

To be a leading specialty products company
developing its business globally

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KUREHA CORPORATION

BUSINESS REPORT 2008

Year ended March 31, 2008

Specialty Plastics

Advanced Materials

Specialty Chemicals

Advanced Materials

Specialty Plastics

Specialty Chemicals

Profile

Kureha takes pride in its history of developing original, innovative technology

Kureha is a leading diversified chemical products manufacturer that has applied its technological development expertise to create original products in fields including advanced products, pharmaceuticals, agrochemicals, and packaging materials. Since its establishment in 1944, Kureha's growth and development has come exclusively from producing innovative products developed in-house rather than from using outside technology.

Since 2001, Kureha has undergone a major transformation to enable it to constantly develop products to meet the ever-changing needs of customers. As part of this transformation, it moved away from manufacturing commodity chemicals to focus on key strategic business areas—including advanced products, pharmaceuticals and agrochemicals, and high-barrier packaging materials—where the company can benefit from its original technology and marketing strengths to secure steady growth.

To support its transformation, Kureha developed a new mission, “**the pursuit of excellence**,” with the aim of becoming a leading global specialty products company. Kureha also changed its name from Kureha Chemical Industry Co., Ltd., to Kureha Corporation on October 1, 2005.

These moves have already reaped rewards, with Kureha displaying significant development, production, and marketing abilities. Kureha's goal is to foster future growth by advancing a model that takes a global perspective and focuses on winnable markets in each of its business areas, including those that are still in the developmental phase.

Corporate Identity

Mission	The pursuit of excellence
Corporate philosophy	<ul style="list-style-type: none">•We treasure people and the natural environment•We constantly evolve through innovation•We contribute to society by developing beneficial products
Employee code of conduct	<p>We always act as global corporate citizens, recognizing our corporate social responsibilities.</p> <ul style="list-style-type: none">•In relation to our clients: Customer satisfaction is our prime priority•In relation to our work: We will always pursue progress and innovation•In relation to our colleagues: We will maintain a global perspective as we respond to changeMutual respect and teamwork will always be fundamental to sound employee relationships

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Forward-looking statements

This report contains forward-looking statements that are based on management's assumptions and beliefs in light of the information currently available to it. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those discussed in this report. Such risks include but are not limited to market trends and economic conditions.

Consolidated Financial Highlights

KUREHA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Percentage change	Thousands of U.S. dollars
	2008	2007	2008/2007	2008
For the year:				
Net sales	¥149,776	¥146,256	2.4%	\$1,494,915
Operating income	12,722	11,841	7.4	126,972
Net income	6,097	5,832	4.5	60,854
Capital expenditure	10,085	10,678	-5.6	100,660
Depreciation	10,148	9,115	11.3	101,287
R&D expenses	6,543	6,865	-4.7	65,314
Year-end:				
Total assets	¥187,349	¥196,107	-4.5	\$1,869,938
Net assets	104,582	107,349	-2.6	1,043,840
Interest-bearing debt	32,040	32,470	-1.3	319,792
	Yen		Percentage change	U.S. dollars
Amounts per share:				
Net income – basic	¥ 33.39	¥ 31.58	5.7%	\$ 0.33
Net assets	572.24	578.09	-1.0	5.71
	Percent		Change	
Ratios:				
Net income to net sales	4.1%	4.0%	0.1%	
Return on equity	5.8	5.7	0.1	
Return on assets	6.6	6.1	0.5	
Equity ratio	55.2	54.2	1.0	

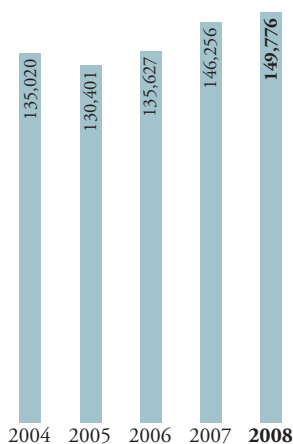
Notes: 1. For convenience only, U.S. dollar amounts have been translated from Japanese yen at the rate of ¥100.19 to US\$1, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2008.

2. For amounts per share, see Note 20 of the Notes on Consolidated Financial Statements.

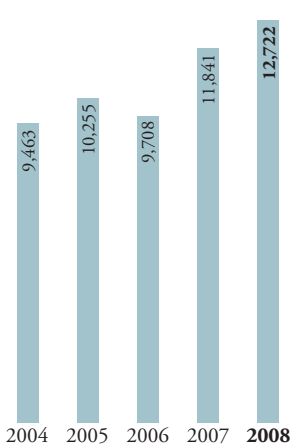
3. Return on equity = [Net income / (Average net assets - Average minority interests - Average stock subscription rights)] x 100.

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

Net Sales
(Millions of yen)

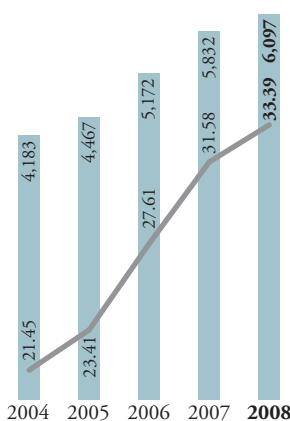


Operating Income
(Millions of yen)

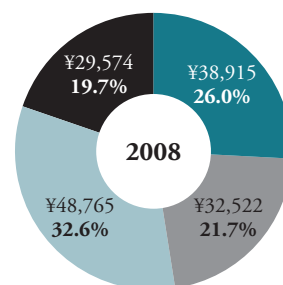


Net Income
(Millions of yen)

Net Income per Share
(Yen)



Sales by Segment
(Millions of yen)



■ Advanced Materials Division
■ Specialty Chemicals Division
■ Specialty Plastics Division
■ Other Operations Division

Message from the President

To be a leading specialty products company developing its business globally

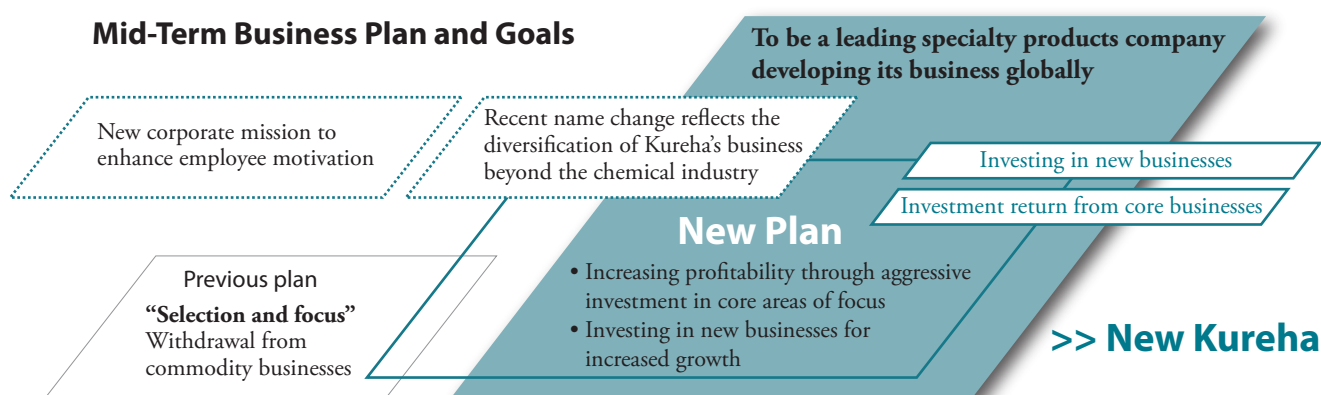
Kureha is a company that possesses the strengths and resilience to continually adapt to changing consumer needs and market trends. As its President, I want to take this opportunity to look back on some of the changes that have been successfully implemented in recent years and outline key goals for the future.

In 2001 Kureha conducted a sweeping review of its management systems and announced a mid-term business plan that moved the Company away from manufacturing commodity chemicals to become a specialty products business. Under the new mid-term plan, Kureha placed the focus on manufacturing high value-added, highly differentiated products to set the Company on a path of further growth.

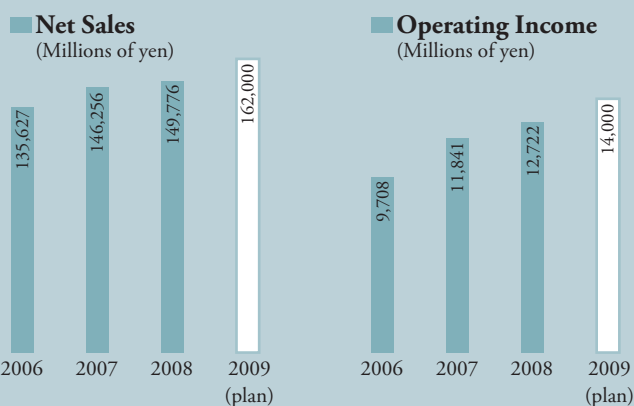
To mark the celebration of Company's sixtieth anniversary in 2005, Kureha unveiled a new corporate name and corporate identity that is in line with its strategy to pursue continued success and growth in the 21st century. In October 2005, the Company changed its name from Kureha Chemical Industry Co., Ltd., to Kureha Corporation, in a move that reflected a determination to pursue sustained growth by expanding beyond the chemical industry to become a leading company that supplies specialty products to the global community.

Kureha has identified advanced materials, pharmaceuticals and agrochemicals, and high-barrier packaging materials as core growth areas. Based on this approach and in line with its global perspective, the Company is pursuing business operations and research and development activities aimed at providing specialty materials and products necessary for modern consumer life and the protection of the global environment. In addition, to expand its business operations in the areas identified, Kureha has established a business model that enables it to fully exploit its strengths and quickly adapt to accommodate changing social and environmental trends in the years ahead.

In 2007, the Japanese economy was marked by increasingly cautious levels of capital investment and consumer spending in response to rising fuel and raw material prices and weakening equities markets. The entire industry,



Rolling Plan Initiatives





Takao Iwasaki

Takao Iwasaki
President & Chief Executive Officer

including Kureha, made efforts to transfer increased resource costs to product prices. However, this approach has become increasingly difficult due to a slowdown in exports to the U.S. and other economic issues affecting customers, including in the automotive, electrical and electronics sectors.

Faced with these conditions, in the fiscal year ended March 31, 2008 Kureha sought to accelerate product commercialization-related research and development efforts and to improve profitability by growing market share in existing business lines, boosting productivity, and cutting costs. In response to these efforts, consolidated net sales totaled ¥149.8 billion, up 2.4% from the previous year; operating income of ¥12.7 billion, up 7.4%; and net income of ¥6.1 billion, up 4.5%.

Although high fuel and raw material costs are expected to continue and thereby place further pressure on costs in the coming fiscal year, Kureha plans to counter these factors with further product price revisions and efforts to expand market share and increase productivity. For the fiscal year ended March 31, 2009, Kureha projects consolidated net sales of ¥162.0 billion, up 8.2%, operating income of ¥14.0 billion, up 10%, and net income of ¥6.5 billion, up 6.6%.

Kureha announced its plans to commercialize PGA (polyglycolic acid) resin in December 2007 and established Kureha PGA LLC in West Virginia, U.S. in January 2008 for the production and sale of the high performance polymer. At the same time, the Company also established Kureha Vietnam Co., Ltd., a company engaged in the manufacture and marketing of an existing line of commercial-use food packaging materials. By doing so, we have effectively established a revenue base for Kureha's commercial-use food packaging materials and are now ready to expand operations in Asian and Oceania-region markets. In addition, to satisfy the continued growth in demand for carbon fiber products, Kureha has expanded production capacity at the Iwaki and Shanghai production facilities.

Kureha intends to build on its strengths in business sectors where it already commands a competitive edge, cultivate and expand its PGA business and other new ventures, and lay the foundations for future initiatives.

Kureha is also determined to fulfill its social responsibilities as a good corporate citizen. To that end, we will continue to strive for harmony with our stakeholders and the global environment, provide products of real value, contribute to community development and meet our compliance obligations.

We look forward to your continued support.

July 2008

The Year's Highlights

PGA: Commercialization

Kureha announced its plans to commercialize PGA (polyglycolic acid) resin in December 2007 and established Kureha PGA LLC in West Virginia, U.S. in January 2008 for the production and sale of the high performance polymer. A ground-breaking ceremony was held in April 2008 on the site of the planned PGA production facility, which is to be located on the DuPont site in Belle, West Virginia.

A major attribute of PGA resin is its high level of impermeability to gases such as oxygen and carbon dioxide; around 100 times higher than PET (polyethylene terephthalate) resin. Due to PGA's outstanding gas barrier properties, adding a layer of PGA to a PET bottle means it is possible to improve carbon dioxide retention for carbonated soft drinks and at the same time reduce the amount of PET material required. In addition, reduced PET usage leads to resource savings and thereby contributes to protection of the environment.

PET/PGA multilayer bottles



Carbon fiber: Reinforced production capacity



Kureha Chemicals Shanghai Co., Ltd.

As an indispensable material in diverse industrial sectors, Kureha's highly regarded carbon fiber products are experiencing growth in demand year after year due to excellent characteristics including strength, conductivity, thermal and chemical resistance and adaptability to sliding.

