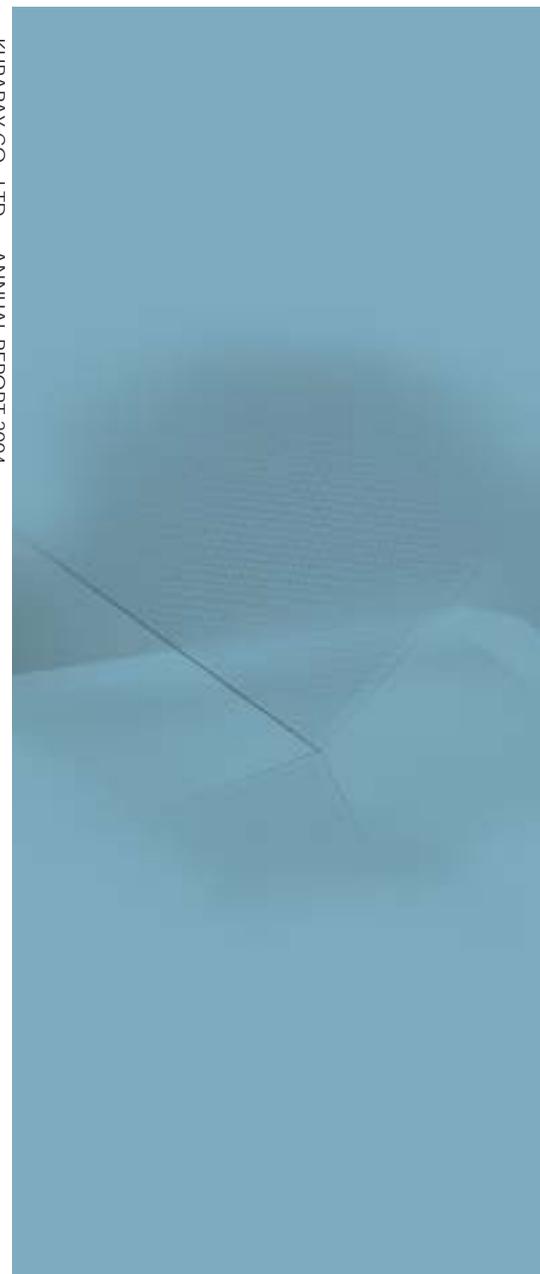


Annual Report 2004

For the year ended March 31, 2004



KURARAY CO., LTD. ANNUAL REPORT 2004

PROFILE

Kuraray Co., Ltd. was established in 1926 in Kurashiki, Okayama Prefecture, with the objective of commercializing rayon. In 1958 the Company commenced the manufacture and sale of Poval, a polyvinyl alcohol (PVA) resin used in the production of *KURALON*. In the ensuing years, the Company continued to build on the excellence of that technology to expand its presence in global markets. Subsequently, Kuraray initiated sales of highly original products including *CLARINO* man-made leather, the EVOH resin *EVAL*, and isoprene, achieving major expansion as a chemical maker. In fiscal 2003, products other than fibers and textiles generated 68.1% of the Company's net sales.

Kuraray is currently implementing its "G-21" medium-term business plan, which covers the period fiscal 2001—fiscal 2005. To heighten international competitiveness, this plan calls for selection and concentration—that is, selection of promising areas and concentration of management resources in those areas. In addition, the Company has shifted from a product-driven to a demand-driven approach, and is expanding operations on that basis. Kuraray is also expanding operations that contribute to the preservation of the environment.

The execution of this plan over the past three years has produced marked improvement in the Company's profitability.

During the final two years of the "G-21" medium-term business plan, Kuraray will increase its operational speed and entrepreneurial capabilities, while striving for long-term, sustainable growth.

CORPORATE STATEMENTS

CORPORATE PHILOSOPHY

- Respect for individuals
- Cooperation in shared goals
- Creation of values

GUIDELINES FOR ACTION

- Act on customers' needs
- Act on ideas in the working place
- Act on your own initiative

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.

PRINCIPLES FOR BUSINESS CONDUCT

1. We will develop and provide products and services, giving full consideration to safety.
2. We will conduct businesses in a free, fair, and transparent manner.
3. We will maintain good communications and build a sound relationship with society.
4. We will strive to preserve and improve the global environment and to secure safety and health.
5. We will respect intellectual properties including trade secrets and control information properly.

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TO OUR SHAREHOLDERS

In fiscal 2003, ended March 31, 2004, Kuraray posted record high operating income and net income for the second consecutive fiscal year. This is attributable to our “G-21” five-year medium-term business plan, in force since fiscal 2001, which has put the Company on a new growth vector. With the completion of the first two years of “G-21” at the end of fiscal 2002, an analysis of what had been accomplished and what remained to be done was conducted. In addition to taking a hard look at our shortcomings, we also studied directions for the final three years of the plan. The first two years were characterized by a harsh, deflationary economy. The entire Company was involved in measures to reform Kuraray’s profit structure, driving hard for cost reductions, and the first year of the plan saw us back on the road to a recovery in performance. We pushed forward with measures designed to bring renewed growth, and from the fiscal year under review those efforts have begun to bear fruit. We addressed two areas identified as in need of improvement—speed and entrepreneurial capabilities—through the implementation of an executive officer system, the strengthening of Companywide executive functions, and the reorganization of in-house companies. These measures promoted changes in employee mentality, and we are confident of our ultimate success. During the next two years, in addition to the attainment of quantitative targets set out in the “G-21” plan, we will push vigorously to enhance the Company’s international competitiveness and growth potential.

Since Kuraray’s founding, the Company has pursued a policy of contributing to society through technological innovation. In recent years, there has been a succession of corporate scandals involving crimes, breaches of ethics, and industrial accidents, causing the public to view industry with an increasingly jaundiced eye. The Kuraray Group practices management discipline grounded in high ethical principles, exerting itself to the maximum possible degree in fulfilling its social responsibilities, working to lessen the burden on the environment, and contributing to the emergence of a society that respects the individual. To clarify our corporate goals in the wide-ranging area of Corporate Social Responsibility (CSR) and to enhance our ability to attain those goals, in June 2003 the Corporate Ethics Committee and the Philanthropy and Environment Committee were merged into the CSR Committee. The CSR Committee is composed of three sub-committees: Environmental Preservation, Social Consciousness, and Economic Issues. By maintaining an appropriate relationship with shareholder and other stake-



Hiroto Matsuo
Representative Director and Chairman

holders, and by conscientiously meeting stakeholder expectations, Kuraray believes it can achieve the goals of long-term improvement in corporate performance and continuous growth. Seeking better corporate governance together with fair and highly transparent management, in June 2003 the Company expanded the Board of Auditors, established the Management Advisory Council, implemented an executive officer system, and took other steps to strengthen its management structure.

Through these measures and programs the Kuraray Group is seeking 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.” Kuraray’s shareholders can look forward to the Company’s continued growth and expansion, and we request their continued support and encouragement.

A handwritten signature in black ink that reads "Hiroto Matsuo". The signature is fluid and cursive, written in a professional style.

Hiroto Matsuo
Representative Director and Chairman

CONSOLIDATED FINANCIAL HIGHLIGHTS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2004	2003	2002	2001	2000	2004
Net sales	¥332,149	¥322,524	¥305,862	¥313,651	¥316,444	\$3,133,481
Operating income	28,046	25,186	18,958	19,931	20,321	264,585
Net income	15,181	8,051	2,866	4,045	7,452	143,217
Capital expenditure	32,164	19,091	50,716	15,814	19,764	303,434
Depreciation and amortization	20,785	19,108	16,056	16,593	16,769	196,085
Gross cash flow	35,966	27,159	18,922	20,638	24,221	339,302
Total research and development expenses	13,684	12,523	12,131	12,251	12,097	129,094
Total assets	413,227	426,877	487,432	512,479	503,766	3,898,368
Total shareholders' equity	300,306	287,263	290,643	289,469	282,755	2,833,075

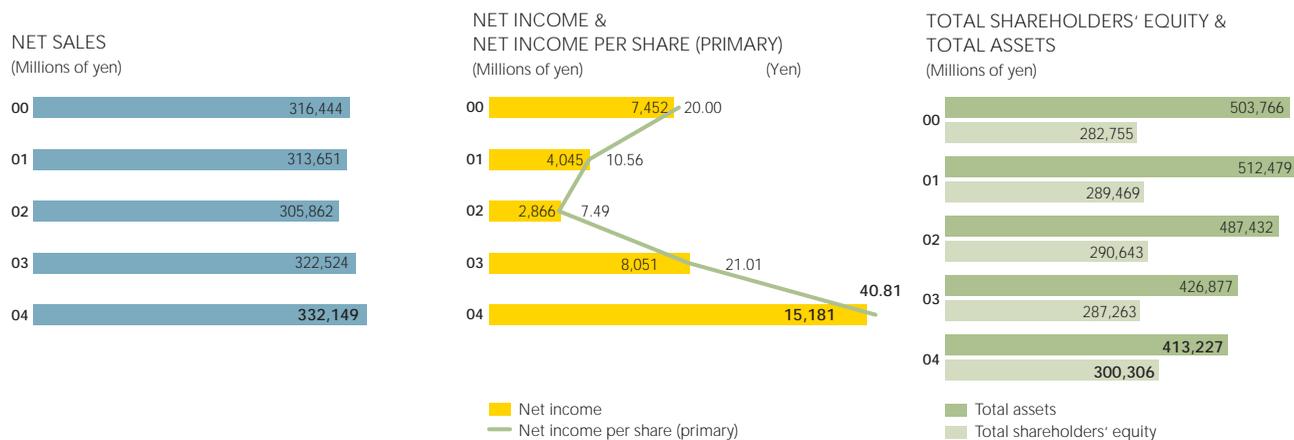
Amounts per share:	Yen					U.S. dollars
Net income:						
Primary	¥ 40.81	¥ 21.01	¥ 7.49	¥ 10.56	¥ 20.00	\$0.39
Fully diluted	—	20.71	7.45	10.46	19.42	—
Cash dividends applicable to period	10.00	9.00	9.00	9.00	9.00	0.09
Total shareholders' equity	817.57	771.38	759.25	756.07	738.53	7.71

Financial ratios:

Equity ratio (%)	72.7%	67.3%	59.6%	56.5%	56.1%
Return on equity (%)	5.2	2.8	1.0	1.4	2.7
Return on assets (%)	6.7	5.5	3.8	3.9	4.1
Payout ratio (%)	24.4	42.2	120.2	85.2	45.4
Number of employees	6,760	6,983	7,115	7,121	7,433

Notes: * The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥106=US\$1.

* Since the year ended March 31, 2003, the "Amounts per share" figures have been calculated in accordance with the Financial Accounting Standard "Accounting for Earnings per Share."





Yasuaki Wakui
Representative Director and President

The world economy showed recovery in the fiscal year ended March 31, 2004, led by the economic recovery in the U.S. and rapid growth in the Chinese economy. There were also signs of recovery in some sectors of Japan's domestic economy. However, the adverse business environment persisted as deflation continued to erode asset value, prices of raw materials and fuels rose sharply, and the yen rose in value, all these things putting pressure on corporate earnings.

The Kuraray Group responded to these circumstances by expanding core businesses and paring unprofitable operations, thereby restructuring its business portfolio as called for in its "G-21" medium-term business plan, in force since fiscal 2001. The Company also expanded its environmentally friendly businesses, moving forward with the optimal location of overseas manufacturing and marketing bases, and reducing costs through innovation in manufacturing. As a result, consolidated net sales increased 3.0% to ¥332,149 million, operating income rose 11.4% to ¥28,046 million, and net income rose 88.6% to ¥15,181 million. Operating income and net income figures are record highs.

A year-end dividend of ¥5.50 per share was declared, bringing total dividends for the fiscal year to ¥10 per share. The Company intends to maintain the dividend payout ratio at 25% of consolidated net income, and to increase dividends through improved performance.

Business conditions were on a recovering trend this fiscal year, but there were still many causes for concern, including a steep increase in raw materials and fuel prices. To attain the goals of the "G-21" medium-term business plan the Company must enhance management agility and entrepreneurial capabilities and seek renewed performance improvement.

Kuraray calls upon the continued support and encouragement of its shareholders.

Yasuaki Wakui

Yasuaki Wakui
Representative Director and President

Q> What do you think is significant in the Company's performance this fiscal year?

A> Looking back, the first thing is that we achieved growth in operating income and net income in two consecutive fiscal years. The second thing that catches the eye is the steady rise of gross profit, the gross profit ratio, and the operating income ratio. Third, the Company moved forward with the streamlining of total assets through the reduction of inventories and non-business assets, which together with the increase in earnings sent ROA to 6.7%, close to the record high. Lastly, we saw steady progress in the strengthening of the foundation for the Company's growth as a specialty chemicals company, which is the main point of the "G-21" medium-term business plan.

Q> What do you mean by "foundation for the Company's growth as a specialty chemicals company?"

A> The Kuraray Group's corporate culture has its roots in the concepts, "Making ourselves useful," and "Doing things nobody else is doing." Because the Company has pursued the development of highly original technologies and products, Kuraray has fostered fertile soil for the development of specialty chemicals. Also, because fibers and textiles are the Company's original business, Kuraray is not limited in this field to general-purpose applications as with petrochemicals, but deploys marketing methods into which are deeply embedded precise responses to the needs of diverse



customers. The Company has developed a wide array of market-oriented applications for poval—which was initially developed as a fiber-sizing agent and adhesive, but is now used as a paper-processing agent—as the plastic layer in laminated glass, and to make polarized film for liquid crystal displays. Neither is *EVAL* limited to its role in food packaging. Applications have expanded to include use in the manufacture of plastic fuel tanks and pipes for floor heating systems. Isoprenes have found applications ranging from elastomers to fine chemicals. As a result, the businesses in which the Kuraray Group commands the top share of the world markets can be broadly divided into five areas: poval, *EVAL*, *KURALON*, *CLARINO*, and isoprene chemicals. Looking more closely, some 60 of the Group’s products hold the top shares of their world markets. To further strengthen this foundation for growth in the specialty chemicals field, we are slanting capital investment and research and development toward these areas.

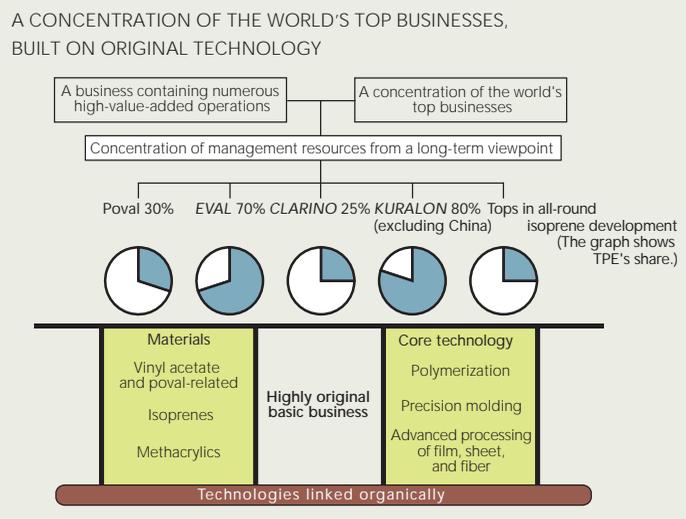
Q> Could you tell us something about the technology in the Kuraray Group that supports these specialty chemicals operations?

A> Supporting these product families is a creative technological foundation built on applying polymerization, precision molding, and film, sheet, fiber, and textile processing technologies to vinyl acetate and poval-related materials, isoprene chemicals, and methacrylic materials. As I mentioned, almost all of these were independently developed by Kuraray, and have been fostered for years. Like seeds sprouting under the surface of the soil, these technologies are organically linked. For instance, the basic technologies for polymer synthesis using vinyl acetate, poval-related materials, and isoprenes are linked; and for

isoprenes and methacrylic materials it is the same. In our man-made leather operations we developed expertise in polymer technology, and in our fibers and textiles business we built knowledge of microfiber technology, and both have since been employed. This sort of reciprocal application is the source from which the development of unique products flow, and contained within is the potential for limitless technological innovation, for example the development of a next-generation gas barrier material; a new elastomer; or a low-cost, heat resistant engineering plastic.

Q> Which areas are receiving preference in the allocation of management resources?

A> When we reviewed the first two years of the “G-21” medium-term business plan last year, some shortcomings emerged. The insufficiency of speed and entrepreneurial capabilities are issues that must be vigorously addressed and corrected during the plan’s last two years. I’ve told our employees that we already have a mountain of priority tasks for this final period, while the business environment



continues to change with dizzying speed. The top priority issue, however, is concentrating our energies in the most promising fields, and there we must also increase our speed. To date, Kuraray has generally expanded its business by resolving problems or acting on ideas brought up by customers. However, the Company will be able to grasp more business opportunities and achieve greater growth if it heightens its ability to proactively identify issues existing in the marketplace and develop new products and applications to resolve them.

During the five years of “G-21,” the Company planned to make capital investments totaling ¥130.0 billion, aside from the ¥30.0 billion already invested in M&A connected with our European poval-related business. Of this total, approximately 50% would be related to vinyl acetate and poval-related business, and approximately 20% would be invested in the fields of methacrylic materials and isoprene chemicals. Identified as growth fields for investment are poval, poval film, and *EVAL* (in the vinyl acetate and poval-related businesses), opto-screens, light-guide plates, and other applications for optical resins (among methacrylic materials), and thermoplastic elastomers (among the isoprene chemicals). Our research and development activities will also emphasize and be concentrated in those areas that will nourish the Company’s future growth. Optical devices, gas barrier materials, and new engineering plastics have been designated Strategic Research and Development Themes (SRDTs).

Q> What will be the next growth drivers after vinyl acetate and poval-related products?

A> It is no exaggeration to say that at Kuraray there is no such phrase or concept as “after vinyl acetate and poval-related products.” The vinyl acetate and poval-related businesses still have plenty of room for growth. If we think of the vinyl acetate and poval-related businesses as a vein of ore, when we stand at the mouth of the mine we naturally think the vein extends far back into the mountain. However, this is not necessarily the case. Because there are a number of variations in vinyl acetate and poval-related

products, if we continue to mine we may find another vein of ore. I am sure that in the future we will come across other mother lodes in much the same way. As I mentioned, poval began as a fiber-sizing agent, but is now used as an optical-use film. The use of *EVAL* to make fuel tanks is a significant lode. One mistake we made was in not boldly pursuing targeted resource allocation. Our current medium-term business plan calls for investments to be strongly slanted toward the vinyl acetate and poval-related businesses, including funds needed for M&A. This will increase our growth potential. It’s not a question of looking for a growth driver “after” this or “after” that. In the final analysis, it is the extension of “families” of materials that will drive Kuraray’s growth. “Families” are not inorganic, but rather send out roots like living things. If Kuraray applies its special skills in materials design and heightens the degree of processing in its products, it can enlarge the methacrylic “family” and the isoprene “family.” In the future, we expect the heat and abrasion resistant resin *GENESTAR* to show growth in the automotive and electronics materials sectors on a par with *EVAL* and the thermoplastic elastomer *SEPTON*. *GENESTAR* itself was initially developed through the application of derivatives technology to the isoprene “family.”



