

**Consolidated Earnings Report for the  
First Quarter of the Fiscal Year Ending  
March 31, 2011(Unaudited)**

**August 4, 2010  
Kuraray Co., Ltd.**

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## Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2011

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

Representative  
Title: Representative Director and President  
Name: Fumio Ito

Contact  
Title: General Manager, Corporate Communications Department  
Corporate Management Planning Office  
Name: Morihiro Nakayama  
Tel: +81-3-6701-1070

(Millions of yen rounded down unless otherwise stated)

### 1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2011 (April 1, 2010 to June 30, 2010)

#### (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 2010 1Q	87,715	20.3%	12,534	624.5%	11,983	692.2%	5,699	—
Fiscal 2009 1Q	72,910	(27.1%)	1,730	(85.2%)	1,512	(86.5%)	138	(97.9%)

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
Fiscal 2010 1Q	16.37	16.34
Fiscal 2009 1Q	0.40	0.40

## (2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
As of June 30, 2010	498,712	337,162	66.9	958.98
As of March 31, 2010	502,815	337,818	66.5	961.24

(Reference)

Shareholders' equity: As of June 30, 2010                      ¥333,821 million  
As of March 31, 2010    ¥334,583 million

## 2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	Annual
Fiscal 2009	—	8.00	—	8.00	16.00
Fiscal 2010 (Forecast)		12.00	—	12.00	24.0

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

## 3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2011 (April 1, 2010 to March 31, 2011)

(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	
Interim	180,000	14.6 %	24,000	145.9%	23,000	144.4%	12,500	139.4%	35.91	Yen
Full Fiscal Year	365,000	9.6%	48,000	57.6%	46,000	59.0%	26,000	59.4%	74.69	Yen

Note: Revisions to forecasts of consolidated financial results during this period: Yes

## 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 Proper Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements

Yes

### (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

(Note: Items to be disclosed in “Significant Changes in the Basis of Presenting Quarterly Consolidated Financial Statements”

**(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, 2010 382,863,603 shares

As of March 31, 2010 382,863,603 shares

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

As of June 30, 2010 34,761,528 shares

As of March 31, 2010 34,790,071 shares

3. Average number of shares for the period (Cumulative):

As of June 30, 2010 348,095,110 shares

As of March 31, 2010 348,209,708 shares

*Indication of quarterly review procedure implementation status*

This quarterly earnings report is exempt from the quarterly review procedure based upon the Financial Instruments and Exchange Act. Furthermore, it has been undergoing the review procedure process at the time of release.

*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. Please refer to pp. 6-8 “Qualitative Information on Consolidated Operating Results Forecast” contained in the Attachment for the assumption used.

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## 1. Qualitative Information and Financial Statements

### (1) Qualitative Information and Overview of Consolidated Business Results

The operating environment in the first quarter (April 1, 2010 to June 30, 2010) saw a gradual recovery in demand for Group products in emerging economies, chiefly China. On the other hand, the situation remained unpredictable with a stagnant economy in Europe caused by anxiety over the future financial condition, a declining euro and appreciation of the yen, and concern about rising raw material and crude oil prices. Amid such circumstances, the Kuraray Group made across-the-board efforts, including cutting back fixed costs, to improve its earnings structure. The Company also took proactive measures for further business growth, one of the objectives stated in its “GS-Twins” the medium-term action plan.

During the quarter under review, sales of LCD and LED-related products grew more than expected, and demand in Kuraray’s core businesses, including *EVAL* [ak1] and Isoprene Chemicals [ak2], increased. In line with sales growth, the plant utilization ratio of each business was improved.

As a result, net sales for the first quarter rose 20.3% compared with the corresponding period of the previous fiscal year to ¥87,715 million, operating income jumped 624.5% to ¥12,534 million, ordinary income surged 692.2 % to ¥11,983 million and net income skyrocketed 4,001.8% to ¥5,699 million. Results by segment compared with the corresponding period of the previous fiscal year are as follows. The first quarter period of Kuraray’s overseas subsidiaries is from January 1, 2010 to March 31, 2010.

