

Analysis of the Business Results

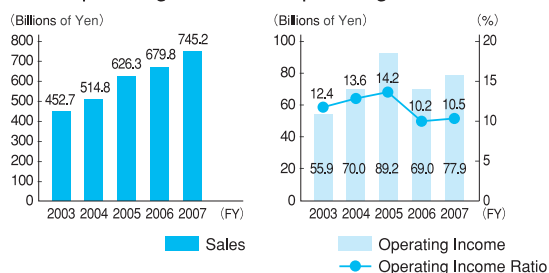
1. Summary of Overall Business

This business year, corporate earnings weakened in Japan due to the yen's sharp appreciation and price hikes of oil and raw materials, while consumer spending remained almost unchanged. Affected by the subprime mortgage problem, the US economy slowed, which made the pace of economic recovery in Europe more moderate than before. Meanwhile, in Asia, particularly China, the economy continued to expand.

Under this economic situation, the Group increased sales of LCD (liquid crystal display) related materials, circuit materials and industrial materials to the FPD (flat panel display) industry and the electronic device industry, especially for HDDs (hard disk drives) and mobile phones. Sales of high-polymer separation membranes for water related environment were also favorable. As for transdermal drug delivery patches, sales were sluggish as new products were not approved as a medicine in the US. In this business year, the Group reorganized and integrated its sales function to cope with the increasing globalization of markets.

As a result, consolidated net sales increased 9.6% from the previous year (changes in percentage hereafter are in comparison to the previous year) to 745,259 million yen. Operating income rose 12.9% to 77,954 million yen, and ordinary income grew 10.6% to 74,468 million yen. Net income went up 13.2% to 46,634 million yen.

Sales, Operating Income & Operating Income Ratio



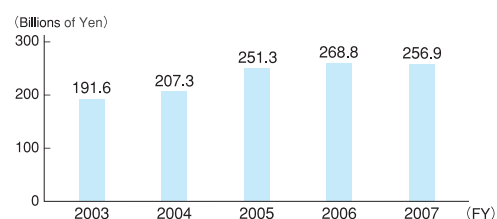
2. Summary by Business Segment

Industrial Products

Sales of bonding and joining products for use in portable electronics (such as music players and game machines), HDD-related components, home appliances and personal computers remained strong particularly in East Asia. With regard to surface protection products, sales of surface protection film for the FPD industry were favorable amid rising demand, while sales of automobile paint protection film and metal sheet protection film stayed flat. Sealing products sold well for peripheral components for appliances such as flat TVs and game gadgets and automobile components, while sales for cell phones were affected by production adjustments by customers. With regard to construction materials, sales were sluggish in Japan affected by the enforcement of the revised Building Standards Law, but sales of masking tapes for construction applications were robust in the overseas market. As for custom processing materials and purchased goods, overall sales decreased owing to a decline in handling of procurement products.

As a result, sales from the industrial products segment decreased by 4.5% to 256,910 million yen, and operating income decreased by 0.3% to 27,921 million yen.

Industrial Products



Electronic Products

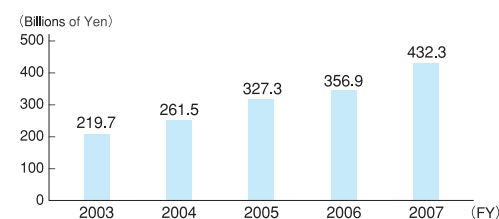
With regard to the business of LCD-related materials, as the markets for LCD TVs, cell phones and touch panels expanded, the Company put its efforts and resources



into the fields, in which it has strength, such as polarizing plates with compensator for large-size panels and transparent conductive films for touch panels. Thanks to these efforts, this business continued to be steady. Sales of semiconductor-related materials rose only slightly in general due to price hikes of materials and an exchange rate fluctuation (in this case, the yen's appreciation), despite favorable sales of environmentally friendly resin and resin for advanced device. Overall sales of circuit materials were robust backed by strong sales for the storage industry, mainly for HDDs, despite weak sales of such materials for use in cell phones. As for electronic processing materials, sales of taping system for semiconductor manufacturing processes slowed affected by market adjustments in the latter half of the business year, while sales of water-protection adhesive tape for semiconductor manufacturing processes and adhesive tapes for semiconductor packaging were healthy, as well as sales of processing materials for small electronic components were strong in the field of digital home appliances.

As a result, sales for the electronic products segment rose by 21.1% to 432,332 million yen, and operating income rose by 29.9% to 40,852 million yen.

