

# Semi-annual Financial Information 2005

Kuraray Co., Ltd

## **Management Policies**

### **Fundamental Management Policy**

In 2001, the Kuraray Group implemented its “G-21” five-year medium-term business plan. This plan sets forth five conditions for business growth. The first four are: maintaining international competitiveness; showing 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; fully utilizing IT and participating in the new growth fields it has created; and the maximizing of synergies within the Group through shared values and strategies. The fifth is to fostering 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 each business 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 (poval, *EVAL*, *KURALON*, and *KURALON K-II*), the isoprene (thermoplastic elastomers and fine chemicals), and the man-made leather businesses (*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**

The "G-21" medium-term plan has been in effect since 2001. 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 products that 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. The Company has moved forward with improvements to asset efficiency through the reduction of non-business assets and inventories.

As “G-21” enters its final phase , 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 by adding an executive officer system 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 made progress with its 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 *EVAL* in Europe, established a subsidiary in Shanghai and built methacrylic resins, man-made leather, activated carbon , hook and loop fastener business bases in China, and reinforced domestic optical material operations (poval 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 Corporate 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. (An outside director has not yet to be elected.)
- 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 are outside auditors with no history of employment by the Company or of having served as one of its directors, auditors, or as an 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 a 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 in 2002. The executive officer will oversee the performance of the in-house company and the important staff organizations as in-house company president or heads of the organization, 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 risk-reduction countermeasures.

## Results of Operations and Financial Condition

### Summary

The Japanese economy took an upturn during the six-month period under review, fueled by healthy exports resulting from increased overseas demand, primarily in China. However, business confidence remains tentative as a result of such factors as the precipitous rise in prices of raw materials and fuels, an adjustment in demand for IT products, and fears of economic slowdowns in the U. S. and China. The situation, therefore, does not allow complacency.

Confronted by these circumstances, the Kuraray Group is rationalizing its business portfolio through the expansion of internationally competitive businesses and restructuring of low-earning operations, and is coping with rising raw materials and fuels prices by passing some costs on in product prices, and by pushing forward with renewed rationalization of costs. This has minimized the impact of these factors on the Group's performance.

As a result of the foregoing, net sales grew **¥14,234 million**, or 8.8% in comparison to the first half of the previous fiscal year, to **¥175,565 million**. Operating income expanded by **¥3,018 million**, or 22.0%, to **¥16,741 million**, income before income taxes and minority interests rose by **¥3,115 million**, or 24.6%, to **¥15,798 million**, and net income was up by **¥1,497 million**, or 18.0 %, to **¥9,809 million**.

### 1. Results by Business Segment

#### a. Chemicals and Resins Business

In the Chemicals and Resins Business, net sales climbed by **¥6,688 million** to **¥83,032 million**, up 8.8% in comparison to the corresponding period of the previous fiscal year, and operating income increased by **¥2,578 million**, or 22.0%, to **¥14,312 million**.

We are expanding sales of poval (PVA) resin in Europe, and sales in Asia have taken an upturn as a result of a recovery in market conditions. Kuraray developed new manufacturing technology in response to steep growth in demand for optical-use film for the production of LCDs and requirements for higher quality. As a result, optical-use film sales volume increased, and Kuraray's poval business as a whole posted growth in both revenues and income.

We posted healthy sales of *EVVAL* (ethylene vinyl alcohol polymer) resin in Japan and Europe for use in automotive fuel tanks, and in North America for use as a food-packaging material. Revenues and income both showed growth. The expansion of our European *EVVAL* plant (from 12,000 tons per year to 24,000 tons per year) is proceeding smoothly, and the expanded production capacity will be on line in the second half of this fiscal year.

The half saw increasing sales of methacrylic resin for optical applications such as LCD light-guide plates, and, although adjustments to product prices necessitated by the soaring prices of raw materials and fuels put pressure on sales, this business also posted growth in both revenues and income.

