

FINANCIAL REPORT 2004

Kuraray Co., Ltd

Management Policies

Fundamental Management Policy

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

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

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

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

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

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

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

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

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

Dividend Policy

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

Policy Regarding Reduction in Trading Unit

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

Issues to Be Resolved

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

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

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

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

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

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

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

Approach to Corporate Governance and Status of Measures Taken

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

(1) Management structure

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

- 1) The maximum number of directors has been reduced to 10 and the term of office reduced to one year. This system will facilitate increased speed in management decision-making. (We have not yet elected an outside director.)
- 2) To allow auditors to adequately exercise management oversight functions, the membership of the Board of Auditors has been increased from four to five. Of these, three will be outside auditors with no history of employment by the Company or of having served on its Directors, Auditors, or as Executive officers, as required by Article 18-1 of the Law for Special Provisions for the Commercial Code Concerning Audits, etc., of Kabushiki-Kaisha (Joint Stock Companies), and who have no personal, financial, contractual, or other improper relationship with the Company.
- 3) Kuraray has established the Management Advisory Committee to serve as an advisory body for the Company president. Two of its five members will be from outside the Company.

This committee advises the president on the Kuraray Group's management policies, important management issues, business planning, the continuation of the president in his post, the nomination of new presidents, and the president's compensation. As a general rule, this committee is to be convened twice a year.
- 4) An executive officer system has been established to clearly distinguish

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

(2) CSR Activities and Risk Management

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

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

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

Results of Operations and Financial Condition

Summary

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

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

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

1. Results by Business Segment

a. Chemicals and Resins Business

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

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

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

renewed growth in demand for optical-use film.

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

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

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

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

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

b. Fibers and Textiles Business

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

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

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

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

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

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

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

c. High-Performance Materials, Medical Products and Others

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

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

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

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

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

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

2. Performance by Geographic Segment

a. Japan

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

b. North America

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

c. Europe

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

d. Asia

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

3. Dividends

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

Outlook for the Coming Fiscal Year

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

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

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

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

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

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

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

Financial Position

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

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

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

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

(Unit: ¥ million)

Fiscal 2003/Fiscal 2002

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

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

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

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

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

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

Effect of changes in reporting entities: – /¥17

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

Kuraray Group Cash Flow Indicators

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

Notes:

Equity ratio: Shareholders' equity/total assets

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

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

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

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

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

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and its Consolidated Subsidiaries

| Years ended March 31, 2004 and 2003 | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|------------------------------|
| | 2004 | 2003 | 2004 |
| Net sales | ¥332,149 | ¥322,524 | \$3,133,481 |
| Cost of sales | 236,246 | 230,618 | 2,228,736 |
| (Gross profit) | 95,903 | 91,906 | 904,745 |
| Selling, general and administrative expenses | 67,857 | 66,720 | 640,160 |
| (Operating income) | 28,046 | 25,186 | 264,585 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,121 | 1,643 | 10,576 |
| Equity in earnings of affiliates | 159 | 361 | 1,500 |
| Interest expenses | (656) | (1,480) | (6,189) |
| Restructuring charges | (5,031) | (3,856) | (47,462) |
| Loss on write-down of investment securities | - | (4,950) | - |
| Gain on sale of property, plant and equipment | 3,958 | 1,565 | 37,340 |
| Other, net | (4,103) | (4,097) | (38,708) |
| | (4,552) | (10,814) | (42,943) |
| (Income before income taxes and minority interests) | 23,494 | 14,372 | 221,642 |
| Income taxes: | | | |
| Current | 6,829 | 7,019 | 64,425 |
| Deferred | 1,480 | (711) | 13,962 |
| | 8,309 | 6,308 | 78,387 |
| Minority interests in net income of consolidated subsidiaries | (4) | (13) | (38) |
| Net income | ¥15,181 | ¥8,051 | \$143,217 |
| | | | |
| | | Yen | U.S. dollars |
| Net income per share: | | | |
| Primary | ¥40.81 | ¥21.01 | \$0.39 |
| Fully diluted | - | 20.71 | - |

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

SEGMENT INFORMATION

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

Millions of yen

| Year ended March 31, 2004 | Net sales | | | Operating income |
|--|-------------------|---------------|-----------------|------------------|
| | 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 |

Millions of yen

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

Thousands of U.S. dollars

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

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

Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

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

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

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

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

Geographic segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

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

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

Foreign sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

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