Business Results for the year Ended March 31,2006

(unaudited)

Kuraray Co., Ltd.

Management Policies

Fundamental Management Policies

The Kuraray Group formulated a 10-Year Corporate Vision to indicate its long-term direction and its new GS-21 medium-term business plan, a three-year plan from fiscal 2006 to fiscal 2008, which commenced in April 2006.

The economic environment over the next decade is expected to face long-term structural transformation as it tackles growing concerns over the global environment, resource conservation and the stifling of mass production and high energy consumption economies. Other key issues that need to be addressed include the imbalance in the global economy, lower rates of economic growth, and increasing competition. As individual values evolve, issues also arise concerning diversifying market needs, higher levels of sophistication, and the rapid shift in demand trends. Furthermore, growing risks associated with Japan's fundamental structure such as its fiscal deficit, aging society, and declining birthrate pose additional problems. Against this backdrop, it becomes increasingly imperative for a chemical company to shift its management focus from quantity to quality. Accordingly, the Kuraray Group will leverage its longstanding corporate culture that stresses "contributing to the world and individual well-being through actions that others are unable to produce," to promote exciting innovation and outstanding earnings recognized throughout the world with the aim of becoming a diversified specialty chemicals manufacturer attaining sustainable growth. In its core businesses including vinyl acetate materials, isoprene chemicals, and man-made leather, built on a foundation of competitive proprietary technologies, the Group will adopt a long-term growth policy that emphasizes stable and sustainable growth driven by continuous technology development on a global scale. Under its previous G-21 five-year medium term business plan that commenced in fiscal 2001, the Kuraray Group established a foothold in new growth areas including optical, automotive, and energy-related materials. Going forward, we will continue to focus management resources in value-added businesses that exhibit high rates of profit growth. Furthermore, through structural improvements, we will secure competitive advantage in mature business and establish stable profit streams. Based on these measures, we will steadfastly pursue consolidated sales of ¥1 trillion in fiscal 2015.

In order to realize its 10-Year Corporate Vision, the Kuraray Group has identified five fundamental policies. Leveraging a corporate platform bolstered over many years, Kuraray will continue over the next decade to reinforce its core technologies that have produced the world's finest products and its global competitiveness (Core Competence), endeavor to create a continuous stream of highly profitable businesses by developing diversified technologies (Frontier), and strengthen global competitiveness by delivering the highest quality (Refinement). In the post industrial capitalist 21st century, a period during which corporate value is expected to focus more on the human factor as opposed to traditional capitalism, Kuraray will redouble efforts to promote a dynamic corporate culture (Vitality) and to become a high quality corporate Group that contributes to the global environment and a sustainable society (Sustainability).

Management Indicator Targets and Medium- to Long-Term Strategy

The GS-21 three-year medium-term business plan clarifies those strategies required to reach established commitments and identifies stretch targets that include new businesses, M&A and individual strategic projects. Under the plan, the Kuraray Group has made the commitment to achieve net sales of ¥450 billion, operating income of ¥50 billion, ROA of 9%, and ROE of 7% in fiscal 2008. In addition, we have identified stretch targets for net sales of ¥550 billion, up ¥100 billion on its commitment, and operating income of ¥60 billion, an increase of ¥10 billion, based on a broader scope of the Group's operating activities. The core business strategies and strategies by business segment of the plan are as follows.

1. Core Business Strategies

(1) In its internationally competitive core material businesses such as vinyl acetate, isoprene, and man-made leather developed by Kuraray's unique technologies, enhance competitive quality through diversified technological innovation including processing techniques. In this manner, Kuraray will accelerate growth through efforts to expand global markets.

(2) Having established a foothold in new growth fields such as optical materials, automobiles, and energy materials through G-21, conduct concentrated investment of management resources to facilitate further expansion. In addition, launch new material businesses targeting promising industries to solidify the Company's position in next-generation platform businesses as a key supplier of high-quality innovative materials required by customers.

(3) Reinforce product earnings power across the board, reorganize or withdraw from uncompetitive businesses

(4) Improve management quality as a global company

2. Strategies by Segment

<u>Chemicals and Resins</u>

Raise profit growth based on priority investments outlined under G-21

Underpinned by Kuraray's proprietary technology, poval, *EVAL*, and isoprene boast international competitiveness. While maintaining competitive advantage based on global strategies, Kuraray will accelerate growth through innovation and new product development. At the same time, the Company will actively expand new growth fields such as optical materials. In the methacrylic resin business, Kuraray will establish a stable earnings structure by launching new products such as high-value-added optical materials as well as reinforcing manufacturing bases in China.

