

February 6, 2008
Kuraray Co., Ltd.

**Consolidated Earnings Report for the Third Quarter of the Fiscal Year
Ending March 31, 2008**

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

Representative
Title: Representative Director and President
Name: Yasuaki Wakui

Contact
Title: General Manager, Office of Public Relations
Name: Hiroaki Yoshino
Tel: +81-3-6701-1078

1. Forecast of Consolidated Results for Fiscal 2007, Ending March 31, 2008 (April 1, 2007 to March 31, 2008)

The forecast of consolidated results for fiscal 2007 has not been modified since the announcement of earnings report for the first half of fiscal 2007 dated October 30, 2007.

2. Others

- (1) Changes in the scope of consolidation: No
- (2) Changes to accounting methods: Yes
- (3) Recent change in method of accounting from consolidated fiscal year:
No

3. Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2008 (April 1, 2007 to December 31, 2007)

(1) Business Performance (consolidated)

(¥ million, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2007 3Q	308,653	7.4%	35,403	23.8%	32,646	24.4%	20,083	34.7%
Fiscal 2006 3Q	287,404	4.5%	28,587	9.1%	26,250	11.3%	14,913	2.5%
Fiscal 2006	385,284	--	40,220	--	36,546	--	22,412	--

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2007 3Q	56.38	56.25
Fiscal 2006 3Q	40.56	40.46
Fiscal 2006	60.95	60.80

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

During the third quarter (April 1, 2007 to December 31, 2007) of the current fiscal year, the Japanese economy faced a severe business environment due to the impact of a sharp rise in raw material and fuel prices. Under these conditions, the Kuraray Group took various actions including the retail price revision and cost reduction. In addition, Kuraray changed the industry category it was registered under at the Tokyo Stock Exchange and Osaka Securities Exchange from “Textile & Apparel” to “Chemicals.” Against this backdrop, the Kuraray Group continues to pursue business as a specialty chemical company while aggressively addressing key issues as set out in the new GS-21 medium-term business plan (for fiscal 2006-2008), which is now in its second year. As a result, net sales for the third quarter of the current fiscal year rose 7.4% compared with the same period of the previous fiscal year to ¥308,653 million, and operating income increased 23.8% to ¥35,403 million. Net income for the quarter totaled ¥20,083 million, up 34.7%, reflecting increases in both revenue and earnings. Business conditions by segment compared with the same period a year earlier were as follows.

Chemicals and Resins

Sales in the Chemicals and Resins segment were ¥180.9 billion, up 17.4% year on year, while operating income was ¥36.4 billion, up 41.1% compared with the corresponding period in the previous fiscal year. Sales of *Poval* grew on the back of increased demand for optical-use *Poval* film used in LCD displays for TVs and monitors. While the *Poval* resin business steadily expanded, sales of polyvinyl butyral (PVB) film showed healthy growth for use in construction applications in Europe. On January 31, 2008, Kuraray included its *Poval* resin production company POVAL ASIA PTE LTD. in its scope of consolidation, making it a wholly owned Kuraray subsidiary.

Business related to *EVVAL*, an EVOH resin, was impacted by plant trouble at our U.S. supplier of raw materials. Despite weak demand for *EVVAL* for fuel tanks, demand related to applications for food packaging remained strong. Moreover, severe conditions in the market for methacrylic resin for use in commodities were countered by brisk sales of the resin for use as a molding material for light-guide plates. In isoprene-related products, demand for *SEPTON* thermoplastic elastomer was strong, especially in the United States and Europe. The fine chemicals business continued to see harsh conditions due to intensifying international competition for aroma chemicals and agrochemical intermediates. On March 31, 2008, Kuraray decided to suspend production at some aroma chemical businesses due to worsening profitability.

Fibers and Textiles

Sales in this segment were ¥78.1 billion, down 1.3% year on year, and operating income amounted ¥5.1 billion, down 14.0%.

Sales of *KURARON* remained robust on the back of solid demand for its use as an asbestos substitute in FRC (cement reinforcing agent) applications. In order to respond to further demand expansion, Kuraray decided to increase the annual production capacity for this material by 5,000 tons (increase to commence December 2008). Sales of *CLARINO* man-made leather, which is mainly used in shoes, were stagnant. Strong sales were recorded for nonwoven fabrics and hook and loop fasteners for such applications as wiping cloth and industrial materials, respectively. *VECTRAN* high-strength fibers and textiles enjoyed brisk sales primarily in the United States. The polyester business showed stable growth mainly in its area of strength, including sports material applications.

