

# Management Policy

## Basic Policy

Kuraray Group's management policy was formulated in recognition of the expanding borderless economy, and stipulates for us to be a visible presence in the world as a unique chemical enterprise. In this way, we have been working to maximize enterprise value, and gain the support of all our stakeholders -- shareholders, employees, and business partners in regional communities -- whose expectations to fulfill is at the core of our efforts.

In this operating environment of dramatic change, we will continue on a steady growth path while maintaining our solid financial position. Meanwhile, we have our sights on the future expansion of our operations, which we will run in a harmonious relation with society.

## Medium-Term Strategy

Since embarking on our fourth 5-year management plan in April 1996, we have been acting with an eye on swiftly responding to the shifting operating conditions during this period.

Under our management plan, we placed particular emphasis on four goals: a) boosting the comprehensive strength of the Kuraray Group; b) creating new businesses; c) building an effective management system; d) raising a new corporate culture.

During the plan period, we have strengthened and expanded our core operations through forward-looking investments. In Japan, we invested in capacity increases for the thermoplastic elastomers "Septon" and "Hybrar," as well as the man-made leather "Clarino," among other products. Overseas, we invested in new production facilities for Poval (polyvinyl alcohol resin) in Singapore and for the EVOH resin "Eval" in Belgium, which operated in line with projections. Also during the

reporting period, we resolved on the construction of a thermoplastic elastomer plant in the United States, and thus continued to enhance our production and marketing capacities in preparation for expanding demand in the 21st century. At the same time, we decided to terminate rayon production, for which an economically viable future is not in sight.

As before, our management decisions will continue to be guided by the goal of maximizing the value of the Company.

### Basic Dividend Policy

The Company attaches the highest priority to income distribution to shareholders. The attainment of this objective, however, is predicated on measures to secure steady growth in business performance. As an appropriate level of income distribution, the Company envisages a payout ratio of 30% for the time being, and -- with ¥8 per ordinary share as the basic dividend -- seeks to provide further distributions in line with corporate performance. Earnings designated for internal retention will be allocated to the expansion of operations as deemed necessary, including M&A transactions both in Japan and overseas, given expectations of a business environment of increasingly intense competition.

### Future Issues

Amid an environment of rapid change, the Group's sustained growth is predicated on flexibly strengthening our operating basis in response to such shifts. In line with this objective, we have been working to extract yet greater contributions to business performance from existing plant and to create a resilient corporate structure, while ensuring the smooth start-up of the new production facilities that are currently under construction.

Furthermore, we are in the process of devising the new medium-term management plan, which will start in the next fiscal year. This new plan comprises new medium- and long-term management strategies, designed to widen of the scope of our operations as well as reinforce our business foundation. At the same time, these strategies

will connect to the creation of management systems attuned to the requirements of the information technology age and strengthen our corporate governance. We expect that these measures will benefit our goal of maximizing the value of the Company.

We believe that contributing to environmental protection and the advancement of regional communities represent important management issues. Hence, we are working to develop and offer products beneficial to the environment while reducing the environmental burden by cutting emissions of relevant substances. In pursuit of this goal, we are promoting the thermal recycling of plastic waste and other substances, while stressing effective resource allocation and the creation of recycling-based manufacturing systems. Having participated in Responsible Care activities from the very start, we have acquired ISO 14001 certification -- the international standard for environmental management systems -- for our Kashima Plant, Okayama Plant, and Nakajo Plant. Other facilities are scheduled to obtain the certification during the current term.

# Business Performance

## Performance Review

The Group's operating environment remained severe as depressed consumer spending in Japan prevented a fully fledged economic recovery and crude oil prices fluctuated at a high level. In this setting, we concentrated on expanding sales in product areas of particular strength while enhancing profitability through cost cutting measures and other improvements.

Despite these efforts, however, the severe operating conditions that affected our operations connected to a ¥1,827 million drop in net sales, a 1.2% decline from the previous year, to ¥153,253 million. As a result, operating income slipped ¥263 million to ¥9,762 million, posting a 2.6% decline. Net income for the reporting period came to ¥1,833 million, a 72.4% decrease compared with last year, reflecting the impact of special provision for retirement benefits (¥3,750 million) and restructuring charges (¥3,717 million) recognized during the half-term.

Segment specific performance developed as follows.

## 1. Segment Performance

### a. Fibers and Textiles

Net sales in the Fibers and Textiles segment saw a ¥3,210 million decline to ¥44,893 million, down 6.7% from a year ago, with an 18.4% drop of ¥219 million in operating income to ¥971 million.

(1) Polyester experienced slow demand in Japan, further aggravated by burgeoning imports, which adversely affected the market for women's apparel. Although we worked to boost sales of proprietary products and reduce cost, both sales and earnings slipped from the previous year.

