

PIONEERING

PROGRESSIVE

REFINEMENT

Contents

Consolidated Six-Year Summary	37
Financial Review	38
Consolidated Balance Sheets	44
Consolidated Statements of Income	46
Consolidated Statements of Changes In Net Assets	47
Consolidated Statements of Cash Flows	49
Segment Information	
Industrial segment information	50
Geographic segment information	51
Foreign Sales	52
Notes to Consolidated Financial Statements	53
Report of Independent Auditors	94

Consolidated Six-Year Summary

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31	Millions of yen						Millions of U.S. dollars (Note 1)
	2008	2007	2006	2005	2004	2003	2008
Net sales	¥ 417,601	¥ 385,284	¥ 375,072	¥ 354,874	¥ 332,149	¥ 322,523	\$ 4,176
Cost of sales	295,220	275,885	266,283	254,114	236,245	230,617	2,952
Selling, general and administrative expenses	74,250	69,178	70,512	67,572	67,857	66,720	742
Operating income	48,130	40,220	38,277	33,186	28,045	25,186	481
Net income	25,554	22,412	21,185	18,465	15,181	8,051	255
Capital expenditure	42,720	37,700	33,871	45,715	32,164	19,091	427
Depreciation and amortization	31,485	25,495	25,185	21,323	20,784	19,108	314
Gross cash flow	57,040	47,908	46,372	39,789	35,966	27,159	570
Total research and development expenses	15,250	13,021	14,068	13,873	13,683	12,523	152
Total assets	490,365	508,694	481,357	454,940	413,227	426,877	4,903
Total current assets	196,282	217,970	200,667	182,317	171,428	185,747	1,962
Total tangible fixed assets	192,362	174,151	159,396	158,293	137,867	135,984	1,923
Total current liabilities	89,074	94,404	79,228	84,856	75,165	97,394	890
Total noncurrent liabilities	56,457	55,697	60,646	54,900	37,689	42,155	564
Total shareholders' equity (Note 4)	—	—	339,127	312,929	300,306	287,263	—
Total net assets (Note 4)	344,833	358,592	—	—	—	—	3,448
Amounts per share:	Yen						U.S. dollars (Note 1)
Net income:							
Primary	¥ 72.15	¥ 60.95	¥ 57.51	¥ 50.13	¥ 40.81	¥ 21.01	\$ 0.72
Fully diluted	71.99	60.80	57.41	50.12	—	20.71	0.72
Cash dividends applicable to period	22.00	18.50	15.00	12.00	10.00	9.00	0.22
Total shareholders' equity	981.82	967.80	922.65	852.26	817.57	771.38	9.81
Financial ratios:							
Cost of sales ratio (%)	70.5%	71.6%	71.0%	71.6%	71.1%	71.5%	
Equity ratio (%)	69.7	70.0	70.5	68.8	72.7	67.3	
Return on equity (ROE) (%)	7.3	6.4	6.5	6.0	5.2	2.8	
Return on assets (ROA) (%)	9.6	8.1	8.2	7.6	6.7	5.5	
Number of employees	6,770	6,812	6,842	6,919	6,760	6,983	

Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥100=\$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."

Figures rounded down to the nearest million of yen & US dollars.

Financial Review

Kuraray Co., Ltd. and its Consolidated Subsidiaries

The following section refers to the consolidated financial statements of the Kuraray Group for fiscal 2007 (April 1, 2007 to March 31, 2008).

SALES

Consolidated net sales increased 8.4%, or ¥32,317 million (US\$ 323 million), to ¥417,601 million (US\$4,176 million).

Sales increased in the Chemicals and Resins Business by ¥42,563 million (US\$425 million), or 21.2% year on year, to ¥243,784 million (US\$2,437 million).

The poval business saw increases in both sales and earnings. Factors contributing to this were as follows. Demand for poval resins expanded, and price revisions and an improvement in the product portfolio substantially progressed. In January 2008, POVAL ASIA PTE LTD., a poval resin manufacturing company, became a wholly-owned subsidiary. Sales of optical-use poval film grew reflecting increased demand for LCDs for large-screen TVs and other devices. A new production line (30 million m²), which will expand yearly production from 61 million m² to 91 million m², came into operation in the year under review at the Kurashiki plant. PVB film sales increased as volume for applications in the construction industry in Europe remained robust.

EVAL, an *EVOH* resin, recorded higher sales. However, earnings in real terms, excluding the effects of the closing date change made during the previous year, remained about level. Although *EVAL* price adjustments designed to offset raw material and fuels prices gradually took hold, our business in the United States was affected by trouble at the plant from which we procure materials. Sales for food packaging applications were firm. Sales for gasoline tank applications were low in the United States, but grew globally overall on a volume basis.

Sales and profit of isoprene-related products increased overall, although earnings were impacted by elevated raw material and

fuel prices. Kuraray worked to develop differentiated products, adjust prices and bring down costs of *SEPTON* thermoplastic elastomer products. Sales of specialty chemicals were strong, particularly in overseas markets, but conditions remained severe in the fine chemicals business, impacted by intense international competition in aroma chemicals and agricultural intermediates. We terminated a part of the aroma chemicals business in March 2008, due to worsened business profitability.

While sales of methacrylic resins increased, price adjustments were not enough to offset high raw material and fuels costs, thus earnings declined. Demand for molding materials for light-guide plates remained strong.

The Fibers and Textiles Business recorded lower sales and earnings. Sales decreased ¥2,689 million (US\$26 million), or 2.5% year on year, to ¥105,235 million (US\$1,052 million).

Sales of *KURALON* slightly increased, while earnings were flat. Although demand for *KURALON* as an alternative to asbestos for use in reinforcing cement remained favorable, the business was affected by high raw material and fuel prices. In response to further increased demand for *KURALON* for FRC (Fiber Reinforced Cement), we have decided to expand *KURALON* production with an additional 5,000 tons of annual production capacity (scheduled to commence production in December 2008).

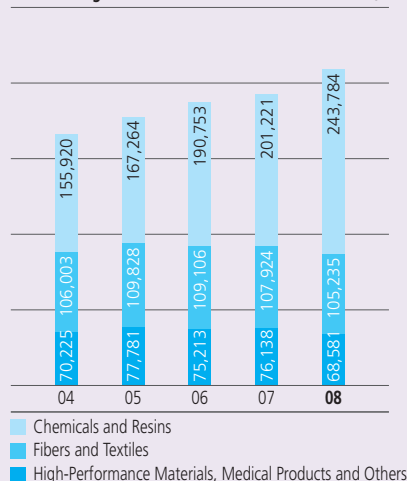
Although demand for *CLARINO* man-made leather for use in bags and accessories remained favorable, stagnant sales for shoe applications on top of the impact of high raw material and fuel prices resulted in waning sales and earnings in this business.

While the nonwoven fabrics business recorded the same level of sales and slightly lower earnings, the hook and loop fasteners business recorded higher sales but slightly lower earnings. Although both businesses were impacted by the high material and fuel prices, sales of nonwovens to the automotive industry

Net Sales & Operating Income Margin ¥ Million, %



Net Sales by Business Segment ¥ Million



were firm on a volume basis and sales of hook and loop fasteners for applications in industrial materials were strong.

Sales of *VECTRAN* high-strength fiber remained steady owing to application development mainly in the U.S. market. In November 2007, we strengthened the capacity of production to 1,000 tons annually, and started running at the increased capacity.

In the polyester business, sales declined, but earnings were flat. Steady progress was seen in sports clothing and other Kuraray specialty fields. The impact of high raw material and fuel prices was felt, leading Kuraray to take steps to shift the burden through price adjustments and cost cutting.

The High-Performance Materials, Medical Products and Others Business recorded lower sales and earnings. Sales decreased ¥7,556 million (US\$75 million), or 9.9% year on year, to ¥68,581 million (US\$685 million).

In the medical business, sales of dental materials expanded in the United States, Europe and other overseas regions. In October 2007, Kuraray merged its dialyzer business in Asahi Kasei Kuraray Medical Co., Ltd.

In high-performance materials, demand remained strong in Asian markets for *GENESTAR* heat-resistant polyamide resin for use as a material in electronics. In order to meet this burgeoning demand, Kuraray is currently working on expanding *GENESTAR* production. Sales in the activated carbon business increased, but earnings declined. Demand in water purification applications was stable, but the business was affected by the high raw material and fuel prices. With the exception of some engineering businesses, other related businesses remained sluggish overall, which forced lower earnings.

Owing to the cessation of opto-screen production in December 2006 and the subsequent withdrawal from the opto-screen business, sales in this business declined.

Unallocatable operating expenses included in eliminations and

unallocatable corporate expenses increased by ¥3,647 million (US\$36 million) to ¥14,966 million (US\$149 million).

Sales in Japan rose owing to increased orders for optical-use poval film, *EVAL*, *SEPTON*, and optical-use methacrylic resin, and our efforts to revise prices of PVA resin and other products. As a result, sales totaled ¥294,017 million (US\$2,940 million).

Although *EVAL* price adjustments designed to offset raw material and fuels prices gradually took hold, the business in the United States was affected by trouble at the plant from which we procure materials. Sales for gasoline tank applications were low. On the other hand, sales of *SEPTON* and dental materials rose as orders on a volume basis increased. As a result, sales in North America were up to ¥31,551 million (US\$315 million).

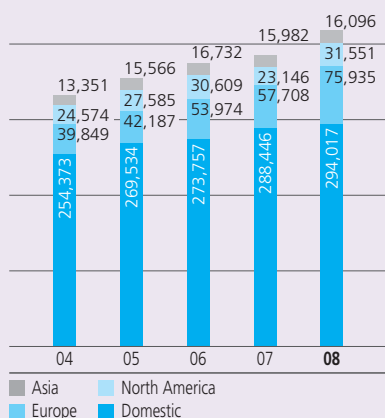
Europe enjoyed increased sales, despite the impact of high raw material and fuel prices, seeing robust demand for PVB film for construction applications and poval resin. As a result, sales rose to ¥75,935 million (US\$759 million).

As a result of steady demand for *CLARINO* in bags and accessories applications as well as for poval resin on top of product price adjustments, earnings showed improvement. As a result, sales grew to ¥16,096 million (US\$160 million).

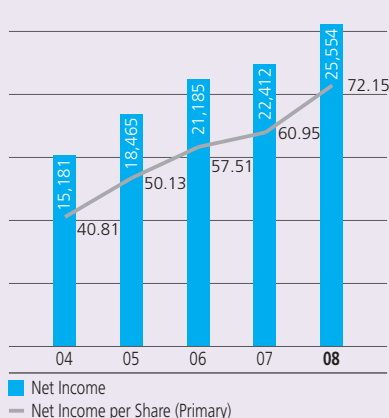
OPERATING AND NET INCOME

Cost of sales increased 7.0% to ¥295,220 million (US\$2,952 million), and decreased as a percentage of sales to 70.7%, from the previous fiscal year's 71.6%. 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 increased 7.3% to ¥74,250 million (US\$742 million), down 0.2 percentage points year-on-year to

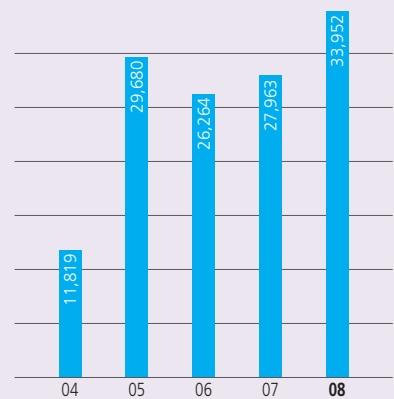
Net Sales by Geographic Segment ¥ Million



Net Income & Net Income per Share (Primary) ¥ Million, ¥



Interest-Bearing Debt ¥ Million



17.8% as a percentage of sales, again due to cost cutting efforts. As a result in the lower cost of sales, price increases in response to high materials and fuel costs, along with the higher SG&A, operating income rose by 19.7% to ¥48,130 million (US\$481 million).

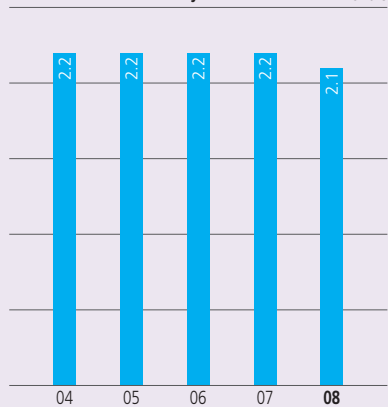
Operating margin improved to 11.5% from 10.4% in fiscal 2006, the seventh consecutive year of improvement, from 6.2% in fiscal 2002. Lower asset impairment charges on property, plant and equipment, an improvement of ¥598 million (US\$5 million), were offset by increases in restructuring charges, a worsening of ¥4,101 million (US\$41 million), and gains of sales of investment securities increased ¥1,489 million (US\$14 million) year-on-year. These and other factors combined to an increase in income before taxes and minority interest of 11.1% to ¥39,539 million (US\$395 million). Taxes for the period came to ¥13,887 million (US\$138 million), yielding an effective tax rate of 35.12%. Net income rose 11.4% to ¥25,554 million (US\$255 million), the seventh consecutive year of higher income from ¥2,866 million in fiscal 2002.

FINANCIAL POSITION

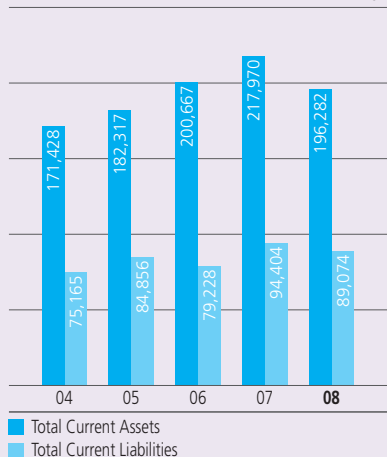
As of March 31, 2008, cash and cash equivalents fell ¥21,843 million (US\$218 million) to ¥12,189 million (US\$121 million). Notes and accounts receivable decreased ¥713 million (US\$7 million) to ¥95,472 million (US\$954 million). Lastly, inventories increased ¥302 million (US\$3 million) to ¥72,534 million (US\$725 million) along with the increase in sales, and the sales months in inventory metric was 2.1 months better than that in fiscal 2006, at 2.2 months. As a result of these and other factors, current assets fell 8.6% to ¥196,282 million (US\$1,962 million). Working capital fell ¥16,069 million (US\$160 million) to ¥119,205 million (US\$1,192 million). The current ratio declined to 220.4% from fiscal 2006's 230.9%. Strategic acquisition and expansion brought property plant and equipment higher by 10.5% to ¥192,362 million (US\$1,923 mil-

lion). This included factors such as an increase in machinery and equipment, of ¥23,246 million (US\$232 million), to ¥110,229 million (US\$1,102 million) and a fall in construction-in-progress, of ¥8,467 million (US\$84 million), to ¥26,510 million (US\$265 million). Investments and other assets fell ¥13,621 million (US\$136 million) to ¥67,712 million (US\$677 million). Prepaid pension costs increased ¥433 million (US\$4 million), to ¥7,540 million (US\$75 million). Total assets decreased ¥18,328 million (US\$183 million) to ¥490,365 million (US\$4,903 million), and return on assets (operating income divided by average total assets for the period) rose by 1.5%, from last year to 9.6%. Current liabilities decreased ¥5,329 million (US\$53 million) to ¥89,074 million (US\$890 million). A decrease of ¥4,433 million (US\$44 million), to ¥39,170 million (US\$391 million) in notes and accounts payable, along with other factors, was the cause of the current liability decrease. Non-current liabilities rose ¥759 million (US\$7 million) to ¥56,457 million (US\$564 million). Factors for the increase included an increase in long-term loans payable of ¥5,699 million (US\$56 million), to ¥11,954 million (US\$119 million), and a decline in deferred taxes of ¥5,442 million (US\$54 million), to ¥5,686 million (US\$56 million). Lastly regarding net assets, from fiscal 2006 onward, Japanese accounting standards now require presentation of net assets instead of shareholders' equity. Net assets decreased ¥13,758 million (US\$137 million) to ¥344,833 million (US\$3,448 million) due mainly to a ¥17,855 million (US\$178 million) increase year-on-year in retained earnings and a ¥29,638 million (US\$296 million) increase in treasury stock. Subtracting minority interest of ¥2,875 million (US\$28 million) to yield shareholders' equity of ¥341,940 million (US\$3,419 million), the equity ratio for the period was 69.7%, down 0.3% from fiscal 2006.

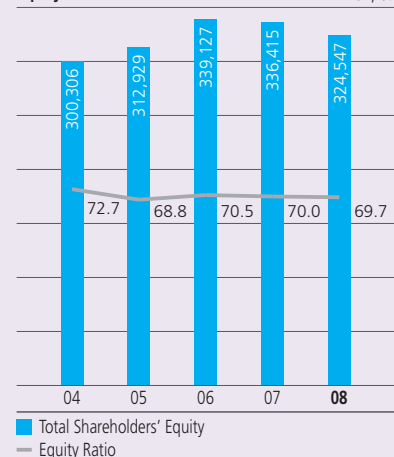
Number of Months' Sales in Inventory



Total Current Assets & Total Current Liabilities



Total Shareholders' Equity & Equity Ratio



CASH FLOWS

Net cash and cash equivalents provided by operating activities increased ¥17,495 million (US\$174 million) to ¥56,456 million (US\$564 million). The increase stemmed from factors including lower inventory purchases of ¥1,287 million (US\$12 million), and a decrease in notes and accounts payable of ¥6,357 million (US\$63 million), but was offset by higher income taxes paid of ¥369 million (US\$3 million). Net cash and cash equivalents used by investing activities increased ¥16,281 million (US\$162 million) to ¥45,217 million (US\$452 million). As a result of factors including lower proceeds from sale and redemption of investment securities of ¥5,199 million (US\$51 million), lower proceeds from the cancellation of insurance contracts of ¥994 million (US\$9 million), a decrease in marketable securities of ¥3,232 million (US\$32 million), lower proceeds from sales of assets of ¥4,799 million (US\$47 million), and lower outlays for the purchase of investment securities of ¥3,691 million (US\$36 million), cash outlays were higher for the period.

