KURARAY CO., LTD.

ANNUAL REPORT 2002

For the year ended March 31, 2002

FINANCIAL HIGHLIGHTS

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	**2002**	2001	2000	1999	1998	**2002**
Net sales	**¥305,862**	¥313,651	¥316,444	¥336,466	¥347,643	**$2,299,714**
Operating income	**18,958**	19,931	20,321	27,148	28,898	**142,541**
Net income	**2,866**	4,045	7,452	13,171	13,962	**21,549**
Capital expenditure	**50,716**	15,814	19,764	33,497	20,806	**381,325**
Depreciation and amortization	**16,056**	16,593	16,769	15,557	14,615	**120,723**
Gross cash flow	**18,922**	20,638	24,221	28,728	28,577	**142,272**
Total research and development expenses	**12,131**	12,251	12,097	13,429	13,707	**91,211**
Total assets	**487,432**	512,479	503,766	487,991	478,861	**3,664,902**
Total shareholders' equity	**290,643**	289,469	282,755	259,909	233,494	**2,185,286**
Amounts per share:	Yen					U.S. dollars
Net income						
Primary	**¥ 7.49**	¥ 10.56	¥ 20.00	¥ 36.83	¥ 40.46	**$0.06**
Fully diluted	**7.45**	10.46	19.42	34.56	37.68	**0.06**
Cash dividends applicable to period	**9.00**	9.00	9.00	9.00	9.00	**0.07**
Total shareholders' equity	**759.25**	756.07	738.53	714.21	658.99	**5.71**
Financial ratios:						
Equity ratio (%)	**59.6%**	56.5%	56.1%	53.3%	48.8%	
Return on equity (%)	**1.0**	1.4	2.7	5.3	6.3	
Return on assets (%)	**3.8**	3.9	4.1	5.6	5.8	
Payout ratio (%)	**120.2**	85.2	45.4	24.5	22.2	
Number of employees	**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 ¥133=$1.

CONTENTS

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; and (7) changes in laws and regulations (including tax and environmental) and legal proceedings.

In this annual report, italicized product names are registered trademarks of Kuraray Co., Ltd.
The years stated in this document's graphs and tables refer to the year ended March 31, not the fiscal year.

Fiscal 2001, ended March 31, 2002, was extremely important for Kuraray, as it marked the first year of the Company's "G-21" five-year medium-term business plan. Revenues and profits turned downward in fiscal 1999. The Company strove to hold the line at the fiscal 2000 level, and to improve performance beginning in fiscal 2001. However, conditions in the Japanese economy remain unfavorable, marked by serious deflation. In addition, there has been a global economic slowdown, beginning with the United States. For these reasons, regrettably, a recovery in Kuraray's performance still lies in the future. The Company, however, has not been idle. Recognizing the need to gain a firmer footing amid worsening conditions in the surrounding environment, we have striven to reduce expenses throughout the Company, including labor costs and distribution expenses. We believe that these measures allowed us to minimize the decline in the Kuraray's performance.

The Kuraray Group boasts a number of very competitive products that command high shares of world markets. Under the "G-21" plan, we are intensifying our commitment to the entry into new markets, while pursuing a strategy of seeking growth in areas of strength. Our vinyl-acetate operations (Poval, *EVAL* and *KURALON*), which have a commanding share of their respective markets; our *CLARINO* and *AMARETTA* brands of man-made leather, which have a worldwide market presence; and our isoprene derivatives; are the focus of this effort. This pursuit entails clearly identifying the markets where the strengths of these products may be brought to bear, and heightening their growth potential through an aggressive entry into those markets. The Company has targeted four domains that can be expected to show high growth in the coming era, and has designated them strategic. These are information technology (IT), environmentally friendly products, environmental protection, and medical. The corporate image we seek to create through the execution of this strategy is that of an eco-friendly enterprise with unique technology.

HIROTO MATSUO, Chairman **YASUAKI WAKUI, President**

The Company took initial steps in a number of areas during fiscal 2001, in which the above strategy was inaugurated. For instance, Kuraray has acquired other firms to further strengthen its polyvinyl alcohol (PVA)-related businesses, and has split off subsidiaries to heighten the agility of its medical business, which handles many downstream products. In addition, Kuraray implemented an in-house company system in April 2002, chiefly to promote flexible response to changes in market conditions. Through these measures and by maximizing the effect of cost reductions, the Company intends to maintain fiscal 2001 levels and achieve growth in revenues and profits in the fiscal year ending March 31, 2003. Management objectives under the "G-21" plan include improving return on assets (ROA) to over 7% by the fiscal year ending March 31, 2005. As we make unflagging efforts to attain these goals, we ask our shareholders for their continued understanding and support.

June 2002

Hiroto Matsuo

HIROTO MATSUO, Chairman

Yasuaki Wakui

YASUAKI WAKUI, President

Q

What is most notable about the Company's performance during the fiscal year under review?

A

Tougher than anticipated business conditions required even more focus on assets efficiency.

Consolidated net sales of the Kuraray Group edged down 2.5% to ¥305,862 million, operating income declined 4.9% to ¥18,958 million, and net income dropped 29.1% to ¥2,866 million. In the first year of our "G-21" medium-term business plan, we failed to meet its goals.

The principal reasons for the drop in net income were a ¥6,524 million loss on revaluation of investment securities and a ¥7,925 million extraordinary loss in connection with structural reforms.

Although there were reports of visible recovery in some business sectors during the fiscal year under review, there was no significant recovery of demand in the chemical and fibers fields, which are the Kuraray Group's main businesses. The Japanese economy was also affected by continual asset deflation. Overseas as well, the U.S. economy went into a slowdown, along with sagging Asian economies. Overall, the environment surrounding our Group remained extremely harsh.

The decline in the Group's net sales during the period under review was chiefly owing to a change in an overseas subsidiary's accounting period, the falloff in product sales volume that resulted from shrinking demand, particularly in the textiles business, and the intensification of cost competition. Conditions in the textiles business were poor, particularly with regard to polyester filament and staples, as domestic consumption remained stagnant and a worldwide imbalance in supply and demand caused prices to fall. Conversely, the chemicals business was healthy. Although sales of Poval and acrylic monomer were affected by the slump in Asian markets, sales of *EVAL* (ethylene vinyl alcohol), Opto-screens, *SEPTON* and other high-value-added products expanded, and there was a recovery in demand for fine chemicals, including agrochemical intermediates. These developments allowed growth in both revenues and profits. Although recovery in demand for man-made leather is later than anticipated, signs are now becoming visible. Medical and other businesses benefited from healthy sales of dental materials in the United States, as well as from rationalization of costs by subsidiaries, and therefore achieved growth in profits.

As the Company implements the business strategies set forth in its medium-term business plan, asset efficiency is one focus. First, to further strengthen businesses in which the Company is already strong, financial assets are being converted to business assets. Kuraray used approximately ¥30.0 billion of its financial assets in M&A activities intended to expand the Company's core Poval business. The Company also achieved more efficient application of its assets through the redemption of approximately ¥16.0 billion in corporate bonds. In addition, the entire Company participated in a successful effort to reduce inventories.

Q

Kuraray plans to achieve ¥6.0 billion in cost reductions during the fiscal year ending March 31, 2003. Could you tell us about the fundamental policy behind that?

A

As we do not expect a substantial improvement in business conditions soon, we need to work harder to improve our earnings structure.

