

# Financial Section

## Contents

Financial Review

Risk Management

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Changes In Net Assets

Consolidated Statements of Cash Flows

Segment Information

    Industry segment information

    Geographic segment information

Overseas Sales

Notes to Consolidated Financial Statements

Report of Independent Auditors

# Financial Review

Kuraray Co., Ltd. and its Consolidated Subsidiaries

The following section refers to the consolidated financial statements of the Kuraray Group for fiscal 2008 (from April 1, 2008 to March 31, 2009).

## SALES

Consolidated net sales decreased 9.8%, or ¥40,824 million (US\$416 million), to ¥376,777 million (US\$3,844 million).

Sales decreased in the Chemicals and Resins Business by ¥19,452 million (US\$198 million), or 8.0 % year on year, to ¥224,332 million (US\$2,289 million).

The poval products saw decreases in both sales and earnings. Optical-use poval film was affected by an inventory correction of LCD TVs and liquid crystal panels and the demand for them has further dropped since November 2008, which forced us to make a production cutback. Sales of Poval resins were strong until September 2008. However, sales for processing fibers and textiles, processing paper, and polymerization agent of vinyl chloride resin have been sluggish in Asia including Japan and China since October 2008 due to the global economic slowdown. For PVB film, the demand for interlayers for architectural glass remained favorable throughout the year.

EVAL, an EVOH resin, recorded lower sales and earnings. Although the demand for the resin remained comparatively strong until September 2008, the sales for gasoline tank applications have significantly fallen due to remarkably sluggish sales of automobiles since the financial crisis and the demand for food packaging applications also declined.

Sales and profit of isoprene-related products decreased overall. The sales volume of SEPTON thermoplastic elastomer decreased due to a drop in demand which began in the Asian region in August 2008 and has expanded worldwide. Sales of specialty chemical remained sluggish due to lagging sales of solvents and other products.

Sales and earnings of methacrylic resin decreased. The business of molding materials etc. saw a big drop in demand and more severe conditions because the market environment has drastically changed since October 2008.

The Fibers and Textiles Business recorded lower sales and earnings. Sales decreased ¥9,118 million, or 8.7% year on year, to ¥96,116 million (US\$980 million).

Sales of KURALON leveled off while earnings fell. Although the overseas demand for KURALON for FRC (Fiber Reinforced Cement) as an alternative to asbestos remained firm, however, the demand for applications such as automobile brake hoses remained sluggish.

Sales and earnings of CLARINO man-made leather fell. The sales volume for shoe and other applications decreased, which forced us to make a production cutback.

The demand for nonwoven fabrics and loop fasteners remained favorable mainly in Japan, but sales have been affected by the slump in demand for industrial material applications since October 2008.

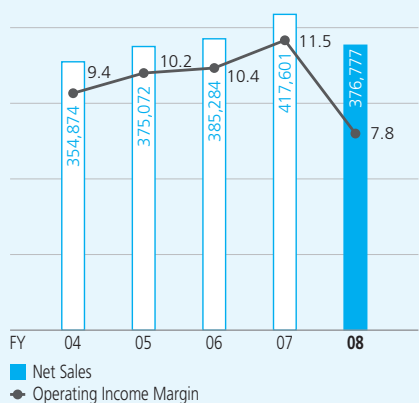
Sales of long-fiber polyester remained steady for sports clothing, but exports to the Middle East, Europe, and other regions declined due to a sharp appreciation of the yen in addition to a slump in sales of other clothing items. The decreasing demand also affected both the domestic demand and exports of short-fiber polyester.

The High-Performance Materials, Medical Products and Others Business recorded lower sales and earnings. Sales decreased ¥12,253 million, or 17.9% year on year, to ¥56,327 million (US\$574 million).

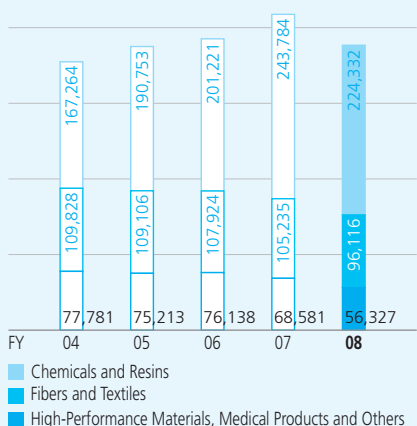
In the medical business, sales of dental materials expanded in the United States, Europe and other overseas regions, however, sales decreased as a result of the transfer of the dialysis business in October 2007 to Asahi Kasei Kuraray Medical Co., Ltd.

The sales volume of GENESTAR heat-resistant polyamide resin significantly decreased due to a sharp drop in demand of principal

**Net Sales & Operating Income Margin** ¥ Million, %



**Net Sales by Business Segment** ¥ Million



users for mobile phones and personal computers. As a result, Kuraray began to operate a facility to expand production (to an annual capacity of 11,000 tons from 5,500 tons), however, operations only lasted for a short period.

In the Water Purification Business, sales of activated carbon remained steady mostly with respect to domestic filtration plants.

Other businesses remained sluggish and sales dropped mainly due to decreasing external construction work in the engineering business.

Sales of almost all products including optical-use poval film and CLARINO in Japan have remained sluggish since October 2008. KURARAY ENGINEERING received significantly fewer orders for plants for private companies. As a result, its net sales decreased to ¥251,583 million (US\$2,567 million), respectively.

Although sales of dental materials remained favorable, sales of EVAL for gasoline tank applications and CLARINO man-made leather remained sluggish throughout the year. Sales of EVAL for food packaging applications and SEPTON have also been affected by a drop in demand since October 2008. Net sales and operating income decreased on a yen conversion basis due to an appreciation of the yen against the dollar. As a result, sales in North America decreased to ¥28,288 million (US\$288 million).

In Europe, although the demand for Poval resins and EVAL for food packaging applications has decelerated since October 2008, sales of PVB film for architectural glass, KURALON as an alternative to asbestos, and dental materials remained favorable throughout the year with an increase in sales. As a result, sales increased to ¥76,961 million (US\$785 million), respectively.

In Asia, Kuraray took entire ownership of POVAL ASIA PTE LTD. (current Kuraray Asia Pacific Pte.Ltd.) in January 2008 and additionally consolidated two Chinese companies (Kuraray (Shanghai) Co., Ltd. and Kuraray Trading (Shanghai) Co., Ltd.) as subsidiaries. As a result, sales grew to ¥19,944 million (US\$203 million), respectively.

## OPERATING AND NET INCOME

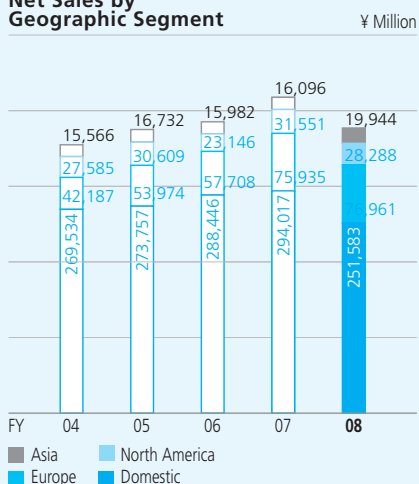
Cost of sales decreased 6.5% to ¥275,912 million (US\$2,815 million), and rose as a percentage of sales to 73.2%, from the previous fiscal year's 70.7%. Selling, general, and administrative (SG&A) expenses decreased 3.6% to ¥71,585 million (US\$730 million), up 1.2 percentage points year-on-year to 19.0% as a percentage of sales, despite to cost cutting efforts. As a result, operating income decreased 39.2% to ¥29,280 million (US\$298 million). Operating margin worsened to 7.8% from 11.5% in fiscal 2007.

The substantial decline in production since October, 2008 due to the global recession, special operating losses of ¥3,994 million (US\$40 million), and loss on valuation of inventories ¥1,153 million (US\$11 million) have been recorded as extraordinary loss. These and other factors combined to a decrease in income before taxes and minority interest of 50.6% to ¥19,523 million (US\$199 million). Taxes for the period came to ¥6,388 million (US\$65 million), yielding an effective tax rate of 32.72%. Net income was down 49.2% to ¥12,984 million (US\$132 million).

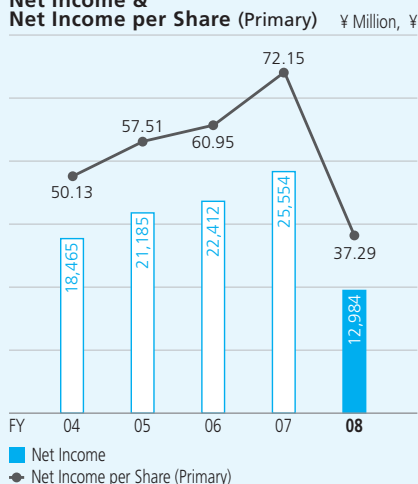
## FINANCIAL POSITION

As of March 31, 2009, cash and cash equivalents rose ¥33,968 million (US\$346 million) to ¥46,157 million (US\$470 million). Notes and accounts receivable decreased ¥28,921 million (US\$295 million) to ¥66,551 million (US\$679 million). Lastly, inventories (merchandise and finished goods, work-in-progress, and raw materials and supplies) increased ¥1,017 million (US\$10 million) to ¥73,552 million (US\$750 million), and the number of months' sales in inventory was 2.3 months, a deterioration from what was recorded in fiscal 2007, which was at 2.1 months. As a result of these and other factors, current assets rose 2.6% to ¥201,358 million (US\$2,054 million). Working capital (current assets less current liabilities) rose ¥25,108 million (US\$256 million) to ¥132,317 million (US\$1,350 million). The current ratio (current assets divided by current liabilities) rose to 291.6% from

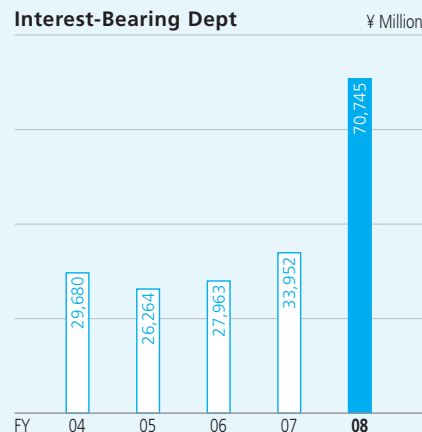
Net Sales by Geographic Segment



Net Income & Net Income per Share (Primary)



Interest-Bearing Debt



fiscal 2007's 220.4%. Tangible fixed assets decreased ¥11,342 million (US\$115 million) or 5.9% to ¥181,020 million (US\$1,847 million). This included factors such as a decrease in machinery and equipment, of ¥7,693 million (US\$78 million), to ¥102,536 million (US\$1,046 million) and a fall in construction-in-progress, of ¥5,322 million (US\$54 million), to ¥21,188 million (US\$216 million). Investments and other assets fell ¥1,738 million (US\$17 million) to ¥65,974 million (US\$673 million). Total assets decreased ¥18,491 million (US\$188 million) to ¥471,874 million (US\$4,815 million), and return on assets (operating income divided by average total assets for the period) was down by 3.5%, from last year to 6.1%.

Current liabilities decreased ¥20,033 million (US\$204 million) to ¥69,041 million (US\$704 million). A decrease of ¥15,732 million (US\$160 million), to ¥23,438 million (US\$239 million) in notes and accounts payable, along with other factors, was the cause of the current liability decrease. Noncurrent liabilities increased ¥21,359 million (US\$217 million) to ¥77,816 million (US\$794 million). Factors for the increase included an increase in long-term loans payable of ¥27,326 million (US\$278 million), to ¥39,280 million (US\$400 million), and an increase in provision for retirement benefits of ¥974 million (US\$9 million), to ¥13,933 million (US\$142 million). Lastly regarding net assets, from fiscal 2006 onward, Japanese accounting standards require presentation of net assets instead of shareholders' equity. Net assets decreased ¥19,817 million (US\$202 million) to ¥325,016 million (US\$3,316 million). The principal factor of the decrease was a drop in foreign currency translation adjustment and valuation difference on available-for-sale securities. Subtracting minority interests of ¥2,988 million (US\$30 million) to yield shareholders' equity of ¥321,918 million (US\$3,284 million), the equity ratio for the period was 68.2%, down 1.5% from fiscal 2007.

## CASH FLOWS

Looking at the cash flows for the current fiscal year, the net cash pro-

vided by (used in) operating activities was ¥46,919 million (US\$478 million), net cash provided by (used in) investment activities decreased ¥2,789 million (US\$28 million) to ¥42,428 million (US\$432 million), and net cash provided by (used in) financing activities was ¥30,032 million (US\$306 million). The balance of cash and cash equivalents at the end of the consolidated fiscal year increased by ¥33,968 million (US\$346 million) from the end of the previous consolidated fiscal year to ¥46,157 million (US\$470 million).

The details of individual cash flows provided by (used in) operating activities, investment activities, and financing activities are as follows:

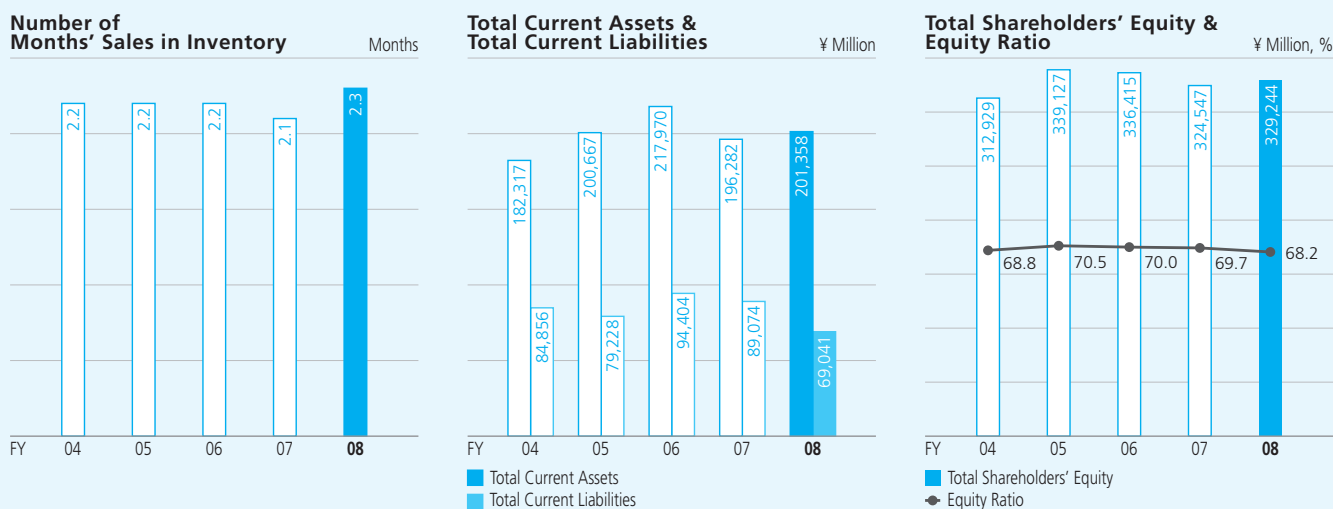
Net cash and cash equivalents provided by (used in) operating activities ¥46,919 million (US\$478 million) was calculated by deducting the expenditure ¥15,031 million (US\$153 million), such as payment of corporate taxes etc, from the earnings such as income before income taxes ¥19,523 million (US\$199 million) and depreciation and amortization ¥37,147 million (US\$379 million).

Net cash and cash equivalents provided by used in investment activities ¥42,428 million (US\$432 million) was calculated by deducting the expenditure, such as purchase of tangible and intangible fixed assets ¥38,780 million (US\$395 million) and purchase of investment securities ¥4,128 million (US\$42 million), from proceeds from sales and redemption of investment ¥1,534 million (US\$15 million).

Net cash and cash equivalents provided by (used in) financing activities ¥30,032 million (US\$306 million) was calculated by deducting the expenditure, such as cash dividends paid ¥8,009 million (US\$81 million), from the earnings such as short-term loans payable ¥4,343 million (US\$44 million) and long-term loans payable ¥32,266 million (US\$329 million).

## RESEARCH AND DEVELOPMENT

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



fields of business using pioneering technology and contribute to improving the natural environment and quality of life.

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

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. Kuraray advances its manufacturing technology through the specialized activities of the Manufacturing Technology Development Center, which develops technology following the guideline of a “Fusing Science and On-site Sense.” The R&D operations of the Kuraray Group (Kuraray and consolidated subsidiaries) employ 854 researchers and engineers.

R&D expenses totaled ¥16,358 million (US\$166 million) in fiscal 2008. R&D expenses by segment were: Chemicals and Resins Business ¥5,054 million (US\$51 million), Fibers and Textiles Business ¥2,832 million (US\$28 million), and High-Performance Materials, Medical Products and Others Business ¥2,476 million (US\$25 million). Corporate R&D expenses amounted to ¥5,995 million (US\$61 million).

