

February 8, 2006
Kuraray Co., Ltd.

Consolidated Earnings Report for the Three Quarters Ended December 31, 2005

Name of listed company: Kuraray Co., Ltd.
Stock code: 3405
Stock exchange listings: Tokyo and Osaka, first sections
URL: <http://www.kuraray.co.jp>

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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: No
- (3) Changes in the scope of consolidation: Yes
(Details)
One company, Kuraray Kuraflex Co., Ltd., was newly brought into the scope of consolidation from its previous status as an affiliated company accounted for under the equity method.

2. Financial Results for the Three Quarters of the Fiscal Year Ending March 31, 2006 (April 1, 2005 to December 31, 2005)

(1) Business Performance (Consolidated)

(Millions of yen, rounded down)

	Net sales		Operating income		Ordinary income		Net income	
		%		%		%		%
Fiscal 2005 3Q	274,941	4.6	26,199	10.3	23,579	1.0	14,548	5.6
Fiscal 2004 3Q	262,747	8.7	23,761	19.5	23,346	24.7	13,772	13.4
Fiscal 2004	354,874		33,186		30,854		18,465	

	Net income per share (Yen)	Fully diluted net income per share (Yen)
Fiscal 2005 3Q	39.63	39.58
Fiscal 2004 3Q	37.51	—
Fiscal 2004	50.13	50.12

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 three quarters of the fiscal year under review (April 1, 2005 through December 31, 2005) business conditions for the Kuraray Group remained harsh. On a positive note, the economy experienced a modest recovery and the yen continued to weaken. Raw materials and fuels, however, saw a sharp rise in prices. Under these circumstances, Kuraray worked to accelerate contributions from recent new production facility investment and upgrades, introduce new products, further streamline costs and at the same time, pass on increases in material and fuel prices to product sales prices with the aim of minimizing as much as possible the negative impact on profits. As a result of these factors, net sales for the period under review amounted to ¥274,941 million, an increase of 4.6% in comparison to the corresponding period of the preceding fiscal year. Operating income rose 10.3% year on year to ¥26,199 million, and net income stood at ¥14,548 million, an improvement of 5.6%. Industrial segment information in comparison with the corresponding period of the previous fiscal year is as follows.

Chemicals and Resins

During the period under review, sales of optical-use poval film for use in LCDs were strong. The period also saw the progressive startup of two newly installed production lines (total: 30 million m²) at Kuraray Tamashima Co., Ltd. While sales growth of poval resin in Europe and Asia were stagnant, results for PVB film were healthy. Despite the impact of the sharp rise in raw material and fuel prices, sales of *EVAL* for application in food packaging were up, but were sluggish for automobile application. In a similar fashion, although demand for methacrylic resin for use in light-guide plates was high, use in general-purpose products suffered a decline. In isoprene-related fields, sales of *SEPTON* experienced growth mainly in the United States.

Fibers and Textiles

During the period under review, *KURALON* enjoyed solid results particularly for use as an asbestos substitute. *CLARINO* sales were also firm for use in sports shoes, as a polishing agent and in other industrial applications. Kuraray saw an upswing in sales of nonwoven fabrics and hook and loop fasteners driven by healthy domestic demand. Sales of polyester declined, impacted by the shift toward differentiated products.

High-Performance Materials, Medical Products and Others

Overall sales of opto-screens decreased due to the drop in CRT-type volume. Results were strong in Japan and the United States for dental materials in medical products. Sales of *GENESTAR*, a heat-resistant resin for use in electronic materials, were also firm in Japan and the rest of Asia.

(2) Changes in Consolidated Financial Position

	Total assets (million of yen)	Shareholders' equity (million of yen)	Shareholders' equity ratio (%)	Shareholders' equity per share (Yen)
Fiscal 2005 3Q	476,508	330,038	69.3	898.79
Fiscal 2004 3Q	439,755	306,436	69.7	834.72
Fiscal 2004	454,940	312,929	68.8	852.26

Qualitative Information Regarding Changes in Financial Position

Higher capital investments led to an increase in property, plant and equipment, which in turn contributed to a ¥21.6 billion increase in total assets compared with the previous fiscal-year end. As a result, total assets stood at ¥476.5 billion as of December 31, 2005. Liabilities rose ¥4.4 billion to ¥144.1 billion, chiefly as a result of an increase in interest-bearing debt. Shareholders' equity expanded by ¥17.1 billion to ¥330.0 billion, largely as a result of the jump in retained earnings.

(References)

Qualitative Information Regarding Forecasts of Business Results

Forecasts of the Company's performance for the fiscal year ending March 31, 2006 remained unchanged.

Supplementary Materials

Relevant consolidated statements of income, consolidated balance sheets and segment information

First Three Quarters of Fiscal 2005 Consolidated Statements of Income

(Millions of yen)

