

# Semi-annual financial information 2008

Kuraray Co., Ltd.

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

### **Summary**

In the fiscal 2007 interim period, ended September 30, 2007, turbulence in the U.S. finance market caused anxiety to grow over economic deceleration, while the European and Chinese economies continued to expand. On the domestic front, although Japan had trended steadily toward recovery thanks to continued capital investment mainly in the corporate sector, unabated rises in raw material and fuel prices as well as worries about a slowing U.S. economy are leading to growing uncertainty about the direction of Japan's economy.

Under these circumstances, the Kuraray Group aggressively pursued priority issues and policies identified by the GS-21 medium-term business plan (fiscal 2006 to 2008), as it approaches the end of the plan's second year. As a result, consolidated net sales for the interim period increased ¥14,934 million, or 7.8%, compared with the corresponding period a year earlier, to ¥206,198 million. Operating income rose ¥5,139 million, or 26.8%, to ¥24,282 million. Interim net income surged 40.6%, or ¥4,017 million, to ¥13,899 million, realizing increases in revenue and profit for the period.

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

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

Interim sales in the Chemicals and Resins Business increased 15.6%, or ¥15,877 million compared with the same period in the previous fiscal year, to ¥117,951 million. Operating income grew ¥5,927 million, or 33.9%, to ¥23,407 million.

- (1) The poval business saw increases in both sales and earnings. Factors contributing to this were growth in sales of optical-use poval film, attributable to increased demand for LCDs for large-screen TVs and other devices. A new production line (30 million m<sup>2</sup>), which will expand yearly production from 61 million m<sup>2</sup> to 91 million m<sup>2</sup>, came into operation at the Kurashiki plant. On the back of high raw material and fuel prices, price increases of PVA resin were implemented. At the same time, PVB film sales increased owing to continued demand for application in the construction industry.
- (2) Demand for *EVVAL*, an *EVOH* resin used as a food packaging material, remained steady. Demand in Asian markets for its use in gasoline tanks

expanded, resulting in an increase in overall units sold. At the same time, *EVAL* price adjustments meant to offset raw material and fuels prices gradually took hold. As a result, overall sales and earnings improved.

- (3) Although sales of isoprene-related products increased overall, earnings were impacted by elevated raw material and fuel prices, bringing about a drop in profit. Kuraray worked to bring down costs and raise prices of *SEPTON* thermoplastic elastomer by developing differentiated products. Sales of specialty chemicals were strong, but conditions remained severe in the fine chemicals business, impacted by intense competition in aroma chemicals and agricultural intermediates.
- (4) Demand for molding materials for light-guide plates remained strong. However, while sales of methacrylic resins increased, price adjustments were not enough to offset high raw material and fuels costs, thus earnings declined.

### **Fibers and Textiles Business**

The Fibers and Textiles Business saw a 0.4%, or ¥220 million, increase in interim sales to ¥53,307 million, and a 4.5%, or ¥182 million, decrease in operating income to ¥3,851 million.

- (1) Sales of *KURALON* as an alternative to asbestos for use in reinforcing cement remained favorable, while product price adjustments finally began to cover high raw material and fuels prices. As a result, sales and earnings in the *KURALON* business expanded.
- (2) Although demand for *CLARINO* man-made leather for use in accessories and polishing agents remained favorable, stagnant sales for shoe applications on top of the impact of high raw material and fuel prices resulted in waning sales and earnings in this business.
- (3) Sales of nonwoven fabrics to the automotive industry remained strong, but were impacted by the high material prices. Application of hook and loop fasteners in the automotive industry increased, but overall sales and earnings remained flat during the period. As a result, sales were up and earnings were down.
- (4) Sales of *VECTRAN* high-strength fiber remained steady owing to application development mainly in the U.S. market.
- (5) In the polyester business, sales declined, but earnings were up, thanks to steady progress in sports clothing and other Kuraray specialty fields. The impact of high raw material and fuel prices was felt, leading Kuraray to take steps to shift the burden through price adjustments and cost cutting.

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

Sales in the High-Performance Materials, Medical Products and Others Business decreased 3.2%, or ¥1,163 million, year-on-year to ¥34,940 million. Operating income increased ¥632 million, or 19.2%, to 3,927 million.

