

PIONEERING  
PROGRESSIVE  
REFINEMENT

PIONEERING PROGRESSIVE REFINEMENT

ANNUAL  
REPORT

ANNUAL REPORT 2007  
For the year ended March 31, 2007

2007

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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.

In this annual report, italicized product names are trademarks of Kuraray Co., Ltd.

# Consolidated Financial Highlights

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

Years ended March 31	Millions of yen					Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	2007
Net sales	<b>¥ 385,285</b>	¥ 375,073	¥ 354,874	¥ 332,149	¥ 322,524	<b>\$ 3,265,127</b>
Operating income	<b>40,220</b>	38,277	33,187	28,046	25,186	<b>340,847</b>
Net income	<b>22,412</b>	21,186	18,465	15,181	8,051	<b>189,932</b>
Capital expenditure	<b>37,700</b>	33,872	45,715	32,164	19,091	<b>319,492</b>
Depreciation and amortization	<b>25,496</b>	25,186	21,324	20,785	19,108	<b>216,068</b>
Gross cash flow	<b>47,908</b>	46,372	39,789	35,966	27,159	<b>406,000</b>
Total research and development expenses	<b>13,021</b>	14,069	13,874	13,684	12,523	<b>110,347</b>
Total assets	<b>508,695</b>	481,357	454,941	413,227	426,877	<b>4,310,975</b>
Total shareholders' equity (Note 3)	<b>—</b>	339,127	312,930	300,306	287,263	<b>—</b>
Total net assets (Note 3)	<b>358,593</b>	—	—	—	—	<b>3,038,924</b>

Amounts per share:	Yen					U.S. dollars (Note 1)
Net income:						
Primary	<b>¥ 60.95</b>	¥ 57.51	¥ 50.13	¥ 40.81	¥ 21.01	<b>\$ 0.52</b>
Fully diluted	<b>60.80</b>	57.41	50.12	—	20.71	<b>0.52</b>
Cash dividends applicable to period	<b>18.50</b>	15.00	12.00	10.00	9.00	<b>0.16</b>
Total shareholders' equity	<b>967.81</b>	922.65	852.26	817.57	771.38	<b>8.20</b>
Financial ratios:						
Equity ratio (%)	<b>70.0%</b>	70.5%	68.8%	72.7%	67.3%	
Return on equity (ROE) (%)	<b>6.5</b>	6.5	6.0	5.2	2.8	
Return on assets (ROA) (%) (Note 4)	<b>8.1</b>	8.2	7.6	6.7	5.5	
Payout ratio (%)	<b>30.4</b>	26.0	23.9	24.4	42.2	
Number of employees	<b>6,812</b>	6,842	6,919	6,760	6,983	

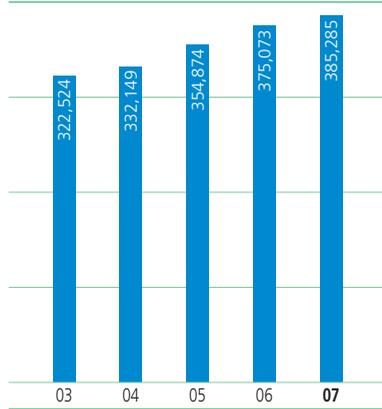
Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥118=\$1.

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** ¥ Millions



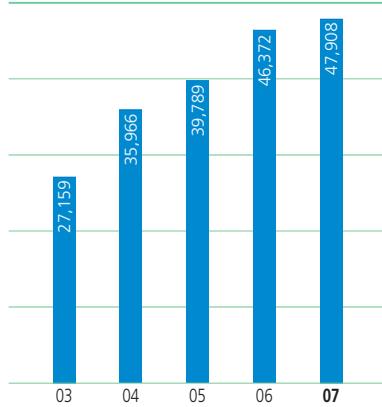
**Operating Income & Operating Income Margin** ¥ Millions %



**Net Income & ROE** ¥ Millions %



**Gross Cash Flow** ¥ Millions

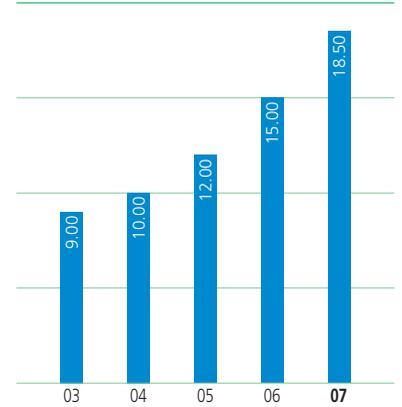


Gross Cash Flow=Net income+Depreciation and amortization

**Total Shareholders' Equity, Total Net Assets & Total Assets** ¥ Millions



**Cash Dividends per Share** ¥



**R&D Expenses & R&D Expenses Ratio** ¥ Millions %



**Capital Expenditure** ¥ Millions



**The Domestic Naphtha and Crude Oil** ¥ Thousand/kl \$ bbl



\*Figures are track record (result) of Kuraray

# To Our Shareholders

Message from the President



In this environment, the Kuraray Group actively implemented the business directives of the new GS-21 medium-term business plan launched in April 2006, expanded business operations in optics and other new growth fields, began realizing the contribution to sales from new facilities investment in our core businesses, and successfully made progress in integrating the higher raw materials prices into our product prices.

Our efforts enabled us to overcome the impact of the steep price increases for raw materials and fuels and post company records in sales and profits while extending the growth in both categories to five consecutive years. In fiscal 2006, Kuraray achieved net sales of ¥385.3 billion, operating income of ¥40.2 billion, and net income of ¥22.4 billion.

We will endeavor to make fiscal 2007, the second year of the GS-21 medium-term business plan, a year of steady progress toward achieving the targets of the plan. We intend to boldly address important issues such as dealing with the high raw materials and fuel prices, reaping concrete benefits from capital investment, ensuring that development themes contribute to earnings growth, and improving management efficiency. We have set a fiscal 2007 goal of attaining ¥415.0 billion in net sales, ¥45.0 billion in operating income, and ¥24.0 billion in net income as a key step to fulfilling our commitment to achieving the

**The business climate remained generally favorable in Japan during the fiscal year under review, ended March 31, 2007, as corporate earnings continued improving and capital investment continued to rise. Several uncertain factors persisted however, including high raw material and fuel prices and concern of a slowing of the United States economy.**

GS-21 fiscal 2008 targets of ¥450.0 billion in net sales and ¥50.0 billion in operating income.

Furthermore, Kuraray has revised its policy regarding distribution of profits to shareholders. We are targeting a dividend payout ratio of 30% or more of consolidated net income and aiming to increase returns to shareholders through continuous improvements in performance. Under the GS-21 medium-term business plan, Kuraray aims to improve capital efficiency by targeting a shareholder return (defined as the sum of dividends paid and share buybacks) of 70% over the plan's three fiscal years (2006–2008). Based on these fundamental policies, Kuraray distributed a year-end dividend of ¥10.0 for the fiscal year ended March 31, 2007. Combined with the interim dividend, this raised the total dividend for the fiscal year to ¥18.5 per share, an increase of ¥3.5 from the previous fiscal year.

We extend our sincere gratitude to all shareholders for their continued understanding and support.

August 2007

A handwritten signature in black ink that reads "Y. Wakui". The signature is written in a cursive, flowing style.

Yasuaki Wakui

Representative Director and President

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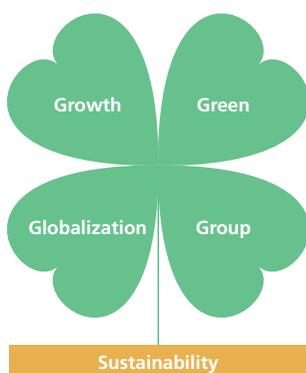
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# 10-Year Corporate Vision

(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.

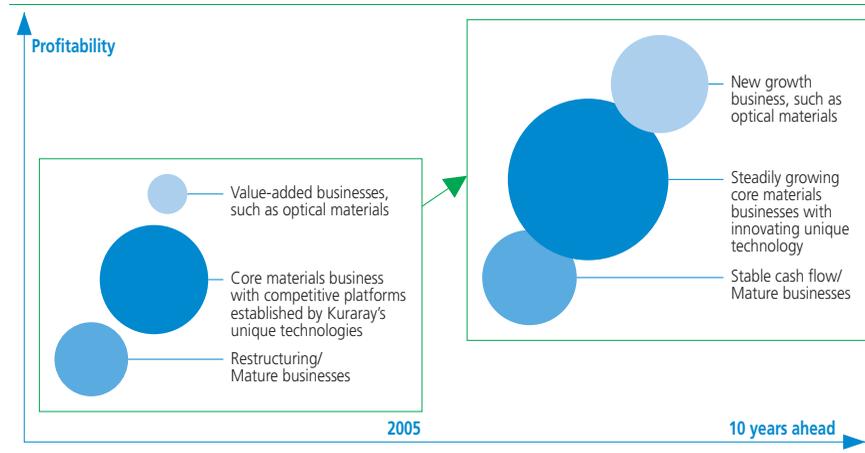
Toward Exciting Innovation and Outstanding Earnings  
Recognized throughout the World,  
To Make the Kuraray Group a Sustainably  
Growing Diversified Specialty Chemicals Company

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**

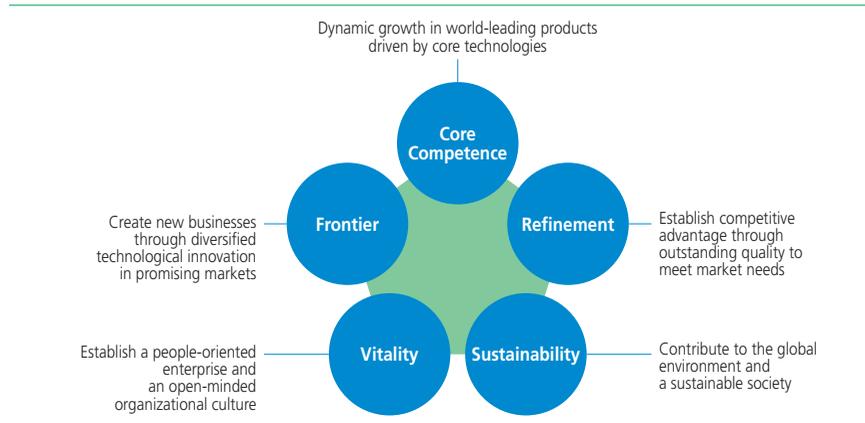


**Basic Policies to Realize Vision**

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 is a commitment to clearly defined three-year targets and includes additional stretch 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 stretch targets are designed to spur further expansion of the Group's operating activities and set ambitious objectives of raising net sales an additional ¥100 billion to ¥550 billion and operating income an additional ¥10 billion to ¥60 billion.

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 society and individual well-being and engaging in activities that only we have the ability to carry out, 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 (Forecast)	FY2008 (Commitment Target)	FY2008 (Stretch Target)
Net Sales	375.1	385.3	415.0	450.0	550.0
Operating Income	38.3	40.2	45.0	50.0	60.0
ROA	8.2%	8.1%	—	9.0%	10.0%
ROE	6.5%	6.4%	—	7.0%	8.0%

## 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 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.

Under the G-21 medium-term business plan, 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 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

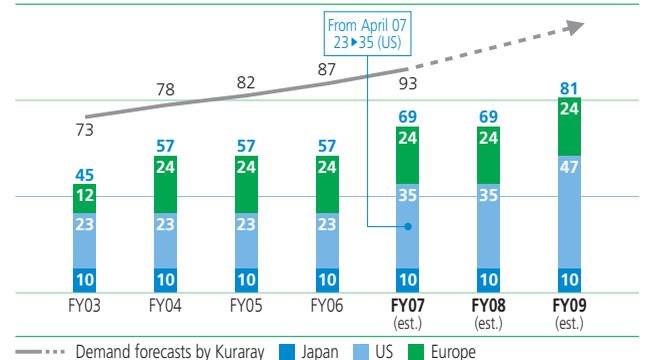
We will conduct sweeping cost cutting in headquarters functions and minimize inventories.

The Effects of Raw Material and Fuel Costs and Measures for Dealing with them Billions of yen



\*The cumulative monetary effect of raw material and fuel costs in overall costs (in units of 1.0 billion yen), and cumulative transference of increased costs to customers from FY2004

Expansion Plans for Major Materials-EVAL Thousands of tons



# Interview with the President

Toward Achieving the Targets of Medium-term Business Plan GS-21 (Fiscal 2006–2008)



## What measures were initiated in the first year of GS-21?

The Medium-term Business Plan GS-21 has four objectives: 1) accelerate development of new businesses and new growth fields (optics, automobiles, and energy materials etc.), 2) fortify our human resources, 3) establish an efficient global management structure and speed up management processes, and 4) improve the Group's environmental performance and corporate sustainability.

Fortifying human resources is vital because our employees are the driving force behind our business growth. The Kuraray Group generates 43% of its total sales overseas and the number of Kuraray factories is already higher overseas than in Japan. As we continue to globalize operations, managing business operations strictly from our home base in Japan would hinder our growth potential. We are continuing to cultivate the international management skills of our executives while also developing our young employees into world-class resources through training programs and by providing more opportunities for direct experience working overseas beginning early in their careers.

Effective and efficient management will also be increasingly important as we increase the number of our overseas business bases. To this end, we are integrating and reorganizing our local entities overseas. In December 2006, we merged two of our companies in Germany, Kuraray Europe and Kuraray Specialities Europe. We also plan to merge three of our subsidiaries in the United States in January 2008, Kuraray America, Eval Company of America, and SEPTON Company of America.

We are also implementing various measures to improve the Group's environmental performance and corporate sustainability. Kuraray is deeply dedicated to environmental issues, and the "S" in GS-21, which stands for "sustainability", symbolizes our dedication. To further improve our environmental performance, we are focusing on developing environmentally friendly and high value-added products. We have also implemented measures to evolve out of resource-intensive operations. Our progress in these areas is ongoing, and the results are gradu-

ally beginning to appear.

The high oil prices experienced during the past year has made it unavoidable to raise product prices in order to recoup some of the increased product cost. However, a straight one-to-one price increase is not an effective business policy. While it is inevitable that we must raise prices, we are also providing our customers with added value by enhancing product quality and offering products that provide increased advantages to users.

I believe our progress and performance during the past year has produced a foundation that sets us solidly on track to achieve the three-year targets of the GS-21 plan.

