Kuraray 1H of FY2004 Earnings Presentation

Kuraray Co., Ltd.

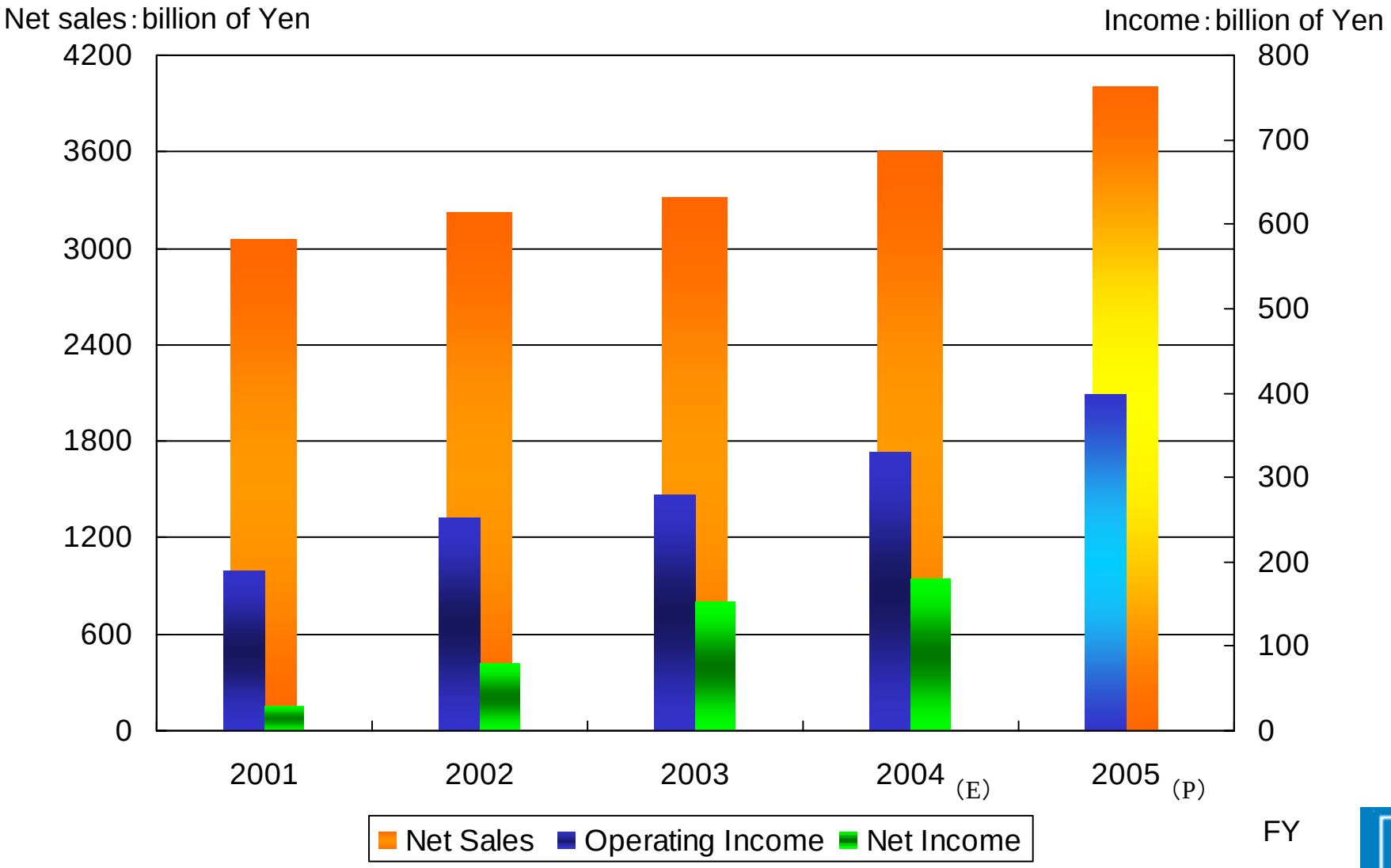
President Yasuaki Wakui

10. November 2004



Differentiated Information=Source of Value-Added

FY2004 Overview



Achieving『G-21』Goals

FY2005

Sales ¥400 bn Operating Income ¥40 bn ROA 8%+

Strengthened Corporate Structure

1) Enhanced Business Portfolio
2) Fibers and Textiles Restructuring
3) Further Cost Reductions

