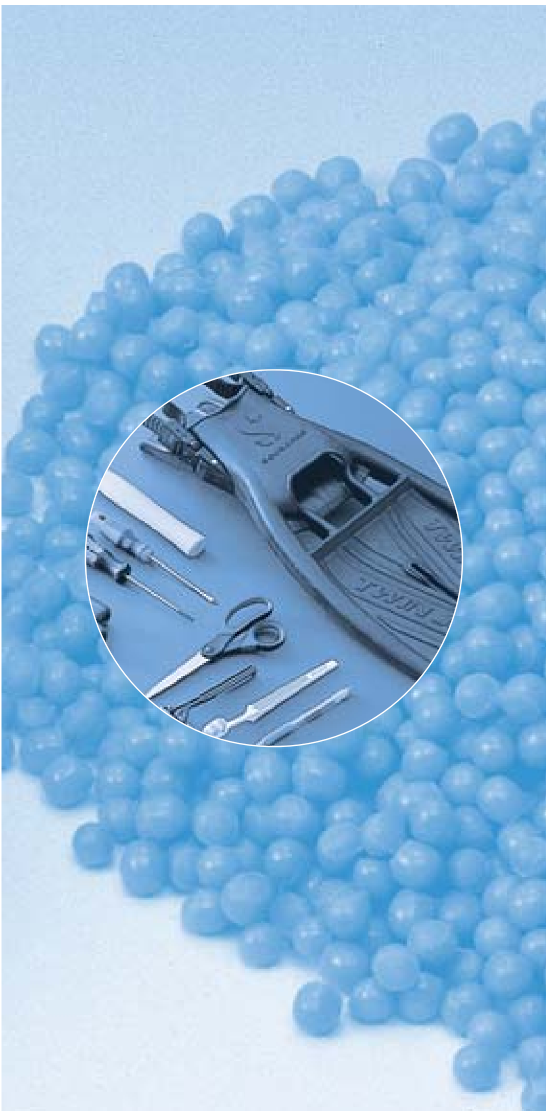
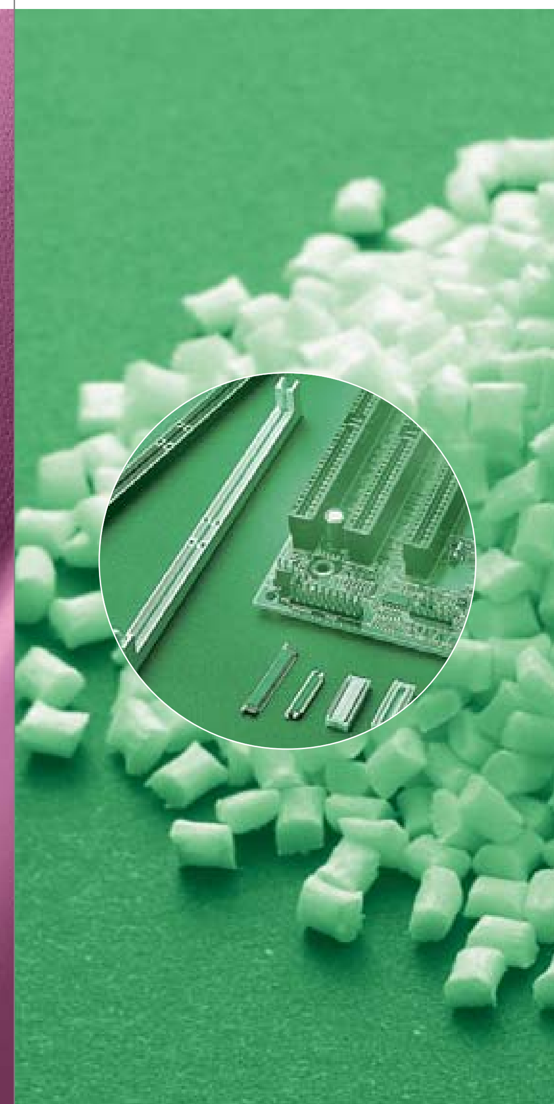
KURARAY CO., LTD.





ANNUAL REPORT 2003

For the year ended March 31, 2003

PROFILE

Kuraray Co., Ltd. was established in 1926 in Kurashiki, Okayama Prefecture, with the objective of commercializing rayon. In 1958 the Company commenced the manufacture and sale of poval, a polyvinyl alcohol (PVA) resin used in the production of vinylon. In the ensuing years, the Company continued to build on the excellence of that technology to expand its presence in global markets. Subsequently, Kuraray initiated sales of highly original products including *CLARINO* man-made leather, the EVOH resin *EVAL*, and isoprene, achieving major expansion as a chemical maker. In 2001, the Company acquired the PVA/PVB operations of Clariant AG, increasing the worldwide market share of its poval business.

At the outset of the 21st century, the Kuraray Group published its “G-21” medium-term business plan, which sets forth the goals of becoming an eco-friendly company with unique technology, and engaging in business activities that contribute to the preservation of the natural environment and enhancement of the quality of life. During the last three years of the “G-21” plan, Kuraray will strive for profit growth. Vinyl acetate derivatives such as poval, as well as *EVAL* and optoelectronics products such as opto-screens have been positioned to drive this growth. Kuraray will endeavor to display a presence as a company that is both profitable and highly regarded.

CORPORATE STATEMENTS

Corporate Philosophy
1. Respect for individuals
2. Cooperation in shared goals
3. Creation of values

Guidelines for Action
1. Act on customers’ needs.
2. Act on ideas in the working place.
3. Act on your own initiative.

Corporate Mission
We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life.

Principles for Business Conduct
1. We will develop and provide products and services, giving full consideration to safety.
2. We will conduct businesses in a free, fair and transparent manner.
3. We will maintain good communications and build a sound relationship with society.
4. We will strive to preserve and improve the global environment and to secure safety and health.
5. We will respect intellectual properties including trade secrets and control information properly.

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In this annual report, italicized product names are registered trademarks of Kuraray Co., Ltd.

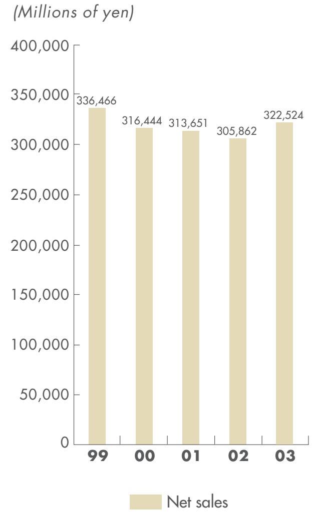
CONSOLIDATED FINANCIAL HIGHLIGHTS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

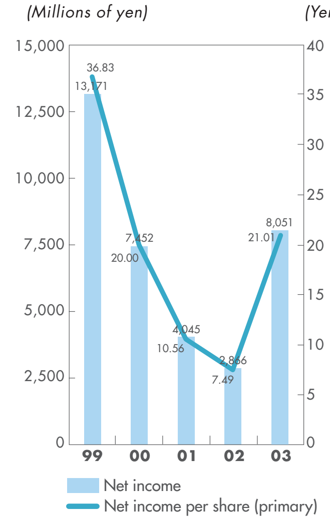
Years ended March 31	2003	2002	2001	2000	1999	2003
	Millions of yen					Thousands of U.S. dollars
Net sales	**¥322,524**	¥305,862	¥313,651	¥316,444	¥336,466	**$2,687,700**
Operating income	**25,186**	18,958	19,931	20,321	27,148	**209,883**
Net income	**8,051**	2,866	4,045	7,452	13,171	**67,092**
Capital expenditure	**19,091**	50,716	15,814	19,764	33,497	**159,092**
Depreciation and amortization	**19,108**	16,056	16,593	16,769	15,557	**159,233**
Gross cash flow	**27,159**	18,922	20,638	24,221	28,728	**226,325**
Total research and development expenses	**12,523**	12,131	12,251	12,097	13,429	**104,358**
Total assets	**426,877**	487,432	512,479	503,766	487,991	**3,557,308**
Total shareholders' equity	**287,263**	290,643	289,469	282,755	259,909	**2,393,858**
Amounts per share:					Yen	U.S. dollars
Net income						
Primary	**¥ 21.01**	¥ 7.49	¥ 10.56	¥ 20.00	¥ 36.83	**$0.18**
Fully diluted	**20.71**	7.45	10.46	19.42	34.56	**0.17**
Cash dividends applicable to period	**9.00**	9.00	9.00	9.00	9.00	**0.08**
Total shareholders' equity	**771.38**	759.25	756.07	738.53	714.21	**6.43**
Financial ratios:						
Equity ratio (%)	**67.3%**	59.6%	56.5%	56.1%	53.3%	
Return on equity (%)	**2.8**	1.0	1.4	2.7	5.3	
Return on assets (%)	**5.5**	3.8	3.9	4.1	5.6	
Payout ratio (%)	**42.2**	120.2	85.2	45.4	24.5	
Number of employees	**6,983**	7,115	7,121	7,433	6,823	

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥120=$1.

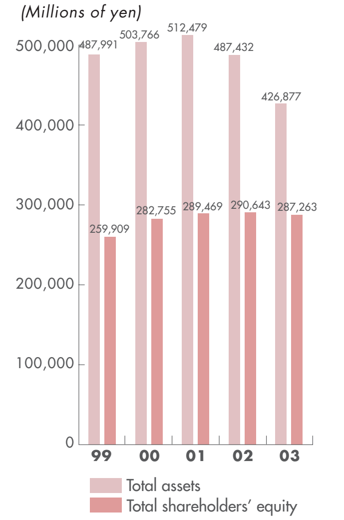
NET SALES
(Millions of yen)



NET INCOME & NET INCOME PER SHARE
(Millions of yen) *(Yen)*



SHAREHOLDERS' EQUITY & TOTAL ASSETS
(Millions of yen)



TO OUR SHAREHOLDERS

In fiscal 2002, ended March 31, 2003, the Kuraray Group achieved growth in both revenues and profits for the first time in four years. This is the direct result of measures introduced in 2001 by Kuraray President Yasuaki Wakui as earnings-structure improvement measures. Further, these results indicate that the improvement measures, which have an “internal effort” structure (the ability to respond to any change in the external environment), are therefore built-in Companywide, and will have continuous and certain effects.

Also during fiscal 2002, we conducted a specific analysis of our achievements and shortcomings during the first two years of our “G-21” five-year medium-term business plan, in force since fiscal 2001. Based on this self-evaluation, we took a fresh look at the Company’s priorities for the plan’s remaining three years. During the first two years, Kuraray front-loaded measures called for in “G-21,” putting the Company back on track to achieve a recovery in performance, and realized improvements in asset efficiency. However, insufficient gains were made in agility of response and entrepreneurial capabilities. In the “G-21” plan’s final three years, we will work to strengthen competitiveness, which has global effects, and to achieve further improvements in the timeliness of execution and entrepreneurship. I believe that the Company will improve performance through its core competence of developing unique technology.

The Kuraray Group has received the support of its shareholders and other stakeholders, and bears the responsibility of meeting their expectations. Performance and growth, of course, are central elements of this, but we are also striving to become an enterprise that meets its environmental and social responsibilities. In June 2003, we achieved improvements in our management structure through expansion of our auditing capabilities, establishment of the Management Advisory Council, and implementation of an executive officer system. The objective of these measures is to increase the speed of decision-making through the separation of management oversight functions and operational responsibilities, while building a fair and highly transparent corporate structure for the benefit of shareholders, stakeholders and society.

Kuraray has formulated a corporate mission that is congruent with its management-structure improvements: “We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life.” Although the business environment is changing faster than ever as a result of economic globalization, Kuraray is determined to continue pursuing responsible management practices, without losing sight of its origins.

We are confident that our shareholders can expect Kuraray’s growth and expansion, and we request their continued support and encouragement.

Hiroto Matsuo
Representative Director and Chairman

A MESSAGE FROM THE PRESIDENT

Fiscal 2002 put an emphatic end to three consecutive years of declining revenues and profits.

PERFORMANCE

Consolidated net sales of the Kuraray Group rose 5.4% to ¥322,524 million. Cost reductions and strong performance in core businesses resulted in a 32.9% jump in operating income to ¥25,186 million, and net income soared 180.9% to ¥8,051 million. The Group is very close to the growth track envisioned in its “G-21” medium-term business plan.

REMAINING YEARS OF “G-21” MEDIUM-TERM BUSINESS PLAN (FY2003-2005)

The “G-21” medium-term business plan, drafted in my first year as president of Kuraray, sets forth the Group’s growth strategy in concrete terms. The objective of the basic strategies—strengthening core businesses, emphasizing strategic business domains through a demand-driven approach, and remaining an eco-friendly firm—is to increase the Kuraray Group’s presence worldwide. “G-21” is a five-year plan, and we anticipated that changes in the business environment would necessitate adjustments during that period. During the fiscal year under review, we evaluated our performance during the first two years of the plan, noting both achievements and shortcomings.

During the first two years, notable effects resulted from the accelerated establishment of the in-house company system, cost reductions resulting from earnings-structure improvement measures, and the acquisition of PVA and PVB operations. However, it cannot be denied that too little was achieved in the areas of timely decision-making and such business creation capabilities as the development of new products and applications.

While we will not be underemphasizing sales during the last three years of the plan, primary emphasis will be on profit growth. For that reason, we have designated two drivers of growth for the final three years of the plan: vinyl acetate derivatives, including poval and *EVAL*; and opto-electronics products such as opto-screens. These businesses will be reinforced and expanded.

Yasuaki Wakui

To address shortcomings exposed during the first two years of the “G-21” plan, we will be increasing the effectiveness and precision of the in-house company system introduced in April 2002, and will correct the failure to achieve greater speed in decision-making. We have already begun to reform our R&D programs with a view to the early development of new products and businesses in response to emerging demand anywhere in the world.

To bolster development capabilities in the field of optoelectronics products, which has been designated a growth driver, we established the new Optical Device R&D Center in March 2003. And in fall 2003, Kuraray will open its Research & Technical Center in Houston, Texas, which will allow the Company to quickly meet the needs of the U.S. market. Aside from business expansion based on our own technologies, we will swiftly reinforce and expand core businesses by applying outside technologies acquired through alliances and M&A activities. In April 2003, we established the Corporate Strategy and Planning Division, an organization charged with the rapid creation of new businesses.

SPECIFIC MEASURES

In-house Company System> To allow a nimble response to the dizzying speed of change in the business environment, in April 2002 significant operational authority was transferred to the presidents of Kuraray's internal companies. This measure, intended to reduce lost opportunity through fast and efficient management, also clarified operational responsibilities. A performance-based compensation system and the improvement in asset efficiency brought by balance-sheet evaluation standards produced significant results from the first year, as reflected in improved performance and a more vigorous organization.

I believe that our in-house company system now has the optimal style for our corporate culture and business scope. To augment this, in June 2003 we implemented an executive officer system. We have reduced the number of the Company's directors, who had overlapping oversight and operational responsibilities, and have clarified the separation of supervisory functions and management guidance and advisory functions. The new post of executive officer carries with it responsibility for both the execution of business operations and profitability during a one-year tenure of office. This clarification of authority and responsibility results in swifter management response. To restrain any adverse effects of the in-house company system and to coordinate group management, we are expanding the functions of corporate staff.

M&A Strategy> M&A and the forging of alliances are effective measures in the effort to strengthen and expand the Company's core businesses, with emphasis on vinyl acetate derivative operations. We have begun to expand profitability not only through lateral expansion, but also through a vertical approach that encompasses both upstream and downstream operations, including activities near to finished products. To this end, we have established the Corporate Strategy and Planning Division to formulate strategy.

R&D Strategy> In the divisional research effort we have pursued until recently, corporate R&D requirements cut horizontally across divisional R&D organizations. As a single researcher was often involved with multiple research themes, the pursuit of focused R&D was problematic.

With the Companywide Research and Development Committee establishing Strategic Research and Development Themes (SRDT), however, hundreds of themes have been winnowed to several important ones. This new system allows the entire Company to concentrate personnel and R&D funds in these areas, resulting in the rapid development of new products and businesses.

To realize a swifter response to market requirements and quicker launch of new products and businesses, we have recently established and clarified the roles of the Optical Device R&D Center, the Research & Technical Center, and the Advanced and Basic Technology Research Laboratories.

Improving Asset Efficiency> The improvement of asset efficiency is a significant issue for Kuraray, but steady progress is being made. Employing strengthened corporate functions, we have established the Inventories Committee, which in cooperation with each in-house company promotes the rational reduction of inventories. The in-house company system has also had the effect of propagating control of cash flows and balance sheets, and inventories have improved from 2.8 months to 2.4 months as a result. Kuraray plans to reduce inventories to a final level of 1.8 months in fiscal 2005. The Company also improved financial assets through the redemption of Company bonds and the acquisition of treasury stock.

Planned Capital Investments> Planned investments will be primarily in businesses designated as drivers of growth, chiefly vinyl acetate derivatives and optoelectronics products. First, we will increase the production capacity of EVAL Europe by 12,000 tons, optical-use methacrylic resins for molding by 20,000 tons, optical-use methacrylic sheets by 5,000 tons, and opto-screens by 1.8 million sheets (equivalent to 5,000 tons of methacrylic sheets). Expansion of facilities for methacrylic resins is scheduled to be completed in fiscal 2003, and for *EVAL*, opto-screens and methacrylic sheets in fiscal 2004. Over the next three years, we will be expanding production capacity of optical-use PVA film by 13 million m^2, of *GENESTAR* by 8,000 tons, and of opto-screens by 2 million sheets. In addition to this continuing growth, Eval Company of America (EVALCA) has uncovered new demand through the development of new products and applications, and is considering expansion of its own production capacity. Capital investment in facilities expansion and the rationalization of manufacturing processes during the final three years of the "G-21" plan are projected at ¥80 billion.

BUSINESS POLICIES BY SEGMENT

Chemicals and Resins> In the poval business, Kuraray is maximizing synergies with Kuraray Specialities Europe to increase operational efficiency in Japan, Germany and Singapore. In the *EVAL* business, the Company is working to expand automotive applications and food-packaging applications in Japan, the United States and Europe, as well as in China and the rest of Asia, and is emphasizing the development of new applications. In the methacrylic business, only sales of methyl methacrylate (MMA) monomers will be reduced, while expanding sales of front panels for rear-projection television (RPTV), light-guide plates for liquid crystal displays (LCDs), and other high-value-added products will cause a rise in the sales ratio for polymers in this business. In isoprene-related business, we worked to expand sales of elastomers worldwide, and anticipate bringing SEPTON Company of America (SEPCA) into full operation in the near future. In addition, we are emphasizing sales of intermediates for aroma chemicals, pharmaceuticals and agrochemicals, and are striving for a recovery in the profitability of our vitamin-related business.

Fibers and Textiles> In the fiber industrial materials field, we will expand sales of *KURALON* as a rubber reinforcer, and will use *KURALON K-II* to accelerate our entry into the market for engineered cementitious composite (ECC). The effects of restructuring our polyester business are becoming visible, and the profit structure is improving. In the future, new-type polyester using *EXCEVAL*, our *SOPHISTA* brand of *EVAL* fibers, and fibers using other proprietary polymers will further set the Company apart from its competitors. The volume of *CLARINO* sales for use in athletic shoes expanded, and we have made significant progress in tapping demand from interior furnishings and auto seat manufacturers. Costs have been thoroughly rationalized in the non-woven fabrics and fastening materials business, and we will quickly establish an overseas production and sales organization to augment this business.

High-Performance Materials, Medical Products and Others> This segment is working to expand the use of opto-screens for RPTVs in the U.S. and Chinese markets, and in cooperation with the Optical Device R&D Center, is developing new products responsive to market requirements. In its high-performance materials business, the Company is grooming *GENESTAR* to become a core product on the basis of rising sales to the electronics industry and strong growth in automotive applications, and is positioning such new businesses as liquid crystalline polymer products to contribute to earnings. Reflecting Kuraray's commitment as an eco-friendly company to preserve the environment, this segment is expanding its activated carbon, membranes and PVA gel businesses. The dental materials business is undergoing a program of global expansion, and the artificial organs business is striving to develop new products and bring them to market.

