

# Semi-annual financial information 2002

Kuraray Co., Ltd.

# **Management Policy**

## **Basic Policy**

Fiscal 2000 saw the start of the Kuraray Group's new 5-year medium-term business plan -- dubbed 'G-21.' The plan was inspired by the belief that a company that wishes to develop in the face of global competition must: (1) maintain international competitive power, (2) give consideration to the natural environment, (3) utilize electronic information technology and carve out and develop markets in that field, (4) maximize synergy among group companies, and (5) give balanced consideration to every stakeholder. Guided by the plan, we are aiming to build 'an eco-friendly enterprise with unique technology.' To attain this goal, we must expand in three crucial areas -- businesses with international competitive strength, those that contribute to the preservation and improvement of the global environment, and those that serve to establish our unique identity throughout the world.

## **Medium-Term Strategy**

Under the guidelines of 'G-21', we will seek to achieve efficient management of our business operations by (1) attaining an ROA (target: more than 7.0%) that exceeds capital cost, (2) emphasizing the importance of ROA and cash flow as management indices, (3) utilizing M&A, and (4) making decisions based on 'Business Reevaluation Criteria' concerning businesses with worsening achievements.

With regard to corporate organization, we will implement the following improvements to our organization and management:

- (1) Creating a flat management structure and developing authorization
- (2) Making businesses and group companies self-supporting
- (3) Maximizing synergy among group businesses by ensuring shared values and business strategies
- (4) Creating an employee evaluation system that better reflects the achievements of each individual, and
- (5) Promoting BPR (business process reengineering) and utilizing information technology.

The Company's business strategy combines due concern for both product-specific strategy and market-specific strategy. Among our operating fields, our core businesses -- which we intend to strengthen further -- are vinyl-acetate related fields (poval, "EVAL", "Kuralon" and "Kuralon K-II"), isoprene chemical fields (thermoplastic elastomers, fine chemicals), and man-made leather ("Clarino").

In addition to this product-specific strategy, we have also established a market-specific strategy focused on four areas: electronic information technologies (e.g. poval film for LCDs, the highly heat-resistant resin PA9T, etc.); eco-friendly areas (asbestos substitutes, gas barrier materials, substitutes for polyvinyl chloride and vulcanized rubber); environment business areas (activated carbon, PVA gels, industrial membranes); and the medical areas (artificial organs, dental materials). We are seeking to expand these business areas by utilizing the market-in approach.

### **Dividend Policy**

We are keenly aware that the distribution of profit to shareholders is our highest

priority, and we regard our mission as being to attain a steady advance in business performance so as to ensure that profit is distributed appropriately. Amid a business environment in which competition is expected to become increasingly fierce, retained earnings will be used for strategic investment aimed at the expansion of operations, including M&A transactions both in Japan and overseas, whenever necessary.

### **Future Issues**

In order to survive amid the abrupt changes taking place in the management environment, it is essential for companies to increase profitability still further. For this purpose, Kuraray is placing emphasis on the following measures:

- (1) We will boost performance by ensuring rapid realization of the effects of capital investment already implemented.
- (2) In businesses with strong worldwide growth potential, we will step up production and sales activities in locations close to areas of demand, thereby enhancing competitiveness. As part of this strategy, in the field of the thermoplastic elastomer “Septon”, a core business, we established the U.S. subsidiary Septon Company of America in the previous fiscal year, and the construction of its new factory is proceeding on schedule.
- (3) On April 1, 2001 we carried out a reorganization by which we created a structure characterized by greater emphasis on the market-in business approach. Under this, the Company will devote its full energy to responding quickly to market trends, developing new products and carving out new markets.
- (4) We will enhance business efficiency by pushing ahead with BPR. To this end, we established Business Service Center on April 1, 2001, and will be amalgamating and slimming down support divisions of group companies.

