

**Business Results for the year Ended March 31,2007**  
(unaudited)

**Kuraray Co., Ltd.**

## **Results of Operations and Financial Condition**

### **Summary**

Japan's economy grew steadily during fiscal 2006, ended March 31, 2007, supported by increases in corporate capital investment on the back of stronger earnings. However, uncertainties lingered owing to persistently high prices for raw materials and fuel, as well as concerns of a slowdown in the U.S. economy. Against this backdrop, the Kuraray Group launched its new GS-21 Medium-Term Business Plan from April 2006, expanded its activities in the optical business and other new growth fields, reaped the benefits of investments made for new production facilities and facility expansion in core businesses, and worked to pass on higher raw materials and fuel prices in the form of increased product prices.

As a result, the Kuraray Group's consolidated net sales for the period ended March 31, 2007 increased ¥10,212 million, or 2.7%, compared with the previous fiscal year to ¥385,285 million. Operating income rose ¥1,943 million, or 5.1%, to ¥40,220 million, and net income improved by ¥1,226 million, or 5.8%, to ¥22,412 million.

### **1. Results by Business Segment**

#### **Chemicals and Resins Business**

Sales and profits increased in the Chemicals and Resins Business. Sales increased ¥10,469 year on year, or 5.5%, to ¥201,222 million, and operating income jumped ¥3,776 million, or 11.8%, to ¥35,644 million.

- (1) In the poval business, Kuraray saw an increase in sales of optical-use PVA film for use in LCDs. Sales of poval resin were impacted by high raw materials and fuel prices and by intensified competition in Asia, which offset increased sales volume in Europe driven by demand for applications in paper processing. Sales of PVB film remained strong, spurred by applications in the construction industry. As a result, overall sales and earnings in the poval business increased year on year.
- (2) Demand for *EVVAL*, an ethylene vinyl alcohol polymer resin for use in food packaging, was steady. However, sales declined for applications in automobiles. In addition, product prices do not sufficiently reflect high raw materials and fuel prices, and overall sales and earnings in the *EVVAL*

business declined.

- (3) In isoprene-related products, demand remained steady for the thermoplastic elastomer, *SEPTON*, which is used as a substitute for vulcanized rubber and soft PVC. Sales of specialized chemicals were strong, but conditions remained severe in the fine chemicals business, impacted by intense competition in aroma chemicals and agricultural intermediates. Although sales of isoprene-related products were up overall, earnings fell owing to the impact of increases in raw materials and fuel prices.
- (4) In methacrylic resins, sales of optical components for use in LCDs increased, while sales of molding materials and sheets for general-purpose products remained steady. However, overall sales and earnings of methacrylic resins were down, owing to constriction of the monomers business and the impact of higher raw materials and fuel prices.

### **Fibers and Textiles Business**

The Fibers and Textiles Business saw decreases in both sales and earnings. Sales declined ¥1,182 million, or 1.1%, to ¥107,925 million, and operating income dropped ¥1,466 million, or 15.5%, to ¥7,985 million.

- (1) Sales of *KURALON* as an alternative to asbestos for use in reinforcing cement remained favorable. However, the impact of high raw materials and fuel prices led to a situation whereby overall sales in the *KURALON* business increased while earnings declined.
- (2) Sales of the man-made leather *CLARINO* for use in accessories were strong. However, the combination of stagnant sales for shoe applications and high raw materials and fuel prices led to flat overall sales and a decrease in earnings.
- (3) In nonwoven fabrics and hook and loop fasteners, Kuraray recorded strong sales volume for automobile applications. This was offset, however, by slumping sales of hygienic materials and higher raw materials prices. Overall sales and earnings were down.
- (4) Due to Kuraray's efforts to develop new applications, sales and earnings were up for the high-strength fiber, *VECTRAN*. In the polyester business, Kuraray made progress in its efforts to shift to differentiating products, but felt the impact of high raw materials and fuel prices.

## **High-Performance Materials, Medical Products and Others Business**

Sales in the High-Performance Materials, Medical Products and Others Business increased ¥925 million, or 1.2%, year on year to ¥76,138 million, while operating income declined ¥511 million, or 6.0%, to ¥7,945 million.

