kuraray

PIONEERING PROGRESSIVE REFINEMENT

ANNUAL REPORT 2008

For the year ended March 31, 2008

PIONEERING PROGRESSIVE REFINEMENT

Kuraray was established in 1926 to commercialize the production of the chemical fiber rayon, which was state-of-the-art at the time. As a pioneer in Japan's emerging chemical synthetic fiber production industry, the company moved to the industry forefront in 1950 with the accomplishment of commercial production of poval-based polyvinyl alcohol (PVA) fiber *KURALON*.

Over the last half century, Kuraray's technological expertise has developed numerous distinctive products that have expanded its presence in markets worldwide. In particular, several of our current products command the top share in the global market: including man-made leather *CLARINO*; poval resin, offering outstanding adhesive properties and water solubility; optical-use poval film, an indispensable element in liquid crystal displays (LCDs); and *EVAL* resin, a high gas barrier resin used for food packaging and fuel tanks.

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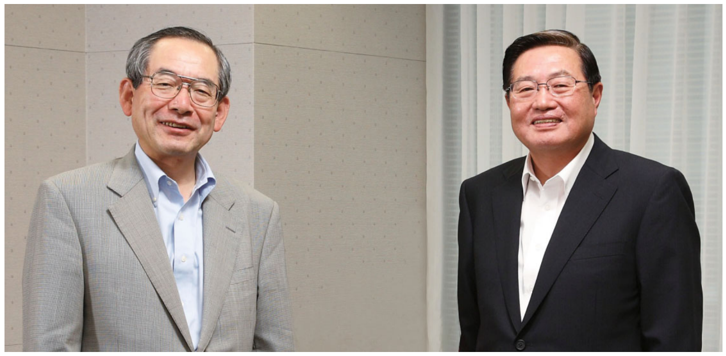
Forward-Looking Statements

This annual report contains various forward-looking statements, which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections, and business plans of Kuraray and its Group companies constitute forward-looking statements. Although Kuraray believes its expectations and assumptions are reasonable, actual results and trends of Kuraray's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in future business circumstances. The factors that may cause such differences include, without limitation: (1) general market and economic conditions in Asia, including Japan, the United States, Europe, and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar & other foreign currencies; (3) changes in raw material and fuel costs; (4) industrial competition and price fluctuations in Japan and international markets; (5) advances or delays in the construction of new plants and production lines; (6) successful development of new products and technologies; (7) changes in laws and regulations (including tax and environmental) and legal proceedings; and (8) unforeseeable risks, including natural disasters.

To Our Shareholders

Yasuaki Wakui
Representative Director and Chairman

Y. Wakui



Fumio Ito
Representative Director and President

F. Ito

Thank you for your continued support of the Kuraray Group.

In the 127th period (fiscal 2007: the fiscal period beginning April 1, 2007 and ended March 31, 2008), the business environment was favorable, with the Japanese economy in particular seeing increased capital investments and exports on the back of higher corporate earnings. Meanwhile, there were signs of a global economic slowdown stemming from soaring raw material and fuel prices along with complications in U.S. financial markets. With earnings under pressure due to the impact of soaring prices, Kuraray found itself in difficult circumstances, but managed to respond through all-out Group efforts to create more high-value-added products, revise prices, cut costs and implement other measures.

In addition, on October 1, 2007, Kuraray's industry sector affiliation on the Tokyo Stock Exchange and Osaka Securities Exchange was changed from "Textiles and Apparels" to "Chemicals." As a specialty chemical company, both in name and reality, the Kuraray Group has taken bold actions to tackle priority issues raised in GS-21, its medium-term business plan covering the fiscal years 2006 through 2008.

As a result of these efforts, net sales totaled ¥417.6 billion, operating income was ¥48.1 billion, net income was ¥25.6 billion. This marks the sixth consecutive year of increased revenues and earnings, with Company records set in every net sales and income category.

Fiscal 2008 marks the final year of the GS-21 Medium-term Business Plan. Although the business environment is growing increasingly harsh as sharp increases in raw material and fuel prices continue, the entire Group is working flat out to apply the strategies and measure contained in the business plan, and to achieve its targets of ¥450 billion in net sales and ¥50 billion in operating income. In mid 2008, Kuraray will begin to formulate its new medium-term business plan, which commences from fiscal 2009. As its 10-Year Corporate Vision net sales target of ¥1 trillion comes within range, Kuraray is developing a practical execution plan for further strengthening and expanding its core businesses, while creating new businesses in preparation for the next leap forward.

Moreover, having targeted a dividend payout ratio of 30% or more of net income, Kuraray aims to increase dividends through further improvements in earnings. Seeking to raise capital efficiency, Kuraray has targeted a 70% shareholder return ratio (combining dividends paid and share buybacks) in the three years of the medium-term business plan. Based on this policy, the period-end cash dividend was ¥11.0 per share (as shown in the attached guide), and the annual dividend was ¥22.0 per share, an increase of ¥3.5.

We ask for the continued understanding and generous support of our valued shareholders.

Consolidated Financial Highlights

Years ended March 31	Millions of yen 2008	2007	2006	2005	2004	Millions of U.S. dollars (Note 1) 2008
Net sales	¥ 417,601	¥ 385,284	¥ 375,072	¥ 354,874	¥ 332,149	$ 4,176
Operating income	48,130	40,220	38,277	33,186	28,045	481
Net income	25,554	22,412	21,185	18,465	15,181	255
Capital expenditure	42,720	37,700	33,871	45,715	32,164	427
Depreciation and amortization	31,485	25,495	25,185	21,323	20,784	314
Gross cash flow	57,040	47,908	46,371	39,788	35,965	570
Total research and development expenses	15,250	13,021	14,068	13,873	13,683	152
Total assets	490,365	508,694	481,357	454,940	413,227	4,903
Total shareholders' equity (Note 3)	—	—	339,127	312,929	300,306	—
Total net assets (Note 3)	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	$ 0.72
Fully diluted	71.99	60.80	57.41	50.12	—	0.72
Cash dividends applicable to period	22.00	18.50	15.00	12.00	10.00	0.22
Book value	981.82	967.80	922.65	852.26	817.57	9.82
Financial ratios:						
Equity ratio (%)	69.7%	70.0%	70.5%	68.8%	72.7%	
Return on equity (ROE) (%)	7.3	6.4	6.5	6.0	5.2	
Return on assets (ROA) (%) (Note 4)	9.6	8.1	8.2	7.6	6.7	
Payout ratio (%)	30.5	30.4	26.1	23.9	24.5	
Number of employees	6,770	6,812	6,842	6,919	6,760	

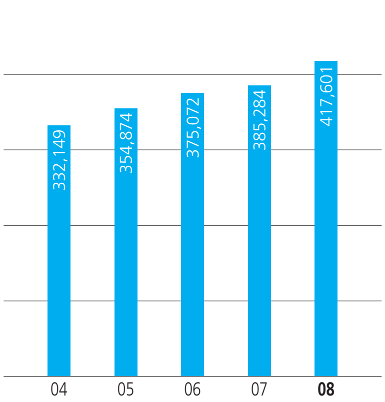
Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥100=$1.

2. 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."

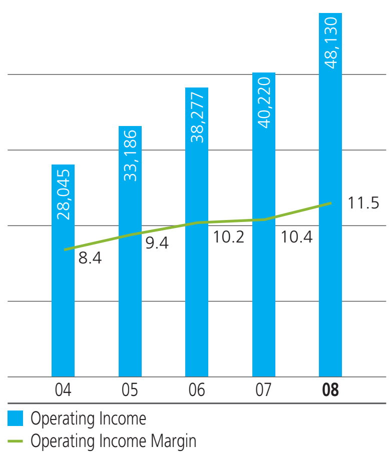
3. Since the year ended March 31, 2007, the balance sheet is divided into sections on assets, liabilities, and net assets in accordance with Accounting Standards Board of Japan "Accounting Standard for Presentation of Net Assets in the Balance sheet" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet."

4. Return on assets=Operating income / Average total assets x 100 (%)

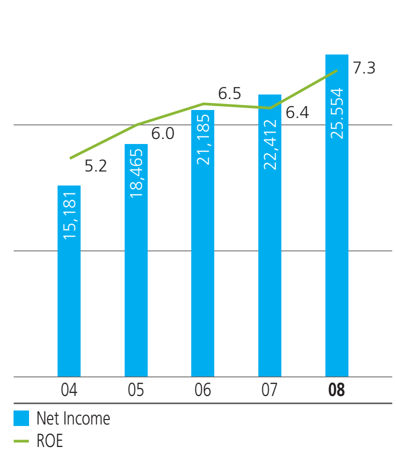
Net Sales ¥ Million



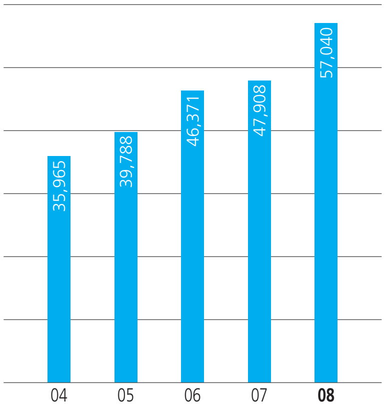
Operating Income & Operating Income Margin ¥ Million, %



Net Income & ROE ¥ Million, %

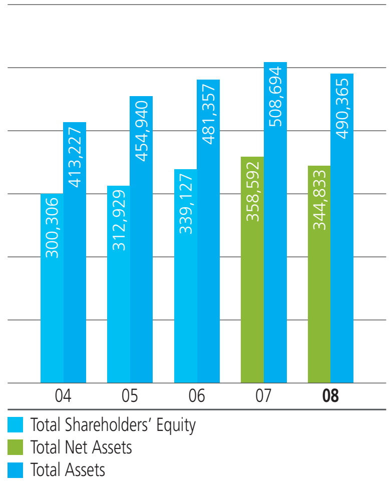


Gross Cash Flow ¥ Million

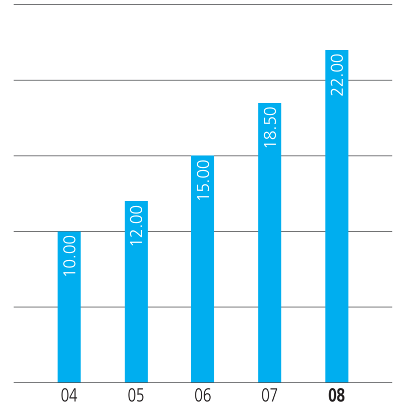


Gross Cash Flow=Net income + Depreciation and amortization

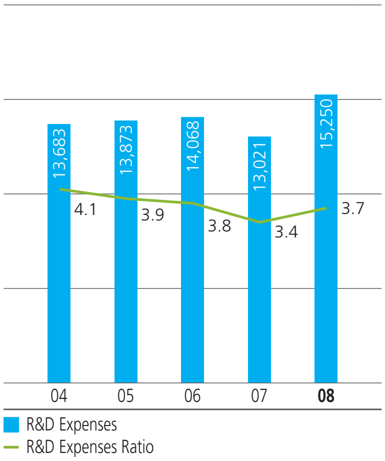
Total Shareholders' Equity, Total Net Assets & Total Assets ¥ Million



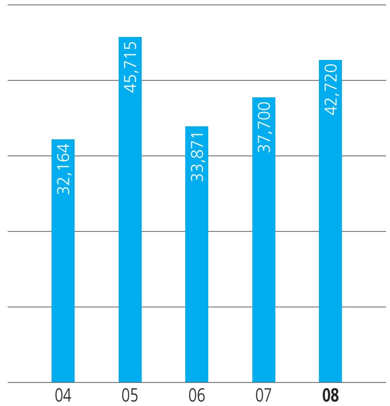
Cash Dividends per Share ¥



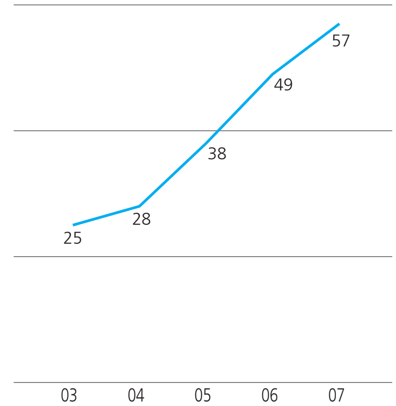
R&D Expenses & R&D Expenses Ratio ¥ Million, %



Capital Expenditure ¥ Million



The Domestic Naphtha ¥ Thousand/kl



*Figures are track record (result) of Kuraray

Interview with Kuraray President Fumio Ito

Q1 You took up the position of president on April 1, 2008, when President Yasuaki Wakui handed you the reigns in the final year of the medium-term business plan. What is your view of the current business environment?

The overall market condition must be considered first. The subprime loan crisis in the United States is much deeper and is having a greater impact on the world economy than was originally anticipated. The U.S., of course, has been hit hardest and may be on the verge of recession. Meanwhile, Japan is seeing falling stock prices, slowing exports, and other repercussions, and the economic growth of developing countries has faltered. After the fact, we may well look back and view it as a temporary event, but at this point the subprime crisis is having a substantial impact on the world economy.

Kuraray's business landscape has changed significantly, including oil and other raw material prices rising to unprecedented levels, and the change is substantial enough that we are forced to reevaluate our corporate strategy decisions. On top of this, the high raw material prices are provoking a worldwide inflationary trend. In short, I have taken the role of company president at a particularly challenging time.

Despite the complicated business conditions, our stance on business development remains unchanged. We are continuing our history of developing high-quality, high value-added businesses providing "products that contribute to a better society" and "products with unparalleled functionality." Our products are highly regarded in various growth markets. In our core vinyl acetate-related business, demand continues to grow for Poval film for liquid crystal displays as well as for polyvinyl butyral (PVB) film, which is drawing particularly strong demand for use in construction materials in Europe, and both product lines are receiving critical acclaim from users in growth markets.

Q2 The company has been applying selection and concentration, including withdrawing from less profitable businesses, to optimize its business portfolio. What progress has been made in this area?

We have made significant progress in concentration in core our competence, but I believe we must continue. In fiscal 2007, we stopped manufacturing linalool and other aroma chemicals used in cosmetics after the market structure abruptly changed and the profitability of the operations seriously diminished. On the expansion side, we established the joint venture KURARAY AQUA CO., LTD., with Nomura Micro Science Co., Ltd., with the aim of further advancing our business development in markets related to water treatment. We also took several steps to enhance our production capabilities, including expanding the production capacities for *KURALON* and *VECTRAN*, building a new mass-production facility for the man-made leather *TIRRENINA*, and expanding production capacity for the heat-resistant polyamide resin *GENESTAR*.

We are also broadening the overseas business infrastructure for our core business of vinyl acetate chain related products. In Europe, we expanded production capacity for PVB (polyvinyl butyral) film and are currently expanding capacity for PVB resin, which is a base material for the PVB film. In addition, we acquired all outstanding shares of our joint-venture Poval resin manufacturer POVAL ASIA PTE LTD (Singapore), and incorporated it as a wholly-owned subsidiary. We also took steps to consolidate our domestic activities, including integrating the production facilities of the Kurashiki Plant to the site of the Tamashima Plant (which is being renamed the Kurashiki Plant).

Further concentration in our core competence will require defining and establishing operations that are viable in the current conditions and resilient to short-term fluctuations in the market environment while also providing tangible potential for future development. In the current state of business conditions, it is virtually impossible to predict how the market structure will evolve. However, what we can do within the company is envisage a "10-year scenario." Very few projections for a decade in the future are 100% accurate, but without a conceptualized market scenario it is difficult to frame effective strategic measures. The market environment is undergoing dramatic change, and we must ensure that we maintain a consistent long-term vision.

Q3 Fluctuations in raw materials prices strongly influence the company's business results. Are even higher prices inevitable?

Raw materials prices have continued escalating across the board in 2008, and the price of crude oil is approaching US$130 per barrel (as of May 2008). The prices of many of the materials we purchase are linked to the price of naphtha as well as ethylene and other petroleum derivative products. Rising fuel costs directly connect to higher production costs, and our profits would be deeply impacted if we were unable to transfer those costs to our product prices.

Poval, *EVAL*, *KURALON*, and many of our other products are highly competitive and command leading share in the global markets. This gives us some flexibility to adjust our product prices to cover part of the impact of the high raw material prices. At the same time, we are shifting our core emphasis to high-value-added products and seeking ways to reduce production costs.

With the growing demand from China, India and other expanding economies, it is difficult to imagine the prices of raw materials and fuels coming down. If the price of crude oil were to rise to US$200 per barrel, only the companies that could respond to that price would survive and the others would simply be driven out of business. Whether that scenario develops or not, we must be prepared for that very situation. We have to consider how we would continue to sell our products and how we could continue to secure profits.

Q4 Accelerating development of new businesses is a key objective of the GS-21 Medium-term Business Plan. What progress has been made in this area?

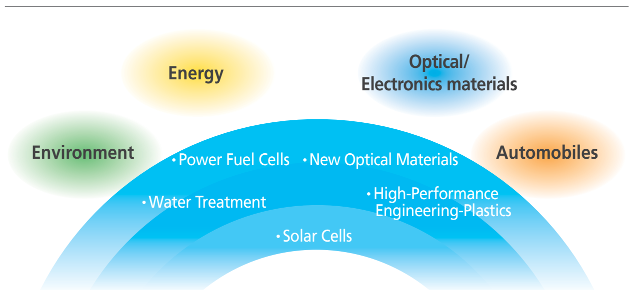
We have defined four areas as new growth fields: the environment, energy, optical/electronics materials, and automobiles. We have already established several new profit streams, including *EVAL*, which has optimal features for use in plastic fuel tanks as a barrier protecting against gasoline vapor leakage and for reducing vehicle weight; *GENESTAR*, a highly heat and abrasion resistant polyamide resin used in connectors and other electronic devices, and *MIRABRIGHT*, a one-piece multifunction light-guide plate that enhances LCD backlighting. We are also developing businesses showing promise to begin contributing to profits in the near future. Nevertheless, these alone are not enough on which to build sustainable growth into the future.

To establish a framework for new business creation, in fiscal 2007 we established the position of Chief Technology Officer (CTO) to supervise company and corporate development and technical staff organization. Director, Primary Senior Executive Officer Yoichi Ninagawa has assumed the CTO responsibility and is leading the full integration of our technologies and technical engineers to enhance the company's technological capabilities in line with our management strategies and to accelerate the creation of new businesses.