- (5) We regard contributing to environmental conservation and to the local community as important issues for corporate management, and will therefore continue to reduce the use of substances that adversely affect the environment, and to develop and supply products that are environmentally beneficial. As part of Responsible Care activities, we have acquired ISO14001 certification -- the international standard for environmental management systems -- at all our domestic plants, and plan to obtain the same certification for our research facilities by the end of March 2002.
- (6) Each business will be managed in a manner that reflects its unique characteristics. The goal is to further reinforce businesses where Kuraray is strong and improve the earnings of businesses undergoing restructuring. One result of this policy was the October 1, 2001 reorganization of the manufacturing and sales activities of the medical products business as a separate company. This will better enable the implementation of a specialized organization that precisely addresses the demands of this business. The employee remuneration system of the new company will be closely linked to specialized knowledge and contributions to operating results.
- (7) To make the polyester business more competitive, the textile business is to be transferred to Kuraray Trading, the Kuraray Group's trading company, in April 2002. This will enable the broad-based promotion of this business, from textiles through finished products, in a manner that is in step with market trends. Another advantage will be a fully integrated production system extending from fibers through textiles and finished products. This will produce synergies by generating cost savings and consolidating textile-related personnel in a single organization. The transfer will also allow the textile business to draw on trading company

expertise to pursue a demand-pull strategy to an even greater degree. Furthermore, polyester filament production division was reorganized as a separate company in October 2001. The aim of this action is to make this business even more responsive to changes in the marketplace while achieving still more cost reductions.

- (8) We will continue to pursue the management path set forth in our “G-21” medium-term business plan. Recently, however, the business environment has become even more severe, and the Company’s earnings have been declining. In the summer of 2001, we set up an “Earnings Structure Improvement Council” charged with the task of finding ways to arrest this slide in earnings caused by the deflationary spiral occurring in the Japanese economy as a whole. It is necessary to reorganize our corporate structure so that we are able to maintain a sufficient level of earnings even with a capacity utilization rate of 80%. Through cost reductions, we aim to build a company that operates more efficiently, with the short-term goal of ¥26 billion in operating income on a consolidated basis for fiscal 2002. This improvement in earnings structure will also help pave the way for the introduction of a decentralized management structure via an in-house “company” system, the start of which will be brought forward by one year to April 2002.

# **Business Performance**

## **Performance Review**

The Kuraray Group continues to encounter an extremely challenging operating environment. In addition to the prolonged period of deflation in Japan, economies in the U.S., East Asia and elsewhere in the world are weakening. The group worked on raising the prices of its products and cutting costs while developing new markets with unique products. Operating results benefited somewhat from the weaker yen.

However, results were severely affected by a drop in sales volume as demand fell and by generally poor market conditions.

Net sales declined ¥2,110 million, or 1.4%, to ¥151,143 million and operating income was down by ¥1,019 million, or 10.4%, to ¥8,743 million. Ordinary income declined ¥4,132 million, or 33.9%, to ¥8,041 million. This was due in part to the posting of a gain of ¥3,104 million on the sale and appreciation of marketable securities in the first half of the previous fiscal year. There was also a special provision for retirement benefits of ¥3,750 million in the first half of the previous fiscal year. As there was no such provision this year, net income increased 113.8% to ¥3,919 million.

On a segment-specific basis, performance was as follows:

### **1. Business segment**

#### **a. Fibers and textiles**

Sales declined ¥4,912 million, or 10.9%, to ¥39,981 million. A ¥125 operating loss

was posted, compared with operating income of ¥971 million for the first half of the previous fiscal year.

- (1) Polyester sales and income were lower due to weak consumer spending in Japan along with a severe supply-demand imbalance worldwide.
- (2) “Kuralon” sales and income were slightly lower. There was some success at increasing sales in new market sectors by promoting the characteristics of this material in civil engineering and other applications. However, results were lower in general industrial applications and in the agricultural and fishery markets.
- (3) Rayon production was terminated during the previous fiscal year.

#### **b. Chemical products**

Sales rose ¥3,410 million, or 4.7%, to ¥76,671 million and operating income increased ¥261 million, or 4.4% to ¥6,148 million.

- (1) Poval sales and income were slightly higher. Sales of PVA film were lower as manufacturers reduced inventories of polarizing films for LCDs. However, results benefited from higher sales of PVA resin in Europe and China and from price increases that began to take hold during the second half of the previous fiscal year.
- (2) Sales of the EVOH resin “EVAL” rose and income was unchanged. Earnings in the U.S. improved as prices of raw materials and fuel declined. In Europe, higher capacity resulted in increased sales. Solid demand in East Asia and Oceania further contributed to a strong performance by “EVAL” outside Japan. Within Japan, the slumping economy caused demand to fall.
- (3) Sales and income from methacrylic resins increased. Demand remained strong for resins used in screens for projection TVs sold in the U.S. Sales of MMA



monomer and resins rose due to price increases implemented from the second half of the previous fiscal year. Results also benefited from the Company's ongoing efforts to offset the effects of the soft economy by promoting value-added products.

