

**AsahiKASEI**

Annual Report 2007

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ASAHI KASEI CORPORATION

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# Basic Credo of the Asahi Kasei Group

## Basic tenets

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We the Asahi Kasei Group, through constant innovation and advances based in science and the human intellect, will contribute to human life and human livelihood.

## Guiding precepts

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We will create new value, thinking and working in unison with the customer, from the perspective of the customer.

We will respect the employee as an individual, and value teamwork and worthy endeavor.

We will contribute to our shareholders, and to all whom we work with and serve, as an international, high earnings enterprise.

We will strive for harmony with the natural environment and ensure the safety of our products, operations, and activities.

We will progress in concert with society, and honor the laws and standards of society as a good corporate citizen.

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### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this annual report with respect to Asahi Kasei's estimated future revenues and profits, strategies, tenets, financial forecasts, and other statements that are not historical facts are forward-looking statements. Such forward-looking statements are based on management's judgments, predictions, and forecasts in light of information currently available and involve many potential risks and uncertainties that could cause actual results to differ materially from the content of these statements. Accordingly, undue reliance should not be placed on such forward-looking statements.

# The Asahi Kasei History

## Our roots



Shitagau Noguchi

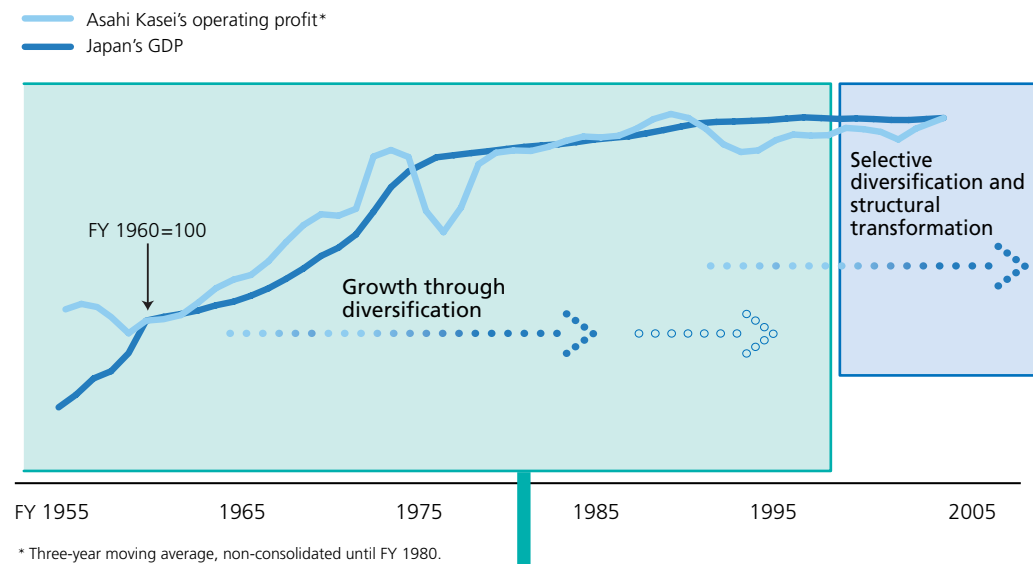
Our roots trace to the May 1922 establishment of Asahi Kenshoku K.K. (Asahi Fabric) and the October 1923 start of ammonia production by the Casale process in Nobeoka, Miyazaki Prefecture, at Nihon Chisso Hiryou K.K. (Japan Nitrogenous Fertilizer), founded by Shitagau Noguchi.

Utilizing this ammonia, Japan Bemberg Fiber Co., Ltd. began production of Bemberg™ rayon by the cuprammonium process in April 1931, and in May of the same year the Nobeoka plant of Nihon Chisso Hiryou was spun off and established as Nobeoka Ammonia Fiber Co., Ltd., the formal establishment date of Asahi Kasei.

The first decades were a time of growth through expansion in the production of industrial chemicals and chemical derivatives such as caustic soda, chlorine, fertilizers, nitrocellulose and industrial explosives, Bemberg™ and viscose rayon cellulosic fibers, and flavor enhancer. The years following World War II began broader ranging expansion into new fields, which has brought Asahi Kasei to the forefront of the Japanese chemical industry.

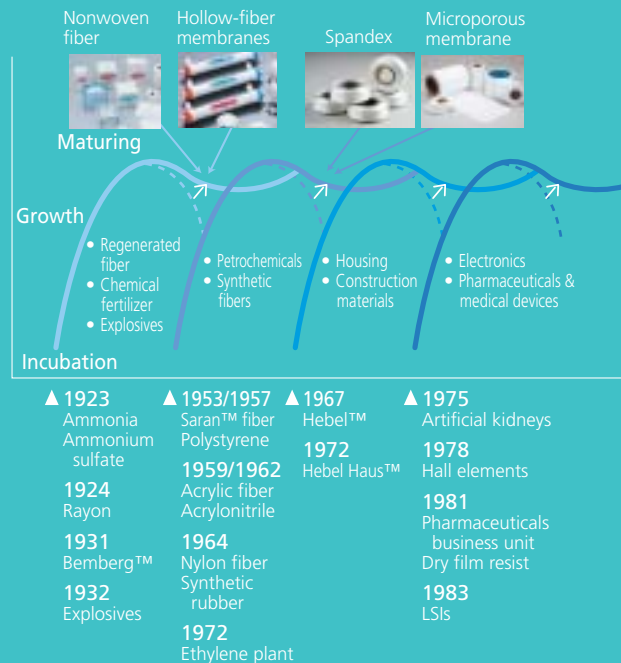
## Growth in concert with the Japanese economy

Throughout Japan's period of post-war recovery and into the 1990s, our expansion and growth was largely driven by diversification. As it became clear that greater selectivity of businesses was required to revitalize operations, we moved beyond this mode of growth through diversification and entered a phase of selective diversification and structural transformation.



## Growth through diversification

A concerted drive to diversify into a broad range of fields began in the 1950s. A rapid pace of growth was sustained by successive advances into new fields of business, which were developed based on combinations of new technology with the technology of established businesses. When each business began to mature, its growth would naturally tend to slow. As this happened, there were other businesses which were new and growing quickly, ensuring that a high overall rate of growth was maintained.



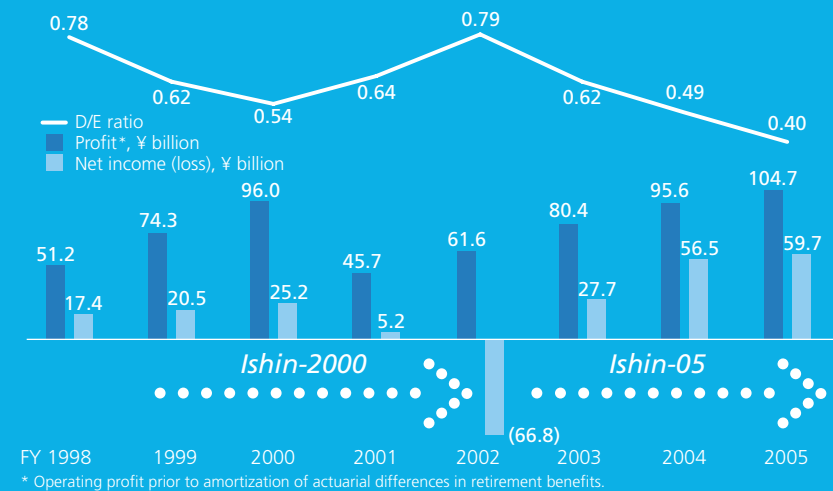
## Selective diversification and structural transformation

The seven years from fiscal 1999 to fiscal 2005 were a time of selective diversification and structural transformation to establish a solid basis for renewed growth and expansion.

With the *Ishin-2000* initiative of fiscal 1999 to fiscal 2002, we accelerated the transformation to a high-earnings operational structure, and made a transition to a high-speed management system. Performance chemicals, electronics, and medical devices were expanded as high-earnings businesses, while viscose rayon, foods, and liquors, businesses with lower assets efficiency, were divested or closed.

With the *Ishin-05* initiative of fiscal 2003 to fiscal 2005, we advanced the transition to a high-earnings business portfolio, and in October 2003 made a transformation to a holding company configuration with a core operating company in each main field of business.

### Improved earnings and financial strength



### Ishin-2000

#### Selectivity and focus

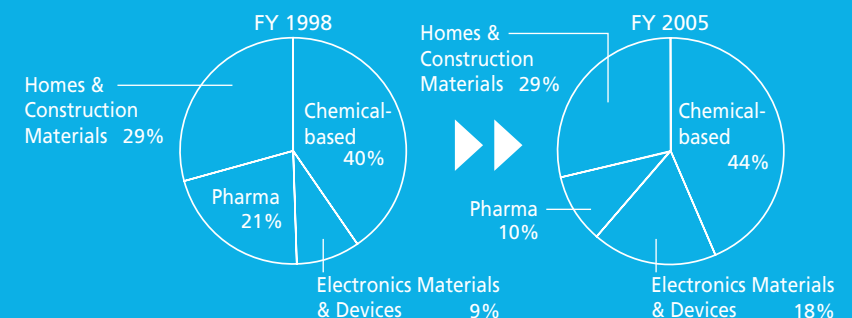
- Focus on competitive-superiority businesses
- Fostering next-generation growth drivers
- Divestment or closure of businesses with low assets efficiency
- Stable financial foundation

### Ishin-05

#### Selective diversification

- Building on strengths
- Creation of cash flow
- Management speed and autonomy

### Share of operating profit in four main sectors



## *Growth Action – 2010* Embarking on a new phase of growth

Through our previous strategic management initiatives, we established a solid foundation for a new phase of growth for the Asahi Kasei Group. In the *Growth Action – 2010* initiative of fiscal 2006 to fiscal 2010, we are expanding global businesses and enhancing domestic businesses with strategic investment for growth to bring greater corporate value and brand strength.

# Consolidated Financial Highlights

Asahi Kasei Corporation and consolidated subsidiaries

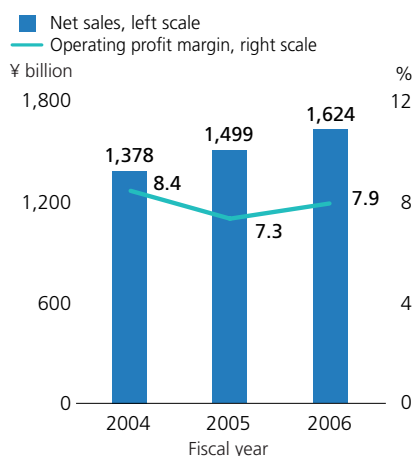
Fiscal year beginning April 1	¥ billion			US\$ million *
	2006	2005	2004	2006
<b>For the year</b>				
Net sales	¥1,623.8	¥1,498.6	¥1,377.7	\$13,761
Operating profit	127.8	108.7	115.8	1,083
Income before income taxes and minority interest	114.9	94.5	91.1	974
Net income	68.6	59.7	56.5	581
Capital expenditure	84.4	66.3	68.5	715
Depreciation and amortization	71.6	69.4	71.5	607
R&D expenditures	52.4	51.5	50.7	444
<b>At year-end</b>				
Total assets	¥1,459.9	¥1,376.0	¥1,270.1	\$12,372
Net worth†	645.7	594.2	511.7	5,538

Fiscal year beginning April 1	¥			US\$ *
	2006	2005	2004	2006
<b>Per share</b>				
Net income	¥ 49.00	¥ 42.46	¥ 40.16	\$0.42
Net worth‡	461.50	424.34	365.43	3.91
Cash dividends	12.00	10.00	8.00	0.10

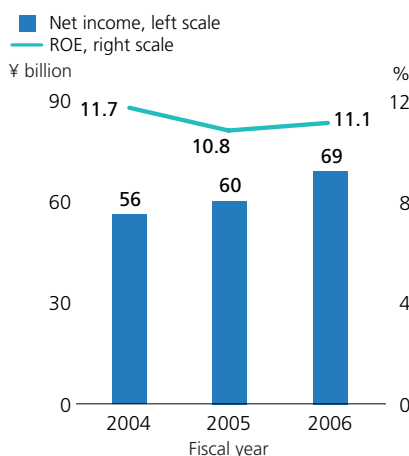
\* U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥118=US\$1 as described in Note 4 of Notes to Consolidated Financial Statements.  
† Net assets less minority interest in consolidated subsidiaries. Through the year beginning April 1, 2005, figures for shareholders' equity shown.  
‡ At fiscal year end.

Fiscal year beginning April 1	2006	2005	2004
<b>Key indexes</b>			
Operating profit margin	7.9%	7.3%	8.4%
ROE	11.1%	10.8%	11.7%
Net worth to total assets	44.2%	43.2%	40.3%
D/E ratio	0.34	0.40	0.49

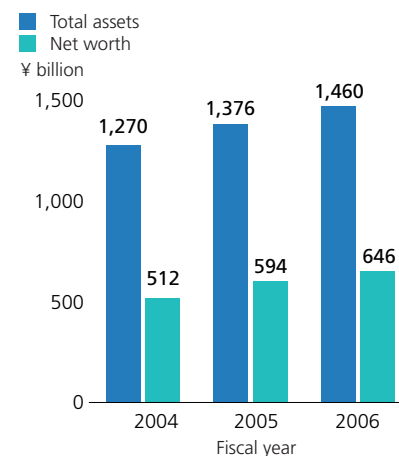
Net Sales, Operating Profit Margin



Net Income, ROE



Total Assets, Net Worth



# To Our Shareholders



Left: Nobuo Yamaguchi, Chairman of the Board  
Right: Shiro Hiruta, President

Although consumer spending remained moderate, the Japanese economy grew with strong corporate earnings, an improved employment outlook, and increased private-sector capital investment. The operating climate nevertheless remained challenging, with persistently elevated prices for petroleum and petrochemical feedstocks such as naphtha necessitating cost-cutting measures and sales price increases.

In fiscal 2006, the first year of our *Growth Action – 2010* initiative, consolidated net sales grew by ¥125.2 billion from a year ago to ¥1,623.8 billion. Sales growth was greatest in chemicals operations, with product prices rising to compensate for increased feedstocks costs. Operating profit grew by ¥19.1 billion to ¥127.8 billion. Operating profit growth was greatest in chemicals operations, with strong overseas market conditions, in pharmaceuticals operations, with significant licensing income, and in electronics operations, with strong demand in consumer electronics applications. Ordinary profit grew by ¥22.3 billion to ¥126.5 billion. Net income grew by ¥8.9 billion to ¥68.6 billion. Each of these results was a new record high. In the light of these results, dividends were increased by ¥2 per share to ¥12 per share.

Strategic investment is being advanced in fiscal 2007 as we lay the foundation for expansion and growth to achieve our *Growth Action – 2010* performance goals and obtain heightened corporate value and brand strength for the Asahi Kasei Group.

August 2007

**Nobuo Yamaguchi**  
Chairman of the Board

**Shiro Hiruta**  
President

# Driving the Strategic Advance: *Growth Action – 2010*



By executing our *Growth Action – 2010* strategy, the Asahi Kasei Group will gain a stronger presence in global markets and make more of a contribution to people's lives around the world.

**Shiro Hiruta**  
President

With our previous strategic initiative, *Ishin-05*, we implemented business portfolio realignments to effect our refounding as a selectively diversified enterprise group, transformed the operational structure for cash flow creation, and adopted a holding company configuration to increase management speed and autonomy. The result was rising profitability, greater financial strength, and robust cash flow.

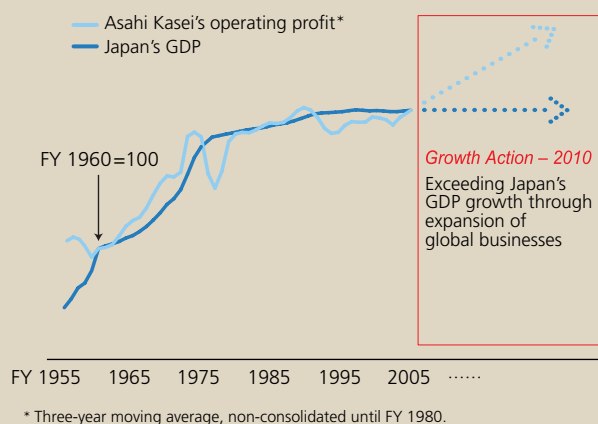
We nevertheless remain highly dependent on the Japanese economy, and to outpace Japan's GDP growth over the long term we need to take bigger strides in the expansion of globally competitive businesses and the creation and development of new businesses. At the same time we need to enhance our domestic businesses to obtain greater added value and adapt to the changing industrial structure in Japan. These are the strategic pillars of our *Growth Action – 2010* initiative for fiscal 2006 through 2010, to advance our business portfolio realignment for expansion and growth, and to obtain greater corporate value and brand strength. Performance targets for fiscal 2010 include ¥1,800 billion in sales, ¥150 billion in operating profit, and ¥80 billion in net income.

To achieve these goals we are stepping up the pace of capital expenditure, with a ¥400 billion provision for strategic investment over the five-year period over and above our ordinary level of investments. Strategic investment, which includes M&A, is centered on monomers, specialized-function chemical-based products, electronics

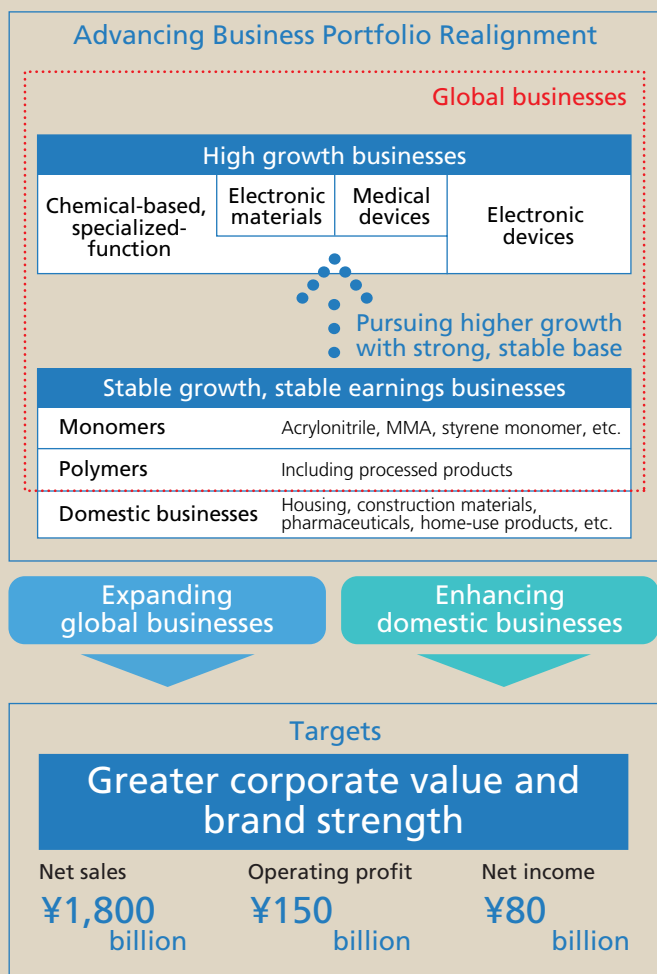
materials and devices, and medical devices, fields where we have the most potential for global growth based on our inherent competitive advantages.

During fiscal 2006 we expanded production capacity in many of our global businesses, including with new plants located overseas, and advanced studies on further strategic actions to expand these businesses. Fiscal 2007 is going to be a key year for the execution of strategic investment in these areas.

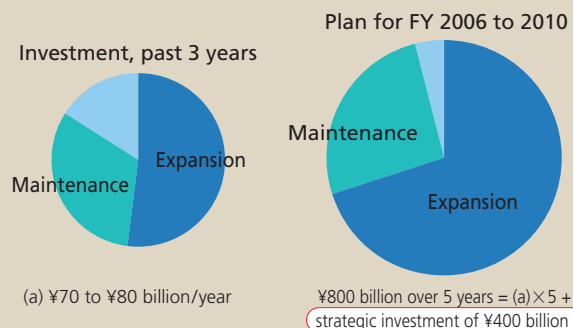
## Asahi Kasei's Operating Profit and Japan's GDP



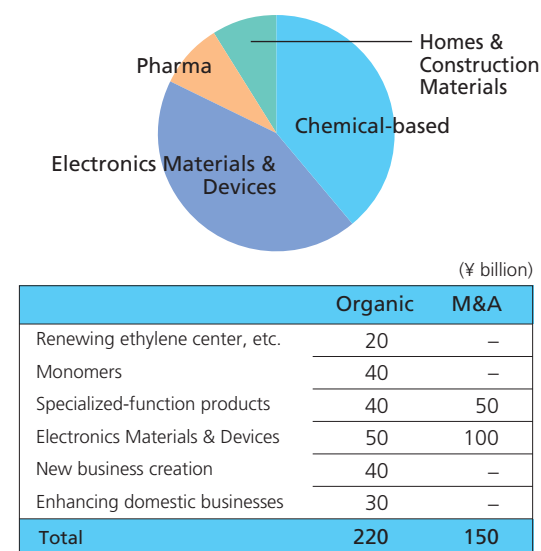
## Basic Framework



## Long-term Investment Plan



## Breakdown of Strategic Investment



## Expansion of global businesses

Until the 1990s our global businesses accounted for only about 40% of total sales. In fiscal 2005 this reached 54%, and we are aiming to increase it to 60%. Overseas sales in fiscal 2006 were 26.4% of total sales, and we want this to reach at least one-third.

Most of the businesses we are expanding globally are not in commodity product fields but in high value-added specialty product fields. Rather than pursuing greater scale in overseas markets, our strategy is to generate stable earnings through overseas production of high value-added products. We are not building plants overseas simply to

have more production bases, but only if and when they make sense within our overall approach to a given market in each region. Especially for specialty products, our plants in Japan serve as the base for technology and R&D, while overseas plants are constructed as deemed necessary from the standpoint of matching the location of production with that of demand.



### Global advances in fiscal 2006

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In chemicals, we began commercial operation at a subsidiary in Korea for process validation of the world's first propane process for production of acrylonitrile (AN), an intermediate used in the manufacture of acrylic fiber and ABS. We are planning a new AN plant in Thailand based on this new process using natural gas-derived feedstock, and a formal investment decision will be made in fiscal 2007. In China, we began operation of a new plant for the assembly of Microza™ microfiltration (MF), and advanced construction of a new plant to produce Duranate™ hexamethylene diisocyanate (HDI)-based polyisocyanate.

In electronics, we expanded our plant in China for Sunfort™ photosensitive dry film resist (DFR), and

advanced development of new functional materials for flexible printed circuits and flat panel displays. We are scheduled to start shipping paid samples of new optical films in fiscal 2007. In medical devices, we are adding production capacity for APST™ polysulfone-membrane artificial kidneys and expanding our therapeutic apheresis device business.

At the holding company, we established a subsidiary in China to provide management support to the various group operations there. In services ranging from business infrastructure to market development and incubation of new businesses, this will facilitate the expansion and growth of operations in the increasingly important Chinese market.

### Fiscal 2006 in strategic context

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During the year, we had strong overseas demand, especially in China, and made good progress on product price increases to overcome high feedstock costs. The overall rise in profits reflected sustained, wide-ranging growth in many fields of operation. In all, we made a good start to our *Growth Action – 2010* initiative, with strongest performance in chemicals and electronics, resulting in record-high sales and profits.

The strong performance of chemicals operations in fiscal 2006 was a result of actions taken with our *Ishin-05* initiative to build on our strong businesses, enabling us to maintain a price spread even when feedstock costs rise. At lot of investment since *Ishin-2000* has been to strengthen monomers businesses. Such proactive investments, including infrastructure improvements, have raised the base of performance to a higher level.

As we cannot expect much growth in the general market for homes, management of housing operations is focused on maintaining stable performance. Orders for fiscal 2006 were lower than we had expected, resulting in decreased profits. We are working to achieve greater cost reductions while enhancing new product development, gaining greater marketing efficiency, and growing housing-related businesses such as remodeling.

Pharmaceutical and medical device operations had reimbursement price cuts but nevertheless increased profits in fiscal 2006 with licensing income and growing medical device sales. We are making a large increase in clinical development expenses for pharmaceuticals in fiscal 2007, and if all goes well our product pipeline will be filled through 2012. We will soon be able to enjoy the fruits of past research in pharmaceuticals. In artificial kidneys, we will continue to solidify and expand on our world No. 2 position. We are advancing successive production capacity expansions, established a manufacturing joint venture with Kuraray Medical, and in October 2007 are scheduled to integrate their artificial kidney business with ours. Global development of the business will include expansion of sales capabilities in Europe and the US.

Sales of electronic materials such as Sunfort™ photosensitive dry film resist and Pimel™ photosensitive polyimide precursor, which enjoy high global market shares, grew steadily in fiscal 2006, as did sales of LSIs and other electronic devices, with strong demand in home electronics applications. We will continue to expand capacity in our established businesses, while pursuing M&A and alliances in related areas where we can gain synergies.

Profitability in fibers for fiscal 2006 was affected by an

operating loss at the Dorlastan™ spandex business acquired in March from Lanxess of Germany, but we have applied Roica™ technology and both the US and German plants are now profitable on a monthly basis. These businesses will make a solid contribution to profits in fiscal 2007. We will also complete a commercial plant this year for Precisé™, a new highly functional nonwoven for industrial applications, which will help nonwovens operations overcome the challenge of high feedstock costs.

Performance in construction materials has steadily improved, and operating profit rose to 7% of sales in fiscal 2006. We will not be pursuing large growth in sales, but

will focus on developing profitable new products that contribute to safety and ecology.

Profits from consumable products were down slightly in fiscal 2006 due to high feedstock costs, but the April 2007 integration of Asahi Kasei Life & Living with Asahi Kasei Chemicals will provide greater resources for growth in home-use products and enable the development of higher value-added films and sheets with novel functionality, together with the expansion into new applications, by combining the polymer processing technologies and marketing capabilities of the two companies for packaging materials.

## Financial Performance

(¥ billion)

	FY 2005	FY 2006	Percent Change
Net sales	1,498.6	1,623.8	+8.4%
Operating profit	108.7	127.8	+17.5%
Ordinary profit	104.2	126.5	+21.4%
Net income	59.7	68.6	+14.9%

(¥ billion, except D/E ratio)

	FY 2005	FY 2006	Change
Total assets	1,376.0	1,459.9	+83.9
Net worth*	594.2	645.7	+51.4
Interest-bearing debt	235.8	216.9	-18.9
D/E ratio	0.40	0.34	-0.06

\* Net assets less minority interest in consolidated subsidiaries. Figure for shareholders' equity shown for FY 2005.