<u>Fibers and Textiles</u>

Establish firm profitability in core materials, while strengthening and improving the product portfolio

Kuraray's *KURALON*, *KURALON K-II*, and *CLARINO* are world-leading products. Responding to market needs, Kuraray will step up efforts to upgrade technologies, increase production capacity, and invest in innovative processes to consolidate the platform for growth.

The Kuraray Group will reinforce its earnings structure in the mature domestic market for *KURAFLEX*, *MAGIC TAPE*, and polyester by developing unique products through sophisticated processing technologies.

<u>High-Performance Materials, Medical Products, and Others</u>

Actively expand new growth fields through speedy technology innovation for diversified products

In Opto-screens, *GENESTAR*, and liquid crystalline polymer film businesses, Kuraray will accelerate technological innovation suited to customer needs to establish competitive advantage in new growth fields.

Furthermore, Kuraray will enhance stability by leveraging its strengths as a leading manufacturer of dental materials and activated carbon in the domestic market, and developing unique products and global businesses. At the same time, Kuraray will implement strict measures to ensure management efficiency in engineering and other related businesses.

Issues to be Resolved

Under the G-21 medium-tern business plan, growth strategies were implemented that focused on three core businesses and four strategic domains and enhanced competitiveness addressed by accelerating the pace of new business development, profit-structure reforms, and the reorganization of underperforming businesses. This has resulted in continuous increases in profits in the four periods since fiscal 2002. In the year under review, all-time highs were achieved in terms of net sales and all profit accounting items, as was the ROA target of over 8%. However, net sales of ¥400 billion and operating income of ¥40 billion fell just short of targets, the primary causes being attributed to the slow pace at which investments have borne fruit, and delays in response to markets, product development, passing on increased raw material and fuel costs to sales prices, and improving head office efficiency. The factory fire that broke out in 2005 served as a warning, and the strengthening of safety management has been given a top priority.

GS-21 will place the utmost priority on four issues, as follows. Firstly, it will accelerate the development of new businesses and growth fields. By adopting a demand-driven approach, it will focus on rapidly responding to the needs of the optical, automotive, and energy-related materials markets. Furthermore, breaking away from conducting its business entirely in-house, it will promote the expansion and focus of research resources, deepening its collaborative ties with other companies and external research organizations. Secondly, Kuraray will pursue globally effective and speedy management by accelerating its responsiveness to the market, implementing reforms to the in-house company system introduced under G-21 for greater resource efficiency, establishing a global Group management structure, as well as by strengthening the efficiency of management systems. Thirdly, in accordance with GS-21's management strategy, a system to secure, educate, and optimally place "human resources" will be implemented. In support of these aims, a reformed personnel system that prioritizes employee assignments will be put in place. Last but by no means least, sustainability, in terms of both the global and corporate environments, will be addressed. Based upon the medium-term environmental plan (Fiscal 2001–2010) currently in progress, increased efforts are being made Groupwide, at both the domestic and global levels, in environmental measures, and in expanding sales of eco-friendly products. In addition, advances are being made in the enhancement of manufacturing know-how, placing a thorough emphasis on safety, and establishing internal controls to strengthen risk management.

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%-30% 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 uses. Based on this policy, a year-end dividend for this fiscal year of ¥8.50 is planned. When added to the interim dividend, this will be a total of ¥15.0 per share for the fiscal year, up ¥3.0 from the previous fiscal year. An annual dividend of ¥17.0 is planned for the current fiscal year, an increase of ¥2.0 per share, assuming a current term net income of ¥22 billion.

Results of Operations and Financial Condition

Summary

The economic environment in Japan during fiscal 2005, ended March 31, 2006, was characterized by overall stable conditions on the back of improvements in corporate results, a recovery in personal consumption and other factors. Tempering favorable conditions, however, were the continued sharp rise in raw material and fuel prices, rising interest rates, large-scale natural disasters and unstable international and other conditions. Overseas, conditions were unstable impacted by growing uncertainty over economic conditions including the United States and China.

Against this backdrop, the Kuraray Group worked to enhance benefits from capital investments in both new production facilities and facility expansion, accelerate the development and marketing of new products, pass on higher raw material and fuel prices in the form of higher product prices and achieve further rationalization of costs.

In January 2006, full-fledged operations resumed following an explosion and fire on September 9, 2005 at the vinyl acetate manufacturing facilities of Kuraray's Okayama Plant. Increased costs relating to the repair of damaged facilities and the drop in production were effectively absorbed by increased production at other Kuraray Group production bases and insurance and other cover.

As a result of the aforementioned factors, the Kuraray Group's fiscal 2005 consolidated net sales rose ¥20,199 million, or 5.7%, compared with the previous fiscal year to ¥375,073 million. Operating income increased ¥5,090 million, or 15.3%, to ¥38,277 million, and net income improved ¥2,721 million, or 14.7%, to ¥21,186 million.