(Reference) Quarterly consolidated performance

(Millions of yen)

	Fiscal year ended March 31, 2010				Fiscal year ending March 31, 2011
	1Q	2Q	3Q	4Q	1Q
Net Sales	72,910	84,154	85,588	90,226	87,715
Operating income	1,730	8,025	9,787	10,875	12,534
Ordinary income	1,512	7,896	9,240	10,276	11,983
Net income	138	5,082	6,923	4,170	5,699

From the period under review, the Company introduced the “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (Accounting Standards Board of Japan (ASBJ) Statement No. 17 of March 27, 2009) and the “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related

Information” (ASBJ Guidance No. 20 of March 21, 2008). To that end, the Company reclassified its segments. For details, please refer to “Supplementary information regarding changes in business segments based on management approach (comparison with previous segments)” on page 16.

As this is the first year since the Company introduced the “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” and “Guidance on Accounting Standard for Disclosure about Segment of an Enterprise and Related Information,” the Company has not had a quarterly review by an independent auditor for year-on-year data stated in the abovementioned “1. Qualitative Information and Financial Statements.”

## **Results by Business Segment**

### **Resins**

The Resin segment saw steady business recovery in China and other Asian countries as well as in Europe and the United States. As a result, sales in this segment grew 21.7% year on year to ¥36,902 million, while operating income soared 82.1% to ¥13,005 million.

(1) Sales of poval resins were brisk in China and other Asian countries for use in adhesives as well as fiber and textile processing. Also, demand for poval resins improved in Europe. Sales of optical-use poval film for LCD polarizers grew on the back of booming demand for LCD TVs. In order to meet this demand growth, the Company decided to establish a new production line in the Saijo Plant to increase annual production by 20 million m<sup>2</sup>. The new production line will commence operations in the first quarter of the fiscal year ending March 31, 2013. Sales of polyvinyl butyral (PVB) film remained stagnant despite gradually increasing demand for sealants for solar power generators.

(2) Sales of ethylene vinyl alcohol polymer resin *EVOH* saw healthy growth in the Asian market, reflecting particularly brisk demand for automobiles in China. Demand for *EVOH* was also favorable in Japan for use in food packaging, as well as in the United States and Europe for food packaging and automobiles.

### **Chemicals**

The overall performance in the Chemicals segment recovered in China and other Asian countries. As a result, sales in this segment climbed 26.8% year on year to ¥18,667 million. The Chemicals segment recorded operating income of ¥856 million, a turnaround from an operating loss in the corresponding period of the previous fiscal year of ¥2,459 million.

(1) Sales of methacrylic resin for molding materials increased for light-guide plate applications, and sales for sheets also expanded for LED LCD TV light guide plates. However, demand for signboards and construction materials in Japan remained sluggish.

(2) In the Isoprene Chemicals, sales of *SEPTON* thermoplastic elastomer were steady in Asia and Europe, while demand for chemicals and fine chemicals steadily recovered in Japan and other Asian countries.

(3) In the Medical, sales of dental materials were healthy on the back of introducing new types of resins and bonds in the European and U.S. markets as well as the Company's efforts to reinforce its sales structure.

(4) Demand for *GENESTAR* heat-resistant polyamide resin expanded for LED reflector applications in LCD TVs.

### **Fibers and Textiles**

In the Fibers and Textiles segment, almost all businesses, including *KURALON*, recovered in the period under review. As a result, sales in this segment grew 14.3% year on year to ¥14,655 million. The Fibers and Textiles segment recorded operating income of ¥459 million, a turnaround from an operating loss in the corresponding period of the previous fiscal year of ¥690 million.

(1) Demand for *KURALON* expanded for use in automotive brake hoses, and as an asbestos substitute in FRC (fiber reinforced cement).

(2) Sales of existing and new eco-friendly *CLARINO* man-made leather processing products showed signs of recovery for use in footwear. Amid a drastic business restructuring, the Company is promoting the shift to new processing procedures for high-value-added products at its Okayama Plant as well as the partial transfer of general-purpose product manufacturing to a Chinese joint venture.

(3) Sales of *KURAFLEX* nonwoven fabrics were stable for use in industrial wipers, although demand for use in commercial counter cloth [ak3] and industrial masks was stagnant. During the period under review, *FELIBENDY* [ak4] nonwoven fabric produced using steam jet technologies heating expanded its applications.

