

August 1, 2007
Kuraray Co., Ltd.

Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2008

Name of listed company: Kuraray Co., Ltd.
Stock code: 3405
Stock exchange listings: Tokyo and Osaka, first sections
URL: <http://www.kuraray.co.jp>

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1. Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2008 (April 1, 2007 to June 30, 2007) (1) Business Performance (consolidated)

(¥ million, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2007 1Q	100,822	10.8%	12,287	38.8%	12,048	45.1%	7,636	44.1%
Fiscal 2006 1Q	91,024	7.6%	8,853	20.7%	8,304	21.9%	5,298	41.4%
Fiscal 2006	385,284	--	40,220	--	36,546	--	22,412	--

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2007 1Q	20.78	20.73
Fiscal 2006 1Q	14.41	14.37
Fiscal 2006	60.95	60.80

Note: Percentages displayed for net sales, operating income, ordinary income, and net income are comparisons with the corresponding period of the previous fiscal year.

Qualitative Information and Overview of Business Performance

Although the world economy recorded steady expansion during the first quarter of the current fiscal year, uncertainties remained regarding rising raw material and fuel prices, as well as concerns about the direction of the economy in the United States and China. Under these circumstances, the Kuraray Group worked toward the accomplishment of priority issues under its GS-21 medium-term business plan, which is now in its second year. As a result, net sales for the first quarter of the current fiscal year increased 10.8% year on year to ¥100,822 million, operating income climbed 38.8% to ¥12,287 million and net income surged 44.1% to ¥7,636 million. Business conditions by segment compared with the same period a year earlier were as follows.

Chemicals and Resins

Sales of poval increased year on year, supported by strong results in optical-use poval film on the back of increased demand for large-screen LCD televisions. Kuraray worked to raise sales prices for poval resin in response to high raw material and fuel costs. Overall sales of polyvinyl butyral (PVB) film were up owing to strong results in construction applications in Europe. Demand for *EVVAL* remained steady, supported by results in food packaging applications. Sales of methacrylic resin increased as a result of strong demand for molding material used in light-guide plates, which offset slumping demand for sheets. Sales of isoprene-related products saw an overall increase, with growth in demand for *SEPTON* thermoplastic elastomer and other specialty chemicals offsetting the impact of intense competition and difficult conditions in aroma chemicals and agricultural intermediates.

Fibers and Textiles

Demand remained steady for *KURALON* in applications as a substitute for asbestos. *CLARINO* saw steady results for use in accessories, but sluggish results in shoe applications. The Company saw sound demand for nonwoven fabrics for use in medical applications, as well as steady demand for hook and loop fastener materials for industrial applications. Sales of high-strength fiber *VECTRAN* were up owing primarily to steady demand in the United States. Sales of polyester also increased as a result of performance in sports and other core areas.

High-Performance Materials, Medical Products and Others

In the medical business, sales of dental materials were strong in Europe and the United States. However, sales in the dialyzer and therapeutic apheresis

devices businesses were impacted by price revisions for pharmaceuticals. Kuraray has reached a basic agreement on the merger of its dialyzer and therapeutic apheresis devices businesses with those of Asahi Kasei Medical Co., Ltd. in October 2007. Kuraray recorded a sales increase for the heat-resistant polyamide resin *GENESTAR* on the back of robust demand for use as a material in electronics. Sales of activated carbon were steady, primarily supported by applications in water purification.

(2) Changes in consolidated financial position

	Total assets (¥ million)	Net assets (¥ million)	Shareholders' equity ratio (%)	Shareholders' equity per share (¥)
June 30, 2007	504,422	361,429	71.1	978.88
June 30, 2006	470,663	342,623	72.3	925.55
March 31, 2006	508,694	358,592	70.0	967.80

Qualitative Information Regarding Changes in Financial Position

Total assets amounted to ¥504.4 billion, a decline of ¥4.3 billion compared with the end of the previous fiscal year, as a result of a decrease in current assets. Total liabilities amounted to ¥143.0 billion, down ¥7.1 billion compared to the previous fiscal year-end, owing to decreases in accrued income taxes and reserve for bonuses. Net assets amounted to ¥361.4 billion, up ¥2.8 billion compared to the previous fiscal year-end, as a result of an increase in retained earnings and other factors. Shareholders equity totaled ¥358.9 billion, and the shareholders' equity ratio was 71.1%.

