

KURARAY CO., LTD.

ANNUAL REPORT 2005

For the year ended March 31, 2005

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 December 2004 Kuraray acquired the PVB film business of HT Troplast AG of Germany.

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 Kuraray Group will continue in its medium-term strategy of strengthening its corporate structure and expanding core businesses, while striving for earnings growth consonant with changes in the external environment.

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

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

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

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

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

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

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

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

July 2005



Hiroto Matsuo

Hiroto Matsuo
Representative Director and Chairman

CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2005
Net sales	¥ 354,874	¥332,149	¥322,524	¥305,862	¥313,651	\$ 3,316,579
Operating income	33,187	28,046	25,186	18,958	19,931	310,159
Net income	18,465	15,181	8,051	2,866	4,045	172,570
Capital expenditure	45,715	32,164	19,091	50,716	15,814	427,243
Depreciation and amortization	21,324	20,785	19,108	16,056	16,593	199,290
Gross cash flow	39,789	35,966	27,159	18,922	20,638	371,860
Total research and development expenses	13,874	13,684	12,523	12,131	12,251	129,664
Total assets	454,941	413,227	426,877	487,432	512,479	4,251,785
Total shareholders' equity	312,930	300,306	287,263	290,643	289,469	2,924,580

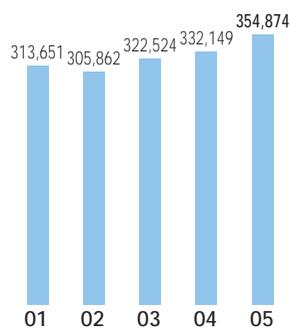
Amounts per share:	Yen					U.S. dollars
Net income:						
Primary	¥ 50.13	¥ 40.81	¥ 21.01	¥ 7.49	¥ 10.56	\$ 0.47
Fully diluted	50.12	—	20.71	7.45	10.46	0.47
Cash dividends applicable to period	12.00	10.00	9.00	9.00	9.00	0.11
Total shareholders' equity	852.26	817.57	771.38	759.25	756.07	7.97

Financial ratios:					
Equity ratio (%)	68.8%	72.7%	67.3%	59.6%	56.5%
Return on equity (%)	6.0	5.2	2.8	1.0	1.4
Return on assets (%)	7.6	6.7	5.5	3.8	3.9
Payout ratio (%)	23.9	24.4	42.2	120.2	85.2
Number of employees	6,919	6,760	6,983	7,115	7,121

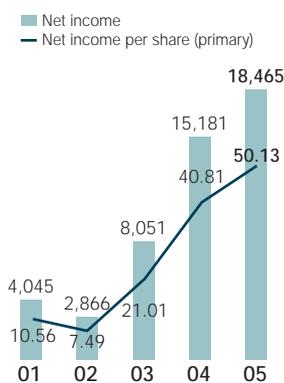
Notes: The United States dollar amounts represent the translation of Japanese yen at the rate of ¥107=\$1.

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."

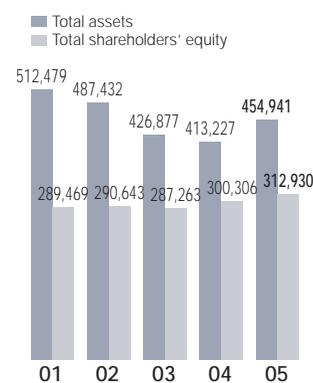
NET SALES
(MILLIONS OF YEN)



NET INCOME &
NET INCOME PER SHARE (PRIMARY)
(MILLIONS OF YEN) (YEN)



TOTAL SHAREHOLDERS' EQUITY &
TOTAL ASSETS
(MILLIONS OF YEN)



A MESSAGE FROM THE PRESIDENT



Yasuaki Wakui Representative Director and President

Performance in Fiscal 2004

During fiscal 2004, ended March 31, 2005, the business environment was buoyed by flourishing demand in China and brisk conditions in the United States. However, petroleum prices drove raw material and fuel prices upward, which had a major impact on corporate earnings and was a drag on the world economy.

Despite the adverse circumstances, the Kuraray Group increased its capital investment and M&A activities, primarily in core businesses. Together with this, the Company increased sales of proprietary products, developed new products and brought them to market, passed along the higher costs of raw material and fuel to its customers in higher prices for its products to the extent practicable, and undertook additional cost rationalization. These efforts resulted in significant gains in consolidated performance, as net sales increased to ¥354.9 billion, operating income to ¥33.2 billion, and net income to ¥18.5 billion. This third consecutive year of growth in both revenues and earnings also saw ROA increase to 7.6%. Even while pursuing the program of continued capital investment, the Company succeeded in strengthening profit ratios, capital efficiency, and cash flows, which paved the way for earnings growth and gave it the stability it needed to withstand the effects of soaring raw material and fuel prices and other factors in the external environment. The Company also

moved forward with strategic investments and the development of next-generation products, positioning the Company to move confidently into the future.

Successes in the First Four Years of the “G-21” Medium-Term Business Plan

Investments in Stronger Performance

The Kuraray Group has been implementing its five-year “G-21” medium-term business plan since fiscal 2001, making fiscal 2005 the last year of the plan. During the past four years, the Group has strengthened and expanded core businesses, restructured poorly performing businesses, promoted a demand-driven product strategy, and made innovative changes to its management structure. It is apparent that the steady progress made on these issues is increasingly linked to the Group’s performance. At the end of “G-21’s” second year we conducted a review of the plan. While not altering the fundamental strategic goals, we increased operational speed and strengthened the Group’s entrepreneurial capabilities to flexibly fine-tune our strategy for increased focus on the ability to respond to changes in the economic and business environment. This has also come to be linked to the Group’s performance.

I think the greatest success of this period was the continuous accumulation, through the measures described above, of the prerequisites for growth. Operating income expanded from ¥19.0 billion in fiscal 2001 to ¥33.2 billion in fiscal 2004. Operating cash flows grew at a faster pace than operating income, rising from ¥18.7 billion in 2001 to ¥39.6 billion in 2004. Energetic investment in business expansion brought steady growth in earnings. Capital investments and M&A were focused on core businesses, and over that four-year period totaled ¥147.7 billion, more than operating cash flows, which were at ¥126.4 billion.

Restructuring Our Business Portfolio

In the Chemicals and Resins segment, in which core businesses such as poval, EVAL, and isoprene are concentrated, net sales grew by 40% over the past three years, operating income jumped 83%, and the operating profit ratio went from 13% to 17%. In the Fibers and Textiles segment, though, the cutback of polyester operations offset the expansion of CLARINO, and net sales remained flat. However, progress in structural reform and expanded sales of proprietary products allowed operating income and the operating profit ratio to more than double. In the High-Performance Materials, Medical Products and Others segment, sales and operating income both achieved growth. Overall, the business portfolio was substantially improved by the recovery in earnings, and especially by the accelerated growth of the Chemicals and Resins segment, which has many high-margin products.

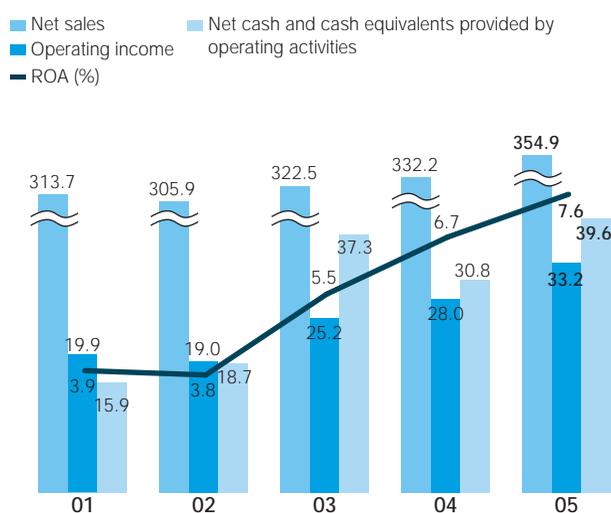
OPERATING INCOME RATIO FOR FISCAL 2001 AND FISCAL 2004 (%)

SEGMENT	2002/3	2005/3
Chemicals and resins	12.9	17.0
Fiber and textiles	3.3	7.2
High-performance materials, medical products and others	9.5	9.4
ALL SEGMENTS	6.2	9.4

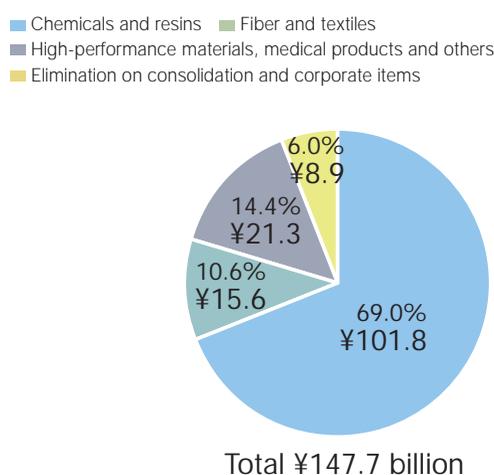
Innovation in Research and Development

Kuraray has taken steps to link rapid commercialization with research and development. The Board of Directors formed Research and Development Committees throughout the Company, which undertook to reduce the number of research themes. Themes that are highly urgent or important for Kuraray to commercialize rapidly were designated Strategic Research and Development Themes (SRDTs), and management resources were allocated to these areas. In April 2005, the Corporate Strategy and Planning Division, which was responsible for the M&A, the expansion of existing businesses, and the planning of new businesses, merged with the Research and Development Division to become the New Business Development Division. The new division will accelerate the creation of new businesses.

NET SALES, OPERATING INCOME, OPERATING CASH FLOWS, AND ROA (BILLIONS OF YEN)



CAPITAL INVESTMENT BY SEGMENT (FOUR-YEAR CUMULATIVE TOTAL) (BILLIONS OF YEN)



Note: Percentage figures are rounded to the nearest first decimal point.

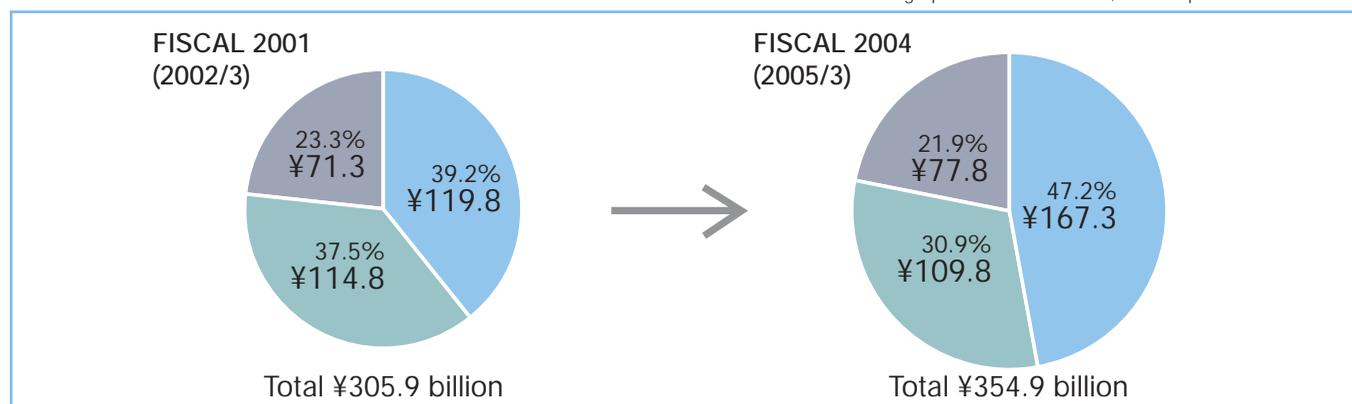
Reducing Costs

When business performance deteriorated in fiscal 2001, Kuraray established a Profit Structure Reform Committee and implemented cost rationalization measures throughout the Group. Low-earning businesses were merged or spun off, their facilities scaled back, and their labor forces reduced. At high-earning businesses, Kuraray improved yields through innovation in manufacturing and enhancing productivity. Reductions in costs were pursued continually. In the future, further cost reductions will be implemented through comprehensive reforms of headquarters functions, including the rationalization of selling, general and administrative expenses.

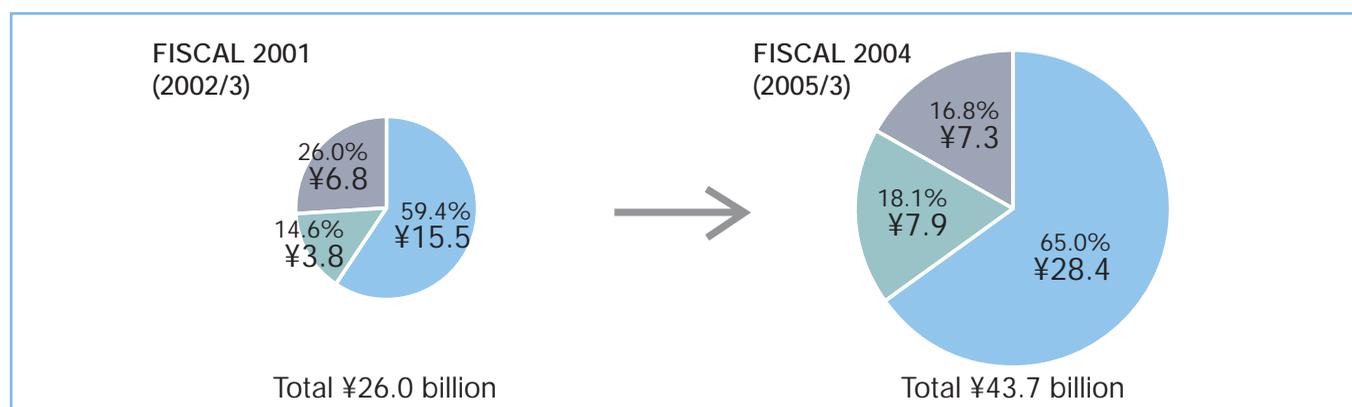
Reform of Management Structure

Kuraray has implemented the "Company with Corporate Auditors" system, and also implemented various measures to enhance management efficiency and corporate governance. The in-house company system was introduced in fiscal 2002, with a flatter organization, and manufacturing, R&D, and marketing were all brought under the authority of the presidents of the in-house companies. Executive responsibilities and accountability for earnings were clarified. Then, in fiscal 2003, an executive officer system was implemented, with the object of increasing the speed of operations within the in-house company system, while making a clearer distinction between decision-making and oversight functions. At the same time, the maximum number of directors was reduced from 30 to 10, and their tenure reduced from two years to one. This

NET SALES BY SEGMENT¹
(BILLIONS OF YEN)



OPERATING INCOME BY SEGMENT²
(BILLIONS OF YEN)



Notes:

1. Net sales by segment represents sales to outside customers and excludes inter-segment sales.
2. Operating income by segment excludes elimination on consolidation and corporate items.
3. Percentage figures are rounded to the nearest first decimal point.

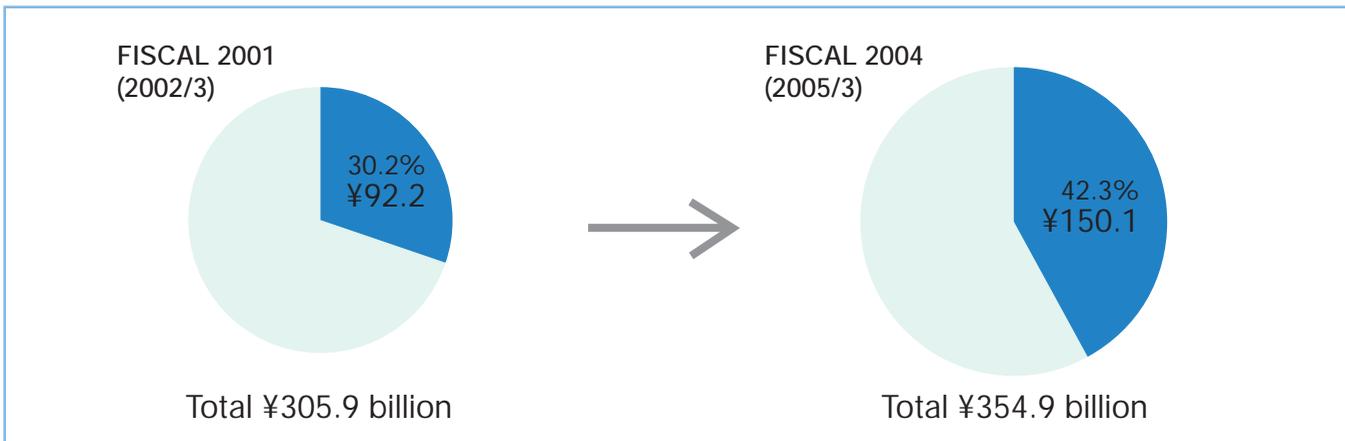


made possible a more active management and decision-making system. In addition, the Management Advisory Committee was established, with a mandate to monitor the legal and regulatory compliance of the Company president in the execution of his duties, to ensure that shareholder rights are protected, and to promote transparency in the Company's management. The Board of Corporate Auditors was increased by one to a membership of five corporate auditors, and management oversight functions were strengthened by this increase, which also satisfies the Japanese statutory requirement that at least one half of corporate auditors are from outside the Company.

Progress in Expansion Overseas

Fundamental policies set forth in "G-21" include the expansion of internationally competitive businesses, and businesses in which we can extend a distinctive presence internationally. In this era of economic globalization, these are indispensable strategies for the expansion of business. Kuraray is fortunate to have a number of products that are either the leading product or the only product of their type, and the Company has made progress in identifying the ideal locations for overseas manufacturing and sales bases in these businesses. As a result, overseas net sales expanded from 30.2% of the Group's total sales in fiscal 2001 to 42.3% in fiscal 2004. Particularly notable progress was made in the expansion of PVA, EVAL, SEPTON and other high-performance resin businesses in Europe and the United States, including M&A. Overseas subsidiaries expanded R&D capabilities as well as manufacturing and marketing facilities. One reason for their

FOREIGN SALES TO NET SALES
(BILLIONS OF YEN)



Note: Figures are rounded to the nearest first decimal point.

success was that they mutually employed newly developed products and applications to expand markets. In China, where the market is expanding rapidly, Kuraray is closely studying attendant risks and is deciding to establish processing and marketing facilities for resins and fibers. Development of this business is underway.