(4) Demand for *MAGIC TAPE* hook and loop fasteners was steady for industrial materials, medical and transport-related applications.

(5) Demand for *VECTRAN* [ak5] high strength polyarylate fiber showed a gradual recovery mainly for optic fiber applications in China.

### **Trading**

The Trading segment saw market recovery in such fiber-related business as



polyester (in apparel and materials fields), as well as an increasing number of customers applying the Company's unique materials to their products.

On the back of steady demand, sales of resins, chemicals and chemical products showed healthy growth. As a result, sales in this segment increased 21.1% from a year earlier to ¥28,552 million, while operating income jumped 145.4% to ¥606 million.

(1) During the period under review, demand for formalwear and uniform applications recovered in the apparel industry. In addition, sales of the Company's mainstay *ELMOZA*<sup>[ak6]</sup> with excellent color and texture were strong in the domestic women's apparel market and the European market.

(2) In the materials field, sales remained stable on the back of strong demand for materials used in medical-related items and footwear. Sales of industrial materials for use in automobiles grew substantially in Asian countries.

(3) While expanding the lineup of Group products in the resin, chemicals and chemical products businesses, the Company enjoyed growth in sales of other items, such as including solvents, environmental materials activated carbon and industrial membranes, and in high-value-added businesses, including *ISOBAM* alkaline water-soluble polymer and elastomer.

## **Others**

Sales in the Others segment rose 27.4% year on year to ¥13,048 million, while operating income surged 33.0% to ¥1,068 million.

(1) Sales of active carbon for capacitors <sup>[ak7]</sup>(electric storage devices) and water purification systems were steady.

(2) Other businesses, including the engineering business, showed signs of gradual recovery.

## **(2) Qualitative Information on Consolidated Financial Position**

### **Assets, Liabilities and Net Assets**

Total assets decreased ¥4,102 million from the end of the previous fiscal year to ¥498,712 million, owing to a decrease in fixed assets. Total liabilities declined ¥3,446 million to ¥161,550 million. Net assets decreased ¥656 million compared with the previous year, to ¥337,162 million. Shareholders' equity stood at ¥333,821 million, for an equity ratio of 66.9%.

## **Cash Flows**

### **Cash Flows from Operating Activities**

Net cash provided by operating activities stood at ¥12,741 million at the end of the period, a decrease of ¥1,560 million compared with the same period of the previous fiscal year. Major components included income before income taxes of ¥9,708 million, depreciation and amortization of ¥8,084 million,

income taxes paid of ¥6,054 million, an increase in notes and accounts receivable of ¥1,328 million and an increase in inventories of ¥1,065 million.

### **Cash Flows from Investing Activities**

Net cash used in investing activities decreased ¥30,314 million compared with the corresponding period of the previous fiscal year to ¥8,652 million. Major components included a net increase in short-term investment securities of ¥2,994 million and payment for acquisition of property, plant and equipment and intangible assets worth ¥4,510 million.

### **Cash Flows from Financing Activities**

Net cash used in financing activities totaled ¥4,112 million. Major components included proceeds from short-term loans of ¥1,964 million, repayment of long-term debt of ¥3,200 million and dividends paid of ¥2,784 million.

As a result, Kuraray recorded total cash outflow of ¥22 million in the period under review, and cash and cash equivalents in the first quarter decreased ¥268 million to ¥16,143 million

## **(3) Qualitative Information on Consolidated Operating Results Forecast**

During the First quarter period under review, the Company's profits were higher than expected, reflecting a trend toward businesses recovery that resulted in an increase in the plant utilization ratio as sales expanded and across-the-board cost reduction efforts took effect.

As for the operating environment in the second quarter and later, there were several concerns, including hikes in raw materials and fuel prices, stagnant economic conditions in Europe and euro depreciation coupled with yen appreciation. Amid such circumstances, the Kuraray Group will strive to revise product prices to allow for rising raw materials and fuel prices while focusing on the development of higher-value-added products. Although each business segment remains on a recovery or growth track, the business environment in the third quarter and beyond is increasingly uncertain, therefore, the Company has not revised its forecast for the second half of the current fiscal year (October 1, 2010–March 31, 2011), instead choosing to remain with the forecast based on the assumption in the beginning of the current fiscal year.

