

FINANCIAL REPORT 2004

Kuraray Co., Ltd

Management Policies

Fundamental Management Policy

In 2001 the Kuraray Group implemented its “G-21” five-year medium-term business plan. This plan sets forth five conditions for business growth. The first four are: maintaining international competitiveness; concern for the global environment, which includes not only environmental conservation activities, but also the reduction of the environmental impact of our manufacturing operations, products, and materials procurement; the employment of IT and participation in the new growth fields it has created; and the maximization of synergies within the Group through shared values and strategies. The fifth is to foster an awareness that a balanced concern for all our stakeholders is necessary. The Company is pursuing three basic policies—employing international competitiveness to expand business, expanding businesses that contribute to environmental preservation, and expanding businesses that can maintain a unique presence worldwide—in an effort to become an eco-friendly company with unique technology.

Through achievement of the goals set forth in “G-21,” the Kuraray Group is striving to fulfill 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.”

Management Indicator Targets and Medium- to Long-Term Management Strategy

In the “G-21” plan, the Group emphasizes ROA and cash flows. One goal is to achieve ROA that exceeds the cost of capital (8% or more) by the last year of the plan (fiscal 2005).

Administrative and structural improvements to Kuraray’s organizations and systems include: the flattening of the organization and the broad delegation of authority; greater autonomy for business divisions and Group companies; maximizing Group synergies through shared values and business strategies; formulating a compensation and benefits structure that better reflects the Company’s performance; and promoting the use of business process reengineering (BPR) and IT.

We are emphasizing both product-specific and market-specific business strategies.

Product-specific strategies call for the designation of three businesses in which we are internationally competitive as core businesses, and the

strengthening of those operations. These are the vinyl acetate derivatives business (poval, *EVAL*, *KURALON*, and *KURALON K-II*), the isoprene business (thermoplastic elastomers and fine chemicals), and the man-made leather business (*CLARINO*).

The Company's market-specific strategies designate four strategic domains—electronics and information (poval film for liquid crystal displays, optical-use acrylics, Opto-screens, etc.), eco-friendly products (asbestos substitutes, gas barrier materials, and substitutes for PVC and vulcanized rubber), environmental protection (activated carbon, industrial membranes), and medical products (artificial kidneys, dental materials). We are expanding operations in these four domains on the basis of a demand-driven concept.

Dividend Policy

The allocation of profits to shareholders is one of the Company's top management issues. Our target is to maintain a dividend payout ratio of 25% of consolidated net income, and to increase returns to shareholders through continuous improvements in performance. Following due consideration of the efficiency of investments, internal reserves are used to expand business revenues through capital investment and strategic M&A activities, for the buyback of treasury stock, and for other appropriate purposes.

Policy Regarding Reduction in Trading Unit

Increasing trading in Kuraray's stock and expanding the individual-investor stratum are also important issues for the Company. A reduction in the size of the trading unit is one effective measure that can be taken in this regard. Accordingly, as of April 1, 2004, a trading unit of Kuraray's stock has been reduced from 1,000 to 500 shares.

Issues to Be Resolved

We have passed the midpoint in the five-year life of our "G-21" medium-term business plan. During these three years, Kuraray and the entire Kuraray Group have worked to expand and deepen businesses that are based on original technology and which command the top shares of their markets (poval, *EVAL*, *CLARINO*, the isoprene business, etc.), and to offer environmentally friendly products that have low environmental impact or serve to reduce environmental impact. At the same time Kuraray is striving to improve performance and shift to a high-profit business structure through the strengthening of overseas business bases, a policy based on placing manufacturing and marketing operations in the

optimal locations. At the same time, the Company has moved forward with improvements to asset efficiency through the reduction of non-business assets and inventories.

During the next two years, the key words in the achievement of goals will be “speed” (of response to changes in market environments) and “entrepreneurial capabilities” (creating and fostering new businesses that will drive next-generation growth).

To further increase the speed of response to events in our business operations and to separate operational responsibilities from oversight functions, we have augmented the in-house company system established two years ago with an executive officer system, established last year. In April 2004 we increased management agility by reorganizing our nine in-house companies into six.