Allocation of Earnings

Over the past four years, Kuraray has paid shareholders a total of ¥14.9 billion in dividends, based on a target payout ratio of 25%, adjusted in accordance with the Company's performance. In addition, the Company has purchased 15 million shares (3.9%) of its own stock at a total cost of ¥11.2 billion, upon keeping a close eye on supply and demand in the stock market and trends in stock prices. The dividends paid over the past four years, combined with the stock buybacks during that same period, add up to a shareholder return rate of 58%. Kuraray will continue to maintain a balance between operating cash flows and its investment strategy, and will pursue a capitalization policy oriented toward raising corporate value over the medium- to long-term. The fiscal 2004 year-end dividend was raised by ¥1 to ¥6.5 per share, for a total increase of ¥2 and a total dividend of ¥12 per share for the fiscal year including the interim dividend paid last December.

Outlook for Fiscal 2005

The effects of rising raw material and fuel prices are likely to persist for the long term, eroding business confidence worldwide and rendering complacency inappropriate. Based on this perception, the Kuraray Group will continue in its medium-term strategy of strengthening its corporate structure and expanding core businesses, while striving for earnings growth consonant with changes in the external environment.

The effects of the concentrated investments Kuraray made in core businesses such as vinyl acetate and poval, isoprenes, and in strategic domains such as IT and the eco-friendly domain, are now beginning to emerge. Accelerated development of markets for new products will make a contribution to earnings, and the Company will work on passing along suitably higher prices for raw materials and fuels to customers in product prices, rationalizing selling, general and administrative expenses, reducing costs through innovation in manufacturing, and the reduction of inventories. Taking all these factors into account, the Company's current forecasts for fiscal 2005 are for net sales of ¥385.0 billion, operating income of ¥40.0 billion, net income of ¥21.0 billion, and ROA of 8.6%.

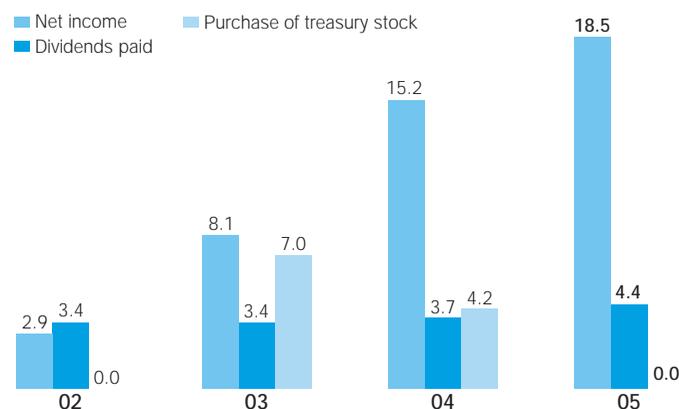
Kuraray once again thanks its shareholders for their encouragement and understanding, and requests their continued support.

July 2005

Yasuaki Wakui

Yasuaki Wakui
Representative Director and President

FOUR-YEAR TREND IN NET INCOME, DIVIDENDS, AND BUYBACK OF SHARES
(BILLIONS OF YEN)



Note: Figures are rounded to the nearest first decimal point.

Accelerating the progression from research and development to commercialization —Focusing on Themes and Turning Outward—

Q What strengths does the Kuraray Group enjoy as a result of its technological expertise?

I think there are two, both focused on bringing products to market. These are “doing what no one else is doing,” the spirit of development we have maintained since Kuraray’s founding, and “always finishing what we start,” which manifests as a drive to bring finished products to market. From these concepts were born Kuraray’s highly original polymeric materials and its high-precision processing technology for fields in which stringent standards of quality are required. Our business model involves creating a positive growth cycle by working to expand downstream activities in areas ranging from the development of materials to highly processed products, in order to understand the properties required by the end user, and by tying these to the development of high added value materials to establish relationships of trust with users.

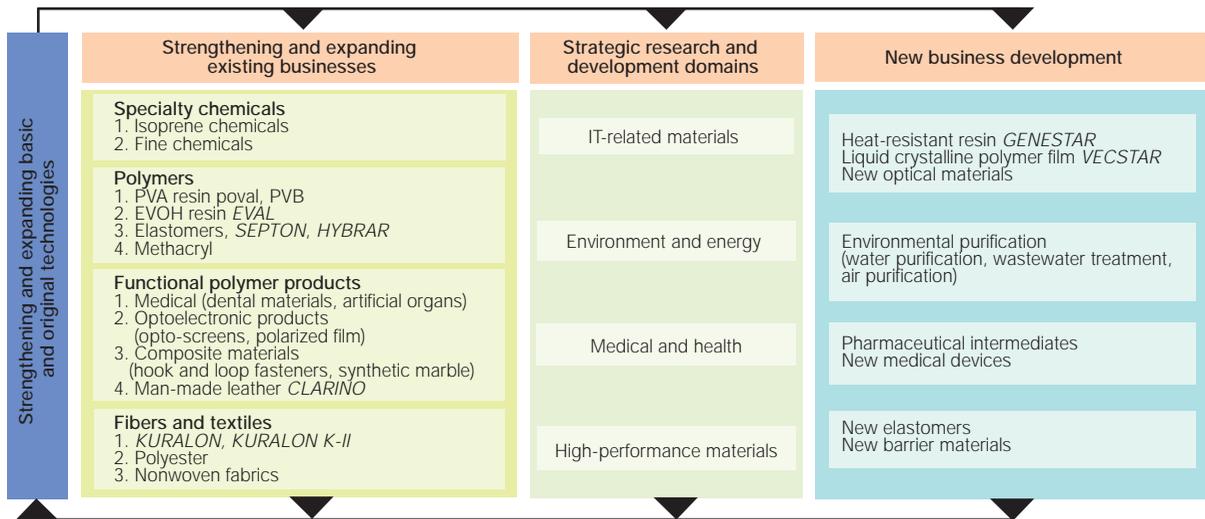
In the past, Japan’s chemicals industry has based its operations on the domestic production and sale of general-use products, and exports were of products remaining after domestic sales. However, low growth in the domestic market has driven many firms in this industry to search for demand overseas, and they are now in a position of needing to supply

products demanded in world markets to survive. Kuraray’s technological capabilities have made it the world’s sole source for some materials, such as polymers and synthetics, as well as high-precision processing technology.

Q What standards are used in selecting R&D themes?

Focusing on R&D themes is the key to increasing the efficiency of R&D and accelerating commercialization. The “G-21” medium-term business plan designates four strategic domains for corporate R&D: IT-related materials, environment and energy, medical and health, and high-performance materials. We are focusing on the areas peripheral to existing products that are highly competitive internationally. In our effort to develop products that boast unique strengths, we are asking which among the original technologies that have allowed the development of successful products can be combined in new ways, and what new materials are needed.

One standard used in the selection of themes is the prospect for sales of ¥10.0 billion after five years. Kuraray looks at each business individually to see if there isn’t some way that it could be expanded in scale. For instance, while the Company commands the top share of the world market



for poval, we turned to the poval derivative, PVB. Developing operations in the midstream and downstream areas through M&A in the PVB and PVB film businesses, Kuraray is seeking to expand net sales and improve profit ratios. In addition, Kuraray is seeking to increase the coordination of its research and development strategy, business strategy, and intellectual property strategy, on the basis of its patent portfolio.

Q What were the concrete objectives of the organizational reforms conducted this April?

Previously, the Company had the Research and Development Division and the Corporate Strategy and Planning Division. The former searched for the seeds of new business development, and the latter was responsible for the expansion of existing businesses, including M&A, and planning for operations in new areas.

A company creates value by linking seeds to businesses. In combining these two organizations into one, Kuraray sought to correct communications deficiencies, eliminate duplication of effort, heighten efficiency, and achieve greater operational speed.

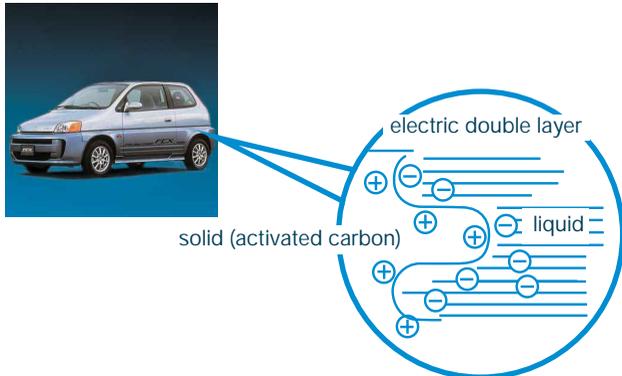
The Kuraray Group's research and development programs have previously been focused primarily on the development of materials, and in the petrochemical and materials development industries, research and development expenses run at about 4% to 5% of net sales.

In the electronics component, optoelectronics, and energy-related industries, however, product life cycles are much shorter. If we are to succeed in those fields, we will have to accelerate product development, and I think this will require research and development investments of about 15% to 20% of net sales. We will need to focus on themes that promise marketability, and invest capital and human resources in those areas.



Koichi Kushida
Senior Managing Director Responsible for
New Business Development Division

THIS FUEL CELL'S HIGH-PERFORMANCE CAPACITOR USES KURARAY'S SPECIAL ACTIVATED CARBON.



1. When the surface of a solid comes into contact with an electrolytic solution, positive or negative ions are selectively adsorbed to the surface of the solid, positively or negatively charging the surface of the solid. An increased number of oppositely charged paired ions are developed in the electrolytic solution. As a result, positive and negative charges are arranged across the interface between the surface of the solid and the electrolytic solution, thereby making up an electric double layer.

If we are to speed up commercialization, it is indispensable to combine a cooperative relationship with human resources that have the enthusiasm of leaders and the appropriate skills to accomplish that goal. Kuraray is a chemicals manufacturer, but the most important themes among the four strategic domains named in "G-21" are electronics, optoelectronics, energy, and biotechnology, and we need human resources with expertise in electrical engineering, mechanical engineering, precision mechanical engineering, and physics. We will secure these human resources through mid-career recruiting, while at the same time deepening ties with outside research institutions and other companies, thereby achieving further speed in product development.

Q What are Kuraray's medium- to long-term research and development themes?

Firstly, in the optoelectronics field, the development of new methacrylic resins, MS resins, and other resins, as well as raising the level of our precision molding technology. We are using the original technology developed in our liquid crystal related material and opto-screen operations to develop next-generation display materials. In the battery- and energy-related field, we are combining activated carbon with other materials, and developing new high-performance capacitors¹ and battery materials.

In the biotechnology field, we used nanodevice technology to develop a micro-space cell culture chip². Cell culti-

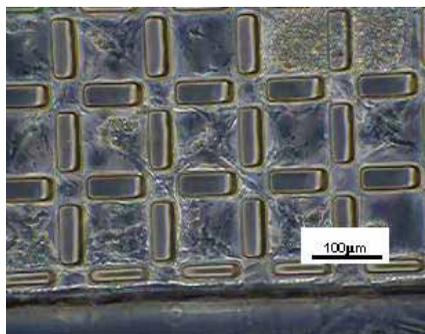
vation was previously conducted in ordinary flat petri dishes, but Kuraray used microfabrication technology to create a resin chip with micron-sized spaces, allowing three-dimensional control of cell propagation. Because these can be mass-produced, they can be used in a wide range of applications.

Q Tell us about the synergistic effects of M&A.

We are seeing progress in both the technological and product development areas. When we acquired the PVA and PVB business of Clariant AG of Germany in 2001, one noteworthy factor was the difference between Clariant's manufacturing processes and Kuraray's. We increased productivity through the application of Kuraray technology and low-cost investment in expanded production capacity at Clariant's manufacturing facilities. There were also differences in the thinking of the two companies. We were able to complement Clariant's strong demand-driven orientation with Kuraray's manufacturing technology-oriented product development, combining the strengths of both companies. We expect to generate further synergistic effects in the future through exchanges of personnel.

There is concern that M&A may have an adverse effect on the originality of Kuraray's DNA, but I'm looking forward to seeing some small changes in Kuraray's DNA as we introduce new ways of thinking.

THE SURFACE OF THE MICRO-SPACE CELL CULTURE CHIP UNDER A MICROSCOPE



2. The micro-space cell culture chip is a resin chip with a three-dimensional microstructure (from a few micrometers to a few hundred micrometers). It is used in basic medical research.

Making strong businesses stronger—the results of vigorous investment and development

Q What have been the results of vigorous investment in the Chemicals and Resins Business?

Capital investments of approximately ¥190.0 billion were planned under “G-21,” including M&A, and about 80% of this was in the Chemicals and Resins Business for the poval, EVOH resin *EVAL*, isoprenes, and methacryl businesses. In fiscal 2001 net sales of Chemicals and Resins were ¥119.8 billion, and operating income was ¥15.5 billion. Compared with the fiscal 2001 results, fiscal 2005 forecasts are for 63% growth in net sales to ¥195.0 billion, and a 116% increase in operating income to ¥33.5 billion. Concentrated investment in internationally competitive businesses made a large contribution to performance.

Q Investments in poval and *EVAL* were particularly large. What was the strategy there?

Worldwide demand for poval resin is currently at around 1,000,000 tons per year, which includes approximately 400,000 tons in China. Excluding demand in China, the Kuraray Group supplies about 214,000 tons, or 35%, which is the largest share of any poval manufacturer. The poval market has been growing continuously at a rate of about 3% per

year, and annual growth in demand of 20,000 tons is forecast. The Kuraray Group has developed a high level of technological expertise in poval applications where quality and functionality are required, such as stabilizer and paper processing agent applications, and I think it would be difficult for our competitors to catch up. In January 2005 we started operations at European manufacturing facilities after a 20,000-ton expansion of production capacity, but with the increase in demand for high-value-added products, it is predicted that the added production will find a ready market.

Worldwide demand for EVOH resin is approximately 80,000 tons, of which the Kuraray Group boasts a commanding 70% share. Aside from the growth in existing applications, the Group is pressing forward with the development of new applications, and we can expect a sustained high annual growth rate of 10%.

There is also the possibility that new barrier materials with plasticity will be introduced to compete with *EVAL*, although at present, *EVAL* is head and shoulders above any other manufacturer’s barrier material in terms of overall performance including effectiveness as a barrier and workability. Notwithstanding, the Kuraray Group is pioneering new appli-

EXPANSION AND STATUS OF FACILITIES IN THE CHEMICALS AND RESINS BUSINESS

Products manufactured	Domestic and overseas manufacturing facilities in March 2001 (annual production capacity)	2001	2002	2003	2004	2005	2006	March 2006 (forecast)
Poval	144,000 tons		Germany 50,000			Germany 20,000		214,000 tons
Poval film	18 million m ²	Saijo Plant 1,300			Tamashima 1,500	Tamashima 1,500		61 million m ²
PVB resin	—		Germany 20,000					20,000 tons
PVB film	—			Germany and other areas 26,000				26,000 tons
EVAl resin	43,000 tons	Belgium 2,000		Belgium 12,000		U.S.A. 24,000 (forecast)		81,000 tons
SEPTON	19,000 tons			U.S.A. 12,000		Kashima Plant 4,000		35,000 tons
Methacrylic resin	20,000 tons				Nakajo Plant 20,000			40,000 tons
Methacrylic sheets	28,600 tons	Nakajo Plant 5,000	Nakajo Plant 10,000				China 3,000 (forecast)	46,600 tons

cations, and is developing new gas barrier materials that will be superior to *EVAl*. In response to an increasing number of new applications in the food-packaging field, expansion in the fuel tank field, and accelerated growth in new markets such as China, we commenced steps to upgrade production facilities in Europe in October 2004, increasing capacity by 12,000 tons and plan to complete upgrades in the United States next spring adding a further 24,000 tons to production capacity.

Q What was Kuraray's objective in its December 2004 acquisition of the PVB film business of the German firm HT Troplast AG?

We bought the PVB film business for the purpose of strengthening and expanding our poval-related businesses, but the acquisition also gave the Kuraray Group an integrated manufacturing structure in the downstream businesses from vinyl acetate forward.

Today only four firms in the world manufacture PVB film, and Kuraray's integrated manufacturing system is an important strength that allows the Company to develop new products and bring them to market faster than the competition.

PVB film is primarily used in the manufacture of laminated safety glass for construction and automotive use. In construction, laminated safety glass is primarily used for flat panes. In automobiles, however, it is mainly used for windshields, where subtly curved surfaces are required. This results in stringent requirements for the resin from which the

film is made. Because 70% of PVB resin material is poval, the quality of the poval used has a strong effect on the quality of the resulting PVB resin and film. Kuraray's poval is first in the world in terms of both quantity and quality, and this means that our technology will become more important in improving the quality of downstream products.

The PVB film business that we acquired has primarily focused on European markets, but we are expanding it into a global business by developing operations in Asia and North America.



Junsuke Tanaka
 Managing Director
 Responsible for Specialty Resin
 and Film Sector

Q What issues do you expect to emerge in the expanding optoelectronics industry?

In the optoelectronics field, we are first of all seeking to expand sales of poval film, which is needed to support the high growth in the liquid crystal product market. Poval film is indispensable in the manufacture of polarized film for liquid crystal displays (LCDs), and Kuraray commands a 90% share of the world market. The Company will double its production capacity by this fall, and will utilize its integrated poval manufacturing structure and its original technology to meet the ever-sophisticated needs posed by the rising performance and increasing sizes of LCD panels. Kuraray's methacrylic resin is widely used in light guide plates, and the Company will use its precision resin-molding technology to contribute to the development of thinner display devices. In January 2005 we introduced our new backlighting devices, which combine the light-guide plates, prism sheet, and diffusion sheet into a single unit. In addition to the new backlighting devices, Kuraray will continue to use the expertise in optoelectronic design and precision molding technology accumulated during the 1980s to develop the market for diffusion plates, light guides, and other optical sheets. The Company is also pressing forward with the development of next-generation display materials through polymer compounding technology.