Q> What does Kuraray need to do to achieve further growth in addition to reducing the number of research themes and concentrating the allocation of management resources?

A> Whether we like it or not, it is essential that the Kuraray Group proceed with globalization if it is to continue to grow. Since its establishment, Kuraray has pursued a policy of opening new fields of business using pioneering technology, and contributing to an improved natural environment and quality of life. From its beginnings in Japan, the Company has worked to expand demand on a worldwide basis, particularly in Europe and the U.S. The basic strategy Kuraray is pursuing in its globalization is the placement of both manufacturing and marketing operations in the optimal locations. This is more than just moving overseas in a search for lower costs. Employing high-level manufacturing technology, we have developed a line of original products that include poval, *EVAL*, and *SEPTON*, and will continue to expand facilities in Europe

and the U.S., which are the principal markets. With *CLARINO*, for instance, where consumer needs vary in different regions, intermediate products are manufactured in Japan, then final processing is conducted by a subsidiary or affiliate located near each consuming region. With products that require the accumulation of specialized technology to maintain competitiveness, such as dental materials and opto-screens, we continue to conduct development in Japan while advancing with marketing overseas. In addition, market needs vary significantly in Japan, the U.S., and Europe, even for the same materials, and our R&D and product development are accordingly tailored for each market. This April we opened a full-scale research and development facility in the North America, the Kuraray Research & Technical Center (U.S.). With this, we have established a tripolar research and development structure, anchored in Japan, the U.S., and Europe. This will allow us to penetrate global markets with increasing depth, refine our hallmark technologies, and move forward with strategic research and development.

The Kuraray Group's Demand-Driven Strategy

Strategic domain	Core products	Applications
IT	Poval film for liquid crystal displays; methacrylic resin for optical use (light-guide plates, etc.) opto-screens for RPTV <i>GENESTAR</i>	Accelerate the development of display device applications for poval, methacrylic resin, and other materials with superior optical properties; extending electronics parts applications for the heat and abrasion resistant resin <i>GENESTAR</i>
Environmentally friendly	<i>KURALON</i> for Fiber-Reinforced Cement (FRC) <i>EVAL</i> Thermoplastic elastomers	Expand applications for <i>KURALON</i> as an asbestos substitute, for <i>EVAL</i> in fuel tanks and as a polyvinylidene chloride substitute, and for thermo plastic elastomers as substitutes for vulcanized rubber and PVC
Environment business	Industrial membranes Activated carbon	Expand operations in the fields of air and water purification
Medical	Dental materials medical devices	Accelerate development of overseas dental materials operations

The "G-21" medium-term business plan calls for business expansion based on the concept of demand-driven operations. The plan designates four strategic domains—electronics and information, environmentally friendly products, environment business, and medical products—and the Company is concentrating management resources on core products in these areas. The central pillar of "G-21" is heightening international competitiveness to ride a new growth trajectory, and to that end the Company is emphasizing investment and development in these four strategic domains.

Over its long history, Kuraray has striven to provide products with low environmental impact, or which actually reduce environmental impact. Sales of environmentally friendly products account for approximately half of consolidated net sales. Major products include: *KURALON*, used as an asbestos substitute in fiber-reinforced cement; *EVAL*, used in fuel tanks that prevent the leakage of volatilized fuels; *SEPTON*, used as a substitute for flexible polyvinyl chloride and vulcanized rubber; and activated carbon, used for purifying water and air. It is thought that the 21st century will be the “century of the environment,” and Kuraray will be increasing its emphasis on the development of environmentally friendly products and manufacturing processes as an important element in its drive for further growth.

Q> How would you evaluate the Company’s chances of attaining the goals established in the “G-21” medium-term business plan?

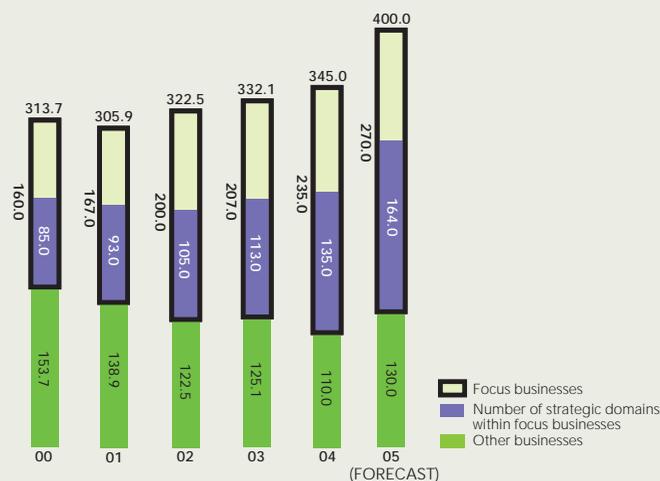
A> The fiscal 2005 targets of ¥400.0 billion in net sales, ¥40.0 billion in operating income, and ROA of more than 8% seems attainable. Deflation and exchange rate fluctuations have effects on net sales, and unless we pursue M&A, there’s a chance that we will fall a little behind. A poorly thought-out M&A strategy would be worse than none, however, and Kuraray will be carefully researching M&A prospects for potential synergies that could be elicited through linkage between markets and Kuraray’s materials. During the first two years of the “G-21” the cost reductions achieved through innovation in manufacturing were substantial. As I said earlier, the effects of capital investment and development strategies accumulated, and have positioned us well on new profit growth track.

At Kuraray, the entire Company is engaged in an all-out drive toward the final goals of “G-21.”

Recently completed core-product production capacity expansion work/expansion work now in progress

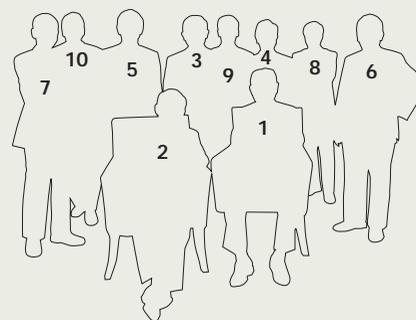
	Annual Production Capacity	Location	Start of Operations
Poval	20,000 tons	Europe	2005/01
Poval film for LCD	15 million m ²	Japan	2005/04
Methacryl resin	20,000 tons	Japan	2004/01
Methacryl sheets	5,000 tons	Japan	2004/04
	3,000 tons	China	2005/07
Opto-screens	1.8 million sheets	Japan	2004/04
GENESTAR	2,000 tons	Japan	2004/07
EVAL	12,000 tons	Europe	2004/12
	24,000 tons	U.S.	2006/03
Elastomers	4,000 tons	Japan	2005/01
Activated carbon	4,000 tons	Japan	2004/06
	2,000 tons	China	2005/04

Growth of strategic domains
Sales amount (Billions of yen)



- Focus businesses are the strategic domain businesses together with the Company’s core business (poval, EVAL, KURALON, CLARINO, and isoprene chemicals), in which the Company is concentrating management resources and steadily expanding sales and earnings.
- Other businesses include the polyester, methacrylic monomer, nonwoven fabrics, and hook and loop fastener businesses, in which termination of unprofitable and low profitable operations has allowed a recovery in profitability despite declining net sales.

BOARD OF DIRECTORS, CORPORATE AUDITORS, AND EXECUTIVE OFFICERS



Board of Directors

1 Representative Director and Chairman
Hiroto Matsuo

2 Representative Director and President
Yasuaki Wakui

3 Senior Managing Director
Koichi Kushida
Responsible for Corporate Strategy and Planning Division, Research and Development, High-Performance Materials Division

4 Managing Director
Tsutomu Yabuta
Responsible for Accounting and Finance Division, General Affairs and Personnel Division, Purchasing and Logistics Division, Kuraray Business Service Co., Ltd.

5 Managing Director
Katsumi Ohashi

Responsible for Chemicals Company, Kuraray Medical Inc., General Manager of Tokyo Head Office

6 Managing Director
Tetsuzo Kimura

Responsible for Fibers and Industrial Materials Company, Clarino Company, Clavella Division, Magic Tape Co., Ltd.

7 Managing Director
Junsuke Tanaka

Responsible for Poval Company, Eval Company, Methacrylate Company

8 Director
Seiji Wajiki

Responsible for Environment and Technology Division and Plants

9 Director
Nobusuke Takeuchi

President, Fibers and Industrial Materials Company

10 Director
Osamu Asaba

President, Clarino Company

Corporate Auditors



Auditor (full time)
Akira Matsuzawa



Auditor (full time)
Tatsuya Nakano



Auditor (external)
Kazuhide Kashiwabara



Auditor (external)
Ichiro Kobayashi



Auditor (external)
Toshimitsu Kitagawa

Executive Officers

Senior Executive Officers
Seiji Wajiki
Responsible for Environment and Technology Division and Plants

Nobusuke Takeuchi
Responsible for Fibers and Industrial Materials Company

Osamu Asaba
President, Clarino Company
Noriaki Yoshimura
General Manager, Research and Development Division

Nobuo Iwawaki
General Manager, Corporate Management Division

Toshihiro Tomii
President, Methacrylate Company
Yoichi Ninagawa
President, Chemicals Company
Fumio Ito
General Manager, Purchasing and Logistics Division

Shiro Kataoka
President, Poval Company

Executive Officers
Kanji Shimoda
General Manager, High-Performance Materials Division

Hiroaki Yoshino
President, Kuraray America, Inc
Toshihide Sakai
General Manager, Okayama Plant
Susumu Gotanda
General Manager, Nakajo Plant
Noboru Yanagida
President, Eval Company
Kenzo Sawada
Vice President, Kuraray Specialties Europe GmbH

Hideo Tomita
General Manager, General Affairs and Personnel Division

Note: Seiji Wajiki, Nobusuke Takeuchi, and Osamu Asaba serve concurrently as directors and senior executive officers.

By maintaining an appropriate relationship with shareholders and other stakeholders, and by conscientiously meeting stakeholders' expectations, Kuraray believes it can achieve the goals of long-term improvement in corporate performance and continuous growth. In compliance with the fiscal 2003 amendment to the Japanese Commercial Code, the Company is strengthening corporate governance and implementing a management structure that will provide high levels of management transparency and probity.

1. Reinforcing the Board of Auditors

To strengthen the management and operational oversight functions of the Board of Auditors, the membership of the board has been increased from four to five. Of these, three are outside auditors.

2. Paring the Board of Directors and Implementing an Executive Officer System

The membership of the Board of Directors has been reduced from thirty members, to ten or fewer, while its function—defined as strategic management decision making and oversight—is clearly separated from any operational executive function. Executive officers bear responsibility for both profitability and the execution of operations in the in-house companies, headquarters, and administrative divisions. The term of office for directors and executive officers is one year.

3. Establishment of the Management Advisory Committee

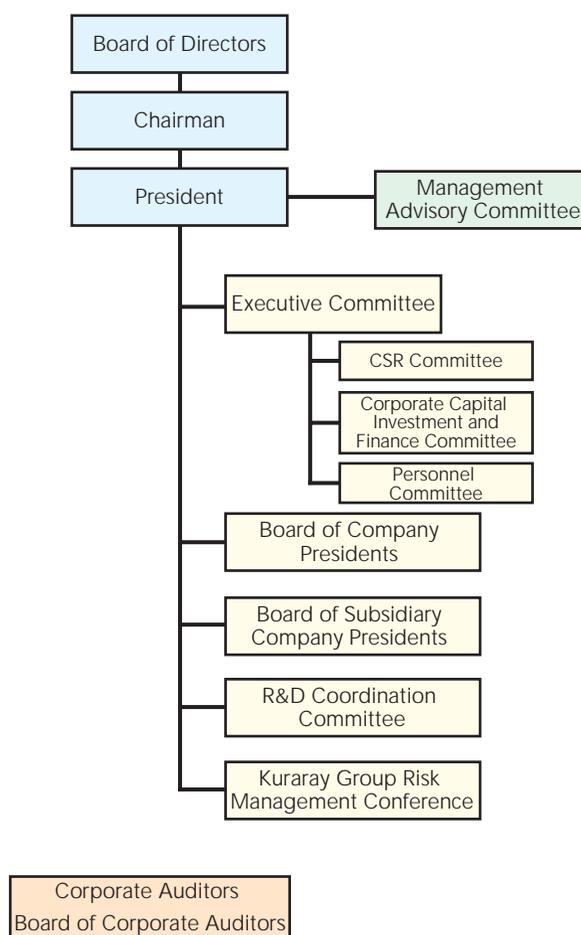
The Management Advisory Committee advises the president on regulatory and legal compliance issues, shareholder rights, and management transparency. It is composed of five members, including two from outside the Company. The Management Advisory Committee's primary focus is the management policies of the Kuraray Group, important management issues, business planning, the continuation of the president in his post, the nomination of new presidents, and the president's compensation.

In addition, a CSR Committee, a Kuraray Group Risk Management Council, and other committees have been established, with the objective of ensuring fair and sound corporate management.

Membership of the Management Advisory Council:

- Chairman: Hiroto Matsuo (Representative Director and Chairman, Kuraray Co., Ltd.)
- Shojiro Nanya (Representative Director and Chairman, West Japan Railway Company)
- Teruyuki Ouchi (Chairman, World Wide Fund for Nature [WWF] Japan)
- Hisao Nakamura (Adviser, Kuraray Co., Ltd)
- Akira Matsuzawa (Corporate Auditor, Kuraray Co., Ltd.)

<ORGANIZATION>





A New Future Opening Up in the Optical Field

Toshihiro Tomii

President of Methacrylate Company and Senior Executive Officer

Q> Tell us about the Methacrylate Company's major products and overall condition.

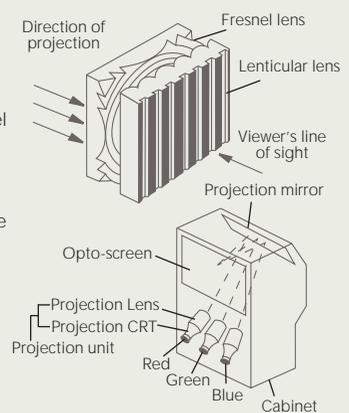
A> The core material in the Methacrylate Company is methacrylic resin. The Company uses high-level molding technology and is engaged in the production of pellets (molding materials), sheets, synthetic marble, and optical materials such as opto-screens. These products are manufactured from methyl methacrylate (MMA) in an integrated manufacturing process, and display excellent characteristics both from the standpoint of materials design and other technologies and in terms of costs. In the past, monomers and general-purpose resins were affected by declining demand and falling prices, and there were protracted periods of weak performance. However, Kuraray has significantly raised profitability by using its materials design and high-precision processing technologies to develop high-value-added products, and to increase polymerization ratios.

Q> What specific high-value-added products is the Methacrylate Company promoting?

A> Since the 1980s, we have been engaged in research and development of optical applications, stressing the transparency and weather resistance of acrylics. We have withdrawn from the laser disk business, but we employed the expertise and experience in optical materials design and precision molding technology gained in those operations to establish our opto-screens business in 1984, manufacturing and marketing these vital components for RPTVs (rear-projection televisions).

RPTVs are a more economical large-screen flat panel television, and demand overseas—particularly in the U.S. and China—is expanding. Kuraray commands a share of approximately 40% of this market worldwide, making it the number one firm in this field. In the area of optical applications, there has been significant growth in demand for light guide plates used in backlighting devices for LCDs. The Company has applied its optical design and high-precision processing technology to the development of thin molds called stampers, and is marketing what we call optical-use pellets. This creative technology has won a market share of approximately 60% for light guide plates that use pellets. In addition, with the increasingly large sizes of liquid crystal devices, more efficient diffusion plates are needed. Development of these is almost complete, and Kuraray will soon commence full-scale marketing. We have also developed and begun marketing an AR (anti-reflection) front plate for opto-screens. Front plates pro-

Opto-screens are constructed from a Fresnel lens and a lenticular lens, which are manufactured from methacrylic resin using high-precision processing. The convex Fresnel lens focuses the red, green, and blue light, and the lenticular lens evenly redistributes the light, increases the pictures viewing angle on both the horizontal and vertical axes, and enhances the final shape integrity of the image. Kuraray's high-level optical design and high-precision processing technologies are applied here.



tect the screen and prevent glare from fluorescent lighting. This product will generate synergistic effects in the opto-screen market.

Q> It is forecast that an increase in the number of companies manufacturing opto-screens will bring worsening competition in this field. What are your thoughts on that?

A> In comparison to plasma display (PDP) televisions, a competing technology, RPTVs are less expensive to purchase and use less electricity. For these reasons, I think they will assume an increasingly large role in the mainstream of the large-screen television market. Last year a new type of RPTV was introduced, the MD, or microdisplay, bringing further improvements in picture quality. I expect these MD type televisions will drive growth in the RPTV market. Kuraray has developed a high-resolution opto-screen for the new MD type RPTVs, and began marketing them in April. Kuraray's high-resolution screens (1) can be produced by modifying existing manufacturing facilities; (2) suffer little distortion or strain due to changes in temperature or humidity because the core and surface are made of the same material; (3) offer a 30% increase in contrast (clarity of picture), and have other competitive advantages.

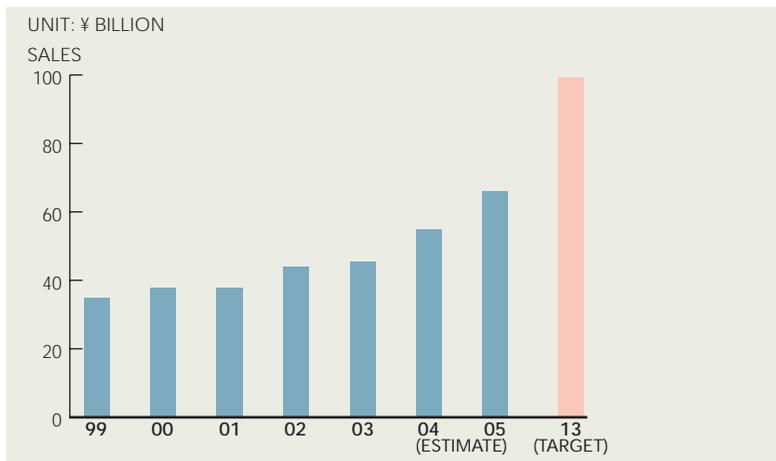
Q> Research and development is the key to expanding optical applications, for opto-screens and other products. What possibilities do you see there?