1. Results by Business Segment

a. Chemicals and Resins Business

Results in the Chemicals and Resins Business saw an increase in revenues and earnings. Net sale rose ¥23,489 million, or 14.0%, to ¥190,753 million, and operating income grew ¥3,448 million, or 12.1%, to ¥31,868 million.

1) In poval, sales of optical-use poval film for use in LCDs were strong. The expansion of optical film manufacturing facilities (30 million m^2 per year) during the fiscal year under review also contributed to sales growth. Sales of poval resin in Europe were stagnant impacted by increased imports from other regions reflecting the strong euro, and fared little better in

Asia due to intense competition. Spurred by a robust performance in polyvinyl butyral (PVB) film for use in construction materials, overall poval resin sales enjoyed an increase in both revenues and earnings. In an effort to address continued strong demand for optical-use poval film for use in LCDs, Kuraray is advancing further expansion of manufacturing facilities (30 million m^2 per year) for scheduled completion in the first half of fiscal 2007.

2) Demand for *EVAL*, an ethylene vinyl alcohol polymer resin, for food packing application was steady in Japan, Europe and the United States. In addition to a slump in demand for automobile fuel tank application in the United States, results were also impacted by the sharp rise in raw material and fuel prices. Accounting for these factors, *EVAL* results saw an increase in revenues and a drop in earnings.

3) In isoprene-related products, strong demand for the thermoplastic elastomer *SEPTON* as a substitute for vulcanized rubber and soft PVC resulted in higher sales in Europe, the United States and Asia. On the earnings front, however, profits were impacted by rising raw material and fuel price. Kuraray is currently moving forward with an expansion of manufacturing facilities (6,000 tons per year) in the United States in response to further growth in *SEPTON* demand. Completion of facility expansion is scheduled for the second half of fiscal 2006. In the fine chemical field, sales were also steady for items such as medical intermediates. As a result revenues and earnings for isoprene-related products were up year on year.

4) Despite stagnant demand for methacrylic resin for general applications, demand was robust for optical-use products such as LCD light-guide plates. As a result, sales remained flat while profits increased. Effective September 30, 2005, the Company terminated its relationship with regard to Kyodo Monomer Co., Ltd., a joint venture between Kuraray and Mitsui Chemicals, Inc. to manufacture methyl methacrylate (MMA) monomer. Kuraray has transferred its entire stockholding to Mitsui Chemicals. In addition, construction of cast sheet manufacturing facilities (3,000 tons per year) in China was completed. Operations commenced from the second half of fiscal 2005.

b. Fibers and Textiles Business

The Fibers and Textiles Business experienced a slight decline in revenues with an increase in earnings. Net sales for the fiscal year under review edged down ¥722 million, or 0.7%, to ¥109,107 million, while operating income climbed ¥1,530 million, or 19.3%, to ¥9,451 million.

1) The *KURALON* business was affected by the accident at the Company's Okayama Plant as well as soaring raw material and fuel prices. Sales for use as an asbestos substitute in fiber-reinforced cement, in the manufacture of rubber, and for use in paper and nonwoven fabric applications, and other specialty fields, on the other hand, were solid. As a result, revenues decreased while profits held steady.

2) Sales of the man-made leather *CLARINO* were impacted by sluggish demand for interior use. Sales, however, were strong for use in bags and other accessories and for polishing materials and other industrial applications. As a result, both profits and sales were increased. In response to strong demand in China, Kuraray has been constructing *CLARINO* manufacturing facilities (4 million m^2 per year) as a joint venture with Chinese capital. Construction is now complete and operations commenced from the second half of fiscal 2005.

3) Kuraray posted higher revenues and earnings in nonwoven fabrics and hook and loop fasteners due to cost reductions and a recovery in domestic demand.

4) Sales of polyester declined, impacted by the shift toward differentiated products. Efforts to pass on higher raw material and fuel prices in the form of higher product prices, and further rationalization of costs contributed to an increase in profit.

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

Net sales in the High-performance Materials, Medical Products and Others Business contracted ¥2,568 million, or 3.3%, to ¥75,213 million, while operating income rose by ¥1,123 million, or 15.3%, to ¥8,456 million.

1) In the opto-electronics business, the market for MD-type opto-screens for rear-projection televisions grew. This, however, was offset by a sharp drop in demand for CRT-type opto-screens. As a result, both revenues and earnings declined.

2) In the medical business, conditions for medical devices were again difficult, buffeted by continued fierce competition. Sales, however, increased for dental materials in Japan and the United States contributing to improvements in revenues and earnings. Effective September 30, 2005, Kuraray Medical, Inc. transferred its contact lens business to Facile Co., Ltd.