At Kureha's Iwaki Factory in Fukushima Prefecture, Japan, steps are being taken to increase annual carbon fiber production capacity from the current 1,100 tonnes to 1,450 tonnes by the spring of 2009 and to 1,800 tonnes by the spring of 2012. A phased increase in production capacity for processed carbon products will be undertaken, resulting in a two-fold increase from existing capacity at the Iwaki Factory by 2012, and three-fold at Kureha Chemicals Shanghai Co., Ltd.

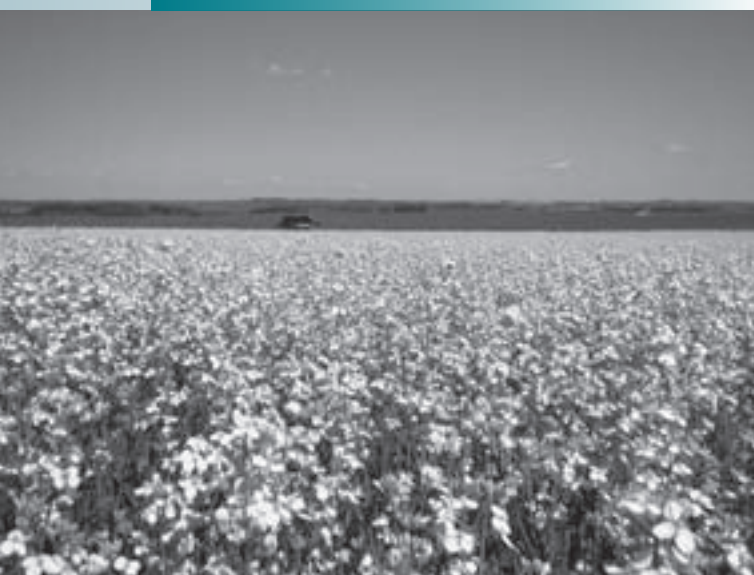
Kureha is seeing a particularly strong increase in demand for carbon fibers as an insulating material to be used in silicon wafers for semiconductors and solar power equipment. As an insulating material for high-temperature heat-treatment furnaces, Kureha's carbon fiber products currently enjoy 50% global market share.

Metconazole: Global market expansion

Kureha's agricultural fungicide *Metconazole* has proven highly effective against a wide range of crop diseases and is currently used as a fungicide for wheat and oil seed rape in over 30 countries, primarily in Europe and Latin America. The fiscal year ended March 31, 2008 saw a significant increase in sales of *Metconazole*, triggered by increased cultivation of oil seed rape due to increased demand for biodiesel fuels in Europe.

Kureha obtained permission for pesticide registration in the U.S. of *Metconazole* for turf in September 2007 and for soybeans, fruits and wheat in April 2008. With the aim of steadily growing sales, Kureha intends to register *Metconazole* for use with a variety of crops around the world.

Vast oil seed rape fields



New Krewrap: Greater user convenience



NEW Krewrap

New *Krewrap*, the household wrapping film manufactured from polyvinylidene chloride resin, is enjoying increased consumer support as a result of efforts to improve user convenience. In addition, the increased ratio of such high-profit products as a percentage of total operations and further price optimization efforts have all contributed to Kureha's overall profitability.

Following product redesign efforts including those completed in April 2007, *New Krewrap* has also been evaluated highly within the industry, as is reflected by the decision to award the product the Good Designed Award 2007 and the food packaging category award of the Japan Packaging Contest 2007.

In the spring of 2008, a fourth product renewal of *New Krewrap* was completed, which included replacing the conventional metal cutting blade with a bio-degradable plastic blade.

Review of Operations



Major Product Areas

- PPS resin
- PVDF resin
- Antistatic resin
- ESD control materials
- Carbon fiber
- Bead-shaped activated carbon
- Specialty carbon material

ADVANCED MATERIALS DIVISION

Summary of fiscal year results

PPS resin posted a year-on-year increase in both sales and operating income, having continued full capacity production even after capacity was increased to meet growing demand for applications including automotive and electronic parts, while PPS resin at Kureha's U.S. joint venture also recorded a favorable performance. This enabled Kureha to offset the impact of increased depreciation at its main operations.

Both PVDF resin and *Krefine* (an advanced electrostatic discharge material) also posted a year-on-year increase in sales and operating income. PVDF resin benefited from increased demand for use in industrial applications and lithium-ion rechargeable battery binders, while *Krefine* experienced growth in demand for use in electronic devices.

Among carbon products, carbon fibers posted a year-on-year increase in both sales and operating income after production capacity was increased to meet rising demand for use in insulating materials in heat-treatment furnaces. Bead-shaped activated carbon, however, experienced a year-on-year drop in sales and operating profit following a decline in exports.

Overall, divisional sales rose by 10.8% year-on-year to ¥38.9 billion, while operating income increased by 2.8% to ¥4.4 billion.

Outlook for fiscal year ending March 31, 2009

Demand for PPS resin in Asia, including Japan, is expected to see continued growth, mainly from automotive parts applications. Kureha intends to respond to this demand increase through full-capacity operation of the Iwaki Factory's PPS plant, to be complemented if necessary by imports from Fortron Industries LLC in the U.S. There is also expected to be increased demand for PVDF resin for use in lithium-ion rechargeable battery binders and for *Krefine*, resulting in increased profits from these products. The same is expected of carbon fibers, which continue to experience strong demand for use in insulating materials in heat-treatment furnaces.

For the fiscal year ending March 31, 2009, Kureha projects divisional sales of ¥43.5 billion for the Advanced Materials Division, a year-on-year increase of 12%, and operating income of ¥4.4 billion, unchanged from the fiscal year ended March 2008.



Heat-resistance materials for heat-treatment furnaces



Fortron KPS, used in electrical and electronic parts

■ Net Sales
■ Operating Income
(Millions of yen)





SPECIALTY CHEMICALS DIVISION

Summary of fiscal year results

Pharmaceutical products and agrochemicals experienced a year-on-year increase in operating income. *Kremezin*, a therapeutic agent for chronic kidney disease, increased its sales, while sales of *Krestin*, an anti-cancer agent, decreased. Sales of *Metconazole*, a fungicide for wheat and oil seed rape, increased as a result of strong exports, mainly to Europe.

Industrial chemicals recorded a year-on-year decrease in operating income, following a delay in transferring fuel cost increases to prices of inorganic chemicals such as sodium hydroxide and hydrochloric acid, as well as a decline in sales due to increased in-house consumption of chlorobenzenes as a material for PPS resin.

Overall, divisional sales rose by 6.5% year-on-year to ¥32.5 billion and operating income was up 4.0% to ¥3.5 billion.

Outlook for fiscal year ending March 31, 2009

Operating income for pharmaceutical products is expected to increase as a result of increased sales volume for *Kremezin*, despite the impact of drug price cuts. Of Kureha's agrochemical products, *Metconazole* is expected to further increase sales based on a continued strong performance in Europe and as a result of approval for turf and soybean applications in the U.S.

With regards to industrial chemicals, Kureha will continue efforts to transfer the impact of fuel price hikes to product prices to ensure future profits.

For the fiscal year ending March 31, 2009, the Specialty Chemicals Division is projected to record sales of ¥32.5 billion, representing a 0% year-on-year change, and operating income of ¥3.9 billion, up 12% from the previous year.

Major Product Areas

- Caustic soda
- Hydrochloric acid
- Liquid chlorine
- Sodium hypochlorite
- Monochlorobenzene
- para-Dichlorobenzene
- ortho-Dichlorobenzene
- Anti cancer agent
- Therapeutic agent for chronic kidney disease
- Fungicide for wheat and oil seed rape
- Seed treatment fungicide
- Fertilized granulated soils

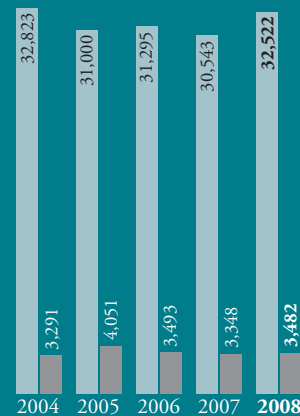


Therapeutic agent for chronic kidney disease (*Kremezin*)



Agricultural fungicide (*Metconazole*)

■ Net Sales
■ Operating Income
(Millions of yen)





SPECIALTY PLASTICS DIVISION

Summary of fiscal year results

Operating income of household products increased on a year-on-year basis following continued efforts to establish retail prices that accurately reflect product value. *New Krewrap*, the household wrapping film, received the Good Design Award for the third time and the second consecutive year, having undergone product upgrades in each of the past four years.

The *Seaguar* series of fishing lines underwent a full product renewal for the first time in twenty-four years in February 2007.

During the fiscal year ended March 31, 2008, increased sales of *New Krewrap* helped to offset a decline in sales of the *Seaguar* series, resulting from a voluntary recall of some products aimed at maintaining the series' commercial value following the discovery of an appearance related product defect.

Food packaging materials recorded a year-on-year increase in operating income following efforts to improve profitability, including at resin-processing subsidiaries, and a strong performance by European subsidiaries focused on marketing of multilayer shrinkable film. Specifically, despite a decrease in domestic sales of *Besela*, a high-barrier lamination film, sales of PVDC film, multilayer shrinkable and non-shrinkable film, and multilayer bottles all increased.

Kureha recorded an increase in both sales and operating income of machinery for new auto-seal food packaging products as a result of receiving a large-quantity order in Japan. Sales and operating income of PVDC compound to China, however, declined on a year-on-year basis due to less buoyant demand and the delayed transfer of rising fuel costs to product prices.

Overall, divisional sales rose by 1% year-on-year to ¥48.8 billion, while operating income grew by 51.8% to ¥3.4 billion.

Outlook for fiscal year ending March 31, 2009

Kureha aims to further improve the profitability of food packaging materials and also expand sales channels for these products in European markets. For household products, efforts to optimize retail prices will continue in order to counter the anticipated material cost increases for products including *New Krewrap*. In addition, Kureha aims to further secure established market positioning for *Seaguar* series products that have been upgraded and newly launched in 2007 and early 2008.

For the fiscal year ending March 31, 2009, divisional sales are projected to increase by 2% to ¥49.5 billion, while operating income is projected to grow 16% to ¥3.9 billion.

Major Product Areas

- PVDC film
- PVDC compound
- Multilayer shrinkable film
- Multilayer non-shrinkable film
- Multilayer bottle
- High barrier lamination film
- Household wrapping film
- Kitchen sink use garbage bags
- Vacuum cleaner paper packs
- Plastic containers
- PVDF fishing lines
- Machinery for auto-seal food packaging



NEW Krewrap



Food packaging film *Krebalon*, application example

■ Net Sales
■ Operating Income
(Millions of yen)





Major Product Areas

- Environmental engineering and industrial waste treatment businesses
- Industrial facility design, construction and management businesses
- Civil engineering and construction contracting businesses
- Transport and warehousing businesses

OTHER OPERATIONS DIVISION

Summary of fiscal year results

Environmental engineering-related businesses recorded a year-on-year increase in sales and operating income, as industrial and medical waste processing operations grew and more orders were received for projects such as environmental assessments and soil contamination surveys.

Construction-related businesses posted a year-on-year decrease in both sales and operating income. This was primarily as a result of a decline in construction projects due to the impact of the revised Building Standard Law, a fall in profitability of public works projects, higher outsourcing and materials costs, and an absence of orders for large-scale plant projects as had been seen in the previous year.

Sales and operating income for transport and warehousing-related businesses both declined on a year-on-year basis due to increased transportation costs resulting from higher fuel prices and decreased fuel sales.

As a result, divisional sales declined by 8.1% year-on-year to ¥29.6 billion, while operating income was ¥1.6 billion, down 29.2% from the previous year.

Outlook for fiscal year ending March 31, 2009

Construction-related business sales are expected to recover through the performance of public-sector projects and engineering businesses, with cost reductions also targeted. Kureha's focus for environmental engineering businesses will be on strengthening foundations as a high-profit operation on the basis of accumulated expertise.

For the fiscal year ending March 31, 2009, divisional sales are projected to reach ¥36.5 billion, representing a year-on-year increase of 23%, while operating income is expected to increase by 36% to ¥2.2 billion.



Construction-related businesses



Transport and warehousing-related businesses

■ Net Sales
■ Operating Income
(Millions of yen)



Research & Development

Kureha's approximately 310 research and development (R&D) staff pursue basic and exploratory research, as well as exploring the timely commercialization of new products, quality improvements to existing products, and technological developments aimed at securing enhanced productivity. These activities are all undertaken in accordance with Kureha's business strategies: 1) positioning advanced materials, packaging materials, pharmaceuticals and agrochemicals as core products, and, 2) position Kureha as the undisputed single leader for certain unique specialty products.

In line with these policies, Kureha committed a total of ¥6.54 billion to R&D activities in the fiscal year ended March 31, 2008.

Advanced Materials Division >> R&D investment = ¥2.5 billion

Kureha is continuously working to enhance productivity and product quality for engineering plastics such as *Fortron KPS* and PVDF resin. R&D efforts relating to carbon materials currently include the development of new negative electrode materials for use in large lithium-ion batteries for hybrid automobiles.