### Please explain what you mean by “progressive refinement”?

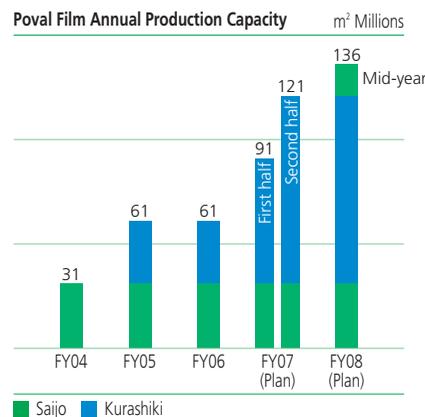
Kuraray’s development of *EVAL* (ethylene-vinyl alcohol) from *Poval* (PVA, polyvinyl alcohol) resin is perhaps the clearest example of progressive refinement. *EVAL* resin is highly resistant to gas permeation and has become an indispensable wrapping material for food products. Progressive refinement means developing high quality and high value-added businesses and providing a timely supply of convenient, useful and advanced-function products.

Progressive refinement also means avoiding excess resource consumption and the negative impact on the environment associated with it. In addition, businesses that require a large number of facilities can have a major impact on the economic environment and can have difficulty in keeping pace with the current high-pace evolution of products. Ultimately, facilities inevitably become obsolete and must be disposed of. This perspective further reinforces my belief in the importance of maintaining a flexible and adaptable management style.

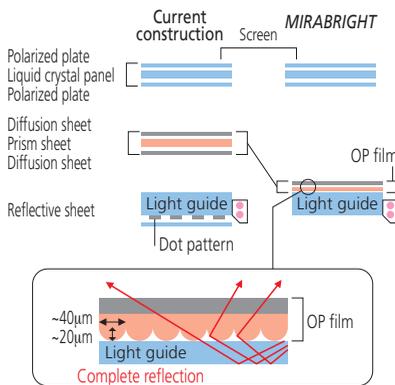
Progressive refinement is therefore not directly aimed at quantitative expansion but to improve the quality of our products and management. Quality attracts customers and as the quality of our products is recognized, our sales will naturally grow.

### Poval film for liquid crystal displays is a main driver in Kuraray growth. Please describe Kuraray’s plans to increase production of poval. Also, is Kuraray developing any other promising products for LCD-related applications?

Poval film is an indispensable base film used on the polarized plate in liquid crystal displays (LCDs), and demand has been growing steadily each year. In fiscal 2007, we are expanding our annual production capacity for poval to 121 million square meters, roughly double the volume of fiscal 2006. This rapid expansion is in anticipation of a strong increase in demand from consumer conversion from analog to digital TV technology ahead of Japan’s planned adoption of exclusive



#### MIRABRIGHT Construction



digital broadcasting in 2011 and from the accelerating demand for large-screen digital display screens.

Kuraray commands roughly 80% of the market for poval film, and we are expanding our facilities with meticulous care to ensure we continue to fulfill our responsibility to supply the highest quality products.

Another promising LCD-related product we developed and are advancing is the *MIRABRIGHT* backlighting device. *MIRABRIGHT* is a single-layer Optical Patterned film plate that brightens LCD screens via the three functions of a light guide passing light uniformly from the light source to the LCD panel, a diffusion sheet diffusing the light from the light-guide plate, and a prism sheet concentrating the light rays from the light guide plate into a uniform direction. Standard LCD backlight devices are constructed of components from several makers. *MIRABRIGHT* combines these three functions into a single component thereby enabling thinner backlighting devices, a simplified manufacturing process for the display maker, and lower cost. In addition, *MIRABRIGHT*'s microlens architecture provides improved light utilization efficiency, which enables users to enhance the quality of their products.

### What are Kuraray's approaches for developing business in the new growth fields (optics, automobiles, energy materials) presented in GS-21?

#### Optoelectronics Field

In the optoelectronics field, in addition to poval film and *MIRABRIGHT*, we are also developing inorganic electroluminescence (EL) materials. Inorganic EL utilizes an inorganic (carbon-free) compound as a material which illuminates via electrical current. Inorganic EL is a promising LCD backlight material for its long life span because its performance quality does not degrade over time, even against heat, and for its potential to be a key element in realizing the upcoming generation of folding display screens.

We joined forces with T. CHATANI & CO., LTD. the inventor of the inorganic EL technology, and established the Kuraray Luminas Co., Ltd. (90% held by Kuraray and 10% by T. CHATANI & CO., LTD.) to develop the material for commercialization. We plan to continue strengthening our development capabilities and are making rapid progress toward bringing this revolutionary technology to market.

#### Automobile Industry

The automobile industry is considered a mature industry in leading industrialized countries, but on a global scale, notably in China and India, it is still very much a growth industry even as it faces new challenges to comply with stringent environment regulations. To keep ahead of the pace of change in the automobile industry, we established the Automotive Materials Promotion Group, an inter-organization committee focusing on strategic planning for timely product development to meet the industry's rapidly evolving needs.

We are aggressively promoting several materials for automotive applications. *EVAL* offers optimal features for use in plastic fuel tanks as a barrier layer protecting against leakage of harmful hydrocarbons emitted from gasoline and for reducing vehicle weight. A triple-layer construction of two polyethylene layers with *EVAL* in between produces a light yet sturdy tank that contributes to energy conservation. *EVAL*'s malleability also allows automakers greater freedom in fuel tank shape and positioning, which affords them more flexibility in their automobile designs.

The Kuraray Group's polyvinyl butyral (PVB) film has attracted strong demand as a window security device and for windows used on high-rise buildings for its ability to reinforce glass strength and prevent shattering. These features of PVB-laminated glass are also ideally suited to automobile windshields as they contribute to passenger safety, and we are expanding our sales channels to the automotive industry.

*GENESTAR* is a highly malleable, heat and abrasion resistant polyamide resin developed by Kuraray that is attracting growing demand for use in connectors and other electronic devices. *GENESTAR*'s heat-resistant properties are ideal for use in automotive materials, and we are eagerly developing its automotive applications.

Several other of our materials are also prime candidates for automotive applications. The man-made leather *CLARINO* can be used in automobile seats, the high transparency of methacrylic resin (polyethylene terephthalate; PET resin) make it an effective coating for automobile headlights, and the thermoplastic elastomer *SEPTON* is an effective heat-resistant substitute for vulcanized rubber. These and other materials offer valuable features for automotive applications, and we are developing new markets for these products in the automobile industry.

### Energy Field

We continue to make research advances for several of our proprietary elastomers toward applications in the energy field. Two promising materials are our high-performance hydrocarbon polymer electrolyte membranes for fuel cell batteries and large-capacitance capacitors.

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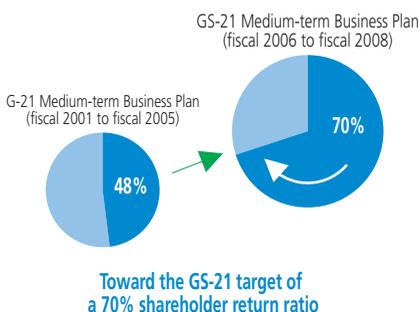
### Please discuss your approach to less profitable businesses.

Keeping pace with the rapid changes in the market structure is a difficult challenge and it is inevitable that some businesses become untenable. When a business is struggling, recognizing the right time to step away is crucial. For example, sales and profits for rear-projection TV screens peaked in 2002, but subsequent changes in the market structure made it very difficult to continue securing profits, and we ultimately pulled out of the business in 2006. That same year, we also transferred our contact lens and health food businesses. We will continue investing management resources in products that are strong and carry growth potential, and when objective analysis determines that a product or business does not offer sustainable profitability, it is crucial to gracefully divest our interest.



## Shareholder Return Ratio

Shareholder Return Ratio (%)  
= (dividends + repurchased share value) / consolidated net income X 100



## Please explain Kuraray's shareholder return policy including the recent decision to buy back stock.

Kuraray is always attentive to the best timing to act on the investment necessary to position the company for new growth. With the aim of improving capital efficiency and enhancing shareholder return, this year we introduced a target of maintaining a dividend payout ratio at 30% or more of consolidated net income and raised the annual per-share dividend payment by ¥3.5 to ¥18.5. In addition, during the three years of our GS-21 medium-term business plan (fiscal 2006–2008), we plan to implement dividend distributions and share buyback programs to continue raising the shareholder ratio from the 48% level of the past five years to 70% in the GS-21 term.

Several factors contributed to our decision to set these aggressive targets. First, our success generating strong earnings has made it necessary to improve ROE, which is a key indicator of shareholder return, as our equity ratio approaches 70%. Second, our stable financial position gives us sufficient standing to conduct fund procurement to finance new business projects and M&A activities. Finally, we believe our earnings outlook warrants setting a dividend payout ratio level comparable to the 30–40% customarily provided by European and US companies. In addition, we consider the reacquired stock as an asset that can be used in the event we engage in M&A activity.

## Kuraray is advancing aggressive M&A activity, but can you please describe the reason for the countermeasures implemented to protect against a hostile takeover?

All of the M&A pursued by Kuraray is premised on friendly and cooperative relationships. However, we cannot deny that we ourselves might be a target of a takeover move. Our view is that maintaining a stable and sustainable enterprise value is the top priority because it is in the common interest of both the company and its shareholders.

We believe taking precaution against a hostile takeover means preestablishing countermeasures to protect the currently existing common interest of our shareholders. This entails setting inbuilt processes to initiate when there is threat of an effort to purchase a majority of shares without consultation or consent, or when there is doubt that the takeover party has a genuine interest in raising enterprise value.

Kuraray Group products developed with proprietary technology command top share in the global market, and the steady cash flow provided by these products has elevated the group's market valuation to over ¥500 billion. We believe this makes us an attractive target for acquisition.

Determining whether an acquisition proposal would be advantageous to raising the company's enterprise value over the long term requires full information exchange from both the buyer and acquired company and detailed discussion

about strategy to enhance enterprise value. We maintain a strong relationship of trust with our stakeholders, who are the very source of our enterprise value, and any takeover proposal would require their full understanding and consent. If a takeover proposition fully met these strict criteria, it would not be necessary to initiate the takeover countermeasures.

### How do you see the relation between CSR and raising enterprise value?

Kuraray's corporate culture is rooted in the simple tenet "Contributing to the World and Individual Well-being through Actions that Others are Unable to Produce." Our corporate conduct arises from a fundamental motivation to contribute to global society by using our proprietary technology to supply high value-added products and services and to apply the profits derived from these to continue to develop more such products. Of course, the forces that underpin a market economy challenge this ideal. Market economies do not operate merely on a product's inherent added value, rather they are driven by profits; it is a simple fact that profitable companies survive and unprofitable companies perish.

While this is an undeniable challenge, Kuraray has no intention of setting aside its ideals merely for the sake of profit. We trust the wisdom of our stakeholders will recognize the value in gradually expanding product lines that fully embody our obligation to society. If we maintain a fair profit level, we believe the Kuraray brand will be valued as dependable and with a promising future. This in turn will enable us to attract the most talented staff and, in the long term, attract a growing number of investors that also believe in our future.

For six consecutive years, Kuraray has been selected as a constituent in the globally recognized FTSE4Good Index Series\*, developed by FTSE as a benchmark index for socially responsible investment. The company has also been recognized for three straight years as one of the Global 100 Most Sustainable Corporations in the World\*\*. To continue earning distinctions like these, the Kuraray Group will focus on its integrity while raising its enterprise value. This integrity means developing the products and services that our stakeholders need while fostering our corporate culture emphasizing the natural compatibility of contributing to society and raising enterprise value.

\* FTSE, an independent company owned by The Financial Times and the London Stock Exchange, created the FTSE4Good Index Series as an index for socially responsible investment. Selection criteria focus on active engagement of internationally accepted environmental, social and ethical standards of corporate social responsibility.

\*\* The Global 100 Most Sustainable Corporations in the World are selected from some 1,800 listed companies worldwide by Corporate Knights Inc., of Canada, based on research and analysis by Innovest Strategic Value Advisors, of the United States.



FTSE4Good



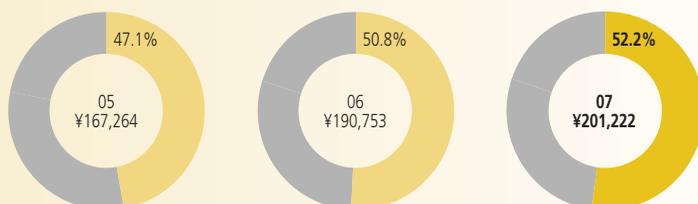
# Kuraray Group's Segments and Products

## Business Segment

## Net Sales By Business Segment (¥ Millions)

## 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)

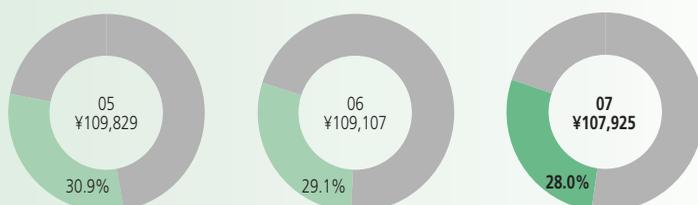
- Fine chemicals

- Methacrylic monomer

- Methacrylic resin

- Methacrylic sheets

### Fibers and Textiles



- *KURALON* (PVA fiber)

- *KURALON K-II* (New type of PVA fiber)

- *VECTRAN* (Polyarylate fiber)

- Polyester staple

- Polyester filament

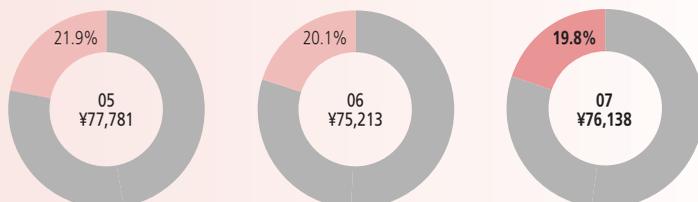
- *CLARINO*, *AMARETTA* (Man-made leather)

- *KURAFLEX* (Dry-laid nonwoven fabric)

- *KURAFLEX-MB* (Melt-blown nonwoven fabric)

- *MAGIC TAPE* (Hook and loop fastener)

