

Semi-annual financial information 2006

Kuraray Co., Ltd

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2005	March 31, 2005	September 30, 2004	September 30, 2005
ASSETS				
Current assets:				
Cash and cash equivalents	¥11,523	¥16,743	¥12,584	\$101,973
Marketable securities	-	5,990	6,997	-
Notes and accounts receivable:				
Trade	81,888	82,079	80,520	724,673
Unconsolidated subsidiaries and affiliates	1,369	1,752	1,371	12,115
Other	1,931	2,322	1,677	17,088
Loans receivable from unconsolidated subsidiaries, affiliates and others	371	429	334	3,283
Allowance for doubtful accounts	(958)	(904)	(838)	(8,478)
	84,601	85,678	83,064	748,681
Inventories	68,184	64,173	60,860	603,398
Deferred income taxes	6,964	7,313	7,399	61,629
Other current assets	2,577	2,420	2,243	22,806
Total current assets	173,849	182,317	173,147	1,538,487
Property, plant and equipment:				
Land	20,293	20,289	21,686	179,584
Buildings	94,020	92,759	91,780	832,035
Machinery and equipment	431,294	421,146	397,838	3,816,762
Construction-in-progress	27,359	21,527	27,538	242,115
	572,966	555,721	538,842	5,070,496
Less accumulated depreciation	(407,009)	(397,427)	(388,715)	(3,601,850)
	165,957	158,294	150,127	1,468,646
Investments and other assets:				
Goodwill	28,700	31,661	26,043	253,982
Other intangible assets	6,108	6,272	2,148	54,053
Investment securities	30,324	24,115	21,203	268,354
Investments in unconsolidated subsidiaries and affiliates	4,415	4,465	3,660	39,071
Loans receivable from:				
Unconsolidated subsidiaries and affiliates	2,757	2,947	3,109	24,398
Other	557	619	695	4,929
Accumulated premiums on insurance	35,831	35,188	34,833	317,088
Deferred income taxes	2,088	2,077	1,107	18,478
Prepaid pension expenses	4,775	2,725	2,253	42,257
Other	4,617	5,598	5,653	40,858
Allowance for doubtful accounts	(1,307)	(1,337)	(1,369)	(11,566)
	118,865	114,330	99,335	1,051,902
	¥458,671	¥454,941	¥422,609	\$4,059,035

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

*Prepaid pension expenses: Certain reclassifications of previously reported amounts have been made to conform with current classifications.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2005	March 31, 2005	September 30, 2004	September 30, 2005
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank loans	¥10,855	¥10,013	¥1,600	\$96,062
Current portion of long-term debt	1,931	3,434	2,738	17,089
Notes and accounts payable:				
Trade	38,361	39,905	36,154	339,478
Unconsolidated subsidiaries and affiliates	656	1,733	1,222	5,805
Other	7,837	8,739	10,116	69,354
Accrued income taxes	4,112	5,850	6,254	36,389
Accrued expenses and other	14,135	15,183	12,957	125,088
Total current liabilities	77,887	84,857	71,041	689,265
Long-term liabilities:				
Long-term debt	15,856	16,234	6,940	140,319
Deferred income taxes	10,012	7,345	4,118	88,602
Accrued retirement benefits	13,514	13,469	13,432	119,593
Other	16,962	17,853	16,436	150,105
Total long-term liabilities	56,344	54,901	40,926	498,619
Minority interests	2,302	2,253	2,201	20,372
Shareholders' equity:				
Common stock:				
Authorized-700,000,000 shares				
Issued-382,863,603 shares	88,955	88,955	88,955	787,212
Capital surplus	87,161	87,156	87,153	771,336
Retained earnings	145,701	138,951	135,363	1,289,389
Unrealized gain on revaluation of securities	12,321	9,012	7,378	109,035
Cumulative translation adjustments	(157)	679	1,352	(1,388)
	333,981	324,753	320,201	2,955,584
Treasury stock at cost	(11,843)	(11,823)	(11,760)	(104,805)
Total shareholders' equity	322,138	312,930	308,441	2,850,779
	¥458,671	¥454,941	¥422,609	\$4,059,035

