

**Consolidated Earnings Report for the  
Third Quarter of the Fiscal Year Ending  
March 31, 2013 (Unaudited)**

**February 5, 2013**

**Kuraray Co., Ltd.**

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## Consolidated Earnings Report for the Third Quarter of the Fiscal Year Ending March 31, 2013

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

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(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary documentation for the quarterly earnings report: No

Holding of quarterly earnings results briefing: No

### 1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2013 (April 1, 2012 to December 31, 2012)

#### (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 2012 3Q	272,044	(1.3%)	36,388	(15.4%)	35,655	(16.0%)	21,400	(15.9%)
Fiscal 2011 3Q	275,738	2.0%	43,036	8.8%	42,463	10.5%	25,442	13.6%

Note: Comprehensive income: For the fiscal 2012 third quarter: ¥19,647 million (10.9%)

For the fiscal 2011 third quarter: ¥22,059 million (85.3 %)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2012 3Q	61.40	61.34
Fiscal 2011 3Q	73.05	72.94

## (2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio(%)
As of December 31,2012	531,852	374,025	69.1
As of March 31, 2012	523,247	366,314	68.8

(Reference)

Shareholders' equity: As of December 31, 2012: ¥367,364 million  
As of March 31, 2012: ¥360,018 million

## 2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Annual
Fiscal 2011	—	16.00	—	17.00	33.00
Fiscal 2012	—	18.00	—	—	—
Fiscal 2012 (Forecast)	—	—	—	18.00	36.00

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

## 3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2013 (April 1, 2012 to March 31, 2013)

(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		Net Income per Share	
Full Fiscal Year	380,000	3.0%	50,000	(8.6%)	48,500	(10.1%)	29,500	(6.3%)	84.64	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: No
3. Changes of accounting estimates: Yes
4. Restatement: No

### **(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, 2012	382,863,603 shares
As of March 31, 2012	382,863,603 shares
2. Number of treasury stock as of the period-end:

As of December 31, 2012	34,315,147 shares
As of March 31, 2012	34,506,810 shares
3. Average number of shares for the period (Cumulative):

As of December 31, 2012	348,509,499 shares
As of December 31, 2011	348,293,362 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 was undergoing the review procedure process at the time of this release.

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

##### *(Cautionary note regarding forward-looking statements)*

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 5 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**

Throughout the first three quarters of fiscal 2012 (April 1, 2012 to December 31, 2012), the European economy remained sluggish and saw no signs of recovery, while economic growth in China and other emerging countries was stagnant. Reflecting this, overall demand in the Company's operating environment remained weak. On the domestic front, circumstances remained severe due to continued yen appreciation through mid December 2012.

Confronting these circumstances, the Kuraray Group is taking various measures to achieve sustained growth based on the core management strategies set forth in its "GS-III" medium-term management plan launched in the current fiscal year. In line with the management strategies, the Group is undertaking large-scale investments as well as M&A aiming to accelerate the global expansion in its core business while proactively developing new businesses to secure its future growth in water treatment, environment, energy, optical and electronics fields.

Consequentially, cumulative consolidated operating results for the third quarter are as follows: net sales fell ¥3,694 million, or 1.3%, compared with the corresponding period of the previous fiscal year to ¥272,044 million; operating income fell ¥6,647 million, or 15.4%, to ¥36,388 million; ordinary income fell ¥6,808 million, or 16.0%, to 35,655 million; and net income fell ¥4,042 million, or 15.9%, to ¥21,400 million.

### **Results by Business Segment**

#### **Resins**

Performance in this segment was affected by the global economic slowdown, particularly in Europe. In addition, certain businesses in this segment saw costs increase temporarily due to such factors as operational disruptions accompanying the resumption of operations at production facilities following periodic repairs. As a result, sales in this segment grew 0.7% year on year to ¥114,541 million, and operating income fell 1.9% year on year to ¥37,210 million.

(1) Demand fell in the poval resin market due to the global economic slowdown, while sales of polyvinyl butyral (PVB) film for construction use were firm. Sales of optical-use poval film expanded, reflecting a recovery in demand in the second half of the reporting period.

