663
Dividend income	389	295	351	3,969
Equity in earnings (losses) of affiliated companies	(1,107)	905	477	(11,296)
Exchange gain (loss)	(968)	(1,205)	124	(9,878)
Interest expenses	(1,030)	(1,215)	(1,167)	(10,510)
Loss on disposal of property, plant and equipment	(1,227)	(1,589)	(1,414)	(12,520)
Product warranty expenses	(528)	(1,006)	(952)	(5,388)
Loss on valuation of investments in securities	(683)	(99)	(57)	(6,969)
Net gain on sale of investments in securities	17	—	1,053	173
Royalty	1,305	943	761	13,316
Net gain on sale of property, plant and equipment	189	1,578	257	1,929
Amortization of negative goodwill	645	198	—	6,582
Gain on sale of business	—	2,962	—	—
Loss on product safety measures	—	(600)	—	—
Loss on sale of business	—	(1,275)	—	—
Restructuring charges	(430)	(2,032)	—	(4,388)
Impairment losses for fixed assets (Note 15)	(3,138)	(1,561)	—	(32,020)
Surcharge	(165)	—	—	(1,684)
Other, net	(1,069)	(42)	556	(10,908)
	(7,147)	(2,616)	964	(72,929)
Income before income taxes and minority interests	12,791	57,877	56,714	130,520
Income taxes (Note 5)	(9,227)	(23,799)	(22,015)	(94,153)
Income before minority interests	3,564	34,078	34,699	36,367
Minority interests	(824)	(2,640)	(1,933)	(8,408)
Net income	¥ 2,740	¥ 31,438	¥ 32,766	$ 27,959

	Yen			U.S. dollars (Note 2)
	2009	2008	2007	**2009**
Basic net income per share (Note 16)	¥13.15	¥151.60	¥158.02	$0.13
Diluted net income per share (Note 16)	13.15	151.57	157.95	0.13

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	**2009**
Common stock (Note 9):				
Balance at beginning of year	¥ 15,443	¥ 15,421	¥ 15,367	$ 157,582
Exercise of stock options (Note 10)	11	22	54	112
Balance at end of year	15,454	15,443	15,421	157,694
Capital surplus:				
Balance at beginning of year	34,334	34,312	34,258	350,347
Exercise of stock options (Note 10)	11	22	54	112
Exchange of shares	1,769	—	—	18,051
Gain (loss) on sale of treasury stock	(1)	0	0	(10)
Balance at end of year	36,113	34,334	34,312	368,500
Earnings surplus:				
Balance at beginning of year	214,881	189,581	162,293	2,192,663
Net income	2,740	31,438	32,766	27,959
Cash dividends (Note 11)	(7,067)	(6,221)	(5,390)	(72,112)
Bonuses to directors	—	—	(88)	—
Deconsolidation of consolidated subsidiaries	—	83	—	—
Gain (loss) on sale of treasury stock	(0)	—	—	(0)
Balance at end of year	210,554	214,881	189,581	2,148,510
Treasury stock (Note 12):				
Balance at beginning of year	(121)	(106)	(82)	(1,235)
Purchase of treasury stock	(21)	(16)	(25)	(214)
Sale of treasury stock	4	1	1	41
Balance at end of year	(138)	(121)	(106)	(1,408)
Net unrealized holding gains on securities:				
Balance at beginning of year	2,200	4,509	5,176	22,449
Net change during the year	(1,667)	(2,309)	(667)	(17,010)
Balance at end of year	533	2,200	4,509	5,439
Net unrealized gains on hedge transactions:				
Balance at beginning of year	74	32	—	755
Net change during the year	(81)	42	32	(827)
Balance at end of year	(7)	74	32	(72)
Foreign currency translation adjustments:				
Balance at beginning of year	(7,231)	9	(1,777)	(73,786)
Net change during the year	(4,513)	(7,240)	1,786	(46,051)
Balance at end of year	(11,744)	(7,231)	9	(119,837)
Minority interests:				
Balance at beginning of year	15,390	24,598	23,802	157,041
Net change during the year	(2,567)	(9,208)	796	(26,194)
Balance at end of year	12,823	15,390	24,598	130,847
Total net assets	¥263,588	¥274,970	¥268,356	$2,689,673

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2009	2008	2007	**2009**
Cash flows from operating activities (Note 17):				
Net income	¥ 2,740	¥ 31,438	¥ 32,766	$ 27,959
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	34,560	32,866	28,077	352,653
Amortization of (negative) goodwill	(513)	(66)	—	(5,235)
Deferred income taxes	1,272	2,926	43	12,980
Net loss on disposal and sale of property, plant and equipment	1,038	1,048	1,278	10,592
Income applicable to minority interests	824	2,640	1,933	8,408
Net gain on sale of investments in securities	(17)	—	(1,053)	(173)
Equity in earnings (losses) of affiliated companies	1,107	(905)	(477)	11,296
Increase (decrease) in trade receivables	47,444	(14,506)	(5,819)	484,122
Increase (decrease) in inventories	7,794	(1,948)	(3,553)	79,531
Increase (decrease) in trade payables	(33,215)	6,186	(128)	(338,929)
Increase (decrease) in accrued expenses	(3,480)	1,238	488	(35,510)
Increase (decrease) in accrued income taxes	(8,561)	(3,428)	1,674	(87,357)
Increase (decrease) in retirement and severance benefits	529	(1,700)	(1,319)	5,398
Increase (decrease) in accounts payable other	(101)	(1,586)	(5,445)	(1,031)
Other	4,069	4,048	(2,083)	41,520
Net cash provided by operating activities	55,490	58,251	46,382	566,224
Cash flows from investing activities:				
Purchases of property, plant and equipment	(36,272)	(34,209)	(36,487)	(370,122)
Proceeds from sale of property, plant and equipment	1,777	2,694	2,596	18,133
Purchases of subsidiaries' and affiliated companies' stock and investments in securities	(2,841)	(10,568)	(2,864)	(28,990)
Proceeds from sale of subsidiaries' and affiliated companies' stock and investments in securities	339	13,168	1,806	3,459
Investment in loans receivable	(2,829)	(1,988)	(232)	(28,867)
Collection of loans receivable	108	97	111	1,102
Other	(1,903)	(2,937)	(1,989)	(19,419)
Net cash used in investing activities	(41,621)	(33,743)	(37,059)	(424,704)
Cash flows from financing activities:				
Net increase (decrease) in short-term debt	(1,898)	983	388	(19,367)
Proceeds from long-term debt	235	—	1,900	2,398
Payments on long-term debt	(249)	(895)	(1,241)	(2,541)
Proceeds from issuance of bonds payable	—	—	10,000	—
Redemption of bonds payable	(4,000)	(3,000)	(10,000)	(40,816)
Dividends paid to stockholders	(7,067)	(6,221)	(5,390)	(72,112)
Dividends paid to minority stockholders of consolidated subsidiaries	(258)	(437)	(400)	(2,633)
Other	(541)	(946)	(546)	(5,521)
Net cash used in financing activities	(13,778)	(10,516)	(5,289)	(140,592)
Effect of exchange rate changes on cash and cash equivalents	(2,211)	(3,480)	728	(22,561)
Net increase (decrease) in cash and cash equivalents	(2,120)	10,512	4,762	(21,633)
Cash and cash equivalents at beginning of year	76,084	65,572	60,810	776,368
Cash and cash equivalents at end of year	¥ 73,964	¥ 76,084	¥ 65,572	$ 754,735

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2008 and 2007

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements of Hitachi Chemical Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements (the "MOF" report) prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, for the convenience of readers outside Japan, the consolidated financial statements, including the notes to the consolidated financial statements, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. All significant intercompany accounts and transactions have been eliminated in consolidation.