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2005	September 30, 2004	March 31, 2005	September 30, 2005
Net sales	¥179,279	¥175,565	¥354,874	\$1,586,540
Cost of sales	127,337	125,313	254,115	1,126,876
(Gross profit)	51,942	50,252	100,759	459,664
Selling, general and administrative expenses	34,842	33,511	67,572	308,337
(Operating income)	17,100	16,741	33,187	151,327
Other income (expenses):				
Interest and dividend income	723	674	1,192	6,398
Equity in earnings of affiliates	78	22	30	690
Interest expenses	(153)	(128)	(297)	(1,353)
Restructuring charges	(157)	(249)	(1,249)	(1,389)
Gain on sale of investment securities	964	-	-	8,531
Loss on write-down of investment securities	(119)	-	-	(1,053)
Gain on sale of property, plant and equipment	-	128	259	-
Loss on disposal or sale of property, plant and equipment	(100)	-	-	(885)
Loss on disposal of inventories	-	-	(4,267)	-
Impairment loss of property, plant and equipment	(1,359)	-	-	(12,027)
Other, net	(2,741)	(1,390)	990	(24,257)
	(2,864)	(943)	(3,342)	(25,345)
(Income before income taxes and minority interests)	14,236	15,798	29,845	125,982
Income taxes:				
Current	4,216	5,310	8,723	37,309
Deferred	767	638	2,564	6,788
	4,983	5,948	11,287	44,097
Minority interests in net income of consolidated subsidiaries	(58)	(41)	(93)	(513)
Net income	¥9,195	¥9,809	¥18,465	\$81,372
	Yen	Yen		U.S. dollars
Net income per share:				
Primary	¥25.05	¥26.71	¥50.13	\$0.22
Fully diluted	25.03	-	50.12	0.22

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

*Accounting Change: Effective April 1, 2005, the Kuraray Co., Ltd. and its domestic consolidated subsidiaries (the "Companies") have adopted "Accounting standard for Impairment of Fixed Assets" issued by Business Accounting Council in Japan on August 9, 2002 and "Implementation Guidance for Accounting for Impairment of Fixed assets" issued by Accounting Standards Board of Japan on October 31, 2003. As a result of this change, income before income taxes and minority interests for the six months ended September 30, 2005 decreased by YEN1,359 million (\$12,027 thousand).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
Balance at March 31, 2004	¥88,955	¥87,150	¥127,148	¥7,902	¥842	¥(11,691)
Net income			9,809			
Cash dividends, YEN5.50 per share			(2,020)			
Bonuses to directors			(57)			
Effect of changes in reporting entities			483			
Changes in unrealized gain on revaluation of securities				(524)		
Translation adjustments					510	
Treasury stock acquired, net		3				(69)
Balance at September 30, 2004	88,955	87,153	135,363	7,378	1,352	(11,760)
Net income			8,656			
Cash dividends, YEN5.50 per share			(2,019)			
Effect of changes in reporting entities			(3,052)			
Minimum pension liability adjustment			3			
Changes in unrealized gain on revaluation of securities				1,634		
Translation adjustments					(673)	
Treasury stock acquired, net		3				(63)
Balance at March 31, 2005	¥88,955	¥87,156	¥138,951	¥9,012	¥679	¥(11,823)
Net income			9,195			
Cash dividends, YEN6.50 per share			(2,386)			
Bonuses to directors			(59)			
Changes in unrealized gain on revaluation of securities				3,309		
Translation adjustments					(836)	
Treasury stock acquired, net		5				(20)
Balance at September 30, 2005	¥88,955	¥87,161	¥145,701	¥12,321	(¥157)	¥(11,843)

	<i>Thousands of U.S. dollars</i>					
Balance at March 31, 2004	\$787,212	\$771,292	\$1,229,655	\$79,752	\$6,009	\$(104,628)
Net income			81,372			
Cash dividends, \$0.06 per share			(21,115)			
Bonuses to directors			(523)			
Changes in unrealized gain on revaluation of securities				29,283		
Translation adjustments					(7,397)	
Treasury stock acquired, net		44				(177)
Balance at September 30, 2005	\$787,212	\$771,336	\$1,289,389	\$109,035	\$(1,388)	\$(104,805)

