

February 9, 2005
Kuraray Co., Ltd.

Consolidated Earnings Report for the Three Quarters Ended December 31, 2004

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

Contact
Title: General Manager, Office of Public Relations
Name: Kohei Maeda
Tel: +81-3-6701-1070

1. Notes Relating to the Preparation of the Quarterly Statements

(1) Use of simplified accounting procedures : 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)

In the past, forward exchange contracts in connection with foreign-currency-denominated accounts receivable and accounts payable have been accounted for using the appropriation method. Beginning in the first quarter of the fiscal year ending March 31, 2005, these will be accounted for using the principle method .

(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.; Kuraray Techno Kashima Co., Ltd.; Kuraray Fudosan Co., Ltd.; and Kuraray Ohmiya Estate Co., Ltd.

2. Financial Results for the Three Quarters of the Fiscal Year Ending March 31, 2005 (April 1, 2004 to December 31, 2004)

(1) Business Performance (consolidated)

(Millions of yen, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
Fiscal 2004 3Q	262,747	8.7%	23,761	19.5%	23,346	24.7%	13,772	13.4%
Fiscal 2003 3Q	241,787	-	19,876	-	18,726	-	12,145	-
Fiscal 2003	332,149		28,045		24,567		15,181	

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2004 3Q	37.51	-
Fiscal 2003 3Q	32.67	-
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

The first three quarters of this fiscal year (April 1 through December 31, 2004) saw healthy business conditions in the first half (April 1 through September 30, 2004), supported by an expansion of export demand, principally from China. However, the effects of the steep rise in raw materials and fuels reached their full strength in October, while the yen rose against the dollar and prices of digital consumer electronics dropped. The Kuraray Group responded by passing the increase in raw material and fuel prices on in the cost of its products, by expanding sales of its original products, and by striving for further rationalization of costs.

As a result, for the first three quarters of this fiscal year the Company posted net sales of ¥262,747 million (an increase of 8.7% in comparison to the corresponding period of the preceding fiscal year), and operating income of ¥23,761 million (up 19.5%). In addition, with the reorganization of the Company's financial subsidiary in Europe, gains on exchange rate changes of ¥2.5 billion were posted as non-operating income. Losses of ¥2.4 billion on disposal of inventories in connection with the startup of new manufacturing facilities for Opto-screens (MD screens) were posted as non-operating expenses. As a result, ordinary income for the first three quarters grew 24.7% to ¥23,346 million, and net income rose 13.4% to ¥13,772 million.

Industrial segment information in comparison with the corresponding period of the previous fiscal year is as follows.

Chemicals and resins

Net sales in Europe and Asia expanded as prices of poval resin products rose. Sales of poval film for use in LCDs increased substantially. The volume of *EVAL* sales rose with the development of a new market for the recently launched *EVAL SP*. Sales of methacrylic resin molding materials for use in LCD light-guide plates and other applications also showed growth, while the Company continued to pass higher costs for methacrylic resins, including monomers, to the customer. In the area of isoprenes, domestic and overseas elastomer markets were in steady, while sales of aroma chemicals and other fine chemicals were somewhat stronger.

Fibers and textiles

The Company posted higher sales of *KURALON* as an asbestos-substitute cement-reinforcing agent. Polyester operations showed improvement with the shift in both filament and staple fiber to differentiated products, and displayed steady recovery. Sales of *CLARINO* for use in sports shoes, bags, and other accessories rose steeply, and *CLARINO* sales overall were strong. The profitability of non-woven fabrics and fastening materials improved as a result of cost rationalization.

High-performance materials, medical products and others

Sales of Opto-screens expanded, on the strength of both existing CRT type screens and the commencement of full-scale marketing of MD type screens. However, the profitability of the Opto-screen business is lagging, due both to falling prices for CRT type screens and to the low productivity at new manufacturing facilities for MD type screens. Sales in the medical products sector were flat, as a result of the adverse impact of the annual revision of pharmaceuticals prices by the government and of an increase in the patient's co-pay burden under the national health insurance scheme. Sales of the heat-resistant resin *GENESTAR* and activated carbon rose steadily.