Kureha announced plans to commercialize PGA resin, which currently remains under development, in December 2007. In preparation for full production, product development is actively underway aimed at utilizing PGA's attributes including high gas barrier properties and controllable hydrolysis.

Specialty Chemicals Division >> R&D investment = ¥2.9 billion

Kureha is continuing research activities in relation to *Kremezin* with the aim of seeing the product introduced to early-stage treatment of chronic kidney disease, while also performing Phase III clinical trials in Europe and North America in collaboration with other companies.

With regards to agrochemicals, Kureha is actively seeking to expand applications and markets, both domestic and international, for the fungicide *Metconazole* and the seed treatment fungicide *Ipconazole*. For *Metconazole* in particular, studies are underway to enable enhanced productivity and cost reductions.

Specialty Plastics Division >> R&D investment = ¥1.1 billion

Improvements to the manufacturing process for PVDC resin are underway with a view to enabling cost reductions, while there has also been longstanding technical support to customers.

Quality improvements and packaging renewals are continuously pursued for *New Krewrap*, which is also manufactured from PVDC resin. In addition, the product has recently adopted a bio-degradable cutting blade to ensure environmental considerations are taken into account.

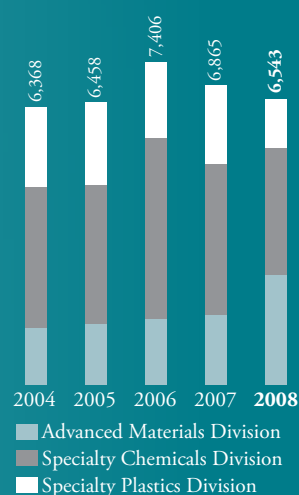


Synthetic experimentation of agrochemicals



Measuring the oxygen permeability of films

R&D Expenditure by Segment (Millions of yen)



Responsible Care

Kureha was an inaugural member of the Japan Responsible Care Council and stated its commitment to implementing Responsible Care in April, 1995. As a global corporate citizen, Kureha takes its commitments to society very seriously, for example including in areas such as the environment and health and safety.

Responsible Care implementation

Together, all Kureha group companies have established the All Kureha Responsible Care Committee. Through this committee, the company is working to enhance its efforts in various fields, including environmental protection, security and disaster response, labor safety and hygiene, product safety and quality assurance, logistics safety, energy conservation, and community relations.

Kureha has obtained ISO 14001, the international standard for environmental management, as well as ISO 9001 for product quality management and OHSAS 18001 for labor safety and hygiene management. The Company is further enhancing efforts aimed at improving responsible care activities through a “*plan, do, check, act*” activity cycle.



Reducing the burden on the environment

Since its establishment, Kureha has developed technologies and products with a view to reducing the burden on the environment. In the case of the Iwaki Factory, Kureha seeks to create a manufacturing facility that minimizes stress on the environment by implementing measures such as air and water pollution prevention, reduction of chemical material and industrial waste, odor control, and adoption of the Energy Consumption Index. In 2006, Kureha received the PRTR Merit Award in recognition of the Company’s efforts to promote responsible management of chemical materials and communicate risk.

Disaster prevention

Safety and disaster prevention are among the most important responsibilities of a manufacturing factory. In order to respond to the trust the community places in the company, Kureha manages its facilities and operations in strict compliance with the relevant laws. In addition, the company implements a safety and disaster prevention program which includes its own voluntary control criteria, activities and training.

Contributing to the community

In addition to Kureha General Hospital being used as a community medical facility in the southern part of Iwaki City, Kureha contributes to the local community in a variety of different ways. These include opening company sports facilities for public use, volunteering for clean up activities, offering science classes at elementary schools and holding community meetings to initiate dialogue with local neighborhood associations.

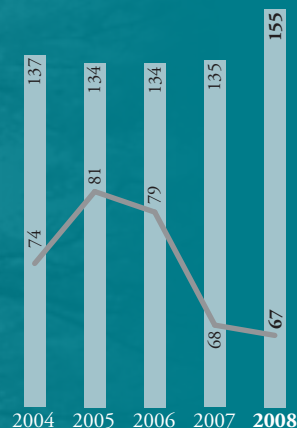


Kureha General Hospital



Disaster drill

■ CO₂ Production (Thousands of tonnes)
— Specific Energy Consumption Efficiency and Usage Method at the Iwaki Factory



Corporate Governance

Maximizing the corporate value of all group companies is a fundamental policy of Kureha. In order to achieve this goal, Kureha is working to enhance governance and other internal control functions, guarantee business transparency and fair disclosure of information, and to implement Responsible Care policies.

Compliance program framework

Kureha has established a compliance program framework, based on the Kureha Group Ethical Charter and its Compliance Rules. Kureha's compliance objective is to ensure that all executives and employees act in a manner that is consistent with legal compliance and that also meets the standards of our society. This framework is constantly being improved and reinforced so as to cultivate a compliance-focused corporate culture.

The Compliance Committee, led by the Senior Executive Vice President, keeps employees informed of compliance issues through training programs and other activities based on the Compliance Handbook and the Compliance Standards. In addition, direct access to internal and external advisers for inquiries and reporting on compliance issues is maintained so that legal violations, confirmed or suspected, can be detected and deterred at an early stage. In this manner, Kureha is able to ensure that it acts in a manner that is both legally and ethically responsible.

In addition, Kureha provides an in-house training program that recognizes the necessity of a resolute attitude in response all forms of anti-social behavior and maintains close ties with relevant administrative agencies and specialist external organizations with which Kureha is prepared to cooperate on an organizational basis.

Management, execution and decision-making framework

1. Supervisory and executive responsibilities are clearly distinguished to strengthen corporate governance and accelerate managerial decision-making and execution.

The Board of Directors is limited to a maximum of ten directors (including two external directors). The Board, presided over by the Chairman of the Board of Directors, meets once a month in principle to make decisions on important administrative matters and pursue supervision.

The Executive Committee, chaired by the President & CEO and comprised of executive officers appointed by the President & CEO, meets twice a month in principle. The committee considers mid- and long-term management strategy and basic policies that cover all aspects of general management, and passes resolutions and implements these policies.

To clarify responsibilities for fiscal year results, a one-year term was established for directors and executive officers.

The Consolidated Executive Committee, chaired by the Chairman of the Board of Directors, serves as a forum to exchange views on basic management policies and other matters relating to the Kureha Group, thereby reinforcing the efforts of the consolidated management team.

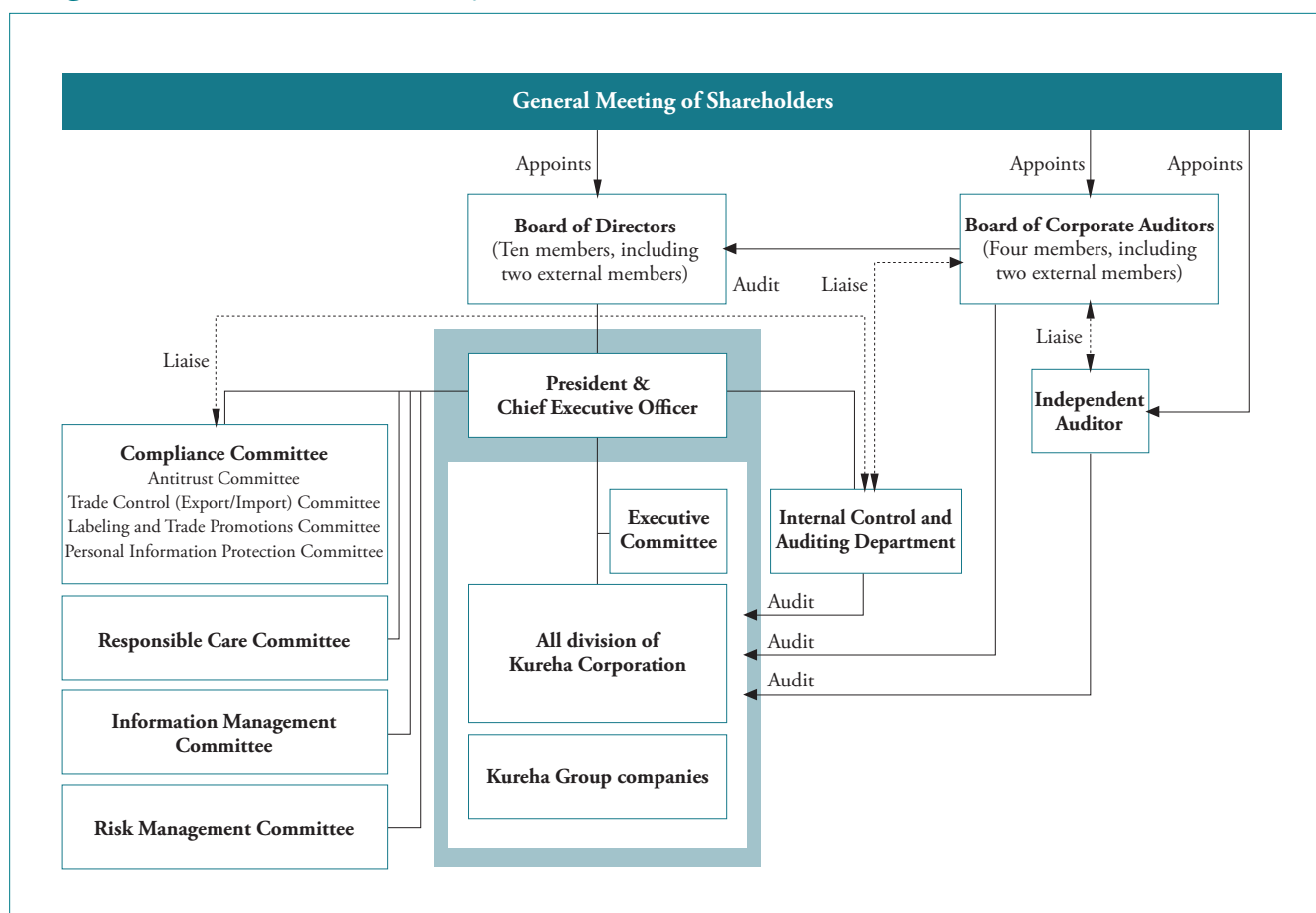
2. A total of four corporate auditors, comprised of three full-time auditors (including one external auditor) and one part-time auditor, undertake auditing activities. This group works within a framework that allows them to monitor the deliberation processes of board resolutions and reports, as well as have a representative corporate auditor attend and monitor meetings of the Executive Committee. In addition, auditors are able to access documentation including all documents requiring senior approval, results of internal audits, and documentation on the status of customer inquiries.

In addition, an Internal Control and Auditing Department acts independently of other departments and under direct management and supervision of the President & CEO. Based on an annual internal audit plan approved by the Board of Directors, this department assesses the suitability and effectiveness of internal management control systems including compliance and risk management. It then proposes necessary or desired changes and improvements, so as to enhance both management efficiency and public trust in Kureha.

Internal control system

To further strengthen its internal control system, Kureha has established a set of basic policies, committees and internal rules to ensure that it observes laws and regulations and conducts its business operations in an appropriate and fair manner.

Diagram of Internal Control Systems



Kureha has also established a set of Basic Rules for Internal Control of Financial Reports to ensure the reliability of the financial reports and to guarantee implementation of management's assessment and certified public accountant's auditing of the effectiveness of internal control of financial reports, as stipulated in the Financial Instruments and Exchange Law.

Risk management system

To enable the Company to recognize and minimize the risks it is exposed to during business activities, Kureha has established a Risk Management Committee. The committee proposes concrete measures to the President & Chief Executive Officer aimed at reducing and avoiding risk and manages the implementation of such measures. In addition, to respond to unforeseen circumstances, a system is in place for the establishment of an emergency response task force, with the objective of ensuring the safety of personnel and minimizing economic damage.

Kureha has also established an Information Management Committee to identify a clear set of information management rules and promote procedures for the appropriate control of Company information. Suitable measures are also being taken for the management of information security and disclosure.

To address environmental and safety risks, management procedures for the environment, quality, and labor safety have been established that comply with ISO 14001, ISO 9001, and OHSAS 18001 standards. In addition, Kureha is continuing with ongoing efforts to improve environmental conservation, quality assurance, and occupational health and safety.