High-Performance Materials, Medical Products and Others

In this segment, sales amounted ¥49.6 billion, down 8.5% year on year, and operating income was ¥4.8 billion, down 15.8%.

In the medical business, sales of dental materials continued to be strong, especially in the United States and Europe. In October 2007, Kuraray's dialyzer business was integrated into Asahi Kasei Medical Co., Ltd. The heat-resistant polyamide resin *GENESTAR* enjoyed brisk sales for use in electronics materials. Sales of other businesses, including the engineering business, remained robust.

(2) Changes in Consolidated Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Shareholders' equity ratio (%)	Shareholders' equity per share (¥)
December 31, 2007	488,439	339,935	69.1	968.15
December 31, 2006	490,155	351,118	71.1	948.23
March 31, 2007	508,694	358,592	70.0	967.80

Qualitative Information Regarding Changes in Consolidated Financial Position

Total assets were ¥488.4 billion, down ¥20.3 billion from the end of the previous fiscal year, due to a decrease in current assets. Liabilities were ¥148.5 billion, down ¥1.6 billion from the end of the previous fiscal year. Net assets declined ¥18.7 billion from the end of the previous fiscal year to ¥339.9 billion, reflecting the acquisition of treasury stock and dividend payments as well as increased quarterly net income. Shareholders' equity totaled ¥337.3 billion and the shareholders' equity ratio was 69.1%.

(3) Cash Flows

	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 2007 3Q	37,784	(28,239)	(31,106)	12,556
Fiscal 2006 3Q	24,086	(14,360)	(6,506)	31,616
Fiscal 2006	38,961	(28,936)	(4,350)	34,032

Qualitative Information Regarding Forecasts

There are no changes to forecasts of the Company's performance in the fiscal year ending March 31, 2008.

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)

	Fiscal 2007 3Q (April 1 – December 31, 2007)	Fiscal 2006 3Q (April 1 – December 31, 2006)	Change	Fiscal 2006 (April 1, 2006 – March 31, 2007)
Net sales	308,653	287,404	21,249	385,284
Cost of sales	218,302	205,714	12,587	275,885
Gross profit	90,351	81,690	8,661	109,398
Selling, general and administrative expenses	54,948	53,102	1,845	69,178
Operating income	35,403	28,587	6,816	40,200
Non-operating income				
Interest and dividends received	1,691	1,081	610	1,939
Equity in earnings of affiliates	9	59	(49)	77
Other, net	986	575	410	812
Total non-operating income	2,688	1,716	972	2,829
Non-operating expenses				
Interest paid	629	314	315	419
Other expenses	4,815	3,739	1,076	6,084
Total non-operating expenses	5,445	4,053	1,392	6,503
Ordinary income	32,646	26,250	6,396	36,546
Extraordinary income				
Gain on sales of investment securities	228	507	(278)	3,078
Gain on changes in retirement benefits plan	68	—	68	634
Gain on sales of fixed assets	—	211	(211)	3,746
Total extraordinary income	297	718	(421)	7,459
Extraordinary expenses				
Restructuring charges	694	2,302	1,607	5,802
Impairment loss on property, plant and equipment	194	—	194	1,658
Loss on disposal of property, plant and equipment	223	421	(197)	670
Loss on business transfer due to spin-off	88	—	88	—
Write-down of investment securities	—	—	—	292
Total extraordinary expenses	1,202	2,723	(1,521)	8,423
Income before income taxes	31,741	24,245	7,496	35,582
Current income taxes	11,200	7,576	3,624	12,612
Deferred income taxes	377	1,667	(1,290)	443
Total income taxes	11,578	9,243	2,334	13,055
Minority interests in net income of consolidated subsidiaries	(Negative) 80	(Negative) 88	7	(Negative) 114
Net income	20,083	14,913	5,169	22,412

Third Quarter Consolidated Balance Sheets

Assets

(Unit: ¥ million)