### Chemicals and Resins

Kuraray is a global leader in the vinyl acetate chain products of polyvinyl alcohol (PVA), polyvinyl butyral (PVB), and EVAL ethylene vinyl alcohol (EVOH resin), and closely coordinates the worldwide operations of its domestic and overseas R&D departments with a

focus on development of new product applications, new products, and new production technology.

In gas barrier materials, we are seeking to accelerate the development of application ranges for the newly developed gas barrier materials *EVAL SP* and *KURARISTER*. *EVAL SP* is a new *EVOH* resin offering a high level of flexibility, elasticity, and superior plasticity. *KURARISTER* is a new transparent barrier film for use in food packaging retorts. We are also developing markets for a variety of innovative products, such as super-barrier (scavenger) materials.

R&D activities in thermoplastic elastomers focus on developing new applications and products, such as the new *SEPTON Q* Series incorporating a new thermoplastic polymer suitable for designing polymer alloys that are lightweight and exhibit excellent resistance to abrasion, scratching, and hydrolysis. Kuraray has applied its exclusive polymerization technology to produce the world’s first mass production techniques for new acrylic thermoplastic elastomer materials featuring superb transparency, weather resistance, and plasticity and is advancing toward product commercialization.

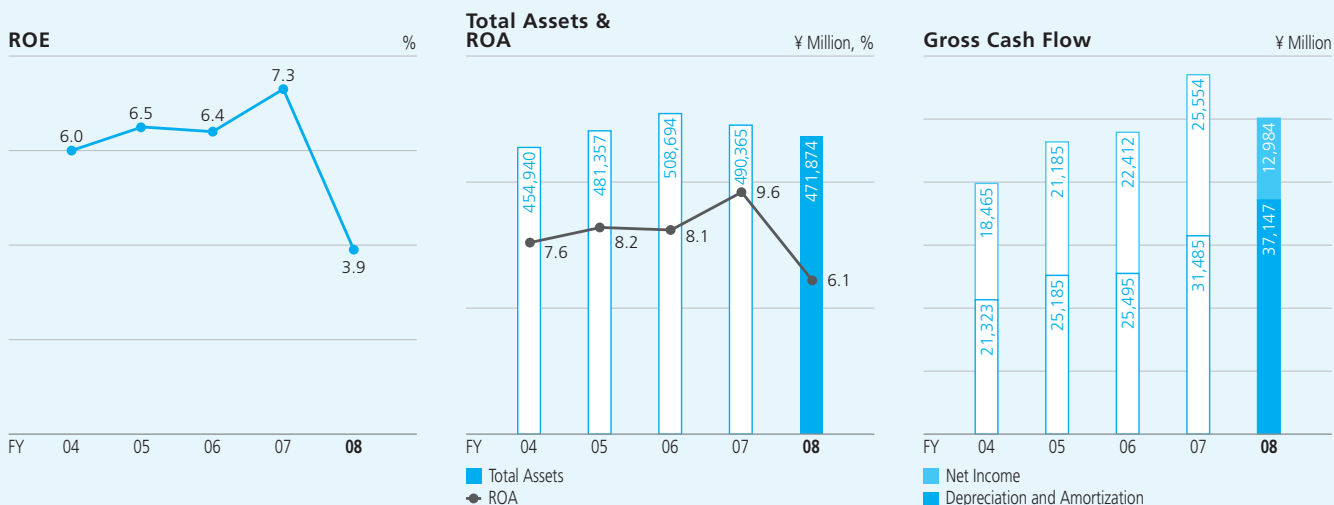
R&D in methacrylic resin concentrates on developing new products and applications emphasizing the distinctive properties of our polymers and in strategic areas for continuing business expansion in the electronic display industry.

### Fibers and Textiles

R&D activities in PVA fibers included R&D to develop broader applications for fiber-reinforced cement (FRC) and the start of operations in December 2008 of an expanded mass-production facility.

Research continued to develop new applications to exploit the high-strength, low water absorbency, abrasion resistance, cut resistance, and other characteristics of the high-performance polyarylate fiber *VECTRAN*.

R&D related to the man-made leather *CLARINO* focused on developing next-generation *TIRRENINA* products to be produced



using the Clarino Advanced Technology Systems (CATS), a completely new, environmentally friendly production process. Construction of a new mass production facility for *TIRRENINA* is advancing toward an autumn 2009 commencement of operations.

In new technologies, R&D continues to develop applications for the nonwoven fabric *Flextar*, which uses proprietary Kuraray textile materials, as an elastic, cushioning, and board material. While launching *Flextar* as an elastic autohesion wrap, we are also promoting it as a construction material and conducting presentations at construction industry events to exhibit its superior sound absorbency and insulation characteristics.

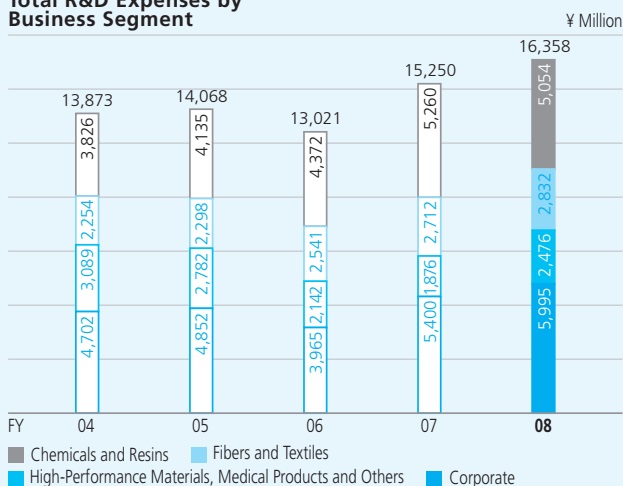
### High-Performance Materials, Medical Products and Others

R&D related to the heat-resistant polyamide resin *GENESTAR* aims at developing new products and applications to meet the growing demand for electrical and electronic applications and to keep pace with our steadily growing business in the automobile industry.

In the medical products business, advances in development and toward commercialization continued for new orthopedic products.

We enhanced our presence in the water treatment field with the establishment in February 2007 of the joint venture KURARAY AQUA CO., LTD., with Nomura Micro Science Co., Ltd. The company incorporates Kuraray's water purification technology using high-polymer hollow-fiber membrane and PVA gel wastewater treatment system with Nomura Micro's engineering technology. KURARAY AQUA is positioned to meet diverse needs in the globally expanding water treatment market (Kuraray established the Aqua Business Promotion Department in fiscal 2009 to accelerate business growth and fortify the product development structure). Kuraray's *Zecrus* biological wastewater treatment system received the Minister's Award from the Ministry of Education, Culture, Sports, Science and Technology at the 18th Global Environment Awards in February 2009.

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



### CAPITAL EXPENDITURE

The Kuraray Group's (Kuraray and consolidated subsidiaries) capital investment amounted to ¥38,925 million (US\$397 million), in fiscal 2008. By segment, the Chemicals and Resins Business invested ¥18,985 million (US\$193 million), mainly to expand production capacity optical-use poval film. The Fibers and Textiles Business invested ¥11,351 million (US\$115 million), including construction of a new plant for mass production of environmentally-friendly man-made leather. The High-Performance Materials, Medical Products and Others Business invested ¥6,319 million (US\$64 million), mainly to expand production capacity of *GENESTAR* heat-resistant polyamide resin. General (non-segment) capital investment amounted to ¥2,268 million (US\$23 million).

### OUTLOOK

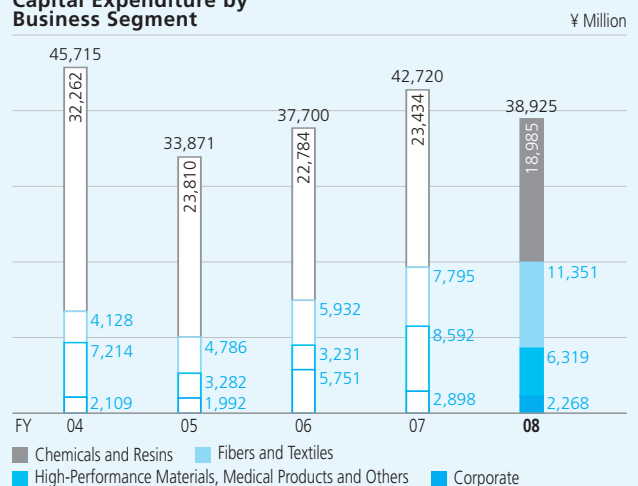
We expect that the global recession triggered by the turbulence in the financial market will continue for some time.

The Kuraray Group has embarked on "GS-Twins," a three-year medium-term action plan (fiscal 2009 to 2011) to quickly revive its earnings structure which has been damaged by the global economic crisis. By implementing this plan, Kuraray intends to generate growth so it can become a specialty chemical manufacturer company with a strong presence, which is an aim of its 10-Year Corporate Vision.

Our forecasts for the fiscal year ending March 31, 2010, are net sales of ¥340 billion, operating income of ¥20 billion, and net income of ¥10.5 billion.

We assume average exchanges rates of ¥100 to the U.S. dollar and ¥135 to the euro, as well as a price of ¥37 thousand per kilogram for domestically produced naphtha.

**Capital Expenditure by Business Segment**



Significant risks that could have an impact on the Kuraray Group's performance (results of operations and financial position) are discussed below. Forward-looking statements in the following sentences represent the Kuraray Group's best judgment as of March 31, 2009.

### 1. Changes in the market environment

In the rapidly growing information and communication fields, the Kuraray Group supplies a broad variety of materials and components, notably film and molded resin products for flat-panel displays. The Group is strategically expanding net sales and profits in this field, where the market environment can undergo drastic changes within a short period as a result of reverses in industry de facto standards and changes in the supply-and-demand balance. If such events were to occur, sales volumes could contract, sales prices could fall, or businesses could be forced to downsize or withdraw from a market within a short time frame, with an adverse effect on the Kuraray Group's performance.

### 2. Procurement and price changes of raw materials and fuels

The Kuraray Group is primarily engaged in the manufacture and sales of chemical products, synthetic resins, synthetic fibers and textiles, and finished goods made from the aforementioned. The Group also purchases various raw materials and fuels from external companies, including special materials that can only be procured from limited supplier sources, and those supplied via pipeline from specific suppliers. Therefore, if those procured items became limited in supply or ceased being supplied by natural disasters or by accident at the supplier side, it is possible that the Kuraray Group's performance may be adversely affected.

In the business structure of the Group, the effects of raw materials and fuel prices on cost of sales are relatively large. If high market prices for crude oil, natural gas, or raw materials required for our products, such as ethylene and other chemical materials, cannot be offset by internal measures such as increases in productivity and passing costs along in sales prices, it is possible that the Kuraray Group's performance may be adversely affected.

### 3. Changes in exchange rates

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

### 4. Product defects

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

### 5. Litigation, official regulations, etc.

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

In the business fields of the Group, there are various official regulations on products, raw materials, etc. In the event that these regulations are tightened and a lot of time and expenses are needed to respond thereto, or customers' business policies change thereby, the performance of the Kuraray Group could be adversely affected.

### 6. Accidents, disasters and environmental measures

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

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

Because manufacturing bases of the Group use considerable amount of energy (electricity, steam, etc.), they emit a great deal of carbon dioxide, a global-warming gas. Although the Group is taking tiered measures to reduce carbon dioxide emissions, if tighter official restrictions on emission gas amount is enforced in the future and thereby our business operations are significantly restricted, it is possible that the performance of the Kuraray Group may be adversely affected.

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

# Consolidated Balance Sheets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2008 and 2009	Millions of yen		Thousands of U.S. dollars
	Fiscal 2007	Fiscal 2008	Fiscal 2008
<b>ASSETS</b>			
<b>I Current assets:</b>			
1 Cash and deposits	¥ 11,109	¥ 37,527	\$ 382,935
2 Notes and accounts receivable - trade	95,472	66,551	679,094
3 Short-term investment securities	2,062	9,499	96,936
4 Inventories	72,534	—	—
5 Merchandise and finished goods	—	51,294	523,411
6 Work-in-process	—	10,145	103,522
7 Raw materials and supplies	—	12,112	123,597
8 Deferred tax assets	7,362	5,493	56,057
9 Other	8,764	9,248	94,373
10 Allowance for doubtful accounts	(1,021)	(514)	(5,246)
<b>Total current assets</b>	196,282	201,358	2,054,682
<b>II Noncurrent assets:</b>			
<b>1 Tangible fixed assets:</b>			
(1) Buildings and structures, net * <sup>2</sup>	33,853	34,832	355,430
(2) Machinery, equipment and vehicles * <sup>2</sup>	110,229	102,536	1,046,291
(3) Land * <sup>2</sup>	19,094	18,918	193,047
(4) Construction in progress * <sup>2</sup>	26,510	21,188	216,208
(5) Other, net	2,674	3,544	36,173
<b>Total tangible fixed assets *<sup>1</sup></b>	192,362	181,020	1,847,151
<b>2 Intangible assets:</b>			
(1) Goodwill	28,596	19,684	200,864
(2) Other intangible assets	5,411	3,835	39,139
<b>Total intangible assets</b>	34,008	23,520	240,003
<b>3 Investments and other assets:</b>			
(1) Investment securities * <sup>3 and 5</sup>	51,590	47,505	484,748
(2) Long-term loans receivable	392	983	10,033
(3) Deferred tax assets	3,538	5,616	57,311
(5) Prepaid pension cost	7,540	7,128	72,742
(6) Other	4,962	5,230	53,376
(7) Allowance for doubtful accounts	(311)	(490)	(5,005)
<b>Total investments and other assets</b>	67,712	65,974	673,206
<b>Total noncurrent assets</b>	294,083	270,515	2,760,361
<b>TOTAL ASSETS</b>	¥ 490,365	¥ 471,874	\$ 4,815,043

The accompanying notes are an integral part of these consolidated financial statements.

March 31, 2008 and 2009

Millions of yen  
Fiscal 2007    **Fiscal 2008**

Thousands of  
U.S. dollars  
**Fiscal 2008**

## LIABILITIES

### I Current liabilities:

1 Notes and accounts payable-trade	¥ 39,170	¥ <b>23,438</b>	\$ <b>239,172</b>
2 Short-term loans payable	11,997	<b>18,464</b>	<b>188,413</b>
3 Commercial papers	—	<b>3,000</b>	<b>30,612</b>
4 Accrued expenses	—	<b>4,529</b>	<b>46,224</b>
5 Income taxes payable	8,826	<b>684</b>	<b>6,983</b>
6 Provision for bonuses	6,716	<b>5,753</b>	<b>58,707</b>
7 Other provision	66	<b>377</b>	<b>3,847</b>
8 Other	22,296	<b>12,793</b>	<b>130,547</b>
<b>Total current liabilities</b>	89,074	<b>69,041</b>	<b>704,507</b>

### II Noncurrent liabilities:

1 Bonds payable	10,000	<b>10,000</b>	<b>102,040</b>
2 Long-term loans payable	11,954	<b>39,280</b>	<b>400,821</b>
3 Deferred tax liabilities	5,686	<b>5,318</b>	<b>54,268</b>
4 Provision for retirement benefits	12,959	<b>13,933</b>	<b>142,175</b>
5 Provision for directors' retirement benefits	191	<b>171</b>	<b>1,752</b>
6 Other	15,665	<b>9,112</b>	<b>92,987</b>
<b>Total noncurrent liabilities</b>	56,457	<b>77,816</b>	<b>794,045</b>
<b>TOTAL LIABILITIES</b>	145,532	<b>146,858</b>	<b>1,498,552</b>

## NET ASSETS

### I Shareholders' equity:

1 Capital stock	88,955	<b>88,955</b>	<b>907,707</b>
2 Capital surplus	87,228	<b>87,215</b>	<b>889,953</b>
3 Retained earnings	189,282	<b>193,977</b>	<b>1,979,358</b>
4 Treasury stock	(40,919)	<b>(40,903)</b>	<b>(417,384)</b>
<b>Total shareholders' equity</b>	324,547	<b>329,244</b>	<b>3,359,635</b>

### II Valuation and translation adjustments

1 Valuation difference on available-for-sale securities	6,895	<b>2,825</b>	<b>28,833</b>
2 Deferred gains or losses on hedges	18	<b>(156)</b>	<b>(1,591)</b>
3 Foreign currency translation adjustment	10,427	<b>(9,995)</b>	<b>(101,997)</b>
<b>Total valuation and translation adjustments</b>	17,341	<b>(7,326)</b>	<b>(74,756)</b>

### III Subscription rights to shares

69                      **109**                      **1,114**

### IV Minority interests

2,875                      **2,988**                      **30,497**

**TOTAL NET ASSETS**                      344,833                      **325,016**                      **3,316,490**

**TOTAL LIABILITIES AND NET ASSETS**                      ¥ 490,365                      **¥ 471,874**                      **\$ 4,815,043**