## Driving the Strategic Advance: *Growth Action – 2010*

### Major Investments

	Segment	Project	Location	
Completed in FY 2006	Chemicals	Expansion of plant for Hipore™ Li-ion rechargeable battery separators	Japan	
		New assembly plant for Microza™ microfiltration membranes	China	
		Application of propane process at one AN line of Tong Suh Petrochemical	Korea	
	Fibers	Installation of Roica™ production equipment at Asahi Kasei Spandex Europe plant	Germany	
	Electronics Materials & Devices	Expansion of plant for LSIs	Japan	
		Expansion of plant for Sunfort™ dry film resist	China	
		New plant for compound semiconductor wafer processing	Japan	
	Under construction at FY 2006 year-end	Chemicals	New plant for Duranate™ hexamethylene diisocyanate-based polyisocyanate	China
		Homes	New housing R&D center	Japan
Pharma		Expansion of assembly plant for APST™ artificial kidneys	China	
		Expansion of assembly plant for Planova™ virus removal filters	Japan	
Fibers		Installation of Roica™ production equipment at Asahi Kasei Spandex America plant	US	
		New plant for Precisé™ nonwovens	Japan	
Electronics Materials & Devices		Expansion of plant for photomask pellicles	Japan	

### Fiscal 2007 outlook

Sales growth will largely be in chemicals, with continuingly strong overseas demand, and in fibers, with the inclusion of a full year of sales from the spandex business acquired from Lanxess. Though our underlying profitability continues to grow, we are forecasting a slight decrease in reported operating profit due to decreased licensing income in pharmaceuticals and a projected ¥4.7 billion effect of new accounting standards for depreciation of fixed assets. We are forecasting record-high net income of ¥70 billion or more. This will also be the year for advancing strategic investments in many businesses to enable us to achieve our performance targets in fiscal 2010.

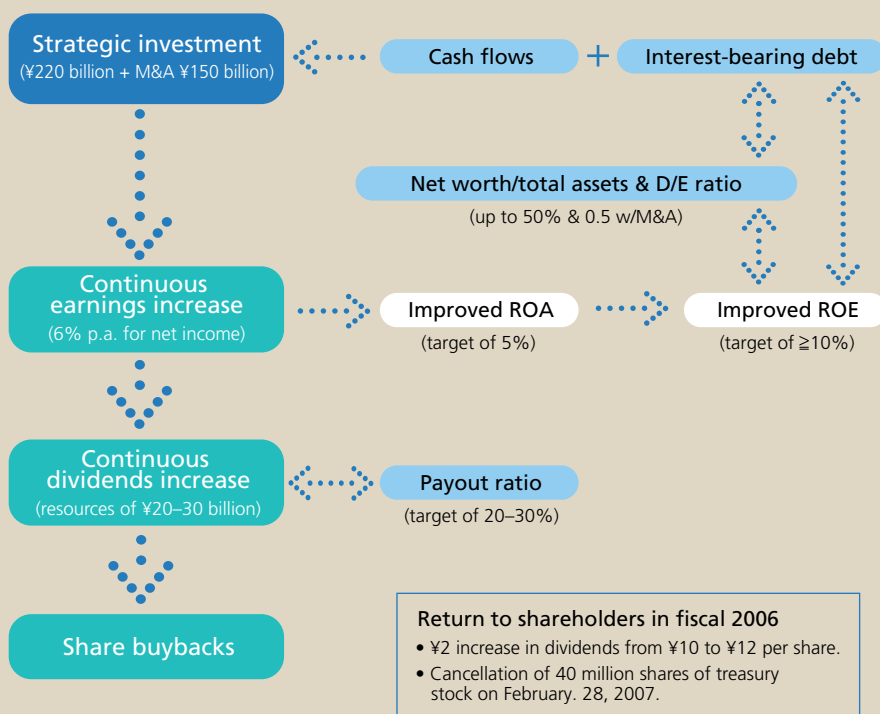


## Shareholder returns

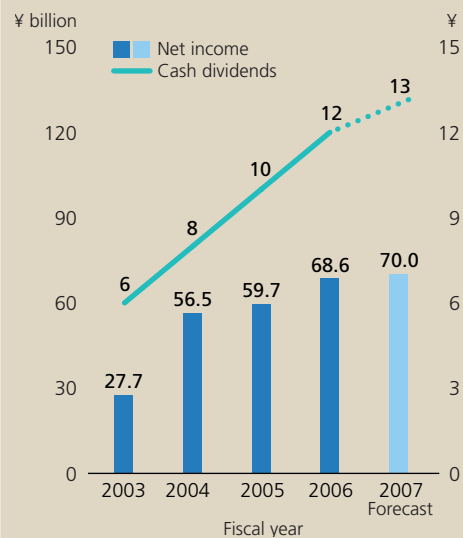
We would like to provide returns to shareholders first and foremost through continuous dividend increases over the long term. As set forth in *Growth Action – 2010*, internal financial reserves based on consolidated performance will be directed toward strategic investments to bring continuous profit growth, enabling continuous dividend increases.

Annual dividends were ¥6 per share in fiscal 2003, the first year of our *Ishin-05* initiative, and ¥12 per share in fiscal 2006. We would like to increase dividends each year by at least ¥1 per share. In February 2007 we cancelled 40 million shares of treasury stock to heighten shareholder value.

### Continuous Earnings and Dividends Increase through Strategic Investment



### Net Income, Cash Dividends



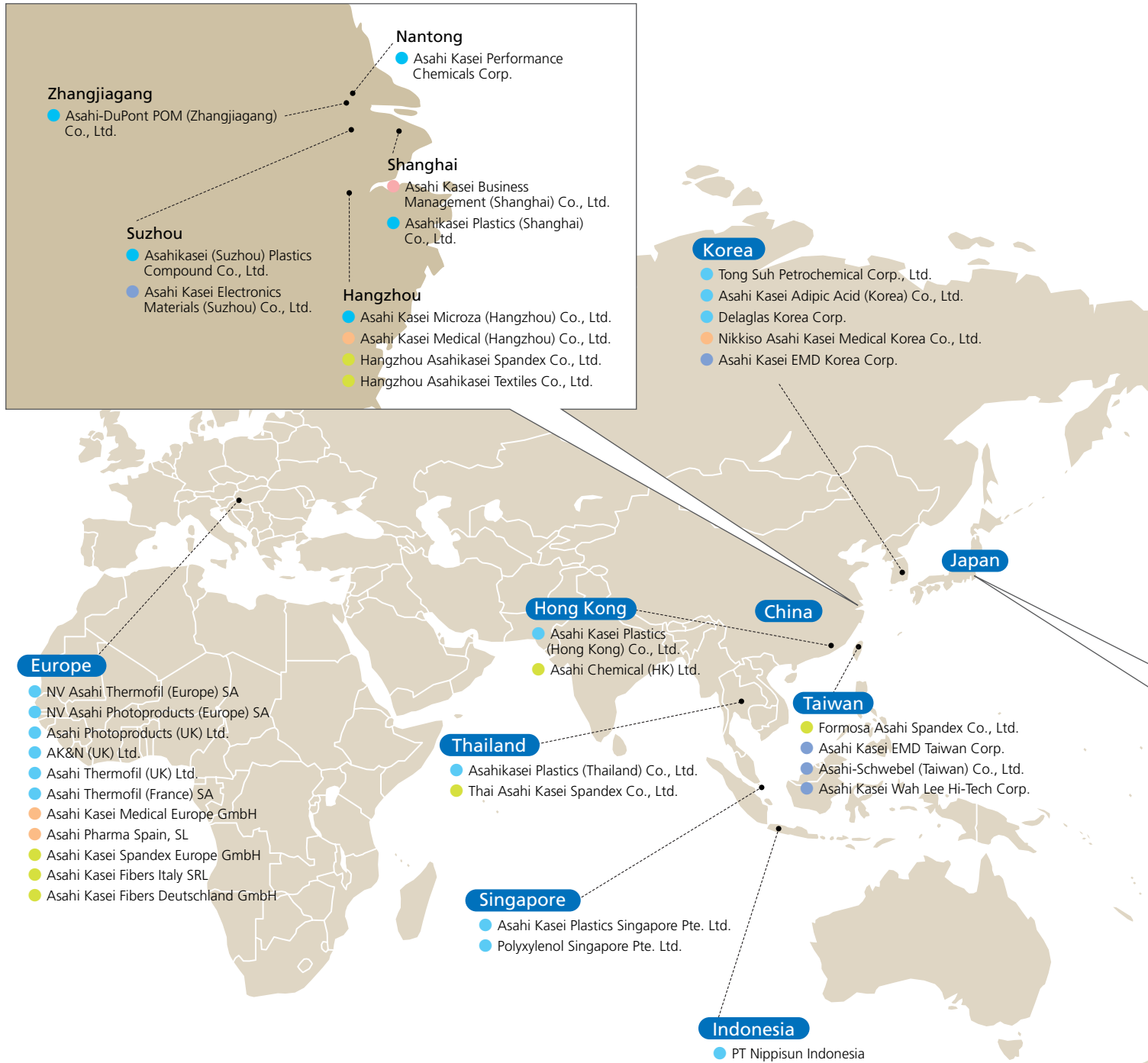
## Long term vision for growth

Once achieving our performance targets in *Growth Action – 2010*, if we maintain the same rate of growth through fiscal 2015, operating profit will be double what it was in fiscal 2005. As we achieve this, our corporate value will rise commensurately. We are now launching a group-wide project to formulate action plans in promising growth fields. By fiscal 2015, global businesses will probably be 60% or

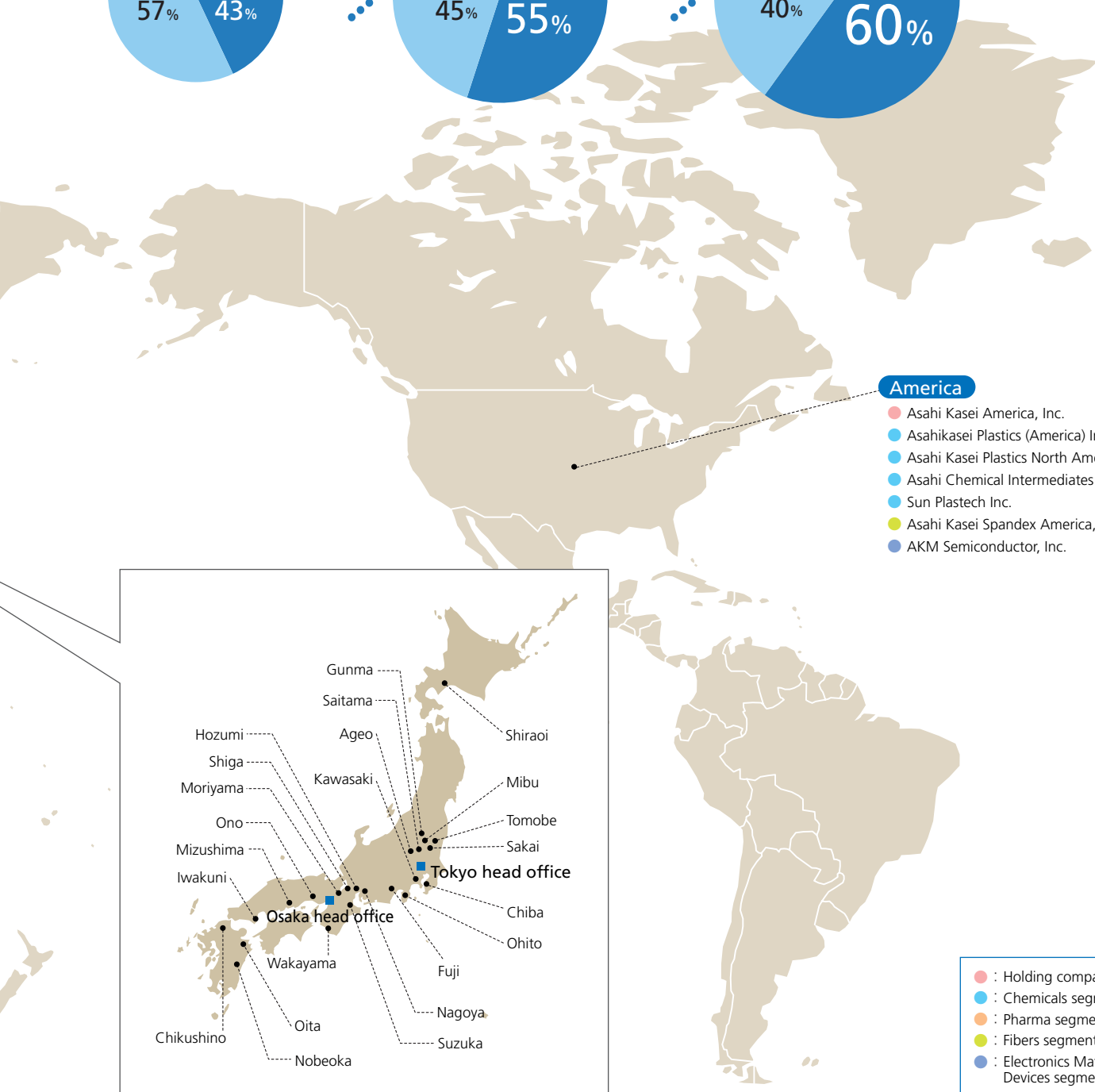
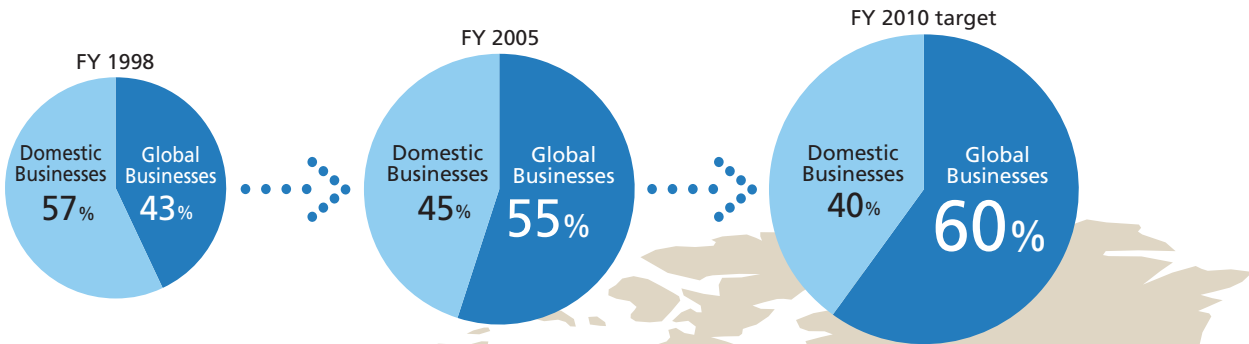
more of our total, with many products having high global market shares in specialty areas. Asahi Kasei will have a much stronger global presence, make more of a contribution to people's lives around the world.

# Asahi Kasei Group Operations, Worldwide (As of April 1, 2007)

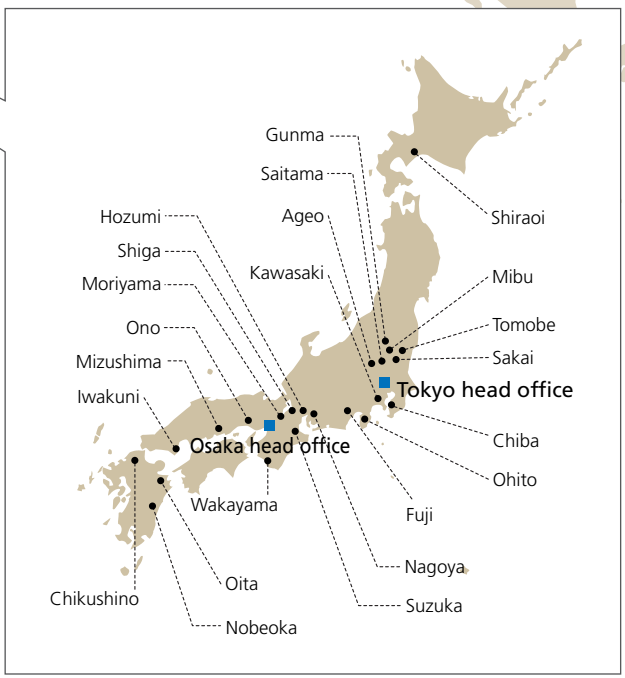
Operations of the Asahi Kasei Group extend to many locations throughout the world. The growth of these operations is a key element in the expansion of global businesses as part of our *Growth Action – 2010* strategic initiative.



Expanding global businesses – Share of sales by character of business



- America**
- Asahi Kasei America, Inc.
  - Asahikasei Plastics (America) Inc.
  - Asahi Kasei Plastics North America, Inc.
  - Asahi Chemical Intermediates Inc.
  - Sun Plastech Inc.
  - Asahi Kasei Spandex America, Inc.
  - AKM Semiconductor, Inc.



- : Holding company
- : Chemicals segment
- : Pharma segment
- : Fibers segment
- : Electronics Materials & Devices segment

# At a Glance

## Segments, Core Operating Companies

## Core Operating Company Directors\*

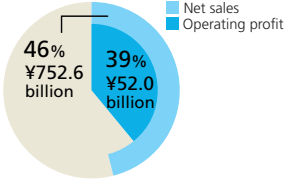
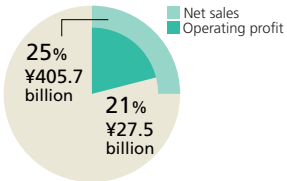
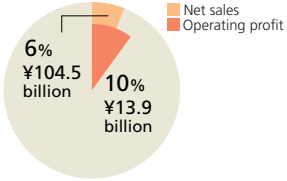
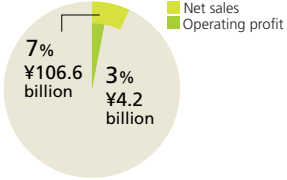
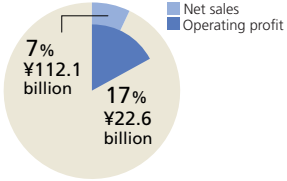
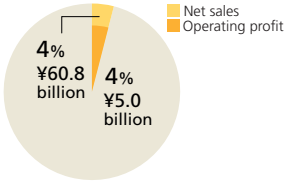
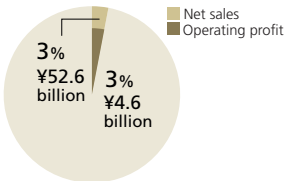
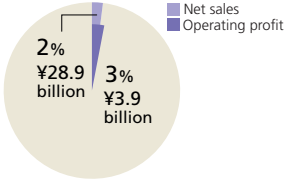
	<p><b>Chemicals</b> <b>ASAHI KASEI CHEMICALS CORPORATION</b></p>	<p>Taketsugu Fujiwara Keiji Kamei Masanori Warabi Shigeru Mizutani Masami Fujimori Kiyosuke Komiya Hajime Nagahara Tadashi Akaishi</p>	<p>President &amp; Representative Director, Presidential Executive Officer Director, Vice-Presidential Executive Officer Director, Primary Executive Officer Director, Primary Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer</p>
	<p><b>Homes</b> <b>ASAHI KASEI HOMES CORPORATION</b></p>	<p>Toshiaki Okamoto Shingo Hatano  Tsuyoshi Shimizu Morio Watanabe Eisuke Ikeda</p>	<p>Chairman of the Board &amp; Director President &amp; Representative Director, Presidential Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer</p>
	<p><b>Pharma</b> <b>ASAHI KASEI PHARMA CORPORATION</b></p>	<p>Kei Oe  Yasuyuki Yoshida Tsutomu Inada Akio Kobayashi</p>	<p>President &amp; Representative Director, Presidential Executive Officer Director, Primary Executive Officer Director, Primary Executive Officer Director, Senior Executive Officer</p>
	<p><b>Fibers</b> <b>ASAHI KASEI FIBERS CORPORATION</b></p>	<p>Masaki Sakamoto  Ryo Matsui Hidefumi Takai</p>	<p>President &amp; Representative Director, Presidential Executive Officer Director, Senior Executive Officer Director, Executive Officer</p>
	<p><b>Electronics Materials &amp; Devices</b> <b>ASAHI KASEI EMD CORPORATION</b></p>	<p>Makoto Konosu  Katsuhiko Yamazoe Koji Yamada Hajime Nagahara</p>	<p>President &amp; Representative Director, Presidential Executive Officer Director, Senior Executive Officer Director, Executive Officer Director</p>
	<p><b>Construction Materials</b> <b>ASAHI KASEI CONSTRUCTION MATERIALS CORPORATION</b></p>	<p>Hiroshi Kobayashi  Fumio Nakagawa Masafumi Funaki Tsuyoshi Shimizu</p>	<p>President &amp; Representative Director, Presidential Executive Officer Director, Senior Executive Officer Director, Senior Executive Officer Director</p>
	<p><b>Life &amp; Living</b> <b>ASAHI KASEI LIFE &amp; LIVING CORPORATION</b></p> <p>Asahi Kasei Life &amp; Living Corp. was integrated with Asahi Kasei Chemicals Corp. on April 1, 2007.</p>		
	<p><b>Services, Engineering and Others</b></p>		

\* As of April 1, 2007

FY06 Composition of Net sales, Operating Profit\*

Major Consolidated Subsidiaries

Main Businesses

 <p>46% ¥752.6 billion</p> <p>39% ¥52.0 billion</p> <p>Net sales Operating profit</p>	<p>Sanyo Petrochemical Co., Ltd. Japan Elastomer Co., Ltd. Asahi Kasei Technoplus Co., Ltd. Tong Suh Petrochemical Corp., Ltd. Asahi Kasei Plastics Singapore Pte. Ltd. Asahikasei Plastics (America) Inc. Asahi Kasei Performance Chemicals Corp.</p>	<p>Organic and inorganic industrial chemicals, synthetic resin, synthetic rubber, high-compound fertilizer, coating materials, latex, pharmaceutical and food additives, explosives, photopolymers and platemaking systems, separation and ion-exchange membranes, systems, and equipment.</p>
 <p>25% ¥405.7 billion</p> <p>21% ¥27.5 billion</p> <p>Net sales Operating profit</p>	<p>Asahi Kasei Jyuko Co., Ltd. Asahi Kasei Mortgage Corp. Asahi Kasei Reform Co., Ltd. Asahi Kasei Real Estate, Ltd.</p>	<p>Hebel Haus™ houses, Hebel Maison™ apartments, condominiums, remodeling, real estate, residential land development, financial services.</p>
 <p>6% ¥104.5 billion</p> <p>10% ¥13.9 billion</p> <p>Net sales Operating profit</p>	<p>Asahi Kasei Medical Co., Ltd. Asahi Kasei N&amp;P Co., Ltd. Asahikasei Aime Co., Ltd. Asahi Kasei Medical (Hangzhou) Co., Ltd.</p>	<p>Pharmaceuticals, pharmaceutical intermediates, feed additives, diagnostic reagents, hemodialyzers and other medical devices.</p>
 <p>7% ¥106.6 billion</p> <p>3% ¥4.2 billion</p> <p>Net sales Operating profit</p>	<p>Kyokuyo Sangyo Co., Ltd. Thai Asahi Kasei Spandex Co., Ltd. Hangzhou Asahikasei Spandex Co., Ltd. Asahi Kasei Spandex Europe GmbH Asahi Kasei Spandex America, Inc. Asahi Chemical (HK) Ltd. Hangzhou Asahikasei Textiles Co., Ltd.</p>	<p>Roica™ elastic polyurethane filament (spandex), Eltas™ spunbond, Lamous™ artificial suede, Bemliese™ cupro cellulosic nonwoven, Bemberg™ cupro cellulosic fiber, polyester filament, Solutex™ polytrimethylene terephthalate (PTT) fiber.</p>
 <p>7% ¥112.1 billion</p> <p>17% ¥22.6 billion</p> <p>Net sales Operating profit</p>	<p>Asahi Kasei Microsystems Co., Ltd. Asahi-Schwebel Co., Ltd. Asahi Kasei Electronics Co., Ltd. Asahi Kasei Electronics Materials (Suzhou) Co., Ltd. Asahi-Schwebel (Taiwan) Co., Ltd.</p>	<p>Pimel™ photosensitive polyimide precursor, Sunfort™ photosensitive dry-film resist, Hall elements, LSIs, glass fabric for printed circuit boards.</p>
 <p>4% ¥60.8 billion</p> <p>4% ¥5.0 billion</p> <p>Net sales Operating profit</p>	<p>Asahi Kasei Foundation Systems Corp. Asahi Kasei Marinetech Co., Ltd.</p>	<p>Hebel™ autoclaved lightweight concrete, construction piles, Neoma™ foam and other thermal insulation, artificial fish reef and other marine structures.</p>
 <p>3% ¥52.6 billion</p> <p>3% ¥4.6 billion</p> <p>Net sales Operating profit</p>	<p>Asahi Kasei Pax Corp. Asahi Home Products Co., Ltd. Asahi Home Products Co., Ltd. was renamed Asahi Kasei Home Products Corp. on April 1, 2007.</p>	<p>Saran Wrap™ cling film, Ziploc™ storage bags, plastic film, sheet, and foam.</p>
 <p>2% ¥28.9 billion</p> <p>3% ¥3.9 billion</p> <p>Net sales Operating profit</p>	<p>Asahi Research Center Co., Ltd. Asahi Finance Co., Ltd. Asahi Kasei Engineering Co., Ltd. Asahi Kasei Amidas Co., Ltd.</p>	<p>Plant, equipment, process engineering, employment agency, think tank.</p>

\* Before corporate expenses and eliminations





# Chemicals

With the basic ideal *Creating the Future with Chemistry* to guide the advancement and growth of operations, all businesses have been classified as those for strategic expansion and those for stable earnings. Management resources are focused on advancing the growth of strategic expansion businesses, while stable earnings businesses are strengthened and enhanced to heighten profitability.

**Taketsugu Fujiwara**  
President, Asahi Kasei Chemicals

## Major Products

### Chemicals and derivative products

Ammonia, nitric acid, caustic soda, acrylonitrile (AN), styrene, adipic acid, methyl methacrylate (MMA).

### Polymer products

Suntec™ polyethylene (PE), Stylac™-AS styrene-acrylonitrile, Stylac™-ABS acrylonitrile-butadiene-styrene, polymethyl methacrylate (PMMA), synthetic rubber and elastomer, styrene-butadiene latex, Tenac™ polyacetal, Xyron™ modified polyphenylene ether (mPPE), Leona™ nylon 66 polymer and filament.

### Specialty products

Coating materials, Ceolus™ microcrystalline cellulose, explosives, explosion-bonded metal clad, APR™ photosensitive resin, AFP™ photosensitive plates, printing plate making systems, Microza™ UF and MF membranes and systems, Hipore™ microporous membrane, ion-exchange membranes and electrolysis systems.

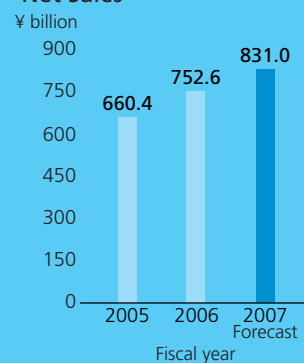
## Growth Action – 2010

Each business is classified either as a strategic expansion business, with management resources focused on achieving growth and high earnings, or as a stable growth, stable earnings business, with efforts focused on strengthening and enhancement to heighten profitability.

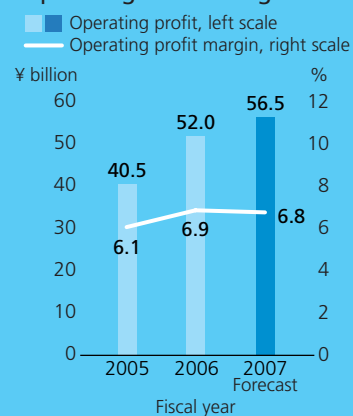
Strategic expansion businesses, characterized by the potential to attain greater earnings and stronger market position through expansion of scale, include AN, MMA, and synthetic rubber and elastomers. Those characterized by the potential to attain growth through linkage with growing market segments, building on established strengths, and extension into peripheral fields, include battery/fuel cell materials and water treatment systems.

Stable earnings businesses, characterized by the potential to attain greater added value and stable earnings growth through a leading position in growing market segments, include polymers/compounds and performance chemicals. Those characterized by the potential to maintain stable earnings through a strengthened operational base and structure include petrochemicals, basic chemicals, and ethylene center derivatives with the exception of those marked for strategic expansion.

