

FINANCIAL REPORT 2005

Kuraray Co.,Ltd

Management Policies

Fundamental Management Policy

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

Through achievement of the goals set forth in “G-21,” the Kuraray Group is striving to fulfill its corporate mission: “We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life.”

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

In the “G-21” plan, the Group emphasizes ROA and cash flows. Final-year goals under “G-21” are to achieve net sales of ¥400.0 billion, operating income of ¥40.0 billion, and ROA of 8% or higher.

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

Product-specific strategies call for the designation of three businesses in which we are internationally competitive as core businesses, and the strengthening of those operations. These are the vinyl acetate derivatives business (poval, *EVAL*, *KURALON*, and *KURALON K-II*), the isoprene business (thermoplastic elastomers and fine chemicals), and the man-made leather business (*CLARINO*).

The Company’s market-specific strategies designate four strategic domains: electronics and information (poval film for liquid crystal displays, optical-use acrylics, opto-screens, etc.), eco-friendly products (asbestos substitutes, gas barrier materials, and substitutes for PVC and vulcanized rubber), environmental protection (activated carbon, industrial membranes), and medical products (artificial kidneys, dental materials). We are expanding operations in

these four domains on the basis of a demand-driven concept.

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

Issues to be Resolved

In this last year of "G-21," we are striving to achieve our medium-term performance targets through the effects of investments concentrated in core businesses and strategic domains, the contributions of new products to profitability, appropriate price increases in response to the persistence of high prices for raw materials and fuels, increased efficiency in selling, general and administrative expenses, reduction of costs through innovations in manufacturing, and the shrinking of inventories.

The Kuraray Group established its in-house company system to achieve greater speed in its business operations, but across the in-house companies we are taking a broader and longer-term perspective in the promotion of strategic operations. In addition, we are faced with the issue of strengthening our entrepreneurial capabilities by integrating R&D and M&A functions to achieve greater speed in the creation of new businesses. In the area of corporate functions, we are moving forward with the improvement of business processes by focusing on corporate social responsibility (CSR), including environmental conservation activities, and by implementing and refining internal control and risk management systems.

Kuraray's Fundamental Dividend Policy

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

Based on this policy, a year-end dividend for this fiscal year of ¥6.5 is planned. Added to the interim dividend, this will be a total of ¥12.0 per share for the fiscal year, up ¥2.0 from the previous fiscal year.

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.

Implementation of Measures and Policies

(1) Status of corporate governance systems

Kuraray has chosen the “company with 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 Officers

To increase the agility of management decision-making, Kuraray has reduced the maximum number of directors to ten, and the Group currently has ten 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 oversee the heads of the 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 Auditors and operational audit system

Kuraray’s Board of Auditors is composed of five people, of whom three are outside auditors in accordance with Article 18-1 of the 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 Auditors, we have appointed an organization of three assistants to the auditors. We also ensure frequent opportunities for information exchange between the Board of Auditors, the Group Board of Auditors, which is composed of 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.
Corporate Auditor	5	70	The maximum monthly compensation for auditors is ¥8 million.
Total	17	358	(By resolution of the June 2003 annual general meeting of shareholders.)

Notes:

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

The Management Advisory Council 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.