BREAKDOWN OF ¥6.0 BILLION COST REDUCTION

Personnel expenses:	¥1.5 billion
Distribution costs:	¥1.0 billion
Raw materials and fuel costs:	¥0.5 billion
Plant costs:	¥3.0 billion

The operating environment for the Kuraray Group can be expected to remain severe, as asset deflation and other adverse conditions in the domestic economy are forecast to persist. We responded to these conditions with an effort to realize a quick recovery in profitability through thorough rationalization of costs, and we will be working toward a ¥6.0 billion reduction. Further, we have implemented an earnings improvement policy to put us back on the road to profit growth, as called for in the "G-21" plan. We are now channeling our full efforts in this direction.

YASUAKI WAKUI, President

An earnings-structure improvement committee was convened in August 2001, which took a fresh look at Kuraray's total expenses in every business, factory and support sector. The Company has been implementing specific reform measures arising out of this reevaluation since the second half of this fiscal year under review. Some effects of these measures appeared during the term, and operating income for the second half exceeded our target level by more than ¥1.0 billion. To address factory-related costs, we employed a consulting firm to assist us in increasing productivity. This led to the adoption of an efficient manufacturing system called Personal Education Center (PEC) at each of our plants, which calls for the efficient utilization of both space and human resources. The Company reduced distribution costs by erecting tent warehouses on the grounds of its plants, which reduced payments to second-party warehouses. To reduce labor costs, we have controlled wage levels, for instance by splitting off a plant to become a subsidiary, while rationalizing the labor force itself. The Company is endeavoring to secure a stable supply of materials at lower costs by using the Internet and moving forward with a standardized procurement formula.

On the topic of increased competitiveness, would you tell us about your business portfolio strategy?

Q

A

We are carefully reviewing the competitive position of each component of our business portfolio.

We are changing our business portfolio in stages. Specifically, on the basis of our "Reevaluation Criteria for Underperforming Businesses," we will devise measures to reorganize businesses that lack competitiveness. Where there is no expectation of improvement in earnings, the operations of such businesses are cut back or terminated. Making use of the Company's technological superiority in the marketplace, we are directing our corporate resources toward selection and concentration in promising businesses.

It is imperative that we improve the profitability of our labor-intensive textile operations. With foreign and domestic competitors nipping at the Company's heels, we must employ our proprietary polymer technology to set ourselves apart from the crowd, and are working to shift to high-value-added products. It is planned that the excess personnel created by this process will be absorbed by the chemical products sector and other areas within the Kuraray Group. Our polyester textile operations, for example, will be absorbed by our subsidiary, Kuraray Trading Co., Ltd. This will also accelerate our growth in the functional textile market, which is one of our areas of expertise. Further, it will bring the rationalization of selling, general and administrative (SG&A) and other costs, and the synergies generated will boost profitability. As one step in rationalization, we have split off our filament manufacturing operations and are transferring personnel to the new company. We will also be scaling down manufacturing operations, and working to get the maximum business benefit from the distinctive fibers produced from our proprietary polymers.

Competition in the methyl methacrylate monomer (MMA) market is growing stronger. This business is highly vulnerable to market conditions, but its high-value-added products in the MMA polymer field have a competitive advantage.

Resins for light-guide panels and Opto-screens for rear-projection televisions (PTVs) are increasingly polymers rather than monomers, and these are good examples of value-added products with a high degree of processing. This shift to polymers and high-value-added products will continue, so we will adopt a flexible stance in our monomer production, utilizing alliances with third parties.

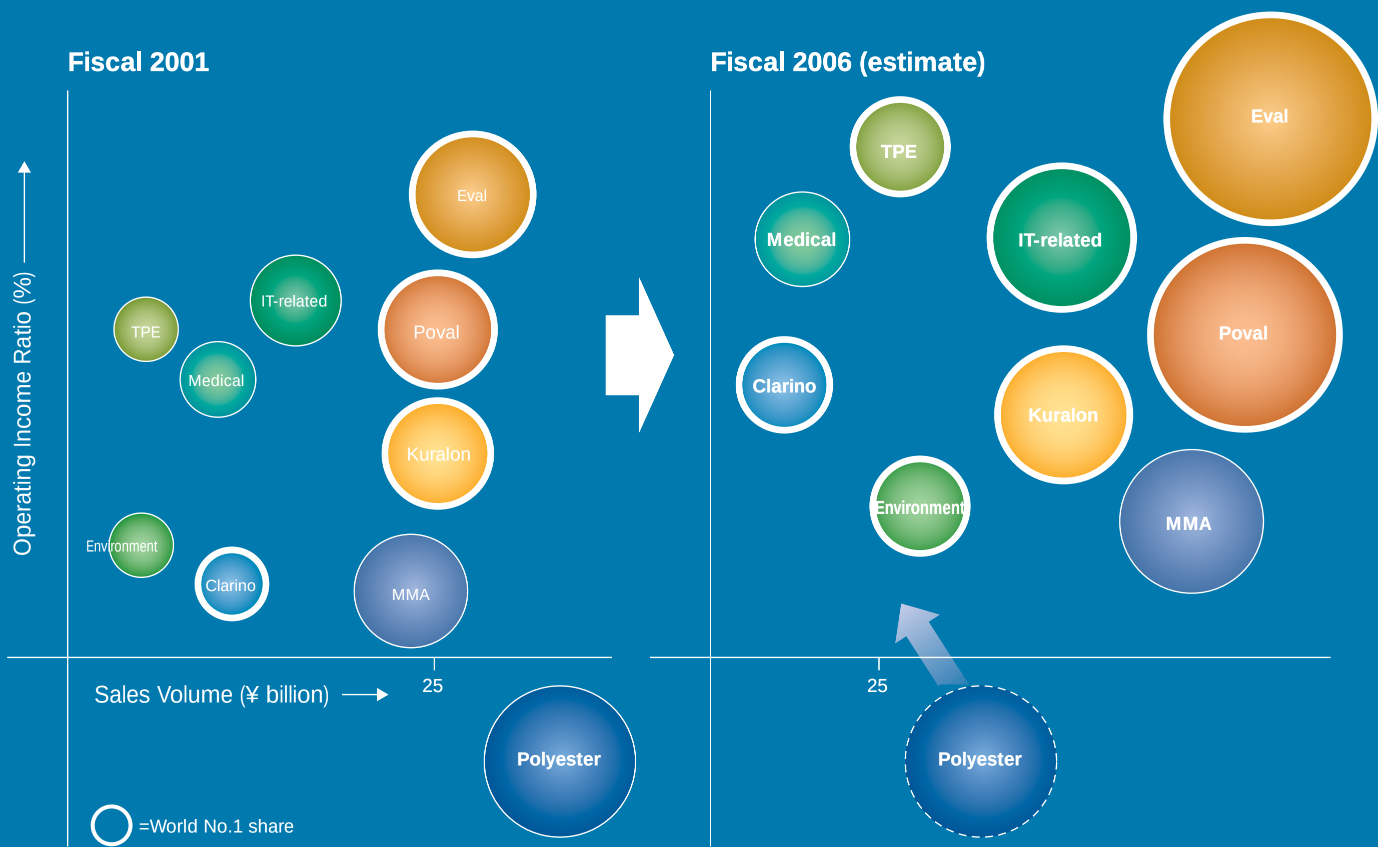
EVAL and Poval are two of our core businesses, and we hold a share of approximately 70% and 30%, respectively, of the world markets for these products. Demand is forecast to continue expanding, and we intend to maintain our market share and the profitability of these operations, and to expand *EVAL* and Poval sales. Measures taken in that regard during the fiscal year under review included the purchase of the PVA-related business of Clariant AG and the transfer of those operations to Kuraray Specialities Europe GmbH, which further strengthened the Company's position in the world market. We will be trying to create synergies in our production, sales, marketing and R&D divisions to further bolster our standing as the top firm in the industry.