Accordingly, the consolidated forecast for the six-month period ending September 30, 2010, is for net sales of ¥180billion, operating income of ¥24billion, ordinary income of ¥23billion and quarterly net income of

¥12.5billion. On a full-year basis, the Company revised its forecast and now anticipates net sales of ¥365billion, operating income of ¥48billion, ordinary income of ¥46billion and net income of ¥26billion.

Revision to the Cumulative Consolidated Forecast for the interim period of the fiscal year ending March 31, 2011 (April 1, 2010 - September 30, 2010)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
Previous forecast (A) (Announced on April 30, 2010)	175,000	19,000	18,000	10,500	¥30.17
Revised forecast (B)	180,000	24,000	23,000	12,500	¥35.91
Difference (B) - (A)	5,000	5,000	5,000	2,000	—
Difference (%)	2.9	26.3	27.8	19.0	—
Reference: Result for the interim period of the previous fiscal year (fiscal year ended March 31, 2010)	157,065	9,758	9,409	5,221	¥15.00

Revision to the Consolidated Forecast for the full period of the fiscal year ending March 31, 2011 (April 1, 2010 - March 31, 2011)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
Previous forecast (A) (Announced on April 30, 2010)	360,000	43,000	41,000	24,000	¥68.95
Revised forecast (B)	365,000	48,000	46,000	26,000	¥74.69
Difference (B) - (A)	5,000	5,000	5,000	2,000	—
Difference (%)	1.4	11.6	12.2	8.3	—
Reference: Result for the previous fiscal year ended March 31, 2010	332,880	30,451	28,925	16,315	¥46.86

Average currency exchange rates for the second quarter and later are assumptions and are as follows: ¥90 per U.S. dollar, ¥110 per euro, and domestic price of naphtha of ¥47,000 per kiloliter.

The assumptions and conditions upon which forecasts pertaining to main

businesses in the second quarter and later are based are as follows:

Demand for poval resins is expected to be stable in Asia. In Europe, sales are expected to grow on the back of tight supply-demand conditions caused by the euro depreciation. Although Kuraray expects steady sales of optical-use poval film for LCD applications, the Company is concerned about the impact of inventory adjustments among users. Demand is anticipated to recover for PVB film in its main use as a construction material, while its use as a sealant for solar power generation equipment is expected to grow.

Demand for *EVVAL* is expected to continue the recovery track in the Asian market, thanks mainly to demand for its use in automobiles and food packaging, while sales in Europe and the United States are also anticipated to improve. For methacrylic resin and isoprene chemicals, the Company expects demand growth mainly in Asian countries, and thus pursuing sales expansion for new products and high-value-added items. Kuraray anticipates a sales volume increase for *GENESTAR* in the wake of higher than originally forecast demand for its use in LED reflector application. Sales of medical-related products for dental applications will remain stable both in Japan and overseas.

For *KURALON*, the sales volume in Europe for the FRC application may fall below the Company's initial forecast. On the other hand, results for *CLARINO* and *VECTRAN* are expected to show the positive results of the Company's ongoing business restructuring efforts.

Consolidated result forecast for the fiscal year ending March 31, 2011  
(Breakdown of segment income)

(Billions of yen)

		Net Sales			Segment Income (Operating Income)		
		First Half	Second Half	Full Year	First Half	Second Half	Full Year
Segments Reported to be	Resin	76.0	76.0	152.0	26.0	24.0	50.0
	Chemicals	40.0	42.0	82.0	2.5	4.0	6.5
	Fibers and Textiles	29.0	31.0	60.0	0.0	0.5	0.5
	Trading	55.0	55.0	110.0	1.0	1.5	2.5
	Total	200.0	204.0	404.0	29.5	30.0	59.5
Others		29.0	30.0	59.0	2.0	2.0	4.0
Total		229.0	234.0	463.0	31.5	32.0	63.5
Adjustment		(49.0)	(49.0)	(98.0)	(7.5)	(8.0)	(15.5)
Figures on the Consolidated Statement of Income	(Quarterly)	180.0	185.0	365.0	24.0	24.0	48.0

First half: Six-month period ending September 30, 2011

Second half: Six month period from October 1,2010 to March 31,2011

## **2. Others**

### **(1) Changes in Significant Consolidated Subsidiaries**

No

### **(2) Application of Accounting Methods for Consolidated Financial Statements That Are Simplified or Extraordinary**

#### **(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 for the period under review by the effective income tax rate after the application of tax effect accounting to the statements of income for the previous fiscal year.