- (4) Sales of isoprene chemical products were unchanged but income was lower. Thermoplastic elastomers performed well, mainly in Europe and the U.S. Fine chemicals such as raw materials for vitamins were affected by lower market prices and slumping demand in Japan.
- (5) In other chemical products, demand was strong for activated carbon in environmental applications, but the impact of weak economies caused sales to remain unchanged and income to fall.

**c. Man-made leather, Non-woven fabrics and Fastening materials**

Sales declined ¥221 million, or 1.4%, to ¥16,000 million and operating income was down by ¥421 million, or 31.9%, to ¥898 million.

- (1) Sales and income from "Clarino" man-made leather were slightly lower. While there were signs of a rebound in apparel-related demand in Europe, a full-scale recovery is still some time away. Results were also affected by the difficult Japanese economy.
- (2) Sales of non-woven fabrics were slightly higher and income was down. The Company concentrated on increasing sales of fabrics used in wet tissues, a major market, but results were hurt by lower prices of end products. The performance of fastening materials remained stable, but soft consumer spending affected apparel-related demand, causing sales to decline and holding income level.

#### **d. Diversified businesses**

In diversified businesses, which includes medical products and other items, sales declined ¥387 million, or 2.1%, to ¥18,491 million and operating income increased ¥721 million, or 48.1%, to ¥2,221 million.

- (1) In medical products, sales and income were unchanged. Sales of dental materials were strong outside Japan, particularly in the U.S. where marketing efforts are now producing tangible results. However, this growth was offset by the impact of lower healthcare spending on other medical devices and contact lenses in Japan.
- (2) In other items, sales were lower but profitability improved. The benefits of cost containment programs at engineering, real estate and other domestic group companies outweighed the challenges of an adverse operating environment.

## **2. Segmentation by Geographical Region**

### **a. Japan**

The Company suffered a very difficult operating environment in Japan, under the impact of the deflationary conditions in the economy. In consequence, we posted net sales of ¥129,418 million, and operating income of ¥7,298 million.

### **b. Outside Japan**

Aggregate net sales in other regions totaled ¥21,725 million, and operating income came to ¥1,805 million.

- (1) In North America, sales and income were higher. Major contributors were thermoplastic elastomers, projection TV screens, and “EVAL.”
- (2) In Europe, a strong performance by poval and “EVAL” was behind higher sales, but income was flat.

(3) In East Asia, sales and income were about the same as one year earlier.

### **3. Cash Flows**

Cash and cash equivalents (hereinafter 'cash') increased ¥6,623 million during the interim period to ¥46,794 million. Principal contributing factors in cash flow were ¥11,457 in cash provided by operating activities, ¥297 million in cash used by investing activities, and ¥4,447 million in cash used in financing activities.

The principal components of operating, investing and financing cash flows were as follows.

#### **(1) Operating activities**

Net cash provided by operating activities increased 8,528 million, compared with the previous year's first half, to ¥11,457 million. An increase in income before income taxes and a decrease in notes and accounts receivable were two main factors.

#### **(2) Investing activities**

Net cash used in investing activities increased ¥6,090 million to ¥297 million as proceeds from sales of investment securities and redemptions surpassed payments for purchases of investment securities.

#### **(3) Financing activities**

Net cash used in financing activities decreased ¥2,241 million to ¥4,447 million, mainly due to a decline in long-term debt and short-term bank loans.

#### **4. Interim dividend**

It is proposed to pay an interim cash dividend of ¥4.50 per share of common stock, comprising an ordinary dividend of ¥4 and a special dividend of ¥0.50.

#### **Outlook for Remainder of Fiscal Year**

Difficult conditions are expected to persist for Japan's economy during the second half of this fiscal year. Overseas, the downturn in U.S. consumer spending in the wake of the terrorist attacks may begin to affect economies in Europe and East Asia as well.

Based on this outlook, Kuraray currently estimates fiscal year net sales of ¥ 315 billion, operating income of ¥18 billion, ordinary income of ¥17.5 billion and net income of ¥6 billion.

In fibers and textiles, the Company plans to improve polyester results by speeding up the shift to markets for profitable specialty products. For "Kuralon", sales efforts will focus on markets where the features of this material, such as great tensile strength and resistance to alkalinity, are in demand.

