

Financial Section

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Consolidated Six-Year Summary

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2002	2007
Net sales	¥ 385,285	¥ 375,073	¥ 354,874	¥ 332,149	¥ 322,524	¥ 305,862	\$ 3,265,127
Cost of sales	275,886	266,284	254,115	236,246	230,618	228,184	2,338,017
Selling, general and administrative expenses	69,179	70,512	67,572	67,857	66,720	58,720	586,263
Operating income	40,220	38,277	33,187	28,046	25,186	18,958	340,847
Net income	22,412	21,186	18,465	15,181	8,051	2,866	189,932
Capital expenditure	37,700	33,872	45,715	32,164	19,091	50,716	319,492
Depreciation and amortization	25,496	25,186	21,324	20,785	19,108	16,056	216,068
Gross cash flow	47,908	46,372	39,789	35,966	27,159	18,922	406,000
Total research and development expenses	13,021	14,069	13,874	13,684	12,523	12,131	110,347
Total assets	508,695	481,357	454,941	413,227	426,877	487,432	4,310,975
Total current assets	217,970	200,668	182,317	171,428	185,748	198,474	1,847,203
Property, plant and equipment, net	174,152	159,396	158,294	137,867	135,985	134,907	1,475,864
Total current liabilities	94,404	79,229	84,857	75,165	97,394	122,274	800,034
Total long-term liabilities	55,698	60,647	54,901	37,689	42,156	74,460	472,017
Total shareholders' equity (Note 4)	—	339,127	312,930	300,306	287,263	290,643	—
Total net assets (Note 4)	358,593	—	—	—	—	—	3,038,924

Amounts per share:	Yen						U.S. dollars (Note 1)
Net income:							
Primary	¥ 60.95	¥ 57.51	¥ 50.13	¥ 40.81	¥ 21.01	¥ 7.49	\$ 0.52
Fully diluted	60.80	57.41	50.12	—	20.71	7.45	0.52
Cash dividends applicable to period	18.50	15.00	12.00	10.00	9.00	9.00	0.16
Total shareholders' equity	967.81	922.65	852.26	817.57	771.38	759.25	8.20
Financial ratios:							
Cost of sales ratio (%)	71.6%	71.0%	71.6%	71.1%	71.5%	74.6%	
Equity ratio (%)	70.0	70.5	68.8	72.7	67.3	59.6	
Return on equity (ROE) (%)	6.5	6.5	6.0	5.2	2.8	1.0	
Return on assets (ROA) (%)	8.1	8.2	7.6	6.7	5.5	3.8	
Number of employees	6,812	6,842	6,919	6,760	6,983	7,115	

- Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥118=\$1.
2. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
3. Since the year ended March 31, 2003, the "Amounts per share" figures have been calculated in accordance with the Japanese Financial Accounting Standard "Accounting for Earnings per Share".
4. Since the year ended March 31, 2007, the balance sheet is divided into sections on assets, liabilities, and net assets in accordance with Accounting Standards Board of Japan "Accounting Standard for Presentation of Net Assets in the Balance sheet" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet".

Financial Review

The following section refers to the consolidated financial statements of the Kuraray Group for fiscal 2006 (April 1, 2006 to March 31, 2007).

SALES

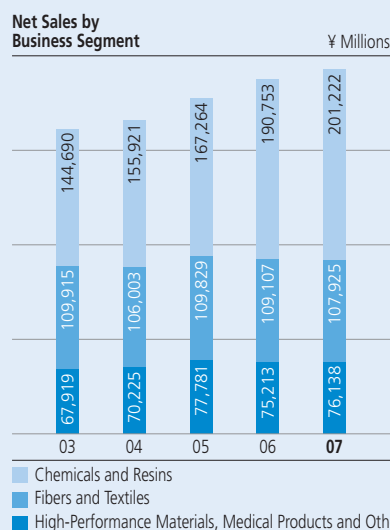
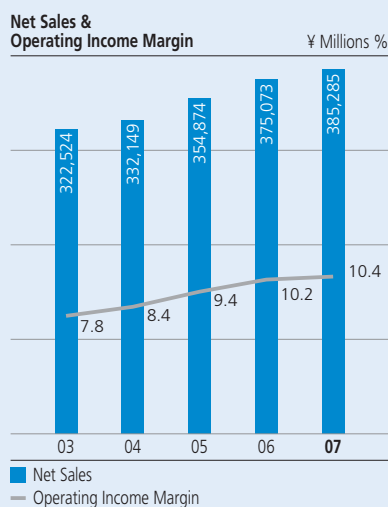
Consolidated net sales increased 2.7%, or ¥10,212 million, to ¥385,285 million (US\$3,265,127 thousand) for the period.

Sales of chemicals and resins rose 5.5%, or ¥10,469 million, to ¥201,222 million (US\$1,705,271 thousand). The poval business saw an increase in sales of optical-use PVA film for use in LCDs. Sales of poval resin were impacted by high raw materials and fuel prices and by intensified competition in Asia, which affect increased sales in Europe driven by demand for applications in paper processing. Sales of PVB film remained strong, spurred by applications in the construction industry. Demand for EVAL, an ethylene vinyl alcohol polymer resin for use in food packaging, was steady. However, sales declined for applications in automobiles. In isoprene-related products, demand remained steady for the thermoplastic elastomer, SEPTON, which is used as a substitute for vulcanized rubber and soft PVC. Sales of specialized chemicals were strong, but conditions remained severe in the fine chemicals business, impacted by intense competition in aroma chemicals and agricultural intermediates. Lastly in methacrylic resins, sales of optical components for use in LCDs increased, while sales of molding materials and sheets for general-purpose products remained steady. Overall sales and earnings of methacrylic

resins were down however due to constriction of the monomers business and the impact of higher raw materials and fuel prices.

Sales of fibers and textiles declined 1.1%, or ¥1,182 million, to ¥107,925 million (US\$914,619 thousand). Sales of KURALON as an alternative to asbestos for use in reinforcing cement remained favorable. Sales of the man-made leather CLARINO for use in accessories were strong. However, the combination of stagnant sales for shoe applications and high raw materials and fuel prices lead to flat overall sales for the category. In nonwoven fabrics and hook and loop fasteners, the Kuraray Group recorded large sales volume for automobile applications. This was offset by slumping sales of hygienic materials however, leading overall sales down. Due to the Kuraray Group's efforts to develop new applications, sales were up for the high-strength fiber VECTRAN. In the polyester business, the Kuraray Group made progress in its efforts to shift to differentiating products, but felt the impact of high raw materials and fuel prices.

Sales of high-performance materials, medical products, and others increased 1.2%, or ¥925 million, to ¥76,138 million (US\$645,237 thousand). The Kuraray Group ceased production of opto-screens as of December 2006 and subsequently withdrew from the optoelectronic products business. In the medical products business, sales of dental materials increased in the United States and other overseas markets. However, sales declined in the dialyzer and thera-



Note: New business segments were adopted in the year ended March 31, 2003. Data for the previous year has been restated.

peutic apheresis devices businesses due to the impact of price revisions for medical products. The Kuraray Group has reached a basic agreement on a merger of its dialyzer businesses, including sales and development activities, with those of Asahi Kasei Medical Co., Ltd. to take place in October 2007. In high performance materials, the Kuraray Group recorded a sales increase for the heat-resistant polyamide resin *GENESTAR* on the back of strong demand for use as a material in electronics. Sales of activated carbon rose, supported by applications in water purification. Performance of the engineering and other related businesses was solid.

Net sales in Japan and Europe rose year-on-year in the period, but declined in North America and Asia.

Sales in Japan increased 5.4%, or ¥14,690 million, to ¥288,447 million (US\$2,444,466 thousand). This increase was a result of expanded sales and increased exports of optical-use poval film, optical-use methacrylic resin, *SEPTON*, *KURALON*, and *GENESTAR*, as well as the passing on of higher raw materials and fuel costs to product prices.

In North America, sales decreased 24.4%, or ¥7,463 million, to ¥23,147 million (US\$196,161 thousand). Sales of *SEPTON* as a substitute for vulcanized rubber and soft PVC expanded, while sales of *EVAL* for use in automobile fuel tanks declined.

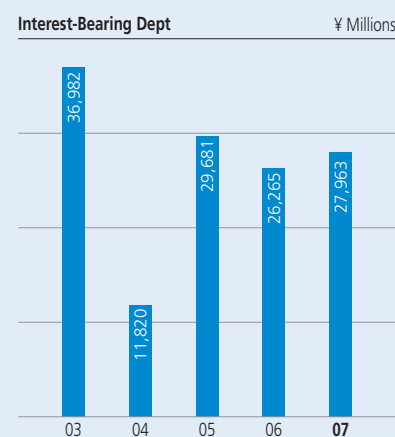
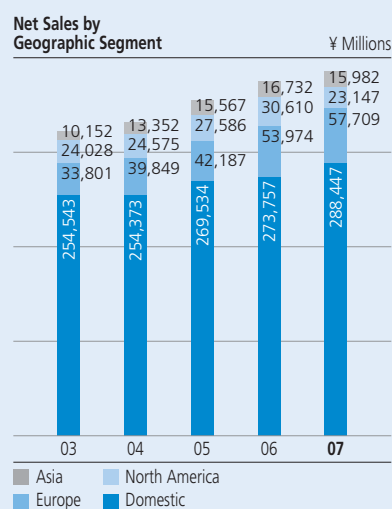
In Europe, sales increased 6.9%, or ¥3,735 million, to ¥57,709 million (US\$489,059 thousand). High raw materials and fuel prices had an impact of operations, but in addition

to increased sales in the PVB film business, strong demand for *EVAL* and *SEPTON* contributed to growth in sales.