A> Unless we work together with customers, we cannot develop optical materials with high added value using stamper technology, dye and pigment technology, design technology, or processing technology. We need to place the greatest emphasis on our customer interface. We are strengthening collaboration with users, sending product development personnel along with sales staff to meetings with customers, so they can more quickly grasp customer needs and preferences. The Company is also broadening its communications pipelines to other research institutions and universities, in accordance with its policy of engagement in cutting-edge fields. In March 2003, we established the Optical Device R&D Center, a corporate research organization within the Kuraray Tsukuba Research Laboratories. As we push forward with the development of

next-generation optical materials, we have achieved an early success with the development of flexible methacrylic resin. If we can develop processes for mass-producing this material, in the future it can be used to produce folding, portable display devices, which would create huge demand.

Q> Finally, could you tell us about the Methacrylate Company's medium- to long-term targets?

A> First is achieving the goals in the "G-21" medium-term business plan. During the plan's last two years, we're going to work to expand operations in the optical field by expanding facilities for manufacturing pellets, sheets, and opto-screens. These products will be directly tied to profits in fiscal 2004 and fiscal 2005. We are now in the process of drafting a vision for the Company 10 years from now. I have a vision of our net sales growing from today's approximate ¥50.0 billion scale to ¥100.0 billion in 10 years. Of the increase, we plan to generate ¥40.0 billion in the optical field. The mission of the Methacrylate Company is, "To concentrate knowledge, apply technology to light, and provide this transparent beauty to our customers." Guided by this concept, we are moving toward attainment of even the most ambitious of our goals.





Maximizing the Possibilities of Vinyl-Acetate-Related Fibers

Nobusuke Takeuchi

President of Fibers and Industrial Materials Company and Director

Q> The fibers and textiles business has an image as a mature industry. Do you have any concerns with regard to its growth potential?

A> The primary product of the Fibers and Industrial Materials Company is *KURALON*, but *KURALON* has many applications for which general-purpose fibers and textiles are unsuited. For instance, demand for *KURALON* as an asbestos substitute has grown by approximately 50% over the past 10 years. Demand for *KURALON* is also expanding in growth fields such as industrial materials, automotive materials, and batteries. *KURALON* is definitely not a mature field.

Q> What, specifically, are *KURALON*'s growth fields?

A> *KURALON*'s high strength, alkali resistant, and weather resistant characteristics make it ideal for use in Fiber-Reinforced Cement (FRC). Asbestos was formerly used as the reinforcing agent in FRC, but approximately 25 countries of the EU have banned it, and another 10 countries are scheduled to ban it by 2005. As an advanced application for *KURALON*, large-scale demand is expected for its use as a reinforcing agent for Engineered Cementitious Composites (ECCs) used as civil engineering and construction materials.

Because of its strength, it is used as a reinforcing agent in rubber hoses for automobile hydraulic brakes, and its alkali resistance makes it suitable for use as the main material for separators in alkaline batteries. No other fiber materials have the characteristics needed for these applications, which means that growth in sales of *KURALON* can be expected.

23 countries have banned asbestos, primarily in the EU; 7 countries in Eastern Europe and other areas will ban asbestos in 2005.

Studying the issue: More than 10 countries in Central & South America, Southeast Asia and other areas

*Japan will ban asbestos from October 2004.

Q> What strategies for the Fibers and Industrial Materials Company are set forth in the "G-21" medium-term business plan?

A> To expand demand in niche markets through new product development. Using proprietary polymers including poval, *EVAL*, and other vinyl acetate derivatives, we will employ the high-level technology amassed in the development of fibers and nonwoven fabrics to develop new functions, applications, and markets. We have narrowed down over 100 R&D themes to one-fifth that number, clarified the commercialization schedule, and accelerated the process. At present, about 10 R&D themes are nearing technological completion and approaching commercialization, including heat and chemical resistant special aramide fiber (9MT), the *EVAL* /polyester compound fiber *SOPHISTA*, and ultra-flattened *KURALON* (for papermaking). To elicit the synergies inherent in the Kuraray Group, technical personnel cooperate in the development of polyester, *KURALON*, and nonwoven fabric products.

The Fibers and Industrial Materials Company is strengthening its cost competitiveness by pursuing a program of innovation in manufacturing. We revamped manufacturing operations and trained manufacturing workers in a number of

different skills. These efforts have brought improvements in quality, and we will continue to pursue improvement in specific productivity. In addition, we have plans to expand production capacity for *KURALON K-II* and polyarylate fiber. Although volume is small, demand is growing. We are moving forward with collaboration in development and marketing, and seeking to clarify scope of sales, profitability, and completion time, and to foster consciousness of these issues on the front lines of development and marketing. In our marketing operations we are accelerating global development and emphasizing the European market, where we can further expand sales of *KURALON* for use in FRC and rubber materials. The U.S. is a new market, and we have been competing more strongly since last year, working to expand demand for *KURALON* for use as a reinforcing agent for ECCs, in rubber hoses for hydraulic brakes, and other applications. Kuraray is actively developing the Chinese market, a consuming region with tremendous potential where demand outstrips supply in the market for *KURALON* and nonwoven fabrics.

Q> What is the medium- to long-term outlook?

A> Today, the combined sales volume of *KURALON* and *KURALON K-II* is almost 40,000 tons per year. Our goal is to expand this to 50,000 tons post-“G-21.” Our target for total sales, including nonwoven fabrics, is ¥50.0 billion. To achieve this, we are working to develop applications in five areas: (1) FRC; (2) water-soluble materials; (3) ECCs; (4) high-strength filament; (5) paper and nonwoven fabrics. We are developing new markets overseas with these five areas as our top priority. As the number of countries banning asbestos continues to grow, significant growth in the use of *KURALON* in FRC is anticipated. This is expected to bring pressure on prices. The key to dealing with this will be the development of a revolutionary *KURALON* manufacturing process that dramatically reduces costs. Kuraray has been actively investing in applications for *KURALON K-II* in water-soluble materials and ECCs.

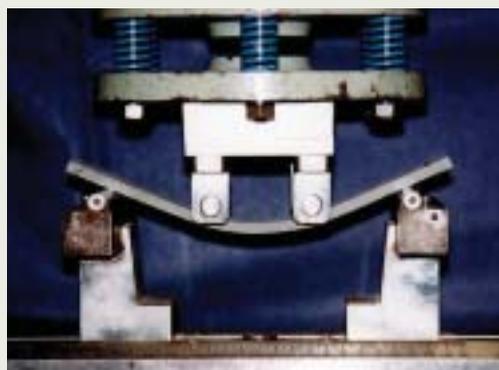
Water solubility is one of the most important characteristics of *KURALON K-II*, and when it is blended with cotton, wool, or other fibers, it makes a textile whose lightness and softness can create an inimitable texture—an application that is garnering worldwide attention. ECC is already being used in tunnels and other applications, and as it builds a track record in these applications, lasting demand can be expected.

We are moving forward with the development of applications for *KURALON* filament, employing its adhesive properties in rubber and cement, its weather resistance, and its excellent cost/performance characteristics. We are using polyarylate fiber to make fine-denier fabric for protective clothing, such as knife-proof jackets and gloves, and are expanding sales. When this fiber is incinerated, it does not emit toxic gasses, so consumers can use this material without worry.

Finally, we have paper and nonwoven fabric applications. The nonwoven fabrics unit is following a policy of accelerating and expanding its new product development. Nonwoven fabrics made from Kuraray’s proprietary polymers are used not only for consumer and household products, but have applications in a broad spectrum of other fields, including civil engineering and construction, the automobile industry, and batteries.

There are a number of cutting-edge R&D themes involving Kuraray’s fiber and textile materials. Fibers and textiles and nonwoven fabrics made from vinyl-acetate-derived polymers in particular have a higher potential than general-purpose fibers and textiles.

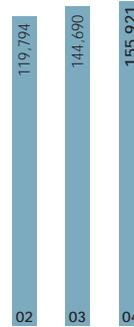
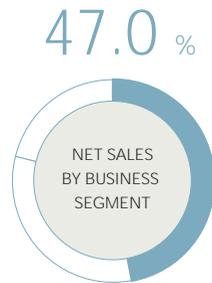
Testing the flexibility of engineered concrete
(more flexible and harder to break than older concretes)



NET SALES (MILLIONS OF YEN)

MAJOR PRODUCTS

Chemicals and Resins



● Poval, MOWIOL

● PVA film
● MOWITAL
● EVAL resin

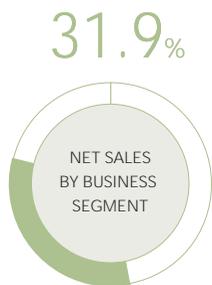
● EVAL film
● Methacrylic monomer

● Methacrylic resin
● Methacrylic sheets

● SEPTON, HYBRAR (thermoplastic elastomer)

● Fine chemicals

Fibers and Textiles



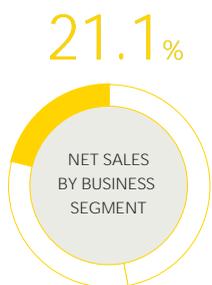
● KURALON (PVA fiber)
● KURALON K-II (new type of PVA fiber)
● Polyarylate fiber
● Polyester staple
● Polyester filament
● CLARINO, AMARETTA (man-made leather)

● KURAFLEX (dry-laid woven fabric)

● Melt-blown nonwoven fabric

● MAGIC TAPE (hook and loop fastener)

High-Performance Materials, Medical Products and Others



● Opto-screens
● GENESTAR (heat-resistant polyamide resin)
● Liquid crystalline polymer film
● High-performance membranes
● PVA gel
● Dental materials
● Medical devices
● Contact lenses
● Activated carbon

PRIMARY APPLICATIONS	PRODUCTION FACILITIES	ANNUAL PRODUCTION CAPACITY
Textiles, paper additives, adhesives, butyral precursor	Okayama Plant (Okayama)	96,000 t
	Nakajo Plant (Niigata)	28,000 t
	Kuraray Specialities Europe GmbH (Frankfurt, Germany)	50,000 t (early 2005 + 20,000 t)
	POVAL ASIA PTE LTD (Singapore)	20,000 t
Computers, LCD televisions, monitors	Kuraray Saijo Co., Ltd. (Ehime)	31,000,000 m ² (April 2005 + 15,000,000m ²)
Interlayers for windows and windshields, paints, adhesives	Kuraray Specialities Europe GmbH (Frankfurt, Germany)	20,000 t
Food packaging material, plastic fuel tanks	Okayama Plant (Okayama)	10,000 t
	Eval Company of America (Texas, U.S.A.)	23,000 t (March 2006 + 24,000 t)
	Eval Europe N.V. (Antwerp, Belgium)	12,000 t (FY2004 3Q + 12,000 t)
Food packaging material	Okayama Plant (Okayama)	3,000 t
Solvents, adhesives, methacrylic resin	Nakajo Plant (Niigata)	65,000 t
	Kyodo Monomer Co., Ltd. (Osaka)	20,000 t
Resins for molding, light guides plates, synthetic marble	Nakajo Plant (Niigata)	40,000 t
Signboards, displays, TV front panels, light guides plates	Nakajo Plant (Niigata)	43,600 t
	Kuraray Methacrylate (Zhang Jia Gang) Co., Ltd.	(mid FY2005 + 3,000 t)
PVC and vulcanized rubber substitute, food packaging materials	Kashima Plant (Ibaraki)	19,000 t (January 2005 + 4,000 t)
	SEPTON Company of America (Texas, U.S.A.)	12,000 t
Pharmaceutical and agrochemical intermediate, vitamin precursor	Nakajo Plant (Niigata)	—
Agriculture and fishery materials, civil engineering materials	Okayama Plant (Okayama)	40,000 t
Cement reinforcing agents, woven and knitted textiles	Okayama Plant (Okayama)	7,000 t
Rope, fishing nets, and other industrial products	Kuraray Saijo Co., Ltd. (Ehime)	400 t
Materials for nonwoven fabrics and industrial materials	Kuraray Tamashima Co., Ltd. (Okayama)	12,000 t
Woven and knitted textiles, tents, sheets	Kuraray Saijo Co., Ltd. (Ehime)	13,000 t
Shoes, handbags, sporting goods, luxury clothing, interior furnishings	Okayama Plant (Okayama)	15,500,000 m ²
	Hexin Kuraray Micro Fiber Leather (Zhejiang)	(April 2005 + 4,000,000m ²)
Wiping materials, wet wipes, surgical masks	Kuraflex Co., Ltd. (Okayama)	10,500 t
	Kuraflex Ibaraki Co., Ltd. (Ibaraki)	3,500 t
Coffee bags, filters	Kuraray Saijo Co., Ltd. (Ehime)	1,800 t
Clothing, shoes, car seats	Magictape Co., Ltd. (Fukui)	48,000,000 m
	Kuraray Magictape (Shanghai) Co., Ltd.	10,000,000 m
RPTV screens	Nakajo Plant (Niigata)	4,800,000 sheets
Electronics parts, auto parts	Kuraray Saijo Co., Ltd. (Ehime)	6,000 t (compound base)
Circuit-board substrates	Kurashiki Plant (Okayama)	150,000m ²
Water purification and wastewater treatment	Kurashiki Plant (Okayama)	100,000 m ²
Water purification and wastewater treatment	Kuraray Saijo Co., Ltd. (Ehime)	3,000 m ³
Dental adhesives, dental filling materials	Kuraray Medical Inc. (Okayama)	600,000 sets
Artificial kidneys, dialysis machines	Kuraray Medical Inc. (Okayama)	2,700,000 units (artificial kidneys)
Contact lenses, medical-care products	Kuraray Medical Inc. (Okayama)	1,000,000 lenses
Water purification facilities, gas separators	Kuraray Chemical Co., Ltd. (Okayama)	18,500 t (FY2004 2Q + 4,000 t)
	Cenapro Chemical Corporation (Philippines)	11,000 t
	Kuraray Chemical (Ningxia) Environmental Industry Co.,Ltd.	(April 2005 + 2,000 t)

Chemicals and Resins

- **Poval**
Poval resin/Butyral resin/PVA film
- **EVAL**
- **Isoprene Chemicals**
SEPTON/HYBRAR/Aroma chemicals/Pharmaceutical intermediates
- **Methacrylic**
Methacrylic resin/Methacrylic sheets/Synthetic marble

Fibers and Textiles

- **Man-Made Leather**
CLARINO/AMARETTA/PARCASSIO
- **KURALON/KURALON K-II**
- **New-Type Polyester**
SOPHISTA
- **Nonwoven Fabrics**
KURAFLEX
- **Fastening Materials**
MAGIC TAPE

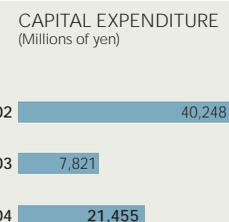
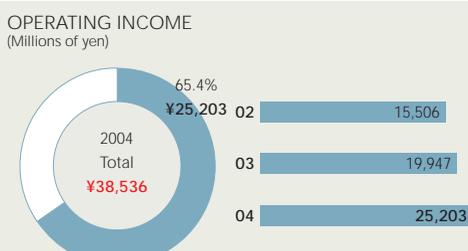
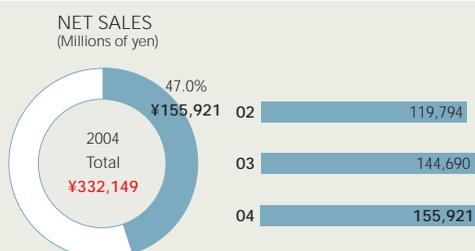
High-Performance Materials, Medical Products and Others

- **High-Performance Materials**
Opto-screens/GENESTAR/Liquid crystalline polymer film
- **Medical Products**
Dental materials/Artificial kidneys/Contact lenses
- **Environmental Businesses**
Industrial membranes/Activated carbon

Chemicals and Resins



Company Name	Capital (Million)	Activities
1 Kuraray America, Inc.	US\$ 8.7	Importing and sales of Kuraray products
2 Eval Company of America	US\$ 4.15	Manufacture and sales of EVAL in the United States
3 SEPTON Company of America	US\$ 35	Manufacture and sales of thermoplastic elastomers
4 Kuraray Europe GmbH	€ 31.2	Importing and sales of Kuraray products in Europe
5 EVAL Europe N.V.	€ 29.7	Manufacture and sales of EVAL in Europe
6 Kuraray Specialities Europe GmbH	€ 20.0	Manufacture and sales of poval and butyral resins
7 Kuraray Hong Kong Co., Ltd.	HK\$ 4.65	Process and sales of Kuraray products in China and Southeast Asia
8 Kuraray Specialities Asia Pte., Ltd.	SP\$ 45.6	Sales of poval resins in Asia
9 Poval Asia Pte. Ltd.	SP\$ 40	Manufacture of poval resins
10 Kuraray (Shanghai) Co., Ltd.	US\$ 5.0	Importing and sales of Kuraray products in China
11 Kuraray Methacrylate (Ziangjiagang) Co.,Ltd.	US\$ 5.0	Manufacture of methacrylic resin sheets in China
12 Kuraray Co., Ltd.	¥ 88,955	Manufacture and sales of Kuraray products



Note: The Companywide costs (¥10,490 million) are not allocated among the various business divisions.

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.

Poval and EVAL performed strongly both in Japan and overseas. Growth in both revenues and profits was supported by increasing demand for methacrylic resin for optical applications. In addition, isoprene-related operations took an upturn, as our U.S. elastomer manufacturing operations hit their stride.

Poval

Revenues and profits from poval sales increased as a result of higher demand for optical-use film for use in LCD manufacturing, 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.



● **Poval Resin:** Kuraray was first in the world to develop polyvinyl alcohol fiber, and has since developed numerous applications for this material, including use as a fiber-sizing agent, an adhesive, a paper-processing agent, a raw material for butyral, and as polarized film for LCDs. As a result, the Company's share of the world market for poval is approximately 30%, the largest in the industry. Taken alone, sales of this material are the

highest of any of the Kuraray Group's materials, making it a core product. To achieve further expansion, we succeeded in developing in 2003 a new poval resin, H Polymer. H Polymer shortens the time required for processes, offers increased energy efficiency, and has improved solubility, which contributes to stability in the quality of finished products.