To increase entrepreneurial capabilities we concentrated management resources in important development themes (optical devices, new resins, etc.), and accelerated the establishment of operations in new fields.

Kuraray also moved forward with the strengthening of the Group’s aggregate earning power, pressing on with the reinforcement and expansion of core businesses. The Company expanded production capacity for PVA resin and *EVVAL* in Europe, established a subsidiary in Shanghai and built methacrylic resin and hook and loop fastener business bases in China, and reinforced domestic optical material operations (poyal film, methacrylic resin, and Opto-screens). To further enhance asset efficiency, Kuraray is working to expand profit through the continuous rationalization of costs.

Placing a high priority on corporate social responsibility (CSR), beginning with environmental preservation, in June 2003 the Philanthropy and Environment Committee and ICorporate Ethics Committee were reorganized to become the CSR Committee. The entire Kuraray Group is involved in the practice of CSR.

Approach to Corporate Governance and Status of Measures Taken

Kuraray is striving to maintain an appropriate relationship with shareholders and other stakeholders and meet its responsibilities with regard to society, in order that the Company may achieve sustained growth and improve performance over the long term as an enterprise operating on the global stage. To this end, the Company is strengthening corporate governance and implementing a management structure that will provide high levels of management transparency and probity.

(1) Management structure

Kuraray has chosen to emphasize auditors rather than committees in its corporate governance functions. To implement effective corporate governance on that framework, since June 2003 it has taken the steps outlined below to build the necessary management structure.

- 1) The maximum number of directors has been reduced to 10 and the term of office reduced to one year. This system will facilitate increased speed in management decision-making. (We have not yet elected an outside director.)
- 2) To allow auditors to adequately exercise management oversight functions, the membership of the Board of Auditors has been increased from four to five. Of these, three will be outside auditors with no history of employment by the Company or of having served on its Directors, Auditors, or as Executive officers, as required by Article 18-1 of the Law for Special Provisions for the Commercial Code Concerning Audits, etc., of Kabushiki-Kaisha (Joint Stock Companies), and who have no personal, financial, contractual, or other improper relationship with the Company.
- 3) Kuraray has established the Management Advisory Committee to serve as an advisory body for the Company president. Two of its five members will be from outside the Company.
This committee advises the president on the Kuraray Group's management policies, important management issues, business planning, the continuation of the president in his post, the nomination of new presidents, and the president's compensation. As a general rule, this committee is to be convened twice a year.
- 4) An executive officer system has been established to clearly distinguish

operational responsibilities from decision-making and oversight functions under the in-house company system implemented two years ago. The executive officer will oversee the performance of the in-house company presidents and the heads of important staff organizations, and will bear executive responsibility and responsibility for profitability.

(2) CSR Activities and Risk Management

1) To clarify corporate goals in our wide-ranging CSR effort and to heighten the effectiveness of our CSR activities, in June 2003 the Philanthropy and Environment Committee and Corporate Ethics Committee were reorganized to become the CSR Committee, which is composed of three subcommittees—Environmental Preservation, Social Consciousness, and Economic Issues.

2) The Social Consciousness Subcommittee of the CSR Committee has established a team to address corporate ethics and regulatory compliance issues, and is emphasizing thoroughgoing compliance and a heightened consciousness of ethical issues.

3) In March 2002 we established the Kuraray Group Risk Management Council, chaired by the Company president. This council is involved in Group-wide risk assessments and the formulation of countermeasures.

Results of Operations and Financial Condition

Summary

The Japanese economy continued on its deflationary course during fiscal 2003, ended March 31, 2004, and there was no recovery in consumer spending. However, signs of recovery were seen in some sectors of the materials industry. The international outlook was somewhat brighter, given the recovery in the U.S. economy and continued strong demand in China. However, prices and distribution costs of raw materials, fuels, and industrial materials are rising sharply as a result of demand growth in China, and the yen is on a rising trend in international exchange. Both of these factors are putting pressure on corporate earnings.