### Net Sales



### Operating Profit, Operating Profit Margin



## The Year in Review

Sales for the segment grew by ¥92.2 billion to ¥752.6 billion, a 14.0% increase. Operating profit grew by ¥11.5 billion to ¥52.0 billion, a 28.3% increase.

Sales and operating profit in volume products, comprising chemicals/derivative products and polymer products, increased. Product price increases and strong overseas demand helped to overcome higher feedstock costs. In chemicals and derivative products, operating profit increased with strong overseas demand for acrylonitrile and styrene, and with a sharp rise in the market price of adipic acid due to a tight market balance. In polymer products, profitability of Leona™ nylon 66 resin and filament increased.

Sales and operating profit in specialty products grew with increased shipments of Hipore™ Li-ion rechargeable battery separators following plant expansion, export of membrane process chlor-alkali electrolyzers to China, and increased shipments of ion-exchange membranes for chlor-alkali.

## Notable Developments

A new production line in Moriyama for Hipore™ Li-ion rechargeable battery separators began operation in October 2006. The decision was made in December 2006 to install a new steam boiler and power generation turbine to use lower-cost fuel at the Mizushima Works, with start-up in fiscal 2009. Working together with adjacent companies, the project will strengthen competitiveness in Mizushima. A new plant in China for assembly of Microza™ microfiltration (MF) membrane for water treatment began operation in December 2006. Korean subsidiary Tong Suh Petrochemical began commercial operation for validation of the world's first propane process for acrylonitrile production in January 2007. The decision was made in January 2007 to expand production capacity in Kawasaki for ion-exchange membranes for chlor-alkali with start-up in fiscal 2008.

## Market Environment Outlook for fiscal 2007

Demand for volume products will remain strong, but the outlook for feedstock prices is unclear. The focus in chemicals and derivative products will be on maintaining appropriate pricing and stable operation. In polymer products, profit growth will be obtained through expansion of differentiated grades.

Specialty products will perform well with continuing strong demand in IT, home electronics, and automotive applications. Expanded production capacity for Hipore™

Li-ion rechargeable battery separators, the new assembly line for Microza™ MF in China, and the start-up of a new plant in China for Duranate™ hexamethylene diisocyanate-based polyisocyanate will enable further expansion of sales.

## R&D

Technology development in line with the basic ideal of *Creating the Future with Chemistry* is directed toward the fields of petrochemicals, electronics and optics, and environment and energy.

The focus in petrochemicals and monomers is on advances and innovations in catalysts and chemical processes for diversification of feedstocks, the most recent example being the validation and commercial operation of the world's first propane process for AN. In electronics and optics, functional sheets and films for LCDs and other flat-panel displays are nearing commercialization. Development in the field of energy will be expanded from the base of Hipore™ Li-ion rechargeable battery separator technology. In ecology, development of water treatment materials technology is advancing for expansion into promising new markets. In polymers/compounds and performance chemicals, the focus is on obtaining higher added value.

## Highlights

### World's first commercial propane-process AN plant

Asahi Kasei Chemicals developed the world's first process technology for production of AN from propane gas, with validation and commercial operation beginning in January 2007 at Tong Suh Petrochemical, its subsidiary in Korea. AN is a production material for acrylic fiber and ABS resin, which is used in home appliances. It is conventionally produced from propylene derived from naphtha, a petroleum-based feedstock. The propane process technology enables production of AN without using naphtha or other petroleum-based feed. A large-scale propane-process AN plant is scheduled for start-up in late 2009 in Thailand, near abundant natural gas deposits. With the continuing expansion and growth of operations in Asia, we are aiming for the world's top share in AN.



AN plants in Korea

### New steam boiler and power generation turbine at Mizushima Works

In December 2006 the decision was made to install a new steam boiler and power generation turbine using lower-cost fuel to strengthen competitiveness at the Mizushima Works. Start-up is scheduled for fiscal 2009. The facilities, to be operated jointly with Zeon Corp., will use SDA pitch supplied from a petroleum refinery of Nippon Oil Corp. in Mizushima. This project has been selected by NEDO

(New Energy and Industrial Technology Development Organization) for support for energy conservation.



Our Mizushima Works

### Expansion of ion-exchange membrane production capacity

In January 2007, the decision was made to expand production capacity for ion-exchange membranes in Kawasaki, to meet growing demand worldwide. Start-up is scheduled for fiscal 2008. The ion-exchange membranes are used in the electrolysis of brine to produce chlorine and caustic soda. There is a clear outlook for growing membrane demand, as new membrane-process chlor-alkali plants and plant expansions will be required to enable increased production of PVC and caustic soda, for which the market is particularly strong in the fast-growing economies of China and India. Asahi Kasei Chemicals is world's only supplier of the complete range of essential technology for membrane-process chlor-alkali, including its own electrolyzers, electrodes, ion-exchange membranes, and operating technology. The expansion of production capacity for ion-exchange membranes will further strengthen the business and solidify AKC's position as the world's top supplier of both the membranes and chlor-alkali electrolysis systems.



Membrane-process chlor-alkali plant



# Homes

Marketing resources are focused on demand for rebuilding in urban areas backed by the Long Life Home product strategy to maintain and enhance customer satisfaction over the long term.

**Shingo Hatano**  
President, Asahi Kasei Homes

## Major Products

Hebel Haus™ houses, Hebel Maison™ apartments, condominiums, remodeling, real estate, residential land development, home financing.

## Growth Action – 2010

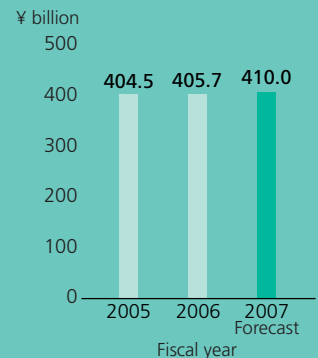
Marketing of order-built homes is focused on demand for home rebuilding in major urban areas, as a high-earnings operational structure is reinforced and expanded. Specific actions include:

- Successive development of new products tailored to specific market characteristics in different regions.
- Advancement of cost reductions through shared logistical networks with other home builders.
- Productivity enhancements through reduced home construction time.
- Advanced development of technology to enhance the Long Life Home product strategy.

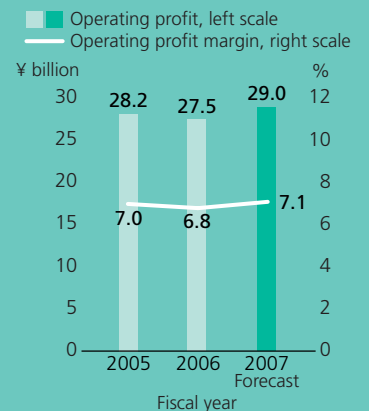
Long-term customer relationships are maintained through the provision of remodeling, real estate, and financial services. Specific actions include:

- Expansion of real estate operations in brokerage of used Hebel Haus™ homes.
- Expansion of remodeling operations through high value-added services for long-term maintenance and enhancement of home asset value.
- Establishment of stable earnings in home financing operations with mortgage securitization and development of homeowners insurance business.
- Development of new businesses utilizing proprietary technology, know-how, and the asset value of Hebel Haus™ homes.

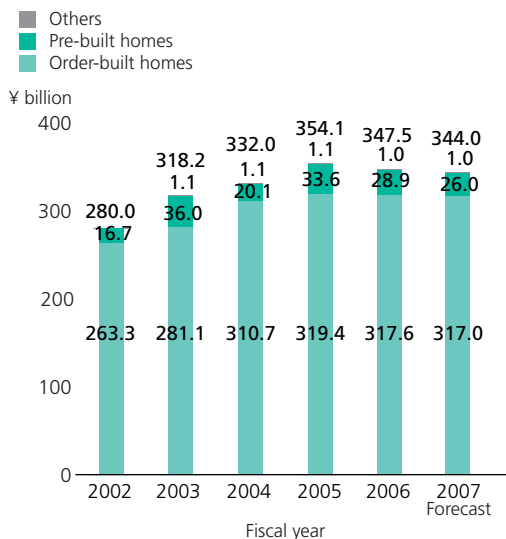
### Net Sales



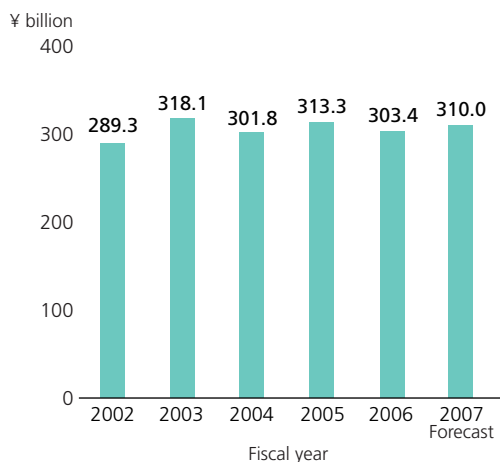
### Operating Profit, Operating Profit Margin



## Sales Trends of Home Segment



## Orders Received



## The Year in Review

Sales for the segment grew by ¥1.2 billion to ¥405.7 billion, a 0.3% increase. Operating profit decreased by ¥0.7 billion to ¥27.5 billion, a 2.5% decline.

Unit prices of order-built homes increased, but the number of deliveries of both order-built homes and condominiums declined, and sales and operating profit in housing operation decreased. Marketing efforts for order-built homes were focused on eliciting demand for rebuilding, but new orders worth ¥303.4 billion received during the period were ¥10.0 billion less than a year ago.

Sales and operating profit in housing-related operations increased. Real estate operations had rising income from rentals. Remodeling operations also grew.

## Notable Developments

Construction of a new R&D center in Fuji began in November 2006. The new center will perform research on basic technology for the Long Life Home product concept, and drive the development of next-generation products, with opening scheduled for October 2007. The Hebel Haus Luft™ with living space optimized for the senior couple went on sale in January 2007.

## Market Environment Outlook for fiscal 2007

The market for housing will be generally slack as retirement of the baby-boom generation reduces aggregate national disposable income and as purchasing desire is moderated by apprehension that salary deductions for social security will increase. Competition will likely intensify as home sellers

heighten efforts to maintain sales amid weak demand. Asahi Kasei Homes will focus on increasing unit-home orders from customers who are rebuilding in urban markets where it has established strengths, further advancing product development and promotion based on the Long Life Home concept.

## R&D

R&D is focused on enhancing core technologies. Shelter technology brings greater safety and security through earthquake resistance, seismic damping, and fire resistance; greater long-term usability through physical durability/evaluation, systematic maintenance, and ease of remodeling; enhanced livability through thermal insulation, air circulation, and sound barrier; and enhanced ecology through recycling and incorporation of greenery. Lifestyle technology brings greater comfort, convenience, and satisfaction, while evaluation/simulation technology is being enhanced to enable buyers to more intuitively appreciate the real-world effects of variations and modifications to a home design so that it is optimized to taste before building. Additional research is focused on the physiological and psychological aspects of comfort, and how these can be utilized through technological development to achieve greater energy efficiency and environmental compatibility in homes optimized for health and comfort.

## Highlights

### Hebel Haus Luft™

With living space optimized for the senior couple, the Hebel Haus Luft™ went on sale in January 2007. Designed to meet the needs of couples in their 50s and 60s who are rebuilding, the home enables the residents to maintain loose contact from a comfortable distance while engaging in separate activities. The concept for this style of home layout emerged from a study performed by Asahi Kasei Homes, which found that many couples whose children have moved out want to have their own spaces to spend time in, but do not want these spaces to be separated by walls or partitions that inhibit communication and interaction. Asahi Kasei Homes will continue to develop new products like this one which meet the specific needs of customers for rebuilding.



Hebel Haus Luft™

### Housing R&D center

In November 2006 Asahi Kasei Homes began construction of a new R&D center in Fuji, the central location of R&D facilities for the Asahi Kasei Group. With opening scheduled for October 2007, the new center will perform research on basic technology for the Long Life Home product concept, and drive the development of next-generation products. The housing technology R&D function will be transferred from its current location at a laboratory in Tokyo. The new location in Fuji will afford a larger scale and wider range of facilities, and enable synergies through interaction with the other Asahi Kasei Group researchers at the same site. The site of the new R&D center will also feature a 10,000 m<sup>2</sup> zone for ecology and the environment, where a diverse natural ecosystem will be nurtured.



Housing R&D center in Fuji

### Hebel Haus Greenplus™

Featuring rich greenery in a confined urban setting, the Hebel Haus Greenplus™ went on sale in September 2006. Several innovations were applied to maximize the integration of trees and plants within the limited space of an urban land parcel. These include a system to support plants in front of a wall face, and a new range of durable steel planters, in addition to the rooftop gardening system previously available. Together with the optimal utilization of natural wind and sunlight, these raise the level of relaxing greenery and environmentally friendly living which can be obtained in a small urban plot. Asahi Kasei Homes will continue to develop new urban home products like this one which provide enhanced comfort and ecology.



Hebel Haus Greenplus™



Rooftop gardening system



# Pharma

The pharmaceutical business is advancing as a specialized, R&D-centered operation, with the field of orthopedics the central focus of management resources. The medical device business is directed toward for global leadership in systems for therapeutic blood filtration.

**Kei Oe**  
President, Asahi Kasei Pharma

## Major Products

Elcitonin™, Bredinin™, Flivas™, Toledomin™, and other pharmaceuticals, pharmaceutical intermediates, functional food additives, diagnostic reagents, APS™ artificial kidneys, Sepacell™ leukocyte reduction filters, Cellsorba™ leukocyte adsorption columns, Planova™ virus removal filters, contact lenses.

## Growth Action – 2010

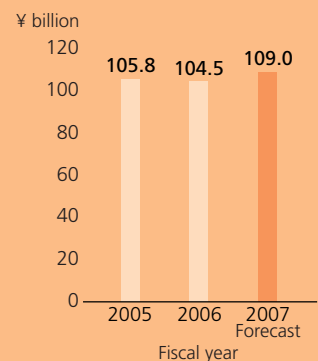
### Pharmaceuticals business:

Advancement as a specialized, R&D-centered operation, with management resources focused on selected therapeutic fields. Expansion of operations through structural reform and slim, robust management, building on an established presence in selected therapeutic fields in the Japanese market. In pharmaceutical intermediates and diagnostic reagents, structural reform is advancing to enable global growth and expansion in selected fields of competitive superiority.

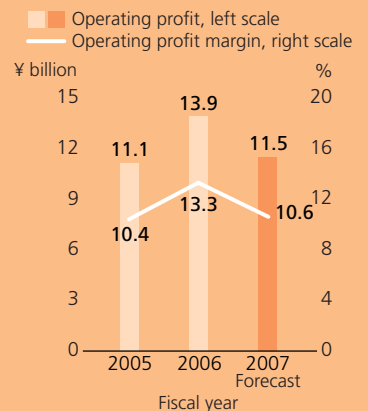
### Asahi Kasei Medical:

Directed toward global leadership in therapeutic blood filtration systems. Global growth and expansion as a high-earnings enterprise based on consolidation in the field of hemodialysis, eliciting new demand for plasmapheresis and leukocytapheresis products, expanding demand for Sepacell™ leukocyte reduction filters, and expanding demand for Planova™ virus removal filters.

### Net Sales



### Operating Profit, Operating Profit Margin



## Pharmaceutical Product Pipeline

Development stage	Product	Objective	Class	Indication
Pending approval	ART-123 (injection)	New biologic	Recombinant human thrombomodulin	Disseminated intravascular coagulation
	AK-120 (oral)	New chemical entity	Antiviral	Herpes zoster
Phase III	AT-877 (injection)	Additional indication	<i>Rho</i> -kinase inhibitor	Acute cerebral thrombosis
	PTH (injection)	Additional indication	Synthetic human parathyroid hormone	Osteoporosis
Phase II	AT-877 (oral)	Additional indication	<i>Rho</i> -kinase inhibitor	Angina pectoris
	KT-611 (oral)	Additional indication	$\alpha$ -1 blocker	Neurogenic bladder
Phase II (overseas)	ART-123 (injection)	New biologic	Recombinant human thrombomodulin	Disseminated intravascular coagulation

## The Year in Review

Sales for the segment decreased by ¥1.4 billion to ¥104.5 billion, a 1.3% decline. Operating profit grew by ¥2.8 billion to ¥13.9 billion, a 25.5% increase.

Sales in pharmaceutical operations decreased with reimbursement price cuts and decreased shipments of pharmaceutical intermediates. Operating profit grew with licensing income for fasudil hydrochloride *rho*-kinase inhibitor.

Sales and operating profit in devices grew with increased shipments of APS™ polysulfone-membrane artificial kidneys and Planova™ virus removal filters, and with measures to reduce operating costs.

## Notable Developments

Expansion of the Nagoya Pharmaceuticals Plant, the main site for production of pharmaceuticals, was completed in February 2007. Asahi Kasei Medical and Kuraray Medical reached basic agreement for the integration of their dialyzer businesses in October 2007.

## Market Environment Outlook for fiscal 2007

Pharmaceuticals operations will remain challenging, with a low birthrate and aging population prompting curtailments in national healthcare expenditures, with intensified competition, and with increased R&D expenditure. Sales growth will be obtained through measures to reinforce our main products, including the launch of Flivas™ 75 mg orally disintegrating tablets. In medical devices, a new plant in Nobeoka for dry-pack APS™ polysulfone-membrane dialyzers is under construction with integrated spinning and assembly lines as part of a plan to expand production capacity to 30 million modules/year by fiscal 2010.

## R&D

In pharmaceuticals, the focus is on new drug development in the fields of orthopedics, the central nervous system, and

urology, and on extension of market life through enhanced product conformation. In medical devices, developments are advancing in fields related to hemodialysis, apheresis, leukocyte removal, and virus removal. Next-generation fields of research include autohemotherapy and cell therapy.

## Highlights

### New drug development

In August 2006 Asahi Kasei Pharma (AKP) applied for Japanese regulatory approval for a new anticoagulant, ART-123, and licensed overseas rights to Artisan Pharma Inc. Discovered by AKP, ART-123 features a novel mechanism of anticoagulation. Artisan Pharma, newly established with venture-capital financing, obtains rights for development and sale of the compound in several overseas markets. With this development, business related to ART-123 will expand to many countries outside Japan.

### Integration of dialyzer businesses

Asahi Kasei Medical (AM) and Kuraray Medical (KM) have agreed to integrate their dialyzer businesses. AM produces APS™ dialyzers based on polysulfone hollow-fiber membrane technology, the global standard for high-performance, and dialyzers based on cellulose hollow-fiber membrane technology, while KM produces dialyzers based on ethylene-vinyl alcohol copolymer (EVOH) hollow-fiber membrane technology which enables mild and gentle hemodialysis. The integrated operation, scheduled to start in October 2007 as Asahi Kasei Kuraray Medical, will enjoy an enhanced position as Japan's leading dialyzer producer with growing business worldwide.



APS™ polysulfone-membrane hemodialyzer





# Fibers

The focus is on achieving growth by advancing a transformation from a business structure centered on products for the Japanese market for apparel through expansion of overseas business and development of business in non-apparel, industrial-use materials.

**Masaki Sakamoto**  
President, Asahi Kasei Fibers

## Major Products

Roica™ elastic polyurethane filament, Eltas™ spunbond, Lamous™ artificial suede, and other nonwovens, Bemberg™ cupro cellulosic fiber, polyester filament.

## Growth Action – 2010

Achieving continuous growth by advancing a transformation from a business structure centered on products for the Japanese market for apparel through expansion of overseas business and development of business in non-apparel, industrial-use materials. R&D is focused on driving the growth of business in industrial-use materials to develop as a new core field of operation.

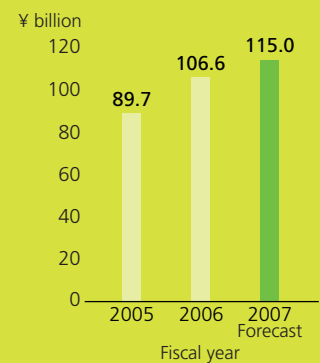
### For greater earnings in established businesses:

- Development and expansion in global markets and industrial materials.
- Full utilization of available resources to expand earnings. Proactive investment for expansion.
- Establishment of new pricing structure through a shift of resources to high-earnings application fields and geographic regions.
- Continuous cost reduction.

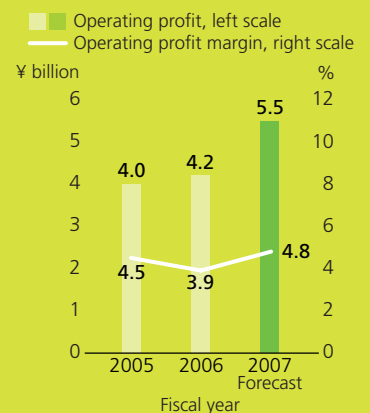
### For expansion of new businesses:

- Expansion of Solotex™ polytrimethylene terephthalate (PTT) fiber business in new application fields. Commercialization of Cyberlon™ polyketone fiber business.
- Development of new businesses peripheral to established cellulosic fibers and nonwovens businesses. Rapid scale-up to form new core business.
- Extension of business domain based on established technology and know-how, in growth fields not limited to fiber production.
- Advancement of alliances and joint projects with partners within and outside the Asahi Kasei Group.

### Net Sales



### Operating Profit, Operating Profit Margin



## The Year in Review

Sales for the segment grew by ¥16.9 billion to ¥106.6 billion, an 18.9% increase. Operating profit grew by ¥0.1 billion to ¥4.2 billion, a 3.4% increase.

Sales of elastic polyurethane filament grew with increased shipments of Roica™, improved market conditions, and the inclusion of the Dorlastan™ business acquired from Lanxess, but operating profit decreased as the Dorlastan™ business operated at a loss. Roica™ production equipment is being installed at the Dorlastan™ plants in the US and Europe, and the business is forecast to become profitable in fiscal 2007.

Sales and operating profit in Bemberg™ cupro grew with increased exports. Nonwovens operations were impacted by the effect of elevated feedstock costs, but sales and operating profit grew with increased shipments of Lamous™ artificial suede in car seat applications.

## Notable Developments

Roica™ SF went on sale in February 2007 as the eighth in the series of Roica™ performance yarns. A large-scale plant for Precisé™ is under construction in Moriyama with start-up scheduled for autumn 2007.

## Market Environment Outlook for Fiscal 2007

Continuing full production and rising product prices are forecast with increased demand for Roica™, though the operating environment will remain challenging with high feedstock costs. Processing costs for Bemberg™ will increase and demand in Japan will be weak, but increased sales volume is forecast in non-lining applications and in overseas markets. Shipments of Lamous™ will increase, mainly for car seats in the US and Europe, and development will be advanced for nonwovens.

## R&D

The ratio of R&D expenditure on new materials to that on existing materials is 2:3 and increasing as greater emphasis is focused on development of new materials. R&D on existing materials is directed toward the development of new high value-added grades of Roica™ spandex, Bemberg™ cupro, and nonwovens which meet market needs for advanced performance. R&D on new materials is directed toward the development of unique products which will elicit new demand. A pilot plant for polyketone filament started up at the beginning of 2006, with samples supplied to users for evaluation.

## Highlights

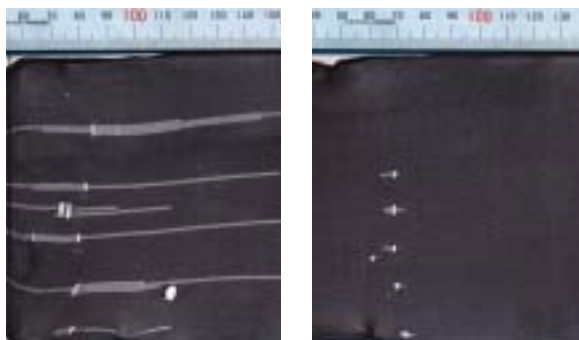
### New nonwoven Precisé™

A new polyester nonwoven with a highly uniform structure of layers of filament with different denier, Precisé™ went on sale in August 2006. Precisé™ features a previously unavailable combination of heat resistance, strength, and rigidity, providing outstanding performance and functionality in a wide range of applications including filtration and separation, food packaging, and medical tape. A large-scale plant for Precisé™ is under construction in Moriyama, with production capacity expansions to be made as demand increases.



### Market launch of Roica™ SF

The latest high-function Roica™ spandex yarn, Roica™ SF, went on sale in February 2007. Roica™ SF, the eighth in this series, features high inter-yarn adhesion for resistance to runs and fraying, while maintaining elasticity and heat resistance. The result is a previously unavailable level of quality and durability in stockings and other garments. Spandex yarns, characterized by excellent stretch and recovery, are often used in sportswear and stockings. The Roica™ product lineup includes many specialty grades with additional performance features that set them apart from ordinary spandex. These high-performance Roica™ grades have been adopted for a wide range of uses around the world. Asahi Kasei Fibers will continue to develop specialty Roica™ grades with new features and functions that meet demanding market needs.



Stocking made with ordinary spandex (left) and Roica™ SF (right) after stocking run test



# Electronics Materials & Devices

Growth of a high-earnings operational structure is obtained through leadership in the development of products for emerging applications in each market segment for electronic materials and electronic devices.

**Makoto Konosu**  
President, Asahi Kasei EMD

## Major Products

Pimel™ photosensitive polyimide precursor (PSPI), Sunfort™ photosensitive dry film resist (DFR), photomask pellicles, Luminous™ plastic optical fiber, LSIs, Hall elements, glass fabric.

## Growth Action – 2010

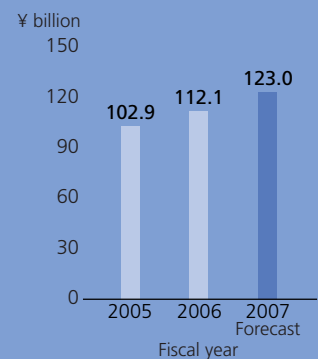
### In electronic devices:

- Established LSI and sensor businesses are being expanded.
- New high-performance hybrid devices combining sensors and LSIs are being developed.
- Marketing is being expanded world-wide.

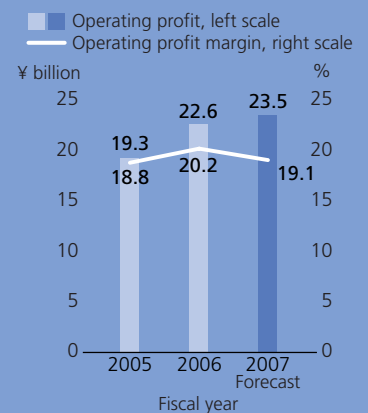
### In electronic materials:

- Industry-leading positions are being reinforced for Sunfort™ DFR, Pimel™ PSPI, and photomask pellicles for LCD panel production.
- Other core businesses including glass fabric are also being expanded.
- Development of new applications is being advanced, including materials for flat-panel displays using established core technology in photosensitive materials and materials for semiconductor packaging.

### Net Sales



### Operating Profit, Operating Profit Margin



## The Year in Review

Sales for the segment grew by ¥9.2 billion to ¥112.1 billion, a 9.0% increase. Operating profit grew by ¥3.3 billion to ¥22.6 billion, a 17.0% increase.

Sales and operating profit in electronic devices grew as shipments of LSIs and magnetic sensors increased with strong demand in cell phone and home electronics applications.

Sales and operating profit in electronic materials grew as shipments of Sunfort™ photosensitive dry film resist increased following a large expansion of production capacity and shipments of ultra-thin grades of glass fabric for printed circuit boards increased.