3) In the high-performance materials business, the use of the heat resistant polyamide resin *GENESTAR* as an electronics material expanded steadily in Japan and Asia, while progress was also made in the development of the market for its use in the automotive field. Sales in the activated carbon business were impacted by raw material and fuel prices. The performance of the engineering and other related businesses was solid.

Corporate costs and eliminations increased ¥1,011 million to ¥11,498 million.

2. Performance by Geographic Segment

a. Japan

Results in Japan enjoyed an increase in revenues and earnings. As a result of expanding sales and increased exports of optical-use poval film, optical-use methacrylic resin, *SEPTON*, *CLARINO*, *KURALON*, and *GENESTAR*, as well as the shift of higher raw material and fuel costs to product prices, net sales increased to ¥273,757 million and operating income rose to ¥43,570 million.

b. North America

Sales of *SEPTON* as a substitute for vulcanized rubber and soft PVC expanded. Sales of *EVAL* for automobile fuel tank application on the other hand stalled, exacerbated by delays in the development of products and the sharp rise in raw material and fuel prices. While net sales climbed to ¥30,610 million, operating income fell to¥2,987 million.

c. Europe

The rise of the euro and high raw material and fuel prices had an impact on European operations. The increase in sales attributed to the purchase of a PVB film business, coupled with strong demand for *EVAL* and *SEPTON*, however, contributed to net sales growth to ¥53,974 million and an improvement in operating income to ¥3,211 million.

d. Asia

Kuraray continued to prioritize increases in poval product prices to offset the sharp rise in raw material and fuel prices. While we reported an increase in net sales to ¥16,732 million, our operating loss expanded to ¥276 million.

Corporate costs increased ¥748 million to ¥11,215 million.

Financial Position

As of March 31, 2006, total assets increased ¥26,416 million compared with the end of the previous fiscal year to ¥481,357 million. In line with the increase in sales, note and accounts receivable increased contributing to current asset growth totaling ¥18,351 million. As a result of capital investments and the revaluation of investment securities, fixed assets increased by ¥8,066 million.

Total liabilities at the end of the fiscal year stood at ¥139,876 million, an increase of ¥118 million.

Retained earnings rose by ¥16,426 million, resulting in a ¥26,197 million increase in total shareholders' equity to ¥339,127 million. The equity ratio increased 1.7 percentage points to 70.5%.

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

(Unit: ¥million)

	Fiscal 2005	Fiscal 2004
Cash flows from operating activities	32,691	39,615
Cash flows from investing activities	-13,693	-44,696
Cash flows from financing activities	-7,791	13,221
Effect of exchange rate changes on cash and cash equivalents	134	454
Change in cash and cash equivalents	11,341	8,594
Cash and cash equivalents at the beginning of the year	16,743	7,015
Effect of newly consolidated firms on cash and cash equivalents	2	1,134
Cash and cash equivalents at the end of the year	28,086	16,743

Cash flow indicators for the Kuraray Group

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Equity ratio	67.3%	72.7%	68.8%	70.5%
Equity ratio (market basis)	60.6%	79.5%	77.2%	105.7%
Years to redemption of liabilities	1.0	0.4	0.7	0.8
Interest coverage ratio	22.8	36.7	132.5	84.2

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

In fiscal 2006, ending March 31, 2007, the Japanese economy will continue to break away from prolonged deflationary conditions. In the global economy, high raw material and fuel prices are forecast to continue with fears of an economic slowdown in the United States and China. These factors make it impossible to be complacent about the future. Under these circumstances, Kuraray will pursue the following business initiatives.

In the Chemicals and Resins Business, we will endeavor to pass higher raw material and fuel prices along in the form of higher poval resin prices and increase sales of high-value-added products. In poval film, we will adopt measures that accurately address growing demand for optical use and accelerate price increases and sales expansion through the introduction of new high-performance products. In *EVAL*, Kuraray is committed to raising products prices and expanding sales of new products such as *EVAL SP*, *KURARISTER* and others. We will also work to expand global markets for isoprene-related products including thermoplastic elastomers while curtailing activities in low-profit methacrylic resins and expanding optical applications.

Kuraray will seek to secure increased profits in the Fibers and Textiles Business by expanding sales of *KURALON* as a substitute for asbestos and raising product prices. Utilizing new processes, we will introduce *CLARINO* products and expand applications including car seat, polishing materials and other industrial use. In the polyester business, Kuraray will accelerate the development of proprietary polymers and the shift toward differentiated products.