(2) Thanks to its alkali resistance, the polyvinyl alcohol fiber "Kuralon" fared relatively well in its applications

for special alkali resistant fiber reinforcement cement (FRC), battery separators, and rubber reinforcements, but demand remained stagnant in other industrial materials. For the new synthetic fiber "Kuralon K-II" we advanced the development of an extended range of applications with a view to increasing sales from here on. Sales and net income in polyvinyl alcohol fibers remained unchanged from the previous year.

(3) We took steps towards the termination of rayon production at March-end 2001. While sales declines, earnings remained unchanged from a year earlier.

## **b. Chemical Products**

Although Chemical Products saw a sales increase of ¥1,834 million, or 2.6%, to ¥73,261 million, operating income posted a 9.6% decline of ¥628 million to ¥5,887 million.

(1) Poval benefited from solid conditions for poval film, which is used for LCD devices. In addition to lively East Asian markets, steady performance was supported by demand for safety glass inter-layers. While sales rose as a result, the adverse impact of peaking crude oil prices kept net income unchanged from a year earlier.

(2) The EVOH resin "Eval" showed stable performance in Japan, underpinned by applications in food packaging film and wall paper. The new facility taken onstream in Belgium in the previous term operated at full capacity, accompanied by rising sales. Nonetheless, owing to the strong yen at the time of currency conversion as well as the rise in crude oil prices, sales and earnings remained practically unchanged from the previous year.

(3) Methacrylic resins and related products continued to fare well thanks to demand for projection TV screens in the US. Additionally, progressing user acceptance of price increases for MMA monomer and resins helped absorb the higher production costs resulting from peaking crude oil quotations, with both sales and earnings showing year on year growth as a result.

(4) In isoprene products, thermoplastic elastomers continued to perform favorably mainly in Europe and the US, but vitamin products and other fine chemicals

suffered under falling selling prices and contracting demand, with sales and income declines as a result.

(5) Among other principal products, activated carbon advanced on the back of growing public works projects, with additional support from cost cutting measures, posting higher earnings as a result. Processed plastic products posted sales and earnings unchanged from the previous year thanks to newly developed products and applications.

### **c. Man-Made Leather, Nonwoven Fabrics, and Fastening Materials**

Sales of Man-made Leather, Nonwoven Fabrics and Fastening Materials declined ¥526 million, or 3.1%, from a year earlier to ¥16,221 million, with operating income rising ¥191 million, or 16.9%, to ¥1,319 million.

(1) Our man-made leather "Clarino" was affected by lower demand for apparel-related applications in Europe and by the depreciation of the Euro. Both sales and earnings declined from the previous year.

(2) In nonwoven fabrics operations, expanded sales of wiping cloth and similar products for wiping lifted sales and earnings. Fastening materials were supported by the solid performance of our functional fastener.

Nonetheless, sales and earnings remained unchanged from a year ago.

### **d. Diversified Business**

NDiversified businesses registered a sales rise of ¥74 million, or 0.4%, to ¥18,878 million, with operating income of ¥1,500 million unchanged from the previous year.

(1) In medical products, intensifying competition with disposable contact lenses connected to a price decline for non-disposable contact lenses, but inroads made into overseas dental materials markets developed favorably. Sales and earnings remained unchanged from a year earlier as a result.

(2) In other operating areas, engineering revenue and earnings remained flat, while consulting revenue turned upwards thanks to continued consulting demand

revolving around ISO certifications.

## 2. Segmentation by Geographical Region

### 1) Japan

The effects of depressed consumer spending and other adverse factors made for a severe operating environment in Japan. As a result, net sales came to ¥134,991 million, with operating income of ¥8,290 million.

### 2) Other Regions

Aggregate net sales in other regions posted ¥18,262 million, with operating income of ¥1,208 million.

## 3. Cash Flow

Cash and cash equivalents ("cash" hereinafter) during the period under review developed as follows. Cash as of the end of the reporting period came to ¥8,259 million, reflecting a net cash outflow of ¥5,610 million, based on ¥2,929 million cash from operating activities, ¥6,387 million cash used in investing activities, and ¥2,206 million cash used in financing activities.

The principal items contributing to operating, financing, and investing cash flows respectively were as follows.

#### a) Operating activities

In the term under review, net income in the amount of ¥1,833 million and depreciation and amortization of ¥7,917 million were partially cancelled out by transfers of gain on sales and appreciation of marketable securities of ¥3,104 million to cash flow from investing activities. As a result, net cash provided by operating activities amounted to ¥2,929 million.

#### b) Investing activities

Investments in acquisitions of property, plant and equipment amounting to ¥7,682 million were partly offset by a ¥2,010 million decrease in marketable securities, resulting in cash used in investing activities to ¥6,387 million.

#### c) Financing activities

Repayments of long-term debt and dividend payments resulted in cash used in financing activities of ¥2,206 million.