- (1) Kuraray ceased production of opto-screens as of December 2006 and subsequently withdrew from the optoelectronic products business.
- (2) In the medical business, sales of dental materials increased in the United States and other overseas markets. However, sales and earnings declined in the dialyzer and therapeutic apheresis devices businesses owing to the impact of price revisions for pharmaceuticals. Kuraray has reached a basic agreement on the merger of its dialyzer and therapeutic apheresis devices businesses, including sales and development activities, with those of Asahi Kasei Medical Co., Ltd. in October 2007.
- (3) In high-performance materials, Kuraray recorded a sales increase for the heat-resistant polyamide resin *GENESTAR* on the back of strong demand for use as a material in electronics. Sales of activated carbon rose, supported by applications in water purification. Performance of the engineering and other related businesses was solid.

Corporate costs decreased ¥144 million year on year to ¥11,354 million.

## **2. Performance by Geographic Segment**

### **Japan**

In Japan, Kuraray enjoyed an increase in sales and earnings. As a result of expanded sales and increased exports of optical-use poval film, optical-use methacrylic resin, *SEPTON*, *KURALON*, and *GENESTAR*, as well as the passing on of higher raw materials and fuel costs to product prices, net sales increased to ¥288,447 million and operating income rose to ¥47,282 million.

### **North America**

Sales of *SEPTON* as a substitute for vulcanized rubber and soft PVC expanded. In contrast, sales of *EVAL* for use in automobile fuel tanks declined, while raw materials and fuel prices climbed. As a result, sales decreased to ¥23,147 million and operating income fell to ¥1,664 million.

## Europe

High raw materials and fuel prices had an impact on European operations. However, in addition to increased sales in the PVB film business, strong demand for *EVAL* and *SEPTON* contributed to growth in sales and earnings. Sales reached ¥57,709 million and operating income totaled ¥3,580 million.

## Asia

Kuraray continued to prioritize increases in poval product prices to offset the sharp rise in raw materials and fuel prices. However, sales decreased to ¥15,982 million and operating losses expanded to ¥607 million.

Corporate costs increased ¥484 million to ¥11,699 million.

## Financial Position

As of March 31, 2007, total assets increased ¥27,338 million compared with a year earlier to ¥508,695 million. Notes and accounts receivable climbed in line with the increase in sales, contributing to a rise of ¥17,032 million in current assets. In addition, fixed assets increased by ¥10,036 million as a result of capital investments and other factors.

Total liabilities at the end of the fiscal year stood at ¥150,102 million, an increase of ¥10,226 million.

Net assets increased ¥17,110 million compared with a year earlier to ¥358,593 million owing to a rise of ¥16,050 million in retained earnings. After subtracting minority interests from net assets, shareholders' equity amounted to ¥356,138 million and the equity ratio as of March 31, 2007 was 70.0%.

Cash flows and changes in cash and cash equivalents were as follows:

	(Unit: ¥million)	
	Fiscal 2006	Fiscal 2005
Cash flows from operating activities	38,962	32,690
Cash flows from investing activities	-28,936	-13,693
Cash flows from financing activities	-4,350	-7,791
Effect of exchange rate changes on cash and cash equivalents	272	134

Change in cash and cash equivalents	5,948	11,341
Cash and cash equivalents at the beginning of the year	28,085	16,743
Effect of newly consolidated firms on cash and cash equivalents	—	1
Cash and cash equivalents at the end of the year	34,033	28,085

#### Cash flow indicators for the Kuraray Group

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006
Equity ratio	72.7%	68.8%	70.5%	70.0%
Equity ratio (market basis)	79.5%	77.2%	105.7%	92.1%
Years to redemption of liabilities	0.4	0.7	0.8	0.7
Interest coverage ratio	36.7	132.5	84.2	95.4

#### Notes:

Equity ratio: Shareholders' equity/total assets

Equity ratio (market basis): Total market value of shares issued and outstanding/total assets

Years to redemption of liabilities: Interest-bearing liabilities/net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/interest expenses

1. All indicators are calculated using consolidated financial information.
2. The total market value of shares issued and outstanding was calculated by multiplying the closing price at the end of the fiscal year by the total number of shares issued and outstanding (after subtracting treasury stock).
3. The figure for net cash provided by operating activities used in the above calculations is equivalent to the figure for "Net cash and cash equivalents provided by operating activities" published in the Company's consolidated statement of cash flows.
4. Interest-bearing liabilities include short-term loans, commercial paper, and long-term loans, as well as the Company's bonds. Interest expenses were calculated using total interest paid as stated in the Company's consolidated

statement of cash flows.