Net cash and cash equivalents used in financing activities increased ¥28,747 million (US\$287 million) to ¥33,097 million (US\$330 million). As a result of an increase in dividends paid of ¥1,261 million (US\$12 million), higher proceeds from issuance of long-term debt of ¥7,100 million (US\$71 million), decreases in repayment of short-term bank loans of ¥4,143 million (US\$41 million), and higher repayments of long-term debt of ¥8,612 million (US\$86 million), cash outlays were lower for the period.

RESEARCH AND DEVELOPMENT

All division R&D and corporate R&D activities in each Kuraray segment, business division, and group companies are closely coordinated and guided by our corporate mission to open new fields of business using pioneering technology and contribute to

an improved natural environment and quality of life.

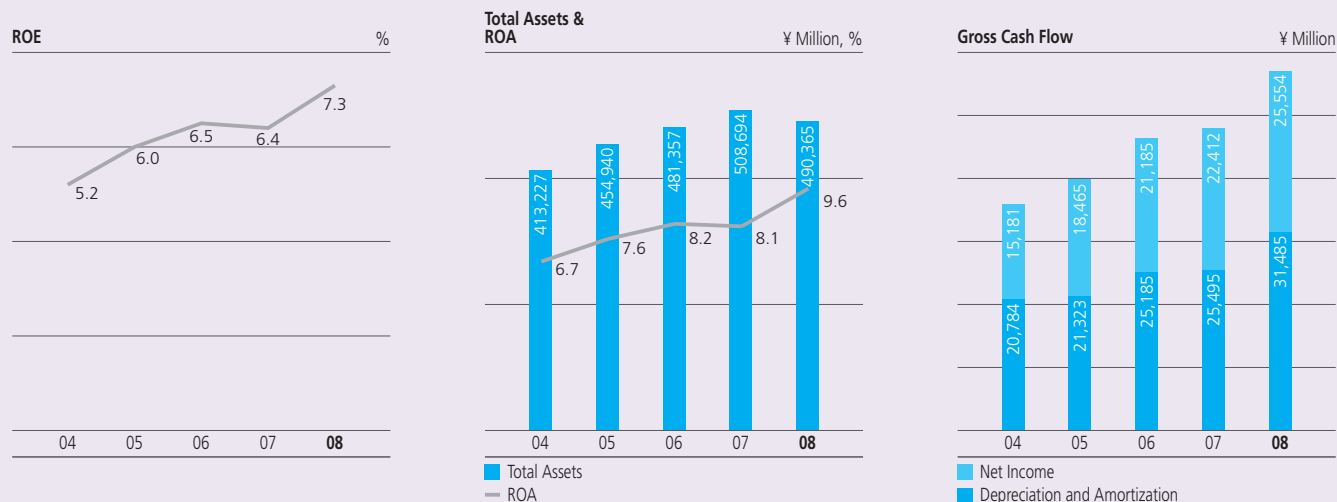
The GS-21 Medium-term Business Plan for fiscal years 2006 to 2008 aims to “shift R&D emphasis from quantity to quality to transform Kuraray into a specialty chemicals company capable of sustainable growth.” The plan outlines a companywide policy to concentrate business development on our highly refined, high-performance materials and components focused in the promising growth fields of optics, electrical and electronics, automobiles, environmental products, energy, and health care.

In fiscal 2007, Kuraray appointed a Chief Technology Officer (CTO) to oversee the acceleration of R&D activities and fortify the technical capabilities throughout the company. Under the new CTO, we reformulated the development staff structure and narrowed the focus of our core development themes to augment our ability for effective selectivity and focus. These moves increased our ability to identify high-potential directions for corporate R&D and enhanced our support system for new business creation.

Total R&D expenses for the year totaled ¥15,248 million (US\$152 million). R&D expenses by segment were Chemical and Resins Business ¥5,260 million (US\$52 million), Fibers and Textiles Business ¥2,712 million (US\$27 million), and High-Performance Materials, Medical Products and Others Business ¥1,876 million (US\$18 million). Corporate R&D expenses totaled ¥5,400 million (US\$54 million).

CAPITAL EXPENDITURE

Kuraray Group’s (parent company and consolidated subsidiaries) capital investment in fiscal 2007 amounted to ¥42,720 million (US\$427 million). The majority focused on production facility expansion with a significant portion also allocated to R&D activities. By segment, the Chemicals and Resins Business invested ¥23,434 million (US\$234 million) primarily to expand production



capacity for optical-use poval film and to streamline production processes. The Fibers and Textiles Business invested ¥7,795 million (US\$77 million) focused on streamlining production processes. The High-Performance Materials, Medical Products and Others Business invested ¥8,592 million (US\$85 million) mainly to expand production capacity of GENESTAR heat-resistant polyamide resin and streamline production processes. General (non-segment) capital investment amounted to ¥2,898 million (US\$28 million) and primarily focused on fundamental research.

OUTLOOK

In fiscal 2008, we expect the severity of the business environment to worsen because of a slowdown in the world economy arising from the turbulence in the U.S. financial market and continued high raw material and fuel prices. Based on the recognition of this circumstance, the Kuraray Group will pursue the following business initiatives.

In the Chemicals and Resins Business, Kuraray will expand production capacity of optical-use poval film and further enhance its functions. In poval resins, we will work to revise prices and increase sales of differentiated products. In PVB films, we will take steps to expand applications, particularly in the construction industry. In the EVAL business, we will work to spread price adjustments and accelerate market development in emerging countries such as Asian countries including China. In isoprene-related products, we will strive to speed up price revisions and expansion of overseas sales of new thermoplastic elastomers as well as market expansion for solvent specialty chemicals. In methacrylic resins, Kuraray will revise prices and further boost sales of high-performance products.

In the Fibers and Textiles Business, we will work to expand the number of specialized applications such as overseas FRC applications for KURALON. We will work to fully promote market

expansion for TIRRENINA man-made leather, an eco-friendly variety of CLARINO. In nonwoven fabrics, we will take steps to accelerate market expansion by developing applications for our New-Type Nonwoven Fabric (steam jet products), realized through Kuraray's steam jet technology, as well as focus on expanding applications for hook and loop fasteners for car and other industries in collaboration with specialty trading companies. We will reinforce the development of applications for VECTRAN high-strength fiber centering on exports to the United States. In the polyester business, we will expand sales of uniforms and other sportswear products.

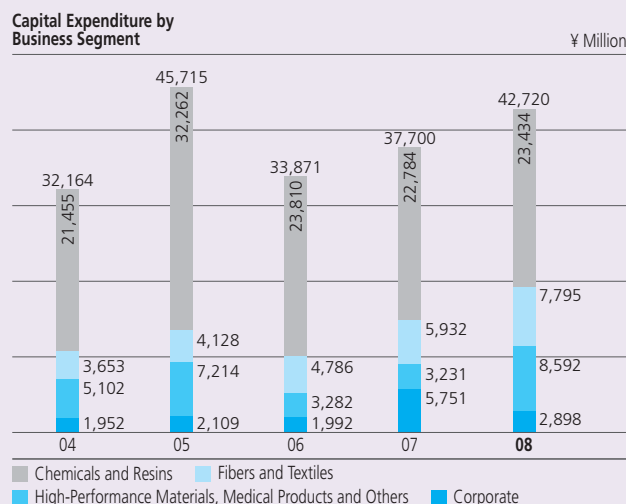
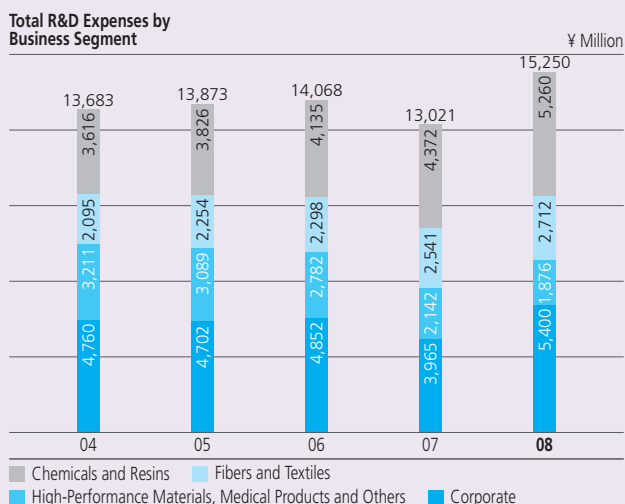
In High-Performance Materials, Medical Products and Others, we will strengthen the sales of dental materials in Europe, the United States and other overseas markets. We will also increase the production capacity and broaden the use of GENESTAR as a material in electronics and speed up the development of its uses in automobiles. Concerning the Water Treatment Business, in addition to further expanding the activated carbon business, we will use Kuraray Aqua Co., Ltd., a joint venture incorporated in March 2008, as the driving force behind comprehensive measures spanning development and sales of materials, design of plant and equipment, and maintenance.

Our forecasts for the fiscal year ending March 31, 2009 are net sales of ¥450 billion (US\$4.5 billion), operating income of ¥51 billion (US\$510 million), ordinary income of ¥48 billion (US\$480 million) and net income of ¥28 billion (US\$280 million).

Forecasts for fiscal 2008 assume average exchanges rates of ¥105 to the U.S. dollar and ¥160 to the euro, as well as a price of ¥68 thousand per kiloliter for domestically produced naphtha.

BUSINESS RISKS

Significant risks that could have an impact on the Kuraray Group's performance (results of operations and financial position) are dis-



cussed below. Forward-looking statements in the following sentences represent the Kuraray Group's best judgment as of March 31, 2008.

1. Changes in the 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 Group is strategically expanding net sales and profits in this field, where the market environment can undergo drastic changes within a short period as a result of reverses in industry standards and changes in the supply/demand balance. If such events were to occur, sales volumes could contract, sales prices could fall, or businesses could be forced to downsize or withdraw from a market within a short time frame, with an adverse effect on the Kuraray Group's performance.

2. Procurement and price changes of raw materials and fuels

The Kuraray Group is primarily engaged in the manufacture and sales of chemical products, synthetic resins, synthetic fibers and textiles, and finished goods made from the aforementioned. The Group also purchases various raw materials and fuels from external companies, including special materials that can only be procured from limited supplier sources, and those supplied via pipeline from specific suppliers. Therefore, if those procured items became limited in supply or ceased being supplied by natural disasters or by accidents at the suppliers, it is possible that the Kuraray Group's performance will be adversely affected. In the business structure of the Group, the effects of raw materials and fuel prices on cost of sales are relatively large. If high market prices for crude oil, natural gas, or raw materials required for our products, such as ethylene and other chemical materials, cannot be offset by internal measures such as increases in productivity and passing costs along in sales prices, it is possible that the Kuraray Group's performance will be adversely affected.

3. Changes in exchange rates

The Kuraray Group is expanding its manufacturing and sales operations in Japan and in various overseas regions, including Europe, North America, and Asia. Export prices of the Kuraray Group's domestically manufactured products are affected by changes in exchange rates. In sales of products manufactured at our overseas facilities, procurement and sales prices in different currency blocks and the value of foreign-currency-denominated assets and liabilities are affected by changes in exchange rates. It is possible that the Kuraray Group will be affected negatively by exchange rate fluctuations if they exceed the scope of our assumptions.

4. Product defects

The Kuraray Group has instituted thorough product quality-control measures, and the 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 or large amount of compensation. Under such circumstances, recall expenses, compensation, indemnities of customers, legal costs thereof, and loss of public trust could adversely affect the performance of the Kuraray Group.

5. Litigation and regulations

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, Kuraray did not face litigation of a material nature. In the event the Group is subject to future litigation, however, its performance could be adversely affected. In the business fields of the Group, there are various regulations on products, raw materials, etc. In the event that these regulations are tightened and a lot of time and expenses are needed to respond thereto, or customers' business policies change thereby, the performance of the Kuraray Group could be adversely affected.

6. Accidents, disasters and environmental measures

The Kuraray Group has manufacturing facilities in Japan, Europe, North America, and Asia. Many of these are large chemical plants that use a variety of chemicals. If an unexpected industrial accident or release of pollutants to the environment should occur, the loss of the lives or property of employees and third parties could result in claims against the assets of the Kuraray Group and halt manufacturing operations for long periods, adversely affecting the performance of the Kuraray Group. The occurrence of earthquakes, floods, or other natural disasters, an epidemic of communicable disease or other medical incidents, wars, riots, terrorist attacks, trouble with information and communication systems, or information leaks could interfere with the business operations of the Kuraray Group, with an adverse impact on performance. Because manufacturing facilities of the Group use considerable amount of energy (electricity, steam, etc.), they emit a great deal of carbon dioxide, a global-warming gas. Although the Group is taking tiered measures to reduce carbon dioxide emissions, if tighter official restrictions on emission gas amount is enforced in the future and thereby our business operations are significantly restricted, it is possible that the performance of the Kuraray Group will be adversely affected. 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.

Consolidated Balance Sheets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2007 and 2008	Millions of yen		Thousands of U.S. dollars
	Fiscal 2006	Fiscal 2007	Fiscal 2007
ASSETS			
I Current assets:			
1 Cash and deposits	¥ 22,924	¥ 11,109	\$ 111,091
2 Notes and accounts receivable - trade	96,186	95,472	954,721
3 Short-term investment securities	12,997	2,062	20,626
4 Inventories	72,231	72,534	725,341
5 Deferred tax assets	6,741	7,362	73,620
6 Other	7,781	8,764	87,644
7 Allowance for doubtful accounts	(892)	(1,021)	(10,218)
Total current assets	217,970	196,282	1,962,827
II Noncurrent assets:			
1 Tangible fixed assets: (Notes *1)			
(1) Buildings and structures (Notes *2)	30,632	33,853	338,531
(2) Machinery and equipment (Notes *2)	86,982	110,229	1,102,290
(3) Land	19,028	19,094	190,947
(4) Construction in progress	34,978	26,510	265,109
(5) Other (Notes *2)	2,529	2,674	26,746
Total tangible fixed assets	174,151	192,362	1,923,624
2 Intangible fixed assets:			
(1) Goodwill	29,298	28,596	285,968
(2) Other intangible fixed assets	5,940	5,411	54,117
Total intangible fixed assets	35,238	34,008	340,086
3 Investments and other assets:			
(1) Investment securities (Notes *3, *5)	49,238	51,590	515,904
(2) Long-term loans receivable	2,709	392	3,920
(3) Deferred tax assets	2,844	3,538	35,384
(4) Insurance funds	14,653	—	—
(5) Prepaid pension cost	7,106	7,540	75,400
(6) Other	4,798	4,962	49,621
(7) Allowance for doubtful accounts	(18)	(311)	(3,112)
Total investments and other assets	81,333	67,712	677,120
Total noncurrent assets	290,724	294,083	2,940,831
TOTAL ASSETS	¥ 508,694	¥ 490,365	\$ 4,903,659

The accompanying notes are integral part of the financial information.

March 31, 2007 and 2008	Millions of yen		Thousands of U.S. dollars
	Fiscal 2006	Fiscal 2007	Fiscal 2007
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable-trade	¥ 43,604	¥ 39,170	\$ 391,706
2 Short-term loans payable	11,708	11,997	119,973
3 Income taxes payable	6,735	8,826	88,262
4 Provision for bonuses	6,200	6,716	67,167
5 Other provision	29	66	668
6 Other	26,126	22,296	222,964
Total current liabilities	94,404	89,074	890,743
II Noncurrent liabilities:			
1 Bonds payable	10,000	10,000	100,000
2 Long-term loans payable	6,255	11,954	119,549
3 Deferred tax liabilities	11,128	5,686	56,862
4 Provision for retirement benefits	12,890	12,959	129,590
5 Provision for directors' retirement benefits	180	191	1,918
6 Other	15,242	15,665	156,655
Total noncurrent liabilities	55,697	56,457	564,577
TOTAL LIABILITIES	150,101	145,532	1,455,320
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	889,553
2 Capital surplus	87,314	87,228	872,288
3 Retained earnings	171,427	189,282	1,892,828
4 Treasury stock	(11,280)	(40,919)	(409,193)
Total shareholders' equity	336,415	324,547	3,245,477
II Valuation and translation adjustments			
1 Valuation difference on available-for-sale securities	11,321	6,895	68,956
2 Deferred gains or losses on hedges	(8)	18	185
3 Foreign currency translation adjustment	8,410	10,427	104,273
Total valuation and translation adjustments	19,723	17,341	173,414
III Subscription rights to shares			
	—	69	691
IV Minority interests			
	2,453	2,875	28,755
TOTAL NET ASSETS	358,592	344,833	3,448,339
TOTAL LIABILITIES AND NET ASSETS	¥ 508,694	¥ 490,365	\$ 4,903,659

The accompanying notes are integral part of the financial information.

Consolidated Statements of Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2007 and 2008	Millions of yen		Thousands of U.S. dollars
	Fiscal 2006	Fiscal 2007	Fiscal 2007
I Net sales	¥ 385,284	¥ 417,601	\$ 4,176,019
II Cost of sales (Notes *2)	275,885	295,220	2,952,205
Gross profit	109,398	122,381	1,223,813
III Selling, general and administrative expenses (Notes *1)			
1 Selling expenses	21,031	21,833	218,338
2 General and administrative expenses (Notes *2)	48,147	52,417	524,170
Total selling, general and administrative expenses	69,178	74,250	742,508
Operating income	40,220	48,130	481,305
IV Non-operating income:			
1 Interest income	1,021	714	7,147
2 Dividend income	918	1,681	16,810
3 Equity in earnings of affiliates	77	—	—
4 Miscellaneous income	812	1,360	13,603
Total non-operating income	2,829	3,756	37,561
V Non-operating expenses:			
1 Interest expenses	419	835	8,350
2 Equity in loss of affiliates	—	20	208
3 Foreign exchange losses	—	1,341	13,413
4 Loss on disposal of inventories	1,236	1,236	12,367
5 Miscellaneous expenses	4,848	5,634	56,348
Total non-operating expenses	6,503	9,068	90,687
Ordinary income	36,546	42,817	428,178
VI Extraordinary income:			
1 Gain on sales of investment securities (Notes *3)	3,078	1,589	15,893
2 Gain on sales of property, plant and equipment (Notes *4)	3,746	—	—
3 Gain on revision of retirement benefit plan	634	—	—
Total extraordinary income	7,459	1,589	15,893
VII Extraordinary loss:			
1 Impairment loss (Notes *5)	1,658	2,256	22,565
2 Business structure improvement losses (Notes *6)	5,802	1,701	17,012
3 Provision of allowance for doubtful accounts for loans to subsidiaries and affiliates	—	305	3,050
4 Loss on disposal of tangible fixed assets (Notes *7)	670	269	2,691
5 Loss on valuation of investment securities (Notes *8)	292	246	2,467
6 Loss on transfer from business divestitures	—	88	889
Total extraordinary loss	8,423	4,867	48,676
Income before income taxes	35,582	39,539	395,394
Income taxes - current	12,612	15,726	157,268
Income taxes - deferred	443	(1,839)	(18,398)
Total income taxes	13,055	13,887	138,871
Minority interests in income	(114)	(97)	(976)
Net income	¥ 22,412	¥ 25,554	\$ 255,548

The accompanying notes are integral part of the financial information.