## Notable Developments

Research, development, marketing, and sales functions of Asahi Kasei Microsystems, Asahi Kasei Electronics, and Asahi-Schwebel were transferred to Asahi Kasei EMD in April 2007. Fully integrated operation will bring greater speed and sharper market focus throughout the electronics materials and electronics devices business.

## Market Environment Outlook for Fiscal 2007

The overall operating environment is forecast to be firm, with an end to the inventory adjustments for PCs and flat-panel displays which began in late 2006. Foreseeable risk factors include a slowdown in the US economy, a rapid appreciation of the Chinese yuan, declining product prices, and rising materials costs. Development of differentiated products for high-growth applications will advance, and an ongoing review of the operational structure will be performed from a mid-term strategic perspective.

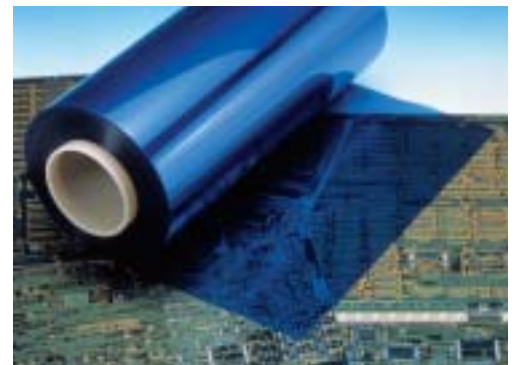
## R&D

R&D is directed toward meeting needs and providing solutions to problems identified through interaction with the customer. Developments in electronics devices include combinations of sensor technology with digital/analog mixed-signal LSI technology for hybrid devices with unique functions. Developments in electronics materials include high-performance structural materials for LCD panels and next-generation package substrate materials compatible with emerging standards for high transmission speeds, performance, and reliability.

## Highlights

### Expansion of capacity at DFR plant in China

Production capacity for Sunfort™ photosensitive dry film resist (DFR) at Asahi Kasei Electronics Materials (Suzhou) Co., Ltd. was expanded in July 2006 to meet strong demand growth. The subsidiary in Suzhou now has the largest DFR plant in China. DFR is used to form circuit patterns on printed wiring boards for PCs, cell phones, and automotive electronics. Sunfort™ DFR holds the top share in Japan and a leading position in the global market, and further expansions of production capacity will enable growing market share even as demand increases.



Sunfort™ photosensitive dry film resist

### Start-up of compound semiconductor wafer processing plant

A new compound semiconductor wafer processing plant in Fuji began commercial operation in December 2006. Hall ICs manufactured at the plant feature greatly improved temperature dependency and sensing precision. Sales of products with these performance features are growing in consumer electronics applications which require precise position detection, and in automotive applications which require reliable tolerance to extreme temperature conditions.



The new compound semiconductor wafer processing plant in Fuji



# Construction Materials

With a reinforced commitment to customer focus, safety, security, and comfort, operational reform is advancing for heightened competitiveness of established businesses, expansion and development of new business, and establishment of new business models.

**Hiroshi Kobayashi**  
President, Asahi Kasei Construction Materials

## Major Products

Hebel™ autoclaved lightweight concrete (ALC) panels, steel-frame structural components, piles and foundation systems, Neoma™ foam insulation panels, artificial fish reefs and other marine structures.

## Growth Action – 2010

Further reinforcing the enhanced operational structure with growth through the expansion and development of new businesses and the establishment of new business models.

### Enhancing competitiveness of established businesses:

- Ongoing operating cost reductions and enhanced product quality and service to ensure stable profitability of the Hebel™ ALC business.
- Expansion and reinforcement of Hebel Lite™, Hebel Powerboard™, and small-scale piles businesses.

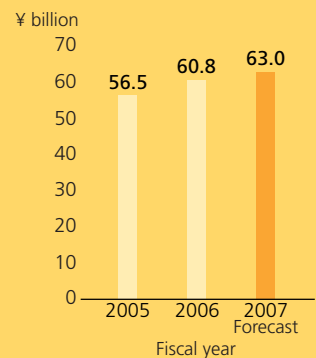
### Expansion and development of new businesses:

- Wide-ranging study of new business opportunities, both domestic and overseas.
- Swift commercialization of projects under development.
- Collaboration with Asahi Kasei Homes.

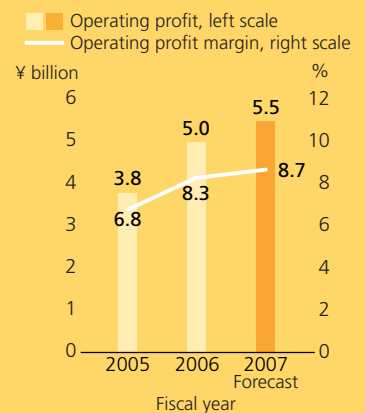
### Establishment of new business models:

- Expansion of installation business for piles and foundation systems and for ALC panels and other exterior wall products.
- Identification of new research projects based on customer needs.
- Intensified marketing of housing materials and insulation materials through direct contact with builders and constructors.

### Net Sales



### Operating Profit, Operating Profit Margin



## The Year in Review

Sales for the segment grew by ¥4.3 billion to ¥60.8 billion, a 7.6% increase. Operating profit grew by ¥1.2 billion to ¥5.0 billion, a 32.0% increase.

Building materials and housing materials operations were affected by high feedstock and fuel costs for production of Hebel™ autoclaved lightweight concrete (ALC) panels, but sales and operating profit grew with measures to reduce operating costs and with higher sales prices.

Sales and operating profit in foundation systems grew with an expansion of new applications for Eazet™ and ATT Column™ piles for small-scale construction. Sales and operating profit in insulation materials grew with a successful expansion of the user base for Neoma™ high-performance phenolic foam panels resulting in increased shipments.

## Notable Developments

A television advertising campaign for Neoma™ foam insulation panels began in October 2006.

## Market Environment Outlook for Fiscal 2007

The Japanese economy is forecast to remain firm, with the number of new private-sector construction projects and the number of housing starts being about the same as in fiscal 2006. Given this operating environment, shipment volumes will increase and profitability will be maintained through continuing cost reductions and product price rises to overcome elevated feedstock and fuel prices.

## R&D

The phenolic foam thermal insulation business will be expanded through developments to enhance production efficiency and enable composite product variations. High performance materials for housing, ecoefficient building foundation systems, and ALC panels with additional functions are under development.

## Highlights

### DynaWing™ piling system

Full-scale marketing began in May 2006 for the DynaWing™ pre-cast concrete piling system featuring minimal soil disposal and high load-bearing capacity. The new system combines an advanced boring technique and pile design to greatly reduce the amount of soil disposal required for a high-load piling installation. Foundation systems of Asahi Kasei Construction Materials include a

wide range of innovative products featuring high-performance, ease of installation, and ecoefficiency, from large pre-cast concrete piles to specialty piles for small-scale construction such as Eazet™ and ATT Column™. The addition of DynaWing™ enhances the pre-cast concrete pile lineup as a core field of business.

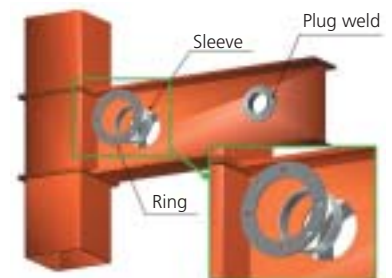


DynaWing™ installation

### FreeDonut™ I-beam reinforcement system

Nation-wide marketing began in September 2006 for the FreeDonut™ system for reinforcement of openings to pass plumbing and wiring through steel I-beams. To make the most efficient use of space, such openings are often employed in the horizontal frame members of steel-frame buildings. The FreeDonut™ system greatly reduces the cost and labor required to reinforce beams where these openings are made, resulting in faster, more efficient construction.

Asahi Kasei Construction Materials has developed a range of innovative structural systems and components, including the BasePack™ earthquake-resistant column base attachment system, the Fablux™-G steel frame connection node, and the E-coupler™ steel column coupling system. The addition of the FreeDonut™ system enhances the product lineup in this growing field of business.



FreeDonut™ installation schematic

# Life & Living

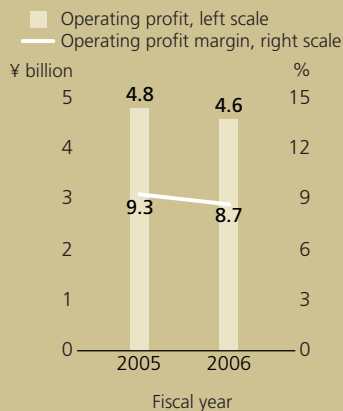
## Major Products

Saran Wrap™ cling film, Ziploc™ storage bags, film, sheet, foam.

### Net Sales



### Operating Profit, Operating Profit Margin



## The Year in Review

Sales for the segment grew by ¥0.6 billion to ¥52.6 billion, a 1.2% increase. Operating profit decreased by ¥0.2 billion to ¥4.6 billion, a 5.0% increase.

Sales of home-use products grew with increased shipments of Saran Wrap™ cling film and Saran™ fiber, but operating profit decreased with higher feedstock and packaging costs and increased advertising expenses.

Sales of packaging materials were on par with a year ago, but operating profit decreased as a result of the impact of elevated feedstock costs.

## Highlights

### Integration with Asahi Kasei Chemicals

The operations of Asahi Kasei Life & Living were integrated with Asahi Kasei Chemicals on April 1, 2007. The business in home-use products such as Saran Wrap™ cling film was transferred to Asahi Kasei Home Products Corp., which will expand operations as a subsidiary of Asahi Kasei Chemicals. Integration of polymer processing technologies and marketing functions will bring synergy in the development of high performance, high value-added films and sheets for new applications.

### Limited-edition Saran Wrap™ packaging

Saran Wrap™ with limited-edition packaging featuring summer festival scenes went on sale in the Tohoku and Shikoku regions in July 2006. This was followed in December 2006 with limited-edition packaging in the same regions featuring winter landscapes and natural scenery. In Hokkaido, Saran Wrap™ with limited-edition packaging featuring the Fighters professional baseball team went on sale in April 2007. Further such limited-edition packaging for Saran Wrap™ will be developed to promote sales in specific regions around Japan.



Limited-edition Saran Wrap™

# Services, Engineering and Others

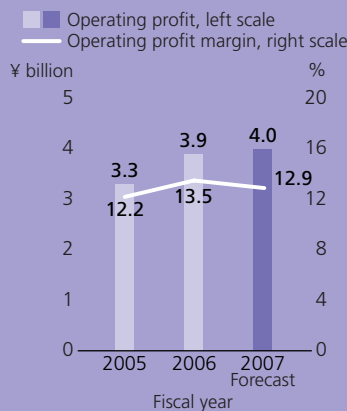
## Major Products

Plant engineering, environmental engineering, personnel staffing and placement, think tank services.

### Net Sales



### Operating Profit, Operating Profit Margin



## The Year in Review

Sales for the segment grew by ¥2.1 billion to ¥28.9 billion, a 7.7% increase. Operating profit grew by ¥0.6 billion to ¥3.9 billion, a 17.4% increase.

Sales and operating profit in engineering operations grew with strong business in overseas plant engineering. Sales in personnel staffing and placement operations increased with growing demand, and operating profit was on par with a year ago.

## Market Environment Outlook for Fiscal 2007

Although private-sector capital investment will remain firm, discretion will be required in bidding for new orders for engineering projects due to the sharp rise in the price of steel, especially stainless steel, and the growing selectivity of subcontractors.

In the personnel staffing and placement business, profitability is forecast to decline with difficulty in securing staff. Growth is forecast for business within the Asahi Kasei Group such as contract staffing of production personnel and implementation of education and training programs.

## R&D

Engineering developments in progress include a system to test for minute metallic impurities in an electronic material production process, a joint project for next-generation automotive safety features, technology to inspect for internal pipe corrosion, and technology for diagnosis of sliding bearings.

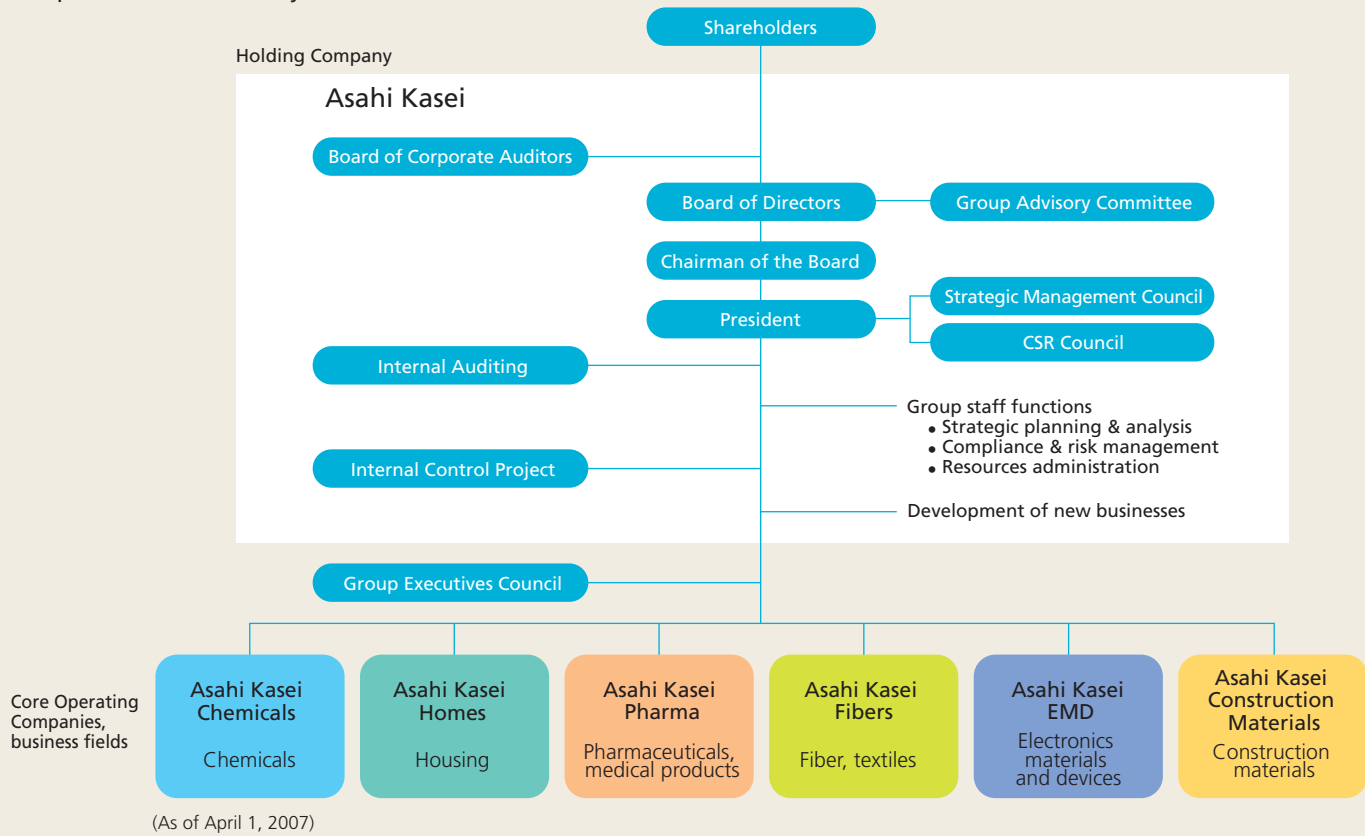


# Corporate Governance

The Asahi Kasei Group constantly endeavors to heighten fast-moving and transparent management as essential for maximum corporate value and greater earnings. The effort for enriched and enhanced corporate governance is ongoing, building on the October 2003 transformation to a holding

company configuration with separate execution and oversight functions which established a management framework with clear delineation of executive authority and responsibility.

## Corporate Governance System



### *Board of Directors*

Oversees group management, and deliberates and decides on basic group policy and strategy, and on substantive proposals by the Strategic Management Council. The Chairman of the holding company chairs meetings of the Board of Directors. Meets once or twice per month.

### *Strategic Management Council*

Deliberates and decides on substantive matters relating to the operation of the holding company and of the group. Its decisions are made by the President of the holding company, who chairs meetings of the council, after deliberation by the attending constituent members. Meets twice per month.

### *Group Advisory Committee*

The advisory body to the holding company Board of Directors, composed of the Chairman and the President of the holding company and outside advisors. Meets twice per year.

### *Group Executives Council*

Conducts the dissemination of substantive group information and the exchange of group information, and deliberates on matters requiring coordination among the core operating companies. Meets once per month.

### *Board of Corporate Auditors*

Comprises four Corporate Auditors, of which two are Outside Corporate Auditors. Corporate Auditors exchange views, deliberate, and decide on substantive matters relating to auditing. Meets at least once per quarter.

## Executive Officer System

An executive officer system of management is employed at the holding company and at each core operating company. Authority and responsibility for the management of each core operating company is held by the President and the other Executive Officers of that company. Authority and responsibility for the management of the holding company and of the group is held by the President and the other Executive Officers of the holding company.

The President of the holding company oversees the executive management and performance of the core

operating companies and of their Presidents. The holding company Board of Directors oversees the executive management and performance of the holding company President and of the group.

For both the holding company and the core operating companies, the number of Directors and Executive Officers is as small as possible. In all cases, the term of office is one year, and management results and performance are reviewed each fiscal year.

## Election of Outside Directors

Two Outside Directors, Yuzo Seto, former President and Representative Director of Asahi Breweries, Ltd., and Yukiharu Kodama, former Administrative Vice Minister of

the Ministry of International Trade and Industry, were elected at the 116th Ordinary General Meeting of Shareholders held in June 2007.

## Internal Control System

Recognizing the importance of an optimum system of internal control to ensure high management quality, reliable financial reporting, and effective risk management and legal compliance, we formed an Internal Control Project in October 2005 to prepare an internal control system for implementation throughout the Asahi Kasei Group. Application of the system on a trial basis began in April 2006.

Our Board of Directors adopted a basic policy for internal control in May 2006 in accordance with Article 362 of the Corporation Law, which requires a Board resolution related to the preparation of an internal control system, and Article 100 of the Ordinance for Implementation of the Corporation Law, which specifies certain elements required of such a system. The basic policy was revised in March 2007.

The Financial Instruments and Exchange Law enacted in June 2006 will require the management of companies with market-listed shares to assess the effectiveness of internal controls for financial reporting, and to have these assessments audited by independent CPAs or auditing firms. Taking effect from the fiscal year starting on or after April 1, 2008, these requirements will be applied in accordance with standards issued by the Business Accounting Council of the Financial Services Agency on February 15, 2007.

The Asahi Kasei Group's comprehensive system of internal control, including internal controls for financial reporting, will be fully completed in fiscal 2007, with operational implementation beginning in April 2008.

## Audits

Internal Auditing is a corporate organ under the direct authority of the President of the holding company. Each year, Internal Auditing prepares plans for an internal audit in accordance with basic corporate regulations for internal audits, obtains the President's approval for these plans, and then performs the internal audit.

In accordance with the audit policy adopted by the Board of Corporate Auditors, each Corporate Auditor attends meetings of the Board of Directors and audits Directors in the discharge of their duties through examination of business performance. The Corporate Auditors Office

provides staff to support Corporate Auditors in their duties.

PricewaterhouseCoopers Aarata is contracted as the Independent Auditors to perform financial audits in accordance with the Commercial Code and Securities Law, succeeding the previously contracted firm, ChuoAoyama PricewaterhouseCoopers, now Misuzu Audit Corp., which was sanctioned by the Financial Services Agency with a two-month suspension of auditing services from July 1, 2006 to August 31, 2006 and thus lost standing to serve as the company's Independent Auditors on July 1, 2006. The Board of Corporate Auditors met in July 2006 and

appointed PricewaterhouseCoopers Aarata as Interim Independent Auditors.

Partners of the Independent Auditors designated to perform the audit for fiscal 2006 were as follows.

- Katsunori Sasayama
- Takahiro Nakazawa

The Independent Auditors form a team of assistants for performance of the audit in accordance with its audit plan. The team mainly comprises certified public accountants and junior accountants, and also includes certified information

systems accountants and other specialist accountants.

Internal Auditing, the Board of Corporate Auditors, and the Corporate Auditors of core operating companies and other subsidiaries regularly meet to confirm the effectiveness of internal governance systems for legal compliance and risk management. The Board of Corporate Auditors provides counsel to the Independent Auditors with respect to its audit plan, and receives the results of the consolidated financial audit of Asahi Kasei for the fiscal half-year and fiscal year.

## Compliance

### Corporate Ethics

Our *Corporate Ethics – Basic Policy and Code of Conduct* is the standard and guide for ethical conduct throughout the day-to-day work of each and every member of the Asahi Kasei Group. It has been translated into English and Chinese, and applies to all majority-held subsidiaries the world over.

#### Corporate Ethics – Basic Policy

- Creating value, contributing to society
- Caring for environment, health, and safety
- Honoring law and norms of society
- Excluding subversive elements
- Respecting the individual
- Ensuring transparency
- Respecting information and intellectual property
- Practicing corporate ethics

### Compliance Hotline

The Asahi Kasei Group began operating a Compliance Hotline in April 2005 to ensure that personnel have secure and trusted recourse to report any possible ethical lapses which may be encountered or observed. Reports can be made through the corporate intranet or by post, in the name of the reporting party or anonymously. Structures are in place to ensure that the reporting party incurs no disfavor or disadvantage as a result of having made a report.

## Risk Management

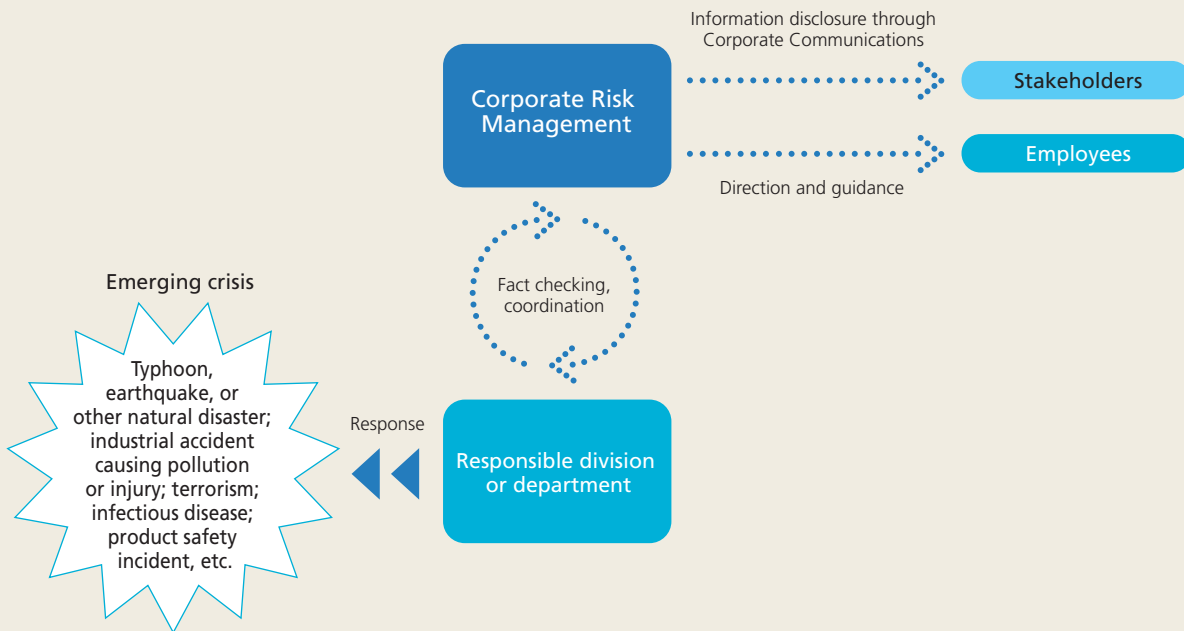
### Risk Management Committee

The Risk Management Committee was established under the CSR Council in April 2005 to enhance the risk management system for prevention of operational crises and minimization of the effects of crises which occur. The Board of Directors in March 2007 enacted Basic Risk Management Regulations, effective April 1, 2007, providing clear guidelines to heighten the capability and effectiveness for risk management and emergency response throughout the Asahi Kasei Group.

### Corporate Risk Management

Corporate Risk Management works with the various divisions and departments to guide the proper response to any major accidents, incidents, or problems which cause significant damage to Asahi Kasei Group operations or which may foreseeably cause Asahi Kasei Group operations to have adverse effects on the general public. In fiscal 2006, Corporate Risk Management provided guidance to personnel traveling abroad on business or stationed abroad, and coordinated the response to the damage caused by a tornado.

### Role of Corporate Risk Management



# Corporate Social Responsibility

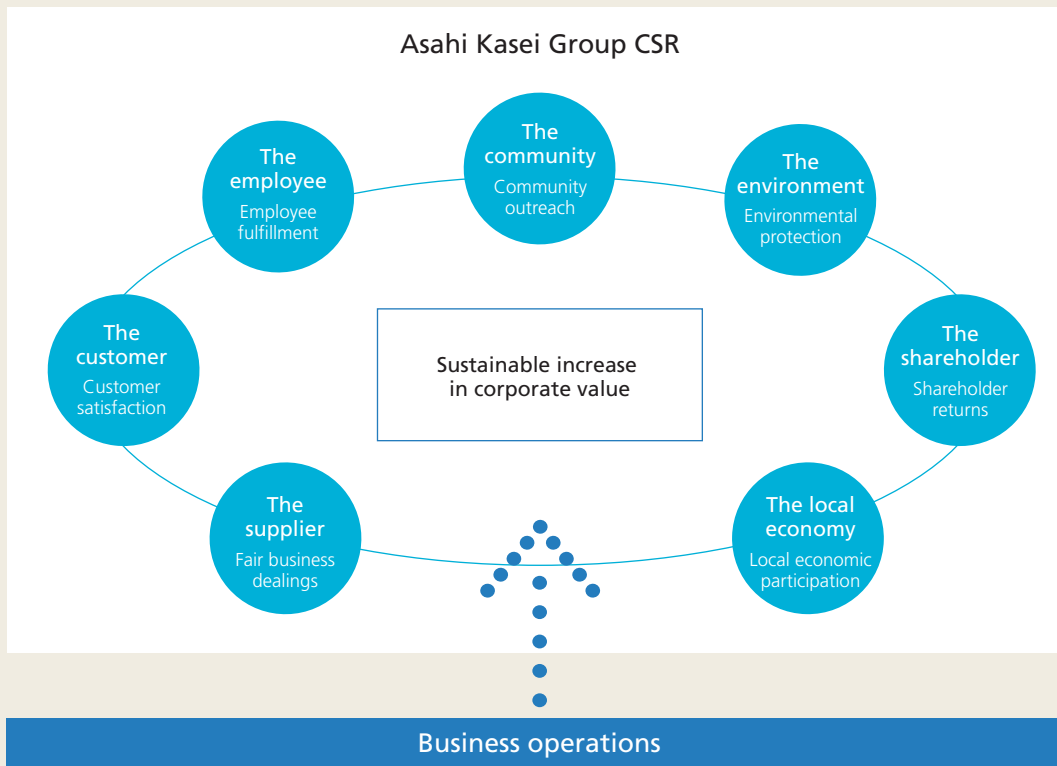
## CSR at the Asahi Kasei Group

### CSR in Action

We believe that CSR is achieved through the sustainable expansion of operations effecting increased corporate value, enabling fulfillment of the needs and expectations of our various stakeholders, in accordance with our basic tenets of contribution to human life and human livelihood through constant innovation and advances based in science and the human intellect.