### **Outlook for the Coming Fiscal Year**

In fiscal 2007, ending March 31, 2008, we expect to see steady growth in the world economy. However, we believe that high prices for raw materials and fuel will continue, along with a number of other uncertainties, including lingering concerns over the direction of the economies in the United States and China. In addition, we expect international corporate competition to intensify, making the operating environment more severe. Under these circumstances, Kuraray will pursue the following business initiatives.

In the Chemicals and Resins Business, we will expand production capacity for optical-use poval film. In poval resins, we will endeavor to pass higher raw materials and fuel prices along in the form of higher product prices and increase sales of high-value-added products. In the *EVAL* business, we will work to increase product prices and to accelerate market development for new products such as *EVAL SP* and *KURARISTER*. In isoprene-related products, we will expand overseas sales volume of thermoplastic elastomers, rebuild our aroma chemicals business and accelerate market development for new products in the fine chemicals business. In methacrylic resins, Kuraray will endeavor to boost sales of high-performance products, centered on optical applications.

In the Fibers and Textiles Business, Kuraray will take active steps to expand the number of specialized applications for *KURALON*, such as in reinforcing cement. We will work to expand the market for the man-made leather, *TIRRENINA*, an eco-friendly variety of *CLARINO*. In non-woven fabrics, we will focus on developing markets for new *FLEXSTAR*, which incorporates steam-jet technologies, and on expanding uses for hook and loop fasteners in automobiles. In the polyester business, we will expand sales of uniforms and other sportswear products.

In High-Performance Materials, Medical Products and Others, we will strengthen the sales of dental materials in Europe, the United States and other overseas markets. We will also broaden the use of *GENESTAR* as a material in electronics and speed the development of its uses in automobiles.

Forecasts for the period ending March 31, 2008 are net sales of ¥415.0 billion, operating income of ¥45.0 billion, ordinary income of ¥41.0 billion and net income of ¥24.0 billion. Forecasts for fiscal 2007 assume

average exchange rates of ¥115 to the U.S. dollar and ¥150 to the euro, as well as a price of ¥50,000 per kiloliter for domestically produced naphtha and a Dubai crude oil price of US\$57.00 per barrel.

### **3. Risk Management**

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

#### **(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-and-demand balance. If such events were to occur, sales volume could contract or sales prices fall, with an adverse effect on the Kuraray Group's performance.

#### **(2) Changes in Raw Materials and Fuel Prices**

The Kuraray Group is primarily engaged in the manufacture and sales of synthetic fibers and textiles, chemical products, and synthetic resins, and of finished goods made from these. In this business structure, the effects of raw materials and fuel prices on cost of sales are relatively large. If high market prices for raw materials such as ethylene and other chemical materials, crude oil, and natural gas cannot be offset by 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) 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. Under such



circumstances, recall expenses, loss of public trust, compensation of customers, legal costs, and indemnification expenses could adversely affect the financial position of the Kuraray Group.

#### (4) Changes in Exchange Rates

The Kuraray Group is expanding its manufacturing and sales operations in Japan and in various overseas regions, including Europe, North America, and Asia. Export of the Kuraray Group's domestically manufactured products is affected by changes in export sales prices. Sales of products manufactured at our overseas bases are affected by sales prices in different currency blocks and the value of foreign-currency-denominated assets and liabilities. All the Group's businesses are composed of operations in different currency blocks and are therefore subject to the effects of changes in raw materials prices. In general, the Kuraray Group is affected negatively by a rise in the value of the yen with respect to other currencies.

#### (5) Litigation

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

#### (6) Accidents and Disasters

The Kuraray Group has manufacturing facilities in Japan, Europe, North America, and Asia. Many of these are large chemical plants that handle a variety of chemicals. If an industrial accident or release of pollutants to the environment should occur, the loss of the lives and property of third parties could result in claims against the assets of the Kuraray Group and halt manufacturing operations for long periods, adversely affecting the performance and financial position of the Kuraray Group.

The occurrence of earthquakes, floods, or other natural disasters, an epidemic of communicable disease or other medical incidents, wars, riots, terrorist attacks, trouble with information systems, or information leaks could interfere with the business operations of the Kuraray Group, with an adverse impact on performance and financial position.

Accidents or disasters such as those mentioned above could also interfere with the business operations of the Kuraray Group's customers and suppliers, with a similar adverse effect on the Kuraray Group's performance and financial position.