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2008 and 2009	Millions of yen		Thousands of U.S. dollars
	Fiscal 2007	Fiscal 2008	Fiscal 2008
<b>I Net sales</b>	¥ 417,601	¥ 376,777	\$ 3,844,668
<b>II Cost of sales *2</b>	295,220	275,912	2,815,430
<b>Gross profit</b>	122,381	100,865	1,029,238
<b>III Selling, general and administrative expenses:</b>			
1 Selling expenses	21,833	19,964	203,715
2 General and administrative expenses *2	52,417	51,620	526,744
<b>Total selling, general and administrative expenses *1</b>	74,250	71,585	730,460
<b>Operating income</b>	48,130	29,280	298,777
<b>IV Non-operating income:</b>			
1 Interest income	714	463	4,729
2 Dividend income	1,681	2,010	20,513
3 Other	1,360	933	9,527
<b>Total non-operating income</b>	3,756	3,407	34,770
<b>V Non-operating expenses:</b>			
1 Interest expenses	835	1,259	12,849
2 Equity in loss of affiliates	20	13	138
3 Personnel expenses for seconded employees	—	608	6,209
4 Foreign exchange losses	1,341	—	—
5 Loss on disposal of inventories	1,236	—	—
6 Other	5,634	4,008	40,907
<b>Total non-operating expenses</b>	9,068	5,890	60,103
<b>Ordinary income</b>	42,817	26,797	273,443
<b>VI Extraordinary income:</b>			
1 Gain on sales of investment securities *3	1,589	1,264	12,903
<b>Total extraordinary income</b>	1,589	1,264	12,903
<b>VII Extraordinary loss:</b>			
1 Abnormally low utilization variance *4	—	3,994	40,755
2 Impairment loss *5	2,256	1,473	15,033
3 Loss on valuation of investment securities *6	246	1,382	14,104
4 Loss on valuation of inventories	—	1,153	11,774
5 Business structure improvement losses *7	1,701	350	3,573
6 Loss on disposal of tangible fixed assets *8	269	185	1,890
7 Provision of allowance for doubtful accounts for loans to subsidiaries and affiliates	305	—	—
8 Loss on transfer from business divestitures	88	—	—
<b>Total extraordinary loss</b>	4,867	8,538	87,131
<b>Income before income taxes</b>	39,539	19,523	199,215
Income taxes - current	15,726	4,632	47,271
Income taxes - deferred	(1,839)	1,756	17,921
<b>Total income taxes</b>	13,887	6,388	65,192
<b>Minority interests in income</b>	97	149	1,525
<b>Net income</b>	¥ 25,554	¥ 12,984	\$ 132,497

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Changes In Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

# Consolidated Statements of Changes In Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2008 (As of March 31, 2009)	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at March 31, 2008</b>	<b>¥ 88,955</b>	<b>¥ 87,228</b>	<b>¥ 189,282</b>	<b>¥ (40,919)</b>	<b>¥ 324,547</b>
Effect of changes in accounting policies applied to foreign subsidiaries			(125)		(125)
Changes of items during the period					
Cash dividends			(8,009)		(8,009)
Net income			12,984		12,984
Changes in reporting entities			91		91
Purchase of treasury stock				(107)	(107)
Disposal of treasury stock		(13)		123	109
Other			(247)		(247)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(13)	4,819	15	4,821
<b>Balance at March 31, 2009</b>	<b>¥ 88,955</b>	<b>¥ 87,215</b>	<b>¥ 193,977</b>	<b>¥ (40,903)</b>	<b>¥ 329,244</b>

Fiscal 2008 (As of March 31, 2009)	Millions of yen						
	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments			
<b>Balance at March 31, 2008</b>	<b>¥ 6,895</b>	<b>¥ 18</b>	<b>¥ 10,427</b>	<b>¥ 17,341</b>	<b>¥ 69</b>	<b>¥ 2,875</b>	<b>¥ 344,833</b>
Effect of changes in accounting policies applied to foreign subsidiaries							(125)
Changes of items during the period							
Cash dividends							(8,009)
Net income							12,984
Changes in reporting entities							91
Purchase of treasury stock							(107)
Disposal of treasury stock							109
Other							(247)
Net changes of items other than shareholders' equity	(4,069)	(174)	(20,423)	(24,667)	40	113	(24,514)
Total changes of items during the period	(4,069)	(174)	(20,423)	(24,667)	40	113	(19,692)
<b>Balance at March 31, 2009</b>	<b>¥ 2,825</b>	<b>¥ (156)</b>	<b>¥ (9,995)</b>	<b>¥ (7,326)</b>	<b>¥ 109</b>	<b>¥ 2,988</b>	<b>¥ 325,016</b>

Fiscal 2008 (As of March 31, 2009)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance at March 31, 2008</b>	<b>\$ 907,707</b>	<b>\$ 890,090</b>	<b>\$ 1,931,457</b>	<b>\$ (417,543)</b>	<b>\$ 3,311,711</b>
Effect of changes in accounting policies applied to foreign subsidiaries			(1,278)		(1,278)
Changes of items during the period					
Cash dividends			(81,728)		(81,728)
Net income			132,497		132,497
Changes in reporting entities			935		935
Purchase of treasury stock				(1,096)	(1,096)
Disposal of treasury stock		(136)		1,255	1,118
Other			(2,525)		(2,525)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(136)	49,179	159	49,202
<b>Balance at March 31, 2009</b>	<b>\$ 907,707</b>	<b>\$ 889,953</b>	<b>\$ 1,979,358</b>	<b>\$ (417,384)</b>	<b>\$ 3,359,635</b>

Fiscal 2008 (As of March 31, 2009)	Thousands of U.S. dollars						
	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments			
<b>Balance at March 31, 2008</b>	<b>\$ 70,363</b>	<b>\$ 189</b>	<b>\$ 106,401</b>	<b>\$ 176,953</b>	<b>\$ 706</b>	<b>\$ 29,342</b>	<b>\$ 3,518,714</b>
Effect of changes in accounting policies applied to foreign subsidiaries							(1,278)
Changes of items during the period							
Cash dividends							(81,728)
Net income							132,497
Changes in reporting entities							935
Purchase of treasury stock							(1,096)
Disposal of treasury stock							1,118
Other							(2,525)
Net changes of items other than shareholders' equity	(41,530)	(1,781)	(208,398)	(251,710)	408	1,155	(250,146)
Total changes of items during the period	(41,530)	(1,781)	(208,398)	(251,710)	408	1,155	(200,944)
<b>Balance at March 31, 2009</b>	<b>\$ 28,833</b>	<b>\$ (1,591)</b>	<b>\$ (101,997)</b>	<b>\$ (74,756)</b>	<b>\$ 1,114</b>	<b>\$ 30,497</b>	<b>\$ 3,316,490</b>

# Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2008 and 2009	Millions of yen		Thousands of U.S. dollars
	Fiscal 2007	Fiscal 2008	Fiscal 2008
<b>I Net cash provided by (used in) operating activities:</b>			
1 Income before income taxes	¥ 39,539	¥ 19,523	\$ 199,215
2 Depreciation and amortization	31,485	37,147	379,051
3 Increase (decrease) in allowance for doubtful accounts	484	83	849
4 Increase (decrease) in provision for retirement benefits	40	947	9,673
5 Impairment loss	2,256	1,473	15,033
6 Loss on disposal of tangible fixed assets	269	185	1,890
7 Loss (gain) on sales of investment securities	(1,589)	(1,264)	(12,903)
8 Loss on valuation of investment securities	246	1,382	14,104
9 Loss on valuation of inventories	—	1,153	11,774
10 Loss on transfer from business divestitures	88	—	—
11 Interest and dividends income	(2,395)	(2,473)	(25,242)
12 Interest expenses	835	1,259	12,849
13 Decrease (increase) in notes and accounts receivable - trade	2,043	25,454	259,743
14 Decrease (increase) in inventories	(218)	(7,831)	(79,909)
15 Increase (decrease) in notes and accounts payable - trade	(3,535)	(14,063)	(143,506)
16 Decrease (increase) in prepaid pension costs	(433)	411	4,196
17 Other, net	(674)	(4,570)	(46,637)
<b>Sub-total</b>	68,442	58,818	600,183
18 Interest and dividends income received	2,363	2,498	25,493
19 Interest expenses paid	(809)	(1,199)	(12,244)
20 Insurance income	—	1,834	18,717
21 Income taxes paid	(13,539)	(15,031)	(153,378)
<b>Net cash provided by (used in) operating activities</b>	56,456	46,919	478,772
<b>II Net cash provided by (used in) investment activities:</b>			
1 Net decrease (increase) in time deposits	970	50	513
2 Net decrease (increase) in short-term investment securities	(60)	—	—
3 Purchase of tangible fixed assets and intangible assets	(44,413)	(38,780)	(395,718)
4 Payments for disposal of tangible fixed assets and intangible assets	(2,171)	(822)	(8,389)
5 Proceeds from sales of tangible fixed assets and intangible assets	128	178	1,824
6 Purchase of investment securities	(13,263)	(4,128)	(42,127)
7 Proceeds from sales and redemption of investment securities	2,265	1,534	15,658
8 Purchase of investments in a subsidiary resulting in change in scope of consolidation	(2,282)	—	—
9 Purchase of insurance funds	(99)	—	—
10 Proceeds from cancellation of insurance funds	14,848	—	—
11 Other, net	(1,139)	(461)	(4,704)
<b>Net cash provided by (used in) investment activities</b>	(45,217)	(42,428)	(432,942)
<b>III Net cash provided by (used in) financing activities:</b>			
1 Net increase (decrease) in short-term loans payable	4,069	4,343	44,324
2 Net increase (decrease) in commercial paper	—	3,000	30,612
3 Proceeds from long-term loans payable	9,100	32,266	329,248
4 Repayment of long-term loans payable	(9,015)	(1,000)	(10,207)
5 Cash dividends paid to minority shareholders	(13)	(35)	(363)
6 Proceeds from sales of treasury stock	436	50	514
7 Purchase of treasury stock	(30,165)	(107)	(1,096)
8 Cash dividends paid	(7,509)	(8,009)	(81,728)
9 Other, net	—	(475)	(4,854)
<b>Net cash provided by (used in) financing activities</b>	(33,097)	30,032	306,450
<b>IV Effect of exchange rate changes on cash and cash equivalents</b>	(235)	(1,242)	(12,676)
<b>V Net increase (decrease) in cash and cash equivalents</b>	(22,093)	33,281	339,603
<b>VI Cash and cash equivalents, beginning of year</b>	34,032	12,189	124,378
<b>VII Increase in cash and cash equivalents from newly consolidated subsidiary</b>	112	687	7,016
<b>VIII Increase in cash and cash equivalents resulting from merger</b>	137	—	—
<b>IX Cash and cash equivalents, end of year</b>	¥ 12,189	¥ 46,157	\$ 470,998

The accompanying notes are an integral part of these consolidated financial statements.

# Segment Information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

## Industry segment information

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

Fiscal 2008 (From April 1, 2008 to March 31, 2009)	Millions of yen					Consolidated total
	Chemicals and resins	Fibers and textiles	High performance materials, medical products and others	Total	Eliminated on consolidation and corporate	
I Net sales and operating income						
Net sales						
(1) Outside customers	¥ 224,332	¥ 96,116	¥ 56,327	¥ 376,777	¥ —	¥ 376,777
(2) Inter-segment	242	526	9,139	9,908	(9,908)	—
Total	224,574	96,643	65,467	386,686	(9,908)	376,777
Operating expenses	187,509	95,760	61,091	344,361	3,136	347,497
Operating income (loss)	37,065	883	4,376	42,324	(13,044)	29,280
II Identifiable assets, depreciation and amortization and capital expenditure						
Identifiable assets	239,332	76,298	62,208	377,839	94,034	471,874
Depreciation and amortization	24,458	6,140	4,058	34,657	2,489	37,147
Capital expenditure	¥ 18,985	¥ 11,351	¥ 6,319	¥ 36,656	¥ 2,268	¥ 38,925

Fiscal 2008 (From April 1, 2008 to March 31, 2009)	Thousands of U.S. dollars					Consolidated total
	Chemicals and resins	Fibers and textiles	High performance materials, medical products and others	Total	Eliminated on consolidation and corporate	
I Net sales and operating income						
Net sales						
(1) Outside customers	\$ 2,289,110	\$ 980,785	\$ 574,772	\$ 3,844,668	\$ —	\$ 3,844,668
(2) Inter-segment	2,469	5,372	93,265	101,107	(101,107)	—
Total	2,291,580	986,158	668,037	3,945,776	(101,107)	3,844,668
Operating expenses	1,913,363	977,144	623,382	3,513,890	32,000	3,545,891
Operating income (loss)	378,216	9,014	44,654	431,885	(133,108)	298,777
II Identifiable assets, depreciation and amortization and capital expenditure						
Identifiable assets	2,442,172	778,555	634,775	3,855,503	959,540	4,815,043
Depreciation and amortization	249,571	62,660	41,412	353,644	25,407	379,051
Capital expenditure	\$ 193,732	\$ 115,828	\$ 64,487	\$ 374,048	\$ 23,147	\$ 397,196

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

2. Principal products of each industry segment.

(1) Chemicals and resins ..... Poval resin and film, PVB resin and film, EVOH resin *EVVAL*, isoprene chemicals, fine chemicals, methacrylic resin and resin-finished goods.

(2) Fibers and textiles ..... *KURALON*, man-made leather *CLARINO*, non-woven fabrics *KURAFLEX*, hook and loop fasteners *MAGIC TAPE*, polyester, textiles and others.

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

3. Corporate operating expenses included in the "Eliminated on consolidation and corporate" account totaled ¥14,966 million and ¥13,322 million (US\$135,946 thousand) respectively, for years ended March 31, 2008 and 2009 respectively.

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

4. Corporate assets in the column "Eliminated on consolidation and corporate" are ¥64,846 million and ¥95,773 million (US\$977,284 thousand) as of March 31, 2008 and 2009 respectively. Corporate assets mainly represent surplus operating funds, long-term investment funds and assets held by the fundamental research departments and the corporate division of the Companies.

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

6. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries now depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the Corporate Tax Law of Japan, this difference is depreciated evenly over 5 years and included in depreciation and amortization. The effect of this change in each segment is not material.

7. The Company and some of its consolidated subsidiaries changed the useful life of some of the machineries effective the current consolidated fiscal year following the revision of legal useful life and the asset classification in response to the reform of the Corporation Tax Act in 2008. The effect of this change in each segment is not material.

8. Inventories, which the Company held for sale in the ordinary course of business, were mainly valued at cost using the weighted-average method previously, and those which had been held beyond a certain period were regularly written down. However, following the adoption of the "Accounting Standards for Measurement of Inventories (ASBJ Statement No. 9, issued on July 5, 2006)" starting from the current fiscal year, we mainly value these inventories at the lower of cost or net realizable value. The Company recorded loss on disposal of inventories due to the decrease in profitability as non-operating expenses in the past. However, we started to record it as cost of sales effective the current fiscal year with the adoption of the above-mentioned accounting standards. As a result of this change, operating income in the current fiscal year decreased by ¥870 million (US\$8,880 thousand) in "Chemicals and resins," by ¥763 million (US\$7,793 thousand) in "Fibers and textiles," by ¥182 million (US\$1,866 thousand) in "High performance materials medical products and others" and by ¥105 million (US\$1,074 thousand) in "Eliminated on consolidation and corporate" with the amount calculated using the previous method.

9. Effective the current fiscal year, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force No. 18, issued on May 17, 2006)," and implemented modifications necessary for consolidated financial settlement. The effect of this change in each segment is not material.
10. For the fiscal year ended March 31, 2008, the Company recorded ¥2,256 million in respect to impairment losses as an extraordinary loss. The details of the impairment loss recorded for each segment is as follows: ¥1,151 million in "Chemicals and resins"; ¥438 million in "Fibers and textiles"; ¥667 million in "High performance materials, medical products and others." Assets in each respective segment decreased by the same amount.
11. For the fiscal year ended March 31, 2009, the company recorded an impairment loss of ¥1,473 million (US\$15,033 thousand) in respect to impairment losses as an extraordinary loss. The details of the impairment loss recorded for each segment is as follows: ¥651 million (US\$6,648 thousand) in "Chemicals and resins"; ¥130 million (US\$1,328 thousand) in "Fibers and textiles"; ¥293 million (US\$2,998 thousand) in "High performance materials and medical products"; ¥397 million (US\$4,058 thousand) in "Eliminated on consolidation and corporate." Assets in each respective segment decreased by the same amount.