Consolidated Statements of Changes In Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2006 (As of March 31, 2007)	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2006	¥ 88,955	¥ 87,226	¥ 155,377	¥ (11,583)	¥ 319,975
Changes of items during the period					
Cash dividends (Note 1)			(3,123)		(3,123)
Cash dividends			(3,125)		(3,125)
Directors' bonuses (Note 1)			(68)		(68)
Net income			22,412		22,412
Purchase of treasury stock				(176)	(176)
Disposal of treasury stock		87		479	566
Other (Note 2)			(45)		(45)
Net changes of items other than shareholders' equity					—
Total changes of items during the period		87	16,050	302	16,440
Balance at March 31, 2007	¥ 88,955	¥ 87,314	¥ 171,427	¥ (11,280)	¥ 336,415

Fiscal 2006 (As of March 31, 2007)	Millions of yen					
	Valuation and translation adjustments					
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	¥ 16,425	¥ —	¥ 2,726	¥ 19,151	¥ 2,354	¥ 341,481
Changes of items during the period						
Cash dividends (Note 1)						(3,123)
Cash dividends						(3,125)
Directors' bonuses (Note 1)						(68)
Net income						22,412
Purchase of treasury stock						(176)
Disposal of treasury stock						566
Other (Note 2)						(45)
Net changes of items other than shareholders' equity	(5,103)	(8)	5,683	571	99	670
Total changes of items during the period	(5,103)	(8)	5,683	571	99	17,110
Balance at March 31, 2007	¥ 11,321	¥ (8)	¥ 8,410	¥ 19,723	¥ 2,453	¥ 358,592

Notes: 1. These are the appropriation of earnings approved at the annual general meeting of shareholders held in June 2006.

2. Decrease in Retained earnings "Other" is due to the depreciation and amortization of asset retirement obligations for prior years recorded in accordance with International Financial Reporting Standards by a foreign subsidiary accounted for using the equity method.

Consolidated Statements of Changes In Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2007 (As of March 31, 2008)	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2007	¥ 88,955	¥ 87,314	¥ 171,427	¥ (11,280)	¥ 336,415
Changes of items during the period					
Cash dividends			(7,509)		(7,509)
Net income			25,554		25,554
Changes in reporting entities			(216)		(216)
Increase by merger			8		8
Purchase of treasury stock				(30,165)	(30,165)
Disposal of treasury stock		(85)		527	442
Other (Note)			18		18
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(85)	17,855	(29,638)	(11,868)
Balance at March 31, 2008	¥ 88,955	¥ 87,228	¥ 189,282	¥ (40,919)	¥ 324,547

Fiscal 2007 (As of March 31, 2008)	Millions of yen						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2007	¥ 11,321	¥ (8)	¥ 8,410	¥ 19,723	¥ —	¥ 2,453	¥ 358,592
Changes of items during the period							
Cash dividends							(7,509)
Net income							25,554
Changes in reporting entities							(216)
Increase by merger							8
Purchase of treasury stock							(30,165)
Disposal of treasury stock							442
Other (Note)							18
Net changes of items other than shareholders' equity	(4,426)	27	2,017	(2,381)	69	422	(1,890)
Total changes of items during the period	(4,426)	27	2,017	(2,381)	69	422	(13,758)
Balance at March 31, 2008	¥ 6,895	¥ 18	¥ 10,427	¥ 17,341	¥ 69	¥ 2,875	¥ 344,833

Note: Increase in Retained earnings "Other" is due to the recognition of unrecognized pension liabilities in "Other comprehensive income."

Fiscal 2007 (As of March 31, 2008)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
Balance at March 31, 2007	\$ 889,553	\$ 873,142	\$ 1,714,271	\$ (112,809)	\$ 3,364,158
Changes of items during the period					
Cash dividends			(75,097)		(75,097)
Net income			255,548		255,548
Changes in reporting entities			(2,165)		(2,165)
Increase by merger			82		82
Purchase of treasury stock				(301,657)	(301,657)
Disposal of treasury stock		(853)		5,274	4,420
Other (Note)			188		188
Net changes of items other than shareholders' equity					—
Total changes of items during the period		(853)	178,556	(296,383)	(118,680)
Balance at March 31, 2008	\$ 889,553	\$ 872,288	\$ 1,892,828	\$ (409,192)	\$ 3,245,477

Fiscal 2007 (As of March 31, 2008)	Thousands of U.S. dollars						
	Valuation and translation adjustments						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2007	\$ 113,218	\$ (85)	\$ 84,100	\$ 197,234	\$ —	\$ 24,533	\$ 3,585,926
Changes of items during the period							
Cash dividends							(75,097)
Net income							255,548
Changes in reporting entities							(2,165)
Increase by merger							82
Purchase of treasury stock							(301,657)
Disposal of treasury stock							4,420
Other (Note)							188
Net changes of items other than shareholders' equity	(44,262)	271	20,172	(23,819)	691	4,221	(18,905)
Total changes of items during the period	(44,262)	271	20,172	(23,819)	691	4,221	(137,586)
Balance at March 31, 2008	\$ 68,956	\$ 185	\$ 104,273	\$ 173,414	\$ 691	\$ 28,755	\$ 3,448,339

Note: Increase in Retained earnings "Other" is due to the recognition of unrecognized pension liabilities in "Other comprehensive income."

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2007 and 2008	Millions of yen		Thousands of U.S. dollars
	Fiscal 2006	Fiscal 2007	Fiscal 2007
I Net cash provided by (used in) operating activities:			
1 Income before income taxes	¥ 35,582	¥ 39,539	\$ 395,394
2 Depreciation and amortization	25,495	31,485	314,856
3 Increase (decrease) in allowance for doubtful accounts	(168)	484	4,848
4 Increase (decrease) in provision for retirement benefits	227	40	400
5 Impairment loss	1,658	2,256	22,565
6 Loss on disposal of tangible fixed assets	670	269	2,691
7 Loss (gain) on sales of tangible fixed assets	(3,746)	—	—
8 Loss (gain) on sales of investment securities	(3,078)	(1,589)	(15,893)
9 Loss (gain) on valuation of investment securities	292	246	2,467
10 Loss on transfer from business divestitures	—	88	889
11 Interest and dividends income	(1,939)	(2,395)	(23,957)
12 Interest expenses	419	835	8,350
13 Decrease (increase) in notes and accounts receivable - trade	(4,932)	2,043	20,435
14 Decrease (increase) in inventories	(1,357)	(218)	(2,184)
15 Increase (decrease) in notes and accounts payable - trade	2,822	(3,535)	(35,353)
16 Decrease (increase) in prepaid pension costs	(1,963)	(433)	(4,336)
17 Other, net	(1,132)	(674)	(6,749)
Sub-total	48,848	68,442	684,426
18 Interest and dividends income received	1,554	2,363	23,630
19 Proceeds from insurance income	2,149	—	—
20 Interest expenses paid	(420)	(809)	(8,091)
21 Income taxes paid	(13,170)	(13,539)	(135,396)
Net cash provided by operating activities	38,961	56,456	564,568
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits	(1,890)	970	9,700
2 Net decrease (increase) in short-term investment securities	(3,292)	(60)	(606)
3 Purchase of fixed of assets tangible fixed assets and intangible fixed assets	(32,574)	(44,413)	(444,136)
4 Payments for disposal of tangible fixed assets and intangible fixed assets	(2,744)	(2,171)	(21,717)
5 Proceeds from sales of tangible fixed assets and intangible fixed assets	4,926	128	1,286
6 Purchase of investment securities	(16,953)	(13,263)	(132,633)
7 Proceeds from sales and redemption of investment securities	7,464	2,265	22,659
8 Purchase of investment in a subsidiary resulting in change in scope of consolidation	—	(2,282)	(22,824)
9 Purchase of insurance funds	(309)	(99)	(997)
10 Proceeds from cancellation of insurance funds	15,842	14,848	148,486
11 Purchase of long-term prepaid expenses	(2,457)	—	—
12 Other, net	3,051	(1,139)	(11,392)
Net cash provided by (used in) investment activities	(28,936)	(45,217)	(452,176)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	(74)	4,069	40,697
2 Proceeds from long-term loans payable	2,000	9,100	91,000
3 Repayment of long-term loans payable	(403)	(9,015)	(90,155)
4 Cash dividends paid to minority shareholders	(13)	(13)	(133)
5 Proceeds from sales of treasury stock	566	436	4,367
6 Purchase of treasury stock	(176)	(30,165)	(301,657)
7 Cash dividends paid	(6,248)	(7,509)	(75,097)
Net cash provided by (used in) financing activities	(4,350)	(33,097)	(330,978)
IV Effect of exchange rate changes on cash and cash equivalents	272	(235)	(2,352)
V Net increase (decrease) in cash and cash equivalents	5,947	(22,093)	(220,939)
VI Cash and cash equivalents, beginning of year	28,085	34,032	340,327
VII Increase in cash and cash equivalents from newly consolidated subsidiary	—	112	1,124
VIII Increase in cash and cash equivalents resulting from merger	—	137	1,379
IX Cash and cash equivalents, end of year	¥ 34,032	¥ 12,189	\$ 121,891

The accompanying notes are integral part of the financial information.

Segment Information

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Millions of yen					
	Chemicals and resins	Fibers and textiles	High performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
I Net sales and operating income						
Net sales						
(1) Outside customers	¥ 201,221	¥ 107,924	¥ 76,138	¥ 385,284	¥ —	¥ 385,284
(2) Inter-segment	377	819	24,826	26,023	(26,023)	—
Total	201,599	108,744	100,964	411,308	(26,023)	385,284
Operating expenses	165,955	100,759	93,019	359,734	(14,669)	345,064
Operating income (loss)	35,643	7,985	7,945	51,574	(11,354)	40,220
II Identifiable assets, depreciation and amortization and capital expenditure						
Identifiable assets	269,848	80,072	68,817	418,738	89,955	508,694
Depreciation and amortization	16,368	4,152	3,095	23,616	1,879	25,495
Capital expenditure	¥ 22,784	¥ 5,932	¥ 3,231	¥ 31,949	¥ 5,751	¥ 37,700

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Millions of yen					
	Chemicals and resins	Fibers and textiles	High performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
I Net sales and operating income						
Net sales						
(1) Outside customers	¥ 243,784	¥ 105,235	¥ 68,581	¥ 417,601	¥ —	¥ 417,601
(2) Inter-segment	840	652	18,387	19,880	(19,880)	—
Total	244,625	105,888	86,968	437,482	(19,880)	417,601
Operating expenses	194,444	99,031	80,730	374,206	(4,735)	369,471
Operating income (loss)	50,180	6,856	6,237	63,275	(15,144)	48,130
II Identifiable assets, depreciation and amortization and capital expenditure						
Identifiable assets	284,786	79,276	68,077	432,140	58,225	490,365
Depreciation and amortization	22,279	4,746	2,305	29,331	2,153	31,485
Capital expenditure	¥ 23,434	¥ 7,795	¥ 8,592	¥ 39,821	¥ 2,898	¥ 42,720

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Thousands of U.S. dollars					
	Chemicals and resins	Fibers and textiles	High performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
I Net sales and operating income						
Net sales						
(1) Outside customers	\$ 2,437,849	\$ 1,052,356	\$ 685,813	\$ 4,176,019	\$ —	\$ 4,176,019
(2) Inter-segment	8,403	6,524	183,873	198,801	(198,801)	—
Total	2,446,252	1,058,880	869,687	4,374,821	(198,801)	4,176,019
Operating expenses	1,944,449	990,311	807,308	3,742,069	(47,354)	3,694,714
Operating income (loss)	501,803	68,569	62,379	632,752	(151,447)	481,305
II Identifiable assets, depreciation and amortization and capital expenditure						
Identifiable assets	2,847,861	792,763	680,779	4,321,405	582,254	4,903,659
Depreciation and amortization	222,797	47,464	23,055	293,318	21,538	314,856
Capital expenditure	\$ 234,341	\$ 77,957	\$ 85,920	\$ 398,219	\$ 28,989	\$ 427,209

Notes: 1. Industrial segments above are split based upon for the classification of sales.

2. Principal products of each industrial segment.

(1) Chemicals and resins Poval resin, poval film, butyral resin, butyral film, EVOH resin "EVAL", isoprene chemicals, methacrylic resin and others.

(2) Fibers and textiles KURALON, CLARINO, KURAFLEX, MAGIC TAPE, polyester, textiles and others.

(3) High performance materials, medical products and others..... Medical products, high-performance materials, activated carbon, industrial membranes, engineering and others.

3. Corporate operating expenses included in the "Eliminated on consolidation and corporate" account totaled ¥11,318 million and ¥14,966 million (US\$149,662 thousand) respectively, for years ended March 31, 2007 and 2008 respectively.

The most significant portion of this expense relates to the fundamental research departments and the corporate division of the Companies.

4. Corporate assets in the column "Eliminated on consolidation and corporate" are ¥99,840 million and ¥64,846 million (US\$648,469 thousand) as of March 31, 2007 and 2008 respectively. Corporate assets mainly represent surplus operating funds, long-term investment funds and assets held by the fundamental research departments and the corporate division of the Companies.

5. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed the depreciation method of tangible fixed assets acquired on and after April 1, 2007 to the method based on the amended Corporate Tax Law of Japan. As a result, operating expenses for this fiscal year increased by ¥459 million (US\$4,591 thousand) in the chemicals and resins segment, ¥144 million (US\$1,447 thousand) in the fibers and textiles segment, ¥84 million (US\$843 thousand) in high performance materials/medical products segment, and ¥128 million (US\$1,280 thousand) in all other segments. Hence, each respective amount of operating income decreased in each segment.

6. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries now depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the consolidated fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the Corporate Tax Law of Japan, this difference is depreciated evenly over 5 years and included in depreciation and amortization. This change had little impact on each segment's financial statements.

7. For the fiscal year ended March 31, 2007, the Company recorded ¥1,658 million in respect to impairment losses as an extraordinary loss. The details of the impairment loss recorded for each segment is as follows: ¥366 million in "Chemicals and resins"; ¥45 million in "Fibers and textiles"; ¥1,107 million in "High performance materials, medical products and others"; and ¥139 million in "Eliminated on consolidation and corporate." Assets in each respective segment decreased by the same amount.

8. For the fiscal year ended March 31, 2008, the Company recorded ¥2,256 million (US\$22,565 thousand) in respect to impairment losses as an extraordinary loss. The details of the impairment loss recorded for each segment is as follows: ¥1,151 million (US\$11,510 thousand) in "Chemicals and resins"; ¥438 million (US\$4,380 thousand) in "Fibers and textiles"; ¥667 million (US\$6,674 thousand) in "High performance materials, medical products and others". Assets in each respective segment decreased by the same amount.

Geographic segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Millions of yen						Eliminated on consolidation and corporate	Consolidated total
	Japan	North America	Europe	Asia	Total			
I Net sales and operating income								
Net sales								
(1) Outside customers	¥ 288,446	¥ 23,146	¥ 57,708	¥ 15,982	¥ 385,284	¥ —	¥ 385,284	
(2) Inter-segment	24,290	2,417	3,767	2,950	33,427	(33,427)	—	
Total	312,737	25,564	61,476	18,932	418,711	(33,427)	385,284	
Operating expenses	265,455	23,901	57,896	19,539	366,793	(21,728)	345,064	
Operating income (loss)	47,281	1,663	3,580	(606)	51,918	(11,698)	40,220	
II Identifiable assets	¥ 270,163	¥ 48,011	¥ 93,645	¥ 8,565	¥ 420,385	¥ 88,308	¥ 508,694	

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Millions of yen						Eliminated on consolidation and corporate	Consolidated total
	Japan	North America	Europe	Asia	Total			
I Net sales and operating income								
Net sales								
(1) Outside customers	¥ 294,017	¥ 31,551	¥ 75,935	¥ 16,096	¥ 417,601	¥ —	¥ 417,601	
(2) Inter-segment	26,062	4,500	4,308	2,504	37,376	(37,376)	—	
Total	320,080	36,052	80,243	18,601	454,978	(37,376)	417,601	
Operating expenses	264,769	33,088	75,312	18,487	391,657	(22,186)	369,471	
Operating income (loss)	55,311	2,964	4,931	113	63,320	(15,189)	48,130	
II Identifiable assets	¥ 282,541	¥ 45,177	¥ 94,936	¥ 14,126	¥ 436,781	¥ 53,584	¥ 490,365	

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Thousands of U.S. dollars						Eliminated on consolidation and corporate	Consolidated total
	Japan	North America	Europe	Asia	Total			
I Net sales and operating income								
Net sales								
(1) Outside customers	\$ 2,940,179	\$ 315,519	\$ 759,352	\$ 160,967	\$ 4,176,019	\$ —	\$ 4,176,019	
(2) Inter-segment	260,624	45,006	43,082	25,048	373,761	(373,761)	—	
Total	3,200,803	360,526	802,434	186,016	4,549,781	(373,761)	4,176,019	
Operating expenses	2,647,692	330,883	753,124	184,877	3,916,577	(221,863)	3,694,714	
Operating income (loss)	553,111	29,643	49,310	1,138	633,203	(151,898)	481,305	
II Identifiable assets	\$ 2,825,416	\$ 451,774	\$ 949,364	\$ 141,260	\$ 4,367,815	\$ 535,844	\$ 4,903,659	

Notes: 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions that are not in Japan.