● **Butyral Resin:** Kuraray markets a wide range of polyvinyl butyral resins under the trade name *MOWITAL*. This resin is characterized by its excellent adhesion to a variety of surfaces, such as glass and metals, and its workability into films with outstanding optical transparency. Major applications are anticorrosive coatings, printing inks, ceramic binders, and inter-layers for shatterproof laminated safety glass for automotive and architectural glazing.



● **Poval Film:** Utilizing poval's transparency, dyeability, anti-static properties, stretchability, and molecular orientation, it is used as a base for the polarized film needed in LCD manufacturing. Kuraray commands a 95% share of this market. Demand is forecast to grow further as a result of the growth in demand for LCD televisions and other LCD devices, as well as increasing screen size. Water-soluble film, employing poval's most significant

characteristic—its water solubility—is used in curved-surface printing applications.



● **EVAL (Food packaging):** *EVAL* has the highest gas impermeability of any plastic. When used as a food packaging material, therefore, this resin is extremely effective at preventing the passage of oxygen, and therefore at preventing oxidation and deterioration of the contents. Kuraray was first in the world to develop this material, which has a broad range of applications as a food packaging material, and commands a share of

approximately 70% of this market. Last year the Company succeeded in developing a new gas barrier resin with enhanced plasticity, based on *EVAL*, which will have an even broader range of applications as a food packaging material.



● **EVAL (Other applications):** *EVAL* is used to make plastic fuel tanks, where its high gas impermeability protects the environment by preventing volatilized gasoline from leaking into the atmosphere. As automakers increasingly turn to plastic fuel tanks in new cars, and as regulations on atmospheric emissions become stronger, this application should show high growth—particularly in Japan, the U.S., and Europe. In addition, *EVAL* is used in

wallpaper and similar applications because of its resistance to soiling.



● **Acrylic Resin and Sheets (General purpose):** Methacrylic resin's transparency and weather resistance are among the highest of any plastic. It is therefore used in lighting fixtures, signboards, construction materials, aquaria, and automotive applications. Special processing converts it into synthetic marble for kitchens and bathrooms, demand for which is rising. Because demand for such applications is forecast to rise

in China, the Company has decided to manufacture sheets locally in China.

EVAL

Revenues and profits from sales of *EVAL* rose, as this material's excellent gas-barrier properties brought strong domestic and overseas sales for use as a food-packaging material and for plastic fuel 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 *EVAL*, and have commenced the construction of facilities to mass-produce it.

Methacrylic Resin

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.

Isoprenes

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 aroma chemicals and pharmaceutical intermediates is improving steadily. Accordingly, isoprene-related products posted overall increases in both revenues and profits.

Performance by Geographic Segment

Japan

Despite Japan's deflationary economy, sales of high-value-added products grew steadily, as did sales of poval and methacrylic resin for optical applications. The growth in sales of *EVAL* for plastic fuel tanks applications, and the establishment of new applications for use as a vacuum insulation material, brought an upturn in sales. In addition, demand for thermoplastic elastomers expanded.

Europe

European sales rose on the strength of solid performance by *EVAL Europe N.V.*'s *EVAL* business, supported by demand for use in plastic fuel tanks and as a food packaging material, and Kuraray Specialities Europe GmbH's PVA and PVB business.

U.S.

Sales growth in North America was supported by rising demand for the thermoplastic elastomer *SEPTON*, and because manufacturing at our Texas subsidiary hit its stride. Sales of *EVAL* remained healthy, boosted by the use of *EVAL* in plastic fuel tanks and by new food packaging applications.

Asia

Sales of poval took an upturn in China and the rest of Asia. Sales of methacrylic resin for use in lightguide plates were healthy in Korea and Taiwan, while sales for general-purpose applications were strong in China.

Outlook for the Coming Fiscal Year

In the chemicals and resins business, we will further accelerate the global expansion of core businesses such as poval, *EVAL*, and thermoplastic elastomers, while working to expand optical applications for methacrylic resin.



● **Optical-Use Acrylic:** Kuraray is employing its high-level precision molding and processing technology to the development of optical applications for methacrylic resin. The Company is enjoying great success with light guides and diffusion plates for LCD devices, opto-screens and anti-reflection front plates for rear-projection televisions, and other high-performance, high-quality optical components.



● **SEPTON:** With the elasticity of rubber and as moldable as plastic, the thermoplastic elastomer *SEPTON* is used as a substitute for vulcanized rubber and flexible polyvinyl chloride in electronics materials, construction materials, tools, stationery, toys, and various other applications. We are working to expand the use of the *SEPTON V* series in the automobile industry, where its improved heat and oil resistance promise a number of applications.



● **HYBRAR:** Kuraray has developed a high-performance thermoplastic elastomer, based on *SEPTON* technology but with shock-absorbing properties. This material is used in sporting goods, auto parts, and other applications. When blended with polypropylene, this yields a highly transparent material. As this material is free of polyvinyl chloride, applications are increasing in the food-packaging and medical fields.



● **Isoprene Specialty Chemicals:** Demand for specialty chemicals diol and polyol as polyurethane and resin modifiers using isoprene chemical technology is rising. Our FineTop industrial cleaner is a safe and easy-to-handle cleaner with a host of industrial uses, and has excellent detergent properties.

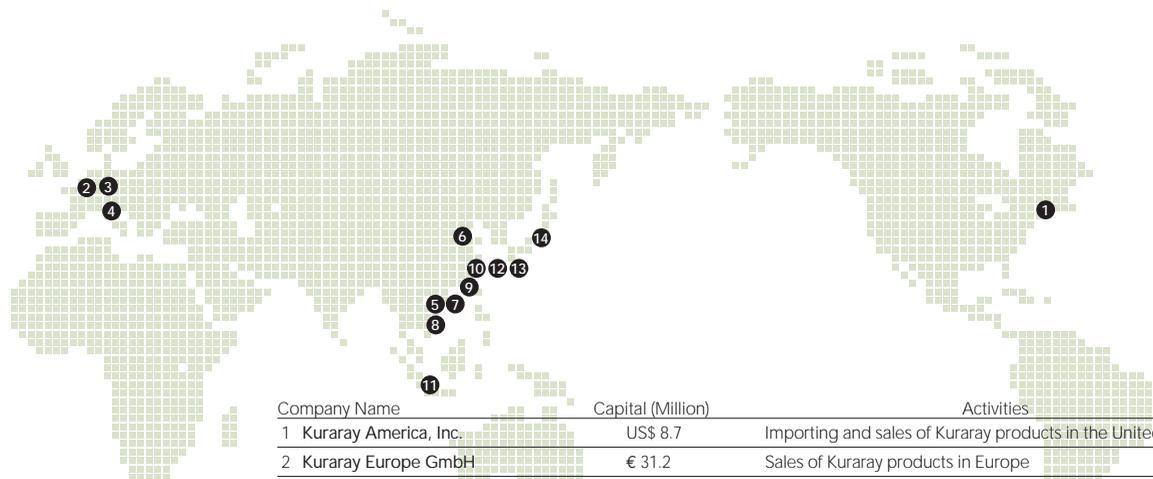


● **Aroma Chemicals:** The Company uses isoprene to manufacture over 30 aroma chemicals and base oils for use in cosmetics and toiletries, including Linalool (lily of the valley scented) and Citral (lemon scented).

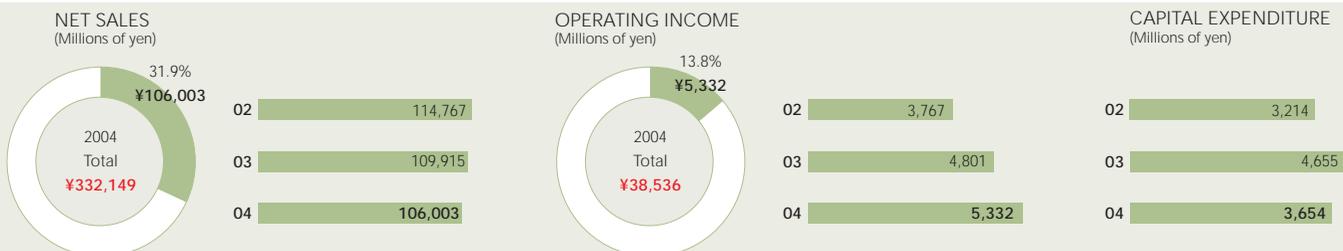


● **Pharmaceutical Intermediates:** Kuraray produces intermediates for anti-viral agents, anti-hypertension agents, antibiotics, and other pharmaceuticals using its fine-chemical technology.

Fibers and Textiles



Company Name	Capital (Million)	Activities
1 Kuraray America, Inc.	US\$ 8.7	Importing and sales of Kuraray products in the United States
2 Kuraray Europe GmbH	€ 31.2	Sales of Kuraray products in Europe
3 Haru-Kuraray GmbH	€ 1.0	Sales of man-made leather in Europe
4 Lorica Sud S.r.l.	€ 0.9	Processing and sales of man-made leather in Europe
5 Kuraray Hong Kong Co., Ltd.	HK\$ 4.65	Processing and sales of Kuraray products in China and Southeast Asia
6 Nantong Kuraray Garment Co., Ltd.	¥ 150	Sewing of Kuraray products
7 Kuraray Trading Co., Ltd. (Hong Kong branch)		Sales of Kuraray products
8 Kuraray Trading Co., Ltd. (Hanoi branch)		Sales of Kuraray products
9 Kuraray Trading Co., Ltd. (Taipei branch)		Sales of Kuraray products
10 Kuraray Trading Co., Ltd. (Shanghai branch)		Sales of Kuraray products
11 Kuraray Trading Co., Ltd. (Jakarta branch)		Sales of Kuraray products
12 Kuraray Magictape (Shanghai) Co., Ltd.	US\$ 0.6	Processing and sales of fastening materials in China
13 Kuraray (Shanghai) Co., Ltd.	US\$ 5.0	Importing and sales of Kuraray products in China.
14 Kuraray Co., Ltd.	¥ 88,955	Manufacture and sales of Kuraray products



Note: The Companywide costs (¥10,490 million) are not allocated among the various business divisions.

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 11.0%, to ¥5,332 million.

Sales of *KURALON* for use in FRC and *CLARINO* for use in sports shoes increased. This, together with structural reforms in the polyester staple fiber business allowed growth in operating income.

KURALON

Sales of *KURALON* as a substitute for asbestos in FRC grew steadily at home and abroad, as environmental regulations were tightened. Demand for use in traditional applications, such as in the fisheries industry, continued to decline, but sales of filament 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.

Polyester

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.

Man-Made Leathers

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.

Nonwoven Fabrics

A recovery in the market for nonwoven fabrics was overdue, and cheap imports continue to flow into the country. Sales

were maintained through better response to customers and other measures, but profits contracted.

Fastening Materials

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*.

Performance by Geographic Segment

Japan

We moved forward with further structural reforms in our polyester operations, and placed emphasis on developing markets for proprietary polymer products. *KURALON* demand from the fisheries and agricultural industries was limited, but new applications such as concrete-reinforcing agent expanded. Demand for *CLARINO* for use in shoes and miscellaneous goods was healthy.

Europe

Demand expanded for *KURALON* to be used in FRC, and remaining solid for use as a rubber material. Demand for *CLARINO* for use in clothing remains unshaken, and intensified marketing has created a base for participation in the car seat market beginning in fiscal 2004.

U.S.

Sales of *KURALON* for use in hydraulic brake hoses were steady, and sales of *CLARINO*, primarily for use in gloves and other accessories, and in interior furnishings, improved and remained solid.

Asia

Sales of *KURALON* as a water-soluble material increased in China. Also in China, the use of *CLARINO* in internationally famous brands of sports shoes grew steadily.

We commenced local processing and marketing of hook and loop fasteners in Shanghai to meet growing demand in China.

Outlook for the Coming Fiscal Year

In the fibers and textiles business, the Company will work to expand sales of proprietary materials *KURALON* and *KURALON K-II*, and to expand *CLARINO* operations through growth in overseas markets. In addition, Kuraray is proceeding with the development of new materials by blending proprietary polymers with polyester, and is working to improve the profit structure of these operations.



CLARINO: The world's top brand of man-made leather, *CLARINO*, is used in applications ranging from sports shoes, street shoes for ladies and gentlemen, clothing, interior furnishings, bags, and sporting goods to industrial materials. Kuraray has also developed the new material, *PARCASSIO*, which boasts improved air and moisture permeability and is highly regarded in the marketplace.



AMARETTA: *AMARETTA* is a premium man-made leather made from microfiber. Used to manufacture up-market coats and jackets, *AMARETTA* is also used to upholster sofas and in other interior furnishing applications. The Company is also striving to open the car-seat field.



KURALON and KURALON K-II: *KURALON*'s characteristics include high strength, low elasticity, hydrophilic properties, alkali compatibility, and weather resistance. This makes it suitable for use in industrial materials. It is essential in the manufacture of high-pressure hoses and as a cement-reinforcing agent.

KURALON K-II is water soluble at any temperature and has high strength. It is in the limelight as a fiber that allows new design concepts and has applications in a number of industries.



New Polyesters: Kuraray is developing new, high-value-added fibers and textiles for use in clothing, by blending polyester with the Company's proprietary polymers. The *EVAL* blend *SOPHISTA*, a material with a cool feel, and the *EXCEVAL* blend *Mint* series of lightweight fabrics are growing in popularity.

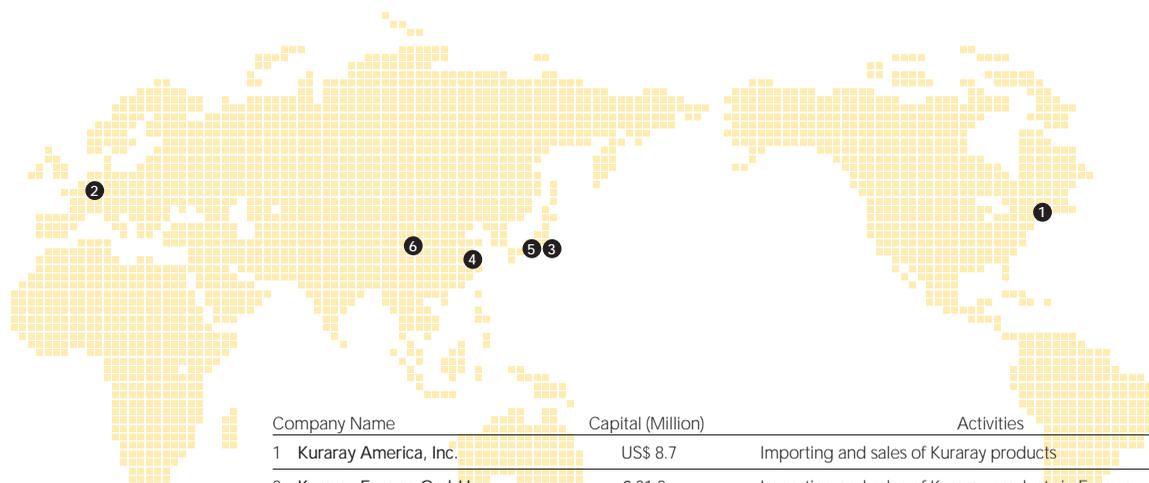


KURAFLEX: Kuraray's *KURAFLEX* dry-laid nonwoven fabric is used in disposable sanitary products, and the Company is developing high-order blended products using its proprietary polymers. We are strongly promoting the use of this material in industrial and construction materials, where strength and durability are required.

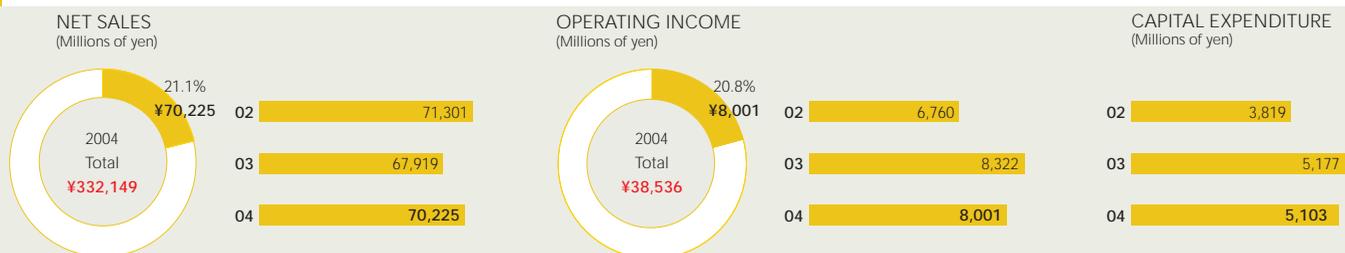


Hook and Loop Fasteners: Kuraray's hook and loop fasteners are used in clothing, shoes, bags, medical products, and various industrial fields. The Company has licensed injection molded hook (IMH) technology for one-piece production of molded plastic hook elements. This material will have applications not only in household goods but also in the automotive field and various manufacturing industries.

High-Performance Materials, Medical Products and Others



Company Name	Capital (Million)	Activities
1 Kuraray America, Inc.	US\$ 8.7	Importing and sales of Kuraray products
2 Kuraray Europe GmbH	€ 31.2	Importing and sales of Kuraray products in Europe
3 Kuraray Co., Ltd.	¥ 88,955	Manufacture and sales of Kuraray products
4 Kuraray (Shanghai) Co., Ltd.	US\$ 5.0	Importing and sales of Kuraray products in China
5 Kuraray Chemical Co., Ltd.	¥ 600	Manufacture and sales of activated carbon and related products
6 Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.	¥ 250	Manufacture and sales of activated carbon and related products



Note: The Companywide costs (¥10,490 million) are not allocated among the various business divisions.

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.

Sales of high-value-added products were expanded, but the rising yen and other factors resulted in lower profits.

Optoelectronics Products

In the optoelectronics product 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.

Medical Products

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.

High-Performance Materials

In the High-Performance 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.

Other Businesses

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

Performance by Geographic Segment

Japan

Medical products suffered the effects of lower prices following the annual revision of pharmaceuticals prices by the government, but activated carbon and large-pore hollow-fiber membrane and other environment-related products posted rising sales, and sales of *GENESTAR* for electronic applications also increased.

Europe and the U.S.

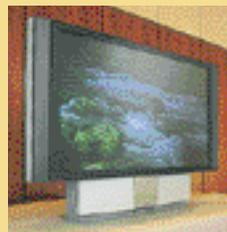
Sale of dental materials in Europe and the U.S. grew steadily. Little growth was seen in sales of opto-screens for projection televisions in the U.S.

Asia

Demand for opto-screens expanded in the Chinese market, and sales of *GENESTAR* showed healthy growth in Korea, Taiwan, and China.