### 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)

## Kuraray Group's Segments and Products

Primary Applications	Production Facilities (As of July 1, 2007)	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
	Poval Asia Pte Ltd. (Singapore)	20,000 t
Computers, LCD televisions, monitors	KURARAY SAIJO CO., LTD. (Ehime)	31,000,000 m <sup>2</sup> (Mid 2008: +15,000,000 m <sup>2</sup> )
	Kurashiki Plant (Okayama)	30,000,000 m <sup>2</sup> (Mid 2007: +30,000,000 m <sup>2</sup> ) (End 2007: +30,000,000 m <sup>2</sup> )
Interlayers for windows and windshields, paints, adhesives	Kuraray Europe GmbH (Frankfurt, Germany)	25,000 t
Laminated safety glass	Kuraray Europe GmbH (Troisdorf, Germany)	30,000 t
	OOO Trosifol (Nizhny Novgorod, Russia)	4,000 t
Food packaging materials, plastic fuel tanks	Okayama Plant (Okayama)	10,000 t
	Eval Company of America (Texas, U.S.A.)	35,000 t (Target in 2008: +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
	SEPTON Company of America (Texas, U.S.A.)	18,000 t
Pharmaceutical and agrochemical 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
Cement reinforcing agents, woven and knitted textiles	Okayama Plant (Okayama)	7,000 t
Rope, fishing nets, and other industrial products	KURARAY SAIJO CO., LTD. (Ehime)	600 t (October 2007: +400 t)
Materials for nonwoven fabrics and industrial materials	Kurashiki Plant (Okayama)	12,000 t
Woven and knitted textiles, tents, sheets	KURARAY SAIJO CO., LTD. (Ehime)	10,000 t
Shoes, bags, sporting goods, luxury clothing, interior furnishings	Okayama Plant (Okayama)	15,500,000 m <sup>2</sup>
	Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd. (China)	4,000,000 m <sup>2</sup>
Wiping materials, wet wipes, surgical masks	KURARAYKURAFLEX CO., LTD. (Okayama)	10,500 t
	Kuraflex Ibaraki Co., Ltd. (Ibaraki)	3,500 t
Coffee bags, filters	KURARAY SAIJO CO., LTD. (Ehime)	1,800 t
Clothing, shoes, car seats	Magictape Co., Ltd. (Fukui)	48,000,000 m
	Kuraray Magictape (Shanghai) Co., Ltd. (China)	10,000,000 m
Electronics parts, auto parts	KURARAY SAIJO CO., LTD. (Ehime)	4,500 t (neat polymer base) (August 2007: +1,000 t)
	Kashima Plant (Ibaraki)	(August 2008: +5,500 t) (Target in 2010: +1,500 t)
Circuit-board substrates	Kurashiki Plant (Okayama)	150,000 m <sup>2</sup>
Water purification and wastewater treatment	Kurashiki Plant (Okayama)	100,000 m <sup>2</sup>
Water purification and wastewater treatment	KURARAY SAIJO CO., LTD. (Ehime)	3,000 m <sup>3</sup>
Dental adhesives, dental filling materials	Kuraray Medical Inc. (Okayama)	600,000 sets
Artificial kidneys, dialysis machines	Kuraray Medical Inc. (Okayama)	2,800,000 units (artificial kidneys)
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

# Review of Operations

## Chemicals and Resins

- Poval  
Poval resin / Poval film / Polyvinyl butyral resin / Polyvinyl butyral film
- EVAL
- Isoprene Chemicals  
SEPTON / Aroma chemicals / Pharmaceutical intermediates
- Methacrylic  
Methacrylic resin / Methacrylic sheets

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## Fibers and Textiles

- KURALON / KURALON K-II
- Man-Made Leather  
CLARINO / AMARETTA
- New-Type Polyester
- Nonwoven Fabrics  
KURAFLEX
- Fastening Materials  
MAGIC TAPE

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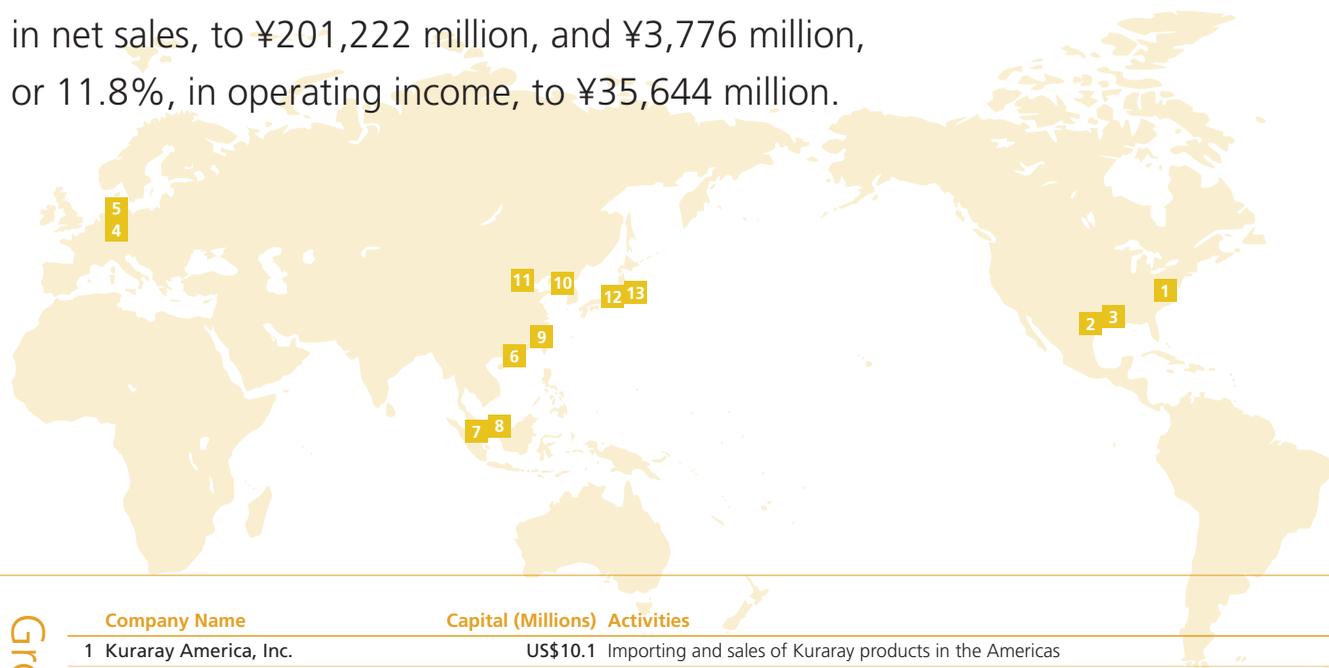
## High-Performance Materials, Medical Products and Others

- Medical Products  
Dental materials / Artificial kidneys
- High-Performance Materials  
GENESTAR / VECSTAR / VECRY / VECRUS
- Environmental Businesses  
Activated carbon / Industrial membranes

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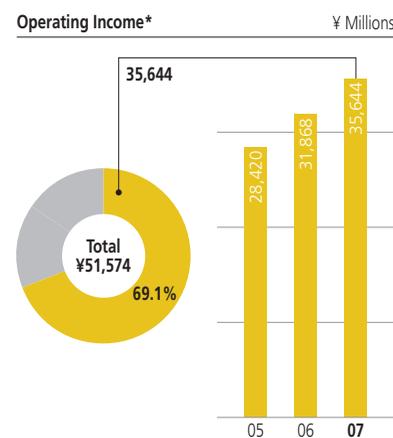
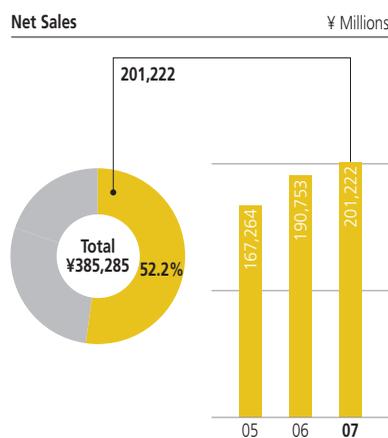
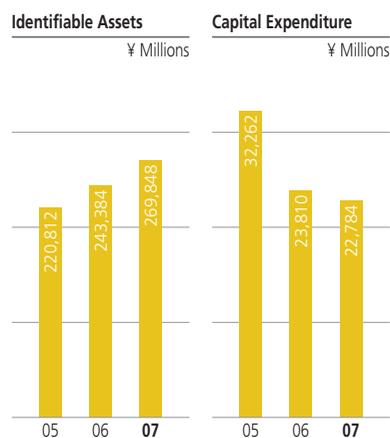
# Chemicals and Resins Business

The segment posted increases of ¥10,469 million, or 5.5%, in net sales, to ¥201,222 million, and ¥3,776 million, or 11.8%, in operating income, to ¥35,644 million.



## Group Companies

Company Name	Capital (Millions)	Activities
1 Kuraray America, Inc.	US\$10.1	Importing and sales of Kuraray products in the Americas
2 Eval Company of America	US\$4.15	Manufacture and sales of <i>EVAL</i>
3 SEPTON Company of America	US\$35	Manufacture and sales of thermoplastic elastomers
4 Kuraray Europe GmbH	€31.2	Importing and sales of Kuraray products in Europe Manufacture and sales of poval and butyral resins and film
5 EVAL Europe N.V.	€29.7	Manufacture and sales of <i>EVAL</i> in Europe
6 Kuraray Hong Kong Co., Ltd.	HK\$4.65	Processing and sales of Kuraray products in China and Southeast Asia
7 Kuraray Specialities Asia Pte., Ltd.	SP\$45.6	Sales of poval resins
8 Poval Asia Pte Ltd.	SP\$40	Manufacture of poval resins
9 Kuraray (Shanghai) Co., Ltd.	US\$5.0	Importing and sales of Kuraray products in China
10 KURARAY TRADING Co., LTD. (Seoul Branch)		Importing, exporting, and wholesale of fiber and textile products and chemicals
11 Kuraray Methacrylate (Zhangjiagang) Co., Ltd.	US\$5.0	Manufacture of methacrylic resin sheets in China
12 KURARAY TRADING Co., LTD.	¥2,200	Import, export, manufacture, and sales of textile products, chemicals etc.
13 Kuraray Co., Ltd.	¥88,955	Manufacture and sales of Kuraray products



\* Including 11,354 million eliminated in consolidated for the three business areas overall.

The Chemicals and Resins Business recorded strong sales of Poval Film and other products and overcame the impact of high raw materials prices to post increases in sales and income.

**Net sales:**

¥201.2 billion, up ¥10.5 billion from the previous year

**Operating profit:**

¥35.6 billion, up ¥3.8 billion from the previous year



**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.

### EVAL (EVOH Resin)

EVAL sales continued strong for food packaging applications but stagnated for automotive applications. High raw materials prices were a particular obstacle during the year, and we were unable to effectively adjust our product prices to keep pace with the changes.

### Methacrylic

Methacrylic resin drew strong demand for use in optical products and as a material for general-purpose molded and sheet products. However, sales were impacted by the downsizing of the monomer operation and the high raw material prices.



#### 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. Because demand for such applications is forecast to rise in China, the Company started production at facilities (3,000 tons per year) in China in the fall of 2005.



#### 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. We are working to expand the use of V-grade SEPTON in fields where heat resistance is needed, such as auto parts. In the future, a number of new applications are expected.



#### 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

The Company has built a unique fine chemicals business around isoprene, a component molecule of natural rubber.

Today, Kuraray markets more than 30 aroma chemicals, including linalool (lily scented) and citral (lemon scented) as well as isoprene glycol and other materials used in cosmetics manufacturing. Aroma chemicals produced through isoprene chemistry are also used in various hair care products.



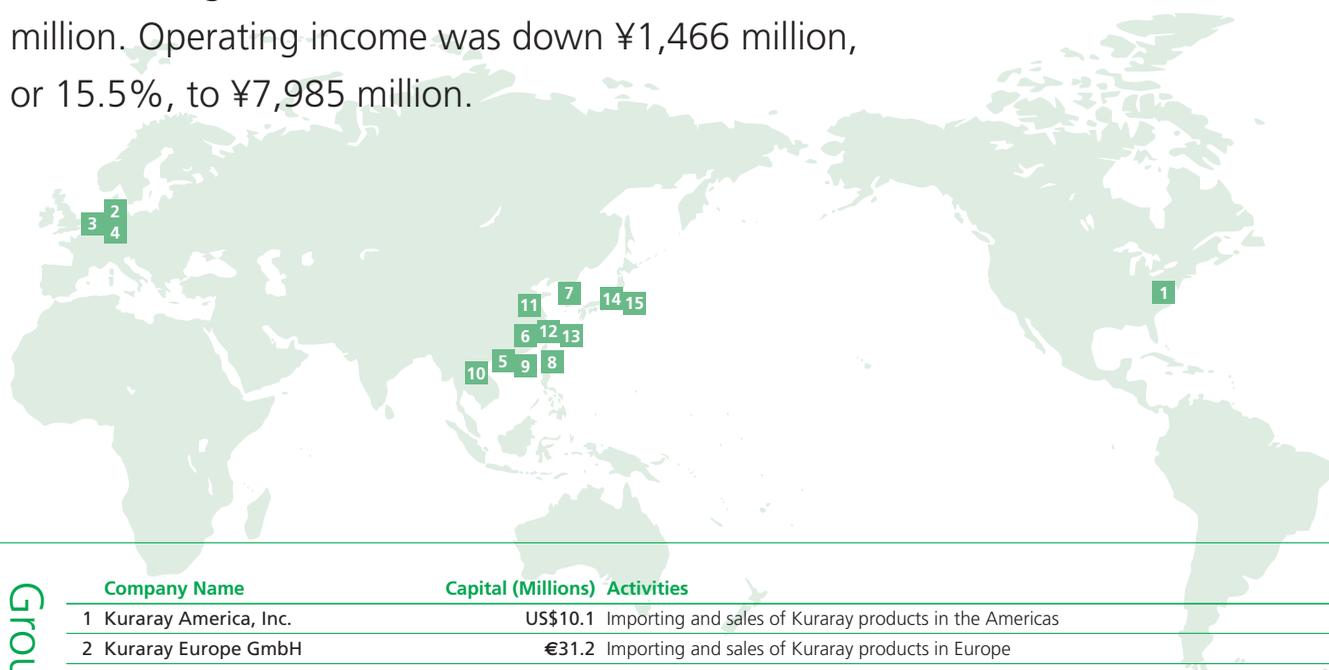
#### PHARMACEUTICAL AGRICHEMICAL INTERMEDIATES

Employing its expertise in fine chemicals technology, Kuraray has developed pharmaceutical intermediates for antivirals, hyper-

tension drugs, antibiotics, and other medications. The Company also markets intermediates for highly safe agricultural chemicals and home-use pyrethroid insecticides.