(1) North America United States of America

(2) Europe Germany and Belgium

(3) Asia Hong Kong and Singapore

3. Undistributed operating expenses for each business segment above is the same as in "Note 3" of the "Industrial segment".

4. Corporate assets in the column "Eliminated on consolidation and corporate" are the same as in "Note 4" of the "Industrial segment".

5. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed the depreciation method of tangible fixed assets acquired on and after April 1, 2007 to the method based on the amended Corporate Tax Law of Japan. As a result, operating expenses for this fiscal year, included in "Domestic (inside Japan)," increased by ¥816 million (US\$8,163 thousand), and operating income in the same segment decreased by the same amount.

6. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries now depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the consolidated fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the Corporate Tax Law of Japan, this difference is depreciated evenly over 5 years and included in depreciation and amortization. This change had little impact on each segment's financial statements.

7. For the fiscal year ended March 31, 2007, the Company recorded ¥1,658 million in respect to impairment losses as an extraordinary loss. The details of the impairment loss recorded for each segment is as follows: ¥1,518 million in "Domestic (inside Japan)" and ¥139 million in "Eliminated on consolidation and corporate". Assets in each respective segment decreased by the same amount.

8. For the fiscal year ended March 31, 2008, the Company recorded ¥2,256 million (US\$22,565 thousand) in respect to impairment losses as an extraordinary loss. Accordingly, ¥2,256 million (US\$22,565 thousand) of impairment loss was recorded under extraordinary loss in "Domestic (inside Japan)" Assets in said segment decreased by the same amount.

Foreign Sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Millions of yen				
	North America	Europe	Asia	Other	Total
I Overseas sales	¥ 28,984	¥ 63,210	¥ 67,090	¥ 7,464	¥ 166,751
II Consolidated net sales	—	—	—	—	385,284
III Percentage of consolidated net sales	7.5%	16.4%	17.4%	1.9%	43.3%

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Millions of yen				
	North America	Europe	Asia	Other	Total
I Overseas sales	¥ 31,333	¥ 80,361	¥ 78,681	¥ 9,400	¥ 199,777
II Consolidated net sales	—	—	—	—	417,601
III Percentage of consolidated net sales	7.5%	19.2%	18.8%	2.3%	47.8%

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Thousands of U.S. dollars				
	North America	Europe	Asia	Other	Total
I Overseas sales	\$ 313,335	\$ 803,616	\$ 786,818	\$ 94,000	\$ 1,997,770
II Consolidated net sales	—	—	—	—	4,176,019
III Percentage of consolidated net sales	7.5%	19.2%	18.8%	2.3%	47.8%

Notes: 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions that are not in Japan.

(1) North America United States of America and Canada

(2) Europe Germany and United Kingdom

(3) Asia China and Korea

(4) Other Latin America and Africa

3. Overseas sales represent the total of all the sales achieved outside Japan by the Company and its domestic consolidated subsidiaries.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

SIGNIFICANT ACCOUNTING POLICIES

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>1. Basis of presenting consolidated financial statements: The accompanying consolidated financial statements of Kuraray Co., Ltd. (the "Company") and its consolidated 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 of 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.</p> <p>Each amount of the consolidated financial statements and notes is rounded down to the nearest 1 million yen.</p> <p>2. Scope of consolidation (1) Number of consolidated subsidiaries: 34 (Major consolidated subsidiaries) KURARAY TRADING Co., LTD., KURARAY ENGINEERING CO., LTD., KURARAY CHEMICAL CO., LTD., Kuraray Plastics Co., Ltd., Kuraray Medical Inc., KURARAY FASTENING CO., LTD., KURARAYKURAFLEX CO., LTD., Kuraray Techno Co., Ltd., KURARAY FUDOSAN CO., LTD., KURARAYLIVING CO., LTD., Kuraray Interior Co., Ltd., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY BUSINESS SERVICE CO., LTD., KurarayKiko Co., Ltd., Iruma Country Club Co., Ltd., OKAYAMA RINKOH CO., LTD., KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY LIMITED, Kyosei Chemical Co., Ltd., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Eval Company of America, SEPTON Company of America, Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Singapore Pte., Ltd., Kuraray Specialities Asia, Pte., Ltd., Kuraray Hong Kong Co., Ltd., and other consolidated subsidiaries</p> <p>Kuraray Specialities Europe GmbH was a consolidated subsidiary of Kuraray in the previous fiscal year. It is excluded from the consolidated financial statements due to the merger with Kuraray Europe GmbH.</p>	<p>1. Basis of presenting consolidated financial statements: The accompanying consolidated financial statements of Kuraray Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.</p> <p>Each amount of the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of the translation into U.S. dollars, they have been rounded down to the nearest 1 thousand dollars).</p> <p>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 ¥100=\$1, the approximate exchange rate prevailing on March 31, 2008. 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.</p> <p>2. Scope of consolidation (1) Number of consolidated subsidiaries: 34 (Major consolidated subsidiaries) KURARAY TRADING Co., LTD., KURARAY ENGINEERING CO., LTD., KURARAY CHEMICAL CO., LTD., Kuraray Plastics Co., Ltd., Kuraray Medical Inc., KURARAY FASTENING CO., LTD., KURARAY KURAFLEX CO., LTD., Kuraray Techno Co., Ltd., KURARAY FUDOSAN CO., LTD., KURARAYLIVING CO., LTD., Kuraray Interior Co., Ltd., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY BUSINESS SERVICE CO., LTD., KurarayKiko Co., Ltd., Iruma Country Club Co., Ltd., OKAYAMA RINKOH CO., LTD., Kuraray Luminas Co., Ltd., KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY, LIMITED., Kyosei Chemical Co., Ltd., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Eval Company of America, SEPTON Company of America, Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Singapore Pte. Ltd., Kuraray Specialities Asia, Pte., Ltd., POVAL ASIA PTE LTD., Kuraray Hong Kong Co., Ltd., and other consolidated subsidiaries</p> <p>Kuraray Luminas Co., Ltd., formerly K·C Luminas Co., Ltd. which had been an unconsolidated subsidiary until the previous fiscal year, is consolidated from this fiscal year because it becomes materially significant.</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>(2) Names of major unconsolidated subsidiaries: (Major unconsolidated subsidiaries) K·C Luminas Co., Ltd. NIHONKAI ACETYLENE CO., LTD. (Reasons for excluding from the scope of consolidation) The total assets, total sales and net income and loss (amount corresponding to the owned interest) and retained earnings (amount corresponding to the owned interest) of the unconsolidated subsidiary have no material effect on the consolidated financial statements.</p> <p>3. Scope of application of equity method affiliates and subsidiaries</p> <p>(1) Number of unconsolidated subsidiaries accounted for using the equity method: 5 (Major unconsolidated subsidiaries) NIHONKAI ACETYLENE CO., LTD. Kuraray Planning System Co., Ltd., which was a company accounted for using the equity method in the previous fiscal year, has been excluded from the equity-method subsidiaries since its liquidation.</p> <p>(2) Number of affiliates accounted for using the equity method: 3 (Names of major affiliates) POVAL ASIA PTE LTD.</p>	<p>POVAL ASIA PTE LTD., which had been an affiliated company accounted for using the equity method until the previous fiscal year, became a consolidated subsidiary from this fiscal year because all of its shares were purchased by the Group on January 31, 2008. Since the deemed acquisition date is set to the end of this fiscal year, only the balance sheet as of the year ended December 2007 is consolidated, and the Statements of income is prepared using the equity-method of accounting.</p> <p>Kuraray America, Inc. merged by absorption with Eval Company of America and SEPTON Company of America on January 1, 2008.</p> <p>(2) Names of major unconsolidated subsidiaries (Major unconsolidated subsidiaries) Kuraray Okayama Spinning CO., LTD.</p> <p>(Reasons for excluding from the scope of consolidation) Same as Fiscal 2006</p> <p>3. Scope of application of equity method affiliates and subsidiaries</p> <p>(1) Number of unconsolidated subsidiaries accounted for using the equity method: 4 (Major unconsolidated subsidiaries) Kuraray Okayama Spinning CO., LTD. Mitsukura Chemical Co., Ltd., which was a company accounted for using the equity method in the previous fiscal year, is excluded from the equity-method of accounting from this fiscal year due to the merger with KURARAY CHEMICAL CO., LTD.</p> <p>(2) Number of affiliates accounted for using the equity method: 2 (Names of major affiliates) THE KURASHIKI KOKUSAI HOTEL LTD. POVAL ASIA PTE LTD., which had been an affiliated company accounted for using the equity method until the previous fiscal year, became a consolidated subsidiary from this fiscal year because all of its shares were purchased by the Group on January 31, 2008. Since the deemed acquisition date is set to the end of this fiscal year, only the balance sheet as of the year ended December 2007 is consolidated, and the statements of income is prepared using the equity-method of accounting.</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>(3) Unconsolidated subsidiaries (KURARAY (SHANGHAI) Co., Ltd. and K·C Luminas Co., Ltd. and other unconsolidated subsidiaries), and affiliates (Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd., and other affiliates) have not accounted for using the equity method, because their net income and loss and retained earnings (amount corresponding to the owned interest) have no material effect on the consolidated financial statements.</p> <p>(4) Accounting period of companies accounted for using the equity method In the case where the accounting period of companies accounted for using the equity method is different to the consolidated accounting period, consolidated financial statements are prepared using the relevant accounting period of such companies.</p> <p>4. Fiscal years of consolidated subsidiaries The fiscal year-end of the Company's foreign consolidated subsidiaries is December 31. The consolidated financial statements incorporate the accounts of these companies with adjustments for significant transactions arising during the period from December 31 to March 31.</p> <p>Kuraray Europe GmbH OOO TROSIFOL Kuraray Singapore Pte., Ltd. Kuraray Specialities Asia Pte., Ltd. Kuraray Hong Kong Co., Ltd. Kuraray Holdings U.S.A., Inc. (Note) Kuraray America, Inc. (Note) Eval Company of America (Note) SEPTON Company of America (Note) EVAL Europe N.V. (Note)</p> <p>Note: In this fiscal year, foreign subsidiaries above changed their fiscal year end from March 31 to December 31.</p>	<p>(3) Unconsolidated subsidiaries (KURARAY (SHANGHAI) Co., Ltd. and other unconsolidated subsidiaries), and affiliates (Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd., and other affiliates) have not accounted for using the equity method, because their net income and loss and retained earnings (amount corresponding to the owned interest) have no material effect on the consolidated financial statements.</p> <p>(4) Accounting period of companies accounted for using the equity method Same as Fiscal 2006</p> <p>4. Fiscal years of consolidated subsidiaries The fiscal year-end of the Company's foreign consolidated subsidiaries is December 31. The consolidated financial statements incorporate the accounts of these companies with adjustments for significant transactions arising during the period from December 31 to March 31.</p> <p>Kuraray Europe GmbH OOO TROSIFOL EVAL Europe N.V. Kuraray Singapore Pte., Ltd. Kuraray Specialities Asia Pte., Ltd. POVAL ASIA PTE LTD. Kuraray Hong Kong Co., Ltd. Kuraray Holdings U.S.A., Inc. Kuraray America, Inc. Eval Company of America SEPTON Company of America</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>5. Accounting policies</p> <p>(1) Valuation standards and methods for significant assets</p> <p>a) Investments in securities</p> <p>Available-for-sale securities for which a market price is available are stated at fair value at a year-end.</p> <p>(Net unrealized gains or losses on these securities are recorded as a separate component of "Net assets", at the net of tax amount. The cost of securities sold is determined based on the moving average cost of all such securities held at the time of sale.)</p> <p>Other securities for which a market price is not available are stated at cost determined by the moving average method.</p> <p>b) Derivative financial instruments</p> <p>All derivatives are stated at fair value.</p> <p>c) Inventories</p> <p>Inventories other than supplies are principally stated at cost determined using the periodic average method.</p> <p>Supplies are principally stated at cost determined using the moving average method.</p> <p>(2) Depreciation method of significant depreciable assets</p> <p>a) Tangible fixed assets</p> <p>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.</p> <p>The estimated useful lives of assets are primarily as follows:</p> <ul style="list-style-type: none"> · Buildings and structures 31 to 50 years · Machinery and equipment 4 to 10 years 	<p>5. Accounting policies</p> <p>(1) Valuation standards and methods for significant assets</p> <p>a) Investments in securities</p> <p>Same as Fiscal 2006</p> <p>b) Derivative financial instruments</p> <p>Same as Fiscal 2006</p> <p>c) Inventories</p> <p>Same as Fiscal 2006</p> <p>(2) Depreciation method of significant depreciable assets</p> <p>a) Tangible fixed assets</p> <p>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.</p> <p>The estimated useful lives of assets are primarily as follows:</p> <ul style="list-style-type: none"> · Buildings and structures 31 to 50 years · Machinery and equipment 4 to 10 years <p>Please make the same changes as FY2006.</p> <p>(Change in accounting policies)</p> <p>In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed the depreciation method of tangible fixed assets acquired on and after April 1, 2007 to the method based on the amended Corporate Tax Law of Japan. As a result, operating income, ordinary income and income before income taxes decreased ¥816 million (US\$8,163 Thousand), ¥818 million (US\$8,186 Thousand) and ¥818 million (US\$8,186 Thousand), respectively, compared with what would have been reported under the previous accounting policy.</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>b) Intangible fixed assets Amortization is principally computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of assets are primarily as follows:</p> <ul style="list-style-type: none"> · Goodwill 15 years <p>(3) Accounting for significant allowances</p> <p>a) Allowance for doubtful accounts The Company and its consolidated subsidiaries 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.</p> <p>b) Provision for bonuses Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on their services provided for the fiscal year.</p> <p>c) Provision for retirement benefits In order to provide for employee retirement benefits, a provision is made based on the retirement benefit liabilities as of the end of the fiscal year and the forecasted pension assets. The prior service cost is amortized on a straight-line basis over a certain period (mainly 15 years), which falls within the average remaining years of service of the eligible employees. Actuarial gains or losses are amortized on a straight-line basis over a certain period (mainly 15 years) which falls within the average remaining years of service of the eligible employees, allocated proportionately commencing the next year in which each respective gains or losses occurred.</p>	<p>(Additional information) In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries now depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the consolidated fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the Corporate Tax Law of Japan, this difference is depreciated evenly over 5 years and included in depreciation and amortization. The effect of this change on operating income, ordinary income and income before income taxes is immaterial.</p> <p>b) Intangible fixed assets Same as Fiscal 2006</p> <p>(3) Accounting for significant allowances</p> <p>a) Allowance for doubtful accounts Same as Fiscal 2006</p> <p>b) Provision for bonuses Same as Fiscal 2006</p> <p>c) Provision for retirement benefits Same as Fiscal 2006</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>(Additional Information) The Company transferred from a tax-qualified pension plan to a cash balance pension plan and defined contribution plan on January 1st, 2007. For this transfer, "Accounting for Transfer between Retirement Benefit Plans" Accounting Standards Board of Japan (ASBJ) Guidance No.1, January 31, 2002.) has been applied. As a result, income before income taxes increased by ¥634 million.</p> <p>d) Provision for directors' retirement benefits 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 the subsidiaries' internal regulations.</p> <p>(Additional Information) The Company formerly accrued the liabilities for retirement benefits for its directors and corporate auditors, based upon the amounts required by the Company's internal regulations. The Company abolished the retirement benefits system for directors and corporate auditors, and decided to pay eligible directors and corporate auditors at the time of their retirement the amount payable as determined by the resolution at the Annual General Meeting of Shareholders on June 28, 2006. The accrued liabilities for their retirement benefits have been reversed, and the amount payable upon termination has been recorded as other of noncurrent liabilities.</p> <p>(4) Leases Leases that do not transfer ownership of the assets are accounted for as operating leases.</p> <p>(5) Significant hedge accounting a) Hedge accounting The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains 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.</p>	<p>d) Provision for directors' retirement benefits Same as Fiscal 2006</p> <p>(4) Leases Same as Fiscal 2006</p> <p>(5) Significant hedge accounting a) Hedge accounting Same as Fiscal 2006</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)								
<p>b) Hedging instruments and hedged items</p> <table border="1" data-bbox="240 378 792 559"> <thead> <tr> <th data-bbox="240 378 548 410">Hedging instruments:</th> <th data-bbox="557 378 792 410">Hedged items:</th> </tr> </thead> <tbody> <tr> <td data-bbox="240 410 548 470">Forward foreign exchange contracts</td> <td data-bbox="557 410 792 470">Future transactions in foreign currency</td> </tr> <tr> <td data-bbox="240 470 548 529">Currency swap contracts</td> <td data-bbox="557 470 792 529">Future transactions in foreign currency</td> </tr> <tr> <td data-bbox="240 529 548 559">Interest rate swap contracts</td> <td data-bbox="557 529 792 559">Interest expenses</td> </tr> </tbody> </table> <p>c) Hedging policy The Company and its consolidated subsidiaries use financial instruments to hedge interest rate fluctuation and exchange fluctuation risks in accordance with their internal policies and procedures.</p> <p>d) Assessment method for hedge effectiveness The Company and its consolidated subsidiaries 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 hedge.</p> <p>(6) Other accounting policies</p> <p>a) Accounting for consumption tax Consumption tax on goods and services are not included in the revenue and expense amounts.</p>	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 expenses	<p>b) Hedging instruments and hedged items Same as Fiscal 2006</p> <p>c) Hedging policy Same as Fiscal 2006</p> <p>d) Assessment method for hedge effectiveness Same as Fiscal 2006</p> <p>(6) Other accounting policies</p> <p>a) Accounting for consumption tax Same as Fiscal 2006</p>
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 expenses								
<p>6. Valuation of assets and liabilities of consolidated subsidiaries Assets and liabilities of the consolidated subsidiaries are recorded at fair value at the time of acquisition.</p>	<p>6. Valuation of assets and liabilities of consolidated subsidiaries Same as Fiscal 2006</p>								
<p>7. Amortization of goodwill and negative goodwill The Company amortizes goodwill and negative goodwill using the straight-line method over the estimated period of benefit with the exception of minor amounts, which are charged or credited to income directly in the year of acquisition. Foreign consolidated subsidiaries amortize goodwill and negative goodwill per the applicable accounting standard in each country.</p>	<p>7. Amortization of goodwill and negative goodwill Same as Fiscal 2006</p>								
<p>8. Cash and cash equivalents Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less, that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.</p>	<p>8. Cash and cash equivalents Same as Fiscal 2006</p>								