Most of the investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in earnings. The investments in affiliated companies which do not materially affect earnings and equity are stated at cost.

Goodwill and negative goodwill, based on the fair value, acquired by the Company are being amortized on a straight-line basis over their estimated useful period by each individual investment in subsidiaries, not exceeding twenty years or, if the amount is not material, charged immediately to earnings.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of change in value, which have maturities of generally three months or less when purchased, to be cash equivalents. Due to this reason, certain investments, which were reported in the MOF report as deposits to related companies in the amounts of ¥43,849 million ($447,439 thousand) in 2009 and ¥40,744 million in 2008, were reclassified as cash and cash equivalents in the respective consolidated financial statements.

(d) Allowance for Doubtful Receivables

General provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. When considered necessary, specific reserves are made based on the assessment of individual receivables.

(e) Investments in Securities

Securities are to be classified into one of the following three categories and accounted for as follows:

- Securities that the company held with the objective of generating profits on short-term differences in price are classified as trading securities and measured at fair value, with unrealized holding gains and losses included in earnings.
- Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.
- Securities classified as neither trading securities nor held-to-maturity securities are classified as other securities. Unrealized holding gains and losses of other securities with fair values are reported as a net amount in a separate component of net assets until realized. Other securities for which it is not practicable to estimate fair values are carried at cost.

In computing realized gain or loss, cost of other securities is principally determined by the moving-average method.

(f) Inventories

Inventories are mainly stated at cost determined by the moving-average method. When their costs exceed the net realized value, the costs over the net realized value would be recorded as cost.

The Company adopted "Accounting Standard for Measurement of Inventories" (Accounting Standard No. 9, Accounting Standards Board of Japan, July 5, 2006) from the year ended March 31, 2007. The adoption of this standard did not have a material impact on consolidated financial statements.

(g) Property, Plant and Equipment (Except for lease assets)

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the respective assets by the declining-balance method, except for certain buildings of the Company and domestic consolidated subsidiaries, placed in service after April 1, 1998, which are depreciated by the straight-line method.

Effective the year ended March 31, 2008, pursuant to an amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries have changed their method of depreciation for property, plant and equipment acquired after April 1, 2007.

As the result of the adoption of this change, income before income taxes and minority interests decreased for the year ended March 31, 2008 by ¥1,078 million.

For property, plant and equipment acquired before March 31, 2007, the Company and its domestic consolidated subsidiaries also, in conjunction with the revision of the Corporation Tax Law, have changed their estimates of residual values of those assets.

As the result of the change in estimates of residual values, income before income taxes and minority interests decreased for the year ended March 31, 2008 by ¥1,877 million.

Effective the year ended March 31, 2009, following the amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries reviewed the useful lives of machinery and changed them to reflect the shortening of product life cycles.

Due to this change, income before income taxes and minority interests decreased for the year ended March 31, 2009 by ¥1,669 million ($17,031 thousand).

(h) Intangible Assets (Except for lease assets)

Intangible assets are amortized mainly on a straight-line basis. Cost incurred for computer software for internal use is capitalized and amortized on a straight-line basis over its estimated useful life.

(i) Leases

Lease assets are depreciated over the lease term by the straight-line method with no residual value. Finance leases that commenced before March 31, 2008, except those where the title of the underlying property is legally transferred from the lessor to the lessee at the end of the lease term, are mainly accounted for as operating leases.

Previously, finance leases without transfer of legal title were mainly accounted for as operating leases. However, from the year ended March 31, 2009, the Company adopted "Accounting Standard for Lease Transactions" (Accounting Standard No. 13, Accounting Standards Board of Japan, June 17, 1993; revised on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16, Accounting Standards Board of Japan, January 18, 1994; revised on March 30, 2007), and as a result, finance leases without transfer of legal title are accounted for similar to the accounting for ordinary sales transaction for assets. The adoption of this standard did not have a material impact on consolidated financial statements. Finance leases without transfer of legal title whose starting date was prior to the adoption of the standard at the start of the year are still accounted for as operating leases.

(j) Impairment of Fixed Assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets. The Company and consolidated subsidiaries identify groups of assets by their business location and business division as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(k) Retirement and Severance Benefits

Allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and fair value of the pension assets.

Prior service benefits and costs are recognized as income or expense on a straight-line basis over certain years, principally over 10 years, not exceeding the expected average remaining service periods of the employees active at the date of the amendment. Actuarial gains and losses are recognized as income or expense on a straight-line basis from a year subsequent to the year of incurrence over certain years, principally over 10 years, not exceeding the expected average remaining service periods of the employees participating in the plans.

Although the Company and some of its consolidated subsidiaries had provided a retirement allowance for directors and executive officers, such retirement allowance was no longer provided effective April 1, 2008. Accordingly, no allowance was recorded for the year ended March 31, 2009. The retirement allowance balance at March 31, 2009 will be paid to those directors and executive officers who had served in the office prior to April 1, 2008.

According to the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standard No. 19, Accounting Standards Board of Japan, July 31, 2008), the Company adopted the standard for the year ended March 31, 2009. As actuarial gain or loss is recorded as an expense in the following years, there was no impact on income before income taxes and minority interests in the year. Also, the adoption of this accounting standard had a negligible effect on the unrecognized balance of retirement benefit obligations.

(l) Derivative Financial Instruments

In principle, net assets or liabilities arising from derivative financial instruments are measured at fair value, with unrealized gain or loss included in earnings. Hedging transactions, that meet the criteria of hedge accounting as regulated in "Accounting Standard for Financial Instruments," are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as net unrealized gains or losses on hedge transactions, component of net assets, until gain or loss relating to the hedge object is recognized.

(m) Foreign Currency Translations

Foreign currency transactions are translated into yen on the basis of the exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to earnings as incurred.

The financial statements of the foreign consolidated subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the exchange rates in effect at the balance sheet date; stockholders' equity accounts are translated at historical rates; income and expenses are translated at an average of the exchange rates in effect during the year; and a comprehensive adjustment resulting from the translation of assets, liabilities and stockholders' equity is included in minority interests and foreign currency translation adjustments as a separate component of net assets.

(n) Appropriation of Retained Earnings

On May 1, 2006, the Japanese Corporate Law (JCL) went into effect and replaced the Japanese Commercial Code. Under the JCL, the Company is able to appropriate retained earnings by resolution of the Board of Directors, provided that certain criteria are met. Upon meeting these criteria, the Company amended its Articles of Incorporation upon the approval of a resolution at the annual general stockholders' meeting on June 22, 2006, the first general stockholders' meeting held under the JCL.