## **Management Policies**

### **Fundamental Management Policies**

The Kuraray Group formulated a 10-Year Corporate Vision to indicate its long-term direction and its new GS-21 medium-term business plan, a three-year plan from fiscal 2006 to fiscal 2008 that commenced in April 2006 and is designed to set Kuraray on a course to achieve its Vision.

The economic environment over the next decade is expected to undergo a long-term structural transformation as concerns grow regarding the global environment, resource conservation and the stalling of economies that remain centered on mass production and massive energy consumption. Other key issues that need to be addressed include the imbalance in the global economy, lower rates of economic growth, and increasing competition. As individual values evolve, issues also arise concerning diversifying market needs, higher levels of sophistication, and the rapid shift in demand trends. Furthermore, growing risks associated with Japan's fundamental structure such as its fiscal deficit, aging society, and declining birthrate pose additional problems. Against this backdrop, it becomes increasingly imperative for chemical companies to shift their management focus from quantity to quality. Accordingly, the Kuraray Group will leverage its longstanding corporate culture that stresses "contributing to the world and individual well-being through actions that others are unable to produce," to promote exciting innovation and outstanding earnings recognized throughout the world with the aim of becoming a diversified specialty chemicals manufacturer attaining sustainable growth. Building on a foundation of competitive proprietary technologies in its core businesses, including vinyl acetate materials, isoprene chemicals and man-made leather, the Group will adopt a long-term growth policy that emphasizes stable and sustainable growth driven by continuous technology development on a global scale. Under its previous G-21 five-year medium term business plan that commenced in fiscal 2001, the Kuraray Group established a foothold in new growth areas including optical, automotive and energy-related materials. Going forward, we will continue to focus management resources in value-added businesses that exhibit high rates of profit growth. Furthermore, through structural improvements, we will secure competitive advantage in mature business and establish stable profit streams. Based on these measures, we will steadfastly pursue consolidated sales of ¥1 trillion in fiscal 2015.

In order to realize its 10-Year Corporate Vision, the Kuraray Group has

identified five fundamental policies. Leveraging a corporate platform bolstered over many years, Kuraray will continue over the next decade to reinforce its core technologies that have produced the world's finest products and its global competitiveness (Core Competence), endeavor to create a continuous stream of highly profitable businesses by developing diversified technologies (Frontier), and strengthen global competitiveness by delivering the highest quality (Refinement). In the post industrial capitalist 21st century, a period during which corporate value is expected to focus more on the human factor as opposed to traditional capitalism, Kuraray will redouble efforts to promote a dynamic corporate culture (Vitality) and to become a high quality corporate Group that contributes to the global environment and a sustainable society (Sustainability).

### **Management Indicator Targets and Medium- to Long-Term Strategy**

The GS-21 three-year medium-term business plan clarifies those strategies required to reach established commitments and identifies stretch targets that include new businesses, M&A and individual strategic projects. Under the plan, the Kuraray Group has made the commitment to achieve net sales of ¥450 billion, operating income of ¥50 billion, ROA of 9% and ROE of 7% in fiscal 2008. In addition, we have identified stretch targets for net sales of ¥550 billion, up ¥100 billion on its commitment, and operating income of ¥60 billion, an increase of ¥10 billion, based on a broader scope of the Group's operating activities. The core business strategies and strategies by business segment of the plan are as follows.

#### **1. Core Business Strategies**

- (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 G-21, 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

## **2. Strategies by Segment**

### **Chemicals and Resins**

#### **Raise profit growth based on priority investments outlined under G-21**

Kuraray's *POVAL*, *EVVAL*, and isoprene businesses boast international competitiveness underpinned by the Company's proprietary technology. While maintaining competitive advantage based on global strategies, Kuraray will accelerate growth through innovation and new product development. At the same time, the Company will actively expand new growth fields such as optical materials. In the methacrylic resin business, Kuraray will establish a stable earnings structure by launching new products such as high-value-added optical materials and by reinforcing manufacturing bases in China.

### **Fibers and Textiles**

#### **Establish firm profitability in core materials, while strengthening and improving the product portfolio**

Kuraray's *KURALON*, *KURALON K-II* and *CLARINO* are world-leading products. Responding to market needs, Kuraray will step up efforts to upgrade technologies, increase production capacity and invest in innovative processes to consolidate the platform for growth.