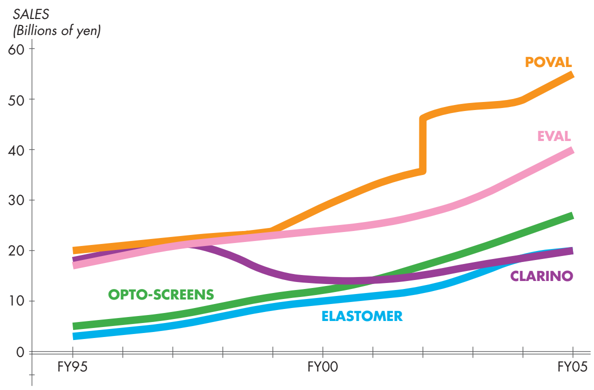
DEVELOPMENTS IN CORE BUSINESSES

EVAL> *EVAL* is highly regarded as a gas-barrier material for food packaging and its use in auto fuel tanks is increasing, particularly in America. This market is expanding at a rate of over 10% per year. Although the use of *EVAL* in fuel tanks in Japan and Europe is still rare, market growth is expected. The potential is not limited to Japan, the United States and Europe, though. As standards of living rise in China and the rest of Asia, the demand for *EVAL* is expected to rise in these areas too.

To meet this future demand, EVAL Europe has commenced the expansion of its second line, which will double production capacity by the second half of fiscal 2004. Further, we are studying the future expansion of facilities at EVALCA. Our competitors are also strengthening their manufacturing facilities, but because these capital investments are adjusted to demand expansion, we anticipate no significant effects on Kuraray. In addition, with the autumn 2003 opening of our Research & Technical Center in Houston and other measures, we will emphasize local leadership in the development of new products and applications to meet local needs. In other areas, we are developing a super gas-barrier material using nanocomposites, as well as new applications combining the unique properties of *EVAL* with other Kuraray materials.

Other Core Businesses> Unique technology is linked to unique materials, and products and applications that provide the optimal match with market needs lead to significant successes. Kuraray's greatest strength is that it possesses many such seeds that can be nurtured into important products, which will provide support for earnings in the future.

Competition in the market for general-purpose-grade elastomers is intensifying, but the market in more technical fields that require advanced hydrogenation technology is growing at more than 10% annually. There are significant technological barriers to entry into these fields, and Kuraray is steadily expanding its *SEPTON* and *HYBRAR* operations as its secondary core business. The opening of SEPCA's plant last September signals the establishment of a structure for global expansion, and we are expanding our sales volume to increase the operating ratio at this new plant. The Company is also developing new, high-performance elastomers. At present, Kuraray is intent on pioneering new products and applications, such as new elastomers that will combine the elasticity of *SEPTON* with the gas-barrier properties of *EVAL* or the transparency of acrylics. Making maximum use of the new Research & Technical Center, which is scheduled to open in the fall of 2003, we will increase our efforts to expand sales in the United States, the world's largest market.



RESTRUCTURING OF FIBERS AND TEXTILES

The restructuring of our polyester business was virtually completed during the fiscal year under review. Personnel and production capacity were halved for filament and staple operations alike, and the Company ceased manufacturing low-profitability general-purpose products. As a result, losses in the polyester business were substantially curtailed in fiscal 2002, and in fiscal 2003 this business is expected to break even.

In its polyester business, Kuraray is using its proprietary polymers to pursue a differentiation strategy, and the Kuraray Group is expanding its lineup of high-performance, high-value-added products. Polyester is playing an increasingly important role as a material for *CLARINO*, non-woven fabrics and other Group products.

Inventories of man-made leathers have been reduced, and our ability to expand this business has been improved by our establishment of a manufacturing and sales structure in important locations worldwide. Kuraray is increasingly committed to a demand-driven mindset, and is working to develop new products and applications matched to each consuming region. The use of man-made leather in the manufacture of athletic shoes is growing in volume, and the Company is seeking further earnings growth through increased sales of the product for use in interior furnishings and auto seats.

Future Core Businesses>

GENESTAR is a heat-resistant engineering plastic pioneered by Kuraray—the first such material in the world. It is already widely used in electronics parts in connection with the effort to eliminate the use of leaded solders. Its high resistance to heat and low-abrasion properties are expected to bring strong demand for use in automobile parts. We plan to expand production to 10,000 tons on a compound base by fiscal 2005, which will facilitate strong growth through the benefits of mass-production and cost reductions, and to develop *GENESTAR* into a major material through accelerated development of markets.

In addition, liquid crystalline polymer products, such as film, non-woven textile, and heat-resistant monofilament, all made using the Company's proprietary polymer processing technology, are next-generation products with applications in the IT industry. To promote the broad use of these products, the Company is moving forward with development and study targeted at individual manufacturers.

REFORMING OUR MANAGEMENT STRUCTURE

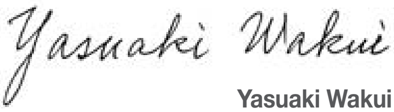
Measures to reform Kuraray's management structure include increasing the number of auditors, the majority of whom will be from outside the Company, establishing a Management Advisory Council and implementing an executive officer system. The Management Advisory Council is an independent body composed of two prominent individuals from outside Kuraray, who will provide guidance on such matters as management policy, management issues, business planning, the continuation of the president in his post, the nomination of the Company president, and compensation.

Executive officers will bear responsibility for both the conduct of operations and for profitability, which will effect the separation of management oversight functions and operational responsibilities. Together with this, we have reduced the number of directors from 17 to 9, and changed the term of office to one year, in the interest of active management and decision-making. These measures have reinforced the Company's corporate governance system, achieving enhanced transparency and fairness.

In April 2003, the Kuraray Group adopted as its corporate mission, "We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life." This statement presents in specific language the duties and responsibilities of a company existing within a societal context. The Kuraray Group's raison d'être with regard to society is embodied in one principle of our corporate philosophy: "Creation of Values."

We at Kuraray share this corporate mission as an enduring value, while striving to become an eco-friendly company with unique technology through the "G-21" medium-term business plan.

We ask our shareholders for their continued support and encouragement.



Yasuaki Wakui
Representative Director and President

INTERVIEW WITH PRESIDENT OF ELASTOMER COMPANY

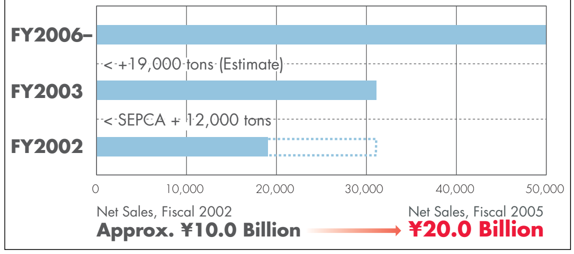
Q Could you tell us something about the Elastomer Company's achievements, and what the Elastomer Company's stance will be now that it has been identified as a growth driver in the "G-21" plan?

A The mission of the Elastomer Company is to continually offer high-performance elastomers in global markets, and profit growth flows from that. The elastomer business originally started with isoprene rubber. We built on the technological expertise developed in those operations to develop the thermoplastic elastomer *SEPTON*, liquid isoprene rubber (LIR), and other unique polymers.

At present, *SEPTON* sales are expanding steadily, chiefly in Europe and North America. The U.S. is the largest market for *SEPTON* and, responding to the urging of customers, in September 2002 we commenced commercial production of *SEPTON* in Houston, U.S.A. This brought our *SEPTON* manufacturing capacity to 31,000 tons (19,000 in Japan and 12,000 in the U.S.). Although the SEPTON Company of America (SEPCA) production plant experienced a few of the usual startup glitches, it is now functioning smoothly. This plant concentrates on manufacturing four grades of *SEPTON* for the European and North American markets in an effort to achieve cost efficiency. Kuraray's Japanese plants serve the Asian markets for these four grades, and also produce specialty and high-value-added grades marketed worldwide.

ELASTOMER COMPANY BUSINESS CONCEPT

SEPTON Production Capacity (tons)/Trends in Net Sales



Q What sets Kuraray apart from its competitors?

A In our market, styrene butadiene styrene (SBS) and styrene isoprene styrene (SIS), with a double bond, have become commodity chemicals. Adding hydrogen causes the double bond to become a single bond. This enhances the light stability of these substances, which then become very weather resistant. This hydrogenation process is a characteristic of *SEPTON* and *HYBRAR*. Kuraray is set apart from its competitors by this hydrogenation technology, and by the proprietary technology for stabilizing the hydrogenated substances as powder or pellets suitable for marketing. In the field of commodity chemicals, we are working to achieve cost reductions and increases in sales volume through marketing strategy, and to strengthen our ability to develop special applications that our competitors cannot easily imitate. For this reason, we are pressing forward with the development of distinctive compounds and high-performance polymers that display oil resistance, heat resistance, flame resistance and other properties, as well as pioneering new applications for such chemicals.

Q The "G-21" plan designates the eco-friendly products *SEPTON* and *HYBRAR* as strategic domains. What is the situation with regard to demand for these products as PVC and vulcanized rubber

A *SEPTON* and *HYBRAR* are used chiefly in compounding materials, in adhesives, and as resin modifiers. The largest demand is for use in compound materials, chiefly as vulcanized rubber and PVC substitutes. *SEPTON* is more expensive than rubber, but has better moldability characteristics and does not contain chlorine or plasticizers. Considered overall, the manufacturing process included, it is a relatively inexpensive and environmentally friendly product, and so has been well received in the market. There is growing demand for *HYBRAR* as a PVC substitute, particularly for use in the manufacture of catheters, tubes, infusion solution bags,

TOSHIHIRO TOMII,
President of Elastomer Company

and other medical devices. Because of its superior transparency and shock absorbing characteristics, *HYBRAR* is used in stretch wrapping film, shoe soles, and other applications.

The market for vulcanized rubber is approximately 18 million tons per year, 80% of which is used in tires. Of the remaining 20%, it is estimated that several hundred thousand tons of vulcanized rubber in industrial application could be replaced by hydrogenated elastomers. The hydrogenated elastomer compound market is stalled at the 150,000-ton level, though, so there is room for substantial growth.

The world market for PVC is approximately 26 million tons per year, while the high-end market for plasticized PVC is approximately 2 million tons annually. PVC's properties and low cost make it an outstanding resin, but the plasticizers added and the dioxins emitted during its incineration have caused many customers to replace it with hydrogenated elastomers. Kuraray has set a goal of winning around 10% of the 2 million ton market for flexible PVC.

Q **What are some of the applications for LIR, and what are its future prospects?**

A LIR is a low molecular weight isoprene rubber that maintains its liquid state, and which is primarily used as a reactive plasticizer in tires. Kuraray is the world's sole manufacturer of LIR. LIR added to rubber enhances its processability. During vulcanization LIR reacts and solidifies, making it easy to work with, and it has no harmful effects on the environment.

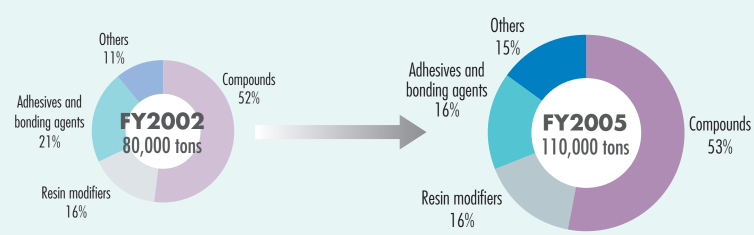
Demand for LIR for use in office automation devices is growing steadily, and Kuraray is pursuing the development of LIRs with new properties, as well as pioneering new applications for this versatile material.

Q **Could you tell us something about the future of new product development and new application development?**

A Kuraray will open its Research & Technical Center in Houston in the fall of 2003, strengthening the role of its overseas R&D organization. This center will conduct research on market needs that can only be accomplished in America, and will allow quick response to customers in the world's largest market. In addition, SEPCA's proximity to EVALCA is expected to facilitate the development of new products combining *EVAL* and *SEPTON*. For instance, we are developing resins that combine the gas-barrier properties of *EVAL* with the elasticity of *SEPTON*.

The world market for hydrogenated styrene elastomers is presently around 80,000 tons, and has been growing at a rate of 10,000 tons per year. Demand is expected to remain solid. In fiscal 2002, Kuraray's sales of *SEPTON* were 20,000 tons. However, as the Company has the confidence to get about half of the total growth in this market every year, this is expected to rise to 35,000 tons in fiscal 2005. To meet future growth in demand, we will rapidly increase our annual production capacity to 50,000 tons through facilities expansion and M&A.

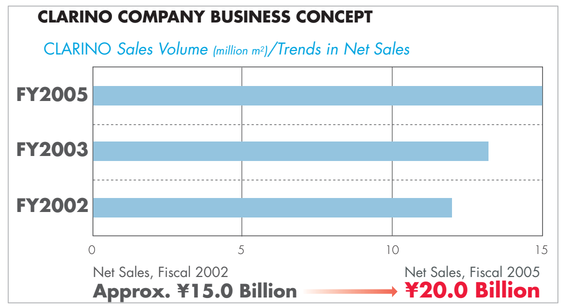
Composition of the Global Hydrogenated Elastomer Market (Kuraray estimate)



INTERVIEW WITH PRESIDENT OF CLARINO COMPANY

Q **The *CLARINO* business is now on a trend toward recovery. Could you describe what difficulties you faced and what concrete steps you took to improve profitability?**

A *CLARINO* has long held the largest market share in the man-made leather industry. For a long period of time, however, we became inactive to the market movements and our corporate mind became rather conservative to react to the adverse trends of the market, in which consumers' requirements have greatly changed. As we lagged behind these new trends in the markets, we failed to create new markets for our development based on the rational market analysis and evaluations. Although we thought we were responding to the new market requirements, what we did in fact was just to increase the number of our product items. Accordingly, our production efficiency went down, which caused a significant decline in the profitability of our *CLARINO* business. Worse, we suffered a significant drop in our man-made leather sales for the European fashion industry. Intensified competition in the Asian markets, where synthetic leather was less expensive, also suppressed our business.



To overcome these difficulties and achieve business growth as a core business entity of Kuraray, the Clarino Company established a motto, Steady Efforts and Aggressive Challenges, and reformed its sales organization. Previously, our sales channels were locally based. In April 2001, however, we reorganized our sales departments to meet our customers' requests for our various products and applications, starting our marketing activities tailored to these products and applications worldwide. At the same time, we integrated our activities in production, R&D, and marketing with those in sales. Since then, we have been striving to make our activities in product development, production and marketing more customer-oriented.

In executing our marketing strategies, we strengthened our overseas sales companies by establishing business alliances with several consulting firms that have expertise in business areas such as athletic footwear, furnishing and automotive upholsteries. Through these business initiatives, *CLARINO* started to respond to customers' requirements more quickly and flexibly. Thanks to these corporate efforts, our sales volume is now expanding most significantly in the athletic footwear market.

As for production, we worked intensively in cutting production cost. For this to be possible, we reengineered our previous manufacturing process and minimized downtime in production lines. Moreover, we reviewed the whole operations of our product line by paying heed to sales volume, profit, and inventory, and plan to reduce the number of product items from 600 in fiscal 2001 to 250 in fiscal 2005.

As a result of these efforts, our sales volume in fiscal 2002 soared to 12 million square meters, up one million square meters year on year, contributing to growth both in sales and profit in fiscal 2002.

Q **What challenges will the Clarino Company face in the future?**

A In fiscal 2002, our production capacity stood at 80%. Currently, we are planning to raise the level of this capacity to 85% in fiscal 2003 and to achieve full capacity by 2005. For this purpose, we will increase our sales volume by one million square meters each year. This will require us to focus our energy on 1) the athletic footwear market, which includes the Chinese market, 2) the automotive upholstery market, and 3) venturing further into new global markets.

To facilitate this process and make these plans move forward, in April 2003, we transferred our domestic sales operations to the trading company of the Kuraray Group and created a new system that enables our headquarters to concentrate on implementing new strategies for production, R&D, and marketing activities. The company as a whole is also pursuing its development in the demand-driven market. By implementing these basic strategies, the company strives to achieve an operating profit ratio of more than 15% in fiscal 2005.

OSAMU ASABA,
President of Clarino Company

Global Strategy

As our global manufacturing strategies, we manufacture substrates in Okayama, Japan, where the *CLARINO* plant is located, and we complete final products in areas where the most suitable and reasonably profitable market for each of our products exists. Our business partners are capable of completing the production operations of *CLARINO* products in Japan, Korea, Thailand, Taiwan, China, the United States, Italy and Germany. In the future, we will be working with more partners in many other countries. This strategy, we believe, could give us a big driving force for the future development of *CLARINO* operations.

Currently, we have been setting up business alliances with professionals in various fields, which I have mentioned before. In 2000, Kuraray Hong Kong made an alliance with a professional consulting firm specializing in athletic footwear based on its capability of analyzing market information scientifically and comprehensively. This business tie-up resulted in tripling our sales in the athletic footwear market in 2001 and contributed to doubling them again in 2002. In Europe, Kuraray Europe and Haru-Kuraray established partnerships with consultants in furnishings and automotive upholsteries. In the U.S. market, Kuraray America also strengthened its business coalition with a mill converter, which has a long-term trading history with us.

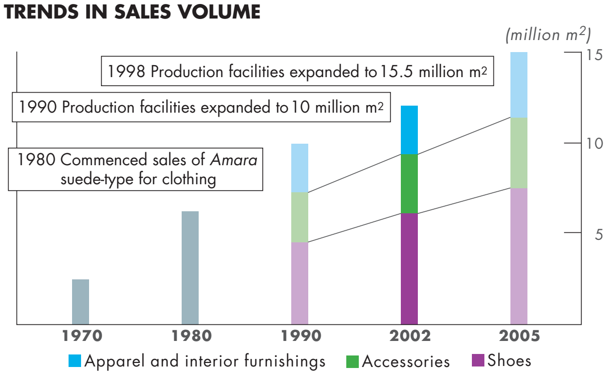
Research and Development

PARCASSIO, a new man-made leather product we launched in 2001, is as soft and supple as natural leather. It is outstandingly unique in high moisture transfer, breathability, and durability. Demand for *PARCASSIO* has steadily been growing in footwear applications such as tennis and golf shoes. Presently we are working to develop a brand new technology, which will address environmental issues. This technology will enable us to consistently raise the quality and cost efficiency of our products. It will also give us a great opportunity to expand our product portfolio. We will complete the basic research for a new product based on this new technology by the end of 2003, installing a new production line for trial production in 2004. By 2005, we continue our discussions about the most appropriate plant to mass produce this new brand, which we expect will become our flagship brand for the next generation in the global market. Moreover, to develop new applications more effectively and professionally, we established the Business Development Group in our organization in April 2003. This Group will intensively work on generating new businesses in all business areas and applications.

Q What is the competitive edge of Kuraray's man-made leathers, compared with competing products?

A *CLARINO* has a wide range of products for various applications while our competitors concentrate mostly on suede products for garments and upholsteries. *CLARINO* has found its market not only for garments and upholsteries but also for many other applications, such as gloves, footwear, polishing pads, bags and others. In addition to suede products, we have a grain type of product. While the market range of our competitors is somewhat narrow in terms of applications, our market is wide, and we can offer a long list of products for a variety of applications. This means that we have various technologies to create various products. We have acquired these technologies through production experiences in many applications, which consequently enable us to place these products on different markets on a global scale. We plan full-scale marketing to Japanese, European, and U.S. car seat manufacturers beginning in fiscal 2004.

