

October 30, 2008
Kuraray Co., Ltd.

Consolidated Financial Results for the Interim Period 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 Interim Period of the Fiscal Year Ending March 31, 2009 (April 1, 2008 to September 30, 2008)

(1) Consolidated Operating Results (Cumulative)

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

(Millions of Yen)

	Net Sales		Operating Income		Net Income	
Fiscal 2008 Interim	209,319	—	23,273	—	13,407	—
Fiscal 2007 Interim	206,197	7.8%	24,282	26.8%	13,898	40.6%

(Yen)

	Net Income per Share	Fully Diluted Net Income per Share
Fiscal 2008 Interim	38.50	38.44
Fiscal 2007 Interim	38.59	38.49

(2) Financial Position (Consolidated)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
	Millions of Yen	Millions of Yen	%	Yen
As of September 30, 2008	497,227	351,914	70.2	1,001.82
As of March 31, 2008	490,365	344,833	69.7	981.82

(Reference)

Shareholders' equity: As of September 30, 2008 ¥348,877 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	—	12.00	xx	xx	xx
Fiscal 2008 (Forecast)	xx	—	—	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, net income are comparisons with the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Net Income		Net Income per Share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	Yen
Full Fiscal Year	425,000	1.8	46,000	△4.4	26,000	1.7		74.66

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

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 September 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 September 30, 2008 34,619,932 shares
As of March 31, 2008 34,642,074 shares
3. Average number of shares for the period:
As of September 30, 2008 348,242,804 shares
As of September 30, 2007 360,195,603 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

In the interim period (April 1, 2008 to September 30, 2008) of the current fiscal year, Kuraray was not immune to the ongoing severe operating environment due to the unabated surge in raw material and fuel prices. Moreover, in the latter half of the period under review, worldwide financial uncertainty triggered by turmoil in the United States financial market and concern about the deceleration of the real economy has intensified. Amid this environment, 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, the interim period saw revenues increase while earnings declined. Net sales increased 1.5% compared with the same period of the previous fiscal year to ¥209,319 million. Operating income declined 4.2% to ¥23,273 million, net income slumped 3.5% to ¥13,407 million. The following section provides explanations of results by business segment and performance by geographical segment.

Note: Kuraray began applying new quarterly accounting standards from the current fiscal year. Consequently, rate of change from the same period of the previous fiscal year (or the yen amount of change from the same period of the previous fiscal year) is stated as reference for qualitative information with regard to business results.

Results by Business Segment

Chemicals and Resins

Sales in the Chemicals and Resins segment amounted to ¥127,583 million, up 8.2% year on year, and operating income totaled ¥26,458 million, up 13.0% year on year.

1. The Poval business saw overall increased revenues and earnings. Amid a worldwide shortage, Kuraray carried out Poval resin price revisions both in Japan and overseas. Sales of optical-use Poval films increased owing to expanded demand for LCD displays, but the impact of LCD panel inventory adjustments was felt from the latter half of the interim period. Sales of polyvinyl butyral (PVB) film grew owing to continued robust demand for construction applications in Europe.
2. Revenues for *EVAL*, an ethylene vinyl alcohol polymer resin, increased, while earnings declined. Despite a decline in automotive applications in the United States due to high gasoline prices and a slumping economy, overall

volume was brisk owing to expanding food packaging applications and the growth of emerging markets in Asia, Central and South America. However, Kuraray's aggressive price revisions were not enough to offset surging material and fuel costs.

3. Sales in the methacrylic resin business were flat and earnings declined. Growth of molding materials and sheets, mainly general-use items, was sluggish. However, Kuraray's aggressive price revisions were not enough to offset the impact of soaring material and fuel costs.
4. In the isoprene business, overall, the impact of surging fuel costs led to stagnant sales and earnings. For *SEPTON* thermoplastic elastomers, together with the development of highly original products, Kuraray made efforts to implement price revisions and cost reductions. In specialty chemicals, although solvents were somewhat sluggish, performance in other areas was brisk. In fine chemicals, while performance declined due to the discontinued production of certain aroma chemicals, profitability improved.

Fibers and Textiles

Sales in the Fibers and Textiles segment dipped 4.1% year on year to ¥51,123 million, and operating income dropped 25.3% to ¥2,878 million.