Consolidated Five-Year Summary

KUREHA CORPORATION and Consolidated Subsidiaries
Years ended March 31, 2008, 2007, 2006, 2005 and 2004

	Millions of yen					Thousands of U.S. dollars
	2008	2007	2006	2005	2004	2008
For the year:						
Net sales:	¥149,776	¥146,256	¥135,627	¥130,401	¥135,020	\$1,494,915
Domestic	116,666	116,503	107,584	104,328	110,950	1,164,440
Overseas	33,110	29,753	28,043	26,073	24,070	330,475
Net sales by segment:						
Advanced materials	38,915	35,129	31,578	25,159	24,913	388,412
Specialty chemicals	32,522	30,543	31,295	31,000	32,823	324,602
Specialty plastics	48,765	48,399	45,262	50,729	51,140	486,725
Other operations	29,574	32,185	27,492	23,512	26,144	295,177
Operating income	12,722	11,841	9,708	10,255	9,463	126,972
Advanced materials	4,378	4,259	3,923	3,192	2,815	43,68
Specialty chemicals	3,482	3,348	3,493	4,051	3,291	34,757
Specialty plastics	3,358	2,213	607	872	1,286	33,521
Other operations	1,620	2,289	2,100	2,156	2,176	16,167
Elimination or corporate	(116)	(268)	(416)	(16)	(104)	(1,160)
Net income	6,097	5,832	5,172	4,467	4,183	60,854
Capital expenditure	10,085	10,678	11,984	12,002	8,653	100,660
Depreciation	10,148	9,115	7,899	7,644	7,930	101,287
R&D expenses	6,543	6,865	7,406	6,458	6,368	65,314
Advanced materials	1,578	1,583	1,507	1,379	1,296	15,750
Specialty chemicals	3,288	3,467	4,134	3,195	3,220	32,813
Specialty plastics	1,658	1,805	1,749	1,884	1,852	16,548
Other operations	20	10	17	0	0	203
Cash flows from operating activities	14,996	13,949	11,308	12,438	19,756	149,671
Cash flows from investing activities	(8,584)	(11,987)	(9,648)	(9,593)	(3,612)	(85,679)
Cash flows from financing activities	(4,758)	(4,835)	(1,089)	(4,067)	(15,973)	(47,486)
Year-end:						
Total assets	¥187,349	¥196,107	¥185,203	¥172,727	¥173,296	\$1,869,938
Net assets	104,582	107,349	99,588	93,848	93,471	1,043,840
Interest-bearing debt	32,040	32,470	35,383	34,861	34,359	319,792
	Yen					U.S. dollars
Amounts per share:						
Net income – basic	¥ 33.39	¥ 31.58	¥ 27.61	¥ 23.41	¥ 21.45	\$ 0.33
Net assets	572.24	578.09	535.26	500.56	483.12	5.71
Cash dividends	10	10	9	8	8	0.10
	Percent					
Ratios:						
Operating income to net sales	8.5%	8.1%	7.2%	7.9%	7.0%	
Net income to net sales	4.1	4.0	3.8	3.4	3.1	
Return on equity	5.8	5.7	5.4	4.8	4.7	
Return on assets	6.6	6.1	5.1	5.6	4.8	
Equity ratio	55.2	54.2	53.1	53.9	53.0	

Notes: 1. For convenience only, U.S. dollar amounts have been translated from Japanese yen at the rate of ¥100.19 to US\$1, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2008.

2. For amounts per share, see Note 20 of the Notes on Consolidated Financial Statements.

Management Discussion and Analysis

Business environment

The turmoil in international financial markets that began in the second quarter of the fiscal year increased in severity during the third quarter, although from the perspective of the overall Japanese economy the third quarter was relatively stable. However, during the fourth quarter the impact of U.S. economic slowdown on the Japanese economy intensified. The continued rise in fuel and material prices along with the decline of the U.S. dollar and share prices has reinforced the cautionary tone of capital expenditure and consumer spending, despite the relative strength of exports to the Euro-zone and growth of emerging economies.

In the chemicals industry, the year-end climb in value of the yen had a limited effect in offsetting soaring raw material prices. During the course of the year, Kureha was forced to raise product prices on several occasions to transfer some of the impact of rising fuel and resource prices to end consumers. Since the beginning of the fourth quarter, however, this approach has become increasingly difficult due to a slowdown in exports to the U.S. and other economic issues affecting customers, including in the automotive, electrical and electronics sectors.

Analysis of business performance

Backed by sales growth in the Advanced Materials and Specialty Chemicals divisions, sales revenue for the fiscal year totaled ¥149.8 billion, up ¥3.5 billion from the previous year. Gross profit rose ¥1.2 billion to ¥43.6 billion, while the gross profit margin grew by 0.1% to 29.1%. This increase can be attributed to success in transferring rising fuel and material costs to product prices, cost cutting efforts and in optimizing retail prices to accurately reflect product value. However, the impact of rising material and outsourcing costs on construction related businesses and soaring fuel prices on transportation and warehousing related businesses did have a negative effect on the Other Operations Division's profit margins.

Sales and general administrative expenses totaled ¥30.9 billion, up ¥354 million from the previous year. This increase was due to corporate acquisitions by construction related businesses as of the previous interim term and the addition of new foreign and domestic consolidated subsidiaries during the fiscal year.

Operating income grew by ¥881 million to reach ¥12.7 billion, while operating income margin improved from 8.1% to 8.5%. Non-operating profit/loss, which is calculated by subtracting non-operating expenses from non-operating income, was ¥60 million, an improvement of ¥98 million, due to an increase in returns from equity-method investments following the positive performance of equity method affiliates.

As a result, recurring income for the year totaled ¥12.7 billion, up ¥979 million, and recurring income to net sales ratio was 8.5%, up by 0.5%. In the coming fiscal year, Kureha will continue to make significant investments in facilities and R&D in line with a series of aggressive initiatives and is aware that translating these efforts into additional sales growth will be indispensable to the success of the Company's medium-term business plan.

Cash flow

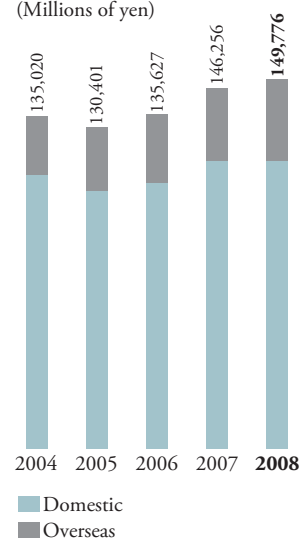
The balance of cash and cash equivalents as of March 31, 2008 was ¥6.1 billion, an increase of ¥1.8 billion.

Net cash from operating activities was ¥15.0 billion, up ¥1.0 billion. Despite the negative impact of factors including growth in inventory assets and reduced accounts payable, the effect was more than offset by the positive impact of factors including growth in net income before taxes and other adjustments, as well as a decline in accounts receivable.

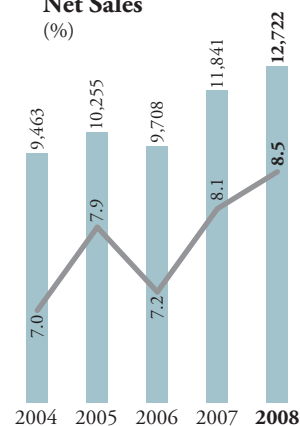
Net cash used in investment activities was ¥8.6 billion, a decline of ¥3.4 billion, as a result of a decrease in capital expenditure as well as an increase in revenue from the sale of investment securities.

Net cash used in financing activities was ¥4.8 billion million, down by ¥77

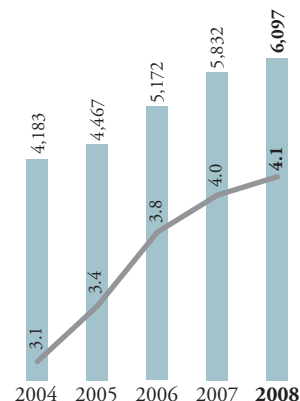
Net Sales
(Millions of yen)



Operating Income
(Millions of yen)
Operating Income to Net Sales
(%)



Net Income
(Millions of yen)
Net Income to Net Sales
(%)



million from the previous year. Factors contributing to this decrease included higher expenditure on the acquisition of treasury stock and the absence of revenue from the sale of consolidated subsidiaries' assets, although revenue from long-term loans did increase.

During the fiscal year ended March 31, 2008, Kureha sought to maximize cash flow by expanding income and improving asset efficiency. In terms of the allocation of capital, Kureha pursued investments aimed at strengthening production capacity, overseas investments to expand business operations, as well as new investments in R&D. In a continuation of policies from previous years, funds were allocated to capital-efficiency-focused returns to shareholders.

Kureha plans to continue the financial policy followed during the fiscal year ended March 31, 2008, and will continue efforts to maximize the level of consolidated funds.

Balance sheet analysis

As of March 31, 2008, Kureha had current assets of ¥69.5 billion, an increase of ¥360 million from the previous year. This increase was attributable to factors including a decline in accounts receivable reflecting a downward trend in the number of projects completed in the construction sector, as well as an increase in inventory assets due to soaring fuel and materials prices. Investments in the establishment of a new subsidiary in the U.S. have been included in the scope of consolidation as the subsidiary is considered important to the medium- and long-term business strategy. As a result, all assets held in the new company are included in the cash and time deposits of current assets. Property and equipment totaled ¥71.8 billion, a decline of ¥207 million. Although capital expenditure levels remained high, figures did show a declining trend, while Kureha's increased depreciation costs are reflective of recent tax reforms.

Investments and other assets totaled ¥46.1 billion, a drop of ¥8.9 billion from the previous year. Investments increased following the establishment of a new company in Vietnam, but this was offset by a significant decline in the market valuation of Kureha's securities investments. As a result, total assets came to ¥187.3 billion, representing a decline of ¥8.8 billion.

In terms of liabilities, interest-bearing debt fell by ¥429 million to ¥32.0 billion as a result of reduced short-term borrowings outweighing an increase in long-term borrowings.

Total liabilities were ¥82.8 billion, a decline of ¥6.0 billion, due to factors including a reduction in deferred tax liabilities as a result of lower marked to market valuation for investments in securities as well as a reduction in accounts payable of construction-related businesses.

Total net assets for the year under review came to ¥104.6 billion, down by ¥2.8 billion. This change reflected a range of factors, including a ¥2.6 billion increase in earned surplus following a dividend payout on net income of ¥6.1 billion and the retirement of treasury stock, as well as a decrease of ¥5.2 billion in unrealized gain on other securities.

The overall shift in total assets is primarily the result of factors such as the sales downturn in the construction sector, rising fuel and raw materials costs, and financial market performance, although increased equities investments and other efforts to expand business operations also exhibited an influence.

Overview of capital expenditure

Advanced materials, high-barrier packaging materials, pharmaceuticals, agrochemicals, and environment-related businesses are positioned as Kureha's key growth drivers and as a result the Company continues to actively invest in these areas. During the fiscal year ended March 31, 2008 Kureha committed a total of ¥10.1 billion in capital expenditure.

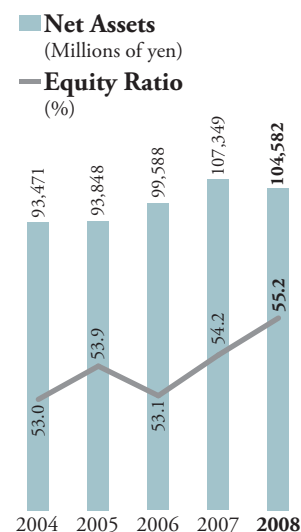
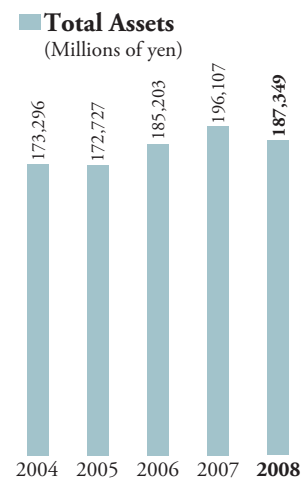
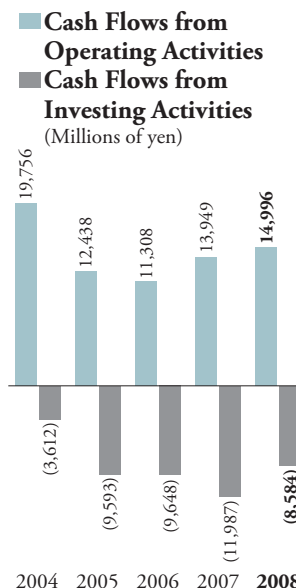
Broken down by business division, capital expenditure during the fiscal year was:

The Advanced Materials Division invested ¥4.2 billion in carbon-fiber and PPS resin production facilities.

The Specialty Chemicals Division allocated ¥2.8 billion to facilities for the production of chlorine, caustic soda, and pharmaceutical products.

The Specialty Plastics Division invested ¥2.1 billion in areas including manufacturing facilities for food packaging materials (Krehalon Industry B.V.)

The Other Operations Division completed capital expenditure of ¥951 million,



which included investments in vehicles and transportation equipment (Kureha Unyu Co., Ltd.).

In addition, as a joint initiative, the Advanced Materials, Specialty Chemicals, and Specialty Plastics divisions completed further investments in private power plant facilities.

Funding required for the abovementioned expenditure was raised through a combination of self-funding and loans.

Business risks

Circumstances that have the potential to impact upon business performance, share price, and financial status include the following:

Note: The following text is based on evaluations made at the time of the submission of financial statements (June 26, 2008)

Performance Variables

Kureha is developing its business in diverse fields and in diverse regions. The Advanced Materials Division focuses on products including PPS resin, PVDF resin, and carbon products; the Specialty Chemicals Division on products including industrial chemicals, pharmaceuticals, and agrochemicals; the Specialty Plastics Division on products including food packaging materials and household products; and the Other Operations Division on environmental, construction, and logistics related businesses. Geographically, the group has business operations in Europe, North America, and China, as well as Japan.

This diversity means that Kureha is exposed to a diverse range of business risks, including domestic and international economic trends, market related factors, drug and other product price revisions, fuel and raw material pricing trends, fluctuating exchange rates and political risks. Kureha has been working to diversify this risk, however, through business diversification strategies and local production.