# Fibers and Textiles Business

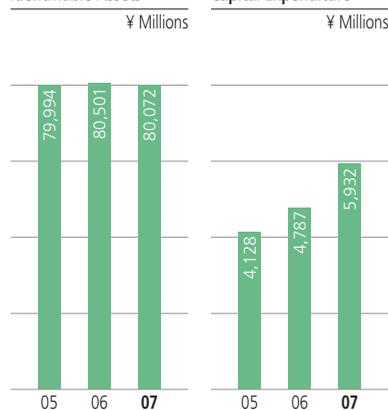
Net sales edged down ¥1,182 million, or 1.1%, to ¥107,925 million. Operating income was down ¥1,466 million, or 15.5%, to ¥7,985 million.



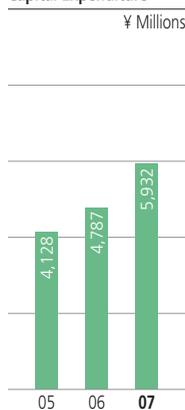
## Group Companies

Company Name	Capital (Millions)	Activities
1 Kuraray America, Inc.	US\$10.1	Importing and sales of Kuraray products in the Americas
2 Kuraray Europe GmbH	€31.2	Importing and sales of Kuraray products in Europe
3 amaretta GmbH	€1.0	Sales of man-made leather in Europe
4 Lorica Sud S.r.l.	€0.9	Processing and sales of man-made leather in Europe
5 Kuraray Hong Kong Co., Ltd.	HK\$4.65	Processing and sales of Kuraray products in China and Southeast Asia
6 Kuraray Trading (Shanghai) Co., Ltd.	US\$0.3	Importing, exporting, and wholesale of fiber and textile products and chemicals
7 KURARAY TRADING Co., LTD. (Seoul Branch)		Sales of Kuraray products
8 KURARAY TRADING Co., LTD. (Taipei Branch)		Sales of Kuraray products
9 KURARAY TRADING Co., LTD. (Hong Kong Branch)		Sales of Kuraray products
10 KURARAY TRADING Co., LTD. (Hanoi Branch)		Sales of Kuraray products
11 Nantong Kuratray Garment Co., Ltd.	¥220	Manufacturing and sales of a wide range of textile products
12 Kuraray Magictape (Shanghai) Co., Ltd.	US\$0.85	Processing and sales of fastening materials in China
13 Kuraray (Shanghai) Co., Ltd.	US\$5.0	Importing and sales of Kuraray products in China
14 KURARAY TRADING Co., LTD.	¥2,200	Import, export, manufacture, and sales of textile products, chemicals etc.
15 Kuraray Co., Ltd.	¥88,955	Manufacture and sales of Kuraray products

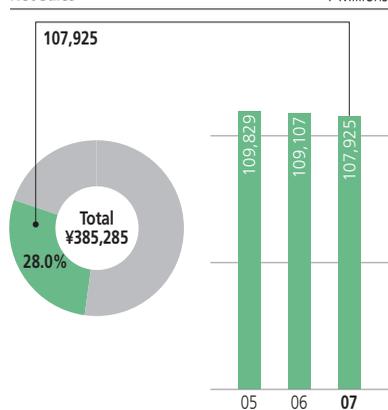
Identifiable Assets



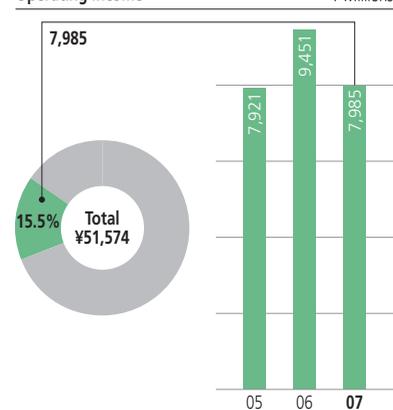
Capital Expenditure



Net Sales



Operating Income\*



\* Including 11,354 million eliminated in consolidated for the three business areas overall.

Sales and profits declined as the Fibers and Textiles Business was unable to keep product prices on pace with high raw materials costs.

#### Net sales:

¥107.9 billion, down ¥1.2 billion from the previous year

#### Operating profit

¥8.0 billion, down ¥1.5 billion from the previous year

### KURALON

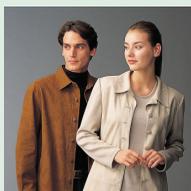
*KURALON* demand remained strong for applications as a non-asbestos fiber-reinforced cement (FRC) material, but the high raw materials prices impacted profits.



#### 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 a high-grade man-made, leather made from microfiber. Used to manufacture up-market coats and jackets, *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 resist-

ance. 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. The

*EVAL* blend *SOPHISTA*, a material with a cool feel, and the series of lightweight fabrics made by eluting the water-soluble resin *EXCEVAL* at the dyeing stage, are growing in popularity.

#### KURAFLEX

Kuraray's *KURAFLEX* dry-laid nonwoven fabric is used in sanitary and other disposable products. The Company is developing high-order blended

### Nonwoven Fabrics and Fasteners

Sales of nonwoven fabrics and fasteners were strong to the automotive industry and other high-volume areas. However, profits were affected by declining demand for hygienic materials and the high raw materials prices.

#### CLARINO

Demand for *CLARINO* continued strong for use in light manufacturing products but slumped for footwear applications. The high raw materials prices also impacted sales.

### Polyester and Other Materials

Polyester demand continues to shift toward differentiated products, and we progressed in our development of new applications for the high-strength *VECTRAN* polyarylate fiber.



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 (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.



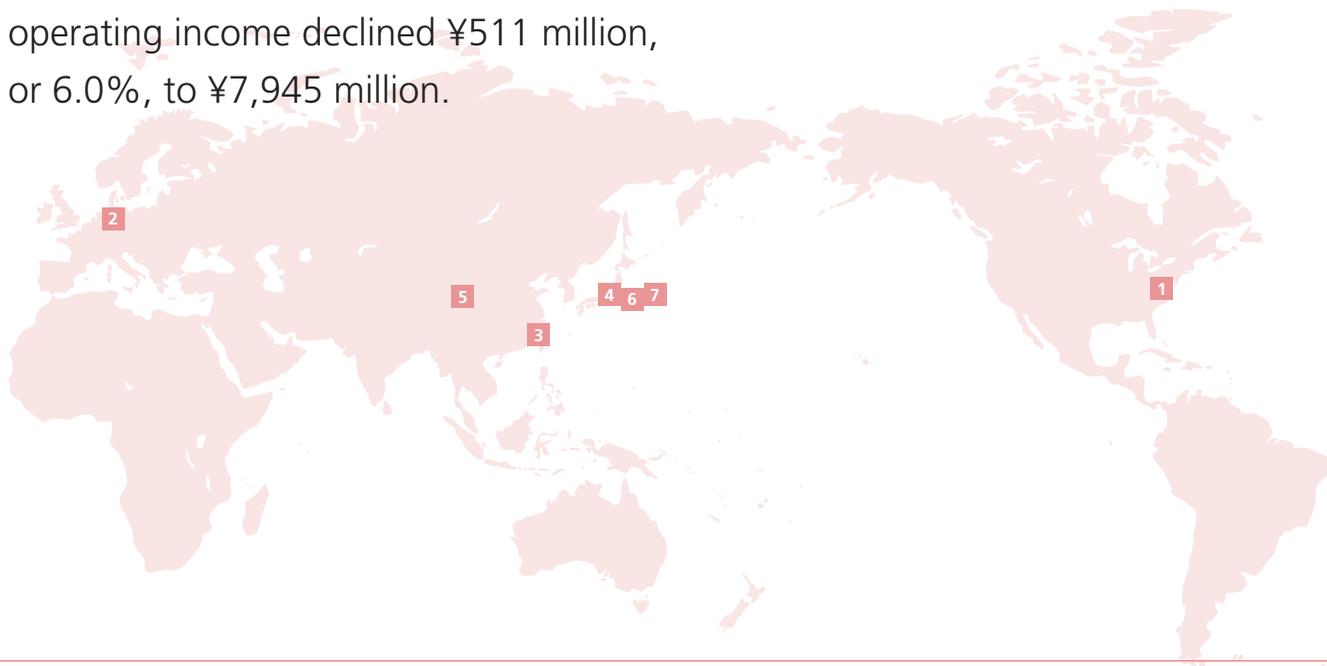
#### MAGIC TAPE

Kuraray's *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 environmentally friendly *MAGIC TAPE*. Further, *MAGILOCK* is a plastic surface fastener for industrial use 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.

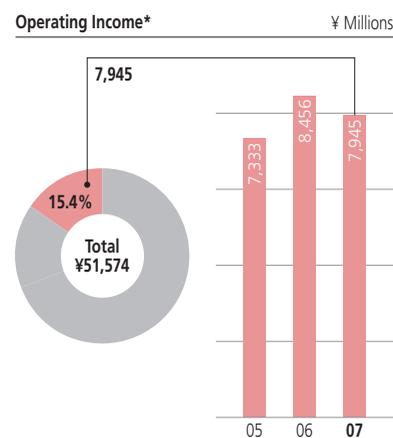
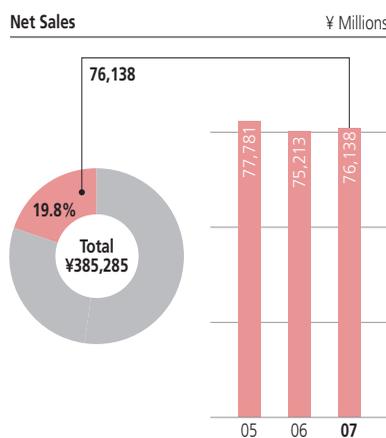
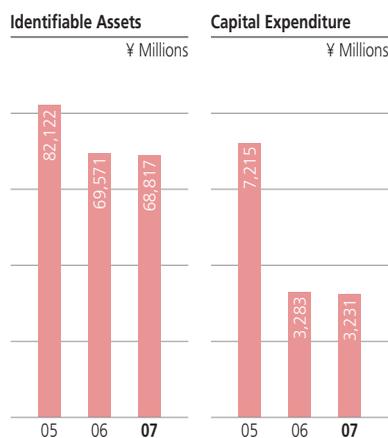
# High-Performance Materials, Medical Products and Others Business

Net sales increased ¥925 million, or 1.2%, to ¥76,138 million. However, operating income declined ¥511 million, or 6.0%, to ¥7,945 million.



Group Companies

Company Name	Capital (Millions)	Activities
1 Kuraray America, Inc.	US\$10.1	Importing and sales of Kuraray products in the Americas
2 Kuraray Europe GmbH	€31.2	Importing and sales of Kuraray products in Europe
3 Kuraray (Shanghai) Co., Ltd.	US\$5.0	Importing 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.	¥400	Manufacture and sales of activated carbon and related products
6 KURARAY TRADING Co., LTD.	¥2,200	Importing, exporting, and wholesale of fiber and textile products and chemicals
7 Kuraray Co., Ltd.	¥88,955	Manufacture and sales of Kuraray products



\* Including 11,354 million eliminated in consolidated for the three business areas overall.

High-performance materials sales were strong and domestic subsidiaries delivered solid contributions. Overall operating profit declined for the segment primarily owing to the impact of National Health Insurance medicine price revisions and other factors on the Medical Business. Also, Kuraray withdrew from the opto-screen business during the year under review.

**Net sales:**

¥76.1 billion, up ¥900 million from the previous year

**Operating profit:**

¥7.9 billion, down ¥500 million from the previous year

**Opto-screen Business**

Kuraray discontinued opto-screen production in December 2006 and has withdrawn from the business.

**High-Performance Materials**

Sales of high-performance materials increased on ongoing strong demand in Asia for the *GENESTAR* heat-resistant polyamide resin used in electronics applications.

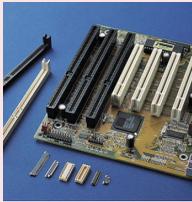
**Medical Business**

Dental materials sales expanded in the United States and other overseas markets, but sales of dialysis and blood purification devices were affected by the revisions in the medical price schedule.

**Other**

The Activated Carbon Business continued posting strong sales of its water purification products. Sales in the Engineering and Other Related Business were also strong.

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.



**VECRUS**

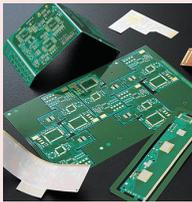
*VECRUS* is a liquid crystal polymer nonwoven fabric with strong mechanical features and heat resistance that exhibits superior anti-absorption, low dielectric and dielectric

tangent properties in a high-frequency radiation environment. It is a material highly suitable for printed wiring boards.



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.



**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.



**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.



**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.



**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.



**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.



**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.

**ACTIVATED CARBON**

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

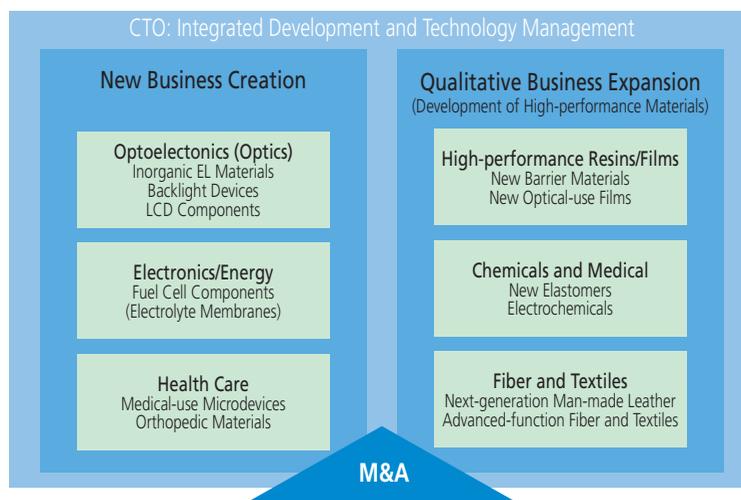
# Research and Development

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 Kuraray Group continues to focus on the promising growth fields of optics, electrical and electronics, automobiles, environmental products, energy, and health care. At the same time, we are activating our progressive refinement concept in the business development in accordance with for of highly processed, high-performance materials and components.

Kuraray Group’s R&D activities encompass corporate research undertaken primarily by the New Business Development Division; divisional R&D conducted by in-house companies and affiliates; and manufacturing technology development led by the Technology Division. Development and technology activities in fiscal year 2007 emphasized “selectivity” and “focus” with the aim of enhancing R&D efficiency and effectiveness. We implemented several programs, including “integrating the administration of technology and management resources” and “allocating R&D resources to advance key business themes” designed to accelerate commercialization of business creation projects.

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 Kuraray Group’s (Kuraray and consolidated subsidiaries) R&D operations employ 784 researchers and engineers.