Outlook for the Coming Fiscal Year

New type opto-screen suitable for MD type RPTV will be introduced in the high-performance materials, medical products and others business. The Company will work to expand sales of these, as well as of dental materials, medical devices, and *GENESTAR*. In addition, increased emphasis will be placed on activated carbon and other environment-related businesses.



Opto-screens: Kuraray holds the top share of the world market for opto-screens for rear-projection televisions, which have become synonymous with large-screen televisions in the U.S. and China. Opto-screens have two lens surfaces, a Fresnel lens and a lenticular lens, and this is another place where Kuraray's superior precision molding technology contributes to improved picture quality. We are now developing new products for microdisplay RPTVs, and will commence full-scale marketing of these in fiscal 2004.



GENESTAR: *GENESTAR* is a heat and abrasion resistant polyamide resin developed by Kuraray, which is widely used in thin-walled, narrow pitch SMT connectors for computer devices. This is a durable resin that can withstand conditions in automobile engine compartments and other severe conditions. Expectations that *GENESTAR* will become an important material in the automotive industry are rising.



VECSTAR: Electronic devices are becoming both smaller and more capable, and this is creating the need for circuit-board substrate materials that have low water absorbency, the right electrical characteristics, and dimensional stability. Liquid crystalline polymer film *VECSTAR* is attracting notice in this connection.



Dental Materials and SE Bond: Employing polymerization and synthesis technology, Kuraray has developed dental adhesives and filling resins. These are highly regarded for their adhesive properties, wealth of varieties, and ease of use. Kuraray boasts the top share of Japan's domestic market for these products. Demand for these products is growing in the world dental materials markets as a result of their reputation for quality and functionality, beginning with the U.S. and Europe.



Artificial Organs: *EVAL* is used to manufacture filter membranes for artificial kidneys, which remove toxic substances from the blood when kidneys are not functioning properly. *EVAL* is highly compatible with blood, so dialyzers using these filters are easy on the patient. These products are highly regarded for this reason.



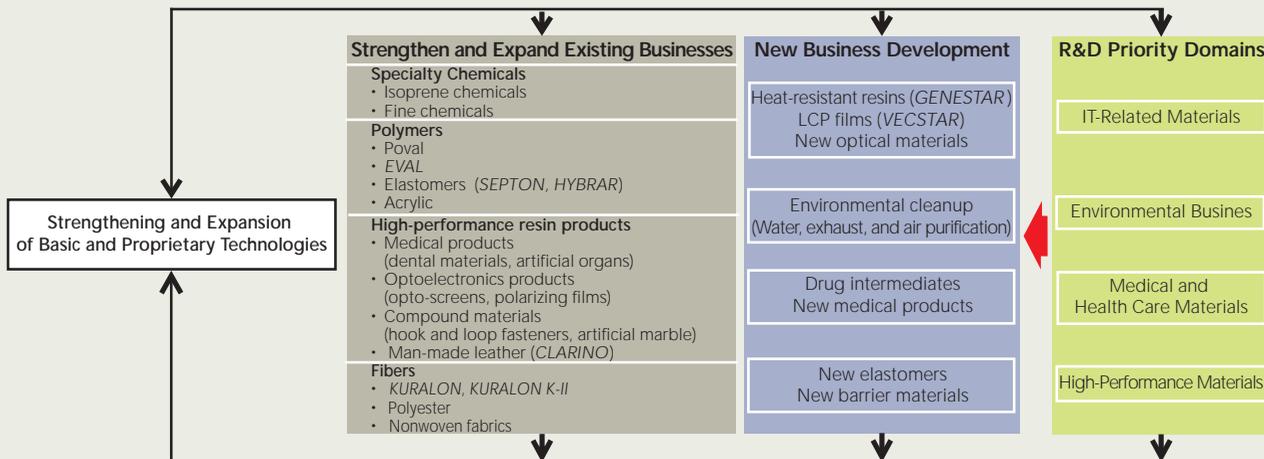
Activated Carbon: Kuraray's proprietary technology for controlling the diameter and volume of pores in the surface of activated carbon allows a heightened response to growing environmental concerns in areas ranging from household water purifiers to municipal and industrial water-treatment, air purification, and electrode material for capacitors in fuel cell powered automobiles.

RESEARCH AND DEVELOPMENT

The Kuraray Group's technology base is in synthetic chemistry, polymer chemistry, and polymer processing, and its strategic R&D program is focused on creating and fostering new businesses, and strengthening and expanding core businesses. Under the "G-21" medium-term management plan four areas of concentra-

tion—IT-related materials, medical and health care materials, environmental business and high-performance materials—were designated priority domains for Kuraray's corporate R&D program, which cuts across divisional boundaries to involve the entire Group.

STRENGTHENING AND EXPANSION OF BASIC AND PROPRIETARY TECHNOLOGIES AND BUSINESS DEVELOPMENT



Selection and Concentration in R&D Domains

The Kuraray Group's corporate research and development organization cuts laterally across the divisional R&D organizations (within the various in-house companies, business divisions, and subsidiaries) in a matrix-like configuration. With "refinement" as the guiding concept, several strategic research and development themes (SRDTs) have been selected from among hundreds of ongoing R&D projects, with a focus on establishing businesses with high degrees of urgency and priority as quickly as possible.

Strategic R&D themes are selected by the R&D Coordination Committee, which is composed of executives of the rank of managing director and above. This committee oversees the SRDT committees of subordinate organizations, and seeks to move products to market more quickly by concentrating personnel and R&D investments in targeted areas. Current SRDTs are optoelectronics products, next-generation man-made leathers, next-generation gas barrier materials, and next-generation engineering plastics.

Fiscal 2003 R&D Highlights

Optoelectronics Products (SRDT)	<ul style="list-style-type: none"> • Display materials utilizing precision processing techniques (antireflection front panels) → Launch planned for fiscal 2004 • New LCD backlight materials being evaluated by customers • Research on new materials to create innovative products
Next-Generation Man-Made Leathers	<ul style="list-style-type: none"> • Produced with new manufacturing techniques
Next-Generation Man-Made Leathers (SRDT)	<ul style="list-style-type: none"> → Capital expenditures being made for full-scale pre-marketing
Next-Generation Gas Barrier Materials	<ul style="list-style-type: none"> • High-performance barrier materials → Basic research concluded; at customer evaluation stage • Oxygen absorbent packaging materials(SRDT) → Basic research concluded; at customer evaluation stage
Next-Generation Engineering Plastics (SRDT)	<ul style="list-style-type: none"> • GENESTAR → Basic research on new manufacturing techniques using new catalyst technologies being conducted to foster worldwide business expansion
High-Performance Materials	<ul style="list-style-type: none"> • Batteries and capacitor materials → Research being conducted in close cooperation with major customers; several products undergoing practical evaluations • Development of new grades in existing businesses → New barrier materials, poval HP polymers, SEPTON V series • Development of new elastomers → Mass production of acrylic thermoplastic elastomers established; marketing commenced

Acrylic Thermoplastic Elastomers

Kuraray has established mass-producing technology for thermoplastic elastomers that combine the characteristics of acrylic resins and ordinary elastomers. Acrylic thermoplastic elastomers have a wide range of potential applications. One of the first is as a base polymer for adhesives, for which a suitable molecular design has already been completed. A pilot plant will begin operating in July 2004, while marketing is already under way.

Previous manufacturing methods for acrylic thermoplastic elastomers presented considerable obstacles to industrialization, but controlled polymerization made possible by the development of new catalysts have allowed Kuraray to establish the world's first mass production techniques, paving the way for economical commercial production.

Characteristics:

- The transparency, weather resistance, and same suitability for painting as methacrylates
- Environmentally friendly material that does not require solvents or plasticizers during forming
- Rubber elasticity and flexibility

Applications:

- Base polymer for high performance adhesives
- Molding compounds (Materials for industrial use or general consumption)
- Modifier for polarized resin



Global Expansion of R&D

Overseas sales accounted for over 40% of the Kuraray Group's total net sales during fiscal 2003, and is expected to reach 50% by fiscal 2005. Kuraray has adopted optimal positioning of manufacturing and marketing operations as one of its basic strategies, pursuing a global strategy that incorporates localization tailored to specific regions and business characteristics. Of course, to ensure more effective global expansion, it is necessary to understand the needs of growing markets and to make a wholehearted effort to plant the seeds for cutting-edge technology from the R&D stage forward.

In response to this reality the Company established the Kuraray Research & Technical Center in the United States (Pasadena, Texas), in April 2004, creating a three-pronged global R&D structure based in Japan, Germany (Frankfurt), and the

United States. Through this three-prong base, Kuraray is seeking to create "material innovation" suited to customers' needs, expand growth businesses while developing world-leading, innovative products, and pioneer new fields.

Role of the Research & Technical Center

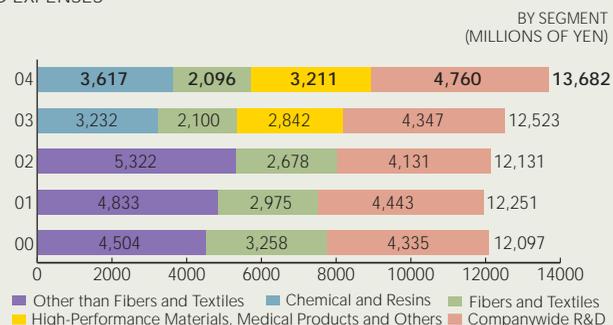
1. Strengthen the U.S. business base through market development and technical support in growth businesses such as *EVAL* and *SEPTON*
2. Support marketing for new business in the U.S.
3. Create new technologies based on nanotechnology

Commercialization of Optoelectronics Products

Optical devices, one of Kuraray's priority domains, has been placed alongside vinyl acetate and derivatives as a future core business, and strategic R&D is being conducted throughout the Company. The central facility for this effort is the Optical Device R&D Center, established in March 2003. Utilizing a base in polymer technology and precision processing technology, the Center conducts product development that quickly and accurately reflects the needs of the market. To shorten the lead-time to commercialization the Center designates a person responsible for marketing and production technology development as well as for R&D, creating a Research & Development & Marketing (R&D&M) concept with a clear focus on bringing products to market.

Short, medium, and long-term R&D is conducted based on products and the technology development "roadmap." Antireflection front panels and new LCD backlight materials are being developed, and the Company is also pursuing collaborative research with third parties on promising new technologies in order to create innovative products.

R&D EXPENSES



Since its founding in 1926, Kuraray has kept before its eyes a philosophy of contributing to society through the development of original and innovative technology. The wellspring of Kuraray's corporate culture was the personalism of its first president, Magosaburo Ohara, an unchanging set of values that permeate both the Company's community work and its corporate management.

The Kuraray Group's corporate philosophy requires it to adhere to "respect for the individual," and this is not limited to Kuraray's direct stakeholders. We in the Group are deeply aware of the duties and responsibilities of Kuraray as a corporate citizen. In line with its corporate philosophy, "For the world; for humanity," Kuraray has for many years contributed to local healthcare through associated hospitals and clinics, supported science education through its Chemistry Classes for Boys and Girls, and participated in regional volunteer activities. The Company is also pressing forward energetically with environmental preservation activities. Kuraray's "G-21" medium-term business plan, introduced in 2001, sets a goal of becoming an eco-friendly company with unique technology. In addition, the Company has established a Medium-Term Environmental Plan, and is expanding its environmentally friendly businesses and environmental preservation activities.

Launch of the CSR Committee

In June 2003, the Kuraray Group reexamined its various CSR activities. To clarify and heighten the Group's capabilities with regard to a broad range of CSR-related corporate goals, the Corporate Ethics Committee and the Philanthropy and Environment Committee were merged to become the CSR Committee.

Functions and Organization

There are three subcommittees within the CSR Committee, the Economic Subcommittee, the Environmental Subcommittee, and the Social Subcommittee. Each subcommittee has a working team to address each strategic theme. Reflecting the concrete plans of the chain of command, these teams work to heighten implementation capabilities, and report the status of progress to the Executive Committee.

Status of Principal Activities

Medium-Term Environmental Plan (Environmental Subcommittee)

In fiscal 2003, the Company reviewed its targets for reductions in CO₂ emissions, measures to reduce emissions of substances regulated under the Pollutant Release and Transfer Register (PRTR) Law, and waste-recycling ratio targets, with due consideration for the status of progress of the Medium-Term Environmental Plan (adopted in 2001) and the Company's long-term vision covering the period through fiscal 2010.

Progress in Implementing the Medium-Term Environmental Plan

Numerical targets	Unit	Base year	Fiscal 2002	Fiscal 2003	Target year
Reduction of 90% in emissions, including substances specified by the PRTR Law	Tons	Fiscal 1999 *4,434 (100%)	4,072 (68%)	2,343 (53%)	Fiscal 2007 443 (10%)
Reduction of 90% in volume of industrial waste processed externally	KTons	Fiscal 1999 14.6 (100%)	5.9 (40%)	5.1 (35%)	Fiscal 2005 1.5 (10%)
Increase of 30 points or more in waste utilization efficiency (change of 20 to 30 points)	%	Fiscal 1999 60	81	85	Fiscal 2006 90
10% reduction in CO ₂ emissions per unit energy consumption (new target)	Tons -CO ₂ /tons	Fiscal 1990 2.93 (100%)	—	3.18 (109%)	Fiscal 2010 2.64 (90%)
Increase of 6% in energy usage efficiency	%	Fiscal 1999 —	5.0	7.6	Fiscal 2005 6.0

CSR COMMITTEE



Social Activities (Economic Subcommittee)

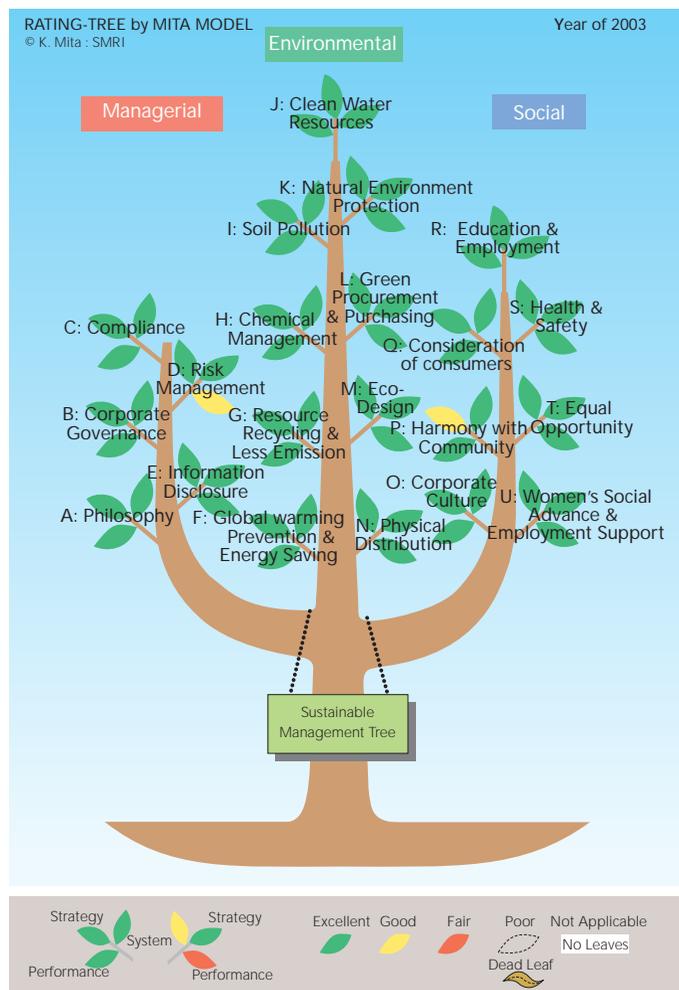
Since 1992, Kuraray has been supporting scientific education through its unique Chemistry Classes for Boys and Girls, offered to students in grades 5 and 6. Company employees teach these classes on a volunteer basis, and experiments are conducted in areas closely related to Kuraray's businesses, in an effort to show the children that science can be fun. This program saw its 100th class in fiscal 2003, its 11th year, with participants exceeding 3,700. This program received the Fiscal 1999 Excellent Consumer-Oriented Corporate Program Citation from the Ministry of Economy, Trade and Industry.

Compliance (Social Subcommittee)

To heighten consciousness of compliance issues, Kuraray conducts education training and for all employee strata through the distribution of manuals regarding the important areas of antitrust laws and insider trading regulations, and has held presentations to ensure understanding. All employees carry a compliance card showing principles for business conduct and the Group's compliance declaration. In addition, to ensure the early detection of any problematic activity in the Company, Kuraray has established an employee consultation office.

Independent Rating

- Because Kuraray established the CSR Committee, which is linked to executive functions, and for its highly evaluated forward-looking management stance on the soil contamination problem, the Company's CSR programs this year received the highest sustainable management rating from the Sustainable Management Rating Institution*.
- As one element in a study of the Kuraray Group's implementation of sustainability, in fiscal 2003 the Company requested an analysis of its present status from the NGO, Natural Step International. Natural Step indicated the necessity for clarifying Kuraray's management vision, eliminating the Company's reliance on petroleum and other underground resources, and developing a better understanding of the need for sustainability in the lifecycle of all the Company's products.
- Kuraray is now included in the FTSE4Good Index Series, designed to measure the performance of companies that meet globally recognized corporate responsibility standards, and to facilitate investment in those companies. The index lists 657 companies as of June 2004.



The Kuraray Group's CSR activities will be described in detail in its "Corporate Social Responsibility Report 2004." Please refer to that report for more information.

Fiscal 2003 Rating Tree

* The Sustainable Management Rating Institution, organized to establish a method for rating sustainable management, is an organization of the Sustainable Management Forum of Japan (SMF), an NPO.