As of March 31, 2008, Kureha held a total of ¥29.5 billion, approximately 15.7% of consolidated net assets, in investments in securities and purposes other than short-term trading. A major change in share prices of the financial status of issuing companies could therefore influence Kureha's business results and financial status.

Kureha's core activity is the production of chemical products. In consideration of the risks related to the Company's products and the manufacturing processes involved, Kureha is committed to the continued implementation of Responsible Care.

The Company is particularly aware of the risks inherent in the concentration of key product manufacturing operations at the Iwaki Factory and has made ongoing efforts to improve environmental protection and workplace safety at that facility. Despite these efforts, however, on July 5, 2007 the Company received notification from the Aichi Prefecture Environmental Department stating that PCBs had been detected in trichlorobenzene products manufactured and sold by Kureha.

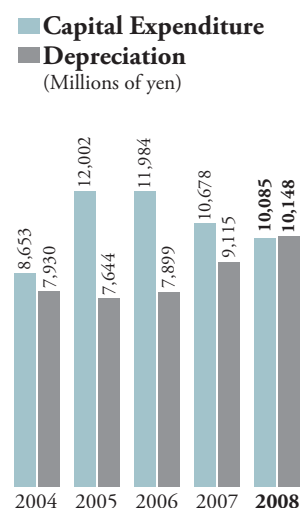
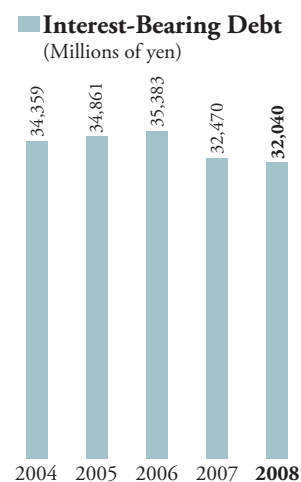
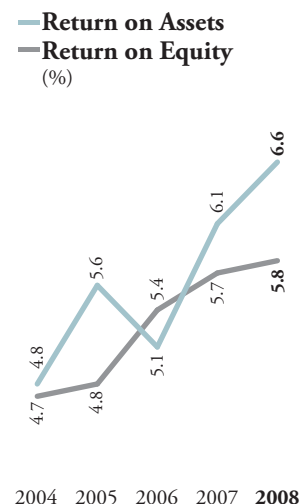
Kureha investigated this incident as well as potential countermeasures and conducted related risk assessments. Based on the outcomes of these investigations, the Company drafted new standards for production management and quality control measures and established an improved management framework. Having reported these measures to the relevant ministries and to Aichi Prefecture, Kureha resumed shipments of trichlorobenzene products on August 6, 2007.

Kureha is committed to implementing all necessary measures to ensure that such incidents do not occur again.

Other risks

In July 2005, Kureha Corporation was ordered by the Japan Fair Trade Commission to pay approximately ¥270 million in fines following allegations the Company had violated provisions of the Anti-Monopoly Law in connection with its plastic additives business. Kureha initiated appeal procedures in response and the outcome of relevant court hearings is currently pending.

In addition, a subsidiary of Kureha Corporation in the U.S. was subject to civil actions. However, settlements were negotiated and all cases have since been resolved. The business in question was transferred to Rohm and Haas Company in January 2003.



Consolidated Balance Sheets

Kureha Corporation and its Consolidated Subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and time deposits (Note 5)	¥ 6,120	¥ 4,279	\$ 61,087
Trade notes and accounts receivable	35,120	37,950	350,537
Marketable securities (Note 6)	6	6	60
Inventories	22,442	20,852	223,989
Deferred tax assets (Note 11)	2,785	2,521	27,797
Others	3,202	3,658	31,962
Less: Allowance for doubtful accounts	(188)	(138)	(1,875)
Total current assets	69,488	69,128	693,557
Property and equipment, net (Note 8):			
Buildings and structures	26,269	26,751	262,194
Machinery, equipment and vehicles	25,310	27,113	252,616
Tools, furniture and fixtures	2,087	2,315	20,830
Land	13,221	12,989	131,964
Construction in progress	4,876	2,802	48,669
Total property and equipment	71,763	71,970	716,273
Investment and other assets:			
Investments in securities (Notes 6 & 8)	37,309	45,621	372,380
Long-term receivables	2,045	1,846	20,416
Deferred tax assets (Note 11)	1,634	2,430	16,311
Others	5,685	5,589	56,742
Less: Allowance for doubtful accounts	(575)	(477)	(5,741)
Total investments and other assets	46,098	55,009	460,108
Total assets	¥187,349	¥196,107	\$1,869,938

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 8)	¥ 20,601	¥ 22,506	\$ 205,621
Short-term loans including current portion of long-term debt (Notes 7 & 8)	18,542	19,374	185,070
Other payables	5,482	5,573	54,714
Accrued income taxes (Note 11)	2,160	2,491	21,558
Accrued expenses	5,146	5,014	51,358
Accrued bonuses	2,128	1,992	21,242
Others	4,216	4,170	42,077
Total current liabilities	58,275	61,120	581,640
Long-term liabilities:			
Long-term debt (Notes 7 & 8)	13,498	13,096	134,729
Deferred tax liabilities (Note 11)	7,000	9,959	69,869
Reserve for employees' retirement benefits (Note 10)	2,417	2,570	24,129
Retirement allowance for directors and corporate auditors	452	796	4,508
Negative goodwill	310	669	3,090
Others	815	548	8,133
Total long-term liabilities	24,492	27,638	244,458
Total liabilities	82,767	88,758	826,098
Commitments and contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 13):			
Capital, non par value			
Authorized: 2008 and 2007 – 600,000,000 shares Issued: 183,683,909 shares in 2008 and 186,733,909 shares in 2007	12,460	12,460	124,366
Capital surplus	10,014	10,013	99,946
Earned surplus	72,218	69,658	720,813
Less: Treasury stock, at cost	(1,553)	(1,443)	(15,504)
Total shareholders' equity	93,139	90,688	929,621
Valuation and translation adjustments:			
Unrealized gain on other securities (Note 6)	10,225	15,422	102,055
Deferred gains or losses on hedges	(6)	(3)	(64)
Translation adjustments	29	91	296
Total valuation and translation adjustments	10,248	15,510	102,287
Stock subscription rights	20	0	196
Minority interests	1,176	1,151	11,736
Total net assets	104,582	107,349	1,043,840
Total liabilities and net assets	¥187,349	¥196,107	\$1,869,938

Consolidated Statements of Income

Kureha Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
Net sales	¥149,776	¥146,256	\$1,494,915
Cost of sales	106,195	103,911	1,059,937
Gross profit	43,580	42,345	434,978
Selling, general and administrative expenses (Note 15)	30,858	30,504	307,996
Operating income	12,722	11,841	126,972
Other income (expenses):			
Interest and dividend income	738	630	7,362
Interest expenses	(621)	(583)	(6,203)
Gain on sales of property and equipment (Note 16)	25	589	256
Gain on sales of investments in securities (Note 6)	1,554	1,146	15,511
Loss on disposal of property and equipment	(1,367)	(2,075)	(13,641)
Loss on impairment of property and equipment	(302)	(20)	(3,014)
Loss on recall of products	(1,038)	—	(10,361)
Write-down of inventories	(498)	(1,043)	(4,967)
Other, net	(78)	(984)	(785)
Other expenses – net	(1,587)	(2,340)	(15,842)
Income before income taxes and minority interests	11,135	9,501	111,140
Income taxes (Note 11):			
Current	3,823	3,460	38,162
Deferred	1,297	6	12,941
Total income taxes	5,120	3,466	51,103
Minority interests	(82)	203	(817)
Net income	¥ 6,097	¥ 5,832	\$ 60,854

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kureha Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen					
	Number of common stock	Shareholders' equity				
		Capital	Capital surplus	Earned surplus	Treasury stock, at cost	Total shareholders' equity
BALANCE-MARCH 31, 2007	186,733,909	¥12,460	¥10,014	¥69,658	¥(1,443)	¥90,688
Dividends from surplus				(1,927)		(1,927)
Net income				6,097		6,097
Acquisition of treasury stock					(1,685)	(1,685)
Disposal of treasury stock			0		2	3
Cancellation of treasury stock	(3,050,000)		(0)	(1,572)	1,573	0
Decrease resulting from the change in scope of consolidation				(36)		(36)
Contribution to employees' welfare fund				(1)		(1)
Net changes of items other than shareholders' equity						
BALANCE-MARCH 31, 2008	183,683,909	¥12,460	¥10,014	¥72,218	¥(1,553)	¥93,139

	Valuation and translation adjustments						
	Unrealized gain on other securities	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments	Stock subscription rights	Minority interests	Total net assets
BALANCE-MARCH 31, 2007	¥15,422	¥(3)	¥91	¥15,510	¥—	¥1,151	¥107,349
Dividends from surplus							(1,927)
Net income							6,097
Acquisition of treasury stock							(1,685)
Disposal of treasury stock							3
Cancellation of treasury stock							0
Decrease resulting from the change in scope of consolidation							(36)
Contribution to employees' welfare fund							(1)
Net changes of items other than shareholders' equity	(5,197)	(3)	(62)	(5,262)	19	25	(5,218)
BALANCE-MARCH 31, 2008	¥10,225	¥(6)	¥29	¥10,248	¥19	¥1,176	¥104,582

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Capital	Capital surplus	Earned surplus	Treasury stock, at cost	Total shareholders' equity
BALANCE-MARCH 31, 2007	\$124,366	\$99,946	\$695,257	\$(14,406)	\$905,163
Dividends from surplus			(19,232)		(19,232)
Net income			60,854		60,854
Acquisition of treasury stock				(16,817)	(16,817)
Disposal of treasury stock			0	23	23
Cancellation of treasury stock			(0)	15,696	2
Decrease resulting from the change in scope of consolidation				(363)	(363)
Contribution to employees' welfare fund				(9)	(9)
Net changes of items other than shareholders' equity					
BALANCE-MARCH 31, 2008	\$124,366	\$99,946	\$720,813	\$(15,504)	\$929,621

	Valuation and translation adjustments						
	Unrealized gain on other securities	Deferred gains or losses on hedges	Translation adjustments	Total valuation and translation adjustments	Stock subscription rights	Minority interests	Total net assets
BALANCE-MARCH 31, 2007	\$153,933	\$(30)	\$905	\$154,808	\$ —	\$11,487	\$1,071,458
Dividends from surplus							(19,232)
Net income							60,854
Acquisition of treasury stock							(16,817)
Disposal of treasury stock							23
Cancellation of treasury stock							2
Decrease resulting from the change in scope of consolidation							(363)
Contribution to employees' welfare fund							(9)
Net changes of items other than shareholders' equity	(51,878)	(34)	(609)	(52,521)	196	249	(52,076)
BALANCE-MARCH 31, 2008	\$102,055	\$(64)	\$296	\$102,287	\$196	\$11,736	\$1,043,840

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Kureha Corporation and its Consolidated Subsidiaries
For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥11,135	¥ 9,501	\$111,140
Adjustments for:			
Depreciation	10,148	9,115	101,287
Loss on impairment	302	21	3,019
Amortization of negative goodwill	(202)	(224)	(2,017)
Increase (decrease) in allowance for doubtful accounts	134	4	1,334
Decrease in reserve for employees' retirement benefits	(266)	(119)	(2,654)
Increase (decrease) in retirement allowance for directors and corporate auditors	(380)	95	(3,795)
Increase in prepaid pension expense	(343)	(544)	(3,426)
Interest and dividend income	(738)	(630)	(7,362)
Interest expenses	621	583	6,203
Loss on sales of property and equipment	1,341	1,486	13,385
Gain on sales of marketable securities	(1,513)	(1,145)	(15,105)
Decrease (increase) in trade notes and accounts receivable	3,391	(2,642)	33,843
Decrease (increase) in other inventories	(1,523)	848	(15,201)
Decrease (increase) in other current assets	366	(327)	3,651
Increase (decrease) in trade notes and accounts payable	(2,959)	1,649	(29,536)
Increase in other liabilities	729	789	7,273
Other, net	(1,494)	(576)	(14,909)
Subtotal	18,749	17,884	187,130
Dividends and interest received	1,054	784	10,517
Interest paid	(624)	(586)	(6,228)
Income taxes paid	(4,183)	(4,133)	(41,748)
Net cash provided by operating activities	14,996	13,949	149,671
Cash flows from investing activities:			
Proceeds from sales of marketable securities	—	500	—
Payments for purchases of tangible and intangible fixed assets	(9,258)	(11,424)	(92,400)
Payments for removal of tangible fixed assets	(769)	(729)	(7,679)
Proceeds from sales of tangible and intangible fixed assets	192	886	1,916
Payments for purchase of investment securities	(1,732)	(2,325)	(17,291)
Proceeds from sales of investment securities	3,050	1,093	30,444
Issuance of loans receivable	(320)	(218)	(3,191)
Collection of loans receivable	65	79	645
Other, net	188	151	1,877
Net cash used in investing activities	(8,584)	(11,987)	(85,679)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans	(2,091)	237	(20,875)
Proceeds from long-term debt	6,861	1,023	68,479
Repayments of long-term debt	(5,884)	(4,559)	(58,725)
Payments for purchases of treasury stock	(1,685)	(830)	(16,817)
Proceeds from sales of treasury stock	2	1,068	23
Dividends paid	(1,927)	(1,749)	(19,232)
Dividends paid to minority shareholders	(34)	(25)	(339)
Net cash used in financing activities	(4,758)	(4,835)	(47,486)
Effect of exchange rate changes on cash and cash equivalents	9	41	95
Increase in cash and cash equivalents resulting from a merger	—	569	—
Decrease in cash and cash equivalents resulting from a change in closing dates of consolidated subsidiaries	178	—	1,779
Net increase (decrease) in cash and cash equivalents	1,841	(2,263)	18,380
Cash and cash equivalents at beginning of year	4,279	6,542	42,707
Cash and cash equivalents at end of year (Note 5)	¥ 6,120	¥ 4,279	\$ 61,087

The accompanying notes are an integral part of these statements.

