

**Consolidated Earnings Report for the  
Third Quarter of the Fiscal Year  
Ending March 31, 2012 (Unaudited)**

**February 2, 2012  
Kuraray Co., Ltd.**

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## Consolidated Earnings Report for the Third Quarter of the Fiscal Year Ending March 31, 2012

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

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(Millions of yen rounded down unless otherwise stated)

### 1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2012 (April 1, 2011 to December 31, 2011)

#### (1) Consolidated Operating Results (Cumulative)

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2011 3Q	275,738	2.0%	43,036	8.8%	42,463	10.5%	25,442	13.6%
Fiscal 2010 3Q	270,427	11.4%	39,546	102.0%	38,416	106.0%	22,402	84.5%

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
Fiscal 2011 3Q	73.05	72.94
Fiscal 2010 3Q	64.35	64.26

**(2) Consolidated Financial Position**

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio
			%
As of December 31, 2011	527,109	360,393	67.2
As of March 31, 2011	507,328	346,825	67.6

(Reference)

Shareholders' equity: As of December 31, 2011      ¥354,316 million  
As of March 31, 2011                              ¥343,105 million

**2. Dividends**

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Annual
Fiscal 2010	—	13.00	—	14.00	27.00
Fiscal 2011	—	16.00	—		
Fiscal 2011 (Forecast)				17.00	33.00

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

**3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2012 (April 1, 2011 to March 31, 2012)**

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share	
	Yen	%	Yen	%	Yen	%	Yen	%	Yen	Yen
Full Fiscal Year	372,000	2.4%	57,000	7.4%	55,500	8.7%	33,500	16.6%	96.18	Yen

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

**4. Other****(1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)**

No

**(2) Adoption of Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements**

No

**(3) Changes in Accounting Principles, Procedures and Presentation Methods in Connection with the Preparation of Quarterly Consolidated Financial Statements**

1. Changes following revision of accounting standards: Yes

2. Changes besides 1. above: None

3. Changes of accounting estimates: None

4. Restatement: None

(Note: Please see “Changes in Accounting Policies and, Accounting Estimates and Restatement ” about the details.)

**(4) Number of Shares Issued and Outstanding (Common Shares)**

1. Number of shares issued and outstanding (including treasury stock) as of the period-end:

As of December 31, 2011 382,863,603 shares

As of March 31, 2011 382,863,603 shares

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

As of December 31, 2011 34,549,191 shares

As of March 31, 2011 34,611,169 shares

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

As of December 31, 2011 348,293,362 shares

As of December 31, 2010 348,153,844 shares

*Indication of quarterly review procedure implementation status*

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

*Cautionary Statement with Respect to Forecasts of Consolidated Business Results*

The results forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts. Please refer to “Qualitative Information on Consolidated Operating Results Forecast” on page 4 of the Attachment for the assumptions used.

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## 1. Qualitative Information and Financial Statements

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

During the third quarter of fiscal 2011 (April 1, 2011 to December 31, 2011), the global economy increasingly slowed down due to the weakness in the European economy reflecting the financial crisis that surfaced in the middle of the period under review and the economic slowdown in the United States, combined with the disruption of supply chains caused by the Thai flood disaster. In addition, the growth of emerging economies, which had been the driving force in the world economy, was slowing down due, among others, to the decline in exports to developed countries and inflation. On the domestic front, circumstances permitted no optimism as the already deflationary economy further deteriorated and the yen continued to appreciate rapidly.

Confronting these circumstances, the Kuraray Group took various measures to respond to the economic slowdown including the price maintenance and revisions and the shift to high value-added products. In addition, the Group continued to steadily expand businesses and took proactive measures for future growth based on its GS-Twins medium-term action plan.

As a result, net sales for the third quarter rose ¥5,310 million, or 2.0%, compared with the corresponding period of the previous fiscal year to ¥275,738 million, operating income grew ¥3,490 million, or 8.8%, to ¥43,036 million, ordinary income increased ¥4,047 million, or 10.5%, to ¥42,463 million and net income climbed ¥3,039 million, or 13.6%, to ¥25,442 million.

### Results by Business Segment

#### **Resins**

Demand for resins was stable across Europe, the United States, and Asia during the first half of the period under review, but the demand growth slowed down in the second half of the period under review due to the effect of the economic slowdown in Europe. As a result, sales in this segment grew 2.8% year on year to ¥113,703 million, and operating income increased slightly to ¥37,912 million (from ¥37,904 million for the corresponding period of the previous fiscal year).