In October 2007, we created a new Development Promotion Division to guide the progression of our corporate themes into business activities and organize the structure of our business model. We redeployed about 120 of our roughly 650 staff engaged in research and development to the new division. We have also upgraded our system for new business creation, including increasing the number of staff focused on researching new development themes from 20 people to 60 people.

The newly restructured system has two objectives in addition to selection and concentration. The first is to seek and identify new business development directions, and the second is to lay the groundwork for business and product development that makes effective use of our R&D accomplishments. Even now when the company is performing well, cultivating large-scale new businesses is essential, and I want to set in place a system structure that facilitates rapid development of gainful new businesses.

New Growth Area



Q5 What progress has been made in fortifying human resources, which is another core objective of the GS-21 Medium-term Business Plan?

The Kuraray Group generates nearly half of its total sales overseas and the number of Kuraray factories is already higher overseas than in Japan. We are nurturing and cultivating our overseas staff, which will play a vital role in developing the activities that will become the base of a new business portfolio. We have been developing personnel for overseas positions for only about 15 years, yet I believe our system has not been adequate for cultivating employees that can function effectively in positions overseas. Strengthening our human resources overseas is absolutely essential to globally effective operations.

In fiscal 2007, we launched the KURARAY Group Global HR Development Program to address our lack of sufficient workforce to keep pace with the rapid expansion of our business overseas and particularly to deepen the ranks of at the management level. The aim of the program is to upgrade the international management skills of about 180 employees over a three-year period at all levels of management, from managers to middle manages and executives. At the executive level, the program aims to instill the Kuraray corporate philosophy and culture and to provide a deep and comprehensive understanding of the company's current business strategy. At the management level, personnel participate in a one-year personnel exchange program to promote interregional relations in the product and business segments. Middle managers participate in various activities, such as assignments outside the company, three-month special training sessions, and employees overseas coming to work in Japan. The program is intended to provide the training that is essential foster a world-class management class capable of functioning with the utmost effectiveness in positions overseas and ultimately to promote effective international leadership throughout our operations worldwide.

Q6 What was behind Kuraray's recent decision to appoint external directors?

The company elected external directors along with new directors and corporate officers at the June 2008 General Meeting of Shareholders as a step to augment our corporate governance system to the level appropriate for an international corporation. The company's previous governance system consisted of an executive-officer system and five corporate auditors, including three external auditors, acting as advisors to the president. To further enhance management transparency and objectivity, the new system includes the appointment of independent outside specialists without particular interests in the Company as external directors. In addition, we revised the management structure to more clearly divide the functions of managerial decision-making, oversight and execution.

Last year, the company introduced countermeasures (share purchase protection measures) in the case of a large-scale purchase bid for company shares. These measures were established based on our priority to protect and enhance the common interests of our shareholders as we seek to maintain stable and sustainable enterprise value. The revision to the corporate governance system also reflects our priority on shareholder return.

Q7 How is the company advancing toward the targets in the GS-21 Medium-term Business Plan?

The combination of various measures in many areas has brought us within attainable distance of the GS-21 Medium-term Business Plan's fiscal 2008 target commitments of ¥450 billion in sales and ¥50 billion in operating income.

When we drew up the medium-term business plan, we anticipated our display-related business to center on products for rear-projection monitors and have been pleasantly surprised by the degree of sales growth in LCD-related products. While this is a positive development, it also highlights the volatility of the current business environment. In the current conditions, we must be mindful not to focus too narrowly on performance targets and to remain responsive to demand and technology trends, product marketability, and other elements that support business sustainability and growth. Segment performances vary, but overall we believe we are progressing as we had anticipated toward attaining our target commitments.

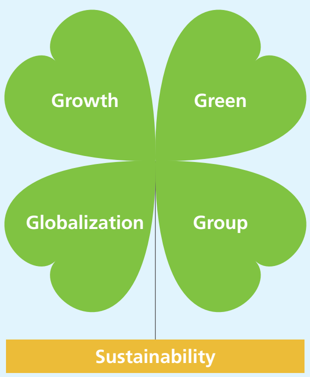
Q8 What do you envision for the next medium-term business plan?

Our 10-Year Corporate Vision, announced in March 2006, targets ¥1 trillion in net sales in fiscal 2015. Sales of this scale are necessary to establish our global presence as a chemical company. We are not following a simple formula of bigger is better; the vision is based on steady expansion of our business content and operations. The plan is quite ambitious and challenges us to form aggressive yet practical scenarios to put us in position to achieve the target. We are taking an all-encompassing view of the market trends and considering a wide range of approaches, such as "What could we do to double the size of our vinyl acetate-related businesses?", and "Is M&A a viable approach?" The strategies we are formulating are based on our current businesses generating sales of about ¥700-800 billion with the remaining ¥200-300 billion coming from yet-to-be-created new businesses and contributions from M&A in related business fields.

10-Year Corporate Vision (Established in 2006)

The high-paced changes that characterize the current era make three years the limit for practical plans. With this in mind, we prepared the 10-Year Corporate Vision to clarify the type of company we want to become in the long term in the context of the large changes in business conditions that we expect.

GS-21



Our View of Business Conditions

Over the past decade, the world economy enjoyed steady growth of between 3% and 4%, supported by a stable U.S. economy and robust BRICs economies. Japan's economy, however, remained weak in the aftermath of the economic bubble. Over the next decade, the economic environment is expected to see long-term structural transformation, which will likely include the following trends:

- Rising concern over the global environment and resources and increasingly unsustainable mass-producing, high-energy-consuming economies
- Emerging geographic imbalances in the global economy, lower growth rates, and increasingly intense global competition
- Heightening in the sophistication of market needs and rapid change caused by diversifying values
- Growing risk associated with Japan's fundamental structure, including fiscal deficit, an aging society, and a declining birthrate

Against this backdrop, chemicals manufacturers will increasingly have to shift their management focus from quantity to quality.

In its 10-Year Corporate Vision, Kuraray gave an outline of its future profile and development over the long term that reflected its tradition, history, and corporate culture.

Toward Exciting Innovation and Outstanding Earnings
Recognized throughout the World,
To Make the Kuraray Group a Sustainably
Growing Diversified Specialty Chemicals Company

Contributing to the world and individual well-being through actions that others are unable to produce

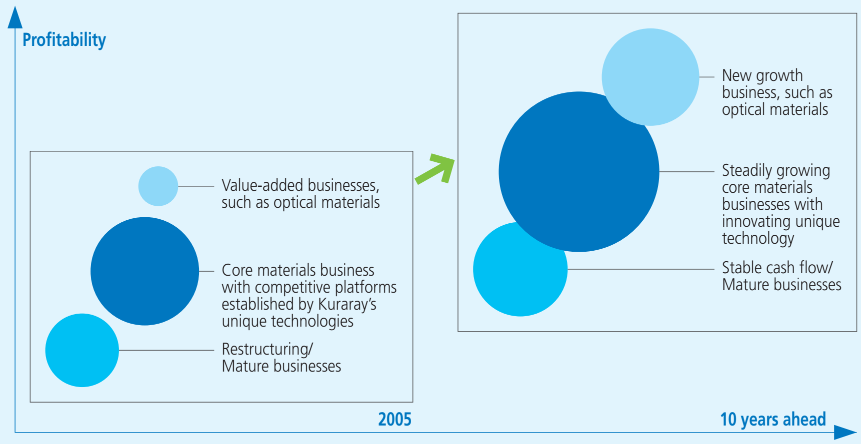
Targeting net sales of ¥1 trillion in 2015

• Having established competitive platforms by capitalizing on original core technologies, core materials businesses will pursue continued steady growth through further technological innovation and global business development.

• G-21 established the foundations for such high-value-added operations as optical materials. We will focus management resources on the expansion of these operations as new highly profitable growth businesses.

• Restructuring businesses and mature businesses will gain competitive superiority and realize steady earnings.

Outlook of Business Growth

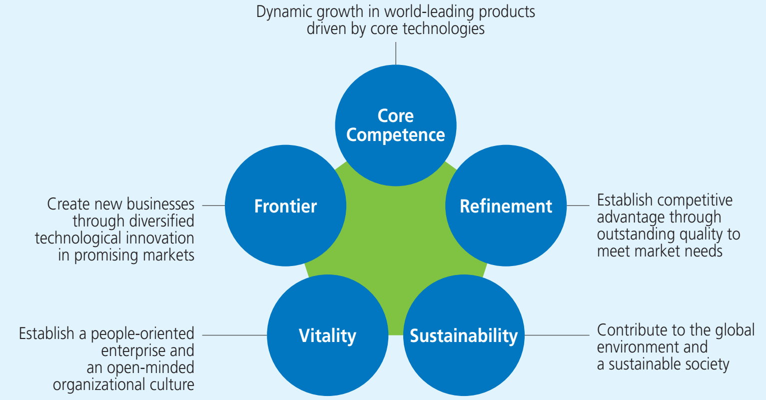


Basic Policies to Realize Vision

Kuraray is renowned for its innovation capabilities, which enable the Company to create numerous specialty chemical products and develop high-value-added applications that meet the needs of markets worldwide.

Leveraging a corporate platform steadily built up over many years, in the coming decade Kuraray will continue to reinforce core technologies that have produced the world's finest products and global competitiveness (Core Competence), create a continuous stream of highly profitable businesses by developing diverse technologies (Frontier), and strengthen global competitiveness by delivering the highest quality (Refinement). These reforms will better position Kuraray to achieve its ¥1 trillion net sales target. In the postindustrial capitalist 21st century, in which corporate value is expected to focus more on people than it did in traditional capitalism, Kuraray will redouble efforts to promote a dynamic corporate culture (Vitality) and become a high-quality corporate Group that contributes to the global environment and a sustainable society (Sustainability).

Basic Policies to Realize Visions



GS-21 Medium-term Business Plan

Toward Achieving Targets

Management Benchmarks and Medium and Long-term Management Strategy

The GS-21 Medium-term Business Plan (FY2006-FY2008) is a commitment to clearly defined three-year targets for new businesses, M&A, specific strategic projects, and other areas. The plan commits the Kuraray Group to achieving net sales of ¥450 billion, operating income of ¥50 billion, ROA of 9%, and ROE of 7% in fiscal 2008.

The economic environment is expected to undergo significant long-term structural transformation over the next decade based on several trends, including growing concern about the global environment, natural resources, and increasingly unsustainable mass-production & high energy-consumption economies. Other factors include regional imbalances, declining economic growth rates, increasingly intense global competition, increasingly sophisticated market needs and accelerated change arising from diversifying values. Finally, factors specifically for Japan include growing risk from changes in the fundamental structure of Japanese society, including the fiscal deficit, aging society, and declining birthrate. Kuraray believes these changes demand chemicals manufactures modify their corporate management approach from quantity to quality.

Based on the Kuraray Group's corporate culture of contributing to the world and individual well-being through actions that others are unable to produce, we have created a 10-Year Corporate Vision aimed at making the Kuraray Group a sustainably growing, diversified and specialized chemicals group recognized around the world for innovation and outstanding earnings.

Our business growth plan aims to achieve steady and sustainable growth through ongoing technological innovation and global development of unique core technologies in vinyl acetate, isoprene, and man-made leather materials that form the competitive foundation of our businesses. The G-21 Medium-term Business Plan (fiscal 2001 to fiscal 2005) laid the groundwork for advances into the new growth fields of optical materials, automotive, energy and other high value-added operations. We are focusing management resources on expanding our businesses in these high profit-margin growth fields while also reinforcing the competitive advantages of our mature businesses, and on restructuring to ensure steady earning power. These strategies are designed to enable us to achieve our 10-Year Corporate Vision target of ¥1 trillion in net sales in 2015.

Performance Outlook

Billions of Yen

	FY2005 (Actual)	FY2006 (Actual)	**FY2007 (Actual)**	FY2008 (Forecast)	FY2008 (Commitment Target)
Net Sales	375.1	385.3	**417.6**	450.0	450.0
Operating Income	38.3	40.2	**48.1**	51.0	50.0
ROE	6.5%	6.4%	**7.3%**	—	7.0%
ROA	8.2%	8.1%	**9.6%**	—	9.0%

Notes: Return on equity (ROE)=Net income / Average shareholders' equity x 100(%)
Return on assets (ROA)=Operating income / Average total assets x 100(%)

Policies to Ensure Attaining the GS-21 Final Year Targets

The core business strategies are as follows.

(1) Through diversified technological innovation including processing techniques, enhance competitive quality in our internationally competitive core material businesses, such as vinyl acetate, isoprene, and man-made leather developed by Kuraray's unique technologies. In this manner, Kuraray will accelerate growth through efforts to expand global markets.

(2) Having established a foothold in new growth fields such as optical materials, automobiles and energy materials through the G-21 Medium-term Business Plan (FY2001-FY2005), conduct concentrated investment of management resources to facilitate further expansion. In addition, launch new material businesses targeting promising industries to solidify the Company's position in next-generation platform businesses as a key supplier of high-quality innovative materials required by customers.

(3) Reinforce product earnings power across the board, reorganize or withdraw from uncompetitive businesses.

(4) Improve management quality as a global company.

Under the G-21 Medium-term Business Plan (FY2001-FY2005), Kuraray established the following priority issues and policies.

1. Respond to the sharp rise in natural resource prices.

Raw materials prices have skyrocketed in the past two years and cannot be expected to return to their previous levels. While anticipating raw materials prices to remain high, we will strengthen our cost competitiveness and create a new product pricing structure integrating a reasonable amount of the higher raw materials prices.

2. Realize capital investment effects

Kuraray is implementing an aggressive capital investment program aimed at expanding our business. We will endeavor to make these investments contribute to sales and profits as early as possible.

3. Strengthen development capabilities and accelerate development themes with profit contribution potential

The GS-21 Medium-term Business Plan emphasizes focusing development resources into growth fields. Our development activities will center on incorporating and accelerating development themes taking customer needs, cost, and competition into account, and focus on aggressive development of product applications and demand cultivation to provide value to customers.

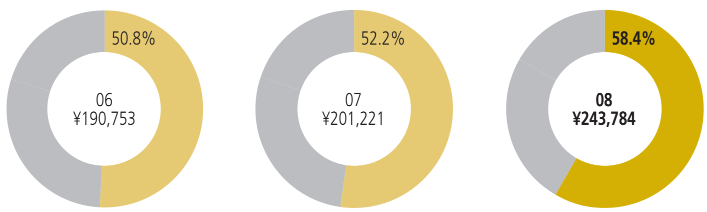
4. Raise management efficiency

We will conduct sweeping cost cutting in headquarters functions and minimize inventories.

Kuraray Group's Segments and Products

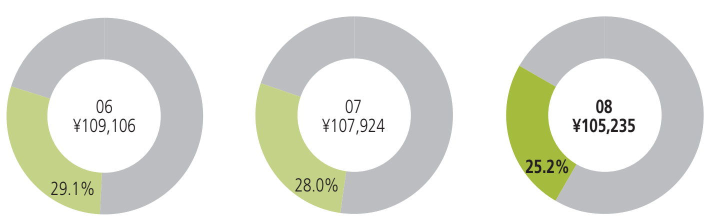
Business Segment | **Net Sales by Business Segment** (¥ Million) | **Major Products**

Chemicals and Resins



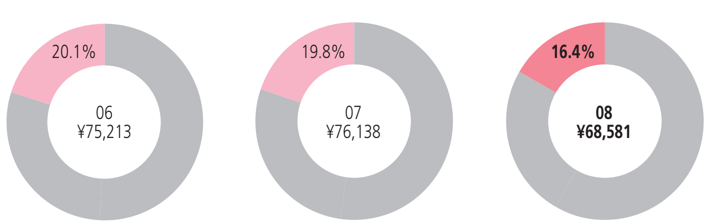
- *KURARAY POVAL, MOWIOL* (PVA resin)
- PVA film
- *MOWITAL* (PVB resin)
- PVB film
- *EVAL* resin (EVOH resin)
- *EVAL* film (EVOH film)
- *SEPTON, HYBRAR* (Thermoplastic elastomer)
- Fine chemicals
- Methacrylic monomer
- Methacrylic resin
- Methacrylic sheets

Fibers and Textiles



- *KURALON* (PVA fiber)
- *KURALON K-II* (New type of PVA fiber)
- *CLARINO, AMARETTA* (Man-made leather)
- *KURAFLEX* (Dry-laid nonwoven fabric)
- *KURAFLEX-MB* (Melt-blown nonwoven fabric)
- *VECTRAN* (Polyarylate fiber)
- *MAGIC TAPE* (Hook and loop fastener)
- Polyester staple
- Polyester filament

High-Performance Materials, Medical Products and Others



- *GENESTAR* (Heat-resistant polyamide resin)
- *VECSTAR* (Liquid crystalline polymer film)
- High-performance membranes
- PVA gel
- Dental materials
- Medical devices
- *KURARAY COAL* (Activated carbon)

