

August 4, 2004
Kuraray Co., Ltd.

Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2005

*This document is an English translation of the original three-month report issued in Japanese.

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

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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)
Forward exchange contracts were previously handled using the assignment write-off, but beginning this quarter will generally be handled using hedge accounting.
- (3) Changes in the scope of consolidation: Yes
(Details)

Two companies were newly brought into the scope of consolidation: Okayama Rinkoh Co., Ltd. and Okayama Rinkoh Warehouse and Transport Co., Ltd.; and four companies were released from the scope of consolidation: Kuraray Techno Kurashiki Co., Ltd.; Kuraray Techno Saijo Co., Ltd.; Kuraray Techno Okayama Co., Ltd.; and Kuraray Techno Kashima Co., Ltd.

2. Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2005 (April 1, 2004 to June 30, 2004)

(1) Business Performance (consolidated)

(Millions of yen, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
		%		%		%		%
Fiscal 2004 1Q	85,998	11.4	7,578	18.0	7,539	-	4,579	-
Fiscal 2003 1Q	77,227	-	6,420	-	6,888	-	5,125	-
Fiscal 2003	332,149		28,045		24,567		15,181	

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2004 1Q	12.47	12.44
Fiscal 2003 1Q	13.76	-
Fiscal 2003	40.81	-

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

Qualitative Information and Overview of Business Performance

During the first quarter of the current fiscal year, the domestic economy took an upturn, fueled by improved corporate performance and strong exports. However, fears of a slowdown in the world economy have been prompted by the rapid rise in the prices of raw materials and fuels and rising interest rates in the U. S., and the future remains unclear. Despite these circumstances, the Kuraray Group's achieved higher net sales and operating income than in the same quarter of the preceding fiscal year by expanding its lineup of original products, cutting costs, and passing the increase in raw materials and fuels prices on to product prices.

Chemicals and Resins

Poval resin operations were marked by both expanding sales and rising prices,

and its application in the production of polarized film for liquid crystal displays continued to increase. The use of *EVAL* to manufacture plastic fuel tanks for automobiles also continued to grow. The price of methacrylic resin monomer rose further, as did sales of polymers for use in light-guide plates and other optical applications. The isoprene-related business saw increased sales of aroma chemicals and *SEPTON*.

Fibers and Textiles

Growth was seen in sales of *KURALON* for use in fiber-reinforced cement. *CLARINO* was increasingly used in sports shoes handbags, gloves, and other applications. Business restructuring measures brought steady recovering of profitability in the areas of polyesters, nonwoven fabrics, and fastening materials.

High-Performance Materials, Medical Products and Others

Sales of opto-screens increased, driven by strong demand in China, but falling prices made their effects felt. Manufacturing of screens for microdisplays started this quarter, signaling the advent of a business structure capable of producing significant sales growth and improved profitability. Sales of medical products, affected by intense competition, showed sluggish growth, but sales of the highly heat-resistant polyamide resin *GENESTAR* and revenues from the engineering business and other domestic subsidiaries expanded.

(2) Changes in consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share (¥)
Fiscal 2004 1Q	419,325	303,834	72.5	827.44
Fiscal 2003 1Q	409,282	292,771	71.5	786.33
Fiscal 2003	413,227	300,306	72.7	817.57

Qualitative Information Regarding Changes in Consolidated Financial Position

Total assets were ¥419.3 billion, up ¥6.1 billion in comparison to the end of the preceding fiscal year as a result of a ¥7.0 billion increase at consolidated subsidiaries. The increase was principally the result of capital investment in property, plant and equipment and an increase in the number of consolidated subsidiaries. Although the reserve for bonuses was reduced by ¥2.5 billion, interest-bearing debt increased by ¥4.6 billion. This resulted in ¥400 million growth in liabilities, to ¥113.2 billion. A ¥3.8 billion increase in retained

earnings was the primary factor in growth of ¥3.5 million in shareholders' equity, to ¥303.8 billion.

Qualitative Information Regarding Forecasts

We do not reconsider the forecasts of the Company's performance in the fiscal year ending March 31, 2005.

Attachments:

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

First Quarter Consolidated Statements of Income

(Unit: ¥ million)

	Fiscal 2004 1Q (April 1 – June 30, 2004)	Fiscal 2003 1Q (April 1 – June 30, 2004)	Change	Fiscal 2003 (April 1, 2003 – March 31, 2004)
Net sales	85,998	77,227	8,770	332,149
Cost of sales	61,586	54,625	6,960	236,245
Gross profit	24,412	22,601	1,810	95,903
Selling, general and administrative expenses	16,834	16,181	652	67,857
Operating income	7,578	6,420	1,157	28,045
Non-operating income				
Interest and dividends received	357	260	96	1,121
Equity in earnings of affiliates	18	70	(52)	159
Other, net	752	1,083	(331)	1,504
Total non-operating income	1,127	1,415	(287)	2,785
Non-operating expenses				
Interest paid	167	152	14	655
Other expenses	998	795	203	5,607
Total non-operating expenses	1,166	947	218	6,263
Ordinary income	7,539	6,888	651	24,567
Extraordinary income				
Gain on sales of fixed assets	-	1,939	(1,939)	3,957
Total extraordinary income	-	1,939	(1,939)	3,957
Extraordinary expenses				
Restructuring charges	-	108	(108)	5,030
Total extraordinary expenses	-	108	(108)	5,030
Income before income taxes	7,539	8,719	(1,179)	23,494
Current income taxes	2,498	2,355	142	6,828
Deferred income taxes	429	1,232	(802)	1,480
Total income taxes	2,928	3,588	(660)	8,308
Minority interests in net income of consolidated subsidiaries	(Negative) 32	(Negative) 6	(26)	(Negative) 4
Net income	4,579	5,125	(545)	15,181