CONSOLIDATED SIX-YEAR SUMMARY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars
	2004	2003	2002	2001	2000	1999	2004
Net sales	¥332,149	¥322,524	¥305,862	¥313,651	¥316,444	¥336,466	\$3,133,481
Cost of sales	236,246	230,618	228,184	234,946	235,603	250,195	2,228,736
Selling, general and administrative expenses	67,857	66,720	58,720	58,774	60,520	59,123	640,160
Operating income	28,046	25,186	18,958	19,931	20,321	27,148	264,585
Net income	15,181	8,051	2,866	4,045	7,452	13,171	143,217
Capital expenditure	32,164	19,091	50,716	15,814	19,764	33,497	303,434
Depreciation and amortization	20,785	19,108	16,056	16,593	16,769	15,557	196,085
Gross cash flow	35,966	27,159	18,922	20,638	24,221	28,728	339,302
Total research and development expenses	13,684	12,523	12,131	12,251	12,097	13,429	129,094
Total assets	413,227	426,877	487,432	512,479	503,766	487,991	3,898,368
Total current assets	171,428	185,748	198,474	239,654	213,293	208,113	1,617,245
Property, plant and equipment, net	137,867	135,985	134,907	127,468	128,343	129,026	1,300,632
Total current liabilities	75,165	97,394	122,274	110,234	87,592	108,261	709,104
Total long-term liabilities	37,689	42,156	74,460	112,723	133,047	119,451	355,557
Total shareholders' equity	300,306	287,263	290,643	289,469	282,755	259,909	2,833,075
Amounts per share:	Yen						U.S. dollars
Net income:							
Primary	¥40.81	¥21.01	¥7.49	¥10.56	¥20.00	¥36.83	\$0.39
Fully diluted	—	20.71	7.45	10.46	19.42	34.56	—
Cash dividends applicable to period	10.00	9.00	9.00	9.00	9.00	9.00	0.09
Total shareholders' equity	817.57	771.38	759.25	756.07	738.53	714.21	7.71
Financial ratios:							
Ratio of cost of sales (%)	71.1%	71.5%	74.6%	74.9%	74.5%	74.4%	
Equity ratio (%)	72.7	67.3	59.6	56.5	56.1	53.3	
Return on equity (%)	5.2	2.8	1.0	1.4	2.7	5.3	
Return on assets (%)	6.7	5.5	3.8	3.9	4.1	5.6	
Number of employees	6,760	6,983	7,115	7,121	7,433	6,823	

Notes: *The U.S. dollar amounts represent translation of Japanese yen at the rate of ¥106=US\$1.

*Certain reclassifications of previously reported amounts have been made to conform with current classifications.

*Since the year ended March 31, 2003, the "Amounts per share" figures have been calculated in accordance with the Financial Accounting Standard "Accounting for Earnings per Share."

FINANCIAL REVIEW

The following report refers to the consolidated financial statements of the Kuraray Group for fiscal 2003 (from April 1, 2003 to March 31, 2004).

Sales

Total consolidated net sales increased 3.0%, or ¥9,625 million, to ¥332,149 million (US\$3,133,481 thousand) for the fiscal year under review.

Sales of chemicals and resins rose by 7.8%, or ¥11,231 million, to ¥155,921 million (US\$1,470,953 thousand). The continued growth of demand for optical-use poval (PVA) film in Japan and other Asian markets, together with persistently healthy growth in demand for poval resin in Europe, contributed to further expansion of poval sales. The Company has also begun to expand domestic manufacturing facilities in response to renewed growth in demand for optical-use film. Sales of the EVOH resin *EVAL*, were bolstered by strong demand for use in food packaging and for the manufacture of gasoline tanks. Methacrylic resin sales continued their recovery, both in Japan and abroad. Expanded manufacturing facilities for methacrylic resin molding materials commenced operations this fiscal year, to meet rising demand for optical applications.

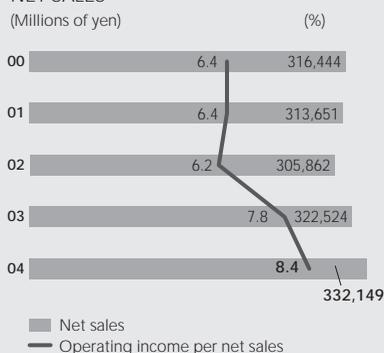
In fiscal 2003, the Company responded to growing demand for isoprene-related products with the expansion of domestic production capacity, while Kuraray's U.S. thermoplastic elastomer subsidiary, SEPTON Company of America (SEPCA), initiated operations. The Company also commenced sales of the newly developed *SEPTON V* Series. In the field of fine

chemicals, the performance of aroma chemicals and pharmaceutical intermediates improved. As a result, domestic and international sales of isoprene-related products rose steadily.

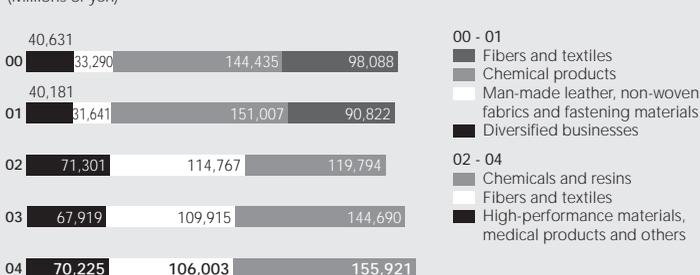
Sales of fibers and textiles edged down 3.6%, or ¥3,912 million, to ¥106,003 million (US\$1,000,028 thousand). Continually constricting environmental regulations continue to fuel growth in sales of *KURALON* PVA fiber as a substitute for asbestos in fiber reinforced cement. However, the contraction of demand for this material for use in the agriculture and fisheries industries continued unabated. Total sales of *KURALON*, therefore, declined. Revenues in our polyester operations have declined, as we have scaled back our staple fiber business and withdrawn from unprofitable businesses. A strategy of emphasizing highly differentiated materials and improving our business structure has reduced losses in our polyester operations.

The recovery in sales of *CLARINO* man-made leather seen in the previous fiscal year was sustained throughout the period of this report. The use of *CLARINO* in shoes—particularly sports shoes—continues to increase. Expanding imports of cheap nonwoven fabrics brought stiff competition in this area, but the Company was able to avoid a decline in sales through improved customer service. There were indications that domestic demand for hook and loop fasteners had bottomed out during fiscal 2003. To meet the growth in demand for fastening materials in China, Kuraray established a subsidiary in Shanghai to process and market *MAGIC TAPE*.

NET SALES & OPERATING INCOME PER NET SALES



NET SALES BY BUSINESS SEGMENT (Millions of yen)



Note: New business segments were adopted in the year ended March 31, 2003. Data for the previous year has been restated.

Sales of high-performance materials, medical products and others increased 3.4%, or ¥2,306 million, to ¥70,225 million (US\$662,500 thousand). The SARS outbreak in the first half of the previous fiscal year and the appreciation of the yen beginning in the second half had a negative impact on the performance of opto-screens for rear-projection televisions, but rising sales in Asian markets allowed the Company to maintain net sales at the previous fiscal year's level. The appreciation of the yen also impacted our development of overseas dental materials operations, and sales of medical devices were once again affected by the government's annual revision of pharmaceuticals prices. Demand for the heat-resistant polyamide resin *GENESTAR* for use in electronics components is growing strongly, and the Company has decided to expand production capacity. The use of our large-pore hollow-fiber membranes in water purification facilities is increasing, but we have encountered delays in approval of our PVA gel. In the activated carbon business of domestic consolidated subsidiary Kuraray Chemical Co., Ltd., both general-purpose and high-value-added applications took an upturn.

Japan's economy continued on its deflationary course during the fiscal year ended March 31, 2004, and domestic sales were virtually unchanged at ¥254,373 million (US\$2,399,745 thousand). However, the rationalization of costs and other measures allowed the Company to post growth in operating income. Sales in North America edged up 2.3% to ¥24,575 million (US\$231,840 million), on the strength of growth in

sales of the thermoplastic elastomer and *EVAL*. In Europe, sales grew 17.9% to ¥39,849 million (US\$375,934 million), fueled by the solid performance of our *EVAL* and PVA businesses. Asian poval markets continued their recovery. This, together with growth in Chinese demand for *CLARINO*, drove a 31.5% surge to ¥13,352 million (US\$125,962 million) in Asian sales.

Operating Costs

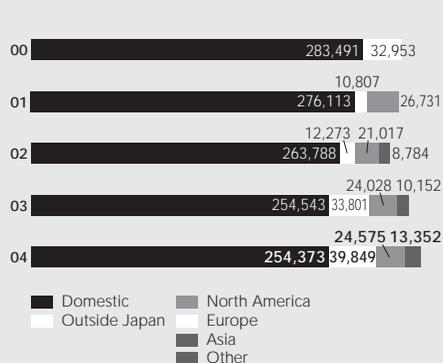
In addition to the 3.0% increase in total consolidated net sales, the cost of sales rose 2.4% to ¥236,246 million (US\$2,228,736 thousand). As a percentage of net sales, cost of sales was 71.1% compared with 71.5% in the previous fiscal year. It was the Company's efforts to reduce costs, in the face of falling average selling prices and rising energy costs that allowed this figure to improve.

Selling, general and administrative expenses edged up 1.7% to ¥67,857 million (US\$640,160 thousand). Comparison of this increase with the 13.6% rise seen in the previous fiscal year shows the effectiveness of the Company's efforts to hold the line on costs. SG&A declined from 20.7% to 20.4% of net sales.

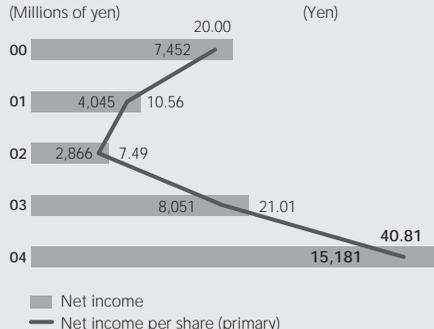
Operating Income and Net Income

Growth in sales volume and reductions in costs allowed the Company to achieve 11.4% growth in operating income, to ¥28,046 million (US\$264,585 thousand). As with last year's 32.9% jump, this was achieved in spite of deflation in the domestic economy, falling product prices, and higher energy costs. In just two fiscal years the operating income ratio

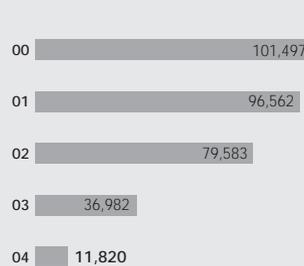
NET SALES BY GEOGRAPHIC SEGMENT
(Millions of yen)



NET INCOME & NET INCOME PER SHARE (PRIMARY)
(Millions of yen) (Yen)



INTEREST-BEARING DEBT
(Millions of yen)



Note: Due to their growing weight in total net sales, the North America and Asia segments were separated out from the year ended March 31, 2003. Data for the previous year has been restated.

has risen from 6.2% to last year's 7.8%, then to 8.4% for the period under review.

Interest and dividend income continued to decline, but this was more than offset by a reduction of more than 50% in interest expenses. No loss on write-down of investment securities was suffered this fiscal year, while gain on sale of property, plant, and equipment more than doubled. As a result, other expenses continued on their steep improving trend, contracting by ¥6,262 million to ¥4,552 million (US\$42,943 thousand), from ¥10,814 million in the previous fiscal year.

As a result of the above, income before income taxes and minority interests soared 63.5% to ¥23,494 million (US\$221,642 million), on the heels of a 131.8% increase in the previous fiscal year.

Current income taxes declined by ¥190 million to ¥6,829 million (US\$64,425 thousand), and the effective tax rate dropped from last year's 48.8% to 29.0%. This contributed to an 88.6% leap in net income, which rose to ¥15,181 million (US\$143,217 million). Primary net income per share rose from ¥21.01 to ¥40.81.

Financial Position

Cash and cash equivalents were reduced by ¥6,886 million to ¥7,015 million, marketable securities were cut by ¥7,597 million to ¥8,424 million, and inventories were pared by ¥1,662 million to ¥61,867 million. These were the most significant factors in a ¥14,320 million decline in total current assets, to ¥171,428 million (US\$1,617,245 thousand). The number of month's sales in inventory declined during the year to 2.2 months from 2.4 months the previous year.

Property, plant and equipment edged up ¥1,882 million, to ¥137,867 million (US\$1,300,632 thousand). This was principally the result of a ¥10,126 million increase in construction-in-progress to ¥20,936 million (US\$197,509 thousand), and a ¥10,111 million increase in machinery and equipment to ¥388,801 million (US\$3,667,934 thousand).

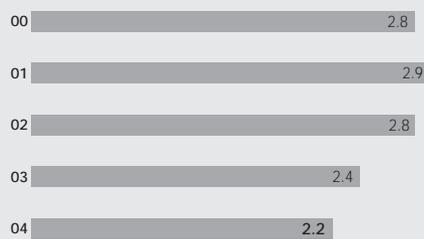
Investments and other assets declined by ¥1,212 million during the year, to ¥103,932 million (US\$980,491 thousand). The primary factor in this was a ¥4,693 million drop in deferred income taxes to ¥2,082 million (US\$19,642 thousand).

Working capital (the difference between the balance of notes and accounts receivable plus inventories, and notes and accounts payable) fell from ¥100,818 million in the previous year to ¥98,001 million, but the current ratio improved from 190.7% in the previous fiscal year to 228.1%. Return on total assets continued its upward trend, rising from 5.5% to 6.7%.

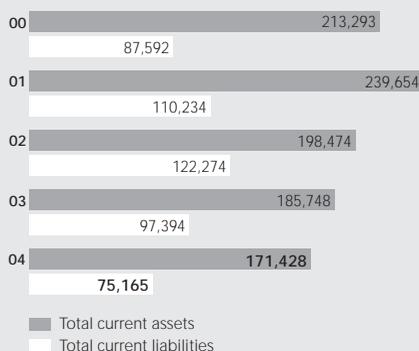
Total current liabilities declined by ¥22,229 million, to ¥75,165 million (US\$709,104 thousand), primarily as a result of significant reductions in short-term bank loans and the current portion of long-term debt. Total long-term liabilities contracted by ¥4,467 million, to ¥37,689 million (US\$355,557 thousand), due to declines in accrued retirement benefits and other long-term liabilities.

Total shareholders' equity rose by ¥13,043 million to ¥300,306 million (US\$2,833,075 thousand). This was chiefly a result of an increase in retained earnings of ¥11,780 million to ¥127,148 million (US\$1,199,510 thousand), an unrealized gain on revaluation of securities of

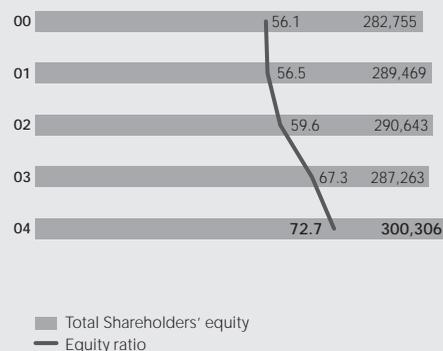
NUMBER OF MONTHS' SALES IN INVENTORY (Months)



TOTAL CURRENT ASSETS & TOTAL CURRENT LIABILITIES (Millions of yen)



TOTAL SHAREHOLDERS' EQUITY & EQUITY RATIO (Millions of yen)



¥7,902 million (US\$74,547 thousand), and the acquisition of treasury stock in the amount of ¥11,691 million (US\$110,293 thousand). Total liabilities and shareholders' equity accordingly declined by ¥13,650 million to ¥413,227 million (US\$3,898,368 thousand), and the equity ratio improved by 5.4 percentage points to 72.7%.

Cash Flows

Despite a significant increase in income before income taxes and minority interests, an increase in income taxes paid and other adjustments resulted in a decline of ¥6,575 million in net cash and cash equivalents provided by operating activities, to ¥30,768 million (US\$290,264 thousand). Other noteworthy changes included: a ¥1,886 million contraction in decrease in accrued retirement benefits, net, to ¥2,366 million; an ¥824 million reduction in interest expenses to ¥656 million; an ¥848 million increase in notes and accounts receivable from a decrease of ¥6,940 million in the previous fiscal year; and a ¥7,685 million plunge in decrease in notes and accounts payable, to ¥232 million. Loss on write-down of investment securities contracted to zero from ¥4,950 in the previous year.

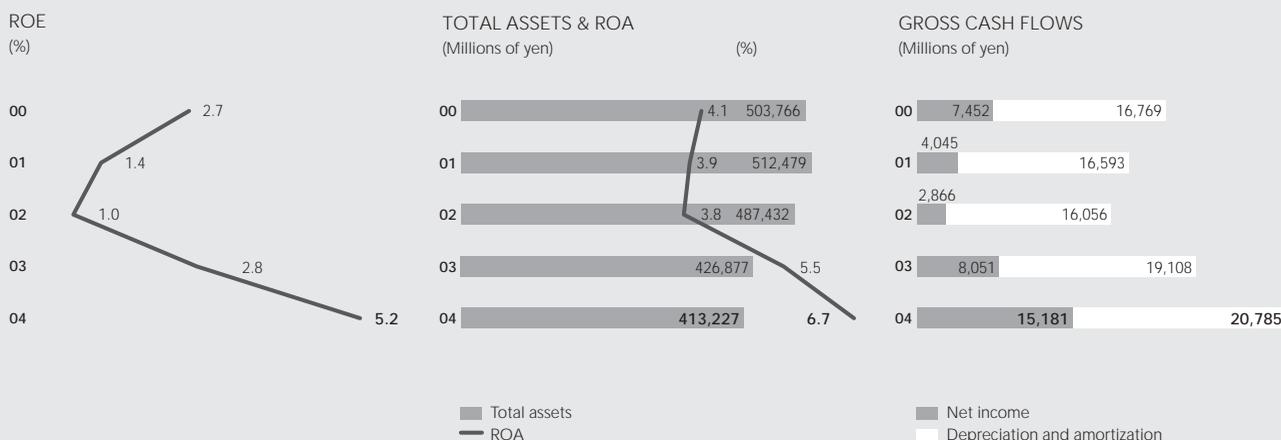
Net cash and cash equivalents used in investing activities was ¥4,273 million (US\$40,311 thousand), compared to net cash and cash equivalents, provided by investing activities of ¥17,431 million in the previous year, which came primarily from cash flows from sales and redemptions of investment securities. The most significant outlay was payments for acquisition of property, plant, equipment and intangible assets of ¥30,248

million, up ¥11,726 million from the previous fiscal year. Proceeds from sales of property, plant, equipment and intangible assets increased ¥8,491 million to ¥10,538 million, while payments for purchase of investment securities dropped ¥3,999 million to ¥548 million, and proceeds from sales and redemption of investment securities plunged ¥28,086 million to ¥7,847 million. Withdrawals from accumulated premiums on insurance, which were ¥21,878 million in the previous year, were reduced to ¥45 million in the period under review.

Net cash and cash equivalents used in financing activities declined ¥21,073 million to ¥33,129 million (US\$312,538 thousand). Principal elements included: redemption of standard bonds of ¥20,500 million, up from ¥13,000 in the previous year; a decline in redemption of convertible bonds to zero from ¥23,393 million in the previous fiscal year; and funds used for purchase of treasury stock. Cash and cash equivalents at the end of the fiscal year were ¥7,015 million (US\$66,179 thousand), down from ¥13,901 million in the previous fiscal year.