The Kuraray Group will reinforce its earnings structure in the mature domestic market for *KURAFLEX*, *MAGIC TAPE* and polyester by developing unique products through sophisticated processing technologies.

### **High-Performance Materials, Medical Products and Others**

#### **Actively expand new growth fields through speedy technology innovation for diversified products**

In the *GENESTAR* and liquid crystalline polymer film businesses, Kuraray will accelerate technological innovation suited to customer needs to establish competitive advantage in new growth fields.

Furthermore, Kuraray will enhance stability by leveraging its strengths as a leading manufacturer of dental materials and activated carbon in the domestic market, and developing unique products and global businesses. At the same time,

Kuraray will implement strict measures to ensure management efficiency in engineering and other related businesses.

### **Issues to be Addressed**

Under the G-21 medium-term business plan, Kuraray established the following priority issues and policies.

- 1) Accelerate the development of new businesses and new growth fields
  - Focus on development themes with a demand-driven approach
  - Promote the expansion and focus of research resources including introduction of outside resources
  
- 2) Pursue globally effective and speedy management
  - Accelerate responsiveness to changing markets
  - Implement reforms to in-house company system for greater resource efficiency
  - Establish a global Group management structure
  - Strengthen efficiency of headquarter functions and management information systems
  
- 3) Nurture and strengthen “human resources,” the driving force for growth
  - Establish a system to secure and educate personnel as purported by medium-term management strategy
  - Reform personnel system to optimize employee assignments
  
- 4) Contribute to the global environment and strive for sustainable corporate growth
  - Formulate global level environment initiatives and expand sales of eco-friendly products based upon the medium-term environmental plan (fiscal 2001-2010),
  - Promote strengthening of manufacturing know-how and a thorough emphasis on safety, and establish an internal controls system to strengthen risk management

To ensure the attainment of goals for fiscal 2008, namely net sales of ¥450.0 billion and operating income of ¥50.0 billion, Kuraray will make every effort to address the priority issues listed above and to implement the following policies during fiscal 2007, the second year of the GS-21 medium-term business plan.

First, Kuraray will make a concerted effort to pass on high raw materials and fuel prices to product sales prices. To strengthen competitiveness, we will

build a new pricing structure by revising prices as appropriate to absorb the higher costs of raw materials and fuels. Second, Kuraray aims to reap concrete benefits of its capital investment. Kuraray will work to realize contributions to sales and income results from its recent investments for expanded production capacity, as well as from the new large scale facilities scheduled to commence operating in fiscal 2007. Third, Kuraray will endeavor to strengthen development capabilities and accelerate the pace at which development themes begin to contribute to earnings growth. Under GS-21, Kuraray is focusing development resources on growth fields. We will take active steps to select development themes with an awareness of customer needs, costs and competitiveness. In our accelerated development initiatives, we will develop new applications and carve out new demand to add value for customers. Fourth, we will improve management efficiency. Kuraray will make thorough cost reduction efforts related to functions at headquarters and proceed with initiatives to lower inventories. We will also increase shareholder returns as a means of improving capital efficiency.

### **Kuraray's Fundamental Dividend Policy**

The distribution of profits to shareholders is one of the Group's top management issues. Our target is to maintain a dividend payout ratio of 30% of consolidated net income and to increase returns to shareholders through continuous improvements in performance. Under the GS-21 medium-term business plan, Kuraray has targeted a shareholder return ratio (defined as the sum of dividends paid and share buybacks as a percentage of net income) of 70% for fiscal 2006 – fiscal 2008 in an aim to improve capital efficiency. Based on these fundamental policies, a year-end dividend of ¥10.0 is planned for the fiscal year ended March 31, 2007. Added to the interim dividend, this will be a total of ¥18.5 per share for the fiscal year, up ¥3.5 from the previous fiscal year. An annual dividend of ¥20.0 is planned for the fiscal year ending March 31, 2008, an increase of ¥1.5 per share, assuming a current term net income of ¥24.0 billion.

### **Stance and Policy on Lowering the Trading Unit**

Kuraray views enhancing the liquidity of its shares and expanding its base of individual investors as important management issues. The Company understands lowering the minimum trading unit to be an effective means of achieving these goals. Accordingly, Kuraray lowered the number of shares per

trading unit from 1,000 shares per unit to 500 shares per unit as of April 1, 2004.