(1) In the medical business, sales of dental materials expanded in the United States and other overseas regions. In October this year, Kuraray merged its dialyzer and therapeutic apheresis devices business with Asahi Kasei Medical Co., Ltd.

(2) In high-performance materials, demand remained strong in Asian markets for the *GENESTAR* heat-resistant polyamide resin for use as a material in electronics. In order to meet this burgeoning demand, Kuraray is currently working on expanding *GENESTAR* production. Sales of activated carbon increased owing to robust demand in water purification applications. Construction orders supported a healthy performance by the engineering business, while other related businesses progressed steadily.

(3) Owing to the cessation of opto-screen production as of December 2006 and the subsequent withdrawal from the optoelectronic products business, sales declined ¥5,042 million.

Accordingly, allocation expenses for irrevocable businesses included in elimination or corporate increased by ¥782 million to ¥6,520 million.

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

### **Japan**

Sales and earnings in Japan rose owing to increased orders for PVA resin, optical-use poval film, *EVAL*, optical-use methacrylic resin and *SEPTON*. As a result, sales totaled ¥144,126 million, while operating income amounted to ¥26,586 million.

### **North America**

Despite the impact of high raw and material and fuel prices, sales of *EVAL* and *SEPTON* expanded. As a result, sales and operating income were both up, amounting to ¥16,182 million and ¥1,595 million, respectively.

### **Europe**

Europe enjoyed increased sales and earnings, despite the impact of high raw material and fuels prices, seeing robust demand for PVB film for construction applications, PVA resin and *EVAL*. Sales rose to ¥38,154 million, while

operating income climbed to ¥2,902 million.

### Asia

As a result of strong demand for *CLARINO* in accessories applications as well as for PVA resin on top of product price increases, earnings showed improvement, despite a decline in sales. As a result, sales amounted to ¥7,736 million, while operating income rose to ¥2 million.

### Financial Position

Total assets stood at ¥495,018 million, a ¥13,677 million decrease compared with the end of the previous fiscal year, on account of a decline in financial assets attributable to the acquisition of treasury stock. As a result of increased borrowings, total liabilities rose by ¥3,468 million to ¥153,570 million. Net assets at the end of the period stood at ¥341,448 million, a decrease of ¥17,145 million, owing to the acquisition of treasury stock, an increase in retained earnings and other factors. Accordingly, total net assets amounted to ¥341,448 million, and the equity ratio was 68.5%.

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

(Unit: ¥million)

	Fiscal 2007 (Interim)	Fiscal 2006 (Interim)
Cash flows from operating activities	21,048	19,125
Cash flows from investing activities	(18,068)	(18,722)
Cash flows from financing activities	(26,093)	(1,741)
Effect of exchange rate changes on cash and cash equivalents	205	86
Net increase in cash and cash equivalents	(22,907)	(1,252)
Cash and cash equivalents, beginning of period	34,033	28,085
Effect of changes in reporting entities	112	—
Cash and cash equivalents, end of period	11,238	26,833

### Cash flow indicators for the Kuraray Group

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007 (Interim)
Equity ratio	68.8%	70.5%	70.0%	68.5%
Equity ratio (market basis)	77.2%	105.7%	92.1%	102.3%
Years to redemption of liabilities	0.7	0.8	0.7	0.9
Interest coverage ratio	132.5	84.2	92.8	74.9

#### Notes:

Equity ratio: total net assets/total assets

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

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

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

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

### **Outlook for the Fiscal Year-End**

Amid growing uncertainty over the global economy and continually rising raw material and fuel prices, we expect an increasingly severe operating environment. Under these circumstances, the Kuraray Group will follow the basic policies of its GS-21 medium-term business Plan and pursue the following business initiatives.

In the Chemicals and Resins Business, Kuraray will expand production capacity of optical-use poval film for LCDs. In poval resins, we will work to shift

higher raw material and fuel prices to higher product prices and improve our product mix through increased sales of differentiated products. In the *EVVAL* business, we will work to further increase product prices and accelerate market development for new products. In isoprene-related products, in addition to spreading price increases, we will strive to speed up market expansion for new thermoplastic elastomers as well as expand the U.S. and European markets for specialty chemicals. In methacrylic resins, Kuraray will implement price shifts and boost sales of high-performance products centered on optical applications.