### CSR Fundamentals

Based in an understanding of the effects of our operations on the global environment and the global community, efforts and actions related to CSR are based in our four CSR Fundamentals: Compliance, Respect for Employee Individuality, Responsible Care\*, and Corporate Citizenship.



\* Responsible Care represents the commitment and initiative to secure and improve safety and environmental protection at every step of the product life-cycle through the individual determination and responsibility of each firm producing and handling chemical products. As of October 2006, fifty-two countries throughout the world have a Responsible Care program.

## Framework for advancement

The CSR Council, formed in April 2005 with the holding company President serving as chair, formulates CSR policy and guides the CSR effort throughout the Asahi Kasei Group. Specific CSR initiatives are implemented by the committees under the authority of the CSR Council, including the Corporate Ethics Committee to ensure regulatory compliance and the Responsible Care Committee

to guide efforts for environment, health, and safety. The Risk Management Committee formulates the response to contingencies such as a major earthquake. The Community Fellowship Committee promotes and coordinates the effort for outreach and fellowship in each local community where we operate.



## Award for Prevention of Global Warming

Asahi Kasei Chemicals and Asahi Kasei Engineering received the Environment Minister's Award for Prevention of Global Warming in December 2006. The award cited the development of technology for thermal decomposition of the greenhouse gas N<sub>2</sub>O, a by-product of adipic acid production, into nitrogen and oxygen, and reduction of N<sub>2</sub>O emission by approximately 6 million tons CO<sub>2</sub>-equivalent. The Asahi Kasei Group has also joined the Environment Ministry's "Team Minus 6%" campaign for global warming prevention, and reduced domestic greenhouse gas emission in fiscal 2006 by 51% from the fiscal 1990 baseline set forth in the Kyoto Protocol.



Equipment for thermal decomposition of N<sub>2</sub>O

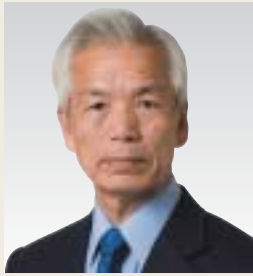
# Directors, Corporate Auditors, Executive Officers

(As of June 28, 2007)



**Nobuo Yamaguchi**

Chairman of the Board &  
Representative Director



**Shiro Hiruta**

President & Representative  
Director, Presidential Executive  
Officer



**Ichiro Itoh**

Director, Vice-Presidential  
Executive Officer  
*Strategy; Accounting & Finance*

**Yuji Tsuchiya**

Corporate Auditor

**Kenji Nakamae**

Corporate Auditor

**Katsuo Wajiki**

Outside Corporate Auditor

**Kazuo Tezuka**

Outside Corporate Auditor

**Masanori Mizunaga**

Lead Executive Officer

**Tsutomu Inada**

Executive Officer

**Hajime Nagahara**

Executive Officer

**Yoshio Hayashi**

Executive Officer



**Kunio Kohga**

Director, Primary Executive  
Officer  
*ESH; Production Technology; PL*



**Katsuhiko Sato**

Director, Senior Executive  
Officer  
*Procurement*



**Kiyoshi Tsujita**

Director, Senior Executive  
Officer  
*Human Resources; Compliance*



**Kageyasu Akashi**

Director, Executive Officer  
*R&D*



**Koji Fujiwara**

Director, Executive Officer  
*Strategy; Accounting & Finance*



**Yuji Mizuno**

Director, Executive Officer  
*Legal & General Affairs;  
Compliance*



**Yuzo Seto**

Outside Director



**Yukiharu Kodama**

Outside Director

# Financial Section

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# Consolidated Eleven-Year Summary

Asahi Kasei Corporation and Consolidated Subsidiaries

For the year ended March 31	2007	2006	2005 <sup>c</sup>	2004	2003 <sup>d</sup>
<b>Net Sales</b>	¥1,623,791	¥1,498,620	¥1,377,697	¥1,253,534	¥1,193,614
<b>Chemicals</b>	752,632	660,402	570,182	453,707	424,673
Chemical and Chemical-related	–	–	–	–	–
Chemicals and Plastics	–	–	–	–	–
<b>Homes</b>	405,695	404,539	375,755	361,273	320,553
Housing and Construction Materials	–	–	–	–	–
<b>Pharma<sup>a</sup></b>	104,474	105,842	103,933	105,965	105,463
<b>Fibers<sup>a</sup></b>	106,639	89,704	91,518	101,514	110,551
<b>Electronics Materials &amp; Devices<sup>a</sup></b>	112,094	102,859	93,024	82,484	71,579
<b>Construction Materials</b>	60,818	56,512	59,908	60,622	63,101
<b>Life &amp; Living</b>	52,558	51,942	59,149	59,813	52,908
Special Products and Services	–	–	–	–	–
Electronics	–	–	–	–	–
Membranes and Systems	–	–	–	–	–
Biotechnology and Medical Products	–	–	–	–	–
Speciality Products	–	–	–	–	–
Foods and Liquors	–	–	–	–	–
Engineering and Others <sup>a</sup>	–	–	–	–	–
<b>Services, Engineering and Others<sup>a</sup></b>	28,881	26,821	24,228	28,156	44,786
<b>Domestic sales</b>	1,195,751	1,125,454	1,067,893	1,011,366	981,064
<b>Overseas sales</b>	428,040	373,166	309,804	242,168	212,550
<b>Operating profit</b>	127,801	108,726	115,809	60,932	61,555
<b>Ordinary profit</b>	126,507	104,166	112,876	53,643	50,389
<b>Income (loss) before income taxes</b>	114,883	94,481	91,141	54,820	(100,869)
<b>Net income (loss)</b>	68,575	59,668	56,454	27,672	(66,791)
<b>Net income (loss) per share, yen</b>	49.00	42.46	40.16	19.62	(47.63)
<b>Capital expenditure</b>	84,413	66,310	68,479	86,387	93,985
<b>Depreciation and amortization</b>	71,646	69,399	71,531	64,408	60,808
<b>R&amp;D expenditures</b>	52,426	51,467	50,715	48,420	49,311
<b>Cash dividends per share, yen</b>	12.00	10.00	8.00	6.00	6.00
<b>As of March 31</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Total assets</b>	¥1,459,922	¥1,376,044	¥1,270,057	¥1,249,206	¥1,212,374
<b>Inventories</b>	240,066	214,062	202,521	181,609	176,788
<b>Property, plant and equipment</b>	426,959	414,368	419,969	428,302	427,188
<b>Investments and other assets</b>	281,502	284,390	223,958	226,825	198,697
<b>Net worth<sup>b</sup></b>	645,655	594,211	511,726	450,451	407,639
<b>Net worth per share, yen</b>	461.50	424.34	365.43	321.41	290.92
<b>Net worth/total assets, %</b>	44.2	43.2	40.3	36.1	33.6
<b>Number of employees</b>	23,715	23,030	23,820	25,011	25,730

a. For continuity, figures for business categories which were renamed are shown on the same line.

• Through the year ended March 31, 2003: Figures shown as Pharma are those for the previous Health Care sector, figures shown as Fibers are those for the previous Fibers and Textiles sector, figures shown as Electronics Materials & Devices are those for the previous Electronics sector, and figures shown as Services, Engineering and Others are those for the previous Liquors, Services and Others sector.

• With the divestment of foods operations, the “foods and liquors” and “engineering and services” segments are combined as “engineering and others.” Through the year ended March 31, 1999, figures shown as “engineering and others” are those for the previous “engineering and services” segment.

b. Net assets less minority interest in consolidated subsidiaries. Though the year ended March 31, 2006, figures for shareholders’ equity shown.

c. For comparison purposes, results for the year ended March 31, 2005 are recalculated to reflect the April 2005 transfer of Leona™ nylon 66 filament operations from the Fibers segment to the Chemicals segment.

d. For comparison purposes, results by business category for the year ended March 31, 2003 are recalculated in accordance with the revised categories for the year ended March 31, 2004, which are aligned with the core operating companies in the holding company configuration adopted in October 1, 2003.

• The “fabricated home products” segment of the Chemical and Chemical-related sector is separated to an independent Life & Living segment. The remainder of the Chemical and Chemical-related sector is reclassified as the Chemicals segment.

• The Housing and Construction Materials sector is separated into the Homes segment and the Construction Materials segment.

Millions of yen, except where noted

2003	2002	2001 <sup>c</sup>	2001	2000	1999	1998 <sup>f</sup>	1998	1997
¥1,193,614	¥1,195,393	¥1,269,415	¥1,269,415	¥1,194,462	¥1,171,845	¥1,281,675	¥1,281,675	¥1,291,599
-	-	-	-	-	-	-	-	-
477,581	440,698	449,470	-	-	-	-	-	-
-	-	-	430,934	379,677	375,048	400,420	373,874	363,589
-	-	-	-	-	-	-	-	-
383,654	408,474	433,440	433,440	412,954	372,649	425,553	424,532	451,407
105,463	98,686	95,481	-	-	-	-	-	-
110,551	125,908	134,791	134,791	139,181	148,277	181,542	181,542	184,065
71,579	64,062	95,999	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	270,250	262,650	275,871	274,160	301,727	292,538
-	-	-	96,228	80,653	66,212	63,235	62,337	59,457
-	-	-	18,307	17,967	18,133	20,828	-	-
-	-	-	95,481	93,460	88,050	82,703	82,703	82,058
-	-	-	-	-	-	-	33,593	29,464
-	-	-	-	-	90,068	88,478	88,478	89,014
-	-	-	60,234	70,570	13,408	18,916	34,616	32,545
44,786	57,565	60,234	-	-	-	-	-	-
981,064	1,006,810	1,086,219	1,086,219	1,044,630	1,009,439	1,127,590	1,127,590	1,133,811
212,550	188,583	183,196	183,196	149,832	162,406	154,085	154,085	157,788
61,555	45,664	96,024	96,024	74,323	51,237	62,814	62,814	72,103
50,389	39,849	86,747	86,747	85,853	42,443	56,271	56,271	60,686
(100,869)	10,679	50,318	50,318	39,615	37,525	40,264	40,264	49,259
(66,791)	5,180	25,177	25,177	20,525	17,392	20,809	20,809	25,353
(47.63)	3.61	17.45	17.45	14.23	12.06	14.43	14.43	17.57
93,985	74,826	69,188	69,188	63,213	70,461	74,981	74,981	73,217
60,808	60,676	62,222	62,222	63,629	63,845	67,117	67,117	70,897
49,311	49,574	49,768	49,768	50,015	56,844	57,023	57,023	55,591
6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
2003	2002	2001	2001	2000	1999	1998	1998	1997
¥1,212,374	¥1,193,011	¥1,240,008	¥1,240,008	¥1,180,372	¥1,185,249	¥1,206,872	¥1,206,872	¥1,250,921
176,788	180,826	196,510	196,510	181,771	193,691	198,651	198,651	206,253
427,188	415,193	419,168	419,168	416,881	435,005	424,499	424,499	424,002
198,697	181,618	176,177	176,177	127,013	132,251	141,388	141,388	151,804
407,639	496,826	516,013	516,013	476,159	464,339	455,250	455,250	442,730
290.92	353.16	357.70	357.70	330.07	321.88	315.64	315.64	306.89
33.6	41.6	41.6	41.6	40.3	39.2	37.7	37.7	35.4
25,730	26,227	26,695	26,695	26,580	29,263	27,792	27,792	26,721

• The Health Care sector is renamed the Pharma segment.

• The Fibers and Textiles sector is renamed the Fibers segment.

• The Electronics sector is renamed the Electronics Materials & Devices segment.

• With the divestment of liquors operations, the Liquors, Services and Others sector is renamed the Services, Engineering and Others segment.

e. For comparison purposes, results by business category for the year ended March 31, 2001 are recalculated in accordance with the revised categories for the year ended March 31, 2002.

• Operations of the "membranes and systems" segment combine with the Chemicals and Plastics sector to form the Chemical and Chemical-related sector.

• The "electronics" segment is reclassified as the Electronics sector.

• Operations of the "biotechnology and medical products" segment are reclassified as the Health Care sector.

• The remaining operations comprise the Liquors, Services and Others sector, in place of the "engineering and others" segment.

f. For comparison purposes, results by business category for the year ended March 31, 1998 are recalculated in accordance with the revised categories for the year ended March 31, 1999.

• Photopolymer and explosives operations are transferred from the Special Products and Services sector to the Chemicals and Plastics sector.

• Artificial fish reef operations are transferred from the Special Products and Services sector to the Housing and Construction Materials sector.

• Within the Special Products and Services sector, functional membrane operations are transferred from the "speciality products" segment to the "membranes and systems" segment, and ion-exchange product operations are transferred from the "engineering and services" segment to the "membranes and systems" segment.

# Management's Discussion and Analysis

Fiscal 2006 (April 1, 2006 – March 31, 2007)

## Overview of Fiscal 2006 Consolidated Results

### Operating Environment

Although consumer spending remained moderate, the Japanese economy grew with strong corporate earnings, an improved employment outlook, and increased private-sector capital investment. The operating climate nevertheless remained challenging, with persistently elevated prices for petroleum and petrochemical feedstocks such as naphtha necessitating cost-cutting measures and sales price increases.

### Net Sales, Operating Profit

Consolidated net sales grew by ¥125.2 billion from a year ago to ¥1,623.8 billion, an 8.4% increase. Sales growth was greatest in chemicals operations, with product prices rising to compensate for increased feedstock costs.

Operating profit grew by ¥19.1 billion to ¥127.8 billion, a 17.5% increase. Operating profit growth was greatest in chemicals operations, with strong overseas market conditions, in pharmaceuticals operations, with significant licensing income, and in electronics operations, with strong demand in consumer electronics applications. As a percentage of net sales, cost of sales increased by 0.2 percentage points to 75.4%, largely due to increases in the cost of naphtha and other feedstocks. SG&A increased by ¥9.6 billion, but decreased as a percentage of net sales by 0.8 percentage points to 16.7% due to the higher rate of growth in net

sales. Operating profit as a percentage of net sales increased by 0.6 percentage points to 7.9%.

### Non-operating Income and Expenses, Ordinary Profit

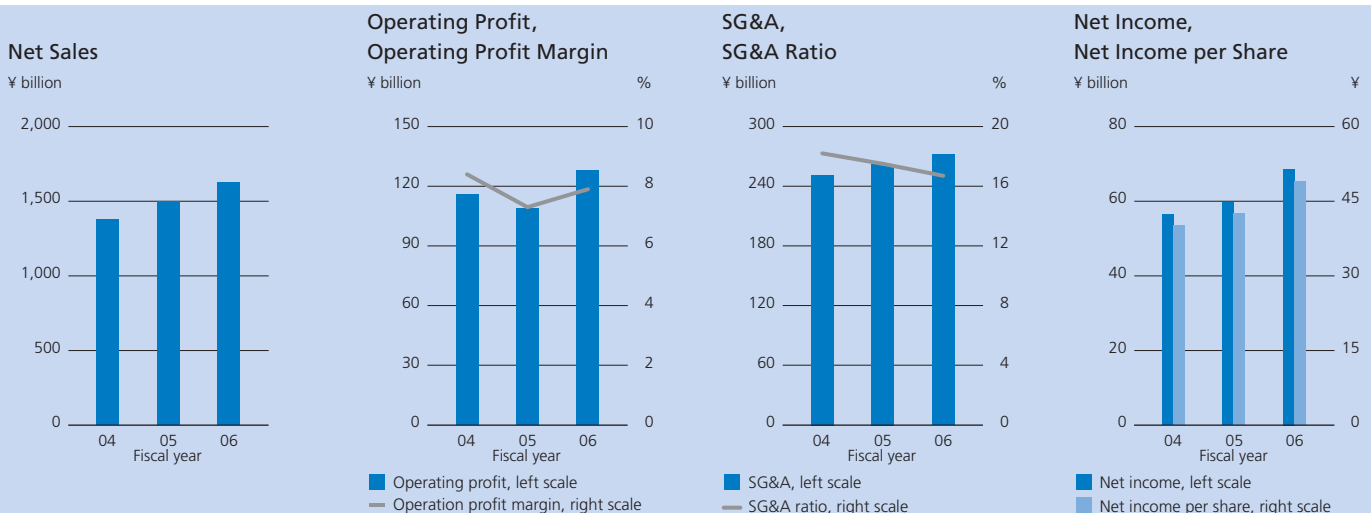
Net non-operating expenses were ¥1.3 billion, ¥3.3 billion lower than the ¥4.6 billion of a year earlier. Loss on disposal of inventories was ¥4.4 billion, ¥1.7 billion higher than the ¥2.7 billion of a year earlier. Insurance recoveries were ¥4.6 billion, ¥3.3 billion higher than the ¥1.3 billion of a year earlier. Equity in net earnings of unconsolidated subsidiaries and affiliates was ¥2.6 billion, ¥2.1 billion higher than the ¥0.5 billion of a year earlier. As a result, ordinary profit grew by ¥22.3 billion to ¥126.5 billion, a 21.4% increase.

### Special Gains and Losses

Special gains of ¥3.1 billion included gains on sale of investment securities. Special losses of ¥14.7 billion included a ¥9.1 billion loss on disposal of property, plant, and equipment and ¥4.8 billion in restructuring charges. The net special loss of ¥11.6 billion was ¥1.9 billion higher than a year earlier, when a ¥5.7 billion gain on sale of idle land was recorded.

### Net Income

With ordinary profit of ¥126.5 billion and the net special loss of ¥11.6 billion, income before income taxes and minority interest was ¥114.9 billion. Currently payable income taxes of ¥42.2 billion and deferred income tax



obligation of ¥3.6 billion combined for an income tax expense of ¥45.8 billion. Minority interest in income of consolidated subsidiaries was ¥0.5 billion. As a result, net income grew by ¥8.9 billion to ¥68.6 billion, a 14.9% increase, and net income per share increased by ¥6.54 to ¥49.00 from the ¥42.46 of a year earlier.

## Results by Segment

### Operating Segments

Seven operating segments correspond to the core operating companies, and the Services, Engineering and Others segment comprises the remainder of operations.

### Chemicals

Sales for the segment grew by ¥92.2 billion to ¥752.6 billion, a 14.0% increase. Operating profit grew by ¥11.5 billion to ¥52.0 billion, a 28.3% increase.

Sales and operating profit in volume products, comprising chemicals/derivative products and polymer products, increased. Product price increases and strong overseas demand helped to overcome higher feedstock costs. In chemicals and derivative products, operating profit increased with strong overseas demand for acrylonitrile and styrene, and with a sharp rise in the market price of adipic acid due to a tight market balance. In polymer products, profitability of Leona™ nylon 66 resin and filament increased.

Sales and operating profit in specialty products grew with increased shipments of Hipore™ Li-ion rechargeable battery separators following plant expansion, export of membrane-process chlor-alkali electrolyzers to China, and increased shipments of ion-exchange membranes for chlor-alkali.

### Homes

Sales for the segment grew by ¥1.2 billion to ¥405.7 billion, a 0.3% increase. Operating profit decreased by ¥0.7 billion to ¥27.5 billion, a 2.5% decline.

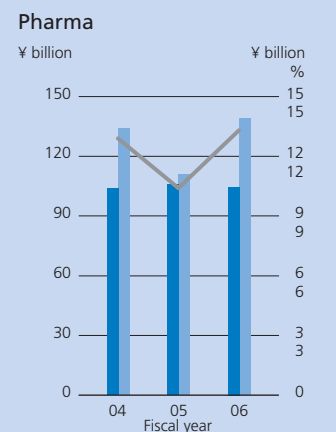
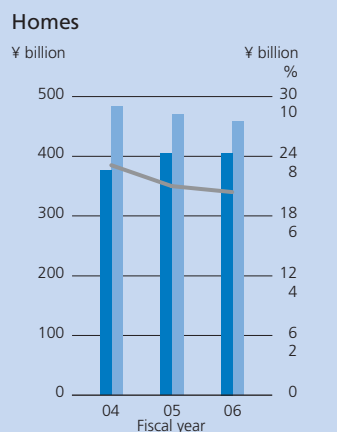
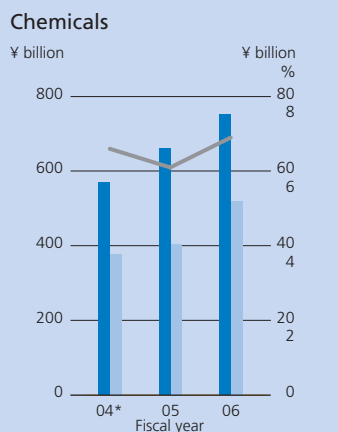
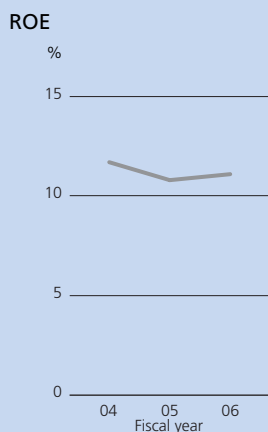
Unit prices of order-built homes increased, but the number of deliveries of both order-built homes and condominiums declined, and sales and operating profit in housing operations decreased. Marketing efforts for order-built homes were focused on eliciting demand for rebuilding, but new orders worth ¥303.4 billion received during the period were ¥10.0 billion less than a year ago.

Sales and operating profit in housing-related operations increased. Real estate operations had rising income from rentals. Remodeling operations also grew.

In November 2006 construction began for a housing R&D center in Fuji to enhance product development in line with the Long Life Home strategy.

### Pharma

Sales for the segment decreased by ¥1.4 billion to ¥104.5 billion, a 1.3% decline. Operating profit grew by ¥2.8 billion to ¥13.9 billion, a 25.5% increase.



■ Net sales, left scale  
■ Operating profit, right scale (upper)  
— Operating profit margin, right scale (lower)

\* Including Leona™ filament operations.

Sales in pharmaceuticals operations decreased with reimbursement price cuts and decreased shipments of pharmaceutical intermediates. Operating profit grew with licensing income for fasudil hydrochloride *rho*-kinase inhibitor.

Sales and operating profit in devices grew with increased shipments of APS™ polysulfone-membrane artificial kidneys and Planova™ virus removal filters, and with measures to reduce operating costs.

### Fibers

Sales for the segment grew by ¥16.9 billion to ¥106.6 billion, an 18.9% increase. Operating profit grew by ¥0.1 billion to ¥4.2 billion, a 3.4% increase.

Sales of elastic polyurethane filament grew with increased shipments of Roica™, improved market conditions, and the inclusion of the Dorlastan™ business acquired from Lanxess, but operating profit decreased as the Dorlastan™ business operated at a loss. Roica™ production equipment is being installed at the Dorlastan™ plants in the US and Europe, and the business is forecast to become profitable in fiscal 2007.

Sales and operating profit in Bemberg™ cupro grew with increased exports. Nonwovens operations were impacted by the effect of elevated feedstock costs, but sales and operating profit grew with increased shipments of Lamous™ artificial suede in car seat applications.

### Electronics Materials & Devices

Sales for the segment grew by ¥9.2 billion to ¥112.1 billion, a 9.0% increase. Operating profit grew by ¥3.3 billion to ¥22.6 billion, a 17.0% increase.

Sales and operating profit in electronic devices grew as shipments of LSIs and magnetic sensors increased with strong demand in cell phone and home electronics applications.

Sales and operating profit in electronic materials grew as shipments of Sunfort™ photosensitive dry film resist increased following a large expansion of production capacity and shipments of ultra-thin grades of glass fabric for printed circuit boards increased.

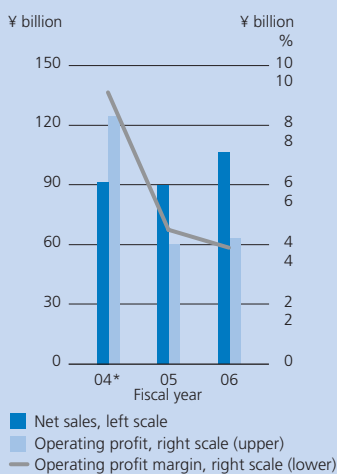
### Construction Materials

Sales for the segment grew by ¥4.3 billion to ¥60.8 billion, a 7.6% increase. Operating profit grew by ¥1.2 billion to ¥5.0 billion, a 32.0% increase.

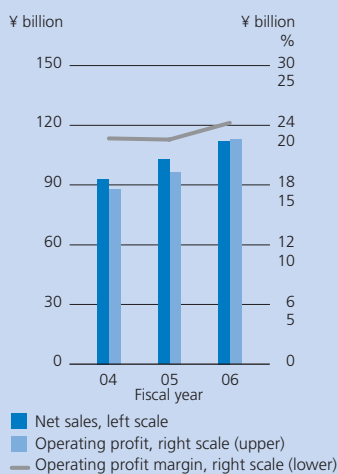
Building materials and housing materials operations were affected by high feedstock and fuel costs for production of Hebel™ autoclaved lightweight concrete (ALC) panels, but sales and operating profit grew with measures to reduce operating costs and with higher sales prices.

Sales and operating profit in foundation systems grew with an expansion of new applications for Eazet™ and ATT Column™ piles for small-scale construction. Sales and operating profit in insulation materials grew with a

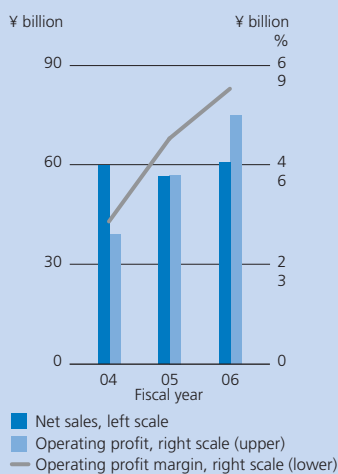
#### Fibers



#### Electronics Materials & Devices



#### Construction Materials



\* Not including Leona™ filament operations.

successful expansion of the user base for Neoma™ high-performance phenolic foam panels resulting in increased shipments.

### Life & Living

Sales for the segment grew by ¥0.6 billion to ¥52.6 billion, a 1.2% increase. Operating profit decreased by ¥0.2 billion to ¥4.6 billion, a 5.0% decline.

Sales of home-use products grew with increased shipments of Saran Wrap™ cling film and Saran™ fiber, but operating profit decreased with higher feedstock and packaging costs and increased advertising expenses.

Sales of packaging materials were on par with a year ago, but operating profit decreased as a result of the impact of elevated feedstock costs.

With the April 2007 merger of Asahi Kasei Life & Living Corp. with Asahi Kasei Chemicals Corp., the business of the Life & Living operating segment is included in the Chemicals operating segment starting with the new fiscal year.

### Services, Engineering and Others

Sales for the segment grew by ¥2.1 billion to ¥28.9 billion, a 7.7% increase. Operating profit grew by ¥0.6 billion to ¥3.9 billion, a 17.4% increase.

Sales and operating profit in engineering operations grew with strong business in overseas plant engineering. Sales in personnel staffing and placement operations increased with

growing demand, and operating profit was on par with a year ago.

### Geographical Information

Geographic segment information is not shown because over 90% of total sales were from operations domiciled in Japan and over 90% of total assets were located in Japan.

### Overseas Sales

Overseas sales increased, largely in Chemicals, by ¥54.9 billion to ¥428.0 billion, a 14.7% increase and a 1.5 percentage point increase to 26.4% of consolidated net sales.