Q Lastly, please discuss the future of the Chemicals and Resins Business.

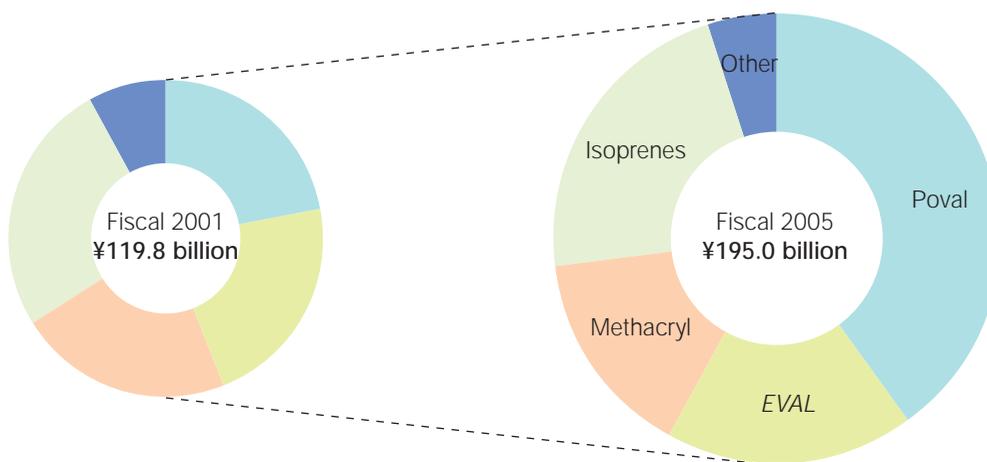
In the future we're not going to scattershot our efforts across the board on general-use and specialty products. Instead, we're going to specialize in areas where we're strong and make the expansion of those businesses our top priority. The Kuraray Group will turn away from commodity chemicals and

stress speciality chemicals. Basic R&D will be conducted in Japan, but the development of applications and markets worldwide will be anchored in Asia, Europe, and North America. We are on the road to further progress in the fields of poval, EVAL, isoprenes, methacryl, and other materials, and through R&D we aim to achieve major expansion of these businesses.

We are working for sustained growth and improvement of profit ratios in the poval business through integration of upstream and downstream operations. High growth is forecast to continue in the market for EVAL. However, we are not clinging solely to EVAL, but are working to expand our gas barrier business on a comprehensive basis. In addition, we are not limiting our vision for the heat and abrasion resistant resin GENESTAR, born of isoprene technology, to its role as an electronics material, but are working to make it an important material in the auto parts field. There is a possibility that flexible acrylic resin, which has the transparency and plasticity of methacryl, and our acrylic thermoplastic elastomer, the first such material in the world, will in the future become our next core businesses. To that end, we are pushing forward with the development of markets for these new products.

Chemicals and resins are the Kuraray Group's core businesses, and we will be pursuing significant expansion in this field through a fusion of its original material R&D capabilities and its high-level processing technology.

SALES GROWTH IN THE CHEMICALS AND RESINS BUSINESS



BOARD OF DIRECTORS, CORPORATE AUDITORS, AND EXECUTIVE OFFICERS



(From right, standing)
Osamu Asaba,
Junsuke Tanaka,
Tsutomu Yabuta,
Koichi Kushida,
Katsumi Ohashi,
Seiji Wajiki,
Nobusuke Takeuchi

(From right, seated)
Hiroto Matsuo,
Yasuaki Wakui

BOARD OF DIRECTORS

Representative Director and Chairman
Hiroto Matsuo

Representative Director and President
Yasuaki Wakui

Senior Managing Director
Koichi Kushida New Business Development Division, Office of CSR,
Genestar Division

Managing Director
Tsutomu Yabuta Corporate Management Division, Office of Public
Relations, Accounting and Finance Division, General
Affairs and H.R. Division

Managing Director
Katsumi Ohashi Business Process Innovation Team, Purchasing and
Logistics Division

Managing Director
Junsuke Tanaka Specialty Resin and Film Sector

Managing Director
Seiji Wajiki Chemicals and Medical Products Sector

Managing Director
Osamu Asaba Fibers and Textiles Sector

Director
Nobusuke Takeuchi Technology Division, Management of Domestic Plants

CORPORATE AUDITORS



Standing Corporate Auditor
Akira Matsuzawa



Standing Corporate Auditor
Tatsuya Nakano



Corporate Auditor (external)
Kazuhide Kashiwabara



Corporate Auditor (external)
Ichiro Kobayashi



Corporate Auditor (external)
Toshimitsu Kitagawa

EXECUTIVE OFFICERS

Senior Executive Officers

Junsuke Tanaka Responsible for Specialty Resin and Film Sector

Seiji Wajiki Responsible for Chemicals and Medical Products
Sector

Osamu Asaba Responsible for Fibers and Textiles Sector

Noriaki Yoshimura General Manager, New Business 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 Resin Company

Executive Officers

Kanji Shimoda General Manager, Genestar Division

Hiroaki Yoshino President, Kuraray America, Inc.

Toshihide Sakai General Manager, Okayama Plant

Susumu Gotanda General Manager, Nakajo Plant

Noboru Yanagida Assistant to Managing Director: Responsible for
Specialty Resin and Film Sector

Kenzo Sawada Vice President, Kuraray Specialties Europe GmbH

Hideo Tomita General Manager, General Affairs and Personnel
Division

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

CORPORATE GOVERNANCE

Fundamental Philosophy

Kuraray is striving to maintain an appropriate relationship with shareholders and other stakeholders and meet its responsibilities with regard to society, in order that the Group may achieve sustained growth and improve performance over the long term as an enterprise operating on the global stage. The strengthening of corporate governance functions and the establishment of highly transparent and fair management are fundamental imperatives.

To achieve these objectives, Kuraray is reinforcing oversight and supervisory functions, beginning with the Board of Directors and the Board of Auditors. To address the issues of succession planning, primarily the selection and compensation of the president, internal control systems, and risk management, we have deployed a corporate governance system as discussed below.

Status of Corporate Governance Systems

Kuraray has chosen the "Company with Corporate Auditors" system. Through the reinforcement of the Board of Auditors and the other measures discussed below, the Company is seeking to heighten management efficiency and the effectiveness of supervisory and oversight functions.

(1) Corporate organizations

a. Board of Directors and Executive Officer System

To increase the agility of management decision-making, Kuraray has reduced the maximum number of directors to ten, and the Group currently has nine directors. No outside directors have yet been elected.

To clarify responsibilities for management decision-making, oversight, and execution of operations, we have implemented an executive officer system. A representative director (chairman and president) is selected from among the directors, and three of the other directors also occupy the post of executive officer.

Executive officers are the heads of business divisions, in-house companies, and important management organizations, and bear executive responsibility and responsibility for profitability. The term of office for directors and executive officers is one year.

b. Board of Corporate Auditors and Operational Audit System

Kuraray's Board of Auditors is composed of five people, of whom three are outside corporate auditors in accordance with Article 18-1 of Japan's Law for Special Provisions for the Commercial Code Concerning Audits, etc., of Kabushiki-Kaisha (Joint Stock Companies).

To strengthen the effectiveness of the Board of Corporate Auditors, we have appointed an organization of three assistants to the corporate auditors. We also ensure frequent opportunities for information exchange between the Board of Corporate Auditors, the Group Board of Corporate Auditors, which is composed of corporate auditors from the Group companies, and the eight-member Office of Internal Auditors, which is an organization specializing in internal audits.

Compensation for Directors

Position	Number of Positions	Compensation (¥ million)	Notes
Director	12	287	The maximum monthly compensation for directors is ¥30 million. The maximum monthly compensation for corporate auditors is ¥8 million. (By resolution of the June 2003 annual general meeting of shareholders.)
Corporate Auditor	5	70	
Total	17	358	

Notes:

- In addition to the above, compensation of ¥29 million is paid to directors having duties in an employee's capacity.
- The amounts above do not include bonuses to directors of ¥56 million paid out earnings last fiscal year.
- The above includes two directors who resigned during this fiscal year.
- In addition to the above, retirement bonuses of ¥66 million were paid to the two directors who resigned during this fiscal year.

(2) Establishment of the Management Advisory Committee

The Management Advisory Committee was established to ensure regulatory and statutory compliance by the president in the execution of operations, to protect the rights of shareholders, and guarantee management transparency.

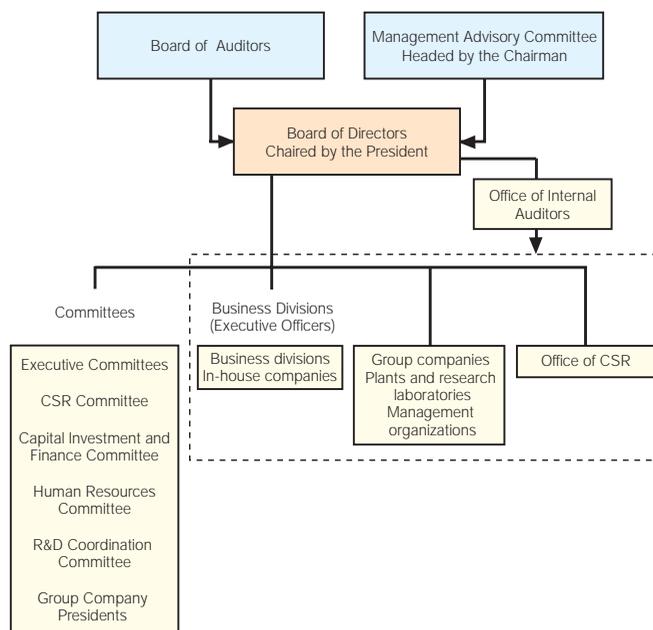
The Management Advisory Committee is composed of five standing members: Kuraray's chairman, an adviser, and a corporate auditor, and two outside members of prominent standing. The committee provides advice on a regular basis on important management policies and issues such as the nomination, selection and compensation of the president.

(3) Establishing internal control and risk management systems

Kuraray is striving for transparent and efficient management through business management regulations, including the segregation of duties and decision-making authority in accordance with established standards, and ensures that organizational operations are thoroughly guided by management policies through the Group's medium-term and annual plans. In addition, Kuraray has established committees to study important management policies, strategies, and management risks.

The Corporate Ethics and Compliance Team has been established within the CSR Committee to standardize compliance and risk management throughout the Kuraray Group.

The Office of Internal Auditors, which is responsible for independent audits of internal organizations, has ties with corporate auditors and independent auditors. In addition to ensuring the reliability of the Kuraray Group's financial data, it is concerned with auditing internal controls and risk management to ensure the appropriateness and effectiveness of business operations.



Steps Taken to Strengthen Corporate Governance

During the past year, the Management Advisory Committee has met twice, and the CSR Committee four times.

In April 2005, corporate functions were strengthened and management systems were reviewed Groupwide. Legal, environmental protection and risk management functions were combined in the Office of CSR, and a Business Process Innovation Team was established to drive business

AT A GLANCE

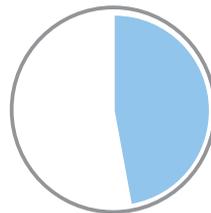
NET SALES (MILLIONS OF YEN)

MAJOR PRODUCTS

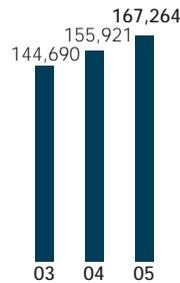
Chemicals and Resins



NET SALES BY BUSINESS SEGMENT



47.2%



Poval, *MOWIOL*

PVA film

MOWITAL (PVB resin)

PVB film

EVAL resin

EVAL film

SEPTON, *HYBRAR* (thermoplastic elastomer)

Fine chemicals

Methacrylic monomer

Methacrylic resin

Methacrylic sheets

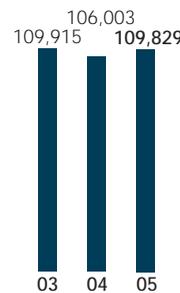
Fibers and Textiles



NET SALES BY BUSINESS SEGMENT



30.9%



KURALON (PVA fiber)

KURALON K-II (new type of PVA fiber)

Polyarylate fiber

Polyester staple

Polyester filament

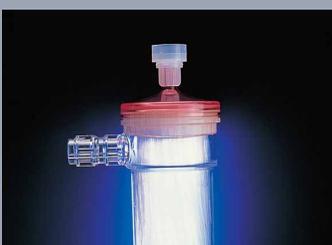
CLARINO, *AMARETTA* (man-made leather)

KURAFLEX (dry-laid woven fabric)

Melt-blown nonwoven fabric

MAGIC TAPE (hook and loop fastener)

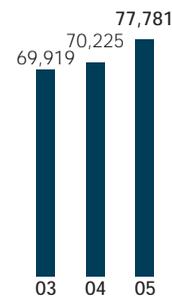
High-Performance Materials, Medical Products and Others



NET SALES BY BUSINESS SEGMENT



21.9%



Opto-screens

GENESTAR (heat-resistant polyamide resin)

Liquid crystalline polymer film

High-performance membranes

PVA gel

Dental materials

Medical devices

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)	70,000 t
	POVAL ASIA PTE LTD (Singapore)	20,000 t
Computers, LCD televisions, monitors	Kuraray Saijo Co., Ltd. (Ehime)	31,000,000 m ²
	Kuraray Tamashima Co., Ltd. (Okayama)	30,000,000 m ²
Interlayers for windows and windshields, paints, adhesives	Kuraray Specialities Europe GmbH (Frankfurt, Germany)	20,000 t
Laminated safety glass	Kuraray Specialities Europe GmbH (Troisdorf, Germany)	22,000 t
	OOO Trosifol (Nizhny Novgorod, Russia)	4,000 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)	24,000 t
Food packaging material	Okayama Plant (Okayama)	3,000 t
PVC and vulcanized rubber substitute, food packaging materials	Kashima Plant (Ibaraki)	23,000 t
	SEPTON Company of America (Texas, U.S.A.)	12,000 t (March 2007 + 6,000 t)
Pharmaceutical and agrochemical intermediate, vitamin precursor	Nakajo Plant (Niigata)	—
Solvents, adhesives, methacrylic resin	Nakajo Plant (Niigata)	67,000 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
	Kuraray Methacrylate (Zhangjiagang) Co., Ltd.	— (mid FY2005 + 3,000 t)
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 (March 2006 + 100 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, bags, sporting goods, luxury clothing, interior furnishings	Okayama Plant (Okayama)	15,500,000 m ²
	Hexin Kuraray Micro Fiber Leather (Zhejiang)	4,000,000 m 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. (Fuku)	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)	4,000 t (neat polymer base)
Circuit-board substrates	Kurashiki Plant (Okayama)	150,000 m 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)
Water purification facilities, gas separators	Kuraray Chemical Co., Ltd. (Okayama)	22,500 t
	Cenapro Chemical Corporation (Philippines)	10,000 t (July 2006 + 3,000 t)
	Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.	1,000 t

Chemicals and Resins

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

Fibers and Textiles

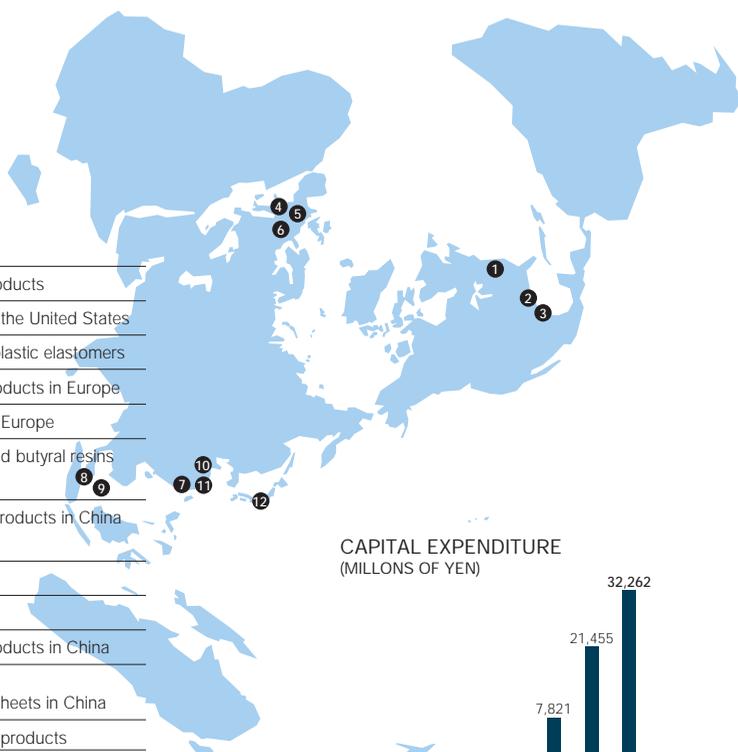
- Man-Made Leather
CLARINO/AMARETTA/PARCASSIO
- KURALON/KURALON K-II
- New-Type Polyester
SOPHISTA
- Nonwoven Fabrics
KURAFLEX
- Fastening Materials
MAGIC TAPE

High-Performance Materials, Medical Products and Others

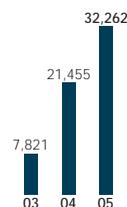
- High-Performance Materials
Opto-screens/GENESTAR/Liquid crystalline polymer film
- Medical Products
Dental materials/Artificial kidneys
- Environmental Businesses
Industrial membranes/Activated carbon

Chemicals and Resins

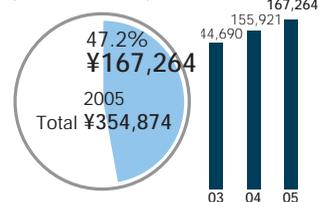
Company Name	Capital (Millions)	Activities
1 Kuraray America, Inc.	US\$ 10.1	Importing and sales of Kuraray products
2 Eval Company of America	US\$ 4.15	Manufacture and sales of <i>EVAL</i> in the United States
3 SEPTON Company of America	US\$ 35	Manufacture and sales of thermoplastic elastomers
4 Kuraray Europe GmbH	€ 31.2	Importing and sales of Kuraray products in Europe
5 EVAL Europe N.V.	€ 29.7	Manufacture and sales of <i>EVAL</i> in Europe
6 Kuraray Specialities Europe GmbH	€ 20.0	Manufacture and sales of poval and butyral resins and film
7 Kuraray Hong Kong Co., Ltd.	HK\$ 4.65	Processing and sales of Kuraray products in China and Southeast Asia
8 Kuraray Specialities Asia Pte., Ltd.	SP\$ 45.6	Sales of poval resins
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 (Zhangjiagang) Co., Ltd.	US\$ 5.0	Manufacture of methacrylic resin sheets in China
12 Kuraray Co., Ltd.	¥ 88,955	Manufacture and sales of Kuraray products



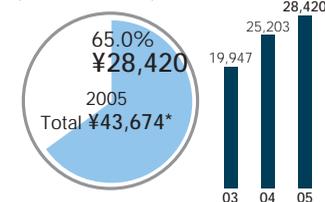
CAPITAL EXPENDITURE (MILLIONS OF YEN)



NET SALES (MILLIONS OF YEN)



OPERATING INCOME (MILLIONS OF YEN)



*Companywide costs (¥10,487 million) are not allocated among business segments.