(o) Income Taxes

Deferred income taxes are accounted for under the asset and liability method, and deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(p) Treasury Stock

Treasury stock is recorded at cost as a deduction of stockholders' equity. When the treasury stock is reissued as common stock, the difference between the issuance price and the cost of the treasury stock is credited or charged to capital surplus or earnings surplus.

(q) Stock-Based Compensation

As of March 31, 2009, the Company has two stock-based compensation plans. However, "Accounting Standard for Sharebased Payment" (Accounting Standard No. 8, Accounting Standards Board of Japan, December 27, 2005) and "Guidance on Accounting Standard for Share-based Payment" (Accounting Implementation Guidance No. 11, Accounting Standards Board of Japan, May 31, 2006) are not applicable except for certain disclosures to the stock-based compensation plans granted before the Japanese Corporate Law went into effect. Therefore, no stock-based compensation cost is reflected in earnings.

(r) Net Income per Share

Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

(s) Directors' Bonuses

The Company adopted "Accounting Standard for Directors' Bonus" (Accounting Standard No. 4, Accounting Standards Board of Japan, November 29, 2005) from the year ended March 31, 2007. The adoption of this change did not have a material impact on consolidated financial statements.

(t) Presentation of Net Assets in the Balance Sheet

The Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standard No. 5, Accounting Standards Board of Japan, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Implementation Guidance No. 8, Accounting Standards Board of Japan, December 9, 2005) from the year ended March 31, 2007.

If the former presentation manner for stockholders' equity had been applied, stockholders' equity at March 31, 2009, 2008 and 2007 would have been ¥250,772 million ($2,558,898 thousand), ¥259,506 million and ¥243,726 million, respectively.

(u) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements in order to conform to the current year presentations.

2. BASIS OF FINANCIAL STATEMENT TRANSLATION

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥98=US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2009. This translation should not be construed as a representation that any amounts shown could be converted into U.S. dollars.

3. INVESTMENTS IN SECURITIES

The following is a summary of the amortized cost basis, gross unrealized holding gains or losses and aggregate fair value of other securities by major security types as of March 31, 2009 and 2008:

	Millions of yen					
	Amortized cost basis	Gross gains or losses	Aggregate fair value	Amortized cost basis	Gross gains or losses	Aggregate fair value
		2009			2008	
Other securities with gross unrealized holding gains:						
Equity securities	¥2,040	¥1,545	¥3,585	¥3,125	¥4,244	¥7,369
Debt securities	—	—	—	—	—	—
Other securities	—	—	—	—	—	—
	2,040	1,545	3,585	3,125	4,244	7,369
Other securities with gross unrealized holding losses:						
Equity securities	1,546	(288)	1,258	986	(168)	818
Debt securities	2,000	(221)	1,779	—	—	—
Other securities	302	(0)	302	361	(4)	357
	3,848	(509)	3,339	1,347	(172)	1,175
	¥5,888	¥1,036	¥6,924	¥4,472	¥4,072	¥8,544

	Thousands of U.S. dollars		
	Amortized cost basis	Gross gains or losses	Aggregate fair value
		2009	
Other securities with gross unrealized holding gains:			
Equity securities	$20,816	$15,766	$36,582
Debt securities	—	—	—
Other securities	—	—	—
	20,816	15,766	36,582
Other securities with gross unrealized holding losses:			
Equity securities	15,776	(2,940)	12,836
Debt securities	20,408	(2,255)	18,153
Other securities	3,082	(0)	3,082
	39,266	(5,196)	34,071
	$60,082	$10,571	$70,653

It is not practicable to estimate the fair value of investments in non-marketable securities because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amount of these investments at March 31, 2009 and 2008 totaled ¥2,835 million ($28,929 thousand) and ¥2,996 million, respectively.

Information about the contractual maturities of other securities with contractual maturities as of March 31, 2009 is as follows:

	Millions of yen			Thousands of U.S. dollars		
	Within one year	After one year through five years	After five years	Within one year	After one year through five years	After five years
Debt securities:						
Other	—	¥955	¥824	—	$9,745	$8,408

4. INVENTORIES

Inventories as of March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Finished and semi-finished goods	¥16,432	¥19,438	$167,673
Work in process	8,747	11,538	89,255
Raw materials	9,823	12,552	100,235
	¥35,002	¥43,528	$357,163

5. INCOME TAXES

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Current tax expense	¥7,955	¥20,873	¥21,972	$81,173
Deferred tax expense (benefit)	1,272	2,926	43	12,980
	¥9,227	¥23,799	¥22,015	$94,153

The Company and its domestic subsidiaries are subject to a number of taxes based on income.

The aggregated statutory tax rate for domestic companies was approximately 40.4% for the years ended March 31, 2009, 2008 and 2007.

Reconciliations between the statutory tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

	2009	2008	2007
Statutory tax rate	40.4%	40.4%	40.4%
Expenses not deductible for tax purposes	4.9	1.3	1.3
Equity in earnings (losses) of affiliated companies	3.5	(0.6)	(0.3)
Amortization of (negative) goodwill	(2.0)	(0.1)	—
Change in valuation allowance	37.2	—	—
Other	(11.9)	0.1	(2.6)
Effective income tax rate	72.1%	41.1%	38.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2009 and 2008 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Total gross deferred tax assets:			
Retirement and severance benefits	¥ 8,461	¥ 8,370	$ 86,337
Accrued bonus	3,438	4,084	35,082
Accrued business tax	74	924	755
Allowance for doubtful receivables	1,451	1,689	14,806
Other	15,696	12,258	160,163
	29,120	27,325	297,143
Valuation allowance	(8,830)	(4,074)	(90,102)
	20,290	23,251	207,041
Total gross deferred tax liabilities:			
Tax purpose reserves regulated by Japanese Tax Law	(48)	(53)	(490)
Net unrealized holding gains on securities	(489)	(1,623)	(4,990)
Prepaid pension benefit cost	(2,292)	(2,550)	(23,388)
Other	(395)	(1,731)	(4,030)
	(3,224)	(5,957)	(32,898)
Net deferred tax assets	¥17,066	¥17,294	$174,143

Net deferred tax assets as of March 31, 2009 and 2008 are reflected in the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Other current assets	¥ 8,567	¥11,649	$ 87,418
Other assets	8,658	5,720	88,347
Other current liabilities	(4)	—	(41)
Other liabilities	(155)	(75)	(1,581)
Net deferred tax assets	¥17,066	¥17,294	$174,143

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Land	¥ 19,397	¥ 20,933	$ 197,929
Buildings and structures	125,499	124,096	1,280,602
Machinery and equipment	384,649	385,621	3,924,990
Lease assets	2,389	—	24,377
Construction in progress	9,919	5,273	101,214
	¥541,853	¥535,923	$5,529,112

7. SHORT-TERM AND LONG-TERM DEBT

Long-term debt as of March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Unsecured debentures:			
4th series, due 2009, interest 2.3%	¥ 5,000	¥ 5,000	$ 51,020
7th series, due 2008, interest 2.21%	—	4,000	—
8th series, due 2016, interest 2.17%	10,000	10,000	102,041
Loans, principally from banks and insurance companies:			
Secured by mortgages on property, plant and equipment, maturing 2013, interest 1.89%	500	500	5,102
Unsecured, maturing 2009–2013, interest 1.45–1.76%	1,626	1,640	16,592
	17,126	21,140	174,755
Less current portion	(5,000)	(4,040)	(51,020)
	¥12,126	¥17,100	$123,735

The aggregate annual maturities of long-term debt after March 31, 2010 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 54	$ 551
2012	1,454	14,837
2013	54	551
2014	510	5,204
2017	10,000	102,041
	¥12,072	$123,184

The assets pledged as collateral for long-term debt at March 31, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 343	$ 3,500
Buildings	1,351	13,786
Machinery	3,437	35,071
Other	719	7,337
	¥5,850	$59,694

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against such obligations due the bank.

