

August 3, 2005  
Kuraray Co., Ltd.

## **Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2006**

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)  
From the fiscal year ending March 31, 2006, Kuraray Co., Ltd. is introducing impairment accounting.
- (3) Changes in the scope of consolidation: Yes  
(Details)  
Kuraray Kuraflex Co., Ltd. has been added to the scope of consolidation.  
Kuraray Kuraflex Co., Ltd. is no longer an equity-method affiliate company.

## 2. Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2006 (April 1, 2005 to June 30, 2005)

### (1) Business Performance (consolidated)

(Millions of yen, rounded down)

	Net sales(Change)		Operating income (Change)		Ordinary income (Change)		Net income (Change)	
	Fiscal 2005 1Q	84,586	(1.6)%	7,333	(3.2)%	6,810	(9.7)%	3,748
Fiscal 2004 1Q	85,998	11.4%	7,578	18.0%	7,539	9.5%	4,579	(10.7)%
Fiscal 2004	354,874	--	33,186	--	30,854	--	18,465	--

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2005 1Q	10.21	10.20
Fiscal 2004 1Q	12.47	12.44
Fiscal 2004	50.13	50.12

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

The business environment during the first quarter of the current fiscal year saw a leveling off in the economy, with inventory adjustments in the IT sector and a slowdown in demand from China. In addition, prices remained high for raw materials and fuels, and all of these combined factors put pressure on sales and earnings. Under these conditions, the Kuraray Group endeavored to expand sales of proprietary products and to make further cost reductions. Despite these efforts, net sales for the first quarter of the current fiscal year edged down to ¥84,586 million, a decrease of 1.6% from the same period a year earlier, and operating income slipped 3.2% to ¥7,333 million. Moreover, the Company recorded an extraordinary loss related to the impairment of fixed assets of the polyester filament business, and net income for the quarter finished at ¥3,748 million, a drop of 18.1%. Business conditions by segment compared with the same period a year earlier were as follows.

### Chemicals and Resins

While sales of poval film for optical applications and of PVB resin and film increased steadily, sales growth of poval resin was sluggish. Sales of *EVVAL* also remained on par with year prior first quarter results, due to the switch over to new products within the *EVVAL* brand. Sales of methacrylic resins remained strong, led by monomers and light-guide plates. In the isoprene-related business, sales of *SEPTON* to the European and U.S. markets increased.

## Fibers and Textiles

Growth was seen in sales of *KURALON* as a substitute for asbestos and for paper-related applications. *CLARINO* sales rose steadily, led by applications for bags and interiors. Demand for nonwoven fabrics and fastening materials also remained solid, while sales in the polyester business contracted as the company made efforts to differentiate products in the lineup.

## High-Performance Materials, Medical Products and Others

Despite an increase in sales of Opto-screens for MD-type rear projection televisions, overall sales of Opto-screens decreased. Sales of dental materials saw stable growth in the medical products business. Sales of the heat-resistant polyamide resin *GENESTAR* rose, while withdrawal from the real estate business and other factors led to a decrease in sales at domestic subsidiaries.

### (2) Changes in consolidated financial position

(Millions of yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share (¥)
Fiscal 2005 1Q	442,938	313,726	70.8	854.58
Fiscal 2004 1Q	419,325	303,834	72.5	827.44
Fiscal 2004	454,940	312,929	68.8	852.26

## Qualitative Information Regarding Changes in Consolidated Financial Position

Total assets were ¥442.9 billion, down ¥12 billion from the end of the previous fiscal year as a result of decreases in cash and cash equivalents, and in marketable securities. Liabilities were ¥126.9 billion, down ¥12.8 billion from the end of the previous fiscal year owing to decreases in notes and accounts payable, and in deferred income taxes. Due to an increase in retained earnings and other factors, shareholders' equity increased ¥0.8 billion from the end of the previous fiscal year to ¥313.7 billion.

## Qualitative Information Regarding Forecasts

There are no changes to forecasts of the Company's performance in the fiscal year ending March 31, 2006.

## Attachments:

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

## First Quarter Consolidated Statements of Income

(Unit: ¥ million)

	Fiscal 2005 1Q (April 1 – June 30, 2005)	Fiscal 2004 1Q (April 1 – June 30, 2004)	Change	Fiscal 2004 (April 1, 2004 – March 31, 2005)
Net sales	84,586	85,998	(1,411)	354,874
Cost of sales	60,068	61,586	(1,517)	254,114
Gross profit	24,518	24,412	106	100,759
Selling, general and administrative expenses	17,184	16,834	350	67,572
Operating income	7,333	7,578	(244)	33,186
<b>Non-operating income</b>				
Interest and dividends received	436	357	70	1,191
Equity in earnings of affiliates	15	18	(3)	30
Other, net	241	752	(510)	5,424
Total non-operating income	693	1,127	(434)	6,646
<b>Non-operating expenses</b>				
Interest paid	115	167	(51)	297
Other expenses	1,101	998	102	8,681
Total non-operating expenses	1,216	1,166	50	8,979
Ordinary income	6,810	7,539	(729)	30,854
<b>Extraordinary income</b>				
Gain on sales of fixed assets	-	-	-	259
Other income	648	-	648	-
Total extraordinary income	648	-	648	259
<b>Extraordinary expenses</b>				
Loss from impairment of fixed assets	1,359	-	1,359	-
Restructuring charges	-	-	-	1,248
Other expenses	-	-	-	19
Total extraordinary expenses	1,359	-	1,359	1,268
Income before income taxes	6,099	7,539	(1,440)	29,845
Current income taxes	1,830	2,498	(668)	8,728
Deferred income taxes	491	429	61	2,564
Total income taxes	2,321	2,928	(606)	11,287
Minority interests in net income of consolidated subsidiaries	(Negative) 29	(Negative) 32	3	(Negative) 82
Net income	3,748	4,579	(831)	18,475

