

July 30, 2008
Kuraray Co., Ltd.

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2009

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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(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2009 (April 1, 2008 to June 30, 2008)

(1) Consolidated Operating Results (Cumulative)

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

(Millions of Yen)

	Net Sales		Operating Income		Ordinary Income		Net Income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2008 1Q	99,950	—	11,666	—	11,228	—	6,535	—
Fiscal 2007 1Q	100,822	10.8%	12,287	38.8%	12,045	45.1%	7,636	44.1%

(Yen)

	Net Income per Share	Fully Diluted Net Income per Share
Fiscal 2008 1Q	18.77	18.73
Fiscal 2007 1Q	20.78	20.73

(2) Financial Position (Consolidated)

(Millions of Yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
			%	Yen
As of June 30, 2008	482,352	341,581	70.2	972.27
As of March 31, 2008	490,365	344,833	69.7	981.82

(Reference)

Shareholders' equity: As of June 30, 2008 ¥338,607 million
As of March 31, 2008 ¥341,889 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30, 2008	Sep. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	Annual
Fiscal 2007	—	11.00	—	11.00	22.00
Fiscal 2008	—	xx	xx	xx	xx
Fiscal 2008 (Forecast)	xx	12.00	—	13.00	25.00

Note: Revision of cash dividend forecast during this period: No

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2009 (April 1, 2008 to March 31, 2009)

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	%		%		%		%		Yen
Interim	220,000	—	24,000	—	22,000	—	13,000	—	37.33
Full Fiscal Year	450,000	7.8%	51,000	6.0%	48,000	12.1%	28,000	9.6%	80.41

Note: Revisions of consolidated financial results forecasts during this period: No

4. Others in Qualitative Information and Financial Statements

(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)

No

(2) Adoption of the Simplified Accounting Method and Special Accounting Practices for presenting Quarterly Consolidated Financial Statements

Applied

(Note: Please refer to "4. Others" of "Qualitative Information and

Financial Statements”)

(3) Changes in Accounting Principles, Procedures and Presentation Methods for the Preparation of Quarterly Consolidated Financial Statements

(Recorded under “Changes in Important Items Considered Fundamental to the Preparation of Quarterly Consolidated Financial Statements”)

1. Changes in accordance with revisions of accounting standards and related practices: Applied

2. Changes in items other than 1. Above: Yes

(Note: Please refer to “ 4. Others ” of “Qualitative Information and Financial Statements”)

(4) The Number of Shares Issues and Outstanding (Common Shares)

1. The Number of shares issued and outstanding (including treasury stock) as of the period-end:

As of June 30, 2008 382,863,603 shares

As of March 31, 2008 382,863,603 shares

2. The Number of treasury stock as of the period-end:

As of June 30, 2008 34,597,605 shares

As of March 31, 2008 34,642,074 shares

3. Average number of shares for the period:

Fiscal 2008 1Q 348,236,769 shares

Fiscal 2007 1Q 367,544,317 shares

Cautionary Statement with respect to Forecasts of Consolidated Business Results

1. The forecasts presented in this document are based on management’s assumptions and beliefs in light of currently available information. Kuraray Co., Ltd. cautions readers that a variety of factors could cause actual results to differ materially from forecasts.

2. Kuraray Co., Ltd. is applying Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12) and Guidance on Accounting Standard for Quarterly Financial Reporting (ASBJ Guidance No. 14) from the fiscal year ending March 31, 2009. Furthermore, the Company prepares quarterly consolidated financial statements according to quarterly consolidated financial statement rules.

Qualitative Information and Financial Statements

1. Qualitative Information and Overview of Consolidated Business Results

During the first quarter (April 1, 2008 to June 30, 2008) of the current fiscal year, there was a ballooning of concerns regarding a slowdown in the global economy due to turmoil in the U.S. financial market and signs of worldwide inflation driven by the surging prices of crude oil and other natural resources. The Kuraray Group was not immune to the severe operating conditions mainly caused by surging raw material and fuel prices. However, Kuraray actively implemented such Groupwide initiatives as the introduction of products with higher added-value, strategic price revisions and cost reductions.