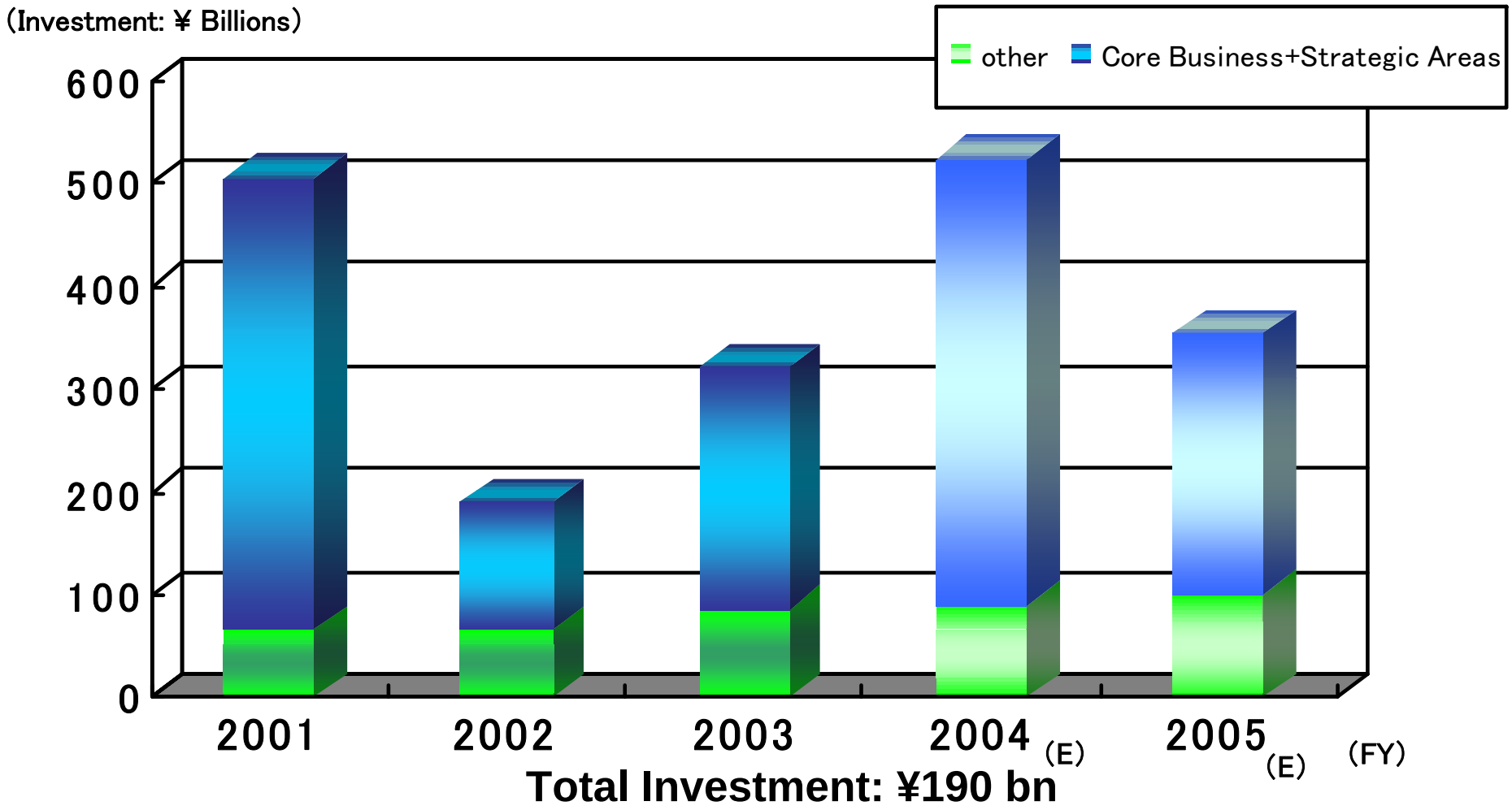
Corporate Structure More Resistance to External Environment

Core Business Growth Strategies

1) Promotion of Market-In Strategy
2) Large-scale investment for global market expansion
3) Upgraded technology to withstand global competition

『 G-21 』Planned and Actual Capital Expenditures

【Actual and FY04, FY05 Projections】



Total Investment: ¥190 bn

『G-21』Planned Investment: ¥150 bn

Kuraray 1Half of FY2004 Earnings Presentation

Kuraray Co., Ltd.