The Kuraray Group responded to these conditions with the development and marketing of new products, and with efforts to expand the scope of its operations by pioneering new applications and new markets. Together with this, the Group continued to reduce costs, and to improve its business portfolio by scaling back poorly performing operations and expanding core businesses.

As a result, net sales grew ¥9,625 million, or 3.0%, to ¥332,149 million, and operating income rose ¥2,860 million, or 11.4%, to ¥28,046 million. Gains on sales of property, plant, and equipment of ¥3,958 million were posted, and restructuring charges of ¥5,031 million were incurred in connection with the expenses of structural reform. Net income, therefore, surged ¥7,130 million, or 88.6%, to ¥15,181 million.

1. Results by Business Segment

a. Chemicals and Resins Business

Net sales of the Chemicals and Resins business rose ¥11,231 million, or 7.8%, to ¥155,921 million, and operating income jumped ¥5,256 million, or 26.3%, to ¥25,203 million.

1) Revenues and profits from poval sales increased as a result of higher demand for optical-use film for use in LCD manufacturing, brought by the growth of the Chinese market and an upturn in other Asian markets.

In response to flourishing demand for poval resin, chiefly in Europe, Kuraray decided to expand the production capacity of its German subsidiary, Kuraray Specialities Europe GmbH, and construction has begun. The Company has also begun to expand domestic manufacturing facilities in response to

renewed growth in demand for optical-use film.

2) Revenues and profits from sales of *EVVAL* rose, as this materials excellent gas-barrier properties brought strong domestic and overseas sales for application as a food-packaging material and for gasoline tanks.

The expansion of manufacturing facilities at Eval Europe N.V. (Belgium) that was begun last fiscal year is proceeding steadily, and operations are expected to commence on schedule in the second half of fiscal 2004. We have also developed a new gas-barrier material with excellent plasticity, based on *EVVAL*, and have commenced the construction of facilities to mass-produce it.

3) Sales of methacrylic resin were solid as a result of both the recovery of the domestic market and growing overseas demand, principally in China. As a result, revenues and profits in this area both showed growth.

In response to the growth of demand for optical applications, this fiscal year newly expanded manufacturing facilities for methacrylic resin molding materials began operations. Following this, we commenced the expansion of manufacturing facilities for extruded sheets. The Company has also decided to build manufacturing facilities for cast sheets in China, in anticipation of the growth of demand in that country.

4) Domestic and international sales of isoprene-related products rose steadily, as Kuraray's U.S. thermoplastic elastomer subsidiary SEPTON Company of America began full-scale operations. In fiscal 2003, the Company also moved to meet burgeoning demand with the expansion of domestic production capacity, and commenced sales of the newly developed *SEPTON V* Series. In the field of fine chemicals, the performance of cosmetics and pharmaceutical intermediates is improving steadily. Accordingly, isoprene-related products over all posted increases in both revenues and profits.

b. Fibers and Textiles Business

In the fibers and textiles business, net sales declined ¥3,912 million, or 3.6%, to ¥106,003 million, while operating income rose ¥531 million, or 11.1%, to ¥5,332 million.

1) Sales of *KURALON* as a substitute for asbestos in fiber-reinforced cement grew steadily in both at home and abroad, as environmental regulations are being tightened. Demand for use in traditional applications, such as in the fisheries

industry, continued to decline, but sales of staple fiber for use in rubber materials and engineering materials (geotextiles) were solid. Against the backdrop of the rising yen, total sales of *KURALON* declined, but profits increased.

2) In our polyester operations, we have scaled back our staple fiber business and withdrawn from unprofitable businesses, which had the effect of reducing revenues. However, losses have been reduced through a strategy of emphasizing highly differentiated materials and improving our business structure.

3) Growth in revenues and profits from sales of the man-made leather *CLARINO* resulted from strong sales for use in shoes, and from efforts to reduce costs. Therefore, fiscal 2003 saw a continuation of the recovery begun in the previous fiscal year.

4) A recovery in the market for non-woven fabrics is overdue, and cheap imports continue to flow into the country. Sales were maintained through better response to customers and other measures, but profits contracted.