#### **(ii) Extraordinary accounting method used in the preparation of quarterly consolidated financial statements:**

No

### **(3) Outline of Changes in Significant Accounting Policies, Procedures and Presentation:**

#### **(i) Changes in accounting procedures**

##### **(Accounting Standard for Asset Retirement Obligations)**

From the first quarter of the fiscal year ending March 31, 2011, Kuraray applies the "Accounting Standard for Asset Retirement Obligation" (ASBJ Statement No. 18, March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

This change has had no significant impact on the Company's operating income and ordinary income. Income before income taxes for the period under review decreased ¥1,549 million.

Up to the previous fiscal year-ended March 2010, the asset retirement obligations of overseas subsidiaries were included in others under fixed assets. however, such obligations are classified in differently for the purpose of facilitating comparison with end of June 30, 2010.

#### **(ii) Changes in presentation methods**

##### **(Consolidated Quarterly Statement of Income)**

Kuraray applies the "Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, March 24, 2009) based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December

26, 2008). As a result, “Income before minority interests” is included in the consolidated financial statements for the first quarter of the fiscal year ending March 31, 2011.

Figures for the first quarter of the previous fiscal year are displayed for the purposes of comparison.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	June 30, 2010	March 31, 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	30,040	28,991
Notes and accounts receivable–trade	76,840	75,923
Short-term investment securities	75,976	73,978
Merchandise and finished goods	38,760	38,829
Work in process	8,147	8,044
Raw materials and supplies	11,460	10,972
Deferred tax assets	4,780	5,824
Others	7,348	7,366
Allowance for doubtful accounts	(761)	(604)
Total current assets	252,593	249,326
<b>Fixed Assets</b>		
Tangible fixed assets		
Buildings and structures (net)	35,188	34,880
Machinery and equipment (net)	94,178	96,170
Land	18,153	18,230
Construction in progress	8,523	11,560
Others (net)	2,821	2,867
Total tangible fixed assets	158,865	163,709
Intangible fixed assets		
Goodwill	16,411	17,941
Others	3,642	3,848
Total intangible fixed assets	20,054	21,790
Investments and other assets		
Investment securities	46,656	49,006
Long-term loans receivable	1,404	1,279
Deferred tax assets	7,820	6,570
Prepaid pension costs	6,526	6,666
Others	5,336	4,999
Allowance for doubtful accounts	(544)	(532)
Total investments and other assets	67,199	67,989
Total fixed assets	246,119	253,489
Total	498,712	502,815

(Millions of yen)

	June 30, 2009	March 31, 2009
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable–trade	27,056	27,235
Short-term loans payable	11,410	12,158
Commercial paper	6,000	6,000
Income taxes payable	3,361	6,038
Provision for bonuses	3,665	6,129
Other provision	81	138
Other	20,114	18,850
Total current liabilities	71,689	76,550
<b>Long-term liabilities</b>		
Corporate bonds	10,000	10,000
Long-term loans payable	45,589	46,502
Deferred tax liabilities	5,577	5,524
Provision for retirement benefits	14,485	14,248
Provision for retirement benefits for directors and auditors	132	167
Provision for environmental measures	1,254	1,275
Asset retirement obligations	2,382	812
Others	10,438	9,915
Total long-term liabilities	89,860	88,446
Total liabilities	161,550	164,996
<b>NET ASSETS</b>		
Shareholders' equity		
Capital	88,955	88,955
Capital surplus	87,181	87,192
Retained earnings	206,985	204,070
Treasury stock	(41,034)	(41,068)
Total shareholders' equity	342,087	339,150
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	2,335	3,767
Deferred gain or losses on hedges	(78)	(103)
Foreign currency translation adjustments	(10,523)	(8,230)
Total valuation and translation adjustments	(8,266)	(4,566)
Stock subscription rights	274	186
Minority interests	3,066	3,048
Total net assets	337,162	337,818
Total liabilities and net assets	498,712	502,815



## (2) Quarterly Consolidated Statement of Income

(Millions of yen)