Finally in Asia, sales decreased 4.5%, or ¥750 million, to ¥15,982 million (US\$135,441 thousand). The Kuraray Group continued to prioritize increases in poval prices to offset the sharp rise in raw materials and fuel prices. However, sales decreased for the period.

OPERATING AND NET INCOME

Cost of sales increased 3.6% to ¥275,886 million (US\$2,338,017 thousand), and increased as a percentage of sale to 71.6%, from the previous fiscal year's 71.0%. Despite results from ongoing efforts in improvement of the business portfolio - a shift toward high value added products as part of the GS-21 Medium-Term Business Plan - and in cost reductions, increases in raw materials and fuel prices brought cost of sales higher. Selling, general, and administrative (SG&A) expenses decreased 1.9% to ¥69,179 (US\$586,263 thousand), down 0.8 points year-on-year to 18% as a percentage of sales, again due to cost cutting efforts. Despite the higher cost of sales, price increases in response to high materials and fuel costs, along with the lower SG&A, brought operating income higher by 5.1% to ¥40,220 million (US\$340,847 thousand). Operating margin improved to 10.4% from 10.2% in fiscal 2005, the sixth consecutive year of improvement - from 6.2% in fiscal 2002. Corporate costs increased ¥484 million to ¥11,699 million.



Note: Due to their growing weight in total net sales, the North America and Asia segments were separated out from the year ended March 31, 2003. Data for the previous year has been restated.

Lower asset impairment on property, plant and equipment, an improvement of ¥3,797 million, were offset by increases in restructuring charges, an increase of ¥4,110 million, and gains of sales of investment securities increased ¥2,050 million year-on-year. These and other factors combined to an increase in income before taxes and minority interest of 3.5% to ¥35,582 million (US\$301,542 thousand). Taxes for the period came to ¥13,056 million (USD\$110,644 thousand), yielding an effective tax rate of 36.7%. Net income rose 5.8% to ¥22,412 million (US\$189,932 thousand), the sixth consecutive year of high income - from ¥2,866 million in fiscal 2002.

FINANCIAL POSITION

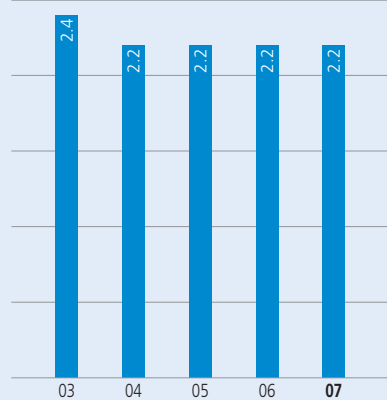
As of March 31, 2007, cash and cash equivalents rose ¥5,948 million to ¥34,033 million (US\$288,415 thousand). Notes and accounts receivable increased ¥4,222 million to ¥98,783 million (US\$837,145 thousand). Lastly inventories increased ¥2,801 million to ¥72,232 million (US\$612,136 thousand) along with the increase in sales, and the number of months' sales in inventory remained unchanged from fiscal 2005 at 2.2 months. As a result of these and other factors, current assets rose 8.6% to ¥217,970 million (US\$1,847,203 thousand). Working capital (current assets and inventory less current liabilities) fell ¥7,745 million to ¥76,627 million (US\$649,382 thousand) while the current ratio (current assets and inventory divided by current liabilities) declined to 181.2% from fiscal 2005's 206.5% due to

factors such as portions of long-term debt coming due in the period (see below).

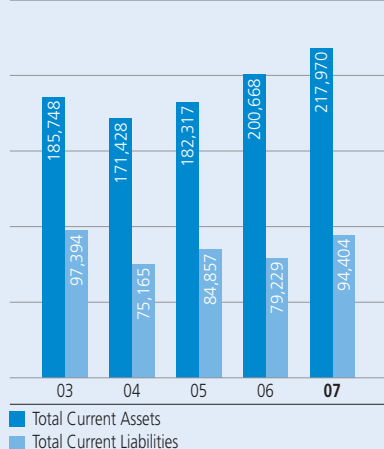
Strategic acquisition and expansion brought property plant and equipment higher by 9.3% to ¥174,152 million (US\$1,475,864 thousand), which included factors such as an increase in machinery and equipment, of ¥9,281 million, to ¥452,970 million (US\$3,838,729 thousand) and a rise in construction-in-progress, of ¥10,388 million, to ¥34,978 million (US\$296,423 thousand). Investments and other assets fell ¥4,720 million to ¥116,573 million (US\$987,908 thousand). A drop of ¥15,053 million, to ¥14,654 million (US\$124,186 thousand), in accumulated premiums in insurance was offset by an increase of ¥5,588 million in investment securities, to ¥43,558 million (US\$369,136 thousand), and an increase of ¥1,964 million in prepaid pension costs, to ¥7,106 million (US\$60,220 thousand), as well as by other factors. Total assets increased ¥27,338 million to ¥508,695 million (US\$4,310,975 thousand), and return on assets (operating income divided by average total assets for the period) fell slightly, by 0.1%, from last year to 8.1%.

Current liabilities increased ¥15,175 million to ¥94,404 million (US\$800,034 thousand). An increase of ¥4,610 million, to ¥5,000 million (US\$42,373 thousand), in the current portion of long-term debt, and an increase of ¥3,509 million, to ¥43,663 million (US\$370,025 thousand) in notes and accounts payable, along with other factors, were the cause of the current liability increase. Long-term liabilities fell ¥4,949 million to ¥55,698 million (US\$472,017 thousand).

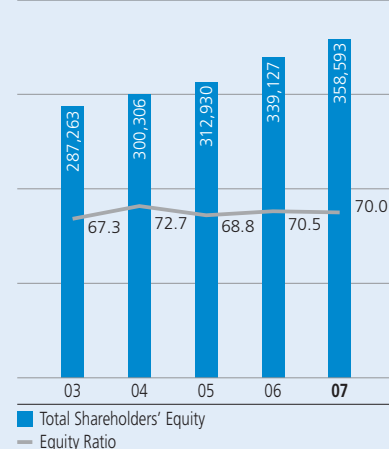
Number of Months' Sales in Inventory Months



Total Current Assets & Total Current Liabilities ¥ Millions



Total Shareholders' Equity & Equity Ratio ¥ Millions %



Factors for the decline included a drop in long-term debt of ¥3,001 million, to ¥16,255 million (US\$137,754 thousand), and a decline in deferred taxes of ¥2,585 million, to ¥11,129 million (US\$94,314 thousand). Lastly regarding net assets, from fiscal 2006 onward, Japanese accounting standards now require presentation of net assets instead of shareholders' equity. Net assets increased ¥17,112 million to ¥358,593 million (US\$3,038,924 thousand) due mainly to a ¥16,050 million increase year-on-year in retained earnings. Subtracting minority interest of ¥2,455 to yield shareholder's equity of ¥356,147 million, the equity ratio for the period was 70.0%, down 0.5% from fiscal 2005.

CASH FLOWS

Net cash and cash equivalents provided by operating activities increased ¥6,272 million to ¥38,962 million (US\$330,186). The increase stemmed from factors including lower inventory purchases, ¥2,862 million, and an increase in notes and accounts payable of ¥5,327 million, but was offset by higher income taxes paid, ¥2,944 million.

Net cash and cash equivalents used by investing activities increased ¥15,243 million to ¥28,936 million (US\$245,220 thousand). Despite factors including higher proceeds from sale and redemption of investing securities of ¥3,861 million, and higher withdrawals from accumulated premiums on insurance of ¥9,269 million, factors including an increase in marketable securities of ¥6,292 million, lower proceeds from sales of assets, ¥5,623 million, and higher

outlays for the purchase of investment securities, ¥15,575 million, brought cash outlays higher for the period.