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended September 30, 2005	September 30, 2004	Years ended March 31, 2005	Six months ended September 30, 2005
Cash flows from operating activities				
Income before income taxes and minority interests	¥14,236	¥15,798	¥29,845	\$125,982
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization	11,698	10,235	21,324	103,522
Increase (decrease) in allowance for doubtful accounts	4	(16)	27	35
Increase (decrease) in accrued retirement benefits, net	62	(315)	(357)	549
Impairment loss of property, plant and equipment	1,359	-	-	12,027
Gain on sale of property, plant and equipment	-	(128)	(259)	-
Gain on sale of investment securities	(964)	-	-	(8,531)
Loss on write-down of investment securities	119	-	-	1,053
Exchange gain	-	-	(3,126)	-
Interest and dividend income	(723)	(674)	(1,192)	(6,398)
Interest expenses	153	128	297	1,354
Decrease in notes and accounts receivable	520	1,977	273	4,602
(Increase) decrease in inventories	(3,867)	1,509	(2,155)	(34,221)
(Decrease) increase in notes and accounts payable	(3,216)	(1,296)	2,633	(28,460)
Other, net	(1,355)	(3,316)	(28)	(11,992)
Sub-total	18,026	23,902	47,282	159,522
Interest and dividend received	495	437	821	4,381
Interest paid	(129)	(112)	(299)	(1,142)
Income taxes paid	(5,750)	(3,883)	(8,189)	(50,885)
Net cash and cash equivalents provided by operating activities	12,642	20,344	39,615	111,876
Cash flows from investing activities:				
Decrease (increase) in marketable securities	3,000	-	(3,000)	26,549
Payments for acquisition of property, plant, equipment and intangible assets	(20,234)	(16,687)	(47,512)	(179,062)
Proceeds from sales of property, plant, equipment and intangible assets	22	201	470	195
Payments for purchase of investment securities	(327)	(817)	(1,607)	(2,894)
Proceeds from sales and redemption of investment securities	3,008	4,400	8,400	26,619
Payments of premiums on insurance	(464)	(694)	(928)	(4,106)
Withdrawals from accumulated premiums on insurance	29	25	55	257
Other, net	411	289	(574)	3,637
Net cash and cash equivalents used in investing activities	(14,555)	(13,283)	(44,696)	(128,805)
Cash flows from financing activities:				
Increase (decrease) in short-term bank loans	1,130	(972)	7,125	10,000
Decrease in commercial paper	-	(3,000)	(3,000)	-
Proceeds from long-term debt	-	5,225	6,075	-
Repayments of long-term debt	(1,831)	(1,881)	(2,821)	(16,204)
Proceeds from issuance of standard bonds	-	-	10,000	-
Dividends paid	(2,386)	(2,020)	(4,039)	(21,114)
Proceeds from sales of treasury stock	45	21	58	398
Payments for purchase of treasury stock	(60)	(80)	(177)	(531)
Net cash and cash equivalents (used in) provided by financing activities	(3,102)	(2,707)	13,221	(27,451)
Effect of exchange rate changes on cash and cash equivalents	(207)	80	454	(1,832)
Net (decrease) increase in cash and cash equivalents	(5,222)	4,434	8,594	(46,212)
Cash and cash equivalents, beginning of year	16,743	7,015	7,015	148,167
Effect of changes in reporting entities	2	1135	1134	18
Cash and cash equivalents, end of year	¥11,523	¥12,584	¥16,743	\$101,973

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

SEGMENT INFORMATION

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

Six months ended September 30, 2005	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥89,965	¥368	¥90,333	¥14,009
Fibers and textiles	53,668	342	54,010	5,009
High performance materials, medical products and others	35,646	13,698	49,344	3,558
Total	179,279	14,408	193,687	22,576
Eliminated on consolidation and corporate	-	(14,408)	(14,408)	(5,476)
Consolidated total	¥179,279	¥ -	¥179,279	¥17,100

Six months ended September 30, 2004	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥83,032	¥396	¥83,428	¥14,312
Fibers and textiles	54,440	712	55,152	4,171
High performance materials, medical products and others	38,093	11,677	49,770	3,934
Total	175,565	12,785	188,350	22,417
Eliminated on consolidation and corporate	-	(12,785)	(12,785)	(5,676)
Consolidated total	¥175,565	¥ -	¥175,565	¥16,741