	Fiscal 2009 1Q (April 1, 2009 – June 30, 2009)	Fiscal 2010 1Q (April 1, 2010 – June 30, 2010)
Net sales	72,910	87,715
Cost of sales	55,975	58,808
Gross profit	16,935	28,906
Selling, general and administrative expenses		
Selling expenses	3,708	4,502
General and administrative expenses	11,496	11,869
Total selling, general and administrative expenses	15,205	16,372
Operating income	1,730	12,534
Non-operating income		
Interest income	74	105
Dividend income	328	267
Equity in loss of affiliates	17	17
Gain on allotment of investment securities	—	167
Other, net	279	136
Total non-operating income	700	695
Non-operating expenses		
Interest expenses	332	294
Other expenses	585	952
Total non-operating expenses	917	1,246
Ordinary income	1,512	11,983
Extraordinary expenses		
<u>Impact of the application of the Accounting Standard for     Asset Retirement Obligations</u>	—	1,548
Loss on valuation of investment securities	173	571
Business structure improvement losses	762	154
Total extraordinary expenses	935	2,274
Income before income taxes and minority interests	576	9,708
Current income taxes	52	3,611
Deferred income taxes	378	368
Total income taxes	430	3,979
<u>Income before minority interests in net income of consolidated subsidiaries</u>	146	5,728
Minority interests in net income of consolidated subsidiaries	7	29
Net income	138	5,699

### (3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal 2009 1Q April 1, 2009 – June 30 2009	Fiscal 2010 1Q (April 1, 2010 – June 30, 2010)
<b>Cash flows from operating activities</b>		
Income before income taxes	576	9,708
Depreciation and amortization	8,225	8,084
Impact of the application of the Accounting Standard for Asset Retirement Obligations	—	1,548
Write-down of investment securities	173	571
(Increase) in notes and accounts receivable	(627)	(1,328)
Decrease (increase) in inventories	8,533	(1,065)
(Decrease) in notes and accounts payable	(2,124)	53
Other, net	91	1,143
Sub-total	14,847	18,717
Income taxes refunded [VB8](paid)	(664)	(6,054)
Others	118	78
<b>Net cash provided by operating activities</b>	<b>14,302</b>	<b>12,741</b>
<b>Cash flows from investing activities</b>		
Net (increase) in time deposits	(5,015)	(317)
Net (increase) in marketable securities	(27,000)	(2,994)
Payments for acquisition of property, plant and equipment and intangible assets	(6,204)	(4,510)
Payment for purchase of investment securities	(176)	(96)
Other, net	(569)	(733)
<b>Net cash used in investing activities</b>	<b>(38,966)</b>	<b>(8,652)</b>
<b>Cash flows from financing activities</b>		
(Decrease) in short-term bank loans	(1,418)	1,964
Proceeds from long-term debt	11,000	—
Repayment of long-term debt	—	(3,200)
Dividends paid	(3,482)	(2,784)
Other, net	(147)	(92)
<b>Net cash provided by financing activities</b>	<b>5,951</b>	<b>(4,112)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>255</b>	<b>(245)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(18,457)</b>	<b>(268)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>46,157</b>	<b>16,412</b>
<b>Cash and cash equivalents, end of the period</b>	<b>27,700</b>	<b>16,143</b>

#### **(4) Notes Regarding Going Concern Assumptions**

No

#### **(5) Segment Information**

##### 1) Segment of “Segment to be reported”

The business segments reported by Kuraray are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine distribution of management resources and evaluate their business results.

Kuraray adopts an in-house company system where each in-house company develops business activities and establishes their own comprehensive strategy, for both Japan and overseas markets, in accordance with the products they handle. In addition, among Kuraray subsidiaries, Kuraray Trading Co., Ltd. mainly conducts propriety planning and sales activities, including processing and sales of Kuraray Group’s products as well as other company’s products.

Consequently, Kuraray has created four business segments for reporting—“Resins,” “Chemicals,” “Fibers and Textiles” and “Trading”—categorized by products based on respective in-house 3 companies and Kuraray Trading Co., Ltd.