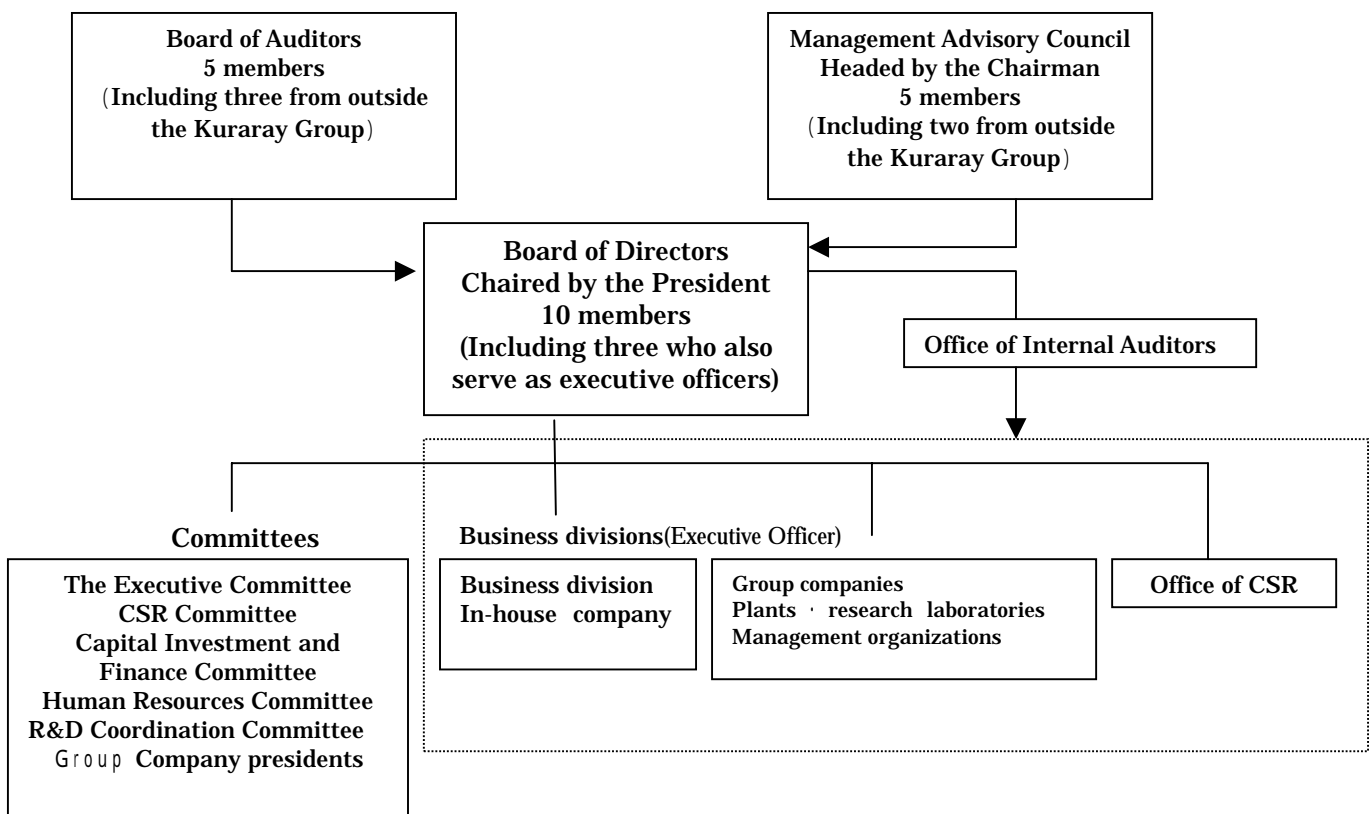
The Management Advisory Council is composed of five standing members: Kuraray's chairman, an adviser, and a corporate auditor, and two outside members of prominent standing. The council provides advice on a regular basis on important management policies and issues such as the nomination, selection and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



4. Status of financial audits

Kuraray retains an independent auditor, ChuoAoyama Audit Corporation, as required under the Commercial Code of Japan and the Securities and Exchange Act of Japan. No relationship exists between the managing partners of ChuoAoyama Audit Corporation and Kuraray Co., Ltd. that would pose a conflict of interest. The managing partners of ChuoAoyama Audit Corporation have voluntarily posted a bond as guarantee that their audits of Kuraray will not exceed the periods specified for their accomplishment.

The names of the certified public accountants and composition of the audit support team for our accounts this fiscal year are as follows.

Designated managing partners: Kazuhiro Ito, Shigeru Takahama

Composition of the audit support team:

Certified public accountants – 2

Assistant certified public accountants – 6

Compensation of auditors

	Compensation (including consolidated subsidiary)
	(¥ million)
Compensation for certification of financial statements under contract	37 (3)
Other compensation	22 (-)
Total	59 (3)

Note: Compensation other than that for certification of financial statements under contract were primarily for advice and guidance in the preparation of a CSR report.