Managing Director Tsutomu Yabuta

10. November 2004

1H of FY2004 Overview

(1) External Environment

- Domestic economic recovery supported by strong exports.
- Dramatic rise in base fuel prices, adjustment of demand on IT product.
- Concern about economic downturn in US and China.

(2) Kuraray's Response

- Expansion of globally competitive businesses.
- Restructuring and cost rationalization in low-margin businesses.
- Transfer of higher base raw material costs to product prices

	1H FY04 (Results)	1H FY04 (Estimate)	1H FY03 (Results)
Yen/$	110	110	118
Yen/Euro	133	130	134
Crude Oil/bl	$31	$29	$26

1H FY2004 Highlights

(1) Sales/Income/Cash flow

(Unit: billion of Yen)

	1H FY04	1H FY03	Increase/Decrease	
Net Sales	175.6	161.3	14.3	8.8%
Operating Income	16.7	13.7	3.0	22.0%
Recurring Income	15.9	12.4	3.5	28.5%
Net Income	9.8	8.3	1.5	18.0%

	1H FY04	1H FY03	Increase/ Decrease
Depreciation/Amortization	10.2	9.8	0.4
Operating Cash Flow	20.3	12.9	7.4
Capital Expenditure	15.8	13.3	2.5
Dividends (per Share)	2.0 (5.5Yen)	1.7 (4.5Yen)	0.3 (+1.0Yen)

(2) Financial Ratios

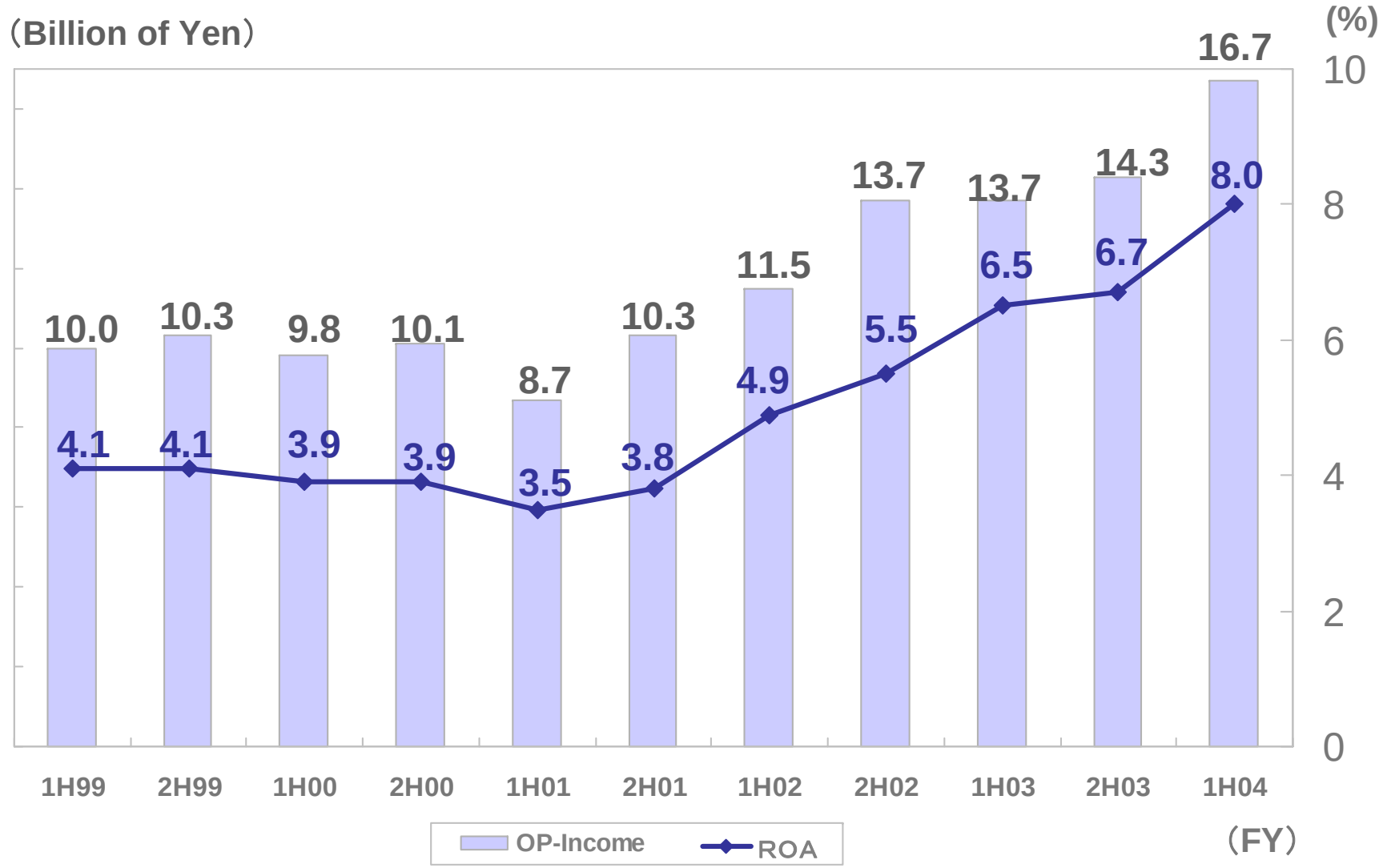
	1H of FY04	1H of FY03	Increase/ Decrease
Gross Profit Margin	**28.6%**	**29.1%**	**-0.5%**
Operating Income Ratio	**9.5%**	**8.5%**	**1.0%**