Notes on Consolidated Financial Statements

KUREHA CORPORATION
Years ended March 31, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Kureha Corporation (the "Company") and its subsidiaries (collectively the "Group") in accordance with the provisions set forth in the Corporation Law of Japan and the Financial Instruments and Exchange Law (formerly, the Securities and Exchange Law), and in conformity with accounting principles generally accepted in Japan, which are different, in certain respects, from the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

2. U.S. Dollar Amounts

The accounts of consolidated financial statements presented herein are originally expressed in Japanese yen. The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto have been translated from Japanese yen into U.S. dollars on the basis of ¥100.19 to U.S. \$1, the rate of exchange prevailing at March 31, 2008. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at this or any other rate.

3. Principles of Consolidation

(1) Scope of consolidation

The Company consolidated 35 (33 in 2007) subsidiaries by the full consolidation method and an affiliate (2 in 2007) by the equity method as at March 31, 2008 and 2007. The accounts of a subsidiary and other affiliates were not consolidated, as they would not have a material effect on the accompanying consolidated financial statements.

(2) Fiscal terms of consolidated subsidiaries

The fiscal terms of nine consolidated subsidiaries close their accounts at December 31. In preparing the consolidated financial statements, those accounts at December 31, 2008 are used, but major transactions which were executed during the three months between December 31 and March 31 are adjusted as necessary for consolidation.

(3) Valuation of assets and liabilities of consolidated subsidiaries

The Company adopted "full fair value method" so that the full portion of the assets and liabilities of the consolidated subsidiaries was measured at their fair value at the time of acquisition of the control.

(4) Goodwill on consolidation

In preparing the consolidated financial statements, positive or negative difference between the cost of investment and the amount of the underlying equity in net assets of the consolidated subsidiary was deferred and amortized over an estimated useful period or 5 years on a straight-line basis.

4. Summary of Significant Accounting Policies

(1) Securities

Securities included in marketable securities and investments in securities consisted of investments in unconsolidated subsidiaries and affiliate and other securities and are stated as follows:

Investments in unconsolidated subsidiaries and affiliates are stated at acquisition cost.

Other securities with market quotations are stated at the average market price during a month before the balance sheet date. Valuation difference on these securities is reported at net of taxes as a separate component of net assets. The cost of securities sold is determined based on the moving average cost at the time of sale.

Other securities without market quotations are stated at cost by the moving average method.

(2) Inventories

Inventories are stated at cost in principle determined by the gross average method.

(3) Depreciation and amortization of fixed assets

Property and equipment

Property and equipment are principally stated at cost. Depreciation except for buildings is computed in accordance with the declining balance method based on the useful lives and residual value prescribed by the Japanese tax laws. The depreciation of buildings is computed on the straight-line method. Accumulated depreciation which were directly deducted from property and equipment as at March 31, 2008 and 2007 were ¥153,468 million (\$1,531,772 thousand) and ¥150,480 million, respectively.

Effective the year ended March 31, 2008, pursuant to an amendment to the Corporate Tax Law, the Company and its domestic subsidiaries have depreciated property and equipment acquired on or after April 1, 2007 in accordance with the method stipulated in the amended Corporate Tax Law. The effect of this change on the consolidated results was immaterial.

In addition, the salvage values (5% of the acquisition cost) of the assets which had been fully depreciated to the limit based on the Corporate Tax Law before the amendment are depreciated equally over five years starting from the year ended March 31,

2008. As a result, operating income, income before income taxes and minority interests and net income for the year ended March 31, 2008 decreased by ¥735 million (\$7,334 thousand), ¥754 million (\$7,528 thousand) and ¥449 million (\$4,484 thousand), respectively.

The useful lives of major property, plant and equipment are summarized as follows:

Buildings and structures	10 to 50 years
Machinery, equipment and vehicles	7 to 15 years
Tools, furniture and fixtures	4 to 10 years

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Intangible fixed assets

Intangible fixed assets except for software are amortized by the straight-line method based on the useful lives prescribed by the Japanese tax laws.

Software for in-house use is amortized by the straight-line method based on the estimated useful lives (5 years).

(4) Accounting for impairment of fixed assets

In accordance with the accounting standard for impairment of fixed assets, the Company and its consolidated subsidiaries periodically review their fixed assets for impairment by grouping the assets in income generating units whenever there is any indication of a significant decline in the fair value against its book value based on an independent appraisal, and when the existence of any impairment for the group of the assets is identified, an impairment loss will be recognized and such amount is directly deducted from the related assets.

(5) Allowance for doubtful accounts

Allowance for doubtful accounts of general receivables was established to provide for future losses, which are estimated, based on the past credit loss experience.

In addition, uncollectible amount is estimated individually for doubtful receivables.

(6) Reserve for employees' retirement benefits

The reserve for employees' retirement benefits is recorded based on the estimated present value of projected benefit obligations in excess of the fair value of the plan assets at the end of the fiscal year. However, certain domestic consolidated subsidiaries calculate their retirement benefit obligations using the liability which would be paid if all the employees voluntarily retired at each consolidated balance sheet date or liability reserve for pension financing calculation purpose.

The unrecognized transition amount which arose from adopting a new standard has been fully amortized when incurred. Past service cost is fully amortized when incurred. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, on a straight-line basis over certain periods within the employees' average remaining service years.

(7) Retirement allowance for directors and corporate auditors

The retirement allowance for directors and statutory auditors is recorded based on the amount that would be required in accordance with the internal rule at the balance sheet date to provide for the payment for the retirement benefits.

At the general shareholders' meeting held on June 27, 2007, it was resolved that the internal rule on retirement allowance for directors and corporate auditors be abolished. Pursuant to this resolution, the amounts of retirement allowance for directors and corporate auditors were fixed at ¥239 million (\$2,387 thousand) and at the meeting it was resolved that such amounts shall be paid on the retirement date of each person. The above fixed amount of retirement allowance for directors and corporate auditors is included in "Others" under long-term liabilities in the consolidated balance sheet as of March 31, 2008.

(8) Treasury stock

Treasury stocks owned by the Group are recorded at acquisition cost as a component under the shareholders' equity. The numbers of treasury stocks held by the Group as at March 31, 2008 and 2007 were 3,012,449 and 3,027,900 common shares, respectively.

(9) Leases

Where the financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the leased property is not capitalized and the related lease expenses are charged to income in the periods in which they are incurred.

(10) Consumption taxes

The consumption taxes withheld and consumption taxes paid are excluded from revenues and expenses in the accompanying consolidated financial statements. The net balance of the consumption taxes withheld and consumption taxes paid is included in current liabilities of the consolidated balance sheet as of the end of the fiscal year.

(11) Appropriations of retained earnings

Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements when approved by the shareholders.

(12) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hands, bank deposits payable on demand and short-term investments due within three months from acquisition with minor value fluctuation risk.

(13) Income taxes

The Group is generally subject to national corporate income tax, local inhabitant tax and enterprise tax which are principally based on income.

Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

5. Cash and Cash Equivalents

The following table represents a reconciliation of cash and cash equivalents at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits	¥6,120	¥4,279	\$61,087
Cash and cash equivalents	¥6,120	¥4,279	\$61,087

Non-cash transactions which do not require the use of cash or cash equivalents:

Major components of assets and liabilities of Nihon Extron Co. Ltd. (Nihon Extron), which was newly consolidated as a subsidiary due to the acquisition of its shares, as of September 30, 2007, acquisition cost of the shares and net proceeds are as follows:

At September 30, 2007	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,084	\$10,818
Non-current assets	689	6,880
Current liabilities	(637)	(6,357)
Non-current liabilities	(326)	(3,250)
Goodwill	157	1,568
Minority interest	(203)	(2,023)
Interest owned by the Company when acquired	(510)	(5,090)
Acquisition cost of the shares in Nihon Extron	255	2,545
Cash and cash equivalents of Nihon Extron	363	3,619
Net proceeds from acquisition of Nihon Extron	¥ 108	\$ 1,074

6. Securities

Investments in unconsolidated subsidiaries and affiliates amount to ¥3,135 million (\$31,291 thousand) and ¥3,527 million at March 31, 2008 and 2007, respectively.

The acquisition cost and book value of other securities whose fair value were available as at March 31, 2008 were as follows:

	Millions of yen		
	Acquisition cost	Book value	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	¥6,491	¥24,388	¥17,897
Sub-total	6,491	24,388	17,897
Securities with unrealized losses:			
Equity securities	2,923	2,375	(548)
Sub-total	2,923	2,375	(548)
Total	¥9,414	¥26,763	¥17,349

	Thousands of U.S. dollars		
	Acquisition cost	Book value	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	\$64,783	\$243,416	\$178,633
Sub-total	64,783	243,416	178,633
Securities with unrealized losses:			
Equity securities	29,182	23,708	(5,474)
Sub-total	29,182	23,708	(5,474)
Total	\$93,965	\$267,124	\$173,159

The acquisition cost and book value of other securities whose fair value were available as at March 31, 2007 were as follows:

	Millions of yen		
	Acquisition cost	Book value	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	¥8,291	¥34,510	¥26,219
Sub-total	8,291	34,510	26,219
Securities with unrealized losses:			
Equity securities	199	171	(28)
Sub-total	199	171	(28)
Total	¥8,490	¥34,681	¥26,191

Proceeds from sales of other securities and related gross realized gains and losses on those sales for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Proceeds from sales	¥2,054	¥898	\$20,502
Gross realized gains	1,554	809	15,511
Gross realized losses	22	—	223

Major securities whose fair value is not readily determinable at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Available-for-sale securities:			
Unlisted equity securities	¥2,117	¥2,117	\$21,127
Preferred investment securities	—	1,000	—
Discounted bank debentures	6	6	60

The details of maturity dates of other securities as at March 31, 2008 were as follows:

	Millions of yen			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Discounted bank debentures	¥6	¥—	¥—	¥—

	Thousands of U.S. dollars			
	Due within 1 year	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Discounted bank debentures	\$60	\$—	\$—	\$—

7. Short-term Loans and Long-term Debt

Short-term loans and long-term debt as at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term loans with average interest rate of 1.99%	¥14,112	¥15,764	\$140,850
Current portion of long-term debt with average interest rate of 1.67%	4,430	3,610	44,220
Total	¥18,542	¥19,374	\$185,070
Unsecured bonds maturing on March 8, 2013 with the interest rate of 1.60%	¥ 5,000	¥ 5,000	\$ 49,905
Long-term debt maturing in 2008 through 2033 with average interest rate of 1.63%	8,498	8,096	84,824
Total	¥13,498	¥13,096	\$134,729

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥3,445	\$34,383
2011	2,177	21,732
2012	1,645	16,416
2013	687	6,857

8. Assets Pledged as Collateral

The following assets of the Group are pledged as collateral for trade notes and accounts payable, short-term loans and long-term debts in the amount of ¥3,655 million (US\$ 36,476 thousand) and ¥6,491 million as at March 31, 2008 and 2007, respectively:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Buildings and structures	¥15,110	¥15,942	\$150,812
Machinery, equipment and vehicles	13,877	16,088	138,511
Land	5,163	4,733	51,536
Investments in securities	3,711	5,364	37,038
Total	¥37,861	¥42,127	\$377,897

9. Loan Commitment Agreements

The Company and its consolidated subsidiaries entered into loan commitment agreements and overdraft agreements with the financial institutions. The outstanding balance as at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Total commitment available	¥7,150	¥7,150	\$71,364
Amount utilized	2,000	1,600	19,962
Balance available	¥5,150	¥5,550	\$51,402

10. Reserve for Employees' Retirement Benefits

The Company and its consolidated subsidiaries have principally tax qualified pension plans and lump-sum retirement benefit plans. In addition, in some cases, merit allowances which are not included in the actuarial calculation of projected benefit obligations may be paid upon the retirement of certain employees.