Q What will be the growth sectors, the strategic businesses, in the near future?

A

Our strategic businesses for the medium term are new resins for the IT industry and environmentally friendly products.

We will primarily be developing high-performance and high-value-added products using our proprietary technology. Two



Note: The Company has reduced its polyester filament manufacturing capacity from 20,000 tons per year to 13,000 tons per year, and is considering substantial measures with regard to polyester staple.

strategic products are *SEPTON* and *HYBRAR*, which are the mainstays of our isoprene business. These unique styrene thermoplastic elastomers combine the properties of rubber and plastic, and replace both flexible PVC and vulcanized rubber. When incinerated they do not emit toxic chlorine gasses, and for this reason demand is expected to grow. The world market for these elastomers is now approximately 80,000 tons per year. Kuraray can produce 19,000 tons per year, and in August will commence production at a new plant in Houston, Texas, which will have a production capacity of 12,000 tons per year. We anticipate further expanding production capacity to 50,000 or 60,000 tons per year in the fiscal year ending March 31, 2006. The Company is developing practical applications for a number of products, and we expect a second surge of growth for *EVAL* as a result.

In recent years, growth in the sale of PVA film for optical use and Opto-screens has been striking. These products have already been making a significant contribution to profitability, but we anticipate further growth. Kuraray has a virtual monopoly in the market for PVA film, which is used for polarized film for liquid crystal displays (LCDs). There are high technological barriers to participation in this business, so it will be difficult for competitors to make serious inroads into our market share.

We expect quite a bit of expansion in the market for Opto-screens for PTVs, particularly in the U.S. and Chinese markets. The Company's present production capacity is 3 million sheets per year, but this market is predicted to grow to 5 million sheets per year by the fiscal year ending March 31, 2006.

Two strategic businesses for the medium term are new resins for the information technology (IT) industry and environmental businesses. *GENESTAR* is a heat-resistant polyamide resin (a specific nylon resin) developed using Kuraray's proprietary technology. Because it is still manufactured in small lots, production costs are high, but we are beginning to see increased use of it in connectors and other electronics parts owing to its superior heat and abrasion resistance. Thanks to its heat resistance, *GENESTAR* can be used in lead-free solder, which makes it ideal for use in connectors and other electronics parts. In the future, we expect significant demand for *GENESTAR* for use in automobile engine peripheral components.

Another new product, still at the prototype stage, is a flexible film made from liquid crystalline polymer. Sample shipments for use in flexible printed circuit boards for digital cameras and mobile telephones were highly evaluated, and we have expectations that this product will sell well to the electronics and computer industries.

PVA gel is used in a wastewater treatment system that the Company developed in cooperation with manufacturers of water treatment systems and home water-purification systems that use septic tanks. PVA gel offers good performance, requires little space and is highly regarded as an efficient wastewater treatment material. The product should, therefore, attract a good deal of corporate and public-sector environmental investment.

What are your thoughts on the important issue of restoring your man-made leather business?

Q

A

The business is undergoing drastic restructuring.
We are trimming the number of products produced, and have revamped our marketing strategy.

The structure of the man-made leather business is characterized by sales of small lots of diverse products to small and medium-sized customers, but this has resulted in declining profitability. In many cases, we incur additional expenses in connection with changes to product specifications requested by customers, and the market structure is inefficient. Therefore, these products have a high cost structure. Through the first half of the 1990s, there was high demand for man-made leathers in Europe for use in apparel. The present slump in our man-made leather business was caused not only by the poor conditions in the clothing industry, but also by the failure of the clothing, interior furnishings, and shoe industries to rationalize operations. In 1998, despite the decline in demand, production capacity was increased from 12.5 million square meters to 15.5 million square meters, creating a supply and demand imbalance.

To achieve a recovery in the profitability of our man-made leather business, we implemented drastic structural changes during the term under review. First, we decided to reduce the number of man-made leathers we produce by approximately half. Then, we updated our strategy for marketing to European clothing manufacturers, and decided to challenge our competitors for sales to the interior furnishings industry on their home ground. In the United States, we are working to expand our business with interior furnishings and clothing firms, and open up new markets for this product for use in car seats and other applications. We are also renewing our efforts to expand sales of our luxurious new product, *PARCASSIO*.

Inventories have also been an issue, and during the fiscal year under review we achieved substantial inventory reductions. Kuraray's man-made leathers are soft and supple to the touch, which makes them ideal for designer apparel, high-end furniture and car seats. We will continue using quality as our selling point in creating demand for man-made leather as a substitute for natural leather, as well as opening up new markets as we strive to regain our market position in this core business.

Q

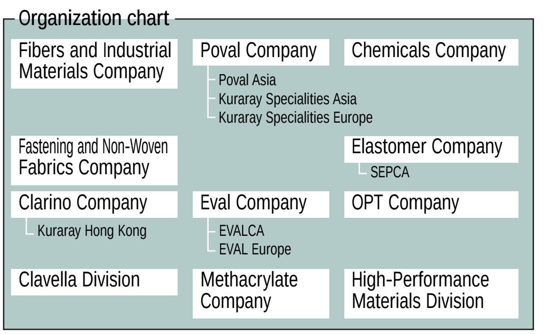
Tell us about the in-house company system Kuraray decided to implement in April 2002.

A

The in-house company system is a key strategic initiative that will make for speedier decisions and more efficient management.

The in-house company system brought sweeping transfers of authority and reduced redundancy, with the objective of realizing faster and more efficient management. The deflationary economy caused a drop-off in demand, which prompted reductions in production. Because management was slow to respond to these developments, inventories of some of our products ballooned, and this prevented a recovery in profits.

IN-HOUSE COMPANY SYSTEM
(9 companies, 2 business divisions)



The presidents of the in-house companies have authority over production, sales, development and the rest of their respective company's business operations, and the responsibility for their company's performance. Under our previous business division system, profit and loss were the yardstick by which the performance of managers was evaluated, but from now on the balance sheets and cash flows will be regarded as the important indicators as we move forward with inventory reductions and improvements in asset utilization. We will also be selecting business fields for concentration of resources and effort, based on our "Reevaluation Criteria for Underperforming Businesses." These criteria require in-house company presidents to prepare restructuring plans for businesses that have been using, rather than providing, cash flows for two years or whose ROA has been below 3% for three years. If, however, there is no prospect of a recovery in profitability, such a business will be downsized or terminated. This decision will be made not by the in-house company presidents, but by corporate management. The more authority is transferred to in-house company presidents, the more important the role of corporate management becomes. A common infrastructure for the sharing of personnel, material, funds and information cannot be optimized if it is undertaken piecemeal. Such an infrastructure must be implemented uniformly across the entire Company, and corporate management is responsible for this.

An annual salary system has been established for all personnel in management and executive positions, and together with the in-house company system, we have implemented a performance-based benefit and compensation system.