#### 4. Interim Dividends

Interim dividends of ¥4.5 per share of common stock included an ordinary dividend of ¥4.0 and a ¥0.5 special dividend.

#### Full-Term Outlook

Despite the progressing general recovery in economic activity, the upturn has yet to reach those industrial sectors that represent the Group's business mainstays. Overseas, economic expansion will likely continue, despite decelerating growth in the United States. By the same token, our growth scenarios for Europe and Southeast Asia remains largely intact, overriding concerns about high crude oil prices. Assuming the continuation of first-half business conditions during the remaining six months of the term to March 2001, we expect full-term sales of ¥325 billion, with ordinary income of ¥25 billion. Net income is estimated to post ¥4.5 billion, which reflects the lump-sum amortization of pension-related costs -- ¥3,750 million were amortized in the first half of the term -- as well as losses associated with the withdrawal from rayon production effective March 2001.

Improving the profitability of fiber operations is a critically important issue. To this end, we will reposition polyester away from the influence spheres of price erosion and burgeoning imports, with a shift towards growth areas in proprietary and functional products. Additionally, we target further sales increases of polyvinyl alcohol fiber through further application development focusing on its alkali resistance and other special features.

In chemical operations, sales expansion will focus on operations enjoying prospects of continued demand growth, such as poval, "Eval," and thermoplastic

elastomers. We also expect to realize sales and income growth by instituting price increase on these products, including methacrylic resins, for which the demand-and-supply balance has been shifting in our favor.

Our operating performance estimates for the second half of the term are based on an expected on a foreign exchange rate of ¥105 to the dollar and Dubai crude oil at \$26 per barrel.

Dividends for the fiscal year are projected at ¥9 per share of common stock, consisting of 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<br>U.S.dollars |
|----------------------------------------------------------------|-----------------------|-------------------|-----------------------|-----------------------------|
|                                                                | September 30,<br>2000 | March 31,<br>2000 | September 30,<br>1999 | September 30,<br>2000       |
| <b>ASSETS</b>                                                  |                       |                   |                       |                             |
| <b>Current assets:</b>                                         |                       |                   |                       |                             |
| Cash and cash equivalents                                      | ¥8,259                | ¥13,869           | ¥26,728               | \$76,472                    |
| Marketable securities                                          | 13,861                | 26,033            | 21,426                | 128,343                     |
| Notes and accounts receivable:                                 |                       |                   |                       |                             |
| Trade                                                          | 91,911                | 89,102            | 87,726                | 851,028                     |
| Unconsolidated subsidiaries and affiliates                     | 825                   | 789               | 862                   | 7,639                       |
| Other                                                          | 2,833                 | 3,634             | 3,154                 | 26,231                      |
| Loans receivable to unconsolidated subsidiaries and affiliates | 537                   | 541               | 404                   | 4,972                       |
| Allowance for doubtful accounts                                | (597)                 | (696)             | (701)                 | (5,527)                     |
|                                                                | 95,509                | 93,370            | 91,445                | 884,343                     |
| Inventories                                                    | 75,585                | 75,120            | 71,651                | 699,861                     |
| Deferred income taxes                                          | 5,135                 | 3,761             | 3,878                 | 47,546                      |
| Other current assets                                           | 2,956                 | 1,140             | 1,403                 | 27,370                      |
| Total current assets                                           | 201,305               | 213,293           | 216,531               | 1,863,935                   |
| <b>Property, plant and equipment:</b>                          |                       |                   |                       |                             |
| Land                                                           | 24,824                | 25,176            | 25,363                | 229,852                     |
| Buildings                                                      | 85,823                | 86,213            | 85,599                | 794,657                     |
| Machinery and equipment                                        | 353,626               | 351,695           | 348,107               | 3,274,315                   |
| Construction in progress                                       | 5,270                 | 4,356             | 5,107                 | 48,796                      |
|                                                                | 469,543               | 467,440           | 464,176               | 4,347,620                   |
| Less accumulated depreciation                                  | (343,903)             | (339,097)         | (331,977)             | (3,184,286)                 |
|                                                                | 125,640               | 128,343           | 132,199               | 1,163,334                   |
| <b>Investments and other assets:</b>                           |                       |                   |                       |                             |
| Investment securities                                          | 103,776               | 80,910            | 68,467                | 960,889                     |
| Investments in unconsolidated subsidiaries and affiliates      | 2,685                 | 2,687             | 2,671                 | 24,861                      |
| Loans receivable to:                                           |                       |                   |                       |                             |
| Unconsolidated subsidiaries and affiliates                     | 5,167                 | 5,345             | 5,556                 | 47,843                      |
| Other                                                          | 1,332                 | 1,293             | 1,319                 | 12,333                      |
| Deferred income taxes                                          | 3,267                 | 7,196             | 3,220                 | 30,250                      |
| Cumulative translation adjustments                             | -                     | -                 | 5,956                 | -                           |
| Other                                                          | 67,109                | 65,988            | 65,016                | 621,379                     |
| Allowance for doubtful accounts                                | (1,281)               | (1,289)           | (940)                 | (11,861)                    |
|                                                                | 182,055               | 162,130           | 151,265               | 1,685,694                   |
|                                                                | ¥509,000              | ¥503,766          | ¥499,995              | \$4,712,963                 |