Generally, certain secured and unsecured loan agreements provide, among other things, that the lenders or trustees shall have the right to have any distribution of earnings, including the payment of dividends and the issuance of additional capital stock, submitted to them for prior approval and also grant them the right to request additional security or mortgages on property, plant and equipment.

8. LIABILITY FOR RETIREMENT AND SEVERANCE BENEFITS

Defined Benefit Plans

The Company and its domestic subsidiaries have a number of contributory and non-contributory pension plans to provide retirement and severance benefits to substantially all the employees.

Principal pension plans are unfunded defined benefit pension plans. Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause. The liability under these plans is partially funded by contributions to pension fund trusts.

Funding status of the Company's and subsidiaries' plans as of March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligations	¥(92,718)	¥(96,386)	$(946,102)
Plan assets at fair value	60,045	78,595	612,704
Funded status	(32,673)	(17,791)	(333,398)
Unrecognized actuarial loss	24,339	10,883	248,357
Unrecognized prior service benefit	(866)	(1,086)	(8,837)
Net amount recognized in the consolidated balance sheets	¥ (9,200)	¥ (7,994)	$ (93,878)
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension benefit cost	¥ 5,740	¥ 6,429	$ 58,571
Retirement and severance benefits	(14,940)	(14,423)	(152,449)
	¥ (9,200)	¥ (7,994)	$ (93,878)

Net periodic benefit costs for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2009, 2008 and 2007 consisted of the following components:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Service cost, net of employees' contributions	¥ 2,942	¥ 2,967	¥ 3,640	$ 30,020
Interest cost	2,350	2,323	2,651	23,980
Expected return on plan assets for the period	(1,230)	(1,504)	(1,906)	(12,551)
Amortization of unrecognized actuarial loss	1,837	608	905	18,745
Amortization of prior service benefit	(164)	(238)	(611)	(1,674)
Net periodic benefit cost	¥ 5,735	¥ 4,156	¥ 4,679	$ 58,520

Note: Besides retirement and severance benefits under the defined benefit pension plans above, special termination benefits of ¥238 million ($2,429 thousand), ¥352 million and ¥547 million were charged to earnings during the years ended March 31, 2009, 2008 and 2007, respectively.

Actuarial assumptions used in the accounting for the Company's and subsidiaries' plans are principally as follows:

	2009	2008
Discount rate	1.5~2.8%	2.5%
Expected return rate on plan assets	2.0%	2.0%

Defined Contribution Plans

The amount of cost recognized for the Company's and those subsidiaries' contribution to the plans for the years ended March 31, 2009 and 2008 was ¥960 million ($9,796 thousand) and ¥923 million, respectively.

9. COMMON STOCK

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	Issued shares	Amount	Amount
Balances as of March 31, 2006	207,358,608	¥15,367	
Issued upon exercise of stock options	67,000	54	
Balances as of March 31, 2007	207,425,608	15,421	
Issued upon exercise of stock options	27,000	22	
Balances as of March 31, 2008	207,452,608	15,443	$157,582
Issued upon exercise of stock options	14,900	11	112
Issued upon exchange of shares	897,405	—	—
Balances as of March 31, 2009	208,364,913	¥15,454	$157,694

10. STOCK-BASED COMPENSATION

As of March 31, 2009, the Company has two stock option plans. Under the Company's stock option plans, non-employee directors and executive officers have been granted stock options to purchase the Company's common stock. Under these stock option plans, options were granted at prices not less than market value at the date of grant and are exercisable from one year after the date of grant and expire five years after the date of grant.

A summary of activities of the Company's stock option plans for the years ended March 31, 2009, 2008 and 2007 is as follows:

	Stock options (shares)	Weighted-average exercise price	Stock options (shares)	Weighted-average exercise price	Stock options (shares)	Weighted-average exercise price	Weighted-average exercise price
	2009		2008		2007		2009
Outstanding at beginning of year	170,100	¥1,951	205,100	¥1,914	307,100	¥1,842	$19.53
Granted	—	—	—	—	—	—	—
Exercised	(14,900)	1,529	(27,000)	1,614	(67,000)	1,621	15,60
Forfeited	(66,200)	1,952	(8,000)	2,123	—	—	19,92
Expired	(1,000)	1,503	—	—	(35,000)	1,843	15.34
Outstanding at end of year	88,000	¥2,028	170,100	¥1,951	205,100	¥1,914	$20.69
Weighted-average information:							
Remaining contractual life		0.9 years		1.7 years		2.6 years	
Options exercisable at end of year		88,000 shares		170,100 shares		205,100 shares	

The exercise prices of the two outstanding stock options as of March 31, 2009 are ¥1,883 ($19.21) and ¥2,123 ($21.66).

11. NET ASSETS AND CASH DIVIDENDS

The Company's common stock has no par value in accordance with the Japanese Corporate Law (JCL). Under the JCL, at least 50% of the amount actually paid in or provided in consideration for newly issued stocks is designated as stated common stock and proceeds in excess of the amount designated as stated common stock are recorded as capital surplus.

The JCL requires an amount equal to at least 10% of distributions of retained earnings to be appropriated as legal reserve, which are included in capital surplus and retained earnings, until legal reserve equals 25% of stated common stock. In addition, common stock, capital surplus and retained earnings, including legal reserves, can generally be transferred to each other upon resolution of the shareholders' meeting.

Cash dividends during the years ended March 31, 2009, 2008 and 2007 in the consolidated statements of changes in net assets, represent dividends resolved during those years. The accompanying consolidated financial statements do not include any provision for the dividends of ¥15 ($0.15) per share totaling ¥3,124 million ($31,878 thousand), which were subsequently resolved by the Board of Directors in respect of the year ended March 31, 2009.

12. TREASURY STOCK

The Japanese Corporate Law (JCL) allows a company to acquire treasury stocks upon shareholders' approval to the extent that sufficient distributable funds are available. Effective September 25, 2003, the Japanese Commercial Code (JCC), the former Japanese corporate law, was amended to no longer require shareholders' approval but Board of Directors' approval to the extent that the Board of Directors' authority was stated in the articles of incorporation. In this connection, the related amendment of the Articles of Incorporation was approved at the ordinary general shareholders' meeting in June 2004.