As a result, net sales for the first quarter declined 0.9% compared with the same period of the previous fiscal year to ¥99,950 million, operating income declined 5.1% to ¥11,666 million, ordinary income decreased 6.8% to ¥11,228 million and net income slumped 14.4% to ¥6,535 million. The following section provides explanations of results by business segment and performance by geographical segment.

Results by Business Segment

Chemicals and Resins

Sales in the Chemicals and Resins segment were ¥61,823 million, up 6.9% year on year, and operating income totaled ¥12,763 million, up 12.1% year on year.

Sales of *Poval* grew due to robust demand for optical-use *Poval* films used in LCD displays for large-screen TVs and monitors. In addition, demand for polyvinyl acetate (PVA) resin steadily expanded, while sales of polyvinyl butyral (PVB) film rose owing to increased demand for construction applications in Europe. Sales of *EVVAL*, an ethylene vinyl alcohol polymer resin, increased due to the strong performance of the product for food packaging applications in Europe and Asia, which more than offset weak results in the United States attributable to slow demand for automotive applications. Despite stagnant demand for its use in advertising signs and display articles, methacrylic resin performed well overall, supported by the stable performance of molding materials for light-guide plate applications. In isoprene-related products, *SEPTON* thermoplastic elastomers enjoyed healthy demand and consequently recorded increased sales volume. Sales in the specialty chemicals business were brisk, while sales in the fine chemicals business decreased due to the negative effects of discontinued production of certain aroma chemicals.

Fibers and Textiles

Sales in the Fibers and Textiles segment dipped 7.3% year on year to ¥23,804 million, and operating income edged down 31.9% to ¥1,344 million.

Demand for *KURALON* remained robust overseas for use as an asbestos substitute (cement reinforcing agent) in FRC (fiber reinforced cement) applications, in contrast with slow demand in Japan. *CLARINO* man-made leather performed well for applications in accessories, although its performance was sluggish with regard to footwear applications. The performance of nonwoven fabrics and hook and loop fasteners was weak for use as restaurant-use wiping cloth and industrial materials, respectively. The polyester business' performance was also weak.

High-Performance Materials, Medical Products and Others

In this segment, sales declined 17.4% year on year to ¥14,322 million, and operating income decreased 49.2% to ¥1,099 million.

In the medical products business, sales of dental materials continued to grow both in Japan and overseas. In October 2007, Kuraray's dialyzer business was transferred to Asahi Kasei Kuraray Medical Co., Ltd. In the high-performance materials business, sales of the *GENESTAR* heat-resistant polyamide resin remained almost unchanged from the corresponding period of the previous fiscal year. Kuraray completed the construction of new *GENESTAR* production facilities at its Kashima Plant. The new facilities are expected to increase Kuraray's annual *GENESTAR* production capacity by 5,500 tons. Sales of other businesses stagnated mainly due to declined orders for construction work in the engineering business.

Unallocatable operating income included in elimination or corporate increased ¥397 million to ¥3,586 million.

Performance by Geographic Segment

Japan

Sales in Japan declined year on year to ¥66,111 million. Expanded sales of optical-use *Poval* film, *EVAL* and *SEPTON* attributable to increased demand were offset by weak performance in the fibers and textiles business, which was adversely affected by the country's slowing economy. Declining orders in the engineering business also added to the unfavorable results in Japan.

North America

Sales volumes increased for *EVAL* and dental materials, while sales were sluggish for *CLARINO* and *SEPTON*. In addition, the appreciation of the yen against the dollar had a negative impact on this region's sales when converted into yen. As a result, sales in North America decreased year on year

to ¥7,620 million.

Europe

Performance was robust for PVB films for construction applications, PVA resin and EVAL for food packaging applications. As a result, sales in Europe rose year on year to ¥20,642 million.