In chemical products, measures to increase sales will target markets where demand is steadily rising, such as those for poval, "EVAL," thermoplastic elastomers, and projection TV screens. The Company will also aggressively target growth opportunities in the fields of electronic information technology, eco-friendly products, eco-businesses and medical products.

The projections for the second half of this fiscal year are premised on average yen exchange rates of ¥120 against the U.S. dollar and ¥110 against the euro, and on an average Dubai crude oil price of US\$24 per barrel.

The dividend for the fiscal year is projected at ¥9 per share of common stock, comprising an ordinary dividend of ¥8 and a special dividend of ¥1.

# CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2001	March 31, 2001	September 30, 2000	September 30, 2001
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	¥46,794	¥40,171	¥8,259	\$393,226
Marketable securities	16,536	14,687	13,861	138,958
Notes and accounts receivable:				
Trade	86,561	96,025	91,911	727,403
Unconsolidated subsidiaries and affiliates	999	918	825	8,395
Other	4,096	4,396	2,833	34,420
Loans receivable from unconsolidated subsidiaries and affiliates	458	640	537	3,849
Allowance for doubtful accounts	(576)	(689)	(597)	(4,840)
	91,538	101,290	95,509	769,227
Inventories	77,099	75,545	75,585	647,891
Deferred income taxes	6,046	5,355	5,135	50,807
Other current assets	1,275	2,606	2,956	10,715
Total current assets	239,288	239,654	201,305	2,010,824
<b>Property, plant and equipment:</b>				
Land	24,340	24,349	24,824	204,538
Buildings	86,965	86,635	85,823	730,798
Machinery and equipment	363,996	357,405	353,626	3,058,790
Construction in progress	11,934	7,897	5,270	100,286
	487,235	476,286	469,543	4,094,412
Less accumulated depreciation	(357,605)	(348,818)	(343,903)	(3,005,084)
	129,630	127,468	125,640	1,089,328
<b>Investments and other assets:</b>				
Investment securities	55,657	71,397	103,776	467,706
Investments in unconsolidated subsidiaries and affiliates	2,576	2,755	2,685	21,647
Loans receivable from:				
Unconsolidated subsidiaries and affiliates	5,161	5,616	5,167	43,370
Other	1,329	1,326	1,332	11,168
Deferred income taxes	7,758	6,323	3,267	65,193
Other	59,550	59,244	67,109	500,420
Allowance for doubtful accounts	(1,348)	(1,304)	(1,281)	(11,328)
	130,683	145,357	182,055	1,098,176
	¥499,601	¥512,479	¥509,000	\$4,198,328

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.

# CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2001	March 31, 2001	September 30, 2000	September 30, 2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term bank loans	¥7,625	¥8,807	¥7,589	\$64,076
Current portion of long-term debt	23,627	20,228	5,146	198,546
Notes and accounts payable:				
Trade	51,850	54,147	49,561	435,714
Unconsolidated subsidiaries and affiliates	841	1,277	1,232	7,067
Other	4,302	6,160	5,588	36,151
Accrued income taxes	2,631	2,196	4,202	22,109
Deferred income taxes	19	2	19	160
Accrued expenses and other	15,724	17,417	15,983	132,135
Total current liabilities	106,619	110,234	89,320	895,958
<b>Long-term liabilities:</b>				
Long-term debt	62,408	67,527	87,209	524,437
Deferred income taxes	4,173	3,859	3,305	35,067
Accrued retirement benefits	22,810	25,336	23,777	191,681
Other	15,753	16,001	15,260	132,378
Total long-term liabilities	105,144	112,723	129,551	883,563
<b>Minority interests</b>	<b>59</b>	<b>53</b>	<b>152</b>	<b>496</b>
<b>Shareholders' equity:</b>				
Common stock with par value of ¥50 (\$0.42) per share:				
Authorized - 700,000,000 shares				
Issued and outstanding - 382,863,603 shares				
Additional paid-in capital	88,955	88,955	88,955	747,521
Retained earnings	87,147	87,147	87,147	732,328
Unrealized gain on revaluation of securities	113,574	111,622	111,133	954,403
Cumulative translation adjustments	408	3,355	6,583	3,428
	(2,304)	(1,609)	(3,839)	(19,361)
	287,780	289,470	289,979	2,418,319
Treasury stock at cost	(1)	(1)	(2)	(8)
Total shareholders' equity	287,779	289,469	289,977	2,418,311
	¥499,601	¥512,479	¥509,000	\$4,198,328

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.

# CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2001	September 30, 2000	March 31, 2001	September 30, 2001
<b>Net sales</b>	<b>¥151,143</b>	¥153,253	¥313,651	<b>\$1,270,109</b>
<b>Cost of sales</b>	<b>112,763</b>	114,454	234,946	<b>947,588</b>
(Gross profit)	<b>38,380</b>	38,799	78,705	<b>322,521</b>
<b>Selling, general and administrative expenses</b>	<b>29,637</b>	29,037	58,774	<b>249,050</b>
(Operating income)	<b>8,743</b>	9,762	19,931	<b>73,471</b>
<b>Other income (expenses):</b>				
Interest and dividend income	<b>1,375</b>	1,837	3,659	<b>11,555</b>
Equity in earnings of affiliates	<b>94</b>	100	127	<b>790</b>
Interest expenses	<b>(1,187)</b>	(1,151)	(2,377)	<b>(9,975)</b>
Restructuring charges	<b>(2,614)</b>	(3,717)	(8,872)	<b>(21,966)</b>
Special provision for retirement benefits	-	(3,750)	(7,596)	-
Gain on sales and appreciation of marketable securities	-	3,104	3,014	-
Other, net	<b>647</b>	(2,205)	(86)	<b>5,436</b>
	<b>(1,685)</b>	(5,782)	(12,131)	<b>(14,160)</b>
(Income before income taxes)	<b>7,058</b>	3,980	7,800	<b>59,311</b>
<b>Income taxes:</b>				
Current	<b>3,138</b>	4,286	6,633	<b>26,370</b>
Deferred	<b>(10)</b>	(2,133)	(2,879)	<b>(84)</b>
	<b>3,128</b>	2,153	3,754	<b>26,286</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	<b>(11)</b>	6	(1)	<b>(92)</b>
<b>Net income</b>	<b>¥3,919</b>	¥1,833	¥4,045	<b>¥32,933</b>

	Yen			U.S. dollars
<b>Net income per share:</b>				
Primary	<b>¥10.24</b>	¥4.79	¥10.56	<b>\$0.09</b>
Fully diluted	<b>¥9.88</b>	¥4.73	¥10.46	<b>\$0.08</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.



# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen				
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments
<b>Balance at March 31, 2000</b>	¥88,955	¥87,147	¥111,151	-	(¥4,496)
Net income			1,833		
Cash dividends, ¥4.50 per share			(1,723)		
Bonuses to directors and statutory auditors			(60)		
Effect of changes in reporting entity			(68)		
Changes in unrealized gain on revaluation of securities				6,583	
Translation adjustments					657
<b>Balance at September 30, 2000</b>	88,955	87,147	111,133	6,583	(3,839)
Net income			2,212		
Cash dividends, ¥4.50 per share			(1,723)		
Changes in unrealized gain on revaluation of securities				(3,228)	
Translation adjustments					2,230
<b>Balance at March 31, 2001</b>	¥88,955	¥87,147	¥111,622	¥3,355	(¥1,609)
Net income			3,919		
Cash dividends, ¥4.50 per share			(1,723)		
Bonuses to directors and statutory auditors			(55)		
Effect of change in the accounting standard of affiliate overseas			(189)		
Changes in unrealized gain on revaluation of securities				(2,947)	
Translation adjustments					(695)
<b>Balance at September 30, 2001</b>	¥88,955	¥87,147	¥113,574	¥408	(¥2,304)

	Thousands of U.S. dollars				
<b>Balance at March 31, 2001</b>	\$747,521	\$732,328	\$938,000	\$28,193	(\$13,521)
Net income			32,933		
Cash dividends, \$0.04 per share			(14,479)		
Bonuses to directors and statutory auditors			(463)		
Effect of change in the accounting standard of affiliate overseas			(1,588)		
Changes in unrealized gain on revaluation of securities				(24,765)	
Translation adjustments					(5,840)
<b>Balance at September 30, 2001</b>	\$747,521	\$732,328	\$954,403	\$3,428	(\$19,361)