In the Fibers and Textiles Business, we will work to expand the number of specialized applications such as FRC applications for *KURALON* as well as promote price increases. We will work to accelerate market expansion for *TIRRENINA* man-made leather, an eco-friendly variety of *CLARINO*, as well as expand high-value-added applications fields such as car seats and car interiors. In nonwoven fabrics, we will take steps to develop a market for our New-Type Nonwoven Fabric (Steam Jet Products), realized through Kuraray's steam jet technology, as well as focus on expanding car-related applications for hook and loop fasteners.

In High-Performance Materials, Medical Products and Others, we will promote further expansion of the market for dental materials in the United States and Europe. We will likewise work to expand *GENESTAR* production capacity, targeting increased sales as a material in the electronics field.

Our performance forecasts for the fiscal year ending March 31, 2008, are net sales of ¥420.0 billion, operating income of ¥48.0 billion, and net income of ¥25.5 billion. Forecasts for fiscal 2007 assume average exchange rates of ¥115 to the U.S. dollar and ¥160 to the euro, as well as a price of ¥60,000 per kiloliter for domestically produced naphtha and a Dubai crude oil price of US\$73.00 per barrel.

# CONSOLIDATED BALANCE SHEETS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2007	September 30, 2006	March 31, 2007	September 30, 2007
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	¥11,238	¥26,833	¥34,033	\$97,722
Marketable securities	48	8,987	-	417
Notes and accounts receivable	101,353	93,195	98,783	881,330
Loans receivable	840	1,004	909	7,305
Allowance for doubtful accounts	(952)	(1,036)	(893)	(8,278)
	<b>101,241</b>	<b>93,163</b>	<b>98,799</b>	<b>880,357</b>
Inventories	73,449	71,766	72,232	638,687
Deferred income taxes	7,113	6,175	6,741	61,852
Other current assets	4,047	3,050	6,165	35,190
Total current assets	<b>197,136</b>	<b>209,974</b>	<b>217,970</b>	<b>1,714,225</b>
<b>Property, plant and equipment:</b>				
Land	19,100	19,718	19,029	166,087
Buildings	93,472	88,684	90,862	812,800
Machinery and equipment	470,842	443,178	452,970	4,094,278
Construction-in-progress	36,648	32,412	34,978	318,678
	<b>620,062</b>	<b>583,992</b>	<b>597,839</b>	<b>5,391,843</b>
Less accumulated depreciation	(433,669)	(418,782)	(423,687)	(3,771,034)
	<b>186,393</b>	<b>165,210</b>	<b>174,152</b>	<b>1,620,809</b>
<b>Investments and other assets:</b>				
Goodwill	29,457	28,869	29,298	256,148
Other intangible assets	5,877	6,294	5,941	51,104
Investment securities	41,403	34,888	43,558	360,026
Investments in unconsolidated subsidiaries and affiliates	5,797	5,681	5,990	50,409
Loans receivable	2,468	2,955	2,709	21,461
Accumulated premiums on insurance	11,895	21,511	14,654	103,435
Deferred income taxes	2,755	2,711	2,845	23,957
Prepaid pension costs	7,398	6,139	7,106	64,330
Other	4,457	4,724	4,490	38,757
Allowance for doubtful accounts	(18)	(88)	(18)	(157)
	<b>111,489</b>	<b>113,684</b>	<b>116,573</b>	<b>969,470</b>
<b>TOTAL ASSETS</b>	<b>¥495,018</b>	<b>¥488,868</b>	<b>¥508,695</b>	<b>\$4,304,504</b>

See Notes of the end of this financial information



# CONSOLIDATED BALANCE SHEETS

(Unaudited)