Net sales of the Chemicals and Resins Business grew ¥11,343 million, or 7.3%, to ¥167,264 million. Operating income rose by ¥3,217 million, or 12.8%, to ¥28,420 million.

Poval benefited from higher sales of optical-use film for use in LCDs. Sales of *EVAL* and isoprene chemicals also expanded, principally in Europe and the United States. However, the effects of soaring raw material and fuel prices made themselves felt.

In the area of methacrylic resin, the expansion of molding material manufacturing facilities led to growth in net sales.

Poval

Kuraray saw higher sales of poval resin in European and Asian markets for paper-related applications and stabilizer applications. Increased output of LCDs and larger screen sizes of flat-screen TVs drove up demand for optical-use poval film, bringing growth in net sales. Overall, both sales and earnings of poval operations increased. The 20,000-ton-per-year expansion of poval resin manufacturing facilities in Germany was completed, and Kuraray's downstream operations were strengthened with the acquisition of the PVB film business of HT Troplast AG, with its production capacity of 26,000 tons per year. In response to booming demand for optical-use film for use in LCD manufacturing, we have commenced the expansion of production capacity by 30 million m² per year, which will bring the total capacity to 61 million m².

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EVAL

The fiscal year saw solid demand for the EVOH resin *EVAL* in Japan and Europe for use in automobile fuel tanks and in the United States for use in food packaging. However, higher depreciation expenses accruing from the expansion of production facilities combined with soaring prices of raw materials and fuels to produce a decline in earnings, despite the expansion of sales. The 12,000-ton-per-year expansion of production facilities in Belgium was completed, and a 24,000-ton-

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. Kuraray has a high level of technological expertise in fields where quality and performance of stabilizers and paper processing agents is needed, and is expanding sales of water-soluble and easily molded EXCEVAL and other differentiated and high-specification materials.



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 90% 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.

Butyral Resin/Film

Kuraray markets a wide range of polyvinyl butyral resins, which are characterized by excellent adhesion to a variety of surfaces, such as glass and metals, and ease of 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. In December 2004 Kuraray acquired a PVB film business.

per-year expansion in the United States was begun. The new gas-barrier material SP-grade *EVAL*, which was developed from *EVAL* applications and offers excellent plasticity, was introduced to the market.

Isoprenes

The profitability of the thermoplastic elastomer *SEPTON* was affected by skyrocketing raw material and fuel prices, but demand for its use as a substitute for vulcanized rubber and flexible PVC was healthy, particularly in the United States and Europe. As a result, sales of *SEPTON* showed year-on-year growth. Kuraray is now expanding production capacity by 4,000 tons per year in response to renewed growth in demand. In the field of fine chemicals, sales of aroma chemicals and agricultural intermediates took an upturn. Overall sales of isoprene-related products expanded, but higher raw material and fuel prices caused earnings to decline.

Methacrylic

Progress was made in passing along higher raw material and fuel costs in the prices of our methacrylic resin products, and

last fiscal year's 20,000-ton-per-year expansion of molding material production facilities contributed to higher sales for use in optical applications such as light-guide plates, as well as general applications. As a result, growth was achieved in both revenues and earnings. An expansion of 5,000 tons per year in extruded-sheet production capacity was completed, and construction of expanded cast sheet manufacturing facilities in China, which will boost annual production capacity by 3,000 tons, is underway.

Methacrylic 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.



Optical-Use Methacrylic Resin

Kuraray is using its high-level precision molding and processing technology to develop optical applications for its methacrylic resin. These include high-performance, high-quality optical materials used in light guides and diffusion plates for LCD backlighting devices, and front plates with anti-reflective properties and hard-coatings for various display devices.



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 V-grade *SEPTON* in fields where heat resistance is needed, such as auto



parts. In the future, a number of new applications are expected.

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 the first in the world to develop this material, which has a broad range of applications as a food packaging material. It is also an eco-friendly material, because no harmful substances are emitted when it is incinerated.



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.



SP-Grade EVAL

This material adds plasticity, elasticity, superior workability to the properties of EVAL, and since October 2004 Kuraray has established production capacity of 5,000 tons per year. We have begun to develop new applications in the food-packaging field, such as shrink film for fresh meats, wrappings for desserts, and containers for beverages.



Performance by Geographic Segment

Japan

In Japan, sales of poval film for use in polarized film for LCDs remained strong, while sales of EVAL and SEPTON expanded steadily. The Company worked to minimize the effects of higher prices for raw materials and fuels by passing along the increase in product prices and cutting costs.

Europe

Sales of poval and EVAL increased, although the rising euro brought stiffer competition, despite high raw material and fuel prices.

North America

North American SEPTON manufacturing facilities are operating at full capacity, and demand for EVAL for food packaging applications was steady. However, the effects of high raw material and fuel prices and the rise of the yen against the dollar were felt.

Asia

While results of poval and other resins were solid, performance was impacted by high raw material and fuel prices and the rise of the yen against the dollar had an affect.

Outlook

We anticipate the effects of our strategic capital investment and M&A will emerge in the chemicals and resins business, bringing additional growth in earnings.

We will expand sales of optical-use poval film for use in LCDs, as well as of poval resin differentiated products, and will work to expand the market in its PVB business. In addition to the expansion of EVAL sales for existing applications, the Company will accelerate development of the market for SP-grade EVAL and push forward with the development of next-generation gas-barrier materials. We will work to accelerate growth in sales of thermoplastic elastomers worldwide, and to find new optical applications for methacrylic resin.

Isoprene Specialty Chemicals

With its proprietary specialty-chemical and compounding technologies, Kuraray has become the sole source for diol and polyol products used as raw materials for polyurethane and resin modifiers. In addition, the highly stable and easy to handle industrial solvent FINETOP is attracting attention in a number of industrial sectors in this era of rising environmental concern.



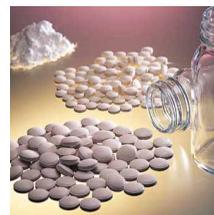
Aroma Chemicals

The Company has built a unique fine chemicals business around isoprene, a component molecule of natural rubber. Today, Kuraray markets more than 30 aroma chemicals, including linalool (lily of the valley scented) and citral (lemon scented), as well as isoprene glycol and other materials used in cosmetics manufacturing. Aroma chemicals produced through isoprene chemistry are used in various hair care products.

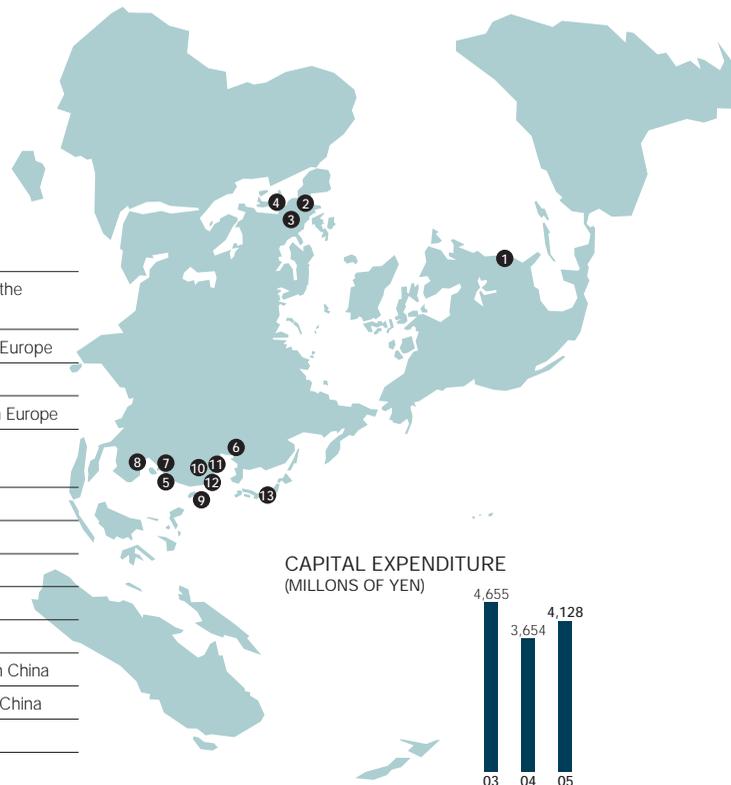


Pharmaceutical Intermediates

Employing its expertise in fine-chemical technology, Kuraray has developed pharmaceutical intermediates for antivirals, hypertension drugs, antibiotics, and other medications. The Company also markets intermediates for highly safe agricultural chemicals and home-use pyrethroid insecticides.

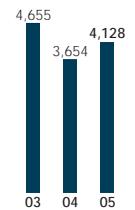


Fibers and Textiles

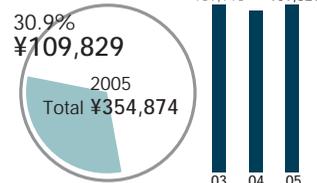


Company Name	Capital (Millions)	Activities
1 Kuraray America, Inc.	US\$ 10.1	Importing and sales of Kuraray products in the United States
2 Kuraray Europe GmbH	€ 31.2	Importing and sales of Kuraray products in Europe
3 Amaretta GmbH	€ 1.0	Sales of man-made leather in Europe
4 Lorica Sud S.r.l.	€ 0.9	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 Kuratray Garment Co., Ltd.	¥ 220	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 Magictape (Shanghai) Co., Ltd.	US\$ 0.6	Processing and sales of fastening materials in China
12 Kuraray (Shanghai) Co., Ltd.	US\$ 5.0	Importing and sales of Kuraray products in China
13 Kuraray Co., Ltd.	¥ 88,955	Manufacture and sales of Kuraray products

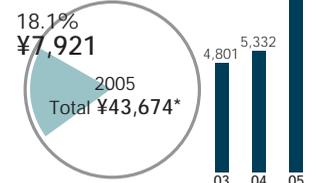
CAPITAL EXPENDITURE (MILLIONS OF YEN)



NET SALES (MILLIONS OF YEN)



OPERATING INCOME (MILLIONS OF YEN)



*Companywide costs (¥10,487 million) are not allocated among business segments.

Net sales of the Fibers and Textiles Business rose ¥3,826 million, or 3.6%, to ¥109,829 million, and operating income grew ¥2,589 million, or 48.6%, to ¥7,921 million.

Healthy sales of *KURALON* for unique applications employing its unique properties and export of *CLARINO* to China for sports shoe production targeting Europe and the United States and structural reform of the polyester business advanced steadily.

KURALON

Although the profitability of *KURALON* operations was affected by high raw material and fuel prices, sales for use as an asbestos substitute in FRC were healthy, as were sales for use in rubber materials, nonwoven fabrics, and other areas where Kuraray is strong. Net sales increased while earnings declined.

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.



VECTRAN

This is a polyarylate fiber with superior strength, lightness, water absorbency, and abrasion resistance. It is used in rope, fishing nets, and other industrial material applications, in sporting goods, and a range of other applications. It was also used in the air bags on the Mars exploration rovers.



CLARINO

The man-made leather *CLARINO* sold well in China for sports shoe production targeting Europe and the United States, and in Japan for use in bags, gloves, and accessories. As a result, revenues and earnings both increased. To meet strong demand in China, Kuraray is expanding production capacity by 4 million m².

Nonwoven Fabrics and Fastening Materials

Cost reductions and a halt in the downward trend in prices allowed nonwoven fabrics to post higher earnings on lower sales. Newly developed products allowed hook and loop fasteners to achieve growth in both revenues and earnings.

Polyester

Structural reforms in polyester filament operations advanced, and after factoring in the polyester-related businesses of Kuraray Trading, such as apparel and household materials, polyester filament operations moved into the black. However, staple fiber operations were strongly affected by high raw material and fuel prices, and recovery in polyester earnings overall was delayed.

Performance by Geographic Segment

Japan

Strong sales were recorded for *KURALON* as an asbestos substitute and *CLARINO* for bags and other applications. As a result of the development of markets for differentiated products, the scope of the loss suffered by domestic polyester operations contracted.

Europe

Demand for *KURALON* increased as a result of the European Union's complete ban on asbestos. The strong competition *CLARINO* has encountered in clothing applications continued, but sales for interior furnishing applications were healthy.

North America

Sales of *KURALON* for use in rubber and *CLARINO* for exterior applications were steady.

Asia

The use of *KURALON K-II* in water-soluble materials increased in China and Southeast Asia, and Chinese sales of *CLARINO* for use in sports shoes took an upturn. Kuraray's hook and loop fastener processing and sales subsidiary in China is on the right track.

Outlook

Kuraray is seeking earnings growth in the Fibers and Textiles Business through an expansion of its lineup of original products and structural reforms.

The Company is opening new markets for *KURALON*'s FRC applications and further expanding sales of differentiated products. With the opening of the Chinese joint-venture, man-made leather processing company, Kuraray will be seeking to increase the use of this material in interior furnishings. The Company will continue with structural reforms to polyester operations in an effort to achieve profitability.

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 series of lightweight fabrics are growing in popularity.



KURAFLEX

Kuraray's *KURAFLEX* drylaid 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.

The melt blown nonwoven fabrics can offer a number of properties, including filtering functionality, moisture permeability, water repellency, and we are using this material to develop coffee bags, food-packaging material, filter masks, and other products.

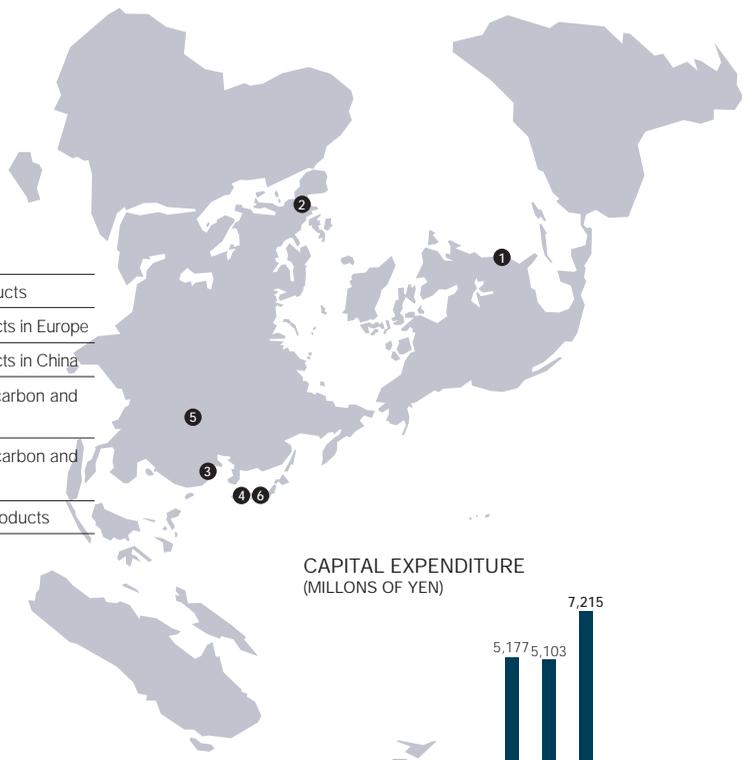


Hook and Loop Fasteners

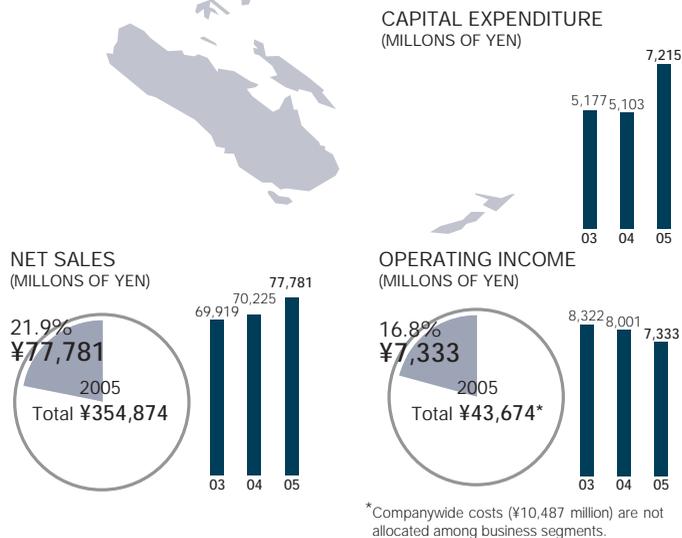
Kuraray's hook and loop fasteners are used in clothing, shoes, bags, medical products, and various industrial fields. The Company is presently engaged in the development of a back coating that uses no organic solvent for an environmentally friendly *MAGIC TAPE*.



High-Performance Materials, Medical Products and Others



Company Name	Capital (Millions)	Activities
1 Kuraray America, Inc.	US\$ 10.1	Importing and sales of Kuraray products
2 Kuraray Europe GmbH	€ 31.2	Importing and sales of Kuraray products in Europe
3 Kuraray (Shanghai) Co., Ltd.	US\$ 5.0	Importing and sales of Kuraray products in China
4 Kuraray Chemical Co., Ltd.	¥ 600	Manufacture and sales of activated carbon and related products
5 Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.	¥ 250	Manufacture and sales of activated carbon and related products
6 Kuraray Co., Ltd.	¥ 88,955	Manufacture and sales of Kuraray products



Net sales of High-Performance Materials, Medical Products and Others rose ¥7,556 million, or 10.8%, to ¥77,781 million, and operating income increased ¥668 million, or 8.4%, to ¥7,333 million.