Primary Applications	Production Facilities (As of July 1, 2008)	Annual Production Capacity
Textiles, paper additives, adhesives, butyral precursor	Okayama Plant (Okayama)	96,000 t
	Niigata Plant (Niigata)	28,000 t
	Kuraray Europe GmbH (Frankfurt, Germany)	70,000 t
	Kuraray Asia Pacific Pte. Ltd. (Singapore)	40,000 t
Computers, LCD televisions, monitors	Kurashiki Plant (Okayama)	75,000,000 m^2
		(End 2008: +15,000,000 m^2)
	Saijo Plant (Ehime)	31,000,000 m^2
		(Mid 2009: +15,000,000 m^2)
Interlayers for windows and windshields, paints, adhesives	Kuraray Europe GmbH (Frankfurt, Germany)	29,000 t
		(Mid 2009: +10,000 t)
Laminated safety glass	Kuraray Europe GmbH (Troisdorf, Germany)	36,000 t
	OOO TROSIFOL (Nizhniy Novgorod, Russia)	4,000 t
Food packaging materials, plastic fuel tanks	Okayama Plant (Okayama)	10,000 t
	Kuraray America, Inc. (Texas, U.S.A.)	35,000 t
		(Target in 2009: +12,000 t)
	EVAL Europe N.V. (Antwerp, Belgium)	24,000 t
Food packaging materials	Okayama Plant (Okayama)	3,000 t
PVC and vulcanized rubber substitute, food packaging materials	Kashima Plant (Ibaraki)	23,000 t
	Kuraray America, Inc. (Texas, U.S.A.)	18,000 t
Pharmaceutical and agrichemical intermediates, vitamin precursor	Niigata Plant (Niigata)	—
Solvents, adhesives, methacrylic resin	Niigata Plant (Niigata)	67,000 t
Resins for molding, light guides plates, synthetic marble	Niigata Plant (Niigata)	44,000 t
Signboards, displays, TV front panels, light guides plates	Niigata Plant (Niigata)	33,600 t
	Kuraray Methacrylate (Zhangjiagang) Co., Ltd. (China)	3,000 t
Agriculture and fishery materials, civil engineering materials	Okayama Plant (Okayama)	35,000 t
		(Early 2009: +5,000 t)
Cement reinforcing agents, woven and knitted textiles	Okayama Plant (Okayama)	7,000 t
Shoes, bags, sporting goods, luxury clothing, interior furnishings	Okayama Plant (Okayama)	15,500,000 m^2
	Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd. (China)	4,000,000 m^2
		(Early 2009: +4,000,000 m^2)
Wiping materials, wet wipes, surgical masks	KURARAYKURAFLEX CO., LTD. (Okayama)	10,500 t
	Kuraflex Ibaraki Co., Ltd. (Ibaraki)	3,500 t
Coffee bags, filters	Saijo Plant (Ehime)	1,800 t
Rope, fishing nets, and other industrial products	Saijo Plant (Ehime)	1,000 t
Clothing, shoes, car seats	KURARAY FASTENING CO., LTD. (Fukui)	48,000,000 m
	Kuraray Magictape (Shanghai) Co., Ltd. (China)	10,000,000 m
Materials for nonwoven fabrics and industrial materials	KURARAY TAMASHIMA CO., LTD. (Okayama)	12,000 t
Woven and knitted textiles, tents, sheets	KURARAY SAIJO CO., LTD. (Ehime)	10,000 t
Electronics parts, auto parts	KURARAY SAIJO CO., LTD. (Ehime)	5,500 t (neat polymer base)
	Kashima Plant (Ibaraki)	5,500 t
		(Target in 2010: +1,500 t)
Circuit-board substrates	Saijo Plant (Ehime)	220,000 m^2
Water purification and wastewater treatment	Kurashiki Plant (Okayama)	180,000 m^2
Water purification and wastewater treatment	Saijo Plant (Ehime)	3,000 m^3
Dental adhesives, dental filling materials	Kuraray Medical Inc. (Okayama)	600,000 sets
Blood Purification Devices	Kuraray Medical Inc. (Okayama)	—
Water purification facilities, gas separators, capacitor materials	KURARAY CHEMICAL CO., LTD. (Okayama)	22,500 t
	Cenapro Chemical Corporation (Philippines)	13,000 t
	Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd. (China)	2,000 t

Company Business Strategy

Specialty Resin and Film Company

Kenzo Sawada
Director, Senior Executive Officer
President of Specialty Resin and Film Company

All the main products of the Specialty Resin and Film's Company, namely PVOH Resin & Film, EVOH Resin & Film, and PVB Resin & Film, derive from our core vinyl acetate chain technology. The company has established the following three objectives to ensure effective and consistent management for all product lines.

Maintain our status as the world's top supplier. Our PVOH and EVOH businesses have long histories and are well established with both holding top share in the global market. Our fundamental objective is to maintain and further establish their market-leading positions. We are also aiming to elevate the PVB business to be the leader in its market.

Provide reliable support to our customers and the industry. To remain at the forefront of the industry, we will continue to foster product innovation and differentiation. We will establish a global supply system to ensure our customers have a stable and consistent supply of products. These efforts will also contribute to the development of our customers and the industry.

Cultivate and strengthen our human resources. It is the strength of our human resources that will enable us to accomplish the first two objectives. We will strengthen our human resources in every aspect by coordinating the professional expertise of our production, R&D, sales, and management staff and focusing on enhancing the capabilities of each individual. We will also increase our overall strength by respecting, understanding, and learning from the strong points of the history, culture, and different points of views of our coworkers in Japan, North America, Europe, Asia, and in all of our business locations around the world.

I believe that aiming to fulfill these three objectives will strengthen and expand our business operations and contribute to the development of the Kuraray Group.

Chemicals and Medical Products Company

Shiro Kataoka
Director, Senior Executive Officer
President of Chemicals and Medical Products Company

We are restructuring the operations of the Chemicals and Medical Products Company to improve profitability by creating a new pricing system that will effectively transfer production costs into product prices and shift the business structure to focus to high value-added products. Production and technology costs will be reduced by raising production yield and improving energy consumption. We expect these initiatives to halt the current revenue decline trend and allow revenue to begin growing again in fiscal 2009. We will also advance development of our overseas operations through new product launches, operation starts at new facilities, new product offerings to customers, and in-house developed value-added products.

In the Methacrylate Division, we will complete the transfer of higher costs onto product prices and will develop and market products timed to take full advantage of new market and technology trends. In the isoprene chemicals business, we will increase sales of our unique chemical products in overseas markets and expand production capacity to support this drive. As sales volume grows, we will seek to turn around and improve the stagnant profitability of our *SEPTON* products.

In the Genestar Division, we are configuring a vertical sales structure and construction is progressing steadily toward an August start of full-fledged operations at a new *GENESTAR* production plant. In the Medical Products Division, Kuraray Medical is aiming to expand sales of dental materials by accelerating its business development strategies in the major markets of Europe and the United States.

Fibers and Textiles Company

Hiroaki Yoshino
Director, Senior Executive Officer
President of Fibers and Textiles Company

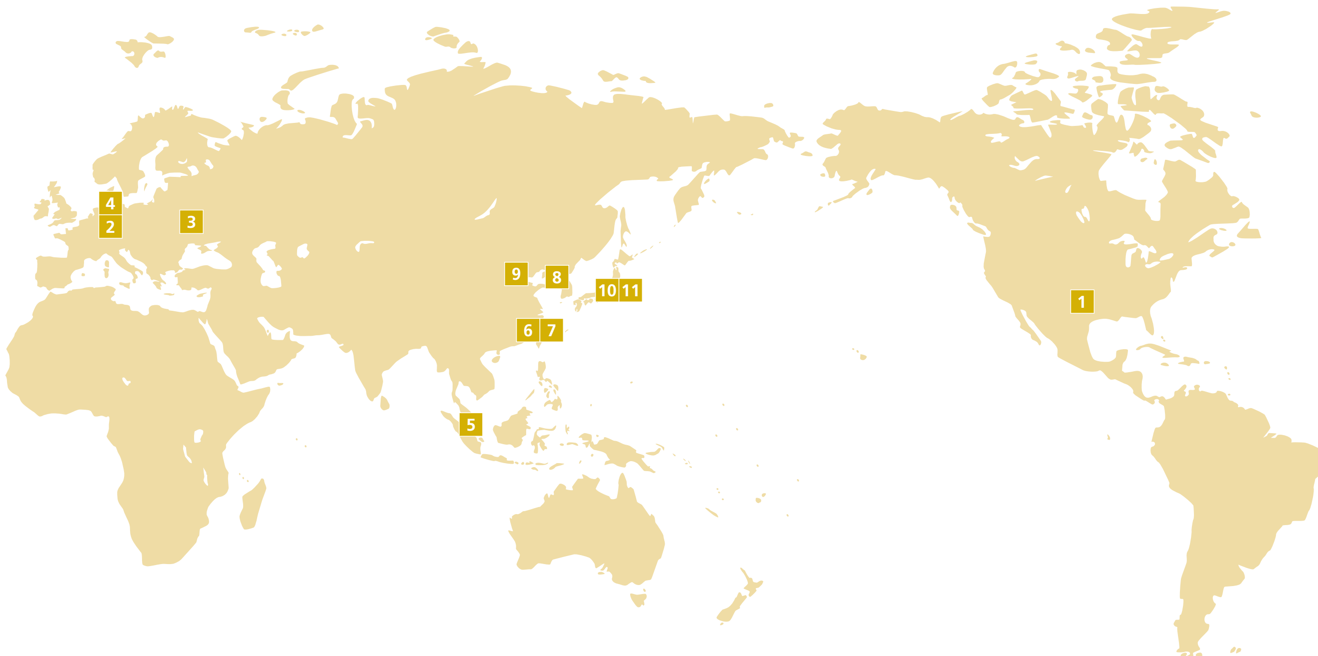
The Fibers and Textiles Company was hard hit by steep rises in raw material and fuel prices and was only able to transfer 55% of the increased costs onto its product prices in fiscal 2007. Improving this percentage is a management priority in fiscal 2008.

The Fibers and Industrial Materials Division expanded *VECTRAN* production capacity in autumn last year and subsequently increased *VECTRAN* sales. The division is currently expanding production capacity for fiber-reinforced cement (FRC) material and is aiming to commence operations at a new production line by the end of 2008.

The Clarino Division is enhancing its marketing activities for the man-made leather *TIRRENINA*, which is produced without using harmful solvents, and is making steady progress establishing the product's market position. The non-woven fabric business, for which *KURAFLEX* is the core product, is seeking to expand sales of *FELIBENDY*, an epoch-making new nonwoven fabric produced with steam-jet technology. KURARAY FASTENING CO., LTD., is shifting the business focus of its fastening business to New *ECOMAGIC* hook-and-loop fasteners made with eco-friendly materials. The company is also expanding sales of *MAGILOCK* extrusion molded hook fasteners in pace with the rising unit production of automakers, where the material is used primarily as a seat fastener.

The Fibers and Textiles Company plans to continue aggressively investing to expand production capacity for several products, including the brisk selling *VECTRAN* high-function fiber, *KURALON*, which is drawing strong demand growth for FRC applications, and the new *TIRRENINA* eco-friendly man-made leather. The company is aiming for its steady capital investment in plant expansion and the construction of new facilities through fiscal 2008 to begin reaping benefits in the near term.

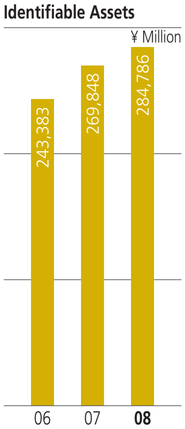
Review of Operations
— Chemicals and Resins Business —



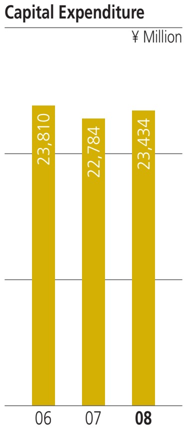
Group Companies

	Company Name	Capital (Millions)	Activities
1	Kuraray America, Inc.	US$ 10.1	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
2	Kuraray Europe GmbH	€31.1	Import and sales of Kuraray products in Europe, Manufacture and sales of poval and butyral resins and film
3	OOO TROSIFOL	RUR78.9	Manufacture and sales of PVB film
4	EVAL Europe N.V.	€29.7	Manufacture and sales of *EVAL* resins in Europe
5	Kuraray Asia Pacific Pte. Ltd.	US$27.7	Manufacture and sales of poval resins
6	Kuraray (Shanghai) Co., Ltd.	US$5.0	Import and sales of Kuraray products in China
7	Kuraray Trading (Shanghai) Co., Ltd.	US$0.6	Import, export, and sales of fiber and textile products and chemicals
8	KURARAY TRADING Co., LTD. (Seoul Branch)	—	Import, export, and sales of fiber and textile products and chemicals
9	Kuraray Methacrylate (Zhang Jia Gang) Co., Ltd.	US$9.6	Manufacture and sales of Methacrylic resin sheet
10	KURARAY TRADING Co., LTD.	¥2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
11	Kuraray Co., Ltd.	¥88,955	Manufacture and sales of Kuraray products

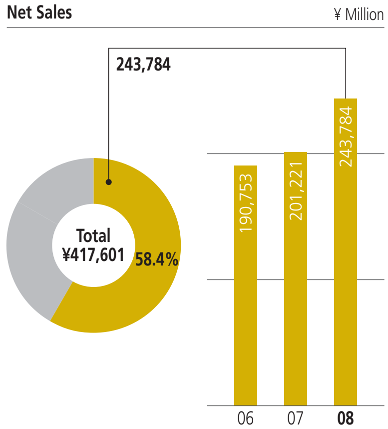
Identifiable Assets



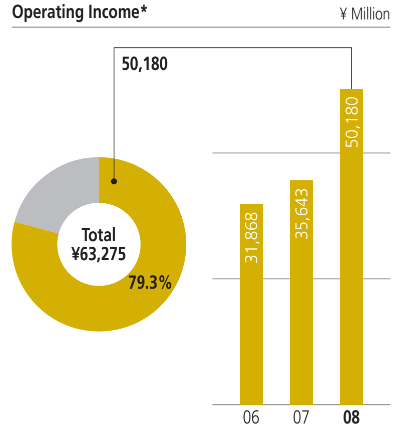
Capital Expenditure



Net Sales



Operating Income*



* Including 15,144 million eliminated in consolidated for the three business areas overall.

POVAL

Amid steadily growing demand for poval resin, we revised the price structure and improved the product portfolio of our poval resin products. Sales of optical-use poval film increased on growing demand for large-screen TVs and other devices with liquid-crystal display monitors. The start of operations during the year at the Kurashiki Plant's new poval production line expanded annual production capacity from 61 million square meters to 91 million square meters. PVB film sales also rose in Europe on strong demand for construction applications.

EVAL

Raw material and fuel costs were steadily transferred into product prices, but *EVAL* sales were affected by production problems at our raw material suppliers in the United States. *EVAL* sales for food packaging applications continued brisk. Sales of *EVAL* for gasoline tank applications remained sluggish in the United States but increased in unit volume terms worldwide.

Isoprene Chemicals

We continued to establish product differentiation for thermoplastic elastomer *SEPTON* while adjusting the pricing schedule and reducing costs. Sales for specialty chemicals

POVAL RESIN

Kuraray was first in the world to develop PVA fiber *KURALON* and has developed numerous applications for this material, including its use as a fiber-sizing agent, an adhesive, a paper-processing agent, a raw material for butyral, and as a polarized film for LCDs.

Kuraray has a high level of technological expertise in fields where quality and performance of stabilizers, and paper processing agents are needed. The company is expanding sales of water-soluble and easily molded *EXCEVAL*, along with other differentiated and high-specification materials.

POVAL FILM

Utilizing poval's transparency, dyeability, antistatic properties, stretchability, and molecular orientation, poval film is used as a base film for the polarized film needed in LCD manufacturing. Kuraray commands an 80% share of this market.

Demand is forecast to grow further as a result of the growth in demand for LCD televisions and other LCD devices as well as increasing screen size. Water-soluble film, employing poval's most significant characteristic – its water solubility – is used in curved-surface printing applications.

BUTYRAL RESIN/FILM

Kuraray markets a wide range of PVB, which is characterized by excellent adhesion to a variety of surfaces, such as glass and metals, and ease of workability into films with outstanding optical transparency. The array of applications for butyral resins *MOWITAL* and films *TROSIFOL* include interlayers for shatterproof laminated safety glass, binders for ceramics, paint and ink, and base adhesives for retroreflective films used for such applications as highway signs.

EVAL (FOOD PACKAGING)

EVAL has outstanding gas barrier properties. When used as a food packaging material, this resin is extremely effective in preventing the passage of oxygen and preventing the oxidation and deterioration of contents. Kuraray was the first in the world to develop this material, which has a broad range of applications as a food packaging material. It is also an eco-friendly material, because no harmful substances are emitted when it is incinerated.

EVAL (OTHER APPLICATIONS)

EVAL is used to make plastic fuel tanks, where its high gas impermeability protects the environment by preventing volatile gasoline from leaking into the atmosphere. As automakers increasingly turn to plastic fuel tanks in new cars, and as regulations on atmospheric emissions become stronger, this application has shown high growth – particularly in Japan, the United States, and Western Europe. Furthermore, the adoption of plastic fuel tanks is spreading in China, Southeast Asia, South America, and Eastern Europe. In addition, *EVAL* is used in wallpaper and similar applications because of its resistance to soiling.

KURARISTER

This new barrier material realizes excellent gas impermeability and outstanding durability under retort treatment, with the ability to withstand sterilization at 135°C for 60 minutes. A specially coated polyester film, *KURARISTER* achieves robust gas impermeability after retort processing, with oxygen permeability of less than 1cc per square meter per day. Unlike conventional aluminum packs, *KURARISTER* can be heated in microwave ovens. The new material also enables the use of metal detectors to check for foreign objects after packaging at food processing plants.

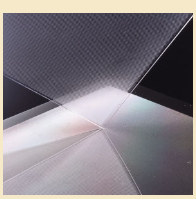
were brisk in overseas markets, but conditions continued severe for fine chemicals amid intense international competition in aroma chemicals and agricultural intermediates. In March 2008, we halted production of a portion of our aroma chemicals due to declining profitability. Sales remained brisk for light manufacturing products although results were limited by stagnant sales for footwear applications and the impact of high raw material and fuel prices.

Methacryl

Sales of methacrylic resins were impacted by the high material and fuels costs. Demand remained strong for molding materials for light-guide plates.

METHACRYLIC RESIN AND SHEETS (GENERAL PURPOSE)

Methacrylic resin's transparency and weather resistance are among the highest of any plastic. It is therefore used in lighting fixtures, signboards, construction materials, and automotive applications. Also, special processing converts it into synthetic marble for kitchens and bathrooms.



OPTICAL-USE METHACRYLIC RESIN

Kuraray is using its high level precision molding and processing technology to develop optical applications for its methacrylic resin. These include high-performance, high-quality optical materials used in light guides and diffusion plates for LCD backlighting devices, and front panels with antireflective properties and hard coatings.

SEPTON

SEPTON is a styrenic thermoplastic elastomer developed by Kuraray. *SEPTON* has the elasticity of rubber in a wide temperature range, yet can be molded like plastic when heated to high temperatures.

Applications for this flexible material range from a resilient alternative for rubber to a resin modifier and a viscous adhesive.

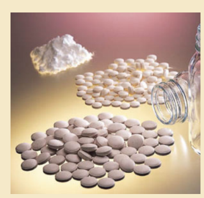
Demand is also strong for *SEPTON* as an alternative to vinyl chloride for its superior resistance to heat, climate, and chemicals, as well as its high electrical insulating properties.

ISOPRENE SPECIALTY CHEMICALS

With its proprietary specialty chemicals and compounding technologies, Kuraray has become the sole source for diol and polyol products used as raw materials for polyurethane and resin modifiers. In addition, the highly stable and easy-to-handle industrial solvent is attracting attention in a number of industrial sectors in this era of rising environmental concern.

AROMA CHEMICALS

Kuraray has built a unique fine chemicals business around isoprene, a component molecule of natural rubber. Today, Kuraray produces citral (lemon scented) and other aroma chemicals as well as isoprene glycol and other materials used in cosmetics manufacturing, and its products are widely used in hair care products and numerous other household items.