Pursuant to the provisions of the JCL, shareholders may request the Company to acquire their shares below a minimum trading lot (100 shares) as shares below a minimum trading lot cannot be publicly traded and do not carry a voting right. The JCL also provides for that a shareholder holding shares less than a minimum trading lot is entitled to request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot, provided that sale of treasury stock is allowed under the Articles of Incorporation. In this connection, the related amendment of the Articles of Incorporation was approved at the ordinary general shareholders' meeting in June 2003.

The changes in treasury stock for the years ended March 31, 2009, 2008 and 2007 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	Shares	Amount	Amount
Balances as of March 31, 2006	51,072	¥ 82	
Acquisition for treasury	8,222	25	
Sales of treasury stock	(243)	(1)	
Balances as of March 31, 2007	59,051	106	
Acquisition for treasury	6,343	16	
Sales of treasury stock	(629)	(1)	
Balances as of March 31, 2008	64,765	121	$1,235
Acquisition for treasury	12,210	21	214
Sales of treasury stock	(1,994)	(4)	(41)
Balances as of March 31, 2009	74,981	¥138	$1,408

13. COMMITMENTS AND CONTINGENCIES

Outstanding commitments for the purchase of property, plant and equipment were ¥3,090 million ($31,531 thousand) and ¥3,712 million at March 31, 2009 and 2008.

Contingent liabilities for guarantees given in respect of bank loans of employees amounted to ¥191 million ($1,949 thousand) and ¥231 million at March 31, 2009 and 2008.

Notes receivable discounted amounted to ¥6 million at March 31, 2008.

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to transfer them by endorsement to suppliers in the settlement of accounts payable. The Company and its subsidiaries are contingently liable for trade notes endorsed, which amounted to ¥879 million ($8,969 thousand) and ¥1,080 million at March 31, 2009 and 2008, respectively.

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in general and administrative expenses and gross production cost for the years ended March 31, 2009, 2008 and 2007 amounted to ¥27,617 million ($281,806 thousand), ¥28,166 million and ¥27,835 million, respectively.

15. IMPAIRMENT LOSSES FOR FIXED ASSETS

For the year ended March 31, 2009, a certain domestic consolidated subsidiary recognized impairment losses for fixed assets as follows:

Location	Use	Type
Mouka-shi, Tochigi Prefecture	Production facilities and other	Buildings, machinery and equipment, and other
Miharu-machi, Fukushima Prefecture	Production facilities and other	Buildings, machinery and equipment, and other

Production facilities and other assets for which value declined were devalued from the carrying amount to the recoverable amount by ¥3,138 million ($32,020 thousand), which was recorded as impairment losses in other expenses.

The domestic consolidated subsidiary determines recoverable amount by measuring net selling price or value in use. Net selling price for the measurement of recoverable amount is based on the assessed value of fixed assets. Value in use for the measurement of recoverable amount is based on the present value of the future cash flow with the discount rate of 3.5%.

16. PER SHARE INFORMATION

The reconciliation of the number of shares and the amounts used in the basic and diluted net income per share computations is as follows:

	Thousands of shares		
	2009	2008	2007
Weighted average number of shares on which basic net income per share is calculated	208,291	207,381	207,350
Effect of dilutive securities:			
Stock option, issued under the former Japanese corporate law	2	36	90
Number of shares on which diluted net income per share is calculated	208,293	207,417	207,440

Net assets per share as of March 31, 2009 and 2008 are as follows:

	Yen		U.S. dollars
	2009	2008	**2009**
Basic	¥1,203.92	¥1,251.66	$12.28

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Net income	¥2,740	¥31,438	¥32,766	$27,959
Net income not applicable to common stockholders:				
Appropriations for directors' bonuses	—	—	—	—
Net income on which basic net income per share is calculated	2,740	31,438	32,766	27,959
Effect of dilutive securities	—	—	—	—
Net income on which diluted net income per share is calculated	¥2,740	¥31,438	¥32,766	$27,959

	Yen			U.S. dollars
	2009	2008	2007	**2009**
Net income per share:				
Basic	¥13.15	¥151.60	¥158.02	$0.13
Diluted	13.15	151.57	157.95	0.13

17. SUPPLEMENTARY CASH FLOW INFORMATION

Cash paid for interest and income taxes is as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Cash paid during the year for:				
Interest	¥ 1,041	¥ 1,243	¥ 1,182	$ 10,622
Income taxes	19,897	23,785	20,605	203,031

18. FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain subsidiaries operate globally and are exposed to market risks arising from fluctuations in foreign currency exchange rates, interest rates and commodity prices. In order to manage those risks, the Company and certain subsidiaries enter into various agreements on derivative financial instruments, including forward exchange contracts, currency option contracts, interest rate option contracts, interest rate swap agreements and commodity swap agreements. Forward exchange contracts are utilized to manage risks arising from foreign currency receivables from export of finished goods; foreign currency payables from the import of raw materials; and forecasted foreign currency sales and purchase transactions. Currency option contracts, interest rate option contracts and interest rate swap agreements are utilized to manage foreign currency risk and interest rate risk for debts. Commodity swap agreements are utilized to manage the commodity price fluctuation risk on purchased raw material (lead). The Company and its subsidiaries have no derivative financial instruments for trading purposes. In addition, the Company and its subsidiaries are exposed to potential credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The Company and its subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on these policies, the Company and its subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates, interest rates and commodity prices. The Company and its subsidiaries review periodically the effectiveness of all the hedge policies to take account of the cumulative cash flows and any changes in the market.

The estimated fair values of the derivative financial instruments, excluding certain interest rate swap agreements and commodity swap agreements that are accounted for using deferral hedge accounting, by major instrument types as of March 31, 2009 and 2008 are as follows:

	Millions of yen					
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2009			2008		
Currency option transactions:						
To sell foreign currencies	¥ 282	¥ (17)	¥ (12)	¥ 2,517	¥ (21)	¥ 10
To buy foreign currencies	141	2	(3)	1,258	70	34
Forward exchange contracts:						
To sell foreign currencies	5,938	6,330	(392)	5,729	5,412	317
To buy foreign currencies	1,259	1,306	47	941	888	(53)
	¥7,620	¥7,621	¥(360)	¥10,445	¥6,349	¥308

	Thousands of U.S. dollars		
	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2009		
Currency option transactions:			
To sell foreign currencies	$ 2,877	$ (174)	$ (122)
To buy foreign currencies	1,439	20	(31)
Forward exchange contracts:			
To sell foreign currencies	60,592	64,592	(4,000)
To buy foreign currencies	12,847	13,327	480
	$77,755	$77,765	$(3,673)

The fair values of derivative financial instruments were estimated on the basis of information obtained from third party financial institutions. The fair values of currency-related transactions are estimated using forward exchange rates.

	Millions of yen					
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2009			2008		
Interest rate option transactions:						
To sell foreign currencies	¥400	¥(5)	¥(5)	¥400	¥(5)	¥(5)
	¥400	¥(5)	¥(5)	¥400	¥(5)	¥(5)

	Thousands of U.S. dollars		
	Notional amounts	Estimated fair values	Unrealized gains (losses)
	2009		
Interest rate option transactions:			
To sell foreign currencies	$4,082	$(51)	$(51)
	$4,082	$(51)	$(51)

The fair values of derivative financial instruments were estimated on the basis of information obtained from third party financial institutions.

