

February 7, 2007
Kuraray Co., Ltd.

Consolidated Earnings Report for the Third Quarter of the Fiscal Year Ending March 31, 2007

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

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1. Notes Relating to the Preparation of the Quarterly Statements

- (1) Changes to accounting methods: Yes
(Details)
Certain allowances and adjustment of cost variance have been calculated using the simple method.
- (2) Recent change in method of accounting from consolidated fiscal year: Yes
(Details)
When the maturity date falls on bank holidays, the payment of such bills on the last day of the fiscal period shall be changed from bill clearing day to the maturity day.
- (3) Changes in the scope of consolidation: Yes
(Details)
Kuraray Specialities Europe GmbH was excluded from the scope of consolidation, and Kuraray Planning System Co., Ltd. was excluded from the scope of equity-method affiliates.

2. Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2007 (April 1, 2006 to December 31, 2006)

(1) Business Performance (consolidated)

(¥ million, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2006 3Q	287,404	4.5%	28,587	9.1%	26,250	11.3%	14,913	2.5%
Fiscal 2005 3Q	274,941	4.6%	26,199	10.3%	23,579	1.0%	14,548	5.6%
Fiscal 2005	375,072	--	38,277	--	32,781	--	21,185	--

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2006 3Q	40.56	40.46
Fiscal 2005 3Q	39.63	39.58
Fiscal 2005	57.51	57.41

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

Qualitative Information and Overview of Business Performance

Despite the strong Japanese economy, which was buoyed by vigorous capital investment, the business environment during the third quarter of the current fiscal year saw continuing economic uncertainties, including rising raw material and fuel prices, and anxiety for the U.S. economy. Under these circumstances, the Kuraray Group started the implementation of its new GS-21 medium-term business plan from April 2006. Under GS-21, the Group is promoting expansion of new growth fields such as optical materials, enhancing contributions to sales growth from capital investments in new production facilities and facility expansion primarily in its core material businesses, and endeavoring to pass on the higher raw material and fuel prices in the form of higher product prices. As a result, net sales for the third quarter of the current fiscal year rose to ¥287,404 million, an increase of 4.5% compared with the same period of the previous fiscal year, and operating income increased 9.1% to ¥28,587 million. Furthermore, ordinary income grew 11.3% to ¥26,250 million, and net income for the quarter totaled ¥14,913 million, an increase of 2.5%. Business conditions by segment compared with the same period a year earlier were as follows.

Chemicals and Resins

In poval, strong demand increased sales of optical-use poval film used in LCDs. Robust demand for paper processing agent applications in Europe and a brisk performance in polyvinyl butyral (PVB) film for use in construction materials contributed to growth of overall poval resin sales. Sales of *EVAL*, an ethylene vinyl alcohol polymer resin, grew due to strong demand for food packaging, *EVAL* applications remaining steady despite weaker demand for use in automobiles. Sales of methacrylic resin dropped, adversely affected by downsizing of the monomer business and stagnant demand from light-guide plate applications. In isoprene-related products, demand for *SEPTON* was strong, whereas intensifying competition impacted the Company's performance in the fine chemical field. However, overall sales in this segment finished with an increase.

Fibers and Textiles

In this segment, the *KURALON* business was steady, backed by a solid performance in asbestos substitute applications and of a water-soluble type. Sales of the man-made leather *CLARINO* were strong in light industry products but suffered from sluggish growth for use in shoes. In nonwoven fabrics and fastening materials, automobile applications recorded stable growth. Sales of *VECTRAN* high-strength fibers showed stable growth due to the cultivation of new uses. Kuraray continued the shift toward differentiated polyester products.

High-Performance Materials, Medical Products and Others

In the medical business, dental materials experienced healthy growth while dialyzers and blood purifiers were influenced by the Japanese government's revision of pharmaceutical prices. The Company has decided to integrate its dialyzers and blood purifier business with Asahi Kasei Medical Co., Ltd. in October 2007. In addition, the Company's opto-screens business ceased production in December 2006, prior to a withdrawal from this business by the end of the current fiscal year. The heat-resistant polyamide resin *GENESTAR* enjoyed healthy orders in Japan and other Asian countries, especially for use in electronics materials. Sales of activated carbon were brisk, reflecting a strong performance in water purification and food applications.

