

# Semi-annual financial information 2003

Kuraray Co., Ltd.

## **Policies**

### **Management Policy**

The Kuraray Group started a new 5-Year Medium-Term Business Plan called “G-21” in fiscal 2001. The plan was formulated based on an awareness that succeeding amid today’s global competition demands the ability to: (1) maintain international competitive power, (2) give consideration to the natural environment, (3) more widely utilize IT as well as grow in these markets, (4) maximize synergies within a corporate group, and (5) give balanced consideration to every stakeholders. Under “G-21,” the Kuraray Group aims to be an “eco-friendly enterprise with unique technology.” Guiding this drive are actions to expand in three directions: businesses where the Group is globally competitive, businesses where the Group can contribute to the preservation and improvement of the global environment, and businesses where the Group can best express its distinct identity.

### **Medium-Term Management Strategy**

Under “G-21,” the Group places emphasis on ROA and cash flows as performance indicators. Our aim is to achieve an ROA that exceeds the cost of capital (a target of more than 7%) by fiscal 2005, the final year of the plan.

There are five themes involving the management structure: (1) creating a flatter organization and delegating a significant degree of authority; (2) making each business unit and Group company self-reliant; (3) maximizing synergies within the Group by sharing values and business strategies; (4) establishing a compensation system that better reflects results; and (5) promoting business process reengineering (BPR) and the use of IT.

With regard to business strategies, the Group places priority on both strategies for individual products and individual markets. The Kuraray Group positions the following globally competitive product categories as its core businesses: polyvinyl-acetate related fields (poval, *EVAL*, *KURALON* and *KURALON K-II*); isoprene chemical fields (thermoplastic elastomers, fine chemicals); and man-made leather (*CLARINO*). All these businesses are targeted for growth. In addition to these product-specific strategies, the Group has four strategic market sectors: IT (poval film for LCDs, heat-resistant resin, etc.); eco-friendly businesses (asbestos substitutes, gas barrier materials, substitutes for polyvinyl chloride and vulcanized rubber), environmental businesses (activated carbon, PVA gel, industrial membranes); and medical products (artificial organs, dental materials). Growth is to be achieved by pursuing an application development strategy based on a “market-in” approach.

### **Basic Policy with Regard to Dividends**

At Kuraray, returning earnings to shareholders is a management theme of the highest

priority. Management believes that its mission is to sustain continuous growth in sales and earnings while allocating earnings as appropriate. In the current business environment, retained earnings is to be used for strategic investments, including mergers and acquisitions, in Japan and overseas as required to achieve growth.

### **Policy Regarding Reduction in Trading Unit**

Kuraray regards increasing the liquidity of its shares and attracting more individual shareholders as important management issues. We will continue to study the merits of reducing the trading unit of Company shares. This process will fully take into account movements in the share price, number of shareholders, liquidity and other factors, plus the benefits that could be expected from reducing the trading unit.

### **Important Issues**

In order to survive amid the rapid pace of change in the business management, it is essential to strengthen our earning power still further. To become more profitable, the Group is focusing on the following measures set forth in the “G-21.”

1. We aim to make core businesses even more global in nature. In the poval related businesses, one goal is the early realization of synergy through development, production, and sales operations by Kuraray Specialties Europe GmbH, a company established during fiscal 2001 to take over the polyvinyl alcohol (PVA) and polyvinyl butyral (PVB) businesses of Clariant. A concurrent goal is the efficient operation of PVA related businesses from bases in Japan and Singapore. In EVOH resins (*EVAL*), Kuraray is making steady preparations to expand operations in Europe. In thermoplastic elastomers (*SEPTON*), a new factory of the U.S. subsidiary SEPTON Company of America began operation in September this year, setting the stage for further growth.
2. Construction of technical centers in the United States has begun. This function will enable us to provide speedier and more precise technical services in the U.S., which is the world’s largest market. We also intend to utilize the function to facilitate the development of new product applications and open up completely new markets. In China, we opened an office in Shanghai in April of this year, thus giving ourselves an indispensable base in this fast-growing market.
3. We are reinforcing Group operations to generate stable earnings amid an expected prolonged period of deflation and low capacity utilization levels in Japan. To this end, we will implement the thorough cost-reduction and will accelerate efforts to develop new products and applications so as to cultivate new customers.
4. We will restructure the Group’s organization by pursuing prompt measures including withdrawal of underperforming businesses, and focusing management

resources on those deemed to possess good prospects. The profitability of each business operation will be evaluated using our “Reevaluation Criteria for Underperforming Businesses,” and we will work to create an optimal business portfolio.