	Fiscal 2005 3Q (April 1 – December 31, 2005)	Fiscal 2004 3Q (April 1 – December 31, 2004)	Change	Fiscal 2004 (April 1, 2004 – March 31, 2005)
Net sales	274,941	262,747	12,194	354,874
Cost of sales	195,995	188,579	7,415	254,114
Gross profit	78,946	74,167	4,778	100,759
Selling, general and administrative expenses	52,747	50,406	2,340	67,572
Operating income	26,199	23,761	2,437	33,186
Non-operating income				
Interest and dividends received	927	884	43	1,191
Equity in earnings of affiliates	59	51	7	30
Other, income	726	4,610	(3,883)	5,424
Total non-operating income	1,714	5,546	(3,832)	6,646
Non-operating expenses				
Interest paid	286	226	59	297
Other expenses	4,046	5,733	(1,686)	8,681
Total non-operating expenses	4,333	5,960	(1,627)	8,979
Ordinary income	23,579	23,346	233	30,854
Extraordinary income				
Gain on sales of investment securities	963	—	963	—
Gain on sales of fixed assets	—	128	(128)	259
Total extraordinary income	963	128	835	259
Extraordinary expenses				
Impairment loss on fixed assets	1,359	—	1,359	—
Loss on write-down of investment securities	118	—	118	—
Restructuring charges	170	1,021	(851)	1,248
Loss on disposal of fixed assets	193	—	193	—
Other extraordinary expenses	—	—	—	19
Total extraordinary expenses	1,842	1,021	820	1,268
Income before income taxes	22,700	22,453	247	29,845
Current income taxes	6,219	7,034	(814)	8,723
Deferred income taxes	1,841	1,571	269	2,564
Total income taxes	8,060	8,605	(545)	11,287
Minority interests in net income of consolidated subsidiaries	(Negative) 91	(Negative) 74	(16)	(Negative) 92
Net income	14,548	13,772	776	18,465

First Three Quarters of Fiscal 2005 Consolidated Balance Sheets

ASSETS (Millions of yen)

	Fiscal 2005 3Q (As of December 31, 2005)	Fiscal 2004 (As of March 31, 2005)	Change	Fiscal 2004 3Q (As of December 31, 2004)
Current assets	182,357	182,317	40	173,440
Cash and cash equivalents	13,929	16,743	(2,813)	8,451
Notes and accounts receivable	87,699	83,170	4,528	82,371
Marketable securities	—	5,990	(5,990)	4,787
Inventories	69,385	64,173	5,212	66,261
Deferred income taxes	5,968	7,313	(1,344)	6,281
Others	6,340	5,830	510	6,180
Allowance for doubtful accounts	(966)	(904)	(62)	(892)
Fixed assets	294,151	272,623	21,528	266,314
Property, plant and equipment	169,737	158,293	11,444	153,242
Buildings	33,824	33,526	298	33,312
Machinery and equipment	85,283	80,568	4,714	78,704
Land	20,334	20,289	44	20,296
Construction-in-progress	27,806	21,527	6,279	18,991
Others	2,488	2,381	107	1,938
Intangible fixed assets	34,539	37,933	(3,393)	38,014
Goodwill	28,573	31,661	(3,087)	34,934
Other intangible assets	5,965	6,271	(306)	3,079
Investments and other assets	89,874	76,396	13,477	75,057
Investment securities	39,780	27,973	11,806	27,024
Long-term loans	3,464	3,566	(101)	3,854
Accumulated premiums on insurance	35,922	35,188	734	34,926
Deferred income taxes	2,175	2,077	98	919
Prepaid pension expense	4,742	3,512	1,229	2,186
Others	3,908	5,415	(1,507)	7,507
Allowance for doubtful accounts	(119)	(1,336)	1,217	(1,361)
Total	476,508	454,940	21,568	439,755

First Three Quarters of Fiscal 2005 Consolidated Balance Sheets

Liabilities, Minority Interests, and Shareholders' Equity (Millions of yen)

	Fiscal 2005 3Q (As of December 31, 2005)	Fiscal 2004 (As of March 31, 2005)	Change	Fiscal 2004 3Q (As of December 31, 2004)
Liabilities				
Current liabilities	84,528	84,856	(328)	90,099
Notes and accounts payable	40,621	41,653	(1,032)	42,216
Short-term bank loans	10,771	13,447	(2,675)	5,107
Commercial paper	10,000	—	10,000	14,000
Accrued expenses	5,135	4,953	181	5,121
Accrued income taxes	2,107	5,849	(3,742)	5,198
Reserve for bonuses	3,239	5,916	(2,677)	3,342
Other reserves	24	10	14	9
Other	12,627	13,025	(397)	15,103
Long-term liabilities	59,606	54,900	4,706	40,983
Corporate bonds	10,000	10,000	—	—
Long-term debt	5,855	6,234	(378)	5,952
Deferred income taxes	12,326	7,344	4,982	3,920
Accrued retirement benefits	13,114	12,718	395	13,065
Accrued retirement benefits for directors and auditors	772	750	22	709
Others	17,537	17,852	(315)	17,335
Total liabilities	144,135	139,757	4,377	131,083
Minority interests				
Minority interests	2,335	2,253	82	2,235
Shareholders' equity				
Capital	88,955	88,955	—	88,955
Additional paid-in capital	87,161	87,156	5	87,152
Retained earnings	148,667	138,950	9,717	134,256
Unrealized gain on revaluation of securities	15,383	9,011	6,372	8,735
Foreign currency translation adjustments	1,652	679	973	(852)
Treasury stock	(11,783)	(11,823)	39	(11,811)
Total shareholders' equity	330,038	312,929	17,108	306,436
Total liabilities, minority interests, and shareholders' equity	476,508	454,940	21,568	439,755

Segment Information

Industrial Segment Information

First Three Quarters of Fiscal 2005 (April 1, 2005 to December 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	139,483	80,547	54,909	274,941	—	274,941
(2) Inter-segment sales and transfers	546	529	19,448	20,523	(20,523)	—
Total	140,030	81,076	74,358	295,465	(20,523)	274,941
Operating expenses	118,224	73,686	69,080	260,992	(12,249)	248,742
Operating income	21,805	7,390	5,277	34,472	(8,273)	26,199

First Three Quarters of Fiscal 2004 (April 1, 2004 to December 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	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

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	(10,486)	33,186