## First Quarter Consolidated Balance Sheets

## ASSETS

(Unit: ¥ million)

	Fiscal 2005 1Q (As of June 30, 2005)	Fiscal 2004 (As of March 31, 2005)	Change	Fiscal 2004 1Q (As of June 30, 2004)
<b>Current assets</b>	167,930	182,317	(14,387)	172,748
Cash and cash equivalents	11,020	16,743	(5,722)	13,780
Notes and accounts receivable	77,445	83,170	(5,725)	79,829
Marketable securities	-	5,990	(5,990)	7,994
Inventories	68,460	64,173	4,286	62,561
Deferred income taxes	6,252	7,313	(1,061)	5,613
Others	5,717	5,830	(113)	3,872
Allowance for doubtful accounts	(965)	(904)	(61)	903
<b>Fixed assets</b>	275,008	272,623	2,384	246,576
Property, plant and equipment	161,303	158,293	3,010	144,856
Buildings	33,163	33,526	(362)	34,210
Machinery and equipment	79,205	80,568	(1,363)	61,817
Land	20,267	20,289	(21)	21,862
Construction-in-progress	26,359	21,527	4,832	25,005
Others	2,307	2,381	(73)	1,960
<b>Intangible fixed assets</b>	36,660	37,933	(1,273)	28,482
Goodwill	30,590	31,661	(1,071)	26,199
Other intangible assets	6,070	6,271	(201)	2,283
<b>Investments and other assets</b>	77,044	76,396	647	73,237
Investment securities	22,350	27,973	377	25,897
Long-term loans	3,640	3,566	74	4,050
Accumulated premiums on insurance	35,534	35,188	345	34,623
Deferred income taxes	2,256	2,077	179	2,210
Others	8,570	8,928	(357)	7,801
Allowance for doubtful accounts	(1,308)	(1,336)	28	1,346
Total	442,938	454,940	(12,002)	419,325

## First Quarter Consolidated Balance Sheets

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

	Fiscal 2005 1Q (As of June 30, 2005)	Fiscal 2004 (As of March 31, 2005)	Change	Fiscal 2004 1Q (As of June 30, 2004)
<b>Liabilities</b>				
<b>Current liabilities</b>	73,374	84,856	(11,482)	76,288
Notes and accounts payable	37,573	41,653	(4,080)	37,976
Short-term bank loans	10,597	13,447	(2,849)	4,692
Commercial paper	-	-	-	9,000
Accrued expenses	5,341	4,953	388	5,197
Accrued income taxes	1,604	5,849	(4,245)	3,524
Reserve for bonuses	3,481	5,916	(2,435)	3,443
Other reserves	10	10	-	31
Other	14,765	13,025	1,740	12,422
<b>Long-term liabilities</b>	53,564	54,900	(1,335)	36,942
Corporate bonds	10,000	10,000	-	-
Long-term debt	5,855	6,234	(378)	2,755
Deferred income taxes	6,794	7,344	(639)	4,037
Accrued retirement benefits	13,087	12,718	369	13,329
Accrued retirement benefits for directors and auditors	658	750	(91)	635
Others	17,258	17,852	(594)	16,185
Total Liabilities	126,939	139,757	(12,817)	113,231
<b>Minority interests</b>				
Minority interests	2,272	2,253	18	2,259
<b>Shareholders' equity</b>				
Capital	88,955	88,955	-	88,955
Additional paid-in capital	87,156	87,156	-	87,149
Retained earnings	140,253	138,950	1,302	130,944
Unrealized gain on revaluation of securities	8,600	9,011	(410)	8,362
Foreign currency translation adjustments	585	679	(93)	155
Treasury stock	(11,824)	(11,823)	(1)	11,732
Total shareholders' equity	313,726	312,929	796	303,834
Total liabilities, minority interests, and shareholders' equity	442,938	454,940	(12,002)	419,325

## Segment Information

First Quarter Fiscal 2004 (April 1, 2005 to June 30, 2005)

(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	43,204	26,133	15,248	84,586		84,586
(2) Inter-segment sales and transfers	180	157	5,236	5,573	[5,573]	
Total	43,384	26,290	20,485	90,159	[5,573]	84,586
Operating expenses	37,006	23,675	19,481	80,163	[2,911]	77,252
Operating income	6,378	2,614	1,003	9,996	[2,662]	7,333

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

Fiscal 2004 (April 1, 2004 to March 31, 2005)

(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	167,264	109,828	77,781	354,874		354,874
(2) Inter-segment sales and transfers	795	1,197	25,165	27,158	[27,158]	
Total	168,059	111,025	102,947	382,032	[27,158]	354,874
Operating expenses	139,639	103,104	95,615	338,359	[16,671]	321,687
Operating income	28,420	7,920	7,332	43,673	[19,486]	33,186