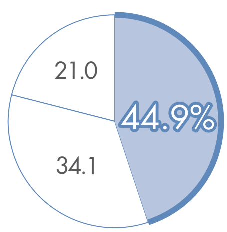
TRENDS IN SALES VOLUME



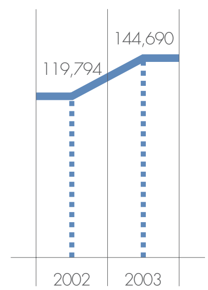
AT A GLANCE

BUSINESS SEGMENT	NET SALES (¥ Millions)	MAJOR PRODUCTS

CHEMICALS and RESINS



NET SALES
BY BUSINESS SEGMENT



Poval (polyvinyl alcohol resin)
MOWIOL

MOWITAL (polyvinyl butyral resin)

PVA film

EVAL
(ethylene vinyl alcohol copolymer resin)

***EVAL* film**

Methacrylic monomer

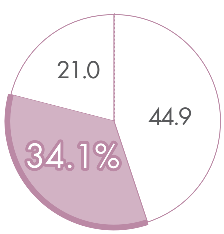
Methacrylic resin

Methacrylic sheets

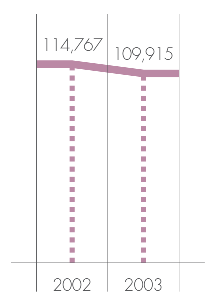
SEPTON, HYBRAR
(thermoplastic elastomers)

Fine chemicals

FIBERS and TEXTILES



NET SALES
BY BUSINESS SEGMENT



KURALON (PVA fiber)

KURALON K-II (new type of PVA fiber)

Polyarylate fiber

Polyester staple

Polyester filament

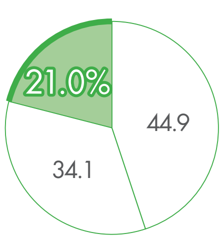
CLARINO, AMARETTA (man-made leathers)

KURAFLEX (dry-laid non-woven fabric)

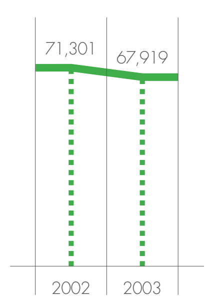
Melt-blown non-woven fabric

MAGIC TAPE (hook and loop fastener)

HIGH-PERFORMANCE MATERIALS, MEDICAL PRODUCTS and OTHERS



NET SALES
BY BUSINESS SEGMENT



Opto-screens

GENESTAR (heat-resistant polyamide resin)

Activated carbon

Dental materials

Medical devices

Contact lenses

High-performance membranes

PVA gel

PRIMARY APPLICATIONS	PRODUCTION FACILITIES	ANNUAL PRODUCTION CAPACITY
Textiles, paper additives, adhesives, butyral precursor	Okayama Plant (Okayama) Nakajo Plant (Niigata) Kuraray Specialities Europe GmbH (Frankfurt, Germany) Poval Asia Pte Ltd (Singapore)	96,000 t 28,000 t 50,000 t 20,000 t
Interlayers for windows and windshields, paints, adhesives	Kuraray Specialities Europe GmbH (Frankfurt, Germany)	20,000 t
Computers, LCD televisions, monitors	Kuraray Saijo Co., Ltd. (Ehime)	31,000,000 m^2
Food packaging material, gasoline tanks	Okayama Plant (Okayama) Eval Company of America (Texas, U.S.A.) EVAL Europe N.V. (Antwerp, Belgium)	10,000 t 23,000 t 12,000 t (FY2004 + 12,000 t)
Food packaging material	Okayama Plant (Okayama)	3,000 t
Solvents, adhesives, methacrylic resin	Nakajo Plant (Niigata) Kyodo Monomer Co., Ltd. (Osaka)	65,000 t 20,000 t
Resins for molding, light guides plates, synthetic marble	Nakajo Plant (Niigata)	20,000 t (October 2003 + 20,000 t)
Signboards, displays, TV front panels, light guides plates	Nakajo Plant (Niigata)	33,600 t (April 2004 + 10,000 t)
PVC and vulcanized rubber substitute, food packaging materials	Kashima Plant (Ibaraki) SEPTON Company of America (Texas, U.S.A.)	19,000 t 12,000 t
Pharmaceutical and agrochemical intermediate, vitamin precursor	Nakajo Plant (Niigata)	—
Agriculture and fishery materials, civil engineering materials	Okayama Plant (Okayama)	40,000 t
Cement reinforcing agents, woven and knitted textiles	Okayama Plant (Okayama)	7,000 t
Rope, fishing nets, and other industrial products	Kuraray Saijo Co., Ltd. (Ehime)	400 t
Sleepwear, interior furnishings	Kuraray Saijo Co., Ltd. (Ehime)	13,000 t
Woven and knitted textiles, tents, sheets	Kuraray Tamashima Co., Ltd. (Okayama)	12,000 t
Shoes, handbags, sporting goods, luxury clothing, interior furnishings	Okayama Plant (Okayama)	15,500,000 m^2
Wiping materials, wet wipes, surgical masks	Kuraflex Co., Ltd. (Okayama) Kuraflex Ibaraki Co., Ltd. (Ibaraki)	10,500 t 3,500 t
Coffee bags, filters	Kuraray Saijo Co., Ltd. (Ehime)	1,800 t
Clothing, shoes, car seats	Magictape Co., Ltd. (Fukui)	48,000,000 m
RPTV screens	Nakajo Plant (Niigata)	3,000,000 sheets (April 2004 + 1,800,000 sheets)
Electronics parts, auto parts	Kuraray Saijo Co., Ltd. (Ehime)	3,000 t (compound base)
Water purification facilities, gas separators	Kuraray Chemical Co., Ltd. (Okayama)	18,500 t
Dental adhesives, dental filling materials	Kuraray Medical Inc. (Okayama)	600,000 sets
Artificial kidneys, dialysis machines	Kuraray Medical Inc. (Okayama)	2,700,000 units (artificial kidneys)
Contact lenses, medical-care products	Kuraray Medical Inc. (Okayama)	1,000,000 lenses
Water purification and wastewater treatment	Kurashiki Plant (Okayama)	100,000 m^2
Water purification and wastewater treatment	Kuraray Saijo Co., Ltd. (Ehime)	3,000 m^3

REVIEW OF OPERATIONS

CHEMICALS AND RESINS

- **Poval**
  Poval resin/Butyral resin/PVA film
- ***EVAL***
- **Isoprene Chemicals**
  SEPTON/*HYBRAR*/Aroma chemicals/Pharmaceutical intermediates
- **Methacrylic**
  Methacrylic resin/Methacrylic sheets/Synthetic marble

FIBERS AND TEXTILES

- **Man-Made Leather**
  CLARINO/AMARETTA/PARCASSIO
- ***KURALON/KURALON K-II***
- **New-type polyester**
  SOPHISTA
- **Non-Woven Fabrics**
  KURAFLEX
- **Fastening Materials**
  MAGIC TAPE

HIGH-PERFORMANCE MATATERIALS, MEDICAL PRODUCTS AND OTHERS

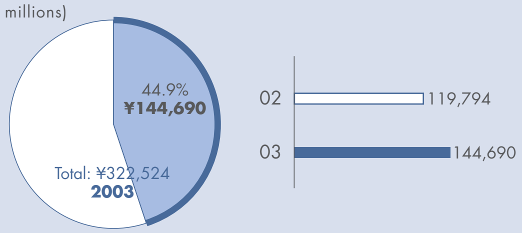
- **High-performance materials**
  Opto-screens/*GENESTAR*/Liquid crystalline polymer film
- **Medical Products**
  Dental materials/Artificial kidneys/Contact lenses
- **Environmental Businesses**
  Industrial membranes/Activated carbon

Regarding the change in segments
In response to changes in the business environment, and using the momentum of our implementation of the in-house company system, we reorganized our previous four business segments into three: Chemicals and Resins, Fibers and Textiles, and High-Performance Materials, Medical Products and Others.

CHEMICALS AND RESINS

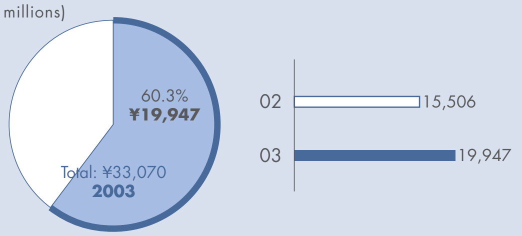
NET SALES

(¥ millions)



OPERATING INCOME

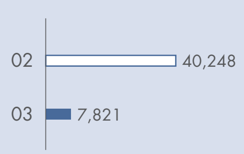
(¥ millions)



Note: The Companywide costs (¥7,884 million) are not allocated among the various business divisions.

CAPITAL EXPENDITURE

(¥ millions)



PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2003

Net sales of Chemicals and Resins grew 20.8%, or ¥ 24,896 million, to ¥144,690 million. Operating income jumped 28.6% to ¥19,947 million, an increase of ¥4,441 million. The performance of poval and *EVAL* remained strong, particularly overseas. High-value-added methacrylic products, including those for optoelectronic applications, posted sales growth, while sales of isoprene-related products and elastomers expanded in both domestic and overseas markets, with elastomers showing particularly substantial growth. These developments contributed to growth in both revenues and profits.

Poval The recovery of demand in Asia, expansion of the Chinese market, acquisition in fiscal 2001 of the PVA and PVB operations of Clariant, and subsequent establishment of Kuraray Specialities Europe all contributed to the expansion of Kuraray's poval business. A recovery was seen in demand for PVA film for use in LCDs, and the new manufacturing facilities that came on line in April were operating steadily. The poval business as a whole achieved increases in both revenues and profits.

Poval Resin: First developed as a step in the production of polyvinyl alcohol (PVA) fiber, poval's water solubility, adhesive properties, emulsability and oil resistance suit it to a broad range of applications. It is now used in textile and paper manufacturing, adhesives, layered automobile windshields and in many other industrial processes.

EVAL: A high-performance resin with the best gas-barrier properties of any plastic, *EVAL* shuts out oxygen to protect against change or deterioration, making it a superior packaging material for foods and cosmetics. Recently, we have created demand for the use of *EVAL* in the production of plastic fuel tanks and beer bottles.

Butyral Resin: Kuraray markets a wide range of polyvinyl butyral resins under the trade name *MOWITAL*. This resin is characterized by its excellent adhesion to a variety of surfaces, such as glass and metals, and its workability into films with outstanding optical transparency. Major applications are anticorrosive coatings, printing inks, ceramic binders, and inter-layers for shatterproof laminated safety glass for automotive and architectural glazing.

SEPTON: As elastic as rubber yet as moldable as plastic, *SEPTON* is used as a rubber substitute and a plastics additive. When incinerated, *SEPTON* emits no chlorine gasses, and is therefore in high demand as a substitute for polyvinyl chloride (PVC) and vulcanized rubber. In September 2002, we commenced commercial production of *SEPTON* in the U.S.

PVA Film: Its transparency and antistatic properties make PVA film an ideal wrapping material for textile products. It is also used to make polarized film for LCD manufacturing. Accordingly, demand for PVA film increases with that for LCDs.

HYBRAR: With its superior shock-absorbing properties, this polymer is used for sporting goods and auto parts. Combining *HYBRAR* with polypropylene yields a highly transparent material that contains no chlorines. Demand is growing for this material for food packaging and medical uses.

EVAL Despite the rising price of crude oil in the United States, sales of the EVOH resin *EVAL* for use in food packaging were healthy, and demand for use in plastic fuel tanks rose steadily not only in the U.S., but also in Japan, Europe and China. The *EVAL* business, as a result, posted gains in revenues and profits.

Methacrylic Resin Products Increased demand for methacrylic resin was evident, both as a material for molding and in sheet form. Demand for use in such high-value-added products as light guide plates and front panels for RPTVs was particularly strong. This business also achieved growth in revenues and profits.

Isoprene Chemical Products Production of isoprene-related products at our U.S. plant commenced in September 2003. Sales of thermoplastic elastomers were healthy, mainly in the European and U.S. markets. In the field of fine chemicals, the vitamin-related products business has been affected by falling market prices, but pharmaceutical intermediates, agrochemical intermediates and aroma chemicals showed solid growth. Diols and other specialty chemicals also saw increases in sales volume. As a result, the isoprene-related business posted increases in revenues and profits.

REGIONAL CONDITIONS

Japan Domestic operations were affected by Japan's poor economic conditions, but high-value-added products showed steady growth, as did demand for poval and methacrylic resin for optical applications. Demand for *EVAL* for use in plastic fuel tanks expanded, and with the emergence of new applications allowed solid growth. Demand for thermoplastic elastomers also expanded.

Europe To meet rising demand for *EVAL* in Europe for use in plastic fuel tanks and food packaging, EVAL Europe is expanding production capacity by 12,000 tons. The expanded facilities are scheduled to come on line in the third quarter of fiscal 2004. Kuraray Specialities Europe performed well during its inaugural year, posting net sales of approximately ¥16.0 billion. In addition, the operating loss resulting from the amortization of goodwill was much smaller than expected due to healthy sales in Europe.

North America We commenced production of the thermoplastic elastomer *SEPTON* at a subsidiary in Texas in an effort to increase U.S. sales, and commenced full-bore marketing based on customer evaluations. Thriving demand for *EVAL* for use in plastic fuel tanks and food packaging continued.

Methacrylic Resin: Transparent, weather-resistant, color fast, and workable methacrylic resin is used in light guide plates for LCDs, automobile taillights, lighting fixtures and a broad range of other applications. Methyl methacrylate, an intermediate product in the manufacture of methacrylic resin, is used as a resin modifier and a paper coating.

Methacrylic Sheets: Superior transparency makes this material ideal for signboards, building materials, aquaria, and many other uses. Recently, demand has grown for methacrylic sheets for use in LCD light guide plates and front screens for other types of display.

Synthetic Marble: An application of methacrylic resin, this material has the look of natural marble, and is being used in modular kitchens, bathtubs and sinks.

Industrial Cleaner: A highly safe and easy-to-handle cleaner with a host of industrial uses, our industrial cleaner has excellent detergent properties, is simple to recycle and is soluble in both water and oil.

Aroma Chemicals: The Company uses isoprene to manufacture over 30 aroma chemicals and base oils for use in cosmetics and toiletries, including Linalool (lily of the valley scented) and Citral (lemon scented).

Pharmaceutical Intermediates: Kuraray produces intermediates for anti-viral agents, anti-hypertension agents, antibiotics, and other pharmaceuticals using its fine-chemical technology.

Asia Riding the wave of recovery in Asia's markets, sales of poval grew steadily. Demand increased for *EVAL* in China for plastic fuel tank applications, and in Korea and Taiwan for food-packaging applications. Also in Korea and Taiwan, demand for methacrylic resins for use in light guide plates was healthy, and demand for *SEPTON* for general applications rose significantly.

OUTLOOK

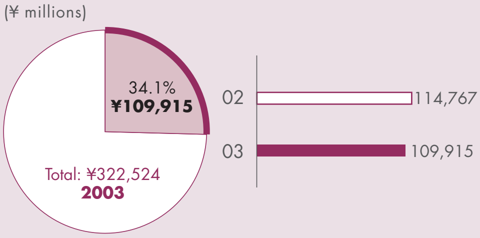
In the Chemicals and Resins business, the global expansion of poval, *EVAL*, thermoplastic elastomers and other core businesses is expected to continue. Sales growth of *EVAL* is projected in China and other Asian markets, as well as in Japan, Europe, and the U. S., through expansion into untapped markets.

Building on the momentum gained from the successful launch of Kuraray Specialities Europe, the poval-related business will seek to generate synergies from manufacturing, sales and development on a global level. In the *SEPTON* thermoplastic elastomer business, we will bring SEPTON Company of America's new plant into full operation at an early date in response to the growth of domestic and overseas markets.

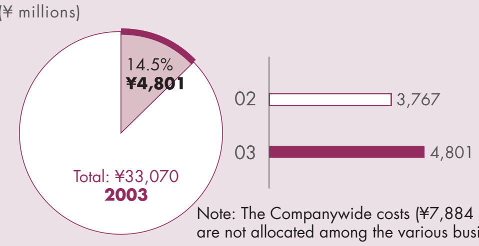
In the methacrylic resin business, optoelectronics applications will be the driver for growth. In response to growing demand for use in computer LCDs and RPTV screens, we will double our capacity to manufacture methacrylic resins for molding, effective October 2003. Expanded facilities for manufacturing methacrylic resin sheets are scheduled to open in April 2004. These two measures will significantly strengthen our manufacturing organization.

FIBERS AND TEXTILES

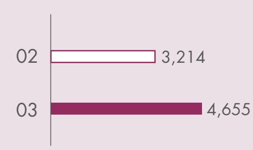
NET SALES
(¥ millions)



OPERATING INCOME
(¥ millions)



CAPITAL EXPENDITURE
(¥ millions)



Note: The Companywide costs (¥7,884 million) are not allocated among the various business divisions.

PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2003

Net sales in Fibers and Textiles declined 4.2%, or ¥4,852 million, to ¥109,915 million, but operating income surged 27.4%, or ¥1,034 million, to ¥4,801 million. The decline in net sales resulted from the falloff of polyester sales, while the increase in income was brought by the rationalization of polyester operations and a recovery in *CLARINO* sales.

KURALON Demand for *KURALON* for use as an asbestos substitute and for use in fiber-reinforced cement (FRC) led to healthy sales, and the water-solubility of *KURALON K-II* led to expansion of demand for this product, as well. However, demand from the agricultural and fisheries industries contracted, and sales of *KURALON* overall were flat, although profits increased.

Polyester Although market conditions remained severe, Kuraray split off its polyester filament fiber operations into a separate company in October 2001, and in April 2002 transferred the clothing-use textile business to a Group trading company. Together with these efficiency-enhancing measures, we accelerated our shift to differentiated materials and continued to shrink unprofitable operations. As a result, although sales declined, we significantly reduced the magnitude of the net loss in this business. In April 2003, we transferred our staple fiber manufacturing division to a newly established subsidiary, and are seeking to improve profitability through specialization in highly differentiated materials and materials for use within the Kuraray Group.

Man-Made Leather The man-made leather business achieved increases in both revenues and profits, as measures taken by the Company to increase the use of *CLARINO* in athletic shoes and other footwear have recently shown results. In addition, sales were strong of *CLARINO* for use in clothing in the domestic market, and in interior furnishings in the U.S. market. This business is on the road to full recovery. Well-known manufacturers of athletic shoes are starting to use *PARCASSIO*, which feels like natural leather, and this market is growing steadily.

CLARINO: Supple, strong, lightweight, weather-resistant and easy to care for, *CLARINO* is used in shoes, handbags, athletic shoes, baseball gloves and large balls. *AMARETTA* is another brand of our man-made leather born of microtechnology, and is used in luxury coats, jackets and interior furnishings.

New-Type Polyester: This is a new type of synthetic fiber, made by melt spinning Kuraray's proprietary *EXCEVAL* polymer. When the *EXCEVAL* is extracted from the polyester thread, the result is an ultra-lightweight, easily died microfiber.

PARCASSIO: In addition to the superior properties of man-made leathers, *PARCASSIO* offers the look and feel of natural leather. In fiscal 2002 the footwear industry was the primary source of demand.

KURAFLEX: A dry-laid non-woven fabric that combines moisture absorbency, breathability, flexibility and a texture that is pleasant to the touch, *KURAFLEX* is used in products ranging from cosmetics removers, wet wipes, counter cloths, face towels, wiping cloths, surgical masks and filters, to surgical gowns and sheets.

KURALON, KURALON K-II: *KURALON* is used as a substitute for asbestos as a reinforcing material in cement and for separators in alkali batteries. The strength of *KURALON K-II* has won it a great deal of favorable notice in civil engineering applications, particularly as a reinforcing material in cement and concrete, and significant expansion of demand is expected.

Hook and Loop Fastener: Used in a wide variety of applications, including clothing, sporting goods and medical care products, our *MAGIC TAPE* holds the largest share in the domestic market for fastening devices. The Company also has a molded plastic hook and loop fastener with higher bonding strength, suitable for use in car seats, construction materials and other industrial uses.

Non-woven Fabrics and Fastening Materials The weak domestic market for non-woven fabrics and the instability of the restaurant industry have resulted in falling prices in the non-woven fabrics business. However, by increasing sales volume we have held net sales level, although profits have declined. The shift of users overseas and other factors produced decreases in revenues and profits in the hook and loop fastener business. In response to the trend toward local procurement, the Company will establish a manufacturing and sales subsidiary in Shanghai that will commence sales in October 2003.

REGIONAL CONDITIONS

Japan In its polyester business, the Company is working to expand the market for its proprietary polymer products, and sales are growing steadily. Demand for *CLARINO* for use in shoes and miscellaneous goods was steady. Sales of *KURALON* to the fisheries and agriculture industries were weak, but sales for use as a rubber reinforcer, in paper and in non-woven fabrics stabilized.

