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)

| _ | | | | (¥ mil | lion, rou | inded do | own) | | |
|---|----------------|---------|------------------|--------|-----------------|----------|------------|--------|----------|
| | 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 | |

(1) Business Performance (consolidated)

| | Net income per | Fully diluted net income |
|----------------|----------------|--------------------------|
| | share (¥) | 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 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.

| · · · · · · · · · · · · · · · · · · · | | 1 | | |
|---------------------------------------|--------------|-------------|------------------|----------------------|
| | | | (¥ million | , Rounded down) |
| | Total assets | Net assets | Shareholders' | Shareholders' equity |
| | (¥ million) | (¥ million) | equity ratio (%) | 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 |

(2) Changes in consolidated financial position

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 | | Cash flows from | Cash flows from | Cash and cash |
| | operating activities | investing activities | financing activities | equivalents at end |
| | (¥ million) | (¥ million) | (¥ million) | 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.

| | (U | nit: ¥ milli | on, round | ed down) |
|--|-------------|--------------|-----------|-------------|
| | Fiscal 2007 | Fiscal 2006 | Change | Fiscal 2006 |
| | 3Q | 3Q | 8 | (April 1, |
| | (April 1 – | (April 1 – | | 2005 - |
| | December | December | | March 31, |
| | 31, 2006) | 31, 2005) | | 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 | | | ŕ | ŕ |
| 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 | 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 | (Negative) | (Negative) | 3 | (Negative) |
| subsidiaries | 88 | 91 | | 109 |
| Net income | 14,913 | 14,548 | 364 | 21,185 |

Third Quarter Consolidated Statements of Income

Third Quarter Consolidated Balance Sheets

| Assets | (U | nit: Y milli | on, round | ed down) |
|-----------------------------------|-------------|----------------|-------------|-------------|
| | Fiscal 2006 | Fiscal 2005 | Change | Fiscal 2005 |
| | 3Q | (As of | 0 | 3Q |
| | (As of | March 31, | | (As of |
| | December | 2006) | | December |
| | 31, 2006) | | | 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) | Ó | (966) |
| Fixed assets | 275.004 | 200.000 | (1701) | 204 151 |
| | 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 |
| T | 70.550 | 04.454 | (1 (1 0 0) | 00.074 |
| 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 |

(I Luite V millio m manual darma)

Third Quarter Consolidated Balance Sheets

| Liabilities, Minority Interests, and | | 1 2 | | |
|---|------------------|------------------|-----------|------------------|
| | (U | nit: ¥ milli | on, round | led down) |
| | Fiscal 2006 | Fiscal 2005 | Change | Fiscal 2005 |
| | 3Q | (As of | C | 3Q |
| | (As of | March 31, | | (As of |
| | December | 2006) | | December |
| | 31, 2006) | | | 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 |
| I and tame liabilities | F F 700 | (0.(4(| (4.0.40) | 50.000 |
| Long-term liabilities Corporate bonds | 55,798 10,000 | 60,646 10,000 | (4,848) | 59,606 10,000 |
| Long-term debt | 4,255 | 9,255 | (5,000) | 5,855 |
| Deferred income taxes | 4,233 | 13,713 | (1,983) | 12,326 |
| Accrued retirement benefits | 11,729 | 12,598 | 463 | 12,326 |
| Accrued retirement benefits for directors and | 13,082 | 804 | (633) | 772 |
| auditors | 170 | 004 | (033) | 112 |
| 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 | - | 481,357 | - | 476,508 |
| shareholders' equity | | | | |

Liabilities, Minority Interests, and Shareholders' Equity

| 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 | - | - | - |

| (Unit: A | ¥ million, rounded down Fiscal 2006 Fiscal 2005 | | | | | |
|--|--|------------------|--|--|--|--|
| | | | | | | |
| | 3Q | (April 1, 2005 – | | | | |
| | (April 1 – | March 31, 2006 | | | | |
| | December 31, | | | | | |
| | 2006) | | | | | |
| Cash flows from operating activities: | 24.245 | | | | | |
| Income before income taxes and minority interests | 24,245 | 34,36 | | | | |
| Depreciation and amortization | 19,629 | 25,18 | | | | |
| Increase in allowance for doubtful accounts | (29) | 3 | | | | |
| Increase (decrease) in accrued retirement benefits | 425 | (141 | | | | |
| (Decrease) increase in reserve for bonuses | (2,558) | 32 | | | | |
| Gain on sales of property, plant and equipment | (211) | (8,445 | | | | |
| Impairment loss of property, plant and equipment | - | 5,45 | | | | |
| Loss on disposal of property, plant and equipment | 421 | 49 | | | | |
| Gain on sales of investment securities | (507) | (1,029 | | | | |
| Loss on write-down of investment securities | - | 25 | | | | |
| Interest and dividend income | (1,081) | (1,294 | | | | |
| Interest expenses | 314 | 41 | | | | |
| 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 | 93 | | | | |
| Sub-total | 35,720 | 42,36 | | | | |
| Interest and dividend received | 831 | 94 | | | | |
| Interest paid | (321) | (388 | | | | |
| Income taxes paid | (12,144) | (10,225 | | | | |
| Net cash provided by operating activities | 24,086 | 32,69 | | | | |
| Cash flows from investing activities: | , | | | | | |
| Decrease in marketable securities | (3,292) | 3,00 | | | | |
| Payments for acquisition of property, plant, equipment and | | , | | | | |
| intangible assets | (23,111) | (36,069 | | | | |
| Proceeds from sales of property, plant and equipment | 336 | 10,55 | | | | |
| Payments for disposal of property, plant, equipment and intangible | (1,520) | (338 | | | | |
| assets | | × × | | | | |
| Payments for purchase of investment securities | (1,700) | (1,378 | | | | |
| Proceeds from sales and redemption of investment securities | 663 | 3,60 | | | | |
| Payments of long-term prepaid expenses | (2,376) | (338 | | | | |
| Payments of premiums on insurance | (300) | (701 | | | | |
| Withdrawals from accumulated premiums on insurance | 15,821 | 6,57 | | | | |
| Other, net | 1,119 | 1,40 | | | | |
| 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 | (=0) | 3,40 | | | | |
| Repayments of long-term debt | (403) | (3,400 | | | | |
| Proceeds from sales of treasury stock | 287 | 46 | | | | |
| | | (150 | | | | |
| Payments for purchase of treasury stock Dividends paid | (119) | ` | | | | |
| Dividends paid Net cash used in financing activities | (6,248) | (4,772 | | | | |
| THE CASH USED III IIIAIICHIY ACUVILLES | (6,506) | (7,790 | | | | |

Third Quarter Consolidated Statements of Cash Flows

| 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 | Third Quarter of Fiscal 2006 (April 1, 2006 to December 31, 2006) | | | | | 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 t | o December 31, | 2005) | _ | (¥ million, | rounded down) |
| | Chemicals and resins | Fibers and textiles | High- performance materials, medical products and | Total | Eliminated on consolidation and corporate | Consolidated total |

ent information

others Net sales and operating income Net sales 274,941 (1) Outside customers 139,483 80,547 54,909 274,941 _ (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) 274,941 118,224 260,992 248,742 Operating expenses 73,686 69,080 (12,249) 21,805 7,390 5,277 34,472 26,199 Operating income (8,273)

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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