The “Resins” segment manufactures and markets functional resins and film, including PVA, PVB and *EVAL*. The “Chemicals” segment produces and sells methacrylic resin, isoprene-related products, *GENESTAR*, and medical products. The “Fibers and Textiles” segment manufactures and sells synthetic fibers and textiles, man-made leather, non-woven fabrics and others. The “Trading” segment conducts processing and sales activities for synthetic fibers and man-made leather, and conducts planning and marketing for the products produced by the Kuraray Group and other companies.

Business Segments Reported  
 First Quarter of Fiscal 2010 (April 1, 2010 to June 30, 2010)

(¥ million)

	Segment to be reported					Other Business <sup>1</sup>	Total	Adjustment <sup>2</sup>	Consolidated Statements of Income <sup>3</sup>
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net sales									
(1) Outside customers	28,745	11,345	9,959	27,682	77,733	9,981	87,715	--	87,715
(2) Inter-segment sales and transfers	8,157	7,321	4,696	869	21,045	3,066	24,111	(24,111)	--
Total	36,902	18,667	14,655	28,552	98,778	13,048	111,826	(24,111)	87,715
Operating income (loss)	13,005	856	459	606	14,928	1,068	15,997	(3,463)	12,534

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, aqua business and engineering.
2. Adjustment is as follows: Included within operating income (loss) of ¥3,463 million is the elimination of intersegment transactions of ¥85 million and corporate expenses of ¥3,377 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

(Supplemental Information)

From the consolidated first quarter, Kuraray applies the “Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17 of March 27, 2009) and the “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20 of March 21, 2008).

**(6) Material Changes in Shareholders’ Equity**

Non

#### 4. (Reference) Supplementary Information

(1)Supplementary information regarding changes in business segments based on management approach (comparison with previous segments)

##### <Previous Segments>

Business Segment	Chemicals and Resins	Fibers and Textiles	High-Performance Materials, Medical Products and Others
Major Business	Poval products*	<i>KURALON</i>	Medical
	<i>EVAL</i>	<i>CLARINO</i>	<i>GENESTAR</i>
	Methacryl	<i>KURAFLEX</i>	Activated carbon
	Isoprene chemicals	Fastening	Aqua Business
		<i>VECTRAN</i>	Engineering
		Polyester	Other subsidiaries

##### <New Segments>

Business Segment	Resins	Chemicals	Fibers and Textiles	Trading	Others
Major Business	*Poval products	Methacryl	<i>KURALON</i>	Polyester	Activated carbon
	<i>EVAL</i>	Isoprene chemicals	<i>CLARINO</i>	Trading businesses**[ak9]	Environmental
		<i>GENESTAR</i>	<i>KURAFLEX</i>		Engineering
		Medical	Fastening		Other subsidiaries
			<i>VECTRAN</i>		

\* Poval products: poval resin, poval films, PVB resin and film

\*\* “Trading businesses” now included in the Trading segment were previous divided among the previous segments of Chemicals and Resins; Fibers and Textiles; and High-Performance Materials, Medical Products and Others.

(2)Supplementary information regarding net sales, income and loss

(Millions of yen)

	Net Sales			Operating Income (Loss)		
	FY2009 1Q	FY2010 1Q	Increase (Decrease)	FY2009 1Q	FY2010 1Q	Increase (Decrease)
Resins	30,332	36,902	6,570	7,140	13,005	5,865
Chemicals	14,717	18,667	3,949	(2,459)	856	3,315
Fibers and Textiles	12,818	14,655	1,837	(690)	459	1,150
Trading	23,580	28,552	4,971	247	606	359
Others	10,245	13,048	2,802	803	1,068	265
Adjustment	(18,783)	(24,111)	(5,328)	(3,311)	(3,463)	(151)
1Q Statements of Income	72,910	87,715	14,804	1,730	12,534	10,804

\*Figures for the first quarter of the fiscal year ending March 31, 2010 have not been subjected to a quarterly review by the Company’s independent auditor.

(3) Average foreign currency exchange rate, domestic naphtha price

	Fiscal Year Ended March 31, 2010	Ex-Assumption for Fiscal Year Ending March 31, 2011 (As of April 30, 2010)	Assumption for Fiscal Year Ending March 31, 2011 (As of August 4, 2010)
Yen/U.S. Dollar	93	90	90
Yen/Euro	131	130	110
Domestic Naphtha Price (Thousands of yen/kiloliter)	36	50	47