5) This fiscal year saw signs that domestic demand for hook and loop fasteners has bottomed out, but revenues and profits declined. Acting on a forecast that demand in China will grow, Kuraray established a subsidiary in Shanghai to conduct processing and marketing of *MAGIC TAPE*.

c. High-Performance Materials, Medical Products and Others

Net sales of High-Performance Materials, Medical Products and Others rose ¥2,306 million, or 3.4%, to ¥70,225 million, but operating income fell ¥321 million, or 3.9%, to ¥8,001 million.

1) In the opto-electronics business, growth in sales of Opto-screens for large-screen rear-projection televisions in Asian markets allowed the Company to maintain net sales at the previous fiscal year's level, but the effects of the SARS outbreak in the first half of the previous fiscal year and the appreciation of the yen beginning in the second half resulted in the contraction of profits. Kuraray is expanding production capacity in answer to the growth of world demand, and is using new technology to develop a high-resolution screen.

2) In the medical field, our development of overseas dental materials operations has been affected by the appreciation of the yen, but sales grew steadily.

Following the annual revision of pharmaceuticals prices by the government, medical devices were hit by falling prices. Net sales therefore declined, but profits were maintained at the previous year's level.

3) In the functional materials business, demand for the heat-resistant polyamide resin *GENESTAR* for use in electronics components expanded vigorously, and Kuraray has decided in response to expand production capacity. The use of the environment-related business's large-pore hollow-fiber membranes in water purification facilities is increasing, but delays in approval of our PVA gel resulted in a drop in profits.

4) Sales of domestic consolidated subsidiary Kuraray Chemical Co., Ltd.'s activated carbon increased for both general and high-value-added applications. Other subsidiaries and affiliates strove for greater efficiency in response to this adverse business environment, and overall achieved growth in revenues and profits.

2. Performance by Geographic Segment

a. Japan

In Japan's deflationary economy, net sales were flat at ¥254,373 million. However, ongoing efforts to cut costs allowed operating income to rise to ¥33,105 million.

b. North America

North American sales of thermoplastic elastomers and *EVVAL* were healthy, fueling growth in net sales to ¥24,575 million, and in operating income to ¥3,781 million.

c. Europe

European sales rose on the strength of solid performance by Eval Europe N.V.'s *EVVAL* business and Kuraray Specialities Europe GmbH's PVA business. Net sales increased to ¥39,849 million, and operating income grew to ¥2,312 million.

d. Asia

The recovery of the Asian polymer markets continued, as did growth in demand for *CLARINO* in China. As a result, net sales rose to ¥13,352 million, and the operating loss improved to ¥264 million.

3. Dividends

Kuraray's fundamental policy is to pursue an appropriate allocation of profits in view of the Company's performance. It is planned to increase annual dividends for this fiscal year ¥1 to ¥10 per share. An interim dividend of ¥4.5 has already been declared.

Outlook for the Coming Fiscal Year

The economic recovery in the U.S. and sharply rising demand in China will continue to drive the world economy, and the underlying trend toward recovery will continue. However, it is forecast that the unsettled international conditions will give rise to concerns with regard to currency exchange, raw materials, and fuels.

Given these conditions, we forecast net sales of ¥345 billion, operating income of ¥33 billion, and net income of ¥17 billion for the coming fiscal year.

In the Chemicals and Resins business, we will accelerate the global growth of core businesses such as poval, *EVAL*, thermoplastic elastomers. At the same time, we will work to expand optical applications for methacrylic resin.

In the Fibers and Textiles business we will achieve growth by expanding proprietary businesses such as *KURALON* and *KURALON K-II*, and our overseas *CLARINO* markets. We will also proceed with the development of a differentiated polyester using a proprietary polymer, and will work to improve our profit structure.

In our High-Performance Materials, Medical and Others businesses, we will seek to expand sales through the introduction of new optical products, while working to expand our sales of dental materials, *GENESTAR*, and other functional products. We will also increase our emphasis on activated carbon and other environment-related business.

Projections of performance assume an average exchange rate of ¥110 to the U.S. dollar, ¥130 to the euro, and a Dubai crude oil price of US\$29 per barrel.