## The New Business Development Division Structure



To augment management resources and accelerate development

## Accelerating New Business Creation

The New Business Development Division of the Corporate R&D division is tasked with accelerating commercialization of business creation projects and identifying next-generation businesses.

R&D in the optics field focuses on cultivating next-generation products. In the energy field, R&D concentrates on new materials and components for high-performance electrolyte membranes and other components essential to fuel cell batteries for which the market is expected to develop in the next few years. R&D in the health care field is advancing the development of innovative orthopedic materials and other products with the aim of creating new businesses in medical-related fields.

In March 2006, Kuraray and T. CHATANI & CO., LTD. established K·C Luminas Co., Ltd. to commercialize T. CHATANI & CO., LTD.'s revolutionary ultra-bright long-lasting inorganic EL material. In April 2007, Kuraray acquired a larger stake in the joint company and changed the name to Kuraray Luminas Co., Ltd. Under Kuraray's leadership, the company implemented a program to fortify its production technology development and industrialization.

## Fortifying and Expanding Existing Businesses

Corporate research is tightly coordinated among our divisional R&D activities enabling close collaboration between the manufacturing technology development departments and the R&D departments of in-house companies and our affiliate companies. Vinyl acetate chain related products are our core business generating approximately one-third of group revenues, and the group accordingly gives the highest priority to corporate investment in vinyl acetate related R&D. These activities include researching and developing applications for polyvinyl butyral (PVB), which is a new material that offers different applications from our existing products. We believe our R&D of PVB will lead to new products and new markets for the company.

# Corporate Governance

Kuraray believes that the maintenance of appropriate relationships with shareholders and other 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 seeks to fulfill its responsibilities as an enterprise open to society by enhancing corporate governance functions and establishing highly transparent and fair management.

## Corporate Governance System

Kuraray is establishing a corporate governance system to increase the effectiveness of supervision and monitoring functions as well as to ensure management efficiency.

### Board of Directors and Organizations Responsible for Business Execution

- The Board of Directors establishes the Board of Directors' Regulations, deliberates on 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.
- 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.
- 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.

### Management Advisory Council

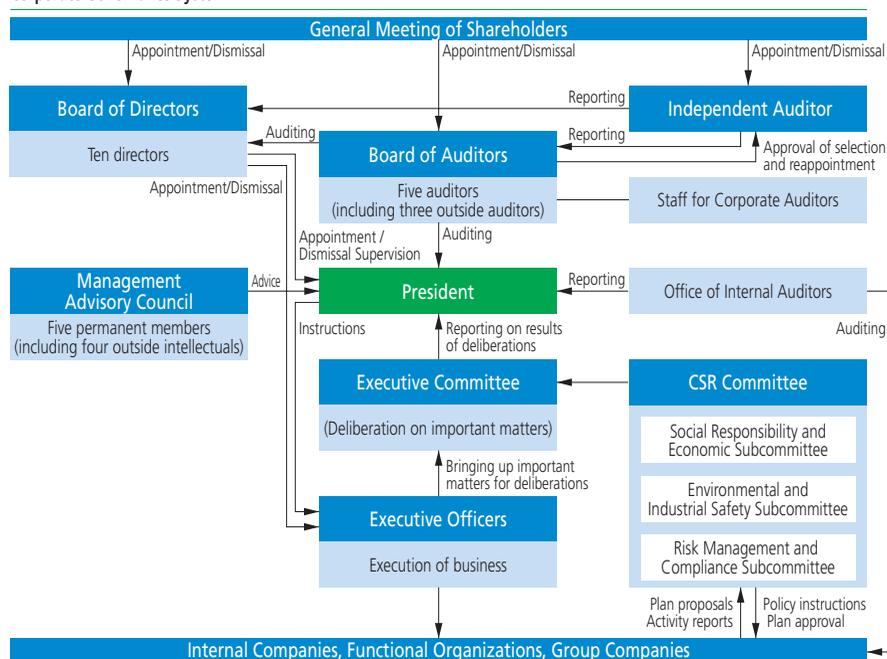
- Kuraray has established the Management Advisory Council to serve as a consultative body to the president from the perspectives of compliance, the protection of shareholder rights, and management transparency. The Council, which consists of five permanent members, four of whom are experts from outside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

### Board of Auditors

- The Board of Auditors consists of five corporate auditors, including three outside auditors independent from the Kuraray Group. 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 and requests for explanations of the state of business affairs. Kuraray appoints dedicated assistants to the auditors to assist the auditors in the performance of their duties.

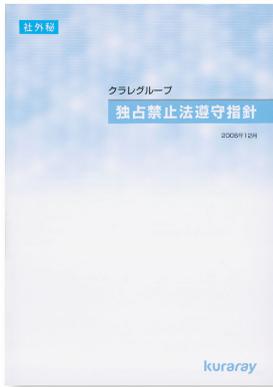
#### Corporate Governance System



#### 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 CSR Committee administers the establishment and operation of the Group's integrated compliance and risk management systems. The Office of CSR and Communications serves as the CSR Committee's secretariat, administering the Committee's business and working to inculcate compliance within the Group.
- Group rules and regulations are set, and information systems established, to ensure the reliability of financial reporting.
- The Office of Internal Auditors, an internal audit organization that reports directly to the president, cooperates with corporate auditors and the independent auditor to audit the legality, appropriateness, and effectiveness of business operations in each organization.
- To enhance these systems, Kuraray has established the Internal Controls Reform Team, which inspects and promotes establishment of group-wide internal controls.



#### the Antimonopoly Act Compliance Guidelines

A handbook that lists things to be careful of in everyday work in regard to Antimonopoly Act Compliance Guidelines, with specific examples and in an easy-to-understand format.



#### Compliance Handbook (US Version)

Based on the Japanese version, a handbook for Group employees in the United States, in English, that reflects laws in the U.S.



Shuichi Takemoto  
President, Kuraray America

## Compliance

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

In fiscal 2006, Kuraray revised the Antimonopoly Act Compliance Guidelines and distributed the new regulations to domestic Group employees (managers and sales people), as well as held seminars led by specialist attorneys. Kuraray also made the Compliance Handbook (US Version) in response to laws in the United States.

### Compliance Declaration

On behalf of the Kuraray Group, the president of Kuraray publicly announced 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.

### Compliance in the United States

A compliance program was initiated at Group companies in the United States as part of efforts in the establishment of the risk management system. As part of this program, the Compliance Handbook (US Version) was produced and distributed to all Group employees in the U.S. The handbook is a tool for deepening understanding of laws and behavioral standards closely related to corporate activities. Employees are asked to internalize the contents of the handbook and reflect this in all behavior and activities. Local employees have praised the handbook as being easy to understand.

## Risk Management

Risk management for the Kuraray Group had been undertaken as continuous monitoring of each division within the Group, mainly by the CSR and Communications Division. In order to properly respond to new issues such as the greater number of risks that must be faced and preparation of business continuity plans, in April 2007 a risk management specialty office was established. Also, in times of crisis, Kuraray establishes an Emergency Response Headquarters directed by the president, and puts into action a response that utilizes the resources of the entire organization.

# Board of Directors, Corporate Auditors, and Executive Officers



From left: Toshihide Sakai, Shiro Kataoka, Yoichi Ninagawa, Osamu Asaba, Junsuke Tanaka, Yasuaki Wakui, Seiji Wajiki, Nobuo Iwawaki, Fumio Ito, Hiroaki Yoshino.

## BOARD OF DIRECTORS

### Representative Director and President

**Yasuaki Wakui**

### Representative Senior Managing Director

**Junsuke Tanaka**

Chief Technology Officer  
Responsible for New Business Development Division  
Responsible for Technology Division

### Managing Director

**Seiji Wajiki**

Responsible for CSR and Communications Division  
Responsible for Plants  
Responsible for Environmental and Industrial Safety Management Center

**Osamu Asaba**

President of Fibers and Textiles Company

**Nobuo Iwawaki**

Responsible for Internal Control Reform Team  
Responsible for Accounting and Finance Division  
Responsible for Purchasing and Logistics Division

**Yoichi Ninagawa**

President of Chemicals and Medical products Company

**Fumio Ito**

Responsible for Corporate Management Division  
Responsible for Office of Global Business Development  
Responsible for General Affairs and H.R. Division

**Shiro Kataoka**

President of Specialty Resin and Film Company

### Director

**Hiroaki Yoshino**

General Manager of CSR and Communications Division

**Toshihide Sakai**

General Manager of Office of Global Business Development

## CORPORATE AUDITORS

### Standing Corporate Auditor

**Tsutomu Yabuta**

**Tadahiko Kujime**

### Corporate Auditor

**Toshimitsu Kitagawa**

**Hiroo Onodera**

**Hiroataka Ikuno**

## EXECUTIVE OFFICERS

### Senior Executive Officer

**Osamu Asaba**

President of Fibers and Textiles Company

**Yoichi Ninagawa**

President of Chemicals and Medical products Company

**Shiro Kataoka**

President of Specialty Resin and Film Company

**Hiroaki Yoshino**

General Manager of CSR and Communications Division

**Toshihide Sakai**

General Manager of Office of Global Business Development

**Kenzo Sawada**

General Manager of Poval Resin Division

**Hideo Tomita**

General Manager of General Affairs and H.R. Division

**Takayoshi Ohsaki**

General Manager of Okayama Plant

### Executive Officer

**Katsuya Hashimoto**

President of Kuraray Saijo Co., Ltd.

**Mitsuo Matsumoto**

General Manager of Office of Corporate Strategy and Planning

**Kohei Maeda**

General Manager of Office of Internal Auditors

Manager of Internal Control Reform Team

**Tokio Aikura**

General Manager of Methacrylate Division

### Executive Officer

**Mitsuaki Manabe**

General Manager of Accounting and Finance Division

**Yuichi Kawarasaki**

General Manager of Corporate Management Division

**Keiji Murakami**

General Manager of EVAL Division

**Gerd Lepper**

President of Kuraray Europe GmbH

**Jean-Marie Baetens**

President of EVAL Europe N.V.

**Nobuya Tomita**

President of Eval Company of America  
President of SEPTON Company of America

**Noboru Yanagida**

General Manager of Niigata Plant

**Shinzo Takemura**

General Manager of Poval Film Division

**Noritsugu Nagatomo**

General Manager of Technology Division

**Takaaki Fukumori**

General Manager of Purchasing and Logistics Division

**Kazuhiro Tenkumo**

General Manager of Fibers and Industrial Materials Division

**Yasuhiro Yamamoto**

General Manager of Isoprene Chemicals Division

### Notes:

1. Osamu Asaba, Yoichi Ninagawa, and Shiro Kataoka serve as Managing Director and Senior Executive Officer.
2. Hiroaki Yoshino, Toshihide Sakai serve as Director and Senior Executive Officer.

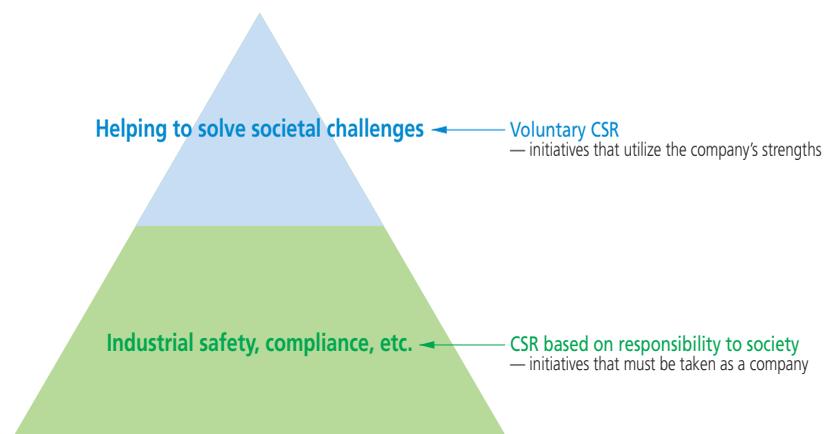
# Corporate Social Responsibility

A business offering products and services valued by society is a highly sustainable one. However, this sustainability does not necessarily extend to the organization managing the business. To increase the sustainability of the Kuraray Group, we are actively tackling issues in corporate social responsibility (CSR).

## CSR Stance

CSR encompasses a wide field of areas, and as it's closely related to many operations of a company, it can be said that CSR itself is the company's operation. Responding to the CSR issues raised in operations is essential to ensuring the longevity of the company, and as such responding to these issues is an essential contribution to the company's growth.

CSR is reflected throughout all activities at the Kuraray Group and we are thoroughly handling issues of responsibility to society such as industrial safety, compliance, and risk management. Moreover, through voluntary CSR initiatives such as developing products and services that help solve society's challenges, we are offering unmatched value to society by utilizing our strengths. We do this based on the idea of "Contributing to the World and Individual Well-being through Actions that Others are Unable to Produce."



### CSR through Products and Services

The first priority of CSR at the Kuraray Group is the provision of products and services that contribute to society. We are developing new technologies and products based on new ideas so that the provision of products and services will make us even more useful to society. We are also working to provide products in a stable, sustainable manner.

Aims of the products and services provided by the Kuraray Group

- Provide items truly needed by society
- Pursue value that can only be provided by the Kuraray Group
- Actively tackle issues untouched by others

Furthermore, we are paying close attention to the relationship between our business and efforts for regions and society as a whole, especially to societal contribution.

### Relationships with Stakeholders

The Kuraray group aims to build relationships with stakeholders in the following manner:

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**Customers and Business Partners:** Provide products and services of true value to prosper together, and maintain a business relationship for a long period.

---

**Shareholders:** Maintain stable and healthy profits and return profits to shareholders in an appropriate manner, so that share holdings are kept for a long period.

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**Employees:** Provide a workplace where employees can feel pride and enthusiasm, and enjoy working with colleagues.

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**Regions and Society:** As a corporate citizen, gain understanding through active communication and appropriate information disclosure.