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES CONCERNING THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>(Directors' bonuses) Directors' bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the fiscal year ending 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. As a result, directors' bonuses are now accounted for as an expense in the period in which the payment occurs. The adoption of this new accounting standard has no effect on the 2006 consolidated financial statements.</p> <p>(Presentation of net assets) Effective from the year ending 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" in the balance sheet for the year ending March 31, 2007 is ¥356,147 million.</p> <p>(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 2006 consolidated financial statements.</p>	

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>(Business combinations and divestitures)</p> <p>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.</p> <p>The adoption had an effect that the prior year's "Goodwill" and "Goodwill arising on consolidation adjustments" included in "Other intangible assets" are presented together as "Goodwill" as of March 31, 2007. The amount of "Goodwill arising on consolidation adjustments" included in "Other intangible assets" was ¥498 million as of March 31, 2006.</p> <p>(Maturity notes and/or accounts at the end of the fiscal period)</p> <p>The Company and its domestic consolidated subsidiaries in Japan formerly settled maturity notes and/or accounts due on the closing date on the date of bank clearing. From the current fiscal year, the Company and its domestic consolidated subsidiaries in Japan accounted for maturity notes and/or accounts at the end of the fiscal period even if its maturity fell on a bank holiday as if notes and/or accounts were settled on a maturity basis to improve the comparability of financial information. The amounts of notes and/or accounts matured at the end of the fiscal year ending March 31, 2007 are shown as additional information.</p>	

CHANGES IN PRESENTATION

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>(Consolidated statements of income) "Interest income" and "dividend income" have been reported separately for the year ending March 31, 2007. In the previous fiscal year, "interest income" and "dividend income" were reported as "interest and dividend income" in "Other income (expenses)." "Interest income" and "dividend income" were ¥740 million and ¥553 million respectively in the previous fiscal year.</p> <p>(Consolidated statements of cash flows) "Proceeds from insurance income" have been reported separately in the current fiscal year due to the significant increase in its balance. In the previous fiscal year, "Proceeds from insurance income" totaling ¥676 million were reported as "Other, net" in the "Cash flows from operating activities." "Payments for disposal of tangible fixed assets and intangible fixed assets" have been reported separately in the current fiscal year due to the significant increase in its balance. In the previous fiscal year, "Payments for disposal of tangible fixed assets and intangible fixed assets" totaling ¥338 million were reported as "Other, net" in the "Cash flows from investment activities." "Purchases of long term prepaid expenses" have been reported separately in the current fiscal year due to the significant increase in its balance. In the previous fiscal year, "Purchases of long term prepaid expenses" totaling ¥338 million were reported as "Other, net" in the "Cash flows from investment activities."</p>	<p>(Consolidated statements of income) "Foreign exchange losses," which had been reported as "miscellaneous expenses" in the previous fiscal year, are reported separately since its amount exceeds 10/100 of non-operating expenses in the current fiscal year. "Foreign exchange losses" was ¥544 million (US\$5,449 thousand) in the previous fiscal year.</p> <p>(Consolidated statements of cash flows) "Purchase of long-term prepaid expenses," which had been reported separately in the "Net cash provided by (used in) investment activities" in the previous fiscal year, is reported as "Others, net" in the current fiscal year due to the significant decrease in its balance. "Purchase of long-term prepaid expenses" is ¥503 million (US\$5,033 thousand) in the current fiscal year.</p>

ADDITIONAL INFORMATION

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)										
<p>(Maturity notes and/or accounts at the end of the fiscal period) Although the closing date of the fiscal period was a holiday for financial institutions, the Company and its domestic consolidated subsidiaries in Japan accounted for maturity notes and/or accounts at the end of the fiscal period as if notes and/or accounts were settled on a maturity basis. The amounts of notes and/or accounts matured at the end of the fiscal year ended March 31, 2007 and excluded from the balance sheet are as follows:</p> <p style="text-align: right;">(Millions of yen)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Notes receivable</td> <td style="text-align: right;">¥2,505</td> </tr> <tr> <td>Accounts receivable-trade</td> <td style="text-align: right;">3,554</td> </tr> <tr> <td>Notes payable</td> <td style="text-align: right;">859</td> </tr> <tr> <td>Accounts payable-trade</td> <td style="text-align: right;">3,725</td> </tr> <tr> <td>Accounts payable-other</td> <td style="text-align: right;">233</td> </tr> </table>	Notes receivable	¥2,505	Accounts receivable-trade	3,554	Notes payable	859	Accounts payable-trade	3,725	Accounts payable-other	233	
Notes receivable	¥2,505										
Accounts receivable-trade	3,554										
Notes payable	859										
Accounts payable-trade	3,725										
Accounts payable-other	233										

NOTES TO CONSOLIDATED BALANCE SHEETS

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>*1. Accumulated depreciation of tangible fixed assets: ¥423,687 million</p> <p>*2. —</p> <p>*3. Investments in unconsolidated subsidiaries and affiliates Investment securities: ¥5,990 million Investments in joint venture corporations of investment securities: ¥1,620 million</p> <p>4. Commitments and contingencies The Company is contingently liable for guarantees for bank loans of unconsolidated subsidiaries, affiliates and others. The company names and the guarantees of their liabilities are as follows: Social welfare corporation Ishii Kinen Aizenen: ¥1,167 million amaretta GmbH and other 5 companies ¥225 million (including foreign currency-denominated guarantees for 4 companies in EURO 400,000 EURO and one in CNY.): CNY 8,200,000 <hr/>Total ¥1,392 million</p> <p>*5. —</p>	<p>*1. Accumulated depreciation of tangible fixed assets: ¥447,253 million (US\$4,472,531 thousand)</p> <p>*2. Accumulated amount of reduced-value entry as a result of receiving government subsidy, and so on that are subtracted from the acquisition price of tangible fixed assets Buildings: ¥1,186 million (US\$11,863 thousand) (including a ¥48 million (US\$489 Thousand) deduction for this fiscal year) Structures: ¥526 million (\$5,268 thousand) (including ¥4 million (US\$47 thousand) in the amount of subtraction for this fiscal year) Machinery: ¥413 million (US\$4,139 thousand) (including ¥171 million (\$1,713 thousand) in the amount of subtraction for this fiscal year) Tools, instruments and fixtures: ¥30 million (US\$305 thousand) (including ¥11 million (US\$114 thousand) in the amount of subtraction for this fiscal year) Land: ¥1,257 million (US\$12,574 thousand)</p> <p>*3. Investments in unconsolidated subsidiaries and affiliates Investment securities: ¥3,414 million (US\$34,147 thousand)</p> <p>4. Commitments and contingencies The Company is contingently liable for guarantees for bank loans of unconsolidated subsidiaries, affiliates and others. The company names and the guarantees of their liabilities are as follows: Social welfare corporation Ishii Kinen Aizenen (Joint and several guarantee): ¥2,202 million (US\$22,029 thousand) KURARAY MAGICTAPE (SHANGHAI) CO., LTD. and another company: ¥99 million (US\$998 thousand) (including foreign currency-denominated guarantees for 2 companies): CNY7,000,000 <hr/>Total ¥2,302 million (US\$23,028 thousand)</p> <p>*5. Security assets and secured liabilities Investment securities ¥46 million (US\$460 thousand) The above investment securities have been provided as collateral for loans of Mizushima Eco-works Co., Ltd.</p>

NOTES TO CONSOLIDATED STATEMENTS OF INCOME

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)																				
<p>*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Freight and storage</td> <td style="text-align: right;">¥13,893 million</td> </tr> <tr> <td>Research and development</td> <td style="text-align: right;">¥12,003 million</td> </tr> <tr> <td>Salaries and legal welfare expense</td> <td style="text-align: right;">¥12,013 million</td> </tr> <tr> <td>Provision for bonuses</td> <td style="text-align: right;">¥3,728 million</td> </tr> <tr> <td>Provision for retirement benefits for employees</td> <td style="text-align: right;">¥496 million</td> </tr> </table> <p>*2. Research and development expenses included in general, administrative and current manufacturing expenses ¥13,021 million</p> <p>*3. The gain is incurred by the sales of stocks and bonds.</p> <p>*4. The gain is incurred by the sales of land, buildings and others.</p> <p>*5. Impairment loss (1) Identifying the cash-generating unit to which an asset belongs 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 or reorganized businesses are assessed individually. Other head office and research facilities are shared assets.</p>	Freight and storage	¥13,893 million	Research and development	¥12,003 million	Salaries and legal welfare expense	¥12,013 million	Provision for bonuses	¥3,728 million	Provision for retirement benefits for employees	¥496 million	<p>*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Freight and storage</td> <td style="text-align: right;">¥14,365 million (US\$14,365 thousand)</td> </tr> <tr> <td>Research and development</td> <td style="text-align: right;">¥14,185 million (US\$141,850 thousand)</td> </tr> <tr> <td>Salaries and legal welfare expense</td> <td style="text-align: right;">¥12,579 million (US\$125,798 thousand)</td> </tr> <tr> <td>Provision for bonuses</td> <td style="text-align: right;">¥4,063 million (US\$40,630 thousand)</td> </tr> <tr> <td>Provision for retirement benefits for employees</td> <td style="text-align: right;">¥678 million (US\$6,784 thousand)</td> </tr> </table> <p>*2. Research and development expenses included in general, administrative and current manufacturing expenses ¥15,250 million (US\$152,504 thousand)</p> <p>*3. The gain is incurred by the sales of stocks including those of the consolidated subsidiary.</p> <p>*4. —</p> <p>*5. Impairment loss (1) Identifying the cash-generating unit to which an asset belongs Same as Fiscal 2006</p>	Freight and storage	¥14,365 million (US\$14,365 thousand)	Research and development	¥14,185 million (US\$141,850 thousand)	Salaries and legal welfare expense	¥12,579 million (US\$125,798 thousand)	Provision for bonuses	¥4,063 million (US\$40,630 thousand)	Provision for retirement benefits for employees	¥678 million (US\$6,784 thousand)
Freight and storage	¥13,893 million																				
Research and development	¥12,003 million																				
Salaries and legal welfare expense	¥12,013 million																				
Provision for bonuses	¥3,728 million																				
Provision for retirement benefits for employees	¥496 million																				
Freight and storage	¥14,365 million (US\$14,365 thousand)																				
Research and development	¥14,185 million (US\$141,850 thousand)																				
Salaries and legal welfare expense	¥12,579 million (US\$125,798 thousand)																				
Provision for bonuses	¥4,063 million (US\$40,630 thousand)																				
Provision for retirement benefits for employees	¥678 million (US\$6,784 thousand)																				

Fiscal 2006
(From April 1, 2006 to March 31, 2007)

(2) Significant components of impairment loss
The impairment loss is ¥1,658 million in total.
The impairment loss on business assets is ¥769 million and on assets associated with discontinued business is ¥888 million.
The significant components of impairment loss for the fiscal year ending March 31, 2007 are as follows:

Location	Assets	Usage	Type	Impairment loss
Saijo, Ehime Prefecture	Business assets	Plant and equipment for electronic materials	Plant and equipment	¥769 million
Tainai, Niigata Prefecture	Assets associated with discontinued or reorganized businesses	Plant and equipment for ethacrylic resin and sheets	Plant and equipment	¥232 million

After separately examining the indications for impairment with respect to those businesses whose income from operations continue to be negative, and the recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the value in use and calculated with a 5% discount off the future cash flow.

Assets associated with discontinued or reorganized businesses held for sale can be converted for use in other businesses and unconvertible items to be discarded. For items to be sold and unconvertible items to be discarded, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

- *6. The loss is mainly attributable to the relocation costs of the Kurashiki plant and the closure cost of the Optoscreen business.
- *7. The loss is primarily attributable to the disposal of buildings and machinery. The book value is ¥22 million and the costs of disposal are ¥647 million.
- *8. The loss is mainly incurred due to the write-down of unlisted securities which contain affiliates' securities.

Fiscal 2007
(From April 1, 2007 to March 31, 2008)

(2) Significant components of impairment loss
The impairment loss is ¥2,256 million (US\$22,565 thousand) in total.
The impairment loss on business assets is ¥438 million (US\$4,380 thousand) and on assets associated with discontinued business is ¥1,818 million (US\$18,185 thousand).
The significant components of impairment loss for the fiscal year ending March 31, 2008 are as follows:

Location	Assets	Usage	Type	Impairment loss
Tainai, Niigata Prefecture	Assets associated with discontinued or reorganized business	Plant and equipment for aroma chemicals	Plant and equipment	¥1,151 million (US\$11,510 thousand)
Kurashiki, Okayama Prefecture	Assets associated with discontinued or reorganized business	Plant and equipment for high-flux filter membranes for artificial kidneys	Plant and equipment	¥667 million (US\$6,674 thousand)

After separately examining the indications for impairment with respect to those businesses whose income from operations continue to be negative, and the recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the value in use and calculated with a 5% discount off the future cash flow.

Assets associated with discontinued or reorganized businesses held for sale can be converted for use in other businesses and unconvertible items to be discarded. For items to be sold and unconvertible items to be discarded, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

- *6. The loss is mainly attributable to the relocation costs of the Kurashiki Plant and the costs caused by the stoppage of the aroma chemicals production.
- *7. The loss is mainly attributable to the disposal of machinery.
- *8. The loss is mainly incurred due to the write-down of listed securities.

NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FISCAL 2006 (From April 1, 2006 to March 31, 2007)

1. Type and number of issued shares of common stock and treasury common stock

	Number of shares as of March 31, 2006 (thousands of shares)	Increase in the number of shares (thousands of shares)	Decrease in the number of shares (thousands of shares)	Number of shares as of March 31, 2007 (thousands of shares)
Number of Outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks	—	—	—	—
Common stock (Notes 1, 2)	15,379	131	633	14,877
Total	15,379	131	633	14,877

Notes: 1. Increase due to purchase of less-than-one-unit shares 131 thousands shares.

2. Decrease due to transfer of shares by the exercise of subscription rights to shares 629,000 shares. Decrease due to request for purchase of less-than-one-unit shares by shareholders 4 thousands shares.

2. Subscription rights to share

Not applicable

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 28, 2006	Common stock	3,123	8.50	March 31, 2006	June 29, 2006
Borad of Directors held on November 2, 2006	Common stock	3,125	8.50	September 30, 2006	December 7, 2006

(2) Dividends whose effective date is after the end of Fiscal 2006 and record date is included in the Fiscal 2006.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2007	Common Stock	3,679	Retained earnings	10.00	March 31, 2007	June 21, 2007

NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FISCAL 2007 (From April 1, 2007 to March 31, 2008)

1. Type and number of issued shares of common stock and treasury stock

	Number of shares as of March 31, 2007 (thousands of shares)	Increase in the number of shares (thousands of shares)	Decrease in the number of shares (thousands of shares)	Number of shares as of March 31, 2008 (thousands of shares)
Number of Outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks	—	—	—	—
Common stock (Notes 1, 2)	14,877	20,256	491	34,642
Total	14,877	20,256	491	34,642

Notes: 1. Treasury stock (common stock) increased by 20,136 thousand shares upon the resolution of the Board of Directors to acquire additional stock. In addition, there was an increase of 120 thousand shares attributable to the purchase of less-than-one unit shares.

2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (481 thousand shares) and the acquisition of less-than-one-unit shares by the shareholders (10 thousand shares).

2. Subscription rights to shares

The Company granted its directors and executive officers the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2008 is ¥69 million (US\$691 thousand).

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2007	Common stock	3,679	10.00	March 31, 2007	June 21, 2007
Board of directors held on October 30, 2007	Common stock	3,829	11.00	September 30, 2007	December 3, 2007

Resolution	Type of share	Amount of dividends (Thousands of U.S. dollars)	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 20, 2007	Common stock	36,798	0.10	March 31, 2007	June 21, 2007
Board of directors held on October 30, 2007	Common stock	38,299	0.11	September 30, 2007	December 3, 2007

(2) Dividends whose effective date is after the end of Fiscal 2007 and record date is included in the Fiscal 2007.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 19, 2008	Common Stock	3,830	Retained earnings	11.00	March 31, 2008	June 20, 2008

Resolution	Type of share	Amount of dividends (Thousands of U.S. dollars)	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 19, 2008	Common Stock	38,304	Retained earnings	0.11	March 31, 2008	June 20, 2008

NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)	
1. Cash and cash equivalents as of the year-end are reconciled to the accounts reported in the consolidated balance sheets as follows:	1. Cash and cash equivalents as of the year-end are reconciled to the accounts reported in the consolidated balance sheets as follows:	
(As of March 31, 2008) Millions of Yen	(As of March 31, 2008) Millions of Yen	Thousands of U.S. dollars
Cash on hand and in banks	22,924	11,109
Time deposits with a deposit period of 3 months or more	(1,890)	(9,200)
Marketable securities with original maturities of three months or less	12,997	20,000
Cash and cash equivalents	34,032	121,891
	2. Assets and liabilities of the company which became a consolidated subsidiary during Fiscal 2007 upon the acquisition of shares	
	The assets and liabilities, acquisition price of shares and expenses (net) for the company which became a consolidated subsidiary during Fiscal 2007 upon the acquisition of shares are as follows:	
	(As of March 31, 2008) Millions of Yen	Thousands of U.S. dollars
Current assets:	2,146	21,463
Noncurrent assets:	6,390	63,905
Goodwill:	644	6,449
Current liabilities:	(2,224)	(22,246)
Noncurrent liabilities:	(2,546)	(25,462)
Acquisition price of shares at fiscal year-end or value by the equity method at fiscal year-end:	(1,850)	(18,505)
Acquisition price of shares for fiscal 2007:	2,560	25,604
Cash and cash equivalents of the acquired company:	(278)	(2,780)
Balance: Expenses (net) upon acquisition:	2,282	22,824

LEASES

Fiscal 2006 (From April 1, 2006 to March 31, 2007)				Fiscal 2007 (From April 1, 2007 to March 31, 2008)			
1. Leases that do not transfer ownership of the assets				1. Leases that do not transfer ownership of the assets			
(1) Lease transactions as a lessee:				(1) Lease transactions as a lessee:			
1) Acquisition cost, accumulated depreciation, and net book value at the end of the fiscal year for the leased assets are as follows:				1) Acquisition cost, accumulated depreciation, and net book value at the end of the fiscal year for the leased assets are as follows:			
Year ended March 31, 2007		Millions of yen		Year ended March 31, 2008		Millions of yen	
	Acquisition cost	Accumulated depreciation	Net		Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	213	123	90	Machinery and equipment	283	169	113
Tools, fixtures and furniture	731	484	247	Tools, fixtures and furniture	1,386	833	552
Total	945	608	337	Total	1,670	1,003	666
Note: Acquisition costs are computed by including interest paid because the ratio of future lease payment obligations to the balance of tangible fixed assets at the end of the fiscal year is immaterial.				Note: Acquisition costs are computed by including interest paid because the ratio of future lease payment obligations to the balance of tangible fixed assets at the end of the fiscal year is immaterial.			
2) Future lease payment obligations are as follows:				2) Future lease payment obligations are as follows:			
		Millions of yen				Thousands of U.S. dollars	
Due within one year		173		Due within one year	296	2,966	
Due after one year		163		Due after one year	369	3,696	
Total		337		Total	666	6,662	
Note: Future lease payment obligations are computed by including interest paid because the ratio of future lease payment obligations to the balance of tangible fixed assets at the end of the fiscal year is immaterial.				Note: Future lease payment obligations are computed by including interest paid because the ratio of future lease payment obligations to the balance of tangible fixed assets at the end of the fiscal year is immaterial.			
3) Lease payments, depreciation expense for the fiscal year				3) Lease payments, depreciation expense for the fiscal year			
		Millions of yen				Millions of yen	
Lease payments		217		Lease payments	398	3,980	
Depreciation expense		217		Depreciation expense	398	3,980	
4) Calculation method of depreciation				4) Calculation method of depreciation			
Straight-line method using lease term with a residual value of zero.				Same as Fiscal 2006			
(For impairment loss)				(For impairment loss)			
No impairment loss is recognized in respect to leased assets.				Same as Fiscal 2006			

Fiscal 2006
(From April 1, 2006 to March 31, 2007)

(2) Lease transactions as a lessor

1) Acquisition cost, accumulated depreciation, and net book value at the end of the fiscal year for leased assets are as follows:

Year ended March 31, 2007	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	113	77	36
Total	113	77	36

2) Future lease payment obligations are as follows:

	Millions of yen
Due within one year	16
Due after one year	20
Total	36

Note: Future lease payment obligations are computed by including interest received because the ratio of future lease payment obligations and estimated salvage value to the balance of operating receivable at the end of the fiscal year is immaterial.