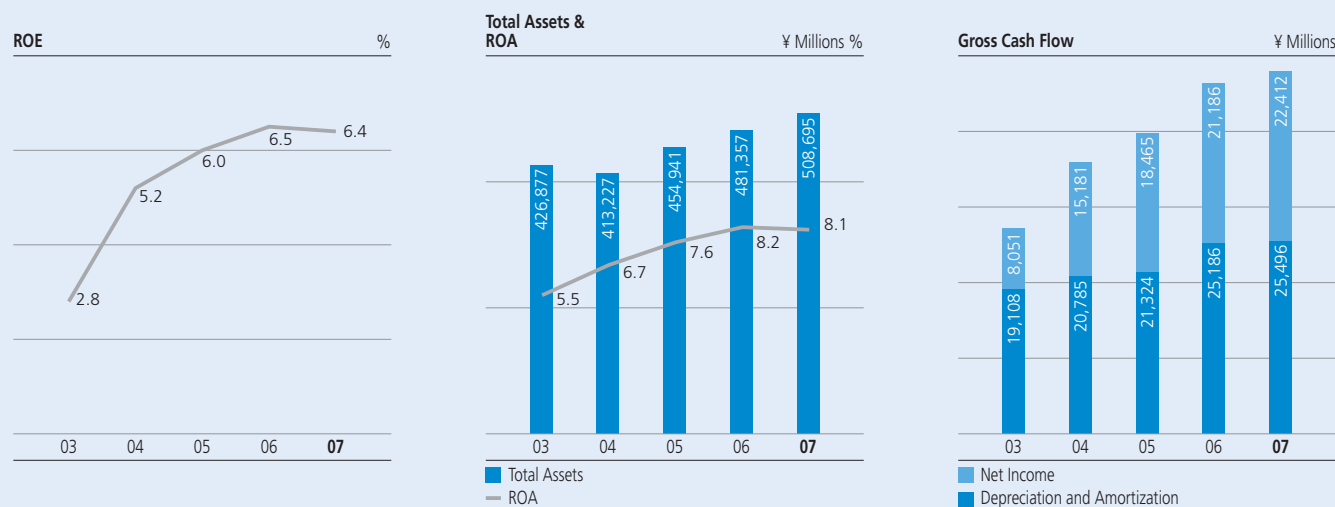
Net cash and cash equivalents used in financing activities decreased ¥3,441 million to ¥4,350 million (US\$36,864 thousand). Despite an increase in dividends paid of ¥1,477 million, and lower proceeds from long-term debt, ¥1,400 million, decreases in repayment of short-term bank loans of ¥3,248 million, and lower repayments of long-term debt, ¥3,003 million, brought cash outlays lower for the period.

RESEARCH AND DEVELOPMENT

Total R&D expenses for the year totaled ¥13,021 million (US\$110,347 thousand), 3.4% of net sales, compared with 3.8% in fiscal 2005. Corporate R&D expenses totaled ¥3,965 million, or 30.5% of total expenditure. R&D focused on developing new products in the chemical and resins segment, at ¥4,373 million, or 33.6% of the total, represented the largest portion of outlays. Fibers and textiles accounted for ¥2,541 million, or 19.5%, while high-performance materials, medical products and others accounted for ¥2,142 million, or 16.4%. The Kuraray Group employs 784 research personnel.

CAPITAL EXPENDITURE

Capital expenditure (capex) for fiscal 2006 increased to ¥37,700 million (US\$ 319,492 thousand), or 9.8% of net sales, compared with 9.0% of net sales in the previous year. Corporate capex outlays were ¥5,751 million, or



15.3% of total expenditures. Capex in chemicals and resins operations amounted to ¥22,785 million, or 60.4% of total outlays. Capex in fibers and textiles were ¥5,932 million, or 15.7% of total capex. And capex in high-performance materials, medical products and others were ¥3,232 millions, or 8.6% of total capex. The Kuraray Group will continue aggressive capital expenditure focused on core businesses.

OUTLOOK

In fiscal 2007, we expect to see steady growth in the world economy. However, it is believed that high prices for raw materials and fuel will continue, along with a number of other uncertainties, including lingering concern over the direction of the economies in the United States and China. In addition, we expect international competition to intensify, making the operating environment more severe. Under these circumstances, we will pursue the following business initiatives.

In the chemicals and resins business, we will expand production capacity for optical-use poval film. In poval resins, we will endeavor to pass higher raw materials and fuel prices along in the form of higher product prices and increase sales of high value-added products. In the *EVAL* business, we will work to increase product prices and to accelerate market development for new products such as *EVAL SP* and *KURARISTER*. In isoprene-related products, we will expand overseas sales volume of thermoplastic elas-

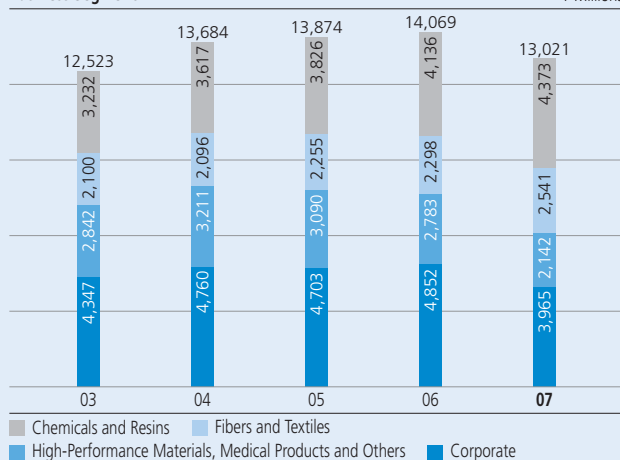
tomers, rebuild the aroma chemicals business, and accelerate market development for new products in the fine chemicals business. In methacrylic resins, we will endeavor to boost sales of high-performance products, centered on optical applications.

In the fibers and textiles business, we will take active steps to expand the number of specialized applications for *KURALON*, such as in reinforcing cement. We will work to expand the market for *TIRRENINA*, an eco-friendly variety of man-made leather. In nonwoven fabrics, we will focus on developing markets for a "New Type": Steam Jet Products under development, which incorporates steam-jet technologies, and on expanding uses for focus in automobiles. In the polyester business, we will expand sales of uniforms and other sportswear products.

In high-performance materials, medical products and others, we will strengthen the sales of dental materials in Europe, the United States, and other overseas markets. We will also broaden the use of *GENESTAR* as a material in electronics and speed the development of its uses in automobiles.

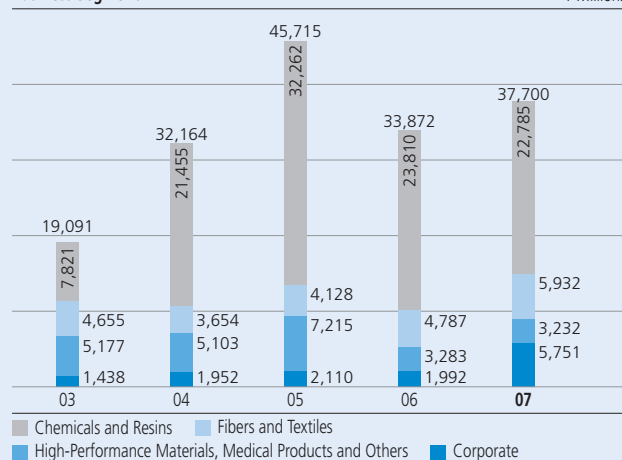
Forecasts for fiscal 2007 are net sales of ¥415,000 million, operating income of ¥45,000 million, and net income of ¥24,000 million. These forecasts assume average exchange rates of ¥115 to the US dollar, ¥150 to the Euro, as well as a price of ¥50,000 per kiloliter for domestically produced naphtha and a Dubai crude oil price of \$US57.00 per barrel.

Total R&D Expenses by Business Segment ¥ Millions



Note: Data for the year ended March 31, 2003, reflects the conversion to an in-house company system so as to combine Companywide R&D expenses. Data for prior years has not been restated.

Capital Expenditure by Business Segment ¥ Millions



Note: Data for the year ended March 31, 2003, reflects the conversion to an in-house company system so as to combine Companywide capital expenditure. Data for prior years has not been restated.

BUSINESS RISKS

Significant risks that could have an impact on the Kuraray Group's results of operations and financial condition are discussed below. Estimates of future performance represent the Kuraray Group's best judgement as of March 31, 2007.

1. Changes in Market Environment

In the rapidly growing information and communication fields, the Kuraray Group supplies a broad variety of materials and components, notably film and molded resin products for flat panel displays. The Kuraray Group is strategically expanding net sales and profits in these fields, where the market environment can undergo drastic changes within a short period as a result of reverses in industry standards and changes in demand/supply balance. If these changes occur, sales volumes could contract or sales prices could fall, with an adverse effect of the Kuraray Group's performance.

2. Changes in Raw Material and Fuel Prices

The Kuraray Group is primarily engaged in the manufacturing and sale of synthetic fibers and textiles, chemical products, and synthetic resins as well as goods made from these materials. In this business structure, the effects of raw material and fuel prices on cost of sales or relatively large. If high market prices for raw materials, such as ethylene and other chemical materials, crude oil, and natural gas, cannot be offset by increases in productivity or other internal measures, or by passing costs along in sales prices, it is possible that the Kuraray Group's performance will be adversely affected.

3. Product Defects

The Kuraray Group has instituted thorough product quality control measures, and the Kuraray Group carries liability insurance against product liability claims. However, the possibility exists that major product defects arising from unforeseeable causes could necessitate a large-scale product recall. Under such circumstances, recall expenses, loss of public trust, compensation of customers, legal costs, and indemnification expenses could adversely affect the financial position of the Kuraray Group.

4. Changes in Exchange Rates

The Kuraray Group is expanding its manufacturing and sales operations in Japan and in overseas regions, including Europe, North America, and Asia. Exports of the Kuraray Group's domestically manufactured products are affected by changes in export sales prices. Sales of products manufactured in overseas facilities are affected by sales prices in foreign currencies and the value of foreign currency denominated assets and liabilities affects profitability. All of the Kuraray Group's business are composed of operations in different currencies and are therefore subject to the effects of changes in currency exchange rates. The Kuraray Group is in general affected negatively by a rise in the value of the yen with respect to other currencies.