PVA-RELATED OPERATIONS OF CLARIANT ACQUIRED

In July 2001, Kuraray purchased the PVA-related operations of Clariant AG and transferred them to Kuraray Specialities Europe. The reasons for this action were as follows:

1. In view of the expanding markets, principally in Japan and Asia but extending to Europe and North America, this move was necessary to secure the position of our Poval business.
2. Kuraray faced risks in connection with new construction (time required, deterioration of supply and demand balance) and the acquisition of Clariant's operations by a competitor, and subsequent decline in Kuraray's market share.
3. As a result of the acquisition, Kuraray will benefit from corresponding synergies in the areas of technology, R&D and marketing.
4. The acquisition gives us a stable source of vinyl acetate.
5. Low costs will make expansion possible.

The purchase of Clariant's Frankfurt PVA-related production base is estimated to have boosted net sales during the fiscal year under review by approximately ¥15.0 billion. Because the Company is accelerating the depreciation of approximately ¥30.0 billion in goodwill, losses on these operations are forecast for the fiscal years ending March 31, 2003 and 2004. However, with the improvement in profit ratios brought by the synergies created, as well as the lightening of the Company's depreciation burden, these operations should make a substantial contribution to profits from the fiscal year ending March 31, 2005, onward.

What are your thoughts on increasing shareholder value?

Q

A

We believe that revenue growth and increased operating efficiency are the keys to enhanced shareholder value. In addition to dividends, we pass on profits to shareholders through revenue growth in our core businesses, through the efficient utilization of capital, and by fostering growth in corporate value.

Concrete measures include increasing ROA to more than 7%, a goal set forth in our medium-term business plan. To achieve this, we are moving forward with the more efficient use of assets where needed. We have already begun the reduction of our financial assets. In the fiscal year ending March 31, 2003, we will redeem all our convertible bonds, which will require ¥23.4 billion, and will be covered out of cash reserves. We are also working to optimize inventories, and plan to reduce our on-hand inventory level to two months by the fiscal year ending March 31, 2006. We are discussing an M&A strategy as a prudent use of our financial reserves, and will be considering alliances, the establishment of new subsidiaries and taking capital positions in existing companies in addition to outright acquisitions, making use of external capital in various forms to heighten synergistic effects—particularly in our core businesses. The expansion of our own facilities is not necessarily the best capital investment policy for Kuraray at this point.

In accordance with a change to the Commercial Code of Japan, we have submitted notfication of our intention to buy back 30 million shares of Kuraray stock. This is a countermeasure against the takeover of the Company and will allow us to implement a stock option program. In connection with the latter, the Company has decided to issue stock acquisition rights for 1.2 million shares. It is planned that these stock options shall be granted to the approximately 850 employees of the Kuraray Group in managerial positions. The scale of this plan is the largest of any in the chemicals and textiles industry in Japan.

The Company will continue to deploy new products and seek new customers, striving through increased sales and reduced costs to achieve new levels of profit. Our efforts to achieve growth in revenues and profits during the fiscal year ending March 31, 2003, remain at the highest pitch, as we execute a radical reevaluation of our business structure. We look to the continued support and cooperation of our shareholders in this effort.

TOSHIHIDE SAKAI

Please explain the policies of the Poval Company.

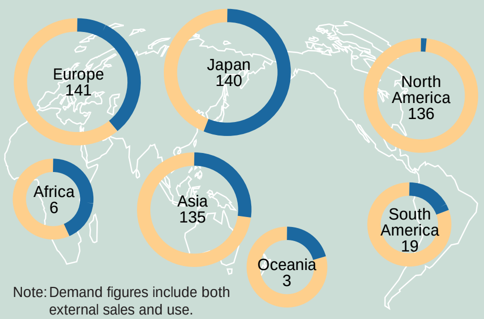
Q

A

Kuraray's "G-21" medium-term business plan lists Poval (PVA) operations as one of the Company's core businesses. Kuraray is strongly competitive in international markets for these products, and the Company's PVA-related business is the backbone of these operations.

Kuraray's Poval and PVA film hold the top shares of their respective world markets, and the Company's PVA film commands virtually the entire market for optical films used in LCD displays for electronic devices. With such a strong market position as its foundation, the Company will maintain and expand this business. In the Poval Company, conscious of our responsibilities as Kuraray's core business, we are striving to increase revenues. Further, in support of Kuraray's "selection and concentration" strategy, we are working to strengthen cooperation within the Poval Company to shorten the time required to move from development to market.

WORLD DEMAND FOR PVA AND KURARAY' S MARKET SHARE (2000) (Thousands of tons)



Note: Demand figures include both external sales and use.

Could you tell us about your strategies in world markets?

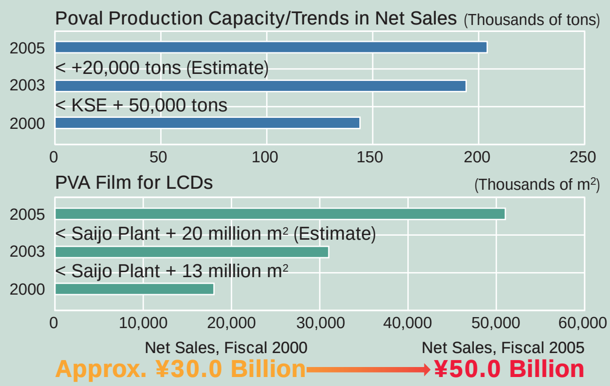
Q

A

One important event this past fiscal year was the establishment of Kuraray Specialities Europe GmbH (KSE). The PVA-related operations purchased from Clariant AG and transferred to KSE were acquired by Clariant in 1997 from Hoechst, a German chemical manufacturer, and the gain therefore brings with it employees with a wealth of experience in development, manufacturing and marketing. The establishment of KSE raised the Kuraray Group's annual production capacity from 144,000 to 194,000 tons—a significant jump—and brings the Group a strong base of operations in Europe. To the present, the primary focus of our Poval operations has been in Japan and the rest of Asia. However, the addition of this foothold adds Europe to that mix, and makes possible operations on a global scale.

As one step toward the reorganization and consolidation of our marketing system, we are strengthening our European marketing network. Since Kuraray is selling its products through KSE's marketing routes, we previously forecast an increase in sales volume of approximately 1,000 tons per year. Kuraray's Japanese operations have been exporting approximately 10,000 tons of PVA to Europe annually. In the interest of optimizing manufacturing locations, KSE will assume about 70% of those marketing responsibilities, which will reduce shipping costs and customs duties.

POVAL BUSINESS CONCEPT



The Kuraray Group's R&D has in the past centered on the development of products conceived by the Group's technical personnel, but with the establishment of KSE, product development based on ideas born in the marketplace has become possible. Now, through maximum utilization of R&D themes and tie-ups with users, we are moving forward efficiently with such developmental efforts.

Striving for Further Growth in Profits

TOSHIHIDE SAKAI, President of Poval Company

We are energetically engaged in exchanges of production technology, and while ensuring that such exchanges are mutually beneficial, will be seeking to generate synergies.

What are the important issues facing the Poval business?

Q

A

Fifty years have passed since Poval was created, and it has become a mature product. The quality level of general-purpose products, including those of our competitors, has risen and enhanced cost competitiveness is required to maintain market superiority. In the coming fiscal year, we will implement process reforms and will enhance the efficiency of business practices at two plants, thereby achieving reductions in costs.

Overseas, the reconstruction of our operations in Singapore is an important issue, and we are striving to optimize price levels. Because the scale of the U.S. market for Poval is approximately 100,000 tons per year, growth in the Kuraray Group's sales volume in that market is stalled at a low level. In the future, we will endeavor to make new inroads into the U.S. market and increase sales there through close cooperation with KSE.