In the isoprenes business, the volume of thermoplastic elastomer sales grew steadily and, in the fine chemicals business, sales of aroma chemicals and agricultural chemical intermediates were healthy. This business achieved growth in revenues, but the high prices of raw materials and fuels combined with the rise of the yen in international exchange to force a decline in income.

#### **b. Fibers and Textiles Business**

Net sales in the fibers and textiles business expanded by **¥1,932 million** to **¥54,440 million**, an increase of 3.7%. Operating income grew by **¥1,390 million**, or 50.0%, to **¥4,171 million**.

Sales of *KURALON* as a substitute for asbestos in fiber-reinforced cement and for use in paper coatings and non-woven fabrics were



solid. Overall, revenues in the *KURALON* business showed growth, but the effects of soaring raw materials and fuels prices prevented an increase in income.

In our polyester operations, we pursued cost rationalization in both the staple fiber and filament businesses, expanded sales in fields other than clothing, and reformed our business structure. These measures allowed us to achieve revenue growth and reduce losses.

Sales of our *CLARINO* man-made leather for use in international sports shoe brands continued to climb, and sales for use in accessories such as bags and gloves were solid. As a result, this business achieved growth in both revenues and income.

Competition remained severe in the non-woven fabrics business, but we expanded our sales of added-value products such as professional-use cloths and wipers, and this allowed us to post growth in income despite flat revenues. A recovery in domestic demand resulted in revenue and earnings growth in our hook and loop fastener business.

### **c. High-Performance Materials, Medical Products and Others**

In the High-Performance Materials, Medical Products and Others business, net sales climbed by **¥5,614 million** to **¥38,093 million**, up 17.3% in comparison to the corresponding period of the previous fiscal year, but operating income declined by **¥156 million**, or 3.8%, to **¥3,934 million**.

In the opto-electronics business, sales of screens for CRT-type rear-projection televisions expanded. However, Kuraray has been slow to establish a system for expanding microdisplay (MD) type screen production capacity, with the result that sales in the U. S. declined. As a result, income declined despite a gain in revenues. Because Kuraray MD screens offer unique functionality, the Company has an advantage over its competition. The Company has been working to achieve stability of yield, and will go on the

offensive in the second half.

Conditions were harsh in the medical field as a result of the annual revision of pharmaceuticals prices by the government and a change to the national health insurance system that increased the share of medical bills paid by the insured. Both revenues and income declined.

In the functional materials business, we continued to develop new users of the heat resistant resin *GENESTAR* in the electronic component field, which expanded the volume of sales, in response to which we increased production capacity.

Sales of domestic consolidated subsidiary Kuraray Chemical Co., Ltd.'s activated carbon continued to rise for both water purification and high-value-added applications. Other subsidiaries worked to heighten efficiency and expand sales of high-value-added products. As a whole, this sector posted growth in both revenues and income.

## **2. Performance by Geographic Segment**

### a. Japan

Domestically, the Company passed higher raw materials and fuels prices on in product prices, placed more emphasis on high-value-added products, and worked to reduce costs. As a result, net sales were **¥132,988 million** and operating income was **¥18,746 million**, both up from the corresponding period of the previous fiscal year.

### b. North America

North American sales of thermoplastic elastomers and *EVAL* were healthy, allowing net sales to rise to **¥13,449 million** and operating income to increase to **¥2,214 million**.

### c. Europe

Expansion of the *EVAL*, PVA and PVB business resulted in net sales of **¥21,471 million** and operating income of **¥1,628 million**, both figures higher than revenue and income a year ago.

d. Asia

Poval demand expanded, and *CLARINO* sales were healthy. As a result, net sales grew to **¥7,657 million**, and the operating loss shrank to **¥75 million**.

### **3. Dividends**

An interim dividend of ¥5.5 per share has been declared.

### **Outlook for the Fiscal Year**

The steep increase in world prices of raw materials and fuels have brought fears of economic slowdowns in the thriving economies of China and the U. S., and business confidence is eroding. Likewise, there are clouds on the horizon for Japan's export-led domestic economy. Below we will briefly discuss the response of the Kuraray Group to these circumstances.