Electronic Products



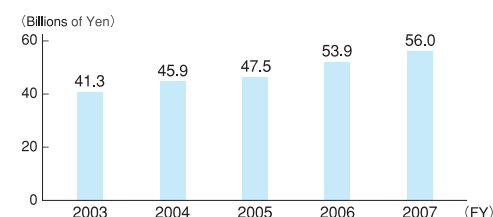
Functional Products

In medical-related products, sales were generally weak. In the background are: customers' refraining from buying transdermal therapeutic patches influenced by the revision of drug prices; competitors' launch of generic bronchodilator patches (for treatment of asthma); and the fact that in the US, new products (anti-hypertension drugs and cancer pain palliatives) were

not approved as medicines within fiscal 2007. Sales of high-polymer separation membranes, particularly those for sea water desalination, were steady in Europe, the Middle East and emerging countries, due to the effects of an increase in production capacity and launch of new products. As for engineering plastic materials, overall sales were flat, although sales of functional materials for OA and information equipment and porous film materials for the automobile parts, electronic parts and home appliances were favorable.

As a result, sales in the functional products segment increased by 3.7% to 56,016 million yen, and operating income decreased by 4.1% to 9,180 million yen.

Functional Products



3. Summary by Geographic Area

In Japan, depreciation and amortization costs due to capital investment increased in tandem with the progression of transfers of high value-added products to overseas countries. In Asia and the Oceania region, sales of LCD-related products and industrial materials to be used in household appliances and electronic and information equipment such as LCD TVs, PCs and OA equipment were strong. There were particular increases in the sale of industrial materials made to conform to decreasing thickness and functional enhancement of electronic and information equipment.

As a result, sales in Japan were recorded at 256,288 million yen (down 4.5%) and operating income at

44,969 million yen (down 14.4%). Asia and the Oceania region saw strong sales of industrial materials for components related to LCD TV panels thanks to a surge in production in South Korea and Taiwan in addition to increases in LCD-related products. Also, because of robust sales of printed circuits for HDDs, sales were 414,743 million yen (up 20.1%) with operating income at 27,614 million yen (up 123.0%).

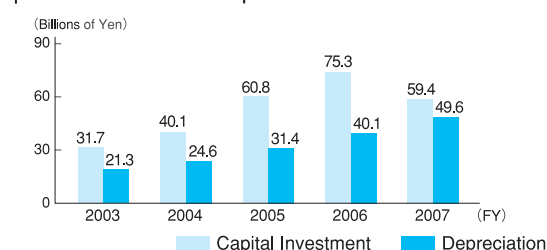
In Europe, sales of industrial materials for the automotive industry and cellular phone related applications showed steady growth resulting in sales of 29,172 million yen (up 22.6%) and operating income of 2,178 million yen (up 37.2%).

In North America, as part of efforts to improve our automotive industry related business, our product lineup was revised and some products were transferred to production bases in Mexico. The high-polymer separation membranes business was strong in Europe and the Middle East, especially in the area of reverse osmosis membranes for seawater desalination. As a result, sales were recorded at 45,054 million yen (up 6.4%) and operating income was 338 million yen (a restoration to profitability due to an increase of 1,001 million yen from the previous fiscal year).

4. Capital Investment

The Group invested a total of 59,406 million yen in plant and equipment during the business year under review. Of this total, 38,775 million yen was invested on a non-consolidated basis in production facilities for LCD-related materials at the Onomichi Plant, facilities for joining materials and surface protection materials at the Toyohashi Plant, and environment-related facilities for high-polymer separation membranes at the Shiga Plant. For group companies, a total of 20,631 million yen was invested in new factories and production facilities for LCD-related materials and facilities for industrial materials in China, Taiwan and South Korea.

Capital Investment & Depreciation



5. Financial Condition

Cash and cash equivalents (hereinafter, "Cash") were 79,238 million yen at the end of the fiscal year, an increase of 4,686 million yen compared with the end of fiscal 2006. The main factors for changes by each cash flow activity were as follows.

Cash Flows from Operating Activities

Cash increased to 101,595 million yen as a result of operating activities.

The main factors for this increase include income before provision for income taxes, 69,090 million yen, depreciation and amortization, 49,617 million yen, and trade notes and accounts payable, 5,495 million yen. On the other hand, the main uses of cash during the period include increased amounts of inventories, 4,465 million yen, and payment of income taxes, 20,799 million yen.

Cash Flows from Investing Activities

Cash decreased to 61,468 million yen as a result of investing activities.

This was mainly attributable to the result of acquisition of fixed assets, 66,850 million yen.

Cash Flows from Financing Activities

Cash decreased to 27,648 million yen as a result of financing activities.