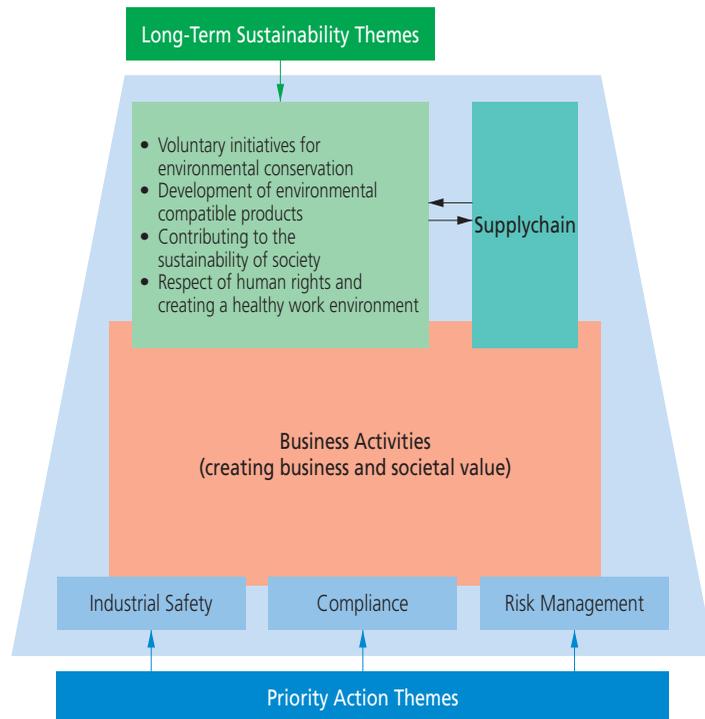
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## Areas of CSR Initiatives

What does the society of today ask of its companies? The Kuraray Group is constantly working to understand the needs of society. Based on this understanding, reflecting our experience, basic philosophy of management, and business strengths, we will focus on the things we believe to be most important and take firmly grounded initiatives.

- Lay the groundwork for industrial safety, compliance, and risk management, the support base for the existence of the company, through Priority Action Themes.
- Engage in voluntary initiatives in the environmental and societal areas based on Long-Term Objectives in a wide variety of fields. Do this with the aim of contributing to the realization of a sustainable society.

## The Scope of the Kuraray Group's CSR Activities



### CSR Promotion Structure

The CSR Committee, established in 2003, plays a central role in implementing the Kuraray Group’s CSR initiatives. The far-reaching and ever higher level of social responsibility required of companies necessitates response across the entire organization. The CSR Committee is a management level special committee that decides group-wide policies, objectives, and action plans, and puts into practice wide ranging programs with the cooperation of other Group organizations.

The CSR Committee maintains the Social Responsibility and Economic Subcommittee, the Environmental and Industrial Safety Subcommittee, and the Risk Management and Compliance Subcommittee. The subcommittees set up theme-specific working teams that focus on implementing specific initiatives and ascertaining & evaluating results.

#### CSR Promotion Structure



# Kuraray Topics

(Major Kuraray news releases in fiscal year 2006)

## New Thermoplastic Polyurethane Production Facility to be Built

Kuraray has determined to build a new thermoplastic polyurethane (TPU; product name: *KURAMIRON*) production facility with an annual capacity of 2,000 tons at the Kashima Plant in Kamisu, Ibaraki. The new facility is scheduled to commence operations in December 2006. We have shut down the Kurashiki Plant in Okayama Prefecture, which had an annual capacity of 1,400 tons.

\* TPU is a representative thermoplastic elastomer with excellent hardness and abrasion resistance. We applied it to range from injection molded products, such as shoe soles, to extrusion molded products, such as tube belts. We are currently developing new applications, such as an alternative for vinyl chloride materials used in grips and other soft products.



## PVB Film Production Capacity in Europe to be Expanded

Polyvinyl butyral film (PVB; product name: *TROSIFOL*) offers superior adhesive properties, excellent transparent qualities and high pliability. Used as an interlayer film in laminated safety glass, PVB film provides strong reinforcement against large fractures and renders the glass virtually shatter-proof. It is widely used for windows in the construction industry and in automobile windshields. To respond to the growing demand for PVB film, particularly in Europe, we plan to increase annual production capacity at Kuraray Specialities Europe GmbH (headquartered in Frankfurt, Germany) by 8,000 tons to an annual production capacity of 34,000 tons. The expansion is expected to be completed in June 2007.



## Joint-Venture Established to Produce Medical-Use Hollow-fiber Dialyzer Membrane

Kuraray Medical Inc. and Asahi Kasei Medical established a joint-venture company for manufacturing hollow fiber membranes with a view to ensuring a stable supply of dialysis and blood purification devices based on Kuraray hollow-fiber dialyzer membrane technology incorporating ethylene-vinyl alcohol copolymer (EVOH; product name: *EVVAL*) resin.

Company Name:	A-K Membrane Manufacturing Co., Ltd.
President:	Tatsuo Hiyoshi, Managing Director of Asahi Kasei Medical
Product:	EVOH hollow-fiber membrane for medical devices (Product name: <i>EVVAL</i> )
Establishment:	June 16, 2006
Capacity:	Annual equivalent of 4 million modules (2.6 million modules at startup)
Location:	Nobeoka, Miyazaki Prefecture, Japan
Start-up:	May 2008 (Planned)
Investment:	Approximately ¥2.5 billion (Initial investment: approximately ¥2 billion)
Paid-in capital:	¥490 million
Shareholding:	50% Asahi Kasei Medical, 50% Kuraray Medical Inc.
Employees:	Approximately 50

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## KURARAYKURAFLEX CO., LTD. Introduced the World's First Steam Jet Technologies Using High-speed Steam Heating and a New Type of Nonwoven Fabric

In May 2006, the KURARAYKURAFLEX CO., LTD. announced the development of an innovative steam jet technology that simultaneously uses steam heat and jet blasts and which enables production of new types of nonwoven fabric with special features and functions never before achieved. Applying this technology to different materials and processes yields a variety of new features applicable as high absorption materials, cushion materials, stretch materials, low-fluff nonwoven fabrics, acoustic absorption and a board-like heat insulation material.



## New Corporate Logo Launched to Commemorate Kuraray's 80th Anniversary

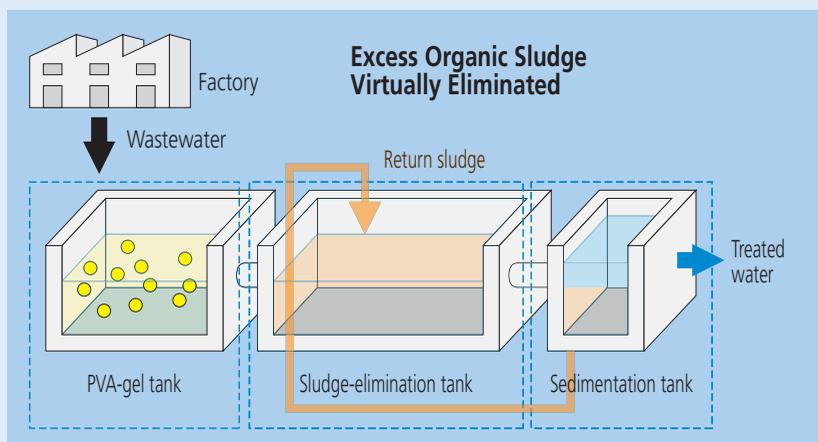
On June 24, 2006, Kuraray celebrated the 80th year since its founding on by introducing a new corporate logo to represent the Kuraray Group as a unified entity. Under the new logo, the Group aims to renew and enhance its brand value by presenting a uniform and consistent visual image that fully represents its integrated Group operations and expanding global presence. The use of romanized letters for Kuraray in the logo signifies the Group's commitment to a unified effort in global development, and the lower-case letters represent the Group's growth potential. The light-blue color depicts the Group's versatility. The last three letters "ray" are emphasized by italics to represent the link from the Company's founding business in chemical fiber and textiles (rayon) to the potential of new business growth fields, here represented by optical materials (which makes use of rays of light), and thus represent the connection of the Company's history and the Group's promising future.

**Withdrawal from the Rear Projection TV Screen Business**

Kuraray decided to withdraw from the rear projection TV (RPTV) business in the year under review after determining and maintaining sufficient business profitability would be difficult amid the increasingly intense competition and market demand for increasingly sophisticated technology. RPTV production was closed down in December 2006 after fulfilling our customer obligations. Management resources are now focusing on expanding business in a variety of areas, including LCD materials and developing new materials for RPTV applications.

**Kuraray Harnesses the Power of Nature with a Compact Highly Efficient Biological Wastewater Treatment System Using PVA-gel Beads**

Kuraray developed a groundbreaking wastewater treatment system free of chemical additives that greatly reduces the amount of waste sludge produced by industrial and municipal wastewater treatment plants. Excess sludge yielded by the PVA-gel biocarrier in the high-rate treatment unit degrades up to five times faster than the sludge of other commonly used biological treatment methods. Capital investment can thus be significantly reduced due to the need for relatively small tank volumes; in addition, running costs are reduced because ozone and other chemicals for sludge treatment are not used as well as there being less need for sludge handling and disposal in general.



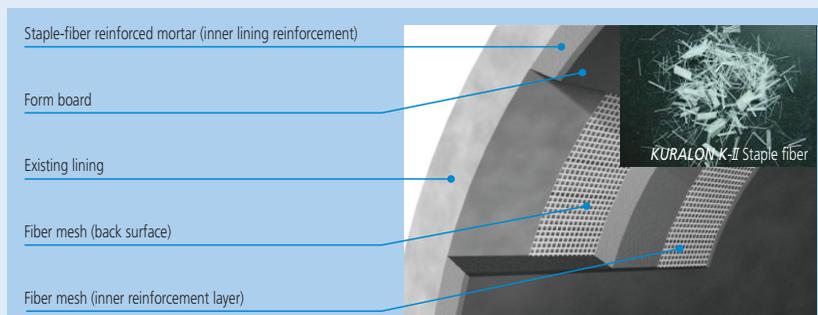
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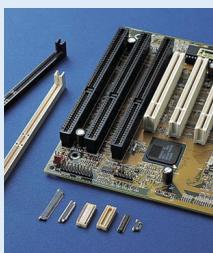
**Development of High-strength, Thin Concrete Tunnel Reinforcement Method**

TEKKEN CORPORATION and Kuraray, in collaboration with the Public Works Research Institute, developed a new high-strength, thin concrete tunnel reinforcement method utilizing high-strength fiber reinforcing mortar. Applicable to the interiors of previously constructed tunnels, the new method combines high-strength mortar reinforced with *KURALON K-II* fiber and a fiber mesh that acts as a tension-reinforcing agent. This mortar allows a very thin reinforcement layer that is further strengthened by a highly pliable *KURALON* (PVA fiber) fiber mesh. The combination produces excellent reinforcement performance with just a very thin layer, which enables application on previously constructed tunnels where limited space prevents layering using conventional materials. Application may also be carried out in stages, which helps to reduce costs and shorten the installation period. Kuraray is developing the material for widespread utilization, primarily as a reinforcement method for road tunnels and walls with deteriorating concrete.



### Heat-resistant Polyamide Resin GENESTAR Manufacturing Structure Enhancement

Since the 2000 launch of *GENESTAR*, Kuraray's in-house developed highly heat-resistant polyamide resin, have expanded steadily for the material focusing on the electric and electronics field. The company is now aiming to develop *GENESTAR*'s unique characteristic to develop applications in the auto parts field and other new sectors. To meet the growing demand and establish a supply source for the company's market expansion strategy, Kuraray has decided to substantially enhance its manufacturing capacity for *GENESTAR* resin and nonanediamine, a core raw material monomer used in *GENESTAR* production.



Production Capacity (Unit: tons per year)

Plant	Current Capacity	After Streamlining August 2007	Stage 1 Expansion August 2008	Stage 2 Expansion 2010
<b>GENESTAR</b>				
KURARAY SAIJO CO., LTD.	4,500	5,500	5,500	5,500
Kashima Plant			5,500	7,000
<b>Total</b>	<b>4,500</b>	<b>5,500</b>	<b>11,000</b>	<b>12,500</b>
<b>Monomer: Nonanediamine</b>				
Kashima Plant	3,000	3,000	7,000	7,000

### Expanding Production Capacity for Optical-use Poval Film Used in LCDs

The global LCD market is rapidly expanding, and demand for poval film is accelerating as large-screen LCD TVs become more common. Kuraray is expanding its poval production facilities to keep pace with this demand and plans to essentially double the current 61 million m<sup>2</sup> annual output from the plants in Saijo, Ehime Prefecture, and Kurashiki, Okayama Prefecture, by adding 60 million m<sup>2</sup> annual capacity to the Kurashiki Plant which is expected to complete during 2007. The company has also determined an additional 15 million m<sup>2</sup> annual output expansion of the Saijo Plant, scheduled for completion in mid-2008. Through these two substantial production capacity expansions, Kuraray is establishing a production structure capable of providing a steady supply of poval products to the global LCD market.



Production Capacity (Unit: million m<sup>2</sup> per year)

	Saijo Plant	Kurashiki Plant	Total
Current	3,100	3,000	<b>6,100</b>
Mid 2007	3,100	6,000 (+3,000)	<b>9,100</b>
End 2007	3,100	9,000 (+3,000)	<b>12,100</b>
New Capacity (Mid 2008)	4,600 (+1,500)	9,000	<b>13,600</b>

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### Consolidation of European Subsidiaries

The two German subsidiaries Kuraray Europe GmbH (KEG) and Kuraray Specialities Europe GmbH (KSE) were merged in the year under review to establish a unified overall management structure and enhance the effectiveness of strategic business operations for the Kuraray Group in Europe.

Date of Merger:	September 1, 2006
Date of Application for Registration of Merger:	October 25, 2006
Registration Completion:	December 2006

#### Overview of the Post-Merger Entity

Company name:	Kuraray Europe GmbH (KEG)
President:	Dr. Gerd Lepper
Capital:	31,000,000 Euro (100% investment by Kuraray)
Employees:	Approximately 540
Principal Businesses:	Import and sale of fibers and textiles, chemicals, and dental materials. Manufacture and sale of Poval (PVA) resin, butyral (PVB) resin and film
Address	Hoechst Industrial Park, D-65926, Frankfurt am Main, Germany

### Expanded VECTRAN High-strength Polyarylate Fiber Manufacturing Facilities

The company is currently conducting a ¥700 million expansion project at the *VECTRAN* polyarylate fiber manufacturing facilities at KURARAY SAIJO CO., LTD. in Saijo City, Ehime Prefecture. The expansion, which will add new spinning facilities and alleviate the production bottleneck that was occurring in the heat treatment processes, will raise annual production capacity from 600 tons to 1,000 tons. Construction is scheduled for completion in October 2007.



VECTRAN



Airship constructed with VECTRAN

### Operations Start at Expanded Methacrylic Resin Molding Material Production Facilities

The superior flexibility and other unique features of the company's high-performance product lineup of methacrylic resin molding materials have been generating increasingly strong demand for optical-related applications. In the year under review, the company expanded its annual methacrylic resin production capacity by 4,000 tons at the Niigata Plant in Tainai City, Niigata Prefecture. Raising the Niigata Plant's annual capacity to 44,000 tons is a strategic step to fulfilling anticipated ongoing demand growth and expanding sales.