	Millions of yen			Thousands of U.S. dollars
	September 30, 2007	September 30, 2006	March 31, 2007	September 30, 2007
<b>LIABILITIES</b>				
<b>Current liabilities:</b>				
Short-term bank loans	¥11,694	¥8,349	¥6,708	\$101,687
Current portion of long-term debt	2,400	5,000	5,000	20,870
Commercial paper	2,000	-	-	17,391
Notes and accounts payable	53,725	50,589	58,004	467,174
Accrued income taxes	8,636	5,364	6,736	75,096
Accrued expenses and other	15,909	16,080	17,956	138,339
Total current liabilities	94,364	85,382	94,404	820,557
<b>Long-term liabilities:</b>				
Long-term debt	19,755	14,255	16,255	171,783
Deferred income taxes	9,984	12,309	11,129	86,817
Accrued retirement benefits	12,885	12,916	13,071	112,043
Other	16,582	15,713	15,243	144,191
Total long-term liabilities	59,206	55,193	55,698	514,834
<b>TOTAL LIABILITIES</b>	<b>153,570</b>	<b>140,575</b>	<b>150,102</b>	<b>1,335,391</b>
<b>NET ASSETS</b>				
<b>Owners' equity:</b>				
Paid-in capital:				
Authorized-1,000,000,000 shares in September 2007				
Issued-382,863,603 shares in September 2007	88,955	88,955	88,955	773,522
Capital surplus	87,253	87,261	87,314	758,722
Earned surplus	181,430	162,068	171,427	1,577,652
Treasury stock-34,689,468 shares in September 2007	(40,969)	(11,463)	(11,281)	(356,252)
Total owners' equity	316,669	326,821	336,415	2,753,644
<b>Valuation and translation adjustments</b>				
Valuation difference on available-for-sale securities	9,939	14,452	11,322	86,426
Deferred gains or losses on hedges	15	(91)	(9)	130
Translation adjustments	12,267	4,718	8,410	106,670
Total valuation and translation adjustments	22,221	19,079	19,723	193,226
Subscription rights to shares	69	-	-	600
Minority interests	2,489	2,393	2,455	21,643
<b>TOTAL NET ASSETS</b>	<b>341,448</b>	<b>348,293</b>	<b>358,593</b>	<b>2,969,113</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>¥495,018</b>	<b>¥488,868</b>	<b>¥508,695</b>	<b>\$4,304,504</b>

See Notes of the end of this financial information

# CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2007	September 30, 2006	March 31, 2007	September 30, 2007
<b>Net sales</b>	<b>¥206,198</b>	¥191,264	¥385,285	<b>\$1,793,026</b>
<b>Cost of sales</b>	<b>145,637</b>	137,003	275,886	<b>1,266,409</b>
(Gross profit)	<b>60,561</b>	54,261	109,399	<b>526,617</b>
<b>Selling, general and administrative expenses</b>	<b>36,279</b>	35,118	69,179	<b>315,469</b>
(Operating income)	<b>24,282</b>	19,143	40,220	<b>211,148</b>
<b>Other income (expenses):</b>				
Interest and dividend income	<b>1,275</b>	819	1,940	<b>11,087</b>
Equity in earnings of affiliates	<b>13</b>	35	78	<b>113</b>
Interest expenses	<b>(296)</b>	(184)	(419)	<b>(2,574)</b>
Restructuring charges	<b>603</b>	(1,675)	(5,803)	<b>5,243</b>
Gain on sales of investment securities	<b>150</b>	358	3,079	<b>1,304</b>
Write-down of investment securities	<b>-</b>	-	(293)	<b>-</b>
Gain on sales of property, plant and equipment	<b>-</b>	211	3,746	<b>-</b>
Loss on disposal of property, plant and equipment	<b>(137)</b>	(314)	(670)	<b>(1,191)</b>
Gain on changes in retirement benefits plan	<b>69</b>	-	634	<b>1,130</b>
Impairment loss of property, plant and equipment	<b>(195)</b>	-	(1,658)	<b>(1,696)</b>
Other, net	<b>(3,791)</b>	(2,533)	(5,272)	<b>(33,494)</b>
	<b>(2,309)</b>	(3,283)	(4,638)	<b>(20,078)</b>
(Income before income taxes and minority interests)	<b>21,973</b>	15,860	35,582	<b>191,070</b>
<b>Income taxes:</b>				
Current	<b>8,541</b>	4,950	12,613	<b>74,270</b>
Deferred	<b>(516)</b>	974	443	<b>(4,487)</b>
	<b>8,025</b>	5,924	13,056	<b>69,783</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	<b>(49)</b>	(54)	(114)	<b>(426)</b>
<b>Net income</b>	<b>¥13,899</b>	¥9,882	¥22,412	<b>\$120,861</b>
		Yen		U.S. dollars
<b>Net income per share:</b>				
Primary	<b>¥38.59</b>	¥26.88	¥60.95	<b>\$0.34</b>
Fully diluted	<b>38.49</b>	26.81	60.80	<b>0.33</b>