	30-Sept.04	30-Sept.03	Increase/ Decrease
ROA (Annual)	**8.0%**	**6.5%**	**1.5%**
Total Assets Turnover (Time)	**0.84**	**0.77**	**0.07**
Equity Ratio	**73.0%**	**72.0%**	**1.0%**
ROE (Annual)	**6.4%**	**5.7%**	**0.7%**

ROA (Annual) : 1H OP-income × 2/Average Total Assets

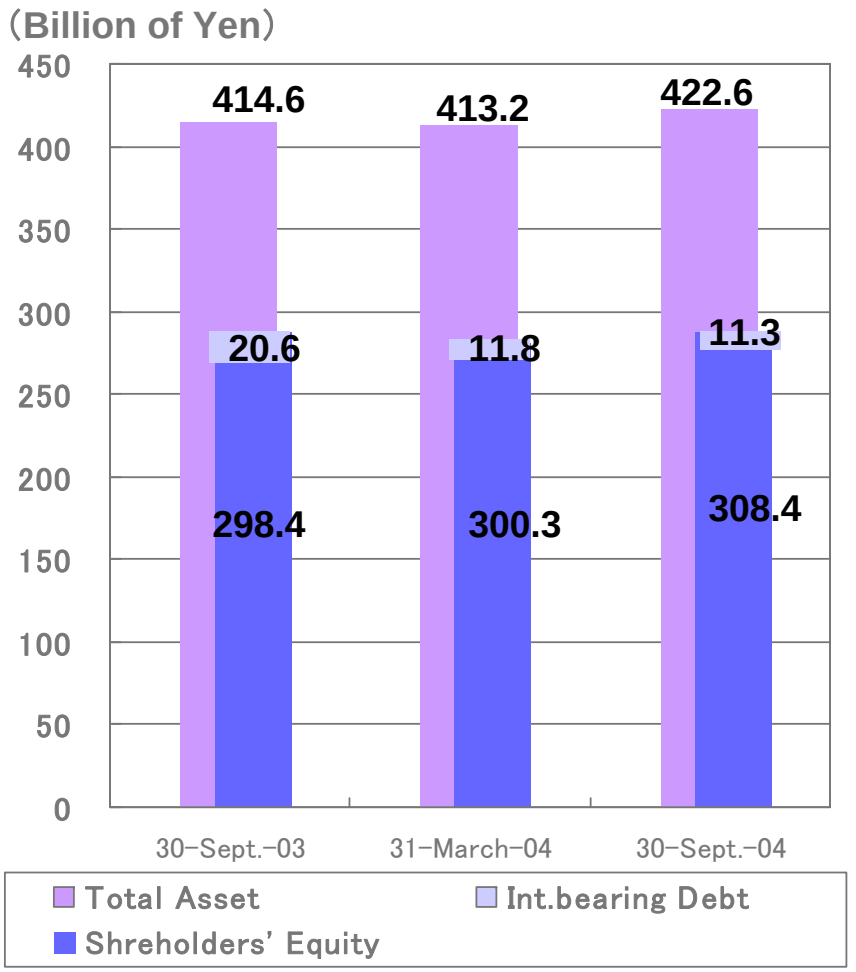
ROE (Annual) : 1H OP-income × 2/Average Shareholders' Equity