	Fiscal 2007 3Q (As of December 31, 2007)	Fiscal 2006 (As of March 31, 2007)	Change	Fiscal 2006 3Q (As of December 31, 2006)
Current assets	195,573	217,970	(22,396)	214,210
Cash and cash equivalents	13,376	22,924	(228)	17,857
Notes and accounts receivable	95,197	96,186	(988)	89,899
Marketable securities	57	12,997	(12,940)	17,798
Inventories	74,956	72,231	2,724	77,015
Deferred income taxes	5,979	6,741	(761)	5,368
Others	6,719	7,781	(1,061)	7,286
Allowance for doubtful accounts	(713)	(892)	179	(1,015)
Fixed assets	292,865	290,724	2,140	275,904
Property, plant and equipment	187,948	174,151	13,796	170,407
Buildings	32,693	30,632	2,060	27,619
Machinery and equipment	91,920	86,982	4,938	83,416
Land	19,055	19,028	26	19,788
Construction in progress	41,709	34,978	6,731	37,108
Others	2,569	2,529	39	2,474
Intangible fixed assets	33,771	35,238	(1,466)	34,944
Goodwill	28,279	29,298	(1,019)	28,827
Other intangible assets	5,492	5,940	(447)	6,116
Investments and other assets	71,144	81,333	(10,188)	70,552
Investment securities	45,139	49,238	(4,099)	38,964
Long-term loans	2,311	2,709	(398)	3,000
Accumulated premiums on insurance	8,776	14,653	(5,877)	14,468
Deferred income taxes	2,640	2,844	(203)	2,800
Prepaid pension expenses	7,408	7,106	302	6,278
Others	5,117	4,798	319	5,125
Allowance for doubtful accounts	(248)	(18)	(230)	(86)
Total	480,439	508,694	20,255	490,115

Third Quarter Consolidated Balance Sheets

Liabilities, Minority Interests, and Shareholders' Equity (Unit: ¥ million)

	Fiscal 2007 3Q (As of December 31, 2007)	Fiscal 2006 (As of March 31, 2007)	Change	Fiscal 2006 3Q (As of December 31, 2006)
Liabilities				
Current liabilities	93,095	94,404	(1,308)	83,198
Notes and accounts payable	38,678	43,604	(4,926)	41,267
Short-term bank loans	14,728	11,708	3,020	11,708
Accrued expenses	6,208	6,970	(762)	5,780
Accrued income taxes	5,611	6,735	(1,124)	2,523
Reserve for bonuses	3,691	6,200	(2,508)	3,724
Other reserves	25	29	(3)	33
Other	24,151	19,155	4,996	18,160
Long-term liabilities	55,408	55,697	(289)	55,798
Corporate bonds	10,000	10,000	—	10,000
Long-term debt	9,755	6,255	3,499	4,255
Deferred income taxes	8,445	11,128	(2,683)	11,729
Accrued retirement benefits	13,104	12,890	213	13,062
Accrued retirement benefits for directors and auditors	179	180	(1)	170
Others	13,923	15,242	(1,318)	16,579
Total liabilities	148,503	150,101	(1,598)	138,996
Net assets				
Shareholders' equity	319,050	336,415	(17,365)	328,739
Capital	88,955	88,955	—	88,955
Additional paid-in capital	87,233	87,314	(80)	87,261
Retained earnings	183,784	171,427	12,356	163,973
Treasury stock	(40,922)	(11,280)	(29,641)	(11,450)
Valuation and translation adjustments	18,297	19,723	(1,426)	19,952
Unrealized gain on revaluation of securities	8,488	11,321	(2,833)	13,647
Deferred gain (loss) on hedges	166	(8)	175	(31)
Foreign currency translation adjustments	9,642	8,410	1,232	6,335
Stock subscription rights	69	—	69	—
Stock subscription rights	69	—	69	—
Minority interests	2,519	2,453	65	2,427
Minority interests	2,519	2,453	65	2,427
Total net assets	339,935	358,592	(18,656)	351,118
Total liabilities and net assets	488,439	508,694	(20,255)	490,115

Third Quarter Consolidated Statements of Cash Flows

(Unit: ¥ million)

