

July 31, 2009
Kuraray Co., Ltd.

Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2010

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, 2010 (April 1, 2009 to June 30, 2009)

(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 2009 1Q	72,910	(27.1%)	1,730	(85.2%)	1,512	(86.5%)	138	(97.9%)
Fiscal 2008 1Q	99,950	—	11,666	—	11,228	—	6,535	—

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
Fiscal 2009 1Q	0.40	0.40
Fiscal 2008 1Q	18.77	18.73

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
As of June 30, 2009	481,455	326,120	67.1	927.49
As of March 31, 2009	471,874	325,016	68.2	924.48

(Reference)

Shareholders' equity: As of June 30, 2009 ¥322,960 million
As of March 31, 2009 ¥321,918 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	Annual
Fiscal 2008	—	12.00	—	10.00	22.00
Fiscal 2009	—				16.0
Fiscal 2009 (Forecast)		8.00	—	8.00	

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2010 (April 1, 2009 to March 31, 2010)

(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		Net Income per Share	
Interim	160,000	(23.6%)	8,000	(65.6%)	7,000	(68.5%)	4,500	(66.4%)	12.92	Yen
Full Fiscal Year	340,000	(9.8%)	20,000	(31.7%)	17,000	(36.6%)	10,500	(19.1%)	30.15	Yen

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

4. Other

(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 in the Preparation of Quarterly Consolidated Financial Statements

Yes

(Note: Please refer to "4. Others" of "Qualitative Information and Financial Statements" on page 4 for details.)

- (3) **Changes in Accounting Principles, Procedures and Presentation Methods in Connection with 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 following revision of accounting standards: None
 2. Changes besides 1. above: None
- (4) **Number of Shares Issued and Outstanding (Common Shares)**
1. Number of shares issued and outstanding (including treasury stock) as of the period-end:

As of June 30, 2009	382,863,603 shares
As of March 31, 2009	382,863,603 shares
 2. Number of treasury stock as of the period-end:

As of June 30, 2009	34,654,138 shares
As of March 31, 2009	34,647,544 shares
 3. Average number of shares for the period:

As of June 30, 2009	348,209,708 shares
As of June 30, 2008	348,236,769 shares

Cautionary Statement with Respect to Forecasts of Consolidated Business Results

The results forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts.

Qualitative Information and Financial Statements

1. Qualitative Information and Overview of Consolidated Business Results

The operating environment in the first quarter (April 1, 2009 to June 30, 2009) saw a product recovery trend in certain regions, particularly China, and for LCD-related products. In the wake of the global recession, overall demand remained weak and adverse business conditions continued. Under these circumstances, Kuraray maintained its sales prices and took a number of steps to improve its break-even point including the further reduction of fixed costs such as equipment and personnel.

As a result, net sales for the first quarter decreased 27.1% compared with the same period of the previous fiscal year to ¥72,910 million, operating income slumped 85.2% to ¥1,730 million, ordinary income also tumbled 86.5% to ¥1,512 million and net income dropped 97.9% to ¥138 million, marking sharp declines in both revenue and earnings.

The following section provides explanations of results by business

segment and performance by geographical segment.

The cumulative three-month period for the Company's overseas subsidiaries runs from January 1, 2009 to March 31, 2009.

Results by Business Segment

Chemicals and Resins

Sales in the Chemicals and Resins segment were ¥44,436 million, down 28.1% year on year, and operating income totaled ¥5,221 million, down 59.1%.

In the wake of the economic slump, overall demand for poval resins in applications that include fiber and textile processing, as a paper processing agent and as an adhesive declined in Japan, Asia and Europe. Demand for polyvinyl butyral (PVB) film for architectural applications in Europe fell sharply and adverse conditions persisted. Unit sales for optical-use poval film rebounded, coming in on par with those of the previous fiscal year following a production recovery for LCD panels against a backdrop of increasing demand for LCD TVs thanks to economic boosting measures in China. While demand for ethylene vinyl alcohol polymer resin (*EVOH*) expanded in Asia, primarily for use in gas tanks in China, overall demand was weak due to the substantial impact of the economic recession and the slumping automobile industries of the United States and Europe. Despite a rebound in sales of methacrylic resin for light-guide plate applications, general purpose molding materials and sheets in particular were affected by the economic recession. Isoprene-related product sales were weak owing to decreased demand for fine chemicals, including solvents, and agricultural intermediates. Although demand for *SEPTON* thermoplastic elastomers in food and medical applications made a comeback in Japan and Asia, demand remained slack in the United States and Europe.