Asia

In accordance with Kuraray making Poval Asia Pte., Ltd. (now Kuraray Asia Pacific Pte. Ltd.) its wholly-owned subsidiary, the sales volume of PVA resin expanded. As a result, sales in Asia rose year on year to ¥5,576 million.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥8,013 million from the end of the previous fiscal year to ¥482,352 million, mainly owing to a decline in current assets. Total liabilities and net assets also decreased ¥4,760 million and 3,252 million to ¥140,771 million and ¥341,581 million, respectively. A major factor for the decrease in net assets was a decline in foreign currency translation adjustments, while a principal factor for the increase was a rise in net income for the first quarter. Shareholders' equity stood at ¥338,607 million, for the equity ratio of 70.2%.

Cash Flows

Cash and cash equivalents increased ¥1,231 million from the end of the previous fiscal year to ¥13,420 million, as a result of ¥6,462 million provided by operating activities, ¥11,060 million used in investing activities and ¥5,595 million provided by financing activities.

Brief details of cash flows from operating, investing and financing activities are explained below.

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥2,182 million compared with the same period of the previous fiscal year to ¥6,462 million. Major components included income before income taxes and minority interests of ¥10,863 million, depreciation and amortization of ¥8,264 million and income taxes paid of ¥8,109 million.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥5,674 million compared with the corresponding period of the previous fiscal year to ¥11,060 million. Major

components included proceeds of ¥1,071 million from sales and redemption of marketable and investment securities, payments of ¥9,909 million for the acquisition of property, plant, equipment and intangible assets and payment for the purchase of investment securities of ¥2,413 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥5,595 million, a ¥18,459 million improvement from ¥12,863 million used in financing activities in the corresponding period of the previous fiscal year. Major components included an increase of ¥2,221 million in short-term bank loans, proceeds of ¥4,369 million from long-term debt, an increase of ¥3,000 million in commercial paper and dividends paid of ¥3,830 million.

3. Qualitative Information Regarding Consolidated Performance Forecast

As of the date of this earnings report, there are no changes to performance forecasts for the six months ending September 30, 2008 and March 31, 2009, respectively.

4. Others

(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation:

No

(2) Adoption of the Simplified Accounting Method and Special Accounting Practices for presenting Quarterly Consolidated Financial Statements:

Yes

(i) Simplified accounting method

Tax expenses related to certain consolidated subsidiaries that have no significant impact on Kuraray's quarterly consolidated financial statements are calculated by multiplying income before income taxes and minority interests for the period under review by the effective income tax rate after the application of the tax effect accounting in the consolidated statements of income for the previous fiscal year.

(ii) Special accounting practices used in the preparation of quarterly consolidated financial statements

No

(3) Changes in Accounting Principles, Procedures and Presentation Methods for the Preparation of Quarterly Consolidated Financial Statements

- (i) Kuraray began applying the Accounting Standards for Quarterly Financial Reporting (Accounting Standards Board of Japan [ASBJ] Statement No. 12) and the Guidance on the Accounting Standards for Quarterly Financial Reporting (ASBJ Guidance No. 14) from the fiscal year ending March 31, 2009. Also, Kuraray prepares quarterly consolidated financial statements according to the Regulations Concerning Terminology, Formats and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No. 66 of 2002).
- (ii) Previously, inventories held for the purpose of ordinary sales were evaluated at cost mainly using the total average method. Under this method, the book value of inventories held over a certain period of time was devalued at regular rates. However, Kuraray began to apply the Accounting Standards for Inventory Evaluation (ASBJ Standard No. 9, first implemented July 5, 2006) from the first quarter of the fiscal year ending March 31, 2009. Accordingly, Kuraray evaluates such inventories at cost mainly using the total average method and posts such securities at book value that is devalued in accordance with the deterioration of profitability.

As a result of the application of this policy, operating income and ordinary income both increased ¥7 million, while income before income taxes and minority interests declined ¥1,146 million.

In addition, loss on disposal of inventories, which was previously included in Non-Operating expenses, is now included in cost of sales from the quarter under review in line with the application of the said standards as these inventories are inevitably generated in the normal course of Kuraray's operations.