In the Chemicals and Resins business, we will accelerate the global growth of core businesses such as poval, *EVVAL*, methacrylic resin, and thermoplastic elastomers.

In the Fibers and Textiles business we work to expand sales of *KURALON* as an asbestos substitute, and in applications that utilize this material's special properties. We will also further expand the use of *CLARINO* in the production of sports shoes in China, and will accelerate the development of new markets for other applications, including car seats.

In our High-Performance Materials, Medical Products and Others business we will expand sales of MD-type screens in the opto-electronics field, bolster our efforts to develop markets for our medical products, and will emphasize the development of new applications for *GENESTAR*.

For the fiscal year, forecasts are for net sales of **¥360,000 million**, operating income of **¥33,000 million**, and net income of **¥18,000 million**. These projections assume an average exchange rate of ¥110 to the U.S. dollar, ¥130 to the euro, and a Dubai crude oil price of US\$35 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 2005.

## Financial Position

Total assets at the end of the half were **¥422,609 million**, up **¥9,382 million** from the end of fiscal 2003. This is primarily due to investments in fixed assets.

Shareholders' equity increased **¥8,135 million** from the end of fiscal 2003, to reach **¥308,441 million**. In the same period the equity ratio rose 0.3 percentage points to 73.0%.

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

	(Unit: ¥ million)	
	1H Fiscal 2004	1H Fiscal 2003
Cash flows from operating activities	203,43	12,910
Cash flows from investing activities	(13,283)	2,478
Cash flows from financing activities	(2,707)	(18,746)
Effect of exchange rate changes on cash and cash equivalents	80	(328)
Net (decrease) increase in cash and cash equivalents	4,433	(3,686)
Cash and cash equivalents at the beginning of the year	7,015	13,900
Effect of changes in reporting entities	1,134	-
Cash and cash equivalents at the end of the fiscal period	12,583	10,214

## Kuraray Group Cash Flow Indicators

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004 1 <sup>st</sup> half
Shareholders' equity ratio	59.6%	67.3%	72.7%	73.0%
Equity ratio (market basis)	66.7%	60.6%	79.5%	71.8%
Years to redemption of liabilities	4.3 years	1.0 years	0.4 years	0.3 years
Interest coverage ratio	8.5	22.8	36.7	181.0

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

Years to redemption of liabilities as at end of first half: Interest-bearing liabilities / (net cash provided by operating activities x 2)

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 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

	Millions of yen			Thousands of U.S. dollars
	September 30, 2004	March 31, 2004	September 30, 2003	September 30, 2004
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	¥12,584	¥7,015	¥9,856	\$113,369
Marketable securities	6,997	8,424	9,588	63,036
Notes and accounts receivable:				
Trade	80,520	81,978	77,437	725,406
Unconsolidated subsidiaries and affiliates	1,371	1,692	1,660	12,351
Other	1,677	1,404	1,389	15,108
Loans receivable from unconsolidated subsidiaries, affiliates and others	334	348	639	3,009
Allowance for doubtful accounts	(838)	(870)	(878)	(7,550)
	<b>83,064</b>	<b>84,552</b>	<b>80,247</b>	<b>748,324</b>
Inventories	60,860	61,867	65,716	548,288
Deferred income taxes	7,399	6,401	6,418	66,658
Other current assets	2,243	3,169	2,658	20,208
Total current assets	<b>173,147</b>	<b>171,428</b>	<b>174,483</b>	<b>1,559,883</b>
<b>Property, plant and equipment:</b>				
Land	21,686	18,174	19,185	195,369
Buildings	91,780	89,220	88,173	826,847
Machinery and equipment	397,838	388,801	381,873	3,584,126
Construction-in-progress	27,538	20,936	15,673	248,090
	<b>538,842</b>	<b>517,131</b>	<b>504,904</b>	<b>4,854,432</b>
Less accumulated depreciation	(388,715)	(379,264)	(372,940)	(3,501,937)
	<b>150,127</b>	<b>137,867</b>	<b>131,964</b>	<b>1,352,495</b>
<b>Investments and other assets:</b>				
Goodwill	26,043	27,801	30,123	234,622
Other intangible assets	2,148	2,434	2,740	19,351
Investment securities	21,203	25,159	24,396	191,018
Investments in unconsolidated subsidiaries and affiliates	3,660	3,483	3,391	32,973
Loans receivable from:				
Unconsolidated subsidiaries and affiliates	3,109	3,312	3,957	28,009
Other	695	813	1,070	6,261
Accumulated premiums on insurance	34,833	33,987	33,876	313,811
Deferred income taxes	1,107	2,082	4,816	9,973
Other	7,906	6,210	5,131	71,225
Allowance for doubtful accounts	(1,369)	(1,349)	(1,330)	(12,333)
	<b>99,335</b>	<b>103,932</b>	<b>108,170</b>	<b>894,910</b>
	<b>¥422,609</b>	<b>¥413,227</b>	<b>¥414,617</b>	<b>\$3,807,288</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

# CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2004	March 31, 2004	September 30, 2003	September 30, 2004
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term bank loans	¥1,600	¥2,576	¥7,851	\$14,414
Current portion of long-term debt	2,738	2,769	4,362	24,667
Commercial paper	-	3,000	5,000	-
Notes and accounts payable:				
Trade	36,154	37,433	34,136	325,712
Unconsolidated subsidiaries and affiliates	1,222	1,202	1,181	11,009
Other	10,116	10,305	6,972	91,135
Accrued income taxes	6,254	4,694	4,169	56,342
Deferred income taxes	-	-	67	-
Accrued expenses and other	12,957	13,186	14,636	116,730
Total current liabilities	71,041	75,165	78,374	640,009
<b>Long-term liabilities:</b>				
Long-term debt	6,940	3,475	3,425	62,523
Deferred income taxes	4,118	4,024	3,386	37,099
Accrued retirement benefits	13,432	13,806	13,962	121,009
Other	16,436	16,384	16,957	148,072
Total long-term liabilities	40,926	37,689	37,730	368,703
<b>Minority interests</b>	2,201	67	65	19,829
<b>Shareholders' equity:</b>				
Common stock:				
Authorized-700,000,000 shares				
Issued and outstanding-382,863,603 shares	88,955	88,955	88,955	801,396
Capital surplus	87,153	87,150	87,149	785,162
Retained earnings	135,363	127,148	121,954	1,219,486
Unrealized gain on revaluation of securities	7,378	7,902	4,859	66,468
Cumulative translation adjustments	1,352	842	2,949	12,181
	320,201	311,997	305,866	2,884,693
Treasury stock at cost	(11,760)	(11,691)	(7,418)	(105,946)
Total shareholders' equity	308,441	300,306	298,448	2,778,747
	¥422,609	¥413,227	¥414,617	\$3,807,288

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.



# CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2004	September 30, 2003	March 31, 2004	September 30, 2004
<b>Net sales</b>	<b>¥175,565</b>	¥161,331	¥332,149	<b>\$1,581,667</b>
<b>Cost of sales</b>	<b>125,313</b>	114,363	236,246	<b>1,128,946</b>
(Gross profit)	<b>50,252</b>	46,968	95,903	<b>452,721</b>
<b>Selling, general and administrative expenses</b>	<b>33,511</b>	33,245	67,857	<b>301,901</b>
(Operating income)	<b>16,741</b>	13,723	28,046	<b>150,820</b>
<b>Other income (expenses):</b>				
Interest and dividend income	<b>674</b>	637	1,121	<b>6,072</b>
Equity in earnings of affiliates	<b>22</b>	59	159	<b>198</b>
Interest expenses	<b>(128)</b>	(366)	(656)	<b>(1,153)</b>
Restructuring charges	<b>(249)</b>	(1,876)	(5,031)	<b>(2,243)</b>
Gain on sale of property, plant and equipment	<b>128</b>	2,170	3,958	<b>1,153</b>
Other, net	<b>(1,390)</b>	(1,664)	(4,103)	<b>(12,523)</b>
	<b>(943)</b>	(1,040)	(4,552)	<b>(8,496)</b>
(Income before income taxes and minority interests)	<b>15,798</b>	12,683	23,494	<b>142,324</b>
<b>Income taxes:</b>				
Current	<b>5,310</b>	4,503	6,829	<b>47,838</b>
Deferred	<b>638</b>	(135)	1,480	<b>5,748</b>
	<b>5,948</b>	4,368	8,309	<b>53,586</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	<b>(41)</b>	(3)	(4)	<b>(369)</b>
<b>Net income</b>	<b>¥9,809</b>	¥8,312	¥15,181	<b>\$88,369</b>
	Yen	Yen		U.S. dollars
<b>Net income per share:</b>				
Primary	<b>¥26.71</b>	¥22.33	¥40.81	<b>\$0.24</b>
Fully diluted	-	-	-	-