See Notes of the end of this financial information

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen				
	Owners' equity				Total Owners' equity
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	
<b>Balance at March 31, 2007</b>	¥88,955	¥87,314	¥171,427	¥(11,281)	<b>¥336,415</b>
Cash dividends, YEN 10.00 per share			(3,679)		(3,679)
Net income			13,899		13,899
Effect of change in reporting entities			(217)		(217)
Treasury stock acquired				(30,109)	(30,109)
Treasury stock disposed		(61)		421	360
Net changes other than owners' equity					—
Total changes during the current period	-	(61)	10,003	(29,688)	(19,746)
<b>Balance at September 30, 2007</b>	¥88,955	¥87,253	¥181,430	¥(40,969)	<b>¥316,669</b>

	Millions of yen						
	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments			
<b>Balance at March 31, 2007</b>	¥11,322	¥(9)	¥8,410	¥19,723	¥-	¥2,455	<b>¥358,593</b>
Cash dividends, YEN 10.00 per share							(3,679)
Net income							13,899
Effect of change in reporting entities							(217)
Treasury stock acquired							(30,109)
Treasury stock disposed							360
Net changes other than owners' equity	(1,383)	24	3,857	2,498	69	34	2,601
Total changes during the current period	(1,383)	24	3,857	2,498	69	34	(17,145)
<b>Balance at September 30, 2007</b>	¥9,939	¥15	¥12,267	¥22,221	¥69	¥2,489	<b>¥341,448</b>

	Thousands of U.S.dollars				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
<b>Balance at March 31, 2007</b>	\$773,522	\$759,252	\$1,490,670	\$(98,096)	<b>\$2,925,348</b>
Cash dividends, USD 0.09 per share			(31,991)		(31,991)
Net income			120,861		120,861
Effect of change in reporting entities			(1,888)		(1,888)
Treasury stock acquired				(261,817)	(261,817)
Treasury stock disposed		(530)		3,661	3,131
Net changes other than owners' equity					-
Total changes during the current period	-	(530)	86,982	(258,156)	(171,704)
<b>Balance at September 30, 2007</b>	\$773,522	\$758,722	\$1,577,652	\$(356,252)	<b>\$2,753,644</b>

	Thousands of U.S.dollars						
	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments			
<b>Balance at March 31, 2007</b>	\$98,452	\$(78)	\$73,130	\$171,504	\$-	\$21,348	<b>\$3,118,200</b>
Cash dividends, USD 0.09 per share							(31,991)
Net income							120,861
Effect of change in reporting entities							(1,888)
Treasury stock acquired							(261,817)
Treasury stock disposed							3,131
Net changes other than owners' equity	(12,026)	208	33,540	21,722	600	295	22,617
Total changes during the current period	(12,026)	208	33,540	21,722	600	295	(149,087)
<b>Balance at September 30, 2007</b>	\$86,426	\$130	\$106,670	\$193,226	\$600	\$21,643	<b>\$2,969,113</b>

See Notes of the end of this financial information

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
<b>Balance at March 31, 2006</b>	¥88,955	¥87,227	¥155,377	¥(11,584)	¥319,975
Cash dividends, YEN 8.50 per share			(3,123)		(3,123)
Net income			9,882		9,882
Bonuses to directors			(68)		(68)
Treasury stock acquired				(67)	(67)
Treasury stock disposed		34		188	222
Net changes other than owners' equity					-
Total changes during the current period	-	34	6,691	121	6,846
<b>Balance at September 30, 2006</b>	¥88,955	¥87,261	¥162,068	¥(11,463)	¥326,821

	Millions of yen					
	Valuation and translation adjustments				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments		
<b>Balance at March 31, 2006</b>	¥16,426	¥ -	¥2,726	¥19,152	¥2,354	¥341,481
Cash dividends, YEN 8.50 per share						(3,123)
Net income						9,882
Bonuses to directors						(68)
Treasury stock acquired						(67)
Treasury stock disposed						222
Net changes other than owners' equity	(1,974)	(91)	1,992	(73)	39	(34)
Total changes during the current period	(1,974)	(91)	1,992	(73)	39	6,812
<b>Balance at September 30, 2006</b>	¥14,452	¥(91)	¥4,718	¥19,079	¥2,393	¥348,293