As a part of its growth strategy, the Kuraray Group took the following steps:

- (i) Building a new production site (capacity of 40,000 ton/year, to be completed in September 2014) in Texas, the United States, to accommodate growing global demand for poval resins
- (ii) Acquired MonoSol, LLC, a leading U.S. manufacturer of water-solvent type poval film, such as packaging films for laundry and dishwashing detergent products (reflecting the acquisition, from the third quarter of the current fiscal year onward the sales and income of Monosol, LLC are included in consolidated results)

(2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) were firm for automotive applications, although stagnated for food packaging applications. In addition, a number of Kuraray's production facilities have been undergoing periodic repairs scheduled to be carried out primarily in fiscal 2012. Unfortunately, during the period under review a series of operational disruptions occurred when production was resumed following repairs at certain facilities. This, in turn, caused a temporary cost increase in this business.

## **Chemicals**

Overall performance in this segment was affected by the economic slowdown, although the Company has promoted development of new applications in certain products. As a result, sales in this segment grew 4.4% year on year to ¥58,724 million, and operating income fell 49.4% year on year to ¥4,005 million.

(1) The performance of methacrylic resin was affected by domestic market conditions since the second half of the previous fiscal year, as well as increased costs for raw materials and fuel.

(2) In isoprene chemicals, sales of liquid rubber grew. However, *SEPTON* thermoplastic elastomer and fine chemicals were exposed to intensifying

competition, reflecting sluggish demand in Europe and Asia. In addition, the Company decided to expand the liquid rubber production facilities at its Kashima Plant to meet demand for liquid rubber, which is robustly growing for such applications as highly functional tires. (The Company plans a 7,000-ton increase in annual production capacity and operational kickoff in July 2014.)

- (3) Sales of *GENESTAR* heat-resistant polyamide resin progressed amid favorable demand for LED reflector applications and connector applications as well as expanding automotive applications.
- (4) In the medical business, the performance of dental materials remained stable.

### **Fibers and Textiles**

Overall performance in this segment was affected by deteriorating business sentiment. As a result, sales in this segment fell 9.3% year on year to ¥40,663 million, and operating income fell 59.8% year on year to ¥416 million.

- (1) The performance of *KURALON* for use as an asbestos substitute in fiber reinforced cement (FRC) and automotive brake hose applications was affected by sluggish demand that reflected economic slowdowns in the European and Asian markets. Sales of *VECTRAN* ultra-high strength fiber, however, showed steady progress thanks to the development of new applications.
- (2) Sales of *CLARINO* man-made leather remained favorable for school bag applications, but stagnated for footwear applications. As part of Kuraray's restructuring efforts, work is under way with the aim of focusing more resources on innovative environment-friendly production systems and shifting production lines using existing processes to China. In line with the progress of shifting production lines to China, the Company stopped implementing production plans calling for the accumulation of product stockpiles in Japan. As a result, the *CLARINO* business saw a temporary cost increase.
- (3) Sales of *KURAFLEX* nonwoven fabrics remained virtually the same year on year, despite intensifying competition with imported products.

### **Trading**

Although sales in such fiber-related business as polyester remained virtually

the same year on year, export sales of resin and chemical-related components stagnated. As a result, sales in this segment were down 3.6% year on year to ¥81,013 million, and operating income decreased 7.5% to ¥2,425 million.

### Others

Sales of activated carbon for use in water purification systems remained weak, but its use in energy-related applications grew steadily. Other items were also affected overall by the deteriorating business sentiment. As a result, sales in this segment decreased 7.1% year on year to ¥46,855 million, and operating income declined 28.4% year on year to ¥2,929 million.

The Company acquired an equity stake in Kureha Battery Materials Japan Co., Ltd. to expand manufacturing of hard carbon for use in lithium ion secondary batteries. Along with Kureha Battery Materials, Kuraray then established a joint venture to produce plant-based hard carbon that, in turn, began constructing production facilities.

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

Kuraray has revised its performance forecasts for the fiscal year ending March 31, 2013 (April 1, 2012 – March 31, 2013), as shown in the following table in light of a temporary cost increase in certain businesses that is attributable to such factors as operational disruptions accompanying the resumption of operations at production facilities following periodic repairs.