## Geographic segment information

	Millions of yen						Eliminated on consolidation and corporate	Consolidated total
	Japan	North America	Europe	Asia	Total			
Fiscal 2007 (From April 1, 2007 to March 31, 2008)								
<b>I Net sales and operating income</b>								
Net sales								
(1) Outside customers	¥ 294,017	¥ 31,551	¥ 75,935	¥ 16,096	¥ 417,601	¥ —	¥ 417,601	
(2) Inter-segment	26,062	4,500	4,308	2,504	37,376	(37,376)	—	
Total	320,080	36,052	80,243	18,601	454,978	(37,376)	417,601	
Operating expenses	264,769	33,088	75,312	18,487	391,657	(22,186)	369,471	
Operating income (loss)	55,311	2,964	4,931	113	63,320	(15,189)	48,130	
<b>II Identifiable assets</b>	¥ 282,541	¥ 45,177	¥ 94,936	¥ 14,126	¥ 436,781	¥ 53,584	¥ 490,365	
	Millions of yen							
Fiscal 2008 (From April 1, 2008 to March 31, 2009)								
<b>I Net sales and operating income</b>								
Net sales								
(1) Outside customers	¥ 251,583	¥ 28,288	¥ 76,961	¥ 19,944	¥ 376,777	¥ —	¥ 376,777	
(2) Inter-segment	23,943	6,060	3,641	4,181	37,826	(37,826)	—	
Total	275,526	34,349	80,602	24,126	414,604	(37,826)	376,777	
Operating expenses	242,153	32,097	75,144	23,790	373,186	(25,689)	347,497	
Operating income (loss)	33,372	2,251	5,458	335	41,417	(12,137)	29,280	
<b>II Identifiable assets</b>	¥ 263,932	¥ 35,168	¥ 74,884	¥ 12,892	¥ 386,877	¥ 84,996	¥ 471,874	
	Thousands of U.S. dollars							
Fiscal 2008 (From April 1, 2008 to March 31, 2009)								
<b>I Net sales and operating income</b>								
Net sales								
(1) Outside customers	\$ 2,567,174	\$ 288,658	\$ 785,316	\$ 203,518	\$ 3,844,668	\$ —	\$ 3,844,668	
(2) Inter-segment	244,318	61,841	37,159	42,670	385,989	(385,989)	—	
Total	2,811,492	350,500	822,475	246,189	4,230,658	(385,989)	3,844,668	
Operating expenses	2,470,957	327,530	766,776	242,764	3,808,028	(262,137)	3,545,891	
Operating income (loss)	340,535	22,970	55,699	3,424	422,629	(123,852)	298,777	
<b>II Identifiable assets</b>	\$ 2,693,184	\$ 358,860	\$ 764,124	\$ 131,558	\$ 3,947,728	\$ 867,315	\$ 4,815,043	

- Notes: 1. The segmentation of country or region is based on the geographical proximity.
2. Major countries and regions included in each category are as follows:
- (1) North America..... United States of America
  - (2) Europe ..... Germany and Belgium
  - (3) Asia ..... Singapore, Hong Kong and China
3. Corporate operating expenses in the column "Eliminated on consolidation and corporate" is the same as in "Note 3" of the "Industry segment."
4. Corporate assets in the column "Eliminated on consolidation and corporate" are the same as in "Note 4" of the Industry segment.
5. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed the depreciation method of tangible fixed assets acquired on and after April 1, 2007 to the method based on the amended Corporate Tax Law of Japan. As a result, operating expenses for this fiscal year, included in "Japan," increased by ¥816 million, and operating income in the same segment decreased by the same amount.
6. In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries now depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the consolidated fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the Corporate Tax Law of Japan, this difference is depreciated evenly over 5 years and included in depreciation and amortization. The effect of this change in each segment is not material.
7. The Company and some of its consolidated subsidiaries changed the useful life of some of the machineries effective the current fiscal year following the revision of legal useful life and the asset classification in response to the reform of the Corporation Tax Act in 2008. The effect of this change in each segment is not material.
8. Inventories, which the Company held for sale in the ordinary course of business, were mainly valued at cost using the weighted-average method previously, and those which had been held beyond a certain period were regularly written down. However, following the adoption of the "Accounting Standards for Measurement of Inventories (ASBJ Statement No. 9, issued on July 5, 2006)" starting from the current fiscal year, we mainly value these inventories at the lower of cost or net realizable value. The Company recorded loss on disposal of inventories due to the decrease in profitability as non-operating expenses in the past. However, we started to record it as cost of sales effective the current fiscal year with the adoption of the above-mentioned accounting standards. As a result of this change, operating income in "Japan" decreased by ¥1,816 million (US\$18,539 thousand) and that in "Eliminated on consolidation and corporate" by ¥105 million (US\$1,074 thousand) in the current fiscal year.
9. Effective the current fiscal year, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force No. 18, issued on May 17, 2006)," and implemented modifications necessary for consolidated financial settlement. The effect of this change in each segment is not material.
10. For the fiscal year ended March 31, 2008, the Company recorded ¥2,256 million in respect to impairment losses as an extraordinary loss. Accordingly, ¥2,256 million of impairment loss was recorded under extraordinary loss in "Japan" assets in said segment decreased by the same amount.
11. For the fiscal year ended March 31, 2009, the company recorded an impairment loss of ¥1,473 million (US\$15,033 thousand) in respect to impairment losses as an extraordinary loss. The detail of the impairment loss recorded for each segment is as follows: ¥1,075 million (US\$10,975 thousand) in "Japan" and ¥397 million (US\$4,058 thousand) in "Eliminated on consolidation and corporate" respectively. Assets in said segment decreased by the same amount.

## Overseas Sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

Fiscal 2008 (From April 1, 2008 to March 31, 2009)	Millions of yen				Total
	North America	Europe	Asia	Other	
I Overseas sales	<b>¥ 28,195</b>	<b>¥ 81,283</b>	<b>¥ 66,369</b>	<b>¥ 8,503</b>	<b>¥ 184,350</b>
II Consolidated net sales	—	—	—	—	<b>376,777</b>
III Percentage of consolidated net sales	<b>7.5%</b>	<b>21.6%</b>	<b>17.6%</b>	<b>2.3%</b>	<b>48.9%</b>

Fiscal 2008 (From April 1, 2008 to March 31, 2009)	Thousands of U.S. dollars				Total
	North America	Europe	Asia	Other	
I Overseas sales	<b>\$ 287,705</b>	<b>\$ 829,424</b>	<b>\$ 677,235</b>	<b>\$ 86,766</b>	<b>\$ 1,881,130</b>
II Consolidated net sales	—	—	—	—	<b>3,844,668</b>
III Percentage of consolidated net sales	<b>7.5%</b>	<b>21.6%</b>	<b>17.6%</b>	<b>2.3%</b>	<b>48.9%</b>

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

2. Major countries and regions included in each category are as follows:

- (1) North America ..... United States of America and Canada
- (2) Europe ..... Germany and United Kingdom
- (3) Asia ..... China and Korea
- (4) Other ..... Latin America and Africa

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

# Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Years ended March 31, 2009 and 2008

## (1) SIGNIFICANT ACCOUNTING POLICIES

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)
<p><b>1. Basis of presenting consolidated financial statements:</b> The accompanying consolidated financial statements of Kuraray Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects to application and disclosure requirements of International Financial Reporting Standards, and are filed with the Japanese Ministry of Finance (the "MOF") as required by the Financial Instruments and Exchange Law of Japan. The accompanying consolidated financial statements are translation of those filed with the MOF.</p> <p>Each amount of the consolidated financial statements and notes is rounded down to the nearest 1 million.</p>	<p><b>1. Basis of presenting consolidated financial statements:</b> The accompanying consolidated financial statements of Kuraray Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects to application and disclosure requirements of International Financial Reporting Standards, and are filed with the Japanese Ministry of Finance (the "MOF") as required by the Financial Instruments and Exchange Law of Japan. The accompanying consolidated financial statements are translation of those filed with the MOF.</p> <p>Each amount of the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of the translation into U.S. dollars, they have been rounded down to the nearest 1 thousand dollars).</p> <p>The United States dollar amounts included herein are provided solely for convenience of readers outside Japan and are stated, at the rate of ¥98=\$1, the approximate exchange rate prevailing on March 31, 2009. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at this or any other rate.</p>
<p><b>2. Scope of consolidation</b></p> <p>(1) Number of consolidated subsidiaries: 34 (Major consolidated subsidiaries) KURARAY TRADING Co., LTD., KURARAY ENGINEERING CO., LTD., KURARAY CHEMICAL CO., LTD., Kuraray Plastics Co., Ltd., Kuraray Medical Inc., KURARAY FASTENING CO., LTD., KURARAY KURAFLEX CO., LTD., Kuraray Techno Co., Ltd., KURARAY FUDOSAN CO., LTD., KURARAYLIVING CO., LTD., Kuraray Interior Co., Ltd., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY BUSINESS SERVICE CO., LTD., KurarayKiko Co., Ltd., Iruma Country Club Co., Ltd., OKAYAMA RINKOH CO., LTD., Kuraray Luminas Co., Ltd., KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY., LIMITED., Kyosei Chemical Co., Ltd., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Eval Company of America, SEPTON Company of America, Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Singapore Pte. Ltd., Kuraray Specialities Asia, Pte., Ltd., POVAL ASIA PTE LTD., Kuraray Hong Kong Co., Ltd., and other consolidated subsidiaries</p> <p>Kuraray Luminas Co., Ltd., formerly K-C Luminas Co., Ltd. which had been an unconsolidated subsidiary until the previous fiscal year, is consolidated from this fiscal year because it becomes materially significant.</p>	<p><b>2. Scope of consolidation</b></p> <p>(1) Number of consolidated subsidiaries: 34 (Major consolidated subsidiaries) KURARAY TRADING Co., LTD., KURARAY CHEMICAL CO., LTD., KURARAY ENGINEERING CO., LTD., Kuraray Luminas Co., Ltd., Kuraray Medical Inc., Kuraray Plastics Co., Ltd., KURARAYLIVING CO., LTD., Kuraray Techno Co., Ltd., KURARAY BUSINESS SERVICE CO., LTD., KURARAY KURAFLEX CO., LTD., KURARAY FASTENING CO., LTD., OKAYAMA RINKOH CO., LTD., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY FUDOSAN CO., LTD., Kuraray Interior Co., Ltd., KurarayKiko Co., Ltd., KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY., LIMITED., Iruma Country Club Co., Ltd., Kyosei Chemical Co., Ltd., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Hong Kong Co., Ltd., Kuraray Asia Pacific Pte. Ltd., Kuraray (Shanghai) Co., Ltd., and other consolidated subsidiaries</p> <p>Kuraray (Shanghai) Co., Ltd. and Kuraray Trading (Shanghai) Co., Ltd., which had been unconsolidated subsidiaries until the previous fiscal year, are consolidated from this fiscal year because they have become materially significant.</p>

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)
<p>POVAL ASIA PTE LTD., which had been an affiliated company accounted for using the equity method until the previous fiscal year, became a consolidated subsidiary from this fiscal year because all of its shares were purchased by the Group on January 31, 2008. Since the deemed acquisition date is set to the end of this fiscal year, only the balance sheet as of the year ended December 2007 is consolidated, and the Statements of income is prepared using the equity-method of accounting.</p> <p>Kuraray America, Inc. merged by absorption with Eval Company of America and SEPTON Company of America on January 1, 2008.</p> <p>(2) Names of major unconsolidated subsidiaries (Major unconsolidated subsidiaries) Kuraray Okayama Spinning CO., LTD.</p> <p>(Reasons for excluding from the scope of consolidation) The total assets, total sales and net income and loss (amount corresponding to the owned interest) and retained earnings (amount corresponding to the owned interest) of the unconsolidated subsidiary have no material effect on the consolidated financial statements.</p>	<p>Eval Company of America and SEPTON Company of America are excluded from the scope of consolidation from this fiscal year because they were merged by absorption with Kuraray's consolidated subsidiary Kuraray America, Inc. in January 2008.</p> <p>Both the consolidated subsidiaries, Kuraray Singapore Pte., Ltd. and Kuraray Specialities Asia Pte., Ltd. consolidated their business into Kuraray Asia Pacific Pte. Ltd., and a resolution was made in October 2008 to dissolve them.</p> <p>(2) Names of major unconsolidated subsidiaries (Major unconsolidated subsidiaries) Same as Fiscal 2007</p> <p>(Reasons for excluding from the scope of consolidation) Same as Fiscal 2007</p>
<p><b>3. Scope of application of equity method affiliates and subsidiaries</b></p> <p>(1) Number of unconsolidated subsidiaries accounted for using the equity method: 4 (Major unconsolidated subsidiaries) Kuraray Okayama Spinning CO., LTD. Mitsukura Chemical Co., Ltd., which was a company accounted for using the equity method in the previous fiscal year, is excluded from the equity-method of accounting from this fiscal year due to the merger with KURARAY CHEMICAL CO., LTD.</p> <p>(2) Number of affiliates accounted for using the equity method: 2 (Names of major affiliates) THE KURASHIKI KOKUSAI HOTEL LTD. POVAL ASIA PTE LTD., which had been an affiliated company accounted for using the equity method until the previous fiscal year, became a consolidated subsidiary from this fiscal year because all of its shares were purchased by the Group on January 31, 2008. Since the deemed acquisition date is set to the end of this fiscal year, only the balance sheet as of the year ended December 2007 is consolidated, and the statements of income is prepared using the equity-method of accounting.</p>	<p><b>3. Scope of application of equity method affiliates and subsidiaries</b></p> <p>(1) Number of unconsolidated subsidiaries accounted for using the equity method: 3 (Major unconsolidated subsidiaries) Kuraray Okayama Spinning CO., LTD. Nihonkai Acetylene Co., Ltd., which had been a company accounted for using the equity method until the previous fiscal year, is excluded from the equity method of accounting from this fiscal year because it was liquidated.</p> <p>(2) Number of affiliates accounted for using the equity method: 2 (Names of major affiliates) THE KURASHIKI KOKUSAI HOTEL LTD.</p>

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)
<p>(3) Unconsolidated subsidiaries (KURARAY (SHANGHAI) Co., Ltd. and other unconsolidated subsidiaries), and affiliates (Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd., and other affiliates) have not accounted for using the equity method, because their net income and loss and retained earnings (amount corresponding to the owned interest) have no material effect on the consolidated financial statements.</p> <p>(4) Accounting period of companies accounted for using the equity method In the case where the accounting period of companies accounted for using the equity method is different to the consolidated accounting period, consolidated financial statements are prepared using the relevant accounting period of such companies.</p> <p><b>4. Fiscal years of consolidated subsidiaries</b> The fiscal year-end of the Company's foreign consolidated subsidiaries is December 31. The consolidated financial statements incorporate the accounts of these companies with adjustments for significant transactions arising during the period from December 31 to March 31. Kuraray Europe GmbH OOO TROSIFOL EVAL Europe N.V. Kuraray Singapore Pte., Ltd. Kuraray Specialities Asia Pte., Ltd. POVAL ASIA PTE LTD. Kuraray Hong Kong Co., Ltd. Kuraray Holdings U.S.A., Inc. Kuraray America, Inc. Eval Company of America SEPTON Company of America</p> <p><b>5. Accounting policies</b> (1) Valuation standards and methods for significant assets a) Investments in securities Available-for-sale securities for which a market price is available are stated at fair value at a year-end. (Net unrealized gains or losses on these securities are recorded as a separate component of "Net assets", at the net of tax amount. The cost of securities sold is determined based on the moving average cost of all such securities held at the time of sale.) Other securities for which a market price is not available are stated at cost determined by the moving average method. b) Derivative financial instruments All derivatives are stated at fair value.</p>	<p>(3) Unconsolidated subsidiaries (KURARAY AQUA CO., LTD. and other unconsolidated subsidiaries), and affiliates (Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd., and other affiliates) have not accounted for using the equity method, because their net income and loss and retained earnings (amount corresponding to the owned interest) have no material effect on the consolidated financial statements.</p> <p>(4) —</p> <p><b>4. Fiscal years of consolidated subsidiaries</b> The fiscal year-end of the Company's foreign consolidated subsidiaries is December 31. The consolidated financial statements incorporate the accounts of these companies with adjustments for significant transactions arising during the period from December 31 to March 31. Kuraray Europe GmbH OOO TROSIFOL EVAL Europe N.V. Kuraray Asia Pacific Pte. Ltd. Kuraray Singapore Pte., Ltd. Kuraray Specialities Asia Pte., Ltd. Kuraray Hong Kong Co., Ltd. Kuraray (Shanghai) Co., Ltd. Kuraray Trading (Shanghai) Co., Ltd. Kuraray Holdings U.S.A., Inc. Kuraray America, Inc.</p> <p><b>5. Accounting policies</b> (1) Valuation standards and methods for significant assets a) Investments in securities Same as Fiscal 2007  b) Derivative financial instruments Same as Fiscal 2007</p>