(3) Cash flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period
Fiscal 2007 1Q	4,280	(5,385)	(12,863)	20,260
Fiscal 2006 1Q	1,840	(9,380)	(5,078)	15,464
Fiscal 2006	38,961	(28,936)	(4,350)	34,032

Qualitative Information Regarding Forecasts

There are no changes to forecasts of the Company's performance in the interim period and fiscal year ending March 31, 2008, as uncertainties linger regarding prices for raw materials and fuels, as well as foreign exchange rates.

2. Other

(1) Changes at major subsidiaries: No

(Changes at specific subsidiaries as a result of changes in the scope

- of consolidation)
- (2) Application of simplified accounting methods: Yes
 - (3) Change in method of accounting from most recent fiscal year: No

Attachments:

Consolidated statements of income, consolidated balance sheets, consolidated statements of cash flows and business segment information for the quarter.

First Quarter Consolidated Statements of Income

(Unit: ¥ million)

	Fiscal 2007 1Q (April 1 – June 30, 2007)	Fiscal 2006 1Q (April 1 – June 30, 2006)	Change	Fiscal 2006 (April 1, 2006 – March 31, 2007)
Net sales	100,822	91,024	9,797	385,284
Cost of sales	70,399	64,681	5,718	275,885
Gross profit	30,422	26,343	4,079	109,398
Selling, general and administrative expenses	18,135	17,490	644	69,178
Operating income	12,287	8,853	3,434	40,220
Non-operating income				
Interest and dividends received	455	444	10	1,939
Equity in earnings of affiliates	-	3	(3)	77
Other, net	418	202	216	812
Total non-operating income	874	650	224	2,829
Non-operating expenses				
Interest paid	100	53	47	419
Equity in losses of affiliates	16	-	16	-
Other expenses	999	1,145	(146)	6,084
Total non-operating expenses	1,116	1,199	(82)	6,503
Ordinary income	12,045	8,304	3,741	36,546
Extraordinary income				
Gain on sales of investment securities	145	-	145	3,078
Gain on sales of fixed assets	-	-	-	3,746
Gain on changes in retirement benefits plan	-	-	-	634
Total extraordinary income	145	-	145	7,459
Extraordinary expenses				
Restructuring charges	-	-	-	5,802
Loss from impairment of fixed assets	-	-	-	1,658
Loss on disposal of property, plant and equipment	-	-	-	670
Loss on write-down of investment securities	-	-	-	292
Total extraordinary expenses	-	-	-	8,423
Income before income taxes	12,191	8,304	3,887	35,582
Current income taxes				
Current income taxes	3,923	1,834	2,088	12,612
Deferred income taxes	601	1,150	(549)	443
Total income taxes	4,524	2,984	1,539	13,055
Minority interests in net income of consolidated subsidiaries	(Negative) 30	(Negative) 20	(9)	(Negative) 114
Net income	7,636	5,298	2,338	22,412

First Quarter Consolidated Balance Sheets

Assets (Unit: ¥ million)

	Fiscal 2007 1Q (As of June 30, 2008)	Fiscal 2006 (As of March 31, 2007)	Change	Fiscal 2006 1Q (As of June 30, 2006)
Current assets	211,681	217,970	(5,288)	188,304
Cash and cash equivalents	13,153	22,924	(9,771)	14,462
Notes and accounts receivable	95,684	96,186	(501)	86,312
Marketable securities	7,997	12,997	(5,000)	3,999
Inventories	74,622	72,231	2,391	73,653
Deferred income taxes	5,895	6,741	(846)	5,292
Others	16,248	7,781	8,466	5,640
Allowance for doubtful accounts	(919)	(892)	(26)	(1,056)
Fixed assets	291,740	290,724	1,016	282,358
Property, plant and equipment	177,348	174,151	3,196	160,857
Buildings	31,378	30,632	745	27,396
Machinery and equipment	89,339	86,982	2,357	83,711
Land	19,029	19,028	0	19,685
Construction-in-progress	35,076	34,978	98	27,605
Others	2,524	2,529	(5)	2,459
Intangible fixed assets	34,563	35,238	(675)	34,207
Goodwill	28,879	29,298	(419)	28,893
Other intangible assets	5,684	5,940	(256)	5,313
Investments and other assets	79,828	81,333	(1,505)	87,293
Investment securities	50,622	49,238	1,383	40,806
Long-term loans	2,667	2,709	(42)	3,254
Accumulated premiums on insurance	11,789	14,653	(2,863)	29,911
Deferred income taxes	2,860	2,844	15	2,675
Prepaid pension expenses	7,124	7,106	18	5,257
Others	4,782	4,798	(16)	5,476
Allowance for doubtful accounts	(19)	(18)	0	(88)
Total	504,422	508,694	(4,272)	470,663