Revised forecast for the fiscal year ending March 31, 2013 (April 1, 2012—March 31, 2013)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
Previous forecast (A) (Announced on Nov. 1, 2012)	380,000	52,000	50,500	30,000	86.07
Revised forecast (B)	380,000	50,000	48,500	29,500	84.64
Change (B – A)	-	(2,000)	(2,000)	(500)	
Change (%)	-	(3.8)	(4.0)	(1.7)	

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
(Reference) Fiscal 2011 results	368,975	54,733	53,940	31,469	90.35

Assumptions for the third quarter and later are as follows:

- ¥88 = US\$1
- ¥117 = 1 euro
- Domestic naphtha price: ¥60,000 per kiloliter

<Reference> Consolidated result forecast for the fiscal year ending March 31, 2013 (Breakdown of segment sales and income)

(Billions of yen)

	Net Sales	Operating Income
Resins	158	49
Chemicals	82	6.5
Fibers and Textiles	58	1
Trading	112	3.5
Others	67	4
Adjustment	(97)	(14)
Total	380	50

## 2. Items Regarding Summary (and Notes) Information

Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Estimates and Minor Changes to Accounting Policies)

From the first quarter of this fiscal year, Kuraray and the consolidated subsidiaries in Japan are complying with the revised Corporation Tax Act. They have adopted the method of calculating depreciation expenses set out in the revised Corporation Tax Act with regard to tangible fixed assets acquired on and after April 1, 2012.

The effect of this change on operating income, ordinary income, and income before income taxes and minority interests in the quarterly consolidated statements under review is minor.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	March 31, 2012	December 31, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash deposits	31,464	46,090
Notes and accounts receivable—trade	80,627	78,526
Short-term investment securities	71,995	13,996
Merchandise and finished goods	50,361	55,607
Work in process	9,528	10,045
Raw materials and supplies	14,542	15,006
Deferred tax assets	5,560	4,268
Other	5,783	5,658
Allowance for doubtful accounts	(781)	(702)
Total current assets	269,083	228,497
<b>Noncurrent Assets</b>		
Tangible fixed assets		
Buildings and structures, net	34,536	40,582
Machinery, equipment and vehicles, net	71,578	77,472
Land	19,971	20,199
Construction in progress	23,060	26,373
Other, net	3,730	3,981
Total tangible fixed assets	152,877	168,609
Intangible fixed assets		
Goodwill	11,538	37,133
Other	2,465	3,087
Total intangible fixed assets	14,004	40,220
Investments and other assets		
Investment securities	70,029	79,027
Long-term loans receivable	572	632
Deferred tax assets	4,688	4,053
Prepaid pension costs	5,822	5,457
Others	6,262	5,432
Allowance for doubtful accounts	(93)	(79)
Total investments and other assets	87,282	94,524
Total noncurrent assets	254,163	303,354
Total assets	523,247	531,852

(Millions of yen)

	March 31, 2012	December 31, 2012
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable–trade	32,945	31,937
Short-term loans payable	13,781	27,018
Commercial paper	—	5,000
Income taxes payable	9,075	3,202
Provision for bonuses	6,657	3,921
Provision for loss on disaster	68	—
Other provision	59	123
Other	19,095	29,067
Total current liabilities	81,684	100,272
<b>Long-term liabilities</b>		
Corporate bonds payable	10,000	10,000
Long-term loans payable	41,981	22,106
Deferred tax liabilities	4,531	5,387
Provision for retirement benefits	5,617	6,256
Provision for directors' retirement benefits	194	165
Provision for environmental measures	1,106	1,050
Asset retirement obligations	2,224	2,196
Other	9,593	10,391
Total noncurrent liabilities	75,248	57,553
Total liabilities	156,933	157,826
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,147
Retained earnings	246,733	255,895
Treasury stock	(40,732)	(40,506)
Total shareholders' equity	382,103	391,491
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,763	3,571
Deferred gain or losses on hedges	(32)	(31)
Foreign currency translation adjustments	(24,419)	(27,271)
Pension liability adjustments	(396)	(395)
Total accumulated other comprehensive income	(22,084)	(24,127)
Subscription rights to shares	1,151	1,254
Minority interests	5,143	5,406
Total net assets	366,314	374,025
Total liabilities and net assets	523,247	531,852

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

(Millions of yen)

	<b>Nine-month period ended Dec. 31, 2011</b>	<b>Nine-month period ended Dec. 31, 2012</b>
	<b>(April 1, 2011– Dec. 31, 2011)</b>	<b>(April 1, 2012 – Dec. 31, 2012)</b>
Net sales	275,738	272,044
Cost of sales	182,320	183,461
Gross profit	93,417	88,582
Selling, general and administrative expenses		
Selling expenses	13,798	13,764
General and administrative expenses	36,582	38,428
Total selling, general and administrative expenses	50,381	52,193
Operating income	43,036	36,388
Non-operating income		
Interest income	296	335
Dividends income	1,173	1,365
Equity in earnings of affiliates	8	15
Other, net	813	1,088
Total non-operating income	2,293	2,805
Non-operating expenses		
Interest expenses	801	727
Other expenses	2,064	2,812
Total non-operating expenses	2,865	3,539
Ordinary income	42,463	35,655
Extraordinary income		
Gain on change in equity	845	—
Total extraordinary income	845	—
Extraordinary loss		
Acquisition-related cost	—	753
Loss on valuation of investment securities	517	559
Loss on disposal of tangible fixed assets	270	222
Impairment loss	131	187
Provision for environmental measures	—	111
Business structure improvement losses	—	67