	Fiscal 2007 3Q (April 1 – December 31, 2007)	Fiscal 2006 3Q (April 1 – December 31, 2006)	Fiscal 2006 (April 1, 2006 – March 31, 2007)
Cash flows from operating activities:			
Income before income taxes and minority interests	31,741	24,245	35,582
Depreciation and amortization	22,674	19,629	25,495
Increase or decrease in allowance for doubtful accounts	(98)	(29)	(168)
Increase or decrease in accrued retirement benefits	197	425	227
Increase or decrease in reserve for bonuses	(2,515)	(2,558)	(83)
Impairment loss on property, plant and equipment	194	—	1,658
Loss on disposal of property, plant and equipment	223	421	670
Gain on sales of property, plant and equipment	—	(211)	(3,746)
Gain on sales of investment securities	(228)	(507)	(3,078)
Loss on business transfer due to spin-off	88	—	—
White-down of investment securities	—	—	292
Interest and dividend income	(1,691)	(1,081)	(1,939)
Interest expenses	629	314	419
Increase or decrease in notes and accounts receivable	1,901	986	(4,932)
Increase or decrease in inventories	(3,275)	(6,555)	(1,357)
Increase or decrease in notes and accounts payable	(4,010)	810	2,822
Increase or decrease in prepaid pension expenses	(302)	(1,136)	(1,963)
Other, net	3,327	967	(1,049)
Sub-total	48,858	35,720	48,848
Interest and dividends received	1,596	831	1,554
Insurance benefits received	—	0	2,149
Interest paid	(576)	(321)	(420)
Income taxes paid	(12,093)	(12,144)	(13,170)
Net cash provided by operating activities	37,784	24,086	38,961
Cash flows from investing activities:			
Increase or decrease in time deposits	1,070	(740)	(1,890)
Increase or decrease in marketable securities	(56)	(3,292)	(3,292)
Payments for acquisition of property, plant, equipment and intangible assets	(32,721)	(23,111)	(32,574)
Proceeds from sales of property, plant and equipment	12	336	4,926
Payments for disposal of property, plant, equipment and intangible assets	(1,285)	(1,520)	(2,744)
Payments for purchase of investment securities	(313)	(1,700)	(16,953)
Proceeds from sales and redemption of investment securities	274	663	7,464
Payments of long-term prepaid expenses	(659)	(2,376)	(2,457)
Payments of premiums on insurance	(99)	(300)	(309)
Withdrawals from accumulated premiums on insurance	6,091	15,821	15,842
Other, net	(603)	1,859	3,051
Net cash used in investing activities	(28,289)	(14,360)	(28,936)
Cash flows from financing activities:			
Increase or decrease in short-term bank loans	5,244	(20)	(74)
Proceeds from long-term debt	5,900	—	2,000
Repayments of long-term debt	(5,000)	(403)	(403)

Dividends paid to minority interest shareholders	(13)	—	(13)
Proceeds from sales of treasury stock	416	287	566
Payments for purchase of treasury stock	(30,144)	(119)	(176)
Dividends paid	(7,509)	(6,248)	(6,248)
Net cash used in financing activities	(31,106)	(6,506)	(4,350)
Effect of exchange rate changes on cash and cash equivalents	21	311	272
Net (decrease) increase in cash and cash equivalents	(21,588)	3,530	5,947
Cash and cash equivalents, beginning of period	34,032	28,085	28,085
Effect of changes in reporting entities	112	—	—
Cash and cash equivalents, end of period	12,556	31,616	34,032

Segment Information

Industrial segment information

Third Quarter of Fiscal 2007 (April 1, 2007 to December 31, 2007)

(¥ million)

	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	180,918	78,116	49,619	308,653	–	308,653
(2) Inter-segment sales and transfers	622	477	15,325	16,425	(16,425)	–
Total	181,540	78,593	64,944	325,079	(16,425)	308,653
Operating expenses	145,110	73,449	60,170	278,730	(5,480)	273,250
Operating income	36,430	5,143	4,773	46,348	(10,944)	35,403

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

(¥ million)

	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

Fiscal 2006 (April 1, 2006 to March 31, 2007)

(¥ million)

	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	201,221	107,924	76,138	385,284	—	385,284
(2) Inter-segment sales and transfers	377	819	24,826	26,023	(26,023)	—
Total	201,599	108,744	100,964	411,308	(26,023)	385,284
Operating expenses	165,955	100,759	93,019	359,734	(14,669)	345,064
Operating income	35,643	7,985	7,945	51,574	(11,354)	40,220