5. Litigation

Engaged in a broad range of business activities, the Kuraray Group is subject to potential litigation across numerous fields. In the fiscal year under review, the Kuraray Group did not face litigation of material nature. In the event that the Kuraray Group is subject to future litigation however, performance and financial standing may be adversely affected.

6. Accidents and Disasters

The Kuraray Group has manufacturing facilities in Japan, Europe, North America, and Asia. Many of these are large chemical plants that handle a variety of chemicals. If an industrial accident or release of pollutants to the environment should occur, the loss of lives and property of third parties could result in claims against the assets of the Kuraray Group and halt manufacturing operations for long periods, adversely affecting the performance and financial position of the Kuraray Group. The occurrence of an earthquake, flood, or other natural disaster, an epidemic of a communicable disease or other medical incident, war, riot, terrorist attack, trouble with information systems, or information leaks could interfere with business operations of the Kuraray Group, with an adverse impact on performance and financial position. Accidents or disasters such as those mentioned above could also interfere with the business operations of the Kuraray Group's customers and suppliers, with a similar adverse effect on the Kuraray Group's performance and financial position.

Consolidated Balance Sheets

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

March 31, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 34,033	¥ 28,085	\$ 288,415
Notes and accounts receivable:			
Trade	93,569	88,677	792,958
Unconsolidated subsidiaries and affiliates	2,750	1,757	23,305
Other	2,464	4,127	20,882
Loans receivable from unconsolidated subsidiaries, affiliates and others	909	624	7,703
Allowance for doubtful accounts	(893)	(1,015)	(7,568)
	98,799	94,170	837,280
Inventories (Note 4)	72,232	69,431	612,136
Deferred income taxes (Note 9)	6,741	6,478	57,127
Other current assets	6,165	2,504	52,245
Total current assets	217,970	200,668	1,847,203
Property, plant and equipment (Note 5):			
Land	19,029	19,676	161,263
Buildings	90,862	88,265	770,017
Machinery and equipment	452,970	443,689	3,838,729
Construction-in-progress	34,978	24,590	296,423
	597,839	576,220	5,066,432
Less accumulated depreciation	(423,687)	(416,824)	(3,590,568)
	174,152	159,396	1,475,864
Investments and other assets:			
Goodwill	29,298	28,625	248,288
Other intangible assets	5,941	6,014	50,347
Investment securities (Note 3)	43,558	37,970	369,136
Investments in unconsolidated subsidiaries and affiliates	5,990	4,512	50,763
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	2,261	2,802	19,161
Other	448	475	3,797
Accumulated premiums on insurance	14,654	29,707	124,186
Deferred income taxes (Note 9)	2,845	2,650	24,110
Prepaid pension cost (Note 10)	7,106	5,142	60,220
Other	4,490	3,511	38,053
Allowance for doubtful accounts	(18)	(115)	(153)
	116,573	121,293	987,908
	¥ 508,695	¥ 481,357	\$ 4,310,975

See notes to consolidated financial statements.

Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
LIABILITIES			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 6,708	¥ 6,619	\$ 56,847
Current portion of long-term debt (Note 6)	5,000	390	42,373
Notes and accounts payable:			
Trade	42,794	39,150	362,661
Unconsolidated subsidiaries and affiliates	869	1,004	7,364
Other	14,341	8,130	121,534
Accrued income taxes (Note 9)	6,736	7,165	57,085
Accrued expenses and other	17,956	16,771	152,170
Total current liabilities	94,404	79,229	800,034
Long-term liabilities:			
Long-term debt (Note 6)	16,255	19,256	137,754
Deferred income taxes (Note 9)	11,129	13,714	94,314
Accrued retirement benefits (Note 10)	13,071	13,404	110,771
Other	15,243	14,273	129,178
Total long-term liabilities	55,698	60,647	472,017
Minority interests	—	2,354	—
Commitments and contingencies (Note 13)			
SHAREHOLDERS' EQUITY (Note 7):			
Common stock:			
Authorized-700,000,000 shares in March 2006			
Issued-382,863,603 shares in March 2006	—	88,955	—
Capital surplus	—	87,227	—
Retained earnings	—	155,377	—
Unrealized gain on revaluation of securities (Note 3)	—	16,426	—
Cumulative translation adjustments	—	2,726	—
TOTAL SHAREHOLDERS' EQUITY	—	350,711	—
Treasury stock at cost - 15,379,675 shares in 2006			
15,755,698 shares in 2005	—	(11,584)	—
	—	339,127	—
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	¥ —	¥ 481,357	\$ —
NET ASSETS			
Owners' equity (Note 7):			
Paid-in capital:			
Authorized-1,000,000,000 shares in March 2007			
Issued-382,863,603 shares in March 2007	88,955	—	753,856
Capital surplus	87,314	—	739,949
Earned surplus	171,427	—	1,452,771
Treasury stock-15,181,671 shares in March 2007	(11,281)	—	(95,602)
Total owners' equity	336,415	—	2,850,974
Valuation and translation adjustments			
Valuation difference on available-for-sale securities (Note 3)	11,322	—	95,949
Deferred gains or losses on hedges	(9)	—	(76)
Translation adjustments	8,410	—	71,271
Total valuation and translation adjustments	19,723	—	167,144
Minority interests	2,455	—	20,806
TOTAL NET ASSETS	358,593	—	3,038,924
TOTAL LIABILITIES AND NET ASSETS	¥ 508,695	¥ —	\$ 4,310,975

Consolidated Statements of Income

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

Years ended March 31, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales	¥ 385,285	¥ 375,073	\$ 3,265,127
Cost of sales (Note 12)	275,886	266,284	2,338,017
(Gross profit)	109,399	108,789	927,110
Selling, general and administrative expenses (Notes 11 and 12)	69,179	70,512	586,263
(Operating income)	40,220	38,277	340,847
Other income (expenses):			
Interest income	1,022	741	8,661
Dividend income	918	553	7,780
Equity in earnings of affiliates	78	56	661
Interest expenses	(419)	(414)	(3,551)
Restructuring charges	(5,803)	(1,693)	(49,178)
Gain on sales of investment securities	3,079	1,029	26,093
Write-down of investment securities	(293)	(253)	(2,483)
Loss on disposal of inventories	(1,236)	(2,265)	(10,475)
Gain on sales of property, plant and equipment	3,746	8,446	31,746
Loss on disposal of property, plant and equipment	(670)	(492)	(5,678)
Gain on changes in retirement benefits plan	634	—	5,373
Impairment loss on property, plant and equipment	(1,658)	(5,455)	(14,051)
Other, net	(4,036)	(4,167)	(34,203)
	(4,638)	(3,914)	(39,305)
(Income before income taxes and minority interests)	35,582	34,363	301,542
Income taxes (Note 9):			
Current	12,613	11,674	106,890
Deferred	443	1,394	3,754
	13,056	13,068	110,644
Minority interests in net income of consolidated subsidiaries	(114)	(109)	(966)
Net income	¥ 22,412	¥ 21,186	\$ 189,932
		Yen	U.S. dollars (Note 1)
Net income per share:			
Primary	¥ 60.95	¥ 57.51	\$ 0.52
Fully diluted	60.80	57.41	0.52

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

Years ended March 31, 2006	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities (Note 3)	Cumulative translation adjustments	Treasury stock
Balance at March 31, 2005	¥ 88,955	¥ 87,156	¥ 138,951	¥ 9,012	¥ 679	¥ (11,823)
Net income			21,186			
Cash dividends, ¥13.00 per share			(4,772)			
Bonuses to directors			(59)			
Effect of changes in reporting entities			56			
Minimum pension liability adjustment			15			
Changes in unrealized gain on revaluation of securities (Note 3)				7,414		
Translation adjustments					2,047	
Treasury stock disposed, net		71				239
Balance at March 31, 2006	¥ 88,955	¥ 87,227	¥ 155,377	¥ 16,426	¥ 2,726	¥ (11,584)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

	Millions of yen				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
Balance at March 31, 2006	¥ 88,955	¥ 87,227	¥ 155,377	¥ (11,584)	¥ 319,975
Cash dividends, ¥17.00 per share			(6,249)		(6,249)
Net income			22,412		22,412
Bonuses to directors			(68)		(68)
Treasury stock acquired				(176)	(176)
Treasury stock disposed		87		479	566
Other			(45)		(45)
Net changes other than owners' equity					
Total changes during the current period	—	87	16,050	303	16,440
Balance at March 31, 2007	¥ 88,955	¥ 87,314	¥ 171,427	¥ (11,281)	¥ 336,415

	Millions of yen					
	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities (Note 3)	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	¥ 16,426	¥ —	¥ 2,726	¥ 19,152	¥ 2,354	¥ 341,481
Cash dividends, ¥17.00 per share						(6,249)
Net income						22,412
Bonuses to directors						(68)
Treasury stock acquired						(176)
Treasury stock disposed						566
Other						(45)
Net changes other than owners' equity	(5,104)	(9)	5,684	571	101	672
Total changes during the current period	(5,104)	(9)	5,684	571	101	17,112
Balance at March 31, 2007	¥ 11,322	¥ (9)	¥ 8,410	¥ 19,723	¥ 2,455	¥ 358,593