# CONSOLIDATED BALANCE SHEETS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

See Notes of the end of this financial information

# CONSOLIDATED BALANCE SHEETS

(Unaudited)

	Millions of yen		Thousand of U.S. dollars
	2007	2006	2007
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Short-term bank loans	¥6,708	¥6,619	\$56,847
Current portion of long-term debt	5,000	390	42,373
Notes and accounts payable:			
Trade	42,794	39,150	362,661
Unconsolidated subsidiaries and affiliates	869	1,004	7,364
Annual financial information 2007	14,341	8,130	121,534
Accrued income taxes	6,736	7,165	57,085
Accrued expenses and other	17,956	16,771	152,170
Total current liabilities	94,404	79,229	800,034
<b>Long-term liabilities:</b>			
Long-term debt	16,255	19,256	137,754
Deferred income taxes	11,129	13,714	94,314
Accrued retirement benefits	13,071	13,404	110,771
Other	15,243	14,273	129,178
Total long-term liabilities	55,698	60,647	472,017
<b>TOTAL LIABILITIES</b>	<b>150,102</b>	<b>139,876</b>	<b>1,272,051</b>
<b>MINORITY INTEREST</b>	-	2,354	-
<b>SHAREHOLDERS' EQUITY</b>			
Common stock:			
Authorized-700,000,000 shares in March 2006			
Issued-382,863,603 shares in March 2006	-	88,955	-
Capital surplus	-	87,227	-
Retained earnings	-	155,377	-
Unrealized gain on revaluation of securities	-	16,426	-
Cumulative translation adjustments	-	2,726	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	-	350,711	-
Treasury stock at cost-15,379,675 shares in March 2006	-	(11,584)	-
<b>TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>	-	481,357	-
<b>NET ASSETS</b>			
<b>Owners' equity:</b>			
Paid-in capital:			
Authorized-1,000,000,000 shares in March 2007			
Issued-382,863,603 shares in March 2007	88,955	-	753,856
Capital surplus	87,314	-	739,949
Earned surplus	171,427	-	1,452,771
Treasury stock-15,181,671 shares in March 2007	(11,281)	-	(95,602)
Total owners' equity	336,415	-	2,850,974
<b>Valuation and translation adjustments</b>			
Valuation difference on available-for-sale securities	11,322	-	95,949
Deferred gains or losses on hedges	(9)	-	(76)
Translation adjustments	8,410	-	71,271
Total valuation and translation adjustments	19,723	-	167,144
Minority interests	2,455	-	20,806
<b>TOTAL NET ASSETS</b>	<b>358,593</b>	-	<b>3,038,924</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥508,695</b>	<b>¥</b>	<b>\$4,310,975</b>

See Notes of the end of this financial information



# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2006	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
<b>Balance at March 31, 2005</b>	¥88,955	¥87,156	¥138,951	¥9,012	¥679	¥(11,823)
Net income			21,186			
Annual financial information 2007			(4,772)			
Bonuses to directors			(59)			
Effect of changes in reporting entities			56			
Minimum pension liability adjustment			15			
Changes in unrealized gain on revaluation of securities				7,414		
Translation adjustments					2,047	
Treasury stock disposed, net		71				239
<b>Balance at March 31, 2006</b>	¥88,955	¥87,227	¥155,377	¥16,426	¥2,726	¥(11,584)

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
<b>Balance at March 31, 2006</b>	¥88,955	¥87,227	¥155,377	¥(11,584)	¥319,975
Annual financial information 2007:			(6,249)		(6,249)
Net income (Note 3)			22,412		22,412
Bonuses to directors (Note 3)			(68)		(68)
Treasury stock acquired				(176)	(176)
Treasury stock sold		87		479	566
Other (Note 4)			(45)		(45)
Net changes other than shareholders' equity					
Total changes during the current period	-	87	16,050	303	16,440
<b>Balance at March 31, 2007</b>	<b>¥88,955</b>	<b>¥87,314</b>	<b>¥171,427</b>	<b>¥(11,281)</b>	<b>¥336,415</b>