	Millions of yen				
	Owners' equity				
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total Owners' equity
<b>Balance at March 31, 2006</b>	¥88,955	¥87,227	¥155,377	¥(11,584)	¥319,975
Cash dividends, YEN 17.00 per share			(6,249)		(6,249)
Net income			22,412		22,412
Bonuses to directors			(68)		(68)
Treasury stock acquired				(176)	(176)
Treasury stock disposed		87		479	566
Other			(45)		(45)
Net changes other than owners' equity					-
Total changes during the current period	-	87	16,050	303	16,440
<b>Balance at March 31, 2007</b>	¥88,955	¥87,314	¥171,427	¥(11,281)	¥336,415

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

See Notes of the end of this financial information

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months period ended		Years ended	Six months period ended
	September 30, 2007	September 30, 2006	March 31, 2007	September 30, 2007
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥21,973	¥15,860	¥35,582	\$191,070
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization	14,411	12,778	25,496	125,313
Increase or decrease in allowance for doubtful accounts	(5)	11	(168)	(43)
Increase or decrease in accrued retirement benefits, net	(237)	135	227	(2,061)
Impairment loss of property, plant and equipment	195	-	1,658	1,696
Gain on sales of property, plant and equipment	-	(211)	(3,746)	-
Loss on disposal of property, plant and equipment	137	314	670	1,191
Gain on sales of investment securities	(150)	(358)	(3,079)	(1,304)
Write-down of investment securities	-	-	293	-
Interest and dividend income	(1,275)	(819)	(1,940)	(11,087)
Interest expenses	296	184	419	2,574
Increase or decrease in notes and accounts receivable	(1,432)	(262)	(4,932)	(12,452)
Increase or decrease in inventories	(123)	(1,831)	(1,357)	(1,070)
Increase or decrease in notes and accounts payable	(4,697)	444	2,822	(40,843)
Increase or decrease in prepaid pension costs	(292)	(720)	(1,964)	(2,539)
Other, net	(1,948)	(2,253)	(1,133)	(16,941)
<b>Sub-total</b>	<b>26,853</b>	<b>23,272</b>	<b>48,848</b>	<b>233,504</b>
Interest and dividend received	1,234	661	1,554	10,730
Interest paid	(281)	(184)	(420)	(2,443)
Income taxes paid	(6,758)	(6,773)	(13,170)	(58,765)
Insurance benefits received	-	2,149	2,150	-
<b>Net cash and cash equivalents provided by operating activities</b>	<b>21,048</b>	<b>19,125</b>	<b>38,962</b>	<b>183,026</b>
<b>Cash flows from investing activities:</b>				
Increase or decrease in time deposits	1,120	-	(1,890)	9,739
Increase or decrease in marketable securities	(46)	(8,986)	(3,292)	(400)
Payments for acquisition of property, plant, equipment and intangible assets	(22,074)	(14,157)	(32,575)	(191,948)
Proceeds from sales of property, plant, equipment and intangible assets	88	296	4,927	765
Payments for purchase of investment securities	(311)	(1,570)	(16,954)	(2,704)
Payments for disposal of property, plant, equipment and intangible assets	(1,124)	(1,356)	(2,744)	(9,773)
Proceeds from sales and redemption of investment securities	191	449	7,465	1,661
Payments for acquisition of long term prepaid expenses	-	(2,175)	(2,457)	-
Payments of premiums on insurance	(83)	(290)	(309)	(722)
Withdrawals from accumulated premiums on insurance	2,920	8,705	15,842	25,391
Other, net	1,251	362	3,051	10,878
<b>Net cash and cash equivalents used in investing activities</b>	<b>(18,068)</b>	<b>(18,722)</b>	<b>(28,936)</b>	<b>(157,113)</b>
<b>Cash flows from financing activities:</b>				
Increase or decrease in short-term bank loans	4,455	1,625	(74)	38,739
Proceeds from long-term debt	5,900	-	2,000	51,304
Repayments of long-term debt	(5,000)	(398)	(404)	(43,478)
Increase or decrease in commercial paper	2,000	-	-	17,391
Dividends paid	(3,679)	(3,123)	(6,249)	(31,991)
Dividends paid to minority interests shareholders	(13)	-	(13)	(113)
Proceeds from sales of treasury stock	354	222	567	3,078
Payments for purchase of treasury stock	(30,110)	(67)	(177)	(261,826)
<b>Net cash and cash equivalents used in financing activities</b>	<b>(26,093)</b>	<b>(1,741)</b>	<b>(4,350)</b>	<b>(226,896)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>205</b>	<b>86</b>	<b>272</b>	<b>1,783</b>
<b>Net increase in cash and cash equivalents</b>	<b>(22,907)</b>	<b>(1,252)</b>	<b>5,948</b>	<b>(199,191)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>34,033</b>	<b>28,085</b>	<b>28,085</b>	<b>295,939</b>
<b>Effect of changes in reporting entities</b>	<b>112</b>	<b>-</b>	<b>-</b>	<b>974</b>
<b>Cash and cash equivalents, end of year</b>	<b>¥11,238</b>	<b>¥26,833</b>	<b>¥34,033</b>	<b>\$97,722</b>