	Thousands of U.S. dollars				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
Balance at March 31, 2006	\$ 753,856	\$ 739,212	\$ 1,316,754	\$ (98,169)	\$ 2,711,653
Cash dividends, \$0.14 per share			(52,958)		(52,958)
Net income			189,932		189,932
Bonuses to directors			(576)		(576)
Treasury stock acquired				(1,492)	(1,492)
Treasury stock disposed		737		4,059	4,796
Other			(381)		(381)
Net changes other than owners' equity					
Total changes during the current period	—	737	136,017	2,567	139,321
Balance at March 31, 2007	\$ 753,856	\$ 739,949	\$ 1,452,771	\$ (95,602)	\$ 2,850,974

	Thousands of U.S. dollars					
	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities (Note 3)	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	\$ 139,203	\$ —	\$ 23,102	\$ 162,305	\$ 19,949	\$ 2,893,907
Cash dividends, \$0.14 per share						(52,958)
Net income						189,932
Bonuses to directors						(576)
Treasury stock acquired						(1,492)
Treasury stock disposed						4,796
Other						(381)
Net changes other than owners' equity	(43,254)	(76)	48,169	4,839	857	5,696
Total changes during the current period	(43,254)	(76)	48,169	4,839	857	145,017
Balance at March 31, 2007	\$ 95,949	\$ (76)	\$ 71,271	\$ 167,144	\$ 20,806	\$ 3,038,924

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

Years ended March 31, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 35,582	¥ 34,363	\$ 301,542
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	25,496	25,186	216,068
Increase or decrease in allowance for doubtful accounts	(168)	37	(1,424)
Increase or decrease in accrued retirement benefits, net	227	(141)	1,924
Impairment loss on property, plant and equipment (Note 5)	1,658	5,455	14,051
Gain on sales of property, plant and equipment	(3,746)	(8,446)	(31,746)
Loss on disposal of property, plant and equipment	670	492	5,678
Gain on sales of investment securities	(3,079)	(1,029)	(26,093)
Write-down of investment securities	293	253	2,483
Interest and dividend income	(1,940)	(1,294)	(16,441)
Interest expenses	419	414	3,551
Increase or decrease in notes and accounts receivable	(4,932)	(5,838)	(41,797)
Increase or decrease in inventories	(1,357)	(4,219)	(11,500)
Increase or decrease in notes and accounts payable	2,822	(2,505)	23,915
Increase or decrease in prepaid pension costs (Note 10)	(1,964)	(1,630)	(16,644)
Other, net	(1,133)	587	(9,601)
Sub-total	48,848	41,685	413,966
Interest and dividend received	1,554	943	13,169
Interest paid	(420)	(388)	(3,559)
Income taxes paid	(13,170)	(10,226)	(111,610)
Insurance benefits received	2,150	676	18,220
Net cash and cash equivalents provided by operating activities	38,962	32,690	330,186
Cash flows from investing activities:			
Increase or decrease in time deposits	(1,890)	—	(16,017)
Decrease (increase) in marketable securities	(3,292)	3,000	(27,898)
Payments for acquisition of property, plant, equipment and intangible assets	(32,575)	(36,069)	(276,059)
Proceeds from sales of property, plant, equipment and intangible assets	4,927	10,550	41,754
Payments for purchase of investment securities	(16,954)	(1,379)	(143,678)
Payment for disposal of property, plant equipment and intangible assets	(2,744)	(338)	(23,254)
Proceeds from sales and redemption of investment securities	7,465	3,604	63,263
Payments for acquisition of long term prepaid expenses	(2,457)	(338)	(20,822)
Payments of premiums on insurance	(309)	(702)	(2,619)
Withdrawals from accumulated premiums on insurance	15,842	6,573	134,254
Other, net	3,051	1,406	25,856
Net cash and cash equivalents used in investing activities	(28,936)	(13,693)	(245,220)
Cash flows from financing activities:			
Increase or decrease in short-term bank loans	(74)	(3,322)	(626)
Proceeds from long-term debt	2,000	3,400	16,949
Repayments of long-term debt	(404)	(3,407)	(3,424)
Dividends paid	(6,249)	(4,772)	(52,958)
Dividends paid to minority interests shareholders	(13)	—	(110)
Proceeds from sales of treasury stock	567	461	4,805
Payments for purchase of treasury stock	(177)	(151)	(1,500)
Net cash and cash equivalents used in financing activities	(4,350)	(7,791)	(36,864)
Effect of exchange rate changes on cash and cash equivalents	272	134	2,305
Net increase in cash and cash equivalents	5,948	11,341	50,407
Cash and cash equivalents, beginning of year	28,085	16,743	238,008
Effect of changes in reporting entities	—	1	—
Cash and cash equivalents, end of year	¥ 34,033	¥ 28,085	\$ 288,415

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and Its Consolidated Subsidiaries Years ended March 31, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS:

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

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically to present them in a form more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles

and practices generally accepted in Japan but have been presented as additional information.

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2006 have been made to conform to the 2007 presentation.

The United States dollar amounts included herein are provided solely for convenience of readers outside Japan and are stated, as a matter of arithmetical computation only, at the rate of ¥118=\$1, the approximate exchange rate prevailing on March 31, 2007. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at this or any other rate.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation

These consolidated financial statements include the financial statements of the Company and its significant 34 subsidiaries (35 subsidiaries at March 31, 2006). A subsidiary is a company, more than 50% of whose shares are held by the Company, or a company, 40%-50% of whose shares are held by the Company and which is controlled by the Company through certain channels. Hereinafter, the Company and its consolidated subsidiaries are collectively referred to as the "Companies".

In the case of a change in reporting entity, the consolidated financial statements are not restated, but the effect of the change to retained earnings at the beginning of the year is directly charged or credited to retained earnings during the year.

Investments in unconsolidated subsidiaries and 20%-50% owned companies other than subsidiaries ("affiliates"), with minor exceptions, are accounted for using the equity method.

The fiscal year of the Company's foreign consolidated subsidiaries is ending December 31, which differs from that of the Company. Those subsidiaries do not prepare their financial statements at any date after December 31, or on or before March 31 in the succeeding year. Any material events occurring during the January 1 to March 31 period are adjusted for in those consolidated financial statements.

In this fiscal year, foreign subsidiaries below changed their fiscal year end from March 31 to December 31.

Kuraray Holdings U.S.A., Inc.

Kuraray America, Inc.

Eval Company of America

SEPTON Company of America

Eval Europe N.V.

The difference between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates

accounted for on an equity basis are amortized using the straight-line method over the estimated period of the benefit, in case the difference is immaterial, it is credited to income when incurred. The differences recognized in overseas subsidiaries and affiliates are accounted for in accordance with accounting principles generally accepted in those countries.

(b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less, of which at least the face amount can be withdrawn at any time without penalty.

(c) Matured notes or accounts on the end of fiscal periods

Although the closing date of the fiscal period was a holiday for financial institutions, Kuraray and its subsidiaries in Japan accounted for the matured notes and/or accounts on the end of fiscal periods as if notes and/or accounts were settled on maturity basis. The amounts of notes and/or accounts matured on the end of the fiscal year ended March 31, 2007 and excluded from the balance sheet were as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Notes receivable	¥ 2,505	\$ 21,229
Accounts receivable-trade	3,555	30,127
Notes payable	860	7,288
Accounts payable-trade	3,725	31,568
Accounts payable-other	234	1,983

(d) Investment securities

As of March 31, 2007 and 2006, investment securities represent available-for-sale securities. Available-for-sale securities are carried at fair value with unrealized gains or losses recorded as a

component of net assets, net of applicable taxes. Available-for-sale securities whose fair value is not readily determinable are stated at cost except for debt securities, which are stated at amortized cost. Moreover, available-for-sale securities with a maturity of one year or less are classified as current assets.

(e) Inventories

Inventories other than supplies are stated at cost principally determined using the average cost method. Supplies are stated at cost principally determined using the moving average method.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method.

The estimated useful lives of assets are principally as follows:

Buildings	31 to 50 years
Machinery and equipment	4 to 10 years

The Companies use machinery and equipment under financing leases that do not transfer ownership to the lessee, and such leased assets used by the Company and its domestic subsidiaries are not capitalized on the balance sheet in conformity with accounting principles generally accepted in Japan.

(g) Goodwill

Goodwill is stated at cost less amortization.

Amortization is principally computed over 15 years, using the straight-line method.

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries and affiliates in Japan adopted "Accounting Standard for Business Combination" issued by Business Accounting Council on October 31, 2003, and Accounting Standards Board of Japan (ASBJ) Statement No.7 "Accounting standard for Business Divestitures" issued by ASBJ on December 27, 2005, and revised ASBJ Guidance No.10 "Guidance on Accounting standard for Business Combinations and Accounting Standard for Business Divestitures" revised by ASBJ on December 22, 2006. The adoption had an effect that the prior year's "Goodwill" and "Goodwill arising on consolidation adjustments" included in "Other intangible assets" are altogether presented as "Goodwill" as of March 31, 2007. The amount of "Goodwill arising on consolidation adjustments" included in "Other intangible assets" was 499 millions of yen as of March 31, 2006.