- (1) The European poval resin market deteriorated in the first half of the period under review, while sales of value-added products were stable in the markets of emerging countries. Sales of optical-use poval film remained nearly flat year on year. To better prepare for the anticipated demand expansion in this business over the medium term, Kuraray

decided to build a new production line at its Saijo Plant, which will add an annual capacity of 3.2 million square meters. This new line is scheduled to begin production in June 2013. Sales of polyvinyl butyral (PVB) film were stable.

- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) for automobiles and food packaging were up year on year. In order to prepare for the anticipated demand expansion in this business, the Company decided to expand its production capacity in the United States, which will add an annual capacity of 12,000 tons. This new line is scheduled to begin production in January 2014.

### **Chemicals**

Despite the suspension of production in some product categories due to the earthquake in the first half of the period under review, sales in this segment remained favorable. However, the overall demand declined in the second half of the period under review as a result of the malaise in the global economy. As a result, sales in this segment increased 0.1% year on year to ¥56,256 million, and operating income jumped 33.2% to ¥7,914 million.

- (1) Sales of methacrylic resin were favorable during the first half of the period under review, but were affected by the decrease in the demand for use as molding materials for LCD panels coupled with increased competition in the second half of the period under review.
- (2) In isoprene chemicals, the sales volume of *SEPTON* thermoplastic elastomer declined as a result of the malaise in the global economy. The performance of fine chemicals remained steady throughout the period under review.
- (3) The sales of *GENESTAR* heat-resistant polyamide resin declined year on year due to the weak demand for LED reflector applications. However, Kuraray secured an overall profit growth by pioneering new applications such as use for automobiles.
- (4) Kuraray Medical Inc.'s performance remained stable due to the inclusion of the dental materials business of Noritake Dental Supply Co., Limited, which was merged into the Company in April 2011.

### **Fibers and Textiles**

Although sales of *KURALON* were stable, demand for certain other products remained stagnant. As a result, sales in this segment decreased 1.4% year on year to ¥44,853 million, and operating income increased to ¥1,037 million (from a loss of ¥128 million for the corresponding period of the previous fiscal year).

- (1) Sales were generally favorable for *KURALON* for use in primary cell

separators and automotive brake hoses. However, demand for this product for use as an asbestos substitute in fiber reinforced cement (FRC) was affected by the stagnant European market in the second half of the period under review.

- (2) Sales of *CLARINO* man-made leather were healthy for school bag applications. The use of new processed products expanded steadily for footwear and interior applications, which had the effect of improving the performance of *CLARINO* operations. Kuraray is continuing radical business restructuring in these operations.
- (3) Sales of *KURAFLEX* nonwoven fabrics for use in wet wipers and commercial counter cloth were stable despite stagnant demand for these products' use in industrial masks.

### **Trading**

Although certain operations in this segment saw decline in demand, sales of differentiated materials in such fiber-related businesses as polyester grew steadily. As a result, segment sales were down 2.1% year on year to ¥84,071 million, while operating income increased 11.6% to ¥2,621 million.

### **Others**

Sales of activated carbon for use in water purification systems and capacitors (electric storage devices) were steady, and other items also saw stable demand growth. As a result, sales in this segment climbed 19.8% year on year to ¥50,431 million, and operating income increased 7.5% to ¥4,092 million.

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

Kuraray has revised its performance forecasts for fiscal 2011, as shown in the following table, as the performance of poval resin, *SEPTON* thermoplastic elastomer and methacrylic resin operations, among others, has been weaker than the initial expectation reflecting the stagnant global economy, in particular, the weakness of the European market and further depreciation of euro.