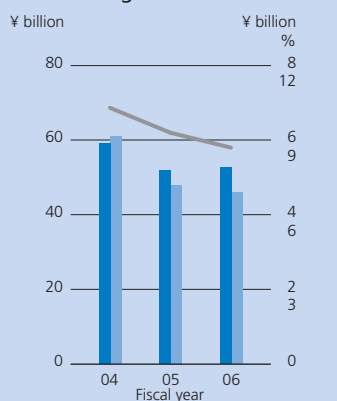
### Liquidity and Capital Resources

#### Financial Position

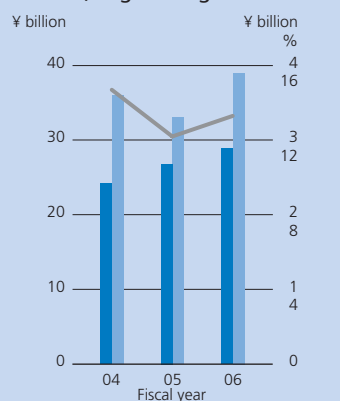
Total assets at fiscal year end were ¥1,459.9 billion, ¥83.9 billion (6.1%) higher than a year earlier, with ¥25.1 billion of the increase as an effect of the closing date falling on a bank holiday.

Current assets increased by ¥78.8 billion (12.2%) to ¥723.0 billion. Notes and accounts receivable, trade, increased by ¥30.9 billion with the closing date bank holiday and high selling prices and greater sales in Chemicals. Inventories increased by ¥25.9 billion, largely in Chemicals and Homes. Cash on hand and in banks increased by ¥15.1 billion with the closing date bank holiday.

Life & Living



Services, Engineering and Others



Legend:  
 ■ Net sales, left scale  
 ■ Operating profit, right scale (upper)  
 — Operating profit margin, right scale (lower)

Fixed assets increased by ¥5.1 billion (0.7%) to ¥736.9 billion. Tangible fixed assets increased by ¥12.6 billion as the value of asset acquisitions exceeded the value of depreciation and disposals. Intangible fixed assets decreased by ¥4.6 billion, and the market value of investment securities decreased by ¥6.9 billion.

Current liabilities increased by ¥63.8 billion (14.5%) to ¥503.6 billion. Notes and accounts payable, trade, increased by ¥53.9 billion with the closing date bank holiday and the previous year's closing date coming during a maintenance turnaround in Chemicals. Short-term borrowings increased by ¥7.6 billion.

Long-term liabilities decreased by ¥32.4 billion (9.7%) to ¥302.8 billion. Bonds decreased by ¥24.0 billion, and accrued pension and severance costs decreased by ¥6.3 billion.

Interest-bearing debt decreased by ¥18.9 billion to ¥216.9 billion, with ¥23.0 billion of bonds redemption and a ¥7.6 billion increase in short-term borrowings.

Net assets increased by ¥52.4 billion (8.7%) from the ¥601.1 billion of a year ago to ¥653.5 billion. Net unrealized gain on securities decreased by ¥5.6 billion, while retained earnings increased by ¥38.1 billion. Net worth per share increased by ¥37.16 to ¥461.50. Net worth/total assets increased from 43.2% to 44.2%, and debt-to-equity ratio decreased from 0.40 to 0.34.

## Capital Expenditure

Capital expenditure was primarily for new and expanded production plant and equipment in long-term growth fields. Investments were also made for rationalization, modification, maintenance, and IT systems to bring greater product reliability and cost reductions. Capital expenditure by operating segment shown below is for tangible and intangible fixed assets, combined, before consumption tax.

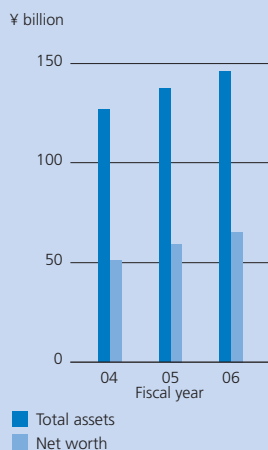
For comparison purposes, the previous year's segment figures have been revised to reflect the April 2005 transfer of Leona™ nylon 66 filament operations from Fibers to Chemicals.

	Totals for the year (¥ million)	Compared to previous year (%)
Chemicals	42,569	159.8
Homes	2,701	75.4
Pharma	5,722	116.9
Fibers	6,362	117.4
Electronics Materials & Devices	16,234	108.5
Construction Materials	2,301	99.5
Life & Living	3,455	74.2
Services, Engineering and Others	760	73.3
Combined	80,104	126.2
Corporate assets and eliminations	4,308	153.1
Consolidated	84,413	127.3

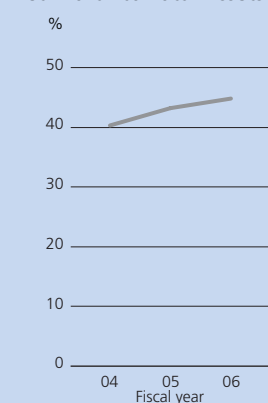
Notable capital expenditure by operating segment was as follows:

- Chemicals: Modification of acrylonitrile plant to use propane process, capacity expansion for Hipore™ Li-ion rechargeable battery separators, new facility for assembly

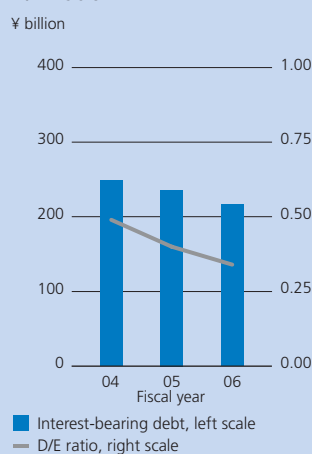
Total Assets,  
Net Worth



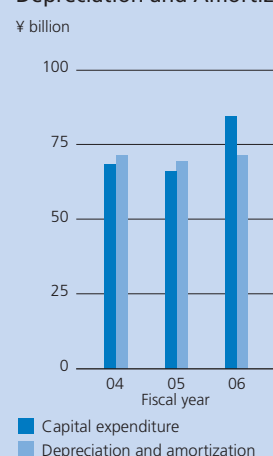
Net Worth to Total Assets



Interest-Bearing Debt,  
D/E Ratio



Capital Expenditure,  
Depreciation and Amortization



of Microza™ water treatment membranes, new facility for thermal power generation.

- Homes: IT systems, construction system modification, rationalization, maintenance.
- Pharma: Plant modification, rationalization, maintenance.
- Fibers: Modification of spandex plant to use Roica™ technology.
- Electronics Materials & Devices: Installation of finer process plant for LSIs, capacity expansion for LSIs, capacity expansion for Sunfort™ photosensitive dry film resist.
- Construction Materials: Plant modification, rationalization, and maintenance.
- Life & Living: Plant modification, rationalization, and maintenance.
- Services, Engineering and Others: IT systems, rationalization, labor-saving, and maintenance.
- Corporate assets: Corporate research facilities; maintenance.

### Cash Flows

Free cash flows were ¥47.1 billion as cash generated, principally operating profit and depreciation and amortization, exceeded cash used, principally for acquisition of fixed assets and investment securities. Cash flows from financing activities, principally for reduction of interest-bearing debt and payment of dividends, were a net ¥36.0 billion cash used. After including ¥3.6 billion cash and cash equivalents held by newly consolidated subsidiaries, cash and cash equivalents at fiscal year end were ¥101.7 billion, ¥15.3 billion greater than a year earlier.

### Cash flows from operating activities

Higher selling prices in Chemicals and the closing date bank holiday resulted in increases in notes and accounts receivable, trade, aggregating ¥26.4 billion cash used, increased inventories, notably in Homes, resulted in ¥23.0 billion cash used, and ¥45.5 billion was used for payment of income taxes. Income before income taxes and minority interest generated ¥114.9 billion, depreciation and amortization generated ¥71.6 billion, and an increase in notes and accounts payable, trade, generated ¥51.6 billion. Net cash generated from operating activities was ¥128.4 billion, ¥19.8 billion more than a year earlier.

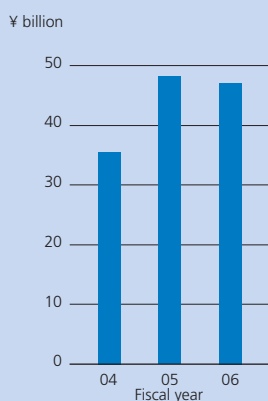
### Cash flows from investing activities

Cash used included ¥77.4 billion for acquisition of tangible fixed assets for continuing expansion of competitive-superiority operations and enhancement of overall competitiveness and ¥4.9 billion for acquisition of intangible fixed assets. Cash generated from sales of property, plant and equipment aggregated ¥3.0 billion. Net cash used in investing activities was ¥81.3 billion, ¥21.0 billion more than a year earlier.

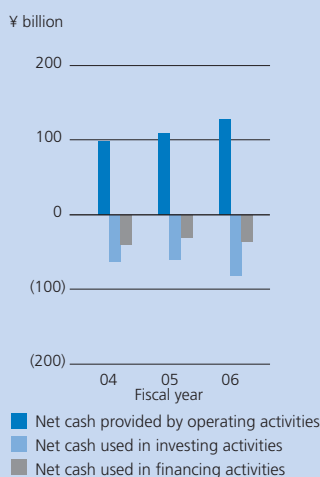
### Cash flows from financing activities

A net ¥21.7 billion was used for interest-bearing debt such as borrowings and bonds. A further ¥14.0 billion was used for payment of parent-company dividends. A net ¥36.0 billion was used in financing activities, ¥5.1 billion more than a year earlier.

Free Cash Flows



Cash Flows





# Risk Analysis

Operating risks and non-operating risks which may influence investor decisions are described below. The management maintains awareness of the possibility that these scenarios may emerge, and measures to avoid their emergence and to minimize their impact on corporate performance in the event that they do emerge are implemented to the fullest possible extent.

The description of risks given here includes elements which may emerge in the future, but being based on current evaluations as this report is being prepared it does not include risks which could not be foreseen at this time.

## **Crude Oil and Naphtha Prices**

Operating costs in operations based on petrochemicals are affected by prices for crude oil and naphtha. If crude oil and naphtha prices rise, selling prices for products derived from these feedstocks must be increased in a timely manner to maintain sufficient price spreads. Price spreads may diminish, thereby affecting our consolidated performance and financial condition.

## **Exchange Rate Fluctuation**

Operations based overseas maintain accounts in the local currency where they operate. The yen value of items carried in these accounts is affected by the rate of exchange at the time of conversion to yen. Although measures such as currency exchange hedges are utilized to minimize the short-term effects of exchange rate fluctuations, such fluctuations may exceed the foreseeable range over the short to long term, thereby affecting our consolidated performance and financial condition.

## **Overseas Operations**

Overseas operations may face a variety of risks which cannot be foreseen, including the existence or emergence of economically unfavorable circumstances due to legal and regulatory changes, vulnerability of infrastructure, difficulty in hiring/retaining qualified employees, or other factors, and social or political instability due to terrorism, war, or other factors. Overseas operations may be impaired by such scenarios, thereby affecting our consolidated performance and business plans.

## **Housing-Related Tax Policy, Interest Rate Fluctuation**

Operations in the Homes segment are affected by Japanese tax policies as they relate to home acquisition and by fluctuations in Japanese interest rates. Changes in Japanese tax policy, including consumption taxes, or fluctuations in Japanese interest rates may result in diminished housing demand, thereby affecting our consolidated performance and financial condition.

## **Profitability of Electronics-Related Businesses**

The electronics industry is characterized by sharp market cycles. The profitability of electronics-related businesses may decline significantly in a relatively short time, thereby affecting our consolidated performance and financial condition. Because products in this field rapidly become obsolete, the timely development and commercialization of leading-edge devices and materials is required. New product development may be delayed, or demand fluctuations may exceed expectations, thereby affecting our consolidated performance and financial condition.

## **Pharmaceuticals and Medical Devices**

Pharmaceutical and medical device businesses may be significantly affected by government measures to curtail health care expenditure or other changes in government policy. Unforeseeable side effects or complications may emerge, significantly affecting these businesses. The pharmaceutical business additionally faces the possibility that product approval may be withdrawn as a result of Japan's reexamination system, and that competition may intensify as a result of the market entry of generics. For pharmaceuticals and medical devices under development, regulatory approval may fail to be obtained, market demand may be lower than expected, and the national reimbursement prices may be lower than expected. Such scenarios may affect our consolidated performance and financial condition.

### **Industrial Accidents and Natural Disasters**

The occurrence of a significant industrial accident or natural disaster at a plant or elsewhere may result in a loss of public trust, the emergence of costs associated with accident response, including compensation, and the emergence of costs associated with plant shutdown, including opportunity loss and compensation to customers, thereby affecting our consolidated performance and financial condition.

### **Intellectual Property, Product Liability, and Legal Regulation**

An unfavorable ruling may emerge in a dispute relating to intellectual property, a product defect resulting in a large-scale recall and compensation whose costs exceed insurance coverage may emerge, and detrimental legal and regulatory changes may emerge in any country where we operate. Such scenarios may affect our consolidated performance and financial condition.

### **Irrecoverable Credits**

Credits extended to customers may become irrecoverable to an unforeseeable extent, necessitating additional losses or allowances to be recorded in financial accounts, and thereby affecting our consolidated performance and financial condition.

# Consolidated Balance Sheets

Asahi Kasei Corporation and Consolidated Subsidiaries  
March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	2007
<b>Current assets:</b>			
Cash on hand and in banks (Note 6)	¥ 101,514	¥ 86,422	\$ 860,288
Notes and accounts receivable, trade (Note 7)	300,385	269,509	2,545,636
Marketable securities (Notes 6 and 8)	400	446	3,390
Inventories	240,006	214,062	2,033,949
Deferred income taxes (Note 12)	26,650	29,385	225,847
Other current assets (Note 7)	55,831	45,828	473,144
Allowance for doubtful accounts	(1,791)	(1,460)	(15,178)
	<u>722,995</u>	<u>644,192</u>	<u>6,127,076</u>
<b>Fixed assets:</b>			
Property, plant and equipment, net of accumulated depreciation (Notes 9 and 10) –			
Buildings	158,953	155,630	1,347,060
Machinery and equipment	174,776	170,364	1,481,152
Land	55,192	55,240	467,729
Construction in progress	21,935	18,108	185,890
Other	16,103	15,026	136,466
	<u>426,959</u>	<u>414,368</u>	<u>3,618,297</u>
<b>Intangible fixed assets –</b>			
Goodwill	6,045	5,700	51,229
Other	22,421	27,394	190,008
	<u>28,466</u>	<u>33,094</u>	<u>241,237</u>
<b>Investments and other assets –</b>			
Investment securities (Notes 7 and 8)	241,696	248,616	2,048,271
Long-term receivables (Note 7)	4,636	3,043	39,288
Deferred income taxes (Note 12)	10,479	8,915	88,805
Other	24,769	24,680	209,907
Allowance for doubtful accounts	(78)	(864)	(661)
	<u>281,502</u>	<u>284,390</u>	<u>2,385,610</u>
	<u>736,927</u>	<u>731,852</u>	<u>6,245,144</u>
<b>Total assets</b>	<u>¥1,459,922</u>	<u>¥1,376,044</u>	<u>\$12,372,220</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	2007
<b>Liabilities:</b>			
<b>Current liabilities –</b>			
Notes and accounts payable, trade (Note 7)	¥ 186,900	¥ 132,980	\$ 1,583,898
Short-term borrowings (Notes 7 and 10)	51,273	46,380	434,517
Current portion of long-term debt (Note 10)	36,555	32,842	309,788
Accrued income taxes	18,232	19,511	154,508
Accrued expenses (Note 7)	111,027	110,231	940,881
Advances received	48,873	48,877	414,178
Other current liabilities	50,709	48,902	429,763
	<u>503,569</u>	<u>439,723</u>	<u>4,267,533</u>
<b>Long-term liabilities –</b>			
Long-term debt (Note 10)	129,074	156,300	1,093,847
Accrued pension and severance costs (Note 11)	126,266	132,433	1,070,051
Deferred income taxes (Note 12)	26,210	27,781	222,119
Customers' guarantee deposits	18,660	18,306	158,136
Other long-term liabilities	2,632	373	22,305
	<u>302,842</u>	<u>335,193</u>	<u>2,566,458</u>
	<u>806,411</u>	<u>774,916</u>	<u>6,833,911</u>
<b>Net assets:</b>			
Shareholders' equity:			
Common stock –			
Authorized – 4,000,000,000 shares			
Issued and outstanding – 1,402,616,332 shares	103,389	103,389	876,178
Capital surplus	79,396	79,433	672,847
Retained earnings (Note 20)	380,515	342,450	3,224,703
Treasury stock, at cost (2007 – 3,570,390 shares, 2006 – 42,799,834 shares)	(1,544)	(17,311)	(13,084)
	<u>561,756</u>	<u>507,961</u>	<u>4,760,644</u>
Valuation, translation adjustments and others			
Net unrealized gain on securities	79,823	85,383	676,466
Net deferred profit on hedges	58	–	492
Revaluation surplus (Note 13)	1,106	966	9,373
Cumulative translation adjustments	2,913	(99)	24,686
	<u>83,900</u>	<u>86,250</u>	<u>711,017</u>
Minority interest in consolidated subsidiaries (Note 3 (a))	7,855	6,917	66,568
	<u>653,511</u>	<u>601,128</u>	<u>5,538,229</u>
Commitments and contingent liabilities (Notes 17 and 21)			
Total liabilities and net assets	<u>¥1,459,922</u>	<u>¥1,376,044</u>	<u>\$12,372,220</u>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

Asahi Kasei Corporation and Consolidated Subsidiaries  
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	2007
Net sales (Notes 7 and 18)	¥1,623,791	¥1,498,620	\$13,760,941
Cost of sales (Notes 7 and 14)	1,224,041	1,127,530	10,373,229
Gross profit	399,750	371,090	3,387,712
Selling, general and administrative expenses (Note 14)	271,949	262,364	2,304,653
Operating profit (Note 18)	127,801	108,726	1,083,059
Non-operating income:			
Interest and dividend income	3,015	2,653	25,551
Equity in net earnings of unconsolidated subsidiaries and affiliates	2,647	536	22,432
Insurance recoveries	4,558	1,292	38,627
Other	2,861	2,935	24,246
Total non-operating income	13,081	7,416	110,856
Non-operating expenses:			
Interest expense	4,118	3,570	34,898
Loss due to disasters	–	1,285	–
Loss on disposal of inventories	4,380	2,703	37,119
Other	5,877	4,418	49,805
Total non-operating expenses	14,375	11,976	121,822
Ordinary profit	126,507	104,166	1,072,093
Special gains:			
Gain on sales of investment securities (Note 8)	1,516	–	12,848
Gain on sale of property, plant and equipment	919	5,670	7,788
Reversal of allowance for doubtful account	–	210	–
Gain on change in equity	656	–	5,559
Total special gains	3,091	5,880	26,195
Special losses:			
Loss on sales of investment securities (Note 8)	–	854	–
Loss on devaluation of investment securities	701	703	5,940
Loss on disposal of property, plant and equipment	9,074	7,038	76,898
Impairment loss (Note 15)	189	3,799	1,602
Restructuring charges (Notes 15 and 16)	4,751	3,171	40,263
Total special losses	14,715	15,565	124,703
Income before income taxes and minority interest	114,883	94,481	973,585
Income taxes (Note 12) – currently payable	(42,247)	(38,963)	(358,026)
– deferred (obligation)/benefit	(3,553)	4,417	(30,110)
Minority interest in income of consolidated subsidiaries	(508)	(267)	(4,305)
Net income	¥ 68,575	¥ 59,668	\$ 581,144
		Yen	U.S. dollars (Note 4)
	2007	2006	2007
Per share data:			
Net income (Note 22) – Basic	¥49.00	¥42.46	\$0.42
– Diluted	¥ –	¥ –	\$ –
Cash dividends	¥12.00	¥10.00	\$0.10

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

Asahi Kasei Corporation and Consolidated Subsidiaries  
Year ended March 31, 2006

Millions of yen

	Common stock	Capital surplus	Retained earnings (Note 20)	Revaluation surplus (Note 13)	Net unrealized gain on securities	Cumulative translation adjustments	Treasury stock, at cost	Total
Balance at March 31, 2005	¥103,389	¥79,423	¥295,594	¥966	¥54,703	¥(5,380)	¥(16,969)	¥511,726
Gain on sales of treasury stock		10						10
Net income for the year ended March 31, 2006			59,668					59,668
Decrease in retained earnings due to newly consolidated subsidiaries and affiliates, or subsidiaries and affiliates excluded from consolidation			(11)					(11)
Net change in unrealized gain on securities					30,680			30,680
Foreign currency translation adjustments						5,281		5,281
Purchase of treasury stock							(342)	(342)
Cash dividends			(12,602)					(12,602)
Bonuses to directors and corporate auditors			(199)					(199)
Balance at March 31, 2006	¥103,389	¥79,433	¥342,450	¥966	¥85,383	¥ (99)	¥(17,311)	¥594,211

# Consolidated Statements of Changes in Net Assets

Asahi Kasei Corporation and Consolidated Subsidiaries  
Year ended March 31, 2007

Millions of yen

	Shareholders' equity					Valuation, translation adjustments and others							Total net assets
	Common stock	Capital surplus	Retained earnings (Note 20)	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on securities	Net deferred profit on hedges	Revaluation surplus (Note 13)	Cumulative translation adjustments	Total valuation, translation adjustments and others	Minority interest in consolidated subsidiaries		
Balance at March 31, 2006	¥103,389	¥79,433	¥342,450	¥(17,311)	¥507,961	¥85,383	¥ -	¥ 966	¥ (99)	¥86,250	¥6,917	¥601,128	
Changes of items during the period													
Year-end dividend			(6,999)		(6,999)							(6,999)	
Interim dividend			(6,998)		(6,998)							(6,998)	
Bonuses to directors and corporate auditors			(228)		(228)							(228)	
Net income			68,575		68,575							68,575	
Increase due to newly consolidated subsidiaries			22		22							22	
Decrease due to newly consolidated subsidiaries			(2)		(2)							(2)	
Increase due to unconsolidated subsidiaries and affiliates for which the equity method newly applies			20		20							20	
Purchase of treasury stock				(634)	(634)							(634)	
Disposal of treasury stock		18		21	39							39	
Cancellation of treasury stock		(55)	(16,325)	16,380	-							-	
Net increase (decrease) in net assets others than shareholders' equity						(5,560)	58	140	3,012	(2,350)	938	(1,412)	
Total changes of items during the period	-	(37)	38,065	15,767	53,795	(5,560)	58	140	3,012	(2,350)	938	52,383	
Balance at March 31, 2007	¥103,389	¥79,396	¥380,515	¥ (1,544)	¥561,756	¥79,823	¥58	¥1,106	¥ 2,913	¥83,900	¥7,855	¥653,511	

Thousands of U.S. dollars (Note 4)

	Shareholders' equity					Valuation, translation adjustments and others							Total net assets
	Common stock	Capital surplus	Retained earnings (Note 20)	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain on securities	Net deferred profit on hedges	Revaluation surplus (Note 13)	Cumulative translation adjustments	Total valuation, translation adjustments and others	Minority interest in consolidated subsidiaries		
Balance at March 31, 2006	\$876,178	\$673,161	\$2,902,119	\$(146,703)	\$4,304,755	\$723,586	\$ -	\$8,186	\$ (839)	\$730,933	\$8,619	\$5,094,307	
Changes of items during the period													
Year-end dividend			(59,314)		(59,314)							(59,314)	
Interim dividend			(59,305)		(59,305)							(59,305)	
Bonuses to directors and corporate auditors			(1,932)		(1,932)							(1,932)	
Net income			581,144		581,144							581,144	
Increase due to newly consolidated subsidiaries			186		186							186	
Decrease due to newly consolidated subsidiaries			(17)		(17)							(17)	
Increase due to unconsolidated subsidiaries and affiliates for which the equity method newly applies			169		169							169	
Purchase of treasury stock				(5,373)	(5,373)							(5,373)	
Disposal of treasury stock		153		178	331							331	
Cancellation of treasury stock		(467)	(138,347)	138,814	-							-	
Net increase (decrease) in net assets others than shareholders' equity						(47,120)	492	1,187	25,525	(19,916)	7,949	(11,967)	
Total changes of items during the period	-	(314)	322,584	133,619	455,889	(47,120)	492	1,187	25,525	(19,916)	7,949	443,922	
Balance at March 31, 2007	\$876,178	\$672,847	\$3,224,703	\$(13,084)	\$4,760,644	\$676,466	\$492	\$9,373	\$24,686	\$711,017	\$66,568	\$5,538,229	

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Asahi Kasei Corporation and Consolidated Subsidiaries  
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interest	¥ 114,883	¥ 94,481	\$ 973,585
Depreciation and amortization	71,646	69,399	607,170
Impairment loss	189	3,799	1,602
Amortization of goodwill	824	259	6,983
Amortization of negative goodwill	(196)	–	(1,661)
Decrease in accrued pension and severance costs	(6,701)	(3,127)	(56,788)
Interest and dividend income	(3,015)	(2,653)	(25,551)
Interest expense	4,118	3,570	34,898
Equity in net earnings of unconsolidated subsidiaries and affiliates	(2,647)	(536)	(22,432)
Gain on sales of investment securities	(1,516)	–	(12,848)
Loss on sales of investment securities	–	854	–
Loss on devaluation of investment securities	701	703	5,940
Gain on sale of property, plant and equipment	(919)	(5,670)	(7,788)
Loss on disposal of property, plant and equipment	9,074	7,038	76,898
Increase in notes and accounts receivable, trade	(26,425)	(16,393)	(223,941)
Increase in inventories	(23,006)	(11,075)	(194,966)
(Decrease) increase in notes and accounts payable, trade	51,605	(2,075)	437,331
(Decrease) increase in accrued expenses	(399)	11,532	(3,382)
Decrease in advances received	(85)	(1,192)	(720)
Other	(14,921)	(11,695)	(126,449)
Sub total	173,210	137,219	1,467,881
Interest and dividend income, received	4,941	4,110	41,873
Interest expense, paid	(4,210)	(3,656)	(35,678)
Income taxes, paid	(45,508)	(29,053)	(385,661)
Net cash provided by operating activities	128,433	108,620	1,088,415
<b>Cash flows from investing activities:</b>			
Payments for purchases of time deposits	(192)	(498)	(1,627)
Proceeds from maturities of time deposits	473	125	4,009
Payments for purchases of marketable securities	(14)	–	(119)
Proceeds from sales of marketable securities	1	30	8
Payments for acquisition of property, plant and equipment	(77,357)	(59,074)	(655,568)
Proceeds from sales of property, plant and equipment	2,976	8,824	25,220
Payments for acquisition of intangible fixed assets	(4,872)	(7,341)	(41,288)
Payments for purchases of investment securities	(3,003)	(6,848)	(25,449)
Proceeds from sales of investment securities	2,557	1,099	21,670
Proceeds from sales of consolidated subsidiaries	–	1,962	–
Payments for loan receivables	(5,655)	(5,293)	(47,924)
Collections of loan receivables	4,195	7,600	35,551
Other	(456)	(959)	(3,864)
Net cash used in investing activities	(81,347)	(60,373)	(689,381)
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings	39,760	25,019	336,949
Repayment of short-term borrowings	(36,293)	(7,923)	(307,568)
Proceeds from issuance of commercial papers	150,000	–	1,271,186
Repayment of commercial papers	(150,000)	–	(1,271,186)
Proceeds from long-term loans	8,337	2,903	70,653
Repayment of long-term loans	(10,456)	(6,584)	(88,610)
Repayment of bonds	(23,000)	(31,000)	(194,915)
Payments for purchases of treasury stock	(501)	(378)	(4,246)
Proceeds from sale of treasury stock	40	33	339
Dividends paid by parent company	(13,991)	(12,592)	(118,568)
Dividends paid to minority interests in consolidated subsidiaries	(136)	(355)	(1,153)
Other	215	(4)	1,822
Net cash used in financing activities	(36,025)	(30,881)	(305,297)
Effect of exchange rate changes on cash and cash equivalents	643	426	5,449
Net increase in cash and cash equivalents	11,704	17,792	99,186
Cash and cash equivalents at beginning of year	86,390	68,456	732,119
Cash and cash equivalents held by newly consolidated subsidiaries	3,625	142	30,720
Cash and cash equivalents at end of year (Note 6)	¥ 101,719	¥ 86,390	\$ 862,025

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Asahi Kasei Corporation and Consolidated Subsidiaries  
March 31, 2007 and 2006

## 1. Major policies for preparing the consolidated financial statements

The consolidated financial statements, which are filed with the Japanese Ministry of Finance (hereinafter called the “MOF”) as required by the Securities and Exchange Law in Japan, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements are a translation of those filed with the MOF and incorporate certain modifications to enhance foreign readers’ understanding of the financial statements. In addition, the notes to the consolidated financial statements include certain financial information which is not required under the disclosure regulations in Japan, but is presented herein as additional information. In addition, certain reclassifications of previously reported amounts have been made to conform to current classifications. Such modifications or reclassifications have no effect on net income or retained earnings.