In the optoelectronic products business, determined development of markets for high-performance materials lifted sales, but the optoelectronic and medical businesses were affected by falling market prices.

Optoelectronic products business

In the optoelectronic products business, Kuraray added MD-type opto-screens to its existing line of CRT-type opto-screens for rear-projection televisions. However, falling prices and low yield at new manufacturing facilities resulted in lower earnings on higher sales.

Opto-Screens

Kuraray holds one of the largest shares 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.

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.

VECRY (liquid-crystal-polymer conjugated filament)

VECRY is a polyarylate hybrid conjugated monofilament, whose special properties include high strength, high modulus, and low creep. It is used for the high-precision, high-density printing screens required in the production of plasma display panels, semiconductors,



and printed-wiring boards.

Medical Products

The annual revision of pharmaceutical prices by the government had an impact on health care products, which also continued to confront severe competition. Although demand for dental materials remained steady, inventory in trade adjustments resulted in declines in both revenues and earnings.

High-Performance Materials

The use of the heat resistant polyamide resin *GENESTAR* in electronics-materials applications increased steadily, and the adoption of *GENESTAR* for use in automobile engine compartments advanced. In the activated carbon business, the Company posted rising sales of nitrogen generators. The performance of engineering and other related businesses also took an upturn.

Performance by Geographic Segment

Japan

In the area of medical products, profitability was dampened by the annual revision of pharmaceutical prices by the government and harsh competition for artificial organs, while inventory in trade adjustments affected dental materials. The use of *GENESTAR* in electronics-materials applications expanded.

Europe and the U.S.

Sales of dental materials remained healthy despite inventory in trade adjustments. In the United States, sales of CRT-type opto-screens plunged sharply, but the volume of MD-type opto-screens increased, with the result that total

opto-screens sales increased slightly compared with the previous fiscal year.

Asia

The use of *GENESTAR* in electronics-materials applications expanded. Sales of CRT-type opto-screens in China stagnated as a result of inventory adjustments. Sales of activated carbon-type nitrogen generators in China were healthy.

Outlook

Kuraray will be seeking the expansion of earnings through increased sales of differentiated products in the High-Performance Materials, Medical Products and Others segment.

The Company will also focus on newly developed products. In the optoelectronics business, Kuraray will endeavor to improve the yield of its MD-type opto-screen business through improvement of manufacturing processes. In the medical products business, we will press forward with the expansion of dental material sales in the European and U.S. markets. The Company will strengthen the foundation of its *GENESTAR* mass production structure, and will expand sales of high-performance activated carbon products.

Dental Materials

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.



Industrial Membranes

These filter membranes, which can remove microparticles of sizes ranging from 0.003 to 3 microns from liquids, have numerous industrial applications. They are used in food processing, including the manufacture of Japanese sake rice wine, water purification, wastewater treatment, and are marketed as filters for producing the ultrapure water that

is indispensable in semiconductor manufacturing and other cutting-edge manufacturing processes.



RESEARCH AND DEVELOPMENT

The Kuraray Group's strategic research and development has the objectives of developing its speciality chemicals business in the strategic markets of environment and energy, IT-related materials, and medical and health care, on the strength of original technology. This involves both creating and fostering new businesses, and strengthening and expanding core businesses.

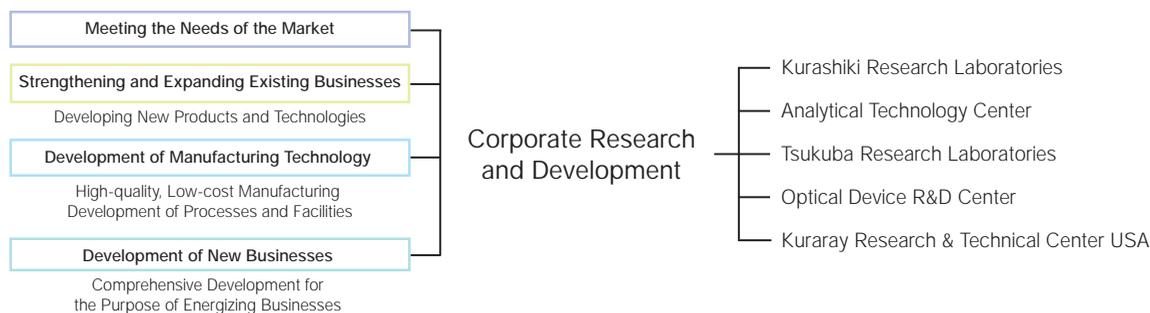
Reforms of research and development organizations and the acceleration of commercialization

The Kuraray Group's research and development organizations consist of corporate research (the New Business Development Division, etc.), divisional research and development (the in-house companies, business divisions, and Group member companies), and manufacturing technology development (the Technology Division, etc.), and are

staffed by over 800 researchers and engineers. Of the total, 30% of the Group's R&D staff is employed in corporate research, the in-house companies account for 50%, and the Technology Division is 20%.

In corporate research, we sought to speed the process of new business creation by merging the Corporate Strategy and Planning Division and the Research and Development Division to form the New Business Development Division in April 2005. A "selection and concentration" approach in new business development projects will increase the speed of commercialization and the identification of new business opportunities.

In addition, the Project Promotion Department was established with a mandate to speed the commercialization of products emerging from strategic research themes. As commercialization proceeds, the Project Promotion



Department forms working groups for each project to develop components that are further downstream toward finished products. The Department's main focus is on such themes as components for displays, batteries and power sources, electronics materials, and nanodevices, all of which support the acceleration of product commercialization. Of the corporate research and development resources, about half is allocated to the Project Promotion Department's themes.

Pursuing efficiency through matrix management

Corporate research has greater cross-boundary functionality than divisional research and development, and therefore employs matrix management. This structure maintains close liaisons with the various organizations involved in the development of manufacturing technology, as well as the research and development departments of the in-house companies and Group member firms. For instance, the Analytical Technology Center, as the Kuraray Group's



KURASHIKI RESEARCH LABORATORIES/
ANALYTICAL TECHNOLOGY CENTER
(OKAYAMA PREFECTURE)



TSUKUBA RESEARCH LABORATORIES/
OPTICAL DEVICE R&D CENTER
(IBARAKI PREFECTURE)



KURARAY RESEARCH & TECHNICAL CENTER USA
(PASADENA, TEXAS)

R&D HIGHLIGHTS IN FISCAL 2004

New businesses in growth domains	Components for displays	<ul style="list-style-type: none"> • Display components using high-precision processing technology; components for backlighting devices <ul style="list-style-type: none"> > <i>MIRABRIGHT</i>, a new liquid crystal backlighting device component marketed • Development of new technology that will enable production of revolutionary new backlighting-device components <ul style="list-style-type: none"> > Underway at the Optical Device R&D Center in Tsukuba
	New biotechnology and medical products	<ul style="list-style-type: none"> • Development of nanodevices and microdevices with applications in biotechnology and medicine, using ultra-high-precision processing technology <ul style="list-style-type: none"> > A number of products are now with customers for evaluation
New businesses in core business fields	Next-generation engineering plastics	<ul style="list-style-type: none"> • <i>GENESTAR</i> <ul style="list-style-type: none"> > Developing basic manufacturing-process technology using new catalysts, in a drive to expand this business on a global scale
	New high-performance materials	<ul style="list-style-type: none"> • World's first acrylic thermoplastic elastomer developed <ul style="list-style-type: none"> > Mass-production technology established, full-scale marketing now underway • High-performance barrier material using nanotechnology <ul style="list-style-type: none"> > Development of basic technology completed, customer evaluation underway at pilot plant

analysis center, supports the resolution of issues arising in the development of manufacturing technology at the in-house companies, business divisions, and Group member firms, using diagnosis and analysis technology. This center serves the entire Group, including its overseas components, concentrating on urgent and important issues. Its special analysis function has been successful in a number of cases.

Revamping our employee patent compensation system for creating, safeguarding, and using intellectual property

Kuraray established an employee patent compensation and incentive award system in 1963 to strengthen its foundation for discovery and creativity, and has improved this system over the years. Under amendments implemented in April 2005, a patent is no longer considered as a single factor, but rather, all the products using that patent are considered to be a unit. Instead of the products concerned being evalu-

ated on the basis of net sales and profit as before, the fundamental importance of a patent is based on (1) whether it is a basic patent, (2) whether it gives us a competitive advantage, (3) whether it protects Kuraray's business, and (4) the international breadth of the patent's coverage. Patents that make a clear contribution to the Company's earnings are evaluated highly.

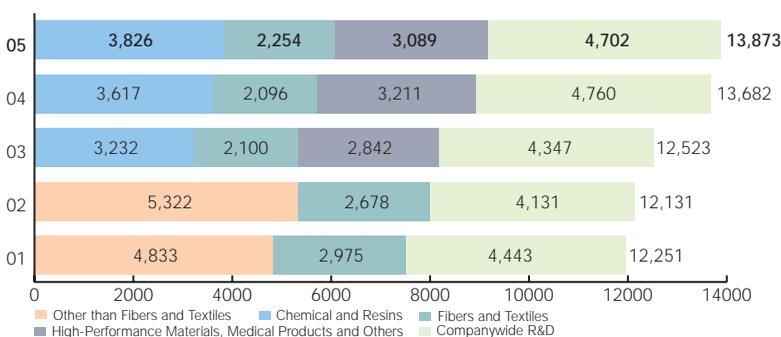
The revision to Article 35 of the Japanese Patent Law that came into effect in April 2005 imposes three duties on Kuraray:

- 1) Disclosure of standards for calculating compensation (Kuraray had already made such disclosure).
- 2) Consultation with employees prior to establishing procedures for compensation.
- 3) Establishment of a method for protesting the amount of compensation.

Consultations with employees were completed in July 2005. Regarding procedures for protesting amounts of compensation it is anticipated that the heads of the New

Business Development Division, Technology Division, Corporate Controlling Department, Personnel Department, Office of CSR, and Intellectual Property Center will form a Patent Compensation Board to handle such matters.

R&D EXPENSES (MILLIONS OF YEN)



CORPORATE SOCIAL RESPONSIBILITY

Since its establishment in 1926, Kuraray has maintained a fundamental management stance of contributing to society through product development born of creative technological innovation. In 1950, when Japan was beset by a postwar clothing shortage, Kuraray used Japanese technology to become the first in the world to commercialize the synthetic fiber *KURALON*. Using the limestone that even resource-poor Japan could produce and hydroelectric power, the synthetic fiber *KURALON* made a substantial contribution to the quality of life as a substitute for cotton.

The respect for the individual that is the cornerstone of the Kuraray Group's corporate philosophy is not limited to Kuraray's direct stakeholders. Rather, Kuraray's duties and responsibilities to society as a corporate citizen are deeply felt throughout the Group. Guided by its corporate ethic, "For the world; for humanity," Kuraray has for many years been involved in support for regional medical services through associated hospitals, has supported science education with its Chemistry Classes for Boys and Girls, and has participated in community volunteer activities. The "G-21" medium-term business plan Kuraray introduced in 2001 called for it to become "an eco-friendly company with unique technology." The Company therefore formulated a medium-term environmental plan to expand the environmentally friendly businesses that Kuraray is renowned for, and to move forward aggressively with environmental preservation activities.

The Functions and Structure of the CSR Committee

The CSR Committee was established in June 2003, and in July 2005 three subcommittees were organized within it: the Economic Subcommittee, the Environmental and Industrial Safety Subcommittee, and the Social



Responsibility Subcommittee. This organization strengthens Kuraray's risk management and compliance structure. Each subcommittee has a working team organized 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. In April 2005, the Office of CSR was established to serve as the secretariat of the CSR Committee. In addition to providing this function, the Office of CSR has responsibilities in the areas of environmental safety, quality control, legal affairs, and risk management.

Status of Important Programs

The Medium-Term Environmental Plan

In fiscal 2004 Kuraray began promoting activities leading toward the achievement of the numerical targets established in the Medium-Term Environmental Plan, beginning with the expanded utilization of biomass.

Beginning in 2002, the Kurashiki Plant began using refuse-derived fuel (RDF) and wood scrap from demolition (biomass) as substitutes for coal to fuel its boiler.

PROGRESS IN IMPLEMENTATION OF THE MEDIUM-TERM ENVIRONMENTAL PLAN

Numerical target	Unit	Base year	Fiscal 2003	Fiscal 2004	Target year
Reduction of 90% in emissions of PRTR-designated substances (JCIA program)	Tons	Fiscal 1999 4,434 (100%)	2,343 (53%)	2,525 (57%)	Fiscal 2007 443 (10%)
Reduction of 90% in external disposal volume of unutilized industrial waste	Kilotons	Fiscal 1999 14.6 (100%)	5.1 (35%)	5.4 (37%)	Fiscal 2005 1.5 (10%)
Increase of 30 percentage points or higher in waste utilization	%	Fiscal 1999 60	85	87	Fiscal 2006 90
Reduction of 10% in CO ₂ emissions per unit of production	Tons/Tons	Fiscal 1990 2.93 (100%)	3.18 (109%)	3.38 (115%)	Fiscal 2010 2.64 (90%)
Increase of 6 percentage points or higher in energy efficiency (one point per year)	%	Fiscal 1999 —	7.6	7.6	Fiscal 2005 6.0

Improvement of the facilities increased its capacity to utilize biomass from 1,000 tons to 16,000 tons, and it is operating steadily.

In the future, the increased use of biomass fuel will bring further reductions in the use of coal, which will reduce the emissions of carbon dioxide that is widely thought to contribute to global warming.

Social Contributions

Since 2004, Kuraray has been involved in a campaign to gather unused school bags and donate them to children overseas, in cooperation with the NGO, Japanese Organization for International Cooperation in Family Planning (JOICFP). Called "Sending School Bags Across the Sea," this campaign collects bags and school supplies for children in Afghanistan.

In 2004, the first year of the program, some 8,500 school bags were delivered to children in Afghanistan and Mongolia. This year we began the campaign on January 19, and collected about the same number of bags. They will be sorted by volunteers from among the employees of the Kuraray Group and the rest of the Randoseru Industry Association, and sent to Afghanistan and other countries as in the previous year. This activity is a social contribution suitable for a manufacturer, and Kuraray plans to continue in it in the years to come.



CHILDREN WITH SCHOOL BAGS IN AFGHANISTAN

The Kuraray Group also works to help employ people with disabilities, inviting their full participation in society. In June 1997, Nakajo Town in Niigata Prefecture, the social welfare institute, *Niji-no-ie* (Rainbow House), and Kuraray's Nakajo Plant together established a workshop on land owned by the township adjacent to the *Niji-no-ie* social welfare house for mentally challenged people. At this workshop, the hired staff are employed in removing the protective paper from acrylic resin sheets manufactured by Kuraray. The workshop employed 20 as of March 31, 2005.



PEOPLE AT WORK AT KURARAY'S WORKSHOP, NIJI-NO-IE

Compliance

To heighten consciousness of compliance issues, Kuraray conducts training for all employees through presentations on antitrust law, product liability, and laws of various other countries, as well as through the distribution of manuals tailored for the characteristics of different businesses. All domestic employees are provided with compliance cards showing the Group's principles for business conduct and its compliance declaration. Then, in fiscal 2004, the Kuraray Group compiled and published the Compliance Handbook as a practical guide for all employees, the Japanese-language version of which was distributed to Group employees in June 2005. Also in fiscal 2004, the Kuraray Group Employee Consultation Office was established to promote a highly transparent corporate culture.



THE COVER OF THE COMPLIANCE HANDBOOK



The CSR activities of the Kuraray Group are discussed in the Corporate Social Responsibility Report 2005, and at the Group's Web site:
<http://www.kuraray.co.jp/en/csr/index.html>

FINANCIAL SECTION

CONSOLIDATED SIX-YEAR SUMMARY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars
	2005	2004	2003	2002	2001	2000	2005
Net sales	¥354,874	¥332,149	¥322,524	¥305,862	¥313,651	¥316,444	\$3,316,579
Cost of sales	254,115	236,246	230,618	228,184	234,946	235,603	2,374,906
Selling, general and administrative expenses	67,572	67,857	66,720	58,720	58,774	60,520	631,514
Operating income	33,187	28,046	25,186	18,958	19,931	20,321	310,159
Net income	18,465	15,181	8,051	2,866	4,045	7,452	172,570
Capital expenditure	45,715	32,164	19,091	50,716	15,814	19,764	427,243
Depreciation and amortization	21,324	20,785	19,108	16,056	16,593	16,769	199,290
Gross cash flow	39,789	35,966	27,159	18,922	20,638	24,221	371,860
Total research and development expenses	13,874	13,684	12,523	12,131	12,251	12,097	129,664
Total assets	454,941	413,227	426,877	487,432	512,479	503,766	4,251,785
Total current assets	182,317	171,428	185,748	198,474	239,654	213,293	1,703,897
Property, plant and equipment, net	158,294	137,867	135,985	134,907	127,468	128,343	1,479,383
Total current liabilities	84,857	75,165	97,394	122,274	110,234	87,592	793,056
Total long-term liabilities	54,901	37,689	42,156	74,460	112,723	133,047	513,093
Total shareholders' equity	312,930	300,306	287,263	290,643	289,469	282,755	2,924,580
Amounts per share:							
			Yen				U.S. dollars
Net income:							
Primary	¥50.13	¥40.81	¥21.01	¥7.49	¥10.56	¥20.00	\$0.47
Fully diluted	50.12	—	20.71	7.45	10.46	19.42	0.47
Cash dividends applicable to period	12.00	10.00	9.00	9.00	9.00	9.00	0.11
Total shareholders' equity	852.26	817.57	771.38	759.25	756.07	738.53	7.97
Financial ratios:							
Ratio of cost of sales (%)	71.6%	71.1%	71.5%	74.6%	74.9%	74.5%	
Equity ratio (%)	68.8	72.7	67.3	59.6	56.5	56.1	
Return on equity (%)	6.0	5.2	2.8	1.0	1.4	2.7	
Return on assets (%)	7.6	6.7	5.5	3.8	3.9	4.1	
Number of employees	6,919	6,760	6,983	7,115	7,121	7,433	

Notes: *The United States dollar amounts represent the translation of Japanese yen at the rate of ¥107=\$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 2004 (from April 1, 2004 to March 31, 2005).