(2) Outside auditor conflicts of interest

There are no improper personal, capital, or contractual relationships between Kuraray and its outside auditors.

(3) Steps taken to strengthen corporate governance

During the past year, the Management Advisory Council 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 process innovation.

Results of Operations and Financial Condition

Summary

The Japanese economy showed healthy expansion during fiscal 2004, ended March 31, 2005, fueled by growth in capital investment and strong overseas demand, principally in China. The world economy also took an upturn, pulled by China's flourishing demand and steady business conditions in the United States. However, the soaring prices of raw materials and fuels, caused by the sharp rise in oil prices, had a significant impact on corporate performance. This, together with adjustments to inventories of IT-related products and the emergence of fears of economic slowdown in China and the United States, resulted in growing uncertainty with regard to the future.

The Kuraray Group increased capital investments, focusing on core businesses, and moved forward with M&A. Together with this, the group expanded sales of proprietary products, developed and marketed new products, passed higher raw material and fuel prices along in the form of higher product prices, and worked to achieve further rationalization of costs.

The Kuraray Group's fiscal 2004 consolidated net sales rose ¥22,725 million, or 6.8%, to ¥354,874 million, operating income increased ¥5,141 million, or 18.3%, to ¥33,187 million, and net income grew ¥3,284 million, or 21.6%, to ¥18,465 million.

1. Results by Business Segment

a. Chemicals and Resins Business

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

- 1) Sales of PVA resin in the European and Asian markets for paper and stabilizer applications increased. Sales of optical-use PVA film also expanded, fueled by higher demand for LCDs and the increasing size of flat panel display TVs. The PVA business, therefore, achieved growth in both sales and profits. Our expansion of PVA resin manufacturing facilities in Germany (20,000 tons per year) was completed, and downstream capabilities were developed with the acquisition of the polyvinyl butyral (PVB) film business of HT Troplast AG (production capacity, 26,000 tons per year). The Group moved forward with the expansion of optical film manufacturing facilities (30 million m² per year) in response to strong demand for its use in LCDs.
- 2) Demand for *EVVAL* for gasoline tanks was strong in Japan and Europe, and demand for food-packaging applications was healthy in the United States. Although revenues rose, the effects of higher depreciation

associated with facility expansion projects and the high costs of raw materials and fuels prevented an increase in profits. The expansion of manufacturing facilities in Belgium (12,000 tons per year) was completed, and the expansion of manufacturing facilities in the United States (24,000 tons per year) commenced. We also launched a new gas-barrier material with superior plasticity, *EVAL SP*, which was developed out of applications for *EVAL*.

- 3) Increased demand for the thermoplastic elastomer *SEPTON* as a substitute for vulcanized rubber and soft PVC resulted in higher sales of isoprene-related products, particularly in the United States and Europe, despite the effects of high raw material and fuel prices. We are now moving forward with an expansion of manufacturing facilities (4,000 tons per year) in response to further expansion of demand. In the fine chemicals field, sales of aroma chemicals and agricultural intermediates were healthy.

Although isoprene-related product revenues increased, the effects of rising raw material and fuel prices resulted in a decline in profits.

- 4) In the methacrylic resin business, both revenues and profits showed growth, as we made progress in passing on the rising cost of raw materials and fuels to product prices. Together with this, the expansion of molding material manufacturing facilities (20,000 tons per year) in the previous fiscal year is tied to increased sales of methacrylic resin for light-guide plates and other optical applications, as well as general applications. The expansion of manufacturing facilities for extruded sheets (5,000 tons per year) was completed, and we are moving forward with construction of cast sheet manufacturing facilities (3,000 tons per year) in China.

b. Fibers And Textiles Business

Net sales in 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.