The Group will expand sales of dental materials in the medical business in Europe, the United States and overseas markets as well as new dialyzer with the aim of bolstering the High-Performance Materials, Medical Products and Others Business. In the optical products business, we will introduce new MD-type screens that offer superior optical properties. While in *GENESTAR*, we will expand electric and electronic material applications and step up development of application for automobile use.

Forecasts for fiscal 2006, ending March 31, 2007, are net sales of ¥400.0 billion, operating income of ¥41.0 billion, ordinary income of ¥37.0 billion and net income of ¥22.0 billion. Projections for fiscal 2006 assume an average exchange rate of ¥115 to the U.S. dollar, ¥140 to the euro and a Dubai crude oil price of US$58 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, 2006.

(1) 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.

(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) 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.

(4) 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 is affected by changes in export sales prices. Sales of products manufactured at our overseas bases are 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.

(5) Litigation

Engaged in a broad range of business activities, the Kuraray Group is subject to potential litigation across numerous fields. In the fiscal year under review, Kuraray did not face litigation of a material nature. In the event the Group is subject to future litigation, however, its performance and financial standing may be adversely affected.

(6) 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

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	*Thousands of U.S. dollars* ***2006***
ASSETS			
Current assets:			
Cash and cash equivalents	**¥28,085**	¥16,743	***$240,043***
Marketable securities	**—**	5,990	—
Notes and accounts receivable:			
Trade	**88,677**	82,079	***757,922***
Unconsolidated subsidiaries and affiliates	**1,757**	1,752	***15,017***
Other	**4,127**	2,322	***35,274***
Loans receivable from unconsolidated subsidiaries, affiliates and others	**624**	429	***5,334***
Allowance for doubtful accounts	**(1,015)**	(904)	***(8,675)***
	94,170	85,678	***804,872***
Inventories	**69,431**	64,173	***593,426***
Deferred income taxes	**6,478**	7,313	***55,368***
Other current assets	**2,504**	2,420	***21,402***
Total current assets	**200,668**	182,317	***1,715,111***
Property, plant and equipment:			
Land	**19,676**	20,289	***168,171***
Buildings	**88,265**	92,759	***754,401***
Machinery and equipment	**443,689**	421,146	***3,792,214***
Construction-in-progress	**24,590**	21,527	***210,171***
	576,220	555,721	***4,924,957***
Less accumulated depreciation	**(416,824)**	(397,427)	***(3,562,598)***
	159,396	158,294	***1,362,359***
Investments and other assets:			
Goodwill	**28,625**	31,661	***244,658***
Other intangible assets	**6,014**	6,272	***51,402***
Investment securities	**37,970**	24,115	***324,530***
Investments in unconsolidated subsidiaries and affiliates	**4,512**	4,465	***38,564***
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	**2,802**	2,947	***23,949***
Other	**475**	619	***4,060***
Accumulated premiums on insurance	**29,707**	35,188	***253,906***
Deferred income taxes	**2,650**	2,077	***22,650***
Prepaid pension expenses	**5,142**	3,512	***43,948***
Other	**3,511**	4,811	***30,008***
Allowance for doubtful accounts	**(115)**	(1,337)	***(983)***
	121,293	114,330	***1,036,692***
	¥481,357	¥454,941	***$4,114,162***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

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

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	Millions of yen		*Thousand of U.S. dollars*
	2006	2005	***2006***
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	**¥6,619**	¥10,013	***$56,573***
Current portion of long-term debt	**390**	3,434	***3,333***
Notes and accounts payable:			
Trade	**39,150**	39,905	***334,615***
Unconsolidated subsidiaries and affiliates	**1,004**	1,733	***8,581***
Other	**8,130**	8,739	***69,487***
Accrued income taxes	**7,165**	5,850	***61,239***
Accrued expenses and other	**16,771**	15,183	***143,343***
Total current liabilities	**79,229**	84,857	***677,171***
Long-term liabilities:			
Long-term debt	**19,256**	16,234	***164,581***
Deferred income taxes	**13,714**	7,345	***117,214***
Accrued retirement benefits	**13,404**	13,469	***114,564***
Other	**14,273**	17,853	***121,991***
Total long-term liabilities	**60,647**	54,901	***518,350***
Minority interests	**2,354**	2,253	***20,120***
Shareholders' equity:			
Common stock:			
Authorized-700,000,000 shares			
Issued-382,863,603 shares	**88,955**	88,955	***760,299***
Capital surplus	**87,227**	87,156	***745,530***
Retained earnings	**155,377**	138,951	***1,328,009***
Unrealized gain on revaluation of securities	**16,426**	9,012	***140,393***
Cumulative translation adjustments	**2,726**	679	***23,299***
	350,711	324,753	***2,997,530***
Treasury stock at cost	**(11,584)**	(11,823)	***(99,009)***
Total shareholders' equity	**339,127**	312,930	***2,898,521***
	¥481,357	¥454,941	**$4,114,162**