Europe Demand for *KURALON* for use in civil engineering applications was steady. There has as yet been no full-scale recovery in sales of *CLARINO*, but we have begun to see indications of its use in interior furnishings and other applications.

North America Sales of *KURALON* as a rubber reinforcer were stable, and sales of man-made leather have been strengthened through unified operations with Kuraray America, Inc. achieving healthy performance largely on the strength of sales for use in interior furnishings.

Asia The maneuverability of branches of Kuraray Hong Kong Co., Ltd. in Taiwan and China has strengthened pipelines to users, which has brought steadily growing use of man-made leather in the world's leading athletic shoe brands.

OUTLOOK

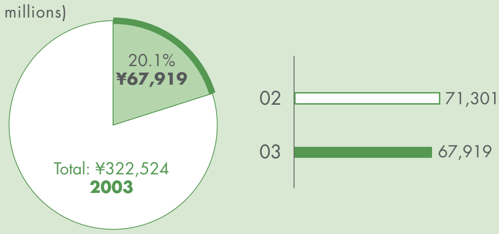
Use of *KURALON* as a rubber reinforcer is increasing, and we are accelerating our development of the civil engineering and construction markets for *KURALON K-II*.

We are increasing the profitability of our polyester business by expanding sales of unique products that use our proprietary polymers, such as *SOPHISTA.*

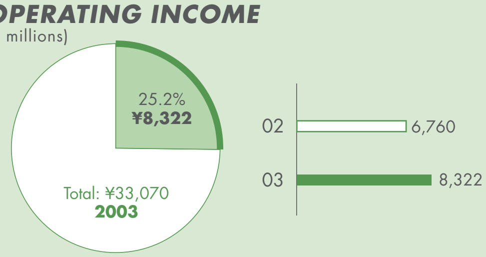
The use of man-made leather in athletic shoes continues to expand, and through strong marketing efforts we will promote growth in sales volume for use in automobile seats, a field we had not previously emphasized. By strengthening marketing capabilities and rationalizing costs, we brought our operating ratio to 85% in fiscal 2003, and are working toward a goal of 100% in fiscal 2005.

HIGH-PERFORMANCE MATATERIALS, MEDICAL PRODUCTS AND OTHERS

NET SALES
(¥ millions)

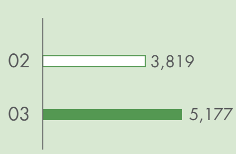


OPERATING INCOME
(¥ millions)



Note: The Companywide costs (¥7,884 million) are not allocated among the various business divisions.

CAPITAL EXPENDITURE
(¥ millions)



PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2003

Net sales in this segment declined 4.7%, or ¥3,382 million, to ¥67,919 million. Operating income jumped 23.1%, or ¥1,562 million, to ¥8,322 million. Our domestic affiliates posted declines in revenues, but opto-screens, dental materials, *GENESTAR*, hollow-fiber membranes, and activated carbon contributed to increased revenues and profits.

Optoelectronics products Sales of RPTV screens in the U.S. remained strong, and demand increased in the Chinese market as well. Revenues and profits both rose.

Medical Products Sales of dental materials expanded steadily, chiefly in Europe and the U.S. The profitability of the contact lens business recovered as a result of cost reductions and expanded sales of new lens-care products. However, sales of medical devices were affected by the Japanese government's reductions in pharmaceutical prices. Sales in the medical products business were flat, although profit growth was achieved.

High-Performance Materials The heat-resistant resin *GENESTAR* was widely used in connectors and other electronic parts, and development of the automotive market

Opto-screens: Rear-projection TV (RPTV) screens are produced by applying precision molding technology to methacrylic resin. As digital high-definition TV and DVD players proliferate, demand for RPTVs is expected to grow, especially in the United States and China.

Industrial Membranes: Kuraray has developed microfiltration membranes capable of filtering microparticles ranging in size from 0.003 to 3 microns, which are widely used in water filtration, wastewater treatment and other industrial applications.

GENESTAR: A new polyamide resin that is resistant to heat, water and abrasion, this material is used in mobile telephones, computers, such electronics parts as connectors and switches, and auto parts. *GENESTAR* is also well suited for use in lead-free resin-core solders, which makes its heat resistance all the more attractive.

Dental Materials: High-performance dental adhesives and filling materials produced by Kuraray Medical Inc. have established a strong presence in the market by virtue of their superior adhesiveness, strength and ease of use. The Company also markets an all-purpose cement that bonds metal caps and implants, and dental resin developed for aesthetic dental repair.

Liquid Crystalline Polymer Film: This high-performance material has a low water-absorption rate, electrical properties, and dimensional stability. We are expanding sales for use in circuit board substrates.

Activated Carbon: With its ability to absorb and eliminate odors and contaminants, this material is used in water filters, air-conditioning filters and many other applications. Growth in demand for use in capacitors is expected.

for *GENESTAR* also progressed steadily. We worked to expand our environment-related business, and a local government selected our large-pore hollow-fiber membrane for use in the city's water purification facility.

Others Activated carbon sales at domestic affiliate Kuraray Chemical Co., Ltd. were healthy. Although the business environment was harsh for our other affiliates, progress was made in the enhancement of operational efficiency. This allowed growth in profits for this sector overall, despite lower revenues.

REGIONAL CONDITIONS

Japan The medical products business was affected by the Japanese government's pharmaceutical price reductions, but improved profitability was achieved through growing sales of such environment-related products as activated carbon and high-performance membranes, higher sales of *GENESTAR* and rationalization at domestic affiliates.

Europe and North America Sales of dental materials were healthy in Europe and North America, and sales of opto-screens for RPTVs were strong in North America.

Asia Demand for opto-screens in China increased, while government approval and the establishment of agency sales routes strengthened dental material and contact lens operations. The foundation is in place for the Company's entry into the Chinese market.

OUTLOOK

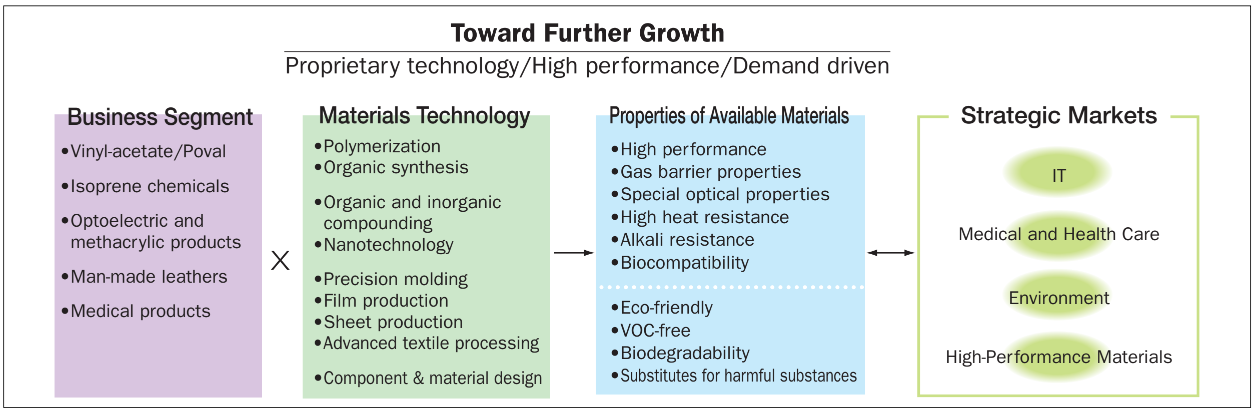
In the medical products field, we will increase sales by strengthening our direct-sales organization for dental materials in Europe and North America, and increasing our export ratio. In China, where we have built a sales organization, we will intensify efforts to expand sales of dental materials and contact lenses.

In our opto-screens business, the Optical Device R&D Center, opened in March 2003, will work to develop products that match market needs, while a planned April 2004 expansion of production facilities will respond to burgeoning demand in China and the United States.

We will develop *GENESTAR* into a significant material that can make a contribution to earnings by accelerating the advance of automotive applications and other market-development efforts.

RESEARCH AND DEVELOPMENT

The Kuraray Group is engaged in strategic R&D programs grounded in its unique technologies, with the objectives of creating and fostering new businesses, and strengthening and expanding core businesses. The "G-21" plan examined the Kuraray Group's businesses and technologies with regard to the growth potential of various markets and the needs of society, and identified four areas as displaying great promise in the competition for technological development: IT-related materials; medicine and healthcare materials; environmental business and high-performance materials. These four areas have been designated priority R&D domains for Kuraray's corporate R&D program, which cuts across divisional boundaries to involve the entire Group.

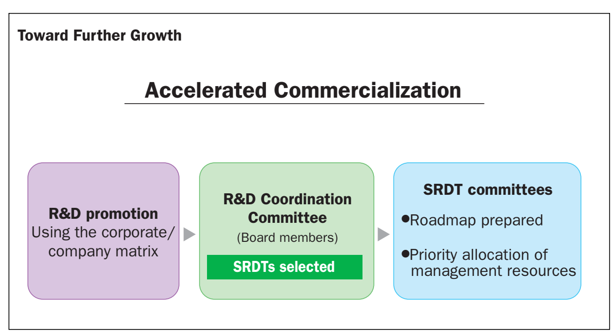


Bringing Products to Market Faster

The corporate research and development organization that was created with the April 2002 introduction of the in-house company system cuts laterally across the divisional R&D organizations (within the various in-house companies, business divisions, and subsidiaries) in a matrix-like configuration. To bring newly developed products and applications to market more quickly, several strategic research and development themes (SRDTs) have been selected from among hundreds of ongoing R&D projects, and the entire Group is concentrating R&D resources in those areas. Strategic R&D themes are selected by the R&D Coordination Committee, which is composed of executives of the rank of managing director and above. This committee oversees the SRDT committees of subordinate organizations, and seeks to move products to market more quickly by concentrating personnel and R&D investments in targeted areas.

At present, optoelectronics products, next-generation man-made leathers, next-generation gas barrier materials, and next-generation elastomers are designated as SRDTs. The Kuraray Group has expectations that these businesses will provide support for earnings in the future.

Kuraray is not relying entirely on in-house technology to develop new businesses, but in April 2003 established the Corporate Strategy and Planning Division to promote the application of technologies acquired through alliances and M&A. This organization is charged with the timely development of new businesses through selection of R&D themes and concentration of resources in those areas, and accelerating the expansion of the scope of new businesses through M&A and other measures.



The Roles of the Kuraray Group's Research Facilities

The Kuraray Group's corporate R&D organization is composed of the Kurashiki Research Laboratories, the Tsukuba Research Laboratories, the Advanced and Basic Technology Research Laboratories, Optical Device R&D

Center, and the Intellectual Property Center.

The Kurashiki Research Laboratories have responsibility for basic research and the development of applications in the areas of organic synthesis, polymer synthesis, fibers and textiles, compounding, and biomedical-related materials.

The Tsukuba Research Laboratories conduct a unified R&D program that extends from the development of materials based on various polymers to product development and customer response.

The Advanced and Basic Technology Research Laboratories, established in April 2003, have assumed the functions of the former Analytical Research Center, namely support for material and product development through structural analysis. These new laboratories add to this mission basic and advanced research in the field of polymers, including vinyl acetate polymers and textiles, as well as nanotechnology research.

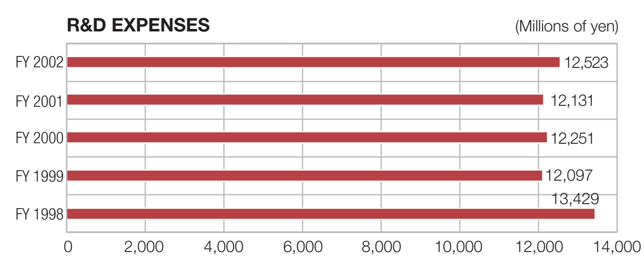
Established in March 2003, the new Optical Device R&D Center's strengths are the high-precision processing technology developed in our opto-screen operations, and a wealth of technological expertise in the field of polymer materials. The Center brings these strengths to bear on the optimal and timely development of optoelectronics products demanded by the market.

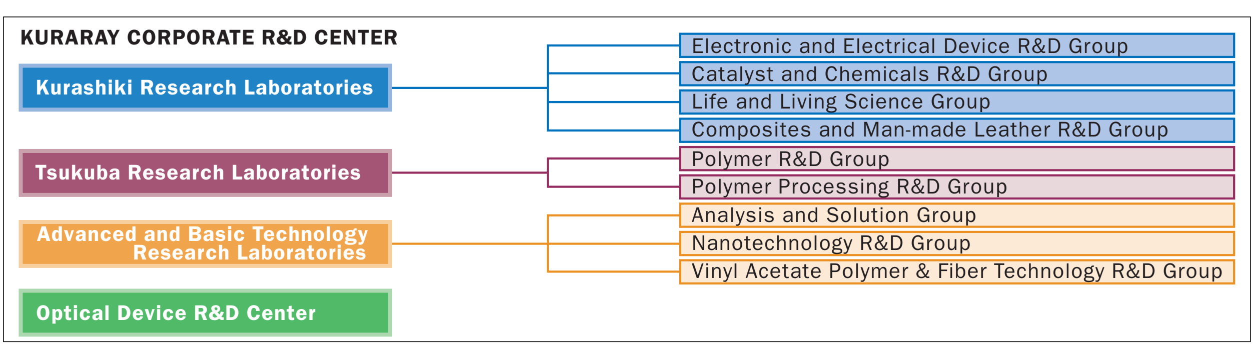
To strengthen R&D in the United States, we will open the Research & Technical Center in Houston in the fall of 2003. This facility will be tasked with market development and technical services for *EVAL* and *SEPTON* operations, and will execute research under the Company's corporate-level R&D coordination policy. Together with the Eval Company of America and the SEPTON Company of America, this Center will generate significant synergies, which we will employ to develop the Center into a U.S. base for polymer-related R&D.

Development in Growth Fields

The Kuraray Group is energetically investing its resources in the growth fields of information technology, environmental technology, biotechnology, medicine and health, and new materials. In recent years, the Group has developed and brought to market the heat-resistant resin *GENESTAR*, which is expected to find broad applications in fields ranging from electronics parts to automotive components; a film for flexible printed circuit boards created using state-of-the-art liquid crystalline polymer film; a monofilament used in precision printing; new TU polymer resin modifiers; and new synthetic fibers. In addition, the Group is working to bring new products to market in the following areas:

a) New elastomers (heat-, chemical- and weather-resistant thermoplastic elastomers)
b) Fine chemicals for the electronics and information industry
c) Materials with new properties (nanocomposite gas barrier materials)
d) Electrode material for electric double layer capacitors (high efficiency activated carbon, high efficiency separators)
e) Eco-friendly medical devices and supplies (medical products containing no PVC)
f) Materials for water purification and other environmental preservation systems (high-performance membranes, activated carbon)





CARING FOR THE ENVIRONMENT

The realization of a sustainable, recycling-oriented society will be an important issue in the 21st century, and accordingly, the Kuraray Group is striving to become an eco-friendly enterprise with unique technology. Our "G-21" medium-term business plan includes the Medium-Term Environmental Plan, which sets specific quantitative goals. The Kuraray Group is vigorously pursuing environmental preservation activities, and is expanding its environment-related businesses, involving the development of products and services that serve to preserve and enhance the environment, as well as providing alternatives to materials that have a substantial negative impact on nature.

1. Our Medium-Term Environmental Plan

Significant Issues

1) Reducing environmental impact
- Reducing emissions of harmful chemicals
- Reducing CO_2 emissions
- Achieving zero waste emissions*

2) Increasing green purchasing and procurement, and green distribution

3) Reducing environmental impact of Company's products
- Expanding use of lifecycle assessments
- Adoption of environmental label type III

4) Developing and marketing environmentally friendly products

5) Improving communication
- Strengthening information disclosure with due care for Corporate Social Responsibility
- Enhancing environmental accounting
- Bolstering our risk communication system

***ZERO EMISSIONS IN KURARAY GROUP**

First stage: promoting the effective reutilization of waste, and bringing the proportion of landfill disposal of waste generated at a facility to 1% or less.

Second stage: bringing the landfill disposal and incineration of waste generated at a facility to zero.

Quantitative Goals—Goals for Fiscal 2005, Compared with Fiscal 1999

Quantitative goal	Unit	Fiscal 1999 (Standard fiscal year)	Fiscal 2002	Fiscal 2005
Reduction of 90% in emissions of substances including specified by Pollutant Release and Transfer Register (PRTR)	tons	5,968 (100%)	4,072 (68%)	597 (10%)
Reduction of 90% in industrial waste sent to waste disposal firms (Target value: 1,500 tons/year)	kilo-tons	14.6 (100%)	5.9 (40%)	1.5 (10%)
Increase of 20 percentage points in waste effective utilization (60% to 80%)	%	60	81	80
Increase of 6% in energy usage efficiency (1% per year)	%	—	5.0	6

Note: The conversion of waste plastic to fuel and the recycling of waste have already allowed us to meet our fiscal 2005 goal for the efficient recycling or utilization of waste. In addition, we have further strengthened our environmental activities through the definition of zero waste emissions and the clarification of quantitative goals for reductions in CO_2 emissions. (Quantitative goals for CO_2 emissions will established in fiscal 2003.)

2. Environmental Preservation Activities

The Company established the "Kuraray Action Guidelines on the Global Environment" in 1993 to set directions for its environmental preservation activities. In February 2001, these guidelines were expanded to become the "Kuraray Group Action Guidelines on the Global Environment," taking environmental preservation and improvement to the Group level.

All of Kuraray's domestic manufacturing and R&D facilities have received ISO14001 certification, which is the international standard for environmental management systems. All the Group's remaining domestic and overseas companies are now either certified or working toward certification. Using ISO14001 guidelines as a foundation, the entire Group will be working for further reductions in its environmental impact.

Status of ISO14001 Certifications

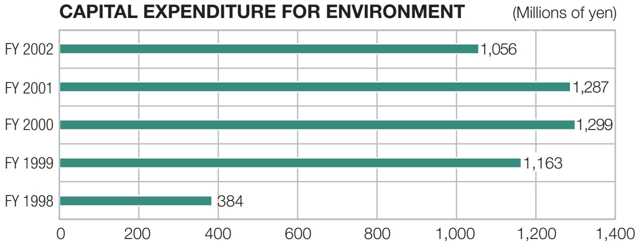
Site	Date of certification
Kuraray Specialities Europe GmbH	November 1998
Kashima Plant	March 1999
Techno Soft Co., Ltd.	December 1999
Eval Company of America	February 2000
Okayama Plant	March 2000
Nakajo Plant	March 2000
Kurashiki Plant	December 2000
Kuraray Tamashima Co., Ltd.	December 2000
Kuraray Saijo Co., Ltd.	December 2000
Tsukuba Research Laboratories	December 2001
Kuraray Plastics Co., Ltd.	January 2003

Topics

* The boiler fuel at our Nakajo Plant has been converted from heavy oil to natural gas, and the generator boiler at the Okayama Plant has been fitted with pollution abatement equipment. These and other measures have reduced the domestic principal Group's SOx emissions by 52% and NOx emissions by 12%. By site, SOx emissions were reduced by 55% at the Nakajo Plant and by 60% at the Okayama Plant, while NOx emissions were reduced by 37% at the Nakajo Plant.
* Kuraray Tamashima Co., Ltd. employs a thermal recycling system involving the use of waste plastic as fuel for its fluidized bed boiler. In recent years, the reduction of CO_2 emissions as a countermeasure to global warming has gained currency, and this has created interest in the use of biomass fuels for power generation. In August 2002, Kuraray Tamashima began the use of waste wood, one type of biomass, and plans to increase biomass electricity generation to around 20% of its total in the future.