Revised forecast for the fiscal year ending March 31, 2012 (April 1, 2011–March 31, 2012)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Previous forecast (A) (Announced on October 30, 2011)	390,000	60,000	58,500	34,000	97.62
Revised forecast (B)	372,000	57,000	55,500	33,500	96.18
Change (B – A)	(18,000)	(3,000)	(3,000)	(500)	
Change (%)	(4.6)	(5.0)	(5.1)	(1.4)	
(Reference) Fiscal 2010 Results	363,191	53,095	51,062	28,742	82.55

Assumptions for the fourth quarter and later are as follows:

- ¥77=US\$1
- ¥100=1 euro
- Domestic naphtha price ¥51,000 per kiloliter

<Reference> Consolidated result forecast for the fiscal year ending March 31, 2012 (Breakdown of segment income)

(Billions of yen)

	Net Sales	Operating Income
Resin	150.0	51.0
Chemicals	76.0	9.5
Fibers and Textiles	63.0	1.0
Trading	111.0	3.5
Others	68.0	6.0
Adjustment	(96.0)	(14.0)
Total	372.0	57.0

## 2. Items regarding Summary (and Other) Information Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Policies)

From the first quarter of the fiscal year ending March 31, 2012, Kuraray is applying the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, June 30, 2010) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, June 30, 2010)

In calculating quarterly net income per share on a diluted basis, the method used to reflect the effects of stock options, the rights to which will vest to the holders of said options after a certain period of time, has been changed to one under which the amount pertaining to said holders' services to be provided to the Company that comprises part of the assessed fair value of stock options shall be included in the amount to be paid in at the time of the exercise of the rights.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	March 31, 2011	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	34,221	36,391
Notes and accounts receivable–trade	76,135	76,195
Short-term investment securities	127,128	119,945
Merchandise and finished goods	40,534	52,652
Work in process	8,122	9,538
Raw materials and supplies	12,732	15,519
Deferred tax assets	6,046	4,311
Others	6,475	7,423
Allowance for doubtful accounts	(802)	(716)
Total current assets	310,594	321,261
<b>Fixed Assets</b>		
Tangible fixed assets		
Buildings and structures (net)	33,701	34,036
Machinery and equipment (net)	79,216	71,411
Land	17,976	19,670
Construction in progress	11,867	25,913
Others (net)	2,477	3,897
Total tangible fixed assets	145,238	154,929
Intangible fixed assets		
Goodwill	12,725	12,350
Others	2,842	2,511
Total intangible fixed assets	15,568	14,861
Investments and other assets		
Investment securities	19,577	18,372
Long-term loans receivable	1,189	577
Deferred tax assets	4,725	4,639
Prepaid pension costs	6,243	5,929
Others	4,378	6,683
Allowance for doubtful accounts	(186)	(145)
Total investments and other assets	35,926	36,057
Total fixed assets	196,733	205,848
Total	507,328	527,109

	March 31, 2011	December 31, 2011
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable–trade	30,308	34,500
Short-term loans payable	12,738	13,077
Current portion of corporate bonds	10,000	—
Income taxes payable	10,369	6,786
Provision for bonuses	6,670	3,925
Provision for disaster losses	300	59
Other provision	1	6
Other	15,825	22,410
Total current liabilities	86,214	80,767
<b>Long-term liabilities</b>		
Corporate bonds payable	—	10,000
Long-term loans payable	43,035	41,999
Deferred tax liabilities	4,918	4,709
Provision for retirement benefits	14,641	15,512
Provision for retirement benefits for directors and auditors	167	182
Provision for environmental measures	1,122	1,106
Asset retirement obligations	2,222	2,169
Others	8,179	10,268
Total long-term liabilities	74,288	85,948
Total liabilities	160,502	166,715
<b>NET ASSETS</b>		
Shareholders' equity		
Capital	88,955	88,955
Capital surplus	87,147	87,147
Retained earnings	225,743	240,719
Treasury stock	(40,856)	(40,783)
Total shareholders' equity	360,989	376,039
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,280	1,922
Deferred gain or losses on hedges	(14)	(18)
Foreign currency translation adjustments	(19,916)	(23,407)
Pension liability adjustments	(233)	(219)
Total accumulated other comprehensive income	(17,884)	(21,723)
Stock subscription rights	560	1,027
Minority interests	3,159	5,049
Total net assets	346,825	360,393
Total liabilities and net assets	507,328	527,109

**(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statements of Comprehensive Income**  
**Quarterly Consolidated Statement of Income**

(Millions of yen)