Assuming that net income is in line with the forecasts above, the Company plans an annual dividend of ¥11 per share for fiscal 2004.

Financial Position

Total assets at the end of the fiscal year were ¥413,227 million, down ¥13,650 million from a year earlier. This is primarily due to the contraction of financial

assets caused by redemption of the Company's bonds and the acquisition of treasury stock, and the reduction of inventories.

Retained earnings increased ¥11,780 million, and unrealized gain on revaluation of securities rose ¥6,381 million, while acquisitions of treasury stock declined ¥4,306 million. As a result, shareholders' equity increased ¥13,043 million from a year earlier, to reach ¥300,306 million. As a result of the increase in shareholders' equity and the contraction of total assets, the equity ratio rose 5.4 percentage points to 72.7%.

Cash flows and changes in cash and cash equivalents were as described as follows:

(Unit: ¥ million)

Fiscal 2003/Fiscal 2002

Cash flows from operating activities: ¥30,768/¥37,343

Cash flows from investing activities: (¥4,273)/¥17,431

Cash flows from financing activities: (¥33,129)/(¥54,202)

Effect of exchange rate changes on cash and cash equivalents: (¥252)/(¥184)

Net (decrease) increase in cash and cash equivalents: (¥6,886)/¥388

Cash and cash equivalents at the beginning of the year: ¥13,900/¥13,496

Effect of changes in reporting entities: – /¥17

Cash and cash equivalents at the end of the year: ¥7,015/¥13,901

Kuraray Group Cash Flow Indicators

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Equity ratio	56.5%	59.6%	67.3%	72.7%
Equity ratio (market basis)	59.8%	66.7%	60.6%	79.5%
Years to redemption of liabilities	6.1 years	4.3 years	1.0 years	0.4 years
Interest coverage ratio	6.8	8.5	22.8	36.7

Notes:

Equity ratio: Shareholders' equity/total assets

Equity ratio (market basis): Total market value of shares issued and outstanding/total assets

Years to redemption of liabilities: $\text{Interest-bearing liabilities} / \text{net cash provided by operating activities}$

Interest coverage ratio: $\text{Net cash provided by operating activities} / \text{interest expenses}$

1. All indicators are calculated using consolidated financial information.
2. The total market value of shares issued and outstanding was calculated by multiplying the closing price at the end of the fiscal year by the total number of shares issued and outstanding (after subtracting treasury stock).
3. The figure for cash flows from operating activities published in the Company's consolidated statement of cash flows was used to calculate net cash provided by operating activities.
4. Interest-bearing liabilities include bills discounted, short-term loans, commercial paper, long-term loans, as well as the Company's bonds and convertible bonds. Interest expenses were calculated using total interest paid as stated in the Company's consolidated statement of cash flows.

Note: The forecasts above are based on data available at time of publication. Actual performance may differ substantially as a result of subsequent events.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
ASSETS			
Current assets:			
Cash and cash equivalents	¥7,015	¥13,901	\$66,179
Marketable securities	8,424	16,021	79,472
Notes and accounts receivable:			
Trade	81,978	81,336	773,377
Unconsolidated subsidiaries and affiliates	1,692	1,323	15,962
Other	1,404	1,733	13,246
Loans receivable from unconsolidated subsidiaries, affiliates and others	348	467	3,283
Allowance for doubtful accounts	(870)	(858)	(8,208)
	84,552	84,001	797,660
Inventories	61,867	63,529	583,651
Deferred income taxes	6,401	6,654	60,387
Other current assets	3,169	1,642	29,896
Total current assets	171,428	185,748	1,617,245
Property, plant and equipment:			
Land	18,174	24,303	171,453
Buildings	89,220	89,526	841,698
Machinery and equipment	388,801	378,690	3,667,934
Construction-in-progress	20,936	10,810	197,509
	517,131	503,329	4,878,594
Less accumulated depreciation	(379,264)	(367,344)	(3,577,962)
	137,867	135,985	1,300,632
Investments and other assets:			
Goodwill	27,801	29,067	262,274
Other intangible assets	2,434	1,597	22,962
Investment securities	25,159	22,779	237,349
Investments in unconsolidated subsidiaries and affiliates	3,483	2,876	32,858
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	3,312	4,273	31,245
Other	813	1,187	7,670
Accumulated premiums on insurance	33,987	32,498	320,632
Deferred income taxes	2,082	6,775	19,642
Other	6,210	5,405	58,585
Allowance for doubtful accounts	(1,349)	(1,313)	(12,726)
	103,932	105,144	980,491
	¥413,227	¥426,877	\$3,898,368