Fibers and Textiles

Sales in the Fibers and Textiles segment fell 24.5% year on year to ¥17,971 million, and an operating loss of ¥535 million was recorded, compared with operating income of ¥1,344 million in the previous fiscal year.

Demand for *KURALON* for use as an asbestos substitute in FRC (fiber reinforced cement) applications decreased on the back of flagging home construction in Europe. Demand for *CLARINO* man-made leather was weak due to sluggish demand for its use in shoes and interiors. Nonwoven fabrics fared well amid the ongoing inventory adjustments of customers, while demand for hook and loop fasteners remained weak due to the late recovery of industrial material and automobile applications. Polyester suffered from weak demand for clothing and industrial materials.

High-Performance Materials, Medical Products and Others

In this segment, sales declined 26.7% year on year to ¥10,502 million, and operating income dropped 47.2% to ¥580 million.

In the medical products business, sales of dental materials remained steady. Sales of *GENESTAR* heat-resistant polyamide resin rebounded thanks to brisk demand for LEDs used in LCD TVs and PCs. The engineering business remained on a down note, with lagging orders and construction postponements.

Performance by Geographic Segment

Japan

Although sales for optical-use poval film rebounded, sales remained weak for *KURALON*, *CLARINO* and methacrylic resin. As a result, sales declined to ¥52,663 million.

North America

Demand for *EVAL*, *SEPTON* and *CLARINO* eroded due to slower growth. As a result, sales in North America decreased year on year, to ¥5,155 million.

Europe

In the wake of the economic recession, sales of poval resins, PVB films, *EVAL* and asbestos substitute *KURALON* were sluggish. With the added impact of the yen's appreciation against the euro, sales in Europe declined year on year to ¥12,014 million.

Asia

Despite showing signs of a recovery, demand for poval resins remained slack. As a result, sales dropped to ¥3,076 million.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥9,580 million from the end of the previous fiscal year to ¥481,455 million, owing to an increase in current assets. Total liabilities increased ¥8,476 million to ¥155,334 million on account of increases in long-term debt. Net assets increased ¥1,104 million compared with the previous year, to ¥326,120 million. Major factors for the increase were increases in foreign currency translation adjustments and an unrealized gain

on revaluation of securities. Shareholders' equity stood at ¥322,960 million, for an equity ratio of 67.1%.

Cash Flows

Cash and cash equivalents in the first quarter decreased ¥18,457 million from the end of the previous fiscal year to ¥27,700 million, as a result of ¥14,302 million provided by operating activities, ¥38,966 million used in investing activities and ¥5,951 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 ¥14,302 million, an increase of ¥7,840 million compared with the same period of the previous fiscal year. Major components included proceeds from income before income taxes and minority interests of ¥576 million, depreciation and amortization of ¥8,225 million and a decrease in inventories of ¥8,533 million which made up for a decrease in notes and accounts payable—trade of ¥2,124 million and income taxes paid of ¥664 million.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥27,905 million compared with the corresponding period of the previous fiscal year to ¥38,966 million. Major components included a net increase in marketable securities of ¥27,000 million and purchases of property, plant and equipment and intangible assets worth ¥6,204 million.

Cash Flows from Financing Activities

Cash outflows as represented by dividends paid of ¥3,482 million and the repayment of short-term loans of ¥1,418 million were more than offset by proceeds of ¥11,000 million from long-term debt. This resulted in ¥5,951 million in net cash provided by financing activities.

3. Qualitative Information Regarding Consolidated Performance Forecasts

No changes have been made after a review of the performance forecasts announced on April 30, 2009.