3) Lease revenue, depreciation expense for the fiscal year

	Millions of yen
Lease revenue	19
Depreciation expense	19

(For impairment loss)

No impairment loss is recognized for leased assets.

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases are as follows:

	Millions of yen
Due within one year	431
Due after one year	2,479
Total	2,910

Fiscal 2007
(From April 1, 2007 to March 31, 2008)

(2) Lease transactions as a lessor

1) Acquisition cost, accumulated depreciation, and net book value at the end of the fiscal year for leased assets are as follows:

Year ended March 31, 2008	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	49	32	16
Total	49	32	16

Year ended March 31, 2008	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	492	325	166
Total	492	325	166

2) Future lease payment obligations are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	4	48
Due after one year	11	118
Total	16	166

Note: Future lease payment obligations are computed by including interest received because the ratio of future lease payment obligations and estimated salvage value to the balance of operating receivable at the end of the fiscal year is immaterial.

3) Lease revenue, depreciation expense for the fiscal year

	Millions of yen	Thousands of U.S. dollars
Lease revenue	15	159
Depreciation expense	15	159

(For impairment loss)

Same as Fiscal 2006

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	525	5,256
Due after one year	3,692	36,927
Total	4,218	42,184

SECURITIES

FISCAL 2006 (From April 1, 2006 to March 31, 2007)

1. Available-for-sale securities with market value (As of March 31, 2007)

	Millions of yen		
	Cost	Book value (estimated fair value)	Net
Securities with book value exceeding their acquisition cost			
Equity securities	5,022	24,156	19,134
Bonds			
Government and municipal	5,998	5,998	0
Corporate	—	—	—
Others	1,999	1,999	0
Others	15,000	15,049	49
Subtotal	28,020	47,205	19,184
Securities with book value not exceeding their acquisition cost			
Equity securities	995	879	(116)
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	4,999	4,999	(0)
Others	—	—	—
Subtotal	5,994	5,878	(116)
Total	34,014	53,083	19,068

2. Available-for-sale securities sold during Fiscal 2006 (From April 1, 2006 to March 31, 2007)

	Millions of yen
Proceeds from sales	9,858
Total gain	3,078
Total loss	—

3. Investments in securities without market value (As of March 31, 2007)

	Millions of yen
Investments in securities	
Investments in unlisted companies	3,163

4. Redemption schedule of the available-for-sale securities which have a maturity date (As of March 31, 2007)

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Bonds				
Government and municipal	5,998	—	—	—
Corporate	—	—	—	—
Others	6,998	—	—	—
Others	—	15,049	—	—
Total	12,997	15,049	—	—

FISCAL 2007 (From April 1, 2007 to March 31, 2008)

1. Available-for-sale securities with market value (As of March 31, 2008)

	Millions of yen			Thousands of U.S. dollars		
	Cost	Book value (estimated fair value)	Net	Cost	Book value (estimated fair value)	Net
Securities with book value exceeding their acquisition cost						
Equity securities	5,370	15,820	10,450	53,701	158,202	104,501
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	27,000	27,115	115	270,000	271,150	1,150
Subtotal	32,370	42,935	10,565	323,701	429,352	105,651
Securities with book value not exceeding their acquisition cost						
Equity securities	1,237	880	(357)	12,377	8,805	(3,571)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	2,062	2,062	—	20,626	20,626	—
Subtotal	3,300	2,943	(357)	33,003	29,432	(3,571)
Total	35,670	45,878	10,207	356,705	458,785	102,079

2. Available-for-sale securities sold during Fiscal 2007 (From April 1, 2007 to March 31, 2008)

	Millions of yen	Thousands of U.S. dollars
Proceeds from sales	1,428	14,287
Total gain	1,089	10,891
Total loss	—	—

3. Investments in securities without market value (As of March 31, 2008)

	Millions of yen	Thousands of U.S. dollars
Investments in securities		
Investments in unlisted companies	4,359	43,598

4. Redemption schedule of the available-for-sale securities which have a maturity date (As of March 31, 2008)

	Millions of yen				Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years	Within one year	One to five years	Five to ten years	Over ten years
Bonds								
Government and municipal	—	—	—	—	—	—	—	—
Corporate	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
Others	2,000	27,115	—	—	20,000	271,150	—	—
Total	2,000	27,115	—	—	20,000	271,150	—	—

DERIVATIVE FINANCIAL INSTRUMENTS

FISCAL 2006 (From April 1, 2006 to March 31, 2007)

1. Outline of derivative transactions

(1) Types of transactions

The Company and its consolidated subsidiaries enter into forward foreign exchange contracts, currency swap contracts and interest rate swap contracts.

(2) Transaction policy

All derivative transactions are entered into to hedge risks of fluctuations of interest rates and foreign currency exchange rates incorporated within the Companies' business. The Company and its consolidated subsidiaries do not hold or issue derivative financial instruments for speculative or trading purposes.

(3) Purpose of transactions

The Company and its consolidated subsidiaries use derivative transactions to effectively manage market risk and avoid risks associated with fluctuations in the financial environment. The Company and its consolidated subsidiaries enter into forward foreign exchange contracts and currency swap contracts to reduce foreign exchange risks of receivables and payables denominated in foreign currencies and future transactions in foreign currencies. The Company and its consolidated subsidiaries enter into interest rate swap contracts to reduce the interest rate risk of interest expense.

Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains 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.

Hedging instruments and hedged items

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 expenses

Hedging policy

The Company and its consolidated subsidiaries use financial instruments to hedge interest rate fluctuation and exchange fluctuation risks in accordance with their internal policies and procedures.

Assessment method for hedge effectiveness

The Company and its consolidated subsidiaries 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.

(4) Risks of transactions

The Company and its consolidated subsidiaries estimate that credit risk is low as contracts are entered into with prestigious financial institutions.

(5) Risk management of transactions

Derivative transactions have been made in accordance with internal policies which specify management policy responsible department, usage purpose and practice standard for hedging.

(6) Additional explanation regarding transaction value

The notional amounts of swap contracts do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the market risk or credit risk exposure in connection with derivatives.

2. The forward foreign exchange contracts and currency swap contracts outstanding at March 31, 2007 are as follows:

Currencies

Category	Classification	Millions of yen			
		Notional amount	Notional amount over one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	13,311	13,311	(1,911)	(1,911)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	16,335	5,902	(867)	(867)
	Yen into euro obligation	17,699	9,597	(3,175)	(3,175)
	Yen into other currency obligation	58	—	(2)	(2)
	U.S. dollar into yen obligation	832	—	8	8
	Euro into yen obligation	222	—	4	4
	Other currency into yen obligation	756	—	0	0
	Total	49,216	28,811	(5,943)	(5,943)

Notes: 1. The amounts exclude derivative transactions to which hedge accounting is applied.

2. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using future quotations.

3. 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.

FISCAL 2007 (From April 1, 2007 to March 31, 2008)

1. Outline of derivative transactions

(1) Types of transactions

The Company and its consolidated subsidiaries enter into forward foreign exchange contracts, currency swap contracts and interest rate swap contracts.

(2) Transaction policy

All derivative transactions are entered into to hedge risks of fluctuations of interest rates and foreign currency exchange rates incorporated within the Companies' business. The Company and the consolidated subsidiaries do not hold or issue derivative financial instruments for speculative or trading purposes.

(3) Purpose of transactions

The Company and its consolidated subsidiaries use derivative transactions to effectively manage market risk and avoid risks associated with fluctuations in the financial environment. The Company and its consolidated subsidiaries enter into forward foreign exchange contracts and currency swap contracts to reduce foreign exchange risks of receivables and payables denominated in foreign currencies and future transactions in foreign currencies. The Company and its consolidated subsidiaries enter into interest rate swap contracts to reduce the interest rate risk of interest expense.

Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains 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.

Hedging instruments and hedged items

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 expenses

Hedging policy

The Company and its consolidated subsidiaries use financial instruments to hedge interest rate fluctuation and exchange fluctuation risks in accordance with their internal policies and procedures.

Assessment method for hedge effectiveness

The Company and its consolidated subsidiaries 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.

(4) Risks of transactions

The Company and its consolidated subsidiaries estimate that credit risk is low as contracts are entered into with prestigious financial institutions.

(5) Risk management of transactions

Derivative transactions have been made in accordance with internal policies which specify management policy, responsible department, usage purpose and practice standard for hedging.

(6) Additional explanation regarding transaction value

The notional amounts of swap contracts do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the market risk or credit risk exposure in connection with derivatives.

2. The forward foreign exchange contracts and currency swap contracts outstanding at March 31, 2008 were as follows:

Currencies

Category	Classification	Millions of yen			
		Notional amount	Notional amount over one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	10,637	8,487	(1,678)	(1,678)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	11,476	1,402	693	693
	Yen into euro obligation	11,951	4,271	(2,319)	(2,319)
	Yen into other currency obligation	30	—	1	1
	U.S. dollar into yen obligation	1,698	—	(102)	(102)
	Euro into yen obligation	367	—	0	0
	Other currency into yen obligation	14	—	(0)	(0)
	Total	36,177	14,161	(3,406)	(3,406)

Category	Classification	Thousands U.S. dollars			
		Notional amount	Notional amount over one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	106,370	84,875	(16,786)	(16,786)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	114,769	14,026	6,936	6,936
	Yen into euro obligation	119,517	42,711	(23,199)	(23,199)
	Yen into other currency obligation	305	—	17	17
	U.S. dollar into yen obligation	16,987	—	(1,027)	(1,027)
	Euro into yen obligation	3,674	—	5	5
	Other currency into yen obligation	146	—	(8)	(8)
Total	361,770	141,613	(34,060)	(34,060)	

Notes: 1. The amounts exclude derivative transactions to which hedge accounting is applied.

2. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using future quotations.

3. 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.

RETIREMENT BENEFITS

1. Summary of retirement benefit plan

The Company and some of its subsidiaries have lump-sum benefit plans. The Company and some of its domestic consolidated subsidiaries have cash balance pension plans and defined contribution pension plans. Some of the domestic subsidiaries in Japan have tax-qualified pension plans or defined contribution retirement pension plans. Some foreign subsidiaries have defined benefit pension plans or defined contribution retirement pension plans. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs.

A consolidated subsidiary adopts a jointly-established employee pension fund plan (multi-employer plan), and book required contribution amounts as retirement benefit expenses.

The status of the multi-employer plan is as follows:

	Millions of yen	Thousands of U.S. dollars
(1) Accumulated funds for the plan (As of March 31, 2007)		
Plan assets:	95,440	954,405
Amount of benefit obligation as a result of pension's financial calculation:	102,903	1,029,034
Difference:	(7,462)	(74,628)

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan
(As of March 31, 2007)

1.9%

(3) Supplementary explanation

The difference in the above (1) is due primarily to ¥14,896 million in the balance of prior service costs as a result of the pension's financial calculation and special reserves of ¥7,433 million. In the plan, prior service costs are depreciated evenly over a period of 10 years.

The ratio in the above (2) does not match with the ratio of the actual burden of the consolidated subsidiary.

2. Retirement benefit obligations

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)	
Millions of yen	Millions of yen	Thousands of U.S. dollars
Fiscal 2006 (As of March 31, 2007)	Fiscal 2007 (As of March 31, 2008)	Fiscal 2007 (As of March 31, 2008)
a. Retirement benefit obligations:	(42,262)	(41,268) (412,689)
b. Plan assets:	32,399	26,650 266,501
c. Unfunded retirement benefit obligations: (a+b)	(9,863)	(14,618) (146,187)
d. Unrecognized actuarial gains or losses:	5,933	10,073 100,733
e. Unrecognized prior service costs:	(1,854)	(873) (8,735)
f. Net retirement benefit obligations recognized in the consolidated balance sheets: (c+d+e)	(5,784)	(5,418) (54,189)
g. Prepaid pension costs:	7,160	7,540 75,400
h. Provision for retirement benefits: (f-g)	(12,890)	(12,959) (129,590)
Note: Some domestic consolidated subsidiaries adopt a simplified method in the calculation of retirement benefit obligations.	Note: Some domestic consolidated subsidiaries adopt a simplified method in the calculation of retirement benefit obligations.	

3. Retirement benefit expenses

Fiscal 2006 (From April 1, 2006 to March 31, 2007)		Fiscal 2007 (From April 1, 2007 to March 31, 2008)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Fiscal 2006 (From April 1, 2006, to March 31, 2007)	Fiscal 2007 (From April 1, 2007, to March 31, 2008)	Fiscal 2007 (From April 1, 2007, to March 31, 2008)
a. Service costs: (Note 3)	1,990	1,401	14,016
b. Interest costs:	894	767	7,673
c. Expected return on plan assets:	(1,376)	(1,043)	(10,432)
d. Amortization of actuarial gains or losses:	650	616	6,163
e. Amortization of prior service costs:	(115)	(119)	(1,197)
f. Retirement benefit expenses: (a+b+c+d+e)	2,043	1,622	16,222
g. Gains or losses on change to defined contribution pension plans:	(634)	—	—
h. Defined contribution pension plans installment:	60	564	5,647
Total	1,469	2,187	21,870

Notes: 1. In addition to the above retirement benefit expenses, additional retirement benefits amounting to ¥394 million and ¥204 million (US\$ 2,048 thousand) were paid and booked as extraordinary losses for Fiscal 2006 and Fiscal 2007, respectively.

2. The figures in the above table do not include the contributions made by employees with respect to the tax-qualified pension plan.

3. The retirement benefit expense for consolidated subsidiaries which adopt the simplified method is included in "Service costs."

4. Assumptions used in accounting for the defined benefit plan for the year ended March 31, 2007 are as follows:

	Fiscal 2006 (As of March 31, 2007)	Fiscal 2007 (As of March 31, 2008)
a. Method of attributing the projected benefit obligations to periods of service	Straight-line	Same as Fiscal 2006
b. Discount rate	mainly 2.0%	Same as Fiscal 2006
c. Expected rate of return on plan assets	mainly 4.0%	mainly 3.3%
d. Amortization period for prior service cost	mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees.)	Same as Fiscal 2006
e. Amortization period for actuarial gains and losses	mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees, allocated proportionally commencing the next year in which each respective gains or losses occurred.)	Same as Fiscal 2006

(Additional information)

Effective from this fiscal year, the Company and its domestic consolidated subsidiaries adopt "Partial Amendments to Accounting Standard for Retirement Benefits (Part 2)" (ASBJ Statement No. 14, May 15, 2007).

STOCK-BASED COMPENSATION PLANS

FISCAL 2006 (From April 1, 2006 to March 31, 2007)

1. Details including size and changes of stock options

(1) Stock option plans

	Stock options 2002	Stock options 2003
Number of eligible persons by positions	Directors	18
	Corporate auditors	3
	Managers	396
	Directors of subsidiaries	67
	Corporate auditors of subsidiaries	4
	Managers of subsidiaries	451
Total number and type of stocks granted	1,076,500 shares of common stocks	2,811,000 shares of common stocks
Grant date	October 1, 2002	October 1, 2003
Prerequisite to be vested	Directors, corporate auditors and employees of the Company and its subsidiaries. Directors, corporate auditors and associate directors of the Company and presidents of the significant subsidiaries can exercise after they retire.	Directors, corporate auditors, executive officers and employees of the Company and its subsidiaries.
Required service period	From October 1, 2002 to June 27, 2004	From October 1, 2003 to June 26, 2005
Exercise period	From June 28, 2004 to June 27, 2012	From June 27, 2005 to June 26, 2013

Note: Significant subsidiaries are as follows:

KURARAY ENGINEERING CO., LTD., KURARAY CHEMICAL CO., LTD., KURARAY TRADING Co., Ltd., Kuraray Plastics Co., Ltd., KURARAY FUDOSAN CO., LTD., Kuraray Techno Co., Ltd., TECHNO SOFT CO., LTD., Kuraray America, Inc., Eval Company of America, (Merged with Kuraray America, Inc. in January, 2008) Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Specialities Europe GmbH (Merged with Kuraray Europe GmbH in September, 2006)

(2) Size and changes of stock options

Stock options which exist in this fiscal year are converted into shares.