The reserve for employees' retirement benefits as at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligations	¥(26,006)	¥(27,150)	\$259,568
Plan assets	24,199	28,251	241,530
Funded status	1,807	1,101	18,038
Unrecognized actuarial differences	(1,353)	(2,051)	(13,501)
Sub-total	(454)	(950)	(4,537)
Prepaid pension cost	1,963	1,620	19,592
Reserve for retirement benefits	¥ (2,417)	¥ (2,570)	\$ (24,129)

Net pension expenses related to the retirement benefits for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥1,061	¥1,100	\$10,590
Interest cost	701	693	6,996
Expected return on plan assets	(735)	(698)	(7,341)
Amortization of actuarial differences	(52)	(18)	(518)
Amortization of transitional differences			
resulting from a change in accounting standards	—	433	—
Net pension expense	¥ 975	¥1,510	\$ 9,727

Note: In addition to above expenses, the Company and its domestic consolidated subsidiaries recorded merit allowances amounting to ¥172 million (\$1,726 thousand) and ¥142 million for the years ended March 31, 2008 and 2007, respectively.

Assumptions used in calculation of the above information for the year ended March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization period of past service liabilities	Fully amortized when incurred	Fully amortized when incurred
Amortization period of actuarial differences	*	*
Amortization period of transitional differences resulting from a change in accounting standards	Fully amortized when incurred	Fully amortized when incurred

* The actuarial differences are amortized on a straight-line method over certain years within the employees' average remaining service years when incurred and charged to income from the subsequent year.

11. Income Taxes

The Group is subject to certain different income taxes in Japan, which in the aggregate resulted in a normal statutory income tax rate of approximately 40.44%.

The significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Unrealized gains on fixed assets	¥ 973	¥ 2,047	\$ 9,708
Reserve for employees' retirement benefits	878	939	8,762
Retirement allowance for directors and corporate auditors	185	322	1,844
Accrued bonuses	819	755	8,174
Research and development costs	377	613	3,762
Loss on disposal or sales of fixed assets	243	580	2,424
Accrued expenses	805	452	8,035
Write-down of inventories	139	336	1,393
Accrued enterprise tax and business place tax	225	259	2,246
Loss on impairment	228	179	2,272
Write-down of real estates for sale	207	166	2,072
Tax loss carried forward	467	139	4,663
Golf club membership	132	96	1,319
Allowance for doubtful accounts	129	—	1,287
Long-term payables	97	—	965
Others	116	178	1,156
Sub-total	6,020	7,061	60,082
Valuation allowance	(734)	(559)	(7,321)
Total deferred tax assets	5,286	6,502	52,761
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	(7,018)	(10,601)	(70,047)
Prepaid pension expenses	(665)	(569)	(6,635)
Retained surplus at subsidiaries	(81)	(250)	(807)
Others	(103)	(90)	(1,033)
Total deferred tax liabilities	(7,867)	(11,510)	(78,522)
Net deferred tax liabilities	¥(2,581)	¥ (5,008)	\$ (25,761)

Reconciliations of the difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Statutory income tax rate:	40.44%	40.44%
Expense not deductible for tax purpose	2.33	3.10
Non-taxable revenue	(3.52)	(6.08)
Tax credit for research and development costs	(2.08)	(2.39)
Reversal of deferred tax assets related to sales of investment in subsidiaries*	10.13	—
Others	(1.32)	1.41
Effective income tax rate	45.98%	36.48%

* Pursuant to the revision of "Practical Guideline on Tax Effect Accounting in the Consolidated Financial Statements" (Accounting System Committee Report No. 6) on March 29, 2007, the Company adopted this guideline effective the fiscal year ended March 31, 2008 and reversed deferred tax assets on elimination of unrealized profit arising from the sales of the subsidiary's shares between the consolidated subsidiaries. The reversal is recorded in "Income Taxes – Deferred". As result, net income for the year ended March 31, 2008 decreased by ¥917 million (\$9,161 thousand).

12. Commitments and Contingent Liabilities

The Group guarantees employees' bank loans to the amounts of ¥455 million (\$4,537 thousand) and ¥538 million as at March 31, 2008 and 2007, respectively.

13. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code came into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and earned surplus (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and legal reserve equals 25% of the stated capital. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The above mentioned legal reserve is included in earned surplus in the accompanying consolidated balance sheets.

14. Stock Option Plan

The Company issued stock subscription rights (stock options) in accordance with the provisions of the Article No. 236, 238 and 240 of the Corporation Law based on the resolution of the general shareholders' meeting and the Board of Directors' meeting held on June 27, 2007 as follows:

(1) Accounting for stock option related expenses

Share-based compensation included in selling, general and administrative expenses: ¥19 million (\$196 thousand)

(2) Details of stock options, volume and activity

a. Detail of stock options

1 st Stock Option Plan	
Persons granted	8 directors of the Company
Number of stock options by type of shares	Common stock 47,500 shares
Grant date	July 18, 2007
Vesting conditions	a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10 th day. b. If the eligible director resigned from its position due to certain reasons, the number stock options may be reduced depending on the service period. c. If the eligible director gives up the subscription rights, he or she cannot exercise the stock options given up.
Eligible service period	From June 27, 2007 to June 26, 2008
Exercise period	From July 18, 2007 to July 17, 2037

b. Volume and activity of stock options:

Volume of stock options:

1 st Stock Option Plan	
Before vesting:	
At March 31, 2007	—
Granted	47,500
Forfeited	—
Vested	—
Outstanding	47,500
After vesting:	
At March 31, 2007	—
Vested	—
Exercised	—
Forfeited	—
Outstanding	—

Price information:

	Exercised	Outstanding
	Yen	
Exercise price	—	¥1
Average stock price at the time of exercise	—	—
Fair value at the date of grant	—	¥551

c. Valuation method for fair value of stock options:

The valuation method for fair value of 2007 stock options granted during the year ended March 31, 2008 is as follows:

Valuation method: Black-Scholes formula

Major basic numerical values and valuation method:

	1 st Stock Option Plan
Stock price volatility	21.1%
Expected years to expiration	5.9 years
Expected dividends	¥10 per share
Risk-free interest rate	1.61%

d. Estimation method for the vested number of stock options

Since it is difficult to make a reasonable estimate on future forfeited stock options, actual number of forfeited stock options is reflected in the estimation.

15. Leases

Information on finance leases other than those deemed to transfer ownership of the leased assets to the lessee for the years ended March 31, 2008 and 2007, is summarized as follows:

(1) The acquisition cost (interest expense which did not have a material effect on the accompanying financial statements was included), accumulated depreciation, and net book value as at March 31, 2008 and 2007 were as follows:

	Millions of yen					
	2008			2007		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 495	¥ 244	¥ 251	¥ 462	¥220	¥ 242
Tools, furniture and fixtures	1,369	672	697	1,433	691	742
Software	171	111	60	167	77	90
Total	¥2,035	¥1,027	¥1,008	¥2,062	¥988	¥1,074

	Thousands of U.S. dollars		
	2008		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	\$ 4,938	\$ 2,433	\$ 2,505
Tools, furniture and fixtures	13,663	6,703	6,960
Software	1,713	1,114	599
Total	\$20,314	\$10,250	\$10,064

(2) Future minimum payments under lease contracts with non-cancelable terms (interest expense which did not have a material effect on the accompanying financial statements was included) as at March 31, 2008, were as follows:

	Millions of yen	Thousands of U.S. dollars
Within one year	¥ 405	\$ 4,048
Over one year	603	6,015
Total	¥1,008	\$10,063

(3) Lease payments and notional depreciation expenses for the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease expense	¥465	¥467	\$4,636
Notional depreciation	465	467	4,636

Depreciation equivalent is computed by the straight-line basis over the lease period based on the notional acquisition cost with no residual value.

16. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the year ended March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Sales distribution expenses	¥1,702	¥1,904	\$16,991
Salaries and wages	6,428	6,403	64,156
Provision for bonuses	820	749	8,181
Provision for directors' bonuses	93	120	932
Retirement benefit expenses	544	514	5,439
Research and development expenses	6,543	6,865	65,314
Depreciation	919	1,086	9,175

17. Gain or Loss on Property and Equipment

Gains on sales of property and equipment and losses on sales and disposal of property and equipment for the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Gain on sales of property and equipment:			
Buildings, structures and others	¥ —	¥ 5	\$ —
Machinery, equipment and vehicles	1	—	14
Land	24	584	242
	¥ 25	¥ 589	\$ 256
Loss on disposal of property and equipment:			
Buildings and structures	¥ 479	¥ 558	\$ 4,780
Machinery and equipment	795	1,409	7,932
Tools, furniture and fixtures	81	44	815
	¥1,355	¥2,011	\$13,527
Loss on sales of property and equipment:			
Buildings and structures	¥ 10	¥ 31	\$ 96
Machinery and equipment	2	1	18
Land	—	32	—
	¥ 12	¥ 64	\$ 114

18. Loss on Impairment of Property and Equipment

The Group recorded a loss on impairment for the following asset group for the years ended March 31, 2008 and 2007:

Year ended March 31	Use	Type of assets	Location	Condition
2008	Rental real estate	Land	Kasumigaura city, Ibaragi Pref.	Idle
	Manufacturing equipment	Buildings and machinery	Iwaki city, Fukushima Pref.	Idle
2007	Idle asset	Land	Iwaki city, Fukushima Pref.	Idle

Total losses on impairment on above asset group for the years ended March 31, 2008 and 2007 amounted to ¥302 million (\$3,019 thousand) and ¥20 million, respectively.

The Group periodically reviews their fixed assets for impairment by grouping the assets in income generating units by business segment or by properties for real estate for rent or idle assets whenever there any indication of impairment. Although there was no indication of a significant decline in the fair value against its book value, the Group wrote down these idle assets to the recoverable value since there was no plan to use in future. The recoverable value was measured at net selling value, which is computed from an estimated salable value.

19. Derivatives and Hedging Activities

The Company and its consolidated subsidiaries utilize foreign exchange forward contracts to avoid the risk from future exchange rate fluctuations in connection with the foreign currency denominated receivables and payables and also interest rate swaps to reduce the financing costs related to long-term debts and short-term borrowings as a means to manage the interest rate risk. Certain foreign exchange forward contracts utilized by the Company and certain consolidated subsidiaries are exposed to a exchange rate fluctuation risk and interest rate risk from the movement of the interest rates is mitigated by converting floating interest rates to fixed interest rates using interest rate swap agreements. Interest rate swaps are accounted for in principle by the deferral method, under which the revaluation gain or loss on the hedging instruments are deferred as assets or liabilities until the gain or loss on hedged items will be recognized. However, certain interest swap agreements which qualify for hedge accounting and meet specific matching criteria are not revaluated at market value, but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

Counterparties which the Company and its consolidated subsidiaries enter into derivative financial instruments are limited to highly creditworthy financial institutions they have normal banking transactions in the normal course of business and therefore, the Company does not expect any losses to be incurred due to the defaults by these counterparties.

The Company and its consolidated subsidiaries have established internal rules regarding the authorization limits and the execution and control of the derivative transactions are done by the Finance Division. The execution of derivative transactions are exclusively authorized by the Finance Director and the status of outstanding position balances and revaluation profit and loss are periodically reported to the Finance Director.

The Company and its consolidated subsidiaries have the following contracts at March 31, 2008 and 2007:

	Millions of yen					
	2008			2007		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:						
Selling:						
U.S. dollar	¥210	¥199	¥11	¥236	¥235	¥1
Euro	312	315	(3)	78	78	0
Total	—	—	¥ 8	—	—	¥1

	Thousands of U.S. dollars		
	2008		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Selling:			
U.S. dollar	\$2,092	\$1,988	\$103
Euro	3,114	3,139	(25)
Total	—	—	\$ 78

Fair value is calculated using the forward rates. Derivatives which qualify for hedge accounting for the years ended March 31, 2008 and 2007 are not included in the above table.