PHARMACEUTICAL AGRICHEMICAL INTERMEDIATES

Employing its expertise in fine chemicals technology, Kuraray has developed pharmaceutical intermediates for antivirals, hypertension drugs, antibiotics, and other medications. The Company also markets intermediates for highly safe agricultural chemicals and home-use pyrethroid insecticides.

Review of Operations
— Fibers and Textiles Business —

Group Companies

	Company Name	Capital (Millions)	Activities
1	Kuraray America, Inc.	US$ 10.1	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
2	Kuraray Europe GmbH	€31.1	Import and sales of Kuraray products in Europe, Manufacture and sales of poval and butyral resins and film
3	Lorica Sud S.r.l.	€0.9	Processing and sales of man-made leather in Europe
4	Kuraray Hong Kong Co., Ltd.	HK$4.6	Processing and sales of Kuraray Products in China and Southeast Asia
5	Kuraray Trading (Shanghai) Co., Ltd.	US$0.6	Import, export, and sales of fiber and textile products and chemicals
6	KURARAY TRADING Co., Ltd. (Seoul Branch)	—	Import, export, and sales of fiber and textile products and chemicals
7	KURARAY TRADING Co., Ltd. (Taipei Branch)	—	Import, export, and sales of fiber and textile products and chemicals
8	KURARAY TRADING Co., Ltd. (Hong Kong Branch)	—	Import, export, and sales of fiber and textile products and chemicals
9	KURARAY TRADING Co., Ltd. (Hanoi Branch)	—	Import, export, and sales of fiber and textile products and chemicals
10	Nantong Kuratray Garment Co., Ltd.	¥220	Manufacture and sales of sewing products
11	Kuraray Magictape (Shanghai) Co., Ltd.	US$0.8	Manufacture and sales of *MAGIC TAPE*
12	Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd.	US$10.5	Manufacture and sales of man-made leather
13	Kuraray (Shanghai) Co., Ltd.	US$5.0	Import and sales of Kuraray products in China
14	KURARAY TRADING Co., Ltd.	¥2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
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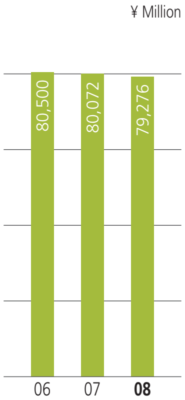
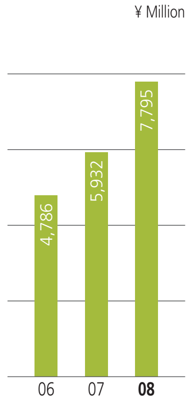
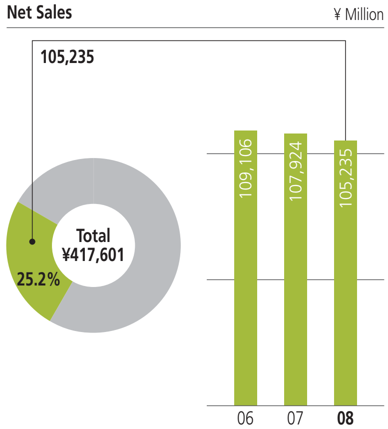
Identifiable Assets



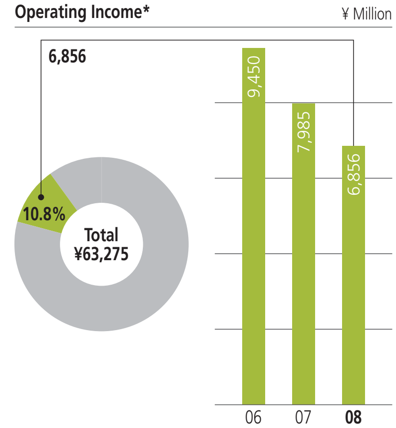
Capital Expenditure



Net Sales



Operating Income*



* Including 15,144 million eliminated in consolidated for the three business areas overall.

PVA fiber *KURALON*

KURALON demand remained strong for applications as a non-asbestos fiber-reinforced cement (FRC) material, but the high raw material and fuel prices impacted profits. In anticipation of ongoing demand growth, the company plans to construct a new FRC production line with annual capacity of 5,000 tons. The line is scheduled to commence operations in early 2009.

Man-Made Leather *CLARINO*

Sales continued brisk for *CLARINO* light manufacturing products although results were limited by stagnant sales for footwear applications and the impact of high raw material and fuel prices.

Non-Woven Fabrics and Fasteners

Non-woven fabrics and fastener results were both adversely affected by the high raw material and fuel prices. Sales of nonwoven fabrics to the automotive industry were firm on a volume basis, and sales of fasteners were strong to the industrial materials market.

Polyesters and Others

Sales of *VECTRAN* high-strength fiber remained steady, largely due to application development centered on the United States market. In November 2007, annual production capacity was increased by 1,000 tons. Polyester sales were brisk for sportswear and other specialty markets. Pricing revisions and cost cuts were implemented to offset the impact of the raw material and fuel prices.

CLARINO

Developed by Kuraray in 1964, *CLARINO* man-made leather is used in a wide range of applications taking advantage of its easy-of-care, pliability, strength, light weight, and climate resistance. *CLARINO* commands a strong share of the market for man-made leather men's and women's shoes and bags while its strength and performance attract strong demand for use in athletic shoes, gloves and large balls to industrial materials. Our product line-up also includes eco-friendly man-made leather products created using an innovative new process that does not utilize organic solvents in the base cloth production process.

AMARETTA

AMARETTA is highgrade man-made leather made from microfiber. *AMARETTA* has received high praise from the market as a nubuck feel with a soft and supple texture. *AMARETTA* is also used to upholster sofas and in other interior furnishing applications. The Company is also striving to open the car-seat field to this product.

KURALON AND *KURALON K-II*

In 1950, Kuraray achieved the world's first commercialization of the synthetic fiber *KURALON*. It features characteristics that include high strength, low elasticity, hydrophilic properties, alkali compatibility, and weather resistance. This makes it suitable for use in industrial materials. It is essential in the manufacture of high-pressure hoses and as a cement-reinforcing agent.

KURALON K-II is water soluble at any temperature and has high strength. It is well known as a fiber that allows new design concepts and has applications in a number of industries.

VECTRAN

This high-performance polyarylate fiber has a wide variety of properties, including outstanding low-creep and non-water-absorbency as well high strength and moisture-abrasion resistance in extremely cold conditions. It is used in rope, fishing net, and other industrial material applications, as well as sporting goods and a range of other applications. It was also used in the air bags on the Mars exploration rover.

NEW POLYESTERS

Kuraray is developing new, high added-value fibers and textiles for use in clothing by blending polyester with the Company's proprietary polymers.

Consisting of a polyester core surrounded by Kuraray's proprietary EVOH resin, *SOPHISTA* features quick-drying and cool-feel characteristics.

KURAFLEX

KURAFLEX dry-laid nonwoven fabric is used in sanitary and other disposable products. The Company is developing high-order blended products using its proprietary polymers, and we are strongly promoting their use in industrial and construction materials, where strength and durability are required.

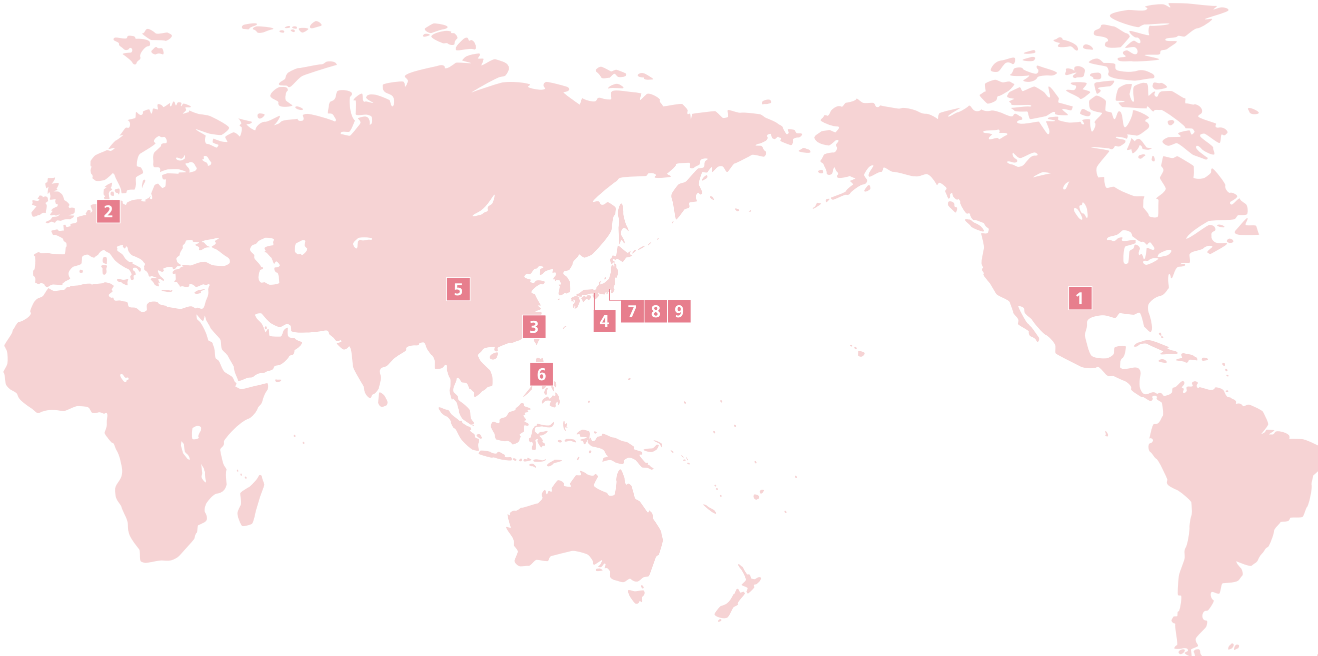
KURAFLEX-MB is a melt-blown nonwoven fabric with many excellent characteristics including filtering, moisture permeability. Kuraray is actively developing new *KURAFLEX* product applications ranging from coffee filters and food wrapping materials to mask filters.

In 2006, Kuraray developed a new nonwoven fabric *FELIBENDY* (New Type: Steam Jet Products) using steam-jet technology, a world first, which features characteristics and capabilities hitherto unknown. The material's characteristics, such as bulkiness, water solubility, and elasticity, were achieved by leveraging the unique properties of raw material cut fibers.

MAGIC TAPE

MAGIC TAPE is used in clothing, shoes, bags, medical products, and various industrial fields as a fastener. The Company is presently engaged in the development of insoluble back coatings that use no organic solvents for an eco friendly *MAGIC TAPE*. Further, *MAGILOCK* is a extrusion molded hook fastener that offers outstanding fastening strength. Used to secure such items as automotive seats and join construction materials, this new product contributes to labor saving in assembly operations and the promotion of recycling.

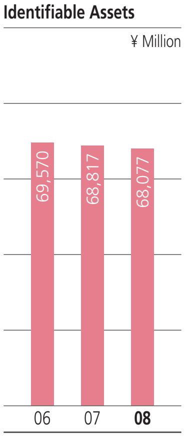
Review of Operations
— High-Performance Materials, Medical Products and Others Business —



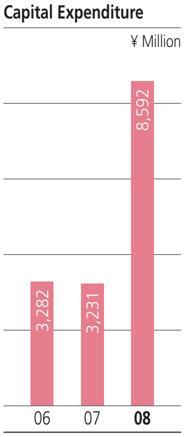
Group Companies

	Company Name	Capital (Millions)	Activities
1	Kuraray America, Inc.	US$10.1	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
2	Kuraray Europe GmbH	€31.1	Import and sales of Kuraray products in Europe, Manufacture and sales of poval and butyral resins and film
3	Kuraray (Shanghai) Co., Ltd.	US$5.0	Import and sales of Kuraray products in China
4	KURARAY CHEMICAL CO., LTD.	¥600	Manufacture and sales of activated carbon and related products
5	Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.	¥498	Manufacture and sales of activated carbon
6	Cenapro Chemical Corporation	Peso55.4	Manufacture and sales of activated carbon
7	Kuraray Medical Inc.	¥300	Manufacture and sales of medical products
8	KURARAY TRADING Co., LTD.	¥2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
9	Kuraray Co., Ltd.	¥88,955	Manufacture and sales of Kuraray products

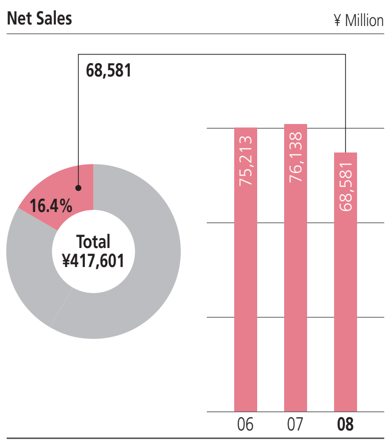
Identifiable Assets



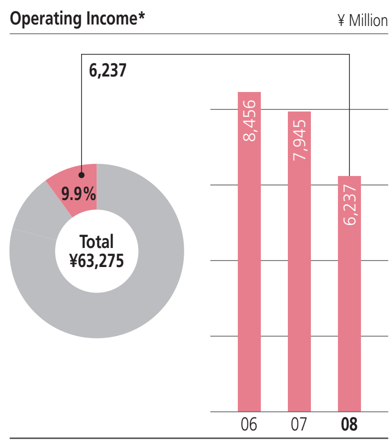
Capital Expenditure



Net Sales



Operating Income*



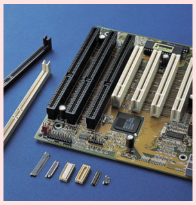
* Including 15,144 million eliminated in consolidated for the three business areas overall.

Medical Products
Sales of dental materials increased in the United States, Europe, and other overseas regions. In October 2007, the company merged its dialyzer business into Asahi Kasei Kuraray Medical Co., Ltd.

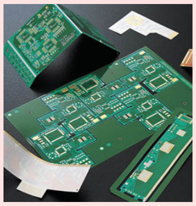
High-Performance Materials
Demand continued strong in Asia markets for the *GENESTAR* heat-resistant polyamide resin for use as an electronic material. Demand for *GENESTAR* is burgeoning, and the company is currently expanding *GENESTAR* production capacity to keep pace. Sales in the activated carbon business increased, but raw material and fuel prices impacted profit. Sales were strong for the engineering and a few other businesses, but sales were generally sluggish for other related businesses.

Other
Sales declined for Other Businesses largely due to the closure of the opto-screen production operation in December 2006.

Major Products

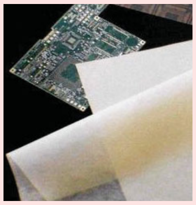


GENESTAR
GENESTAR is a heat and abrasion-resistant polyamide resin with excellent electrical characteristics developed by Kuraray, which is widely used in thin-walled, narrow pitch surface mount technology (SMT) connectors for computer devices. Kuraray is also developing new *GENESTAR* products to take advantage of its superior applicability to the automotive field, including gear and fuel piping applications.



VECSTAR
The application of Kuraray's original molecular orientation technology to a polyarylate-type liquid crystal polymer film has realized a high-performance film with advanced functionality that curbs various types of liquid crystal polymer film anisotropy. *VECSTAR* film is a circuit-board material that will contribute to the realization of a sophisticated information society. It has properties, such as low moisture absorbency, outstanding electrical characteristics, and shape stability, that manufacturers will increasingly seek in circuit-board materials as they step up efforts to create smaller electronic devices with more advanced functionality.

VECRY
VECRY is a polyarylate hybrid conjugated monofilament, whose special properties include high strength, high modulus, and low creep. It is used for the high-precision, high-density printing screens required in the production of plasma display panels, semiconductors, and printed wiring boards.



VECRUS
VECRUS is a liquid crystal polymer nonwoven fabric with strong mechanical features and heat resistance that exhibits superior anti-absorption, low dielectric and dielectric tangent properties in a high-frequency radiation environment. It is a material highly suitable for heat-resistant separators and toner cleaners.

DENTAL MATERIALS
Employing polymerization and synthesis technology, Kuraray has developed dental adhesives and filling resins. These are highly regarded for their adhesive properties, wealth of variety, and ease of use, and Kuraray boasts the top share of Japan's market for these products. Demand for these products is growing in the global dental materials market as a result of their reputation for quality and functionality, particularly in the United States and Europe.

PLASMA EXCHANGE TREATMENT SYSTEMS
Plasma exchange treatment uses separation technologies based on hollow-fiber membranes and absorbent materials to remove disease agents present in plasma. This treatment method has been lauded for helping patients prevent rheumatism and other autoimmune diseases that arise from autoimmune disorders.

ACTIVATED CARBON
Kuraray's proprietary technology for controlling the diameter and volume of pores in the surface of activated carbon allows a height-

ened response to growing environmental concerns and heightened customer needs in areas ranging from household water purifiers to municipal and industrial water treatment, air purification, and electrode materials for capacitors.

INDUSTRIAL MEMBRANES
These filter membranes, which can remove micro particles of sizes ranging from 0.003 to 3 microns from liquids, have numerous industrial applications. They are used in food processing, including the manufacture of Japanese sake, water purification, and wastewater treatment, and are marketed as filters for producing ultra pure water, which is indispensable in semiconductor manufacturing and other cutting-edge manufacturing processes.

PVA GEL
PVA gel is a small white spherical bacteria-fixed carrier made from PVA resin. With an extremely fine net-like structure, each sphere can sustain one billion microorganisms. PVA gel is designed to clean industrial and domestic wastewater through bacterial activity, returning water to its natural state. Because it enables the use of smaller facilities and more efficient processing than the conventional activated sludge method, this technology is being adopted in household septic tanks, factory wastewater facilities, and sewage processing plants.

Research and Development

R&D Activities

The Kuraray Group's R&D activities are tightly coordinated between corporate R&D and the divisional R&D activities conducted by our in-house companies, departments, and consolidated subsidiaries. R&D is guided at all levels by the Kuraray corporate mission to "apply highly innovative, high-quality technology to pioneer new business fields and contribute to society and the natural environment."

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 reorganized the development staff structure and narrowed the focus of our core development themes to augment our capability to apply selection and focus in our R&D activities. These moves increased our ability to identify high-potential themes for corporate R&D and enhanced our support system for new business creation.