5. We will create a corporate structure to respond swiftly and effectively to dramatic changes in the market environment. There are three objectives: facilitating prompt decision-making by delegating significant degree of authority; conducting unified R&D, manufacturing and sales activities; and clarifying accountability of more self-reliant business operations. To achieve these goals, we adopted an in-house company system on April 1, 2002.
6. We will promote BPR to achieve higher productivity levels. Kuraray Business Service Co., Ltd. was started in April 2002 to raise the efficiency of administrative work for the whole Group.
7. We have positioned contributions to the environment and society as key elements of the Group’s operations. We will develop and provide products that address environmental issues and, in line with our medium-term environmental plan, continue to take aggressive actions to reduce substances harmful to the environment.
8. The Kuraray Group is faced with risk factors of increasing magnitude and complexity. The “Kuraray Group Risk Management Conference” has been newly formed to play the leading role in dealing with these risks in a speedy and accurate manner. This is expected to give the Group an even more powerful risk management system.

### **Management Organizational Reform Policy**

Faced with a situation of severe international competition, we will continue to pour our energies into pursuing flexible business activities based on prompt decision-making, ensuring fairness and management transparency, and building the kind of system to fulfill our social responsibilities.

- 1) We have expedited decision-making since we adopted an in-house company system in April 2002 and delegated management authority and responsibility to each in-house company presidents. At the same time, we have fine-tuned relationships among the in-house companies and integrated group management policies by improving corporate staff organization such as Corporate Management Division.
- 2) In June 2002, we increased the number of external auditors to 3 out of 4 of our corporate auditors in order to strengthen our corporate governance. In line with the adoption of the in-house company system, we created a system in which senior

managing directors and managing directors, who collectively had all executive responsibilities, were assigned more specialized roles regarding the medium and long-term strategies of the business, and where emphasis was put on their functions as decision-makers and supervisors for the whole company.

- 3) In order to promptly devise a system of impartial information disclosure, the Company improved external communications in accordance with management policy by upgrading the Office of Corporate Communications to the Corporate Communications Department under the Corporate Management Division in April 2002.
- 4) To put a greater emphasis on compliance, following the establishment of its corporate compliance standards, the Company set up the In-House Ethics Committee and worked toward enhancing corporate ethics throughout the Company.
- 5) In October this year, all those in the Kuraray Group from the top executives down to middle management (approx. 1,000) were granted a stock option to enhance their sense of participation in Company management and put more emphasis on shareholder value.

## **Business Performance and Financial Data**

### **Principal Business Results**

The Japanese economy remained a deflationary spiral during the six-month term to September 30, 2002. In the United States, meanwhile, the economy's recovery has been weak. European economies continued to follow a slowing trend too.

Against this background, the management of the Kuraray Group, in line with their goal of constructing a corporate structure that is less affected by short-term economic fluctuations, devoted their efforts to: the development of new products based on Kuraray's unique materials, as well as new applications for existing products; the cultivation of new users; and the implementation of thoroughgoing cost-reduction plans.

As a result, Kuraray recorded an increase in sales over the same period of the previous fiscal year of 4.6%, or ¥7,012 million, to ¥158,155 million on a consolidated basis. Operating income was up 31.8%, or ¥2,780 million year-on-year, at ¥11,523 million. Owing to the posting restructuring charges in the amount of ¥2,220 million, and loss on write-down of investment securities of ¥884 million, net income came to ¥3,616 million, a decrease of ¥303 million, or 7.7% from the first half of the previous fiscal year.

### **1. Segment Information**

The Company's operational segments were revised with effect from the six months under review. Figures for the first half of the previous fiscal year and for the full term have been recalculated to conform with the new operational categories. To accurately reflect the new operational category, operating costs for the whole company which were previously apportioned among the separate segments, are now, with effect from the six-month term under review, treated as non-allocable costs and thus posted under "Eliminated on consolidated and corporate." Assets held in common by all segments, being non-allocable assets, are also posted under "Eliminated on consolidated and corporate."

#### **a. Chemicals & Resins**

Sales rose ¥10,913 million (18.2%) year-on-year, to ¥70,906 million, and operating income rose ¥1,820 million (26.1%) to ¥8,805 million.