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 tax effect accounting to 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:

No

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	June 30, 2009	March 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	17,588	37,527
Notes and accounts receivable	67,622	66,551
Marketable securities	42,997	9,499
Merchandise and finished goods	47,685	51,294
Work in process	7,957	10,145
Raw materials and supplies	10,220	12,112
Deferred tax assets	5,016	5,493
Others	10,639	9,248
Allowance for doubtful accounts	(510)	(514)
Total current assets	209,218	201,358
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net)	34,612	34,832
Machinery and equipment (net)	100,566	102,536
Land	18,956	18,918
Construction in progress	23,709	21,188
Others (net)	3,779	3,544
Total tangible fixed assets	181,623	181,020
Intangible fixed assets		
Goodwill	19,547	19,684
Others	3,645	3,835
Total intangible fixed assets	23,193	23,520
Investments and other assets		
Investment securities	49,416	47,505
Long-term loans	1,459	983
Deferred tax assets	5,293	5,616
Prepaid pension expenses	7,025	7,128
Others	4,741	5,230
Allowance for doubtful accounts	(516)	(490)
Total investments and other assets	67,419	65,974
Total fixed assets	272,236	270,515
Total	481,455	471,874

(Millions of yen)

	June 30, 2009	March 31, 2009
LIABILITIES		
Current Liabilities		
Notes and accounts payable	21,580	23,438
Short-term bank loans	20,384	18,464
Commercial paper	3,000	3,000
Accrued income taxes	862	684
Reserve for bonuses	3,378	5,753
Other reserves	327	377
Other	19,253	17,323
Total current liabilities	68,787	69,041
Long-term liabilities		
Corporate bonds	10,000	10,000
Long-term debt	47,228	39,280
Deferred tax liabilities	5,744	5,318
Accrued retirement benefits	14,336	13,933
Accrued retirement benefits for directors and auditors	138	171
Others	9,098	9,112
Total long-term liabilities	86,546	77,816
Total liabilities	155,334	146,858
NET ASSETS		
Shareholders' equity		
Capital	88,955	88,955
Additional paid-in capital	87,212	87,215
Retained earnings	190,633	193,977
Treasury stock	(40,907)	(40,903)
Total shareholders' equity	325,894	329,244
Valuation and translation adjustments		
Unrealized gain on revaluation of securities	4,284	2,825
Deferred gain on hedges	(67)	(156)
Foreign currency translation adjustments	(7,150)	(9,995)
Total valuation and translation adjustments	(2,933)	(7,326)
Stock subscription rights	191	109
Minority interests	2,968	2,988
Total net assets	326,120	325,016
Total liabilities and net assets	481,455	471,874

(2) Quarterly Consolidated Statement of Income

(Millions of yen)

	Fiscal 2008 1Q (April 1, 2008 – June 30, 2008)	Fiscal 2009 1Q (April 1, 2009 – June 30, 2009)
Net sales	99,950	72,910
Cost of sales	70,289	55,975
Gross profit	29,661	16,935
Selling, general and administrative expenses		
Selling expenses	4,794	3,708
General and administrative expenses	13,199	11,496
Total selling, general and administrative expenses	17,994	15,205
Operating income	11,666	1,730
Non-operating income		
Interest received	99	74
Dividends received	322	328
Equity in loss of affiliates	—	17
Other, net	451	279
Total non-operating income	872	700
Non-operating expenses		
Interest paid	247	332
Equity in loss of affiliates	20	—
Personnel expenses for seconded employees	277	—
Other expenses	765	585
Total non-operating expenses	1,310	917
Ordinary income	11,228	1,512
Extraordinary income		
Gain on sales of investment securities	878	—
Total extraordinary income	878	—
Extraordinary expenses		
Business structure improvement losses	—	762
Loss on valuation of investment securities	49	173
Write-down of inventories	1,153	—
Loss on disposal of property, plant and equipment	40	—
Total extraordinary expenses	1,243	935
Income before income taxes and minority interests	10,863	576
Current income taxes	1,846	52
Deferred income taxes	2,457	378
Total income taxes	4,304	430
Minority interests in net income of consolidated subsidiaries	24	7
Net income	6,535	138