1. Despite robust applications for *KURALON* as an asbestos substitute in FRC (fiber reinforced cement), sales were sluggish due to the impact of a weak economy on construction and fisheries materials fields.
2. Man-made leather, despite firm applications and accessories, was forced to struggle due to low demand for footwear and clothing applications continuing from last year.
3. With nonwoven fabrics, Kuraray has undertaken price revisions on an as-needed basis to deal with soaring material and fuel costs. Sales of hook and loop fasteners were brisk, led chiefly by *ECOMAGIC* and other highly original products.
4. For polyester, in addition to the impact of a worsening economy causing anemic demand in the uniform field, soaring material and fuel prices have had a negative effect.

High-Performance Materials, Medical Products and Others

In this segment, sales declined 12.4% year on year to ¥30,612 million, and operating income decreased 31.4% to ¥2,692 million.

1. In the medical products business, revenues decreased and earnings were flat. Sales of dental materials were robust, mainly on account of development in the European market. In October 2007, however, revenues decreased as a result of Kuraray's dialyzer business having been

- integrated into Asahi Kasei Kuraray Medical Co., Ltd.
2. Sales and earnings of *GENESTAR* heat-resistant polyamide resin were flat. Although Kuraray implemented price revisions, soaring raw material and fuel prices made an impact.
 3. In the activated carbon business, soaring raw material and fuel prices were behind an unavoidable worsening of performance. Results declined in other businesses as well, mainly in the engineering business where orders fell due to the worsening economy.

Unallocatable operating income included in elimination or corporate increased ¥2,390 million, to ¥8,911 million.

Performance by Geographic Segment

Japan

Sales in Japan declined year on year to ¥140,960 million. Sales of optical-use Poval film, *EVVAL* and *SEPTON* expanded, attributable to increased demand, although *CLARINO*, *KURALON* and other fibers and textiles were adversely affected by the country's slowing economy. Declining orders in the engineering business also added to the unfavorable results in Japan. Other factors included the October 2007 integration of the dialyzer business, and in March 2008, the scaling down of the aroma chemical business.

North America

Sales volumes of *EVVAL* increased, mainly for food packaging applications, and sales of *SEPTON* were brisk. Sales were sluggish for *CLARINO*. 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 ¥15,088 million.

Europe

Performance was robust for PVB films used in laminated glass with construction applications, Poval resins and *EVVAL* for food packaging applications. As a result, sales in Europe rose year on year to ¥42,108 million.

Asia

Two China-based subsidiary companies—Kuraray (Shanghai) Co., Ltd. and Kuraray Trading (Shanghai) Co., Ltd.—were newly consolidated from the current fiscal year. Furthermore, Kuraray has from January 2008 expanded the scope of its Poval resin business by making Poval Asia Pte., Ltd. (now Kuraray Asia Pacific Pte. Ltd.) a wholly-owned subsidiary. As a result, sales in Asia rose year on year, to ¥11,162 million.

2. Qualitative Information Regarding Changes in Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥6,861 million compared to the end of the previous fiscal year to ¥497,227 million, mainly owing to an increase in fixed assets. Liabilities declined ¥219 million, to ¥145,312 million, and net assets increased ¥7,080 million to ¥351,914 million. The major factor for the increase in net assets was the rise in retained earnings. Shareholders' equity stood at ¥348,877 million, for the equity ratio of 70.2%.

Cash Flows

Cash and cash equivalents increased ¥1,587 million from the end of the previous fiscal year to ¥13,776 million, as a result of ¥22,956 million provided by operating activities, ¥23,786 million used in investing activities and ¥1,753 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 ¥1,908 million, compared with the same period of the previous fiscal year, to ¥22,956 million. Major components included income before income taxes and minority interests of ¥22,046 million, depreciation and amortization of ¥17,183 million and income taxes paid of ¥8,751 million.

Cash Flows from Investing Activities

Net cash used in investing activities increased to ¥23,786 million. Major components included proceeds of ¥1,533 million from sales and redemption of marketable and investment securities, payments of ¥20,469 million for the acquisition of property, plant, equipment and intangible assets and payment for the purchase of investment securities of ¥3,643 million.

Cash Flows from Financing Activities

Net cash provided by financing activities totaled ¥1,753 million. Major components included an increase of ¥1,625 million in short-term loans, proceeds of ¥4,266 million from long-term loans and dividends paid of ¥3,830 million.

3. Qualitative Information Regarding Consolidated Performance Forecast

The operating environment which surrounds the Kuraray Group is expected to become increasingly severe with the unavoidable impact on

the real economy brought about by the worldwide credit crisis. Kuraray is actively implementing such Groupwide initiatives as the promotion of selection and focus measures with more of its businesses, as well as cost reductions and other efficient business practices. Kuraray is moving forward cautiously, giving sufficient consideration to the operating environment, including trends in demand for capital investment.

