August 2, 2006
Kuraray Co., Ltd.

Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2007

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: No

2. Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2007 (April 1, 2006 to June 30, 2006)

(1) Business Performance (consolidated)

(¥ million, rounded down)

	Net sales	(Change)	Operating income	(Change)	Ordinary income	(Change)	Net income	(Change)
Fiscal 2006 1Q	91,024	7.6%	8,853	20.7%	8,304	21.9%	5,298	41.4%
Fiscal 2005 1Q	84,586	(1.6)%	7,333	(3.2)%	6,810	(9.7)%	3,748	(18.1)%
Fiscal 2005	375,072	--	38,277	--	32,781	--	21,185	--

	Net income per share (¥)	Fully diluted net income per share (¥)
Fiscal 2006 1Q	14.41	14.37
Fiscal 2005 1Q	10.21	10.20
Fiscal 2005	57.51	57.41

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 expansion in the economy of the United States, Europe and Asia. The Japanese economy was also strong, buoyed by vigorous capital investment and personal consumption. However, economic uncertainties emerged, including rising raw material and fuel prices and interest rates on a global scale. Under these circumstances, the Kuraray Group started the implementation of its new GS-21 medium-term business plan from April 2006. Under GS-21, the Group is promoting expansion of new growth fields such as optical materials and enhancing contributions to sales growth from capital investments in new production facilities and facility expansion primarily in its core material businesses, while endeavoring to pass on higher raw material and fuel prices in the form of higher product prices. As a result, net sales for the first quarter of the current fiscal year rose to ¥91,024 million, an increase of 7.6% compared with the same period of the previous fiscal year, and operating income surged 20.7% to ¥8,853 million. Furthermore, ordinary income grew 21.9% to ¥8,304 million, and net income for the quarter totaled ¥5,298 million, a sharp rise of 41.4%. Business conditions by segment compared with the same period a year earlier were as follows.

Chemicals and Resins

In poval, demand for optical-use poval film used in LCDs was strong. Fully leveraging the production capacity (30 million m^2 per year) of two optical film production lines expanded at Kuraray Tamashima Co., Ltd. during the previous year, Kuraray achieved sales growth. Stagnant demand for poval resin in Asia was offset by robust demand for paper processing agent applications in Europe. In addition, a brisk performance in polyvinyl butyral (PVB) film for use in construction materials contributed to growth of overall poval resin sales. Demand for *EVAL*, an ethylene vinyl alcohol polymer resin, for food packaging application was steady. Expanded *EVAL* applications for automobiles in Asia and for pipes in floor heating systems in Europe also

contributed to overall sales expansion. Sales of methacrylic resin dropped, adversely affected by downsizing of the monomer business, declining prices and stagnant demand from light-guide plate applications. In isoprene-related products, demand for *SEPTON* was strong while in the fine chemical field, intensifying competition impacted the Company's performance. As a result of the aforementioned, overall sales in this segment finished with a slight increase.

Fibers and Textiles

In this segment, the *KURALON* business was steady, backed by a solid performance in asbestos substitute applications and of a water soluble type of *KURALON K-II*. Sales of the man-made leather *CLARINO* were strong in polishing materials and light industry products, but suffered from sluggish growth for use in apparel and shoes. In nonwoven fabrics and fastening materials, automobile applications staged stable growth. Kuraray furthered the shift toward differentiated polyester products.

High-Performance Materials, Medical Products and Others

In the medical business, dental materials experienced healthy growth while medical devices were influenced by the biennial revision of pharmaceutical prices by the government. Sales of opto-screens continued to suffer from contracting demand and other factors. The heat-resistant polyamide resin *GENESTAR* enjoyed healthy orders in Japan and other Asian countries, especially for use in electronics materials. Sales of activated carbon were brisk, reflecting a strong performance in water purification applications.