(h) Accounting for impairment losses on fixed assets

Effective from the year beginning April 1, 2005, the Company and its domestic consolidated subsidiaries and affiliates have adopted "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed Assets". The standard, which was issued by the Business Accounting Council in Japan on August 9, 2002, requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The effective date of the Standard is fiscal year beginning on or after April 1, 2005.

As a result of this change, income before income taxes and minority interests decreased by ¥1,658 million (\$14,051 thousand) for the year ended March 31, 2007, and decreased by ¥5,455 million for the year ended March 31, 2006. The effects of this change are further discussed in Note 5.

(i) Income taxes

Accrued income taxes has been computed using the assets and liabilities method, deferred income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities and are measured using tax rates and laws in effect at the time of such determination. The measurement of deferred tax assets is adjusted by valuation allowance, if necessary, to recognize the extent to which, based on available evidence, the future tax benefits more likely than not will not be realized.

(j) Retirement benefits

The Company and most of its subsidiaries have lump-sum benefit plan and defined benefit retirement pension plan or defined contribution pension plan, generally covering most of their employees. They accrue employees' severance and retirement benefits based on the actuarially determined retirement benefit obligation and the fair value of the plan assets plus certain adjustments for the following items.

The prior service cost is expensed on a straight-line basis over a certain period (mainly 15 years), which fell within the average remaining years of service of the eligible employees. Actuarial gain or loss in retirement benefit accounting is expensed on a straight-line basis over a certain period (mainly 15 years) which fell within the average remaining years of service of the eligible employees, allocated proportionally commencing the year in which each respective gain or loss occurred.

The Company transferred from tax-qualified pension plan to cash balance pension plan and defined contribution plan on January 1st, 2007, regarding retirement pension plan. This transition caused ¥634 million (\$5,382 thousand) increase in income before income taxes and minority interests.

Some of the consolidated subsidiaries accrue the liabilities for their retirement benefits for directors and corporate auditors, which is, in general, based upon the amounts required by their subsidiaries' internal regulations.

The Company abolished retirement benefits system for directors and corporate auditors, and decided to pay eligible directors and auditors at the time of their retirement the amount payable determined by the resolution at the Annual General Meeting of Shareholders on June 28, 2006. The accrued liabilities for their retirement benefits were reversed, the amount payable at termination were recorded as other of long-term liabilities.

(k) Foreign currency items

Income and expenses in foreign currency are translated into Japanese yen at the exchange rates prevailing at the transaction dates. Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

In preparing the consolidated financial statements, the assets and liabilities of foreign subsidiaries have been translated into Japanese yen at the rates in effect at the balance sheet date, and income and expenses have been translated at the average rate for the year then ended. Translation adjustments resulting from this process are charged or credited directly to net assets or shareholders' equity as cumulative translation adjustments in the consolidated balance sheets.

(l) Research and development expenses

Expenses relating to research and development activities are charged to income when incurred.

(m) Net income per share

The computation of primary net income per share is based on the weighted average number of shares outstanding during each financial period. The computation of fully diluted net income per share is based on the weighted average number of outstanding shares after consideration of the effect of dilution of common stock equivalents.

(n) Allowance for doubtful accounts

The Companies provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts.

(o) Derivative financial instruments and hedging

Derivative financial instruments, which include forward foreign exchange contracts, currency swap contracts and interest rate swap contracts, are used to offset the Companies' risk of exposure to changes in interest and currency exchange rates in respect of its financial assets and liabilities, in accordance with the Companies' internal policies and procedures.

a. Derivatives

All derivatives are stated at fair value, except for derivatives that are designated as hedging instruments (see below).

b. Hedge accounting

The Companies adopt the method for hedging instruments whereby any gain or loss is deferred over the period of the hedging contract and is offset against the deferred loss or gain on the related hedged items.

However, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

c. Hedging policy

The Companies use financial instruments to hedge interest rate and foreign exchange risks in accordance with their internal policies and procedures.

d. Assessment method for hedge effectiveness

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items. Interest rate swap contracts, which meet certain conditions, are evaluated for effectiveness at the commencement of the hedges.

(p) Directors' bonuses

Directors' bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries and affiliates in Japan adopted ASBJ Statement No.4 "Accounting standard for Directors' bonus" issued by ASBJ on November 29, 2005, and directors' bonuses are accounted for as an expense of the period during which the payments had occurred. The adoption of this new accounting standard has no effect on the consolidated financial statements 2006.

(q) Presentation of net assets

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries and affiliates in Japan adopted ASBJ Statement No.5 "Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by ASBJ on December 9, 2005 and ASBJ Guidance No.8 "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by ASBJ on December 9, 2005. The adoption of this new accounting standard has no effect on the statements of income. The total amount corresponding to conventional "total shareholders' equity" on the balance sheet of the year ended March 31, 2007 is 356,147 millions of yen.

(r) Treasury shares

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries and affiliates in Japan adopted revised ASBJ Statement No.1 "Accounting standard for Treasury shares and Appropriation of Legal Reserve" and revised ASBJ Guidance No.2 "Guidance on Accounting standard for Treasury shares and Appropriation of Legal Reserve" both revised by ASBJ on August 11, 2006. The adoption of this revised accounting standard has no effect on the consolidated financial statements 2006.

3. SECURITIES:

The following is a summary of available-for-sale securities at March 31, 2007 and 2006:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2007				
Equity securities	¥ 6,017	¥ 19,135	¥ 116	¥ 25,036
Bonds and debentures	—	—	—	—
Other	15,000	50	—	15,050
	¥ 21,017	¥ 19,185	¥ 116	¥ 40,086
March 31, 2006				
Equity securities	¥ 6,756	¥ 27,636	¥ 4	¥ 34,388
Bonds and debentures	—	—	—	—
Other	—	—	—	—
	¥ 6,756	¥ 27,636	¥ 4	¥ 34,388
March 31, 2007				
Equity securities	\$ 50,992	\$ 162,161	\$ 983	\$ 212,170
Bonds and debentures	—	—	—	—
Other	127,119	424	—	127,543
	\$ 178,111	\$ 162,585	\$ 983	\$ 339,713

Available-for-sale securities with no available fair values as of March 31, 2007 and 2006, amounting to ¥3,163 million (\$26,805 thousand) and ¥3,212 million respectively are excluded from the above table.

Securities with an original maturity of three months or less have been transferred to cash and cash equivalents.

4. INVENTORIES:

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥ 48,429	¥ 47,840	\$ 410,415
Semi-finished products and work in progress	12,257	10,499	103,873
Raw materials and supplies	11,546	11,092	97,848
	¥ 72,232	¥ 69,431	\$ 612,136

5. IMPAIRMENT LOSSES ON FIXED ASSETS:

The significant component of impairment losses on fixed assets for the fiscal year ended March 31, 2007 and 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Plant and equipment for electric and electronic materials	¥ 770	\$ 6,525
Plant and equipment for methacrylic resin and sheets	233	1,975
	Millions of yen	Thousands of U.S. dollars
	2006	2006
Plant and equipment for polyester filaments	¥ 1,242	\$ 10,525
Plant and equipment for opto-screens	2,627	22,263
Plant and equipment for high-flux filter membranes for artificial kidneys	1,468	12,441

As a minimum unit for generating cash flow, business assets are grouped into sections used for management accounting, and lent assets, idle assets, and assets associated with discontinued business are assessed individually.

Impairment losses are recognized in the consolidated statements of income by reducing the carrying amount of the impaired assets to the recoverable amounts to be measured as

value in use, which is equivalent to their discounted future cash flows, or the net salable value of the assets, whichever is higher.

For the year ended March 31, 2007 and 2006 the discount rate used for estimation of the recoverable amounts, using future cash flows, of the assets showing signs of impairment is 5% and 4% respectively.

6. SHORT-TERM BANK LOANS, LONG-TERM DEBT AND BONDS:

Short-term bank loans are generally represented by 365-day notes with interest rates principally of 2.9% at March 31, 2007.

Long-term debt and bonds consist of the following:

	Millions of yen	Thousands of U.S. dollars	
	2007	2006	2007
Unsecured loans principally from banks and insurance companies with interest rates ranging from 0.72% to 4.10% maturing serially until 2022	¥ 11,255	¥ 9,646	\$ 95,381
0.99% yen unsecured bonds due December 20, 2011	10,000	10,000	84,746
	21,255	19,646	180,127
Current portion	(5,000)	(390)	(42,373)
	¥ 16,255	¥ 19,256	\$ 137,754

The annual maturities of long-term debt and bonds outstanding at March 31, 2007 for the respective years ending March 31 are as follows:

	Millions of yen	Thousands of U.S. dollars
2007	¥ 5,000	\$ 42,373
2008	2,400	20,339
2009	1,001	8,483
2010	850	7,203
2011	100	847
Thereafter	11,904	100,882
	¥ 21,255	\$ 180,127

7. OWNERS' EQUITY:

The Company and its domestic subsidiaries were subject to the Corporation law as of March 31, 2007.