<p style="text-align: center;"><b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)</p>	<p style="text-align: center;"><b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)</p>
<p>c) Inventories Inventories other than supplies are principally stated at cost determined using the periodic average method. Supplies are principally stated at cost determined using the moving average method.</p> <p>(2) Depreciation method of significant depreciable assets</p> <p>a) Tangible fixed assets Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method. The estimated useful lives of assets are primarily as follows:</p> <ul style="list-style-type: none"> <li>• Buildings and structures      31 to 50 years</li> <li>• Machinery and equipment    4 to 10 years</li> </ul> <p>(Change in accounting policies) In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed the depreciation method of tangible fixed assets acquired on and after April 1, 2007 to the method based on the amended Corporate Tax Law of Japan. As a result, operating income, ordinary income and income before income taxes decreased ¥816 million, ¥818 million and ¥818 million, respectively, compared with what would have been reported under the previous accounting policy.</p> <p>(Additional information) In accordance with the amendment of the Corporate Tax Law of Japan, the Company and its domestic consolidated subsidiaries now depreciate the difference between 5% of the acquisition cost and the memorandum price of tangible fixed assets acquired on or before March 31, 2007. From the fiscal year following the consolidated fiscal year that a tangible fixed asset is depreciated to the previously allowable 5% limit using a method based on the Corporate Tax Law of Japan, this difference is depreciated evenly over 5 years and included in depreciation and amortization. The effect of this change on operating income, ordinary income and income before income taxes is not material.</p>	<p>c) Inventories Finished goods, raw materials, and work-in-process are principally stated at the lower of cost or net realizable value. Supplies are principally stated at the lower of cost or net realizable value (Refer to Note (2)).</p> <p>(2) Depreciation method of significant depreciable assets</p> <p>a) Tangible fixed assets (excluding lease assets) Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method. The estimated useful lives of assets are primarily as follows:</p> <ul style="list-style-type: none"> <li>• Buildings and structures      31 to 50 years</li> <li>• Machinery and equipment    4 to 9 years</li> </ul> <p>(Additional information) The Company and some of its consolidated subsidiaries changed the useful life of some of the machineries effective the current fiscal year following the revision of legal useful life and the asset classification in response to the reform of the Corporation Tax Act in 2008. The effect of this change on operating income, ordinary income and income before income taxes is not material.</p>

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)
<p>b) Intangible assets</p> <p>Amortization is principally computed using the straight-line method.</p> <p>The numbers of years for amortization are primarily as follows:</p> <ul style="list-style-type: none"> <li>• Goodwill 15 years</li> </ul> <p>—</p>	<p>b) Intangible assets (excluding lease assets)</p> <p>Amortization is principally computed using the straight-line method.</p> <p>The numbers of years for amortization are primarily as follows:</p> <ul style="list-style-type: none"> <li>• Goodwill 15 years</li> </ul> <p>However, minor amounts are charged or credited to income directly in the year of acquisition.</p>
<p>(3) Accounting for significant allowances</p> <p>a) Allowance for doubtful accounts</p> <p>The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts.</p> <p>b) Provision for bonuses</p> <p>Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on their services provided for the fiscal year.</p> <p>c) Provision for retirement benefits</p> <p>In order to provide for employee retirement benefits, a provision is made based on the retirement benefit liabilities as of the end of the fiscal year and the forecasted pension assets.</p> <p>The prior service cost is amortized on a straight-line basis over a certain period (mainly 15 years), which falls within the average remaining years of service of the eligible employees. Actuarial gains or losses are amortized on a straight-line basis over a certain period (mainly 15 years) which falls within the average remaining years of service of the eligible employees, allocated proportionately commencing the next year in which each respective gains or losses occurred.</p> <p>d) Provision for directors' retirement benefits</p> <p>Some of the consolidated subsidiaries accrue the liabilities for their retirement benefits for directors and corporate auditors, which is, in general, based upon the amounts required by the subsidiaries' internal regulations.</p>	<p>(3) Accounting for significant allowances</p> <p>a) Allowance for doubtful accounts</p> <p>Same as Fiscal 2007</p> <p>b) Provision for bonuses</p> <p>Same as Fiscal 2007</p> <p>c) Provision for retirement benefits</p> <p>Same as Fiscal 2007</p> <p>d) Provision for directors' retirement benefits</p> <p>Same as Fiscal 2007</p>
<p>(4) Leases</p> <p>Leases that do not transfer ownership of the assets are accounted for as operating leases.</p>	<p>(4) —</p>

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)								
<p>(5) Significant hedge accounting</p> <p>a) Hedge accounting The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains on the related hedged items. However, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.</p> <p>b) Hedging instruments and hedged items</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Hedging instruments:</th> <th style="text-align: left; border-bottom: 1px solid black;">Hedged items:</th> </tr> </thead> <tbody> <tr> <td style="border-bottom: 1px solid black;">Forward foreign exchange contracts</td> <td style="border-bottom: 1px solid black;">Future transactions in foreign currency</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Currency swap contracts</td> <td style="border-bottom: 1px solid black;">Future transactions in foreign currency</td> </tr> <tr> <td style="border-bottom: 1px solid black;">Interest rate swap contracts</td> <td style="border-bottom: 1px solid black;">Interest expenses</td> </tr> </tbody> </table> <p>c) Hedging policy The Company and its consolidated subsidiaries use financial instruments to hedge interest rate fluctuation and exchange fluctuation risks in accordance with their internal policies and procedures.</p> <p>d) Assessment method for hedge effectiveness The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items. Interest rate swap contracts, which meet certain conditions, are evaluated for effectiveness at the commencement of the hedge.</p> <p>(6) Other accounting policies</p> <p>a) Accounting for consumption tax Consumption tax on goods and services are not included in the revenue and expense amounts.</p>	Hedging instruments:	Hedged items:	Forward foreign exchange contracts	Future transactions in foreign currency	Currency swap contracts	Future transactions in foreign currency	Interest rate swap contracts	Interest expenses	<p>(5) Significant hedge accounting</p> <p>a) Hedge accounting Same as Fiscal 2007</p> <p>b) Hedging instruments and hedged items Same as Fiscal 2007</p> <p>c) Hedging policy Same as Fiscal 2007</p> <p>d) Assessment method for hedge effectiveness Same as Fiscal 2007</p> <p>(6) Other accounting policies</p> <p>a) Accounting for consumption tax Same as Fiscal 2007</p>
Hedging instruments:	Hedged items:								
Forward foreign exchange contracts	Future transactions in foreign currency								
Currency swap contracts	Future transactions in foreign currency								
Interest rate swap contracts	Interest expenses								

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)
<p><b>6. Valuation of assets and liabilities of consolidated subsidiaries</b> Assets and liabilities of the consolidated subsidiaries are recorded at fair value at the time of acquisition.</p> <p><b>7. Amortization of goodwill and negative goodwill</b> The Company amortizes goodwill and negative goodwill using the straight-line method over the estimated period of benefit with the exception of minor amounts, which are charged or credited to income directly in the year of acquisition. Foreign consolidated subsidiaries amortize goodwill and negative goodwill per the applicable accounting standard in each country.</p> <p><b>8. Cash and cash equivalents</b> Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less, that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.</p>	<p><b>6. Valuation of assets and liabilities of consolidated subsidiaries</b> Same as Fiscal 2007</p> <p><b>7. Amortization of goodwill and negative goodwill</b> The Company amortizes goodwill and negative goodwill using the straight-line method over the estimated period of benefit with the exception of minor amounts, which are charged or credited to income directly in the year of acquisition.</p> <p><b>8. Cash and cash equivalents</b> Same as Fiscal 2007</p>

**(2) SIGNIFICANT CHANGES IN ACCOUNTING POLICIES CONCERNING THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS**

<p style="text-align: center;"><b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)</p>	<p style="text-align: center;"><b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)</p>
<p>—</p>	<p>(Accounting standards for measurement of inventories)</p> <p>Inventories, which the Company held for sale in the ordinary course of business, were mainly valued at cost using the weighted-average method previously, and those which had been held beyond a certain period were regularly written down. However, following the adoption of the “Accounting Standards for Measurement of Inventories (ASBJ Statement No. 9, issued on July 5, 2006)” starting from the current fiscal year, we mainly value these inventories at the lower of cost or net realizable value.</p> <p>As a result, operating income and ordinary income in the current fiscal year decreased by ¥380 million (US\$3,886 thousands) each and income before income taxes by ¥1,534 million (US\$15,661 thousands) compared with those calculated using the previous method.</p> <p>The Company recorded loss on disposal of inventories due to the decrease in profitability as non-operating expenses in the past. However, we started to record it as cost of sales effective the current fiscal year with the adoption of the above-mentioned accounting standards.</p> <p>As a result of this change, operating income in the current fiscal year decreased by ¥1,541 million (US\$15,727 thousands) compared with the amount calculated using the previous method.</p> <p>There was no impact on ordinary income and income before income taxes from the adoption of this standard during the same period.</p> <p>The effects on segment information are described in the relevant sections of this Annual Report.</p>
<p>—</p>	<p>(Practical solutions on unification of accounting policies applied to foreign subsidiaries)</p> <p>Effective the current fiscal year, the Company adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force No. 18, issued on May 17, 2006),” and implemented modifications necessary for consolidated financial statements.</p> <p>The effect of this change on operating income, ordinary income and income before income taxes is not material.</p> <p>The effects on segment information are described in the relevant sections of this Annual Report.</p>

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)
—	<p>(Accounting standards for lease transactions)</p> <p>Financial leases without transfer of ownership were accounted for on a basis similar to ordinary rental transactions previously. However, effective the current fiscal year, the Company adopted the "Accounting Standard for Lease Transactions (ASBJ Statement No. 13, issued on June 17, 1993 by Section 1 of the Business Accounting Council, and revised on March 30, 2007)" and the "Guidance on Accounting Standard for Lease Transactions (ASBJ Guidance No. 16, issued on January 18, 1994 by the Accounting System Committee of the Japanese Institute of Certified Public Accountants, and revised on March 30, 2007)" and they are now accounted for on a basis similar to ordinary sales transactions. Depreciation on lease assets concerning financial leases transactions without transfer of ownership is calculated by the straight-line method that assumes a residual value of zero based on the estimated useful life that corresponds to the lease period.</p> <p>There was no impact on operating income, ordinary income and income before income taxes from the adoption of this standard.</p>

### (3) CHANGES IN PRESENTATION

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)
—	<p>(Consolidated balance sheets)</p> <p>In response to the adoption of the Cabinet Office Ordinance modifying the part of Regulations for Financial Statements (Cabinet Ordinance No. 50, issued on August 7, 2008), the items which were included in "Inventories" in the previous consolidated fiscal year are separately presented as "Merchandise and finished goods," "Work-in-process" and "Raw materials and supplies" in the current fiscal year. "Merchandise and finished goods," "Work-in-process" and "Raw materials and supplies" amounted to ¥50,834 million, ¥11,455 million and ¥10,244 million respectively in the previous fiscal year.</p> <p>"Accrued expenses," which had been included in "Other" of the current liabilities in the previous fiscal year, is presented separately in the current fiscal year in order to increase clarity of disclosure in the consolidated balance sheets. "Accrued expenses" was ¥5,454 million in the previous fiscal year.</p>

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)
<p>(Consolidated statements of income)</p> <p>“Foreign exchange losses,” which had been reported as “miscellaneous expenses” in the previous fiscal year, are presented separately since its amount exceeds 10/100 of non-operating expenses in the current fiscal year. “Foreign exchange losses” was ¥544 million in the previous fiscal year.</p>	<p>(Consolidated statements of income)</p> <p>“Foreign exchange losses,” which had been presented separately in the previous fiscal year, is included in “Other” of non-operating expenses since its amount is 10/100 or less of non-operating expenses in the current fiscal year. “Foreign exchange losses” is ¥56 million (US\$578 thousand) in the current fiscal year.</p> <p>“Personnel expenses for seconded employees,” which had been presented as “Other” in Non-operating expenses in the previous fiscal year, are reported separately since its amount exceeds 10/100 of non-operating expenses in the current fiscal year. “Personnel expenses for seconded employees” was ¥811 million in the previous fiscal year.</p>
<p>(Consolidated statements of cash flows)</p> <p>“Purchase of long-term prepaid expenses,” which had been reported separately in the “Net cash provided by (used in) investment activities” in the previous fiscal year, is presented as “Other, net” in the current fiscal year due to the significant decrease in its balance. “Purchase of long-term prepaid expenses” is ¥503 million in the current fiscal year.</p>	—

#### (4) ADDITIONAL INFORMATION

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)
—	<p>The Company had previously posted deferred tax liabilities for the amount of taxes to be imposed in Japan on future dividend from retained earnings of foreign subsidiaries. A new Japanese tax exemption for dividends paid by foreign subsidiaries became effective for fiscal years beginning on or after April 1, 2009. Due to the new rule, dividends from certain foreign subsidiaries results in increasing tax expense as a whole, therefore the Company revised its dividend policy that these subsidiaries do not pay dividends to the Company.</p> <p>In response to this, the Company reversed part of deferred tax liabilities, which was recorded in the previous period, in the current fiscal year.</p> <p>As a result, net income in the current fiscal year increased by ¥1,471 million (US\$15,019 thousand) compared with the amount that would have been posted under the previous method.</p>

## (5) NOTES TO CONSOLIDATED BALANCE SHEETS

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)
<p>*1. Accumulated depreciation of tangible fixed assets: ¥447,253 million</p> <p>*2. Accumulated amount of reduced-value entry as a result of receiving government subsidy, and so on that are subtracted from the acquisition price of tangible fixed assets</p> <p style="padding-left: 20px;">Buildings: ¥1,186 million (including a ¥48 million deduction for this fiscal year)</p> <p style="padding-left: 20px;">Structures: ¥526 million (including ¥4 million in the amount of subtraction for this fiscal year)</p> <p style="padding-left: 20px;">Machinery: ¥413 million (including ¥171 million in the amount of subtraction for this fiscal year)</p> <p style="padding-left: 20px;">Tools, instruments and fixtures: ¥30 million (including ¥11 million in the amount of subtraction for this fiscal year)</p> <p style="padding-left: 20px;">Land: ¥1,257 million</p> <p>*3. Investments in unconsolidated subsidiaries and affiliates</p> <p style="padding-left: 20px;">Investment securities: ¥3,414 million</p> <p>4. Commitments and contingencies</p> <p>The Company is contingently liable for guarantees for bank loans of unconsolidated subsidiaries, affiliates and others.</p> <p>The company names and the guarantees of their liabilities are as follows:</p> <p style="padding-left: 20px;">Social welfare corporation Ishii Kinen Aizenen (Joint and several guarantee): ¥2,202 million</p> <p style="padding-left: 20px;">KURARAY MAGICTAPE (SHANGHAI) CO., LTD. and another company: ¥99 million (including foreign currency-denominated guarantees for 2 companies): CNY7,000,000</p> <hr style="width: 100%;"/> <p style="text-align: right;">Total ¥2,302 million</p> <p>*5. Security assets and secured liabilities</p> <p style="padding-left: 20px;">Investment securities ¥46 million</p> <p>The above investment securities have been provided as collateral for loans of Mizushima Eco-works Co., Ltd.</p>	<p>*1. Accumulated depreciation of tangible fixed assets: ¥455,649 million (US\$4,649,481 thousand)</p> <p>*2. Accumulated amount of reduced-value entry as a result of receiving government subsidy, and so on that are subtracted from the acquisition price of tangible fixed assets</p> <p style="padding-left: 20px;">Buildings and Structures: ¥1,992 million (US\$20,330 thousand) (including a ¥279 million (US\$2,848 Thousand) deduction for this fiscal year)</p> <p style="padding-left: 20px;">Machinery, equipment and vehicles: ¥717 million (US\$7,322 thousand) (including ¥309million (US\$3,157 thousand) in the amount of subtraction for this fiscal year)</p> <p style="padding-left: 20px;">Land: ¥1,257 million (US\$12,830 thousand)</p> <p style="padding-left: 20px;">Construction in progress: ¥75 million (US\$765 thousand) (including ¥75 million (US\$765 thousand) in the amount of subtraction for this fiscal year)</p> <p style="padding-left: 20px;">Other: ¥35 million (US\$362 thousand) (including ¥4 million (US\$50 thousand) in the amount of subtraction for this fiscal year)</p> <p>*3. Investments in unconsolidated subsidiaries and affiliates</p> <p style="padding-left: 20px;">Investment securities: ¥2,746 million (US\$28,027 thousand)</p> <p>4. Commitments and contingencies</p> <p>The Company is contingently liable for guarantees for bank loans of unconsolidated subsidiaries, affiliates and others.</p> <p>The company names and the guarantees of their liabilities are as follows:</p> <p style="padding-left: 20px;">Social welfare corporation Ishii Kinen Aizenen (Joint and several guarantee): ¥2,071 million (US\$21,137 thousand)</p> <p style="padding-left: 20px;">KURARAY MAGICTAPE (SHANGHAI) CO., LTD. and another company: ¥86 million (US\$879 thousand) (including foreign currency-denominated guarantees for 2 companies): CNY6,000,000</p> <hr style="width: 100%;"/> <p style="text-align: right;">Total ¥2,157 million (US\$22,016 thousand)</p> <p>*5. Security assets and secured liabilities</p> <p style="padding-left: 20px;">Investment securities ¥46 million (US\$469 thousand)</p> <p>Same as Fiscal 2007.</p>