What new products are in the works?

Q

A

To develop and promote special grades, as well as to expand sales, we have recently established a marketing group. This group is laterally connected with our development, manufacturing and sales organizations, and performs a leadership role.

To contribute to the expansion of the Kuraray Group's operations, we also supply other business segments in the Group with new polymers. For instance, using the Company's melt-spinning technology we developed a special polyester fiber made using our new *EXCEVAL* water-soluble resin. When the *EXCEVAL* is dissolved during the dying process, the result is a polyester thread that is 40% lighter than ordinary polyesters.

Would you tell us something about the issues in the market for PVA film for LCDs?

Q

A

Kuraray has a virtual monopoly in this market, but another firm is scheduled to launch a competing product next fiscal year. In response, we will be strengthening our PVA film operations by stabilizing and improving product quality, launching a new brand and conducting joint product development with users. This will minimize the impact on Kuraray of competitive entry into the market.

We are closing in on the development of a water-soluble film for use as a package for detergents, and expect to launch a new such product in the second half of next fiscal year. In this business area as well, cost reductions are an important theme, as throughout the entire Poval Company.

Could you please explain the goals of the Eval Company?

Q

A

EVOH resin (*EVAL*) has superior gas-barrier properties, and is widely used in food packaging. The Kuraray Group's present *EVAL* production capacity is 45,000 tons—the largest of any firm in the world. *EVAL* is also used in plastic fuel tanks for automobiles, chiefly in the U.S. market, and in multilayer pipes for under-floor heating systems. New sources of demand are expected to emerge. In the U.S. market, *EVAL* is used in about 70% of fuel tanks manufactured (for a consumption of 8,000–9,000 tons per year). In Europe and Japan, however, where regulation of highly volatile gasoline is lax, the current rate of usage in fuel tanks does not exceed 5–10%. Tightening of regulations in those markets is forecast to bring increasing demand for *EVAL*.

Our researchers are working to improve *EVAL*, to develop "super barrier" materials that go beyond it and to find new applications for *EVAL* outside the food packaging field. In the March 2001 fiscal year, we began to organize our three-vector, Japan-U.S.-Europe new business development structure, integrating technology and sales to open up new applications for our products. In the future, we will be accelerating development and readying of products for market, with the objective of realizing a high-profit business structure and becoming the world's top producer of barrier materials.

In April 2002, Eval Company of America and EVAL Europe N.V. of Belgium were brought into the Eval Company organization. What does this mean for your global strategy?

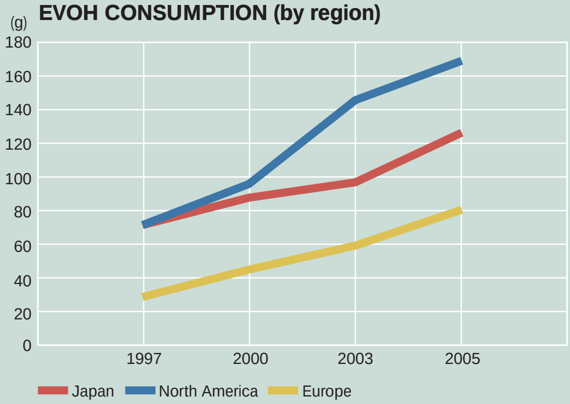
Q

A

Before the in-house company system was implemented, Eval Company of America, EVAL Europe and Kuraray's Eval Division formed a parallel organization. Since April, they have been organized into a single management system with the president of the Eval Company at the top, and are conducting operations on a global scale. Responsibilities and lines of authority have been clarified.

In addition, we were already moving forward with the building of a support system for global operations before the in-house company system was established. In the March 2001 fiscal year we established technological standards for information sharing among the three poles of our global organization, and in the March 2002 fiscal year built our virtual private network (VPN) intranet over the period of a year. This made possible the immediate utilization and sharing of new technology and business intelligence. We believe that the development of this infrastructure makes it possible for us to achieve remarkable improvements in the speed of our development, manufacturing and marketing. We organized a Subcommittee in each of our functional areas—manufacturing, development, marketing and management—to facilitate information exchange and share ideas on problem solving. On highly important matters in particular, joint Japan-U.S.-Europe project teams are formed as needed to hasten the resolution of issues.

ACTUAL AND PROJECTED PER-CAPITA EVOH CONSUMPTION (by region)



Becoming the Top Manufacturer of Gas Barrier Materials

JUNSUKE TANAKA, President of Eval Company

Q Please give us an overview of your development system.

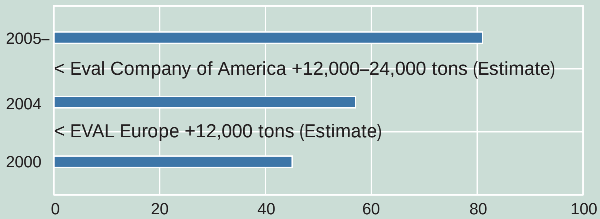
A Until recently, Kuraray's R&D organization has had primary responsibility for development of *EVAL* products, while Eval Company of America and EVAL Europe provided mainly technical services. To overcome the intense competition in the marketplace, though, we are changing to separate development organizations for each field in which *EVAL* is used. As the pace of operations of some fields in the United States is faster, we will be expanding the R&D capabilities of Eval Company of America and concentrating development in those fields in the United States.

Q As one of the Kuraray Group's core businesses, what kind of earnings structure are your reforms aimed at building?

A To expand and grow its business, the Eval Company is working to strengthen the position of its products in the marketplace. In other words, we are trying to secure our superiority in the market by opening up new applications for our products, as well as improving the properties of existing products. Further, by launching unique products, we can make it difficult for our competitors to erode our lead. Through these measures we will build a more profitable business structure, which will allow the Eval Company to make a contribution to the improvement of Kuraray's profit structure.

THE *EVAL* BUSINESS CONCEPT (Thousands of tons)

EVAL Production Capacity/Trends in Net Sales



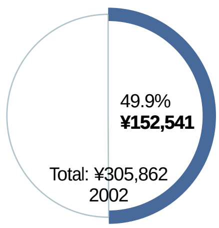
Net Sales, Fiscal 2000 **Approx. ¥30.0 Billion** → Net Sales, Fiscal 2005 **¥50.0 Billion**

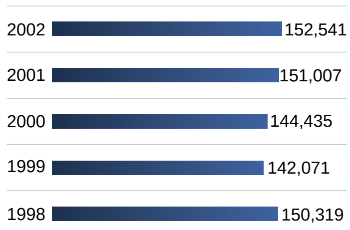
AT A GLANCE

BUSINESS SEGMENT	NET SALES BY BUSINESS SEGMENT	NET SALES (¥ Millions)	MAJOR PRODUCTS

CHEMICAL PRODUCTS







Poval (polyvinyl alcohol resin)
MOWIOL

PVA film

EVAL
(ethylene vinyl alcohol copolymer resin)

EVAL film

Methacrylic monomer

Methacrylic resin

Opto-screens

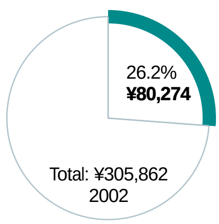
SEPTON, *HYBRAR* (thermoplastic elastomer)