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen					
	Common stock	Capital surplus	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
<b>Balance at March 31, 2003</b>	¥88,955	¥87,147	¥115,368	¥1,521	¥1,657	¥(7,385)
Net income			8,312			
Cash dividends, YEN4.50 per share			(1,676)			
Bonuses to directors			(50)			
Changes in unrealized gain on revaluation of securities				3,338		
Translation adjustments					1,292	
Treasury stock acquired, net		2				(33)
<b>Balance at September 30, 2003</b>	88,955	87,149	121,954	4,859	2,949	(7,418)
Net income			6,869			
Cash dividends, YEN4.50 per share			(1,675)			
Changes in unrealized gain on revaluation of securities				3,043		
Translation adjustments					(2,107)	
Treasury stock acquired, net		1				(4,273)
<b>Balance at March 31, 2004</b>	¥88,955	¥87,150	¥127,148	¥7,902	¥842	¥(11,691)
Net income			9,809			
Cash dividends, YEN5.50 per share			(2,020)			
Bonuses to directors			(57)			
Effect of changes in reporting entities			483			
Changes in unrealized gain on revaluation of securities				(524)		
Translation adjustments					510	
Treasury stock acquired, net		3				(69)
<b>Balance at September 30, 2004</b>	¥88,955	¥87,153	¥135,363	¥7,378	¥1,352	¥(11,760)

	<i>Thousands of U.S. dollars</i>					
<b>Balance at March 31, 2004</b>	\$801,396	\$785,135	\$1,145,477	\$71,189	\$7,586	\$(105,324)
Net income			88,369			
Cash dividends, \$0.05 per share			(18,198)			
Bonuses to directors			(513)			
Effect of changes in reporting entities			4,351			
Changes in unrealized gain on revaluation of securities				(4,721)		
Translation adjustments					4,595	
Treasury stock acquired, net		27				(622)
<b>Balance at September 30, 2004</b>	\$801,396	\$785,162	\$1,219,486	\$66,468	\$12,181	\$(105,946)