- (1) Prices of poval improved on Asian markets. In Europe, Kuraray Specialties Europe GmbH, which was established in fiscal 2001 to take over the PVA and PVB operations of Clariant AG, contributed to the increase in overall revenues. There was a recovery in demand for PVA film for LCDs. As a whole, the poval business registered gains in both revenues and profits.
- (2) Demand for *EVAl* continued to grow as predicted, particularly in the U.S. and Europe, leading to growth in both revenues and profits.
- (3) Thanks to growing demand for optical technology applications and successful

cost-cutting measures, sales of methacrylic resins as a whole were virtually unchanged, while profits rose.

- (4) In isoprene chemicals, sales of thermoplastic elastomers grew as expected, principally in the U.S. and European markets. In the fine chemicals field, the Company was hurt by market price declines in vitamin, while sales of agrochemical intermediates and perfumes trended steadily. As a result, overall sales of fine chemicals rose and profits were also up year-on-year.

#### **b. Fibers & Textiles**

Sales of fibers & textiles declined by ¥3,009 million, or 5.2%, from the same period of the previous fiscal year, to ¥54,347 million, but operating income increased ¥645 million, or 34.9%, to ¥2,494 million.

- (1) Sales were steady in specialty fields such as *KURALON* – used as fiber reinforced cement (FRC) in place of asbestos, as well as for reinforcing rubber – but demand for general industrial materials and demand for agriculture and fisheries industries. Thanks to the expanded sales in new applications for *KURALON K-II*, as well as a recovery in demand for FRC, we were able to achieve full capacity utilization. As a result, overall sales held flat, and profits posted a year-on-year rise.
- (2) Market conditions remained difficult for polyester fiber operations. However, as a result of: 1) the split-off of polyester filament yarn production operations; 2) the transfer of polyester textile operations to the Kuraray Group's trading arm, Kuraray Trading Co., Ltd.; 3) the accelerated development of unique, competitive materials; and the downsizing of sales operations in unprofitable fields, we succeeded in narrowing the red-ink margin at the operating income stage despite a year-on-year decline in revenue.
- (3) Sales of *CLARINO* were favorable, both for footwear and for apparel use in Japan: revenues and profits were both up on an overall basis.
- (4) Sales of non-woven fabrics held up well considering the slump in the Japanese market for such mainstay products as counter cloths, but the effect of price reductions on profits was severe: sales was flat from the previous fiscal year, while profits fell. The hook and loop fastener business suffered declines in both sales and profits, owing to the transfer of production facilities overseas in the apparel industry.

#### **c. High Performance Materials, Medical Products & Others**

Sales of high performance materials, medical products & others declined by ¥892 million, or 2.6%, to ¥32,902 million, but operating income rose ¥365 million, or 10.5%, to ¥3,852 million.

- (1) In the Opto-Screen Business, screens for projection TVs have remained popular in the United States, while growth is also being seen in the Chinese market: both sales and profits were up over the same period of the previous fiscal year.
- (2) Sales of the heat-resistant resin (*GENESTAR*) in the electric appliance and

electronics markets are climbing steadily as the virtues of the performance become more and more widely recognized. Sales of PVA Gel were hard hit by the stagnation of the Japanese economy, and demand growth was slow, particularly in the field of industrial wastewater treatment.

- (3) In the field of medical products, sales of dental materials in the U.S. and Europe grew steadily, and contact lens operations enjoyed both an increase in sales and a cost-reduction: both sales and profits thus improved. Artificial kidneys were adversely affected by revisions in the official government prices, which forced their prices lower. As a result, overall medical product sales stayed flat, but profits were up year-on-year.
- (4) Among affiliated companies in Japan, Kuraray Chemical Co., Ltd. enjoyed solid business in environment-related fields. Other affiliated companies made vigorous efforts to cut costs to maintain earnings and survive the current severe business climate. The overall result was a decline in revenues and a flat trend in profits.

## **2. Geographical Segment**

### a. Japan

Business was very difficult in Japan as a result of the deflationary pressures on the domestic economy. The Group made efforts to maintain stable profitability through strict rationalization of costs. As a result, sales came to ¥123,758 million and operating income to ¥12,958 million.

### b. North America

Sales in North America of the thermoplastic elastomer and *EVAL* grew as per expectations: sales came to ¥11,922 million, with operating income at ¥1,432 million.