Research and Development

Total R&D expenses for the year were ¥13,684 million (US\$129,094 thousand), or 4.1% of net sales, compared to 3.9% in the previous year. Companywide R&D expenses are the largest portion of R&D expenses, accounting for ¥4,760 million, or 34.8% of the total, in the fiscal year under review. R&D in the chemicals and resins segment, at ¥3,617 million, accounted for 26.4% of total expenses. Fibers and textiles accounted for



¥2,096 million, or 15.3% of the total, while high-performance materials, medical products and others accounted for ¥3,211 million, or 23.5%.

Capital Expenditure

Capital expenditure for the year under review totaled ¥32,164 million (US\$303,433 thousand), up 68.5% from the previous fiscal year. The bulk of the expenditure during the fiscal year was in the chemicals and resins segment (¥21,455 million, or 66.7% of the total), mainly for the expansion of facilities at EVAL Europe and of optical-use acrylic operations. Capital expenditure for fibers and textiles fell 21.5% to ¥3,654 million, or 11.4% of the total, while capital expenditure for high-performance materials, medical products and others edged downwards 1.4% to ¥5,103 million, or 15.9% of the total.

Outlook

It is expected that the recovery in the United States and the strong growth in the Chinese economy will continue to drive improvement in the world economy. However, instability in exchange rates and prices of fuels and raw materials are forecast to give cause for concern. In these circumstances, forecasts for the fiscal year ending March 31, 2005 are for net sales of ¥345.0 billion, operating income of ¥33.0 billion, and net income of ¥17.0 billion.

In our chemicals and resins segment, we will accelerate the global expansion of core businesses such as poval, EVAL, and thermoplastic elastomers, while working to expand optical applications for methacrylic resin.

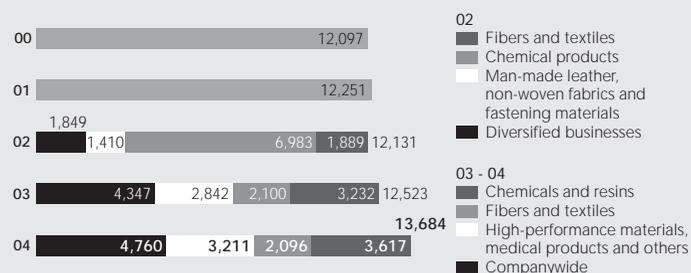
In the fibers and textiles segment, the Company is striving for growth through emphasis on unique products such as KURALON and KURALON K-II, and through the expansion of overseas markets for CLARINO. The Company is also working to improve the profit structure of polyester operations through the development of distinctive materials based on proprietary polymers.

In the high-performance materials, medical products and others segment, Kuraray will seek to introduce new optical products and endeavor to expand sales. The Company also continues to strive to increase sales of dental materials and GENESTAR, and is strengthening its emphasis on environment-related products such as activated carbon.

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.

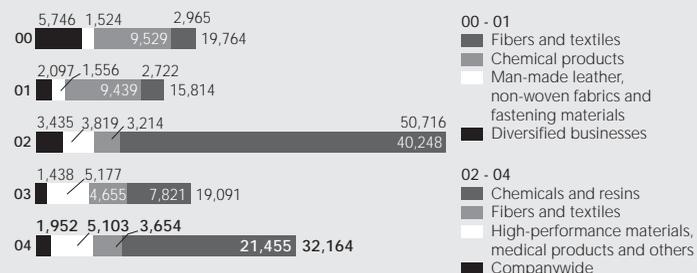
Assuming net income as forecast above, dividends of ¥11 per share are planned for the fiscal year ending March 31, 2005.

TOTAL R&D EXPENSES BY BUSINESS SEGMENT
(Millions of yen)



Note: Data for the year ended March 31, 2003 reflects the conversion to an in-house company system so as to combine Companywide R&D expenses. Data for prior years has not been restated.

CAPITAL EXPENDITURE BY BUSINESS SEGMENT
(Millions of yen)



Note: Data for the year ended March 31, 2003 reflects the conversion to an in-house company system so as to combine Companywide capital expenditure. Data for prior years has been restated.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 7,015	¥ 13,901	\$ 66,179
Marketable securities (Note 3)	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 (Note 4)	61,867	63,529	583,651
Deferred income taxes (Note 8)	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 (Note 3)	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 (Note 8)	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

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 2,576	¥ 7,715	\$ 24,302
Current portion of long-term debt (Note 5)	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 (Note 8)	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 (Note 5)	3,475	4,427	32,783
Deferred income taxes (Note 8)	4,024	3,914	37,962
Accrued retirement benefits (Note 9)	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
Commitments and contingencies (Note 12)			
Shareholders' equity (Note 6):			
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 (Note 3)	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

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 (Note 1)
	2004	2003	2004
Net sales	¥332,149	¥322,524	\$3,133,481
Cost of sales (Note 11)	236,246	230,618	2,228,736
(Gross profit)	95,903	91,906	904,745
Selling, general and administrative expenses (Notes 10 and 11)	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 (Note 8):			
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	—

See notes to consolidated financial statements.

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, ¥9.00 per share			(3,445)			
Bonuses to directors			(36)			
Changes in unrealized gain on revaluation of securities (Note 3)				(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, ¥9.00 per share			(3,351)			
Bonuses to directors			(50)			
Changes in unrealized gain on revaluation of securities (Note 3)				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)

Years ended March 31, 2004 and 2003	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
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 (Note 3)				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)

See notes to consolidated financial statements.

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 (Note 1)
	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, equipment and intangible assets	10,538	2,047	99,415
Payments for purchase 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 purchase 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

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kuraray Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Kuraray Co., Ltd. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically to present them in a form more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles and practices generally accepted in Japan but have been presented as additional information.

The United States dollar amounts included herein are provided solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥106=\$1, the approximate exchange rate prevailing on March 31, 2004. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at this or any other rate.

2. Significant accounting policies:

(a) Principles of consolidation

These consolidated financial statements include the financial statements of the Company and its significant 40 subsidiaries. Hereinafter, the Company and its consolidated subsidiaries are collectively referred to as the "Companies."

In the case of a change in reporting entity, the consolidated financial statements are not restated, but the effect of the change to retained earnings at the beginning of the period is directly charged or credited to retained earnings during the period.

Investments in unconsolidated subsidiaries and 20%-50% owned companies ("affiliates"), with minor exceptions, are accounted for using the equity method.

Some foreign subsidiaries of the Company are consolidated using the fiscal year ending December 31, which differs from that of the Company. Those subsidiaries do not prepare their financial statements at any date after December 31 or on or before March 31 in the succeeding year. Any material events occurring during the January 1 to March 31 period are adjusted in those consolidated financial statements.

The difference between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis is allocated to identifiable assets based on their fair values at the date of acquisition. Unallocated costs are charged to income when incurred.

(b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with original maturity of three months or less, of which at least the face amount can be withdrawn at any time without penalty.

(c) Inventories

Inventories, other than supplies, are stated at cost principally determined using the weighted average method. Supplies are stated at cost principally determined using the moving average method.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method.

The estimated useful lives of assets are principally as follows:

Buildings	31 to 50 years
Machinery and equipment	4 to 10 years

The Companies use machinery and equipment under financing leases that do not transfer ownership, and such leased assets are not capitalized on the balance sheet in conformity with accounting principles generally accepted in Japan.

(e) Goodwill

Goodwill is stated at cost less amortization.

Amortization is principally computed over 15 years, using the straight-line method.

(f) Income taxes

Accrued income taxes are provided at the amount currently payable. The Companies adopt the interperiod income tax allocation accounting, using the assets and liabilities method in which deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements.

(g) Retirement benefits

Most of the Companies have unfunded lump-sum benefit plans and funded contributory pension plans, generally covering all employees.

Under the terms of the Companies' retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement, and reason for retirement.

The contributory pension plans of the Company and its domestic subsidiaries, which principally cover those employees who retire at age 60, or who have served with those companies for more than 20 years and are age 50 or more, generally provide for pension payments for a period of ten years subsequent to age 60. The annual charge for the current service cost of these plans is determined actuarially and funded currently through outside trustees.

Directors and corporate auditors are entitled, subject to shareholders' approval, to lump-sum payments under the unfunded retirement plan. The accrued liabilities for their retirement benefits are, in general, based upon the amounts required by the Companies' internal regulations.

(h) Foreign currency items

Income and expenses in foreign currency are translated into Japanese yen at the exchange rates prevailing at the transaction dates. Foreign currency assets and liabilities not covered by forward exchange contracts, including currency swap contracts, are translated into Japanese yen at the rates prevailing at the balance sheet date. Foreign currency assets and liabilities, which are covered by hedging forward exchange contracts, including currency swap contracts, are translated into Japanese yen at the contracted rates.

In preparing the consolidated financial statements, assets and liabilities of foreign subsidiaries have been translated into Japanese yen at the rates in effect at the balance sheet date, and income and expenses have been translated at the average rate for the year then ended. Translation adjustments resulting from this process are charged or credited to shareholders' equity as cumulative translation adjustments in the consolidated balance sheets.

(i) Research and development expenses

Expenses relating to research and development activities are charged to income when incurred.

(j) Net income per share

The computation of primary net income per share is based on the weighted average number of shares outstanding during each financial period. The computation of fully diluted net income per share is based on the weighted average number of outstanding shares after consideration of the effect of dilution of common stock equivalents. As of March 31, 2004, diluted net income per share was not disclosed because potentially dilutive common stock equivalents had no effect on dilution.

(k) Allowance for doubtful accounts

The Companies provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts.

(l) Marketable securities and investment securities

Marketable securities and investment securities are classified into three categories, i.e. held-to-maturity, trading and available-for-sale securities. Trading securities are carried at fair values with unrealized gains or losses included in income, and held-to-maturity securities are carried at amortized cost. As of March 31, 2004 and 2003, marketable securities and investment securities represent available-for-sale securities. Available-for-sale securities are carried at fair value with unrealized gains or losses recorded as a component of shareholders' equity, net of applicable taxes. Available-for-sale securities, whose fair value is not readily determinable, are stated at cost except for debt securities, which are stated at amortized cost. Moreover, available-for-sale securities with a maturity of one year or less are classified as current assets.

(m) Derivative financial instruments and hedging

Derivative financial instruments, which include forward foreign exchange contracts, interest rate swap contracts and currency swap contracts, are used to offset the Companies' risk of exposure to changes in interest and currency exchange rates in respect of its financial assets and liabilities, in accordance with the Companies' internal policies and procedures.

a. Derivatives

All derivatives are stated at fair value, except for derivatives that are designated as hedging instruments (see below).

b. Hedge accounting

The Companies adopt the method for hedging instruments whereby any gain or loss is deferred over the period of the hedging contract and is offset against the deferred loss or gain on the related hedged items.

However, when forward foreign exchange contracts meet certain conditions, accounts receivable and payable covered by these contracts are translated using the contract rates.

In addition, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

Hedging instruments and hedged items

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Accounts receivable and payable in foreign currency Future transactions in foreign currency
Interest rate swap contracts	Bonds and debentures payable

c. Hedging policy

The Companies use financial instruments to hedge market fluctuation risks in accordance with their internal policies and procedures.

d. Assessment method for hedge effectiveness

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

3. Securities:

The following is a summary of securities available-for-sale at March 31, 2004 and 2003:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2004				
Equity securities	¥ 5,601	¥12,752	¥25	¥18,328
Bonds and debentures	9,751	643	—	10,394
Other	1,000	1	—	1,001
	¥16,352	¥13,396	¥25	¥29,723

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2003				
Equity securities	¥ 5,619	¥2,898	¥406	¥ 8,111
Bonds and debentures	25,747	277	119	25,905
Other	1,000	—	6	994
	¥32,366	¥3,175	¥531	¥35,010

March 31, 2004	Thousands of U.S. dollars			Book value (estimated fair value)
	Cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	\$ 52,840	\$120,302	\$236	\$172,906
Bonds and debentures	91,991	6,066	—	98,057
Other	9,434	9	—	9,443
	\$154,265	\$126,377	\$236	\$280,406

Securities with an original maturity of three months or less have been transferred to cash and cash equivalents.

4. Inventories:

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products	¥43,175	¥45,806	\$407,311
Semi-finished products and work in progress	8,549	8,440	80,651
Raw materials and supplies	10,143	9,283	95,689
	¥61,867	¥63,529	\$583,651

5. Short-term bank loans and long-term debt:

Short-term bank loans are generally represented by 365-day notes with interest rates principally of 1.2% p.a. at March 31, 2004. The interest rate of commercial paper at March 31, 2004 is 0.0% p.a.

Long-term debt consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Unsecured loans principally from banks and insurance companies with interest rates ranging from 0.54% p.a. to 3.30% p.a. maturing serially until 2022	¥6,244	\$58,906
Current portion	(2,769)	(26,123)
	¥3,475	\$32,783

The annual maturities of long-term debt outstanding at March 31, 2004 for the respective years ending March 31 were as follows:

	Millions of yen	Thousands of U.S. dollars
2004	¥2,769	\$26,123
2005	3,118	29,415
2006	352	3,321
2007	0	0
2008	0	0
Thereafter	5	47
	¥6,244	\$58,906

6. Shareholders' equity:

The Company is subject to the Japanese Commercial Code (the "Code").

The Code requires at least 50% of the issue price of new shares to be designated as stated capital following the passing of a resolution by the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital. Additional paid-in capital is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and directors bonuses, etc., to be paid from retained earnings should be appropriated as a legal reserve. No further appropriation is required when the sum of additional

paid-in capital and legal reserve equals 25% or more of common stock. If the sum of additional paid-in capital and legal reserve exceeds the required amount, the excess amount is allowed to be appropriated following the passing of a resolution at the ordinary general meeting of shareholders. A legal reserve may be used to reduce a deficit or may be transferred to common stock by appropriate legal procedures. Legal reserve was included in retained earnings amounted to ¥6,570 million (\$61,981 thousand) as of March 31, 2004 and 2003.

7. Stock-based compensation plans:

The Company has a stock option plan. On June 27, 2002, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for directors, corporate auditors and managers of the Company and its subsidiaries. Under this approval, the Company issued new stock acquisition rights of 1,076,500 shares of common stock of the Company. These rights are exercisable from June 28, 2004 to June 27, 2012. The exercise price is ¥825 (\$7.78) per share.

Subsequently, on June 26, 2003, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for employees of the Company and its subsidiaries. Under this approval, the Company issued new stock acquisition rights of 2,811,000 shares of common stock of the Company. These rights are exercisable from June 27, 2005 to June 26, 2013. The exercise price is ¥918 (\$8.66) per share.

8. Income taxes:

The Companies are subject to several taxes based on income which, in aggregate, resulted in a normal effective tax rate of approximately 41.7% in Japan for the periods ended March 31, 2004 and 2003.

Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:

	2004	2003
Normal effective tax rate	41.7%	41.7%
Non-taxable income	(4.9)	—
Tax credit primarily for research and development	(2.9)	—
Largely loss incurred by consolidated subsidiaries	1.5	2.2
Income tax rate per statement of income	35.4%	43.9%

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets			
Accrued enterprise taxes and other taxes	¥ 580	¥ 582	\$ 5,472
Accrued bonuses	2,399	2,078	22,632
Other	3,456	4,028	32,604
Total deferred tax assets	6,435	6,688	60,708
Total deferred tax liabilities	34	34	321
Net deferred tax assets	¥6,401	¥6,654	\$60,387

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets			
Accrued retirement benefits	¥4,276	¥4,731	\$40,340
Other	5,663	4,983	53,424
Total deferred tax assets	9,939	9,714	93,764
Deferred tax liabilities			
Deferred gain on sales of fixed assets to public sector	1,483	1,612	13,990
Special depreciation	239	164	2,255
Unrealized gain on revaluation of securities	5,346	1,039	50,434
Advanced payments for retirement expenses	522	—	4,924
Other	267	124	2,519
Total deferred tax liabilities	7,857	2,939	74,122

Net deferred tax assets	¥2,082	¥6,775	\$19,642
Deferred tax liabilities:			
Depreciation	¥4,255	¥3,914	\$40,142
Other	63	—	594
Total deferred tax liabilities	4,318	3,914	40,736
Deferred tax assets			
Other	294	—	2,774
Total deferred tax assets	294	—	2,774
Net deferred tax liabilities	¥4,024	¥3,914	\$37,962

The deferred tax assets and liabilities of the consolidated subsidiaries in different tax jurisdictions are presented without offset in accordance with Japanese accounting practice. The deferred tax assets and liabilities are calculated using the amended normal effective tax rate of 40.4% because on March 31, 2003, the law governing prefectural tax was revised to impose enterprise taxes through "Taxation Using Outward Criteria" from April 2004 and the enterprise tax rate will decrease from the fiscal year beginning April 1, 2004.

9. Retirement benefits:

The following tables set forth the changes in the benefit obligation, plan assets and funded status of the Companies at March 31, 2004 and 2003.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Benefit obligation at end of year	¥(49,685)	¥(51,520)	\$(468,726)
Fair value of plan assets at end of year	27,384	24,247	258,340
Funded status:			
Benefit obligation in excess of plan assets	(22,301)	(27,273)	(210,386)
Unrecognized prior service cost	(920)	(1,011)	(8,679)
Unrecognized actuarial loss	11,463	12,862	108,141
Accrued pension liability recognized in the consolidated balance sheets	¥(11,758)	¥(15,422)	\$(110,924)
Advanced payments for retirement expenses	1,292	—	12,189
Net accrued retirement benefits	¥(13,050)	¥(15,422)	\$(123,113)

Accrued retirement benefits for directors and corporate auditors at March 31, 2004 and 2003, amounting to ¥756 million (\$7,132 thousand) and ¥1,122 million respectively are excluded from the above tables.

Retirement and pension costs of the Companies for the year ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥2,282	¥2,391	\$21,528
Interest cost	995	1,386	9,387
Expected return on plan assets	(953)	(957)	(8,991)
Amortization:			
Prior service cost	(67)	(67)	(632)
Actuarial losses	893	402	8,425
Net periodic benefit costs	¥3,150	¥3,155	\$29,717

Assumptions used in the accounting for the defined benefit plans for the year ended March 31, 2004 are as follows:

Discount ratemainly 2.0%
 Long-term rate of return on fund assetsmainly 4.0%
 Amortization period for transition charges at date of adoption.....1 year
 Amortization period for prior service costmainly 15 years (straight-line method)
 Amortization period for actuarial lossesmainly 15 years (straight-line method)

10. Selling, general and administrative expenses:

Major components of selling, general and administrative expenses for the years ended March 31, 2004 and 2003 were as follows:

Account	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Freight and storage	¥12,152	¥12,685	\$114,642
Research and development	11,986	10,896	113,075
Salaries and bonuses	17,644	16,732	166,453

11. Research and development expenses:

Total research and development expenses for the years ended March 31, 2004 and 2003 amounted to ¥13,684 million (\$129,094 thousand) and ¥12,523 million, respectively.