	Nine-month period ended Dec. 31, 2010 (April 1, 2010 – Dec. 31, 2010)	Nine-month period ended Dec. 31, 2011 (April 1, 2011 – Dec. 31, 2011)
Net sales	270,427	275,738
Cost of sales	181,475	182,320
Gross profit	88,951	93,417
Selling, general and administrative expenses		
Selling expenses	13,625	13,798
General and administrative expenses	35,779	36,582
Total selling, general and administrative expenses	49,405	50,381
Operating income	39,546	43,036
Non-operating income		
Interest income	287	296
Dividend income	1,070	1,173
Equity in loss of affiliates	29	8
Other, net	686	813
Total non-operating income	2,073	2,293
Non-operating expenses		
Interest expenses	861	801
Other expenses	2,341	2,064
Total non-operating expenses	3,203	2,865
Ordinary income	38,416	42,463
Extraordinary income		
Gain on equity in consolidated subsidiaries due to market fluctuation	—	845
Total extraordinary income	—	845
Extraordinary expenses		
Losses on disaster	—	950
Provision for disaster losses	—	60
Loss on valuation of investment securities	525	517
Loss on disposal of fixed assets	219	270
Impairment loss	—	131
Impact of the application of the Accounting Standard for Asset Retirement Obligations	1,548	—
Business structure improvement losses	206	—
Total extraordinary expenses	2,499	1,928
Income before income taxes and minority interests	35,916	41,380
Current income taxes	10,805	13,356
Deferred income taxes	2,600	2,124
Total income taxes	13,406	15,481
Income before minority interests in net income of consolidated subsidiaries	22,510	25,898
Minority interests in net income of consolidated subsidiaries	107	455
Net income	22,402	25,442

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine-month period ended Dec. 31, 2010 (April 1, 2010 – Dec. 31, 2010)	Nine-month period ended Dec. 31, 2011 (April 1, 2011 – Dec. 31, 2011)
Income before minority interests in net income of consolidated subsidiaries	22,510	25,898
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,198)	(356)
Deferred gain or losses on hedges	83	(3)
Foreign currency translation adjustments	(9,492)	(3,491)
Pension liability adjustments	—	13
Share of other comprehensive income of associates accounted for using equity method	(0)	(1)
Total other comprehensive income	(10,608)	(3,839)
Quarterly comprehensive income	11,901	22,059
(Breakdown of quarterly comprehensive income)		
Comprehensive income attributable to owners of the parent	11,794	21,603
Comprehensive income attributable to minority interests	107	455

### (3) Notes Regarding Going Concern Assumptions

None

#### (4) Segment and Other Information

[Segment Information]

I. Third Quarter of Fiscal 2010 (April 1, 2010 to December 31, 2010)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment					Others <sup>1</sup>	Total	Adjustment <sup>2</sup>	Consolidated Statements of Income <sup>3</sup>
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net Sales									
Outside customers	87,647	35,063	31,574	83,421	237,707	32,720	270,427	—	270,427
Inter-segment sales and transfers	22,946	21,152	13,932	2,465	60,497	9,359	69,856	(69,856)	—
Total	110,594	56,215	45,507	85,887	298,204	42,079	340,284	(69,856)	270,427
Segment Income (loss)	37,904	5,941	(128)	2,348	46,067	3,807	49,875	(10,329)	39,546

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Adjustment is as follows: Included within operating income (loss) of ¥10,329 million is the elimination of intersegment transactions of ¥201 million and corporate expenses of ¥10,530 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

## II. Third Quarter of Fiscal 2011 (April 1, 2011 to December 31, 2011)

### 1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment					Others <sup>1</sup>	Total	Adjustment <sup>2</sup>	Consolidated Statements of Income <sup>3</sup>
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net Sales									
Outside customers	91,537	35,326	32,779	81,176	240,819	34,919	275,738	—	275,738
Inter-segment sales and transfers	22,165	20,929	12,074	2,894	58,064	15,512	73,577	(73,577)	—
Total	113,703	56,256	44,853	84,071	298,884	50,431	349,315	(73,577)	275,738
Segment Income	37,912	7,914	1,037	2,621	49,485	4,092	53,577	(10,541)	43,036

#### Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Adjustment is as follows: Included within operating income (loss) of ¥10,541 million is the elimination of intersegment transactions of ¥338 million and corporate expenses of ¥10,202 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

### (5) Material Changes in Shareholders’ Equity

None

### (6) Additional Information

From the first quarter of the fiscal year ending March 31, 2012, Kuraray is applying the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ No. 24, December 4, 2009) and the “the Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009).