19. LEASES

Lessee

Future minimum lease payments under non-cancelable operating lease arrangements as of March 31, 2009 are ¥129 million ($1,316 thousand) due within one year and ¥519 million ($5,296 thousand) due after one year.

Finance leases (without transfer of legal title) that commenced before the year ended March 31, 2008 are mainly accounted for as operating leases. For the years ended March 31, 2009, 2008 and 2007, lease payments of ¥292 million ($2,980 thousand), ¥387 million and ¥469 million, respectively, under such finance leases were included in earnings. On a pro forma basis, leased property, lease obligation and the related expenses, with assumed capitalization of such finance leases are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Leased property:				
Equipment and other, at cost	¥ 861	¥ 991	¥1,959	$ 8,786
Less accumulated depreciation (Note a)	(587)	(500)	(863)	(5,990)
Net equipment and other	¥ 274	¥ 491	¥1,096	$ 2,796
Depreciation expense (Note a)	¥ 237	¥ 376	¥ 454	$ 2,418
Lease obligation:				
Within one year	¥ 168	¥ 231	¥ 450	$ 1,714
After one year	110	265	659	1,123
Total	¥ 278	¥ 496	¥1,109	$ 2,837
Interest expense (Note b)	¥ 5	¥ 12	¥ 19	$ 51

Notes: a. Leased property is depreciated over the lease term by the straight-line method with no residual value.
b. Excess of total lease payments over the assumed acquisition costs is regarded as assumed interest payable and is allocated to each period using the interest method.

Lessor

Future minimum lease income under non-cancelable operating lease arrangements as of March 31, 2009 is ¥8 million ($82 thousand) due within one year and ¥14 million ($143 thousand) due after one year.

Effective the year ended March 31, 2009, finance leases (without transfer of legal title) are accounted for as finance leases. Leased property, future lease income, and the related depreciation expense and lease income which were included in earnings under such finance leases are as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Leased property:				
Equipment and other, at cost	¥—	¥1,758	¥ 360	$—
Less accumulated depreciation	—	(959)	(210)	—
Net equipment and other	¥—	¥ 799	¥ 150	$—
Depreciation expense	¥—	¥ 338	¥ 78	$—
Future lease income, exclusive of interest portion:				
Within one year	¥—	¥ 509	¥ 65	$—
After one year	—	298	88	—
Total	¥—	¥ 807	¥ 153	$—
Lease income, inclusive of interest portion	¥—	¥ 346	¥ 81	$—
Thereof interest portion (Note)	—	6	3	—

Note: Interest portion is allocated to each period using the interest method.

20. TRANSACTIONS INVOLVING ENTITIES UNDER COMMON CONTROL

The Company conducted a tender offer for the stock of Hitachi Powdered Metals Co., Ltd., a company involved in the manufacture and marketing of powdered metals and chemical products, from December 27, 2007 through February 12, 2008 and purchased all of the 12,595,017 shares subscribed to the tender offer. As a result, the Company acquired 92.7 percent of the voting rights of Hitachi Powdered Metals Co., Ltd. (percentage of total stockholder voting rights as of March 31, 2008).

The Company conducted this transaction to make Hitachi Powdered Metals Co., Ltd. a wholly owned subsidiary of the Company. This will enable both companies to do more advanced business with their customers by improving their technical capabilities and by making their operations more efficient as they manage their resources in the field of automotive parts and carbon products in close coordination. Furthermore, this will result in enhancing each company's value through cultivation of a new market.

In conjunction with the acquisition, minority interests were reduced by the amount of the additional interest at the date of acquisition. The difference between the purchase price and the additional interest was accounted for as goodwill. The actual negative goodwill is amortized using the straight-line method over three years.

The acquisition costs were as follows:

Cost of stock acquired:	¥9,114 million
Cost of common shares acquired:	¥8,879 million
Direct acquisition expenses:	¥235 million
Negative goodwill:	¥1,542 million

21. SEGMENT INFORMATION

The Company and its subsidiaries' business segments are classified as Electronics Related Products and Advanced Performance Products, and the main products of each business segment are provided on page 12 of this annual report.

The Housing Equipment and Environmental Facilities segment was removed from the scope of consolidation in October 2007.

Business Segment Information:

	Electronics Related Products	Advanced Performance Products	Total	Eliminations	Consolidated
	Millions of yen				
	2009				
Sales to outside customers	¥250,849	¥237,789	¥488,638	¥ —	¥488,638
Intersegment sales	1,088	1,475	2,563	(2,563)	—
	251,937	239,264	491,201	(2,563)	488,638
Operating expenses	234,725	236,348	471,073	(2,373)	468,700
Operating income	¥ 17,212	¥ 2,916	¥ 20,128	¥ (190)	¥ 19,938
Assets	¥206,313	¥185,433	¥391,746	¥ (396)	¥391,350
Depreciation and amortization of tangible and intangible fixed assets	17,329	17,231	34,560	—	34,560
Impairment losses for fixed assets	3,138	—	3,138	—	3,138
Capital expenditures	17,581	18,391	35,972	—	35,972

	Electronics Related Products	Advanced Performance Products	Housing Equipment and Environmental Facilities	Total	Eliminations	Consolidated
	Millions of yen					
	2008					
Sales to outside customers	¥312,755	¥278,080	¥36,094	¥626,929	¥ —	¥626,929
Intersegment sales	1,422	1,814	89	3,325	(3,325)	—
	314,177	279,894	36,183	630,254	(3,325)	626,929
Operating expenses	268,507	264,335	37,020	569,862	(3,426)	566,436
Operating income (loss)	¥ 45,670	¥ 15,559	¥ (837)	¥ 60,392	¥ 101	¥ 60,493
Assets	¥237,467	¥221,654	¥ —	¥459,121	¥ (380)	¥458,741
Depreciation and amortization of tangible and intangible fixed assets	15,848	15,966	1,052	32,866	—	32,866
Capital expenditures	19,060	17,620	703	37,383	—	37,383

	Electronics Related Products	Advanced Performance Products	Housing Equipment and Environmental Facilities	Total	Eliminations	Consolidated
	Millions of yen					
	2007					
Sales to outside customers	¥293,575	¥250,821	¥84,409	¥628,805	¥ —	¥628,805
Intersegment sales	1,115	688	336	2,139	(2,139)	—
	294,690	251,509	84,745	630,944	(2,139)	628,805
Operating expenses	253,820	236,512	84,800	575,132	(2,077)	573,055
Operating income (loss)	¥ 40,870	¥ 14,997	¥ (55)	¥ 55,812	¥ (62)	¥ 55,750
Assets	¥227,840	¥204,323	¥40,186	¥472,349	¥(1,485)	¥470,864
Depreciation and amortization of tangible and intangible fixed assets	12,144	13,674	2,259	28,077	—	28,077
Capital expenditures	16,915	19,110	1,636	37,661	—	37,661