(Millions of yen)

	<b>Nine-month period ended Dec 31, 2011 (April 1, 2011 – Dec. 31, 2011)</b>	<b>Nine-month period ended Dec. 31, 2012 (April 1, 2012 – Dec. 30, 2012)</b>
Loss on disaster	950	—
Provision for loss on disaster	60	—
Total extraordinary expenses	1,928	1,901
Income before income taxes and minority interests in net income of consolidated subsidiaries	41,380	33,753
Income taxes—current	13,356	10,393
Income taxes—deferred	2,124	1,670
Total income taxes	15,481	12,064
Income before minority interests in net income of consolidated subsidiaries	25,898	21,689
Minority interests	455	289
Net income	25,442	21,400

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	<b>Nine-month period ended Dec. 31, 2011</b>	<b>Nine-month period ended Dec. 31, 2012</b>
	<b>(April 1, 2011 – Dec. 31, 2011)</b>	<b>(April 1, 2012 – Dec. 31, 2012)</b>
Income before minority interests in net income of consolidated subsidiaries	25,898	21,689
Other comprehensive income		
Valuation difference on available-for-sale securities	(356)	807
Deferred gain or losses on hedges	(3)	0
Foreign currency translation adjustments	(3,491)	(2,851)
Pension liability adjustments	13	0
Share of other comprehensive income of associates accounted for using equity method	(1)	—
Total other comprehensive income	(3,839)	(2,042)
Quarterly comprehensive income	22,059	19,647
Comprehensive income attributable to:		
Owners of the parent	21,603	19,357
Minority interests	455	289

### (3) Notes regarding Going Concern Assumptions

None

### (4) Segment and Other Information

[Segment Information]

I. 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 segment income 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.

## II. Third Quarter of Fiscal 2012 (April 1, 2012 to December 31, 2012)

### 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	92,826	37,072	29,385	78,431	237,715	34,328	272,044	—	272,044
Inter-segment sales and transfers	21,715	21,651	11,278	2,582	57,227	12,526	69,754	(69,754)	—
Total	114,541	58,724	40,663	81,013	294,943	46,855	341,798	(69,754)	272,044
Segment Income	37,210	4,005	416	2,425	44,058	2,929	46,988	(10,599)	36,388

#### 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 segment income of ¥10,599 million is the elimination of intersegment transactions of ¥281 million and corporate expenses of ¥10,317 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.

#### 2. Information regarding assets by reporting segment

There were material changes in assets by reporting segment in the period under review compared to the corresponding period of the previous fiscal year. A brief summary follows.

As Kuraray Holdings U.S.A., Inc., a consolidated subsidiary of the Kuraray Co., Ltd., acquired all the shares of MONOSOL HOLDINGS, INC. in the first quarter of this fiscal year, the assets of the Resin segment increased. The amount of the increase stemming from the acquisition was ¥37,833 million (\$477,033 thousand).

#### 3. Information regarding impairment loss on fixed assets and goodwill by reporting segment

(Important change in the amount of goodwill)

In the Resin segment, goodwill of ¥28,018 million (\$353,275 thousand) was recorded in the period under review due to the corporate merger involving MonoSol, LLC. This amount is based on current calculations, but remains an estimate as the Company has yet to complete the allocation of acquisition costs.

#### 4. Matters Related to the Changes of Segments in the Statements

As stated in “Changes in Accounting Estimates and Minor Changes to Accounting Policies” in **2.** above, following the revision of the Corporation Tax Act, Kuraray has changed its accounting policies. From the first quarter of this fiscal year, the Company adopted the method of calculating depreciation expenses in accordance with the revised Corporation Tax Act with regard to tangible fixed assets acquired after April 1, 2012. Accordingly, Kuraray has changed the method of calculating depreciation expenses for each business segment to agree with the revised Corporation Tax Act. The effect of this on the statements for each segment is minor.

#### **(5) Material Changes in Shareholders' Equity**

None