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

	Thousands of U.S.dollars				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
<b>Balance at March 31, 2006</b>	\$753,856	\$739,212	\$1,316,754	\$(98,169)	\$2,711,653
Cash dividends, USD 0.14 per share			(52,958)		(52,958)
Net income (Note 3)			189,932		189,932
Bonuses to directors (Note 3)			(576)		(576)
Treasury stock acquired				(1,492)	(1,492)
Treasury stock sold		737		4,059	4,796
Other (Note 4)			(381)		(381)
Net changes other than shareholders' equity					
Total changes during the current period	-	737	136,017	2,567	139,321
<b>Balance at March 31, 2007</b>	<b>\$753,856</b>	<b>\$739,949</b>	<b>\$1,452,771</b>	<b>\$(95,602)</b>	<b>\$2,850,974</b>

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

See Notes of the end of this financial information

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

See Notes of the end of this financial information

## SEGMENT INFORMATION

### Industrial segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

#### Net sales and operating income

Year ended March 31, 2007	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥201,222	¥377	¥201,599	¥35,644
Fibers and textiles	107,925	820	108,745	7,985
High performance materials, medical products and others	76,138	24,827	100,965	7,945
Annual financial information 2007	385,285	26,024	411,309	51,574
Eliminated on consolidation and corporate	-	(26,024)	(26,024)	(11,354)
Consolidated total	¥385,285	¥ -	¥385,285	¥40,220

Year ended March 31, 2006	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥190,753	¥723	¥191,476	¥31,868
Fibers and textiles	109,107	684	109,791	9,451
High performance materials, medical products and others	75,213	27,105	102,318	8,456
Total	375,073	28,512	403,585	49,775
Eliminated on consolidation and corporate	-	(28,512)	(28,512)	(11,498)
Consolidated total	¥375,073	¥ -	¥375,073	¥38,277

Year ended March 31, 2007	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$1,705,271	\$3,195	\$1,708,466	\$302,068
Fibers and textiles	914,619	6,949	921,568	67,669
High performance materials, medical products and others	645,237	210,398	855,635	67,331
Total	3,265,127	220,542	3,485,669	437,068
Eliminated on consolidation and corporate	—	(\$220,542)	(220,542)	(\$96,221)
Consolidated total	\$3,265,127	\$ -	\$3,265,127	\$340,847

See Notes of the end of this financial information

## Industrial segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

### Identifiable assets, capital expenditure and depreciation and amortization

Year ended March 31, 2007	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥269,849	¥22,785	¥16,368
Fibers and textiles	80,072	5,932	4,153
High performance materials, medical products and others	68,818	3,232	3,096
Annual financial information 2007	418,739	31,949	23,617
Eliminated on consolidation and corporate	89,956	5,751	1,879
Consolidated total	¥508,695	¥37,700	¥25,496

Year ended March 31, 2006	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥243,384	¥23,810	¥16,029
Fibers and textiles	80,501	4,787	3,845
High performance materials, medical products and others	69,571	3,283	3,720
Total	393,456	31,880	23,594
Eliminated on consolidation and corporate	87,901	1,992	1,592
Consolidated total	¥481,357	¥33,872	¥25,186

Year ended March 31, 2007	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\$2,286,856	\$193,093	\$138,712
Fibers and textiles	678,576	50,271	35,195
High performance materials, medical products and others	583,203	27,390	26,237
Total	3,548,635	270,754	200,144
Eliminated on consolidation and corporate	762,339	48,737	15,924
Consolidated total	\$4,310,975	\$319,492	\$216,068

See Notes of the end of this financial information



## Geographic segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Year ended March 31, 2007	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥288,447	¥24,291	¥312,738	¥47,282	¥270,163
North America	23,147	2,418	25,565	1,664	48,012
Europe	57,709	3,768	61,477	3,580	93,646
Asia	15,982	2,950	18,932	(607)	8,565
Total	385,285	33,427	418,712	51,919	420,386
Annual financial information 2007	-	(33,427)	(33,427)	(11,699)	88,309
Consolidated total	¥385,285	¥ -	¥385,285	¥40,220	¥508,695

Year ended March 31, 2006	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥273,757	¥28,770	¥302,527	¥43,570	¥255,812
North America	30,610	3,544	34,154	2,987	44,666
Europe	53,974	3,191	57,165	3,211	87,940
Asia	16,732	1,936	18,668	(276)	9,986
Total	375,073	37,441	412,514	49,492	398,404
Eliminated on consolidation and corporate	-	(37,441)	(37,441)	(11,215)	82,953
Consolidated total	¥375,073	¥ -	¥375,073	¥38,277	¥481,357

