

TO OUR SHAREHOLDERS

During fiscal 2004, ended March 31, 2005, soaring raw material and fuel prices and other factors produced greater-than-expected changes in the economic environment. Despite the circumstances, the Kuraray Group achieved growth in both revenues and earnings for the third consecutive year, and reached new highs in operating income and net income. This is due in large part to the Company's strengthening and expansion of its core businesses and the improvement of its earnings structure, which were called for in its "G-21" medium-term business plan. This five-year plan began in 2001, and we are confident that this term's performance shows that the Company now has a corporate structure that is less vulnerable to the effects of changes in the external environment. Put another way, this shows the success of the Company's efforts to instill self-reliance and responsibility on the basis of its selection and concentration policy. By weighting the investment of management resources toward the high-added-value field of specialty chemicals, and by reducing costs through innovations in manufacturing, the Company has built the strength required to overcome changes in business conditions and terms of trade. Of course, we are dealing with the higher costs resulting from the jump in raw material and fuel costs by passing them along in higher product prices. Many of the Kuraray Group's products are indispensable to customers, and demand is expected to grow irrespective of ups and downs in market prices.

In fiscal 2004 Kuraray engaged in a vigorous program of capital investment and M&A, laying down stepping-stones to the future. Investments were based on analyses of where markets in growth industries are located. Over the past several years, Kuraray has made substantial investments in Europe and the United States. Our growth model envisions enhancing the Company's ability to meet stringent product requirements in the European and U.S. markets, while seeking further expansion on a global scale. The PVB film business Kuraray acquired last December from HT Troplast AG of Germany is chiefly a European operation, but the Company will be taking this business into the United States and Asia. A technological breakthrough is needed to expand this business, and we also want to exploit technological synergies with upstream PVA operations.

By maintaining an appropriate relationship with shareholders and other stakeholders, and by conscientiously meeting stakeholder expectations, Kuraray believes it can achieve the goal of long-term improvement in corporate performance and continuous growth. Kuraray recognizes that the institution of appropriate corporate governance systems and highly transparent and open management is a fundamental

and important duty. As a "Company with Corporate Auditors," Kuraray is building an effective corporate governance system, has separated its executive and oversight functions, and is moving forward with the strengthening of management oversight functions.

To clarify its broad-ranging CSR goals and heighten its ability to achieve them, Kuraray launched its CSR Committee in 2003. There are three subcommittees within the CSR Committee, the Economic Subcommittee, the Environmental and Industrial Safety Subcommittee, and the Social Responsibility Subcommittee. Starting with measures to prevent global warming, the CSR Committee is engaged in a number of environmental activities, as well as low-profile social contribution activities in cooperation with NGOs.

It is through such activities that the Kuraray Group carries out its corporate mission: "We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life."

As the Company's shareholders look to Kuraray for continued growth and expansion, we request their continued support and encouragement.

July 2005



Hiroto Matsuo

Hiroto Matsuo
Representative Director and Chairman