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2004	September 30, 2003	March 31, 2004	September 30, 2004
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥15,798	¥12,683	¥23,494	\$142,324
Adjustments to reconcile income before income taxes and minority interests to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization	10,235	9,776	20,785	92,207
(Decrease) increase in allowance for doubtful accounts	(16)	39	53	(144)
Decrease in accrued retirement benefits, net	(315)	(2,159)	(2,366)	(2,838)
Gain on sale of property, plant and equipment	(128)	(2,170)	(3,958)	(1,153)
Interest and dividend income	(674)	(637)	(1,121)	(6,072)
Interest expenses	128	366	656	1,153
Decrease (increase) in notes and accounts receivable	1,977	4,046	(848)	17,811
Decrease (increase) in inventories	1,509	(2,264)	935	13,595
Decrease in notes and accounts payable	(1,296)	(4,278)	(232)	(11,676)
Other, net	(3,316)	2,383	(53)	(29,874)
<b>Sub-total</b>	<b>23,902</b>	<b>17,785</b>	<b>37,345</b>	<b>215,333</b>
Interest and dividend received	437	519	895	3,937
Interest paid	(112)	(519)	(839)	(1,009)
Income taxes paid	(3,883)	(4,875)	(6,633)	(34,982)
<b>Net cash and cash equivalents provided by operating activities</b>	<b>20,344</b>	<b>12,910</b>	<b>30,768</b>	<b>183,279</b>
<b>Cash flows from investing activities:</b>				
Decrease in marketable securities	-	8,362	8,362	-
Payments for acquisition of property, plant, equipment and intangible assets	(16,687)	(14,018)	(30,248)	(150,333)
Proceeds from sales of property, plant, equipment and intangible assets	201	7,081	10,538	1,811
Payments for purchase of investment securities	(817)	(514)	(548)	(7,360)
Proceeds from sales and redemption of investment securities	4,400	2,650	7,847	39,639
Payments of premiums on insurance	(694)	(1,246)	(1,262)	(6,252)
Withdrawals from accumulated premiums on insurance	25	21	45	225
Other, net	289	142	993	2,603
<b>Net cash and cash equivalents provided by (used in) investing activities</b>	<b>(13,283)</b>	<b>2,478</b>	<b>(4,273)</b>	<b>(119,667)</b>
<b>Cash flows from financing activities:</b>				
Decrease in short-term bank loans	(972)	(368)	(5,392)	(8,756)
(Decrease) increase in commercial paper	(3,000)	5,000	3,000	(27,027)
Proceeds from long-term debt	5,225	455	1,790	47,072
Repayments of long-term debt	(1,881)	(2,127)	(4,373)	(16,946)
Redemption of standard bonds	-	(20,000)	(20,500)	-
Dividends paid	(2,020)	(1,676)	(3,351)	(18,198)
Proceeds from sales of treasury stock	21	-	18	189
Payments for purchase of treasury stock	(80)	(30)	(4,321)	(721)
<b>Net cash and cash equivalents used in financing activities</b>	<b>(2,707)</b>	<b>(18,746)</b>	<b>(33,129)</b>	<b>(24,387)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>80</b>	<b>(328)</b>	<b>(252)</b>	<b>721</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>4,434</b>	<b>(3,686)</b>	<b>(6,886)</b>	<b>39,946</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>7,015</b>	<b>13,901</b>	<b>13,901</b>	<b>63,198</b>
<b>Effect of changes in reporting entities</b>	<b>1,135</b>	<b>-</b>	<b>-</b>	<b>10,225</b>
<b>Cash and cash equivalents, end of period</b>	<b>¥12,584</b>	<b>¥10,215</b>	<b>¥7,015</b>	<b>\$113,369</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

## SEGMENT INFORMATION

### Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

#### Net sales and operating income

Six months ended September 30, 2004	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥83,032	¥396	¥83,428	¥14,312
Fibers and textiles	54,440	712	55,152	4,171
High performance materials, medical products and others	38,093	11,677	49,770	3,934
Total	175,565	12,785	188,350	22,417
Eliminated on consolidation and corporate	-	(12,785)	(12,785)	(5,676)
Consolidated total	¥175,565	¥0	¥175,565	¥16,741

Six months ended September 30, 2003	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥76,344	¥290	¥76,634	¥11,734
Fibers and textiles	52,508	832	53,340	2,781
High performance materials, medical products and others	32,479	9,810	42,289	4,090
Total	161,331	10,932	172,263	18,605
Eliminated on consolidation and corporate	-	(10,932)	(10,932)	(4,882)
Consolidated total	¥161,331	¥0	¥161,331	¥13,723

Six months ended September 30, 2004	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$748,036	\$3,568	\$751,604	\$128,937
Fibers and textiles	490,451	6,414	496,865	37,577
High performance materials, medical products and others	343,180	105,198	448,378	35,441
Total	1,581,667	115,180	1,696,847	201,955
Eliminated on consolidation and corporate	-	(115,180)	(115,180)	(51,135)
Consolidated total	\$1,581,667	\$0	\$1,581,667	\$150,820