(2) Changes in consolidated financial position

(¥ million , Rounded down)

	Total assets (¥ million)	Net assets (¥ million)	Shareholders' equity ratio (%)	Shareholders' equity per share (¥)
December 31, 2006	490,155	351,118	71.1	948.23
December 31, 2005	476,508	330,038	69.3	898.79
March 31, 2006	481,357	339,127	70.5	922.65

Qualitative Information Regarding Changes in Consolidated Financial Position

Total assets were ¥490.1 billion, up ¥8.8 billion from the end of the previous fiscal year, as a result of an increase in fixed assets. Liabilities were ¥139.0 billion, down ¥0.9 billion from the end of the previous fiscal year. Net assets amounted to ¥351.1 billion due to an increase of ¥8.6 billion in retained earnings from the end of the previous fiscal year. Shareholders' equity, the amount equal to net assets less minority interests, totaled ¥348.7 billion. The shareholders' equity ratio was 71.1%.

(3) Cash flows

(¥ million , Rounded down)

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period
Fiscal 2006 3Q	24,086	(14,360)	(6,506)	31,616
Fiscal 2005 3Q	—	—	—	—
Fiscal 2005	32,690	(13,693)	(7,790)	28,085

Note: Quarterly cash flow data is presented from the fiscal year ending March 31, 2007. Accordingly, data for the corresponding quarter of the previous fiscal year has not been provided.

Qualitative Information Regarding Forecasts

There are no changes to forecasts of the Company's performance in the fiscal year ending March 31, 2007.

Attachments:

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

Third Quarter Consolidated Statements of Income

(Unit: ¥ million, rounded down)

	Fiscal 2007 3Q (April 1 – December 31, 2006)	Fiscal 2006 3Q (April 1 – December 31, 2005)	Change	Fiscal 2006 (April 1, 2005 – March 31, 2006)
Net sales	287,404	274,941	12,463	375,072
Cost of sales	205,714	195,995	9,719	266,283
Gross profit	81,690	78,946	2,743	108,789
Selling, general and administrative expenses	53,102	52,747	355	70,512
Operating income	28,587	26,199	2,388	38,277
Non-operating income				
Interest and dividends received	1,081	927	153	1,294
Equity in earnings of affiliates	59	59	0	56
Other, net	575	726	(151)	1,106
Total non-operating income	1,716	1,714	2	2,457
Non-operating expenses				
Interest paid	314	286	27	414
Other expenses	3,739	4,046	(307)	7,539
Total non-operating expenses	4,053	4,333	(279)	7,953
Ordinary income	26,250	23,579	2,670	32,781
Extraordinary income				
Gain on sales of fixed assets	211	-	211	8,445
Gain on sales of investment securities	507	963	(456)	1,029
Total extraordinary income	718	963	(245)	9,475
Extraordinary expenses				
Loss from impairment of fixed assets	-	1,359	(1,359)	5,454
Loss on write-down of investment securities	-	118	(118)	253
Restructuring charges	2,302	170	2,131	1,693
Loss on disposal of property, plant and equipment	421	193	227	492
Total extraordinary expenses	2,723	1,842	880	7,893
Income before income taxes	24,245	22,700	1,544	34,362
Current income taxes				
Current income taxes	7,576	6,219	1,356	11,674
Deferred income taxes	1,667	1,841	(173)	1,393
Total income taxes	9,243	8,060	1,182	13,067
Minority interests in net income of consolidated subsidiaries	(Negative) 88	(Negative) 91	3	(Negative) 109
Net income	14,913	14,548	364	21,185

Third Quarter Consolidated Balance Sheets

Assets (Unit: ¥ million, rounded down)