The Corporate R&D division administers operations of the Kurashiki Research Laboratories, Tsukuba Research Laboratories, and Kuraray Research and Technical Center (USA). Divisional R&D activities are headed by R&D departments located on-site at each in-house company, division, and consolidated subsidiary. The R&D operations of the Kuraray Group (Kuraray and consolidated subsidiaries) employ 796 researchers and engineers.

R&D expenses totaled ¥15,250 million in fiscal 2007. R&D expenses by segment were: Chemical and Resins Business ¥5,260 million, Fibers and Textiles Business ¥2,712 million, and High-Performance Materials, Medical Products and Others Business ¥1,876 million. Corporate R&D expenses totaled ¥5,400 million.

Primary R&D Activities

Chemical and Resins

- Kuraray is a global leader in the vinyl acetate chain products of polyvinyl alcohol (PVA), polyvinyl butyral (PVB), and ethylene vinyl alcohol (EVOH resin), and closely coordinates the worldwide operations of its domestic and overseas R&D departments with a focus on development of new product applications, new products, and new production technology.
- In gas barrier materials, we are seeking to accelerate the development of application ranges for the newly developed gas barrier materials *EVAL SP* and *KURARISTER*. *EVAL SP* is a new EVOH resin offering a high level of flexibility, elasticity, and superior plasticity. *KURARISTER* is a new transparent barrier film for use in food packaging retorts. We are also developing markets for a variety of innovative products, such as super-barrier (scavenger) materials.
- R&D activities in thermoplastic elastomers focus on developing new applications and products, such as the *SEPTON* V Series offering enhanced resistance to heat and oil and the new *SEPTON* Q Series incorporating a new thermoplastic polymer suitable for designing polymer alloys that are light weight and exhibit excellent resistance to abrasion, scratching, and hydrolysis. Kuraray has applied its exclusive polymerization technology to produce the world's first mass production techniques for new acrylic thermoplastic elastomer materials featuring superb transparency, weather resistance, and plasticity and is advancing toward product commercialization.
- R&D in methacrylic resin concentrates on developing new products and applications emphasizing the distinctive properties of our polymers and in strategic areas for continuing business expansion in the electronic display industry.

Fibers and Textiles

- R&D of *KURALON* and *KURALON K-II*, polyvinyl alcohol (PVA) fibers, is aimed at increasing the range of applications and expanding business for PVA as a high ductility concrete maintenance and reinforcement material as well as other applications. (*KURALON K-II* is registered under the technical name "PVA fiber for slope-surface mortar reinforcement" in the New Technology Information System (NETIS) of the Ministry of Land, Infrastructure, Transport and Tourism.) R&D

activities also focus on developing innovative fiber materials utilizing the company's unique compound fiber technology, such as the water-soluble fiber employing melt-spun material from the new *EXCEVAL* polymer. Recent advances include the successful development of *KURALON EC*, a new type of electro-conductive fiber utilizing a special metallic nanoparticle compound technology.

- We are developing new applications to exploit the high-strength, minimal moisture absorption, and low-creep characteristics of *VECTRAN*, the high-performance polyarylate fiber used in the air bags on the Mars exploration rover. We have also created five dope-dyed colors for *VECTRAN* that provide superior colorfastness against washing and in UV light and greatly reduced color bleeding when in contact with other spun fibers.
- R&D related to the man-made leather *CLARINO* centers on new product and application development for *PARCASSIO*, *AMARETTA*, and other man-made leather products. The company is also advancing R&D of the next generation, eco-friendly *TIRRENINA* to be produced using the Clarino Advanced Technology Systems (CATS), a completely renovated production process that is environmentally friendly and generates high quality and superior texture product. In the second half of fiscal 2007, Kuraray announced plans to construct a new mass production facility for *TIRRENINA* scheduled to commence operations in June 2009.

High-Performance Materials, Medical Products and Others

- R&D related to the heat-resistant polyamide resin *GENESTAR* aims at developing new products and applications to meet the growing demand for electrical and electronic applications and to keep pace with our steadily growing business in the automobile industry.
- We enhanced our presence in the water treatment field with the establishment in February 2007 of the joint venture KURARAY AQUA CO., LTD., with Nomura Micro Science Co., Ltd. The company incorporates Kuraray's water purification technology using our hollow-fiber membrane and PVA gel wastewater treatment system with Nomura Micro's engineering technology. KURARAY AQUA is positioned to meet diverse needs in the globally expanding water treatment market.

Corporate R&D

- Corporate R&D seeks to create and foster new business in the anticipated growth fields of optics, electrical and electronics, automotive, environment and energy, and health care as well as in the wider landscape of electronic and optical materials and environment and energy.
- In the optics field, we are developing new high-precision processing technology and LCD display materials, such as the *MIRABRIGHT* multifunction light-guide plate. We are also aggressively conducting R&D activities related to next-generation products, including participating in the academic-industry alliance Technology Research Association for Advanced Display Materials (TRADIM) project to develop ultra-thin backlight units for next-generation mobile phones.
- Kuraray is at the forefront of the energy field and is advancing R&D activities of various new and innovative materials and products, including high-performance electrolyte membranes used in methanol-based fuel cells for which the market is expected to start expanding in the near future.
- R&D in the health care field is advancing the development of new orthopedic materials and other products with the aim of creating new businesses in medical-related fields. (Kuraray Medical Inc. will perform the R&D related to health care beginning in fiscal 2008.)
- The company is combining its new polymer electrolyte membrane and carbon material design technology developed from proprietary alloy, polymer design and synthesis technologies to produce a groundbreaking pliable electrode material. The material is capable of activation at electric voltage levels lower than has been possible with existing polymer actuators. We are developing the material with the aim of producing a new ion-conductive polymer actuator capable of stable performance in air.
- In the optoelectronics field, the Kuraray Luminas Co., Ltd., a joint operation of Kuraray and TERCIA & Co., Ltd. (formerly T. CHATANI & CO., LTD.), is progressing toward commercialization of products incorporating a white light source for LCD backlight using ultra-bright inorganic electroluminescence (EL) materials.

Corporate Governance

Kuraray believes that the maintenance of good relationships with shareholders and stakeholders is part of the fulfillment of social responsibilities. This goal is consistent with the objectives of achieving a long-term improvement in business results and sustainable growth as a company that does business globally. Kuraray believes it is a fundamental and important obligation to fulfill its responsibilities as an enterprise open to society by enhancing corporate governance functions and establishing highly transparent and fair management.

As a company with comprehensive auditing functions, Kuraray has established a corporate governance system centered on its board of directors and board of corporate auditors to improve the effectiveness of our supervisory and monitoring functions while maintaining management efficiency and to provide guidance for issues including management compensation, selection of new company officials, internal controls, and risk management.

Board of Directors and Organizations Responsible for Business Execution

The Board of Directors establishes the Board of Directors' Regulations, deliberates and decides important management matters, including legal matters, and supervises the execution of business. The maximum number of directors is 10, and the term of office is one year. There are currently nine board members, of which two are external board members.

As the chief executive responsible for business execution, the president exercises control over the execution of business in the Kuraray Group.

Executive officers (one-year term of office) selected by the Board of Directors are responsible for business execution in the various organizations of the Kuraray Group. As the heads of in-house companies, divisions, and major functional organizations, the executive officers bear responsibility for operations and profit. Some board members hold concurrent positions as executive officers.

The president establishes the Executive Committee and other various councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution. In principle, the Executive Committee convenes twice monthly.

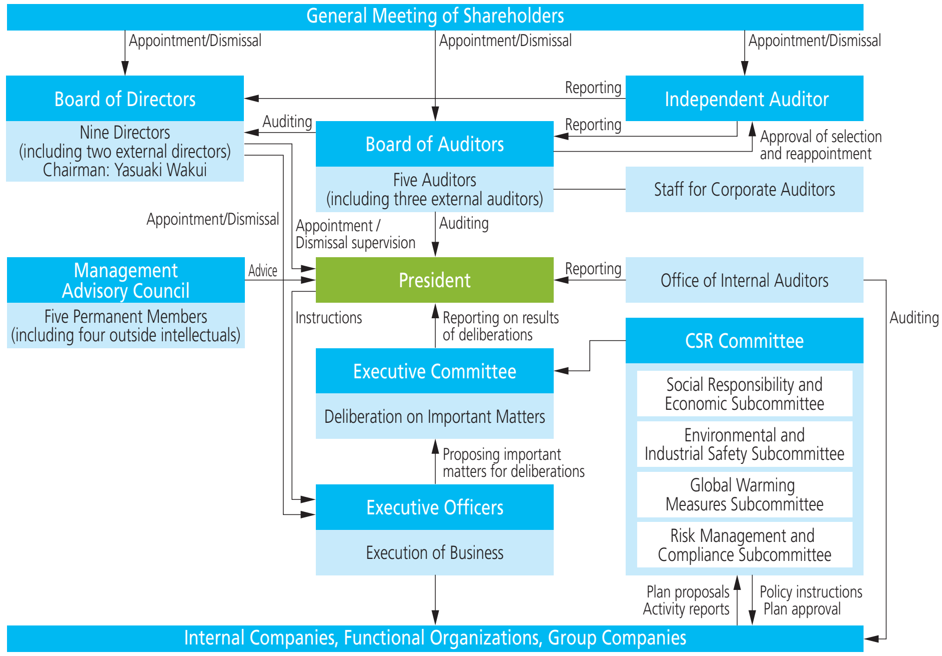
Management Advisory Council

Kuraray has established the Management Advisory Council to serve as a consultative body to the president from the perspectives of compliance, the protection of shareholder rights, and management transparency. The Council consists of five permanent members, four of whom are experts from outside the Group with a wealth of experience in corporate management or corporate legal affairs. The Council advises the president on such issues as important management policies and issues, succession of the president, successor candidates, and compensation. In principle, the Council convenes twice annually.

Board of Auditors

The Board of Auditors consists of five corporate auditors, including a majority of three outside auditors independent from the Kuraray Group. The company and external corporate auditors have no personal, capital, transactional or other type of relationship that would present a conflict of interest. The corporate auditors attend meetings of the Board of Directors and other important meetings, and monitor the directors' performance of duties through inquiries conducted by such means as the examination of important documents

Corporate Governance System



and requests for explanations of the state of business affairs. In principle, the Board of Auditors convenes monthly.

The Board of Auditors regularly convenes with accounting officers and corporate auditors and the Operations Auditing Office (nine auditors), which conducts internal audits, to receive reports on audit content and to share information concerning audit planning, implementation, and related matters.

The Board of Auditors also serve as auditors of core subsidiary companies to ensure subsidiary company audits are performed appropriately and attend periodic Group Auditor Liaison Meetings of auditors of each of the Group companies to deepen their understanding of each company.

Kuraray has entered into an agreement with each outside corporate auditor, limiting their responsibility for damage compensation in accordance with Article 1, Paragraph 427 and Article 1, Paragraph 423 of the Japanese Corporate Law. The relevant agreements limit the liability to an amount provided by law. However, the limits on liability are only approved when the applicable external board member executed the duties that caused the liability with good intentions and no significant negligence. Kuraray appoints dedicated assistants (four individuals) to the auditors to assist the auditors in the performance of their duties.

Internal Control

The Kuraray Group recognizes that the establishment and implementation of internal controls is an important management task and is engaged in putting in place an internal control system based on the Basic Policy for Establishing Internal Controls decided by the Board of Directors.

The Office Rules and Regulations establish company standards regarding the company composition, segregation of administrative duties and positions, and authority with the objective of creating coordinated and efficient management of our operations. These rules and regulations include the Segregation of Duties concerning the content and scope of business throughout the company organization, and the Table of Authority defining the authority invested in each administrative position. These regulations establish a Management Committee to deliberate important matters involving the execution of operations. The specific activities of the Management Committee are stipulated in the Management Committee Administrative Regulations and Group Business Standards.

Group companies are administered by the Affiliate Company and Overseas Business Control Office in line with the Group Company Operating Standards.

The CSR Committee organizes the Environmental and Industrial Safety Subcommittee, Global Warming Measures Subcommittee, Risk Management and Compliance Subcommittee, and Social Responsibility and Economic Subcommittee. To promote integrated risk management throughout the Group, the CSR Headquarters and specific risk management committees evaluate the management conditions for risk from the perspective of the entire organization and implement risk prevention and response measures.

In preparation for times of crisis, Kuraray maintains a system for establishing an Emergency Response Headquarters directed by the president and implementing swift action.

As part of our effort to conform with all laws and regulations, Kuraray ensures all Group directors and employees are familiar with the Principles for Business Conduct, which are also disclosed publicly. The Company maintains the Kuraray Employee Counseling Room to function as an internal reporting system for incidents contrary to law or the company's Principles for Business Conduct and to provide a channel for immediate reporting of misconduct in confidence of full protection under the Whistleblower Protection Act.

The Office of Internal Auditors, an internal audit organization that reports directly to the president, cooperates with corporate auditors and independent auditors to audit the legality, appropriateness, and effectiveness of business operations in each organization of each of the Group companies.

As an internal control for financial reporting, in fiscal years 2006 and 2007 Kuraray established the Internal Controls Reform Team to inspect and promote establishment of Group-wide internal controls. The Office of Internal Auditors in April 2008 commenced a comprehensive review of the internal controls throughout the Group.

Compliance

To ensure transparency and fairness in business activities, in addition to putting in place an effective corporate governance system, it is necessary to build an organizational culture that encourages individual employees to act appropriately on the basis of a highly developed sense of ethics. For this reason, The Kuraray Group engages in systematic activities to strengthen compliance.

Kuraray complete revised its Insider Trading Control Regulation in fiscal year 2007, and established a unified system for information and insider trading control management. To promote employee awareness, the company presented seminars on insider trading regulations led by instructors from stock exchange operators.

We also prepared and published the Compliance Handbook for the United States, and are preparing similar handbooks for Europe and China covering laws and regulations in each country.

Compliance Declaration

On behalf of the Kuraray Group, the President of Kuraray Co., Ltd. publicly announced the fundamental principles of the Compliance Declaration, making compliance and the practice of corporate ethics the most important corporate activity at Kuraray.

1. We will comply with the law and the Principles for Business Conduct.
2. We will give precedence to laws and regulations, and to the Principles for Business Conduct, over corporate profits.
3. We will strive to prevent any act that goes against laws and regulations or the Principles for Business Conduct, or that betrays the trust that society has placed in us.

Internal Reporting System (Kuraray Employee Counseling Room)

To uncover any problems in the Kuraray Group, the Company maintains an internal reporting system that applies to domestic Kuraray Group companies. Kuraray has engaged the services of attorneys and specialist consultants at the Kuraray Group Employee Counseling Room, putting in place a structure by which individual employees can, in complete confidence, not only directly report wrongdoing and consult on compliance issues, but also seek advice on a wide range of issues that are difficult to solve in the workplace.

Board of Directors, Corporate Auditors, and Executive Officers

From left: Kenzo Sawada, Hiroaki Yoshino, Yoichi Ninagawa, Yasuaki Wakui, Fumio Ito, Shiro Kataoka, Toshihide Sakai, Kensaku Aomoto, Takafusa Shioya

BOARD OF DIRECTORS

Representative Director and Chairman

Yasuaki Wakui

Representative Director and President

Fumio Ito

Director

Yoichi Ninagawa
Primary Executive Officer,
Chief Technology Officer

Shiro Kataoka
Senior Executive Officer,
President of Chemicals and
Medical Products Company

Hiroaki Yoshino
Senior Executive Officer,
President of Fibers and
Textiles Company

Toshihide Sakai
Senior Executive Officer,
Responsible for CSR Division,
Office of Global Business Development,
Purchasing and Logistics Division

Kenzo Sawada
Senior Executive Officer,
President of Specialty Resin and
Film Company

Kensaku Aomoto*1
Counselor, Mitsui & Co., Ltd.
and Counselor,
Mitsui Oil Exploration Co., Ltd.

Takafusa Shioya*1
Management Committee
Member, International Research
Center for Japanese Studies,
Inter-University Research
Institute Corporation

CORPORATE AUDITORS

Standing Corporate Auditor

Junsuke Tanaka

Tadahiko Kujime

Auditor

Toshimitsu Kitagawa*2

Hiroo Onodera*2

Hiroki Yamada*2

EXECUTIVE OFFICERS

Senior Executive Officer

Takayoshi Ohsaki
General Manager of Okayama Plant

Mitsuaki Manabe
General Manager of Accounting and
Finance Division

Executive Officer

Noboru Yanagida
General Manager of Niigata Plant

Katsuya Hashimoto
General Manager of Saijo Plant

Mitsuo Matsumoto
General Manager of Office of
Corporate Strategy and Planning

Kohei Maeda
General Manager of CSR Division

Yuichi Kawarasaki
General Manager of
Corporate Management Division

Keiji Murakami
General Manager of EVAL Division

Shinzo Takemura
General Manager of Poval Resin Division

Noritsugu Nagatomo
Responsible for Technology Division,
Plants, Environmental and
Industrial Safety Management Center

Takaaki Fukumori
General Manager of
General Affairs and H.R. Division

Kazuhiro Tenkumo
General Manager of Fibers and
Industrial Materials Division

Yasuhiro Yamamoto
General Manager of
Methacrylate Division

Gerd Lepper
President of Kuraray Europe GmbH

Jean-Marie Baetens
President of EVAL Europe N.V.

Nobuya Tomita
President of Kuraray America, Inc.

Osamu Yamada
General Manager of Kashima Plant

Takao Akagi
General Manager of New Business
Development Division

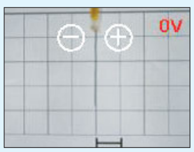
*1. Directors Kensaku Aomoto and Takafusa Shioya are external directors.
*2. Corporate Auditors Toshimitsu Kitagawa , Hiroo Onodera , Hiroki Yamada are external corporate auditors.

Kuraray Topics (Quoted from Kuraray news releases in FY2007)

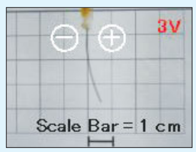
Development of Flexible Polymer Actuator

Actuators are power-generating devices that convert electro-energy into mechanical energy. Common examples of actuators are motors, hydraulic or oil pressure pistons, and muscles of the human body. A polymer actuator is an actuator composed primarily of macromolecular materials, such as plastic or fiber. Polymer actuators are attracting emerging attention for application as an artificial muscle that is lightweight and provides smooth movement. Polymer actuators also allow a large stroke compared with the small strokes provided by other actuators, such as motors and oil pressure pistons. Venture companies are leading the development of polymer actuators for a wide variety of applications, including autofocus mechanism for mobile phones with cameras and medical devices, such as actuating catheters.