(2) Changes in consolidated financial position

	Total assets (¥ million)	Net assets (¥ million)	Shareholders' equity ratio (%)	Shareholders' equity per share (¥)
June 30, 2006	470,663	342,623	72.3	925.55
June 30, 2005	442,938	313,726	70.8	854.58
March31, 2006	481,357	339,127	70.5	922.65

Qualitative Information Regarding Changes in Consolidated Financial Position

Total assets were ¥470.7 billion, down ¥10.7 billion from the end of the previous fiscal year, as a result of decreases in notes and accounts receivable, and in marketable securities. Liabilities were ¥128.0 billion, down ¥11.8 billion from the end of the previous fiscal year, owing to decreases in accrued income taxes and reserve for bonuses. Net assets amounted to ¥342.6 billion

due to an increase of ¥2.1 billion in retained earnings from the end of the previous fiscal year. Shareholders' equity, the amount equal to net assets less minority interests, totaled ¥340.3 billion. The shareholders' equity ratio was 72.3%.

(3) Cash flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period
Fiscal 2006 1Q	1,840	(9,380)	(5,078)	15,464
Fiscal 2005 1Q	—	—	—	—
Fiscal 2005	32,690	(13,693)	(7,790)	28,085

Note: Quarterly cash flow data is presented from the fiscal year ending March 31, 2007. Accordingly, data for the corresponding quarter of the previous fiscal year has not been provided.

Qualitative Information Regarding Forecasts

There are no changes to forecasts of the Company's performance in the fiscal year ending March 31, 2007.

Attachments:

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

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First Quarter Consolidated Statements of Income

(Unit: ¥ million)

	Fiscal 2006 1Q (April 1 – June 30, 2006)	Fiscal 2005 1Q (April 1 – June 30, 2005)	Change	Fiscal 2005 (April 1, 2005 – March 31, 2006)
Net sales	91,024	84,586	6,438	375,072
Cost of sales	64,681	60,068	4,613	266,283
Gross profit	26,343	24,518	1,825	108,789
Selling, general and administrative expenses	17,490	17,184	305	70,512
Operating income	8,853	7,333	1,519	38,277
Non-operating income				
Interest and dividends received	444	436	8	1,294
Equity in earnings of affiliates	3	15	(12)	56
Other, net	202	241	(39)	1,106
Total non-operating income	650	693	(42)	2,457
Non-operating expenses				
Interest paid	53	115	(61)	414
Other expenses	1,145	1,101	44	7,539
Total non-operating expenses	1,199	1,216	(17)	7,953
Ordinary income	8,304	6,810	1,493	32,781
Extraordinary income				
Gain on sales of fixed assets	—	—	—	8,445
Gain on sales of investment securities	—	648	(648)	1,029
Total extraordinary income	—	648	(648)	9,475
Extraordinary expenses				
Loss from impairment of fixed assets	—	1,359	(1,359)	5,454
Loss on write-down of investment securities	—	—	—	253
Restructuring charges	—	—	—	1,693
Loss on disposal of property, plant and equipment	—	—	—	492
Total extraordinary expenses	—	1,359	(1,359)	7,893
Income before income taxes	8,304	6,099	2,205	34,362
Current income taxes	1,834	1,830	4	11,674
Deferred income taxes	1,150	491	658	1,393
Total income taxes	2,984	2,321	663	13,067
Minority interests in net income of consolidated subsidiaries	(Negative) 20	(Negative) 29	8	(Negative) 109
Net income	5,298	3,748	1,550	21,185

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First Quarter Consolidated Balance Sheets

Assets (Unit: ¥ million)