	Fiscal 2006 3Q (As of December 31, 2006)	Fiscal 2005 (As of March 31, 2006)	Change	Fiscal 2005 3Q (As of December 31, 2005)
Current assets	214,210	200,667	13,543	182,357
Cash and cash equivalents	17,857	18,086	(228)	13,929
Notes and accounts receivable	89,899	90,051	(152)	87,699
Marketable securities	17,798	9,999	(7,799)	-
Inventories	77,015	69,431	7,584	69,385
Deferred income taxes	5,368	6,478	(1,109)	5,968
Others	7,286	7,635	(348)	6,340
Allowance for doubtful accounts	(1,015)	(1,014)	0	(966)
Fixed assets	275,904	280,689	(4,784)	294,151
Property, plant and equipment	170,407	159,396	11,011	169,737
Buildings	27,619	27,521	98	33,824
Machinery and equipment	83,416	85,141	(1,724)	85,283
Land	19,788	19,675	113	20,334
Construction-in-progress	37,108	24,590	12,517	27,806
Others	2,474	2,466	7	2,488
Intangible fixed assets	34,944	34,638	305	34,539
Commercial rights	-	28,625	(28,625)	28,573
Goodwill	28,827	-	28,827	-
Other intangible assets	6,116	6,013	103	5,965
Investments and other assets	70,552	86,654	(16,102)	89,874
Investment securities	38,964	42,111	(3,146)	39,780
Long-term loans	3,000	3,277	(276)	3,464
Accumulated premiums on insurance	14,468	29,706	(15,238)	35,922
Deferred income taxes	2,800	2,649	151	2,175
Prepaid pension expenses	6,278	5,142	1,136	4,742
Others	5,125	3,881	1,243	3,908
Allowance for doubtful accounts	(86)	(114)	28	(119)
Total	490,115	481,357	8,758	476,508

Third Quarter Consolidated Balance Sheets

Liabilities, Minority Interests, and Shareholders' Equity

(Unit: ¥ million, rounded down)

	Fiscal 2006 3Q (As of December 31, 2006)	Fiscal 2005 (As of March 31, 2006)	Change	Fiscal 2005 3Q (As of December 31, 2005)
Liabilities				
Current liabilities	83,198	79,228	3,969	84,528
Notes and accounts payable	41,267	40,182	1,085	40,621
Short-term bank loans	11,708	7,008	4,700	10,771
Commercial paper	-	-	-	10,000
Accrued expenses	5,780	5,154	625	5,135
Accrued income taxes	2,523	7,164	(4,641)	2,107
Reserve for bonuses	3,724	6,283	(2,558)	3,239
Other reserves	33	41	(8)	24
Other	18,160	13,392	4,767	12,627
Long-term liabilities	55,798	60,646	(4,848)	59,606
Corporate bonds	10,000	10,000	-	10,000
Long-term debt	4,255	9,255	(5,000)	5,855
Deferred income taxes	11,729	13,713	(1,983)	12,326
Accrued retirement benefits	13,062	12,598	463	13,114
Accrued retirement benefits for directors and auditors	170	804	(633)	772
Others	16,579	14,273	2,305	17,537
Total Liabilities	138,996	139,875	(878)	144,135
Minority interests				
Minority interests	-	2,354	-	2,335
Shareholders' equity				
Capital	-	88,955	-	88,955
Additional paid-in capital	-	87,226	-	87,161
Retained earnings	-	155,377	-	148,667
Unrealized gain on revaluation of securities	-	16,425	-	15,383
Foreign currency translation adjustments	-	2,726	-	1,652
Treasury stock	-	(11,583)	-	(11,783)
Total shareholders' equity	-	339,127	-	330,038
Total liabilities, minority interests, and shareholders' equity	-	481,357	-	476,508

Net assets				
Shareholders' equity	328,739	-	-	-
Capital	88,955	-	-	-
Additional paid-in capital	87,261	-	-	-
Retained earnings	163,973	-	-	-
Treasury stock	(11,450)	-	-	-
Valuation and translation adjustments	19,952	-	-	-
Unrealized gain on revaluation of securities	13,647	-	-	-
Deferred gain (loss) on hedges	(31)	-	-	-
Foreign currency translation adjustments	6,335	-	-	-
Minority interests	2,427	-	-	-
Minority interests	2,427	-	-	-
Total net assets	351,118	-	-	-
Total liabilities and net assets	490,115	-	-	-

Third Quarter Consolidated Statements of Cash Flows

(Unit: ¥ million, rounded down)