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

See Notes of the end of this financial information

## Foreign sales

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Year ended March 31, 2007	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
North America	<b>¥28,984</b>	¥ -	<b>7.5 %</b>	<b>\$245,627</b>	\$ -
Europe	<b>63,211</b>	-	<b>16.4</b>	<b>\$535,686</b>	-
Asia	<b>67,091</b>	-	<b>17.4</b>	<b>\$568,568</b>	-
Other	<b>7,465</b>	-	<b>1.9</b>	<b>\$63,263</b>	-
Annual financial information 2007	<b>¥166,751</b>	<b>¥385,285</b>	<b>43.3 %</b>	<b>\$1,413,144</b>	<b>\$3,265,127</b>

Year ended March 31, 2006	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥35,413	-	9.5 %
Europe	58,926	-	15.7
Asia	60,062	-	16.0
Other	8,641	-	2.3
Total	¥163,042	¥375,073	43.5 %

See Notes of the end of this financial information

## Notes:

- Note (1) The United States dollar amounts represent translation of Japanese yen at the rate of YEN118=\$1.
- Note (2) Certain reclassifications of previously reported amounts have been made to conform with current classifications.
- Note (3) These are the appropriation of retained earnings annual general meeting of shareholders in June, 2006.
- Note (4) Decrease in Earned surplus "Other" was due to the depreciation and amortization of asset retirement obligations recorded in accordance with International Financial Reporting Standard by a foreign subsidiary accounted for by the equity method.
- Note (5) Although the closing date of the fiscal period was a holiday for financial institutions, Kuraray and its subsidiaries in Japan accounted Annual financial for the matured notes/accounts on the end of fiscal periods as if notes/accounts were settled on maturity basis.

The amounts of notes/accounts matured on the end of the fiscal year ended March 31, 2007 and excluded from the balance sheet were as follows:

Notes receivable	2,505 (unit : millions of yen)
Accounts receivable-trade	3,555
Notes payable	860
Accounts payable-trade	3,725
Accounts payable-other	234

- Note (6) Directors' bonuses had been formerly accounted for as a decrease of retained earnings. Effective from the fiscal year ended March 31, 2007, Kuraray and its subsidiaries in Japan adopted Accounting Standards Board of Japan (ASBJ) Statement No.4 "Accounting standard for Directors' bonus" issued by ASBJ on November 29, 2005, and directors' bonuses are accounted for as an expense of the period during which the payments had occurred. The adoption of this new accounting standard has no effect on the consolidated financial statements 2006.
- Note (7) Effective from the year ended March 31, 2007, Kuraray and its subsidiaries 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 total amount corresponding to conventional "total shareholders' equity" on the balance sheet of the year ended March 31, 2007 is 356,147 millions of yen.
- Note (8) Effective from the year ended March 31, 2007, Kuraray and its subsidiaries in Japan adopted revised ASBJ Statement No.1 "Accounting standard for Treasury shares and Appropriation of Legal Reserve" and ASBJ Guidance No. 2 "Guidance on Accounting standard for Treasury shares and Appropriation of Legal Reserve" both revised by ASBJ on December 27, 2005. The adoption of this revised accounting standard has no effect on the consolidated financial statements 2006.
- Note (9) Effective from the year ended March 31, 2007, Kuraray and its subsidiaries in Japan adopted "Accounting Standard for Business Combination" issued by Business Accounting Council on October 31, 2003, and ASBJ Statement No.7 "Accounting standard for Business Divestitures" and ASBJ Guidance No.10 "Guidance on Accounting standard for Business Combinations and Accounting Standard for Business Divestitures" both issued by ASBJ on December 27, 2005.  
The adoption had an effect that the prior year's "Goodwill" and "Goodwill arising on consolidation adjustments" included in "Other intangible assets" are altogether presented as "Goodwill" as of March 31, 2007. The amount of "Goodwill arising on consolidation adjustments" included in "Other intangible assets" was 499 millions of yen as of March 31, 2006.
- Note (10) The fiscal year end of the following foreign subsidiaries is December 31 and their financial statements are consolidated as they are. However, some adjustments are made for the effects of significant transactions or events that occurred between January 1 and March 31, 2007.  
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. , Kuraray America, Inc, Eval Company of America, SEPTON Company of America, EVAL Europe N.V.

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

Kuraray Holdings U.S.A., Inc. , Kuraray America, Inc, Eval Company of America, SEPTON Company of America, EVAL Europe N.V.