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2001	September 30, 2000	March 31, 2001	September 30, 2001
<b>Cash flows from operating activities:</b>				
Net income	¥3,919	¥1,833	¥4,045	\$32,933
Adjustments to reconcile net income to net cash provided by operating activities -				
Depreciation and amortization	7,704	7,917	16,593	64,739
(Decrease) increase in accrued retirement benefits	(2,521)	1,736	3,280	(21,185)
Gain on sales and appreciation of marketable securities	-	(3,104)	(3,014)	-
Decrease (increase) in notes and accounts receivable	9,380	(2,853)	(5,799)	78,824
(Increase) decrease in inventories	(1,879)	(673)	1,213	(15,790)
(Decrease) increase in notes and accounts payable	(2,536)	(1,611)	2,122	(21,311)
Other, net	(2,610)	(316)	(2,553)	(21,933)
<b>Net cash provided by operating activities</b>	<b>11,457</b>	<b>2,929</b>	<b>15,887</b>	<b>96,277</b>
<b>Cash flows from investing activities:</b>				
(Increase) decrease in marketable securities	(1,139)	2,010	2,667	(9,571)
Acquisitions of property, plant and equipment	(11,090)	(7,682)	(17,583)	(93,193)
Payments for purchases of investment securities	(7)	(18,768)	(3,116)	(59)
Proceeds from sales of investment securities	9,983	19,793	30,891	83,891
Other, net	1,956	(1,740)	7,464	16,436
<b>Net cash (used in) provided by investing activities</b>	<b>(297)</b>	<b>(6,387)</b>	<b>20,323</b>	<b>(2,496)</b>
<b>Cash flows from financing activities:</b>				
(Decrease) increase in short-term bank loans	(1,110)	52	(948)	(9,328)
Proceeds from long-term debt	1,025	717	1,550	8,613
Repayments of long-term debt	(2,639)	(1,252)	(7,604)	(22,176)
Dividends paid	(1,723)	(1,723)	(3,446)	(14,479)
<b>Net cash used in financing activities</b>	<b>(4,447)</b>	<b>(2,206)</b>	<b>(10,448)</b>	<b>(37,370)</b>
<b>Effect of exchange rate changes on cash &amp; cash equivalents</b>	<b>(90)</b>	<b>32</b>	<b>518</b>	<b>(756)</b>
<b>Effect of changes in reporting entities</b>	<b>-</b>	<b>22</b>	<b>22</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6,623</b>	<b>(5,610)</b>	<b>26,302</b>	<b>55,655</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>40,171</b>	<b>13,869</b>	<b>13,869</b>	<b>337,571</b>
<b>Cash and cash equivalents, end of period</b>	<b>¥46,794</b>	<b>¥8,259</b>	<b>¥40,171</b>	<b>\$393,226</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.

## SEGMENT INFORMATION

Industrial segment information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

### Net sales and Operating income

Six months ended September 30, 2001	Millions of yen			
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income
Fibers and textiles	¥39,981	¥393	¥40,374	(¥125)
Chemical products	76,671	900	77,571	6,148
Man-made leather, non-woven fabrics and fastening materials	16,000	122	16,122	898
Diversified businesses	18,491	13,378	31,869	2,221
<b>Total</b>	<b>151,143</b>	<b>14,793</b>	<b>165,936</b>	<b>9,142</b>
Elimination	-	(14,793)	(14,793)	(399)
<b>Consolidated total</b>	<b>¥151,143</b>	<b>¥ -</b>	<b>¥151,143</b>	<b>¥8,743</b>

Six months ended September 30, 2000	Millions of yen			
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income
Fibers and textiles	¥44,893	¥455	¥45,348	¥971
Chemical products	73,261	1,100	74,361	5,887
Man-made leather, non-woven fabrics and fastening materials	16,221	134	16,355	1,319
Diversified businesses	18,878	7,277	26,155	1,500
<b>Total</b>	<b>153,253</b>	<b>8,966</b>	<b>162,219</b>	<b>9,677</b>
Elimination	-	(8,966)	(8,966)	85
<b>Consolidated total</b>	<b>¥153,253</b>	<b>¥ -</b>	<b>¥153,253</b>	<b>¥9,762</b>