Sales

Total consolidated net sales increased 6.8%, or ¥22,725 million, to ¥354,874 million (US\$3,316,579 thousand) for fiscal year 2004.

Sales of chemicals and resins rose by 7.3%, or ¥11,343 million, to ¥167,264 million (US\$1,563,215 thousand). Sales volumes of poval resins, poval film, EVOH resin *EVAL*, thermoplastic elastomer *SEPTON*, methacrylic resins, and other core products expanded on the back of strategic capital expenditures in recent years. These core products were able to progressively shift a greater portion of higher fuel and raw material costs to product prices.

Sales of fibers and textiles increased 3.6%, or ¥3,826 million, to ¥109,829 million (US\$1,026,439 thousand). Both domestic and overseas demand were strong for *KURALON* and *CLARINO* as consistent efforts were made to realize an upward adjustment in sales prices.

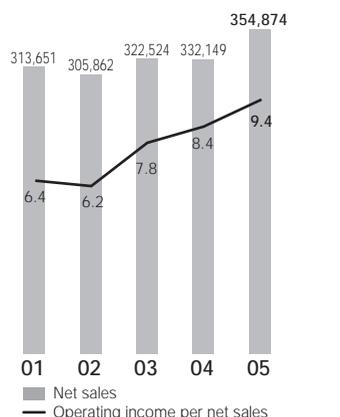
Sales of high-performance materials, medical products and others increased 10.8%, or ¥7,556 million, to ¥77,781 million (US\$726,925 thousand), led by strong sales of *GENESTAR* and activated carbon.

Net sales in each of Kuraray's geographic segments displayed year-on-year increases during fiscal 2004. Domestic sales increased 6.0%, or ¥15,161 million, to ¥269,534 million (US\$2,519,009 thousand), as a result of strong sales, the shift of higher fuel and raw material costs to product prices, and increased exports of optical-use poval film, *EVAL*, *SEPTON*, methacrylic resin, *CLARINO*, *KURALON*, and *GENESTAR*. In North America net sales rose 12.3%, or ¥3,011 million, to ¥27,586 million (US\$257,813 thousand), with *SEPTON* manufacturing facilities operating at full capacity and strong demand for *EVAL* in food packaging applications. In Europe, net sales rose 5.9%, or ¥2,338 million, to ¥42,187 million (US\$394,271 thousand), despite a largely negative impact from the strengthening of the euro, stiffening competition, and rising fuel and raw material prices. Sales throughout Asia were particularly strong, rising 16.6%, or ¥2,215 million, to ¥15,567 million (US\$145,486 thousand), and this increase came even as we made progress in raising PVA prices.

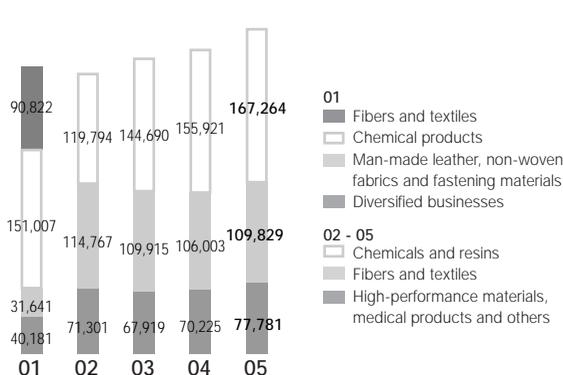
Operating Income and Net Income

Cost of sales increased 7.6% to ¥254,115 million (US\$2,374,906 million) and as a percentage of net sales increased from last fiscal year's 71.1%, to 71.6%, primarily due to the sharp rise in raw material and fuel

NET SALES & OPERATING INCOME PER NET SALES
(Millions of yen) (%)



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.

prices. Competitive markets prohibited the entire transfer of these additional costs to finished product prices, but the relentless rationalization of costs, successful new product development, emphasis on proprietary products, and expanded segment sales were all effective measures in offsetting the increases in fuel and raw material prices. Selling, general and administrative expenses were reduced 0.4% to ¥67,572 million (US\$631,514 thousand). As a percentage of net sales, SG&A declined from 20.4%, to 19.0%. Operating income grew 18.3% to ¥33,187 million (US\$310,159 thousand). The operating income ratio has risen for four consecutive fiscal years, from 6.2%, to 7.8%, then to 8.4% and to 9.4% for fiscal 2004.

Interest and dividend income increased 6.3% to ¥1,192 million (US\$11,140 thousand), reversing the declines seen in recent years, and interest expenses declined a further 54.7% to ¥297 million (US\$2,776 thousand). Income before income taxes and minority interests climbed 27.0% to ¥29,845 million (US\$278,925 million), continuing the trend established by gains of 63.5% and 131.8% increases in the previous two fiscal years.

Net income surged 21.6% to ¥18,465 million (US\$172,570 million), on the heels of last fiscal year's 88.6% leap.

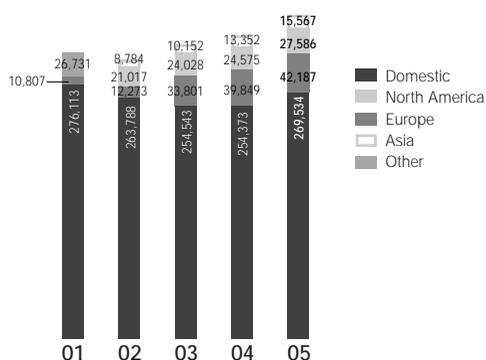
Financial Position

Cash and cash equivalents increased by ¥9,728 million to ¥16,743 million, marketable securities were cut by ¥2,434 million to ¥5,990 million, and, primarily as a result of acquisitions such as the PVB film business, inventories increased by ¥2,306 million to ¥64,173 million. As a result of these and other factors, total current assets increased 6.4% to ¥182,317 million (US\$1,703,897 thousand). The number of months' sales in inventory remained unchanged from the previous year at 2.2 months.

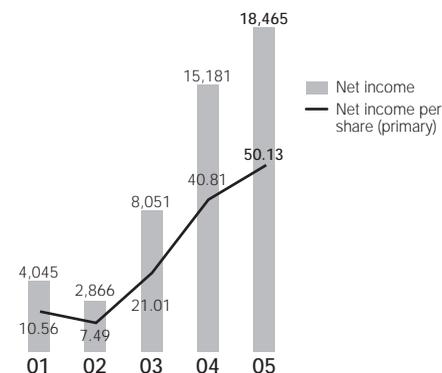
Property, plant and equipment increased 14.8% to ¥158,294 million (US\$1,479,383 thousand). This was principally because land rose 11.6% to ¥20,289 million (US\$189,617 thousand), buildings increased 4.0% to ¥92,759 million (US\$866,906 thousand), machinery and equipment increased 8.3% to ¥421,146 million (US\$3,935,944 thousand), and construction-in-progress edged up 2.8% to ¥21,527 million (US\$201,187 thousand). Strategic acquisition and expansion fueled much of the improvement in these areas.

Investments and other assets rose 10.0% to ¥114,330 million (US\$1,068,505 thousand), chiefly as a result of a 13.9% increase in goodwill, to ¥31,661 million (US\$295,897 thousand), and a 157.7% rise in other intangible assets to ¥6,272 million (US\$58,617

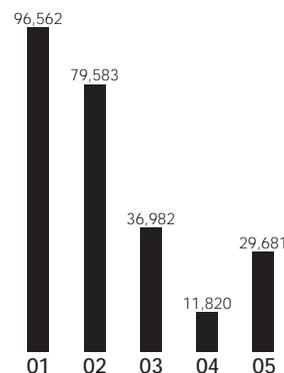
NET SALES BY GEOGRAPHIC SEGMENT
(Millions of yen)



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.

thousand).

Working capital (the difference between the balance of notes and accounts receivable plus inventories, and notes and accounts payable) rose from ¥98,001 million in the previous year, to ¥99,949 million, but the current ratio edged downward from 228.1% in the previous fiscal year, to 214.9%. Return on total assets improved from 6.7%, to 7.6%.

Total current liabilities rose 12.9% to ¥84,857 million (US\$793,056 thousand), as short-term bank loans increased 288.7% to ¥10,013 million (US\$93,590 thousand), the current portion of long-term debt climbed 24.0% to ¥3,434 million (US\$32,093 thousand), notes and accounts payable edged up 2.9% to ¥50,377 million (US\$470,813 thousand), accrued income taxes climbed 24.6% to ¥5,850 million (US\$54,673 thousand), and accrued expenses and other advanced 15.1% to ¥15,183 million (US\$141,897 thousand).

Related to the increase in assets, total long-term liabilities increased 45.7% to ¥54,901 million (US\$513,093 thousand). Long-term debt rose 367.2% to ¥16,234 million (US\$151,720 thousand) and deferred income taxes increased 82.5%, reaching ¥7,345 million (US\$68,645 thousand). Accrued retirement benefits declined 2.4% to ¥13,469 million (US\$125,878 thousand), while other increased 9.0% to ¥17,853 million (US\$166,850

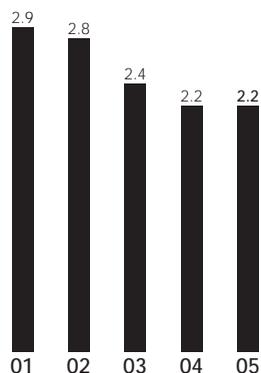
thousand). Minority interests rose from ¥67 million to ¥2,253 million (US\$21,056 thousand), in connection with a newly consolidated forwarding and transportation subsidiary.

Total shareholders' equity increased 4.2% to ¥312,930 million (US\$2,924,580 thousand). Principal factors included a 9.3% increase in retained earnings, to ¥138,951 million (US\$1,298,608 thousand), a 14.0% rise in unrealized gain on revaluation of securities to ¥9,012 million (US\$84,224 thousand), and a 1.1% increase in treasury stock at cost to ¥11,823 million (US\$110,495 thousand). As a result, total liabilities and shareholders' equity rose 10.1% to ¥454,941 million (US\$4,251,785 thousand), and the equity ratio declined 3.9 percentage points to 68.8%.

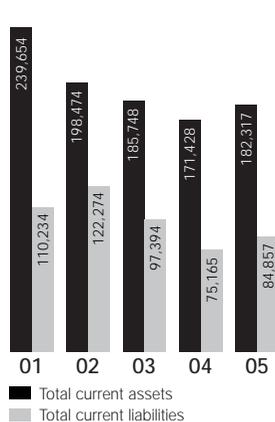
Cash Flows

Net cash and cash equivalents provided by operating activities grew 28.8% to ¥39,615 million (US\$370,234 thousand), largely as a result of the 27.0% jump in income before income taxes and minority interests. Significant changes also included: a smaller decrease in accrued retirement benefits, net, from last fiscal year's ¥2,366 million, to ¥357 million; and a drop in gain on sale of property, plant and equipment from last term's ¥3,958 million, to ¥259 million. In addition, interest expenses

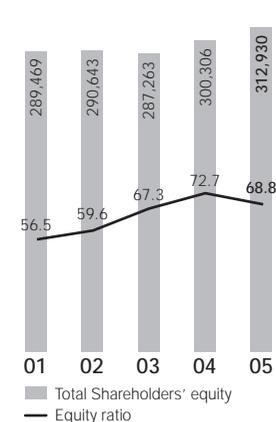
NUMBER OF MONTHS' SALES IN INVENTORY
(Months)



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



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



fell 54.7% to ¥297 million, notes and accounts receivable decreased by ¥273 million, inventories increased to ¥2,155 million, and notes and accounts payable increased to ¥2,633 million. In the fiscal year under review, the Company incurred an exchange gain totaling ¥3,126 million. This item, previously recorded in other, net, was reported as a separate accounting line item due to its size and significance. For comparative purposes, exchange gain of ¥3,126 million and other, net of ¥28 million for a total of ¥3,154 million, increased ¥3,101 million from other, net in the previous fiscal year. Furthermore, interest paid declined from ¥839 million, to ¥299 million, and income taxes paid increased from ¥6,633, to ¥8,189 million.

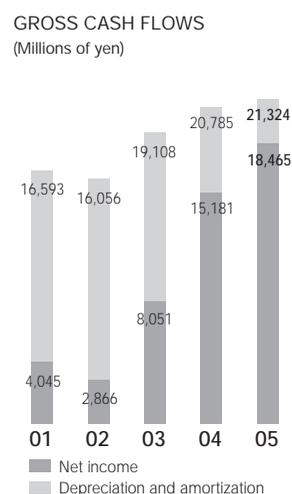
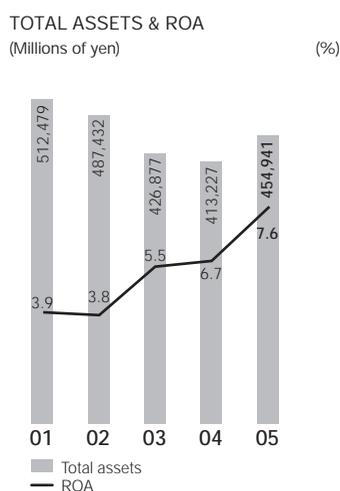
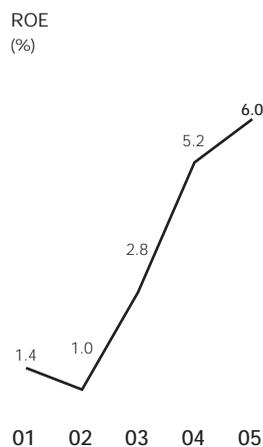
Net cash and cash equivalents used in investing activities rose from ¥4,273 million in fiscal 2003, to ¥44,696 million (US\$417,720 thousand) in fiscal 2004. The most significant outlays were payments for acquisition of property, plant, equipment and intangible assets of ¥47,512 million, an increase in marketable securities to ¥3,000 million, and payments for purchase of investment securities of ¥1,607 million. This was partially offset by proceeds from sales of property, plant, equipment and intangible assets of ¥470 million, down from ¥10,538 million in the previous term, and proceeds from sales and redemption of investment

securities of ¥8,400 million, up from ¥7,847 million in fiscal 2003.

Net cash and cash equivalents provided by financing activities was ¥13,221 million (US\$123,561 thousand), compared with net cash and cash equivalents used in financing activities of ¥33,129 million in the previous fiscal year. Principal elements included an increase in short-term bank loans of ¥7,125 million, proceeds from long-term debt of ¥6,075 million, and proceeds from the issue of standard bonds of ¥10,000 million. Cash and cash equivalents at the end of the fiscal year were ¥16,743 million (US\$156,477 thousand), up from ¥7,015 million in the previous fiscal year.

Research and Development

Total R&D expenses for the year were ¥13,874 million (US\$129,664 thousand), or 3.9% of net sales, compared to 4.1% in the previous year. Companywide R&D expenses once again accounted for the largest portion of total R&D expenses: ¥4,703 million, or 33.9%. R&D in the chemicals and resins segment, at ¥3,826 million, accounted for 27.6%. Fibers and textiles accounted for ¥2,255 million, or 16.2% of the total, while high-performance materials, medical products and others accounted for ¥3,090 million, or 22.3% of total R&D



expenses. In all, the Group employs 817 research personnel.

Capital Expenditure

Capital expenditure for the year under review soared 42.1% to ¥45,715 million (US\$427,243 thousand) with the expansion of PVA resin manufacturing facilities in Germany by 20,000 tons per year, the acquisition of the PVB film business of HT Troplast AG that increased production by 26,000 tons, and production expansion elsewhere. Again this year the bulk of this expenditure (¥32,262 million, or 70.6% of the total) was for production expansion in the Chemicals and Resins Business, mainly for the expansion of polarized film manufacturing at Kuraray Tamashima by 30 million m², the 12,000-ton expansion of EVAL manufacturing facilities in Belgium, preparations for the planned 24,000-ton expansion of EVAL manufacturing in the United States, the 4,000-ton expansion of SEPTON manufacturing facilities in Kashima, and the expansion of liquid isoprene rubber production capacity at the Kashima plant to 4,600 tons per year. Capital expenditure for fibers and textiles rose 13.0% to ¥4,128 million, or 9.0% of the total, and capital expenditure for high-performance materials, medical products and others increased 41.4% to ¥7,215 million, or 15.8% of the total.

Outlook

High raw material and fuel prices are forecast to continue in the fiscal 2005, with a possible economic slowdown in the United States and China.

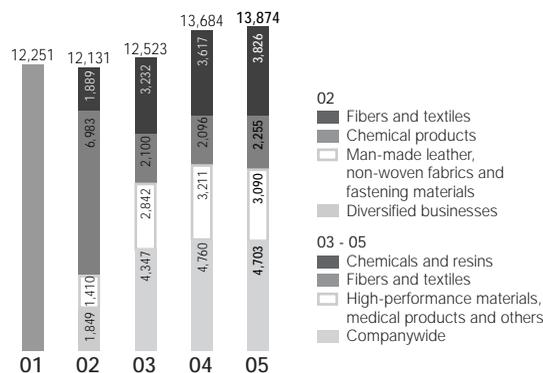
In Japan, there is concern that the business readjustment will become a long-term trend. Under these circumstances, the Kuraray Group will seek to reach its goals under the "G-21" medium-term business plan by bringing to fruition its ongoing strengthening of its corporate structure and its core business growth strategy, while pursuing revenue and profit growth appropriate to changes in the external environment.

In the Chemicals and Resins Business, capital investments and M&As measures are showing encouraging results as we strive for the expansion of revenue.

In the PVA business, we will expand the use of optical-use PVA film in LCDs and work to increase resin differentiation product sales. In the PVB business we will work toward market expansion. We will increase sales of EVAL for existing applications, accelerate the development of the market for EVAL SP, and develop next-generation gas barrier materials. We will accelerate the global growth of the thermoplastic elastomer business, and work to increase optical applications for methacrylic resin.