### c. Europe

In Europe, Kuraray Specialities Europe made contribution to overall performance, while sales of *EVAL* were also firm. Sales came to ¥16,367 million, and operating income was ¥788 million.

### d. Asia

Although Kuraray's business in Asia was impacted by unfavorable exchange rates, sales of poval rose smoothly thanks to a recovery in market prices. As a result, sales on the Asian markets came to ¥6,108 million, while the business recorded an operating loss of ¥424 million.

## **3. Interim Dividend**

Kuraray will be paying an interim dividend of ¥4.5 per share.

## **Financial Data**

### **Cash Flows**

Cash and cash equivalents increased by ¥8,980 million during the six months under



review to stand at ¥22,476 million at end of period. This was the result of a net cash inflow from operating activities amounting to ¥20,611 million and a net cash inflow from investing activities amounting to ¥1,376 million, and a net cash outflow from financing activities amounting to ¥12,831 million.

1. Cash flow from operating activities

Due to a reduction in inventories and other factors, net cash provided by operating activities increased by ¥9,154 million year-on-year, to ¥20,611 million.

2. Cash flow from investing activities

Owing to withdrawals from accumulated premiums on insurance, net cash provided by investing activities amounted to ¥1,376 million compared with a net cash outflow of ¥297 million for the same period of the previous fiscal year.

3. Cash flow from financing activities

Owing to expenditures in redemption of standard bonds, the net cash outflow from financing activities amounted to ¥12,831 million, compared with an outflow of ¥4,447 million for the first half of the previous fiscal year.

### **Outlook for fiscal 2003**

As concerns grow that the recovery of the U.S. economy may be slower than hoped, and against the backdrop of spreading deflationary conditions across Europe and Asia, the global economic remains as unpredictable and uncertain as ever. On the domestic front, as economic situation is extremely difficult as mentioned above, no foreseeable change is expected in the country's persistent deflation for the time being.

In this challenging environment, we will strive to maintain target consolidated net sales of ¥330.0 billion, operating income of ¥24.5 billion, and net income of ¥10.0 billion for the fiscal 2003 (ending March 31, 2003).

In chemicals & resins, we plan to expand the global strategy of our core poval, *EVAL* and thermoplastic elastomer businesses. In Fibers & Textiles, we will continue to push the expansion of our unique products such as *KURALON* and *KURALON K-II* in their respective markets. Restructuring measures in the polyester business should also lead to improved profitability. In high performance materials, medical products & others, we plan to further the development of Opto-screens and medical products such as dental materials, and we are focusing on environment-related businesses.

At the same time, we will take aggressively step to get market advantage in IT, eco-friendly, environmental businesses and medical products – the Company's new main strategic areas.

The following were used in calculating the above figures:

Exchange rates – US\$1 = ¥120, 1 Euro = ¥115

Dubai crude oil price (CIF) = US\$25/barrel

It is expected that term dividends will be paid at the rate of ¥9 per share.

# CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2002	March 31, 2002	September 30, 2001	September 30, 2002
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents	¥22,476	¥13,496	¥46,794	\$182,732
Marketable securities	22,035	7,464	16,536	179,146
Notes and accounts receivable:				
Trade	79,754	88,605	86,561	648,407
Unconsolidated subsidiaries and affiliates	839	1,187	999	6,821
Others	1,581	2,000	4,096	12,853
Loans receivable from unconsolidated subsidiaries, affiliates and others	168	368	458	1,366
Allowance for doubtful accounts	(705)	(486)	(576)	(5,732)
	81,637	91,674	91,538	663,715
Inventories	66,679	71,194	77,099	542,106
Deferred income taxes	6,420	6,947	6,046	52,195
Other current assets	2,437	7,699	1,275	19,813
Total current assets	201,684	198,474	239,288	1,639,707
<b>Property, plant and equipment:</b>				
Land	24,267	24,239	24,340	197,293
Buildings	89,139	87,704	86,965	724,707
Machinery and equipment	370,288	370,649	363,996	3,010,472
Construction-in-progress	9,819	15,799	11,934	79,829
	493,513	498,391	487,235	4,012,301
Less accumulated depreciation	(359,666)	(363,484)	(357,605)	(2,924,114)
	133,847	134,907	129,630	1,088,187
<b>Investments and other assets:</b>				
Goodwill	28,562	29,591	—	232,211
Other intangible fixed assets	1,474	1,582	682	11,984
Investment securities	45,837	50,423	55,657	372,659
Investments in unconsolidated subsidiaries and affiliates	2,726	2,822	2,576	22,163
Loans receivable from:				
Unconsolidated subsidiaries and affiliates	4,547	5,281	5,161	36,967
Others	1,242	1,275	1,329	10,098
Accumulated premiums on insurance	33,101	52,951	52,870	269,114
Deferred income taxes	5,483	5,625	7,758	44,577
Others	5,452	5,811	5,998	44,325
Allowance for doubtful accounts	(1,308)	(1,310)	(1,348)	(10,634)
	127,116	154,051	130,683	1,033,464
	¥462,647	¥487,432	¥499,601	\$3,761,358