Fluidized bed combustion boiler

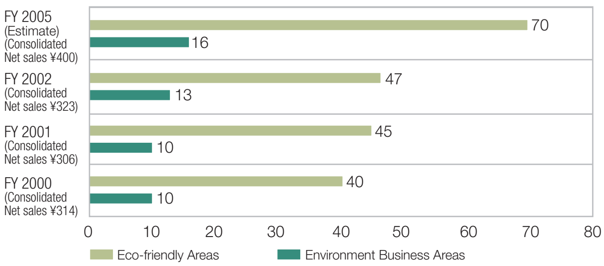
CAPITAL EXPENDITURE FOR ENVIRONMENT (Millions of yen)



3. Environment-Related Businesses

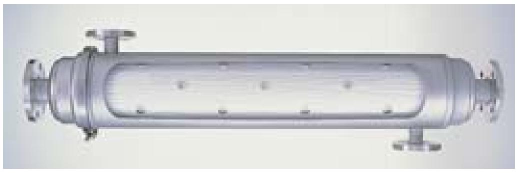
The "G-21" plan designates environment-related businesses as one of Kuraray's strategic domains. The Group's environment-related businesses are divided into two areas: Eco-friendly and Environment Business. In the Eco-friendly Areas, our goal is to expand sales of substitutes for environmentally harmful substances to ¥70 billion by fiscal 2005. We are vigorously marketing asbestos substitutes (*KURALON* for FRC), EVAL as a gas-barrier material, and substitutes for PVC and vulcanized rubber (*SEPTON*, *HYBRAR* and flexible acrylics). In the Environment Business Areas, we are marketing treatment systems for potable water purification and wastewater. We plan to expand these businesses, which contribute to the preservation and improvement of the environment, to the scale of ¥16 billion by fiscal 2005.

NET SALES BY CATEGORY (Billions of yen)



Topics

* Kuraray has developed a large-pore hollow-fiber membrane for water purification that eliminates cryptosporidium (a microbe). This material has been selected for use in Tokyo's Hamura Purification Plant, Japan's largest membrane-filtration facility.



Industrial membrane

Since 1998, Kuraray has published its Environmental Activities Report annually, in the interest of disclosing environmental information. Detailed information regarding fiscal 2002 can be found in the 2003 edition of this report.

BOARD OF DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

(As of June 26, 2003)

Representative Director

Hiroto Matsuo
Chairman

Representative Director

Yasuaki Wakui
President

Senior Managing Director

Koichi Kushida

Responsible for Corporate Management Division, Corporate Strategy and Planning Division, and High-performance Materials Division

Managing Directors

Masahiro Kaihara

Responsible for Environment and Technology Division, and Plants

Tsutomu Yabuta

Responsible for Purchasing and Logistics Division, Accounting and Finance Department, General Affairs Department, Personnel Department, and Kuraray Business Service Co., Ltd.

Shobu Minatono

Responsible for Research and Development, and Research and Development Division

Katsumi Ohashi

Responsible for Methacrylate Company, Chemicals Company, Elastomer Company, Optical Products Company, and General Manager of Tokyo Head Office

Tetsuzo Kimura

Responsible for Fibers and Industrial Materials Company, Fastening and Non-woven Fabrics Company, Clavella Division, and Clarino Company

Junsuke Tanaka

Responsible for Poval Company, and Eval Company

Corporate Auditors

Akira Matsuzawa

Tatsuya Nakano

Kazuhide Kashiwabara

Ichiro Kobayashi

Toshimitsu Kitagawa

Senior Executive Officers

Satoru Mizushima	*General Manager, Corporate Strategy and Planning Division*
Seiji Wajiki	*General Manager, Okayama Plant*
Nobusuke Takeuchi	*President of Fibers and Industrial Materials Company*
Noriaki Yoshimura	*General Manager, Research and Development Division*
Osamu Asaba	*President of Clarino Company*
Nobuo Iwawaki	*General Manager, Corporate Management Division*

Executive Officers

Katsuji Shimoda	*General Manager, Nakajo Plant*
Mitsuhiko Takaoka	*President of Fastening and Non-woven Fabrics Company*
Manabu Kusano	*General Manager, Kashima Plant*
Hiroaki Yoshino	*President of Optical Products Company*
Toshihide Sakai	*President of Poval Company*
Susumu Gotanda	*President of Methacrylate Company*
Yoichi Ninagawa	*President of Chemicals Company*
Fumio Ito	*Manager, Personnel Department*
Shiro Kataoka	*General Manager, Purchasing and Logistics Division*
Noboru Yanagida	*President of Eval Company*

CORPORATE GOVERNANCE—REFORM OF OUR MANAGEMENT STRUCTURE

As a global enterprise, the Kuraray Group has established and implemented a system of corporate governance. The following measures, needed to reform the Company's management structure, were considered and approved at this year's general meeting of shareholders on June 26, with a view to improve our ability to respond appropriately to the changing economic environment and to co-exist harmoniously with society.

STRENGTHENING THE BOARD OF AUDITORS

To bolster the Board of Auditors' supervisory functions with regard to the Company's management and conduct of operations, its membership was increased by one auditor, to five. Of these, three are outside auditors who have never been an employee or officer of the Company.

ESTABLISHING THE MANAGEMENT ADVISORY COUNCIL

To strengthen compliance, establish a management stance that places emphasis on shareholders, and increase management transparency, we have established the Management Advisory Council and reinforced our corporate governance system. The council is composed of two outside members, the chairman of the Company (who serves as the chairman of the council), an advisor and a representative of the Board of Auditors. Council members serve a term of one year. The chairman may also request the attendance of such other persons as are appropriate to a given matter under consideration.

The council will provide advice to the president on the following subjects:

① The Kuraray Group's management policies, important management issues and business planning
② The nomination and removal of the president
③ The president's compensation

IMPLEMENTING AN EXECUTIVE OFFICER SYSTEM

In April 2002 Kuraray introduced an in-house company system, transferring significant authority over operations and responsibility for performance to the in-house company presidents. This increased the speed of decision-making. To more deeply root the in-house company system, achieve greater speed in operational functions, and to separate decision-making and oversight functions, we introduced an executive officer system.

Executive officers have authority over the business operations of their respective in-house company, its head office and indirect business functions, and responsibility for profitability in their respective areas. The term of office is one year. Successors are nominated by Kuraray's president and approved by the Board of Directors.

With the introduction of the executive officer system, the maximum number of directors has been reduced from 30 to 10 (the actual number of directors was cut from 17 to 9), and the term of office for directors was reduced from two years to one. This will make it possible for the Board of Directors to be more agile in establishing strategy. The managing directors who previously had operational responsibility will provide guidance and advice on business operations, while specializing in overall decision-making and oversight. Due to the April 2003 amendments to the Japanese Commercial Code, it is now possible to change to a U.S.-type company with established committees. However, we think that we will achieve sufficient strengthening of auditor functions, speed in management decision-making, and separation of operational and oversight functions from the expansion of the Board of Auditors described above, establishment of the Management Advisory Council, and implementation of the executive officer system. We therefore intend to continue in our existing Board of Auditors system.

FINANCIAL SECTION

CONSOLIDATED SIX-YEAR SUMMARY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars
Years ended March 31	**2003**	2002	2001	2000	1999	1998	**2003**
Net sales	**¥322,524**	¥305,862	¥313,651	¥316,444	¥336,466	¥347,643	**$2,687,700**
Cost of sales	**230,618**	228,184	234,946	235,603	250,195	259,788	**1,921,817**
Selling, general and administrative expenses	**66,720**	58,720	58,774	60,520	59,123	58,957	**556,000**
Operating income	**25,186**	18,958	19,931	20,321	27,148	28,898	**209,883**
Net income	**8,051**	2,866	4,045	7,452	13,171	13,962	**67,092**
Capital expenditure	**19,091**	50,716	15,814	19,764	33,497	20,806	**159,092**
Depreciation and amortization	**19,108**	16,056	16,593	16,769	15,557	14,615	**159,233**
Gross cash flow	**27,159**	18,922	20,638	24,221	28,728	28,577	**226,325**
Total research and development expenses	**12,523**	12,131	12,251	12,097	13,429	13,707	**104,358**
Total assets	**426,877**	487,432	512,479	503,766	487,991	478,861	**3,557,308**
Total current assets	**185,748**	198,474	239,654	213,293	208,113	216,416	**1,547,900**
Property, plant and equipment, net	**135,985**	134,907	127,468	128,343	129,026	115,099	**1,133,208**
Total current liabilities	**97,394**	122,274	110,234	87,592	108,261	135,170	**811,617**
Total long-term liabilities	**42,156**	74,460	112,723	133,047	119,451	109,826	**351,300**
Total shareholders' equity	**287,263**	290,643	289,469	282,755	259,909	233,494	**2,393,858**
Amounts per share:						Yen	U.S. dollars
Net income							
Primary	**¥21.01**	¥7.49	¥10.56	¥20.00	¥36.83	¥40.46	**$0.18**
Fully diluted	**20.71**	7.45	10.46	19.42	34.56	37.68	**0.17**
Cash dividends applicable to period	**9.00**	9.00	9.00	9.00	9.00	9.00	**0.08**
Total shareholders' equity	**771.38**	759.25	756.07	738.53	714.21	658.99	**6.43**
Financial ratios:							
Ratio of cost of sales (%)	**71.5%**	74.6%	74.9%	74.5%	74.4%	74.7%	
Equity ratio (%)	**67.3**	59.6	56.5	56.1	53.3	48.8	
Return on equity (%)	**2.8**	1.0	1.4	2.7	5.3	6.3	
Return on assets (%)	**5.5**	3.8	3.9	4.1	5.6	5.8	
Number of employees	**6,983**	7,115	7,121	7,433	6,823	7,809	

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥120=$1.
Certain reclassifications of previously reported amounts have been made to conform with current classifications.

FINANCIAL REVIEW

Kuraray Co., Ltd. and its Consolidated Subsidiaries

The following report refers to the consolidated financial statements of the Kuraray Group for fiscal 2002 (from April 1, 2002 to March 31, 2003).

Notes: 1. Percentage comparisons with the previous year's results have been rounded to one decimal place.
2. Graphs show data for years ended March 31.

Sales

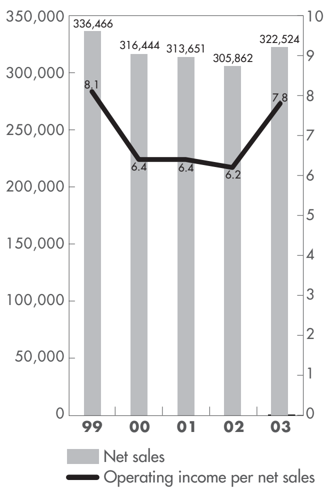
Total consolidated net sales increased 5.4%, or ¥16,662 million, to ¥322,524 million (US$2,687,700 thousand) for the fiscal year under review.

Sales of chemicals and resins grew strongly, increasing by 20.8%, or ¥24,896 million, to ¥144,690 million (US$1,205,750 thousand). Sales of poval (PVA) increased as a result of a recovery in Asian demand, and expanding sales by Kuraray Specialities Europe GmbH, which was established following the purchase of Clariant AG's PVA and PVB businesses. In addition, demand for PVA film for use in liquid crystal displays recovered, and contributed to the overall growth of poval sales. *EVAL* (EVOH resin) sales also expanded favorably, buoyed by solid food packaging-related demand, while demand for fuel tank applications saw growth, not only in the U.S., but in Japan, Europe and in China as well. Methacrylic resin sales were supported by expanding molding and sheet-related demand, and growth in high value-added optical applications was particularly noticeable. Isoprene-related sales were supported by expanding demand for thermoplastic elastomers, particularly in the U.S. and European markets. In fine chemicals, vitamin-related product sales were hurt by declining unit market prices, while agrochemical intermediates and aroma chemicals trended favorably. As a result, isoprene-related sales as a whole were higher than in the previous year.

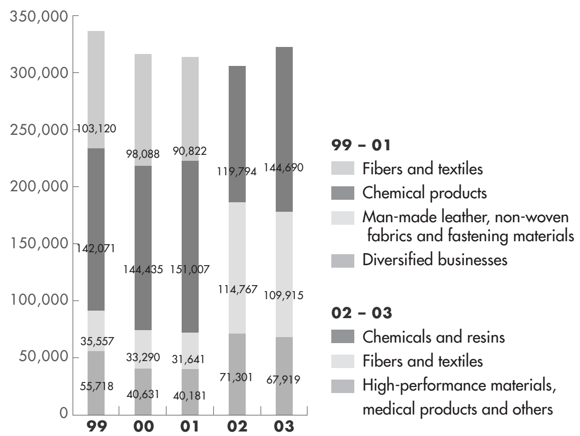
Sales of fibers and textiles declined 4.2%, or ¥4,852 million, to ¥109,915 million (US$915,958 thousand). In *KURALON* PVA fiber products, sales were flat against the previous year. FRC (fiber reinforced cement) saw growth as a replacement for asbestos, and *KURALON K-II* growth was supported by expanding demand for water-soluble applications. However, markets for agricultural and fisheries products remained severe, with shrinking demand. Markets for polyester products remain tough, and we worked to increase operational efficiency in the product group by transferring the textile applications business to Group trading companies in April of last year. In addition, we accelerated efforts to focus on differentiated materials, by reducing the marketing of unprofitable segments and taking other countermeasures. Consequently, polyester product revenues declined. From April of last year we transferred polyester filament production to a new subsidiary and reduced overall production to focus more on the production and sales of more highly differentiated materials as we continued to restructure the business.

Revenues from *CLARINO* man-made leather have entered a sustainable recovery, driven by growing applications of the product in shoes, particularly

NET SALES & OPERATING INCOME PER NET SALES
(Millions of yen) *(%)*



NET SALES BY BUSINESS SEGMENT
(Millions of yen)



Note: New business segments were adopted in the year ended March 31, 2003. Data for the previous year has been restated.

sports shoes, and domestic clothing. *CLARINO* also is gaining popularity in the U.S. for use in interior products. In non-woven fabrics, weak domestic consumption and a recession in the restaurant business exerted downward pressure on pricing, but sales volume growth was seen. On the other hand, fastening materials products were hurt as customers shifted factories overseas, and revenues declined. Going forward we will continue working to improve the performance of our fibers and textiles segment.

Sales of high-performance materials, medical products and others declined 4.7%, or ¥3,382 million, to ¥67,919 million (US$565,992 thousand). Optoelectronics products performed strongly, as sales to the U.S. continued to expand amid growing demand for rear-projection TV screens, and as demand also grew in the China market. Medical products also saw favorable growth driven by sales of dental materials in the U.S. and European markets. While the performance of contact lenses improved and sales volumes increased, lower official government prices hurt demand for medical devices, resulting in overall flat sales for medical products. Kuraray Chemical Co., Ltd.'s activated carbon products recorded increased revenues, but the operating environment for other affiliated companies was more severe, as revenues declined amidst efforts to improve operating efficiency.

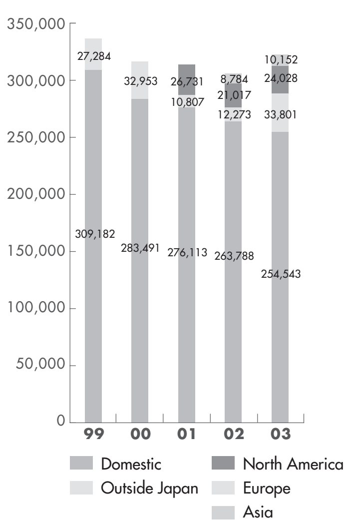
By geographic area, Japanese sales were hampered by a weak domestic economy, while we focused on improving revenues through rationalization and other countermeasures. As a result, domestic sales fell 3.5% to ¥254,543 million (US$2,121,192 thousand). Sales in North America rose 14.3% to ¥24,028 million (US$200,233 thousand), led by higher revenues from the thermoplastic elastomer *SEPTON* and from *EVAL*. In Europe, there was a noticeable contribution from Kuraray Specialities Europe GmbH, among others, which boosted regional sales 175.4% to ¥33,801 million (US$281,675 thousand). Sales in Asia increased 15.6% to ¥10,152 million (US$84,600 thousand), lifted by recovering markets for poval.

Operating Costs

The cost of sales remained basically flat with the previous year, rising only ¥2,434 million, or 1.1%, to ¥230,618 million (US$1,921,817 thousand), compared to the 5.4% increase in net sales for the year. Cost of sales as a percentage of net sales declined 3.1 percentage points, from 74.6% to 71.5%. The decline in the cost of sales ratio was mainly attributable to the increase in net sales volume, as well as ongoing efforts to reduce costs, which more than offset the negative impact of falling average selling prices and rising energy costs.

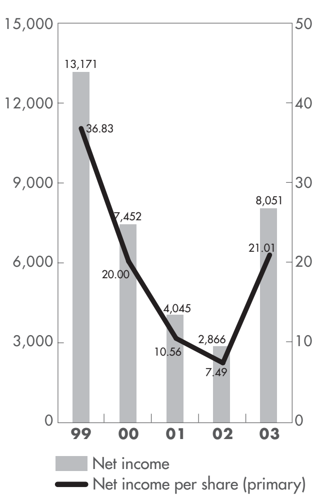
Selling, general and administrative expenses increased by 13.6% for the year, to ¥66,720 million (US$556,000 thousand), and rose from 19.2% to 20.7% of net sales. This increase was related to additional SG&A expenses from Kuraray Specialities Europe GmbH that included amortization expenses.

NET SALES BY GEOGRAPHIC SEGMENT
(Millions of yen)

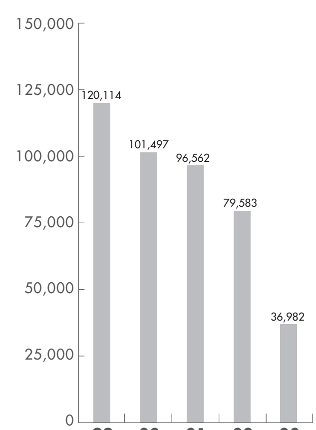


Note: Due to their growing weight in total net sales, the North America and Asia segments were separated out from the year ended March 31, 2003. Data for the previous year has been restated.

NET INCOME & NET INCOME PER SHARE
(Millions of yen) *(Yen)*



INTEREST-BEARING DEBT
(Millions of yen)



Operating Income and Net Income

Because of ongoing domestic deflation, and waning economic growth overseas, average selling prices continued to decline. However, volume increases in all major product lines and continued cost saving efforts more than offset the declining prices, as well as higher energy costs. The net result was a sharp recovery in operating income of 32.9% over the previous year, to ¥25,186 million (US$209,883 thousand), resulting in a noticeable 1.6 percentage point improvement in the operating income ratio to 7.8% from 6.2% in the previous year.

Other income and expenses was negatively affected by declining interest and dividend income. However, the amounts for write-down of investment securities and special restructuring charges were lower than the previous year. As a result, the overall other income and expenses deficit improved by ¥1,943 million, to ¥10,814 million (US$90,116 thousand) from ¥12,757 million in the previous year.

As a result of the above, income before income taxes jumped ¥8,171 million, or 131.8%, to ¥14,372 million (US$119,767 thousand).

While current income taxes rose by ¥3,912 million over the previous year, the effective tax rate fell by 1.3 percentage points to 48.8%. Consequently, net income climbed to ¥8,051 million (US$67,092 thousand) from ¥2,866 million in the previous year. Fully diluted net income per share surged to ¥20.71 from ¥7.45.

Financial Position

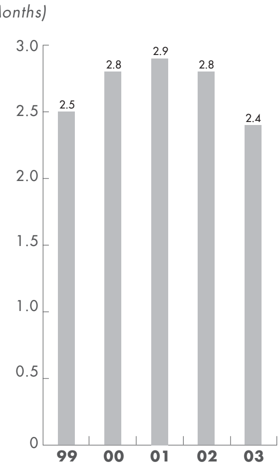
Total current assets declined by ¥12,726 million to ¥185,748 million (US$1,547,900 thousand), primarily due to declines in notes and accounts receivable and in inventories. The number of month's sales in inventory declined during the year to 2.4 months from 2.8 months the previous year. Conversely, cash and cash equivalents increased, as did the value of marketable securities.

Property, plant and equipment, less accumulated depreciation, increased by a slight ¥1,078 million, to ¥135,985 million (US$1,133,208 thousand). That compares with the large increase in the previous year that was the result of the acquisition of assets related to Kuraray Specialities Europe and the increase in construction-in-progress with the building of a new plant in the U.S.