|                                                                   | Millions of yen       |                   |                       | Thousands of<br>U.S.dollars |
|-------------------------------------------------------------------|-----------------------|-------------------|-----------------------|-----------------------------|
|                                                                   | September 30,<br>2000 | March 31,<br>2000 | September 30,<br>1999 | September 30,<br>2000       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                       |                       |                   |                       |                             |
| <b>Current liabilities:</b>                                       |                       |                   |                       |                             |
| Short-term bank loans                                             | ¥7,589                | ¥3,805            | ¥4,438                | \$70,269                    |
| Current portion of long-term debt                                 | 5,146                 | 3,467             | 19,608                | 47,648                      |
| Notes and accounts payable:                                       |                       |                   |                       |                             |
| Trade                                                             | 49,561                | 51,257            | 46,250                | 458,898                     |
| Unconsolidated subsidiaries and affiliates                        | 1,232                 | 1,149             | 1,064                 | 11,407                      |
| Other                                                             | 5,588                 | 6,945             | 9,126                 | 51,741                      |
| Accrued income taxes                                              | 4,202                 | 4,312             | 5,042                 | 38,907                      |
| Deferred income taxes                                             | 19                    | 21                | 23                    | 176                         |
| Accrued expenses and other                                        | 15,983                | 16,636            | 20,634                | 147,991                     |
| Total current liabilities                                         | 89,320                | 87,592            | 106,185               | 827,037                     |
| <b>Long-term liabilities:</b>                                     |                       |                   |                       |                             |
| Long-term debt                                                    | 87,209                | 94,225            | 94,881                | 807,491                     |
| Deferred income taxes                                             | 3,305                 | 3,164             | 2,871                 | 30,602                      |
| Accrued retirement benefits                                       | 23,777                | 22,164            | 12,714                | 220,157                     |
| Other                                                             | 15,260                | 13,494            | 10,989                | 141,296                     |
| Total long-term liabilities                                       | 129,551               | 133,047           | 121,455               | 1,199,546                   |
| <b>Minority interests</b>                                         | 152                   | 372               | 365                   | 1,408                       |
| <b>Shareholders' equity:</b>                                      |                       |                   |                       |                             |
| Common stock with par value of ¥50 (\$0.46) per share:            |                       |                   |                       |                             |
| Authorized - 700,000,000 shares                                   |                       |                   |                       |                             |
| Issued and outstanding - 382,863,603 shares at September 30, 2000 | 88,955                | -                 | -                     | 823,657                     |
| Issued and outstanding - 382,863,603 shares at March 31, 2000     | -                     | 88,955            | -                     | -                           |
| Issued and outstanding - 369,741,907 shares at September 30, 1999 | -                     | -                 | 81,824                | -                           |
| Additional paid-in capital                                        | 87,147                | 87,147            | 78,180                | 806,917                     |
| Retained earnings                                                 | 111,133               | 111,151           | 111,991               | 1,029,009                   |
| Unrealized gain on securities                                     | 6,583                 | -                 | -                     | 60,954                      |
| Cumulative translation adjustments                                | (3,839)               | (4,496)           | -                     | (35,546)                    |
|                                                                   | 289,979               | 282,757           | 271,995               | 2,684,991                   |
| Treasury stock at cost                                            | (2)                   | (2)               | (5)                   | (19)                        |
| Total shareholders' equity                                        | 289,977               | 282,755           | 271,990               | 2,684,972                   |
|                                                                   | ¥509,000              | ¥503,766          | ¥499,995              | \$4,712,963                 |

Notes : The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.

In accordance with the new accounting standard in Japan "Accounting Standard of Financial Instruments", which is effective on and after April 1, 2000, marketable securities and investment securities are classified in the three categories, i.e. held-to-maturity, trading or available-for-sale securities. Trading securities are carried at fair values with unrealized gains or loss to be included in income, and held-to-maturity securities are carried at amortized cost.

Available-for-sale securities are carried at fair value with unrealized gains or losses to be recorded as a component of shareholders' equity, net of applicable taxes. Moreover, available-for-sale securities with maturity of one year or less and trading securities are classified in current assets, and other securities are classified in Investments and other assets. At beginning of the six months ended September 30, 2000, adoption of the Standard caused reclassifications of securities between current assets and non-current assets, and net effect of the reclassifications was to increase securities in current assets by ¥368 million (\$3,407 thousand), and decrease securities included in Investments and other assets by the same amount as of April 1, 2000. Classification of securities in the balance sheets as of March 31, 2000 and September 30, 1999 were remained unchanged.