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	¥2,576	¥7,715	\$24,302
Current portion of long-term debt	2,769	24,840	26,123
Commercial paper	3,000	-	28,302
Notes and accounts payable:			
Trade	37,433	39,377	353,141
Unconsolidated subsidiaries and affiliates	1,202	938	11,340
Other	10,305	6,788	97,217
Accrued income taxes	4,694	4,575	44,283
Accrued expenses and other	13,186	13,161	124,396
Total current liabilities	75,165	97,394	709,104
Long-term liabilities:			
Long-term debt	3,475	4,427	32,783
Deferred income taxes	4,024	3,914	37,962
Accrued retirement benefits	13,806	16,544	130,246
Other	16,384	17,271	154,566
Total long-term liabilities	37,689	42,156	355,557
Minority interests	67	64	632
Shareholders' equity:			
Common stock:			
Authorized - 700,000,000 shares			
Issued and outstanding - 382,863,603 shares	88,955	88,955	839,198
Capital surplus	87,150	87,147	822,170
Retained earnings	127,148	115,368	1,199,510
Unrealized gain on revaluation of securities	7,902	1,521	74,547
Cumulative translation adjustments	842	1,657	7,943
	311,997	294,648	2,943,368
Treasury stock at cost	(11,691)	(7,385)	(110,293)
Total shareholders' equity	300,306	287,263	2,833,075
	¥413,227	¥426,877	\$3,898,368

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net sales	¥332,149	¥322,524	\$3,133,481
Cost of sales	236,246	230,618	2,228,736
(Gross profit)	95,903	91,906	904,745
Selling, general and administrative expenses	67,857	66,720	640,160
(Operating income)	28,046	25,186	264,585
Other income (expenses):			
Interest and dividend income	1,121	1,643	10,576
Equity in earnings of affiliates	159	361	1,500
Interest expenses	(656)	(1,480)	(6,189)
Restructuring charges	(5,031)	(3,856)	(47,462)
Loss on write-down of investment securities	-	(4,950)	-
Gain on sale of property, plant and equipment	3,958	1,565	37,340
Other, net	(4,103)	(4,097)	(38,708)
	(4,552)	(10,814)	(42,943)
(Income before income taxes and minority interests)	23,494	14,372	221,642
Income taxes:			
Current	6,829	7,019	64,425
Deferred	1,480	(711)	13,962
	8,309	6,308	78,387
Minority interests in net income of consolidated subsidiaries	(4)	(13)	(38)
Net income	¥15,181	¥8,051	\$143,217

	Yen		U.S. dollars
Net income per share:			
Primary	¥40.81	¥21.01	\$0.39
Fully diluted	-	20.71	-

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2004 and 2003	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
Balance at March 31, 2002	¥88,955	¥87,147	¥110,798	¥2,002	¥1,789	¥(48)
Net income			8,051			
Cash dividends, JPY9.00 per share			(3,445)			
Bonuses to directors			(36)			
Changes in unrealized gain on revaluation of securities				(481)		
Translation adjustments					(132)	
Treasury stock acquired, net						(7,337)
Balance at March 31, 2003	¥88,955	¥87,147	¥115,368	¥1,521	¥1,657	¥(7,385)
Net income			15,181			
Cash dividends, JPY9.00 per share			(3,351)			
Bonuses to directors			(50)			
Changes in unrealized gain on revaluation of securities				6,381		
Translation adjustments					(815)	
Treasury stock acquired, net		3				(4,306)
Balance at March 31, 2004	¥88,955	¥87,150	¥127,148	¥7,902	¥842	¥(11,691)
	<i>Thousands of U.S. dollars</i>					
Balance at March 31, 2003	\$839,198	\$822,142	\$1,088,377	\$14,349	\$15,632	\$(69,670)
Net income			143,217			
Cash dividends, \$0.08 per share			(31,613)			
Bonuses to directors			(471)			
Changes in unrealized gain on revaluation of securities				60,198		
Translation adjustments					(7,689)	
Treasury stock acquired, net		28				(40,623)
Balance at March 31, 2004	\$839,198	\$822,170	\$1,199,510	\$74,547	\$7,943	\$(110,293)