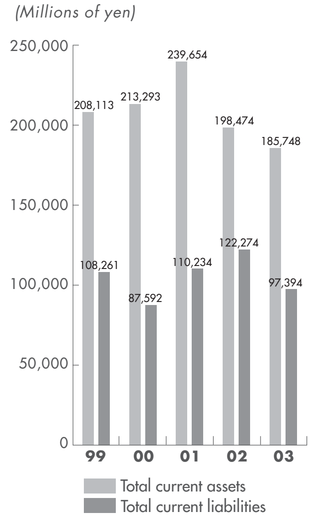
Investments and other assets decreased by ¥48,907 million during the year, to ¥105,144 million (US$876,200 thousand). The decline during the fiscal year under review was mainly attributable to a ¥27,644 million decrease in investment securities, and a drop of ¥20,453 million in accumulated premiums on insurance.

Working capital (the difference between the balance of notes and accounts receivable plus inventories, and notes and accounts payable) was ¥100,818 million, down slightly from ¥106,496 million in the previous year. This notwithstanding, the current ratio improved to 190.7% from 162.3% the

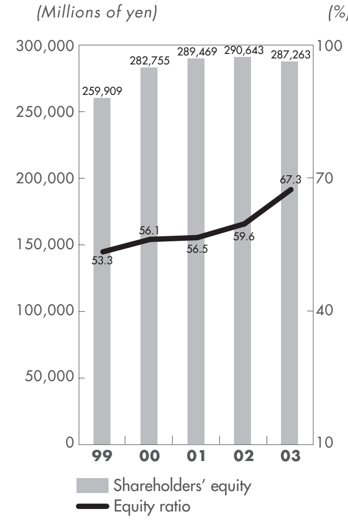
NUMBER OF MONTHS' SALES IN INVENTORY
(Months)



TOTAL CURRENT ASSETS & TOTAL CURRENT LIABILITIES
(Millions of yen)



SHAREHOLDERS' EQUITY & EQUITY RATIO
(Millions of yen) *(%)*



previous fiscal year. Return on total assets improved markedly, from 3.8% to 5.5%.

In liabilities and shareholders' equity, total liabilities declined by ¥57,184 million. Total current liabilities declined by ¥24,880 million, to ¥97,394 million (US$811,617 thousand), owing mainly to the redemption of ¥23,380 million of convertible bonds, and a reduction in notes and accounts payable and short-term bank loans. Long-term liabilities decreased by ¥32,304 million, to ¥42,156 million (US$351,300 thousand), owing to a transfer of ¥24,840 million to current liabilities as the current portion of long-term liabilities.

In addition, accrued retirement benefits declined by ¥4,117 million, mainly due to special severance payments accrued in the previous fiscal year being paid out.

Total shareholders' equity decreased by ¥3,380 million, to ¥287,263 million (US$2,393,858 thousand), owing to an acquisition of treasury stock of ¥7,337 million, while retained earnings increased by ¥4,570 million, to ¥115,368 million (US$961,400 thousand). The equity ratio improved by 7.7 percentage points to 67.3%, largely due to the decline in interest-bearing debt.

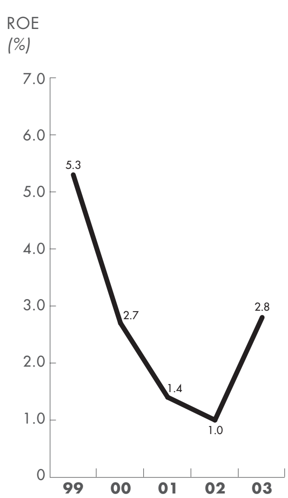
Cash Flows

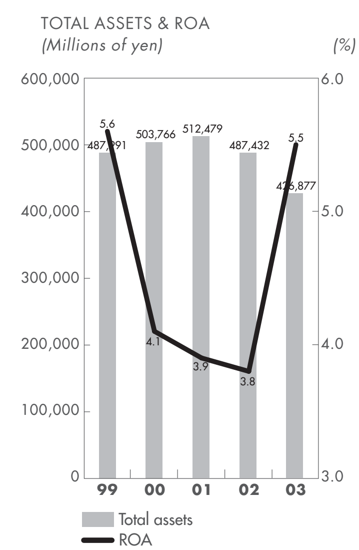
Net cash provided by operating activities improved by ¥18,646 million to ¥37,343 million (US$311,192 thousand), with the main contribution coming from the increase in income before income taxes. Also contributing to the increase was a decrease in inventories of ¥7,059 million, and a ¥4,837 million decrease for the year in income taxes paid. On the other hand, depreciation and amortization increased by ¥3,052 million, to ¥19,108 million (US$159,233 thousand), while all other components of operating cash flows remained largely unchanged from the previous year.

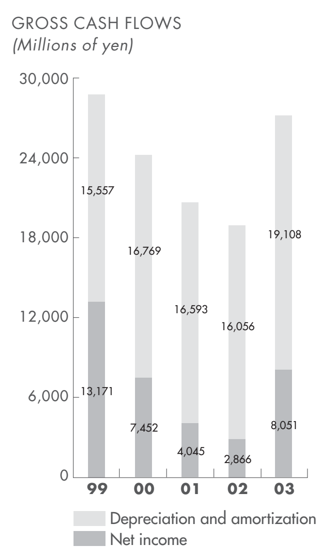
Net cash provided by investing activities totaled ¥17,431 million (US$145,258 thousand), compared to net cash used in investing activities of ¥24,225 million the previous year that was largely attributable to increased investments in assets as the result of acquisitions. Aside from the reduced level of investments in tangible and intangible assets, the largest contributors to inflows in the year under review were a ¥11,438 million increase in cash flows from sales and redemptions of investment securities, and a ¥19,534 million increase in withdrawals from accumulated premiums on insurance.

Net cash used in financing activities rose to ¥54,202 million (US$451,683 thousand) from ¥21,450 million in the previous year, largely due to repayment of debt (bonds and convertible bonds) and funds used for the repurchase of treasury stock.

Overall, there was a slight increase in cash and cash equivalents at the end of the fiscal year, to ¥13,901 million (US$115,842 thousand) from ¥13,496 million in the previous year.







Research and Development

Total R&D expenses for the year were ¥12,523 million (US$104,358 thousand), or 3.9% of net sales, compared to 4.0% in the previous year. Companywide R&D expenses are the largest portion of R&D expenses , accounting for ¥4,347 million, or 34.7% of the total, in the fiscal year under review. R&D in the chemicals and resins segment, at ¥3,232 million, accounted for 25.8% of total expenses. Fibers and textiles accounted for ¥2,100 million, or 16.8% of the total, while high-performance materials, medical products and others accounted for ¥2,842 million, or 22.7%.

Capital Expenditure

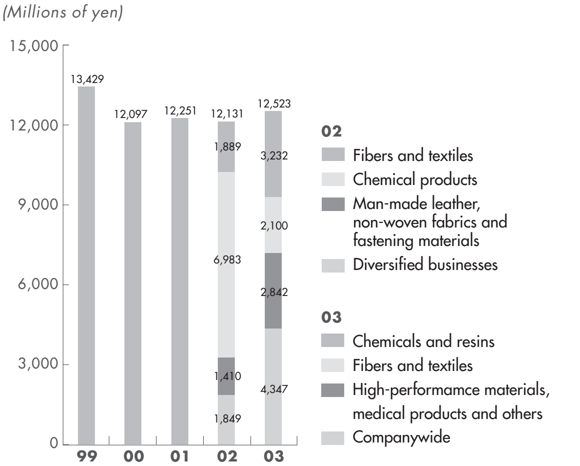
Capital expenditure for the year under review totaled ¥19,091 million (US$159,092 thousand), down 62.4% from the previous year. The bulk of the expenditure during the fiscal year was in the chemicals and resins segment (¥7,821 million, or 41.0% of the total), albeit at significantly reduced levels from the previous fiscal year's levels, which were unusually high because of investments related to the acquisition of new businesses. Capital expenditure for fibers and textiles rose 44.8% to ¥4,655 million, or 24.4% of the total, while capital expenditure for high-performance materials, medical products and others rose 35.6% to ¥5,177 million, or 27.1% of the total.

Outlook

In Japan, there is as yet no visible recovery in the economy, and the outlook for overseas economies has become more uncertain. Amid developing deflation on a global scale, we anticipate that business conditions will remain difficult. However, Kuraray's revenue and earnings are expected to continue improving. Consolidated net sales for the fiscal year ending March 31, 2004 are foreseen rising to ¥340,000 million, producing an 11.2% increase in operating income to ¥28,000 million, and a 73.9% jump in net income to ¥14,000 million. These projections assume an average yen-dollar exchange rate of ¥120 and a yen-euro exchange rate of ¥120, as well as an average Dubai crude oil price of $23 per barrel.

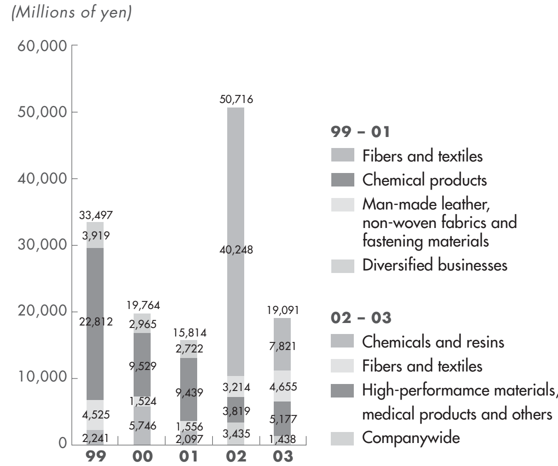
In chemicals and resins, we will continue to expand the global scale of Kuraray's core product areas, including poval, *EVAL* and thermoplastic elastomers. In fibers and textiles, we will continue working to expand the unique applications of *KURALON* and *KURALON K-II* and to develop global markets for *CLARINO*. In addition, we will further our efforts to improve profitability in the polyester business through ongoing rationalization measures. Optoelectronics products and dental materials will continue to provide the bulk of the expansion efforts in our high-performance materials, medical products and others segment, while special emphasis is being made to develop environmental-related businesses.

TOTAL R&D EXPENSES BY BUSINESS SEGMENT
(Millions of yen)



Note: Data for the year ended March 31, 2003 reflects the conversion to an in-house company system so as to combine Companywide R&D expenses. Data for prior years has not been restated.

CAPITAL EXPENDITURE BY BUSINESS SEGMENT
(Millions of yen)



Note: Data for the year ended March 31, 2003 reflects the conversion to an in-house company system so as to combine Companywide capital expenditure. Data for prior years has been restated.

CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31, 2003 and 2002	**2003**	2002	**2003**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 13,901**	¥ 13,496	**$ 115,842**
Marketable securities (Note 3)	**16,021**	7,464	**133,508**
Notes and accounts receivable:			
Trade	**81,336**	88,605	**677,800**
Unconsolidated subsidiaries and affiliates	**1,323**	1,187	**11,025**
Others	**1,733**	2,000	**14,442**
Loans receivable from unconsolidated subsidiaries, affiliates and others	**467**	368	**3,892**
Allowance for doubtful accounts	**(858)**	(486)	**(7,150)**
	84,001	91,674	**700,009**
Inventories (Note 4)	**63,529**	71,194	**529,408**
Deferred income taxes (Note 8)	**6,654**	6,947	**55,450**
Other current assets	**1,642**	7,699	**13,683**
Total current assets	**185,748**	198,474	**1,547,900**
Property, plant and equipment:			
Land	**24,303**	24,239	**202,525**
Buildings	**89,526**	87,704	**746,050**
Machinery and equipment	**378,690**	370,649	**3,155,750**
Construction-in-progress	**10,810**	15,799	**90,083**
	503,329	498,391	**4,194,408**
Less accumulated depreciation	**(367,344)**	(363,484)	**(3,061,200)**
	135,985	134,907	**1,133,208**
Investments and other assets:			
Goodwill	**29,067**	29,591	**242,225**
Other intangible assets	**1,597**	1,582	**13,308**
Investment securities (Note 3)	**22,779**	50,423	**189,825**
Investments in unconsolidated subsidiaries and affiliates	**2,876**	2,822	**23,967**
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	**4,273**	5,281	**35,608**
Others	**1,187**	1,275	**9,892**
Accumulated premiums on insurance	**32,498**	52,951	**270,817**
Deferred income taxes (Note 8)	**6,775**	5,625	**56,458**
Others	**5,405**	5,811	**45,050**
Allowance for doubtful accounts	**(1,313)**	(1,310)	**(10,950)**
	105,144	154,051	**876,200**
	¥426,877	¥487,432	**$3,557,308**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 7,715**	¥ 10,471	**$ 64,292**
Current portion of long-term debt (Note 5)	**24,840**	36,560	**207,000**
Notes and accounts payable:			
Trade	**39,377**	47,647	**328,142**
Unconsolidated subsidiaries and affiliates	**938**	791	**7,816**
Others	**6,788**	8,052	**56,567**
Accrued income taxes (Note 8)	**4,575**	1,799	**38,125**
Deferred income taxes (Note 8)	**—**	3	**—**
Accrued expenses and other	**13,161**	16,951	**109,675**
Total current liabilities	**97,394**	122,274	**811,617**
Long-term liabilities:			
Long-term debt (Note 5)	**4,427**	32,552	**36,892**
Deferred income taxes (Note 8)	**3,914**	4,631	**32,616**
Accrued retirement benefits (Note 9)	**16,544**	20,661	**137,867**
Others	**17,271**	16,616	**143,925**
Total long-term liabilities	**42,156**	74,460	**351,300**
Minority interests	**64**	55	**533**
Commitments and contingencies (Note 12)			
Shareholders' equity (Note 6)**:**			
Common stock:			
Authorized—700,000,000 shares			
Issued and outstanding—382,863,603 shares	**88,955**	88,955	**741,292**
Additional paid-in capital	**87,147**	87,147	**726,225**
Retained earnings	**115,368**	110,798	**961,400**
Unrealized gain on revaluation of securities (Note 3)	**1,521**	2,002	**12,675**
Cumulative translation adjustments	**1,657**	1,789	**13,808**
	294,648	290,691	**2,455,400**
Treasury stock at cost	**(7,385)**	(48)	**(61,542)**
Total shareholders' equity	**287,263**	290,643	**2,393,858**
	¥426,877	¥487,432	**$3,557,308**

CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31, 2003 and 2002	**2003**	2002	**2003**
Net sales	**¥322,524**	¥305,862	**$2,687,700**
Cost of sales (Note 11)	**230,618**	228,184	**1,921,817**
(Gross profit)	**91,906**	77,678	**765,883**
Selling, general and administrative expenses (Notes 10 and 11)	**66,720**	58,720	**556,000**
(Operating income)	**25,186**	18,958	**209,883**
Other income (expenses):			
Interest and dividend income	**1,643**	2,471	**13,692**
Equity in earnings of affiliates	**361**	169	**3,008**
Interest expense	**(1,480)**	(2,053)	**(12,333)**
Restructuring charges	**(3,856)**	(7,925)	**(32,133)**
Loss on write-down of investment securities	**(4,950)**	(6,524)	**(41,250)**
Other, net	**(2,532)**	1,105	**(21,100)**
	(10,814)	(12,757)	**(90,116)**
(Income before income taxes)	**14,372**	6,201	**119,767**
Income taxes (Note 8)**:**			
Current	**7,019**	3,107	**58,492**
Deferred	**(711)**	217	**(5,925)**
	6,308	3,324	**52,567**
Minority interests in net income of consolidated subsidiaries	**(13)**	(11)	**(108)**
Net income	**¥ 8,051**	¥ 2,866	**$ 67,092**

	Yen		U.S. dollars (Note 1)
Net income per share:			
Primary	**¥21.01**	¥7.49	**$0.18**
Fully diluted	**20.71**	7.45	**0.17**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2003 and 2002	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on revaluation of securities (Note 3)	Cumulative translation adjustments	Treasury stock
	Millions of yen					
Balance at March 31, 2001	¥88,955	¥87,147	¥111,622	¥3,355	¥(1,609)	¥(1)
Net income			**2,866**			
Cash dividends, ¥9.00 per share			**(3,446)**			
Bonuses to directors and statutory auditors			**(55)**			
Effect of changes in reporting entities			**0**			
Effect of change in an accounting standard for a foreign affiliate			**(189)**			
Changes in unrealized gain on revaluation of securities				**(1,353)**		
Translation adjustments					**3,398**	
Treasury stock acquired, net						**(47)**
Balance at March 31, 2002	**¥88,955**	**¥87,147**	**¥110,798**	**¥2,002**	**¥1,789**	**¥(48)**
Net income			**8,051**			
Cash dividends, ¥9.00 per share			**(3,445)**			
Bonuses to directors and statutory auditors			**(36)**			
Changes in unrealized gain on revaluation of securities				**(481)**		
Translation adjustments					**(132)**	
Treasury stock acquired, net						**(7,337)**
Balance at March 31, 2003	**¥88,955**	**¥87,147**	**¥115,368**	**¥1,521**	**¥1,657**	**¥(7,385)**

	Thousands of U.S. dollars (Note 1)					
Balance at March 31, 2002	$741,292	$726,225	$923,317	$16,683	$14,908	$(400)
Net income			**67,092**			
Cash dividends, $0.08 per share			**(28,709)**			
Bonuses to directors and statutory auditors			**(300)**			
Changes in unrealized gain on revaluation of securities				**(4,008)**		
Translation adjustments					**(1,100)**	
Treasury stock acquired, net						**(61,142)**
Balance at March 31, 2003	**$741,292**	**$726,225**	**$961,400**	**$12,675**	**$13,808**	**$(61,542)**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31, 2003 and 2002	**2003**	2002	**2003**
Cash flows from operating activities:			
Income before income taxes	**¥ 14,372**	¥ 6,201	**$ 119,767**
Adjustments to reconcile net income before income taxes to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	**19,108**	16,056	**159,233**
Increase (decrease) in allowance for doubtful accounts	**378**	(204)	**3,150**
Decrease in accrued retirement benefits, net	**(4,252)**	(4,746)	**(35,433)**
Loss on write-down of investment securities	**4,950**	6,524	**41,250**
Interest and dividend income	**(1,643)**	(2,471)	**(13,692)**
Interest expenses	**1,480**	2,053	**12,333**
Decrease in notes and accounts receivable	**6,940**	7,971	**57,833**
Decrease in inventories	**7,059**	5,513	**58,825**
Decrease in notes and accounts payable	**(7,917)**	(7,358)	**(65,975)**
Other, net	**(1,318)**	(4,196)	**(10,983)**
Sub-total	**39,157**	25,343	**326,308**
Interest and dividend received	**1,405**	1,975	**11,708**
Interest paid	**(1,640)**	(2,205)	**(13,667)**
Income taxes paid	**(1,579)**	(6,416)	**(13,157)**
Net cash and cash equivalents provided by operating activities	**37,343**	18,697	**311,192**
Cash flows from investing activities:			
Increase in marketable securities	**(18,355)**	(3,349)	**(152,958)**
Payments for acquisition of property, plant, equipment and intangible assets	**(18,522)**	(48,478)	**(154,350)**
Proceeds from sales of property, plant, equipment and intangible assets	**2,047**	1,401	**17,058**
Payments for purchase of investment securities	**(4,547)**	(20)	**(37,892)**
Proceeds from sales and redemption of investment securities	**35,933**	24,495	**299,442**
Payments of premiums on insurance	**(1,079)**	(1,242)	**(8,992)**
Withdrawals from accumulated premiums on insurance	**21,878**	2,344	**182,317**
Other, net	**76**	624	**633**
Net cash and cash equivalents provided by (used in) investing activities	**17,431**	(24,225)	**145,258**
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans	**(3,270)**	1,204	**(27,250)**
Proceeds from long-term debt	**—**	1,025	**—**
Repayments of long-term debt	**(3,758)**	(4,360)	**(31,317)**
Redemption of standard bonds	**(13,000)**	(1,000)	**(108,333)**
Redemption of convertible bonds	**(23,393)**	(14,873)	**(194,942)**
Dividends paid	**(3,445)**	(3,446)	**(28,708)**
Payments for purchase of treasury stock	**(7,336)**	—	**(61,133)**
Net cash and cash equivalents used in financing activities	**(54,202)**	(21,450)	**(451,683)**
Effect of exchange rate changes on cash and cash equivalents	**(184)**	303	**(1,534)**
Net increase (decrease) in cash and cash equivalents	**388**	(26,675)	**3,233**
Cash and cash equivalents at beginning of year	**13,496**	40,171	**112,467**
Effect of changes in reporting entities	**17**	—	**142**
Cash and cash equivalents at end of year	**¥ 13,901**	¥ 13,496	**$ 115,842**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kuraray Co., Ltd. and its Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

1. Basis of presenting consolidated financial statements:

These consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and the related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically to present them in a form more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles and practices generally accepted in Japan but have been presented as additional information.