The application of this policy had no material impact on operating income or ordinary income and had no impact on income before income taxes and minority interests.

- (iii) From the first quarter of the fiscal year ending March 31, 2009, Kuraray began to apply the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force No. 18), and has made necessary revisions in its consolidated financial statement.

The application of this policy had no material impact on operating income, ordinary income or income before income taxes and minority interests.

- (iv) From the first quarter of the fiscal year ending March 31, 2009, Kuraray began applying the Accounting Standards for Lease Transactions (Business Accounting Council, the 1st Committee Standard No. 13, first implemented June 17, 1993, last amended March 30, 2007) and the Guidance on the Accounting Standards for Lease Transactions (The Japanese Institute of Certified Public Accountants, Accounting Practice Committee Guidance No. 16, first implemented January 18, 1994, last amended March 30, 2007) from the first quarter of the fiscal year ending March 31, 2009. As the result of the application of this policy, the method of accounting for financial leases that do not transfer ownership changed from treating such leases as operating lease transactions to treating them as sales/purchase transactions. Lease assets are depreciated down to a residual value of zero, using the straight-line method with in their lease service life.

The application of this policy had no impact on operating income, ordinary income and income before income taxes and minority interests.

- (v) In line with revisions to the statutory useful life and classification of assets based on the amended Corporate Tax Law of Japan, from the quarter under review, Kuraray and some of its consolidated subsidiaries have partially revised the useful life applied to certain machinery and equipment.

The application of this policy had no material impact on operating income, ordinary income and income before income taxes and minority interests.

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	June 30, 2008	March 31, 2008
ASSETS		
Current Assets		
Cash and cash deposits	14,320	11,109
Notes and accounts receivable-trade	90,780	95,472
Short-term investment securities	—	2,062
Merchandise and finished goods	50,929	50,834
Work in process	10,387	11,455
Raw materials and supplies	11,822	10,244
Deferred tax assets	5,262	7,362
Others	8,346	8,764
Allowance for doubtful accounts	(960)	(1,021)
Total current assets	190,888	196,282
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures (net)	34,339	33,853
Machinery and equipment (net)	106,550	110,229
Land	18,988	19,094
Construction in progress	25,591	26,510
Others (net)	4,510	2,674
Total tangible fixed assets	189,981	192,362
Intangible fixed assets		
Goodwill	26,481	28,596
Others	4,991	5,411
Total intangible fixed assets	31,472	34,008
Investments and other assets		
Investment securities	54,271	51,590
Long-term loans	370	392
Deferred tax assets	3,331	3,538
Prepaid pension cost	7,513	7,540
Others	4,832	4,962
Allowance for doubtful accounts	(310)	(311)
Total investments and other assets	70,009	67,712
Total fixed assets	291,464	294,083
Total Assets	482,352	490,365

(Millions of yen)

	June 30, 2008	March 31, 2008
LIABILITIES		
Current Liabilities		
Notes and accounts payable-trade	35,598	39,170
Short-term loans payable	14,003	11,997
Commercial paper	3,000	—
Income taxes payable	1,853	8,826
Reserve for bonuses	4,295	6,716
Other provision	49	66
Other	23,684	22,296
Total current liabilities	82,484	89,074
Noncurrent liabilities		
Corporate bonds payable	10,000	10,000
Long-term loans payable	16,324	11,954
Deferred tax liabilities	6,088	5,686
Provision for retirement benefits	13,756	12,959
Provision for director's retirement benefits	138	191
Others	11,977	15,665
Total noncurrent liabilities	58,286	56,457
Total liabilities	140,771	145,532
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,228	87,228
Retained earnings	191,848	189,282
Treasury stock	(40,867)	(40,919)
Total shareholders' equity	327,164	324,547
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,603	6,895
Deferred gains or losses on hedges	183	18
Foreign currency translation adjustments	3,656	10,427
Total valuation and translation adjustments	11,443	17,341
Subscription right to shares	109	69
Minority interests	2,864	2,875
Total net assets	341,581	344,833
Total liabilities and net assets	482,352	490,365