Under this environment, with regard to performance forecasts for the full year, Kuraray takes into account falling demand brought about by worsening economic conditions and the impact of a strong yen. Given this, Kuraray expects consolidated net sales of ¥425,000 million, a decline of ¥25,000 million from the previous forecast, and an increase of ¥7,400 million from the previous fiscal period.

With regard to operating income, although Kuraray has aggressively revised prices, the impact of soaring raw material and fuel prices has been unavoidable. Kuraray predicts full-year consolidated operating income of ¥46,000 million, a decline of ¥5,000 million from the previous forecast, and an decrease of ¥2,100 million from the previous fiscal period. Net income is expected to be ¥26,000 million, a decline of ¥2,000 million from the previous forecast and an increase of ¥400 million from the previous fiscal period.

Taking into account various assumptions for the latter half of the current fiscal year (October 1, 2008 to March 31, 2009), Kuraray has revised the average exchange rate for \$1.00 to ¥100 (previously forecast at ¥105) and the Euro 1.00 to ¥130 (previously forecast at ¥160), and for the price of naphtha produced in Japan, ¥71,000 per kiloliter (previously forecast at ¥68,000).

	Net Sales		Operating Income		Net Income		Net Income per Share	
Prior Announced Forecast (A)	Millions of Yen	450,000	Millions of Yen	51,000	Millions of Yen	28,000	Yen	80.41
Forecast Revision (B)		425,000		46,000		26,000		74.66
Amount changed (B-A)		△25,000		△5,000		△2,000		△5.75
Change Ratio (%)		△5.6		△9.8		△7.1		△7.2
Results from Previous Fiscal Year		417,601		48,130		25,554		72.15

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, in the current consolidated interim period, operating income declined ¥115 million, while income before income taxes and minority interests declined ¥1,269 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 first quarter in line with the application of the said standards as these inventories are inevitably generated in the normal course of Kuraray's operations.

As a result of the application of this policy, in the current consolidated interim period, operating income declined ¥370 million. In the same period, there was no material impact on operating income, and 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.

In the consolidated interim period under review, the application of this policy had no material impact on operating income, 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.

In the consolidated interim period under review, the

application of this policy had no impact on operating income, 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.

In the consolidated interim period under review, the application of this policy had no material impact on operating income, income before income taxes and minority interests.

5. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	September 30, 2008	March 31, 2008
ASSETS		
Current Assets		
Cash and cash deposits	15,019	11,109
Notes and accounts receivable-trade	94,492	95,472
Short-term investment securities	—	2,062
Merchandise and finished goods	53,008	50,834
Work in process	10,983	11,455
Raw materials and supplies	11,926	10,244
Deferred tax assets	5,955	7,362
Others	8,732	8,764
Allowance for doubtful accounts	△760	△1,021
Total current assets	199,357	196,282
Noncurrent Assets		
Tangible fixed assets		
Buildings and structures (net)	34,743	33,853
Machinery and equipment (net)	108,448	110,229
Land	19,204	19,094
Construction in progress	29,618	26,510
Others (net)	3,952	2,674
Total tangible fixed assets	195,967	192,362
Intangible fixed assets		
Goodwill	27,289	28,596
Others	4,987	5,411
Total intangible fixed assets	32,276	34,008
Investments and other assets		
Investment securities	52,661	51,590
Long-term loans	1,052	392
Deferred tax assets	3,714	3,538
Prepaid pension cost	7,510	7,540
Others	4,960	4,962
Allowance for doubtful accounts	△274	△311
Total investments and other assets	69,625	67,712
Total fixed assets	297,869	294,083
Total Assets	497,227	490,365

(Millions of yen)