First Quarter Consolidated Balance Sheets

Liabilities and Shareholders' Equity (Unit: ¥ million)

	Fiscal 2007 1Q (As of June 30, 2007)	Fiscal 2006 (As of March 31, 2007)	Change	Fiscal 2006 1Q (As of June 30, 2006)
Liabilities				
Current liabilities	89,835	94,404	(4,568)	68,592
Notes and accounts payable	40,346	43,604	(3,257)	37,745
Short-term bank loans	16,906	11,708	5,198	4,968
Accrued expenses	6,475	6,970	(495)	6,115
Accrued income taxes	4,191	6,735	(2,544)	1,923
Reserve for bonuses	3,808	6,200	(2,391)	3,647
Other reserves	29	29	0	31
Other	18,078	19,155	(1,077)	14,159
Long-term liabilities	53,157	55,697	(2,540)	59,447
Corporate bonds	10,000	10,000	-	10,000
Long-term debt	3,855	6,255	(2,400)	9,255
Deferred income taxes	11,609	11,128	481	12,541
Accrued retirement benefits	13,354	12,890	464	12,909
Accrued retirement benefits for directors and auditors	161	180	(19)	114
Others	14,175	15,242	(1,067)	14,626
Total Liabilities	142,992	150,101	(7,109)	128,039
Net assets				
Shareholders' equity	338,178	336,415	1,762	322,182
Capital	88,955	88,955	-	88,955
Additional paid-in capital	87,322	87,314	7	87,226
Retained earnings	175,167	171,427	3,740	157,484
Treasury stock	(13,267)	(11,280)	(1,986)	(11,483)
Valuation gains and losses	20,711	19,723	988	18,081
Unrealized gain on revaluation of securities	12,239	11,321	917	14,965
Deferred gain (loss) on hedging instruments	45	(8)	54	(48)
Foreign currency translation adjustments	8,426	8,410	16	3,164
Stock acquisition rights	69	-	69	-
Stock acquisition rights	69	-	69	-
Minority interests	2,470	2,453	17	2,359
Minority interests in consolidated subsidiaries	2,470	2,453	17	2,359
Total net assets	361,429	358,592	2,837	342,623
Total liabilities and net assets	504,422	508,694	(4,272)	470,663

Kuraray Co., Ltd.

First Quarter Consolidated Statements of Cash Flows

(Unit: ¥ million)