2007  
1

### Kuraray Decided to Sell Kuraray Family Products Business

On April 1, 2007, the Kuraray Group sold Kuraray Family Products Co., Ltd., developer and marketer of health foods and other consumer goods, to the health foods company SUPLIPLUSFAMILY Co., Ltd.

#### Corporate Profile

Company Name:	Kuraray Family Products Co., Ltd.
President:	Yoshikazu Takamoto
Paid-in capital:	¥30 million (indirectly capitalized 100% by Kuraray)
Annual Sales:	Approximately ¥500 million

#### Corporate Profile

Company Name:	SUPLIPLUSFAMILY Co., Ltd.
President:	Kikuo Ushijima
Paid-in capital:	¥10 million

2

### Expanded Operations Commence for Thermoplastic Elastomer Production in the United States

In the year under review, SEPTON Company of America, located in Pasadena, Texas, commenced operations of its expanded production facilities for the thermoplastic elastomers *SEPTON* and *HYBRAR*. Annual production output was



boosted by 6,000 tons annually to 18,000 tons. As synthetic rubber materials, *SEPTON* and *HYBRAR* provide superior elasticity and can be flexibly heat molded similar to plastic, allowing for wide-ranging applications from automobile interiors and electric appliance components to housing construction materials.

#### Kuraray Group Production Capacity of Thermoplastic Elastomers

(As of March 2007)

SEPTON Company of America	18,000 tons/year
Kashima Plant	23,000 tons/year
<b>Total</b>	<b>41,000 tons/year</b>

3

### Kuraray Strengthens Development Framework for Inorganic EL Light-emitting Materials

In October 2005, Kuraray and T. CHATANI & CO. LTD. (headquarters in Chuo-ku, Osaka; President, Yasuhiro Chatani) began collaborative development of T. CHATANI & CO. LTD.'s world's first technology in ultra-bright, inorganic electroluminescence (EL) light-emitting materials. The two companies followed in April 2006 by establishing the 50-50 joint-venture K-C Luminas Co., Ltd. to further advance the development of display light sources. On February 23, 2007, the two companies agreed to revise the investment ratio to 90:10, and on April 1, 2007, the JV was renamed the Kuraray Luminas Co., Ltd. Kuraray will implement measures to strengthen the company's development structure and capabilities.

#### Corporate Profile

Company name:	Kuraray Luminas Co., Ltd.
Representative:	Koichi Kushida, President (Former Kuraray Senior Managing Director)
Capital:	¥400 million (Kuraray 90%, T. CHATANI & CO. LTD. 10%)

# Financial Section

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# Consolidated Six-Year Summary

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

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

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

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

# Financial Review

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

## SALES

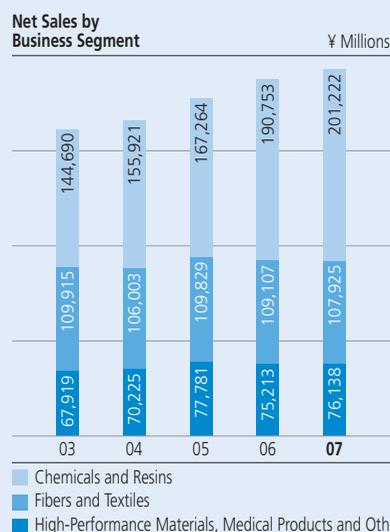
Consolidated net sales increased 2.7%, or ¥10,212 million, to ¥385,285 million (US\$3,265,127 thousand) for the period.

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

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

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

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



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

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

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

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

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

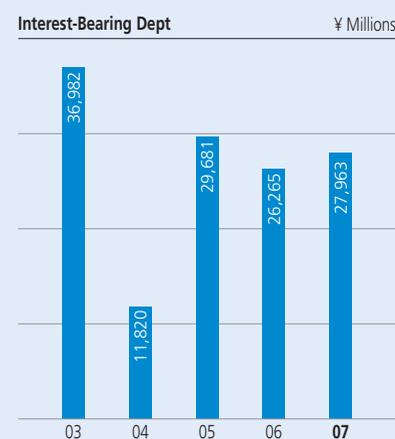
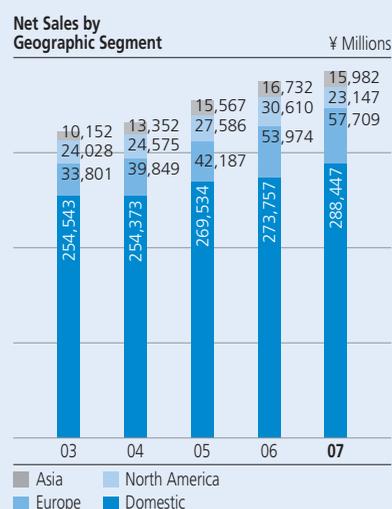
In Europe, sales increased 6.9%, or ¥3,735 million, to ¥57,709 million (US\$489,059 thousand). High raw materials and fuel prices had an impact of operations, but in addition

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

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

## OPERATING AND NET INCOME

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



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

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

### FINANCIAL POSITION

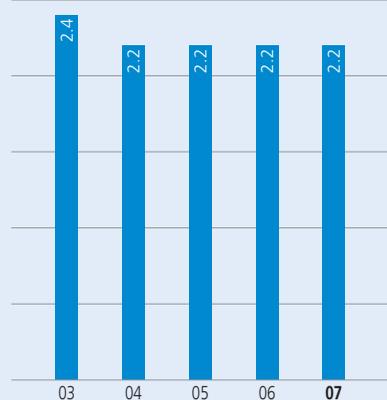
As of March 31, 2007, cash and cash equivalents rose ¥5,948 million to ¥34,033 million (US\$288,415 thousand). Notes and accounts receivable increased ¥4,222 million to ¥98,783 million (US\$837,145 thousand). Lastly inventories increased ¥2,801 million to ¥72,232 million (US\$612,136 thousand) along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

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

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

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

Number of Months' Sales in Inventory Months



Total Current Assets & Total Current Liabilities ¥ Millions



Total Shareholders' Equity & Equity Ratio ¥ Millions %



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

### CASH FLOWS

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

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

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

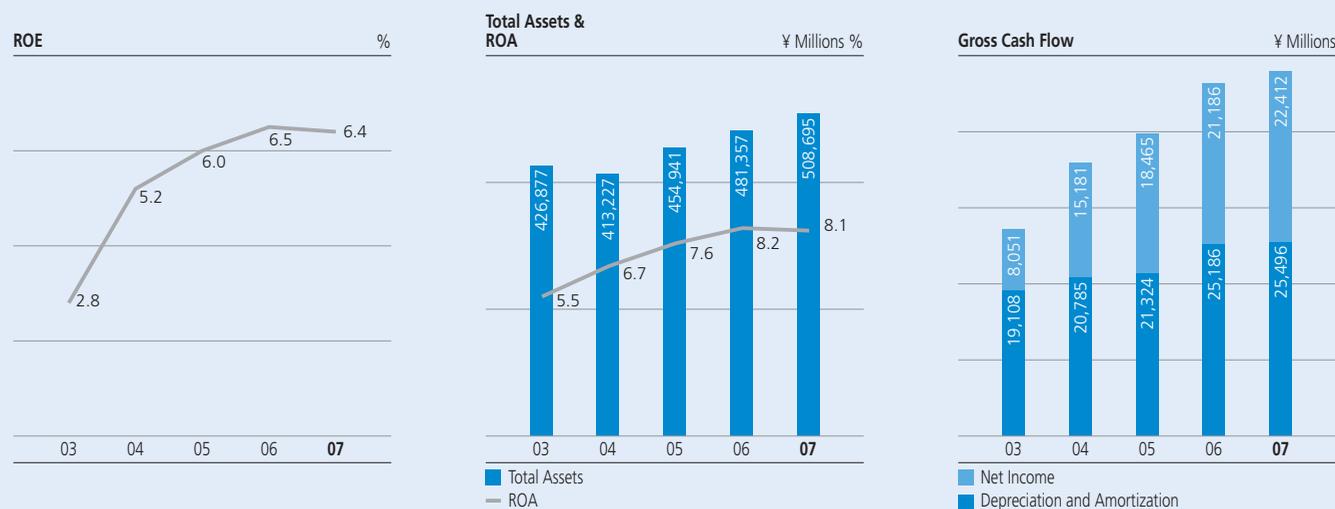
Net cash and cash equivalents used in financing activities decreased ¥3,441 million to ¥4,350 million (US\$36,864 thousand). Despite an increase in dividends paid of ¥1,477 million, and lower proceeds from long-term debt, ¥1,400 million, decreases in repayment of short-term bank loans of ¥3,248 million,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

### RESEARCH AND DEVELOPMENT

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

### CAPITAL EXPENDITURE

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



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

## OUTLOOK

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

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

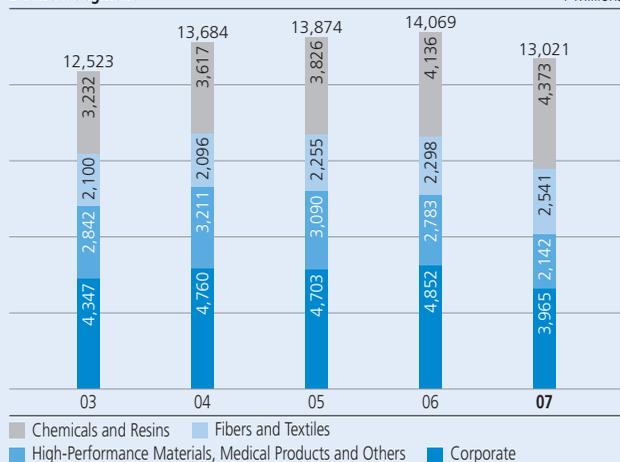
tomers, rebuild the aroma chemicals business, and accelerate market development for new products in the fine chemicals business. In methacrylic resins, we will endeavor to boost sales of high-performance products, centered on optical applications.

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

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

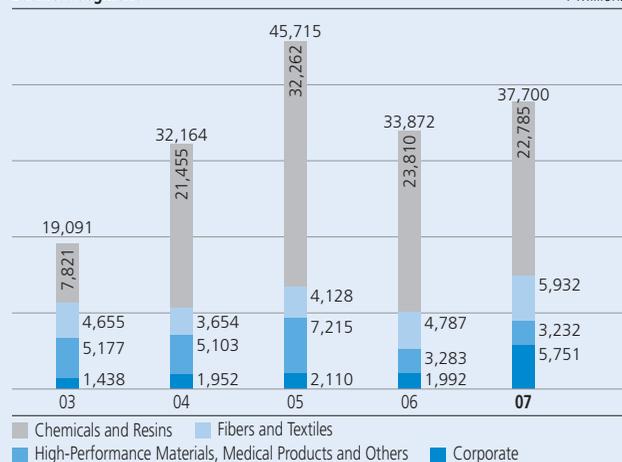
Forecasts for fiscal 2007 are net sales of ¥415,000 million, operating income of ¥45,000 million, and net income of ¥24,000 million. These forecasts assume average exchange rates of ¥115 to the US dollar, ¥150 to the Euro, as well as a price of ¥50,000 per kiloliter for domestically produced naphtha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

**Total R&D Expenses by Business Segment** ¥ Millions



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

**Capital Expenditure by Business Segment** ¥ Millions



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

## **BUSINESS RISKS**

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

### ***1. Changes in Market Environment***

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

### ***2. Changes in Raw Material and Fuel Prices***

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

### ***3. Product Defects***

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

### ***4. Changes in Exchange Rates***

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

### ***5. Litigation***

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

### ***6. Accidents and Disasters***

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

# Consolidated Balance Sheets

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

March 31, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<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
Loans receivable from unconsolidated subsidiaries, affiliates and others	909	624	7,703
Allowance for doubtful accounts	(893)	(1,015)	(7,568)
	98,799	94,170	837,280
Inventories (Note 4)	72,232	69,431	612,136
Deferred income taxes (Note 9)	6,741	6,478	57,127
Other current assets	6,165	2,504	52,245
<b>Total current assets</b>	<b>217,970</b>	<b>200,668</b>	<b>1,847,203</b>
<b>Property, plant and equipment (Note 5):</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 (Note 3)	43,558	37,970	369,136
Investments in unconsolidated subsidiaries and affiliates	5,990	4,512	50,763
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	2,261	2,802	19,161
Other	448	475	3,797
Accumulated premiums on insurance	14,654	29,707	124,186
Deferred income taxes (Note 9)	2,845	2,650	24,110
Prepaid pension cost (Note 10)	7,106	5,142	60,220
Other	4,490	3,511	38,053
Allowance for doubtful accounts	(18)	(115)	(153)
	116,573	121,293	987,908
	¥ 508,695	¥ 481,357	\$ 4,310,975

See notes to consolidated financial statements.

## Consolidated Balance Sheets

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

# Consolidated Statements of Income

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

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

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

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

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

	Millions of yen				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
<b>Balance at March 31, 2006</b>	¥ 88,955	¥ 87,227	¥ 155,377	¥ (11,584)	¥ 319,975
Cash dividends, ¥17.00 per share			(6,249)		(6,249)
Net income			22,412		22,412
Bonuses to directors			(68)		(68)
Treasury stock acquired				(176)	(176)
Treasury stock disposed		87		479	566
Other			(45)		(45)
Net changes other than owners' equity					
Total changes during the current period	—	87	16,050	303	16,440
<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					
	Valuation difference on available-for-sale securities (Note 3)	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
<b>Balance at March 31, 2006</b>	¥ 16,426	¥ —	¥ 2,726	¥ 19,152	¥ 2,354	¥ 341,481
Cash dividends, ¥17.00 per share						(6,249)
Net income						22,412
Bonuses to directors						(68)
Treasury stock acquired						(176)
Treasury stock disposed						566
Other						(45)
Net changes other than owners' equity	(5,104)	(9)	5,684	571	101	672
Total changes during the current period	(5,104)	(9)	5,684	571	101	17,112
<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, \$0.14 per share			(52,958)		(52,958)
Net income			189,932		189,932
Bonuses to directors			(576)		(576)
Treasury stock acquired				(1,492)	(1,492)
Treasury stock disposed		737		4,059	4,796
Other			(381)		(381)
Net changes other than owners' equity					
Total changes during the current period	—	737	136,017	2,567	139,321
<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					
	Valuation difference on available-for-sale securities (Note 3)	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
<b>Balance at March 31, 2006</b>	\$ 139,203	\$ —	\$ 23,102	\$ 162,305	\$ 19,949	\$ 2,893,907
Cash dividends, \$0.14 per share						(52,958)
Net income						189,932
Bonuses to directors						(576)
Treasury stock acquired						(1,492)
Treasury stock disposed						4,796
Other						(381)
Net changes other than owners' equity	(43,254)	(76)	48,169	4,839	857	5,696
Total changes during the current period	(43,254)	(76)	48,169	4,839	857	145,017
<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 to consolidated financial statements.

# Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

Years ended March 31, 2007 and 2006	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
<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
Impairment loss on property, plant and equipment (Note 5)	1,658	5,455	14,051
Gain on sales of property, plant and equipment	(3,746)	(8,446)	(31,746)
Loss on disposal of property, plant and equipment	670	492	5,678
Gain on sales of investment securities	(3,079)	(1,029)	(26,093)
Write-down of investment securities	293	253	2,483
Interest and dividend income	(1,940)	(1,294)	(16,441)
Interest expenses	419	414	3,551
Increase or decrease in notes and accounts receivable	(4,932)	(5,838)	(41,797)
Increase or decrease in inventories	(1,357)	(4,219)	(11,500)
Increase or decrease in notes and accounts payable	2,822	(2,505)	23,915
Increase or decrease in prepaid pension costs (Note 10)	(1,964)	(1,630)	(16,644)
Other, net	(1,133)	587	(9,601)
<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)
Decrease (increase) in marketable securities	(3,292)	3,000	(27,898)
Payments for acquisition of property, plant, equipment and intangible assets	(32,575)	(36,069)	(276,059)
Proceeds from sales of property, plant, equipment and intangible assets	4,927	10,550	41,754
Payments for purchase of investment securities	(16,954)	(1,379)	(143,678)
Payment for disposal of property, plant equipment and intangible assets	(2,744)	(338)	(23,254)
Proceeds from sales and redemption of investment securities	7,465	3,604	63,263
Payments for acquisition of long term prepaid expenses	(2,457)	(338)	(20,822)
Payments of premiums on insurance	(309)	(702)	(2,619)
Withdrawals from accumulated premiums on insurance	15,842	6,573	134,254
Other, net	3,051	1,406	25,856
<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 to consolidated financial statements.

# Notes to Consolidated Financial Statements

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

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS:

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### (a) Principles of consolidation

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

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

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

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

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

Kuraray Holdings U.S.A., Inc.

Kuraray America, Inc.

Eval Company of America

SEPTON Company of America

Eval Europe N.V.

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

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

### (b) Cash and cash equivalents

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

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

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

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

### (d) Investment securities

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

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

**(e) Inventories**

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

**(f) Property, plant and equipment**

Property, plant and equipment are stated at cost.

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

The estimated useful lives of assets are principally as follows:

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

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

**(g) Goodwill**

Goodwill is stated at cost less amortization.

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

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

**(h) Accounting for impairment losses on fixed assets**

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

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

**(i) Income taxes**

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

**(j) Retirement benefits**

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

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

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

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

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

**(k) Foreign currency items**

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

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

**(l) Research and development expenses**

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

**(m) Net income per share**

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

**(n) Allowance for doubtful accounts**

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

**(o) Derivative financial instruments and hedging**

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

a. Derivatives

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

b. Hedge accounting

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

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

c. Hedging policy

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

d. Assessment method for hedge effectiveness

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

**(p) Directors' bonuses**

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

**(q) Presentation of net assets**

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

**(r) Treasury shares**

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

**3. SECURITIES:**

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

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

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

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

**4. INVENTORIES:**

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

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

## 5. IMPAIRMENT LOSSES ON FIXED ASSETS:

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

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

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

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

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

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

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

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

Long-term debt and bonds consist of the following:

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

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

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

## 7. OWNERS' EQUITY:

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

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

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

The Corporation law provides that an amount equal to 10%

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

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

#### 8. STOCK-BASED COMPENSATION PLANS:

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

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

#### 9. INCOME TAXES:

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

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

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

##### (1) Current:

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

(2) Non-current:

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

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

**10. RETIREMENT BENEFITS:**

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

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

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

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

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

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

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

**11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:**

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

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

**12. RESEARCH AND DEVELOPMENT EXPENSES:**

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

### 13. COMMITMENTS AND CONTINGENCIES:

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

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

### 14. LEASES:

#### (a) Financing leases

Lease transactions as a lessee:

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

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

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

The leased assets were as follows:

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

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

Lease transactions as a lessor are immaterial.

#### (b) Operating leases

Lease transactions as a lessee:

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

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

Lease transactions as a lessor are immaterial.

### 15. DERIVATIVE FINANCIAL INSTRUMENTS:

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

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

## Hedging instruments and hedged items

March 31, 2007 and 2006

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

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

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

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

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

**16. SEGMENT INFORMATION:**

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

## Net sales and operating income

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

Identifiable assets, capital expenditure, and depreciation and amortization

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

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

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

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

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

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

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

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

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

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

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

## 17. SUBSEQUENT EVENTS:

### (a) Cash dividends

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

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

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

### (b) Stock option plan

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

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

### (c) Acquisition of treasury stock

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

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

# Report of Independent Auditors

Kuraray Co., Ltd. and Its Consolidated Subsidiaries

PricewaterhouseCoopers Aarata

PRICEWATERHOUSECOOPERS 

NM Plaza Midosuji Bldg., 5th Floor  
3-6-3, Awajimachi  
Chuo-ku, Osaka-city, Osaka  
541-0047 Japan

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

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

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

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

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



June 20, 2007

# Consolidated Companies

(As of July 1, 2007)

## JAPAN

Company	Head office	Capital (¥ millions)	Activities
Kuraray Medical Inc.	Tokyo	¥ 2,500	Manufacture and sales of medical products
KURARAY TRADING Co., LTD.	Osaka	2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
KURARAY CHEMICAL CO., LTD.	Osaka	600	Manufacture and sales of activated carbon and related products
KC Processing Co., Ltd.*	Okayama	20	Processing of activated carbon
KURARAY ENGINEERING CO., LTD.	Osaka	450	Plant design and construction
KurarayKikou Co., Ltd.	Ehime	10	Manufacture of machinery parts
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
Ibuki Kosan Co., Ltd.	Gifu	10	Manufacture of rubber products
KURARAYLIVING CO., LTD.	Osaka	101	Manufacture and sales of packaging materials
KURARAY BUSINESS SERVICE CO., LTD.	Osaka	100	Information system service
KURARAY FASTENING CO., LTD.	Osaka	100	Manufacture and sales of <i>MAGIC TAPE</i>
KURARAYKURAFLEX CO., LTD.	Osaka	100	Manufacture and sales of nonwoven fabric products
KURAFLEX IBARAKI COMPANY LIMITED*	Ibaraki	30	Manufacture of nonwoven fabric products
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting
Kuraray Okayama Spinning CO., LTD.*	Okayama	50	Manufacture of synthetic fiber
TECHNO SOFT CO., LTD.	Osaka	50	Consulting for improved management
Kuraray Travel Service Corporation	Osaka	20	Travel and insurance agency
KURARAY SAJO CO., LTD.	Ehime	10	Manufacture of chemical products and synthetic fiber
KURARAY TAMASHIMA COMPANY LIMITED	Okayama	10	Manufacture of synthetic fiber and PVA film
KURARAY FUDOSAN CO., LTD.	Osaka	10	Real estate leasing and management
Kuraray Interior Co., Ltd.	Osaka	10	Manufacture and sales of luxury furniture
THE KURASHIKI KOKUSAI HOTEL, LTD.*	Okayama	450	Hotel management
Iruma Country Club Co., Ltd.	Saitama	40	Golf course management
OKAYAMA RINKOH CO., LTD.	Okayama	98	Warehousing, distribution, and processing
OKAYAMA RINKOH WAREHOUSE AND TRANSPORT CO., LTD.	Okayama	20	Forwarding (transportation)
Kyosei Chemical Co., Ltd.	Tokyo	50	Manufacture of pigments and dyes
NIHONKAI ACETYLENE CO., LTD.*	Tokyo	60	Manufacture and sales of acetylene gas
Hikari Shoes Co., Ltd.*	Chiba	34	Manufacture and sales of shoes
Kuraray Luminas Co., Ltd.	Tokyo	400	Development of inorganic EL materials

## OVERSEAS

Kuraray Holdings U.S.A., Inc.	New York, U.S.A.	US\$55.03 million	Holding company, coordination of U.S. subsidiaries
Kuraray America, Inc.	New York, U.S.A.	US\$10.1 million	Import and sales of Kuraray products
Eval Company of America**	Texas, U.S.A.	US\$4.15 million	Manufacture and sales of <i>EVAL</i>
SEPTON Company of America**	Texas, U.S.A.	US\$35 million	Manufacture and sales of thermoplastic elastomers
Kuraray Europe GmbH	Frankfurt, Germany	€31.2 million	Import and sales of Kuraray products in Europe Manufacture and sales of poval and butyral resins and film
EVAL Europe N.V.	Antwerp, Belgium	€29.7 million	Manufacture and sales of <i>EVAL</i> in Europe
OOO Trosifol	Nizhny Novgorod, Russia	RUR78.95 million	Manufacture and sales of PVB film
Kuraray Hong Kong Co., Ltd	Hong Kong, China	HK\$4.65 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Singapore Pte., Ltd.	Singapore	SP\$93.5 million	Holding company, coordination of local subsidiaries
Kuraray Specialities Asia Pte., Ltd.	Singapore	SP\$45.6 million	Sales of poval resins
Poval Asia Pte Ltd.*	Singapore	SP\$40 million	Manufacture of poval resins

\* Equity method subsidiary

\*\*Scheduled to be merged into Kuraray America, Inc. in January 2008.

# History

## Kuraray Co., Ltd. and Its Consolidated Subsidiaries

### 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

# Investor Information

Kuraray Co., Ltd.

(As of March 31, 2007)

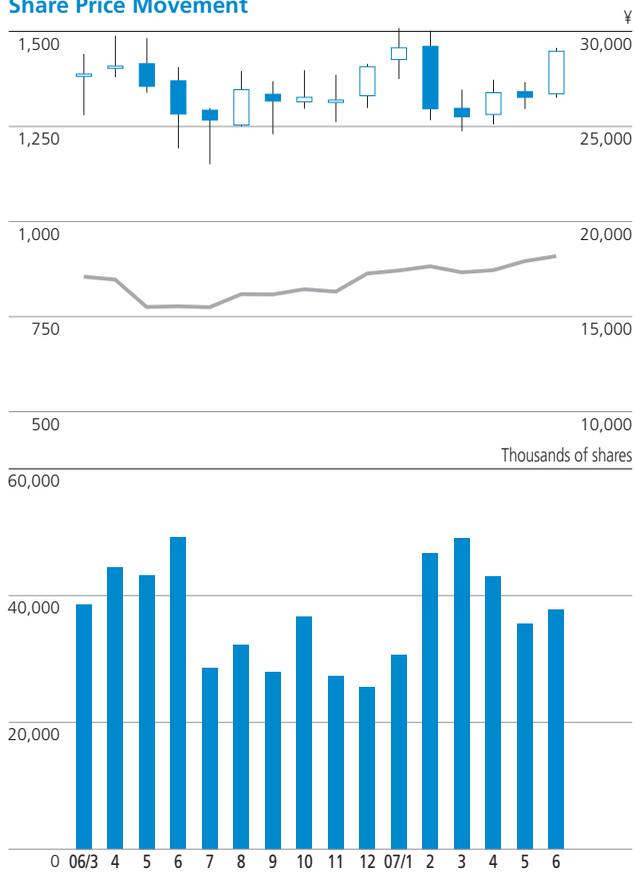
## KURARAY CO., LTD.

Established: June 24, 1926  
 Capital: ¥88,955 million  
 Shares Authorized: 1,000,000,000 shares  
 (as of June 28, 2006)  
 Issued: 382,863,603 shares  
 Number of Shareholders: 29,117

## 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

High Closing High Opening  
 Low Opening Low Closing  
 — Nikkei Stock Average (right scale) ■ Volume

## Shareholder Register Agent for Common Stock

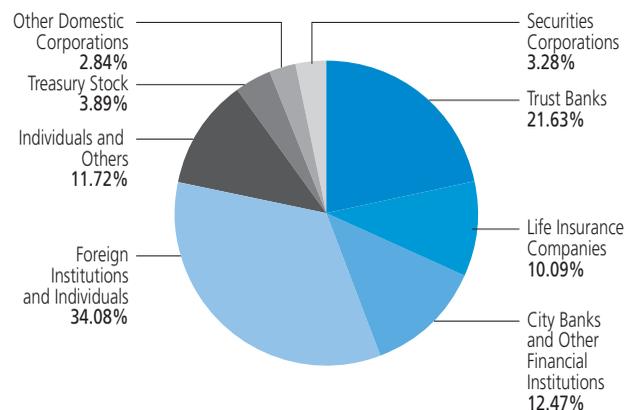
The Sumitomo Trust And Banking Co., Ltd.  
 4-5-33, Kitahama, Chuo-Ku, Osaka 540-8639, Japan

## Principal Shareholders

Name or company name	Number of Shares Held (thousands)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd. (Trust Account)	23,805	6.22%
The Master Trust Bank of Japan, Ltd. (Trust Account)	23,426	6.12%
The Chase Manhattan Bank, NA London	21,382	5.58%
National Mutual Insurance Federation of Agricultural Cooperatives	13,695	3.58%
Nippon Life Insurance Company	12,061	3.15%
Mellon Bank Treaty Clients Omnibus	8,326	2.17%
Meiji Yasuda Life Insurance Company	8,066	2.11%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	8,014	2.09%
BNP Paribas Securities (Japan) Ltd.	7,919	2.07%
Mizuho Corporate Bank, Ltd.	7,396	1.93%
State Street Bank and Trust Company	6,998	1.83%

Notes: Kuraray Co., Ltd holds 14,877,167 shares of treasury stock.

## Breakdown of Issued Shares by Type



KURARAY CO., LTD.

**TOKYO HEAD OFFICE**

Ote Center Bldg., 1-1-3, Otemachi,  
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**OSAKA HEAD OFFICE**

Shin-Hankyu Bldg., 1-12-39, Umeda,  
Kita-ku, Osaka 530-8611, Japan  
tel. +81-6-6348-2111 fax. +81-6-6348-2165

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made from 100% elemental chlorine free (ECF) pulp.

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