Six months ended September 30, 2001	Thousands of U.S. dollars			
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income
<i>Fibers and textiles</i>	<b>\$335,975</b>	<b>\$3,302</b>	<b>\$339,277</b>	<b>(\$1,050)</b>
<i>Chemical products</i>	<b>644,294</b>	<b>7,563</b>	<b>651,857</b>	<b>51,664</b>
<i>Man-made leather, non-woven fabrics and fastening materials</i>	<b>134,454</b>	<b>1,025</b>	<b>135,479</b>	<b>7,546</b>
<i>Diversified businesses</i>	<b>155,386</b>	<b>112,421</b>	<b>267,807</b>	<b>18,664</b>
<b>Total</b>	<b>1,270,109</b>	<b>124,311</b>	<b>1,394,420</b>	<b>76,824</b>
<i>Elimination</i>	-	<b>(124,311)</b>	<b>(124,311)</b>	<b>(3,353)</b>
<b>Consolidated total</b>	<b>\$1,270,109</b>	<b>\$ -</b>	<b>\$1,270,109</b>	<b>\$73,471</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.

## Industrial segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Identifiable assets, Capital expenditure, Depreciation and amortization

Six months ended September 30, 2001	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Fibers and textiles	¥65,575	¥1,357	¥1,322
Chemical products	161,445	8,294	4,613
Man-made leather, non-woven fabrics and fastening materials	34,898	669	970
Diversified businesses	58,449	325	799
<b>Total</b>	<b>320,367</b>	<b>10,645</b>	<b>7,704</b>
Elimination and Corporate	179,234	-	-
<b>Consolidated total</b>	<b>¥499,601</b>	<b>¥10,645</b>	<b>¥7,704</b>

Six months ended September 30, 2000	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Fibers and textiles	¥75,546	¥1,461	¥1,544
Chemical products	150,960	3,376	4,578
Man-made leather, non-woven fabrics and fastening materials	37,190	850	1,082
Diversified businesses	58,051	706	713
<b>Total</b>	<b>321,747</b>	<b>6,393</b>	<b>7,917</b>
Elimination and Corporate	187,253	-	-
<b>Consolidated total</b>	<b>¥509,000</b>	<b>¥6,393</b>	<b>¥7,917</b>

Six months ended September 30, 2001	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
<i>Fibers and textiles</i>	<i>\$551,050</i>	<i>\$11,403</i>	<i>\$11,109</i>
<i>Chemical products</i>	<i>1,356,681</i>	<i>69,697</i>	<i>38,765</i>
<i>Man-made leather, non-woven fabrics and fastening materials</i>	<i>293,261</i>	<i>5,622</i>	<i>8,151</i>
<i>Diversified businesses</i>	<i>491,168</i>	<i>2,732</i>	<i>6,714</i>
<b>Total</b>	<b>2,692,160</b>	<b>89,454</b>	<b>64,739</b>
<i>Elimination and Corporate</i>	<i>1,506,168</i>	<i>-</i>	<i>-</i>
<b>Consolidated total</b>	<b>\$4,198,328</b>	<b>\$89,454</b>	<b>\$64,739</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.

Geographic Segment Information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2001	Millions of yen				
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income	Identifiable assets
Domestic (inside Japan)	¥129,418	¥12,338	¥141,756	¥7,298	¥264,929
Outside Japan	21,725	1,540	23,265	1,805	60,276
Total	151,143	13,878	165,021	9,103	325,205
Elimination and Corporate	-	(13,878)	(13,878)	(360)	174,396
Consolidated total	¥151,143	¥ -	¥151,143	¥8,743	¥499,601

Six months ended September 30, 2000	Millions of yen				
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income	Identifiable assets
Domestic (inside Japan)	¥134,991	¥9,862	¥144,853	¥8,290	¥278,357
Outside Japan	18,262	1,592	19,854	1,208	46,384
Total	153,253	11,454	164,707	9,498	324,741
Elimination and Corporate	-	(11,454)	(11,454)	264	184,259
Consolidated total	¥153,253	¥ -	¥153,253	¥9,762	¥509,000

Six months ended September 30, 2001	Thousands of U.S. dollars				
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income	Identifiable assets
Domestic (inside Japan)	\$1,087,546	\$103,681	\$1,191,227	\$61,328	\$2,226,294
Outside Japan	182,563	12,941	195,504	15,168	506,521
Total	1,270,109	116,622	1,386,731	76,496	2,732,815
Elimination and Corporate	-	(116,622)	(116,622)	(3,025)	1,465,513
Consolidated total	\$1,270,109	\$ -	\$1,270,109	\$73,471	\$4,198,328

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥119=\$1.