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2006 and 2005	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Net sales	**¥375,073**	¥354,874	***$3,205,752***
Cost of sales	**266,284**	254,115	***2,275,931***
(Gross profit)	**108,789**	100,759	***929,821***
Selling, general and administrative expenses	**70,512**	67,572	***602,667***
(Operating income)	**38,277**	33,187	***327,154***
Other income (expenses):			
Interest and dividend income	**1,294**	1,192	***11,060***
Equity in earnings of affiliates	**56**	30	***479***
Interest expenses	**(414)**	(297)	***(3,539)***
Restructuring charges	**(1,693)**	(1,249)	***(14,470)***
Gain on sales of investment securities	**1,029**	—	***8,795***
Loss on write-down of investment securities	**(253)**	—	***(2,163)***
Gain on sales of property, plant and equipment	**8,446**	259	***72,188***
Loss on disposal of property, plant and equipment	**(492)**	—	***(4,205)***
Impairment loss of property, plant and equipment	**(5,455)**	—	***(46,624)***
Other, net	**(6,432)**	(3,277)	***(54,974)***
	(3,914)	(3,342)	***(33,453)***
(Income before income taxes and minority interests)	**34,363**	29,845	293,701
Income taxes:			
Current	**11,674**	8,723	***99,777***
Deferred	**1,394**	2,564	***11,915***
	13,068	11,287	111,692
Minority interests in net income of consolidated subsidiaries	**(109)**	(93)	***(932)***
Net income	**¥21,186**	¥18,465	***$181,077***

	Yen 2006	Yen 2005	*U.S. dollars* 2006
Net income per share:			
Primary	**¥57.51**	¥50.13	***$0.49***
Fully diluted	**57.41**	50.12	***0.49***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

*Accounting Change: Effective April 1, 2005, the Kuraray Co., Ltd. and its domestic consolidated subsidiaries （the "Companies") have adopted "Accounting Standard for Impairment of Fixed Assets" issued by Business Accounting Council in Japan on August 9, 2002 and "Implementation Guidance for Accounting for Impairment of Fixed assets" issued by Accounting Standards Board of Japan on October 31, 2003. As a result of this change, income before income taxes and minority interests for the year ended March 31, 2006 decreased by YEN5,455 million ($46,624 thousand).