	Fiscal 2006 1Q (As of June 30, 2006)	Fiscal 2005 (As of March 31, 2006)	Change	Fiscal 2005 1Q (As of June 30, 2005)
Current assets	188,304	200,667	(12,363)	167,930
Cash and cash equivalents	14,462	18,086	(3,624)	11,020
Notes and accounts receivable	86,312	90,051	(3,739)	77,445
Marketable securities	3,999	9,999	(5,999)	—
Inventories	73,653	69,431	4,222	68,460
Deferred income taxes	5,292	6,478	(1,185)	6,252
Others	5,640	7,635	(1,994)	5,717
Allowance for doubtful accounts	(1,056)	(1,014)	(42)	(965)
Fixed assets	282,358	280,689	1,669	275,008
Property, plant and equipment	160,857	159,396	1,461	161,303
Buildings	27,396	27,521	(125)	33,163
Machinery and equipment	83,711	85,141	(1,430)	79,205
Land	19,685	19,675	9	20,267
Construction-in-progress	27,605	24,590	3,014	26,359
Others	2,459	2,466	(6)	2,307
Intangible fixed assets	34,207	34,638	(431)	36,660
Goodwill	—	28,625	(28,625)	30,590
Intangible assets	28,893	—	28,893	—
Other intangible assets	5,313	6,013	(700)	6,070
Investments and other assets	87,293	86,654	639	77,044
Investment securities	40,806	42,111	(1,305)	28,350
Long-term loans	3,254	3,277	(22)	3,640
Accumulated premiums on insurance	29,911	29,706	204	35,534
Deferred income taxes	2,675	2,649	26	2,256
Prepaid pension expenses	5,257	5,142	114	3,465
Others	5,476	3,881	1,595	5,104
Allowance for doubtful accounts	(88)	(114)	26	(1,308)
Total	470,663	481,357	(10,693)	442,938

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First Quarter Consolidated Balance Sheets

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

	Fiscal 2006 1Q (As of June 30, 2006)	Fiscal 2005 (As of March 31, 2006)	Change	Fiscal 2005 1Q (As of June 30, 2005)
Liabilities				
Current liabilities	68,592	79,228	(10,636)	73,374
Notes and accounts payable	37,745	40,182	(2,436)	37,573
Short-term bank loans	4,968	7,008	(2,040)	10,597
Accrued expenses	6,115	5,154	960	5,341
Accrued income taxes	1,923	7,164	(5,240)	1,604
Reserve for bonuses	3,647	6,283	(2,635)	3,481
Other reserves	31	41	(9)	10
Other	14,159	13,392	766	14,765
Long-term liabilities	59,447	60,646	(1,199)	53,564
Corporate bonds	10,000	10,000	—	10,000
Long-term debt	9,255	9,255	—	5,855
Deferred income taxes	12,541	13,713	(1,171)	6,704
Accrued retirement benefits	12,909	12,598	310	13,087
Accrued retirement benefits for directors and auditors	114	804	(690)	658
Others	14,626	14,273	352	17,258
Total Liabilities	128,039	139,875	(11,835)	126,939
Minority interests				
Minority interests	—	2,354	—	2,272
Shareholders' equity				
Capital	—	88,955	—	88,955
Additional paid-in capital	—	87,226	—	87,156
Retained earnings	—	155,377	—	140,253
Unrealized gain on revaluation of securities	—	16,425	—	8,600
Foreign currency translation adjustments	—	2,726	—	585
Treasury stock	—	(11,583)	—	(11,824)
Total shareholders' equity	—	339,127	—	313,726
Total liabilities, minority interests, and shareholders' equity	—	481,357	—	442,938

Net assets				
Shareholders' equity	322,182	—	—	—
Capital	88,955	—	—	—
Additional paid-in capital	87,226	—	—	—
Retained earnings	157,484	—	—	—
Treasury stock	(11,483)	—	—	—
Valuation gains and losses	18,081	—	—	—
Unrealized gain on revaluation of securities	14,965	—	—	—
Deferred gain (loss) on hedging instruments	(48)	—	—	—
Foreign currency translation adjustments	3,164	—	—	—
Minority interests	2,359	—	—	—
Minority interests in consolidated subsidiaries	2,359	—	—	—
Total net assets	342,623	—	—	—
Total liabilities and net assets	470,663	—	—	—