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

# CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	September 30, 2002	March 31, 2002	September 30, 2001	September 30, 2002
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Short-term bank loans	¥9,877	¥10,471	¥7,625	<b>\$80,301</b>
Current portion of long-term debt	51,880	36,560	23,627	<b>421,789</b>
Notes and accounts payable:				
Trade	38,089	47,647	51,850	<b>309,667</b>
Unconsolidated subsidiaries and affiliates	735	791	841	<b>5,975</b>
Others	5,642	8,052	4,302	<b>45,870</b>
Accrued income taxes	2,543	1,799	2,631	<b>20,675</b>
Deferred income taxes	24	3	19	<b>195</b>
Accrued expenses and other	16,364	16,951	15,724	<b>133,041</b>
Total current liabilities	125,154	122,274	106,619	<b>1,017,513</b>
<b>Long-term liabilities:</b>				
Long-term debt	6,945	32,552	62,408	<b>56,463</b>
Deferred income taxes	4,273	4,631	4,173	<b>34,740</b>
Accrued retirement benefits	19,078	20,661	22,810	<b>155,106</b>
Others	15,752	16,616	15,753	<b>128,065</b>
Total long-term liabilities	46,048	74,460	105,144	<b>374,374</b>
<b>Minority interests</b>	47	55	59	<b>382</b>
<b>Shareholders' equity:</b>				
Common stock:				
Authorized—700,000,000 shares				
Issued and outstanding—382,863,603 shares	88,955	88,955	88,955	<b>723,211</b>
Additional paid-in capital	87,147	87,147	87,147	<b>708,512</b>
Retained earnings	112,655	110,798	113,574	<b>915,894</b>
Unrealized gain on revaluation of securities	2,405	2,002	408	<b>19,553</b>
Cumulative translation adjustments	347	1,789	(2,304)	<b>2,821</b>
	291,509	290,691	287,780	<b>2,369,991</b>
Treasury stock at cost	(111)	(48)	(1)	<b>(902)</b>
Total shareholders' equity	291,398	290,643	287,779	<b>2,369,089</b>
	¥462,647	¥487,432	¥499,601	<b>\$3,761,358</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$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, 2002	September 30, 2001	March 31, 2002	September 30, 2002
<b>Net sales</b>	<b>¥158,155</b>	¥151,143	¥305,862	<b>\$1,285,813</b>
<b>Cost of sales</b>	<b>113,563</b>	112,763	228,184	<b>923,276</b>
(Gross profit)	<b>44,592</b>	38,380	77,678	<b>362,537</b>
<b>Selling, general and administrative expenses</b>	<b>33,069</b>	29,637	58,720	<b>268,854</b>
(Operating income)	<b>11,523</b>	8,743	18,958	<b>93,683</b>
<b>Other income (expenses):</b>				
Interest and dividend income	<b>872</b>	1,375	2,471	<b>7,089</b>
Equity in earnings of affiliates	<b>142</b>	94	169	<b>1,154</b>
Interest expenses	<b>(784)</b>	(1,187)	(2,053)	<b>(6,374)</b>
Restructuring charges	<b>(2,220)</b>	(2,614)	(7,925)	<b>(18,048)</b>
Loss on write-down of investment securities	<b>(884)</b>	—	(6,524)	<b>(7,187)</b>
Other, net	<b>(1,802)</b>	647	1,105	<b>(14,650)</b>
	<b>(4,676)</b>	(1,685)	(12,757)	<b>(38,016)</b>
(Income before income taxes)	<b>6,847</b>	7,058	6,201	<b>55,667</b>
<b>Income taxes:</b>				
Current	<b>2,915</b>	3,138	3,107	<b>23,699</b>
Deferred	<b>322</b>	(10)	217	<b>2,618</b>
	<b>3,237</b>	3,128	3,324	<b>26,317</b>
<b>Minority interests in net income of consolidated subsidiaries</b>	<b>6</b>	(11)	(11)	<b>48</b>
<b>Net income</b>	<b>¥3,616</b>	¥3,919	¥2,866	<b>\$29,398</b>