1) Number of stock options

	Stock options 2002	Stock options 2003
Unvested stock options (shares)		
At the beginning of the fiscal year	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
At the end of the fiscal year	—	—
Vested stock options (shares)		
At the beginning of the fiscal year	754,500	2,273,500
Vested	—	—
Exercised	186,500	442,500
Forfeited	6,000	39,500
At the end of the fiscal year	562,000	1,791,500

2) Price information

	Yen	
	Stock options 2002	Stock options 2003
Exercise prices	825	918
Weight-average exercise date stock price	1,339	1,340
Fair value at the grant date	—	—

FISCAL 2007 (From April 1, 2007 to March 31, 2008)

1. Item and amount of expenses for stock options in this fiscal year

Selling, general and administrative expenses: ¥74 million

2. Details including size and changes of stock options

(1) Stock options plans

	Stock options 2002	Stock options 2003	Stock options June 2007
Number of eligible persons by positions	Directors 18 Corporate auditors 3 Managers 396 Directors of subsidiaries 67 Corporate auditors of subsidiaries 4 Managers of subsidiaries 451	Employees 2,200 Employees of subsidiaries 3,422	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 11
Total number and type of stocks granted	1,076,500 shares of common stock	2,811,000 shares of common stock	56,500 shares of common stock
Grant date	October 1, 2002	October 1, 2003	June 5, 2007
Prerequisite to be vested	Directors, corporate auditors and employees of the Company and its subsidiaries. Directors, corporate auditors and associate directors of the Company and presidents of the significant subsidiaries can exercise after they retire.	Directors, corporate auditors, executive officers and employees of the Company and its subsidiaries.	No vesting conditions are set.
Required service period	From October 1, 2002 to June 27, 2004	From October 1, 2003 to June 26, 2005	There is no provision for a required service period.
Exercise period	From June 28, 2004 to June 27, 2012	From June 27, 2005 to June 26, 2013	From June 6, 2007 to June 5, 2022; Provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

Note: Significant subsidiaries are as follows:

KURARAY ENGINEERING CO., LTD., KURARAY CHEMICAL CO., LTD., KURARAY TRADING Co., Ltd., Kuraray Plastics Co., Ltd., KURARAY FUDOSAN CO., LTD., Kuraray Techno Co., Ltd., TECHNO SOFT CO., LTD., Kuraray America, Inc., Eval Company of America, (Merged with Kuraray America, Inc. in January, 2008) Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Socialities Europe GmbH (Merged with Kuraray Europe GmbH in September, 2006)

(2) Size and changes of Stock options

Stock options which exist in this fiscal year are converted into shares.

1) Number of stock options

	Stock options 2002	Stock options 2003	Stock options June 2007
Unvested stock options (shares)			
At the beginning of the fiscal year	—	—	—
Granted	—	—	56,500
Forfeited	—	—	—
Vested	—	—	56,500
At the end of the fiscal year	—	—	—
Vested stock options (shares)			
At the beginning of the fiscal year	562,000	1,791,500	—
Vested	—	—	56,500
Exercised	162,000	315,500	4,000
Forfeited	2,000	21,500	—
At the end of the fiscal year	398,000	1,454,500	52,500

2) Price information

	Yen			U.S. dollars		
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options 2002	Stock options 2003	Stock options June 2007
Exercise prices	825	918	1	8.25	9.18	0.01
Weight-average exercise date stock price	1,411	1,406	1,446	14.11	14.06	14.46
Fair value at the grant date	—	—	1,318	—	—	13.18

3. Method to estimate fair value of stock options

The fair value of the June 2007 stock options, which were granted in fiscal 2007, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	June 2007 stock option
Stock price volatility (Note 1)	22%
Expected remaining life (Note 2)	2 years
Expected dividend (Note 3)	¥20/share (US\$ 0.2/share)
Risk-free interest rate (Note 4)	1.00%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains May 30, 2005 to the week that contains May 28, 2007.

2. Calculated by subtracting the average service years of incumbent directors from the average service years of directors who assumed office in and after 1985 and have resigned.

3. Expected dividend for the year ended March 2008.

4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

As a rational estimate of the forfeited number of stock options in the future is generally difficult, the Company adopts a method whereby only actual forfeited numbers are reflected.

INCOME TAXES

Fiscal 2006 (From April 1, 2006 to March 31, 2007)		Fiscal 2007 (From April 1, 2007 to March 31, 2008)		
1. The significant components of deferred tax assets and liabilities at March 31, 2007 are as follows:		1. The significant components of deferred tax assets and liabilities at March 31, 2008 are as follows:		
(1) Current		(1) Current		Thousands of
	Millions of yen	Millions of yen	U.S. dollars	
Deferred tax assets		Deferred tax assets		
Provision for bonuses	2,383	Provision for bonuses	2,458	24,586
Write-down of inventories	1,617	Write-down of inventories	1,813	18,138
Accrued fixed asset tax and other taxes	729	Accrued fixed asset tax and other taxes	928	9,281
Other	2,750	Other	2,662	26,622
Sub-total deferred tax assets	7,481	Sub-total deferred tax assets	7,862	78,628
Valuation allowance	(713)	Valuation allowance	(472)	(4,720)
Total deferred tax assets	6,768	Total deferred tax assets	7,390	73,908
Total deferred tax liabilities	27	Total deferred tax liabilities	28	288
Net deferred tax assets	6,741	Net deferred tax assets	7,362	73,620
(2) Noncurrent		(2) Noncurrent		Thousands of
	Millions of yen	Millions of yen	U.S. dollars	
Deferred tax assets		Deferred tax assets		
Provision for retirement benefits	922	Provision for retirement benefits	4,777	47,779
Write-down of investment securities	113	Write-down of investment securities	1,672	16,726
Impairment loss on tangible fixed assets	549	Impairment loss on tangible fixed assets	3,014	30,148
Other	2,916	Other	8,255	82,556
Sub-total deferred tax assets	4,502	Sub-total deferred tax assets	17,721	177,210
Valuation allowance	(1,347)	Valuation allowance	(4,610)	(46,100)
Total deferred tax assets	3,155	Total deferred tax assets	13,111	131,110
Deferred tax liabilities		Deferred tax liabilities		
Reserve for advanced depreciation of tangible fixed assets	107	Reserve for advanced depreciation of tangible fixed assets	3,170	31,706
Unrealized gain on revaluation of securities	30	Unrealized gain on revaluation of securities	3,197	31,973
Reserve for special depreciation of tangible fixed assets	6	Reserve for special depreciation of tangible fixed assets	149	1,493
Prepaid pension cost	122	Prepaid pension cost	3,035	30,359
Other	44	Other	19	192
Total deferred tax liabilities	311	Total deferred tax liabilities	9,572	95,725
Net deferred tax assets	2,844	Net deferred tax assets	3,538	35,384

Fiscal 2006 (From April 1, 2006 to March 31, 2007)		Fiscal 2007 (From April 1, 2007 to March 31, 2008)		
	Millions of yen		Millions of yen	Thousands of U.S. dollars
Deferred tax liabilities		Deferred tax liabilities		
Depreciation	4,510	Depreciation	4,526	45,266
Reserve for advanced depreciation of noncurrent assets	2,992	Unrealized gain on revaluation of securities	0	1
Unrealized gain on revaluation of securities	7,640	Other	3,259	32,599
Special account for reserve for deferred gains on sales of fixed assets	498	Total deferred tax liabilities	7,786	77,866
Reserve for special depreciation of noncurrent assets	236	Deferred tax assets		
Prepaid pension costs	2,746	Provision for retirement benefits	16	164
Other	879	Other	2,084	20,840
Total deferred tax liabilities	19,503	Total deferred tax assets	2,100	21,004
Deferred tax assets		Net deferred tax liabilities	¥ 5,686	US\$ 56,862
Provision for retirement benefits	3,859			
Write-down of investment securities	3,574			
Impairment loss on tangible fixed assets	1,770			
Other	2,819			
Sub-total deferred tax assets	12,023			
Valuation allowance	(3,648)			
Total deferred tax assets	8,375			
Net deferred tax liabilities	11,128			
2. 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:		2. 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:		
	Fiscal 2006		Fiscal 2007	
Normal effective tax rate	40.4%	Normal effective tax rate	40.3%	
Non-taxable income	(0.4)	Non-taxable income	(0.8)	
Tax credit primarily for research and development expenses	(2.1)	Tax credit primarily for research and development expenses	(2.0)	
Largely loss incurred by consolidated subsidiaries and other	(1.2)	Largely loss incurred by consolidated subsidiaries and other	(2.4)	
Income tax rate per statements of income	36.7%	Income tax rate per statements of income	35.1%	
3. _____		3. The "Act on Interim Measures concerning Special Local Corporate Tax" in Japan was promulgated on April 30, 2008, and will apply to fiscal years that begin on or after October 1, 2008. The impact on deferred tax assets and liabilities relating to temporary differences in the fiscal years applicable to this act will be immaterial.		

BUSINESS COMBINATION

FISCAL 2007 (From April 1, 2007 to March 31, 2008)

Transactions under common control (absorption-type company split)

1. Names of combining companies or targeted businesses, details of the businesses, legal form of the business combination, name of the company after the business combination and overview of the transaction including the purpose of the transaction

(1) Names of combining companies or targeted businesses, details of the businesses and overview of the transactions including the purpose of the transaction

KURARAY SAIJO CO., LTD. and KURARAY TAMASHIMA COMPANY LIMITED, as production consignment subsidiaries (wholly owned consolidated subsidiaries) of the Company, mainly manufactured polyester fibers, non-woven fabrics, film, plastics and so on within the Company's plants.

To improve operational efficiency and strengthen competitiveness of the Group as a whole, it was decided to transfer some of both firms' products to the Company. Accordingly, certain businesses of both firms were separated on October 1, 2007, and subsequently succeeded by the Company.

— Businesses that the Company succeeded from KURARAY SAIJO CO., LTD.

Production of Poval films, liquid crystalline polymer film, non-woven fabrics, PVA gel and related administrative operations.

— Businesses that the Company succeeded from KURARAY TAMASHIMA COMPANY LIMITED

Production of Poval films and related administrative operations.

(2) Name of company after the business combination

Kuraray Co., Ltd.

(3) Legal form of business combination

Absorption-type company split in which the Company became the successor company, whilst absorbing parts of the businesses of KURARAY SAIJO CO., LTD. and KURARAY TAMASHIMA COMPANY LIMITED.

2. Overview of accounting methods used

Since the said absorption-type company split corresponded to a transaction under common control, that is, an internal transaction, all profits and losses were eliminated. Hence, this accounting method has no material effect on the consolidated financial statements.

Transactions under common control (absorption-type merger)

1. Names of combining companies or targeted businesses, details of the businesses, legal form of the business combination, name of the company after the business combination and overview of the transaction including the purpose of the transaction

(1) Names of combining companies or targeted businesses, details of the businesses and overview of the transaction including the purpose of the transaction

Kuraray Niigata Kasei Co., Ltd. (a wholly owned consolidated subsidiary of the Company) ceased the manufacture of methacrylic resin cast sheets in March 2007 due to the transfer of its production base to a subsidiary of the Company in China. Also, for the purpose of enhancing competitiveness through an integrated management of development and production, Kuraray Niigata Kasei's manufacture of synthetic marble was integrated into the Company in April 2007. Reflecting these developments, Kuraray Niigata Kasei Co., Ltd was absorbed by and merged into the Company on October 1, 2007.

(2) Name of Company after the business combination

Kuraray Co., Ltd.

(3) Legal form of business combination

Absorption-type merger in which the Company became the successor company, whilst Kuraray Niigata Kasei Co., Ltd. was dissolved.

2. Overview of accounting methods used

Since the said merger by absorption corresponded to a transaction under common control, that is, an internal transaction, all profits and losses were eliminated. Hence, this accounting method has no material effect on the consolidated financial statements.

Transactions under common control (absorption-type merger)

As a merger between three consolidated subsidiaries of the Company, Kuraray America, Inc. absorbed Eval Company of America and SEPTON Company of America, effective January 1, 2008.

1. Names of combining companies or targeted businesses, details of the businesses, legal form of the business combination, name of the company after the business combination and overview of the transaction including the purpose of the transaction

(1) Names of combining companies and details of the businesses

Kuraray America, Inc.	Import and sale of Company products in the United States
Eval Company of America	Manufacture and sale of resin <i>EVAL</i> in the United States
SEPTON Company of America	Manufacture and sale of thermoplastic elastomer <i>SEPTON</i> in the United States

(2) Outline of transactions including reason for transaction

(Objectives)

Create an overall management function for the subsidiaries in the United States, ensure effective global human resource development and deployment, strengthen information systems, and improve operational effectiveness. Through these measures, the Company is further building a business structure for future growth.

(Outline)

Kuraray America, Inc., the successor company, absorbed Eval Company of America and SEPTON Company of America, the dissolved companies.

(3) Name of company after the business combination

Kuraray America, Inc.,

(4) Legal form of business combination

Merger

2. Overview of accounting methods used

Since the said merger by absorption corresponded to a transaction under common control, that is, an internal transaction, all profits and losses were eliminated. Hence, this accounting method has no material effect on the consolidated financial statements.

Business divestiture transaction (absorption-type company split)

1. Names of companies divested into, details of businesses divested, major reason for business divestiture, the date of business divestiture and overview of the business divestiture including legal form

(1) Names of companies divested into, details of the businesses divested, major reason for business divestiture and the date of business divestiture

The dialysis business of Kuraray Medical Inc. (a wholly owned consolidated subsidiary of the Company) and the dialysis and blood purification businesses of Asahi Kasei Medical Co., Ltd. were integrated as described below, in order to enhance the base of these businesses.

On October 1, 2007, Asahi Kasei Medical Co., Ltd. was renamed Asahi Kasei Kuraray Medical Co., Ltd. The businesses of Asahi Kasei Medical, other than the dialysis and blood purification businesses, were transferred to a newly established company through an incorporation-type split business, and Asahi Kasei Kuraray Medical Co., Ltd. succeeded the dialysis business of Kuraray Medical Inc. through separation and absorption.

(2) Overview of the business divestiture including legal form

Absorption-type company split in which Asahi Kasei Kuraray Medical Co., Ltd. became the successor company, while absorbing parts of the businesses of Kuraray Medical Inc.

2. Overview of accounting methods used

(1) Amount of gains and losses transferred

Loss on transfer from business divestitures of ¥88 million (\$889 thousand)

(2) Appropriate book values of assets and liabilities, associated with the businesses transfer, and breakdown of such assets and liabilities

	Millions of yen	Thousands of U.S. dollars
Current assets:	906	9,067
Noncurrent assets:	492	4,921
Total assets:	1,398	13,989
Current liabilities:	—	—
Total liabilities:	—	—

(3) Name of classifications that included divested businesses within the business segments

High performance materials, medical products and others segment

3. Estimated gains and losses from the divested businesses in the consolidated statements of income for this fiscal year

The amounts of gains and losses from the divested businesses are immaterial

Related party transactions

There were no transactions between the Company and related parties for the years ended March 31, 2007 and 2008 respectively.

PER SHARE INFORMATION

	Fiscal 2006 (From April 1, 2006 to March 31, 2007)		Fiscal 2007 (From April 1, 2007 to March 31, 2008)	
	Yen		Yen	U.S. dollars
Net assets per share	967.80		981.82	9.81
Basic net income per share	60.95		72.15	0.72
Diluted net income per share	60.80		71.99	0.71

Note: The basis for computation of basic and diluted net income per share is as follows:

	Fiscal 2006 (From April 1, 2006 to March 31, 2007)		Fiscal 2007 (From April 1, 2007 to March 31, 2008)	
	Millions of yen		Millions of yen	Thousands of U.S. dollars
Basic net income per share				
Net income	22,412	25,554	255,548	
Net income unallocated to common stock	—	—	—	
Net income allocated to common stock	22,412	25,554	255,548	
Average number of common stock outstanding during the fiscal year (thousands shares)	367,731		354,204	
Diluted net income per share				
Adjustment made on net income	—		—	
Increase of common stocks (thousands shares)	912		757	
(New subscription rights to shares (thousands shares))	(912)		(757)	
Outline of the residual securities which were not included in the calculation of the diluted net income per share because there was no dilutive effect.	—		—	