First Quarter Consolidated Balance Sheets

ASSETS (Unit: ¥ million)

	Fiscal 2004 1Q (As of June 30, 2004)	Fiscal 2003 (As of March 31, 2004)	Change	Fiscal 2003 1Q (As of June 30, 2003)
Current assets	172,748	171,428	1,320	171,026
Cash and cash equivalents	13,780	7,020	6,760	8,787
Notes and accounts receivable	79,829	82,901	(3,071)	76,074
Marketable securities	7,994	8,423	(429)	9,924
Inventories	62,561	61,866	694	66,635
Deferred income taxes	5,613	6,401	(787)	5,860
Others	3,872	5,684	(1,812)	4,629
Allowance for doubtful accounts	(903)	(870)	(33)	(886)
Fixed assets	246,576	241,798	4,778	238,255
Property, plant and equipment	144,856	137,867	6,989	132,972
Buildings	34,210	34,029	181	34,547
Machinery and equipment	61,817	62,713	(895)	62,655
Land	21,862	18,173	3,688	20,210
Construction-in-progress	25,005	20,936	4,068	13,565
Others	1,960	2,014	(54)	1,993
Investments and other assets	28,482	30,234	(1,752)	32,063
Goodwill	26,199	27,800	(1,601)	29,364
Other intangible assets	2,283	2,434	(150)	2,698
Investments and other assets	73,237	73,696	(458)	73,219
Investment securities	25,897	28,047	(2,149)	23,911
Long-term loans	4,050	4,124	(73)	5,409
Accumulated premiums on insurance	34,623	33,987	636	33,692
Deferred income taxes	2,210	2,082	128	5,868
Others	7,801	6,804	996	5,669
Allowance for doubtful accounts	(1,346)	(1,348)	2	(1,333)
Total	419,325	413,227	6,098	409,282

First Quarter Consolidated Balance Sheets

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

	Fiscal 2004 1Q (As of June 30, 2004)	Fiscal 2003 (As of March 31, 2004)	Change	Fiscal 2003 1Q (As of June 30, 2003)
Liabilities				
Current liabilities	76,288	75,165	1,123	77,493
Notes and accounts payable	37,976	38,628	(652)	37,943
Short-term bank loans	4,692	5,345	(653)	13,259
Commercial paper	9,000	3,000	6,000	7,000
Bonds	-	-	-	500
(Maturing within one year)				
Accrued expenses	5,197	4,737	459	5,104
Accrued income taxes	3,524	4,694	(1,169)	2,542
Reserve for bonuses	3,443	5,968	(2,524)	3,571
Other reserves	31	31	-	36
Other	12,422	12,759	(336)	7,535
Long-term liabilities	36,942	37,689	(746)	38,949
Long-term debt	2,755	3,474	(719)	3,506
Deferred income taxes	4,037	4,024	12	3,783
Accrued retirement benefits	13,329	13,049	279	15,387
Accrued retirement benefits for directors and auditors	635	755	(119)	547
Others	16,185	16,384	(199)	15,723
Total Liabilities	113,231	112,854	376	116,442
Minority interests				
Minority interests	2,259	66	2,193	68
Shareholders' equity				
Capital	88,955	88,955	-	88,955
Additional paid-in capital	87,149	87,149	-	87,147
Retained earnings	130,944	127,147	3,796	118,767
Unrealized gain on revaluation of securities	8,362	7,902	459	2,521
Foreign currency translation adjustments	155	841	(685)	2,772
Treasury stock	(11,732)	(11,690)	(42)	(7,392)
Total shareholders' equity	303,834	300,306	3,528	292,771
Total liabilities, minority interests, and shareholders' equity	419,325	413,227	6,098	409,282

Segment Information

Industrial segment information

First Quarter Fiscal 2004 (April 1, 2004 to June 30, 2004)

(Millions of yen)

	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	41,418	26,941	17,638	85,998	—	85,998
(2) Inter-segment sales and transfers	171	358	3,722	4,253	(4,253)	—
Total	41,590	27,300	21,361	90,251	(4,253)	85,998
Operating expenses	34,714	24,864	20,101	79,680	(1,260)	78,420
Operating income	6,875	2,435	1,259	10,570	(2,992)	7,578

First Quarter Fiscal 2003 (April 1, 2003 to June 30, 2003)

(Millions of yen)

	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	38,144	24,400	14,682	77,227		77,227
(2) Inter-segment sales and transfers	140	399	2,968	3,508	(3,508)	
Total	38,285	24,800	17,650	80,736	(3,508)	77,227
Operating expenses	32,115	23,321	16,282	71,719	(912)	70,807
Operating income	6,169	1,478	1,368	9,016	(2,595)	6,420

Fiscal 2003 (April 1, 2003 to March 31, 2004)

(Millions of yen)

	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	155,920	106,003	70,225	332,149	—	332,149
(2) Inter-segment sales and transfers	661	1,653	22,614	24,929	(24,929)	—
Total	156,582	107,657	92,840	357,079	(24,929)	332,149
Operating expenses	131,378	102,325	84,839	318,543	(14,439)	304,103
Operating income	25,203	5,331	8,000	38,535	(10,489)	28,045