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First Quarter Consolidated Statements of Cash Flows

(Unit: ¥ million)

	Fiscal 2006 1Q (April 1 – June 30, 2006)	Fiscal 2005 (April 1, 2005 – March 31, 2006)
Cash flows from operating activities:		
Income before income taxes and minority interests	8,304	34,362
Depreciation and amortization	6,199	25,185
Increase in allowance for doubtful accounts	46	37
Increase (decrease) in accrued retirement benefits	305	(141)
(Decrease) increase in reserve for bonuses	(2,635)	324
Gain on sales of property, plant and equipment	—	(8,445)
Impairment loss of property, plant and equipment	—	5,454
Loss on disposal of property, plant and equipment	—	492
Gain on sales of investment securities	—	(1,029)
Loss on write-down of investment securities	—	253
Interest and dividend income	(444)	(1,294)
Interest expenses	53	414
Decrease (increase) in notes and accounts receivable	3,870	(5,838)
Increase in inventories	(4,131)	(4,219)
Decrease in notes and accounts payable	(2,451)	(2,504)
Increase in prepaid pension expenses	(114)	(1,629)
Other, net	(498)	939
Sub-total	8,504	42,362
Interest and dividend received	303	942
Interest paid	(72)	(388)
Income taxes paid	(6,894)	(10,225)
Net cash and cash equivalents provided by operating activities	1,840	32,690
Cash flows from investing activities:		
Decrease in marketable securities	—	3,000
Payments for acquisition of property, plant, equipment and intangible assets	(5,817)	(36,069)
Proceeds from sales of property, plant and equipment	4	10,550
Payments for purchase of investment securities	(1,182)	(1,378)
Proceeds from sales and redemption of investment securities	11	3,603
Payments of long-term prepaid expenses	(1,996)	(338)
Payments of premiums on insurance	(74)	(701)
Withdrawals from accumulated premiums on insurance	14	6,573
Other, net	(340)	1,068
Net cash and cash equivalents used in investing activities	(9,380)	(13,693)
Cash flows from financing activities:		
Decrease in short-term bank loans	(1,662)	(3,322)
Proceeds from long-term debt	—	3,400
Repayments of long-term debt	(392)	(3,406)
Proceeds from sales of treasury stock	127	460
Payments for purchase of treasury stock	(28)	(150)
Dividends paid	(3,123)	(4,772)
Net cash and cash equivalents used in financing activities	(5,078)	(7,790)

Effect of exchange rate changes on cash and cash equivalents	(3)	134
Net (decrease) increase in cash and cash equivalents	(12,621)	11,340
Cash and cash equivalents, beginning of period	28,085	16,743
Effect of changes in reporting entities	—	1
Cash and cash equivalents, end of period	15,464	28,085

Segment Information

Industrial segment information

First Quarter of Fiscal 2006 (April 1, 2006 to June 30, 2006) (¥ million)

	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	49,840	25,205	15,978	91,024	–	91,024
(2) Inter-segment sales and transfers	82	284	4,078	4,445	[4,445]	–
Total	49,922	25,489	20,057	95,470	[4,445]	91,024
Operating expenses	41,509	23,397	18,613	83,521	[1,349]	82,171
Operating income	8,412	2,092	1,443	11,948	[3,095]	8,853

First Quarter of Fiscal 2005 (April 1, 2005 to June 30, 2005) (¥ million)

	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

Fiscal 2005 (April 1, 2005 to March 31, 2006) (¥ million)

	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	190,753	109,106	75,213	375,072	–	375,072
(2) Inter-segment sales and transfers	723	684	27,104	28,511	[28,511]	–
Total	191,476	109,790	102,317	403,584	[28,511]	375,072
Operating expenses	159,608	100,339	93,861	353,809	[17,013]	336,795
Operating income	31,868	9,450	8,456	49,775	[11,498]	38,277