Kuraray has developed a novel polymer actuator that functions at lower voltage levels than existing polymer actuators and is also capable of functioning in air, compared with existing actuators that only function in water.The Kuraray actuators' lightweight, flexibility, and good formability features can widen the applications of polymer actuators for micro-motors and diaphragm-type micro-pumps to medical devices and robot drive motors.



At 0 volts



At 3 volts

Operations Commence at New Kuraray Kurashiki Plant

Kuraray began relocating its Kurashiki Plant in 2005 as a key step to reinforce its research and development (R&D) organization as it seeks to fulfill its top management priority of promoting the creation of new businesses. Relocation of plant facilities from the Sakazu district of Kurashiki City, where Kuraray has its roots, to the city's Tamashima district was completed in March 2007. The new Kurashiki Plant will play a leading role as one of the Kuraray Group's production and development bases for creating new businesses as well as one of the Group's advanced plants for manufacturing cutting-edge new products. In step with the latest environmental protection technologies, the new plant's Manufacturing Technology Development Center features leading-edge energy conservation facilities: new energy technologies in its air conditioning, lighting, equipment, and power systems.


Manufacturing Technology Development Center

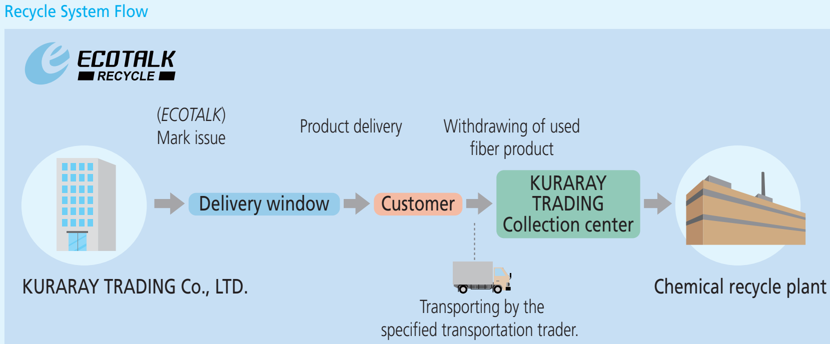

Kurashiki Plant

2007 4 — 5 — 6

Full-Scale Launch of Environment Ministry Certified *ECOTALK* Chemical Recycling System

Kuraray Trading Co., Ltd. teamed with Nippon Steel Corporation and Yamato Transport Co., Ltd. to launch full-scale nationwide operation of the *ECOTALK* Recycling system in April 2007. The *ECOTALK* system aims to elevate the recycle rate of textiles manufactured and sold by Kuraray Trading. Yamato Transport collects discarded textile products from the private and public sectors and delivers them to Kuraray Trading to be processed in the company's crushing machines. The condensed materials are then delivered to Nippon Steel where they are put through Coke Oven Chemical Material Process to yield hydrocarbon oils (chemical materials for plastics), coke, and gas. Kuraray Trading aims to expand the range of the *ECOTALK* recycling system and increase its contribution to improving the natural environment and realizing a recycling-based society.

Recycle System Flow



Large-Scale Share Purchase (Takeover Defense) Countermeasures Activated

After receiving a majority vote approval of shareholders at the General Meeting of Shareholders convened on June 20, 2007, Kuraray activated preventive countermeasures (takeover defense) to a large-scale purchase of Kuraray shares.

Full-Fledged Production Starts for Optical-Use Poval Film for Polarized Film

The superior transparency, dye affinity, elasticity, and antistatic properties of poval (polyvinyl alcohol) film have made it a fundamental material in base film for polarized film, a principal component of LCDs. Production trials were successfully completed and manufacture commenced at the new Kurashiki Plant. The plant's annual production capacity for optical-use poval film was expanded by 30 million square meters, doubling the plant's annual production capacity to 60 million square meters. The company plans to continue expanding its production facilities in step with the growing demand for its leading poval film products.

Poval Film Production Capacity (as of August 2007)

Plant	Current Capacity	Planned Capacity Increase
Saijo	31million m^2	15million m^2
Kurashiki	60million m^2	30million m^2
Total	91million m^2	45million m^2

7

8

9

Acquisition of Treasury Stock as Stipulated in Articles of Incorporation

Kuraray purchased back own stock in line with Article 156 of the Corporation Law of Japan as applied pursuant to Article 165-3 of the Law.

Details of Treasury Stock Repurchase

1. Repurchase Period
June 21, 2007 to September 3, 2007 (based upon trade date)
2. Class of Shares Purchased
Common Stock
3. Total Number of Shares Purchased
20,136,500 shares (Percentage of Company shares issued: 5.3%)
4. Total Purchase Price
¥29,999,484,500

Full Operations Commence at Expanded PVB Film Facility in Europe

Production trials were successfully completed and manufacture commenced at the expanded production facility at European subsidiary Kuraray Europe GmbH based in Frankfurt, Germany, which markets PVB (polyvinyl butyral) film under the brand name *TROSIFOL*. The expansion raised the plant's annual capacity from 26,000 tons to 34,000 tons.

The superior adhesive properties, excellent transparent qualities and membranous features of PVB film make it ideal for applications as an interlayer film in laminated glass. Glass laminated with PVB film is widely used in building windows and automobile windshields for its ability to render glass shard-resistant and virtually shatterproof. Kuraray Europe commands approximately 16% of the global market for PVB film manufacture, development and sale, and is a leading provider of PVB laminated glass to the European construction industry.

TROSIFOL-laminated glass dome of the German Parliament building in Berlin

The New *SEPTON* Q Series Launched

Kuraray developed a new styrenic thermoplastic elastomer with exceptional heat resistance characteristics. The *SEPTON* Q Series features light weight and superior flexibility, elasticity (with the resilience of rubber), and dynamic capacity. The material also exhibits superior bondability to other thermoplastics, creating strong potential for automotive, electric and electronic component, and other applications.

POVAL ASIA Made a 100% Consolidated Subsidiary

On January 31, 2008, Kuraray acquired the 50% stake of POVAL ASIA PTE LTD held by Nippon Gohsei Singapore Pte. Ltd. (NSP) and elevated the company to 100% subsidiary status. Kuraray subsidiary Kuraray Singapore Pte. Ltd. and NSP, a subsidiary of Nippon Synthetic Chemical Industry, established Poval Asia in 1996 as a joint venture in Singapore to supply general polyvinyl alcohol products mainly to Asian markets.

The acquisition responds to changes in the business environment in recent years and is a key strategic move in Kuraray's global development plan for its vinyl alcohol-related business. Kuraray plans for POVAL ASIA to continue producing general products with the objective of creating a flexible supply structure that also includes high value-added products.

POVAL ASIA PTE LTD

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KURALON Production Capacity Expanded

To respond to the growing demand for PVA fiber *KURALON*, we established a plan to expand the production facility at the Okayama Plant to boost the annual production capacity of *KURALON* by 5,000 tons. Scheduled to commence operations in December 2008, the new plant will raise our annual productions capacity from 35,000 tons to 40,000 tons. As regulations worldwide are coming into force limiting the use of asbestos, demand for fiber-reinforced cement (FRC) materials is growing for use as a building material, such as for residential roofing. In addition to the existing markets for *KURALON* in Europe, Japan, and other regions, demand for *KURALON* is steadily expanding in Eastern Europe, Asia, South and Central America, and other developing regions.

Completion Ceremony Held for Resin Compound Factory in Southern China

Japan Super Engineering Plastics (Zhongshan) Co., Ltd., a joint venture of Kawasaki Sanko Kasei (KSK) Co., Ltd., and Kuraray established in April 2006, held a completion ceremony for its new resin compound production facilities on January 21, 2008. China's Guangdong Province is experiencing growing demand for compounds for engineering plastics due to accelerated market penetration by automakers and auto parts manufacturers as well as electric and electronic components manufacturers. Demand has been surging in the region for Kuraray's heat-resistant polyamide resin *GENESTAR* compound, which exhibits superior resistance to heat, chemicals, and abrasion, low water absorbency, and high insulation properties. The new plant is ideally located to provide prompt service and supply to the burgeoning industry in the region.

Japan Super Engineering Plastics (Zhongshan) Co., Ltd.

Company Summary

Company name:	Japan Super Engineering Plastics (Zhongshan) Co., Ltd.
Representative:	Masao Asai
Business activities:	Compounding for engineering and general-purpose plastics and related businesses
Production capacity:	10,000 tons/year (upon inauguration)
Number of employees:	50
Investment:	US$8.0 million
Capital:	US$4.0 million (KSK Group: 70%, Kuraray Group: 30%)

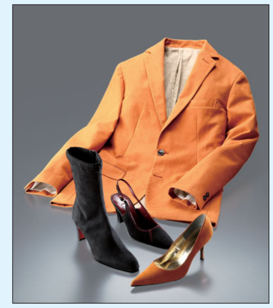
PVB Plant Expansion Commenced in Europe

To meet growing demand for the polyvinyl butyral (PVB) resin *MOWITAL* in Europe, Kuraray launched operations to expand the production capacity at European subsidiary Kuraray Europe GmbH (KEG) in Frankfurt Germany. Upon completion planned in July 2009, the factory's annual production capacity will increase by 10,000 tons to a total 39,000 tons. Demand is growing for our PVB resins, which are used for a diverse range of applications from interlayer films for windows used in the construction industry and shatter-resistant automobile windshields to uses in the paint and ink industry.

The polyvinyl butyral (PVB) resin *MOWITAL*

Plan to Construct New Facility for Eco-Friendly, Man-Made Leather *TIRRENINA*

Kuraray announced the establishment of a *TIRRENINA* commercial production facility with an annual production capacity of five million square meters at its Okayama Plant. *TIRRENINA* is a next-generation, eco-friendly man-made leather fabricated using an environment-friendly process and with an appearance and texture like natural leather along with the excellent functionality.



Man-Made Leather *TIRRENINA*

TIRRENINA combines several new features and advantages over existing man-made leathers: the manufacturing process does not use organic solvent, resulting in significantly less production of volatile organic compounds (VOCs) while enabling a 30% or greater reduction of CO_2 emissions from the shorter production process compared with Kuraray's conventional products; The newly developed ultra-fine fibers and manufacturing process create a product with a pleasurable feel, attractive appearance, and overall quality much closer to natural leather than conventional products, and the product's wider functionality and high-strength properties presents opportunity for further development for potential new markets.

Facility Expansion Overview

Location:	Okayama Plant (1-2-1 Kaigan-dori, Okayama City)
Production capacity:	5 million m²/year
Capital investment:	¥7,000 million
Operation commencement:	June 2009

2008
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Joint Venture for Total Water-Processing Services

Kuraray joined with Nomura Micro Science Co., Ltd. (headquarters: Atsugi City, Kanagawa Prefecture; President: Toyosaku Senda) to establish KURARAY AQUA CO., LTD., with the aim of offering total water treatment services, including the development and sale of materials, design and maintenance services of plants and equipment, in the rapidly growing water-processing-related industry.

KURARAY AQUA combines Kuraray's water purification technology using the high-polymer hollow-fiber membrane PVA gel with the engineering technology Nomura Micro developed into an extra-pure-water production system manufacturing and sales company. KURARAY AQUA is positioned to meet the complete spectrum of needs in the globally expanding water treatment market, including providing water clarification systems, drainage treatment, and recycling facilities for private enterprise.

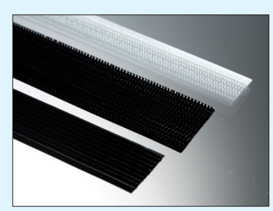
Company Summary

Company name:	KURARAY AQUA CO., LTD.
Location:	3-2-17 Nihonbashi Muromachi, Chuo-ku, Tokyo
President:	Hidekazu Ito (Former Managing Director, General Manager of Sales Division of Kuraray Engineering Co., Ltd.)
Business activities:	Sales of water clarification membranes, design, manufacturing, installation, sales and after-sale maintenance of equipment in Japan and overseas
Establishment:	February 2008
Business commencement:	April 2008
Capital:	¥100 million (Kuraray 55%, Nomura Micro 45%)

Kuraray Group and Morito Business and Capital Partnership

Kuraray, 100% Kuraray subsidiary Kuraray Fastening (KFS) Co., Ltd., and Morito Co., Ltd., agreed 1) to reinforce their collaboration in existing businesses and 2) forge an even closer capital partnership framework to further deepen their business partnership. KFS and Morito jointly market the KFS hook and loop fasteners *MAGIC TAPE* and extrusion molded hook fastener *MAGILOCK*.

MAGIC TAPE



MAGILOCK

Closer cooperation between the companies will further leverage Morito's market capabilities and customer base and facilitate enhancement of KFS's advanced technologies enabling faster development and timely supply matched to user needs as well as new business development.

Financial Section

PIONEERING
PROGRESSIVE
REFINEMENT

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Consolidated Six-Year Summary

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen						Millions of U.S. dollars (Note 1)
Years ended March 31	**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 m^2), which will expand yearly production from 61 million m^2 to 91 million m^2, 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.

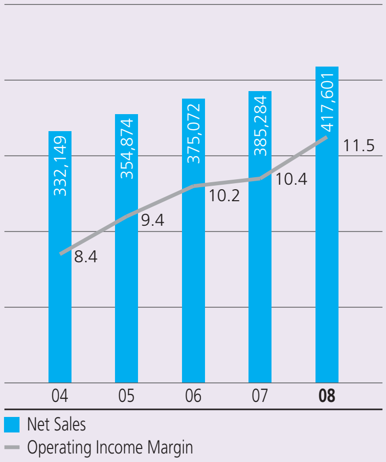
The Fibers and Textiles Business recorded lower sales and earnings. Sales decreased ¥2,689 million (US$26 million), or 2.5% year on year, to ¥105,235 million (US$1,052 million).

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).

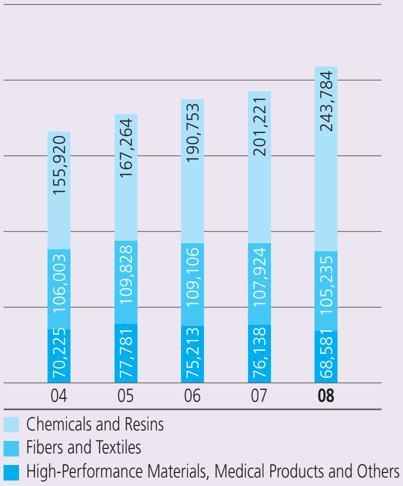
Although demand for *CLARINO* man-made leather for use in bags and accessories remained favorable, stagnant sales for shoe applications on top of the impact of high raw material and fuel prices resulted in waning sales and earnings in this business.

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).

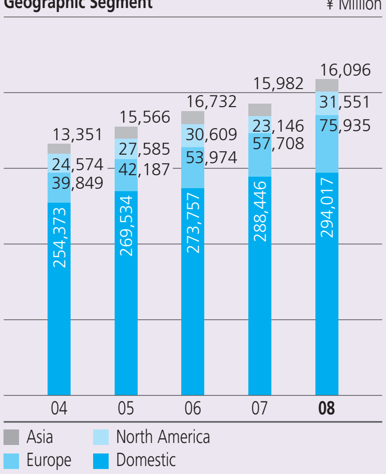
Europe enjoyed increased sales, despite the impact of high raw material and fuel prices, seeing robust demand for PVB film for construction applications and poval resin. As a result, sales rose to ¥75,935 million (US$759 million).

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).

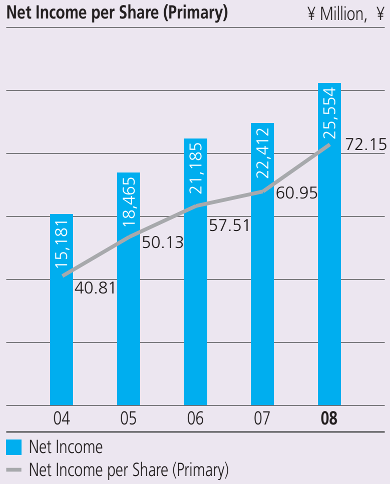
OPERATING AND NET INCOME

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

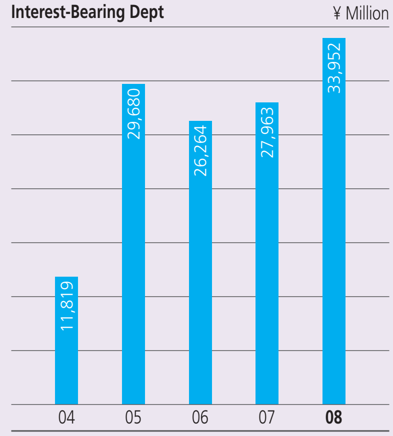
Net Sales by Geographic Segment ¥ Million



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



Interest-Bearing Dept ¥ Million



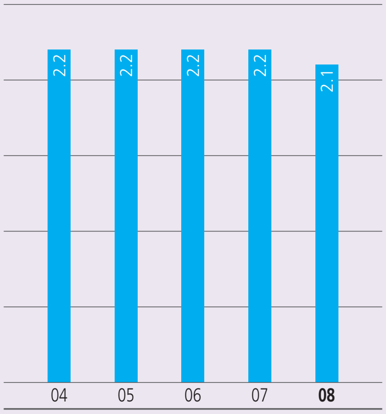
17.8% as a percentage of sales, again due to cost cutting efforts. As a result in the lower cost of sales, price increases in response to high materials and fuel costs, along with the higher SG&A, operating income rose by 19.7% to ¥48,130 million (US$481 million).

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.

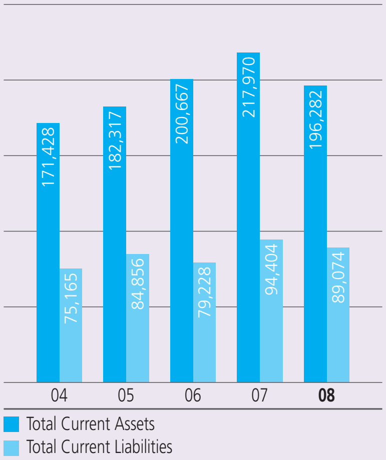
FINANCIAL POSITION

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 million). 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.

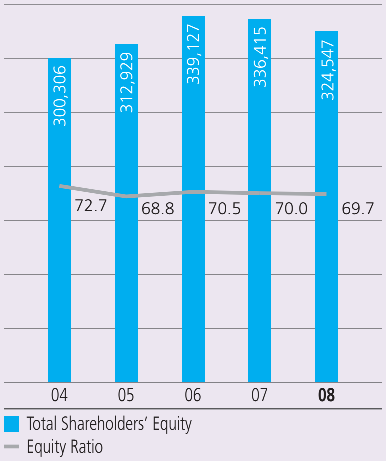
Number of Months' Sales in Inventory Months



Total Current Assets & Total Current Liabilities ¥ Million



Total Shareholders' Equity & Equity Ratio ¥ Million, %



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.