	Yen			U.S. dollars
<b>Net income per share:</b>				
Primary	<b>¥9.45</b>	¥10.24	¥7.49	<b>\$0.08</b>
Fully diluted	<b>9.27</b>	9.88	7.45	<b>0.08</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries and Subsidiaries

	Millions of yen					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
<b>Balance at March 31, 2001</b>	¥88,955	¥87,147	¥111,622	¥3,355	¥(1,609)	¥(1)
Net income			3,919			
Cash dividends, ¥4.50 per share			(1,723)			
Bonuses to directors and statutory auditors			(55)			
Effect of change in an accounting standard for a foreign affiliate			(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)	(1)
Net income			(1,053)			
Cash dividends, ¥4.50 per share			(1,723)			
Changes in unrealized gain on revaluation of securities				1,594		
Translation adjustments					4,093	
Treasury stock acquired, net						(47)
<b>Balance at March 31, 2002</b>	¥88,955	¥87,147	¥110,798	¥2,002	¥1,789	¥(48)
Net income			3,616			
Cash dividends, ¥4.50 per share			(1,723)			
Bonuses to directors and statutory auditors			(36)			
Changes in unrealized gain on revaluation of securities				403		
Translation adjustments					(1,442)	
Treasury stock acquired, net						(63)
<b>Balance at September 30, 2002</b>	<b>¥88,955</b>	<b>¥87,147</b>	<b>¥112,655</b>	<b>¥2,405</b>	<b>¥347</b>	<b>¥(111)</b>
	<i>Thousands of U.S. dollars</i>					
<b>Balance at March 31, 2002</b>	\$723,211	\$708,512	\$900,797	\$16,276	\$14,545	\$(390)
Net income			29,398			
Cash dividends, \$0.04 per share			(14,008)			
Bonuses to directors and statutory auditors			(293)			
Changes in unrealized gain on revaluation of securities				3,277		
Translation adjustments					(11,724)	
Treasury stock acquired, net						(512)
<b>Balance at September 30, 2002</b>	<b>\$723,211</b>	<b>\$708,512</b>	<b>\$915,894</b>	<b>\$19,553</b>	<b>\$2,821</b>	<b>\$(902)</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen			<i>Thousands of U.S. dollars</i>
	Six months ended		Year ended	<i>Six months ended</i>
	September 30, 2002	September 30, 2001	March 31, 2002	<i>September 30, 2002</i>
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥6,847	¥7,058	¥6,201	<b>\$55,667</b>
Depreciation and amortization	9,186	7,704	16,056	<b>74,683</b>
Increase (decrease) in allowance for doubtful accounts	220	(66)	(204)	<b>1,789</b>
Decrease in accrued retirement benefits	(1,615)	(2,503)	(4,746)	<b>(13,130)</b>
Loss on write-down of investment securities	884	—	6,524	<b>7,187</b>
Interest and dividend income	(872)	(1,375)	(2,472)	<b>(7,089)</b>
Interest expenses	784	1,187	2,053	<b>6,374</b>
Decrease in notes and accounts receivable	8,629	9,380	7,971	<b>70,154</b>
Decrease (increase) in inventories	4,280	(1,879)	5,513	<b>34,797</b>
Decrease in notes and accounts payable	(9,218)	(2,536)	(7,358)	<b>(74,943)</b>
Other, net	957	(2,714)	(4,195)	<b>7,779</b>
<b>Sub-total</b>	<b>20,082</b>	<b>14,256</b>	<b>25,343</b>	<b>163,268</b>
Interest and dividend received	674	1,125	1,975	<b>5,480</b>
Interest paid	(878)	(1,235)	(2,205)	<b>(7,138)</b>
Income taxes received (paid)	733	(2,689)	(6,416)	<b>5,959</b>
<b>Net cash and cash equivalents provided by operating activities</b>	<b>20,611</b>	<b>11,457</b>	<b>18,697</b>	<b>167,569</b>
<b>Cash flows from investing activities:</b>				
Increase in marketable securities	(11,440)	(1,139)	(3,349)	<b>(93,008)</b>
Payments for acquisition of property, plant, equipment and intangible assets	(8,792)	(11,090)	(48,478)	<b>(71,480)</b>
Proceeds from sales of property, plant, equipment and intangible assets	175	898	1,401	<b>1,423</b>
Purchases of investment securities	(3,465)	(7)	(20)	<b>(28,171)</b>
Proceeds from sales and redemption of investment securities	4,562	9,983	24,495	<b>37,089</b>
Payments of premiums on insurance	(1,056)	(752)	(1,242)	<b>(8,585)</b>
Withdrawals from accumulated premiums on insurance	21,165	1,540	2,344	<b>172,073</b>
Other, net	227	270	624	<b>1,846</b>
<b>Net cash and cash equivalents provided by (used in) investing activities</b>	<b>1,376</b>	<b>(297)</b>	<b>(24,225)</b>	<b>11,187</b>
<b>Cash flows from financing activities:</b>				
(Decrease) increase in short-term bank loans	(793)	(1,110)	1,204	<b>(6,447)</b>
Proceeds from long-term debt	—	1,025	1,025	<b>0</b>
Repayments of long-term debt	(2,252)	(2,639)	(4,360)	<b>(18,309)</b>
Redemption of standard bonds	(8,000)	—	(1,000)	<b>(65,041)</b>
Redemption of convertible bonds	—	—	(14,873)	<b>0</b>
Dividends paid	(1,723)	(1,723)	(3,446)	<b>(14,008)</b>
Other, net	(63)	—	—	<b>(512)</b>
<b>Net cash and cash equivalents used in financing activities</b>	<b>(12,831)</b>	<b>(4,447)</b>	<b>(21,450)</b>	<b>(104,317)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(193)</b>	<b>(90)</b>	<b>303</b>	<b>(1,569)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,963</b>	<b>6,623</b>	<b>(26,675)</b>	<b>72,870</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>13,496</b>	<b>40,171</b>	<b>40,171</b>	<b>109,724</b>
<b>Effect of changes in reporting entities</b>	<b>17</b>	<b>—</b>	<b>—</b>	<b>138</b>
<b>Cash and cash equivalents, end of period</b>	<b>¥22,476</b>	<b>¥46,794</b>	<b>¥13,496</b>	<b>\$182,732</b>