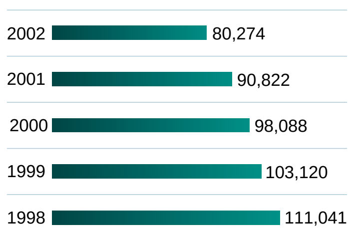
Fine chemicals

GENESTAR (heat-resistant polyamide resin)

Activated carbon

FIBERS AND TEXTILES



KURALON

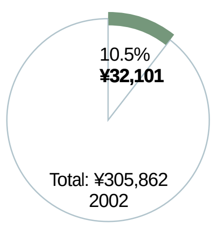
KURALON K-II (new type of PVA fiber)

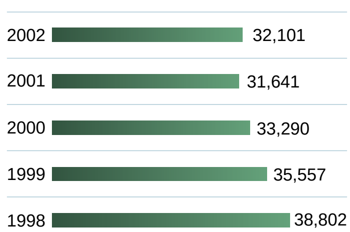
Polyarylate fiber

Polyester staple

Polyester filament

MAN-MADE LEATHER, NON-WOVEN FABRICS AND FASTENING MATERIALS



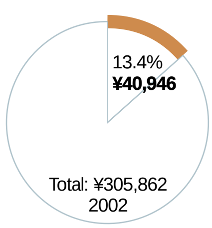
CLARINO, *AMARETTA* (man-made leather)

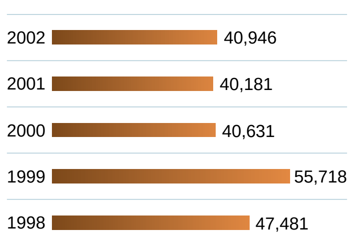
KURAFLEX (dry-laid non-woven fabric)

Melt-blown non-woven fabric

MAGIC TAPE (hook and loop fastener)

DIVERSIFIED BUSINESSES



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
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.)	10,000 t 23,000 t
EVAL Europe N.V. (Antwerp, Belgium)	12,000t	
Food packaging material	Okayama Plant (Okayama)	3,000 t
Solvents, adhesives, methacrylic resin	Nakajo Plant (Niigata) Kyodo Monomer Co., Ltd. (Osaka)	68,000 t 20,000 t
Molding material, sheets, synthetic marble	Nakajo Plant (Niigata)	53,600 t
PTV screens	Nakajo Plant (Niigata)	3,000,000 sheets
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 (Manufacturing scheduled for August 2002 startup)
Pharmaceutical and agrochemical intermediate, vitamin precursor	Nakajo Plant (Niigata)	—
Electronics parts, auto parts	Kuraray Saijo Co., Ltd. (Ehime)	1,000 t (neat polymer base)
Water purification facilities, gas separators	Kuraray Chemical Co., Ltd. (Okayama)	18,500 t
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	Kurashiki Plant (Okayama)	40,000 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
Dental adhesives, dental filling materials	Kuraray Medical Inc. (Okayama)	540,000 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 pairs
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

Chemical Products

- Poval
  - Poval resin
  - PVA film
- *EVAL*
- Methacrylic
  - Opto-screens
  - Synthetic marble
- Isoprene Chemicals
  - *SEPTON*
  - *HYBRAR*
  - *GENESTAR*
  - Aroma chemicals
  - Activated carbon

Fibers and Textiles

- *KURALON*
- *KURALON-K-II*
- New-type polyester
  - *SOPHISTA*
- Polyarylate fiber

Man-Made Leather, Non-Woven Fabrics and Fastening Materials

- Man-Made Leather
  - *CLARINO*
  - *AMARETTA*
  - *PARCASSIO*
- Non-Woven Fabrics
  - *KURAFLEX*
  - Melt-blown
- Fastening Materials
  - *MAGIC TAPE*

Diversified Businesses

- Medical Products
  - Dental materials
  - Artificial kidneys
  - Contact lenses
- Environmental Businesses
  - Industrial membranes
  - PVA gel

Chemical Products

PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2002

Sales of chemical products rose 1.0%, or ¥1,534 million, to ¥152,541 million, and operating income increased 4.6%, or ¥583 million, to ¥13,298 million. The domestic market for chemical products remained weak, but the Company succeeded in increasing revenues and profits from high-value-added resins, which have long been a principal product, as well as from specialty chemicals.

Poval Adjustments to inventories of polarized film for liquid crystal displays (LCDs) caused a decline in sales of PVA film made from Poval, and Kuraray Specialities Asia Pte., Ltd. changed its accounting period, which negatively affected sales in this business area. However, sales of Poval resin in the European and Chinese markets expanded. As a result, Poval sales remained virtually unchanged from the previous fiscal year. However, the stable prices of resin combined with gains on foreign exchange transactions and lower costs of materials to allow an increase in profits. During the fiscal year under review, the Company purchased Clariant AG's polyvinyl alcohol (PVA) and polyvinyl butyral (PVB) operations, and Kuraray Specialities Europe GmbH was established to take them over. Since the new company commences operations at the end of December 2001, its contribution to performance will appear in next fiscal year's financial report.

EVAL Domestic demand for the EVOH resin *EVAL* (ethylene vinyl alcohol) stagnated as a result of poor economic conditions. The heightened pace of commerce within the European Union (EU) following its integration has made Europe a particularly favorable market. Sales to Asian markets for food packaging have gradually risen, while prices of basic materials have declined in the United States, leading to expanded revenues and profits in this area. To respond to growing demand in Europe, the Company expanded production facilities at EVAL Europe N.V. in May 2001.

Methacrylic Resin Products Toward the end of the fiscal year under review, competition in world markets drove the price of methyl methacrylate (MMA) monomers and resins downward, but demand for Opto-screens for rear-projection televisions (PTVs) remained strong in the United States, despite the terrorist attacks of September 11, 2001. Overall, however, sales and profits remained flat. It was feared that sales of PTVs would be adversely impacted by the advent of plasma display panel (PDP) TVs. However, as PTVs have a

Company name	Capital	Activities
1) Kuraray America, Inc.	US$8.7 million	Importing and sales of Kuraray products
2) Eval Company of America	US$4.15 million	Manufacture and sales of *EVAL* in the United States
3) SEPTON Company of America	US$35 million	Manufacture and sales of thermoplastic elastomers
4) Kuraray Europe GmbH	€31.2 million	Sales of Kuraray products in Europe
5) EVAL Europe N.V.	€29.7 million	Manufacture and sales of *EVAL* in Europe
6) Kuraray Specialities Europe GmbH	€20.0 million	Manufacture and sale of *MOWIOL** (PVA) and *MOWITAL** (PVB)
7) Kuraray Hong Kong Co., Ltd.	HK$4.65 million	Processing and sales of Kuraray products in China and Southeast Asia
8) Kuraray Specialities Asia Pte., Ltd.	SP$19.55 million	Sales of Poval resins
9) Poval Asia Pte Ltd	SP$40 million	Manufacture of Poval resins
10) Kuraray Co., Ltd.	¥88,955 million	Manufacture and sales of Kuraray products

• Manufacturing facility
• Marketing base

**MOWIOL* and *MOWITAL* are trademarks of KSE.

MAJOR PRODUCTS

Poval Resin: **First developed as a step in the production of PVA fiber, Poval's water solubility, adhesive properties, emulsibility 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.**

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.**

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.**

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

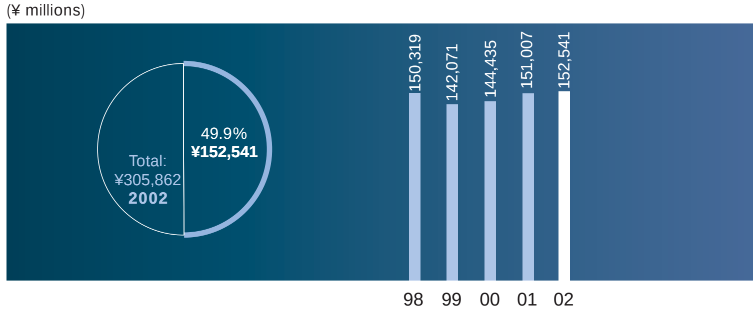
Synthetic Marble: **An application of methacrylic resin, this material has the look of natural marble, and is being used in modular kitchens, bathtubs and sinks.**

price advantage, we are confident in our ability to achieve steadily growing sales for the foreseeable future.