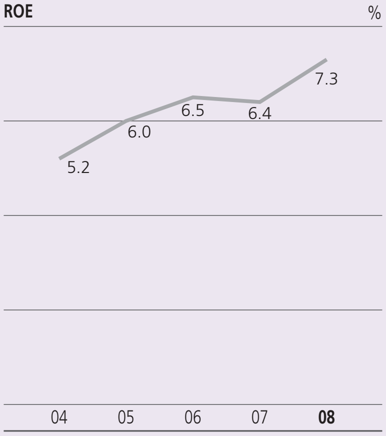
In fiscal 2007, Kuraray appointed a Chief Technology Officer (CTO) to oversee the acceleration of R&D activities and fortify the technical capabilities throughout the company. Under the new CTO, we reformulated the development staff structure and narrowed the focus of our core development themes to augment 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).

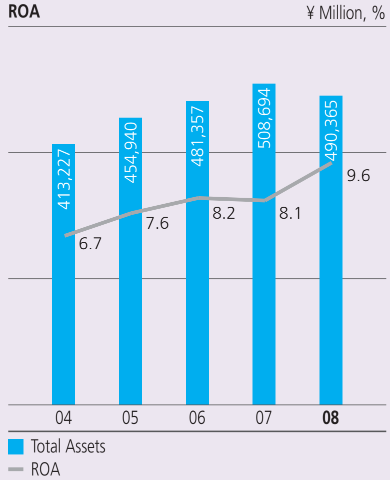
CAPITAL EXPENDITURE

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

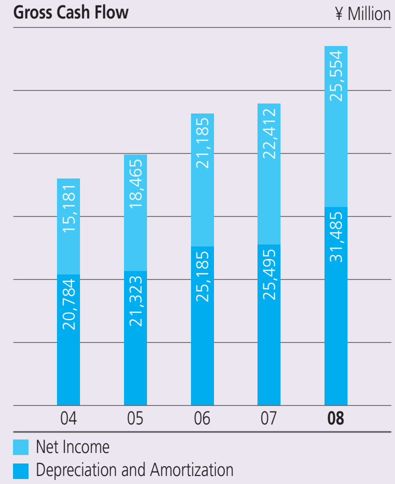
ROE



Total Assets & ROA



Gross Cash Flow



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.

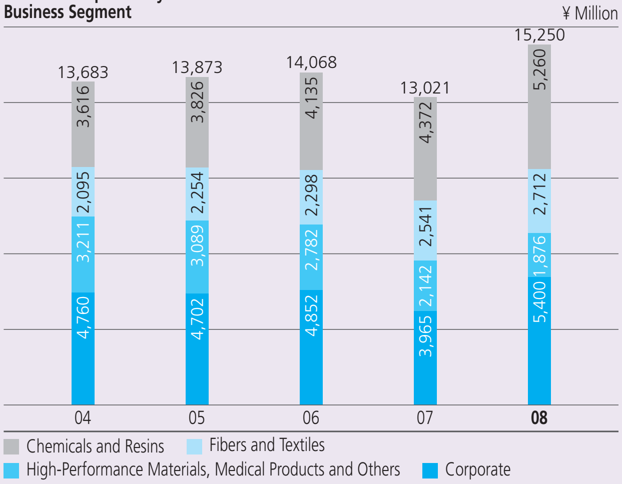
Our forecasts for the fiscal year ending March 31, 2009 are net sales of ¥450 billion (US$4.5 billion), operating income of ¥51 billion (US$510 million), ordinary income of ¥48 billion (US$480 million) and net income of ¥28 billion (US$280 million).

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.

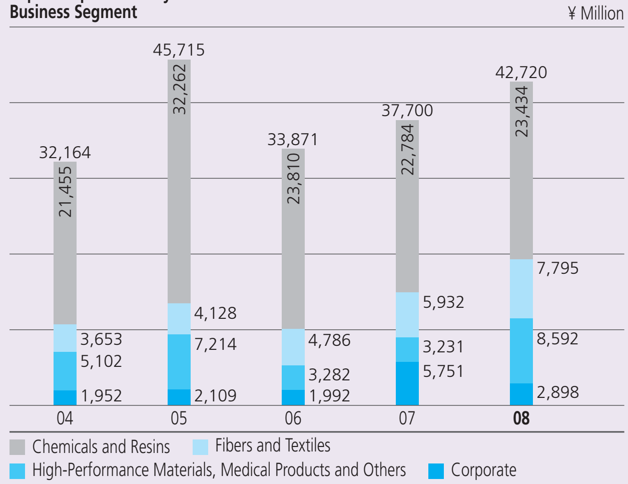
BUSINESS RISKS

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

Total R&D Expenses by Business Segment



Capital Expenditure by Business Segment



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 charges 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 Fiscal 2006	 Fiscal 2007	Thousands of U.S. dollars 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 Fiscal 2006	Millions of yen Fiscal 2007	Thousands of U.S. dollars 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 Fiscal 2006	Millions of yen Fiscal 2007	Thousands of U.S. dollars 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

	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

	Millions of yen				
	Shareholders' equity				
Fiscal 2007 (As of March 31, 2008)	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**

	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."

	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**

	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 Fiscal 2006	Millions of yen Fiscal 2007	Thousands of U.S. dollars 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						
	Japan	North America	Europe	Asia	Total	Eliminated on consolidation and corporate	Consolidated 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						
	Japan	North America	Europe	Asia	Total	Eliminated on consolidation and corporate	Consolidated 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						
	Japan	North America	Europe	Asia	Total	Eliminated on consolidation and corporate	Consolidated 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)
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. Each amount of the consolidated financial statements and notes is rounded down to the nearest 1 million yen.	**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. 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). 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.
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 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.	**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 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.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
	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. Kuraray America, Inc. merged by absorption with Eval Company of America and SEPTON Company of America on January 1, 2008.
(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.	(2) Names of major unconsolidated subsidiaries (Major unconsolidated subsidiaries) Kuraray Okayama Spinning CO., LTD. (Reasons for excluding from the scope of consolidation) Same as Fiscal 2006
3. Scope of application of equity method affiliates and subsidiaries (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.	**3. Scope of application of equity method affiliates and subsidiaries** (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.
(2) Number of affiliates accounted for using the equity method: 3 (Names of major affiliates) POVAL ASIA PTE LTD.	(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.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
(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. (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. **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. 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) Note: In this fiscal year, foreign subsidiaries above changed their fiscal year end from March 31 to December 31.	(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. (4) Accounting period of companies accounted for using the equity method Same as Fiscal 2006 **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. 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

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
5. Accounting policies (1) Valuation standards and methods for significant assets a) Investments in securities Available-for-sale securities for which a market price is available are stated at fair value at a year-end. (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.) Other securities for which a market price is not available are stated at cost determined by the moving average method.	**5. Accounting polices** (1) Valuation standards and methods for significant assets a) Investments in securities Same as Fiscal 2006
b) Derivative financial instruments All derivatives are stated at fair value.	b) Derivative financial instruments Same as Fiscal 2006
c) Inventories Inventories other than supplies are principally stated at cost determined using the periodic average method. Supplies are principally stated at cost determined using the moving average method.	c) Inventories Same as Fiscal 2006
(2) Depreciation method of significant depreciable assets a) Tangible fixed assets Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method. The estimated useful lives of assets are primarily as follows: ・Buildings and structures 31 to 50 years ・Machinery and equipment 4 to 10 years	(2) Depreciation method of significant depreciable assets a) Tangible fixed assets Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method. The estimated useful lives of assets are primarily as follows: ・Buildings and structures 31 to 50 years ・Machinery and equipment 4 to 10 years Please make the same changes as FY2006. (Change in accounting policies) 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.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
	(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.
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: · Goodwill 15 years	b) Intangible fixed assets Same as Fiscal 2006
(3) Accounting for significant allowances 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.	(3) Accounting for significant allowances a) Allowance for doubtful accounts Same as Fiscal 2006
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.	b) Provision for bonuses Same as Fiscal 2006
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.	c) Provision for retirement benefits Same as Fiscal 2006

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
(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.	
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. (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.	d) Provision for directors' retirement benefits Same as Fiscal 2006
(4) Leases Leases that do not transfer ownership of the assets are accounted for as operating leases.	(4) Leases Same as Fiscal 2006
(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.	(5) Significant hedge accounting a) Hedge accounting Same as Fiscal 2006

<table>
<tr><th>Fiscal 2006
(From April 1, 2006 to March 31, 2007)</th><th>Fiscal 2007
(From April 1, 2007 to March 31, 2008)</th></tr>
<tr><td>b) Hedging instruments and hedged items
<table><tr><th>Hedging instruments:</th><th>Hedged items:</th></tr><tr><td>Forward foreign exchange contracts</td><td>Future transactions in foreign currency</td></tr><tr><td>Currency swap contracts</td><td>Future transactions in foreign currency</td></tr><tr><td>Interest rate swap contracts</td><td>Interest expenses</td></tr></table></td><td>b) Hedging instruments and hedged items
Same as Fiscal 2006</td></tr>
<tr><td>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.</td><td>c) Hedging policy
Same as Fiscal 2006</td></tr>
<tr><td>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.</td><td>d) Assessment method for hedge effectiveness
Same as Fiscal 2006</td></tr>
<tr><td>(6) Other accounting policies
a) Accounting for consumption tax
Consumption tax on goods and services are not included in the revenue and expense amounts.</td><td>(6) Other accounting policies
a) Accounting for consumption tax
Same as Fiscal 2006</td></tr>
<tr><td>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.</td><td>6. Valuation of assets and liabilities of consolidated subsidiaries
Same as Fiscal 2006</td></tr>
<tr><td>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.</td><td>7. Amortization of goodwill and negative goodwill
Same as Fiscal 2006</td></tr>
<tr><td>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.</td><td>8. Cash and cash equivalents
Same as Fiscal 2006</td></tr>
</table>

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)
(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. (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. (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.	

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
(Business combinations and divestitures) Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries and affiliates in Japan adopted "Accounting Standard for Business Combination" issued by Business Accounting Council on October 31, 2003, and Accounting Standards Board of Japan (ASBJ) Statement No.7 "Accounting standard for Business Divestitures" issued by ASBJ on December 27, 2005, and revised ASBJ Guidance No.10 "Guidance on Accounting standard for Business Combinations and Accounting Standard for Business Divestitures" revised by ASBJ on December 22, 2006. The adoption had an effect that the prior year's "Goodwill" and "Goodwill arising on consolidation adjustments" included in "Other intangible assets" are 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. (Maturity notes and/or accounts at the end of the fiscal period) 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.	

CHANGES IN PRESENTATION

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
(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.	(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.
(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."	(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 decreese in its balance. "Purchase of long-term prepaid expenses" is ¥503 million (US$5,033 thousand) in the current fiscal year.

ADDITIONAL INFORMATION

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
(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: (Millions of yen) 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)
*1. Accumulated depreciation of tangible fixed assets: ¥423,687 million	*1. Accumulated depreciation of tangible fixed assets: ¥447,253 million (US$4,472,531 thousand)
*2. —	*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)
*3. Investments in unconsolidated subsidiaries and affiliates Investment securities: ¥5,990 million Investments in joint venture corporations of investment securities: ¥1,620 million	*3. Investments in unconsolidated subsidiaries and affiliates Investment securities: ¥3,414 million (US$34,147 thousand)
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 Total ¥1,392 million	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 Total ¥2,302 million (US$23,028 thousand)
*5. —	*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.

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)
*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows: 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	*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows: 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)
*2. Research and development expenses included in general, administrative and current manufacturing expenses ¥13,021 million	*2. Research and development expenses included in general, administrative and current manufacturing expenses ¥15,250 million (US$152,504 thousand)
*3. The gain is incurred by the sales of stocks and bonds.	*3. The gain is incurred by the sales of stocks including those of the consolidated subsidiary.
*4. The gain is incurred by the sales of land, buildings and others.	*4. —
*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.	*5. Impairment loss (1) Identifying the cash-generating unit to which an asset belongs Same as Fiscal 2006

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)

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 Opto-screen 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 (Notes1, 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)

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
Cash on hand and in banks	22,924
Time deposits with a deposit period of 3 months or more	(1,890)
Marketable securities with original maturities of three months or less	12,997
Cash and cash equivalents	34,032

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:

(As of March 31, 2008)	Millions of Yen	Thousands of U.S. dollars
Cash on hand and in banks	11,109	111,091
Time deposits with a deposit period of 3 months or more	(920)	(9,200)
Marketable securities with original maturities of three months or less	2,000	20,000
Cash and cash equivalents	12,189	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)

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

1. Leases that do not transfer ownership of the assets

(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:

Year ended March 31, 2007	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	213	123	90
Tools, fixtures and furniture	731	484	247
Total	945	608	337

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:

	Millions of yen
Due within one year	173
Due after one year	163
Total	337

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

	Millions of yen
Lease payments	217
Depreciation expense	217

4) Calculation method of depreciation

Straight-line method using lease term with a residual value of zero.

(For impairment loss)

No impairment loss is recognized in respect to leased assets.

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

1. Leases that do not transfer ownership of the assets

(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:

Year ended March 31, 2008	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	283	169	113
Tools, fixtures and furniture	1,386	833	552
Total	1,670	1,003	666

Year ended March 31, 2008	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net
Machinery and equipment	2,835	1,698	1,136
Tools, fixtures and furniture	13,864	8,338	5,526
Total	16,700	10,037	6,662

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:

	Millions of yen	Thousands of U.S. dollars
Due within one year	296	2,966
Due after one year	369	3,696
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.

3) Lease payments, depreciation expense for the fiscal year

	Millions of yen	Thousands of U.S. dollars
Lease payments	398	3,980
Depreciation expense	398	3,980

4) Calculation method of depreciation

Same as Fiscal 2006

(For impairment loss)

Same as Fiscal 2006

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)

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

		Millions of yen			
Category	Classification	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

		Millions of yen			
Category	Classification	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)

		Thousands U.S. dollars			
Category	Classification	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:

(1) Accumulated funds for the plan (As of March 31, 2007)	Millions of yen	Thousands of U.S. dollars
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)	Millions of yen Fiscal 2006 (As of March 31,2007)
a. Retirement benefit obligations:	(42,262)
b. Plan assets:	32,399
c. Unfunded retirement benefit obligations: (a+b)	(9,863)
d. Unrecognized actuarial gains or losses:	5,933
e. Unrecognized prior service costs:	(1,854)
f. Net retirement benefit obligations recognized in the consolidated balance sheets: (c+d+e)	(5,784)
g. Prepaid pension costs:	7,160
h. Provision for retirement benefits: (f-g)	(12,890)

Note: Some domestic consolidated subsidiaries adopt a simplified method in the calculation of retirement benefit obligations.

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

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)	Millions of yen	Fiscal 2007 (From April 1, 2007 to March 31, 2008)	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	a. Service costs: (Note 3)	1,401	14,016
b. Interest costs:	894	b. Interest costs:	767	7,673
c. Expected return on plan assets:	(1,376)	c. Expected return on plan assets:	(1,043)	(10,432)
d. Amortization of actuarial gains or losses:	650	d. Amortization of actuarial gains or losses:	616	6,163
e. Amortization of prior service costs:	(115)	e. Amortization of prior service costs:	(119)	(1,197)
f. Retirement benefit expenses: (a+b+c+d+e)	2,043	f. Retirement benefit expenses: (a+b+c+d+e)	1,622	16,222
g. Gains or losses on change to defined contribution pension plans:	(634)	g. Gains or losses on change to defined contribution pension plans:	—	—
h. Defined contribution pension plans installment:	60	h. Defined contribution pension plans installment:	564	5,647
Total	1,469	Total	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	Employees 2,200 Employees of subsidiaries 3,422
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 Secialities 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)

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

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

(1) Current

	Millions of yen
Deferred tax assets	
Provision for bonuses	2,383
Write-down of inventories	1,617
Accrued fixed asset tax and other taxes	729
Other	2,750
Sub-total deferred tax assets	7,481
Valuation allowance	(713)
Total deferred tax assets	6,768
Total deferred tax liabilities	27
Net deferred tax assets	6,741

(2) Noncurrent

	Millions of yen
Deferred tax assets	
Provision for retirement benefits	922
Write-down of investment securities	113
Impairment loss on tangible fixed assets	549
Other	2,916
Sub-total deferred tax assets	4,502
Valuation allowance	(1,347)
Total deferred tax assets	3,155
Deferred tax liabilities	
Reserve for advanced depreciation of tangible fixed assets	107
Unrealized gain on revaluation of securities	30
Reserve for special depreciation of tangible fixed assets	6
Prepaid pension cost	122
Other	44
Total deferred tax liabilities	311
Net deferred tax assets	2,844

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

1. The significant components of deferred tax assets and liabilities at March 31, 2008 are as follows:

(1) Current

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets		
Provision for bonuses	2,458	24,586
Write-down of inventories	1,813	18,138
Accrued fixed asset tax and other taxes	928	9,281
Other	2,662	26,622
Sub-total deferred tax assets	7,862	78,628
Valuation allowance	(472)	(4,720)
Total deferred tax assets	7,390	73,908
Total deferred tax liabilities	28	288
Net deferred tax assets	7,362	73,620

(2) Noncurrent

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets		
Provision for retirement benefits	4,777	47,779
Write-down of investment securities	1,672	16,726
Impairment loss on tangible fixed assets	3,014	30,148
Other	8,255	82,556
Sub-total deferred tax assets	17,721	177,210
Valuation allowance	(4,610)	(46,100)
Total deferred tax assets	13,111	131,110
Deferred tax liabilities		
Reserve for advanced depreciation of tangible fixed assets	3,170	31,706
Unrealized gain on revaluation of securities	3,197	31,973
Reserve for special depreciation of tangible fixed assets	149	1,493
Prepaid pension cost	3,035	30,359
Other	19	192
Total deferred tax liabilities	9,572	95,725
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)

Fiscal 2006

	Millions of yen
Deferred tax liabilities	
Depreciation	4,510
Reserve for advanced depreciation of noncurrent assets	2,992
Unrealized gain on revaluation of securities	7,640
Special account for reserve for deferred gains on sales of fixed assets	498
Reserve for special depreciation of noncurrent assets	236
Prepaid pension costs	2,746
Other	879
Total deferred tax liabilities	19,503
Deferred tax assets	
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

Fiscal 2007

	Millions of yen	Thousands of U.S. dollars
Deferred tax liabilities		
Depreciation	4,526	45,266
Unrealized gain on revaluation of securities	0	1
Other	3,259	32,599
Total deferred tax liabilities	7,786	77,866
Deferred tax assets		
Provision for retirement benefits	16	164
Other	2,084	20,840
Total deferred tax assets	2,100	21,004
Net deferred tax liabilities	¥ 5,686	US$ 56,862

Fiscal 2006

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
Normal effective tax rate	40.4%
Non-taxable income	(0.4)
Tax credit primarily for research and development expenses	(2.1)
Largely loss incurred by consolidated subsidiaries and other	(1.2)
Income tax rate per statements of income	36.7%

Fiscal 2007

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 2007
Normal effective tax rate	40.3%
Non-taxable income	(0.8)
Tax credit primarily for research and development expenses	(2.0)
Largely loss incurred by consolidated subsidiaries and other	(2.4)
Income tax rate per statements of income	35.1%

Fiscal 2006

3. ————

Fiscal 2007

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 *EVAL* in the United States
SEPTON Company of America	Manufacture and sale of thermoplastic elastomer *SEPTON* 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)	Yen	Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Yen	U.S dollars
Net assets per share	967.80	Net assets per share	981.82	9.81
Basic net income per share	60.95	Basic net income per share	72.15	0.72
Diluted net income per share	60.80	Diluted net income per share	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)

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.