### Consolidation and investments in affiliated companies –

The consolidated financial statements consist of the account of parent company and 111 subsidiaries (105 subsidiaries at March 31, 2006) (hereinafter collectively referred to as the “Company”) which, with minor exceptions due to materiality, are all majority and wholly owned companies, including 7 Core operating companies (Asahi Kasei Chemicals Corporation, Asahi Kasei Homes Corporation, Asahi Kasei Pharma Corporation, Asahi Kasei Fibers Corporation, Asahi Kasei EMD Corporation, Asahi Kasei Construction Materials Corporation, and Asahi Kasei Life &

Living Corporation), Tong Suh Petrochemical Corp. Ltd. (Korea), Sanyo Petrochemical Co., Ltd., Asahi Kasei Microsystems Co., Ltd. and Asahi Kasei Medical Co., Ltd. All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and 20% to 50% owned companies in which the Company exercises significant influence are accounted for, with minor exceptions due to materiality, using the equity method of accounting. There were 53 such unconsolidated subsidiaries and 20% to 50% owned companies to which the equity method is applied at March 31, 2007 (55 at March 31, 2006), including Asahi Kasei Metals Ltd., Asahi Kasei Finechem Co., Ltd. and Asahi Organic Chemicals Industry Co., Ltd.

Certain subsidiaries results are reported in the consolidated financial statements using a December 31, or a February 28 year-end. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted for through consolidation procedures.

The excess of the cost over the underlying net equity of investments in subsidiaries and affiliated companies accounted for using the equity method of accounting is allocated to identifiable assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill or negative goodwill. The Company amortizes goodwill and negative goodwill using the straight-line method over the estimated period of benefit over a five or twenty-year period, with the exception of minor amounts, which are charged to income in the year of acquisition.

## 2. Significant accounting policies

### (a) Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of changes in value due to changes in interest rates.

### (b) Inventories

Inventories are principally stated at the lower of average cost or market value. Residential lots and dwellings of sale are stated at specifically identified costs.

### (c) Fixed assets and depreciation/amortization

Property, plant and equipment are stated at cost. Significant renewals and improvements are capitalized at cost, while maintenance and repairs are charged to income as incurred. Depreciation is provided for under the declining-balance method for property, plant and equipment, except for buildings which are

depreciated using the straight-line method, at rates based on estimated useful lives of the assets, principally ranging from five to sixty years for buildings and from four to twenty-two years for machinery and equipment.

Intangible fixed assets, including software for internal use, are amortized using the straight-line method over the estimated useful lives of the asset. The estimated useful life of software for internal use is mainly five years.

(Accounting for impairment of fixed assets)

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standards for Impairment of Fixed Assets.” The standard became effective for the fiscal year ended March 31, 2006. The Company adopted this standard in the fiscal year ended March 31, 2006. The standard requires that fixed assets should be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income



statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the net selling price or value in use. The Company deducts accumulated impairment losses on fixed assets directly from the corresponding assets in the consolidated balance sheets.

**(d) Accrued pension and severance costs**

Accrued pension and severance costs at March 31, 2007 and 2006 represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets. Unrecognized prior service costs are amortized on a straight-line basis primarily over ten years. Unrecognized actuarial gains/losses, resulting from variances between actual results and economic estimates or actuarial assumptions, are amortized on a straight-line basis primarily over the following ten years.

(Change in method of amortization of unrecognized actuarial gains/losses)

The parent company and certain Japanese subsidiaries have been fully amortizing unrecognized actuarial gains/losses in the year following that in which they arose. Beginning with the fiscal year ended March 31, 2006, actuarial gains/losses which arise each year are amortized on a straight-line basis over the following ten years. Actuarial gain of ¥23,604 million occurred in the year ended March 31, 2006 would be amortized on a straight-line basis over the following ten years. Consequently, net pension and severance costs would be ¥21,244 million higher, ordinary profit would be ¥19,639 million lower, and income before income taxes and minority interests would be ¥19,639 million lower in the year ended March 31, 2007 than if one-year amortization were continued.

In the fiscal year ended March 31, 2007, the effect of this change on profits for the fiscal year ended March 31, 2007 was not significantly different than one described in the financial statements for the year ended March 31, 2006.

Provision is made for lump-sum indemnities to directors and corporate auditors equal to the estimated liability calculated under the internal rules of the Company.

**(e) Financial instruments**

**i) Securities**

Securities are classified into four categories; trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and other securities. At March 31, 2007 and 2006, the Company did not have trading securities or held-to-maturity debt securities.

Equity securities of unconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to materiality, using the equity method of accounting.

Other securities, whose fair values are readily determinable, are carried at fair value with net unrealized gains or losses included as a component of net assets, net of related taxes.

Other securities, whose fair values are not readily determinable,

are stated at cost. In cases where any significant decline in the realizable value is assessed to be other than temporary, the cost of other securities is devalued by the impaired amount and is charged to income.

Realized gains and losses are determined using the average cost method and are reflected in the income statement.

**ii) Derivative financial instruments**

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are charged or credited to income for the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of these qualifying hedges are deferred as “Net deferred profit on hedges” to be offset against gains or losses of the underlying hedged assets and liabilities.

**(f) Taxes**

Accrued income taxes are stated at the estimated amount payable for corporation, enterprise, and inhabitant taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The Company has elected to file its return under the consolidated tax filing system.

**(g) Leases**

Under Japanese accounting practices, financing leases must be capitalized by the lessee except for those leases that do not transfer ownership of the leased asset to the lessee as part of the lease. Such exceptions can be accounted for either as financing leases or operating leases with an appropriate footnote disclosure.

Periodic lease charges for financing leases entered into by the parent company and its Japanese subsidiaries, where lessors retain the ownership of the leased assets, are charged to income as incurred.

**(h) Translation of foreign currencies**

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are charged or credited to income for the period.

Assets, liabilities, income and expenses of foreign subsidiaries and 20% to 50% owned companies accounted for using the equity method of accounting are translated into Japanese yen at year-end exchange rates. Shareholders' equity of foreign subsidiaries and 20% to 50% owned companies is translated into Japanese yen at the historical exchange rates. The translation differences in Japanese yen amounts arising from the use of different rates are recognized as cumulative translation adjustments in the balance sheets.

A portion of the cumulative translation adjustments is allocated to “Minority interest in consolidated subsidiaries” and the Company's portion is presented as a separate component of net assets in the balance sheets.

### 3. Changes in significant accounting policies

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#### (a) Presentation of net assets in the balance sheet(s)

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) issued its “Accounting Standard for Presentation of Net Assets in the Balance Sheet” and its “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet.” The parent company and its Japanese subsidiaries adopted this standard in the fiscal year ended March 31, 2007, with application in accordance with this guidance. Previously, the balance sheets had comprised assets, liabilities, minority interest in consolidated subsidiaries, and shareholders’ equity. The balance sheets now comprise assets, liabilities, and net assets; net assets comprising shareholders’ equity, valuation, translation adjustments and others, and minority interest in consolidated subsidiaries. Minority interest in consolidated subsidiaries, which had been presented between liabilities and shareholders’ equity, is now included in net assets. Valuation, translation adjustments and others is presented net of applicable deferred income taxes. Under the previous accounting policy, shareholders’ equity would have been ¥645,597 million (US\$5,471,161 thousand) as of March 31, 2007.

#### (b) Bonuses to directors and corporate auditors

On November 29, 2005, the ASBJ issued its “Accounting Standard for Directors’ Bonus.” The parent company and its

Japanese subsidiaries adopted this standard in the fiscal year ended March 31, 2007. Previously, bonuses to directors and corporate auditors were appropriated from retained earnings. Bonuses to directors and corporate auditors are now treated as operating expenses during the fiscal period in which they occur. Under the previous accounting policy, operating profit, ordinary profit, and income before income taxes and minority interest would have been ¥222 million (US\$1,881 thousand) higher in the fiscal year ended March 31, 2007. The effect by industry segment is shown in Note 18.

#### (c) Business combinations and divestitures

On October 31, 2003, the Business Accounting Council in Japan issued its “Accounting Standard for Business Combinations,” and on December 27, 2005, the ASBJ issued its “Accounting Standard for Business Divestitures” and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.” On December 22, 2006, the ASBJ revised its “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.” The parent company and its Japanese subsidiaries adopted these standards in the fiscal year ended March 31, 2007, with application in accordance with this guidance.

### 4. United States dollar amounts

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The U.S. dollar amounts presented in the financial statements are included solely for the convenience of readers. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for

convenience only, and are not intended to be computed in accordance with generally accepted translation procedures, the approximate current exchange rate of ¥118= US\$1 prevailing on March 31, 2007 has been used.

### 5. Derivative financial instruments

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The Company operates internationally, giving rise to exposure to market risks from fluctuations in foreign currency exchange and interest rates. In the normal course of its risk management efforts, the Company uses a variety of derivative financial instruments, which include foreign currency forward exchange contracts, interest rate swap agreements and currency swap agreements, to reduce its exposures. In accordance with the Company’s policy, these financial instruments are utilized solely for hedging purposes and the Company does not hold or issue financial instruments for trading or speculation purposes.

The Company has entered into foreign currency forward exchange contracts with banks as hedges against receivables and payables denominated in foreign currencies. As these foreign currency forward exchange contracts are utilized solely for hedging purposes, the resulting gains or losses are offset against foreign exchange gains or losses on the underlying hedged assets and liabilities.

Interest rate swap agreements and currency swap agreements are used to limit the Company’s exposure to losses in relation to interest expense from adverse fluctuations in foreign currency exchange and interest rates. The related differentials to be paid or received under the interest rate swap agreements are recognized in interest expense over the terms of the agreements. Currency swap agreements are accounted for in a manner similar to that used for foreign currency forward exchange contracts.

The Company does not anticipate any credit loss from nonperformance by the counter-parties to foreign currency forward exchange contracts, interest rate swap agreements or currency swap agreements.

Since the derivative financial instruments of the Company are solely for hedging purposes, gains or losses arising from changes in fair value are deferred as “Net deferred profit on hedges” to be off-set against foreign exchange gains or losses on the underlying hedged assets and liabilities. Accordingly, the information relating to fair values is not applicable.

## 6. Cash and cash equivalents

Reconciliation of cash and cash equivalents on the consolidated statements of cash flows to the amounts disclosed on the balance sheets at March 31 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash on hand and in banks	¥101,514	¥86,422	\$860,288
Time deposits with deposit term of over 3 months	(192)	(454)	(1,627)
Money market funds, medium-term government bond funds and others included in marketable securities	397	422	3,364
Cash and cash equivalents	¥101,719	¥86,390	\$862,025

## 7. Account balances and transactions with affiliated companies

Major account balances with unconsolidated subsidiaries and 20% to 50% owned companies accounted for under the equity method of accounting are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Notes and accounts receivable, trade	¥22,077	¥15,606	\$187,093
Other current assets	8,869	7,692	75,161
Investment securities	47,491	44,383	402,466
Long-term receivables	2,263	2,064	19,178
Notes and accounts payable, trade	7,490	5,171	63,475
Short-term borrowings	1,520	1,093	12,881
Accrued expenses	2,711	4,028	22,975

Major transactions between the Company and its unconsolidated subsidiaries and 20% to 50% owned companies accounted for using the equity method of accounting are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales	¥78,040	¥65,818	\$661,356
Purchases	19,874	13,436	168,424

## 8. Marketable securities and investment securities

### (a) Other securities with available fair value —

The aggregate cost, carrying amount which was identical to fair value, gross unrealized gains and losses of debt and equity securities classified as other securities for which fair values were available at March 31 are as follows:

	Millions of yen		
	Cost	Carrying amount	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	¥39,675	¥173,612	¥133,937
Securities with unrealized losses:			
Equity securities	802	629	(173)
Debt securities	23	23	—
	825	652	(173)
	¥40,500	¥174,264	¥133,764

	Millions of yen		
	2006		
	Cost	Carrying amount	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	¥38,774	¥181,704	¥142,930
Securities with unrealized losses:			
Equity securities	130	106	(24)
Debt securities	24	24	-
	154	130	(24)
	¥38,928	¥181,834	¥142,906

	Thousands of U.S. dollars		
	2007		
	Cost	Carrying amount	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	\$336,228	\$1,471,288	\$1,135,060
Securities with unrealized losses:			
Equity securities	6,797	5,331	(1,466)
Debt securities	195	195	-
	6,992	5,526	(1,466)
	\$343,220	\$1,476,814	\$1,133,594

Losses on devaluation of other securities, whose fair values were readily determinable, for the year ended March 31, 2007, totaled ¥213 million (US\$1,805 thousand).

(b) The realized gains and losses on the sale of other securities during the year ended March 31 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Selling amount	¥1,310	¥587	\$11,102
Gain on sales of securities	832	267	7,051
Loss on sales of securities	0	4	0

(c) The carrying amounts of other securities for which fair values were not readily determinable at March 31 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Equity investment in funds	¥10,001	¥10,001	\$84,754
Equity investments in nonpublic companies	6,996	7,521	59,288

(d) Redemption schedules for maturity of debt securities at March 31 are as follows:

	Millions of yen			
	2007			
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Debt securities:				
Government and municipal bonds	¥5	¥9	¥2	¥-
	¥5	¥9	¥2	¥-

				Millions of yen	
				2006	
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years	
Debt securities:					
Government and municipal bonds	¥23	¥1	¥ –	¥ –	
	¥23	¥1	¥ –	¥ –	
				Thousands of U.S. dollars	
				2007	
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years	
Debt securities:					
Government and municipal bonds	\$42	\$76	\$17	\$ –	
	\$42	\$76	\$17	\$ –	

## 9. Accumulated depreciation

Accumulated depreciation at March 31 is comprised of the following:

		Millions of yen		Thousands of U.S. dollars
		2007	2006	2007
Buildings		¥ 213,372	¥ 208,128	\$ 1,808,237
Machinery and equipment		935,316	891,598	7,926,407
Other		85,842	84,591	727,475
		¥1,234,530	¥1,184,317	\$10,462,119

## 10. Borrowings

Short-term borrowings at March 31, 2007 and 2006 represented loans, principally from banks. The weighted average interest rates on these borrowings were 1.84 % in 2007 and 1.23 % in 2006.

Long-term debt at March 31 is comprised of the following:

		Millions of yen		Thousands of U.S. dollars
		2007	2006	2007
Loans, principally from banks and insurance companies due 2007 to 2023 with weighted average interest rates of 2.86% (short-term portion) and 1.84% (long-term portion):				
Secured		¥ 1,003	¥ 1,354	\$ 8,500
Unsecured		80,626	80,788	683,271
Unsecured 1.02% to 2.15% yen bonds due 2007 to 2009		45,000	65,000	381,356
Unsecured 1.0% to 1.8% step up coupon Euro yen bonds due 2011		10,000	10,000	84,745
Unsecured 10 years constant maturity swap rate less 6 months yen LIBOR multiplied by 0.45% Euro yen bonds due 2006		–	2,000	–
Unsecured 0.29% to 2.83% Euro yen bonds due 2007 to 2009		17,000	18,000	144,068
Unsecured US\$1.9% to 3.5% reversal dual currency Euro yen bonds due 2007 to 2013		12,000	12,000	101,695
		165,629	189,142	1,403,635
Less – Portion due within one year		(36,555)	(32,842)	(309,788)
		¥129,074	¥156,300	\$1,093,847

The aggregate annual maturities of long-term debt after March 31, 2007 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 36,555	\$ 309,788
2009	32,195	272,839
2010	37,100	314,407
2011 and thereafter	59,779	506,601
	<u>¥165,629</u>	<u>\$1,403,635</u>

A summary of assets pledged as collateral for short-term loans and long-term debt at March 31, 2007 is as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥4,685	\$39,703

### 11. Accrued pension and severance costs

Upon terminating employment, employees of the parent company and its major subsidiaries in Japan are entitled, under most circumstances, to lump-sum severance indemnities and/or pension payments determined by reference mainly to their current basic rate of pay and length of service. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs. Certain foreign subsidiaries have defined benefit pension plans or defined contribution plans.

The obligation for these severance indemnity benefits is provided for through accruals, contributory funded defined benefit pension plans, contributory funded defined benefit enterprise pension plans and non-contributory funded tax-qualified pension plans.

Information on accrued severance and pension costs as at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligations	¥(302,528)	¥(300,327)	\$(2,563,797)
Fair value of plan assets	215,846	206,022	1,829,203
	(86,682)	(94,305)	(734,594)
Unrecognized actuarial gains/losses	(25,631)	(23,619)	(217,212)
Unrecognized prior service costs	(8,403)	(9,797)	(71,212)
Prepaid pension cost	(4,648)	(3,896)	(39,390)
Retirement benefits for employees	(125,364)	(131,617)	(1,062,408)
Retirement benefits for directors and corporate auditors	(902)	(816)	(7,643)
Accrued pension and severance costs	<u>¥(126,266)</u>	<u>¥(132,433)</u>	<u>\$(1,070,051)</u>

Note: The figures in the above table do not include additional benefit payables amounting to ¥82 million (US\$695 thousand) and ¥1,352 million at March 31, 2007 and 2006, respectively. The amounts are recorded as part of current liabilities on the consolidated balance sheets at March 31, 2007 and 2006.

Net periodic pension and severance costs for employees for the years ended March 31, 2007 and 2006 include the following components:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost (*1)	¥ 8,775	¥ 8,697	\$ 74,364
Interest cost	7,385	7,293	62,585
Expected return on plan assets	(5,229)	(4,409)	(44,314)
Amortization of unrecognized actuarial gains/losses	(2,380)	(2,726)	(20,169)
Amortization of unrecognized prior service costs	(1,393)	(1,394)	(11,805)
Net pension and severance costs	¥ 7,158	¥ 7,461	\$ 60,661

\*1: The figures in the above table do not include the contributions made by employees.

\*2: In addition to the above costs, additional benefits amounting to ¥782 million (US\$ 6,627 thousand) and ¥1,962 million were charged to income for the year ended March 31, 2007 and 2006, respectively.

The assumptions used in calculation of the above information are as follows:

	2007	2006
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 employee service	<b>Straight-line basis</b>	Straight-line basis
Amortization of unrecognized prior service costs	<b>Mainly 10 years</b>	Mainly 10 years
Amortization of unrecognized actuarial gains/losses	<b>Mainly 10 years</b>	1 year

## 12. Taxes

Income taxes applicable to the parent company and subsidiaries in Japan include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax.

Significant components of the deferred tax assets and liabilities at March 31 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued pension and severance costs	¥ 50,524	¥ 53,496	\$ 428,169
Accrued bonuses	8,611	8,317	72,975
Loss on disposal of property, plant and equipment	7,080	6,205	60,000
Tax loss carryforwards	4,674	3,196	39,610
Unrealized gain on fixed assets and others	4,107	4,130	34,805
Devaluation of inventories	3,387	3,016	28,703
Accrued enterprise tax	2,401	2,145	20,347
Impairment loss	2,060	1,308	17,458
Devaluation of investment securities	1,094	1,037	9,271
Allowance for doubtful accounts	375	525	3,178
Depreciation	353	425	2,992
Other	12,560	13,817	106,441
Sub total deferred tax assets	97,226	97,617	823,949
Less: Valuation allowance	(9,997)	(6,203)	(84,720)
Total deferred tax assets	87,229	91,414	739,229
Deferred tax liabilities:			
Unrealized gains on securities	(56,513)	(60,281)	(478,924)
Reserve for fixed assets reduction	(14,995)	(15,777)	(127,076)
Reserve for special depreciation	(1,070)	(1,621)	(9,068)
Other	(3,732)	(3,216)	(31,627)
Total deferred tax liabilities	(76,310)	(80,895)	(646,695)
Net deferred tax assets (liabilities)	¥ 10,919	¥ 10,519	\$ 92,534

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31 is as follows:

	2007		2006
Statutory tax rate	40.7%	Statutory tax rate	40.7%
Increase (reduction) in taxes resulting from:		Increase (reduction) in taxes resulting from:	
Non-deductible expenses and non-taxable income	2.0	Non-deductible expenses and non-taxable income	2.1
Equalization inhabitants taxes	0.4	Equalization inhabitants taxes	0.4
R&D expenses deductible from income taxes	(3.9)	R&D expenses deductible from income taxes	(6.4)
		IT investments deductible from income taxes	(0.4)
Amortization of goodwill	0.1	Amortization of goodwill	0.1
Equity in earnings of unconsolidated subsidiaries and affiliates	(0.9)	Equity in earnings of unconsolidated subsidiaries and affiliates	(0.2)
Other	1.5	Other	0.3
Effective income tax rate	39.9%	Effective income tax rate	36.6%

In Japan, the consumption tax system is designed so that all goods and services are taxed at a flat rate of 5% unless specified otherwise. Assets, liabilities and profit and loss accounts are stated net of consumption tax.

### 13. Revaluation surplus

A revaluation surplus is recorded by a consolidated foreign subsidiary, based on the applicable laws.

### 14. Selling, general and administrative expenses

Major components of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Freight and storage	¥34,287	¥32,554	\$290,568
Salaries and benefits	87,819	87,117	744,229
Depreciation	11,176	10,718	94,712
Research and development (*)	37,307	35,832	316,161
Advertising	14,744	13,411	124,949
Rent	28,392	28,072	240,610

(\*) The aggregate amounts of research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 are ¥52,426 million (US\$ 444,288 thousand) and ¥51,467 million, respectively.

### 15. Impairment loss

Grouping of operating assets is based on managerial accounting categories, with consideration given to production process, geographic location, and domain of authority for making investment decisions. Idle assets are recorded separately in each fixed assets class.

In the fiscal year ended March 31, 2007, the book value of machinery and equipment with no specific prospect for conversion of use and of land with diminished market value was reduced to

the recoverable amount, resulting in a special loss of ¥189 million (US\$ 1,602 thousand) as impairment loss and ¥1,659 million (US\$ 14,059 thousand) as a restructuring charge. In the fiscal year ended March 31, 2006, resulting in a special loss of ¥3,799 million was recorded as impairment loss. Recoverable amount for machinery and equipment was taken as disposable value less cost of disposal, and that for land was taken as net selling price mainly based on the appraisal value as determined by a real estate appraiser.



## 16. Restructuring charges

Major components of the restructuring charges are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loss on disposal and devaluation of assets and others	¥2,577	¥2,456	\$21,839
Impairment of fixed assets	1,659	–	14,509
Loss on liquidation of subsidiaries and others	515	715	4,365
	<b>¥4,751</b>	<b>¥3,171</b>	<b>\$40,263</b>

## 17. Leases

Periodic lease charges for the Company's financing leases, where lessors retain the ownership of the leased assets, are charged to income. Such lease charges are ¥4,551 million (US\$38,568 thousand) and ¥4,554 million for the years ended March 31, 2007 and 2006, respectively.

The future lease payments under the Company's financing leases and non-cancelable operating leases at March 31, including amounts representing interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 4,287	¥ 3,971	\$36,331
Due after one year	5,770	6,161	48,898
	<b>¥10,057</b>	<b>¥10,132</b>	<b>\$85,229</b>

The leased assets under the Company's financing leases, where lessors retain ownership of the leased assets were accounted for as operating leases by the Company. If the leases had been capitalized, then the cost of the assets and the related accumulated amortization, computed using the straight-line method over the term of the lease, at March 31, 2007 and 2006 would have been as follows:

	Millions of yen			Thousands of U.S. dollars
	2007		2007	
	Cost	Accumulated amortization	Net amount	Net amount
Buildings	¥16,700	¥8,026	¥ 8,674	\$73,508
Machinery and equipment	553	328	225	1,907
Other tangible fixed assets	2,008	1,050	958	8,119
Intangible fixed assets – other	558	358	200	1,695
	<b>¥19,819</b>	<b>¥9,762</b>	<b>¥10,057</b>	<b>\$85,229</b>

	Millions of yen		
	2006		
	Cost	Accumulated amortization	Net amount
Buildings	¥15,125	¥6,387	¥ 8,738
Machinery and equipment	616	378	238
Other tangible fixed assets	1,724	841	883
Intangible fixed assets – other	628	355	273
	<b>¥18,093</b>	<b>¥7,961</b>	<b>¥10,132</b>

The amortization amount of the leased assets, computed using the straight-line method over the term of the leases, would have been ¥4,551 million (US\$38,568 thousand) and ¥4,554 million for the years ended March 31, 2007 and 2006, respectively.

No impairment loss is allocated to the leased assets.