## (6) NOTES TO CONSOLIDATED STATEMENTS OF INCOME

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)																				
<p>*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Freight and storage</td> <td style="text-align: right;">¥14,365 million</td> </tr> <tr> <td>Research and development</td> <td style="text-align: right;">¥14,185 million</td> </tr> <tr> <td>Salaries and legal welfare expense</td> <td style="text-align: right;">¥12,579 million</td> </tr> <tr> <td>Provision for bonuses</td> <td style="text-align: right;">¥4,063 million</td> </tr> <tr> <td>Provision for retirement benefits for employees</td> <td style="text-align: right;">¥678 million</td> </tr> </table> <p>*2. Research and development expenses included in general, administrative and current manufacturing expenses ¥15,250 million</p> <p>*3. The gain is incurred by the sales of stocks including those of the consolidated subsidiary.</p> <p>*4. —</p> <p>*5. Impairment loss (1) Identifying the cash-generating unit to which an asset belongs As a minimum unit for generating cash flow, business assets are grouped into sections used for management accounting, and leased assets, idle assets, and assets associated with discontinued or reorganized businesses are assessed individually. Other head office and research facilities are shared assets.</p>	Freight and storage	¥14,365 million	Research and development	¥14,185 million	Salaries and legal welfare expense	¥12,579 million	Provision for bonuses	¥4,063 million	Provision for retirement benefits for employees	¥678 million	<p>*1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Freight and storage</td> <td style="text-align: right;">¥13,072 million (US\$133,389 thousand)</td> </tr> <tr> <td>Research and development</td> <td style="text-align: right;">¥15,210 million (US\$155,204 thousand)</td> </tr> <tr> <td>Salaries and legal welfare expense</td> <td style="text-align: right;">¥12,485 million (US\$127,399 thousand)</td> </tr> <tr> <td>Provision for bonuses</td> <td style="text-align: right;">¥3,353 million (US\$34,214 thousand)</td> </tr> <tr> <td>Provision for retirement benefits for employees</td> <td style="text-align: right;">¥969 million (US\$9,889 thousand)</td> </tr> </table> <p>*2. Research and development expenses included in general, administrative and current manufacturing expenses ¥16,358 million (US\$166,920 thousand)</p> <p>*3. The gain is incurred by the sales of stocks.</p> <p>*4. The Kuraray Group reclassified unexpected utilization variance, which was caused by the extraordinary change in economic environment, from manufacturing expenses to extraordinary losses as "Abnormally low utilization variance." Since Group adopts standard costing and reviews standard cost every 6months, "Abnormally low utilization variance" is presented as extraordinary losses when actual utilization is significantly below the projected utilization during the 6 months in accordance with the Group's policy. Accordingly, "Abnormally low utilization variance" of ¥3,994 million (US\$40,755 thousand) are recognized as extraordinary losses for the second half of the current fiscal year. The above mentioned amount includes 651 million (US\$6,642 thousand) that was presented as manufacturing expenses in the quarterly report for the third quarter of the current fiscal year.</p> <p>*5. Impairment loss (1) Identifying the cash-generating unit to which an asset belongs As a minimum unit for generating cash flow, business assets are grouped into sections used for management accounting, and lent assets, idle assets, and assets associated with discontinued or reorganized businesses are assessed individually. Other head office and research facilities are shared assets.</p>	Freight and storage	¥13,072 million (US\$133,389 thousand)	Research and development	¥15,210 million (US\$155,204 thousand)	Salaries and legal welfare expense	¥12,485 million (US\$127,399 thousand)	Provision for bonuses	¥3,353 million (US\$34,214 thousand)	Provision for retirement benefits for employees	¥969 million (US\$9,889 thousand)
Freight and storage	¥14,365 million																				
Research and development	¥14,185 million																				
Salaries and legal welfare expense	¥12,579 million																				
Provision for bonuses	¥4,063 million																				
Provision for retirement benefits for employees	¥678 million																				
Freight and storage	¥13,072 million (US\$133,389 thousand)																				
Research and development	¥15,210 million (US\$155,204 thousand)																				
Salaries and legal welfare expense	¥12,485 million (US\$127,399 thousand)																				
Provision for bonuses	¥3,353 million (US\$34,214 thousand)																				
Provision for retirement benefits for employees	¥969 million (US\$9,889 thousand)																				

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

- (2) Significant components of impairment loss  
The impairment loss is ¥2,256 million in total.  
The impairment loss on business assets is ¥438 million and on assets associated with discontinued businesses is ¥1,818 million.  
The significant components of impairment loss for the fiscal year ending March 31, 2008 are as follows:

Location	Assets	Usage	Type	Impairment loss
Tainai, Niigata Prefecture	Assets associated with discontinued or reorganized business	Plant and equipment for aroma chemicals	Plant and equipment	¥1,151 million
Kurashiki, Okayama Prefecture	Assets associated with discontinued or reorganized business	Plant and equipment for high-flux filter membranes for artificial kidneys	Plant and equipment	¥667 million

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

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

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

**Fiscal 2008**  
(From April 1, 2008 to March 31, 2009)

- (2) Significant components of impairment loss  
The impairment loss is ¥1,473 million (US\$15,033 thousand) in total.  
The impairment loss on assets associated with discontinued or reorganized businesses is ¥1,473 million (US\$15,033 thousand).  
The significant components of impairment loss for the fiscal year ending March 31, 2009 are as follows:

Location	Assets	Usage	Type	Impairment loss
Kamishu, Ibaragi Prefecture	Assets planned to be discontinued (that became unnecessary due to the start of operations of new plant and/or equipment)	Plant and equipment for nonanediamine	Plant and equipment	¥245 million (US\$2,504 thousand)
Kurashiki, Okayama Prefecture	Assets planned to be discontinued (that became unnecessary due to rearrangement of equipment)	Plant and equipment for fine chemicals	Plant and equipment	¥226 million (US\$2,307 thousand)

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

- \*6. The loss is incurred due to the write-down of stocks, including those of subsidiaries and affiliates.
- \*7. The loss is mainly attributable to the costs of liquidation of businesses occurred in subsidiaries and affiliates.
- \*8. The loss is mainly attributable to the disposal of machinery.

## (7) NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

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

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

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

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

### 2. Subscription rights to shares

The Company granted its directors and executive officers the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2008 is ¥69 million.

### 3. Dividends

(1) Amount of dividends paid

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

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

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

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

## (8) NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

FISCAL 2008 (From April 1, 2008 to March 31, 2009)

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

	Number of shares as of March 31, 2007 (thousands of shares)	Increase in the number of shares (thousands of shares)	Decrease in the number of shares (thousands of shares)	Number of shares as of March 31, 2008 (thousands of shares)
Number of Outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks	—	—	—	—
Common stock (Notes 1, 2)	34,642	109	104	34,647
Total	34,642	109	104	34,647

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (109 thousand shares).

2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (75 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (29 thousand shares).

### 2. Subscription rights to shares

The Company granted its directors and executive officers the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2009 is ¥109 million (US\$1,114 thousand).

### 3. Dividends

#### (1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2007	Common stock	3,830	11.00	March 31, 2008	June 20, 2008
Board of directors held on October 30, 2007	Common stock	4,178	12.00	September 30, 2008	December 1, 2008

Resolution	Type of share	Amount of dividends (Thousands of U.S. dollars)	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 20, 2007	Common stock	39,086	0.10	March 31, 2008	June 20, 2008
Board of directors held on October 30, 2007	Common stock	42,642	0.12	September 30, 2008	December 1, 2008

#### (2) Dividends whose effective date is after the end of Fiscal 2008 and record date is included in the Fiscal 2008.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
General shareholders' meeting held on June 19, 2008	Common Stock	3,482	Retained earnings	11.00	March 31, 2009	June 22, 2009

Resolution	Type of share	Amount of dividends (Thousands of U.S. dollars)	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 19, 2008	Common Stock	35,532	Retained earnings	0.10	March 31, 2009	June 22, 2009

### 4. Decrease in Retained earnings "Other" is mainly due to the recognition of unrecognized pension liabilities in "Other comprehensive income," which the Company's consolidated U.S. subsidiary recorded in compliance with the U.S. GAAP.

## (9) NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)	
1. Cash and cash equivalents as of the year-end are reconciled to the accounts reported in the consolidated balance sheets as follows:	1. Cash and cash equivalents as of the year-end are reconciled to the accounts reported in the consolidated balance sheets as follows:	
	(As of March 31, 2008) Millions of Yen	(As of March 31, 2009) Millions of Yen      Thousands of U.S. dollars
Cash on hand and in banks	11,109	37,527      382,935
Time deposits with a deposit period of 3 months or more	(920)	(869)      (8,873)
Marketable securities with original maturities of three months or less	2,000	9,499      96,936
Cash and cash equivalents	12,189	46,157      470,998
2. Assets and liabilities of the company which became a consolidated subsidiary during Fiscal 2007 upon the acquisition of shares	2. —	
The assets and liabilities, acquisition price of shares and expenses (net) for the company which became a consolidated subsidiary during Fiscal 2007 upon the acquisition of shares are as follows:		
	(As of March 31, 2008) Millions of Yen	
Current assets:	2,146	
Noncurrent assets:	6,390	
Goodwill:	644	
Current liabilities:	(2,224)	
Noncurrent liabilities:	(2,546)	
Acquisition price of shares at fiscal year-end or value by the equity method at fiscal year-end:	(1,850)	
Acquisition price of shares for fiscal 2007:	2,560	
Cash and cash equivalents of the acquired company:	(278)	
Balance: Expenses (net) upon acquisition:	2,282	



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

(2) Lease transactions as a lessor

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

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

2) Future lease payment obligations are as follows:

	Millions of yen
Due within one year	4
Due after one year	11
Total	16

Note: Future lease payment obligations are computed by including interest received because the ratio of future lease payment obligations and estimated salvage value to the balance of operating receivable at the end of the fiscal year is not material.

3) Lease revenue, depreciation expense for the fiscal year

	Millions of yen
Lease revenue	15
Depreciation expense	15

(For impairment loss)

No impairment loss is recognized for leased assets.

## 2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases are as follows:

	Millions of yen
Due within one year	525
Due after one year	3,692
Total	4,218

**Fiscal 2008**  
(From April 1, 2008 to March 31, 2009)

(2) Lease transactions as a lessor

Financial lease transactions without transfer of ownership that commenced on or before March 31, 2008, are accounted for on a basis similar to ordinary sales transactions. The details of such transactions are as follows;

There were no lease transactions that commenced after April 1, 2008.

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

Year ended March 31, 2009	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Building and structures	196	73	122
Machinery and equipment	49	36	12
Total	245	110	135

Year ended March 31, 2009	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net
Building and structures	2,005	753	1,252
Machinery and equipment	502	370	131
Total	2,507	1,123	1,383

2) Future lease payment obligations are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	16	169
Due after one year	172	1,756
Total	188	1,925

Note: Future lease payment obligations are computed by including interest received because the ratio of future lease payment obligations and estimated salvage value to the balance of operating receivable at the end of the fiscal year is not material.

3) Lease revenue, depreciation expense for the fiscal year

	Millions of yen	Thousands of U.S. dollars
Lease revenue	22	232
Depreciation expense	7	78

(For impairment loss)

Same as Fiscal 2007

## 2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	478	4,881
Due after one year	2,840	28,985
Total	3,319	33,867

## (11) SECURITIES

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

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

	Millions of yen		
	Cost	Book value (estimated fair value)	Net
Securities with book value exceeding their acquisition cost			
Equity securities	5,370	15,820	10,450
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	—	—	—
Others	27,000	27,115	115
Subtotal	32,370	42,935	10,565
Securities with book value not exceeding their acquisition cost			
Equity securities	1,237	880	(357)
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	—	—	—
Others	2,062	2,062	—
Subtotal	3,300	2,943	(357)
Total	35,670	45,878	10,207

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

	Millions of yen
Proceeds from sales	1,428
Total gain	1,089
Total loss	—

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

	Millions of yen
Investments in securities	
Investments in unlisted companies	4,359

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

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Bonds				
Government and municipal	—	—	—	—
Corporate	—	—	—	—
Others	—	—	—	—
Others	2,000	27,115	—	—
Total	2,000	27,115	—	—

**FISCAL 2008** (From April 1, 2008 to March 31, 2009)

**1. Available-for-sale securities with market value** (As of March 31, 2009)

	Millions of yen			Thousands of U.S. dollars		
	Cost	Book value (estimated fair value)	Net	Cost	Book value (estimated fair value)	Net
Securities with book value exceeding their acquisition cost						
Equity securities	5,286	10,362	5,076	53,947	105,744	51,796
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	26,937	27,063	125	274,871	276,154	1,282
Subtotal	32,224	37,426	5,201	328,819	381,898	53,078
Securities with book value not exceeding their acquisition cost						
Equity securities	3,669	2,912	(756)	37,440	29,717	(7,723)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	499	499	—	5,099	5,099	—
Others	9,000	9,000	—	91,836	91,836	—
Subtotal	13,168	12,412	(756)	134,376	126,653	(7,723)
Total	45,393	49,838	4,444	463,196	508,551	45,355

**2. Available-for-sale securities sold during Fiscal 2008** (From April 1, 2008 to March 31, 2009)

	Millions of yen	Thousands of U.S. dollars
Proceeds from sales	1,534	15,658
Total gain	1,264	12,903
Total loss	—	—

**3. Investments in securities without market value** (As of March 31, 2009)

	Millions of yen	Thousands of U.S. dollars
Investments in securities		
Investments in unlisted companies	4,420	45,105

**4. Redemption schedule of the available-for-sale securities which have a maturity date** (As of March 31, 2009)

	Millions of yen				Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years	Within one year	One to five years	Five to ten years	Over ten years
Bonds								
Government and municipal	—	—	—	—	—	—	—	—
Corporate	—	—	—	—	—	—	—	—
Others	500	—	—	—	5,102	—	—	—
Others	9,000	27,063	—	—	91,836	276,154	—	—
Total	9,500	27,063	—	—	96,938	276,154	—	—

## (12) DERIVATIVE FINANCIAL INSTRUMENTS

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

### 1. Outline of derivative transactions

#### (1) Types of transactions

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

#### (2) Transaction policy

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

#### (3) Purpose of transactions

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

#### Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains on the related hedged items. However, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

#### Hedging instruments and hedged items

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

#### Hedging policy

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

#### Assessment method for hedge effectiveness

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

#### (4) Risks of transactions

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

#### (5) Risk management of transactions

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

#### (6) Additional explanation regarding transaction value

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

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

### Currencies

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

- Notes: 1. The amounts exclude derivative transactions to which hedge accounting is applied.  
2. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using future quotations.  
3. The amounts include currency swap contracts entered into in order to hedge inter-company transactions in foreign currency or forward foreign exchange contracts for accounts receivable and payable in foreign currency, which are not accounted for by hedge accounting, but by the primary method of accounting for the instruments in accordance with the Accounting Standard for Financial Instruments.

## FISCAL 2008 (From April 1, 2008 to March 31, 2009)

### 1. Outline of derivative transactions

#### (1) Types of transactions

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

#### (2) Transaction policy

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

#### (3) Purpose of transactions

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

#### Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains on the related hedged items. However, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

## Hedging instruments and hedged items

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

## Hedging policy

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

## Assessment method for hedge effectiveness

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

## (4) Risks of transactions

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

## (5) Risk management of transactions

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

## (6) Additional explanation regarding transaction value

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

## 2. The forward foreign exchange contracts and currency swap contracts outstanding at March 31, 2009 were as follows:

## Currencies

Category	Classification	Millions of yen			
		Notional amount	Notional amount over one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	8,487	6,347	326	326
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	4,337	—	(44)	(44)
	Yen into Euro obligation	4,554	519	(483)	(483)
	U.S. dollar into Yen obligation	284	—	23	23
	Euro into Yen obligation	8	—	0	0
	U.S. dollar into Euro obligation	885	—	103	103
	Total	18,558	6,867	(73)	(73)

Category	Classification	Thousands U.S. dollars			
		Notional amount	Notional amount over one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	86,608	64,775	3,328	3,328
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	44,260	—	(449)	(449)
	Yen into Euro obligation	46,476	5,299	(4,934)	(4,934)
	U.S. dollar into Yen obligation	2,903	—	239	239
	Euro into Yen obligation	86	—	5	5
	U.S. dollar into Euro obligation	9,040	—	1,057	1,057
Total		189,376	70,074	(751)	(751)

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

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

3. The amounts include currency swap contracts entered into in order to hedge inter-company transactions in foreign currency or forward foreign exchange contracts for accounts receivable and payable in foreign currency, which are not accounted for by hedge accounting, but by the primary method of accounting for the instruments in accordance with the Accounting Standard for Financial Instruments.