Notes: Consolidated statements of cash flows have been prepared using a format which differs from that used in earlier years, accordingly the comparative period's consolidated statements of cash flows have been reformatted.

The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

## SEGMENT INFORMATION

### Industrial segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

#### Net sales and operating income

Six months ended September 30, 2002	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥70,906	¥1,321	¥72,227	¥8,805
Fibers and textiles	54,347	575	54,922	2,494
High performance materials, medical products and others	32,902	11,544	44,446	3,852
Total	158,155	13,440	171,595	15,151
Eliminated on consolidation and corporate	—	(13,440)	(13,440)	(3,628)
Consolidated total	¥158,155	¥ —	¥158,155	¥11,523

Six months ended September 30, 2001	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥59,993	¥904	¥60,897	¥6,985
Fibers and textiles	57,356	595	57,951	1,849
High performance materials, medical products and others	33,794	11,061	44,855	3,487
Total	151,143	12,560	163,703	12,321
Eliminated on consolidation and corporate	—	(12,560)	(12,560)	(3,578)
Consolidated total	¥151,143	¥ —	¥151,143	¥8,743

Six months ended September 30, 2002	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$576,471	\$10,740	\$587,211	\$71,585
Fibers and textiles	441,846	4,675	446,521	20,277
High performance materials, medical products and others	267,496	93,854	361,350	31,317
Total	1,285,813	109,269	1,395,082	123,179
Eliminated on consolidation and corporate	—	(109,269)	(109,269)	(29,496)
Consolidated total	\$1,285,813	\$ —	\$1,285,813	\$93,683

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

Effective April 1, 2002, the Company has rearranged its industrial segments. As a result, former "Fibers and textiles", "Chemical products", "Man-made leather, non-woven fabrics and fastening materials" and "Diversified business" have been classified "Chemicals and resins", "Fibers and textiles" and "High performance materials, medical products and others".