(3) Improvement in Operating Income and ROA



Financial Condition

	1H FY04	1H FY03	Increase/ Decrease
(Inventories (Months))	(2.1)	(2.4)	(-0.3)
Total Asset Turnover (Times)	0.84	0.77	0.07
ROA (%)	8.0	6.5	1.5
Int. bearing Debt Ratio (%)	3.7	6.9	-3.2
Equity Ratio (%)	73.0	72.0	1.0
Interest Coverage Ratio (Times)	136.0	44.5	91.5



※Interest coverage ratio=(OP-income+Interest received+Dividends received)/Interest expenses

Segment Highlights

(1) Sales/Operating Income

(Unit: billions of Yen)

	1H of FY04		1H of FY03		Increase/Decrease	
	Sales	OP-Income	Sales	OP-Income	Sales	OP-Income
Chemicals and Resins	83.0	14.3	76.3	11.7	6.7	2.6
Fibers and Textiles	54.4	4.2	52.5	2.8	1.9	1.4
High performance materials, Medical products and Others	38.1	3.9	32.5	4.1	5.6	-0.2
Elimination and Corporate	—	-5.7	—	-4.9	—	-0.8
Total	175.6	16.7	161.3	13.7	14.3	3.0

(2) Factor Causing Variances in Operating Income (unit: billions of Yen)

	Chemicals and Resins	Fibers and Textiles	High performance materials, Medical products and Others	Elimination and Corporate	Total
Price	-0.3	0.1	-0.4	-	-0.6
Sales Volume and Compositions	4.0	0.6	0.0	-	4.6
Currency	-1.0	-0.4	-0.4	-	-1.8
Raw Material Cost	-0.8	-0.3	0.0	-	-1.1
Cost Reduction, etc.	0.7	1.4	0.6	-0.8	1.9
Total	2.6	1.4	-0.2	-0.8	3.0

1H FY03 →1H FY04

11.7→14.3 | 2.8→4.2 | 4.1→3.9 | -4.9→-5.7 | 13.7→16.7

(3) Chemicals and Resins

(Unit: billions of Yen)

	1H FY04	1H FY03	Increase/ Decrease
Net Sales	83.0	76.3	6.7
OP-Income	14.3	11.7	2.6
Asset Identifiable	189.1	176.8	12.3
ROA(%)	15.3%	13.4%	1.9%

Poval	Increased Sales and Profit	Resin sales growth in Europe. By Asian market recovery, business go off smoothly. PVA films for LCDs, sales volume growth with expanding display demand, larger screens and more sophisticated applications.
<EVAL>	Increased Sales and Profit	Good sales growth mainly due to gasoline tank demand in Japan and Europe, as well as food packaging demand in the North America. Expanded European plant operations began from October.
MMA	Increased Sales and Profit	Growth in demand for optical use such as light guide plates for LCD, progress in transferring higher raw material costs to product prices.
Isoprene	Increased Sales but Lower Earnings	Volume growth in sales of thermoplastic elastomer. Among fine chemicals, favorable growth in aroma chemicals and agricultural chemical intermediates. Some negative impact of changes in raw material prices and exchange rate fluctuations.