SUBSEQUENT EVENTS

Fiscal 2006 (From April 1, 2006 to March 31, 2007)		Fiscal 2007 (From April 1, 2007 to March 31, 2008)																																									
<p>1. At the meetings the Board of Directors held on May 16, 2007 and June 4, 2007, the Company resolved to grant directors and executive officers of the Company stock acquisition rights as a stock option in accordance with Article 238, Paragraphs 1 and 2, and Article 240, Paragraph 1 of the Corporate Law.</p> <p>Details are described below</p> <table border="1"> <thead> <tr> <th>Resolution date</th> <th>Resolutions of Board of Directors Meeting held on May 16, 2007</th> </tr> </thead> <tbody> <tr> <td>Number of people and office of people receiving grant</td> <td>Directors: 10 Officers: 11 (excluding individuals serving concurrently as directors of the Company and overseas employee)</td> </tr> <tr> <td>Classification of shares allocated for the stock acquisition rights</td> <td>Common stock</td> </tr> <tr> <td>Number of shares</td> <td>56,500</td> </tr> <tr> <td>Pay-in amount upon exercise of the stock acquisition rights</td> <td>1 yen per share</td> </tr> <tr> <td>Exercise period of the stock acquisition rights</td> <td>From June 6, 2007 to June 5, 2022 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day</td> </tr> <tr> <td>Conditions to exercise stock acquisition rights</td> <td>Note 1</td> </tr> <tr> <td>Matters concerning the transfer of stock acquisition rights</td> <td>Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors</td> </tr> <tr> <td>Matters concerning proxy payment</td> <td>—</td> </tr> <tr> <td>Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization</td> <td>Note 2</td> </tr> </tbody> </table>		Resolution date	Resolutions of Board of Directors Meeting held on May 16, 2007	Number of people and office of people receiving grant	Directors: 10 Officers: 11 (excluding individuals serving concurrently as directors of the Company and overseas employee)	Classification of shares allocated for the stock acquisition rights	Common stock	Number of shares	56,500	Pay-in amount upon exercise of the stock acquisition rights	1 yen per share	Exercise period of the stock acquisition rights	From June 6, 2007 to June 5, 2022 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day	Conditions to exercise stock acquisition rights	Note 1	Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors	Matters concerning proxy payment	—	Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2	<p>1. At the meetings the Board of Directors held on May 20, 2008 and June 9, 2008, the Company resolved to grant directors and executive officers of the Company stock acquisition rights as a stock option in accordance with Article 238, Paragraphs 1 and 2, and Article 240, Paragraph 1 of the Corporate Law.</p> <p>Details are described below</p> <table border="1"> <thead> <tr> <th>Resolution date</th> <th>Resolutions of Board of Directors Meeting held on May 20, 2008</th> </tr> </thead> <tbody> <tr> <td>Number of people and office of people receiving grant</td> <td>Directors: 10 Officers: 16 (excluding individuals serving concurrently as directors of the Company and overseas employee)</td> </tr> <tr> <td>Classification of shares allocated for the stock acquisition rights</td> <td>Common stock</td> </tr> <tr> <td>Number of shares</td> <td>78,500</td> </tr> <tr> <td>Pay-in amount upon exercise of the stock acquisition rights</td> <td>1 yen per share</td> </tr> <tr> <td>Exercise period of the stock acquisition rights</td> <td>From June 11, 2008 to June 10, 2023 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day</td> </tr> <tr> <td>Conditions to exercise stock acquisition rights</td> <td>Note 1</td> </tr> <tr> <td>Matters concerning the transfer of stock acquisition rights</td> <td>Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors</td> </tr> <tr> <td>Matters concerning proxy payment</td> <td>—</td> </tr> <tr> <td>Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization</td> <td>Note 2</td> </tr> </tbody> </table>		Resolution date	Resolutions of Board of Directors Meeting held on May 20, 2008	Number of people and office of people receiving grant	Directors: 10 Officers: 16 (excluding individuals serving concurrently as directors of the Company and overseas employee)	Classification of shares allocated for the stock acquisition rights	Common stock	Number of shares	78,500	Pay-in amount upon exercise of the stock acquisition rights	1 yen per share	Exercise period of the stock acquisition rights	From June 11, 2008 to June 10, 2023 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day	Conditions to exercise stock acquisition rights	Note 1	Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors	Matters concerning proxy payment	—	Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2
Resolution date	Resolutions of Board of Directors Meeting held on May 16, 2007																																										
Number of people and office of people receiving grant	Directors: 10 Officers: 11 (excluding individuals serving concurrently as directors of the Company and overseas employee)																																										
Classification of shares allocated for the stock acquisition rights	Common stock																																										
Number of shares	56,500																																										
Pay-in amount upon exercise of the stock acquisition rights	1 yen per share																																										
Exercise period of the stock acquisition rights	From June 6, 2007 to June 5, 2022 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day																																										
Conditions to exercise stock acquisition rights	Note 1																																										
Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors																																										
Matters concerning proxy payment	—																																										
Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2																																										
Resolution date	Resolutions of Board of Directors Meeting held on May 20, 2008																																										
Number of people and office of people receiving grant	Directors: 10 Officers: 16 (excluding individuals serving concurrently as directors of the Company and overseas employee)																																										
Classification of shares allocated for the stock acquisition rights	Common stock																																										
Number of shares	78,500																																										
Pay-in amount upon exercise of the stock acquisition rights	1 yen per share																																										
Exercise period of the stock acquisition rights	From June 11, 2008 to June 10, 2023 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day																																										
Conditions to exercise stock acquisition rights	Note 1																																										
Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors																																										
Matters concerning proxy payment	—																																										
Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2																																										

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>Notes: 1. The exercise of stock acquisition rights is subject to the following conditions:</p> <ol style="list-style-type: none"> (1) If the holder of stock acquisition rights loses their position as director, if they are a director, or executive officer, if they are an executive officer, they may exercise their stock acquisition rights providing it is in a 10 day period that begins on the next day of the day they lost their position (hereinafter the "Rights Exercise Start Date"). (2) If the holder of stock acquisition rights, regardless of the above (1), does not qualify for a Rights Exercise Start Date before May 6, 2022, they may exercise their stock acquisition rights providing it is in a period that begins on the next business day after May 6, 2022, and ends on the expiry day of the above-mentioned exercise period of the stock acquisition rights. (3) If, by resolution at the General Meeting of Shareholders, or the meeting of the Board of Directors, the Company decides to acquire the stock acquisition rights without compensation, Note 1-1 the holder of stock acquisition rights may exercise their stock acquisition rights providing it is in the period prescribed separately at a meeting of the Board of Directors and before the date of the acquisition without compensation. (4) If a holder of stock acquisition rights dies, the person who inherits the stock acquisition rights may exercise their stock acquisition rights in accordance with the conditions stated in the "Stock Acquisition Rights Allotment Agreement" described in (5) below. (5) Any other conditions pertaining to the exercise of rights shall be determined by the "Stock Acquisition Rights Allotment Agreement" concluded between the Company and the holder of stock acquisition rights. <p>1-1. In the event a resolution is approved at the General Meeting of Shareholders for a merger agreement whereby the Company becomes a non-surviving company, an absorption-type company split agreement whereby the Company splits into multiple companies, or plan for an incorporation-type company split; or a share transfer agreement whereby the Company becomes a wholly-owned subsidiary of another company, or for a share exchange plan (if a resolution at the General Meeting of Shareholders is not required, when a resolution is approved at a meeting of the Company's Board of Directors), the Company may acquire, without compensation, all stock acquisition rights remaining on a day specified separately at a meeting of the Company's Board of Directors.</p> <p>2. Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization If the Company is involved in a merger (limited to when the Company becomes the non-surviving company from the merger), an absorption-type company split, a plan for an incorporation-type company split, a share exchange, or a share transfer (hereinafter "Act of Corporate Reorganization"), the holders of the stock acquisition rights outstanding at the date that the Act of Corporate Reorganization becomes effective shall be granted stock acquisition rights of a stock company of one of the types listed in Article 236, Paragraph 1.(viii).(a) to 1.(viii).(e) of the Corporate Law (hereinafter the "Reorganized Company") based on the following conditions.</p>	<p>Notes: 1. The exercise of stock acquisition rights is subject to the following conditions:</p> <ol style="list-style-type: none"> (1) If the holder of stock acquisition rights loses their position as director, if they are a director, or executive officer, if they are an executive officer, they may exercise their stock acquisition rights providing it is in a 10 day period that begins on the next day of the day they lost their position (hereinafter the "Rights Exercise Start Date"). (2) If the holder of stock acquisition rights, regardless of the above (1), does not qualify for a Rights Exercise Start Date before May 11, 2023, they may exercise their stock acquisition rights providing it is in a period that begins on the next business day after May 11, 2023, and ends on the expiry day of the above-mentioned exercise period of the stock acquisition rights. (3) If, by resolution at the General Meeting of Shareholders, or the meeting of the Board of Directors, the Company decides to acquire the stock acquisition rights without compensation, Note 1-1 the holder of stock acquisition rights may exercise their stock acquisition rights providing it is in the period prescribed separately at a meeting of the Board of Directors and before the date of the acquisition without compensation. (4) If a holder of stock acquisition rights dies, the person who inherits the stock acquisition rights may exercise their stock acquisition rights in accordance with the conditions stated in the "Stock Acquisition Rights Allotment Agreement" described in (5) below. (5) Any other conditions pertaining to the exercise of rights shall be determined by the "Stock Acquisition Rights Allotment Agreement" concluded between the Company and the holder of stock acquisition rights. <p>1-1. In the event a resolution is approved at the General Meeting of Shareholders for a merger agreement whereby the Company becomes a non-surviving company, an absorption-type company split agreement whereby the Company splits into multiple companies, or plan for an incorporation-type company split; or a share transfer agreement whereby the Company becomes a wholly-owned subsidiary of another company, or for a share exchange plan (if a resolution at the General Meeting of Shareholders is not required, when a resolution is approved at a meeting of the Company's Board of Directors), the Company may acquire, without compensation, all stock acquisition rights remaining on a day specified separately at a meeting of the Company's Board of Directors.</p> <p>2. Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization If the Company is involved in a merger (limited to when the Company becomes the non-surviving company from the merger), an absorption-type company split, a plan for an incorporation-type company split, a share exchange, or a share transfer (hereinafter "Act of Corporate Reorganization"), the holders of the stock acquisition rights outstanding at the date that the Act of Corporate Reorganization becomes effective shall be granted stock acquisition rights of a stock company of one of the types listed in Article 236, Paragraph 1.(viii).(a) to 1.(viii).(e) of the Corporate Law (hereinafter the "Reorganized Company") based on the following conditions.</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>When this case arises, the outstanding stock acquisition rights are extinguished and the Reorganized Company grants those holders stock acquisition rights of the Reorganized Company, the granting of stock acquisition rights of the Reorganized Company in accordance with the following conditions is limited to only the cases of absorption-type merger agreements, incorporation-type company merger agreements, absorption-type company split agreements, incorporation-type company split plans, share transfer agreements, and share transfer plans.</p> <p>(1) Number of stock acquisition rights granted by the Reorganized Company The number of granted stock acquisition rights will be the same as the number of stock acquisition rights held by the respective holders of outstanding stock acquisition rights.</p> <p>(2) Classification of stock of the Reorganized Company allocated for stock acquisition rights Shares of common stock of the Reorganized Company</p> <p>(3) Number of shares of the Reorganized Company allocated for stock acquisition rights To be decided by taking into account the conditions of the Act of Corporate Reorganization.</p> <p>(4) Value of assets contributed upon the exercise of stock acquisition rights The post-reorganization pay-in amount per one share of the Reorganized Company's stock granted upon exercise of stock acquisition rights shall be 1 yen, and the value of assets contributed shall be obtained by multiplying this by the number of shares of the Reorganized Company's stock allocated for the stock acquisition rights as determined by (3) above.</p> <p>(5) Exercise period of stock acquisition rights The exercise period of stock acquisition rights shall begin on the day that the Act of Corporate Reorganization takes effect and end on the expiry date of the above mentioned exercise period of the stock acquisition rights.</p> <p>(6) Amount of capital increase when there is an issue of shares upon the exercise of stock acquisition rights Shall be half the amount of the increase limit for capital and paid-in-capital, contributed in accordance with Article 40 Paragraph 1 of the Corporate Accounting Rules and when digits that are fractions of 1 yen occur as a result of the calculation, these digits are discarded.</p> <p>(7) Limitation on acquiring stock acquisition rights by transfer Acquiring stock acquisition rights by transfer is conditional upon approval by resolution at a meeting of the Board of Directors of the Reorganized Company.</p> <p>(8) Matters concerning acquisition of stock acquisition rights Determined by the above Note 1-1.</p> <p>(9) Other conditions for the exercise of stock acquisition rights Determined by the above Note 1.</p>	<p>When this case arises, the outstanding stock acquisition rights are extinguished and the Reorganized Company grants those holders stock acquisition rights of the Reorganized Company, the granting of stock acquisition rights of the Reorganized Company in accordance with the following conditions is limited to only the cases of absorption-type merger agreement, incorporation-type company merger agreements, absorption-type company split agreements, incorporation-type company split plan, share transfer agreements, and share transfer plans.</p> <p>(1) Number of stock acquisition rights granted by the Reorganized Company The number of granted stock acquisition rights will be the same as the number of stock acquisition rights held by the respective holders of outstanding stock acquisition rights.</p> <p>(2) Classification of stock of the Reorganized Company allocated for stock acquisition rights Shares of common stock of the Reorganized Company</p> <p>(3) Number of shares of the Reorganized Company allocated for stock acquisition rights To be decided by taking into account the conditions etc. of the Act of Corporate Reorganization.</p> <p>(4) Value of assets contributed upon the exercise of stock acquisition rights The post-reorganization pay-in amount per one share of the Reorganized Company's stock granted upon exercise of stock acquisition rights shall be 1 yen, and the value of assets contributed shall be obtained by multiplying this by the number of shares of the Reorganized Company's stock allocated for the stock acquisition rights as determined by (3) above.</p> <p>(5) Exercise period of stock acquisition rights The exercise period of stock acquisition rights shall begin on the day that the Act of Corporate Reorganization takes effect and end on the expiry date of the above mentioned exercise period of the stock acquisition rights.</p> <p>(6) Amount of capital increase when there is an issue of shares upon the exercise of stock acquisition rights Shall be half the amount of the increase limit for capital and so on, contributed in accordance with Article 40 Paragraph 1 of the Corporate Accounting Rules and when digits that are fractions of 1 yen occur as a result of the calculation, these digits are discarded.</p> <p>(7) Limitation on acquiring stock acquisition rights by transfer Acquiring stock acquisition rights by transfer is conditional upon approval by resolution at a meeting of the Board of Directors of the Reorganized Company.</p> <p>(8) Matters concerning acquisition of stock acquisition rights Determined by the above Note 1-1.</p> <p>(9) Other conditions for the exercise of stock acquisition rights Determined by the above Note 1.</p>

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
<p>2. The Board of Directors of the Company on June 19, 2007, approved the acquisition of the Company's common stock as treasury stock. The details are as follows:</p> <p>(1) Purpose of acquisition Improving the return to stockholders by better capital efficiency</p> <p>(2) Type of stocks Common stock</p> <p>(3) Total number of stocks purchased Up to 23,000 thousand (the ratio 6.0% for the number of outstanding shares of common stock)</p> <p>(4) Term of acquisition From June 21, 2007 to June 20, 2008</p> <p>(5) Acquisition amount Up to ¥30,000 million</p> <p>(6) Method of acquisition Tokyo Stock Exchange Trading</p>	<p>2. Transactions under common control (absorption-type company split)</p> <p>At the meeting the Board of Directors held on April 30, 2008, the Company resolved to succeed the <i>PET</i> (polyethylene terephthalate) resins business of KURARAY TRADING Co., LTD., a wholly owned consolidated subsidiary of the Company, by absorption-type company split with the purpose of improving operational efficiency and strengthening competitiveness of the Group as a whole on July 1, 2008.</p> <p>(1) Details of business of the company which is split Details of business: <i>PET</i> (polyethylene terephthalate) resins business Net sales in the business to be succeeded (for the year ended March 2008): ¥2,146 million (US\$21,462 thousand)</p> <p>(2) Form of company split Absorption-type company split in which the Company is to become the successor company, while absorbing parts of the businesses of KURARAY TRADING Co., LTD.</p> <p>(3) Outline of the company which is split and the company which is a successor (As of March 31, 2008)</p> <p><i>Company which is split</i> Name: KURARAY TRADING Co., LTD. Capital stock: ¥2,200 million (US\$22,000 thousand) Net assets: ¥12,147 million (US\$121,479 thousand) Total assets: ¥45,989 million (US\$459,899 thousand) Number of employees: 328</p> <p><i>Company which is a successor</i> Name: Kuraray Co., Ltd. Capital stock: ¥88,955 million (US\$889,553 thousand) Net assets: ¥281,770 million (US\$2,817,700 thousand) Total assets: ¥379,463 million (US\$3,794,636 thousand) Number of employees: 2,931</p>

SUPPLEMENTARY SCHEDULE

Supplementary schedule of bonds payable

Issuer	Name of bond	Issuance date	Balance as of March 31, 2007 (Millions of Yen)	Balance as of March 31, 2008 (Millions of Yen)	Interest rate	Type	Date of maturity
Kuraray, Co., Ltd.	3rd unsecured bonds	January 31, 2005	10,000	10,000 (US\$ 100,000 thousand)	0.99%	—	December 20, 2011
	Total	—	10,000	10,000 (US\$ 100,000 thousand)	—	—	—

Note: Repayment of bond principals is scheduled as follows.

	Millions of yen	Thousands of U.S. dollars
Maturity within 1 year	—	—
Maturity after 1 year but within 2 years	—	—
Maturity after 2 years but within 3 years	—	—
Maturity after 3 years but within 4 years	10,000	100,000
Maturity after 4 years but within 5 years	—	—

Supplementary schedule of loans payable

Category	Balance as of March 31, 2007 (Millions of Yen)	Balance as of March 31, 2008 (Millions of Yen)	Average interest rate (%)	Due date
Short-term loans	6,707	10,997 (US\$ 109,970 thousand)	3.0	—
Current portion of lease liabilities due within one year	—	—	—	—
Current portion of long-term loans due within one year	5,000	1,000 (US\$ 10,000 thousand)	1.3	—
Long-term loans (Excluding current portion) (Note 2)	6,255	11,954 (US\$ 119,549 thousand)	1.6	From September 2009 to March, 2022
Lease liabilities (Excluding current portion)	—	—	—	—
Total	17,963	23,952 (US\$ 239,522 thousand)	—	—

Notes: 1. The average interest rate is calculated based on the interest rate and the ending balance.

2. The annual maturities of long-term debt and bonds for 5 years subsequent to March 31, 2008 (excluding the current portion) are as follows.

	Millions of yen	Thousands of U.S. dollars
Due after 1 year but within 2 years	4,050	40,503
Due after 2 year but within 3 years	0	3
Due after 3 year but within 4 years	100	1,003
Due after 4 year but within 5 years	1,900	19,003

Others

Not applicable

Report of Independent Auditors



PricewaterhouseCoopers Aarata
NM Plaza Midousuji Bldg., 5th Floor
3-6-3 Awajimachi, Chuo-ku
Osaka-shi, Osaka 541-0047
Japan
Telephone : +81 (6) 6202 3546
Facsimile : +81 (6) 6202 3547
www.pwc.com/jp/aarata

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, 2008, and the related consolidated statements of income, changes in net assets, cash flows and supplementary schedules 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, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 5 (Change in accounting policies) to the consolidated financial statements, effective from the fiscal year ended March 31, 2008, the Company and its domestic subsidiaries changed the depreciation method for tangible fixed assets acquired on or after April 1, 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

June 30, 2008