(2) Quarterly Consolidated Statement of Income

(Millions of yen)

	Fiscal 2008 1Q
	(April 1, 2008 – June 30, 2008)
Net sales	99,950
Cost of sales	70,289
Gross profit	29,661
Selling, general and administrative expenses	
Selling expenses	4,794
General and administrative expenses	13,199
Total selling, general and administrative expenses	17,994
Operating income	11,666
Non-operating income	
Interest income	99
Dividends income	322
Miscellaneous income	451
Total non-operating income	872
Non-operating expenses	
Interest expenses	247
Equity in loss of affiliates	20
Loss on reimbursement of salaries for employees on secondment, net	277
Miscellaneous expenses	765
Total non-operating expenses	1,310
Ordinary income	11,228
Extraordinary income	
Gain on sales of investment securities	878
Total extraordinary income	878
Extraordinary loss	
Loss on valuation of inventories	1,153
Loss on valuation of investment securities	49
Loss on disposal of property, tangible fixed assets	40
Total extraordinary loss	1,243
Income before income taxes	10,863
Income taxes-current	1,846
Deferred income taxes-deferred	2,457
Total income taxes	4,304
Minority interests in income	24
Net income	6,535

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal 2008 1Q
	(April 1, 2008 – June 30, 2008)
Net cash provided by (used in) operating activities	
Income before income	10,863
Depreciation and amortization	8,264
Loss on disposal of tangible fixed assets	40
Loss (gain) on sales of investment securities	(878)
Loss (gain) on valuation of investment securities	49
Loss (gain) on valuation of inventories	1,153
Decrease (increase) in notes and accounts receivable-trade	3,734
Increase (decrease) in inventories	(3,199)
Decrease (increase) in notes and accounts payable-trade	(3,397)
Other, net	(3,153)
Sub-total	13,477
Income taxes paid	(8,109)
Others, net	1,094
Net cash provided by operating activities	6,462
Net cash provided by (used in) investment activities	
Purchase of fixed of assets tangible fixed assets and intangible fixed assets	(9,909)
Purchase of investment securities	(2,413)
Proceeds from sales and redemption of short-term investment securities and investment securities	1,071
Other, net	190
Net cash provided by (used in) investing activities	(11,060)
Net cash provided by (used in) financing activities	
Net increase (decrease) in short-term loans payable	2,221
Increase in commercial papers	3,000
Proceeds from long-term loans payable	4,369
Cash dividends paid	(3,830)
Other, net	(165)
Net cash provided by (used in) financing activities	5,595
Effect of exchange rate changes on cash and cash equivalents	(453)
Net increase (decrease) in cash and cash equivalents	543
Cash and cash equivalents, beginning of year	12,189
Increase in cash and cash equivalents from newly consolidated subsidiary	687
Cash and cash equivalents, end of year	13,420

Kuraray began applying the Accounting Standards for Quarterly Financial Reporting (Accounting Standards Board of Japan [ASBJ] Statement No. 12) and the Guidance on the Accounting Standards for Quarterly Financial Reporting (ASBJ Guidance No. 14) from the fiscal year ending March 31, 2009. Also, Kuraray prepares quarterly consolidated financial statements according to the Regulations Concerning Terminology, Formats and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No. 66 of 2002).

(4) Notes Regarding Going Concern Assumptions

None

(5) Segment Information

(i) Industrial segment information

First Quarter of Fiscal 2008 (April 1, 2008 to June 30, 2008)

(million of yen)

	Chemicals and resins	Fibers and textiles	High-Performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales						
(1) Outside customers	61,823	23,804	14,322	99,950	—	99,950
(2) Inter-segment sales and transfers	37	144	2,908	3,090	(3,090)	—
Total	61,860	23,948	17,231	103,040	(3,090)	99,950
Operating income	12,763	1,344	1,099	15,208	(3,541)	11,666

Notes:

1. Industry segments are aggregated into three segments based upon the classification of sales.

2. Principal products by business:

(1) Chemicals and Resins: *Poval* resin and film; PVB resin and film; ethylene vinyl alcohol polymer resin (*EVAL*); isoprene; fine chemicals; methacrylate resin; processed resin products; and others

(2) Fibers and Textiles: *KURALON*; man-made leather (*CLARINO*); dry-laid nonwoven fabric (*KURAFLEX*); hook and loop fastener (*MAGIC TAPE*); polyester; textiles; others

(3) High-Performance Materials, Medical Products and Others: medical products; high-performance materials; activated carbon; high-performance membranes; engineering services; others

3. Previously, inventories held for the purpose of ordinary sales were evaluated at cost mainly using the total average method. Under this method, the book value of inventories held over a certain period of time was devaluated at regular rates. However, Kuraray began to apply the Accounting Standards for Inventory Evaluation (ASBJ Standard No. 9, first implemented July 5, 2006) from the first quarter of the fiscal year ending March 31, 2009. Accordingly, Kuraray evaluates such inventories at cost mainly using the total average method and posts such inventories' book value devaluated in accordance with the deterioration of their profitability.

In addition, loss on disposal of inventories attributable to deteriorated profitability, which was previously included in non-operating expenses, is now included in cost of sales from the quarter under review in line with the application of the said standards, as these inventories are inevitably generated in the normal course of Kuraray's operations.

The application of this policy has no material impact on performance of each segment.

4. From the first quarter of the fiscal year ending March 31, 2009, Kuraray began to apply the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force No. 18), and has made necessary revisions in its consolidated financial statement.

The application of this policy had no material impact on performance of each segment.

5. In line with revisions to statutory useful life and classification of assets based on the amended Corporate Tax Law of Japan, from the quarter under review, Kuraray and some of its consolidated subsidiaries have partially revised the useful life applied to certain machinery and equipment.

The application of this policy has no material impact on performance of each segment.

(ii) Geographical segment information
 First Quarter of Fiscal 2008 (April 1, 2008 to June 30, 2008)

(Million of yen)

	Japan	North America	Europe	Asia	Total	Elimination on consolidation and corporate	Consolidated Total
I Net sales and operating income							
Net sales							
(1) Outside customers	66,111	7,620	20,642	5,576	99,950	—	99,950
(2) Inter-segment	6,447	1,149	896	42	8,536	(8,536)	99,950
Total	72,558	8,770	21,539	5,618	108,486	(8,536)	99,950
Operating income (loss)	11,696	362	2,362	132	14,553	(2,886)	11,666

Notes:

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

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

(1) North America: United States of America

(2) Europe: Germany and Belgium

(3) Asia: Singapore and Hong Kong

3. Previously, inventories held for the purpose of ordinary sales were evaluated at cost mainly using a total average method. Under this method, the book value of inventories held over a certain period of time was devaluated at regular rates. However, Kuraray began to apply the Accounting Standards for Inventory Evaluation (ASBJ Standard No. 9, first implemented July 5, 2006) from the first quarter of the fiscal year ending March 31, 2009. Accordingly, Kuraray evaluates such inventories at cost mainly using the total average method and posts such inventories' book value devaluated in accordance with the deterioration of their profitability.

In addition, loss on disposal of inventories attributable to deteriorated profitability, which was previously included in non-operating expenses, is now included in cost of sales from the quarter under review in line with the application of the said standards, as these inventories are inevitably generated in the normal course of Kuraray's operations.

The application of this policy has no material impact on the performance of any segment.

4. From the first quarter of the fiscal year ending March 31, 2009, Kuraray began to apply the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (ASBJ Practical Issues Task Force No. 18), and has made necessary revisions in its consolidated financial statement.

The application of this policy had no material impact on the performance of any segment.

5. In line with revisions to statutory useful life and the classification of assets based on the amended Corporate Tax Law of Japan, from the quarter under review, Kuraray and some of its consolidated subsidiaries have partially revised the useful life applied to certain machinery and equipment.