	September 30, 2008	March 31, 2008
LIABILITIES		
Current Liabilities		
Notes and accounts payable-trade	37,263	39,170
Short-term loans payable	13,565	11,997
Income taxes payable	5,929	8,826
Reserve for bonuses	7,092	6,716
Other provision	45	66
Other	20,047	22,296
Total current liabilities	83,943	89,074
Noncurrent liabilities		
Corporate bonds payable	10,000	10,000
Long-term loans payable	15,830	11,954
Deferred tax liabilities	6,166	5,686
Provision for retirement benefits	13,804	12,959
Provision for director's retirement benefits	177	191
Others	15,389	15,665
Total noncurrent liabilities	61,368	56,457
Total liabilities	145,312	145,532
NET ASSETS		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,225	87,228
Retained earnings	198,720	189,282
Treasury stock	△40,894	△40,919
Total shareholders' equity	334,007	324,547
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5,806	6,895
Deferred gains or losses on hedges	19	18
Foreign currency translation adjustments	9,044	10,427
Total valuation and translation adjustments	14,870	17,341
Subscription right to shares	109	69
Minority interests	2,928	2,875
Total net assets	351,914	344,833
Total liabilities and net assets	497,227	490,365

(2) Quarterly Consolidated Statement of Income

(Millions of yen)

	Fiscal 2008 1Q (April 1, 2008 – September 30, 2008)
Net sales	209,319
Cost of sales	148,504
Gross profit	608,815
Selling, general and administrative expenses	
Selling expenses	10,916
General and administrative expenses	26,625
Total selling, general and administrative expenses	37,542
Operating income	23,273
Non-operating income	
Interest income	204
Dividends income	950
Miscellaneous income	482
Total non-operating income	1,637
Non-operating expenses	
Interest expenses	458
Equity in loss of affiliates	7
Miscellaneous expenses	2,193
Total non-operating expenses	2,659
Extraordinary income	
Gain on sales of investment securities	1,264
Total extraordinary income	1,264
Extraordinary loss	
Loss on valuation of inventories	1,153
Impairment loss	153
Loss on disposal of property, tangible fixed assets	107
Loss on valuation of investment securities	54
Total extraordinary loss	1,469
Income before income taxes	22,046
Income taxes-current	6,037
Deferred income taxes-deferred	2,513
Total income taxes	8,550
Minority interests in income	88
Net income	13,407

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal 2008 1Q (April 1, 2008 – September 30, 2008)
Net cash provided by (used in) operating activities	
Income before income	22,046
Depreciation and amortization	17,183
Loss on disposal of tangible fixed assets	107
Impairment loss	153
Loss (gain) on sales of investment securities	△1,264
Loss (gain) on valuation of investment securities	54
Loss (gain) on valuation of inventories	1,153
Decrease (increase) in notes and accounts receivable-trade	1,368
Increase (decrease) in inventories	△4,495
Decrease (increase) in notes and accounts payable-trade	△2,456
Other, net	△3,768
Sub-total	30,084
Income taxes paid	△8,751
Others, net	1,623
Net cash provided by operating activities	22,956
Net cash provided by (used in) investment activities	
Purchase of fixed of assets tangible fixed assets and intangible fixed assets	△20,469
Purchase of investment securities	△3,643
Proceeds from sales and redemption of short-term investment securities and investment securities	1,533
Other, net	△1,207
Net cash provided by (used in) investing activities	△23,786
Net cash provided by (used in) financing activities	
Net increase (decrease) in short-term loans payable	1,625
Proceeds from long-term loans payable	4,266
Cash dividends paid	△3,830
Other, net	△307
Net cash provided by (used in) financing activities	1,753
Effect of exchange rate changes on cash and cash equivalents	△23
Net increase (decrease) in cash and cash equivalents	899
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	13,776

Kuraray began applying the Accounting Standards for Quarterly Financial Reporting (Accounting Standards Board of Japan [ASBJ] Statement No. 12; March 14, 2007) and the Guidance on the Accounting Standards for Quarterly Financial Reporting; March 14, 2007 (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

Fiscal 2008 Interim Period (April 1, 2008 to September 30, 2008)

(Millions 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	127,583	51,123	30,612	209,319	—	209,319
(2) Inter-segment sales and transfers	96	301	5,336	5,734	(5,734)	—
Total	127,680	51,425	35,948	215,053	(5,734)	209,319
Operating income	26,458	2,878	2,692	32,029	(8,756)	23,273
Assets	288,397	80,267	68,666	473,331	59,895	497,227
Depreciation and amortization	12,106	2,718	1,285	16,109	1,074	17,183
Capital expenditures	8,853	4,380	5,299	18,533	1,243	19,777

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 (*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

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 reduced operating income in the consolidated interim period under review by ¥190

million in the chemicals and resins segment, ¥188 million in the fibers and textiles, ¥43 million in the high-performance materials, medical products and others segment and ¥63 million in eliminated on consolidation of corporate 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 Fiscal 2008 Interim Period (April 1, 2008 to September 30, 2008)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination on consolidation and corporate	Consolidated Total
Net sales							
(1) Outside customers	140,960	15,088	42,108	11,162	209,319	—	209,319
(2) Inter-segment	14,364	2,899	1,917	65	19,247	(19,247)	—
Total	155,324	17,988	44,025	11,227	228,566	(19,247)	209,319
Operating income (loss)	26,069	981	4,029	324	31,405	(8,132)	23,273

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, Belgium

(3) Asia: Singapore, 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 reduced operating income in the segments of Japan and elimination on consolidation and corporate, ¥422 million and ¥63 million, respectively.