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal 2008 1Q April 1, 2008 – June 30 2008	Fiscal 2009 1Q (April 1, 2009 – June 30, 2009)
Cash flows from operating activities		
Income before income taxes and minority interests	10,863	576
Depreciation and amortization	8,264	8,225
Loss (gain) on disposal of property, plant and equipment	40	—
Gain on sales of investment securities	(878)	—
Write-down of investment securities	49	173
Write-down of inventories	1,153	—
Decrease (increase) in notes and accounts receivable	3,734	(627)
Decrease (increase) in inventories	(3,199)	8,533
Decrease in notes and accounts payable	(3,397)	(2,124)
Other, net	(3,153)	91
Sub-total	13,477	14,847
Income taxes paid	(8,109)	(664)
Others	1,094	118
Net cash provided by operating activities	6,462	14,302
Cash flows from investing activities		
<u>Net increase in time deposits</u>	—	(5,015)
<u>Net increase in marketable securities</u>	—	(27,000)
Payments for acquisition of property, plant and equipment and intangible assets	(9,909)	(6,204)
Payment for purchase of investment securities	(2,413)	(176)
Proceeds from sales and redemption of marketable securities and investment securities	1,071	—
Other, net	190	(569)
Net cash used in investing activities	(11,060)	(38,966)
Cash flows from financing activities		
Decrease in short-term bank loans	2,221	(1,418)
Increase in commercial paper	3,000	—
Proceeds from long-term debt	4,369	11,000
Dividends paid	(3,830)	(3,482)
Other, net	(165)	(147)
Net cash provided by financing activities	5,595	5,951
Effect of exchange rate changes on cash and cash equivalents	(453)	255
Net increase in cash and cash equivalents	543	(18,457)
Cash and cash equivalents, beginning of the period	12,189	46,157
Effect of changes in reporting entities	687	—
Cash and cash equivalents, end of the period	13,420	27,700

(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)

	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

First Quarter of Fiscal 2009 (April 1, 2009 to June 30, 2009)

	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	44,436	17,971	10,502	72,910	—	72,910
(2) Inter-segment sales and transfers	35	95	1,694	1,825	(1,825)	—
Total	44,472	18,066	12,197	74,736	(1,825)	72,910
Operating income (loss)	5,221	(535)	580	5,265	(3,535)	1,730

Notes:

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

2. Principal products by business:

- (1) Chemicals and Resins: *Ponal* resin and film; PVB resin and film; ethylene vinyl alcohol polymer resin (*EVVAL*); 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

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

(¥ million)

	Japan	North America	Europe	Asia	Total	Elimination on consolidation and corporate	Consolidated
Net sales							
(1) Outside customers							
(2) Inter-segment	66,111	7,620	20,642	5,576	99,950	—	99,950
	6,447	1,149	896	447	8,941	(8,941)	—
Total	72,558	8,770	21,539	6,023	108,892	(8,941)	99,950
Operating income	11,685	373	2,362	132	14,553	(2,886)	11,666

First Quarter of Fiscal 2009 (April 1, 2009 to June 30, 2009)

(¥ million)

	Japan	North America	Europe	Asia	Total	Elimination on consolidation and corporate	Consolidated
Net sales							
(1) Outside customers							
(2) Inter-segment	52,663	5,155	12,014	3,076	72,910	—	72,910
	4,445	803	321	285	5,855	(5,855)	—
Total	57,109	5,959	12,335	3,362	78,766	(5,855)	72,910
Operating income (loss)	5,693	(210)	327	(267)	5,543	(3,813)	1,730

Notes:

- The segmentation of country or region is based on the geographical proximity.
- Major countries and regions included in each category are as follows:
 - North America: United States of America
 - Europe: Germany and Belgium
 - Asia: Singapore, Hong Kong and China

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

	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

First Quarter of Fiscal 2009 (April 1, 2009 to June 30, 2009)

	North America	Europe	Asia	Other	Total
I Overseas sales	5,601	12,917	15,289	874	34,682
II Consolidated net sales	—	—	—	—	72,910
III Percentage of consolidated net sales (%)	7.7	17.7	21.0	1.2	47.6

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: South Korea and China

(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