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥23,494	¥14,372	\$221,642
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	20,785	19,108	196,085
Increase in allowance for doubtful accounts	53	378	500
Decrease in accrued retirement benefits, net	(2,366)	(4,252)	(22,321)
Gain on sale of property, plant and equipment	(3,958)	(1,565)	(37,340)
Loss on write-down of investment securities	-	4,950	-
Interest and dividend income	(1,121)	(1,643)	(10,576)
Interest expenses	656	1,480	6,189
(Increase) decrease in notes and accounts receivable	(848)	6,940	(8,000)
Decrease in inventories	935	7,059	8,821
Decrease in notes and accounts payable	(232)	(7,917)	(2,189)
Other, net	(53)	247	(500)
Sub-total	37,345	39,157	352,311
Interest and dividend received	895	1,405	8,443
Interest paid	(839)	(1,640)	(7,915)
Income taxes paid	(6,633)	(1,579)	(62,575)
Net cash and cash equivalents provided by operating activities	30,768	37,343	290,264
Cash flows from investing activities:			
Decrease (increase) in marketable securities	8,362	(18,355)	78,887
Payments for acquisition of property, plant, equipment and intangible assets	(30,248)	(18,522)	(285,358)
Proceeds from sales of property, plant and equipment	10,538	2,047	99,415
Payments for purchases of investment securities	(548)	(4,547)	(5,170)
Proceeds from sales and redemption of investment securities	7,847	35,933	74,028
Payments of premiums on insurance	(1,262)	(1,079)	(11,906)
Withdrawals from accumulated premiums on insurance	45	21,878	425
Other, net	993	76	9,368
Net cash and cash equivalents (used in) provided by investing activities	(4,273)	17,431	(40,311)
Cash flows from financing activities:			
Decrease in short-term bank loans	(5,392)	(3,270)	(50,868)
Increase in commercial paper	3,000	-	28,302
Proceeds from long-term debt	1,790	-	16,887
Repayments of long-term debt	(4,373)	(3,758)	(41,255)
Redemption of standard bonds	(20,500)	(13,000)	(193,396)
Redemption of convertible bonds	-	(23,393)	-
Dividends paid	(3,351)	(3,445)	(31,613)
Proceeds from sales of treasury stock	18	-	169
Payments for purchases of treasury stock	(4,321)	(7,336)	(40,764)
Net cash and cash equivalents used in financing activities	(33,129)	(54,202)	(312,538)
Effect of exchange rate changes on cash and cash equivalents	(252)	(184)	(2,377)
Net (decrease) increase in cash and cash equivalents	(6,886)	388	(64,962)
Cash and cash equivalents, beginning of year	13,901	13,496	131,141
Effect of changes in reporting entities	-	17	-
Cash and cash equivalents, end of year	¥7,015	¥13,901	\$66,179

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

SEGMENT INFORMATION

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

Year ended March 31, 2004	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥155,921	¥661	¥156,582	¥25,203
Fibers and textiles	106,003	1,654	107,657	5,332
High performance materials, medical products and others	70,225	22,615	92,840	8,001
Total	332,149	24,930	357,079	38,536
Eliminated on consolidation and corporate	-	(24,930)	(24,930)	(10,490)
Consolidated total	¥332,149	¥ -	¥332,149	¥28,046

Year ended March 31, 2003	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥144,690	¥3,037	¥147,727	¥19,947
Fibers and textiles	109,915	1,228	111,143	4,801
High performance materials, medical products and others	67,919	21,672	89,591	8,322
Total	322,524	25,937	348,461	33,070
Eliminated on consolidation and corporate	-	(25,937)	(25,937)	(7,884)
Consolidated total	¥322,524	¥ -	¥322,524	¥25,186