	Electronics Related Products	Advanced Performance Products	Total	Eliminations	Consolidated
	Thousands of U.S. dollars				
	2009				
Sales to outside customers	$2,559,684	$2,426,418	$4,986,102	$ —	$4,986,102
Intersegment sales	11,102	15,051	26,153	(26,153)	—
	2,570,786	2,411,469	5,012,255	(26,153)	4,986,102
Operating expenses	2,395,153	2,411,714	4,806,867	(24,214)	4,782,653
Operating income	$ 175,633	$ 29,755	$ 205,388	$ (1,939)	$ 203,449
Assets	$2,105,235	$1,892,173	$3,997,408	$ (4,041)	$3,993,367
Depreciation and amortization of tangible and intangible fixed assets	176,826	175,827	352,653	—	352,653
Impairment losses for fixed assets	32,020	—	32,020	—	32,020
Capital expenditures	179,398	187,663	367,061	—	367,061

Geographic Segment Information:

	Japan	Asia	Other areas	Total	Eliminations	Consolidated
	Millions of yen					
	2009					
Sales to outside customers	¥344,350	¥117,310	¥26,978	¥488,638	¥ —	¥488,638
Intersegment sales	64,529	8,848	1,663	75,040	(75,040)	—
	408,879	126,158	28,641	563,678	(75,040)	488,638
Operating expenses	394,066	122,007	28,460	544,533	(75,833)	468,700
Operating income	¥ 14,813	¥ 4,151	¥ 181	¥ 19,145	¥ 793	¥ 19,938
Assets	¥314,435	¥ 74,066	¥17,691	¥406,192	¥(14,842)	¥391,350

	Japan	Asia	Other areas	Total	Eliminations	Consolidated
	Millions of yen					
	2008					
Sales to outside customers	¥454,684	¥140,392	¥31,853	¥626,929	¥ —	¥626,929
Intersegment sales	79,175	12,836	1,848	93,859	(93,859)	—
	533,859	153,228	33,701	720,788	(93,859)	626,929
Operating expenses	482,953	144,469	32,842	660,264	(93,828)	566,436
Operating income	¥ 50,906	¥ 8,759	¥ 859	¥ 60,524	¥ (31)	¥ 60,493
Assets	¥373,634	¥ 91,283	¥19,013	¥483,930	¥(25,189)	¥458,741

	Japan	Asia	Other areas	Total	Eliminations	Consolidated
	Millions of yen					
	2007					
Sales to outside customers	¥482,291	¥117,924	¥28,590	¥628,805	¥ —	¥628,805
Intersegment sales	68,219	12,600	2,093	82,912	(82,912)	—
	550,510	130,524	30,683	711,717	(82,912)	628,805
Operating expenses	500,642	124,978	29,969	655,589	(82,534)	573,055
Operating income	¥ 49,868	¥ 5,546	¥ 714	¥ 56,128	¥ (378)	¥ 55,750
Assets	¥383,227	¥ 90,477	¥20,415	¥494,119	¥(23,255)	¥470,864

	Japan	Asia	Other areas	Total	Eliminations	Consolidated
	Thousands of U.S. dollars					
	2009					
Sales to outside customers	$3,513,775	$1,197,041	$275,286	$4,986,102	$ —	$4,986,102
Intersegment sales	658,460	90,286	16,969	765,715	(765,715)	—
	4,172,235	1,287,327	292,255	5,751,817	(765,715)	4,986,102
Operating expenses	4,021,082	1,244,969	290,408	5,556,459	(773,806)	4,782,653
Operating income	$ 151,153	$ 42,358	$ 1,847	$ 195,358	$ 8,091	$ 203,449
Assets	$3,208,520	$ 755,776	$180,520	$4,144,816	$(151,449)	$3,993,367

Overseas Sales:

Overseas sales, which include export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the foreign consolidated subsidiaries, are summarized as follows:

	Millions of yen						Thousands of U.S. dollars
	Amount	Percentage of consolidated net sales	Amount	Percentage of consolidated net sales	Amount	Percentage of consolidated net sales	Amount
	2009		2008		2007		**2009**
Overseas sales:							
Asia	¥159,415	32.6%	¥193,261	30.8%	¥162,931	25.9%	$1,626,684
Other areas	36,075	7.4	46,007	7.4	44,516	7.1	368,112
	¥195,490	40.0%	¥239,268	38.2%	¥207,447	33.0%	$1,994,796
Consolidated net sales	¥488,638	100.0%	¥626,929	100.0%	¥628,805	100.0%	$4,986,102

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Report of Independent Auditors

The Board of Directors
Hitachi Chemical Co., Ltd.

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

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

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

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

Ernst & Young ShinNihon LLC.

June 19, 2009

Major Subsidiaries and Affiliates

As of March 31, 2009

Japan

Manufacturing

Shin-Kobe Electric Machinery Co., Ltd.
Manufacturing and marketing of batteries and plastic products

Hitachi Powdered Metals Co., Ltd.
Manufacturing and marketing of powdered metal products

Hitachi AIC Inc.
Manufacturing of printed wiring boards, manufacturing and marketing of capacitors

Japan Brake Industrial Co., Ltd.
Manufacturing and marketing of friction materials

Hitachi Chemical Automotive Products Co., Ltd.
Manufacturing of plastic interior/exterior automotive parts

Hitachi Kasei Polymer Co., Ltd.
Manufacturing and marketing of adhesives and synthetic resin products

Namie Hitachi Chemical Co., Ltd.
Manufacturing of carbon products

Hitachi Chemical Filtec Inc.
Manufacturing and marketing of food-wrapping films

Hitachi Chemical Industrial Materials Co., Ltd.
Manufacturing and marketing of road sign materials and molded synthetic resin products

Hitachi Chemical Coated Sand Co., Ltd.
Manufacturing and marketing of coated sands

Installation, Trading, Design and Service

Hitachi Kasei Shoji Co., Ltd.
Marketing of electronics related products, advanced performance products, and other products

Nikka Equipment & Engineering Co., Ltd.
Design and manufacturing of facilities and machinery

Hitachi Kasei Business Service Co., Ltd.
Leasing of personal computers and other office equipment, outsourcing of patent application-related businesses

Hitachi Chemical Techno Service Co., Ltd.
Outsourcing of distribution, testing, and other business services

Hitachi Battery Sales & Service Co., Ltd.
Marketing and service of batteries and electric equipment

Asia & Oceania

Manufacturing

Hitachi Chemical (Johor) Sdn. Bhd.
Manufacturing and marketing of photosensitive dry films for printed wiring boards and electrical insulating varnishes

Hitachi Chemical (Dongguan) Co., Ltd.
Manufacturing and marketing of photosensitive dry films for printed wiring boards and electrical insulating varnishes

Hitachi Chemical (Singapore) Pte. Ltd.
Manufacturing and marketing of printed wiring boards

Hitachi Chemical (Suzhou) Co., Ltd.
Manufacturing and marketing of epoxy molding compounds for semiconductor devices and photosensitive dry films for printed wiring boards