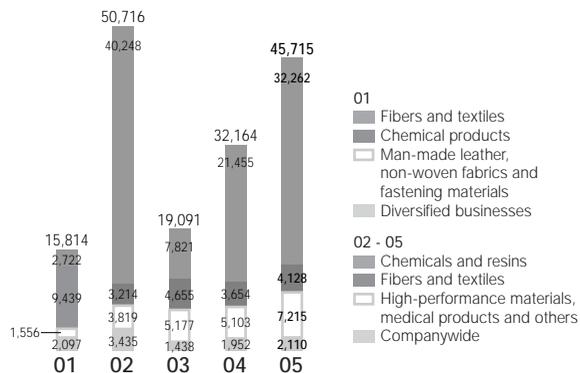
We will pursue profit growth in the Fibers and Textiles Business by increasing the number of

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.

proprietary products and moving forward with structural improvements.

In the *KURALON* business, the Group will develop new markets for fiber-reinforced cement and concrete applications while increasing product differentiation. In the *CLARINO* business, Kuraray will commence operations at its Chinese joint-venture manufacturing company and increase the number of interior furnishing applications. In the polyester business, we will continue with structural reforms and strive to attain profitability.

The Group will strive to increase the profitability of the High-Performance Materials, Medical Products and Others Business by expanding sales of differentiation products, and will focus on developing promising products. In the optical products businesses, we will increase yield in MD-type opto-screen manufacturing through process improvements. In the medical business, we will move forward with the expansion of dental material sales in the European and U.S. markets. Kuraray will establish a foundation for *GENESTAR* mass-production technology, and will expand sales of high-performance activated carbon products.

Forecasts for the coming fiscal year are net sales of ¥385.0 billion, operating income of ¥40.0 billion, and net income of ¥21.0 billion. Projections of performance assume an average exchange rate of ¥105 to the U.S. dollar, ¥135 to the euro, and a Dubai crude oil price of US\$36 per barrel.

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

Business Risk

Significant risks that could have an impact on the Kuraray Group's results of operations and financial condition include, but are not limited to, the factors discussed below. Estimates of future performance are the Kuraray Group's best judgment as of March 31, 2005.

(1) Changes in Exchange Rates

The Kuraray Group is expanding its manufacturing and sales operations in Japan and in various overseas regions, including Europe, North America, and Asia. Export of the Kuraray Group's domestically manufactured products was affected by changes in export sales prices. Sales of products manufactured at our overseas bases were affected by sales prices in different currency blocks and the value of foreign-currency-denominated assets and liabilities. All the Group's businesses are composed of operations in different currency blocks, and are therefore subject to the effects of changes in raw material prices. The Kuraray Group's performance is in general affected negatively by a rise in the value of the yen with respect to other currencies.

(2) Changes in Raw Material and Fuel Prices

The Kuraray Group is primarily engaged in the manufacture and sale of synthetic fibers and textiles, chemical products, synthetic resins, and of finished goods made from these. In this business structure, the effects of raw material and fuel prices on cost of sales are relatively large. If high market prices for raw materials such as ethylene and other chemical materials, crude oil, and natural gas cannot be offset by internal measures such as increases in productivity and passing costs along in sales prices, it is possible that the Kuraray Group's performance will be adversely affected.

(3) Changes in the Market Environment

In the rapidly growing information and communication fields, the Kuraray Group supplies a broad variety of materials and components, notably film and molded resin products for flat panel displays. The Group is strategically expanding net sales and profits in this field, where the market environment can undergo drastic changes within a short period as a result of reverses in industry standards and changes in the supply-and-demand balance. If these events occur, sales volume can contract or sales prices fall, with an adverse effect on the Kuraray Group's performance.

(4) Product Defects

The Kuraray Group has instituted thorough product quality control measures, and the Group carries liability insurance against product liability claims. However, the possibility exists that major product defects arising from unforeseeable causes could necessitate a large-scale product recall. Under such circumstances, recall expenses, loss of public trust, compensation to customers, legal costs, and indemnification expenses could adversely affect the business performance and financial position of the Kuraray Group.

(5) Accidents and Disasters

The Kuraray Group has manufacturing facilities in Japan, Europe, North America, and Asia. Many of these are large chemical plants that handle a variety of chemicals. If an industrial accident or release of pollutants to the environment should occur, the loss of the lives and property of third parties could result in claims against the assets of the Kuraray Group and halt manufacturing operations for long periods, adversely affecting the performance and financial position of the Kuraray Group.

The occurrence of earthquake, flood, or other natural disaster, an epidemic of communicable disease or

other medical incident, war, riot, terrorist attack, trouble with information systems, or information leaks could interfere with the business operations of the Kuraray Group, with an adverse impact on performance and financial position.

Accidents or disasters such as those named above could also interfere with the business operations of the Kuraray Group's customers and suppliers, with a similar adverse effect on the Kuraray Group's performance and financial position.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 16,743	¥ 7,015	\$ 156,477
Marketable securities (Note 3)	5,990	8,424	55,981
Notes and accounts receivable:			
Trade	82,079	81,978	767,093
Unconsolidated subsidiaries and affiliates	1,752	1,692	16,374
Other	2,322	1,404	21,701
Loans receivable from unconsolidated subsidiaries, affiliates and others	429	348	4,010
Allowance for doubtful accounts	(904)	(870)	(8,449)
	85,678	84,552	800,729
Inventories (Note 4)	64,173	61,867	599,748
Deferred income taxes (Note 8)	7,313	6,401	68,346
Other current assets	2,420	3,169	22,616
Total current assets	182,317	171,428	1,703,897
Property, plant and equipment:			
Land	20,289	18,174	189,617
Buildings	92,759	89,220	866,906
Machinery and equipment	421,146	388,801	3,935,944
Construction-in-progress	21,527	20,936	201,187
	555,721	517,131	5,193,654
Less accumulated depreciation	(397,427)	(379,264)	(3,714,271)
	158,294	137,867	1,479,383
Investments and other assets:			
Goodwill	31,661	27,801	295,897
Other intangible assets	6,272	2,434	58,617
Investment securities (Note 3)	24,115	25,159	225,374
Investments in unconsolidated subsidiaries and affiliates	4,465	3,483	41,729
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	2,947	3,312	27,542
Other	619	813	5,785
Accumulated premiums on insurance	35,188	33,987	328,860
Deferred income taxes (Note 8)	2,077	2,082	19,411
Other	8,323	6,210	77,785
Allowance for doubtful accounts	(1,337)	(1,349)	(12,495)
	114,330	103,932	1,068,505
	¥454,941	¥413,227	\$4,251,785

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 10,013	¥ 2,576	\$ 93,580
Current portion of long-term debt (Note 5)	3,434	2,769	32,093
Commercial paper	—	3,000	—
Notes and accounts payable:			
Trade	39,905	37,433	372,944
Unconsolidated subsidiaries and affiliates	1,733	1,202	16,196
Other	8,739	10,305	81,673
Accrued income taxes (Note 8)	5,850	4,694	54,673
Accrued expenses and other	15,183	13,186	141,897
Total current liabilities	84,857	75,165	793,056
Long-term liabilities:			
Long-term debt (Note 5)	16,234	3,475	151,720
Deferred income taxes (Note 8)	7,345	4,024	68,645
Accrued retirement benefits (Note 9)	13,469	13,806	125,878
Other	17,853	16,384	166,850
Total long-term liabilities	54,901	37,689	513,093
Minority interests	2,253	67	21,056
Commitments and contingencies (Note 12)			
Shareholders' equity (Note 6):			
Common stock:			
Authorized — 700,000,000 shares			
Issued — 382,863,603 shares	88,955	88,955	831,355
Capital surplus	87,156	87,150	814,542
Retained earnings	138,951	127,148	1,298,608
Unrealized gain on revaluation of securities (Note 3)	9,012	7,902	84,224
Cumulative translation adjustments	679	842	6,346
	324,753	311,997	3,035,075
Treasury stock at cost	(11,823)	(11,691)	(110,495)
Total shareholders' equity	312,930	300,306	2,924,580
	¥454,941	¥413,227	\$4,251,785

CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥354,874	¥332,149	\$3,316,579
Cost of sales (Note 11)	254,115	236,246	2,374,906
(Gross profit)	100,759	95,903	941,673
Selling, general and administrative expenses (Notes 10 and 11)	67,572	67,857	631,514
(Operating income)	33,187	28,046	310,159
Other income (expenses):			
Interest and dividend income	1,192	1,121	11,140
Equity in earnings of affiliates	30	159	280
Interest expenses	(297)	(656)	(2,776)
Restructuring charges	(1,249)	(5,031)	(11,673)
Gain on sale of property, plant and equipment	259	3,958	2,421
Exchange gain	3,126	—	29,215
Loss on disposal of inventories	(4,267)	—	(39,879)
Other, net	(2,136)	(4,103)	(19,962)
	(3,342)	(4,552)	(31,234)
(Income before income taxes and minority interests)	29,845	23,494	278,925
Income taxes (Note 8):			
Current	8,723	6,829	81,523
Deferred	2,564	1,480	23,963
	11,287	8,309	105,486
Minority interests in net income of consolidated subsidiaries	(93)	(4)	(869)
Net income	¥ 18,465	¥ 15,181	\$ 172,570
		Yen	U.S. dollars (Note 1)
Net income per share:			
Primary	¥50.13	¥40.81	\$0.47
Fully diluted	50.12	—	0.47

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2005 and 2004	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
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)
Net income			18,465			
Cash dividends, ¥11.00 per share			(4,039)			
Bonuses to directors			(57)			
Effect of changes in reporting entities			(2,569)			
Minimum pension liability adjustment			3			
Changes in unrealized gain on revaluation of securities (Note 3)				1,110		
Translation adjustments					(163)	
Treasury stock acquired, net		6				(132)
Balance at March 31, 2005	¥88,955	¥87,156	¥138,951	¥9,012	¥ 679	¥(11,823)

	Thousands of U.S. dollars (Note 1)					
Balance at March 31, 2004	\$ 831,355	\$ 814,486	\$ 1,188,299	\$ 73,850	\$ 7,869	\$ (109,262)
Net income			172,570			
Cash dividends, \$0.10 per share			(37,747)			
Bonuses to directors			(533)			
Effect of changes in reporting entities			(24,009)			
Minimum pension liability adjustment			28			
Changes in unrealized gain on revaluation of securities (Note 3)				10,374		
Translation adjustments					(1,523)	
Treasury stock acquired, net		56				(1,233)
Balance at March 31, 2005	\$831,355	\$814,542	\$1,298,608	\$84,224	\$6,346	\$(110,495)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 29,845	¥23,494	\$ 278,925
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	21,324	20,785	199,290
Increase in allowance for doubtful accounts	27	53	252
Decrease in accrued retirement benefits, net	(357)	(2,366)	(3,336)
Gain on sale of property, plant and equipment	(259)	(3,958)	(2,421)
Exchange gain	(3,126)	—	(29,215)
Interest and dividend income	(1,192)	(1,121)	(11,140)
Interest expenses	297	656	2,776
Decrease (increase) in notes and accounts receivable	273	(848)	2,551
(Increase) decrease in inventories	(2,155)	935	(20,140)
Increase (decrease) in notes and accounts payable	2,633	(232)	24,607
Other, net	(28)	(53)	(261)
Sub-total	47,282	37,345	441,888
Interest and dividend received	821	895	7,673
Interest paid	(299)	(839)	(2,794)
Income taxes paid	(8,189)	(6,633)	(76,533)
Net cash and cash equivalents provided by operating activities	39,615	30,768	370,234
Cash flows from investing activities:			
(Increase) decrease in marketable securities	(3,000)	8,362	(28,037)
Payments for acquisition of property, plant, equipment and intangible assets	(47,512)	(30,248)	(444,037)
Proceeds from sales of property, plant, equipment and intangible assets	470	10,538	4,392
Payments for purchase of investment securities	(1,607)	(548)	(15,019)
Proceeds from sales and redemption of investment securities	8,400	7,847	78,505
Payments of premiums on insurance	(928)	(1,262)	(8,673)
Withdrawals from accumulated premiums on insurance	55	45	514
Other, net	(574)	993	(5,365)
Net cash and cash equivalents used in investing activities	(44,696)	(4,273)	(417,720)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans	7,125	(5,392)	66,589
(Decrease) increase in commercial paper	(3,000)	3,000	(28,037)
Proceeds from long-term debt	6,075	1,790	56,776
Repayments of long-term debt	(2,821)	(4,373)	(26,365)
Proceeds from issuance of standard bonds	10,000	—	93,458
Redemption of standard bonds	—	(20,500)	—
Dividends paid	(4,039)	(3,351)	(37,748)
Proceeds from sales of treasury stock	58	18	542
Payments for purchase of treasury stock	(177)	(4,321)	(1,654)
Net cash and cash equivalents provided by (used in) financing activities	13,221	(33,129)	123,561
Effect of exchange rate changes on cash and cash equivalents	454	(252)	4,243
Net increase (decrease) in cash and cash equivalents	8,594	(6,886)	80,318
Cash and cash equivalents, beginning of year	7,015	13,901	65,561
Effect of changes in reporting entities	1,134	—	10,598
Cash and cash equivalents, end of year	¥ 16,743	¥ 7,015	\$ 156,477

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kuraray Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

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.

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2004 have been made to conform to the 2005 presentation.

The United States dollar amounts included herein are provided solely for convenience of readers outside Japan and are stated, as a matter of arithmetical computation only, at the rate of ¥107=\$1, the approximate exchange rate prevailing on March 31, 2005. 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 37 subsidiaries (40 subsidiaries at March 31, 2004). A subsidiary is a company, more than 50% of whose shares are held by the Company, or a company, 40%–50% shares of whose are held by the Company and which is controlled by the Company through certain channels. 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 year is directly charged or credited to retained earnings during the year.

Investments in unconsolidated subsidiaries and 20%–50% owned companies other than subsidiaries ("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 differences between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis are amortized using the straight-line method over the estimated period of the benefit, with minor exceptions, in case of which the difference is charged or credited to income when incurred. The differences recognized in overseas subsidiaries and affiliates are accounted for in accordance with accounting principles generally accepted in those countries.

(b) Cash and cash equivalents

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

(c) 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, 2005 and 2004, 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.

(d) 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.

(e) 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 to the lessee, and such leased assets used by the Company and its domestic subsidiaries are not capitalized on the balance sheet in conformity with accounting principles generally accepted in Japan.

Accounting standard for impairment of fixed assets:

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use. The standard shall be effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company has not yet applied this new standard nor has it determined the effect of applying it to the Company's consolidated financial statements.

(f) Goodwill

Goodwill is stated at cost less amortization.

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

During the year ended March 31, 2005, a subsidiary of the Company purchased property, plant, equipment and goodwill relating to the PVB film business from HT Troplast AG. A consideration of ¥4,826 million (\$45,103 thousand) was included in "Acquisition of property, plant, equipment and intangible assets" in the consolidated statements of cash flows.

(g) 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. A valuation allowance is deducted from deferred tax assets when there is uncertainty regarding their realizability.

(h) Retirement benefits

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

Under the terms of the Companies' retirement plans, substantially all of their 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 at the respective balance sheet date.

(i) 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 denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at

the balance sheet date.

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 directly to shareholders' equity as cumulative translation adjustments in the consolidated balance sheets.

(j) Research and development expenses

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

(k) 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.

(l) 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.

(m) Derivative financial instruments and hedging

Derivative financial instruments, which include forward foreign exchange contracts and interest rate 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 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.

(Accounting change)

In addition, prior to April 1, 2004, in cases where forward foreign exchange contracts meet certain conditions, accounts receivable and payable covered by these contracts are translated using the contract rates. Effective April 1, 2004, accounts receivable and payable denominated in foreign currencies are translated using the current rates at the balance sheet date. The forward foreign exchange contracts employed to hedge foreign exchange exposures are measured at fair value at balance sheet date and the resulting gains (losses) are currently recognized. The effect of this change was immaterial.

Hedging instruments and hedged items

March 31, 2005

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Future transactions in foreign currency
Interest rate swap contracts	Interest payable

March 31, 2004

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Accounts receivable and payable in foreign currency
	Future transactions in foreign currency
Interest rate swap contracts	Interest 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. Interest rate swap contracts which meet certain conditions are evaluated for effectiveness at the commencement of the hedges.

3. Securities:

The following is a summary of securities available-for-sale at March 31, 2005 and 2004:

	Millions of yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2005				
Equity securities	¥ 5,795	¥14,588	¥ 4	¥20,379
Bonds and debentures	5,352	638	—	5,990
Other	—	—	—	—
	¥11,147	¥15,226	¥ 4	¥26,369

	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

	Thousands of U.S. dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2005				
Equity securities	\$ 54,159	\$136,336	\$37	\$190,458
Bonds and debentures	50,019	5,962	—	55,981
Other	—	—	—	—
	\$104,178	\$142,298	\$37	\$246,439

Available-for-sale securities with no available fair values as of March 31, 2005 and 2004, amounting to ¥3,121 million (\$29,168 thousand) and ¥3,229 million respectively are excluded from the above table.

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

4. Inventories:

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥46,203	¥43,175	\$431,804
Semi-finished products and work in progress	7,052	8,549	65,907
Raw materials and supplies	10,918	10,143	102,037
	¥64,173	¥61,867	\$599,748

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 1.9% p.a. at March 31, 2005. Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unsecured loans principally from banks and insurance companies with interest rates ranging from 0.42% p.a. to 2.63% p.a. maturing serially until 2022	¥ 9,668	¥ 6,244	\$ 90,355
0.99% yen unsecured bonds due December 20, 2011	10,000	—	93,458
	19,668	6,244	183,813
Current portion	(3,434)	(2,769)	(32,093)
	¥16,234	¥ 3,475	\$151,720

The annual maturities of unsecured loans outstanding at March 31, 2005 for the respective years ending March 31 were as follows:

	Millions of yen	Thousands of U.S. dollars
2005	¥3,434	\$32,093
2006	379	3,542
2007	5,000	46,729
2008	—	—
2009	850	7,944
Thereafter	5	47
	¥9,668	\$90,355

6. Shareholders' equity:

The Company and its domestic subsidiaries are 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 in the accompanying balance sheets.