Details are described below

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

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

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.

Details are described below

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)
Notes: 1. The exercise of stock acquisition rights is subject to the following conditions: (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 abovementioned 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. 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. 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.	Notes: 1. The exercise of stock acquisition rights is subject to the following conditions: (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 May11, 2023, and ends on the expiry day of the abovementioned 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. 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. 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.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
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. (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. (2) Classification of stock of the Reorganized Company allocated for stock acquisition rights Shares of common stock of the Reorganized Company (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. (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. (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. (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. (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. (8) Matters concerning acquisition of stock acquisition rights Determined by the above Note 1-1. (9) Other conditions for the exercise of stock acquisition rights Determined by the above Note 1.	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. (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. (2) Classification of stock of the Reorganized Company allocated for stock acquisition rights Shares of common stock of the Reorganized Company (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. (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. (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. (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. (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. (8) Matters concerning acquisition of stock acquisition rights Determined by the above Note 1-1. (9) Other conditions for the exercise of stock acquisition rights Determined by the above Note 1.

Fiscal 2006 (From April 1, 2006 to March 31, 2007)	Fiscal 2007 (From April 1, 2007 to March 31, 2008)
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: (1) Purpose of acquisition Improving the return to stockholders by better capital efficiency (2) Type of stocks Common stock (3) Total number of stocks purchased Up to 23,000 thousand (the ratio 6.0% for the number of outstanding shares of common stock) (4) Term of acquisition From June 21, 2007 to June 20, 2008 (5) Acquisition amount Up to ¥30,000 million (6) Method of acquisition Tokyo Stock Exchange Trading	2. Transactions under common control (absorption-type company split) At the meeting the Board of Directors held on April 30, 2008, the Company resolved to succeed the *PET* (polyethylene terephtalate) 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. (1) Details of business of the company which is split Details of business: *PET* (polyethylene terephtalate) resins business Net sales in the business to be succeeded (for the year ended March 2008): ¥2,146 million (US$21,462 thousand) (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. (3) Outline of the company which is split and the company which is a successor (As of March 31, 2008) *Company which is split* 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 *Company which is a successor* 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

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

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To the Board of Directors of Kuraray Co., Ltd.

We have audited the accompanying consolidated balance sheet of Kuraray Co., Ltd. ("the Company") and its subsidiaries as of March 31, 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

Consolidated Companies

(As of July 1, 2008)

Company	Head office	Capital (¥ million)	Activities
JAPAN			
KURARAY TRADING Co., LTD.*1	Osaka	¥ 2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
KURARAY CHEMICAL CO., LTD.*1	Osaka	600	Manufacture and sales of activated carbon and related products
KURARAY ENGINEERING CO., LTD.*1	Osaka	450	Plant design and construction
Kuraray Medical Inc.*1	Tokyo	300	Manufacture and sales of medical products
Kuraray Plastics Co., Ltd.*1	Osaka	180	Manufacture and sales of plastics
KURARAYLIVING CO., LTD.*1	Osaka	101.8	Manufacture and sales of packaging materials
Kuraray Techno Co., Ltd.*1	Osaka	100	Production subcontracting, Temporary personnel service
KURARAYKURAFLEX CO., LTD.*1	Osaka	100	Manufacture and sales of nonwoven fabric products
KURARAY BUSINESS SERVICE CO., LTD.*1	Osaka	100	Information system service
KURARAY FASTENING CO., LTD.*1	Osaka	100	Manufacture and sales of *MAGIC TAPE*
TECHNO SOFT CO., LTD.*1	Osaka	50	Consulting for improved management
Kuraray Travel Service Corporation*1	Osaka	20	Travel and insurance agency
OKAYAMA RINKOH WAREHOUSE AND TRANSPORT CO., LTD.*1	Okayama	20	Forwarding (transportation)
KURARAY SAIJO CO., LTD.*1	Ehime	10	Manufacture of synthetic fiber
KURARAY TAMASHIMA COMPANY LIMITED*1	Okayama	10	Manufacture of synthetic fiber
KURARAY FUDOSAN CO., LTD.*1	Osaka	10	Real estate leasing and management
Kuraray Interior Co., Ltd.*1	Osaka	10	Manufacture and sales of luxury furniture
Kuraray Luminas Co., Ltd.*1	Tokyo	400	Development of inorganic EL materials
OKAYAMA RINKOH CO., LTD.*1	Okayama	98	Warehousing, distribution, and processing
Iruma Country Club Co., Ltd.*1	Saitama	40	Golf course management
Kyosei Chemical Co., Ltd.*1	Tokyo	50	Manufacture of pigments and dyes
Ibuki Kosan Co., Ltd.*1	Gifu	10	Manufacture of rubber products
THE KURASHIKI KOKUSAI HOTEL, LTD.*2	Okayama	450	Hotel management
Kuraray Okayama Spinning CO., LTD.*2	Okayama	50	Manufacture of synthetic fiber
Hikari Shoes Co., Ltd.*2	Chiba	34	Manufacture and sales of shoes
KURAFLEX IBARAKI CO., LTD.*2	Ibaraki	30	Manufacture of nonwoven fabric products
KURARAY AQUA CO., LTD.*3	Tokyo	100	Sales of materials for water treatment; design, construction and sales of water treatment plants and facilities
KC Processing Co., Ltd.*2	Okayama	20	Processing of activated carbon
KurarayKikou CO., LTD.*1	Ehime	10	Manufacture of machinery parts
OVERSEAS			
Kuraray Holdings U.S.A., Inc.*1	Texas, U.S.A.	US$55.0 million	Holding company, coordination of U.S. subsidiaries
Kuraray America, Inc.*1	Texas, U.S.A.	US$10.1 million	Import and sales of Kuraray products, Manufacture and sales of *EVAL* and *SEPTON*
Kuraray Europe GmbH*1	Frankfurt, Germany	€31.1 million	Import and sales of Kuraray products in Europe, Manufacture and sales of poval and butyral resins and film
EVAL Europe N.V.*1	Antwerp, Belgium	€29.7 million	Manufacture and sales of *EVAL* in Europe
OOO TROSIFOL*3	Nizhniy Novgorod, Russia	RUR78.9 million	Manufacture and sales of PVB film
Kuraray Hong Kong Co., Ltd.*1	Hong Kong, China	HK$4.6 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray (Shanghai) Co., Ltd.*3	Shanghai, China	US$5.0 million	Manufacture and sales of Kuraray products in China
Kuraray Magictape (Shanghai) Co., Ltd.*3	Shanghai, China	US$0.8 million	Import and sales of fastening materials
Kuraray Methacrylate (Zhang Jia Gang) Co., Ltd.*3	JiangSu, China	US$9.6 million	Manufacture and sales of Methacrylic resin sheet
Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.*3	Ningxia, China	¥498 million	Manufacture and sales of activated carbon
Nantong Kuratray Garment Co., Ltd.*3	Nantong, China	¥220 million	Manufacture and sales of various garment products
Kuraray Trading Co., Ltd. Shanghai*3	Shanghai, China	US$0.6 million	Import/export and wholesale sales, as well as production and sales of fiber and chemical products
Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd.*3	Zhejiang, China	US$10.5 million	Manufacture and sales of Man-made leather
Cenapro Chemical Corporation*3	Cebu City, Philippines	Peso55.4 million	Manufacture and sales of activated carbon
Kuraray Asia Pacific Pte. Ltd.*1	Singapore	US$27.7 million	Manufacture and sales of poval resins

*1 Consolidated subsidiary
*2 Equity method affiliate
*3 Non-consolidated subsidiary not accounted for by the equity method

History

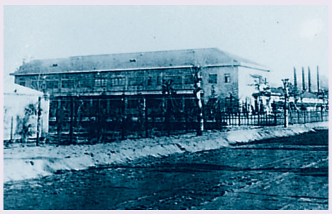
1920s

1926 • Kurashiki Kenshoku Co. established

1928 • Rayon commercialized: production of rayon filament yarn begun at the Kurashiki Plant

1940s

1940 • Chugoku Sangyo Co., Ltd. (now KURARAY CHEMICAL CO., LTD.) established



New laboratory of Okayama Plant

1943 • Capital participation in Kakuichi Rubber Co., Ltd. (now Kuraray Plastics Co., Ltd.)

1949 • Company name changed to Kurashiki Rayon Co., Ltd.

1950s

1950 • *KURALON* commercialized: production of *KURALON* staple started

1958 • Poval commercialized: production of poval for market sale started

1960s

1960 • Capital participation in Kyowa Gas Chemical Co., Ltd., which conducts methacrylic resin business

1961 • Osaka Goseihin Co., Ltd. (now KURARAY TRADING Co., LTD.) established

1962 • Production of PVA film started at Saijo Plant

1963 • New York Representative Office established
(transferred to Kuraray America, Inc., in April 1996)

1964 • Production of polyester staple started at Tamashima Plant
• KURARAY FUDOSAN CO., LTD., established
• *CLARINO* commercialized: production of *CLARINO* man-made leather started at Kurashiki Plant 1965
• European Representative Office established in Hamburg, Germany (moved to Düsseldorf in June 1968)

1969 • Production of polyester filament started at Saijo Plant

1970s

1970 • Company name changed to Kuraray Co., Ltd.
• Hong Kong Representative Office established
(transferred to Kuraray Hong Kong Co., Ltd., in June 1998)

1972 • Contact lens business started
• *EVAL* commercialized: production facilities for *EVAL* resin completed at Okayama Plant
• Nonwoven fabrics business started
• Isoprene chemicals business launched: operation at Kashima Plant started and production of polyisoprene rubber begun

1975 • Artificial organs business started

1976 • New isoprene chemicals (NIC) facilities completed at Nakajo Plant

Factory for nonwoven fabrics of Kuraray Chicopee Co., Ltd. (now KURARAYKURAFLEX CO., LTD.)

1977 • KURARAY ENGINEERING CO., LTD. established

1978 • Advanced into the dental materials field:
CLEARFIL adhesive dental filler produced

1980s

1983 • Cement-reinforcing *KURALON* developed
• Eval Company of America established, and marketing of *EVAL* resin in the U.S. begun
(production started in 1986)

CLEARFIL adhesive dental filler

1984 • Haru-Kuraray GmbH, a man-made leather sales company, established in Germany jointly with Marubeni Corp. and Haru Holding & Management GmbH
• Merged with Nippon Velcro Co., Ltd., which produces hook and loop fasteners

1986 • Clarino America Corporation, a man-made leather sales company, established in the U.S. jointly with Marubeni Corp.
• Production started at Eval Company of America

1990s

1990 • *SEPTON* commercialized: Production of *SEPTON* thermoplastic elastomer started at Kashima Plant

1991 • Kuraray Europe GmbH established in Düsseldorf, Germany

1995 • Kuraray EVAL Europe GmbH established in Düsseldorf
• Kuraray Hong Kong Co., Ltd., established

1996 • Kuraray America, Inc., established in New York as administrative holding company in the U.S.
• Kuraray Singapore Pte., Ltd., established, and capital participation in Poval Asia Pte Ltd.

1997 • EVAL Europe N.V. established in Belgium

1998 • *KURALON K-II* commercialized

1999 • Production started at Poval Asia Pte Ltd.
• Mass-production started for the heat-resistant polyamide resin *GENESTAR*
• Production at EVAL Europe N.V. started

2000s

2000 • Mass-production of a new water-soluble resin *EXCEVAL* was started
• Capital participation in Lorica Sud S.r.l., an Italian man-made leather processing and sales company
• Kuraray Holdings U.S.A., Inc., established as a holding company in the U.S.
• SEPTON Company of America established in the U.S.

2001 • PVA gel mass-production facilities become operational
• Kuraray terminated its rayon business
• Kuraray Specialities Europe GmbH established in Frankfurt, Germany
• Kuraray Medical Inc. established
• Acquired PVA and PVB operations of Clariant AG

2002 • Shanghai Office established
• Production started at SEPTON Company of America

2004 • Kuraray Research and Technical Center, USA (KRTC), commenced operations
• Acquired and began operating the PVB film business of HT Troplast

Kuraray Research and Technical Center, USA (KRTC)
Location: Pasadena, Texas (on Eval Company of America's grounds)

2005 • Acquired *VECTRAN* polyarylate fibers business of U.S.-based Celanese Advanced Materials Inc. Operations commenced as a division of Kuraray America, Inc.

2006 • Kuraray Europe GmbH merges with Kuraray Specialities Europe GmbH

2008 • Eval Company of America and SEPTON Company of America were merged into Kuraray America, Inc.
• All outstanding shares of Poval Asia Pte Ltd. acquired and company made a subsidiary

Investor Information

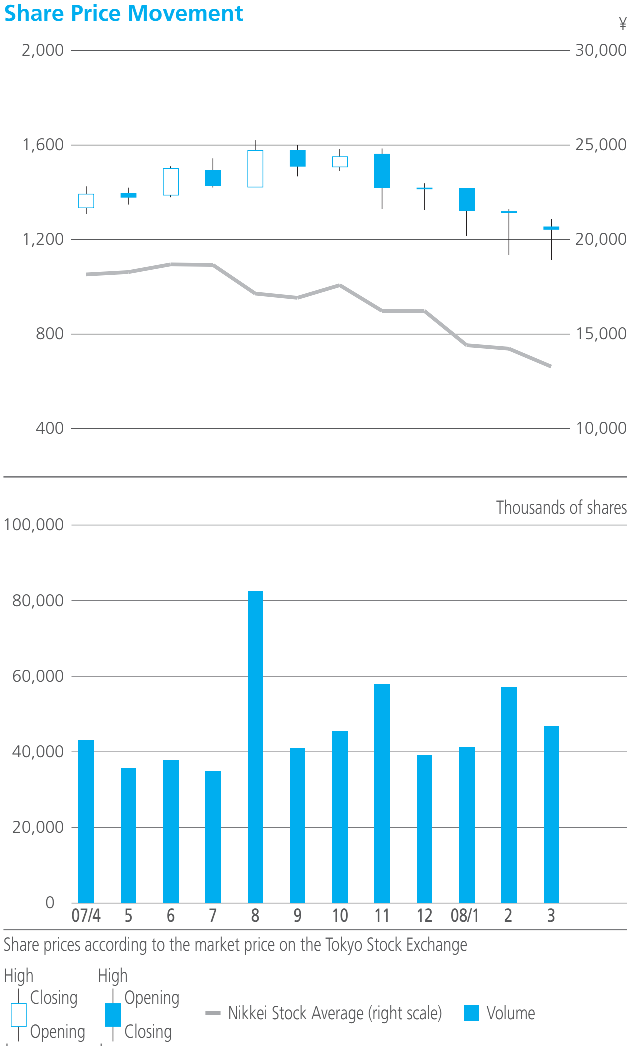
KURARAY CO., LTD.

Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	382,863,603 shares
Number of Shareholders:	27,679

Offices, Laboratories, and Plants

Head Offices:	Tokyo, Osaka
Offices:	Fukuoka, Shanghai (China)
Research Laboratories:	Kurashiki, Tsukuba, Pasadena (Texas)
Plants:	Kurashiki, Saijo, Okayama, Niigata, Kashima

Share Price Movement



Share prices according to the market price on the Tokyo Stock Exchange

Shareholder Register Agent for Common Stock

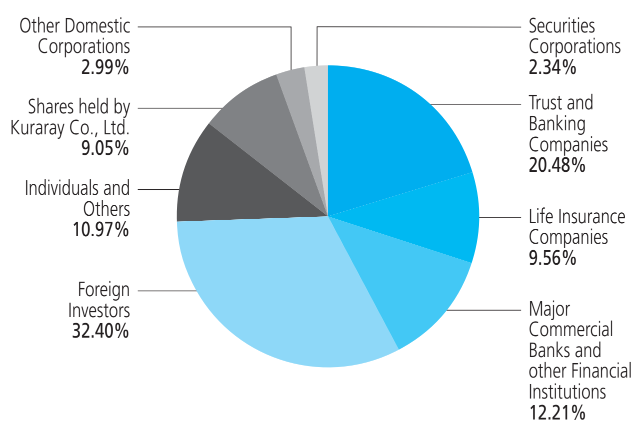
The Sumitomo Trust and Banking Co., Ltd.
4-5-33, Kitahama, Chuo-Ku, Osaka 540-8639, Japan

Principal Shareholders

Name or company name	Number of Shares Held (thousands)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd. (Trust Account)	26,717	6.98%
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,355	4.79%
National Mutual Insurance Federation of Agricultural Cooperatives	13,695	3.58%
Nippon Life Insurance Company	13,061	3.41%
Meiji Yasuda Life Insurance Company	8,066	2.11%
Mizuho Corporate Bank, Ltd.	7,396	1.93%
State Street Bank and Trust Company	7,183	1.88%
BNP PARIBAS Securities (Japan) Limited	6,734	1.76%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	6,408	1.67%
State Street Bank and Trust Company (505103)	5,391	1.41%

Note: Kuraray Co., Ltd holds 34,642,074 shares of treasury stock.

Breakdown of Issued Shares by Type



(As of March 31, 2008)

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