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2006 and 2005	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
	Millions of yen					
Balance at March 31, 2004	¥88,955	¥87,150	¥127,148	¥7,902	¥842	¥(11,691)
Net income			18,465			
Cash dividends, YEN12.00 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)
Net income			21,186			
Cash dividends, YEN15.00 per share			(4,772)			
Bonuses to directors			(59)			
Effect of liquidation of consolidated subsidiaries			56			
Minimum pension liability adjustment			15			
Changes in unrealized gain on revaluation of securities				7,414		
Translation adjustments					2,047	
Treasury stock sold, net		71				239
Balance at March 31, 2006	**¥88,955**	**¥87,227**	**¥155,377**	**¥16,426**	**¥2,726**	**¥(11,584)**
	Thousands of U.S. dollars					
Balance at March 31, 2005	*$760,299*	*$744,923*	*$1,187,615*	*$77,026*	*$5,803*	*$(101,051)*
Net income			*181,077*			
Cash dividends, $0.13 per share			*(40,786)*			
Bonuses to directors			*(504)*			
Effect of liquidation of consolidated subsidiaries			*479*			
Minimum pension liability adjustment			*128*			
Changes in unrealized gain on revaluation of securities				*63,367*		
Translation adjustments					*17,496*	
Treasury stock sold, net		*607*				*2,042*
Balance at March 31, 2006	***$760,299***	***$745,530***	***$1,328,009***	***$140,393***	***$23,299***	***$(99,009)***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2006 and 2005	Millions of yer 2006	Millions of yer 2005	Thousands of U.S. dollars 2006
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥34,363**	¥29,845	***$293,701***
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	**25,186**	21,324	***215,265***
Increase in allowance for doubtful accounts	**37**	27	***316***
Decrease in accrued retirement benefits, net	**(141)**	(357)	***(1,205)***
Impairment loss of property, plant and equipment	**5,455**	—	***46,624***
Gain on sales of property, plant and equipment	**(8,446)**	(259)	***(72,188)***
Loss on disposal of property, plant and equipment	**492**	—	***4,205***
Gain on sales of investment securities	**(1,029)**	—	***(8,795)***
Loss on write-down of investment securities	**253**	—	***2,163***
Interest and dividend income	**(1,294)**	(1,192)	***(11,060)***
Interest expenses	**414**	297	***3,539***
(Increase) decrease in notes and accounts receivable	**(5,838)**	273	***(49,897)***
Increase in inventories	**(4,219)**	(2,155)	***(36,060)***
(Decrease) increase in notes and accounts payable	**(2,505)**	2,633	***(21,410)***
Increase in prepaid pension expenses	**(1,630)**	(2,221)	***(13,932)***
Other, net	**1,264**	(933)	***10,803***
Sub-total	**42,362**	47,282	***362,068***
Interest and dividend received	**943**	821	***8,060***
Interest paid	**(388)**	(299)	***(3,316)***
Income taxes paid	**(10,226)**	(8,189)	***(87,402)***
Net cash and cash equivalents provided by operating activities	**32,691**	39,615	***279,410***
Cash flows from investing activities:			
Decrease (increase) in marketable securities	**3,000**	(3,000)	***25,641***
Payments for acquisition of property, plant, equipment and intangible assets	**(36,069)**	(47,512)	***(308,282)***
Proceeds from sales of property, plant, equipment and intangible assets	**10,550**	470	***90,171***
Payments for purchase of investment securities	**(1,379)**	(1,607)	***(11,786)***
Proceeds from sales and redemption of investment securities	**3,604**	8,400	***30,803***
Payments of premiums on insurance	**(702)**	(928)	***(6,000)***
Withdrawals from accumulated premiums on insurance	**6,573**	55	***56,179***
Other, net	**730**	(574)	***6,240***
Net cash and cash equivalents used in investing activities	**(13,693)**	(44,696)	***(117,034)***
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans	**(3,322)**	7,125	***(28,393)***
Decrease in commercial paper	**—**	(3,000)	***—***
Proceeds from long-term debt	**3,400**	6,075	***29,060***
Repayments of long-term debt	**(3,407)**	(2,821)	***(29,120)***
Proceeds from issuance of standard bonds	**—**	10,000	***—***
Dividends paid	**(4,772)**	(4,039)	***(40,786)***
Proceeds from sales of treasury stock	**461**	58	***3,940***
Payments for purchase of treasury stock	**(151)**	(177)	***(1,291)***
Net cash and cash equivalents (used in) provided by financing activities	**(7,791)**	13,221	***(66,590)***
Effect of exchange rate changes on cash and cash equivalents	**134**	454	***1,145***
Net increase in cash and cash equivalents	**11,341**	8,594	***96,931***
Cash and cash equivalents, beginning of year	**16,743**	7,015	***143,103***
Effect of changes in reporting entities	**2**	1,134	***17***
Cash and cash equivalents, end of yea	**¥28,086**	¥16,743	***$240,051***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

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

SEGMENT INFORMATION

Industrial segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

	Millions of yen			
	Net sales			Operating
Year ended March 31, 2006	outside customers	inter-segment	total	income
Chemicals and resins	**¥190,753**	**¥723**	**¥191,476**	**¥31,868**
Fibers and textiles	**109,107**	**684**	**109,791**	**9,451**
High performance materials,				
medical products and others	**75,213**	**27,105**	**102,318**	**8,456**
Total	**375,073**	**28,512**	**403,585**	**49,775**
Eliminated on consolidation and corporate	**—**	**(28,512)**	**(28,512)**	**(11,498)**
Consolidated total	**¥375,073**	**¥ —**	**¥375,073**	**¥38,277**

	Millions of yen			
	Net sales			Operating
Year ended March 31 ,2005	outside customers	inter-segment	total	income
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

	Thousands of U.S. dollars			
	Net sales			Operating
Year ended March 31, 2006	*outside customers*	inter-segment	*total*	income
Chemicals and resins	***$1,630,368***	***$6,179***	***$1,636,547***	***$272,376***
Fibers and textiles	***932,538***	***5,846***	***938,384***	***80,778***
High performance materials,				
medical products and others	***642,846***	***231,667***	***874,513***	***72,274***
Total	***3,205,752***	***243,692***	***3,449,444***	***425,428***
Eliminated on consolidation and corporate	**—**	***(243,692)***	***(243,692)***	***(98,274)***
Consolidated total	***$3,205,752***	***$ —***	***$3,205,752***	***$327,154***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

*Effective April 1, 2005, the Companies have adopted "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed assets".

As a result of this change, identifiable assets of "Fibers and textiles" decreased by YEN 1,242 million ($10,615 thousand) anc identifiable assets of "High performance materials, medical products and others" decreased by YEN 4,207 million ($35,957 thousand for the year ended March 31, 2006.