(2) Changes in consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio(%)	Shareholders' equity per share (¥)
Fiscal 2004 3Q	439,755	306,436	69.7	834.72
Fiscal 2003 3Q	406,715	294,476	72.4	801.78
Fiscal 2003	413,227	300,306	72.7	817.57

Qualitative information regarding changes in financial position

Higher capital investments and the Company's acquisition of a PVB-film-related business in Europe caused fixed assets to grow by ¥24.5 billion. Total assets increased to ¥439.8 billion, an increase of ¥26.5 billion in comparison to the end of the previous fiscal year. Liabilities rose ¥18.2 billion to ¥131.1 billion, chiefly as a result of a ¥13.2 billion increase in interest-bearing debt. Shareholders' equity expanded by ¥6.1 billion to ¥306.4 billion, largely as a result of a ¥7.1 billion jump in retained earnings.

Qualitative information regarding forecast of business results

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

References:

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

First Three Quarters Consolidated Statements of Income

(Unit: ¥ million)

	Fiscal 2004 3Q (April 1 – December 31, 2004)	Fiscal 2003 3Q (April 1 – December 31, 2004)	Change	Fiscal 2003 (April 1, 2003 – March 31, 2004)
Net sales	262,747	241,787	20,959	332,149
Cost of sales	188,579	171,676	16,902	236,245
Gross profit	74,167	70,110	4,056	95,903
Selling, general and administrative expenses	50,406	50,234	171	67,857
Operating income	23,761	19,876	3,885	28,045
Non-operating income				
Interest and dividends received	884	767	116	1,121
Equity in earnings of affiliates	51	141	(89)	159
Other, net	4,610	1,061	3,548	1,504
Total non-operating income	5,546	1,970	3,575	2,785
Non-operating expenses				
Interest paid	226	389	(162)	655
Other expenses	5,733	2,730	3,002	5,607
Total non-operating expenses	5,960	3,120	2,840	6,263
Ordinary income	23,346	18,726	4,620	24,567
Extraordinary income				
Gain on sales of fixed assets	128	2,301	(2,173)	3,957
Total extraordinary income	128	2,301	(2,173)	3,957
Extraordinary expenses				
Restructuring charges	1,021	2,016	(994)	5,030
Total extraordinary expenses	1,021	2,016	(994)	5,030
Income before income taxes	22,453	19,011	3,441	23,494
Current income taxes	7,034	5,707	1,326	6,828
Deferred income taxes	1,571	1,153	418	1,480
Total income taxes	8,604	6,861	1,744	8,308
Minority interests in net income of consolidated subsidiaries	(Negative) 74	(Negative) 5	(69)	(Negative) 4
Net income	13,772	12,145	1,627	15,181

First Three Quarters of Fiscal 2004 Consolidated Balance Sheets

ASSETS (Unit: ¥ million)