## 18. Business segment information

### (1) Industry segments —

Sales and operating profit (loss) for the year ended March 31:

Millions of yen											
2007											
	Chemicals	Homes	Pharma	Fibers	Electronics Materials & Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate expenses and eliminations	Consolidated
Sales:											
Customers	¥752,632	¥405,695	¥104,474	¥106,639	¥112,094	¥60,818	¥52,558	¥28,881	¥1,623,791	¥ —	¥1,623,791
Intersegment	16,590	316	9	1,870	1,209	12,465	3,875	29,305	65,639	(65,639)	—
Total	769,222	406,011	104,483	108,509	113,303	73,283	56,433	58,186	1,689,430	(65,639)	1,623,791
Operating expenses	717,255	378,502	90,610	104,356	90,681	68,246	51,848	54,331	1,555,829	(59,839)	1,495,990
Operating profit (loss)	¥ 51,967	¥ 27,509	¥ 13,873	¥ 4,153	¥ 22,622	¥ 5,037	¥ 4,585	¥ 3,855	¥ 133,601	¥ (5,800)	¥ 127,801

Millions of yen											
2006											
	Chemicals	Homes	Pharma	Fibers	Electronics Materials & Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate expenses and eliminations	Consolidated
Sales:											
Customers	¥660,402	¥404,539	¥105,842	¥89,704	¥102,858	¥56,512	¥51,942	¥26,821	¥1,498,620	¥ —	¥1,498,620
Intersegment	16,659	111	19	2,262	992	11,596	3,624	27,247	62,510	(62,510)	—
Total	677,061	404,650	105,861	91,966	103,850	68,108	55,566	54,068	1,561,130	(62,510)	1,498,620
Operating expenses	636,549	376,432	94,803	87,950	84,517	64,292	50,740	50,785	1,446,068	(56,174)	1,389,894
Operating profit (loss)	¥ 40,512	¥ 28,218	¥ 11,058	¥ 4,016	¥ 19,333	¥ 3,816	¥ 4,826	¥ 3,283	¥ 115,062	¥ (6,336)	¥ 108,726

Thousands of U.S. dollars											
2007											
	Chemicals	Homes	Pharma	Fibers	Electronics Materials & Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate expenses and eliminations	Consolidated
Sales:											
Customers	\$6,378,237	\$3,438,093	\$885,373	\$903,721	\$949,949	\$515,407	\$445,407	\$244,754	\$13,760,941	\$ —	\$13,760,941
Intersegment	140,594	2,678	76	15,847	10,246	105,635	32,839	248,348	556,263	(556,263)	—
Total	6,518,831	3,440,771	885,449	919,568	960,195	621,042	478,246	493,102	14,317,204	(556,263)	13,760,941
Operating expenses	6,078,433	3,207,644	767,881	884,373	768,483	578,356	439,390	460,432	13,184,992	(507,110)	12,677,882
Operating profit (loss)	\$ 440,398	\$ 233,127	\$ 117,568	\$ 35,195	\$ 191,712	\$ 42,686	\$ 38,856	\$ 32,670	\$ 1,132,212	\$ (49,153)	\$ 1,083,059

Identifiable assets, depreciation and amortization, impairment loss and capital expenditure as of and for the year ended March 31:

Millions of yen											
2007											
	Chemicals	Homes	Pharma	Fibers	Electronics Materials & Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥594,205	¥212,739	¥120,926	¥115,575	¥123,764	¥55,141	¥49,473	¥317,537	¥1,589,360	¥(129,438)	¥1,459,922
Depreciation and amortization	31,934	2,383	6,553	5,302	13,356	3,040	4,152	735	67,455	4,191	71,646
Impairment loss	164	—	1,659	—	—	—	—	—	1,823	25	1,848
Capital expenditure	42,569	2,701	5,722	6,362	16,234	2,301	3,455	760	80,104	4,309	84,413

Millions of Yen											
2006											
	Chemicals	Homes	Pharma	Fibers	Electronics Materials & Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	¥529,100	¥200,066	¥118,721	¥105,718	¥114,743	¥49,557	¥50,970	¥317,171	¥1,486,046	¥(110,002)	¥1,376,044
Depreciation and amortization	31,281	2,448	6,364	5,337	12,051	3,129	4,352	715	65,677	3,722	69,399
Impairment loss	—	251	—	—	—	—	—	—	251	3,548	3,799
Capital expenditure	26,632	3,583	4,897	5,417	14,960	2,313	4,655	1,038	63,495	2,815	66,310

Thousands of U.S. dollars

2007

	Chemicals	Homes	Pharma	Fibers	Electronics Materials & Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	\$5,035,636	\$1,802,873	\$1,024,797	\$979,449	\$1,048,847	\$467,297	\$419,263	\$2,690,991	\$13,469,153	\$(1,096,933)	\$12,372,220
Depreciation and amortization	270,627	20,195	55,534	44,932	113,187	25,763	35,187	6,229	571,654	35,516	607,170
Impairment loss	1,390	—	14,059	—	—	—	—	—	15,449	212	15,661
Capital expenditure	\$ 360,754	\$ 22,890	\$ 48,491	\$ 53,915	\$ 137,576	\$ 19,500	\$ 29,280	\$ 6,441	\$ 678,847	\$ 36,517	\$ 715,364

Note 1: The Company's industry segments are aggregated into eight segments based primarily upon similarities of products, services, and economic characteristics.

*Chemicals—*

The Company produces, processes and sells monomers and basic chemicals (such as ammonia, nitric acid, caustic soda, acrylonitrile, styrene monomer, methyl methacrylate (MMA) monomer, PMMA resin, high-compound fertilizers, and adipic acid), polymer and elastomers (such as Suntec™ polyethylene (PE), Stylac™ -AS (styrene-acrylonitrile), Stylac™-ABS (acrylonitrile-butadiene-styrene), synthetic rubber, Tenac™ polyacetal, Xyron™ modified polyphenylene ether (mPPE), and Leona™ nylon 66 polymer and filament), specialty products and systems (such as coating materials, latex, Ceolus™ microcrystalline cellulose, explosives, explosion-bonded metal clad, APR™ photosensitive resin and printing plate making systems, Microza™ UF and MF membranes and systems, Hipore™ microporous membrane, and ion-exchange membranes and electrolysis systems).

*Homes—*

The Company builds Hebel Haus™ pre-fabricated, custom-built homes, and Hebel Maison™ apartments, and operates related businesses such as condominiums, remodeling, real estate, residential land development, and home financing.

*Pharma—*

The Company produces and sells pharmaceuticals (such as Elcitonin™, Bredinin™, Flivas™, and Toledomin™), pharmaceutical intermediates, diagnostics reagents. The Company also manufactures APS™ artificial kidneys, Sepacell™ leukocyte reduction filters, Cellsorba™ leukocyte adsorption columns, Planova™ virus removal filters, and contact lenses.

*Fibers—*

The Company produces and sells Roica™ elastic polyurethane filament, nonwoven fabrics (such as Eltas™ spunbond and Lamous™ artificial suede), Bemberg™ cuprammonium rayon, and polyester filament.

*Electronics Materials & Devices—*

The Company produces and sells Pimel™ photosensitive polyimide, Sunfort™ photosensitive dry film resist (DFR), photomask pellicles, LSIs, Hall elements, and glass fabric.

*Construction Materials—*

The Company produces and sells autoclaved lightweight concrete (ALC) panels (such as Hebel™), piles, Neoma™ foam insulation panels, and artificial fish reefs.

*Life & Living—*

The Company produces and sells Saran Wrap™ cling film, Ziploc™ storage bags, and plastic films, sheets, and foams.

*Services, Engineering, and Others—*

The Company provides plant engineering, environmental engineering, personnel staffing and placement, and think tank services.

- Accounting Standard for Directors' Bonus became effective for the fiscal year ended March 31, 2007. The Company applies this new standard in the fiscal year ended March 31, 2007. The effect by industry segment is that operating expenses in the following segments are higher by the following amounts: "Chemicals" ¥35 million (US\$296 thousand), "Homes" ¥35 million (US\$296 thousand), "Pharma" ¥15 million (US\$127 thousand), "Fibers" ¥14 million (US\$119 thousand), "Electronics Materials & Devices" ¥10 million (US\$85 thousand), "Construction Materials" ¥16 million (US\$136 thousand), "Life & Living" ¥6 million (US\$51 thousand), "Corporate" ¥91 million (US\$771 thousand) in the year ended March 31, 2007 than if the previous method had been continued. This had the effect of decreasing the operating profit of each segment.
- Accounting Standards for Impairment of Fixed Assets became effective for the fiscal year ended March 31, 2006. The Company applies this new standard in the fiscal year ended March 31, 2006.
- The parent company and certain Japanese subsidiaries have been fully amortizing unrecognized actuarial gains/losses in the year following that in which they arose. Beginning with the fiscal year ended March 31, 2006, actuarial gains/losses are amortized on a straight-line basis over the ten years following that in which they arise. Actuarial gain of ¥23,604 million occurred in the year ended March 31, 2006 would be amortized on a straight-line basis over the following ten years, net pension and severance costs would be ¥19,639 million higher than if one-year amortization had been continued. The effect by industry segment is that operating expenses would be higher by the following amounts: "Chemicals" ¥6,064 million, "Homes" ¥3,097 million, "Pharma" ¥2,830 million, "Fibers" ¥1,869 million, "Electronics Materials & Devices" ¥1,077 million, "Construction Materials" ¥1,368 million, "Life & Living" ¥855 million, "Corporate" ¥2,478 million in the year ended March 31, 2007 than if one-year amortization had been continued.  
In the fiscal year ended March 31, 2007, the effect of this change by industry segment on profits was not significantly different than one described in the financial statements for the year ended March 31, 2006.
- Corporate operating expenses included in "Corporate expenses and eliminations" as of the years ended March 31, 2007 and 2006 amount to ¥14,325 million (US\$121,398 thousand) and ¥15,209 million, respectively.
- Corporate assets such as surplus funds (cash on hand and in banks), long-term-investment funds (investment securities etc.) and land etc. included in "Corporate assets and eliminations" for the years ended March 31, 2007 and 2006 amount to ¥443,000 million (US\$3,754,237 thousand) and ¥447,076 million, respectively.

## (2) Geographic areas —

Total sales and assets of consolidated subsidiaries located in countries or regions outside of Japan as of and for the years ended March 31, 2007 and 2006 were not significant.

## (3) Overseas sales —

Overseas sales for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2007			2006			2007		
	East Asia	Others	Total	East Asia	Others	Total	East Asia	Others	Total
Overseas sales	¥245,276	¥182,764	¥ 428,040	¥222,377	¥150,789	¥ 373,166	\$2,078,611	\$1,548,847	\$ 3,627,458
Consolidated net sales	—	—	1,623,791	—	—	1,498,620	—	—	13,760,941
Percentage of consolidated net sales (%)	15.1%	11.3%	26.4%	14.8%	10.1%	24.9%			

Note 1: Geographical distance is considered in the classification of country or area.

2: Major countries or areas included in each category are as follows;

East Asia: China, Korea and Taiwan

Others: Southeast Asia (except East Asia), U.S.A., Europe and others.

3: Overseas sales represent the sales of the Company to countries and areas outside of Japan.

## 19. Related Party Transactions

Transactions for the year ended March 31, 2007 between the Company and related parties are as follows:

Type of related parties	Name	Occupation	Equity ownership in the Company	Nature of transactions	Amount (*1)	
					Millions of yen	Thousands of U.S. dollars
Corporate Auditor	Yuichiro Miyake	Attorney	0.0%	Attorney's fees (*2)	58	492

\*1: Not including consumption tax.

\*2: Amounts of attorney's fees were determined using a reasonable method of calculation based on guidelines formerly issued by the Japan Federation of Bar Associations and other standards.

There were no transactions for the year ended March 31, 2006 between the Company and related parties.

## 20. Appropriation of retained earnings

Appropriations of retained earnings are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after approval by the Board of Directors. Retained earnings at March 31, 2007 include amounts

representing final cash dividends of ¥9,795 million (US\$83,008 thousand) which were approved at the Board meeting held on May 8, 2007.

## 21. Contingent liabilities

Contingent liabilities at March 31, arising in the ordinary course of business are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Notes discounted	¥ 141	¥ 296	\$ 1,195
Loans guaranteed	11,185	15,569	94,788
Commitment for guarantees	2,363	2,646	20,025
Letters of awareness	235	734	1,992
	¥13,924	¥19,245	\$118,000

The parent company and certain of its subsidiaries and affiliates were defendants in several pending lawsuits. However, based upon the information currently available to both the Company and its legal counsel, management of the Company believes that any damages from such lawsuits will not have a material effect on the Company's consolidated financial statements.

## 22. Reconciliation of the differences between basic and diluted net income per share

Reconciliation of the differences between basic and diluted net income per share for the years ended March 31 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net income	¥68,575	¥59,668	\$581,144
Amount not allocated to the common stock	—	(218)	—
Net income allocated to the common stock	¥68,575	¥59,450	\$581,144
Effect of dilutive securities	—	—	—
Net income allocated to the common stock for computation of diluted net income per share	¥68,575	¥59,450	\$581,144

	Thousands of shares	
	2007	2006
Weighted-average shares	1,399,462	1,400,109
Effect of dilutive securities	—	—
Weighted-average shares for computation of diluted net income per share	1,399,462	1,400,109

	Yen		U.S. dollars
	2007	2006	2007
Basic net income per share	¥49.00	¥42.46	\$0.42
Diluted net income per share	¥ —	¥ —	\$ —

As the Company had no dilutive securities as at March 31, 2007 and 2006, the Company does not disclose diluted net income for the years ended March 31, 2007 and 2006.

## 23. Subsequent event

Subsequent to March 31, 2007, Asahi Kasei Life & Living Corp., a wholly-owned subsidiary, was merged into Asahi Kasei Chemicals Corp., a wholly-owned subsidiary, on April 1, 2007. Accordingly, a result of re-evaluation of the Company's industry segment

configuration, the Life & Living segment would be combined with the Chemicals segment based on the similarity of product types and characteristics and the unification of the organization.

**Report of Independent Auditors**

To the Board of Directors of  
Asahi Kasei Corporation

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

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

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

As discussed in Note 23. to the consolidated financial statements, Asahi Kasei Life & Living Corp., a wholly-owned subsidiary, was merged into Asahi Kasei Chemicals Corp., a wholly-owned subsidiary, on April 1, 2007. Consequently, the change in the segmentation of its industry segments will be effective from the beginning of the next fiscal year.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

*PricewaterhouseCoopers Aarata*

July 31, 2007

# Major Subsidiaries and Affiliates

As of April 1, 2007

Company	Main products/business line		Paid-in capital (million)	Equity interest (%)
<b>Chemicals Segment</b>				
Asahi Kasei Chemicals Corp.*	Chemicals	¥	3,000	100.0
Sanyo Petrochemical Co., Ltd.*	Benzene, ethylene	¥	2,000	100.0
Asahi Kasei Pax Corp.*	Packaging products and solutions	¥	490	100.0
Asahi Kasei Epoxy Co., Ltd.*	Epoxy resin	¥	300	100.0
Asahi Kasei Home Products Corp.*	Cling film, other household products	¥	250	100.0
Asahi Kasei Metals Ltd.	Aluminum paste	¥	250	100.0
Asahi Kasei Finechem Co., Ltd.	Specialty chemicals	¥	175	100.0
Asahi SKB Co., Ltd.	Shotgun cartridges	¥	100	100.0
Asahi Kasei Geotechnologies Co., Ltd.	Sale of industrial explosives, civil engineering materials	¥	132	100.0
Asahi Kasei Technoplus Co., Ltd.*	Processing and sale of plastic and fiber	¥	160	99.4
Japan Elastomer Co., Ltd.*	Synthetic rubber	¥	1,000	75.0
Wacker Asahikasei Silicone Co., Ltd.	Silicone	¥	1,050	50.0
Okayama Chemical Co., Ltd.	Caustic soda, chlorine	¥	1,000	50.0
Sundic Inc.	Biaxially oriented polystyrene sheet	¥	1,050	50.0
PS Japan Corp.	Polystyrene	¥	5,000	45.0
Chisso Asahi Fertilizer Co., Ltd.	Fertilizer	¥	305	35.0
Asahi Organic Chemicals Industry Co., Ltd.	Synthetic resin, fabricated plastic products	¥	5,000	29.8
Asahikasei Plastics (America) Inc.*	Compounded performance resin operations	US\$	17.8**	100.0
Asahi Kasei Plastics North America, Inc.*	Coloring and compounding of performance resin	US\$	21.7**	100.0
Asahi Chemical Intermediates Inc.*	Sale of acrylonitrile	US\$	16.4	100.0
Sun Plastech Inc.*	Sale of purging compound	US\$	1.0	100.0
Tong Suh Petrochemical Corp., Ltd.*	Acrylonitrile, sodium cyanide	W	50,642	100.0
Asahi Kasei Chemicals Korea Co., Ltd.	Adipic acid, microporous membrane	W	1,500	100.0
Delaglas Korea Corp.	PMMA sheet for light-guide plates	W	5,000	60.0
Asahikasei Plastics (Shanghai) Co., Ltd.	Sale of performance resin	CNY	18	100.0
Asahikasei (Suzhou) Plastics Compound Co., Ltd.	Coloring and compounding of performance resin	CNY	50	51.0
Asahi-DuPont POM (Zhangjiagang) Co., Ltd.	Polyacetal	US\$	32.0	50.0
Asahi Kasei Performance Chemicals Corp.*	High-performance HDI-based polyisocyanate	CNY	149	100.0
Asahi Kasei Microza (Hangzhou) Co., Ltd.*	Industrial membranes and systems	CNY	29	100.0
Asahi Kasei Plastics (Hong Kong) Co., Ltd.	Sales of performance resin	HK\$	20.0	100.0
Asahi Kasei Plastics Singapore Pte. Ltd.*	Performance resin	US\$	46.0	100.0
Polyxylenol Singapore Pte. Ltd.*	PPE powder	US\$	35.0	70.0
Asahikasei Plastics (Thailand) Co., Ltd.	Coloring and compounding of performance resin	B	140	100.0
PT Nippisun Indonesia	Coloring and compounding of styrenic resin	US\$	6.3	25.7
NV Asahi Thermofil (Europe) SA*	Sale of compounded performance resin	€	5.0	100.0
NV Asahi Photoproducts (Europe) SA*	Sale of photopolymer, printing plate making systems	€	3.4	100.0
Asahi Photoproducts (UK) Ltd.*	Sale of photopolymer, printing plate making systems	£	0.3	100.0
AK&N (UK) Ltd.*	Compounded performance resin operations	£	11.1	65.0
Asahi Thermofil (UK) Ltd.*	Coloring and compounding of performance resin	£	5.3	65.0
Asahi Thermofil (France) SA*	Coloring and compounding of performance resin	€	4.3	65.0
<b>Homes Segment</b>				
Asahi Kasei Homes Corp.*	Housing	¥	3,250	100.0
Asahi Kasei Jyuko Co., Ltd.*	Steel frames	¥	2,820	100.0
Asahi Kasei Mortgage Corp.*	Financial services	¥	500	100.0
Asahi Kasei Reform Co., Ltd.*	Home maintenance and remodeling	¥	250	100.0
Asahi Kasei Real Estate, Ltd.*	Home leasing, real estate brokerage	¥	200	100.0

\* Consolidated subsidiary

\*\* Including capital reserve

Company	Main products/business line		Paid-in capital (million)	Equity interest (%)
<b>Pharma Segment</b>				
Asahi Kasei Pharma Corp.*	Pharmaceuticals, medical products	¥	3,000	100.0
Asahi Kasei Medical Co., Ltd.*	Medical devices, medical systems	¥	800	100.0
Asahi Kasei N&P Co., Ltd.*	Functional food ingredients	¥	495	100.0
Asahikasei Aime Co., Ltd.*	Contact lenses	¥	480	100.0
Nikkiso Asahi Kasei Medical Korea Co., Ltd.	Sale of medical devices	₩	4,400	50.0
Asahi Kasei Medical (Hangzhou) Co., Ltd.*	Hemodialyzers	CNY	163	100.0
Asahi Kasei Medical Europe GmbH	Sale of medical devices, medical systems	€	0.2	100.0
Asahi Pharma Spain, SL	Pharmaceuticals	€	0.1	100.0
<b>Fibers Segment</b>				
Asahi Kasei Fibers Corp.*	Fiber, textiles	¥	3,000	100.0
Kyokuyo Sangyo Co., Ltd.*	Processing and sale of fiber, textiles	¥	80	100.0
DuPont-Asahi Flash Spun Products Co., Ltd.	Flash spun	¥	450	50.0
Solotex Corp.	Polytrimethylene terephthalate fiber	¥	250	50.0
Asahi Kasei Spandex America, Inc.*	Spandex	US\$	10.2	100.0
Hangzhou Asahikasei Spandex Co., Ltd.*	Spandex	CNY	132	100.0
Hangzhou Asahikasei Textiles Co., Ltd.*	Warp-knit spandex textiles	CNY	78	82.5
Formosa Asahi Spandex Co., Ltd.	Spandex	NT\$	801	50.0
Asahi Chemical (HK) Ltd.*	Promotion and marketing of fiber and textiles	HK\$	65	100.0
Thai Asahi Kasei Spandex Co., Ltd.*	Spandex	B	700	60.0
Asahi Kasei Spandex Europe GmbH*	Spandex	€	10.0**	100.0
Asahi Kasei Fibers Italy SRL	Sale of spandex and cupro cellulosic fiber	€	3.0	100.0
Asahi Kasei Fibers Deutschland GmbH	Sale of artificial suede	€	0.3	100.0
<b>Electronics Materials &amp; Devices Segment</b>				
Asahi Kasei EMD Corp.*	Electronics materials and devices	¥	3,000	100.0
Asahi Kasei Microsystems Co., Ltd.*	LSIs	¥	50	100.0
Asahi-Schwebel Co., Ltd.*	Glass fabric	¥	50	100.0
Asahi Kasei Electronics Co., Ltd.*	Hall elements	¥	50	100.0
AKM Semiconductor, Inc.*	Sale of LSIs	US\$	2.9	100.0
Asahi Kasei EMD Korea Corp.	Sale of pellicles	₩	820	100.0
Asahi Kasei Electronics Materials (Suzhou) Co., Ltd.*	Photosensitive dry film resist	CNY	181	100.0
Asahi Kasei EMD Taiwan Corp.	Sale of pellicles	NT\$	1.0	100.0
Asahi Kasei Wah Lee Hi-Tech Corp.*	Photosensitive dry film resist	NT\$	49	80.6
Asahi-Schwebel (Taiwan) Co., Ltd.*	Glass fabric	NT\$	326	51.0
<b>Construction Materials Segment</b>				
Asahi Kasei Construction Materials Corp.*	Construction materials	¥	3,000	100.0
Asahi Kasei Foundation Systems Corp.*	Installation of piles	¥	200	100.0
Asahi Kasei Marineteck Co., Ltd.*	Sale of marine structures	¥	30	100.0
<b>Services, Engineering and Others Segment</b>				
Asahi Research Center Co., Ltd.*	Information and analysis	¥	3,000	100.0
Asahi Finance Co., Ltd.*	Investment, finance	¥	800	100.0
Asahi Kasei Engineering Co., Ltd.*	Plant, equipment, process engineering	¥	400	100.0
Asahi Kasei Trading Co., Ltd.*	Sale of Asahi Kasei products	¥	98	100.0
Sun Trading Co., Ltd.*	Sale of Asahi Kasei products	¥	94	100.0
Asahi Kasei Amidas Co., Ltd.*	Employment agency, consulting	¥	80	100.0
AJS Inc.	Computer software, IT systems	¥	800	49.0
Asahi Kasei America, Inc.*	Business support services	US\$	0.1	100.0
Asahi Kasei Business Management (Shanghai) Co., Ltd.	Business support services	US\$	3.0	100.0

\* Consolidated subsidiary

\*\* Including capital reserve



# Corporate Profile

As of March 31, 2007

<b>Company Name</b>	Asahi Kasei Corporation
<b>Date of Establishment</b>	May 21, 1931
<b>Paid-in Capital</b>	¥103,388,521,767
<b>Employees</b>	23,715 (Consolidated) 786 (Non-consolidated)

## Asahi Kasei Group Offices

### Asahi Kasei Corporation

#### Tokyo Head Office

1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-8440, Japan  
Phone: +81-3-3507-2060  
Fax: +81-3-3507-2495

#### Osaka Head Office

1-2-6 Dojimahama, Kita-ku  
Osaka 530-8205, Japan  
Phone: +81-6-6347-3111  
Fax: +81-6-6347-3077

#### Beijing Office

Room 1408  
New China Insurance Tower  
No.12 Jian Guo Men Wai Avenue  
Chao Yang District  
Beijing 100022, China  
Phone: +86-10-6569-3939  
Fax: +86-10-6569-3938

#### Shanghai Office

Room 2321  
Shanghai Central Plaza  
381 Huaihai Zhong Road  
Shanghai 200020, China  
Phone: +86-21-6391-6111  
Fax: +86-21-6391-6686

#### Asahi Kasei America, Inc.

535 Madison Avenue, 33rd Floor  
New York, NY 10022, USA  
Phone: +1-212-371-9900  
Fax: +1-212-371-9050

## Core Operating Companies

### Asahi Kasei Chemicals

1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-8440, Japan  
Phone: +81-3-3507-2220

### Asahi Kasei Homes

1-24-1 Nishi-shinjuku, Shinjuku-ku  
Tokyo 160-8345, Japan  
Phone: +81-3-3344-7111

### Asahi Kasei Pharma

9-1 Kanda Mitoshiro-cho, Chiyoda-ku  
Tokyo 101-8481, Japan  
Phone: +81-3-3259-5777

### Asahi Kasei Fibers

1-2-6 Dojimahama, Kita-ku  
Osaka 530-8205, Japan  
Phone: +81-6-6347-3500

### Asahi Kasei EMD

1-23-7 Nishi-shinjuku, Shinjuku-ku  
Tokyo 160-0023, Japan  
Phone: +81-3-6911-2700

### Asahi Kasei Construction Materials

2-12-7 Higashi-shinbashi, Minato-ku  
Tokyo 105-0021, Japan  
Phone: +81-3-5473-5251

### Asahi Kasei Life & Living\*

1-1-2 Yurakucho, Chiyoda-ku  
Tokyo 100-8440, Japan

\* Merged with Asahi Kasei Chemicals on April 1, 2007.

# Investors Information

As of April 1, 2007

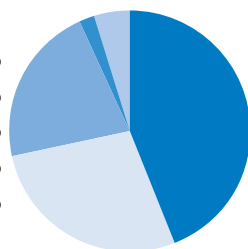
<b>Stock Listings</b>	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
<b>Stock Code</b>	3407
<b>Authorized Shares</b>	4,000,000,000
<b>Outstanding Shares</b>	1,402,616,332
<b>Transfer Agent</b>	Sumitomo Trust & Banking Co., Ltd. 4-5-33 Kitahama, Chuo-ku Osaka 541-8639, Japan
<b>Independent Auditors</b>	PricewaterhouseCoopers Aarata
<b>Number of Shareholders</b>	126,348

<b>Largest Shareholders</b>	<b>% of equity*</b>
Master Trust Bank of Japan, Ltd. TS .....	4.99
Nippon Life Insurance Co. ....	4.80
Japan Trustee Services Bank, Ltd. TS.....	3.56
Employees' Stockholding .....	2.65
Sumitomo Mitsui Banking Corp.....	2.53
Japan Trustee Services Bank, Ltd. TS4 .....	2.32
Dai-ichi Mutual Life Insurance Co. ....	2.30
Tokio Marine & Nichido Fire Insurance Co., Ltd. ....	2.22
Meiji Yasuda Life Insurance Co. ....	1.76
Mizuho Corporate Bank, Ltd. ....	1.45

\* Percentage of equity ownership after exclusion of treasury stock.

## Distribution by Type of Shareholder

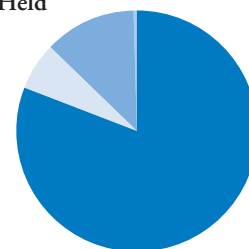
Japanese financial institutions	43.93%
Foreign investors	27.72%
Japanese individuals and groups	21.50%
Japanese securities companies	2.05%
Other Japanese companies	4.80%



1,402,616,332 shares

## Distribution by Number of Shares Held

100,000 or more	80.85%
10,000–99,999	6.40%
1,000–9,999	12.31%
Less than 1,000	0.44%



TM: Trademark or registered trademark of Asahi Kasei Corporation, affiliated companies, or third parties granting rights to Asahi Kasei Corporation or affiliated companies.

A copy of the Company's annual report and further information will be made available upon request in writing to:

**Corporate Communications**

**Asahi Kasei Corporation**

1-1-2 Yurakucho, Chiyoda-ku, Tokyo 100-8440, Japan  
Phone: +81-3-3507-2060 Fax: +81-3-3507-2495  
[www.asahi-kasei.co.jp](http://www.asahi-kasei.co.jp)