In accordance with the new accounting standard in Japan "Accounting Standard of Employees' Retirement Benefit", which is effective on and after April 1, 2000, a company is required to recognize a pension liability to cover the amount of projected benefit obligation in excess of plan assets at fair value, considering unrecognized items, plus previously recognized unfunded accrued retirement benefit.

The effect of adoption of the Standard was to decrease income before income taxes for the six months ended September 30, 2000 by ¥4,052 million (\$37,519 thousand).

Effective April 1, 2000, the Company adopted the amended "Accounting Standards for Foreign Currency Transactions, etc.". The effect of this adoption is immaterial.

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

# CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

|                                                                      | Millions of yen       |                       |                   | Thousands of<br>U.S.dollars |
|----------------------------------------------------------------------|-----------------------|-----------------------|-------------------|-----------------------------|
|                                                                      | Six months ended      |                       | Year ended        | Six months ended            |
|                                                                      | September 30,<br>2000 | September 30,<br>1999 | March 31,<br>2000 | September 30,<br>2000       |
| <b>Net sales</b>                                                     | <b>¥153,253</b>       | ¥155,081              | ¥316,444          | <b>\$1,419,009</b>          |
| <b>Cost of sales</b>                                                 | <b>114,454</b>        | 114,608               | 235,603           | <b>1,059,759</b>            |
| (Gross profit)                                                       | <b>38,799</b>         | 40,473                | 80,841            | <b>359,250</b>              |
| <b>Selling, general and administrative expenses</b>                  | <b>29,037</b>         | 30,447                | 60,520            | <b>268,861</b>              |
| (Operating income)                                                   | <b>9,762</b>          | 10,026                | 20,321            | <b>90,389</b>               |
| <b>Other income (expenses):</b>                                      |                       |                       |                   |                             |
| Interest and dividend income                                         | <b>1,837</b>          | 2,017                 | 3,774             | <b>17,009</b>               |
| Equity in earnings of affiliates                                     | <b>100</b>            | 51                    | 83                | <b>926</b>                  |
| Interest expenses                                                    | <b>(1,151)</b>        | (1,405)               | (2,659)           | <b>(10,657)</b>             |
| Restructuring charges                                                | <b>(3,717)</b>        | -                     | (335)             | <b>(34,417)</b>             |
| Special provision for retirement benefits                            | <b>(3,750)</b>        | -                     | (9,492)           | <b>(34,722)</b>             |
| Other, net                                                           | <b>899</b>            | 1,086                 | 1,685             | <b>8,324</b>                |
|                                                                      | <b>(5,782)</b>        | 1,749                 | (6,944)           | <b>(53,537)</b>             |
| (Income before income taxes)                                         | <b>3,980</b>          | 11,775                | 13,377            | <b>36,852</b>               |
| <b>Income taxes:</b>                                                 |                       |                       |                   |                             |
| Current                                                              | <b>4,286</b>          | 5,218                 | 9,461             | <b>39,685</b>               |
| Deferred                                                             | <b>(2,133)</b>        | (72)                  | (3,560)           | <b>(19,750)</b>             |
|                                                                      | <b>2,153</b>          | 5,146                 | 5,901             | <b>19,935</b>               |
| <b>Minority interests in net income of consolidated subsidiaries</b> | <b>6</b>              | (0)                   | (24)              | <b>55</b>                   |
| <b>Net income</b>                                                    | <b>¥1,833</b>         | ¥6,629                | ¥7,452            | <b>\$16,972</b>             |
|                                                                      |                       | Yen                   |                   | U.S.dollars                 |
| <b>Net income per share:</b>                                         |                       |                       |                   |                             |
| Primary                                                              | <b>¥4.79</b>          | ¥18.09                | ¥20.00            | <b>\$0.04</b>               |
| Fully diluted                                                        | <b>¥4.73</b>          | -                     | ¥19.42            | <b>\$0.04</b>               |

Notes :· The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.

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

## 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 securities | Cumulative translation adjustments |
| <b>Balance at March 31, 1999</b>            | ¥78,660         | ¥74,225                    | ¥107,029          | -                             | -                                  |
| Net income                                  |                 |                            | 6,629             |                               |                                    |
| Conversion of convertible debentures        | 100             | 100                        |                   |                               |                                    |
| Stock issued on exercise of warrants        | 3,064           | 3,855                      |                   |                               |                                    |
| Cash dividends, ¥4.50 per share             |                 |                            | (1,638)           |                               |                                    |
| Bonuses to directors and statutory auditors |                 |                            | (62)              |                               |                                    |
| Effect of changes in reporting entity       |                 |                            | 33                |                               |                                    |
| <b>Balance at September 30, 1999</b>        | 81,824          | 78,180                     | 111,991           | -                             | -                                  |
| Net income                                  |                 |                            | 823               |                               |                                    |
| Conversion of convertible debentures        | 14              | 14                         |                   |                               |                                    |
| Stock issued on exercise of warrants        | 7,117           | 8,953                      |                   |                               |                                    |
| Cash dividends, ¥4.50 per share             |                 |                            | (1,663)           |                               |                                    |
| Cumulative translation adjustments          |                 |                            |                   | -                             | (4,496)                            |
| <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)              |                               |                                    |
| Unrealized gain on securities               |                 |                            |                   | 6,583                         |                                    |
| Cumulative translation adjustments          |                 |                            |                   |                               | 657                                |
| <b>Balance at September 30, 2000</b>        | ¥88,955         | ¥87,147                    | ¥111,133          | ¥6,583                        | (¥3,839)                           |