See Notes of the end of this financial information

## SEGMENT INFORMATION

### Industrial segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

#### Net sales and operating income

Millions of yen

Six months period ended September 30, 2007	Net sales			Operating income
	Outside customers	Inter-segment	Total	
Chemicals and resins	¥117,951	¥478	¥118,429	¥23,407
Fibers and textiles	53,307	321	53,628	3,851
High performance materials, medical products and others	34,940	13,244	48,184	3,927
Total	206,198	14,043	220,241	31,185
Eliminated on consolidation and corporate	-	(14,043)	(14,043)	(6,903)
Consolidated total	¥206,198	¥ -	¥206,198	¥24,282

Millions of yen

Six months period ended September 30, 2006	Net sales			Operating income
	Outside customers	Inter-segment	Total	
Chemicals and resins	¥102,074	¥190	¥102,264	¥17,480
Fibers and textiles	53,087	455	53,542	4,033
High performance materials, medical products and others	36,103	11,466	47,569	3,295
Total	191,264	12,111	203,375	24,808
Eliminated on consolidation and corporate	-	(12,111)	(12,111)	(5,665)
Consolidated total	¥191,264	¥ -	¥191,264	¥19,143

Thousands of U.S. dollars

Six months period ended September 30, 2007	Net sales			Operating income
	Outside customers	Inter-segment	Total	
Chemicals and resins	\$1,025,661	\$4,157	\$1,029,818	\$203,539
Fibers and textiles	463,539	2,791	466,330	33,487
High performance materials, medical products and others	303,826	115,165	418,991	34,148
Total	1,793,026	122,113	1,915,139	271,174
Eliminated on consolidation and corporate	—	(122,113)	(122,113)	(60,026)
Consolidated total	\$1,793,026	\$ -	\$1,793,026	\$211,148

See Notes of the end of this financial information

Industrial segment information  
(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Six months period ended September 30, 2007			
Chemicals and resins	<b>¥286,483</b>	<b>¥13,809</b>	<b>¥10,309</b>
Fibers and textiles	<b>80,902</b>	<b>3,538</b>	<b>2,111</b>
High performance materials, medical products and others	<b>69,739</b>	<b>3,367</b>	<b>1,033</b>
Total	<b>437,124</b>	<b>20,714</b>	<b>13,453</b>
Eliminated on consolidation and corporate	<b>57,894</b>	<b>1,936</b>	<b>958</b>
Consolidated total	<b>¥495,018</b>	<b>¥22,650</b>	<b>¥14,411</b>

	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Six months period ended September 30, 2006			
Chemicals and resins	¥254,269	¥10,710	¥8,360
Fibers and textiles	79,009	2,646	1,910
High performance materials, medical products and others	69,655	1,389	1,673
Total	402,933	14,745	11,943
Eliminated on consolidation and corporate	85,935	1,951	835
Consolidated total	¥488,868	¥16,696	¥12,778

	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Six months period ended September 30, 2007			
Chemicals and resins	<b>\$2,491,157</b>	<b>\$120,078</b>	<b>\$89,643</b>
Fibers and textiles	<b>703,496</b>	<b>30,765</b>	<b>18,357</b>
High performance materials, medical products and others	<b>606,426</b>	<b>29,278</b>	<b>8,983</b>
Total	<b>3,801,079</b>	<b>180,121</b>	<b>116,983</b>
Eliminated on consolidation and corporate	<b>503,425</b>	<b>16,836</b>	<b>8,330</b>
Consolidated total	<b>\$4,304,504</b>	<b>\$196,957</b>	<b>\$125,313</b>