The United States dollar amounts included herein are provided solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥120=$1, the approximate exchange rate prevailing on March 31, 2003. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at this or any other rate.

2. Significant accounting policies:

(a) Principles of consolidation

These consolidated financial statements include the financial statements of Kuraray Co., Ltd. (the “Company”) and its significant 40 subsidiaries (39 subsidiaries at March 31, 2002). Hereinafter, the Company and its consolidated subsidiaries are collectively referred to as the “Companies”.

In the case of a change in reporting entity, the consolidated financial statements are not restated, but the effect of the change to retained earnings at the beginning of the period is directly charged or credited to retained earnings during the period.

Investments in unconsolidated subsidiaries and 20%-50% owned companies (“affiliates”), with minor exceptions, are accounted for using the equity method.

Some foreign subsidiaries of the Company are consolidated using the fiscal year ending December 31, which differs from that of the Company. Those subsidiaries do not prepare their financial statements at any date after December 31 or on or before March 31 in the succeeding year. Any material events occurring during the January 1 to March 31 period are adjusted in those consolidated financial stratements.

The difference between the cost and the underlying net equity of investments in consolidated subsidiaries and affiliates accounted for on an equity basis is allocated to identifiable assets based on their fair values at the date of acquisition. Unallocated costs are charged to income when incurred.

(b) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with original maturity of three months or less, of which at least the face amount can be withdrawn at any time without penalty.

(c) Inventories

Inventories, other than supplies, are stated at cost principally determined using the weighted average method. Supplies are stated at cost principally determined using the moving average method.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method.

The estimated useful lives of assets are principally as follows:

Buildings	31 to 50 years
Machinery and equipment	2 to 10 years

The Companies use machinery and equipment under financing leases that do not transfer ownership, and such leased assets are not capitalized on the balance sheet in the conformity with accounting principles generally accepted in Japan.

(e) Goodwill

Goodwill is stated at cost less amortization.

Amortization is principally computed over 15 years, using the straight-line method.

For the year ended March 31, 2002, a subsidiary of the Company purchased the property, plant, equipment and goodwill relating to the PVA/PVB business from Clariant AG. The consideration of ¥28,468 million was included in "Acquisition of property, plant equipment and intangible assets" in the consolidated statements of cash flows.

(f) Income taxes

Accrued income taxes are provided at the amount currently payable. The Companies adopt the interperiod income tax allocation accounting, using the assets and liabilities method in which deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements.

(g) Retirement benefits

Most of the Companies have unfunded lump-sum benefit plans and funded contributory pension plans, generally covering all employees.

Under the terms of the Companies' retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefits is, in general, based on the length of service, basic salary at the time of retirement, and reason for retirement.

The contributory pension plans of the Company and its domestic subsidiaries, which principally cover those employees who retire at age 60, or who have served with those companies for more than 20 years and are age 50 or more, generally provide for pension payments for a period of ten years subsequent to age 60. The annual charge for the current service cost of these plans is determined actuarially and funded currently through outside trustees.

Directors and statutory auditors are entitled, subject to shareholders’ approval, to lump-sum payments under the unfunded retirement plan. The accrued liabilities for their retirement benefits are, in general, based upon the amounts required by the Companies' internal regulations.

(h) Foreign currency items

Income and expenses in foreign currency are translated into Japanese yen at the exchange rates prevailing at the transaction dates. Foreign currency assets and liabilities not covered by forward exchange contracts, including currency swap contracts, are translated into Japanese yen at the rates prevailing at the balance sheet date. Foreign currency assets and liabilities, which are covered by hedging forward exchange contracts, including currency swap contracts, are translated into Japanese yen at the contracted rates.

In preparing the consolidated financial statements, assets and liabilities of foreign subsidiaries have been translated into Japanese yen at the rates in effect at the balance sheet date, and income and expenses have been translated at the average rate for the year then ended. Translation adjustments resulting from this process are charged or credited to shareholders' equity as cumulative translation adjustments in the consolidated balance sheets.

(i) Research and development expenses

Expenses relating to research and development activities are charged to income when incurred.

(j) Net income per share

The computation of primary net income per share is based on the weighted average number of shares outstanding during each financial period. The computation of fully diluted net income per share is based on the weighted average number of outstanding shares after consideration of the effect of dilution of common stock equivalents.

Effective from the year ended March 31, 2003, the Company adopted the Financial Accounting Standard "Accounting for Earnings per Share". Therefore, the "Amount per share" figure for the year ended March 31, 2003 were calculated in accordance with the new standard, while the prior-year figures were calculated as before. The effect of this change was immaterial.

(k) Allowance for doubtful accounts

The Companies provide for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period plus an estimated uncollectible amount based on the analysis of certain individual accounts.

(l) Marketable securities and investment securities

Marketable securities and investment securities are classified into three categories, i.e. held-to-maturity, trading and available-for-sale securities. Trading securities are carried at fair values with unrealized gains or losses included in income, and held-to-maturity securities are carried at amortized cost. As of March 31, 2003 and 2002, marketable securities and investment securities represent available-for-sale securities. Available-for-sale securities are carried at fair value with unrealized gains or losses recorded as a component of shareholders' equity, net of applicable taxes. Available-for-sale securities, whose fair value is not readily determinable, are stated at cost except for debt securities, which are stated at amortized cost. Moreover, available-for-sale securities with a maturity of one year or less are classified as current assets.

(m) Derivative financial instruments and hedging

Derivative financial instruments, which include forward foreign exchange contracts, interest rate swap contracts and currency swap contracts, are used to offset the Companies' risk of exposure to changes in interest and currency exchange rates in respect of its financial assets and liabilities, in accordance with the Companies' internal policies and procedures.

a. Derivatives

All derivatives are stated at fair value, except for derivatives that are designated as hedging instruments (see below).

b. Hedge accounting

The Companies adopt the method for hedging instruments whereby any gain or loss is deferred over the period of the hedging contract and is offset against the deferred loss or gain on the related hedged items.

However, when forward foreign exchange contracts meet certain conditions, accounts receivable and payable covered by these contracts are translated using the contract rates.

In addition, when an interest rate swap contract meets certain conditions, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

Hedging instruments and hedged items

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Accounts receivable and payable in foreign currency
	Future transactions in foreign currency
	Marketable securities and investment securities
Interest rate swap contracts	Bonds and debentures payable

c. Hedging policy

The Companies use financial instruments to hedge market fluctuation risks in accordance with their internal policies and procedures.

d. Assessment method for hedge effectiveness

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(n) Reclassifications

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

Consolidated statements of cash flows have been prepared using a format defined by the Financial Service Agency of Japan, which differs from that used in earlier years, and accordingly, the comparative period's consolidated statements of cash flows have been modified to conform with the new format.

3. Securities:

The following is a summary of securities available-for-sale at March 31, 2003 and 2002:

	Millions of yen			
March 31, 2003	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
Equity securities	**¥ 5,619**	**¥2,898**	**¥406**	**¥ 8,111**
Bonds and debentures	**25,747**	**277**	**119**	**25,905**
Other	**1,000**	**—**	**6**	**994**
	¥32,366	**¥3,175**	**¥531**	**¥35,010**

March 31, 2002	Millions of yen: Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
Equity securities	¥ 9,858	¥5,142	¥ 944	¥14,056
Bonds and debentures	44,895	297	974	44,218
Other	1,000	—	12	988
	¥55,753	¥5,439	¥1,930	¥59,262

March 31, 2003	Thousands of U.S. dollars: Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
Equity securities	**$ 46,825**	**$24,150**	**$3,383**	**$ 67,592**
Bonds and debentures	**214,558**	**2,308**	**991**	**215,875**
Other	**8,333**	**—**	**50**	**8,283**
	$269,716	**$26,458**	**$4,424**	**$291,750**

Securities with an original maturity of three months or less have been transferred to cash and cash equivalents.

4. Inventories:

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished products	**¥45,806**	¥51,308	**$381,717**
Semi-finished products and work in process	**8,440**	9,941	**70,333**
Raw materials and supplies	**9,283**	9,945	**77,358**
	¥63,529	¥71,194	**$529,408**

5. Short-term bank loans and long-term debt:

Short-term bank loans are generally represented by 365-day notes with interest rates principally of 2.5% p.a. at March 31, 2003.
Long-term debt consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2003	**2003**
Unsecured loans principally from banks and insurance companies with interest rates ranging from 0.59% p.a. to 5.95% p.a. maturing serially until 2022	**¥ 8,767**	**$ 73,058**
1.8% yen unsecured bonds due May 7, 2003	**15,000**	**125,000**
1.8% yen unsecured bonds due May 7, 2003	**5,000**	**41,667**
2.27% yen Euro medium term notes due January 30, 2004	**500**	**4,167**
	29,267	**243,892**
Current portion	**(24,840)**	**(207,000)**
	¥ 4,427	**$ 36,892**

The annual maturities of long-term debt outstanding at March 31, 2003 for the respective years ending March 31 were as follows:

	Millions of yen	Thousands of U.S. dollars
2003	¥24,840	$207,000
2004	2,775	23,125
2005	1,293	10,775
2006	354	2,950
2007	0	0
Thereafter	5	42
	¥29,267	$243,892

6. Shareholders' equity:

The Company is subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective on October 1, 2001.

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares with a minimum of the par value thereof, to be designated as stated capital following the passing of a resolution by the Board of Directors. Proceeds in excess of the amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised to eliminate common stock par value resulting in all shares being recorded with no par value. The Code required at least 50% of the issue price of new shares to be designated as stated capital following the passing of a resolution by the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The Code provides that an amount equal to at least 10% of cash dividends and directors bonuses, etc., to be paid from retained earnings should be appropriated as a legal reserve. Before September 30, 2001, no further appropriation was required when the legal reserve equaled 25% or more of common stock. Pursuant to the amendments to the Code, no further appropriation is required when the sum of additional paid-in capital and legal reserve equals 25% or more of common stock. If the amount of accumulated additional paid-in capital and legal reserve exceeds the required amount, the excess amount is allowed to be appropriated following the passing of a resolution at the ordinary general meeting of shareholders. A legal reserve may be used to reduce a deficit or may be transferred to common stock by appropriate legal procedures. Legal reserve included in retained earnings amounted to ¥6,570 million ($54,750 thousand) as of March 31, 2003 and 2002.

7. Stock-based compensation plans:

The Company has a stock option plan. On June 27, 2002, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for directors, statutory auditors and managers of the Company and its subsidiaries. Under this approval, the Company issued new stock acquisition rights of 1,076,500 shares of common stock of the Company. These rights are exercisable from June 28, 2004 to June 27, 2012. The exercise price is ¥825 per share.

Subsequently, on June 26, 2003, the shareholders of the Company approved the issuance of new stock acquisition rights as a stock option plan for employees of the Company and its subsidiaries. Under this approval, the Company's common stock will be issued to employees of the Company and its subsidiaries up to 3,500,000 shares. These rights are exercisable from June 27, 2005 to June 26, 2013 and exercise price is higher of 105% of the average of daily closing prices on the market of the Company's common stock during 30 consecutive trading days from the beginning of 45 days period preceding the issuance of the option, or the closing price of the Company's stock on the market on the day the option is issued.

8. Income taxes:

The Companies are subject to several taxes based on income which, in aggregate, resulted in a normal effective tax rate of approximately 41.7% in Japan for the periods ended March 31, 2003 and 2002.

On March 31, 2003, the law governing prefectural tax was revised to impose enterprise taxes through "Taxation Using Outward Criteria" from April 2004. As a result, enterprise tax rate will decrease from the fiscal year beginning April 1, 2004. This will in turn reduce the normal effective tax rate, and therefore deferred tax assets which will be recovered after the fiscal year beginning April 1, 2004 have been revalued based on this amended normal effective tax rate. The effect of this change was immaterial.

Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:

	2003	2002
Normal effective tax rate	**41.7%**	41.7%
Largely loss incurred by consolidated subsidiaries	**2.2**	11.9
Income tax rate per statement of income	**43.9%**	53.6%

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets			
Accrued enterprise taxes and other taxes	**¥ 582**	¥ 194	**$ 4,850**
Accrued bonuses	**2,078**	1,574	**17,317**
Other	**4,028**	5,205	**33,566**
Total deferred tax assets	**6,688**	6,973	**55,733**
Total deferred tax liabilities	**34**	26	**283**
Net deferred tax assets	**¥6,654**	¥6,947	**$55,450**
Deferred tax liabilities			
Other	**¥ —**	¥ 3	**$ —**
Net deferred tax liabilities	**¥ —**	¥ 3	**$ —**

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets			
Accrued retirement benefits	**¥4,731**	¥5,941	**$39,425**
Other	**4,983**	2,773	**41,525**
Total deferred tax assets	**9,714**	8,714	**80,950**
Deferred tax liabilities			
Deferred gain on sales of fixed assets to public sector	**1,612**	1,435	**13,434**
Special depreciation	**164**	224	**1,367**
Unrealized gain on revaluation of securities	**1,039**	1,430	**8,658**
Other	**124**	—	**1,033**
Total deferred tax liabilities	**2,939**	3,089	**24,492**
Net deferred tax assets	**¥6,775**	¥5,625	**$56,458**
Deferred tax liabilities			
Depreciation	**¥3,914**	¥4,631	**$32,616**
Net deferred tax liabilities	**¥3,914**	¥4,631	**$32,616**

The deferred tax assets and liabilities of the consolidated subsidiaries in different tax jurisdictions are presented without offset in accordance with Japanese accounting practice. For the calculation of deferred tax assets and liabilities (non-current), new normal effective tax rate is used.

9. Retirement benefits:

The following tables set forth the changes in the benefit obligation, plan assets and funded status of the Companies at March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Benefit obligation at end of year	**¥(51,520)**	¥(49,162)	**$(429,333)**
Fair value of plan assets at end of year	**24,247**	24,602	**202,058**
Funded status:			
Benefit obligation in excess of plan assets	**(27,273)**	(24,560)	**(227,275)**
Unrecognized prior service cost	**(1,011)**	(1,067)	**(8,425)**
Unrecognized actuarial loss	**12,862**	6,005	**107,183**
Accrued pension liability recognized in the consolidated balance sheets	**¥(15,422)**	¥(19,622)	**$(128,517)**

Accrued retirement benefits for directors and statutory auditors at March 31, 2003 and 2002 amounting to ¥1,122 million ($9,350 thousand) and ¥1,039 million are excluded from the above schedule.

Retirement and pension costs of the Companies for the year ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 2,391**	¥2,067	**$19,925**
Interest cost	**1,386**	1,369	**11,550**
Expected return on plan assets	**(957)**	(861)	**(7,975)**
Amortization:			
Prior service cost	**(67)**	6	**(558)**
Actuarial losses	**402**	124	**3,350**
Net periodic benefit costs	**¥ 3,155**	¥2,705	**$26,292**

Assumptions used in the accounting for the defined benefit plans for the year ended March 31, 2003 are as follows:

Discount rate ....mainly 2.0% (mainly 3.0% for the year ended March 31, 2002)
Long-term rate of return on fund assets ....mainly 4.0%
Amortization period for transition charges at date of adoption...1 year
Amortization period for prior service cost................................mainly 15 years (straight-line method)
Amortization period for actuarial losses..................................mainly 15 years (straight-line method)

10. Selling, general and administrative expenses:

Major components of selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
Account	**2003**	2002	**2003**
Freight and storage	**¥12,685**	¥11,530	**$105,708**
Research and development	**10,896**	10,850	**90,800**
Salaries and bonuses	**16,732**	15,757	**139,433**

11. Research and development expenses:

Total research and development expenses for the years ended March 31, 2003 and 2002 amounted to ¥12,523 million ($104,358 thousand) and ¥12,131 million, respectively.

12. Commitments and contingencies:

The Companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates and others, of ¥776 million ($6,467 thousand) and ¥822 million at March 31, 2003 and 2002, respectively.

These guarantees include letters of commitment for guarantees, letters of awareness and other items of a similar nature.

13. Leases:

(a) Financing leases

Lease transactions as a lessee:

Payment of fees for financing leases, where ownership of the leased assets is not transferred to the lessee and which are not required to be capitalized, for the years ended March 31, 2003 and 2002, were ¥412 million ($3,433 thousand) and ¥447 million, respectively. Future lease payments, including amounts representing interest were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥382**	¥409	**$3,183**
Due after one year	**498**	574	**4,150**
	¥880	¥983	**$7,333**

The leased assets were as follows:

	Millions of yen			Thousands of U.S. dollars
Year ended March 31, 2003	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	**¥1,812**	**¥932**	**¥880**	**$7,333**

	Millions of yen		
Year ended March 31, 2002	Cost	Accumulated depreciation	Net
Machinery and equipment	¥2,151	¥1,168	¥983

Lease transactions as a lessor are immaterial.

(b) Operating leases

Future lease payments under non-cancellable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 229**	¥ 167	**$ 1,908**
Due after one year	**2,930**	1,414	**24,417**
	¥3,159	¥1,581	**$26,325**

14. Derivative financial instruments:

Derivative financial instruments are utilized by the Companies principally to reduce interest rate and foreign exchange risks. The Companies have established a control environment, which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for trading purposes.

The forward foreign exchange contracts and currency swap contracts outstanding at the March 31, 2003 and 2002 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			**2003**		
	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
Forward foreign exchange contracts:									
Foreign currency sales	**¥1,758**	**¥(230)**	**¥(230)**	¥2,480	¥ (501)	¥ (501)	**$14,650**	**$(1,916)**	**$(1,916)**
Currency swap contracts:									
Yen into foreign currency obligation	**2,975**	**(71)**	**(71)**	2,975	(247)	(247)	**24,792**	**(592)**	**(592)**
	¥4,733	**¥(301)**	**¥(301)**	¥5,455	¥ (748)	¥ (748)	**$39,442**	**$(2,508)**	**$(2,508)**

The amounts include contracts entered into in order to hedge inter-company transactions in foreign currency. The amounts exclude contracts entered into in order to hedge receivables and payables denominated in foreign currencies, which have been translated and reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2003 and 2002.

At March 31, 2003 and 2002, outstanding interest rate swap contracts were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			**2003**		
	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
Interest rate swap contracts:									
Fixed-rate into variable-rate obligation	**¥1,200**	**¥15**	**¥15**	¥1,200	¥14	¥14	**$10,000**	**$125**	**$125**
Variable-rate into fixed-rate obligation	**—**	**—**	**—**	500	(5)	(5)	**—**	**—**	**—**
	¥1,200	**¥15**	**¥15**	¥1,700	¥ 9	¥ 9	**$10,000**	**$125**	**$125**

The amounts exclude certain swap contracts under which the net amount to be paid or received is added to or deducted from the interest on the hedged item.

15. Segment information:

Effective April 1, 2002, the Company has rearranged its industrial segments. As a result, the former "Fiber and textiles", "Chemical products", "Man-made leather, non-woven fabrics and fastening materials" and "Diversified business" have been reclassified "Chemicals and resins", "Fibers and textiles" and "High performance materials, medical products and others", and accordingly the comparative period's segment information is shown by the same classification as rearranged.

In addition, certain expenses, which were previously allocated to segments, were presented in corporate.