The Corporation law requires at least 50% of the issue price of new shares to be designated as stated capital following the passing of a resolution by the Board of Directors. Proceeds in

excess of the amounts designated as stated capital were credited to additional paid-in capital. Additional paid-in capital was included in capital surplus in the accompanying balance sheet as of March 31, 2007 and 2006 respectively.

The Corporation law provides that an amount equal to 10%

of cash dividends and other cash appropriations, should be appropriated as a legal reserve. No further appropriation is required when the sum of the additional paid-in capital and legal reserve equals 25% or more of paid-in capital. The sum of the additional paid-in capital and legal reserve is allowed to be appropriated following the passing of a resolution at the ordi-

nary general meeting of shareholders. All or part of the additional paid-in capital and/or a legal reserve may be used to reduce a deficit or may be transferred to paid-in capital through the appropriate legal procedures. A legal reserve amounting to ¥6,570 million (\$55,678 thousand) was included in retained earnings as of March 31, 2007 and 2006.

8. STOCK-BASED COMPENSATION PLANS:

The Company has a stock option plan. On June 27, 2002, the shareholders of the Company approved the issuance of new stock acquisition rights in the form of a stock option plan for directors, corporate auditors and managers of the Company and its subsidiaries. Based on this approval, the Company issued new stock acquisition rights of 1,076,500 shares of common stock of the Company. These rights are exercisable from June 28, 2004 to June 27, 2012. The exercise price is ¥825 (\$6.99) per share. The number of shares to be issued under this option, if all rights were exercised, as of March 31, 2007 was 562,000.

Subsequently, on June 26, 2003, the shareholders of the Company approved the issuance of new stock acquisition rights in the form of a stock option plan for directors, corporate auditors, executive officers and employees of the Company and its subsidiaries. Based on this approval, the Company issued new stock acquisition rights of 2,811,000 shares of common stock of the Company. These rights are exercisable from June 27, 2005 to June 26, 2013. The exercise price is ¥918 (\$7.78) per share. The number of shares to be issued under this option, if all rights were exercised, as of March 31, 2007 would be 1,791,500.

9. INCOME TAXES:

The Companies were subject to several taxes based on income, which, in aggregate, resulted in normal effective tax rate of approximately 40.4% in Japan for the years ended March 31, 2007 and 2006. Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:

	2007	2006
Normal effective tax rate	40.4%	40.4%
Non-taxable income	(0.4)	(0.3)
Tax credit primarily for research and development expenses	(2.1)	(2.9)
Other, largely loss incurred by consolidated subsidiaries	(1.2)	0.8
Income tax rate per statements of income	36.7%	38.0%

The significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets			
Accrued enterprise taxes and other taxes	¥ 729	¥ 829	\$ 6,178
Accrued bonuses	2,384	2,451	20,203
Write-down of inventories	1,618	1,342	13,712
Other	2,750	2,294	23,305
Sub-total deferred tax assets	7,481	6,916	63,398
Valuation allowance	(713)	(413)	(6,042)
Total deferred tax assets	6,768	6,503	57,356
Total deferred tax liabilities	27	25	229
Net deferred tax assets	¥ 6,741	¥ 6,478	\$ 57,127

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets			
Accrued retirement benefits	¥ 923	¥ 826	\$ 7,822
Write-down of investment securities	113	51	958
Impairment loss on property, plant and equipment	550	620	4,661
Other	2,917	2,440	24,720
Sub-total deferred tax assets	4,503	3,937	38,161
Valuation allowance	(1,347)	(1,080)	(11,415)
Total deferred tax assets	3,156	2,857	26,746
Deferred tax liabilities			
Deferred gain on sales of fixed assets for income tax purposes	108	105	915
Special depreciation	6	10	51
Unrealized gain on revaluation of securities	30	30	254
Prepaid pension cost	122	—	1,034
Other	45	62	382
Total deferred tax liabilities	311	207	2,636
Net deferred tax assets	¥ 2,845	¥ 2,650	\$ 24,110
Deferred tax liabilities			
Depreciation	¥ 4,511	¥ 5,056	\$ 38,229
Deferred gain on sales of fixed assets for income tax purposes	2,992	2,681	25,356
Special depreciation	236	303	2,000
Special account for reserve for deferred gains on sales of fixed assets	498	698	4,220
Unrealized gain on revaluation of securities	7,641	11,103	64,754
Prepaid pension costs	2,746	2,077	23,271
Other	880	885	7,458
Total deferred tax liabilities	19,504	22,803	165,288
Deferred tax assets			
Accrued retirement benefits	3,860	3,981	32,712
Write-down of investment securities	3,574	3,864	30,288
Impairment loss on property, plant and equipment	1,770	1,538	15,000
Other	2,819	4,077	23,890
Sub-total deferred tax assets	12,023	13,460	101,890
Valuation allowance	(3,648)	(4,371)	(30,916)
Total deferred tax assets	8,375	9,089	70,974
Net deferred tax liabilities	¥ 11,129	¥ 13,714	\$ 94,314

The deferred tax assets and liabilities of the consolidated subsidiaries in different tax jurisdictions are presented without offset in accordance with Japanese accounting practice.

10. RETIREMENT BENEFITS:

The following tables set forth the changes in the benefit obligation, plan assets and funded status of the Companies at March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation at end of year	¥ (42,262)	¥ (50,058)	\$ (358,152)
Fair value of plan assets at end of year	32,399	36,999	274,568
Funded status:			
Projected benefit obligation in excess of plan assets	(9,863)	(13,059)	(83,585)
Unrecognized prior service costs	(1,855)	(1,179)	(15,720)
Unrecognized actuarial losses	5,933	6,781	50,280
Accrued pension liability recognized in the consolidated balance sheets	(5,785)	(7,457)	(49,025)
Prepaid pension costs	7,106	5,142	60,220
Net accrued retirement benefits	¥ (12,891)	¥ (12,599)	\$ (109,245)

Accrued retirement benefits for directors and corporate auditors at March 31, 2007 and 2006, amounting to ¥180 million (\$1,525 thousand) and ¥805 million, respectively, are excluded from the above tables.

Retirement and pension costs of the Companies for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service costs	¥ 1,991	¥ 1,846	\$ 16,873
Interest costs	894	958	7,576
Expected return on plan assets	(1,377)	(1,132)	(11,669)
Amortization:			
Prior service costs	(115)	(104)	(975)
Actuarial losses	651	1,017	5,517
Net periodic benefit costs	¥ 2,044	¥ 2,585	\$ 17,322
Gain on changes in retirement benefits plan	(634)	—	(5,373)
Contributions to the pension plan	60	—	509
Total	¥ 1,470	¥ 2,585	\$ 12,458

Assumptions used in accounting for the defined benefit plan for the years ended March 31, 2007 and 2006 are as follows:

Discount rate	mainly 2.0%
Long-term rate of return on fund assets	mainly 4.0%
Amortization period for transition charges at date of adoption	1 year
Amortization period for prior service cost	mainly 15 years (straight-line method)
Amortization period for actuarial gains and losses	mainly 15 years (straight-line method)

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:

The major components of selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were as follows:

Account	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Freight and storage	¥ 13,894	¥ 13,758	\$ 117,746
Research and development	12,003	12,642	101,720
Salaries and bonuses	16,231	17,038	137,551

12. RESEARCH AND DEVELOPMENT EXPENSES:

Total research and development expenses for the years ended March 31, 2007 and 2006 amounted to ¥13,021 million (\$110,347 thousand) and ¥14,069 million, respectively.

13. COMMITMENTS AND CONTINGENCIES:

The Companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates and others, of ¥1,393 million (\$11,805 thousand) and ¥1,681 million at March 31, 2007 and 2006, respectively.

These guarantees include letters of commitment for guarantees, letters of awareness and other items of a similar nature.

14. LEASES:

(a) Financing leases

Lease transactions as a lessee:

Payment of fees for financing leases, in which ownership of the leased assets is not transferred to the lessee and which are not required to be capitalized, for the years ended March 31, 2007 and 2006, were ¥217 million (\$1,839 thousand) and ¥277 million, respectively.

Future lease payments, including amounts representing interest were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 173	¥ 237	\$ 1,466
Due after one year	163	256	1,381
	¥ 336	¥ 493	\$ 2,847

The leased assets were as follows:

Year ended March 31, 2007	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	¥ 945	¥ 608	¥ 337	\$ 2,856

Year ended March 31, 2006	Millions of yen		
	Cost	Accumulated depreciation	Net
Machinery and equipment	¥ 1,205	¥ 712	¥ 493

Lease transactions as a lessor are immaterial.

(b) Operating leases

Lease transactions as a lessee:

Future lease payments under non-cancellable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 431	¥ 378	\$ 3,653
Due after one year	2,479	2,472	21,008
	¥ 2,910	¥ 2,850	\$ 24,661

Lease transactions as a lessor are immaterial.