20. Per Share Information

Net assets per share at March 31, 2008 and 2007 and net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2008	2007	2008
Net assets per share	¥572.24	¥578.09	\$5.71
Basic net income per share	33.39	31.58	0.33
Diluted net income per share	33.39	—	0.33

Above per share information was computed using the following data:

	Millions of yen or shares		Thousands of U.S. dollars
	2008	2007	2008
Net assets per share:			
Total net assets per consolidated balance sheets	¥ 104,582	¥ 107,349	\$1,043,840
Net assets attributed to common stock	¥ 103,387	¥ 106,198	\$1,031,908
Differences – Minority interests	¥ 1,176	¥ 1,151	\$ 11,735
– Stock subscription rights	¥ 19	—	\$ 196
Number of outstanding shares of common stock	183,683,909	186,733,909	
Number of treasury stock	3,012,449	3,027,900	
Number of common stock used in computing net assets per share	180,671,460	183,706,009	
Basic net income per share:			
Net income per consolidated income statements	¥ 6,097	¥ 5,832	\$ 60,854
Net income attributed to common stock	¥ 6,097	¥ 5,832	\$ 60,854
Weighted average number of common stock during the period	182,588,052	184,663,045	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share (stock subscription rights)	33,424	—	

21. Segment Information

Business segment information of the Group for the years ended March 31, 2008 and 2007 was as follows:

Year ended March 31, 2008	Millions of yen						
	Advanced Materials	Specialty Chemicals	Specialty Plastics	Other Operations	Total	Elimination or Corporate	Consolidated
I. Sales and operating income							
Outside customers	¥38,915	¥32,522	¥48,765	¥29,574	¥149,776	¥ —	¥149,776
Inter-segment	660	180	1,710	15,442	17,992	(17,992)	—
Total	39,575	32,702	50,475	45,016	167,768	(17,992)	149,776
Operating expenses	35,197	29,220	47,117	43,396	154,929	(17,876)	137,053
Operating income	¥ 4,378	¥ 3,482	¥ 3,358	¥ 1,620	¥ 12,839	¥ (116)	¥ 17,223
II. Assets, depreciation and capital expenditure							
Assets	¥53,756	¥30,494	¥38,942	¥29,161	¥152,353	¥34,996	¥187,349
Depreciation	4,636	2,314	2,289	909	10,148	—	10,148
Loss on impairment	34	92	176	—	302	—	302
Capital expenditure	4,163	2,846	2,125	951	10,085	—	10,085

Year ended March 31, 2008	Thousands of U.S. dollars						
	Advanced Materials	Specialty Chemicals	Specialty Plastics	Other Operations	Total	Elimination or Corporate	Consolidated
I. Sales and operating income							
Outside customers	\$388,412	\$324,602	\$486,725	\$295,177	\$1,494,916	\$ —	\$1,494,916
Inter-segment	6,591	1,795	17,071	154,126	179,583	(179,583)	—
Total	395,003	326,397	503,796	449,303	1,647,499	(179,583)	1,494,916
Operating expenses	351,305	291,640	470,275	433,136	1,546,356	(178,423)	1,367,933
Operating income	\$ 43,698	\$ 34,757	\$ 33,521	\$ 16,167	\$ 128,143	\$ (1,160)	\$ 126,983
II. Assets, depreciation and capital expenditure							
Assets	\$536,537	\$304,362	\$388,678	\$291,059	\$1,520,636	\$349,302	\$1,869,938
Depreciation	46,273	23,097	22,846	9,069	101,285	—	101,285
Loss on impairment	343	917	1,759	—	3,019	—	3,019
Capital expenditure	41,549	28,410	21,206	9,495	100,660	—	100,660

Year ended March 31, 2007	Millions of yen						
	Advanced Materials	Specialty Chemicals	Specialty Plastics	Other Operations	Total	Elimination or Corporate	Consolidated
I. Sales and operating income							
Outside customers	¥35,129	¥30,543	¥48,399	¥32,185	¥146,256	¥ —	¥146,256
Inter-segment	901	200	1,407	15,177	17,686	(17,686)	0
Total	36,030	30,743	49,806	47,362	163,942	(17,686)	146,256
Operating expenses	31,772	27,395	47,594	45,073	151,833	(17,419)	134,415
Operating income	¥ 4,259	¥ 3,348	¥ 2,213	¥ 2,289	¥ 12,109	¥ (268)	¥ 11,841
II. Assets, depreciation and capital expenditure							
Assets	¥48,648	¥31,206	¥41,278	¥32,451	¥153,584	¥42,523	¥196,107
Depreciation	4,138	2,023	2,139	814	9,115	—	9,115
Loss on impairment	—	—	—	21	21	—	21
Capital expenditure	5,007	2,097	2,373	1,200	10,678	—	10,678

Geographic segment information of the Group for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen					
	Japan	Europe	Other regions	Total	Elimination or Corporate	Consolidated
Year ended March 31, 2008						
I. Sales and operating income						
Outside customers	¥133,989	¥12,089	¥3,698	¥149,776	¥ —	¥149,776
Inter-segment	4,840	131	968	5,939	(5,939)	—
Total	138,829	12,220	4,666	155,715	(5,939)	149,776
Operating expenses	128,808	11,119	2,992	142,919	(5,865)	137,054
Operating income	¥ 10,021	¥ 1,101	¥1,674	¥ 12,796	(74)	¥ 12,722
II. Assets	¥140,973	¥ 7,869	¥7,763	¥156,605	¥30,744	¥187,349

	Thousands of U.S. dollars					
	Japan	Europe	Other regions	Total	Elimination or Corporate	Consolidated
Year ended March 31, 2008						
I. Sales and operating income						
Outside customers	\$1,337,349	\$120,661	\$36,906	\$1,494,916	\$ —	\$1,494,916
Inter-segment	48,309	1,310	9,663	59,282	(59,282)	—
Total	1,385,658	121,971	46,569	1,554,198	(59,282)	1,494,916
Operating expenses	1,285,633	110,977	29,864	1,426,474	(58,541)	1,367,933
Operating income	\$ 100,025	\$ 10,994	\$16,705	\$ 127,724	\$ (739)	\$ 126,983
II. Assets	\$1,407,056	\$ 78,536	\$77,486	\$1,563,078	\$306,857	\$1,869,935

	Millions of yen					
	Japan	Europe	Other regions	Total	Elimination or Corporate	Consolidated
Year ended March 31, 2007						
I. Sales and operating income						
Outside customers	¥132,864	¥10,117	¥3,274	¥146,256	¥ —	¥146,256
Inter-segment	3,581	122	764	4,468	(4,468)	—
Total	136,446	10,240	4,038	150,724	(4,468)	146,256
Operating expenses	126,892	9,611	2,401	138,904	(4,489)	134,415
Operating income	¥ 9,554	¥ 628	¥1,638	¥ 11,820	¥ 21	¥ 11,841
II. Assets	¥144,069	¥ 7,050	¥5,749	¥156,868	¥39,239	¥196,107

Overseas sales information of the Group for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen			
	Europe	Asia	Other regions	Total
Year ended March 31, 2008				
I Overseas sales	¥15,799	¥11,804	¥5,507	¥ 33,110
II Consolidated sales				149,776
III % of consolidated sale	10.5%	7.9%	3.7%	22.1%

	Thousands of U.S. dollars			
	Europe	Asia	Other regions	Total
Year ended March 31, 2008				
I Overseas sales	\$157,694	\$117,820	\$54,961	\$ 330,475
II Consolidated sales				1,494,916

Year ended March 31, 2007	Millions of yen			
	Europe	Asia	Other regions	Total
I Overseas sales	¥14,871	¥10,256	¥4,626	¥ 29,753
II Consolidated sales				146,256
III % of consolidated sale	10.2%	7.0%	3.2%	20.3%

22. Subsequent Events

The following appropriation of retained earnings has been approved by the general meeting of shareholders held on April 22, 2008.

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥5.00 per share	¥903	\$9,016

Main Group Companies by Segment (As of March 31, 2008)

The Kureha Group consists of Kureha Corporation, 36 subsidiaries (of which 35 are consolidated), and 4 affiliates (of which 1 applies the equity method). The group is engaged in the manufacture and sales of products in three main business segments: Advanced Materials, Specialty Chemicals, and Specialty Plastics. In addition, it undertakes construction and maintenance operations associated with each main business segment, transport operations, environmental management services, and other service operations.

ADVANCED MATERIALS

Kureha Corporation

Manufactures and sells advanced plastics and carbon products.

Kureha GmbH

Sells Kureha's advanced materials and other products in Europe.

Kureha America, Inc.

Sells Kureha's advanced materials and other products in the U.S. Has a controlling stake in Fortron Industries LLC engaged in manufacturing and selling PPS resin and compounds in the U.S.

Kureha Advanced Materials, Inc.

Manufactures and sells carbon products in the U.S.

Kakogawa Plastics Co., Ltd.

Manufactures and sells vacuum deposition films and vacuum deposition processes.

Resinous Kasei Co., Ltd.

A subsidiary of Nishiki Trading Co., Ltd., the company manufactures and sells advanced materials.

Kureha Chemicals Shanghai Co., Ltd.

Manufactures and sells carbon products. Purchases raw materials from and sells products to Kureha.

SPECIALTY CHEMICALS

Kureha Corporation

Manufactures and sells inorganic chemicals, organic chemicals, pharmaceuticals, pharmaceuticals for animals, and agrochemicals and other materials for agricultural use.

SPECIALTY PLASTICS

Kureha Corporation

Manufactures and sells food packaging materials, household products, and synthetic fiber products and sells the raw materials used to make these products.

Kureha Plastics Co., Ltd.

Manufactures and sells food packaging materials. Purchases raw materials from and sells products to Kureha.

Kureha Gosen Co., Ltd.

Manufactures and sells synthetic fibers. Purchases raw materials from and sells some products to Kureha.

Kureha Extech Co., Ltd.

Manufactures and sells synthetic plastic products. Sells some products to Kureha.

Krehalon Industrie B.V.

Manufactures and sells food packaging materials in the Netherlands. Receives raw materials from Kureha.

Kureha Europe B.V.

Holds controlling stakes in Krehalon Industrie B.V. and three subsidiaries engaged in making food packaging materials.

Nantong SKT New Material Co., Ltd.

Manufactures and sells food packaging materials. Receives technology under license from Kureha.

OTHER OPERATIONS

Kureha Ecology Management Co., Ltd.

(Renamed from Kureha Kankyo Co., Ltd., on April 1, 2006)

Undertakes industrial waste and medical waste processing.

Kureha Special Laboratory Co., Ltd.

Analyzes, measures, and performs environmental assessments for various substances. Performs tests for some Kureha products.

Kureha Engineering Group

(Kureha Engineering Co., Ltd., and one subsidiary)

Undertakes plant engineering and management operations, safety-related operations, and environmental protection services.

Kurehanishiki Construction Group

(Kurehanishiki Construction Co., Ltd., and three subsidiaries)

(Kurehanishiki Construction Co., Ltd. was renamed from Kureha Construction on October 1, 2006)

Undertakes engineering and construction work.

Kureha Unyu Group

(Kureha Unyu Co., Ltd., and six subsidiaries)

(Kureha Unyu Co., Ltd. was renamed from Kureha Transport Co., Ltd., on April 1, 2006)

Undertakes transportation and storage operations.

Nishiki Trading Co., Ltd.

Sells and supplies advanced materials, specialty chemicals, specialty plastics, and other products.

Kureha Service Co., Ltd.

Conducts real estate transactions, leasing and management, and other services. Performs certain operations for Kureha. Kureha Service acquired and merged its subsidiary on April 1, 2007.

Kureha Staff Service Co., Ltd.

Undertakes temporary support operations and contracting services for manufacturing and logistics businesses. Kureha outsources part of its business to Kureha Staff Service.

Executives (As of June 26, 2008)

Board Of Directors

Hiroshi TANAKA	Chairman of the Board of Directors
Takao IWASAKI	President & Chief Executive Officer
Masaki UCHIYAMA	Senior Executive Vice President
Masahiko FUJII	Executive Vice President
Koji HAGINO	Executive Vice President
Masatomo SHIGETA	Executive Vice President
Naoya SUZUKI	Executive Vice President
Keikichi MUNAKATA	Senior Vice President
Kunihiko SAITO	Independent Outside Director
Takeshi TAKAHASHI	Independent Outside Director

Board Of Corporate Auditors

Yasumasa HIRANO	Chairman of the Board of Corporate Auditors
Hikomichi KAMEYAMA	Corporate Auditor
Yutaka AKUNE	Corporate Auditor
Kazutoshi KIMURA	Corporate Auditor

Executive Officers

Takao IWASAKI	President & Chief Executive Officer
Masaki UCHIYAMA	Senior Executive Vice President
Masahiko FUJII	Executive Vice President
Koji HAGINO	Executive Vice President
Masatomo SHIGETA	Executive Vice President
Naoya SUZUKI	Executive Vice President
Keikichi MUNAKATA	Senior Vice President
Yutaka KOBAYASHI	Senior Vice President
Tadashi SAGAWA	Senior Vice President
Tamotsu MIYAMORI	Senior Vice President
Norikazu SUNOU	Senior Vice President
Nobuyuki HIRUTA	Vice President
Seiichiro KABATA	Vice President
Hiroshi HAGIWARA	Vice President
Yoshiki SHIGAKI	Vice President
Kazuhiko SUNAGAWA	Vice President
Yukihiro SHIBUYA	Vice President
Naoki FUKUZAWA	Vice President
Hidekazu KUNII	Vice President

Investor Information (As of March 31, 2008)

Corporate Data

Corporate Name	KUREHA CORPORATION
Headquarters	3-3-2, Nihonbashi-Hamacho, Chuo-ku, Tokyo 103-8552, Japan Tel: 81-3-3249-4666 Fax: 81-3-3249-4744
Date of Establishment	June 21, 1944
Paid-in Capital	¥12,460 million
Number of Employees	3,882 (consolidated) 1,285 (non-consolidated)
Independent Auditor	Nihombashi Corporation

Stock Information

Number of Shares of	
Common Stock Issued	183,683,909 shares
Number of Shareholders	17,118
Number of Shares Held by	
Foreign Shareholders	35,764,000 (19.5% of total)
Stock Exchange Listings	Tokyo Stock Exchange, Osaka Securities Exchange
Transfer Agent	Mizuho Trust & Banking Co., Ltd.

Major Shareholders

Japan Trustee Services Bank, Ltd. (trust account)
Meiji Yasuda Life Insurance Company
Tokio Marine & Nichido Fire Insurance Co., Ltd.
The Master Trust Bank of Japan, Ltd. (trust account)
Mizuho Corporate Bank, Ltd.
Daiichi Sankyo Company, Ltd.
State Street Bank & Trust Company 505019
Japan Trustee Services Bank, Ltd. (trust account 4)
Marubeni Corporation
The Juniper

<http://www.kureha.co.jp/>

KUREHA

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Printed in Japan with soy ink