|                                             | Thousands of U.S. dollars |           |             |          |            |
|---------------------------------------------|---------------------------|-----------|-------------|----------|------------|
|                                             |                           |           |             |          |            |
| <b>Balance at March 31, 2000</b>            | \$823,657                 | \$806,917 | \$1,029,176 | -        | (\$41,630) |
| Net income                                  |                           |           | 16,972      |          |            |
| Cash dividends, \$0.04 per share            |                           |           | (15,954)    |          |            |
| Bonuses to directors and statutory auditors |                           |           | (555)       |          |            |
| Effect of changes in reporting entity       |                           |           | (630)       |          |            |
| Unrealized gain on securities               |                           |           |             | 60,954   |            |
| Cumulative translation adjustments          |                           |           |             |          | 6,084      |
| <b>Balance at September 30, 2000</b>        | \$823,657                 | \$806,917 | \$1,029,009 | \$60,954 | (\$35,546) |

Note : The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

|                                                                                    | Millions of yen       |                       |                   | Thousands of<br>U.S.dollars |
|------------------------------------------------------------------------------------|-----------------------|-----------------------|-------------------|-----------------------------|
|                                                                                    | Six months ended      |                       | Year ended        | Six months ended            |
|                                                                                    | September 30,<br>2000 | September 30,<br>1999 | March 31,<br>2000 | September 30,<br>2000       |
| <b>Cash flows from operating activities</b>                                        |                       |                       |                   |                             |
| Net income                                                                         | ¥1,833                | ¥6,629                | ¥7,452            | \$16,972                    |
| Adjustments to reconcile net income to net cash provided by operating activities - |                       |                       |                   |                             |
| Depreciation and amortization                                                      | 7,917                 | 7,771                 | 16,769            | 73,306                      |
| Provision for accrued retirement benefits, net of payment                          | 1,736                 | 38                    | 9,488             | 16,074                      |
| Gain on sales of investment securities                                             | -                     | (448)                 | (2,191)           | -                           |
| Gain on sales and appreciation of marketable securities                            | (3,104)               | (379)                 | (1,192)           | (28,741)                    |
| Exchange loss on loans receivable to subsidiaries                                  | -                     | -                     | 2,559             | -                           |
| (Increase) decrease in notes and accounts receivable                               | (2,853)               | 1,273                 | (143)             | (26,417)                    |
| Increase in inventories                                                            | (673)                 | (2,148)               | (6,203)           | (6,231)                     |
| (Decrease) increase in notes and accounts payable                                  | (1,611)               | (2,340)               | 2,686             | (14,917)                    |
| Other, net                                                                         | (316)                 | 318                   | (4,159)           | (2,926)                     |
| <b>Net cash provided by operating activities</b>                                   | <b>2,929</b>          | <b>10,714</b>         | <b>25,066</b>     | <b>27,120</b>               |
| <b>Cash flows from investing activities</b>                                        |                       |                       |                   |                             |
| Decrease (increase) in marketable securities                                       | 2,010                 | 3,166                 | (2,498)           | 18,611                      |
| Acquisitions of property, plant and equipment                                      | (7,682)               | (9,899)               | (19,980)          | (71,130)                    |
| Payment for purchases of investment securities                                     | (18,768)              | (7,812)               | (29,327)          | (173,778)                   |
| Proceeds from sales of investment securities                                       | 19,793                | 1,385                 | 13,474            | 183,269                     |
| Other, net                                                                         | (1,740)               | (5,395)               | (4,421)           | (16,111)                    |
| <b>Net cash used in investing activities</b>                                       | <b>(6,387)</b>        | <b>(18,555)</b>       | <b>(42,752)</b>   | <b>(59,139)</b>             |
| <b>Cash flows from financing activities</b>                                        |                       |                       |                   |                             |
| Increase (decrease) in short-term bank loans                                       | 52                    | (545)                 | (594)             | 481                         |
| Proceeds from long-term debt                                                       | 717                   | 5,966                 | 7,028             | 6,639                       |
| Repayments of long-term debt                                                       | (1,252)               | (3,814)               | (20,457)          | (11,593)                    |
| Proceeds from exercise of warrants                                                 | -                     | 6,129                 | 20,364            | -                           |
| Dividends paid                                                                     | (1,723)               | (1,638)               | (3,301)           | (15,953)                    |
| Other, net                                                                         | -                     | (62)                  | -                 | -                           |
| <b>Net cash (used in) provided by financing activities</b>                         | <b>(2,206)</b>        | <b>6,036</b>          | <b>3,040</b>      | <b>(20,426)</b>             |
| <b>Effect of exchange rate changes on cash &amp; cash equivalents</b>              | <b>32</b>             | <b>(535)</b>          | <b>(553)</b>      | <b>296</b>                  |
| <b>Effect of changes in reporting entities</b>                                     | <b>22</b>             | <b>151</b>            | <b>151</b>        | <b>204</b>                  |
| <b>Net decrease in cash and cash equivalents</b>                                   | <b>(5,610)</b>        | <b>(2,189)</b>        | <b>(15,048)</b>   | <b>(51,945)</b>             |
| <b>Cash and cash equivalents, beginning of period</b>                              | <b>13,869</b>         | <b>28,917</b>         | <b>28,917</b>     | <b>128,417</b>              |
| <b>Cash and cash equivalents, end of period</b>                                    | <b>¥8,259</b>         | <b>¥26,728</b>        | <b>¥13,869</b>    | <b>\$76,472</b>             |