Year ended March 31, 2004	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$1,470,953	\$6,236	\$1,477,189	\$237,764
Fibers and textiles	1,000,028	15,604	1,015,632	50,302
High performance materials, medical products and others	662,500	213,349	875,849	75,481
Total	3,133,481	235,189	3,368,670	363,547
Eliminated on consolidation and corporate	-	(235,189)	(235,189)	(98,962)
Consolidated total	\$3,133,481	\$ -	\$3,133,481	\$264,585

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

Year ended March 31, 2004	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥183,965	¥21,455	¥12,006
Fibers and textiles	78,980	3,654	4,196
High performance materials, medical products and others	76,141	5,103	3,227
Total	339,086	30,212	19,429
Eliminated on consolidation and corporate	74,141	1,952	1,356
Consolidated total	¥413,227	¥32,164	¥20,785

Year ended March 31, 2003	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥172,445	¥7,821	¥11,134
Fibers and textiles	84,322	4,655	4,037
High performance materials, medical products and others	76,633	5,177	3,007
Total	333,400	17,653	18,178
Eliminated on consolidation and corporate	93,477	1,438	930
Consolidated total	¥426,877	¥19,091	¥19,108

Year ended March 31, 2003	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\$1,735,519	\$202,406	\$113,264
Fibers and textiles	745,094	34,472	39,585
High performance materials, medical products and others	718,312	48,141	30,443
Total	3,198,925	285,019	183,292
Eliminated on consolidation and corporate	699,443	18,415	12,793
Consolidated total	\$3,898,368	\$303,434	\$196,085

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

Geographic segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Year ended March 31, 2004	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥254,373	¥25,778	¥280,151	¥33,105	¥243,363
North America	24,575	3,246	27,821	3,781	31,969
Europe	39,849	904	40,753	2,312	66,589
Asia	13,352	1,695	15,047	(264)	8,252
Total	332,149	31,623	363,772	38,934	350,173
Eliminated on consolidation and corporate	-	(31,623)	(31,623)	(10,888)	63,054
Consolidated total	¥332,149	¥ -	¥332,149	¥28,046	¥413,227

Year ended March 31, 2003	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥254,543	¥26,087	¥280,630	¥28,982	¥236,955
North America	24,028	2,363	26,391	2,959	33,689
Europe	33,801	539	34,340	1,156	58,659
Asia	10,152	1,659	11,811	(351)	8,578
Total	322,524	30,648	353,172	32,746	337,881
Eliminated on consolidation and corporate	-	(30,648)	(30,648)	(7,560)	88,996
Consolidated total	¥322,524	¥ -	¥322,524	¥25,186	¥426,877

Year ended March 31, 2004	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	\$2,399,745	\$243,189	\$2,642,934	\$312,311	\$2,295,878
North America	231,840	30,622	262,462	35,670	301,594
Europe	375,934	8,528	384,462	21,811	628,198
Asia	125,962	15,991	141,953	(2,490)	77,849
Total	3,133,481	298,330	3,431,811	367,302	3,303,519
Eliminated on consolidation and corporate	-	(298,330)	(298,330)	(102,717)	594,849
Consolidated total	\$3,133,481	\$ -	\$3,133,481	\$264,585	\$3,898,368

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.

Foreign sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Year ended March 31, 2004	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
North America	¥31,870	¥ -	9.6 %	\$300,660	\$ -
Europe	49,309	-	14.8	465,179	-
Asia	51,101	-	15.4	482,085	-
Other	4,868	-	1.5	45,925	-
Total	¥137,148	¥332,149	41.3 %	\$1,293,849	\$3,133,481

Year ended March 31, 2003	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥32,267	¥ -	10.0 %
Europe	43,871	-	13.6
Asia	41,911	-	13.0
Other	5,958	-	1.8
Total	¥124,007	¥322,524	38.4 %

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of JPY106=\$1.