Hitachi Chemical Co., (Taiwan) Ltd.
Manufacturing and marketing of printed wiring boards, slitting operation and marketing of photosensitive dry films for printed wiring boards

Hitachi Chemical Automotive Products (Thailand) Company Limited
Manufacturing and marketing of plastic interior/exterior automotive parts

Hitachi Chemical (Malaysia) Sdn. Bhd.
Manufacturing and marketing of epoxy molding compounds and die bonding materials for semiconductor devices

Hitachi Chemical (Yantai) Co., Ltd.
Slitting operation and marketing of photosensitive dry films for printed wiring boards

Bioclone Australia Pty Limited
Manufacturing and marketing of diagnostic reagents

Hitachi Chemical Electronic Materials (Korea) Co., Ltd.
Slitting operation and marketing of photosensitive dry films for printed wiring boards

Hitachi Battery (Dongguan) Co., Ltd.
Manufacturing and marketing of batteries, electric equipment and plastic products

Hitachi Powdered Metals (Dongguan) Co., Ltd.
Manufacturing and marketing of powdered metal products

Foshan J.B. Automotive Products Co., Ltd.
Manufacturing and marketing of friction materials

Hitachi Powdered Metals (Singapore) Pte. Limited
Manufacturing and marketing of powdered metal products

Xinyi Rihong Plastic Chemical Co., Ltd.
Manufacturing and marketing of rosin derivatives

Hitachi Chemical (Shanghai) Co., Ltd.
Slitting operation and marketing of anisotropic conductive films for displays, marketing of other electronics related products

Japan Brake (Thailand) Co., Ltd.
Manufacturing and marketing of friction materials

Sales and Service

Hitachi Chemical Co. (Hong Kong) Limited
Marketing of electronics related products and advanced performance products

Hitachi Chemical Asia-Pacific Pte. Ltd.
Marketing of electronics related products and advanced performance products

Hitachi Chemical International Co., (Taiwan) Ltd.
Marketing of electronics related products and advanced performance products

Siam HPM Co., Ltd.
Marketing of powdered metal products

America & Europe

Manufacturing

Hitachi Chemical Diagnostics, Inc.
Manufacturing and marketing of diagnostic reagents

Tri-Continent Scientific, Inc.
Manufacturing and marketing of OEM liquid-handling products and instrument components

Hitachi Chemical Mexico S.A. de C.V.
Manufacturing and marketing of friction materials

Sintering Technologies, Inc.
Manufacturing and marketing of powdered metal products

Research

Hitachi Chemical Research Center, Inc.
R&D in biotechnology

Sales and Service

Hitachi Chemical Company America, Ltd.
Marketing of electronics related products and advanced performance products

Hitachi Chemical Europe GmbH
Marketing of electronics related products and advanced performance products

Investor Information

As of March 31, 2009

Hitachi Chemical Co., Ltd.

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Tokyo 163-0449, Japan
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Fax: 81-3-3346-2977

Established
October 10, 1962

Paid-in Capital
¥15,454 million

Number of Employees
3,975

Common Stock
Authorized: 800,000,000 shares
Issued: 208,364,913 shares

Number of Shareholders
19,409

Annual General Shareholders' Meeting
June

Stock Exchange Listings
Tokyo, Osaka (Ticker Symbol Number: 4217)

Independent Auditor
Ernst & Young ShinNihon LLC

Transfer Agent and Registrar
Tokyo Securities Transfer Agent Co., Ltd.
Nihon Building, Fourth Floor 6-2, Otemachi 2-chome Chiyoda-ku,
Tokyo 100-0004, Japan

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Corporate Secretary's Office, Public and Investor Relations Group
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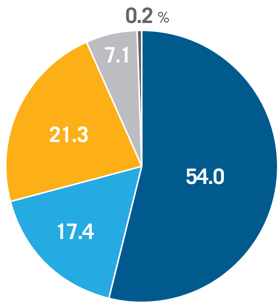
Tokyo 163-0449, Japan
Phone: 81-3-5381-2370
Fax: 81-3-5381-3023

URL
http://www.hitachi-chem.co.jp/english/

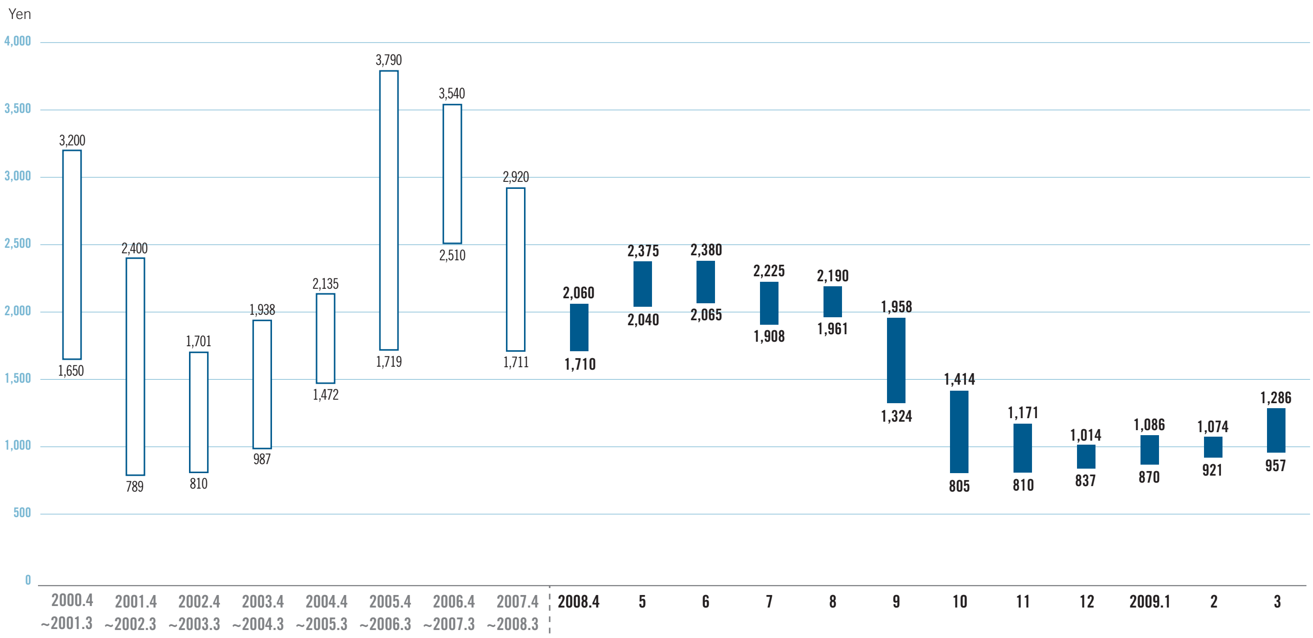
Composition of Shareholders

- Other domestic corporations **112,410,016** shares
- Foreign corporations **36,277,033** shares
- Financial institutions **44,317,192** shares
- Individuals and others **14,882,390** shares
- Securities companies **403,301** shares



Note: Excludes treasury stock

Stock Price Range (Tokyo Stock Exchange)



Hitachi Chemical Co., Ltd.

Corporate Secretary's Office
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