Notes: · The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.

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

## SEGMENT INFORMATION

Industrial segment information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

### Net sales and Operating income

| Six months ended September 30,2000                            | Millions of yen                   |                              |                 |                     |
|---------------------------------------------------------------|-----------------------------------|------------------------------|-----------------|---------------------|
|                                                               | Net sales to<br>outside customers | Net sales to<br>intersegment | Net sales       | Operating<br>income |
| Fibers and textiles                                           | ¥44,893                           | ¥455                         | ¥45,348         | ¥971                |
| Chemical products                                             | 73,261                            | 1,100                        | 74,361          | 5,887               |
| Man-made leather, nonwoven<br>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 30,1999                            | Millions of yen                   |                              |                 |                     |
|---------------------------------------------------------------|-----------------------------------|------------------------------|-----------------|---------------------|
|                                                               | Net sales to<br>outside customers | Net sales to<br>intersegment | Net sales       | Operating<br>income |
| Fibers and textiles                                           | ¥48,103                           | ¥921                         | ¥49,024         | ¥1,190              |
| Chemical products                                             | 71,427                            | 845                          | 72,272          | 6,515               |
| Man-made leather, nonwoven<br>fabrics and fastening materials | 16,747                            | 178                          | 16,925          | 1,128               |
| Diversified businesses                                        | 18,804                            | 10,842                       | 29,646          | 1,501               |
| <b>Total</b>                                                  | <b>155,081</b>                    | <b>12,786</b>                | <b>167,867</b>  | <b>10,334</b>       |
| Elimination                                                   | -                                 | (12,786)                     | (12,786)        | (308)               |
| <b>Consolidated total</b>                                     | <b>¥155,081</b>                   | <b>¥ -</b>                   | <b>¥155,081</b> | <b>¥10,026</b>      |

| Six months ended September 30,2000                                    | Thousands of U.S.dollars          |                              |                    |                     |
|-----------------------------------------------------------------------|-----------------------------------|------------------------------|--------------------|---------------------|
|                                                                       | Net sales to<br>outside customers | Net sales to<br>intersegment | Net sales          | Operating<br>income |
| <i>Fibers and textiles</i>                                            | <b>\$415,676</b>                  | <b>\$4,213</b>               | <b>\$419,889</b>   | <b>\$8,991</b>      |
| <i>Chemical products</i>                                              | <b>678,343</b>                    | <b>10,185</b>                | <b>688,528</b>     | <b>54,509</b>       |
| <i>Man-made leather, nonwoven<br/>fabrics and fastening materials</i> | <b>150,194</b>                    | <b>1,241</b>                 | <b>151,435</b>     | <b>12,213</b>       |
| <i>Diversified businesses</i>                                         | <b>174,796</b>                    | <b>67,380</b>                | <b>242,176</b>     | <b>13,889</b>       |
| <b>Total</b>                                                          | <b>1,419,009</b>                  | <b>83,019</b>                | <b>1,502,028</b>   | <b>89,602</b>       |
| <i>Elimination</i>                                                    | -                                 | <b>(83,019)</b>              | <b>(83,019)</b>    | <b>787</b>          |
| <b>Consolidated total</b>                                             | <b>\$1,419,009</b>                | <b>\$ -</b>                  | <b>\$1,419,009</b> | <b>\$90,389</b>     |

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.