(4) Fibers and Textiles

(Unit: billions of Yen)

	1H FY04	1H FY03	Increase/ Decrease
Net Sales	54.4	52.5	1.9
OP-Income	4.2	2.8	1.4
Asset Identifiable	76.0	80.4	-4.4
ROA(%)	10.8%	6.8%	4.0%

<KURALON> <KURALON K-Ⅱ>	Increased Sales, Flat Earnings	Growth in FRC applications, paper, nonwoven fabric and other specialty product applications.
Polyester	Increased Sales and Smaller Losses	Cost rationalization in both filament and stable, with growth in non clothing products. Steady progress in structural reforms.
Man-made Leather	Increased Sales and Profit	Growth in international shoe brand demand. Sales for bags, gloves and other miscellaneous products were also favorable.
Nonwoven Fabric, etc.	Increased Sales and Profit	Continued keen competition in nonwoven fabrics, but efforts to shift to higher value-added products. Recovery in domestic fastener demand.

（5）High performance materials,Medical products and Others

（Unit：billions of Yen）

	1H FY04	1H FY03	Increase/ Decrease
Net Sales	38.1	32.5	5.6
OP-Income	3.9	4.1	-0.2
Asset Identifiable	83.1	77.2	5.9
ROA（%）	9.9%	10.6%	-0.7%

Opto-screens	Increased Sales but Lower Profit	Increased sales volume of RPTV-use screens for CRTs. Late start-up of production for MD compatible screens hurts US sales growth.
Medical	Lower Sales and Profit	Difficult business environment with drug price revisions and increased patient payment burden.
High performance Materials	Increased Sales and Smaller Losses	Development of wider user base for <GENESTAR> in electronic materials. Increasing sales volumes and greater production capacity.
Affiliated Companies (Domestic)	Increased Sales and Profit	Good demand for activated carbon for water purification and other value-added production.

FY2004 Outlook

(1) Highlights

(Unit: billions of Yen)

	1H	2H	Annual	In Comparison with FY2003	
Net Sales	175.6	184.4	360.0	27.9	8.4%
Operating Income	16.7	16.3	33.0	5.0	17.9%
Recurring Income	15.9	15.1	31.0	6.4	26.0%
Net Income	9.8	8.2	18.0	2.8	18.4%
Capital Expenditure	15.8	36.7	52.5	20.3	63.0%
Depreciation/ Amortization	10.2	12.3	22.5	1.7	8.2%

* Major Capital Investment… PVA Films, KSE,HTT

* Assumption…Currency¥110/$, ¥130/EURO, Crude Oil(Dubai) 35$/bl

(2) Estimated Segment Profit

(Unit: billions of Yen)

	Net Sales			Operating Income		
	1H	2H	Annual	1H	2H	Annual
Chemicals and Resins	83.0	88.0	171.0	14.3	14.7	29.0
Fibers and Textiles	54.4	55.6	110.0	4.2	2.8	7.0
High performance materials, Medical products and Others	38.1	40.9	79.0	3.9	4.1	8.0
Elimination and Corporate	-	-	-	-5.7	-5.3	-11.0
Total	175.6	184.4	360.0	16.7	16.3	33.0