Isoprene Chemical Products The European and U.S. markets for thermoplastic elastomers recorded solid growth during the fiscal year under review. The Company strove to reduce costs in its fine-chemical operations, and increased the sales volume of methyl dichlorochrysanthemate (DCM), an intermediate in the production of pyrethroid insecticides, which are less toxic to humans than other insecticides. Sales of aroma chemicals were solid. Sales of vitamin-related products and pharmaceutical intermediates, however, contracted as a result of falling market prices and weak demand. Overall, sales of isoprene chemical products showed no significant growth, but profits nonetheless increased.

Other Chemical Products Sales of activated carbon for pollution-control activities were strong. However, as this

NET SALES
(¥ millions)



sector was affected by the adverse economic conditions, sales were virtually unchanged from the previous fiscal year, and profits declined.

REGIONAL CONDITIONS

Japan Affected by Japan's deflationary economy, business conditions continued to worsen. Exports of Poval and *EVAL* declined as a result of the shift of these manufacturing operations overseas. Domestic operations were focused on the development of new processes and products.

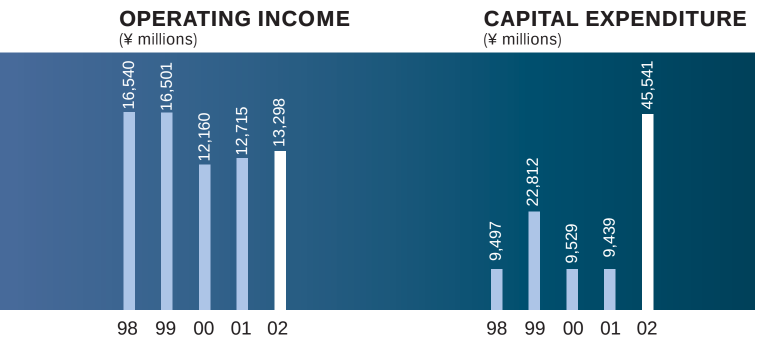
Europe Although sales of *EVAL* were strong in Europe, startup expenses in connection with the establishment of Kuraray Specialities Europe put downward pressure on profits.

North America Thermoplastic elastomers, Opto-screens and *EVAL* continued to perform well in this market, contributing to the growth of sales and profits in the region. Declining natural gas prices also boosted the profitability of *EVAL*.

Asia Kuraray Specialities Asia changed its accounting period, which had a negative effect on sales of Poval. China had previously been the principal source of demand for general-purpose products, but is now purchasing more specialty goods. We expect demand for *EVAL* and *SEPTON* in Southeast Asia and China to grow in the future.

OUTLOOK

We are intensifying our efforts to expand our Poval, *EVAL*, thermoplastic elastomers, Opto-screens, and other businesses



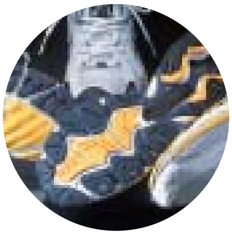
that enjoy continuously growing demand in world markets.

In the Poval business, during the term in review the Company acquired the PVA-related operations of Clariant, established Kuraray Specialities Europe on this basis, and got the new company up and running smoothly. Adding this new firm to operations in Japan and Singapore, we have achieved an efficient tri-regional structure.

The Company expanded *EVAL* manufacturing capacity in May 2001, and is now considering the expansion of facilities in Europe. In thermoplastic elastomer operations, we are preparing for the startup of a new factory built by our U.S. subsidiary, SEPTON Company of America. Kuraray is employing its technological expertise to expand its line of distinctive products, and to further expand its presence in Asian markets.

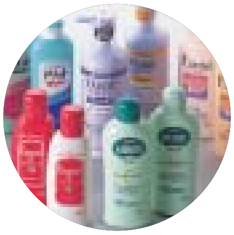
SEPTON: **As elastic as rubber yet as moldable as plastic, *SEPTON* is used as a rubber substitute and a plastics additive. When incinerated, *SEPTON* emits no chlorine gasses, and is therefore in high demand as a substitute for polyvinyl chloride (PVC) and vulcanized rubber. Kuraray began construction last year of a plant in the United States to produce this material, and manufacturing will commence immediately upon its completion.**

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.**



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.**

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).**



Activated Carbon: **With its ability to adsorb and eliminate odors and contaminants, this material is used in water filters, air-conditioning filters and many other applications.**

Fibers and Textiles

Company name	Capital	Activities
1) Kuraray America, Inc.	US$8.7 million	Importing and sales of Kuraray products
2) Kuraray Europe GmbH	€31.2 million	Sales of Kuraray products in Europe
3) Kuraray Co., Ltd.	¥88,955 million	Manufacture and sales of Kuraray products
4) Kuraray Trading Co., Ltd. (Hong Kong)		Sales of Kuraray products
5) Kuraray Trading Co., Ltd. (Hanoi)		Sales of Kuraray products
6) Kuraray Trading Co., Ltd. (Taipei)		Sales of Kuraray products
7) Kuraray Trading Co., Ltd. (Shanghai)		Sewing and sales of Kuraray products
8) Kuraray Trading Co., Ltd. (Jakarta)		Sewing and sales of Kuraray products

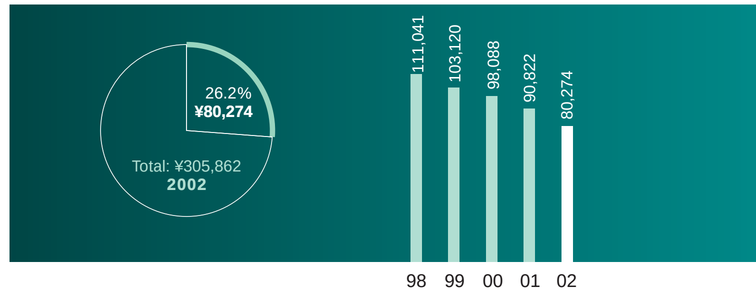
•Manufacturing facility
•Marketing base

PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2002

Sales of fibers and textiles declined 11.6%, or ¥10,548 million, to ¥80,274 million, and operating income declined 90.6%, or ¥1,559 million, to ¥161 million. To improve the profit ratio for polyester sales, we split off our polyester manufacturing operations into a separate company during the period in review, and are moving forward with reductions in labor costs and other expenses.

Polyester Domestic polyester sales, chiefly of general-purpose goods, were affected by the slump in consumer spending. Worldwide, polyester prices dropped as a result of an imbalance in supply and demand. Therefore, revenues and profits both declined. For these reasons, the Company reduced its polyester manufacturing capacity. This sector recorded strong sales of new-type polyester products, which were developed using the Company's proprietary polymer technology, and of *SOPHISTA*, a textile made from *EVAL* resin, in both cases primarily for use in sportswear.