12. Commitments and contingencies:

The companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates and others, of ¥725 million (\$6,840 thousand) and ¥776million at March 31, 2004 and 2003, respectively.

These guarantees include letters of commitment for guarantees, letters of awareness and other items of a similar nature.

13. Leases:

(a) Financing leases

Lease transactions as a lessee:

Payment of fees for financing leases, whose ownership of the leased assets is not transferred to the lessee and which are not required to be capitalized, for the years ended March 31, 2004 and 2003, were ¥310 million (\$2,925 thousand) and ¥412 million, respectively. Future lease payments, including amounts representing interest were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥302	¥382	\$2,849
Due after one year	390	498	3,679
	¥692	¥880	\$6,528

The leased assets were as follows:

Year ended March 31, 2004	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	¥1,495	¥803	¥692	\$6,528

Year ended March 31, 2003	Millions of yen		
	Cost	Accumulated depreciation	Net
Machinery and equipment	¥1,812	¥932	¥880

Lease transactions as a lessor are immaterial.

(b) Operating leases

Lease transactions as a lessee:

Future lease payments under non-cancellable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 245	¥ 229	\$ 2,311
Due after one year	1,650	1,932	15,566
	¥1,895	¥2,161	\$17,877

Lease transactions as a lessor are immaterial.

14. Derivative financial instruments:

Derivative financial instruments are utilized by the Companies principally to reduce interest rate and foreign exchange risks. The Companies have established a control environment, which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

The forward foreign exchange contracts and currency swap contracts outstanding at March 31, 2004 and 2003 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:									
Foreign currency sales	¥15,724	¥148	¥148	¥1,758	¥(230)	¥(230)	\$148,340	\$1,396	\$1,396
Currency swap contracts:									
Yen into foreign currency obligation	—	—	—	2,975	(71)	(71)	—	—	—
	¥15,724	¥148	¥148	¥4,733	¥(301)	¥(301)	\$148,340	\$1,396	\$1,396

The amounts include contracts entered into in order to hedge inter-company transactions in foreign currency. The amounts exclude contracts entered into in order to hedge receivables and payables denominated in foreign currencies, which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2004 and 2003.

At March 31, 2004 and 2003, outstanding interest rate swap contracts were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
Interest rate swap contracts:									
Fixed-rate into variable-rate obligation	¥—	¥—	¥—	¥1,200	¥15	¥15	\$—	\$—	\$—
	¥—	¥—	¥—	¥1,200	¥15	¥15	\$—	\$—	\$—

The amounts exclude certain swap contracts under which the net amount to be paid or received is added to or deducted from

the interest on the hedged item.

15. Segment information:

A summary of net sales and operating income and identifiable assets, capital expenditure and depreciation and amortization by industrial segment for the years ended March 31, 2004 and 2003 is as follows:

Net sales and operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales			Operating income	Net sales			Operating income
	outside customers	inter-segment	total		outside customers	inter-segment	total	
Year ended March 31, 2004								
Chemicals and resins	¥155,921	¥ 661	¥156,582	¥25,203	\$1,470,953	\$ 6,236	\$1,477,189	\$237,764
Fibers and textiles	106,003	1,654	107,657	5,332	1,000,028	15,604	1,015,632	50,302
High performance materials, medical products and others	70,225	22,615	92,840	8,001	662,500	213,349	875,849	75,481
Total	332,149	24,930	357,079	38,536	3,133,481	235,189	3,368,670	363,547
Eliminated on consolidation and corporate	—	(24,930)	(24,930)	(10,490)	—	(235,189)	(235,189)	(98,962)
Consolidated total	¥332,149	¥ —	¥332,149	¥28,046	\$3,133,481	\$ —	\$3,133,481	\$264,585

Year ended March 31, 2003

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

Identifiable assets, capital expenditure and depreciation and amortization

	Millions of yen			Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization
Year ended March 31, 2004						
Chemicals and resins	¥183,965	¥21,455	¥12,006	\$1,735,519	\$202,406	\$113,264
Fibers and textiles	78,980	3,654	4,196	745,094	34,472	39,585
High performance materials, medical products and others	76,141	5,103	3,227	718,312	48,141	30,443
Total	339,086	30,212	19,429	3,198,925	285,019	183,292
Eliminated on consolidation and corporate	74,141	1,952	1,356	699,443	18,415	12,793
Consolidated total	¥413,227	¥32,164	¥20,785	\$3,898,368	\$303,434	\$196,085

Year ended March 31, 2003

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

A summary of net sales, operating income and identifiable assets by geographic segment for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Year ended March 31, 2004					
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					
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

	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Year ended March 31, 2004					
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

Foreign sales consisting of export sales of the Company and its domestic consolidated subsidiaries and the sales of foreign consolidated subsidiaries for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
Year ended March 31, 2004					
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

	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
Year ended March 31, 2003			
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%

16. Subsequent events:

The Japanese Commercial Code provides that all appropriations of retained earnings, except interim cash dividends, must be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, the appropriation of retained earnings is not accrued in the financial statements for the year to which it relates but is recorded in the subsequent accounting year after shareholders' approval has been obtained. The following appropriations of retained earnings of the Company as of March 31, 2004 were approved by the shareholders on June 25, 2004.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥5.50 (\$0.05) per share	¥2,020	\$19,057
Bonuses to directors	56	528

The above year-end cash dividends per share and interim cash dividends of ¥4.50 (\$0.04) per share paid in December 2003 made a total annual cash dividend of ¥10.00 (\$0.09) per share.

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Nakanoshima Mitsui Building 16F
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June 25, 2004

To the Board of Directors and Shareholders of
Kuraray Co., Ltd.

We have audited the accompanying consolidated balance sheets of Kuraray Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kuraray Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

CONSOLIDATED COMPANIES
(As of July 1, 2004)

Company	Head office	Capital (¥millions, except where stated)	Activities
JAPAN			
Kuraray Medical Inc.	Tokyo	2,500	Manufacture and sales of medical products
Kuraray Trading Co., Ltd.	Osaka	2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
*Kuraray Planning System Co., Ltd.	Osaka	10	Designs of uniforms
Kuraray Chemical Co., Ltd.	Osaka	600	Manufacture and sales of activated carbon and related products
*KC Processing Co., Ltd.	Okayama	20	Processing of activated carbon
*Mitsukura Chemical Co., Ltd.	Osaka	10	Manufacture and sales of activated carbon
Kuraray Engineering Co., Ltd.	Osaka	450	Plant design and construction
Kuraray Kiko Co., Ltd.	Ehime	10	Fabrication of machinery parts
Kuraray Fudosan Co., Ltd.	Osaka	382	Real estate leasing
Kuraray Interior Co., Ltd.	Osaka	10	Manufacture and sales of luxury furniture
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
Ibuki Kosan Co., Ltd.	Gifu	10	Manufacture of rubber products
Kuraray Living Co., Ltd.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Business Service Co., Ltd.	Osaka	100	Accounting, personnel, and information system service
Techno Soft Co., Ltd.	Osaka	50	Consulting
Kuraray Niigata Kasei Co., Ltd.	Niigata	50	Manufacture and sales of methacrylic sheets
Kuraray Ohmiya Estate Co., Ltd.	Osaka	31	Real estate leasing
Magictape Co., Ltd.	Fukui	100	Manufacture and sales of MAGIC TAPE
Kuraray Family Products Co., Ltd.	Osaka	30	Sales of health foods, etc.
Kuraray Travel Service Corporation	Osaka	20	Travel and insurance agency
Kuraray Techno Co., Ltd.	Osaka	10	Production subcontracting
Kuraray Techno Nakajo Co., Ltd.	Niigata	50	Production subcontracting
Kuraray Tsurugashima Estate Co., Ltd.	Osaka	10	Real estate leasing
Kuraray Saijo Co., Ltd.	Ehime	10	Manufacture of chemical products and synthetic fiber
Kuraray Tamashima Co., Ltd.	Okayama	10	Manufacture of synthetic fiber
Iruma Country Club Co., Ltd.	Saitama	40	Golf course management
Kyosei Chemical Co., Ltd.	Tokyo	50	Manufacture of pigments and dyes
*Nihonkai Acetylene Co., Ltd.	Tokyo	60	Manufacture and sales of acetylene gas

Company	Head office	Capital (¥millions, except where stated)	Activities
*Kuraray Okayama Spinning Co., Ltd.	Okayama	50	Manufacture of synthetic fiber
*Kuraflex Co., Ltd.	Okayama	10	Manufacture of nonwoven fabric products
*Kuraflex Ibaraki Co., Ltd.	Ibaraki	30	Manufacture of nonwoven fabric products
*The Kurashiki Kokusai Hotel, Ltd.	Okayama	450	Hotel management
*Hikari Shoes Co., Ltd.	Chiba	34	Manufacture and sales of shoes
Okayama Rinkoh Co., Ltd.	Okayama	98	Warehousing, distribution, and processing
OVERSEAS			
Kuraray Holdings U.S.A., Inc.	New York, U.S.A.	US\$ 55.53 million	Holding company, coordination of U.S. subsidiaries
Kuraray America, Inc.	New York, U.S.A.	US\$ 8.7 million	Importing and sales of Kuraray products
Eval Company of America	Texas, U.S.A.	US\$ 4.15 million	Manufacture and sales of EVAL in the United States
SEPTON Company of America	Texas, U.S.A.	US\$ 35 million	Manufacture and sales of thermoplastic elastomers
Kuraray Finance America, Inc.	New York, U.S.A.	US\$ 0.001 million	Fund procurement and management for Group companies
Kuraray Europe GmbH	Düsseldorf, Germany	€ 31.2 million	Importing and sales of Kuraray products in Europe
EVAL Europe N.V.	Antwerp, Belgium	€ 29.7 million	Manufacture and sales of EVAL in Europe
Kuraray Specialities Europe GmbH	Frankfurt, Germany	€ 20 million	Manufacture and sales of poval and butyral resins
Kuraray Finance Europe B.V.	Amsterdam, Netherlands	€ 0.3 million	Fund procurement and management for Group companies
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK\$ 4.65 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Singapore Pte., Ltd.	Singapore	SP\$ 93.5 million	Holding company, coordination of local subsidiaries
Kuraray Specialities Asia Pte., Ltd.	Singapore	SP\$ 45.6 million	Sales of poval resins
*Poval Asia Pte Ltd	Singapore	SP\$ 40 million	Manufacture of poval resins

* Equity method subsidiary

HISTORY

1920s

- 1926 • Kurashiki Kenshoku Co. established
- 1928 • Rayon commercialized: production of rayon filament yarn begun at the Kurashiki Plant

1940s

- 1940 • Chugoku Sangyo Co., Ltd. (now Kuraray Chemical Co., Ltd.) established



New laboratory of Okayama Plant

- 1943 • Capital participation in Kakuichi Rubber Co., Ltd. (now Kuraray Plastics Co., Ltd.)
- 1949 • Company name changed to Kurashiki Rayon Co., Ltd.

1950s

- 1950 • KURALON commercialized: production of KURALON staple started
- 1958 • poval commercialized: production of poval for market sale started

1960s

- 1960 • Capital participation in Kyowa Gas Chemical Co., Ltd., which conducts methacrylic resin business
- 1961 • Osaka Goseihin Co., Ltd. (now Kuraray Trading Co., Ltd.) established
- 1962 • Production of PVA film started at Saijo Plant
- 1963 • New York Representative Office established (transferred to Kuraray America, Inc. in April 1996)
- 1964 • Production of polyester staple started at Tamashima Plant
 - Kuraray Fudosan Co., Ltd. established
 - CLARINO commercialized: production of CLARINO man-made leather started at Kurashiki Plant
- 1965 • European Representative Office established in Hamburg, Germany (moved to Düsseldorf in June 1968)
- 1969 • Production of polyester filament started at Saijo Plant

1970s

- 1970 • Company name changed to Kuraray Co., Ltd.
 - Hong Kong Representative Office established (transferred to Kuraray Hong Kong Co., Ltd. in June 1998)
- 1972 • Contact lens business started
 - EVAL commercialized: production facilities for EVAL resin completed at Okayama Plant

- Nonwoven fabrics business started

- Isoprene chemicals business launched: operation at Kashima Plant started, and production of polyisoprene rubber begun



Factory for nonwoven fabrics of Kuraray Chicopee Co., Ltd. (now Kuraflex Co., Ltd.)

- 1975 • Artificial organs business started
- 1976 • NIC (new isoprene chemicals) facilities completed at Nakajo Plant
- 1977 • Kuraray Engineering Co., Ltd. established
- 1978 • Advanced into the dental materials field: CLEARFIL adhesive dental filler produced

1980s

- 1983 • Cement-reinforcing KURALON developed
 - Eval Company of America established, and marketing of



CLEARFIL adhesive dental filler

- EVAL resin in the U.S. begun (production started in 1986)
- 1984 • Haru-Kuraray GmbH, a man-made leather sales company, established in Germany jointly with Marubeni Corp. and Haru Holding & Management GmbH
 - Merged with Nippon Velcro Co., Ltd. which produces hook & loop fasteners
- 1986 • Clarino America Corporation, a man-made leather sales company, established in the U.S. jointly with Marubeni Corp.
 - Production started at Eval Company of America

1990s

- 1990 • SEPTON commercialized: Production of SEPTON thermoplastic elastomer started at Kashima Plant
- 1991 • Kuraray Europe GmbH established in Düsseldorf, Germany
- 1995 • Kuraray EVAL Europe GmbH established in Düsseldorf

- Kuraray Hong Kong Co., Ltd. established

- 1996 • Kuraray America, Inc. established in New York as administrative holding company in the U.S.
 - Kuraray Singapore Pte., Ltd. established, and capital participation in Poval Asia Pte Ltd
- 1997 • EVAL Europe N.V. established in Belgium
- 1998 • KURALON K-II commercialized
- 1999 • Production started at Poval Asia Pte Ltd
 - Mass-production started for the heat-resistant polyamide resin GENESTAR
 - Production at EVAL Europe N.V. started

2000s

- 2000 • The mass-production of a new water-soluble resin EXCEVAL was started
 - The Company made a capital participation in Lorica Sud S.r.l., an Italian man-made leather processing and sales company
 - Kuraray Holdings U.S.A., Inc. established as a holding company in the U.S.
 - SEPTON Company of America established in the U.S.
- 2001 • PVA gel mass-production facilities become operational
 - Kuraray terminated its rayon business
 - Kuraray Specialities Europe GmbH established in Frankfurt, Germany
 - Kuraray Medical Inc. established
 - Acquired PVA and PVB operations of Clariant AG
- 2002 • Shanghai Office established
 - Production started at SEPTON Company of America
- 2004 • Kuraray Reserch and Technical Center, USA (KRTC) commenced operations



Kuraray Research and Technical Center, USA (KRTC)
Location: Pasadena, Texas
(On EVALCA's grounds)

INVESTOR INFORMATION

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Kuraray Co., Ltd.

Established: June 24, 1926

Capital: ¥88,955 million

Shares: Authorized 700,000,000 shares

Issued 382,863,603 shares

Number of Shareholders: 27,781

(as of March 31, 2004)

Offices, Laboratories, Plants

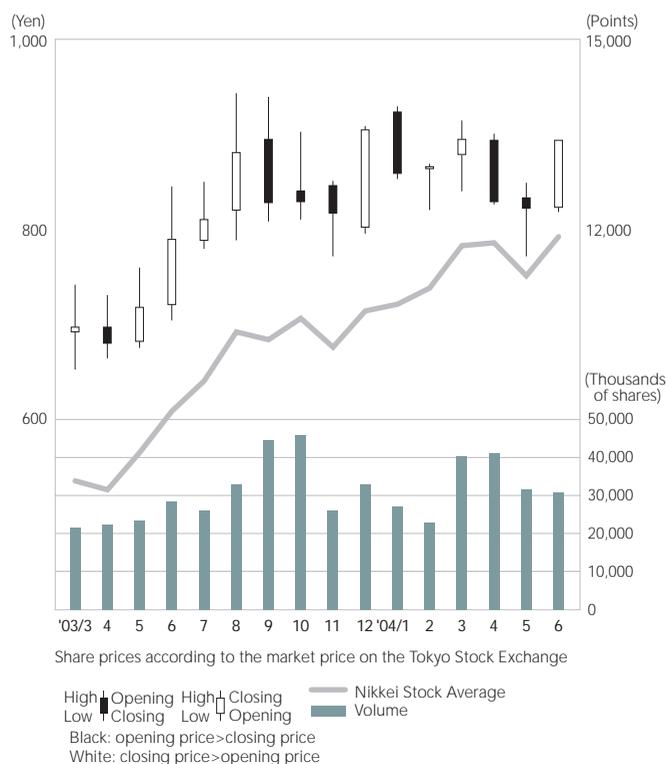
Head Offices: Osaka, Tokyo

Offices: Fukui, Fukuoka

Laboratories: Kurashiki, Tsukuba

Plants: Kurashiki, Saijo, Okayama, Nakajo, Kashima

Share Price Movement



Transfer Agent

The Sumitomo Trust and Banking Co., Ltd.

Stock Transfer Agency Department

4-5-33, Kitahama, Chuo-ku, Osaka 540-8639, Japan

Principal Shareholders (as of March 31, 2004)

Principal Shareholders	Number of Shares Held (thousands)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd. (Trust Account)	46,141	12.05%
The Master Trust Bank of Japan, Ltd. (Trust Account)	29,776	7.78%
Kuraray Co., Ltd.	15,618	4.08%
Nippon Life Insurance Company	12,294	3.21%
Meiji Yasuda Life Insurance Company	8,066	2.11%
Mizuho Corporate Bank, Ltd.	7,396	1.93%
Government of Singapore Investment Corporation Pte Ltd	6,053	1.58%
State Street Bank and Trust Company 50541	5,736	1.50%
The Dai-ichi Mutual Life Insurance Company	5,352	1.40%
Trust & Custody Services Bank, Ltd. (Trust Account B)	5,097	1.33%

Forward-Looking Statements

This annual report 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 that 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 markets; (5) advances or delays in the construction of new plants and production lines; (6) successful development of new products and technologies; (7) changes in laws and regulations (including tax and environmental) and legal proceedings; and (8) unforeseeable risks, including natural disasters.



KURARAY CO., LTD.

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Chuo-ku, Tokyo 103-8254, Japan

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