Industrial segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

	Millions of yen		
Year ended March 31, 2006	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	**¥243,384**	**¥23,810**	**¥16,029**
Fibers and textiles	**80,501**	**4,787**	**3,845**
High performance materials, medical products and others	**69,571**	**3,283**	**3,720**
Total	**393,456**	**31,880**	**23,594**
Eliminated on consolidation and corporate	**87,901**	**1,992**	**1,592**
Consolidated total	**¥481,357**	**¥33,872**	**¥25,186**

	Millions of yen		
Year ended March 31, 2005	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

	Thousands of U.S. dollars		
Year ended March 31, 2006	*Identifiable assets*	*Capital expenditure*	*Depreciation and amortization*
Chemicals and resins	***$2,080,205***	***$203,504***	***$137,000***
Fibers and textiles	***688,043***	***40,915***	***32,863***
High performance materials, medical products and others	***594,624***	***28,060***	***31,795***
Total	***3,362,872***	***272,479***	***201,658***
Eliminated on consolidation and corporate	***751,290***	***17,025***	***13,607***
Consolidated total	***$4,114,162***	***$289,504***	***$215,265***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

*Effective April 1, 2005, the Companies have adopted "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed assets".

As a result of this change, identifiable assets of "Fibers and textiles" decreased by YEN 1,242 million ($10,615 thousand) and identifiable assets of "High performance materials, medical products and others" decreased by YEN 4,207 million ($35,957 thousand) for the year ended March 31, 2006. The effect on identifiable assets of other segments are immaterial.

Geographic segment information

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen				
	Net sales			Operating	Identifiable
Year ended March 31, 2006	outside customers	inter-segment	total	income (loss)	assets
Domestic (inside Japan)	**¥273,757**	**¥28,770**	**¥302,527**	**¥43,570**	**¥259,901**
North America	**30,610**	**3,544**	**34,154**	**2,987**	**44,666**
Europe	**53,974**	**3,191**	**57,165**	**3,211**	**87,940**
Asia	**16,732**	**1,936**	**18,668**	**(276)**	**5,897**
Total	**375,073**	**37,441**	**412,514**	**49,492**	**398,404**
Eliminated on consolidation and corporate	**—**	**(37,441)**	**(37,441)**	**(11,215)**	**82,953**
Consolidated total	**¥375,073**	**¥ —**	**¥375,073**	**¥38,277**	**¥481,357**

	Millions of yen				
	Net sales			Operating	Identifiable
Year ended March 31, 2005	outside customers	inter-segment	total	income (loss)	assets
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

	Thousands of U.S. dollars				
	Net sales			*Operating*	*Identifiable*
Year ended March 31, 2006	*outside customers*	*inter-segment*	*total*	*income (loss)*	*assets*
Domestic (inside Japan)	***$2,339,803***	***$245,897***	***$2,585,700***	***$372,393***	***$2,221,376***
North America	***261,624***	***30,291***	***291,915***	***25,530***	***381,761***
Europe	***461,316***	***27,274***	***488,590***	***27,444***	***751,624***
Asia	***143,009***	***16,547***	***159,556***	***(2,359)***	***50,401***
Total	***3,205,752***	***320,009***	***3,525,761***	***423,008***	***3,405,162***
Eliminated on consolidation and corporate	***—***	***(320,009)***	***(320,009)***	***(95,855)***	***709,000***
Consolidated total	***$3,205,752***	***$ —***	***$3,205,752***	***$327,154***	***$4,114,162***

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.

*Effective April 1, 2005, the Companies have adopted "Accounting Standard for Impairment of Fixed Assets" and "Implementation Guidance for Accounting for Impairment of Fixed assets".

As a result of this change, identifiable assets of "Domestic (inside Japan) " for the year March 31, 2006 decreased by YEN 5,455million ($46,624 thousand).

Foreign sales

(Unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			*Thousands of U.S. dollars*	
Year ended March 31 ,2006	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	*Foreign sales*	*Consolidated net sales*
North America	**¥35,413**	**¥ —**	**9.5 %**	***$302,675***	***$ —***
Europe	**58,926**	**—**	**15.7**	***$503,641***	**—**
Asia	**60,062**	**—**	**16.0**	***$513,350***	**—**
Other	**8,641**	**—**	**2.3**	***$73,855***	**—**
Total	**¥163,042**	**¥375,073**	**43.5 %**	***$1,393,521***	***$3,205,752***

	Millions of yen		
Year ended March 31, 2005	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥30,828	¥ —	8.7 %
Europe	49,980	—	14.1
Asia	62,078	—	17.5
Other	7,230	—	2.0
Total	¥150,116	¥354,874	42.3 %

Notes: *The United States dollar amounts represent translation of Japanese yen at the rate of YEN117=$1.