The application of this policy has no material impact on the performance of any segment.

(iii) Foreign Sales

First Quarter of Fiscal 2008 (April 1, 2008 to June 30, 2008)

Millions of yen)

	North America	Europe	Asia	Other	Total
I Overseas sales	7,988	21,627	19,763	1,936	51,316
II Consolidated net sales	—	—	—	—	99,950
III Percentage of consolidated net sales (%)	8.0	21.6	19.8	1.9	51.3

Notes:

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

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

(1) North America: United States of America and Canada

(2) Europe: Germany and United Kingdom

(3) Asia: China and South Korea

(4) Other: Latin America and Africa

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

(6) Notes Regarding Substantial Changes in Shareholders' Equity

None

Attachments:

Consolidated Financial Statements for the First Quarter of the Previous Fiscal Year

**Consolidated Financial Statements for
the First Quarter of the Previous Fiscal Year
(April 1, 2007 to June 30, 2007)**

(1) Consolidated Statements of Income (Summary)

(Millions of yen)

	Fiscal 2007 1Q (April 1, 2007 – June 30, 2007)
Net sales	100,822
Cost of sales	70,399
Gross profit	30,422
Selling, general and administrative expenses	18,135
Operating income	12,287
Non-operating income	
Interest and dividends income	455
Miscellaneous income	418
Total non-operating income	874
Non-operating expenses	
Interest expense	100
Equity in loss of affiliates	16
Miscellaneous expense	999
Total non-operating expenses	1,116
Ordinary income	12,045
Extraordinary income	
Gain on sales of investment securities	145
Total extraordinary income	145
Income before income taxes	12,191
Income taxes – current	3,923
Income taxes – deferred	601
Total income taxes	4,524
Minority interests in income	30
Net income	7,636

(2) Consolidated Statements of Cash Flows (Summary)

(Millions of yen)

Fiscal 2007 1Q

(April 1, 2007 – June 30, 2007)

Cash flows from operating activities	
Income before income taxes and minority interests	12,191
Depreciation and amortization	6,827
Increase (decrease) in allowance for doubtful accounts	42
Increase (decrease) in provision for retirement benefits	465
(Increase) in provision for bonuses	(2,391)
Gain on sales of investment securities	(145)
Interest and dividends income	(455)
Interest expenses	100
Decrease in notes and accounts receivable	513
Increase in inventories	(2,404)
Decrease in notes and accounts payable	(3,440)
Decrease (increase) in prepaid pension costs	(18)
Other, net	(1,115)
Sub-total	10,168
Interest and dividend income received	394
Interest expenses paid	(96)
Income taxes paid	(6,185)
Net cash provided by operating activities	4,280
Cash flows from investing activities	
Net decrease (increase) in time deposits	1,000
Payments for acquisition of property, plant, equipment and intangible assets	(8,193)
Proceeds from sales of property, plant and equipment	45
Payments for disposal of tangible fixed assets and intangible fixed assets	54
Payments for purchase of investment securities	(256)
Proceeds from sales and redemption of investment securities	178
Proceeds from cancellation of insurance funds	2,904
Purchase of long-term prepaid expenses	(128)
Other, net	(990)
Net cash used in investing activities	(5,385)
Cash flows from financing activities	
Increase in short-term bank loans	2,793
Cash dividends paid to minority shareholders	(13)
Proceeds from sales of treasury stock	65
Purchase of treasury stock	(2,049)
Other, net	(9,980)
Cash dividends paid	(3,679)

Net cash used in financing activities	<u>(12,863)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>85</u>
Net decrease in cash and cash equivalents	<u>(13,863)</u>
Cash and cash equivalents, beginning of the period	<u>34,032</u>
Effect of changes in reporting entities	<u>111</u>
Cash and cash equivalents, end of the period	<u>20,260</u>

(3) Segment Information
Industrial Segment Information

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

(Million of yen)

	Chemicals and resins	Fibers and textiles	High- Performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
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