15. DERIVATIVE FINANCIAL INSTRUMENTS:

Derivative financial instruments are utilized by the Companies principally to reduce interest rate and foreign exchange risks. The Companies have established a control environment, which includes policies and procedures for risk assessment and for the

approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

Hedging instruments and hedged items

March 31, 2007 and 2006

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Future transactions in foreign currency
Currency swap contracts	Future transactions in foreign currency
Interest rate swap contracts	Interest payable

The forward foreign exchange contracts and currency swap contracts outstanding at March 31, 2007 and 2006 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:									
Foreign currency sales	¥ 35,905	¥ (4,032)	¥ (4,032)	¥ 32,440	¥ (2,498)	¥ (2,498)	\$ 304,280	\$ (34,169)	\$ (34,169)
Currency swap contracts:									
Yen into foreign currency obligation	13,311	(1,911)	(1,911)	13,829	(660)	(660)	112,805	(16,195)	(16,195)
	¥ 49,216	¥ (5,943)	¥ (5,943)	¥ 46,269	¥ (3,158)	¥ (3,158)	\$ 417,085	\$ (50,364)	\$ (50,364)

The amounts include currency swap contracts entered into in order to hedge inter-company transactions in foreign currency or forward foreign exchange contracts for accounts receivable and payable in foreign currency, which are not accounted for by

hedge accounting, but by the primary method of accounting for the instruments in accordance with the Accounting Standard for Financial Instruments. The amounts exclude derivative transactions to which hedge accounting is applied.

16. SEGMENT INFORMATION:

A summary of net sales and operating income and identifiable assets, capital expenditure, and depreciation and amortization by industrial segment for the years ended March 31, 2007 and 2006 is as follows:

Net sales and operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales			Operating income	Net sales			Operating income
	Outside customers	Inter-segment	Total		Outside customers	Inter-segment	Total	
Year ended March 31, 2007								
Chemicals and resins	¥ 201,222	¥ 377	¥ 201,599	¥ 35,644	\$ 1,705,271	\$ 3,195	\$ 1,708,466	\$ 302,068
Fibers and textiles	107,925	820	108,745	7,985	914,619	6,949	921,568	67,669
High performance materials, medical products and others	76,138	24,827	100,965	7,945	645,237	210,398	855,635	67,331
Total	385,285	26,024	411,309	51,574	3,265,127	220,542	3,485,669	437,068
Eliminated on consolidation and corporate	—	(26,024)	(26,024)	(11,354)	—	(220,542)	(220,542)	(96,221)
Consolidated total	¥ 385,285	¥ —	¥ 385,285	¥ 40,220	\$ 3,265,127	\$ —	\$ 3,265,127	\$ 340,847
Year ended March 31, 2006								
Chemicals and resins	¥ 190,753	¥ 723	¥ 191,476	¥ 31,868				
Fibers and textiles	109,107	684	109,791	9,451				
High performance materials, medical products and others	75,213	27,105	102,318	8,456				
Total	375,073	28,512	403,585	49,775				
Eliminated on consolidation and corporate	—	(28,512)	(28,512)	(11,498)				
Consolidated total	¥ 375,073	¥ —	¥ 375,073	¥ 38,277				

Identifiable assets, capital expenditure, and depreciation and amortization

	Millions of yen			Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization
Year ended March 31, 2007						
Chemicals and resins	¥ 269,849	¥ 22,785	¥ 16,368	\$ 2,286,856	\$ 193,093	\$ 138,712
Fibers and textiles	80,072	5,932	4,153	678,576	50,271	35,195
High performance materials, medical products and others	68,818	3,232	3,096	583,203	27,390	26,237
Total	418,739	31,949	23,617	3,548,635	270,754	200,144
Eliminated on consolidation and corporate	89,956	5,751	1,879	762,340	48,738	15,924
Consolidated total	¥ 508,695	¥ 37,700	¥ 25,496	\$ 4,310,975	\$ 319,492	\$ 216,068
Year ended March 31, 2006						
Chemicals and resins	¥ 243,384	¥ 23,810	¥ 16,029			
Fibers and textiles	80,501	4,787	3,845			
High performance materials, medical products and others	69,571	3,283	3,720			
Total	393,456	31,880	23,594			
Eliminated on consolidation and corporate	87,901	1,992	1,592			
Consolidated total	¥ 481,357	¥ 33,872	¥ 25,186			

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries and affiliates adopted "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed Assets".

As a result of this change, identifiable assets for each segment decreased as follows.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Chemicals and resins	¥ 366	¥ —	¥ 3,102
Fibers and textiles	45	1,242	382
High performance materials, medical products and others	1,107	4,207	9,381
Corporate	140	—	1,186
Total	¥ 1,658	¥ 5,449	¥ 14,051

A summary of net sales, operating income and identifiable assets by geographic segment for the years ended March 31, 2007 and 2006 is as follows:

	Millions of yen			Operating income (loss)	Identifiable assets
	Outside customers	Net sales Inter-segment	Total		
Year ended March 31, 2007					
Domestic (inside Japan)	¥ 288,447	¥ 24,291	¥ 312,738	¥ 47,282	¥ 270,163
North America	23,147	2,418	25,565	1,664	48,012
Europe	57,709	3,768	61,477	3,580	93,646
Asia	15,982	2,950	18,932	(607)	8,565
Total	385,285	33,427	418,712	51,919	420,386
Eliminated on consolidation and corporate	—	(33,427)	(33,427)	(11,699)	88,309
Consolidated total	¥ 385,285	¥ —	¥ 385,285	¥ 40,220	¥ 508,695
Year ended March 31, 2006					
Domestic (inside Japan)	¥ 273,757	¥ 28,770	¥ 302,527	¥ 43,570	¥ 255,812
North America	30,610	3,544	34,154	2,987	44,666
Europe	53,974	3,191	57,165	3,211	87,940
Asia	16,732	1,936	18,668	(276)	9,986
Total	375,073	37,441	412,514	49,492	398,404
Eliminated on consolidation and corporate	—	(37,441)	(37,441)	(11,215)	82,953
Consolidated total	¥ 375,073	¥ —	¥ 375,073	¥ 38,277	¥ 481,357

	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	Outside customers	Inter-segment	Total		
Year ended March 31, 2007					
Domestic (inside Japan)	\$ 2,444,466	\$ 205,856	\$ 2,650,322	\$ 400,695	\$ 2,289,517
North America	196,161	20,492	216,653	14,102	406,881
Europe	489,059	31,932	520,991	30,339	793,610
Asia	135,441	25,000	160,441	(5,144)	72,585
Total	3,265,127	283,280	3,548,407	439,992	3,562,593
Eliminated on consolidation and corporate	—	(283,280)	(283,280)	(99,145)	748,382
Consolidated total	\$ 3,265,127	\$ —	\$ 3,265,127	\$ 340,847	\$ 4,310,975

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries and affiliates adopted "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed Assets".

As a result of this change, identifiable assets for "Domestic (inside Japan)" decreased ¥1,658 million (\$14,051 thousand) and ¥5,455 million at March 31, 2007 and 2006.

For the years ended March 31, 2007 and 2006, a summary of foreign sales, consisting of the export sales of the Company and its domestic consolidated subsidiaries and the sales of foreign consolidated subsidiaries, is as follows:

	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
Year ended March 31, 2007					
North America	¥ 28,984	¥ —	7.5%	\$ 245,627	
Europe	63,211	—	16.4	535,686	
Asia	67,091	—	17.4	568,568	
Other	7,465	—	1.9	63,263	
Total	¥ 166,751	¥ 385,285	43.3%	\$ 1,413,144	\$ 3,265,127
Year ended March 31, 2006					
North America	¥ 35,413	¥ —	9.5%		
Europe	58,926	—	15.7		
Asia	60,062	—	16.0		
Other	8,641	—	2.3		
Total	¥ 163,042	¥ 375,073	43.5%		

17. SUBSEQUENT EVENTS:

(a) Cash dividends

At an ordinary general meeting of shareholders held on June 20, 2007, the following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, were approved.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥10.00 (0.08) per share	¥ 3,680	\$ 31,186

The above year-end cash dividends per share and interim cash dividends of ¥8.50 (\$0.07) per share paid in December 2006 made a total annual cash dividend of ¥18.50 (\$0.16) per share.

(b) Stock option plan

The Board of Directors of the Company on May 16, 2007 and June 4, 2007, approved the issuance of new stock acquisition rights in the form of a stock option plan for directors and execu-

tive officers of the Company. Based on this approval, the Company issued new stock acquisition rights of 56,500 shares of common stock of the Company. These rights are exercisable from June 6, 2007 to June 5, 2022 on the condition that is within 10 days from the day after a director or an executive officer with the rights loses the each position. The exercise price is ¥1 (\$0.01) per share.

(c) Acquisition of treasury stock

The Board of Directors of the Company on June 19, 2007, approved the acquisition up to 23,000 thousand shares of the Company's common stock (the ratio 6.0% for issue stock total number) as treasury stock, improving the return to stockholders by better capital efficiency.

Method of acquisition	Tokyo stock exchange Trading
Acquisition amount	¥30,000 million
Term of acquisition	from June 21, 2007 to June 20, 2008

Report of Independent Auditors

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

PricewaterhouseCoopers Aarata

PRICEWATERHOUSECOOPERS 

NM Plaza Midosuji Bldg., 5th Floor
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To the Board of Directors of Kuraray Co., Ltd.

We have audited the accompanying consolidated balance sheet of Kuraray Co., Ltd. ("the Company") and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.



June 20, 2007