	Fiscal 2004 3Q (As of December 31, 2004)	Fiscal 2003 (As of March 31, 2004)	Change	Fiscal 2003 3Q (As of December 31, 2003)
Current assets	173,440	171,428	2,012	168,137
Cash and cash equivalents	8,451	7,020	1,431	7,054
Notes and accounts receivable	82,371	82,901	(529)	75,505
Marketable securities	4,787	8,423	(3,636)	9,109
Inventories	66,261	61,866	4,394	67,314
Deferred income taxes	6,281	6,401	(119)	5,359
Others	6,180	5,684	495	4,710
Allowance for doubtful accounts	(892)	(870)	(22)	(917)
Fixed assets	266,3146	241,798	24,515	238,577
Property, plant and equipment	153,242	137,867	15,375	135,529
Buildings	33,312	34,029	(716)	33,411
Machinery and equipment	78,704	62,713	15,990	60,490
Land	20,296	18,173	2,122	19,064
Construction-in-progress	18,991	20,936	(1,945)	20,603
Others	1,938	2,014	(75)	1,959
Investments and other assets	38,014	30,234	7,779	30,176
Goodwill	34,934	27,800	7,133	27,638
Other intangible assets	3,079	2,434	645	2,537
Intangible fixed assets	75,057	73,696	1,360	72,872
Investment securities	27,024	28,047	(1,023)	25,855
Long-term loans	3,854	4,124	(269)	4,671
Accumulated premiums on insurance	34,926	33,987	939	33,961
Deferred income taxes	919	2,082	(1,162)	4,180
Others	9,693	6,804	2,889	5,366
Allowance for doubtful accounts	(1,361)	(1,348)	(12)	(1,164)
Total	439,755	413,227	26,528	406,715

First Three Quarters of Fiscal 2004 Consolidated Balance Sheets

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

	Fiscal 2004 3Q (As of December 31, 2004)	Fiscal 2003 (As of March 31, 2004)	Change	Fiscal 2003 3Q (As of December 31, 2003)
Liabilities				
Current liabilities	90,099	75,165	14,934	74,889
Notes and accounts payable	42,216	38,628	3,587	41,702
Short-term bank loans	5,107	5,345	(237)	7,901
Commercial paper	14,000	3,000	11,000	7,500
Bonds (Maturing within one year)	-	-	-	500
Accrued expenses	5,121	4,737	383	3,958
Accrued income taxes	5,198	4,694	504	2,836
Reserve for bonuses	3,342	5,968	(2,625)	3,344
Other reserves	9	31	(22)	49
Others	15,103	12,759	2,343	7,096
Long-term liabilities	40,983	37,689	3,294	37,282
Long-term debt	5,952	3,474	2,477	4,066
Deferred income taxes	3,920	4,024	(103)	3,260
Accrued retirement benefits	13,065	13,049	15	13,519
Accrued retirement benefits for directors and auditors	709	755	(46)	717
Others	17,335	16,384	951	15,717
Total Liabilities	131,083	112,854	18,228	112,171
Minority interests				
Minority interests	2,235	66	2,169	67
Shareholders' equity				
Capital	88,955	88,955	-	88,955
Additional paid-in capital	87,152	87,149	2	87,149
Retained earnings	134,256	127,147	7,108	124,111
Unrealized gain on revaluation of securities	8,735	7,902	833	5,695
Foreign currency translation adjustments	(852)	841	(1,693)	228
Treasury stock	(11,811)	(11,690)	(120)	(11,664)
Total shareholders' equity	306,436	300,306	6,130	294,476
Total liabilities, minority interests, and shareholders' equity	439,755	413,227	26,528	406,715

Segment Information

Industrial segment information

First Three Quarters of Fiscal 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
1 Net sales and operating income						
Net sales						
(1) Outside customers	124,118	81,821	56,807	262,747	—	262,747
(2) Inter-segment sales and transfers	572	933	17,387	18,893	(18,893)	—
Total	124,690	82,754	74,195	281,640	(18,893)	262,747
Operating expenses	104,084	76,624	68,608	249,317	(10,331)	238,985
Operating income	20,606	6,129	5,586	32,322	(8,561)	23,761

First Three Quarters of Fiscal 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
1 Net sales and operating income						
Net sales						
(1) Outside customers	114,907	77,322	49,557	241,787		241,787
(2) Inter-segment sales and transfers	395	1,234	14,764	16,393	(16,393)	
Total	115,303	78,557	64,321	258,181	(16,393)	241,787
Operating expenses	98,007	74,313	58,188	230,509	(8,597)	221,911
Operating income	17,296	4,243	6,132	27,672	(7,796)	19,876

Fiscal 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
1 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