See Notes of the end of this financial information

Geographic segment information  
(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months period ended September 30, 2007	Millions of yen			Operating income	Identifiable assets
	Net sales				
	Outside customers	Inter-segment	Total		
Domestic (inside Japan)	¥144,126	¥13,405	¥157,531	¥26,586	¥282,160
North America	16,182	2,162	18,344	1,595	48,931
Europe	38,154	2,207	40,361	2,902	98,612
Asia	7,736	1,383	9,119	2	8,209
Total	206,198	19,157	225,355	31,085	437,912
Eliminated on consolidation and corporate	-	(19,157)	(19,157)	(6,803)	57,106
Consolidated total	¥206,198	¥ -	¥206,198	¥24,282	¥495,018

Six months period ended September 30, 2006	Millions of yen			Operating income	Identifiable assets
	Net sales				
	Outside customers	Inter-segment	Total		
Domestic (inside Japan)	¥136,951	¥13,049	¥150,000	¥21,481	¥263,441
North America	15,718	1,493	17,211	1,359	47,453
Europe	30,347	2,513	32,860	2,434	89,368
Asia	8,248	1,485	9,733	(332)	5,420
Total	191,264	18,540	209,804	24,942	405,682
Eliminated on consolidation and corporate	-	(18,540)	(18,540)	(5,799)	83,186
Consolidated total	¥191,264	¥ -	¥191,264	¥19,143	¥488,868

Six months period ended September 30, 2007	Thousands of U.S. dollars			Operating income	Identifiable assets
	Net sales				
	Outside customers	Inter-segment	Total		
Domestic (inside Japan)	\$1,253,270	\$116,566	\$1,369,836	\$231,183	\$2,453,564
North America	140,713	18,800	159,513	13,870	425,487
Europe	331,773	19,191	350,964	25,235	857,496
Asia	67,270	12,026	79,296	17	71,383
Total	1,793,026	166,583	1,959,609	270,305	3,807,930
Eliminated on consolidation and corporate	—	(166,583)	(166,583)	(59,157)	496,574
Consolidated total	\$1,793,026	\$ -	\$1,793,026	\$211,148	\$4,304,504

See Notes of the end of this financial information



**Foreign sales**

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months period ended September 30, 2007	Millions of yen			<i>Thousands of U.S. dollars</i>	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	<i>Foreign sales</i>	<i>Consolidated net sales</i>
North America	<b>¥16,366</b>	¥ -	<b>8.0 %</b>	<b>\$142,313</b>	\$ -
Europe	<b>40,503</b>	-	<b>19.6</b>	<b>352,200</b>	-
Asia	<b>37,523</b>	-	<b>18.2</b>	<b>326,287</b>	-
Other	<b>4,330</b>	-	<b>2.1</b>	<b>37,652</b>	-
Total	<b>¥98,722</b>	<b>¥206,108</b>	<b>47.9 %</b>	<b>\$858,452</b>	<b>\$1,792,243</b>

Six months period ended September 30, 2006	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥19,072	¥ -	10.0 %
Europe	32,331	-	16.9
Asia	32,942	-	17.2
Other	4,300	-	2.2
Total	¥88,645	¥191,264	46.3 %

See Notes of the end of this financial information

## Notes:

Note (1) The United States dollar amounts represent translation of Japanese yen at the rate of YEN115=\$

Note (2) Depreciation for property, plant and equipment except for buildings is principally computed using the declining-balance method. The depreciation method for buildings is principally computed using the straight-line method.

The estimated useful lives of tangible fixed assets are principally as follows:

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

### [Accounting change]

Effective April 1, 2007, Kuraray and its domestic subsidiaries adopted depreciation method under the amended Corporate Tax Law and its regulation for the property, plant and equipment acquired on or after April 1, 2007.

The effect of this change on the operating income and income before income taxes and minority interests for the six months period ended September 30, 2007 is immaterial.

### [Additional information]

Effective April 1, 2007, Kuraray and its domestic subsidiaries adopted depreciation method under the amended Corporate Tax Law and its regulation.

With regard to the property, plant and equipment acquired on or before March 31, 2007, 5% residual amount is amortized using straight line method over 5 year up to 1yen from the fiscal year following the year in which the accumulated depreciation amount becomes 95% of acquired cost.

The effect of this change on the operating income and income before income taxes and minority interests for the six months period ended September 30, 2007 is immaterial.