	Fiscal 2006 3Q (April 1 – December 31, 2006)	Fiscal 2005 (April 1, 2005 – March 31, 2006)
Cash flows from operating activities:		
Income before income taxes and minority interests	24,245	34,362
Depreciation and amortization	19,629	25,185
Increase in allowance for doubtful accounts	(29)	37
Increase (decrease) in accrued retirement benefits	425	(141)
(Decrease) increase in reserve for bonuses	(2,558)	324
Gain on sales of property, plant and equipment	(211)	(8,445)
Impairment loss of property, plant and equipment	-	5,454
Loss on disposal of property, plant and equipment	421	492
Gain on sales of investment securities	(507)	(1,029)
Loss on write-down of investment securities	-	253
Interest and dividend income	(1,081)	(1,294)
Interest expenses	314	414
Decrease (increase) in notes and accounts receivable	986	(5,838)
Increase in inventories	(6,555)	(4,219)
Decrease in notes and accounts payable	810	(2,504)
Increase in prepaid pension expenses	(1,136)	(1,629)
Other, net	967	939
Sub-total	35,720	42,362
Interest and dividend received	831	942
Interest paid	(321)	(388)
Income taxes paid	(12,144)	(10,225)
Net cash provided by operating activities	24,086	32,690
Cash flows from investing activities:		
Decrease in marketable securities	(3,292)	3,000
Payments for acquisition of property, plant, equipment and intangible assets	(23,111)	(36,069)
Proceeds from sales of property, plant and equipment	336	10,550
Payments for disposal of property, plant, equipment and intangible assets	(1,520)	(338)
Payments for purchase of investment securities	(1,700)	(1,378)
Proceeds from sales and redemption of investment securities	663	3,603
Payments of long-term prepaid expenses	(2,376)	(338)
Payments of premiums on insurance	(300)	(701)
Withdrawals from accumulated premiums on insurance	15,821	6,573
Other, net	1,119	1,406
Net cash used in investing activities	(14,360)	(13,693)
Cash flows from financing activities:		
Decrease in short-term bank loans	(20)	(3,322)
Proceeds from long-term debt	-	3,400
Repayments of long-term debt	(403)	(3,406)
Proceeds from sales of treasury stock	287	460
Payments for purchase of treasury stock	(119)	(150)
Dividends paid	(6,248)	(4,772)
Net cash used in financing activities	(6,506)	(7,790)
Effect of exchange rate changes on cash and cash equivalents	311	134

Net (decrease) increase in cash and cash equivalents	3,530	11,340
Cash and cash equivalents, beginning of period	28,085	16,743
Effect of changes in reporting entities	-	1
Cash and cash equivalents, end of period	31,616	28,085

Segment Information

Industrial segment information

Third Quarter of Fiscal 2006 (April 1, 2006 to December 31, 2006)

(¥ million, rounded down)

	Chemicals and resins	Fibers and textiles	High- performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales and operating income						
Net sales						
(1) Outside customers	154,040	79,118	54,244	287,404	–	287,404
(2) Inter-segment sales and transfers	271	642	16,209	17,123	(17,123)	–
Total	154,312	79,761	70,454	304,528	(17,123)	287,404
Operating expenses	128,490	73,780	64,784	267,056	(8,239)	258,817
Operating income	25,821	5,980	5,669	37,472	(8,884)	28,587

Third Quarter of Fiscal 2005 (April 1, 2005 to December 31, 2005)

(¥ million, rounded down)

	Chemicals and resins	Fibers and textiles	High- performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales and operating income						
Net sales						
(1) Outside customers	139,483	80,547	54,909	274,941	–	274,941
(2) Inter-segment sales and transfers	546	529	19,448	20,523	(20,523)	–
Total	140,030	81,076	74,358	295,465	(20,523)	274,941
Operating expenses	118,224	73,686	69,080	260,992	(12,249)	248,742
Operating income	21,805	7,390	5,277	34,472	(8,273)	26,199

Fiscal 2005 (April 1, 2005 to March 31, 2006)

(¥ million, rounded down)

	Chemicals and resins	Fibers and textiles	High- performance materials, medical products and others	Total	Eliminated on consolidation and corporate	Consolidated total
Net sales and operating income						
Net sales						
(1) Outside customers	190,753	109,106	75,213	375,072	–	375,072
(2) Inter-segment sales and transfers	723	684	27,104	28,511	(28,511)	–
Total	191,476	109,790	102,317	403,584	(28,511)	375,072
Operating expenses	159,608	100,339	93,861	353,809	(17,013)	336,795
Operating income	31,868	9,450	8,456	49,775	(11,498)	38,277

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