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

## Industrial segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

### Identifiable assets, capital expenditure and depreciation and amortization

Six months ended September 30, 2004	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	<b>¥189,137</b>	<b>¥9,214</b>	<b>¥5,796</b>
Fibers and textiles	<b>75,975</b>	<b>1,928</b>	<b>1,959</b>
High performance materials, medical products and others	<b>83,074</b>	<b>3,866</b>	<b>1,768</b>
<b>Total</b>	<b>348,186</b>	<b>15,008</b>	<b>9,523</b>
Eliminated on consolidation and corporate	<b>74,423</b>	<b>751</b>	<b>712</b>
<b>Consolidated total</b>	<b>¥422,609</b>	<b>¥15,759</b>	<b>¥10,235</b>

Six months ended September 30, 2003	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥176,758	¥8,800	¥5,715
Fibers and textiles	80,432	1,632	1,980
High performance materials, medical products and others	77,213	2,262	1,446
<b>Total</b>	<b>334,403</b>	<b>12,694</b>	<b>9,141</b>
Eliminated on consolidation and corporate	80,214	653	635
<b>Consolidated total</b>	<b>¥414,617</b>	<b>¥13,347</b>	<b>¥9,776</b>

Six months ended September 30, 2004	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	<b>\$1,703,937</b>	<b>\$83,009</b>	<b>\$52,216</b>
Fibers and textiles	<b>684,460</b>	<b>17,369</b>	<b>17,649</b>
High performance materials, medical products and others	<b>748,414</b>	<b>34,829</b>	<b>15,928</b>
<b>Total</b>	<b>3,136,811</b>	<b>135,207</b>	<b>85,793</b>
Eliminated on consolidation and corporate	<b>670,477</b>	<b>6,766</b>	<b>6,414</b>
<b>Consolidated total</b>	<b>\$3,807,288</b>	<b>\$141,973</b>	<b>\$92,207</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

## Geographic segment information

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months ended September 30, 2004	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥132,988	¥13,518	¥146,506	¥18,746	¥244,773
North America	13,449	2,140	15,589	2,214	34,540
Europe	21,471	893	22,364	1,628	69,969
Asia	7,657	758	8,415	(75)	7,970
Total	175,565	17,309	192,874	22,513	357,252
Eliminated on consolidation and corporate	-	(17,309)	(17,309)	(5,772)	65,357
Consolidated total	¥175,565	¥0	¥175,565	¥16,741	¥422,609

Six months ended September 30, 2003	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥121,251	¥12,999	¥134,250	¥15,667	¥233,435
North America	12,607	1,745	14,352	1,920	32,131
Europe	20,931	506	21,437	1,269	64,124
Asia	6,542	732	7,274	(137)	8,674
Total	161,331	15,982	177,313	18,719	338,364
Eliminated on consolidation and corporate	-	(15,982)	(15,982)	(4,996)	76,253
Consolidated total	¥161,331	¥0	¥161,331	¥13,723	¥414,617

Six months ended September 30, 2004	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	\$1,198,090	\$121,784	\$1,319,874	\$168,883	\$2,205,162
North America	121,162	19,279	140,441	19,946	311,171
Europe	193,433	8,045	201,478	14,667	630,351
Asia	68,982	6,829	75,811	(676)	71,802
Total	1,581,667	155,937	1,737,604	202,820	3,218,486
Eliminated on consolidation and corporate	-	(155,937)	(155,937)	(52,000)	588,802
Consolidated total	\$1,581,667	\$0	\$1,581,667	\$150,820	\$3,807,288

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.

## Foreign sales

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months ended September 30, 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	¥15,365	¥ -	8.8 %	\$138,423	\$ -
Europe	25,688	-	14.6	231,423	-
Asia	33,471	-	19.1	301,541	-
Other	3,532	-	2.0	31,820	-
Total	¥78,056	¥175,565	44.5 %	\$703,207	\$1,581,667

Six months ended September 30, 2003	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥16,978	¥ -	10.5 %
Europe	25,341	-	15.7
Asia	22,517	-	14.0
Other	2,881	-	1.8
Total	¥67,717	¥161,331	42.0 %

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of YEN111=\$1.