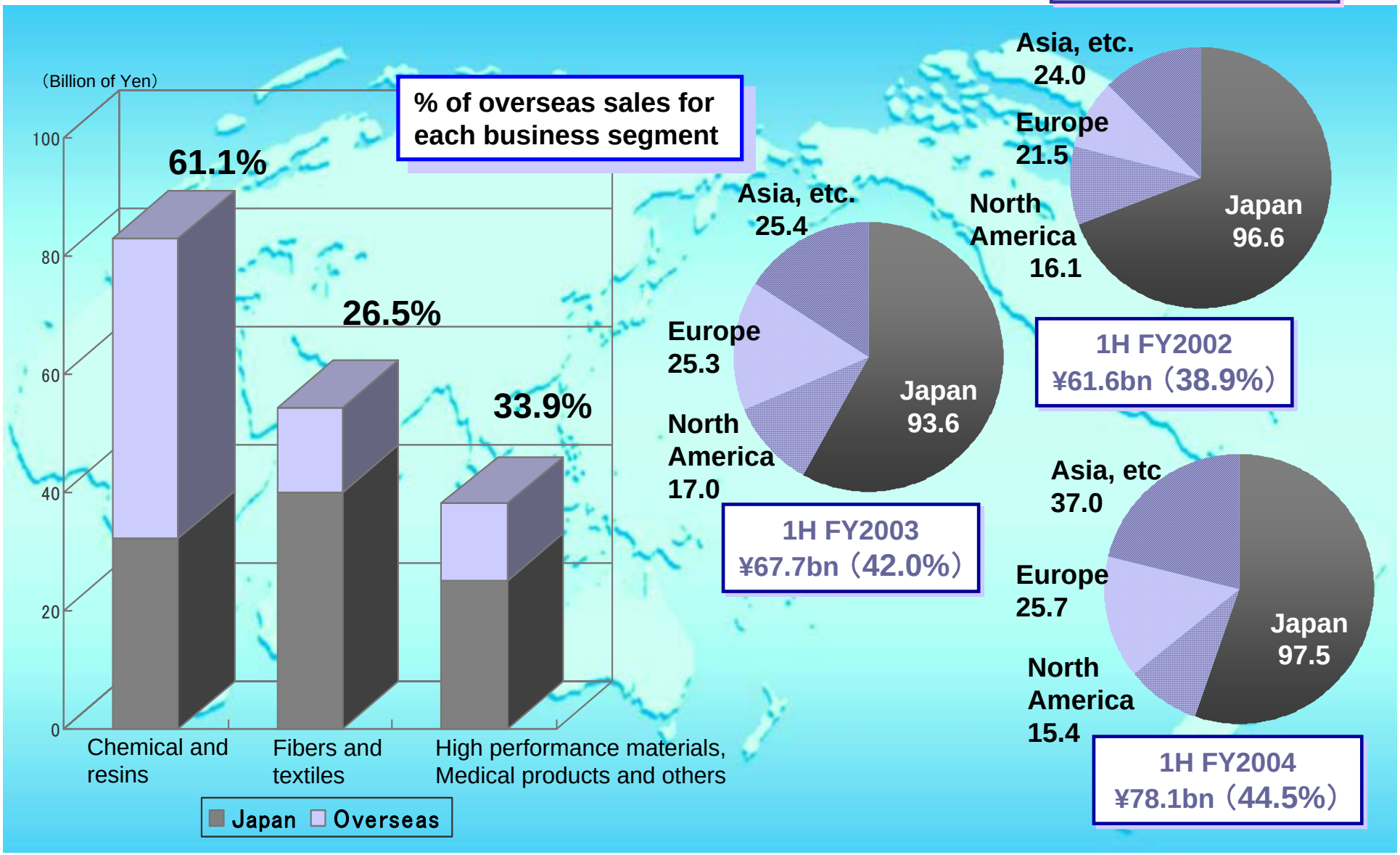
＜Reference＞

Sales and Profit contributed in FY05 by Major Investment

	Investment Matters	Capacity	Start operation	Sales contribution FY04→FY05
Poval	KSE	20,000t	Jan.2005	2.5bn Yen
PVA Film	Film for LCDs	15million㎡	Mar.2005	5.0bn Yen
		15million㎡	Jul.2005	
<EVAL>	Eval Europe	12,000t	Oct.2004	5.0bn Yen
TPE	<SEPTON>	4,000t	Jan.2005	1.5bn Yen
MMA for optical use	Sheets	5,000t	Apr.2004	1.5bn Yen
	Pellets	20,000t	Jan.2004	
Opto-screen	Screens for MD model's RPTV	1.8million sheets	Apr.2004	3.0bn Yen
High performance material	<GENESTAR> (Compound)	2,000t	Jul.2004	1.5 bn Yen
		Total of Sales Contribution		20.0bn Yen
		Total of Profit Contribution		5.0bn Yen

Progress of the Global Expansion

(Billions of Yen)



Forward-Looking Statements

This presentation contains various forward-looking statements which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections and business plans of Kuraray and its group companies constitute forward-looking statements. Although Kuraray believes that its expectations and assumptions are reasonable, actual results and trends of Kuraray's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in the future business circumstances. The factors which may cause such difference include, without limitation: (1) general market and economic conditions in Asia including Japan, the U.S., Europe and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar and other foreign currencies; (3) changes in raw material and fuel costs; (4) industrial competition and price fluctuations in Japan and international market; (5) advance or delay in the construction of new plants and production lines; (6) successful development of new products and technologies; and (7) changes in laws and regulations (including tax and environmental) and legal proceedings.