## Industrial segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

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

Six months ended September 30, 2002	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥166,956	¥3,398	¥5,341
Fibers and textiles	85,492	1,523	1,963
High performance materials, medical products and others	76,984	2,284	1,439
<b>Total</b>	<b>329,432</b>	<b>7,205</b>	<b>8,743</b>
Eliminated on consolidation and corporate	133,215	968	443
<b>Consolidated total</b>	<b>¥462,647</b>	<b>¥8,173</b>	<b>¥9,186</b>

Six months ended September 30, 2001	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥141,504	¥5,525	¥3,756
Fibers and textiles	100,198	1,835	2,189
High performance materials, medical products and others	74,530	2,677	1,423
<b>Total</b>	<b>316,232</b>	<b>10,037</b>	<b>7,368</b>
Eliminated on consolidation and corporate	183,369	608	336
<b>Consolidated total</b>	<b>¥499,601</b>	<b>¥10,645</b>	<b>¥7,704</b>

Six months ended September 30, 2002	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\$1,357,366	\$27,626	\$43,423
Fibers and textiles	695,057	12,382	15,959
High performance materials, medical products and others	625,886	18,569	11,699
<b>Total</b>	<b>2,678,309</b>	<b>58,577</b>	<b>71,081</b>
Eliminated on consolidation and corporate	1,083,049	7,870	3,602
<b>Consolidated total</b>	<b>\$3,761,358</b>	<b>\$66,447</b>	<b>\$74,683</b>

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

Effective April 1, 2002, the Company has rearranged its industrial segments. As a result, former "Fibers and textiles", "Chemical products", "Man-made leather, non-woven fabrics and fastening materials" and "Diversified business" have been classified "Chemicals and resins", "Fibers and textiles" and "High performance materials, medical products and others".

## Geographic segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2002	Millions of yen			Operating income	Identifiable assets
	Net sales				
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥123,758	¥14,090	¥137,848	¥12,958	¥237,507
North America	11,922	981	12,903	1,432	34,762
Europe	16,367	157	16,524	788	54,697
Asia	6,108	1,004	7,112	(424)	8,572
Total	158,155	16,232	174,387	14,754	335,538
Eliminated on consolidation and corporate	—	(16,232)	(16,232)	(3,231)	127,109
Consolidated total	¥158,155	¥ —	¥158,155	¥11,523	¥462,647

Six months ended September 30, 2001	Millions of yen			Operating income	Identifiable assets
	Net sales				
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥129,418	¥12,338	¥141,756	¥10,603	¥261,108
North America	9,819	712	10,531	1,735	31,170
Europe	6,721	64	6,785	296	18,976
Asia	5,185	764	5,949	(226)	10,130
Total	151,143	13,878	165,021	12,408	321,384
Eliminated on consolidation and corporate	—	(13,878)	(13,878)	(3,665)	178,217
Consolidated total	¥151,143	¥ —	¥151,143	¥8,743	¥499,601

Six months ended September 30, 2002	Thousands of U.S. dollars			Operating income	Identifiable assets
	Net sales				
	outside customers	inter-segment	total		
Domestic (inside Japan)	\$1,006,162	\$114,553	\$1,120,715	\$105,349	\$1,930,951
North America	96,927	7,975	104,902	11,642	282,618
Europe	133,065	1,276	134,341	6,407	444,691
Asia	49,659	8,163	57,822	(3,447)	69,691
Total	1,285,813	131,967	1,417,780	119,951	2,727,951
Eliminated on consolidation and corporate	—	(131,967)	(131,967)	(26,268)	1,033,407
Consolidated total	\$1,285,813	\$ —	\$1,285,813	\$93,683	\$3,761,358

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.

## Foreign sales

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Six months ended September 30, 2002	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	¥16,056	¥ —	10.1 %	\$130,537	\$ —
Europe	21,498	—	13.6	174,780	—
Asia	20,902	—	13.2	169,935	—
Other	3,115	—	2.0	25,325	—
Total	¥61,571	¥158,155	38.9 %	\$500,577	\$1,285,813

Six months ended September 30, 2001	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥14,707	¥ —	9.7 %
Europe	12,900	—	8.6
Asia	16,476	—	10.9
Other	2,426	—	1.6
Total	¥46,509	¥151,143	30.8 %

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥123=\$1.