	Fiscal 2007 1Q (April 1 – June 30, 2007)	Fiscal 2006 1Q (April 1 – June 30, 2006)	Fiscal 2006 (April 1, 2006 – March 31, 2007)
Cash flows from operating activities:			
Income before income taxes and minority interests	12,191	8,304	35,582
Depreciation and amortization	6,827	6,199	25,495
Increase in allowance for doubtful accounts	42	46	(168)
Increase (decrease) in accrued retirement benefits	465	305	227
(Decrease) increase in reserve for bonuses	(2,391)	(2,635)	(168)
Gain on sales of property, plant and equipment	-	-	(3,746)
Impairment loss of property, plant and equipment	-	-	1,658
Loss on disposal of property, plant and equipment	-	-	670
Gain on sales of investment securities	(145)	-	(3,078)
Loss on write-down of investment securities	-	-	292
Interest and dividend income	(455)	(444)	(1,939)
Interest expenses	100	53	419
Decrease (increase) in notes and accounts receivable	513	3,870	(4,932)
Increase in inventories	(2,404)	(4,131)	(1,357)
Decrease in notes and accounts payable	(3,440)	(2,451)	2,822
Increase in prepaid pension expenses	(18)	(114)	(1,963)
Other, net	(1,115)	(2,647)	964
Sub-total	10,168	6,345	48,848
Interest and dividend received	394	303	1,554
Insurance benefits received	-	2,149	2,149
Interest paid	(96)	(72)	(420)
Income taxes paid	(6,185)	(6,894)	(13,170)
Net cash and cash equivalents provided by operating activities	4,280	1,840	38,961
Cash flows from investing activities:			
Decrease in time deposits	1,000	-	(1,890)
Decrease in marketable securities	-	-	3,292
Payments for acquisition of property, plant, equipment and intangible assets	(8,193)	(5,817)	(32,574)
Proceeds from sales of property, plant and equipment	45	4	4,926
Payments for disposal of property, plant, equipment and intangible assets	54	3	2,744
Payments for purchase of investment securities	(256)	(1,182)	(16,953)
Proceeds from sales and redemption of investment securities	178	11	7,464
Payments of premiums on insurance	-	(74)	(309)
Withdrawals from accumulated premiums on insurance	2,904	14	15,842
Payments of long-term prepaid expenses	(128)	(1,996)	(2,457)
Other, net	(990)	(344)	3,051
Net cash and cash equivalents used in investing activities	(5,385)	(9,380)	(28,936)

Cash flows from financing activities:			
Decrease in short-term bank loans	2,793	(1,662)	(74)
Proceeds from long-term debt	-	-	2,000
Repayments of long-term debt	-	(392)	(403)
Dividends paid to minority interests shareholders	(13)	-	(13)
Proceeds from sales of treasury stock	65	127	566
Payments for purchase of treasury stock	(2,049)	(28)	(176)
Other, net	(9,980)	-	-
Dividends paid	(3,679)	(3,123)	(6,248)
Net cash and cash equivalents used in financing activities	(12,863)	(5,078)	(4,350)
Effect of exchange rate changes on cash and cash equivalents	85	(3)	272
Net (decrease) increase in cash and cash equivalents	(13,863)	(12,621)	5,947
Cash and cash equivalents, beginning of period	34,032	28,085	28,085
Effect of changes in reporting entities	111	-	-
Cash and cash equivalents, end of period	20,269	15,464	34,032

Segment Information

Industrial segment information

First Quarter of Fiscal 2007 (April 1, 2007 to June 30, 2007)

(¥ million)

	Chemicals and resins	Fibers and textiles	High- performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales and operating income						
Net sales						
(1) Outside customers	57,806	25,677	17,337	100,822	-	100,822
(2) Inter-segment sales and transfers	162	133	4,697	4,992	[4,992]	-
Total	57,969	25,810	22,035	105,815	[4,992]	100,822
Operating expenses	46,582	23,836	19,869	90,287	[1,752]	88,535
Operating income	11,387	1,974	2,165	15,527	[3,239]	12,287

First Quarter of Fiscal 2006 (April 1, 2006 to June 30, 2006)

(¥ million)

	Chemicals and resins	Fibers and textiles	High- performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales and operating income						
Net sales						
(1) Outside customers	49,840	25,205	15,978	91,024	-	91,024
(2) Inter-segment sales and transfers	82	284	4,078	4,445	[4,445]	-
Total	49,922	25,489	20,057	95,470	[4,445]	91,024
Operating expenses	41,509	23,397	18,613	83,521	[1,349]	82,171
Operating income	8,412	2,092	1,443	11,948	[3,095]	8,853

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

(¥ million)

	Chemicals and resins	Fibers and textiles	High- performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales and operating income						
Net sales						
(1) Outside customers	201,221	107,924	76,138	385,284	–	385,284
(2) Inter-segment sales and transfers	377	819	24,826	26,284	[26,023]	–
Total	201,599	108,744	100,964	411,308	[26,023]	385,284
Operating expenses	165,955	100,759	93,019	359,734	[14,669]	345,064
Operating income	31,643	7,985	7,945	51,574	[11,354]	40,220