Six months ended September 30, 2005	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$796,150	\$3,257	\$799,407	\$123,973
Fibers and textiles	474,938	3,027	477,965	44,327
High performance materials, medical products and others	315,452	121,221	436,673	31,487
Total	1,586,540	127,505	1,714,045	199,787
Eliminated on consolidation and corporate	-	(127,505)	(127,505)	(48,460)
Consolidated total	\$1,586,540	\$ -	\$1,586,540	\$151,327

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

Six months ended September 30, 2005	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥226,524	¥14,486	¥7,503
Fibers and textiles	75,125	2,187	1,772
High performance materials, medical products and others	80,391	2,175	1,704
Total	382,040	18,848	10,979
Eliminated on consolidation and corporate	76,631	624	719
Consolidated total	¥458,671	¥19,472	¥11,698

Six months ended September 30, 2004	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥189,137	¥9,214	¥5,796
Fibers and textiles	75,975	1,928	1,959
High performance materials, medical products and others	83,074	3,866	1,768
Total	348,186	15,008	9,523
Eliminated on consolidation and corporate	74,423	751	712
Consolidated total	¥422,609	¥15,759	¥10,235

Six months ended September 30, 2005	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\$2,004,637	\$128,195	\$66,398
Fibers and textiles	664,823	19,354	15,681
High performance materials, medical products and others	711,425	19,248	15,080
Total	3,380,885	166,797	97,159
Eliminated on consolidation and corporate	678,150	5,522	6,363
Consolidated total	\$4,059,035	\$172,319	\$103,522

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

*Effective April 1, 2005, the Companies have adopted "Accounting standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed assets".

As a result of this change, identifiable assets of "Fibers and textiles" for the six months ended September 30, 2005 decreased by YEN 1,242 million (\$10,991 thousand). The effect on identifiable assets of other segments are immaterial.

Geographic segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months ended September 30, 2005	Millions of yen				
	Net sales			Operating income	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥130,711	¥14,318	¥145,029	¥19,294	¥250,978
North America	14,046	2,017	16,063	1,573	39,954
Europe	26,352	994	27,346	1,342	84,500
Asia	8,170	667	8,837	72	9,393
Total	179,279	17,996	197,275	22,281	384,825
Eliminated on consolidation and corporate	-	(17,996)	(17,996)	(5,181)	73,846
Consolidated total	¥179,279	¥ -	¥179,279	¥17,100	¥458,671

Six months ended September 30, 2004	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥132,988	¥13,518	¥146,506	¥18,746	¥244,773
North America	13,449	2,140	15,589	2,214	34,540
Europe	21,471	893	22,364	1,628	69,969
Asia	7,657	758	8,415	(75)	7,970
Total	175,565	17,309	192,874	22,513	357,252
Eliminated on consolidation and corporate	-	(17,309)	(17,309)	(5,772)	65,357
Consolidated total	¥175,565	¥ -	¥175,565	¥16,741	¥422,609

Six months ended September 30, 2005	Thousands of U.S. dollars				
	Net sales			Operating income	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	\$1,156,735	\$126,707	\$1,283,442	\$170,743	\$2,221,044
North America	124,300	17,850	142,150	13,920	353,575
Europe	233,204	8,796	242,000	11,876	747,788
Asia	72,301	5,903	78,204	637	83,124
Total	1,586,540	159,256	1,745,796	197,176	3,405,531
Eliminated on consolidation and corporate	-	(159,256)	(159,256)	(45,849)	653,504
Consolidated total	\$1,586,540	\$ -	\$1,586,540	\$151,327	\$4,059,035

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.

*Effective April 1, 2005, the Companies have adopted "Accounting standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed assets".

As a result of this change, identifiable assets of "Domestic (inside Japan)" for the six months ended September 30, 2005 decreased by YEN 1,359million (\$12,027 thousand).

Foreign sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months ended September 30, 2005	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
North America	¥16,821	¥ -	9.4 %	\$148,858	\$ -
Europe	28,781	-	16.0	254,699	-
Asia	28,660	-	16.0	253,628	-
Other	3,520	-	2.0	31,151	-
Total	¥77,782	¥179,279	43.4 %	\$688,336	\$1,586,540

Six months ended September 30, 2004	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥15,365	¥ -	8.8 %
Europe	25,688	-	14.6
Asia	33,471	-	19.1
Other	3,532	-	2.0
Total	¥78,056	¥175,565	44.5 %

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN113=\$1.