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
Fiscal 2008 Interim Period (April 1, 2008 to September 30, 2008)

(Millions of yen)

	North America	Europe	Asia	Other	Total
I Overseas sales	14,683	44,220	41,456	5,336	105,696
II Consolidated net sales	—	—	—	—	209,319
III Percentage of consolidated net sales (%)	7.0	21.1	19.8	2.5	50.5

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 , Canada

(2) Europe: Germany , United Kingdom

(3) Asia: China , South Korea

(4) Other: Latin America , 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

**Consolidated Financial Statements for
the Interim Period of the Previous Fiscal Year
(April 1, 2007 to September 30, 2007)**

(1) Consolidated Statements of Income (Summary)

	(Millions of yen)	
	Fiscal 2007 1Q	
	(April 1, 2007 – September 30, 2007)	
Net sales		206,197
Cost of sales		145,636
Gross profit		60,561
Selling, general and administrative expenses		36,278
Operating income		24,282
Non-operating income		
Interest and dividends income	1,274	
Equity in earnings of affiliates	13	
Miscellaneous income	893	2,181
Non-operating expenses		
Interest expense	296	
Miscellaneous expense	3,479	3,775
Extraordinary income		
Gain on sales of investment securities	149	
Gain on revision of retirement benefit plan	68	218
Extraordinary loss		
Business structure improvement losses	602	
Impairment loss	194	
Loss on disposal of tangible fixed assets	136	934
Income before income taxes		21,972
Income taxes – current	8,541	
Income taxes – deferred	△516	8,025
Minority interests in income (deductible)		48
Interim net income		13,898

(2) Consolidated Statements of Cash Flows (Summary)

(Millions of yen)

	Fiscal 2007 Interim (April 1, 2007 – September 30, 2007)
Cash flows from operating activities	
Income before income taxes and minority interests	21,972
Depreciation and amortization	14,410
Increase (decrease) in allowance for doubtful accounts	△5
Increase (decrease) in provision for retirement benefits	△237
Impairment loss	194
Loss on disposal of tangible fixed assets	136
Gain on sales of investment securities	△149
Interest and dividends income	△1,274
Interest expenses	296
Decrease in notes and accounts receivable	△1,432
Increase in inventories	△123
Decrease in notes and accounts payable	△4,697
Decrease (increase) in prepaid pension costs	△291
Other, net	△1,946
Sub-total	26,853
Interest and dividend income received	1,234
Interest expenses paid	△281
Income taxes paid	△6,758
Net cash provided by operating activities	21,048
Cash flows from investing activities	
Net decrease (increase) in time deposits	1,120
Net decrease (increase) in short-term investment securities	△45
Payments for acquisition of property, plant, equipment and intangible assets	△22,074
Proceeds from sales of property, plant and equipment	88
Payments for disposal of tangible fixed assets and intangible fixed assets	△1,124
Payments for purchase of investment securities	△311
Proceeds from sales and redemption of investment securities	190
Purchase of insurance funds	△83
Proceeds from cancellation of insurance funds	2,920
Other, net	1,251
Net cash used in investing activities	△18,068
Cash flows from financing activities	
Net increase (decrease) in short-term loans payable	4,455
Net decrease (increase) in commercial paper	2,000
Proceeds from long-term loans payable	5,900

Repayment of long-term loans payable	△5,000
Cash dividends paid to minority shareholders	13
Proceeds from sales of treasury stock	354
Purchase of treasury stock	△30,109
Cash dividends paid	△3,679
Net cash used in financing activities	<u>△26,092</u>
Effect of exchange rate changes on cash and cash equivalents	<u>205</u>
Net increase in cash and cash equivalents	<u>△22,907</u>
Cash and cash equivalents, beginning of the period	<u>34,032</u>
Effect of changes in reporting entities	<u>112</u>
Cash and cash equivalents, end of the interim period	<u>111,237</u>