- 1) The *KURALON* business was also affected by the soaring raw material and fuel prices, but its sales for use as an asbestos substitute in fiber-reinforced cement, in the manufacture of rubber, and for use in paper and non-woven fabric applications, and other specialty fields were strong. As a result, revenues increased and profits held steady.
- 2) Sales of the man-made leather *CLARINO* in Europe and the United States for use in sports shoes were healthy, as were domestic sales for use in bags, gloves, and other accessories. As a result, revenues and profits both showed growth. In response to strong demand in China, we have

commenced the construction of *CLARINO* manufacturing facilities (4 million m² per year) as a joint venture with Chinese capital.

- 3) Cost reductions in the non-woven fabric business and a halt in the decline of product prices allowed us to post higher earnings on lower revenues. The development of new hook and loop fasteners resulted in higher revenues and profits in that area.
- 4) While efforts to advance structural reform of the filament (*CLAVELLA*) business, together with the performance of *CLAVELLA* -related businesses, including Kuraray Trading's clothing and living materials operations, helped lift the polyester business into the black, improved profitability in the staple fiber business stalled, hit by the high costs of raw materials and fuels.

c. High-Performance Materials, Medical Products and Others Business

Net sales in the High-performance Materials, Medical Products and Others Business rose ¥7,556 million, or 10.8%, to ¥77,781 million, but operating income contracted by ¥668 million, or 8.3%, to ¥7,333 million.

- 1) In the opto-electronics business, we began marketing MD-type opto-screens in addition to our existing line of CRT-type opto-screens for rear-projection televisions. However, as a result of low prices and a low yield at the new manufacturing facilities, profits declined even though sales increased.
- 2) In the medical business, medical devices were affected by the annual revision of pharmaceutical prices by the government and competition continued to worsen. Although demand for dental materials was steady, adjustments to trade inventory advanced. As a result, both revenues and profits in this area declined.
- 3) In the high-performance materials business, the use of the heat resistant polyamide resin *GENESTAR* as an electronics material expanded steadily, and we made progress in the development of the market for its use in the automotive field, for components found in the high-heat environment of the engine compartment. In the activated carbon business, sales of nitrogen generation equipment rose, and the performance of the engineering and other related businesses was solid.

Corporate costs declined ¥3 million, or 0.03%, to ¥10,487 million.

2. Performance by Geographic Segment

a. Japan

As a result of expanding sales and increased exports of optical-use poval film, *EVAL*, *SEPTON*, methacrylic resin, *CLARINO*, *KURALON*, and *GENESTAR*, as well as the shift of higher raw material and fuel costs to product prices, net sales increased to ¥269,534 million and operating income rose to ¥37,723 million.

b. North America

SEPTON manufacturing facilities are operating at full capacity, and demand for *EVAL* for food packaging applications has been strong. As a result, net sales rose to ¥27,586 million. However, the sharp increase in raw material and fuel prices and the increased value of the yen brought a decrease in operating income to ¥3,483 million.

c. Europe

The rise of the euro subjected PVA and *EVAL* to stiffer competition, and high raw material and fuel prices also had an impact on European operations. Nonetheless, net sales rose to ¥42,187 million and operating income grew to ¥2,567 million.

d. Asia

We made progress in raising PVA prices, and still succeeded in increasing the volume of sales. Net sales increased to ¥15,567 million, and we cut our operating loss to ¥119 million.

Corporate costs contracted by ¥421 million, or 3.9%, to ¥10,467 million.

Financial Position

Total assets increased ¥41,714 million to ¥454,941 million. As a result of capital investments and the purchase of a business, fixed assets increased by ¥30,825 million.

To finance a portion of the business acquisition, we issued ¥10.0 billion in unsecured bonds. This was our third unsecured bond issue. As a result, liabilities increased by ¥26,904 million to ¥139,758 million.

Retained earnings rose by ¥11,802 million, resulting in a ¥12,623 million increase in shareholders' equity, to ¥312,929 million. The equity ratio declined 3.9 percentage points to 68.8% as a result of the increase in total assets.