A summary of net sales and operating income and identifiable assets, capital expenditure and depreciation and amortization by industrial segment for the years ended March 31, 2003 and 2002 is as follows:

Net sales and operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales			Operating	Net sales			Operating
	outside customers	inter-segment	total	income	outside customers	inter-segment	total	income
Year ended March 31, 2003								
Chemicals and resins	**¥144,690**	**¥3,037**	**¥147,727**	**¥19,947**	**$1,205,750**	**$25,308**	**$1,231,058**	**$166,225**
Fibers and textiles	**109,915**	**1,228**	**111,143**	**4,801**	**915,958**	**10,234**	**926,192**	**40,008**
High performance materials, medical products and others	**67,919**	**21,672**	**89,591**	**8,322**	**565,992**	**180,600**	**746,592**	**69,350**
Total	**322,524**	**25,937**	**348,461**	**33,070**	**2,687,700**	**216,142**	**2,903,842**	**275,583**
Eliminated on consolidation and corporate	**—**	**(25,937)**	**(25,937)**	**(7,884)**	**—**	**(216,142)**	**(216,142)**	**(65,700)**
Consolidated total	**¥322,524**	**¥ —**	**¥322,524**	**¥ 25,186**	**$2,687,700**	**$ —**	**$2,687,700**	**$ 209,883**
Year ended March 31, 2002								
Chemicals and resins	¥119,794	¥ 2,340	¥122,134	¥ 15,506				
Fibers and textiles	114,767	1,946	116,713	3,767				
High performance materials, medical products and others	71,301	21,861	93,162	6,760				
Total	305,862	26,147	332,009	26,033				
Eliminated on consolidation and corporate	—	(26,147)	(26,147)	(7,075)				
Consolidated total	¥305,862	¥ —	¥305,862	¥ 18,958				

Identifiable assets, capital expenditure and depreciation and amortization

	Millions of yen			Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization
Year ended March 31, 2003						
Chemicals and resins	**¥172,445**	**¥ 7,821**	**¥11,134**	**$1,437,042**	**$ 65,175**	**$ 92,783**
Fibers and textiles	**84,322**	**4,655**	**4,037**	**702,683**	**38,792**	**33,642**
High performance materials, medical products and others	**76,633**	**5,177**	**3,007**	**638,608**	**43,142**	**25,058**
Total	**333,400**	**17,653**	**18,178**	**2,778,333**	**147,109**	**151,483**
Eliminated on consolidation and corporate	**93,477**	**1,438**	**930**	**778,975**	**11,983**	**7,750**
Consolidated total	**¥426,877**	**¥19,091**	**¥19,108**	**$3,557,308**	**$159,092**	**$159,233**
Year ended March 31, 2002						
Chemicals and resins	¥182,544	¥40,248	¥ 7,767			
Fibers and textiles	98,280	3,214	4,600			
High performance materials, medical products and others	74,038	3,819	2,966			
Total	354,862	47,281	15,333			
Eliminated on consolidation and corporate	132,570	3,435	723			
Consolidated total	¥487,432	¥50,716	¥16,056			

A summary of net sales, operating income and identifiable assets by geographic segment for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen				
	Net sales			Operating	Identifiable
	outside customers	inter-segment	total	income (loss)	assets
Year ended March 31, 2003					
Domestic (inside Japan)	**¥254,543**	**¥ 26,087**	**¥280,630**	**¥28,982**	**¥236,955**
North America	**24,028**	**2,363**	**26,391**	**2,959**	**33,689**
Europe	**33,801**	**539**	**34,340**	**1,156**	**58,659**
Asia	**10,152**	**1,659**	**11,811**	**(351)**	**8,578**
Total	**322,524**	**30,648**	**353,172**	**32,746**	**337,881**
Eliminated on consolidation and corporate	**—**	**(30,648)**	**(30,648)**	**(7,560)**	**88,996**
Consolidated total	**¥322,524**	**¥ —**	**¥322,524**	**¥25,186**	**¥426,877**

Year ended March 31, 2002					
Domestic (inside Japan)	¥263,788	¥ 21,855	¥285,643	¥22,985	¥257,502
North America	21,017	1,759	22,776	3,441	36,604
Europe	12,273	111	12,384	315	56,433
Asia	8,784	1,177	9,961	(831)	10,446
Total	305,862	24,902	330,764	25,910	360,985
Eliminated on consolidation and corporate	—	(24,902)	(24,902)	(6,952)	126,447
Consolidated total	¥305,862	¥ —	¥305,862	¥18,958	¥487,432

	Thousands of U.S. dollars				
	Net sales			Operating	Identifiable
	outside customers	inter-segment	total	income (loss)	assets
Year ended March 31, 2003					
Domestic (inside Japan)	**$2,121,192**	**$ 217,391**	**$2,338,583**	**$241,517**	**$1,974,625**
North America	**200,233**	**19,692**	**219,925**	**24,658**	**280,742**
Europe	**281,675**	**4,492**	**286,167**	**9,633**	**488,825**
Asia	**84,600**	**13,825**	**98,425**	**(2,925)**	**71,483**
Total	**2,687,700**	**255,400**	**2,943,100**	**272,883**	**2,815,675**
Eliminated on consolidation and corporate	**—**	**(255,400)**	**(255,400)**	**(63,000)**	**741,633**
Consolidated total	**$2,687,700**	**$ —**	**$2,687,700**	**$209,883**	**$3,557,308**

Foreign sales consisting of export sales of the Company and its domestic consolidated subsidiaries and the sales of foreign consolidated subsidiaries for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
Year ended March 31, 2003					
North America	**¥ 32,267**	**¥ —**	**10.0%**	**$ 268,892**	**$ —**
Europe	**43,871**	**—**	**13.6**	**365,592**	**—**
Asia	**41,911**	**—**	**13.0**	**349,258**	**—**
Other	**5,958**	**—**	**1.8**	**49,650**	**—**
Total	**¥124,007**	**¥322,524**	**38.4%**	**$1,033,392**	**$2,687,700**

	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
Year ended March 31, 2002			
North America	¥ 29,831	¥ —	9.7%
Europe	24,864	—	8.1
Asia	32,267	—	10.6
Other	5,373	—	1.8
Total	¥ 92,335	¥305,862	30.2%

16. Subsequent events:

The Japanese Commercial Code provides that all appropriations of retained earnings, except interim cash dividends, must be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, the appropriation of retained earnings is not accrued in the financial statements for the year to which it relates but is recorded in the subsequent accounting year after shareholders' approval has been obtained. The following appropriations of retained earnings of the Company as of March 31, 2003 were approved by the shareholders on June 26, 2003.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.50 ($0.04) per share	¥1,676	$13,967
Bonuses to directors and statutory auditors	50	417

The above year-end cash dividends per share and interim cash dividends of ¥4.50 ($0.04) per share paid in December 2002 made a total annual cash dividend of ¥9.00 ($0.08) per share.

REPORT OF INDEPENDENT AUDITORS

Kuraray Co., Ltd. and its Consolidated Subsidiaries

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Nakanoshima Mitsui Building
16th Floor, 3-3-3, Nakanoshima,
Kita-ku, Osaka 530-8248, Japan

June 26, 2003

To the Shareholders and Board of Directors
of Kuraray Co., Ltd.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Kuraray Co., Ltd. and its consolidated subsidiaries at March 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in Japan which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 15 to the financial statements, the Company and its consolidated subsidiaries have rearranged their industrial segments, and certain expenses, which were previously allocated to segments, have been presented in corporate.

The amounts expressed in U.S. dollars, provided solely for the convenience of readers, have been translated on the basis set forth in Note 1 to the accompanying financial statements.

PricewaterhouseCoopers

Notice to readers

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Japan.

CONSOLIDATED COMPANIES

(As of July 1, 2003)

Company	Head office	Capital (¥millons, except where stated)	Activities
JAPAN			
Kuraray Medical Inc.	Tokyo	2,500	Manufacture and sales of medical products
Kuraray Trading Co., Ltd.	Osaka	2,000	Import, export, manufacture and sales of textile products, chemicals, etc.
*Kuraray Planning System Co., Ltd.	Osaka	10	Designs of uniforms
Kuraray Chemical Co., Ltd.	Osaka	600	Manufacture and sales of activated carbon and related products
*KC Processing Co., Ltd.	Okayama	20	Processing of activated carbon
*Mitsukura Chemical Co., Ltd.	Osaka	10	Manufacture and sales of activated carbon
Kuraray Engineering Co., Ltd.	Osaka	450	Plant design and construction
Kuraray Kiko Co., Ltd.	Ehime	10	Fabrication of machinery parts
Kuraray Fudosan Co., Ltd.	Osaka	382	Real estate leasing
Kuraray Interior Co., Ltd.	Osaka	330	Manufacture and sales of luxury furniture
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
Ibuki Kosan Co., Ltd.	Gifu	10	Manufacture of rubber products
Kuraray Living Co., Ltd.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Business Service Co., Ltd.	Osaka	100	Accounting, personnel and information system service
Techno Soft Co., Ltd.	Osaka	50	Consulting, temporary staffing
Kuraray Niigata Kasei Co., Ltd.	Tokyo	50	Manufacture and sales of methacrylic sheets
Kuraray Ohmiya Estate Co., Ltd.	Osaka	31	Real estate leasing
Magictape Co., Ltd.	Fukui	30	Manufacture of *MAGIC TAPE*
Kuraray Family Products Co., Ltd.	Osaka	30	Sales of health foods, etc.
Kuraray Travel Service Corporation	Osaka	20	Travel and insurance agency
Kuraray Techno Co., Ltd.	Osaka	10	Production sub-contracting
Kuraray Techno Nakajo Co., Ltd.	Niigata	50	Production sub-contracting
Kuraray Techno Kashima Co., Ltd.	Ibaraki	10	Production sub-contracting
Kuraray Techno Okayama Co., Ltd.	Okayama	60	Production sub-contracting
Kuraray Techno Kurashiki Co., Ltd.	Okayama	10	Production sub-contracting
Kuraray Techno Saijo Co., Ltd.	Ehime	30	Production sub-contracting
Kuraray Tsurugashima Estate Co., Ltd.	Osaka	10	Real estate leasing
Kuraray Saijo Co., Ltd.	Ehime	10	Manufacture of chemical products and synthetic fiber
Kuraray Tamashima Co., Ltd.	Okayama	10	Manufacture of synthetic fiber
Iruma Country Club Co., Ltd,	Saitama	40	Golf course management
Kyosei Chemical Co., Ltd.	Tokyo	50	Manufacture of pigments and dyes
*Nihonkai Acetylene Co., Ltd.	Tokyo	60	Manufacture and sales of acetylene gas
*Kuraray Okayama Spinning Co., Ltd.	Okayama	50	Manufacture of synthetic fiber
*Kuraflex Co., Ltd.	Okayama	10	Manufacture of non-woven fabric products
*Kuraflex Ibaraki Co., Ltd.	Ibaraki	30	Manufacture of non-woven fabric products
*The Kurashiki Kokusai Hotel Ltd.	Okayama	450	Hotel management
*Hikari Shoes Co., Ltd.	Tokyo	34	Manufacture and sales of shoes
OVERSEAS			
Kuraray Holdings U.S.A., Inc.	New York, U.S.A.	US$55.53 million	Holding company, coordination of U.S. subsidiaries
Kuraray America, Inc.	New York, U.S.A	US$8.7 million	Importing and sales of Kuraray products
Eval Company of America	Texas, U.S.A.	US$4.15 million	Manufacture and sales of *EVAL* in the United States
SEPTON Company of America	Texas, U.S.A.	US$35 million	Manufacture and sales of thermoplastic elastomers
Kuraray Finance America, Inc.	New York, U.S.A.	US$0.001 million	Fund procurement and management for Group companies
Kuraray Europe GmbH	Düsseldorf, Germany	€31.2 million	Sales of Kuraray products in Europe
EVAL Europe N.V.	Antwerp, Belgium	€29.7 million	Manufacture and sales of *EVAL* in Europe
Kuraray Specialities Europe GmbH	Frankfurt, Germany	€20 million	Manufacture and sales of poval and butyral resins
Kuraray Finance Europe B.V.	Amsterdam, Netherlands	€0.3 million	Fund procurement and management for Group companies
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK$4.65 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Singapore Pte., Ltd.	Singapore	SP$93.5 million	Holding company, coordination of local subsidiaries
Kuraray Specialities Asia Pte., Ltd.	Singapore	SP$45.6 million	Sales of poval resins
*Poval Asia Pte Ltd	Singapore	SP$40 million	Manufacture of poval resins

* Equity method subsidiary

HISTORY

Kuraray Co., Ltd. and its Consolidated Subsidiaries

1920s

1926 • Kurashiki Kenshoku Co. established

1928 • Rayon commercialized: production of rayon filament yarn begun at the Kurashiki Plant

1940s

1940 • Chugoku Sangyo Co., Ltd. (now Kuraray Chemical Co., Ltd.) established

New laboratory of Okayama Plant

1943 • Capital participation in Kakuichi Rubber Co., Ltd. (now Kuraray Plastics Co., Ltd.)

1949 • Company name changed to Kurashiki Rayon Co., Ltd.

1950s

1950 • *KURALON* commercialized: production of *KURALON* staple started

1958 • poval commercialized: production of poval for market sale started

1960s

1960 • Capital participation in Kyowa Gas Chemical Co., Ltd., which conducts methacrylic resin business

1961 • Osaka Goseihin Co., Ltd. (now Kuraray Trading Co., Ltd.) established

1962 • Production of PVA film started at Saijo Plant

1963 • New York Representative Office established (transferred to Kuraray America, Inc. in April 1996)

1964 • Production of polyester staple started at Tamashima Plant

• Kuraray Fudosan Co., Ltd. established

• *CLARINO* commercialized: production of *CLARINO* man-made leather started at Kurashiki Plant

1965 • European Representative Office established in Hamburg, Germany (moved to Düsseldorf in June 1968)

1969 • Production of polyester filament started at Saijo Plant

1970s

1970 • Company name changed to Kuraray Co., Ltd.

• Hong Kong Representative Office established (transferred to Kuraray Hong Kong Co., Ltd. in June 1998)

1972 • Contact lens business started

• *EVAL* commercialized: production facilities for *EVAL* resin completed at Okayama Plant

• Non-woven fabrics business started

Factory for non-woven fabrics of Kuraray Chicopee Co., Ltd. (now Kuraflex Co., Ltd.)

• Isoprene chemicals business launched: operation at Kashima Plant started, and production of polyisoprene rubber begun

1975 • Artificial organs business started

1976 • NIC (new isoprene chemicals) facilities completed at Nakajo Plant

1977 • Kuraray Engineering Co., Ltd. established

1978 • Advanced into the dental materials field: *CLEARFIL* adhesive dental filler produced

CLEARFIL adhesive dental filler

1980s

1983 • Cement-reinforcing *KURALON* developed

• Eval Company of America established, and marketing of *EVAL* resin in the U.S. begun (production started in 1986)

1984 • Haru-Kuraray GmbH, a man-made leather sales company, established in Germany jointly with Marubeni Corp. and Haru Holding & Management GmbH

• Merged with Nippon Velcro Co., Ltd. which produces hook & loop fasteners

1986 • Clarino America Corporation, a man-made leather sales company, established in the U.S. jointly with Marubeni Corp.

• Production started at Eval Company of America

1990s

1990 • *SEPTON* commercialized: Production of *SEPTON* thermoplastic elastomer started at Kashima Plant

1991 • Kuraray Europe GmbH established in Düsseldorf, Germany

1995 • Kuraray EVAL Europe GmbH established in Düsseldorf

• Kuraray Hong Kong Co., Ltd. established

1996 • Kuraray America, Inc, established in New York as administrative holding company in the U.S.

• Kuraray Singapore Pte., Ltd. established, and capital participation in Poval Asia Pte Ltd

1997 • EVAL Europe N.V. established in Belgium

1998 • *KURALON K-II* commercialized

1999 • Production started at Poval Asia Pte Ltd

• Mass-production started for the heat-resistant polyamide resin *GENESTAR*

• Production at EVAL Europe N.V. started

2000s

2000 • The mass-production of a new water-soluble resin *EXCEVAL* was started

• The Company made a capital participation in Lorica Sud S.r.l., an Italian man-made leather processing and sales company

• Kuraray Holdings U.S.A., Inc. established as a holding company in the U.S.

• SEPTON Company of America established in the U.S.

2001 • PVA gel mass-production facilities become operational

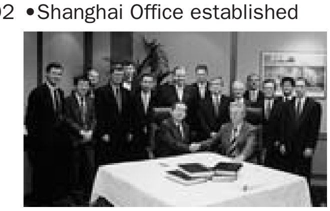
• Kuraray terminated its rayon business

• Kuraray Specialities Europe GmbH established in Frankfurt, Germany

• Kuraray Medical Inc. established

• Acquired PVA and PVB operations of Clariant AG

2002 • Shanghai Office established



Finalizing the aquisition of Clariant's PVA operations

• Production started at SEPTON Company of America

INVESTOR INFORMATION

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Kuraray Co., Ltd.

Established: June 24, 1926

Capital: ¥88,955 million

Shares: Authorized 700,000,000 shares

Issued 382,863,603 shares

Number of Shareholders: 25,764

(as of March 31, 2003)

Offices, Laboratories, Plants

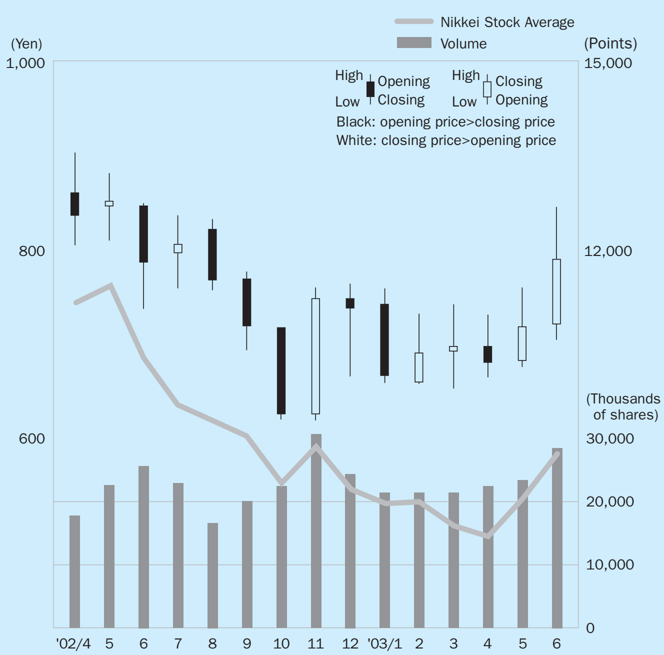
Head Offices: Osaka, Tokyo

Offices: Fukui, Fukuoka

Laboratories: Kurashiki, Tsukuba

Plants: Kurashiki, Saijo, Okayama, Nakajo, Kashima

Share Price Movement



Share prices according to the market price on the Tokyo Stock Exchange

Transfer Agent

The Sumitomo Trust and Banking Co., Ltd.

Stock Transfer Agency Department

4-5-33, Kitahama, Chuo-ku, Osaka 540-8639, Japan

Principal Shareholders (as of March 31, 2003)

Principal Shareholders	Number of Shares Held (thousands)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd. (Trust Account)	48,422	13.15%
The Master Trust Bank of Japan, Ltd. (Trust Account)	46,686	12.68%
UFJ Trust Bank Limited (Trust Account A)	14,126	3.84%
Nippon Life Insurance Company	12,294	3.34%
Meiji Life Insurance Company	8,066	2.19%
The Mitsubishi Trust and Banking Corporation (Trust Account)	7,755	2.11%
The Dai-ichi Mutual Life Insurance Company	7,652	2.08%
Mizuho Corporate Bank, Ltd.	7,396	2.01%
The Mitsui Asset Trust & Banking Co., Ltd. (Pension Tokkin)	6,349	1.72%
Trust & Custody Services Bank, Ltd. (Pension Tokkin)	6,057	1.64%

Forward-Looking Statements

This annual report contains various forward-looking statements, which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections and business plans of Kuraray and its Group companies constitute forward-looking statements. Although Kuraray believes that its expectations and assumptions are reasonable, actual results and trends of Kuraray's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in the future business circumstances. The factors that may cause such difference include, without limitation: (1) general market and economic conditions in Asia including Japan, the U.S., Europe and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar and other foreign currencies; (3) changes in raw material and fuel costs; (4) industrial competition and price fluctuations in Japan and international markets; (5) advances or delays in the construction of new plants and production lines; (6) successful development of new products and technologies; (7) changes in laws and regulations (including tax and environmental) and legal proceedings; and (8) unforeseeable risks, including natural disasters.

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