(3) Segment Information

Industrial Segment Information

Fiscal 2007 Interim Period (April 1, 2007 to September 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
1. Net sales and operating income						
(1) Outside customers	117,951	53,307	34,939	206,197	—	206,197
(2) Inter-segment sales and transfers	477	321	13,244	14,043	(14,043)	—
Total	118,428	53,628	48,183	220,241	(14,043)	206,197
Operating expenses	95,021	49,778	44,256	189,056	(7,140)	181,915
Operating income	23,406	3,850	3,927	31,185	(6,902)	24,282
2. Assets, depreciation and amortization and capital expenditures						
Assets	286,483	80,902	69,738	437,124	57,893	495,017
Depreciation and amortization	10,308	2,111	1,033	13,453	957	14,410
Capital expenditures	13,809	3,538	3,366	20,714	1,936	22,650

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 (*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

3. Unallocatable operating income within operating expenses in the eliminated on consolidation and corporate segment amounted to ¥6,520 million. This mainly represents fundamental research expenses for the parent company and the corporate division of the Companies.

4. Corporate assets in the eliminated on consolidation and corporate segment were ¥72,966 million. Corporate assets mainly represent surplus operating funds, long-term investment funds and assets held by the fundamental research departments and the corporate division of the Companies.

5. Effective from the current consolidated interim accounting period, Kuraray and its domestic subsidiaries adopted the depreciation method prescribed under the amended Corporate Tax Law for tangible fixed assets acquired on or after April 1, 2007. The application of this policy has no material impact on performance of each segment.

6. Effective from the current consolidated interim accounting period, Kuraray and its domestic subsidiaries adopted the depreciation method prescribed under the amended Corporate Tax Law. With regard to tangible fixed assets acquired on or before March 31, 2007, a 5% residual amount is amortized using the straight-line method over 5 years up to one yen memorandum value from the fiscal year following the year in which the accumulated depreciation amount becomes 95% of acquired cost. The depreciation amount each year is recorded in "Depreciation" item. The application of this policy has no material impact on performance of each segment.

Geographical segment information

Fiscal 2008 Interim Period (April 1, 2008 to September 30, 2008)

(Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination on consolidation and corporate	Consolidated Total
1. Net sales and operating income							
Net sales							
(1) Outside customers	144,125	16,181	38,154	7,736	206,197	—	206,197
(2) Inter-segment	13,405	2,161	2,206	1,383	19,157	(19,157)	—
Total	157,531	18,343	40,361	9,119	225,354	(19,157)	206,197
Operating expenses	130,944	16,749	37,458	9,117	194,269	(12,354)	181,915
Operating income	26,586	1,594	2,902	1	31,085	(6,802)	24,282
2 Assets	(282,159)	48,930	98,611	8,209	437,911	57,105	495,017

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, Belgium

(3) Asia: Singapore, Hong Kong

3. Unallocatable operating income within operating expenses in the eliminated on consolidation and corporate segment are as stated in Note 3 in "Industrial Segment Information."

4. Corporate assets in the eliminated on consolidation and corporate segment are as stated in Note 4 of "Industrial Segment Information."

5. Effective from the current consolidated interim accounting period, Kuraray and its domestic subsidiaries adopted the depreciation method prescribed under the amended Corporate Tax Law for tangible fixed assets acquired on or after April 1, 2007. The application of this policy has no material impact on performance of each segment.

6. Effective from the current consolidated interim accounting period, Kuraray and its domestic subsidiaries adopted the depreciation method prescribed under the amended Corporate Tax Law. With regard to tangible fixed assets acquired on or before March 31, 2007, a 5% residual amount is amortized using the straight-line method over 5 years up to one yen memorandum value from the fiscal year following the year in which the accumulated depreciation amount becomes 95% of acquired cost. The depreciation amount each year is recorded in "Depreciation" item. The application of this policy has no material impact on performance of each segment.

Foreign Sales
Fiscal 2008 Interim Period (April 1, 2008 to September 30, 2008)

(Millions of yen)

	North America	Europe	Asia	Other	Total
I Overseas sales	16,366	40,503	37,522	4,730	98,722
II Consolidated net sales	—	—	—	—	
III Percentage of consolidated net sales (%)	7.9	19.6	18.2	2.1	47.9

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 ,Canada

(2) Europe: Germany ,United Kingdom

(3) Asia: China , South Korea

(4) Other: Latin America , Africa

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

(6) Other information

None