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

	(Unit: ¥million)	
	Fiscal 2004	Fiscal 2003
Cash flows from operating activities	39,615	30,768
Cash flows from investing activities	-44,696	-4,273
Cash flows from financing activities	13,221	-33,129
Effect of exchange rate changes on cash and cash equivalents	454	-252
Change in cash and cash equivalents	8,594	-6,886
Cash and cash equivalents at the beginning of the year	7,015	13,901
Effect of newly consolidated firms on cash and cash equivalents	1,134	-
Cash and cash equivalents at the end of the year	16,743	7,015

Cash flow indicators for the Kuraray Group

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Equity ratio	59.6%	67.3%	72.7%	68.8%
Equity ratio (market basis)	66.7%	60.6%	79.5%	77.2%
Years to redemption of liabilities	4.3	1.0	0.4	0.7
Interest coverage ratio	8.5	22.8	36.7	132.5

Notes:

Equity ratio: Shareholders' equity/total assets

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

Years to redemption of liabilities: Interest-bearing liabilities/net cash provided by operating activities

Interest coverage ratio: Net cash provided by operating activities/interest expenses

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

calculated using total interest paid as stated in the Company's consolidated statement of cash flows.

Outlook for the Coming Fiscal Year

High raw material and fuel prices are forecast to continue in the coming fiscal year, and there are fears of economic slowdown in the United States and China. In Japan, there is concern that the business readjustment will become a long-term phenomenon. These factors make it impossible to be complacent about next fiscal year's economic environment. Under these circumstances, the Kuraray Group will seek to reach its final goals under the G-21 medium-term business plan by expanding and bringing to fruition its ongoing strengthening of its corporate structure and its core business growth strategy, while pursuing revenue growth appropriate to changes in the external environment.

In the Chemicals and Resins Business, the capital investments we have made and our M&A measures are showing results, and we are striving for the expansion of revenues.

In the PVA business, we will expand the use of optical-use poval film in LCDs and work to increase sales of PVA resin differentiation products. In the PVB business we will work to expand the market. We will be increasing sales of *EVAL* for existing applications, accelerating the development of the market for *EVAL SP*, and moving forward with the development of 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 seek to increase the rate of profit growth in the Fibers and Textiles Business by increasing the number of proprietary products and moving forward with structural improvements.

In the *KURALON* business, the Group will focus on developing new markets for fiber-reinforced concrete applications and further increasing differentiation products. 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 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 business, 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.

Risk Management

Significant risks that could have an impact on the Kuraray Group's results of operations and financial condition are 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 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 manufacturing and sale of synthetic fibers and textiles, chemical products, and 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 of customers, legal costs, and indemnification expenses could adversely affect the 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.

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.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2005 and 2004	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
ASSETS			
Current assets:			
Cash and cash equivalents	¥16,743	¥7,015	\$156,477
Marketable securities	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	64,173	61,867	599,748
Deferred income taxes	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	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	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

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

Accounting change: Prior to April 1, 2004, accounts receivables and payables denominated by foreign currencies, which were covered by hedging forward exchange contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting. Effective April 1, 2004, foreign currency forward 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.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	¥10,013	¥2,576	\$93,580
Current portion of long-term debt	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	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	16,234	3,475	151,720
Deferred income taxes	7,345	4,024	68,645
Accrued retirement benefits	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
Shareholders' equity:			
Common stock:			
Authorized-700,000,000 shares			
Issued and outstanding-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	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

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

Accounting change: Prior to April 1, 2004, accounts receivables and payables denominated by foreign currencies, which were covered by hedging forward exchange contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting. Effective April 1, 2004, foreign currency forward 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.

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
	2005	2004	2005
Net sales	¥354,874	¥332,149	\$3,316,579
Cost of sales	254,115	236,246	2,374,906
(Gross profit)	100,759	95,903	941,673
Selling, general and administrative expenses	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
Other, net	(3,277)	(4,103)	(30,626)
	(3,342)	(4,552)	(31,234)
(Income before income taxes and minority interests)	29,845	23,494	278,925
Income taxes:			
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	Yen	U.S. dollars
Net income per share:			
Primary	¥50.13	¥40.81	\$0.47
Fully diluted	50.12	-	0.47

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

Accounting change: Prior to April 1, 2004, accounts receivables and payables denominated by foreign currencies, which were covered by hedging forward exchange contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting. Effective April 1, 2004, foreign currency forward 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.

