



Yasuaki Wakui  
Representative Director and President

In the fiscal year under review, ended March 31, 2006, Japan enjoyed a generally favorable business climate, thanks to improvements in corporate performances and an upturn in consumer spending. However, negative factors included continuing hikes in raw material and fuel prices and rising interest rates. Furthermore, amid large-scale disasters and geopolitical instability, uncertainty deepened over the outlook for economies worldwide, such as those of the United States and China.

In this operating environment, the Kuraray Group expanded core businesses and fast-growing optical materials businesses. As a result, we grew revenues and earnings for the fourth consecutive fiscal year – posting new records for net sales and in all income categories – with net sales of ¥375.1 billion, operating income of ¥38.3 billion, and net income of ¥21.2 billion.

Under the G-21 Medium-Term Business Plan initiated from the fiscal year ended March 2002, we advanced a growth strategy focused on three core businesses and four strategic areas. At the same time, we accelerated the development of new businesses while strengthening competitiveness through stepped-up efforts to improve profit structures and reorganize low-profit businesses. These efforts enabled us to reach our ROA commitment target of 8.0% or higher. However, our results were slightly less than our targets of ¥400.0 billion for net sales and ¥40.0 billion for operating income. This was mainly attributable to a lack of speed, which remains an issue, in such areas as the realization of investment benefits, response to market conditions, new product development, the reflection of raw material and fuel prices in sales prices, and the enhancement of operational efficiency at head offices. Furthermore, regarding the accident at one of our plants in the fiscal year as a serious warning, we will give high priority to bolstering safety management.

The new Medium-Term Business Plan, GS-21, calls for measures in four key areas: accelerating the development of new businesses and new growth fields and the realization of investment benefits; enhancing the efficiency of global management and speeding up management processes; reforming the personnel compensation system, including the recruitment and training of required personnel; and furthering the environmental sustainability of the Group and society. In addition, for the fiscal year ending

March 2009 the new plan sets out as commitment targets net sales of ¥450.0 billion, operating income of ¥50.0 billion, ROA of 9.0%, and ROE of 7.0%. Also, the Kuraray Group prepared a 10-Year Corporate Vision clarifying its long-term goals.

The current fiscal year, ending March 2007, marks the 80th anniversary of the Company's founding. Moreover, to coincide with our transition to a new phase as we head toward the realization of a new 10-Year Corporate Vision from the current fiscal year, we have created a new Kuraray Group logo that suggests global growth. Adhering to a long-standing corporate culture of "contributing to the world and individual well-being through actions that others are unable to produce," the Kuraray Group aims to be a high-quality corporate group that contributes to the global environment and the realization of a sustainable society.

In the fiscal year under review, the Company raised year-end cash dividends ¥2.00 from the previous fiscal year-end, to ¥8.50 per share, giving a ¥3.00 increase in full-year cash dividends, to ¥15.00 per share. Targeting a payout ratio of between 25.0% and 30.0%, the Company aims to raise cash dividends through the continuous enhancement of business results.

In closing, we would like to ask our shareholders for their continued support and understanding.

August 2006

A handwritten signature in black ink that reads "Yasuaki Wakui". The signature is written in a cursive, flowing style.

Yasuaki Wakui  
Representative Director and President