### (13) RETIREMENT BENEFITS

#### 1. Summary of retirement benefit plan

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

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

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

(1) Accumulated funds for the plan

	Fiscal 2007 (As of March 31, 2007)	Fiscal 2008 (As of March 31, 2008)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Plan assets:	95,440	79,649	812,745
Amount of benefit obligation as a result of pension's financial calculation:	102,903	105,891	1,080,524
Difference:	(7,462)	(26,242)	(269,635)

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan

(As of March 31, 2007) 1.9%

(As of March 31, 2008) 1.9%

(3) Supplementary explanation

The main reasons behind the difference in amounts described above in (1) are as follows. The method of depreciation of prior service cost in the current fiscal year is to evenly split principals thereof over a period of 10 years, and is scheduled to be terminated in March 2017.

	Fiscal 2007 (As of March 31, 2007)	Fiscal 2008 (As of March 31, 2008)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Balance of prior service cost	14,896	13,844	141,273
Deficient amount carried forward	—	12,397	126,505
General reserve	7,433	—	—

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

The numbers for the disclosure above were of the years previous to the corresponding fiscal year.

## 2. Retirement benefit obligations

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)		<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Fiscal 2007 (As of March 31, 2008)	Fiscal 2008 (As of March 31, 2009)	Fiscal 2008 (As of March 31, 2009)
a. Retirement benefit obligations:	(41,268)	(40,332)	(411,558)
b. Plan assets:	26,650	20,378	207,942
c. Unfunded retirement benefit obligations: (a+b)	(14,618)	(19,954)	(203,615)
d. Unrecognized actuarial gains or losses:	10,073	14,119	144,075
e. Unrecognized prior service costs:	(873)	(969)	(9,892)
f. Net retirement benefit obligations recognized in the consolidated balance sheets: (c+d+e)	(5,418)	(6,804)	(69,432)
g. Prepaid pension costs:	7,540	7,128	72,742
h. Provision for retirement benefits: (f-g)	(12,959)	(13,933)	(142,175)
Note: Some domestic consolidated subsidiaries account for a simplified method in the calculation of retirement benefit obligations.		Note: Some domestic consolidated subsidiaries account for a simplified method in the calculation of retirement benefit obligations.	

### 3. Retirement benefit expenses

	Fiscal 2007 (From April 1, 2007 to March 31, 2008)	Fiscal 2008 (From April 1, 2008 to March 31, 2009)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Fiscal 2007 (From April 1, 2007, to March 31, 2008)	Fiscal 2008 (From April 1, 2008, to March 31, 2009)	Fiscal 2008 (From April 1, 2008, to March 31, 2009)
a. Service costs: (Note 3)	1,401	2,061	21,036
b. Interest costs:	767	781	7,972
c. Expected return on plan assets:	(1,043)	(857)	(8,753)
d. Amortization of actuarial gains or losses:	616	941	9,602
e. Amortization of prior service costs:	(119)	(91)	(928)
f. Retirement benefit expenses: (a+b+c+d+e)	1,622	2,839	28,929
g. Defined contribution pension plans installment:	564	562	5,743
Total	2,187	3,397	34,673

Notes: 1. In addition to the above retirement benefit expenses, additional retirement benefits amounting to ¥204 were paid and booked as extraordinary losses for Fiscal 2007.

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

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

### 4. Assumptions used in accounting for the defined benefit plan for the year ended March 31, 2008 are as follows:

	Fiscal 2007 (As of March 31, 2008)	Fiscal 2008 (As of March 31, 2009)
a. Method of attributing the projected benefit obligations to periods of service	Straight-line	Same as Fiscal 2007
b. Discount rate	mainly 2.0%	Same as Fiscal 2007
c. Expected rate of return on plan assets	mainly 3.3%	Same as Fiscal 2007
d. Amortization period for prior service cost	mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees.)	Same as Fiscal 2007
e. Amortization period for actuarial gains and losses	mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees, allocated proportionally commencing the next year in which each respective gains or losses occurred.)	Same as Fiscal 2007

(Additional information)

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

#### (14) STOCK-BASED COMPENSATION PLANS

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

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

Selling, general and administrative expenses: ¥74 million

##### 2. Details including size and changes of stock options

###### (1) Stock options plans

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

Note: Significant subsidiaries are as follows:

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

(2) Size and changes of Stock options

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

1) Number of stock options

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

2) Price information

	Yen		
	Stock options 2002	Stock options 2003	Stock options June 2007
Exercise prices	825	918	1
Weight-average exercise date stock price	1,411	1,406	1,446
Fair value at the grant date	—	—	1,318

**3. Method to estimate fair value of stock options**

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

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

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

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

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

3. Expected dividend for the year ended March 2008.

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

**4. Method to estimate number of vested stock options**

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

**FISCAL 2008** (From April 1, 2008 to March 31, 2009)

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

Selling, general and administrative expenses: ¥99 million (US\$1,010 thousand)

**2. Details including size and changes of stock options**

(1) Stock options plans

	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
Number of eligible persons by positions	Directors 18 Corporate auditors 3 Managers 396 Directors of subsidiaries 67 Corporate auditors of subsidiaries 4 Managers of subsidiaries 451	Employees 2,200 Employees of subsidiaries 3,422	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 11	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 16
Total number and type of stocks granted	1,076,500 shares of common stock	2,811,000 shares of common stock	56,500 shares of common stock	78,500 shares of common stock
Grant date	October 1, 2002	October 1, 2003	June 5, 2007	June 10, 2008
Prerequisite to be vested	Directors, corporate auditors and employees of the Company and its subsidiaries. Directors, corporate auditors and associate directors of the Company and presidents of the significant subsidiaries can exercise after they retire.	Directors, corporate auditors, executive officers and employees of the Company and its subsidiaries.	No vesting conditions are set.	No vesting conditions are set.
Required service period	From October 1, 2002 to June 27, 2004	From October 1, 2003 to June 26, 2005	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	From June 28, 2004 to June 27, 2012	From June 27, 2005 to June 26, 2013	From June 6, 2007 to June 5, 2022; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From June 11, 2008 to June 10, 2023; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

Note: Significant subsidiaries are as follows:

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

(2) Size and changes of Stock options

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

1) Number of stock options

	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
Unvested stock options (shares)				
At the beginning of the fiscal year	—	—	—	—
Granted	—	—	—	78,500
Forfeited	—	—	—	—
Vested	—	—	—	78,500
At the end of the fiscal year	—	—	—	—
Vested stock options (shares)				
At the beginning of the fiscal year	398,000	1,454,500	56,500	—
Vested	—	—	—	78,500
Exercised	17,000	12,000	20,000	26,000
Forfeited	3,000	27,000	—	—
At the end of the fiscal year	378,000	1,415,500	32,500	52,500

2) Price information

	Yen				U.S. dollars			
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
Exercise prices	825	918	1	1	8.41	9.36	0.01	0.01
Weight-average exercise date stock price	1,187	1,226	1,266	1,266	12.11	11.48	12.91	12.91
Fair value at the grant date	—	—	1,318	1,264	—	—	13.44	12.89

**3. Method to estimate fair value of stock options**

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

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	June 2008 stock option
Stock price volatility (Note 1)	23.3%
Expected remaining life (Note 2)	2 years
Expected dividend (Note 3)	¥23.50/share (US\$0.23 /share)
Risk-free interest rate (Note 4)	0.96%

- Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains June 5, 2006 to the week that contains June 2, 2008.  
2. Calculated by subtracting the average period of service of directors and executive officers who are currently in office as of the day of grant from the past average period of service of directors and executive officers.  
3. Based on the average of ¥22 (US\$ 0.22), the dividend paid for the fiscal year ended March 2008, and ¥25 (US\$ 0.25), the expected dividend for the fiscal year ended March 2009.  
4. Government bond yield over a period corresponding to the expected remaining life.

**4. Method to estimate number of vested stock options**

The number of vested stock options is the same as the number of stock options granted, since the stock options were vested on the day following the day of the grant.

**(15) INCOME TAXES**

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)		<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)		
<b>1. The significant components of deferred tax assets and liabilities at March 31, 2008 are as follows:</b>		<b>1. The significant components of deferred tax assets and liabilities at March 31, 2009 are as follows:</b>		
(1) Current		(1) Current		Thousands of U.S. dollars
	Millions of yen	Millions of yen		
Deferred tax assets		Deferred tax assets		
Provision for bonuses	2,458	Provision for retirement benefits	5,105	52,096
Write-down of inventories	1,813	Impairment loss	2,815	28,728
Accrued fixed asset tax and other taxes	928	Provision for bonuses	2,032	20,743
Other	2,662	Write-down of investment securities	1,997	20,386
Sub-total deferred tax assets	7,862	Write-down of inventories	1,166	11,898
Valuation allowance	(472)	Other	11,402	116,354
Total deferred tax assets	7,390	Sub-total deferred tax assets	24,520	250,208
Total deferred tax liabilities	28	Valuation allowance	(5,562)	(56,762)
Net deferred tax assets	7,362	Total deferred tax assets	18,957	193,446
		Deferred tax liabilities		
(2) Noncurrent		Prepaid pension cost	(2,872)	(29,316)
	Millions of yen	Provision for retirement benefits	(2,863)	(29,233)
Deferred tax assets		Unrealized gain on revaluation of securities	(1,494)	(15,250)
Provision for retirement benefits	4,777	Other	(5,934)	(60,555)
Write-down of investment securities	1,672	Total deferred tax liabilities	(13,165)	(134,345)
Impairment loss on tangible fixed assets	3,014	Net deferred tax assets (liabilities)	5,791	(59,101)
Other	8,255			
Sub-total deferred tax assets	17,721			
Valuation allowance	(4,610)			
Total deferred tax assets	13,111			
Deferred tax liabilities				
Reserve for advanced depreciation of tangible fixed assets	3,170			
Unrealized gain on revaluation of securities	3,197			
Reserve for special depreciation of tangible fixed assets	149			
Prepaid pension cost	3,035			
Other	19			
Total deferred tax liabilities	9,572			
Net deferred tax assets	3,538			

Net deferred tax assets is included in the following items in the consolidated balance sheets:

	Millions of yen	Thousands of U.S. dollars
Current assets:		
Deferred tax assets	5,493	56,057
Noncurrent assets:		
Deferred tax assets	5,616	57,311
Noncurrent liabilities:		
Deferred tax liabilities	(5,318)	(54,268)

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

	Millions of yen
<hr/>	
Deferred tax liabilities	
Depreciation	4,526
Unrealized gain on revaluation of securities	0
Other	3,259
<hr/>	
Total deferred tax liabilities	7,786
<hr/>	
Deferred tax assets	
Provision for retirement benefits	16
Other	2,084
<hr/>	
Total deferred tax assets	2,100
<hr/>	
Net deferred tax liabilities	¥ 5,686
<hr/>	

**2. Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:**

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

**3. The "Act on Interim Measures concerning Special Local Corporate Tax" in Japan was promulgated on April 30, 2008, and will apply to fiscal years that begin on or after October 1, 2008. The impact on deferred tax assets and liabilities relating to temporary differences in the fiscal years applicable to this act will be not material.**

**Fiscal 2008**  
(From April 1, 2008 to March 31, 2009)

	Millions of yen
<hr/>	
Deferred tax liabilities	
Depreciation	4,526
Unrealized gain on revaluation of securities	0
Other	3,259
<hr/>	
Total deferred tax liabilities	7,786
<hr/>	
Deferred tax assets	
Provision for retirement benefits	16
Other	2,084
<hr/>	
Total deferred tax assets	2,100
<hr/>	
Net deferred tax liabilities	¥ 5,686
<hr/>	

**2. Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:**

	Fiscal 2008
<hr/>	
Normal effective tax rate	40.3%
Non-taxable income	(1.9)
Tax credit primarily for research and development expenses	(2.3)
Loss incurred by consolidated subsidiaries and other	(3.4)
<hr/>	
Income tax rate per statements of income	32.7%

**3. —**

## (16) BUSINESS COMBINATION

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

### Transactions under common control (absorption-type company split)

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

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

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

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

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

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

— Businesses that the Company succeeded from KURARAY TAMASHIMA COMPANY LIMITED

Production of Poval films and related administrative operations.

(2) Name of company after the business combination

Kuraray Co., Ltd.

(3) Legal form of business combination

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

2. Overview of accounting methods used

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

### Transactions under common control (absorption-type merger)

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

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

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

(2) Name of Company after the business combination

Kuraray Co., Ltd.

(3) Legal form of business combination

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

2. Overview of accounting methods used

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

**Transactions under common control** (absorption-type merger)

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

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

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

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

(2) Outline of transactions including reason for transaction

(Objectives)

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

(Outline)

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

(3) Name of company after the business combination

Kuraray America, Inc.,

(4) Legal form of business combination

Merger

2. Overview of accounting methods used

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

**Business divestiture transaction** (absorption-type company split)

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

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

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

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

(2) Overview of the business divestiture including legal form

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

## 2. Overview of accounting methods used

### (1) Amount of gains and losses transferred

Loss on transfer from business divestitures of ¥88 million

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

	Millions of yen
Current assets:	906
Noncurrent assets:	492
Total assets:	1,398
Current liabilities:	—
Total liabilities:	—

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

High performance materials, medical products and others segment

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

The amounts of gains and losses from the divested businesses are not material

### **FISCAL 2008** (From April 1, 2008 to March 31, 2009)

#### **Transactions under common control** (absorption-type company split)

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

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

The Company resolved to succeed the PET (polyethylene terephthalate) resins business of KURARAY TRADING Co., LTD., a wholly owned consolidated subsidiary of the Company, by absorption-type company split with the purpose of improving operational efficiency and strengthening competitiveness of the Group as a whole on July 1, 2008.

###### (2) Name of company after the business combination

Kuraray Co., Ltd.

###### (3) Legal form of business combination

Absorption-type company split in which the Company became the successor company, and absorbed parts of the businesses of KURARAY TRADING Co., LTD.

## 2. Overview of accounting methods used

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

### **(17) RELATED PARTY DISCLOSURES**

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

Not applicable.

#### **FISCAL 2008** (From April 1, 2008 to March 31, 2009)

Not applicable.

#### (Additional information)

From the current fiscal year, the Company adopted "Accounting Standard for Related Party Disclosures (ASBJ Statement No. 11, October 17, 2006)" and "Guidance on Accounting Standard for Related Party Disclosures (ASBJ Guidance No. 13, October 17, 2006)."

There were no changes in the scope of disclosure due to this application.