## Industrial segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Identifiable assets, Capital expenditures, Depreciation and amortization

| Six months ended September 30,2000                         | Millions of yen     |                      |                               |
|------------------------------------------------------------|---------------------|----------------------|-------------------------------|
|                                                            | Identifiable assets | Capital expenditures | Depreciation and amortization |
| Fibers and textiles                                        | ¥75,546             | ¥1,461               | ¥1,544                        |
| Chemical products                                          | 150,960             | 3,376                | 4,578                         |
| Man-made leather, nonwoven 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 30,1999                         | Millions of yen     |                      |                               |
|------------------------------------------------------------|---------------------|----------------------|-------------------------------|
|                                                            | Identifiable assets | Capital expenditures | Depreciation and amortization |
| Fibers and textiles                                        | ¥76,674             | ¥1,443               | ¥1,647                        |
| Chemical products                                          | 148,793             | 6,293                | 4,285                         |
| Man-made leather, nonwoven fabrics and fastening materials | 36,590              | 743                  | 1,219                         |
| Diversified businesses                                     | 59,212              | 4,658                | 620                           |
| <b>Total</b>                                               | <b>321,269</b>      | <b>13,137</b>        | <b>7,771</b>                  |
| Elimination and Corporate                                  | 178,726             | -                    | -                             |
| <b>Consolidated total</b>                                  | <b>¥499,995</b>     | <b>¥13,137</b>       | <b>¥7,771</b>                 |

| Six months ended September 30,2000                                | Thousands of U.S.dollars  |                        |                               |
|-------------------------------------------------------------------|---------------------------|------------------------|-------------------------------|
|                                                                   | Identifiable assets       | Capital expenditures   | Depreciation and amortization |
| <i>Fibers and textiles</i>                                        | <i>\$699,500</i>          | <i>\$13,528</i>        | <i>\$14,296</i>               |
| <i>Chemical products</i>                                          | <i>1,397,778</i>          | <i>31,259</i>          | <i>42,389</i>                 |
| <i>Man-made leather, nonwoven fabrics and fastening materials</i> | <i>344,352</i>            | <i>7,870</i>           | <i>10,019</i>                 |
| <i>Diversified businesses</i>                                     | <i>537,509</i>            | <i>6,537</i>           | <i>6,602</i>                  |
| <b><i>Total</i></b>                                               | <b><i>2,979,139</i></b>   | <b><i>59,194</i></b>   | <b><i>73,306</i></b>          |
| <i>Elimination and Corporate</i>                                  | <i>1,733,824</i>          | -                      | -                             |
| <b><i>Consolidated total</i></b>                                  | <b><i>\$4,712,963</i></b> | <b><i>\$59,194</i></b> | <b><i>\$73,306</i></b>        |

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.

Geographic Segment Information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

| Six months ended September 30,2000 | Millions of yen                   |                              |           |                     |                        |
|------------------------------------|-----------------------------------|------------------------------|-----------|---------------------|------------------------|
|                                    | Net sales to<br>outside customers | Net sales to<br>intersegment | Net sales | Operating<br>income | Identifiable<br>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 30,1999 | Millions of yen                   |                              |           |                     |                        |
|------------------------------------|-----------------------------------|------------------------------|-----------|---------------------|------------------------|
|                                    | Net sales to<br>outside customers | Net sales to<br>intersegment | Net sales | Operating<br>income | Identifiable<br>assets |
| Domestic (inside Japan)            | ¥138,695                          | ¥10,953                      | ¥149,648  | ¥8,439              | ¥276,760               |
| Outside Japan                      | 16,386                            | 1,753                        | 18,139    | 1,433               | 49,060                 |
| Total                              | 155,081                           | 12,706                       | 167,787   | 9,872               | 325,820                |
| Elimination and Corporate          | -                                 | (12,706)                     | (12,706)  | 154                 | 174,175                |
| Consolidated total                 | ¥155,081                          | ¥ -                          | ¥155,081  | ¥10,026             | ¥499,995               |

| Six months ended September 30,2000 | Thousands of U.S.dollars          |                              |             |                     |                        |
|------------------------------------|-----------------------------------|------------------------------|-------------|---------------------|------------------------|
|                                    | Net sales to<br>outside customers | Net sales to<br>intersegment | Net sales   | Operating<br>income | Identifiable<br>assets |
| Domestic (inside Japan)            | \$1,249,917                       | \$91,315                     | \$1,341,232 | \$76,759            | \$2,577,380            |
| Outside Japan                      | 169,092                           | 14,741                       | 183,833     | 11,186              | 429,481                |
| Total                              | 1,419,009                         | 106,056                      | 1,525,065   | 87,945              | 3,006,861              |
| Elimination and Corporate          | -                                 | (106,056)                    | (106,056)   | 2,444               | 1,706,102              |
| Consolidated total                 | \$1,419,009                       | \$ -                         | \$1,419,009 | \$90,389            | \$4,712,963            |

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥108=\$1.