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, YEN9.00 per share			(3,351)			
Bonuses to directors			(50)			
Changes in unrealized gain on revaluation of securities				6,381		
Translation adjustments					(815)	
Treasury stock acquired, net		3				(4,306)
Balance at March 31, 2004	¥88,955	¥87,150	¥127,148	¥7,902	¥842	¥(11,691)
Net income			18,465			
Cash dividends, YEN11.00 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				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)

Years ended March 31, 2005 and 2004	Thousands of U.S. dollars					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
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				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)

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

Accounting change: Prior to April 1, 2004, accounts receivables and payables denominated by foreign currencies, which were covered by hedging forward exchange contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting. Effective April 1, 2004, foreign currency forward 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.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2005 and 2004	Millions of yer		Thousands of U.S. dollars
	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)	(2,420)
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	(3,154)	(53)	(29,477)
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 bond	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

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

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SEGMENT INFORMATION

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

Year ended March 31, 2005	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥167,264	¥795	¥168,059	¥28,420
Fibers and textiles	109,829	1,197	111,026	7,921
High performance materials, medical products and others	77,781	25,166	102,947	7,333
Total	354,874	27,158	382,032	43,674
Eliminated on consolidation and corporate	-	(27,158)	(27,158)	(10,487)
Consolidated total	¥354,874	¥ -	¥354,874	¥33,187

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

Year ended March 31, 2005	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$1,563,215	\$7,430	\$1,570,645	\$265,607
Fibers and textiles	1,026,439	11,187	1,037,626	74,028
High performance materials, medical products and others	726,925	235,196	962,121	68,533
Total	3,316,579	253,813	3,570,392	408,168
Eliminated on consolidation and corporate	-	(253,813)	(253,813)	(98,009)
Consolidated total	\$3,316,579	\$ -	\$3,316,579	\$310,159

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

Accounting change: Prior to April 1, 2004, accounts receivables and payables denominated by foreign currencies, which were covered by hedging forward exchange contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting. Effective April 1, 2004, foreign currency forward 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.

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

Year ended March 31, 2005	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥220,812	¥32,262	¥12,119
Fibers and textiles	79,994	4,128	4,085
High performance materials, medical products and others	82,122	7,215	3,679
Total	382,928	43,605	19,883
Eliminated on consolidation and corporate	72,013	2,110	1,441
Consolidated total	¥454,941	¥45,715	¥21,324

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

Year ended March 31, 2005	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\$2,063,664	\$301,514	\$113,262
Fibers and textiles	747,607	38,579	38,178
High performance materials, medical products and others	767,495	67,430	34,383
Total	3,578,766	407,523	185,823
Eliminated on consolidation and corporate	673,019	19,720	13,467
Consolidated total	\$4,251,785	\$427,243	\$199,290

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

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Geographic segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Year ended March 31, 2005	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
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	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥254,373	¥25,778	¥280,151	¥33,105	¥243,363
North America	24,575	3,246	27,821	3,781	31,969
Europe	39,849	904	40,753	2,312	66,589
Asia	13,352	1,695	15,047	(264)	8,252
Total	332,149	31,623	363,772	38,934	350,173
Eliminated on consolidation and corporate	-	(31,623)	(31,623)	(10,888)	63,054
Consolidated total	¥332,149	¥ -	¥332,149	¥28,046	¥413,227

Year ended March 31, 2005	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
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

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN107=\$1.

Accounting change: Prior to April 1, 2004, accounts receivables and payables denominated by foreign currencies, which were covered by hedging forward exchange contracts were translated at the contracted rates, if the forward contracts qualified for hedge accounting. Effective April 1, 2004, foreign currency forward 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.

Foreign sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Year ended March 31, 2005	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
North America	¥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

Year ended March 31, 2004	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
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 %

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