**(18) PER SHARE INFORMATION**

	Fiscal 2007 (From April 1, 2007 to March 31, 2008)		Fiscal 2008 (From April 1, 2008 to March 31, 2009)	
	Yen		Yen	U.S dollars
Net assets per share	981.82		924.48	9.43
Basic net income per share	72.15		37.29	0.38
Diluted net income per share	71.99		37.26	0.38

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

	Fiscal 2007 (From April 1, 2007 to March 31, 2008)		Fiscal 2008 (From April 1, 2008 to March 31, 2009)	
	Millions of yen		Millions of yen	Thousands of U.S.dollars
Basic net income per share				
Net income	25,554		12,984	132,497
Net income unallocated to common stock	—		—	—
Net income allocated to common stock	25,554		12,984	132,497
Average number of common stock outstanding during the fiscal year (thousands shares)	354,204		348,236	
Diluted net income per share				
Adjustment made on net income	—		—	
Increase of common stocks (thousands shares)	757		264	
(New subscription rights to shares (thousands shares))	(757)		(264)	
Outline of the residual securities which were not included in the calculation of the diluted net income per share because there was no dilutive effect.	—————		—————	

## (19) SUBSEQUENT EVENTS

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)		<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)	
<p>1. At the meetings the Board of Directors held on May 20, 2008 and June 9, 2008, the Company resolved to grant directors and executive officers of the Company stock acquisition rights as a stock option in accordance with Article 238, Paragraphs 1 and 2, and Article 240, Paragraph 1 of the Corporate Law.</p>		<p>1. At the meetings the Board of Directors held on May 19, 2009 and June 8, 2009, the Company resolved to grant directors and executive officers of the Company stock acquisition rights as a stock option in accordance with Article 238, Paragraphs 1 and 2, and Article 240, Paragraph 1 of the Corporate Law.</p>	
<b>Details are described below</b>		<b>Details are described below</b>	
Resolution date	Resolutions of Board of Directors Meeting held on May 20, 2008	Resolution date	Resolutions of Board of Directors Meeting held on May 19, 2009
Number of people and office of people receiving grant	Directors: 10 Officers: 16 (excluding individuals serving concurrently as directors of the Company and overseas employee)	Number of people and office of people receiving grant	Directors: 9 Officers: 15 (excluding individuals serving concurrently as directors of the Company and overseas employee)
Classification of shares allocated for the stock acquisition rights	Common stock	Classification of shares allocated for the stock acquisition rights	Common stock
Number of shares	78,500	Number of shares	86,500
Pay-in amount upon exercise of the stock acquisition rights	1 yen per share	Pay-in amount upon exercise of the stock acquisition rights	1 yen per share
Exercise period of the stock acquisition rights	From June 11, 2008 to June 10, 2023 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day	Exercise period of the stock acquisition rights	From June 10, 2009 to June 9, 2024 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day
Conditions to exercise stock acquisition rights	Note 1	Conditions to exercise stock acquisition rights	Note 1
Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors	Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors
Matters concerning proxy payment	—	Matters concerning proxy payment	—
Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2	Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2

<p style="text-align: center;"><b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)</p>	<p style="text-align: center;"><b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)</p>
<p>Notes: 1. The exercise of stock acquisition rights is subject to the following conditions:</p> <ol style="list-style-type: none"> <li>(1) If the holder of stock acquisition rights loses their position as director, if they are a director, or executive officer, if they are an executive officer, they may exercise their stock acquisition rights providing it is in a 10 day period that begins on the next day of the day they lost their position (hereinafter the "Rights Exercise Start Date").</li> <li>(2) If the holder of stock acquisition rights, regardless of the above (1), does not qualify for a Rights Exercise Start Date before May 11, 2023, they may exercise their stock acquisition rights providing it is in a period that begins on the next business day after May11, 2023, and ends on the expiry day of the above-mentioned exercise period of the stock acquisition rights.</li> <li>(3) If, by resolution at the General Meeting of Shareholders, or the meeting of the Board of Directors, the Company decides to acquire the stock acquisition rights without compensation, Note 1-1 the holder of stock acquisition rights may exercise their stock acquisition rights providing it is in the period prescribed separately at a meeting of the Board of Directors and before the date of the acquisition without compensation.</li> <li>(4) If a holder of stock acquisition rights dies, the person who inherits the stock acquisition rights may exercise their stock acquisition rights in accordance with the conditions stated in the "Stock Acquisition Rights Allotment Agreement" described in (5) below.</li> <li>(5) Any other conditions pertaining to the exercise of rights shall be determined by the "Stock Acquisition Rights Allotment Agreement" concluded between the Company and the holder of stock acquisition rights.</li> </ol> <p>1-1. In the event a resolution is approved at the General Meeting of Shareholders for a merger agreement whereby the Company becomes a non-surviving company, an absorption-type company split agreement whereby the Company splits into multiple companies, or plan for an incorporation-type company split; or a share transfer agreement whereby the Company becomes a wholly owned subsidiary of another company, or for a share exchange plan (if a resolution at the General Meeting of Shareholders is not required, when a resolution is approved at a meeting of the Company's Board of Directors), the Company may acquire, without compensation, all stock acquisition rights remaining on a day specified separately at a meeting of the Company's Board of Directors.</p> <p>2. Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization</p> <p>If the Company is involved in a merger (limited to when the Company becomes the non-surviving company from the merger), an absorption-type company split, a plan for an incorporation-type company split, a share exchange, or a share transfer (hereinafter "Act of Corporate Reorganization"), the holders of the stock acquisition rights outstanding at the date that the Act of Corporate Reorganization becomes effective shall be granted stock acquisition rights of a stock company of one of the types listed in Article 236, Paragraph 1.(viii).(a) to 1.(viii).(e) of the Corporate Law (hereinafter the "Reorganized Company") based on the following conditions.</p>	<p>Notes: 1. The exercise of stock acquisition rights is subject to the following conditions:</p> <ol style="list-style-type: none"> <li>(1) If the holder of stock acquisition rights loses their position as director, if they are a director, or executive officer, if they are an executive officer, they may exercise their stock acquisition rights providing it is in a 10 day period that begins on the next day of the day they lost their position (hereinafter the "Rights Exercise Start Date").</li> <li>(2) If the holder of stock acquisition rights, regardless of the above (1), does not qualify for a Rights Exercise Start Date before May 10, 2024, they may exercise their stock acquisition rights providing it is in a period that begins on the next business day after May10, 2024, and ends on the expiry day of the above-mentioned exercise period of the stock acquisition rights.</li> <li>(3) If, by resolution at the General Meeting of Shareholders, or the meeting of the Board of Directors, the Company decides to acquire the stock acquisition rights without compensation, Note 1-1 the holder of stock acquisition rights may exercise their stock acquisition rights providing it is in the period prescribed separately at a meeting of the Board of Directors and before the date of the acquisition without compensation.</li> <li>(4) If a holder of stock acquisition rights dies, the person who inherits the stock acquisition rights may exercise their stock acquisition rights in accordance with the conditions stated in the "Stock Acquisition Rights Allotment Agreement" described in (5) below.</li> <li>(5) Any other conditions pertaining to the exercise of rights shall be determined by the "Stock Acquisition Rights Allotment Agreement" concluded between the Company and the holder of stock acquisition rights.</li> </ol> <p>1-1. In the event a resolution is approved at the General Meeting of Shareholders for a merger agreement whereby the Company becomes a non-surviving company, an absorption-type company split agreement whereby the Company splits into multiple companies, or plan for an incorporation-type company split; or a share transfer agreement whereby the Company becomes a wholly owned subsidiary of another company, or for a share exchange plan (if a resolution at the General Meeting of Shareholders is not required, when a resolution is approved at a meeting of the Company's Board of Directors), the Company may acquire, without compensation, all stock acquisition rights remaining on a day specified separately at a meeting of the Company's Board of Directors.</p> <p>2. Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization</p> <p>If the Company is involved in a merger (limited to when the Company becomes the non-surviving company from the merger), an absorption-type company split, a plan for an incorporation-type company split, a share exchange, or a share transfer (hereinafter "Act of Corporate Reorganization"), the holders of the stock acquisition rights outstanding at the date that the Act of Corporate Reorganization becomes effective shall be granted stock acquisition rights of a stock company of one of the types listed in Article 236, Paragraph 1.(viii).(a) to 1.(viii).(e) of the Corporate Law (hereinafter the "Reorganized Company") based on the following conditions.</p>

<p style="text-align: center;"><b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)</p>	<p style="text-align: center;"><b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)</p>
<p>When this case arises, the outstanding stock acquisition rights are extinguished and the Reorganized Company grants those holders stock acquisition rights of the Reorganized Company, the granting of stock acquisition rights of the Reorganized Company in accordance with the following conditions is limited to only the cases of absorption-type merger agreement, incorporation-type company merger agreements, absorption-type company split agreements, incorporation-type company split plan, share transfer agreements, and share transfer plans.</p> <p>(1) Number of stock acquisition rights granted by the Reorganized Company The number of granted stock acquisition rights will be the same as the number of stock acquisition rights held by the respective holders of outstanding stock acquisition rights.</p> <p>(2) Classification of stock of the Reorganized Company allocated for stock acquisition rights Shares of common stock of the Reorganized Company</p> <p>(3) Number of shares of the Reorganized Company allocated for stock acquisition rights To be decided by taking into account the conditions etc. of the Act of Corporate Reorganization.</p> <p>(4) Value of assets contributed upon the exercise of stock acquisition rights The post-reorganization pay-in amount per one share of the Reorganized Company's stock granted upon exercise of stock acquisition rights shall be 1 yen, and the value of assets contributed shall be obtained by multiplying this by the number of shares of the Reorganized Company's stock allocated for the stock acquisition rights as determined by (3) above.</p> <p>(5) Exercise period of stock acquisition rights The exercise period of stock acquisition rights shall begin on the day that the Act of Corporate Reorganization takes effect and end on the expiry date of the above mentioned exercise period of the stock acquisition rights.</p> <p>(6) Amount of capital increase when there is an issue of shares upon the exercise of stock acquisition rights Shall be half the amount of the increase limit for capital and so on, contributed in accordance with Article 40 Paragraph 1 of the Corporate Accounting Rules and when digits that are fractions of 1 yen occur as a result of the calculation, these digits are discarded.</p> <p>(7) Limitation on acquiring stock acquisition rights by transfer Acquiring stock acquisition rights by transfer is conditional upon approval by resolution at a meeting of the Board of Directors of the Reorganized Company.</p> <p>(8) Matters concerning acquisition of stock acquisition rights Determined by the above Note 1-1.</p> <p>(9) Other conditions for the exercise of stock acquisition rights Determined by the above Note 1.</p>	<p>When this case arises, the outstanding stock acquisition rights are extinguished and the Reorganized Company grants those holders stock acquisition rights of the Reorganized Company, the granting of stock acquisition rights of the Reorganized Company in accordance with the following conditions is limited to only the cases of absorption-type merger agreement, incorporation-type company merger agreements, absorption-type company split agreements, incorporation-type company split plan, share transfer agreements, and share transfer plans.</p> <p>(1) Number of stock acquisition rights granted by the Reorganized Company The number of granted stock acquisition rights will be the same as the number of stock acquisition rights held by the respective holders of outstanding stock acquisition rights.</p> <p>(2) Classification of stock of the Reorganized Company allocated for stock acquisition rights Shares of common stock of the Reorganized Company</p> <p>(3) Number of shares of the Reorganized Company allocated for stock acquisition rights To be decided by taking into account the conditions etc. of the Act of Corporate Reorganization.</p> <p>(4) Value of assets contributed upon the exercise of stock acquisition rights The post-reorganization pay-in amount per one share of the Reorganized Company's stock granted upon exercise of stock acquisition rights shall be 1 yen, and the value of assets contributed shall be obtained by multiplying this by the number of shares of the Reorganized Company's stock allocated for the stock acquisition rights as determined by (3) above.</p> <p>(5) Exercise period of stock acquisition rights The exercise period of stock acquisition rights shall begin on the day that the Act of Corporate Reorganization takes effect and end on the expiry date of the above mentioned exercise period of the stock acquisition rights.</p> <p>(6) Amount of capital increase when there is an issue of shares upon the exercise of stock acquisition rights Shall be half the amount of the increase limit for capital and so on, contributed in accordance with Article 40 Paragraph 1 of the Corporate Accounting Rules and when digits that are fractions of 1 yen occur as a result of the calculation, these digits are discarded.</p> <p>(7) Limitation on acquiring stock acquisition rights by transfer Acquiring stock acquisition rights by transfer is conditional upon approval by resolution at a meeting of the Board of Directors of the Reorganized Company.</p> <p>(8) Matters concerning acquisition of stock acquisition rights Determined by the above Note 1-1.</p> <p>(9) Other conditions for the exercise of stock acquisition rights Determined by the above Note 1.</p>

<b>Fiscal 2007</b> (From April 1, 2007 to March 31, 2008)	<b>Fiscal 2008</b> (From April 1, 2008 to March 31, 2009)
<p>2. Transactions under common control (absorption-type company split)</p> <p>At the meeting the Board of Directors held on April 30, 2008, the Company resolved to succeed the <i>PET</i> (polyethylene terephthalate) resins business of KURARAY TRADING Co., LTD., a wholly owned consolidated subsidiary of the Company, by absorption-type company split with the purpose of improving operational efficiency and strengthening competitiveness of the Group as a whole on July 1, 2008.</p> <p>(1) Details of business of the company which is split</p> <p>Details of business: <i>PET</i> (polyethylene terephthalate) resins business</p> <p>Net sales in the business to be succeeded (for the year ended March 2008): ¥2,146 million</p> <p>(2) Form of company split</p> <p>Absorption-type company split in which the Company is to become the successor company, while absorbing parts of the businesses of KURARAY TRADING Co., LTD.</p> <p>(3) Outline of the company which is split and the company which is a successor (As of March 31, 2008)</p> <p><i>Company which is split</i></p> <p>Name: KURARAY TRADING Co., LTD.</p> <p>Capital stock: ¥2,200 million</p> <p>Net assets: ¥12,147 million</p> <p>Total assets: ¥45,989 million</p> <p>Number of employees: 328</p> <p><i>Company which is a successor</i></p> <p>Name: Kuraray Co., Ltd.</p> <p>Capital stock: ¥88,955 million</p> <p>Net assets: ¥281,770 million</p> <p>Total assets: ¥379,463 million</p> <p>Number of employees: 2,931</p>	<p>2. —</p>

## (20) SUPPLEMENTARY SCHEDULE

### Supplementary schedule of bonds payable

Issuer	Name of bond	Issuance date	Balance as of March 31, 2008 (Millions of Yen)	Balance as of March 31, 2009 (Millions of Yen)	Interest rate	Type	Date of maturity
Kuraray, Co., Ltd.	3rd unsecured bonds	January 31, 2005	10,000	10,000 (US\$102,040 thousand)	0.99%	—	December 20, 2011
	Total	—	10,000	10,000 (US\$102,040 thousand)	—	—	—

Note: Repayment of bond principals is scheduled as follows.

	Millions of yen	Thousands of U.S. dollars
Maturity within 1 year	—	—
Maturity after 1 year but within 2 years	—	—
Maturity after 2 years but within 3 years	10,000	102,040
Maturity after 3 years but within 4 years	—	—
Maturity after 4 years but within 5 years	—	—

### Supplementary schedule of loans payable

Category	Balance as of March 31, 2008 (Millions of Yen)	Balance as of March 31, 2009 (Millions of Yen)	Average interest rate (%)	Due date
Short-term loans	10,997	14,414 (US\$147,084 thousand)	1.8	—
Commercial papers	—	3,000 (US\$30,612 thousand)	0.7	—
Current portion of long-term loans due within one year	1,000	4,050 (US\$41,329 thousand)	0.9	—
Current portion of long-term lease due within one year (Note 2)	—	404 (US\$4,129 thousand)	—	From September 2009 to March, 2022
Long-term loans (Excluding current portion) (Note 3)	11,954	39,280 (US\$400,821 thousand)	1.7	From September 2010 to March, 2015
Lease liabilities (Excluding current portion) (Note 2, 3)	—	618 (US\$6,314 thousand)	—	
Total	23,952	61,768 (US\$630,291 thousand)	—	

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

2. The average interest rate on lease liabilities is not reported, since interest payment equivalents included in total lease payments are allocated to each consolidated fiscal year using the straight-line method.

3. Repayments of long-term loans and lease liabilities (excluding those due within one year) within five years after the consolidated balance sheet date are as follows:

	Due after 1 year but within 2 years (Millions of Yen)	Due after 2 year but within 3 years (Millions of Yen)	Due after 3 year but within 4 years (Millions of Yen)	Due after 4 year but within 5 years (Millions of Yen)
Long-term loans	4,670	3,441	1,364	23,900
Lease liabilities	312	197	84	20

	Due after 1 year but within 2 years (Thousands of U.S. dollars)	Due after 2 year but within 3 years (Thousands of U.S. dollars)	Due after 3 year but within 4 years (Thousands of U.S. dollars)	Due after 4 year but within 5 years (Thousands of U.S. dollars)
Long-term loans	47,662	35,118	13,921	243,881
Lease liabilities	3,187	2,014	862	210

**(21) OTHER****QUARTERLY INFORMATION IN FISCAL 2008**

	First quarter From April 1 to June 30, 2008	Second quarter From July 1 to September 30, 2008	Third quarter From October 1 to December 31, 2008	Fourth quarter From January 1 to March 31, 2009
Net sales (Millions of Yen)	99,950	109,368	92,528	74,929
Income (loss) before income taxes (Millions of Yen)	10,863	11,183	3,043	(5,566)
Net income (loss) (Millions of Yen)	6,535	6,872	2,705	(3,128)
Net income (loss) per share (Yen)	18.77	19.74	7.77	(8.98)

	First quarter From April 1 to June 30, 2008	Second quarter From July 1 to September 30, 2008	Third quarter From October 1 to December 31, 2008	Fourth quarter From January 1 to March 31, 2009
Net sales (Thousands of U.S. dollars)	1,019,904	1,116,008	944,166	764,589
Income (loss) before income taxes (Thousands of U.S. dollars)	110,853	114,112	31,052	(56,803)
Net income (loss) (Thousands of U.S. dollars)	66,685	70,130	27,604	(31,922)
Net income (loss) per share (U.S. dollars)	0.19	0.20	0.07	(0.09)



**PricewaterhouseCoopers Aarata**  
Shin-Marunouchi Bldg., 32nd Floor  
1-5-1 Marunouchi  
Chiyoda-ku, Tokyo 100-6532  
Japan  
Telephone : +81 (3) 5427 6555  
Facsimile : +81 (3) 5427 6556  
[www.pwc.com/jp/aarata](http://www.pwc.com/jp/aarata)

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

We have audited the accompanying consolidated balance sheet of Kuraray Co., Ltd. ("the Company") and its subsidiaries as of March 31, 2009, and the related consolidated statements of income, changes in net assets, cash flows and supplementary schedules for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2009, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Notes to Consolidated Financial Statements (2) SIGNIFICANT CHANGES IN ACCOUNTING POLICIES CONCERNING THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS, "Accounting Standards for Measurement of Inventories (ASBJ Statement No.9, issued on July 5, 2006)" became effective from the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted them and reclassified loss on disposal of inventories from non-operating expenses to cost of sales accordingly.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*PricewaterhouseCoopers Aarata*

July 27, 2009