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 the additional paid-in capital and legal reserve equals 25% or more of common stock. If the sum of the 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. All or part of the additional paid-in capital and/or a legal reserve may be used to reduce a deficit or may be transferred to common stock through the appropriate legal procedures. A legal reserve amounting to ¥6,570 million (\$61,402 thousand) was included in retained earnings as of March 31, 2005 and 2004.

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 (\$7.71) per share. The number of shares under this option as of March 31, 2005 is 919,500.

Subsequently, on June 26, 2003, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for directors, corporate auditors, executive officers and 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 (\$8.58) per share. The number of shares under this option as of March 31, 2005 is 2,671,000.

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 40.4% and 41.7% in Japan for the years ended March 31, 2005 and 2004, respectively.

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:

	2005	2004
Normal effective tax rate	40.4%	41.7%
Non-taxable income	(0.3)	(4.9)
Tax credit primarily for research and development expenses	(2.9)	(2.9)
Other, largely loss incurred by consolidated subsidiaries	0.6	1.5
Income tax rate per statement of income	37.8%	35.4%

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Accrued enterprise taxes and other taxes	¥ 776	¥ 580	\$ 7,252
Accrued bonuses	2,379	2,399	22,234
Other	4,441	3,456	41,505
Total deferred tax assets	7,596	6,435	70,991
Total deferred tax liabilities	283	34	2,645
Net deferred tax assets	¥7,313	¥6,401	\$68,346

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Accrued retirement benefits	¥ 757	¥4,276	\$ 7,075
Other	1,545	5,663	14,439
Total deferred tax assets	2,302	9,939	21,514
Deferred tax liabilities:			
Deferred gain on sales of fixed assets to the public sector	105	1,483	981
Special depreciation	10	239	94
Unrealized gain on revaluation of securities	26	5,346	243
Advanced payments for retirement expenses	—	522	—
Other	84	267	785
Total deferred tax liabilities	225	7,857	2,103
Net deferred tax assets	¥2,077	¥2,082	\$19,411

Deferred tax liabilities:

Depreciation	¥4,802	¥4,255	\$44,879
Deferred gain on sales of fixed assets to the public sector	1,438	—	13,439
Special depreciation	282	—	2,635
Unrealized gain on revaluation of securities	5,824	—	54,430
Advanced payments for retirement expenses	1,419	—	13,262
Other	885	63	8,271
Total deferred tax liabilities	14,650	4,318	136,916
Deferred tax assets:			
Accrued retirement benefits	3,701	—	34,589
Other	3,604	294	33,682
Total deferred tax assets	7,305	294	68,271
Net deferred tax liabilities	¥7,345	¥4,024	\$68,645

At March 31, 2005, a valuation allowance of ¥5,172 million (\$47,916 thousand) was deducted from non-current deferred tax assets.

The deferred tax assets and liabilities of the consolidated subsidiaries in different tax jurisdictions are presented without offset in accordance with Japanese accounting practice. At March 31, 2004, the deferred tax assets and liabilities were 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 decreased 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, 2005 and 2004.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation at end of year	¥(50,161)	¥(49,685)	\$(468,794)
Fair value of plan assets at end of year	28,953	27,384	270,589
Funded status:			
Benefit obligation in excess of plan assets	(21,208)	(22,301)	(198,205)
Unrecognized prior service cost	(1,300)	(920)	(12,150)
Unrecognized actuarial loss	13,302	11,463	124,318
Accrued pension liability recognized in the consolidated balance sheets	(9,206)	(11,758)	(86,037)
Advanced payments for retirement expenses	3,513	1,292	32,832
Net accrued retirement benefits	¥(12,719)	¥(13,050)	\$(118,869)

Accrued retirement benefits for directors and corporate auditors at March 31, 2005 and 2004, amounting to ¥750 million (\$7,009 thousand) and ¥756 million respectively are excluded from the above tables.

Retirement and pension costs of the Companies for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs	¥2,230	¥2,282	\$20,841
Interest costs	957	995	8,944
Expected return on plan assets	(1,061)	(953)	(9,916)
Amortization:			
Prior service costs	(84)	(67)	(785)
Actuarial losses	841	893	7,860
Net periodic benefit costs	¥2,883	¥3,150	\$26,944

Assumptions used in accounting for the defined benefit plans for the year ended March 31, 2005 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:

The major components of selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were as follows:

Account	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Freight and storage	¥12,755	¥12,152	\$119,206
Research and development	12,319	11,986	115,131
Salaries and bonuses	16,741	17,644	156,458

11. Research and development expenses:

Total research and development expenses for the years ended March 31, 2005 and 2004 amounted to ¥13,874 million (\$129,664 thousand) and ¥13,684 million, respectively.

12. Commitments and contingencies:

The Companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates and others, of ¥1,152 million (\$10,766 thousand) and ¥725 million at March 31, 2005 and 2004, 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 in which 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, 2005 and 2004, were ¥282 million (\$2,636 thousand) and ¥310 million, respectively. Future lease payments, including amounts representing interest were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥268	¥302	\$2,505
Due after one year	320	390	2,990
	¥588	¥692	\$5,495

The leased assets were as follows:

Year ended March 31, 2005	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	¥1,358	¥770	¥588	\$5,495

Year ended March 31, 2004	Millions of yen		
	Cost	Accumulated depreciation	Net
Machinery and equipment	¥1,495	¥803	¥692

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
	2005	2004	2005
Due within one year	¥ 384	¥ 245	\$ 3,589
Due after one year	2,619	1,650	24,476
	¥3,003	¥1,895	\$28,065

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, 2005 and 2004 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2005			2004			2005		
	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	¥26,998	¥(1,324)	¥(1,324)	¥15,724	¥148	¥148	\$252,318	\$(12,374)	\$(12,374)
Currency swap contracts:									
Yen into foreign currency obligation	14,233	(336)	(336)	—	—	—	133,018	(3,140)	(3,140)
	¥41,231	¥(1,660)	¥(1,660)	¥15,724	¥148	¥148	\$385,336	\$(15,514)	\$(15,514)

The amounts include contracts entered into in order to hedge inter-company transactions in foreign currency but exclude contracts accounted for as hedges.

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, 2005 and 2004 is as follows:

Net sales and operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales			Operating	Net sales			Operating
	outside customers	inter-segment	total	income	outside customers	inter-segment	total	income
Year ended March 31, 2005								
Chemicals and resins	¥167,264	¥ 795	¥168,059	¥ 28,420	\$1,563,215	\$ 7,430	\$1,570,645	\$265,607
Fibers and textiles	109,829	1,197	111,026	7,921	1,026,439	11,187	1,037,626	74,028
High performance materials, medical products and others	77,781	25,166	102,947	7,333	726,925	235,196	962,121	68,533
Total	354,874	27,158	382,032	43,674	3,316,579	253,813	3,570,392	408,168
Eliminated on consolidation and corporate	—	(27,158)	(27,158)	(10,487)	—	(253,813)	(253,813)	(98,009)
Consolidated total	¥354,874	¥ —	¥354,874	¥ 33,187	\$3,316,579	\$ —	\$3,316,579	\$310,159
Year ended March 31, 2004								
Chemicals and resins	¥155,921	¥ 661	¥156,582	¥ 25,203				
Fibers and textiles	106,003	1,654	107,657	5,332				
High performance materials, medical products and others	70,225	22,615	92,840	8,001				
Total	332,149	24,930	357,079	38,536				
Eliminated on consolidation and corporate	—	(24,930)	(24,930)	(10,490)				
Consolidated total	¥332,149	¥ —	¥332,149	¥ 28,046				

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, 2005						
Chemicals and resins	¥220,812	¥32,262	¥12,119	\$2,063,664	\$301,514	\$113,262
Fibers and textiles	79,994	4,128	4,085	747,607	38,579	38,178
High performance materials, medical products and others	82,122	7,215	3,679	767,495	67,430	34,383
Total	382,928	43,605	19,883	3,578,766	407,523	185,823
Eliminated on consolidation and corporate	72,013	2,110	1,441	673,019	19,720	13,467
Consolidated total	¥454,941	¥45,715	¥21,324	\$4,251,785	\$427,243	\$199,290
Year ended March 31, 2004						
Chemicals and resins	¥183,965	¥21,455	¥12,006			
Fibers and textiles	78,980	3,654	4,196			
High performance materials, medical products and others	76,141	5,103	3,227			
Total	339,086	30,212	19,429			
Eliminated on consolidation and corporate	74,141	1,952	1,356			
Consolidated total	¥413,227	¥32,164	¥20,785			

A summary of net sales, operating income and identifiable assets by geographic segment for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen			Operating income (loss)	Identifiable assets
	outside customers	Net sales inter-segment	total		
Year ended March 31, 2005					
Domestic (inside Japan)	¥269,534	¥ 28,354	¥297,888	¥ 37,723	¥251,133
North America	27,586	3,907	31,493	3,483	37,322
Europe	42,187	1,509	43,696	2,567	89,896
Asia	15,567	1,456	17,023	(119)	8,430
Total	354,874	35,226	390,100	43,654	386,781
Eliminated on consolidation and corporate	—	(35,226)	(35,226)	(10,467)	68,160
Consolidated total	¥354,874	¥ —	¥354,874	¥ 33,187	¥454,941
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

	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Year ended March 31, 2005					
Domestic (inside Japan)	\$2,519,009	\$ 264,991	\$2,784,000	\$352,551	\$2,347,037
North America	257,813	36,514	294,327	32,551	348,804
Europe	394,271	14,103	408,374	23,991	840,150
Asia	145,486	13,607	159,093	(1,112)	78,785
Total	3,316,579	329,215	3,645,794	407,981	3,614,776
Eliminated on consolidation and corporate	—	(329,215)	(329,215)	(97,822)	637,009
Consolidated total	\$3,316,579	\$ —	\$3,316,579	\$310,159	\$4,251,785

For the years ended March 31, 2005 and 2004, foreign sales, consisting of the export sales of the Company and its domestic consolidated subsidiaries and the sales of foreign consolidated subsidiaries, are 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, 2005					
North America	¥ 30,828	¥ —	8.7%	\$ 288,112	\$ —
Europe	49,980	—	14.1	467,103	—
Asia	62,078	—	17.5	580,168	—
Other	7,230	—	2.0	67,570	—
Total	¥150,116	¥354,874	42.3%	\$1,402,953	\$3,316,579

	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
Year ended March 31, 2004			
North America	¥ 31,870	¥ —	9.6%
Europe	49,309	—	14.8
Asia	51,101	—	15.4
Other	4,868	—	1.5
Total	¥137,148	¥332,149	41.3%

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, 2005 were approved by the shareholders on June 28, 2005.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥6.50 (\$0.06) per share	¥2,386	\$22,299
Bonuses to directors	59	551

The above year-end cash dividends per share and interim cash dividends of ¥5.50 (\$0.05) per share paid in December 2004 made a total annual cash dividend of ¥12.00 (\$0.11) per share.

REPORT OF INDEPENDENT AUDITORS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Nakanoshima Mitsui Building 16F
3-3-3, Nakanoshima,
Kita-Ku, Osaka 530-8248 Japan

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

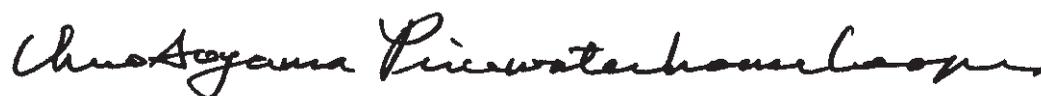
We have audited the accompanying consolidated balance sheets of Kuraray Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated 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, 2005 and 2004, 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.

As described in Note 2 (m) to the consolidated financial statements, effective April 1, 2004, the Company and a part of its consolidated subsidiaries have changed their accounting method for forward foreign exchange contracts employed to hedge their risk of exchange rate change in accounts receivable and accounts payable denominated in foreign currencies.

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.



June 28, 2005

CONSOLIDATED COMPANIES

(As of July 1, 2005)

JAPAN

Company	Head office	Capital (¥millions)	Activities
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	Manufacture of machinery parts
Kuraray Fudosan Co., Ltd.	Osaka	10	Real estate leasing and management
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 Fastening Co., Ltd.	Osaka	100	Manufacture and sales of <i>MAGIC TAPE</i>
Kuraray Travel Service Corporation	Osaka	20	Travel and insurance agency
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting
Kuraray Techno Nakajo Co., Ltd.	Niigata	50	Care of the elderly
Kuraray Family Products Co., Ltd.	Osaka	30	Sales of health foods, etc.
Kuraray Saijo Co., Ltd.	Ehime	10	Manufacture of chemical products and synthetic fiber
Kuraray Tamashima Co., Ltd.	Okayama	10	Manufacture of synthetic fiber and PVA film
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
*Kuraray Okayama Spinning Co., Ltd.	Okayama	50	Manufacture of synthetic fiber
Kuraray Kuraflex Co., Ltd.	Osaka	100	Manufacture and sales 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
Okayama Rinkoh Warehouse and Transport Co., Ltd.	Okayama	20	Forwarding (Transportation)

OVERSEAS

Company	Head office	Capital	Activities
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\$ 10.1 million	Importing and sales of Kuraray products
Eval Company of America	Texas, U.S.A.	US\$ 4.15 million	Manufacture and sales of <i>Eval</i> 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 <i>Eval</i> in Europe
Kuraray Specialities Europe GmbH	Frankfurt, Germany	€ 20 million	Manufacture and sales of poval and butyral resins and film
OOO Trosifol	Nizhny Novgorod, Russia	RUR 78.95 million	Manufacture and sales of PVB film
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

- 1975 • Artificial organs business started
- 1976 • NIC (new isoprene chemicals)



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

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 *EVAL* resin in the U.S. begun (production started in 1986)



CLEARFIL adhesive dental filler

- 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 Loricca 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 Research and Technical Center, USA (KRTC) commenced operations



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

- Acquired and began operating the PVB film business of HT Troplast AG

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: 25,947

(as of March 31, 2005)

Offices, Laboratories, Plants

Head Offices: Tokyo, Osaka

Offices: Fukuoka, Shanghai (China)

Laboratories: Kurashiki, Tsukuba

Plants: Kurashiki, Saijo, Okayama, Nakajo, Kashima

Transfer Agent for Common Stock

The Sumitomo Trust and Banking Co., Ltd.

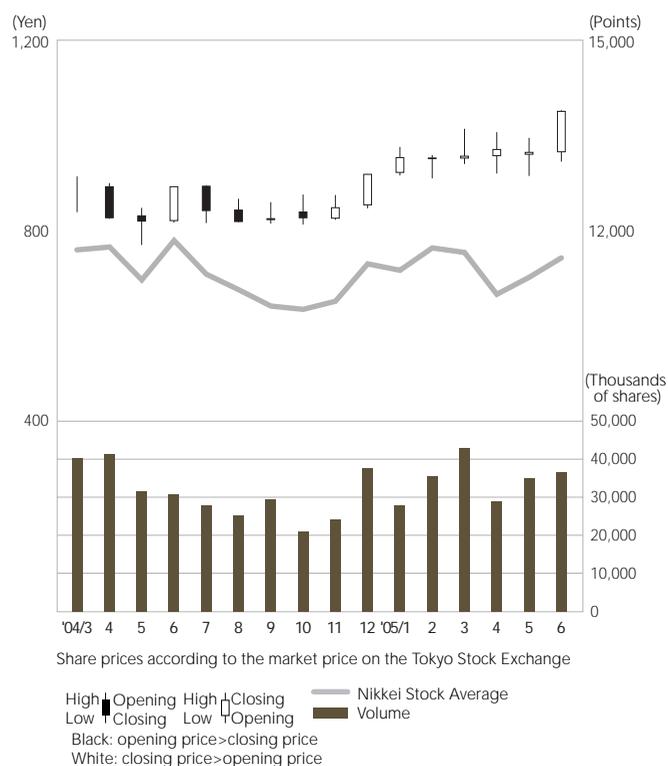
Stock Transfer Agency Department

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

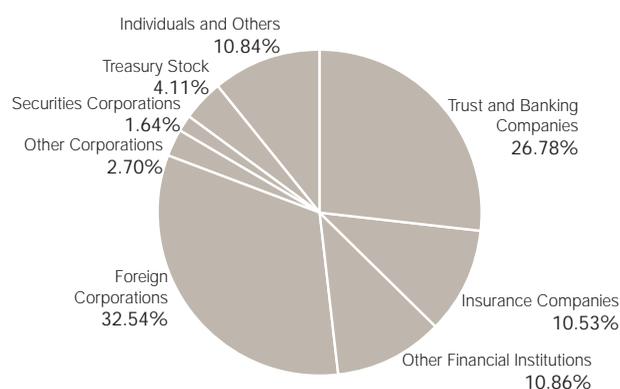
Principal Shareholders (as of March 31, 2005)

Principal Shareholders	Number of Shares Held (thousands)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd. (Trust Account)	36,532	9.54%
The Master Trust Bank of Japan, Ltd. (Trust Account)	27,544	7.19%
Nippon Life Insurance Company	12,061	3.15%
National Mutual Insurance Federation of Agricultural	11,574	3.02%
Meiji Yasuda Life Insurance Company	8,066	2.11%
Mizuho Corporate Bank, Ltd.	7,396	1.93%
State Street Bank and Trust Company 505103	5,971	1.56%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	5,844	1.53%
Trust & Custody Services Bank, Ltd. (Trust Account B)	5,539	1.45%
The Sumitomo Trust & Banking Co., Ltd. (Trust Account B)	5,460	1.43%

Share Price Movement



Breakdown of Issued Shares by Type of Shareholder



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.

Head Offices

Tokyo: Ote Center Bldg., 1-1-3, Otemachi,
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Osaka: Shin-Hankyu Bldg., 1-12-39, Umeda, Kita-ku,
Osaka 530-8611, Japan
TEL. 81-6-6348-2111 FAX. 81-6-6348-2165