NET SALES
(¥ millions)



KURALON *KURALON* is used in place of asbestos as a cement-reinforcing agent in fiber reinforced cement (FRC) and to reinforce rubber. This is a field in which special characteristics of *KURALON* have won it a firm position, but poor economic conditions caused a falloff in demand for materials, and cost competition continued to escalate. For these reasons, sales of *KURALON* for its traditional applications fell off, and *KURALON K-II* faced intense competition. Declines were recorded, therefore, in both sales and profits.

Rayon Kuraray ceased production of rayon in the fiscal year ended March 31, 2001. During the fiscal year under review, sales of remaining inventory continued.

REGIONAL CONDITIONS

Japan The continuing weakness of demand for polyester resulted in worsening market conditions for general-purpose goods. Sales of *KURALON* for fishing nets, tents and other traditional uses were weak, but sales for civil-engineering and other specialized uses were firm.

Europe Demand for *KURALON* as a rubber reinforcement substitute, as well as for ground stabilization and other civil engineering uses, expanded.

North America Sales of *KURALON* as a rubber reinforcement substitute were solid.

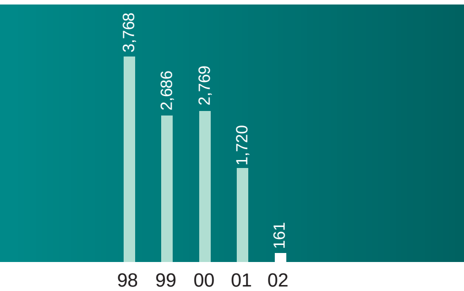
OUTLOOK

In our textile business, we will be reorganizing polyester operations—in particular accelerating the shift to products with special characteristics—to achieve revenue improvements. In addition, we will utilize the unique strength and alkali-resistance of *KURALON* to expand sales in the textile field.

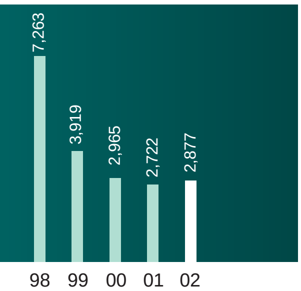
As one measure to strengthen competitiveness, in April 2002 we transferred our polyester textile operations to Kuraray Trading Co., Ltd., a general trading company and member of the Kuraray Group. The integrated administration of all areas from polyester textiles to secondary products will facilitate management that is sensitive to market needs. In addition, integrated production at all stages, from raw thread to textiles and secondary products, will make possible the rationalization of total production costs and promote synergies from human resource consolidation.

In October 2001, we split off the polyester filament manufacturing operations of our Saijo Plant into an independent company, Kuraray Saijo Co., Ltd. We continue to deliberate measures aimed at a prompt response to present conditions in the field of polyester staple. Most countries in the EU will have regulations governing asbestos use in place by 2005, and it is therefore forecast that demand for asbestos substitute *KURALON* will expand. In the domestic market, a number of major general contractors have decided to use *KURALON K-II* as a concrete reinforcing agent, and we expect this to bring significant growth in demand.

OPERATING INCOME
(¥ millions)



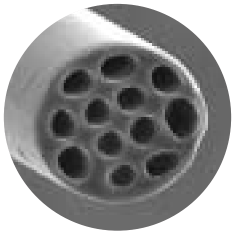
CAPITAL EXPENDITURE
(¥ millions)



KURALON: **This product is extremely strong, retains its shape, is hydrophilic and is weather-resistant, which makes *KURALON* suitable for a broad range of industrial applications. In recent years, it has been used instead of asbestos as a reinforcing material in cement and for separators in alkali batteries. Demand continues to grow for *KURALON*.**

KURALON K-II: **High strength and low-temperature water solubility make *KURALON K-II* suitable for a wide variety of applications, from industrial materials to upholstery and clothing. It is also highly regarded in the civil engineering and construction industries as a concrete additive that greatly adds to its durability.**

Polyester *SOPHISTA*: **Made from *EVAL*, *SOPHISTA* is a moisture-absorbent, quick-drying synthetic fiber. Applications that bring it into direct contact with the skin are numerous, including underwear, sportswear and women's clothing.**



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-light-weight, easily dyed microfiber.**

Polyarylate Fiber: **A strong, abrasion-resistant polyarylate fiber with low water-absorbency is used in rope, fishing nets and other industrial applications, as well as in sporting goods and optical fiber tension members.**

Man-Made Leather, Non-Woven Fabrics and Fastening Materials

Company name	Capital	Activities
1) Kuraray America, Inc.	US$8.7 million	Importing and sales of Kuraray products
2) Kuraray Europe GmbH	€31.2 million	Sales of Kuraray products in Europe
3) Kuraray Hong Kong Co., Ltd.	HK$4.65 million	Processing and sales of Kuraray products in China and Southeast Asia
4) Kuraray Co., Ltd.	¥88,955 million	Manufacture and sales of Kuraray products
5) Haru-Kuraray GmbH	€1.0 million	Sales of man-made leather in Europe
6) Lorica Sud S.r.l.	€0.9 million	Processing and sales of man-made leather

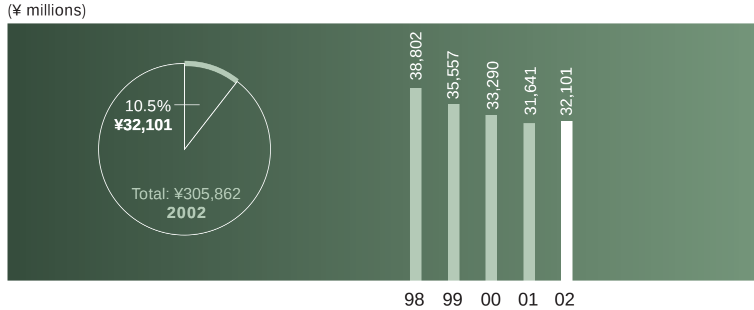
• Manufacturing facility
• Marketing base

PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2002

Net sales of man-made leather, non-woven fabrics and fastening materials increased 1.5%, or ¥460 million, to ¥32,101 million, but operating income fell 27.6%, or ¥560 million, to ¥1,468 million. Increased demand for low-priced goods brought an increase in sales volume, but a decline in profits.

Man-Made Leather Demand for *CLARINO* man-made leather rose steadily in the Chinese market. Sales in Japan and the United States for use in apparel and sales in Japan and Europe for use in interior furnishings increased gradually. However, a recovery in the European market for use in apparel is later than predicted, and domestic sales were affected by poor economic conditions, with the result that sales and income were virtually unchanged from the previous fiscal year. During the fiscal year under review, we introduced a new product, *PARCASSIO*, which offers the feel of natural leather.

NET SALES
(¥ millions)



Non-Woven Fabrics Kuraray holds the top share of the domestic market in the field of non-woven counter cloths, but is still striving to expand sales. However, sluggish growth in demand and stiff competition in the field of general-purpose materials resulted in a decline in profit margins on the sale of non-woven fabrics. As a result, profits declined despite a slight gain in sales revenues. Kuraray commands the top share of the domestic market for fastening materials, and sales of a new type of hook and loop fastener were healthy. However, sales of these materials for use in apparel were affected by weak consumer spending. Sales revenues, therefore, declined slightly and profits were flat.

REGIONAL CONDITIONS

Japan The domestic economy created severe conditions in the man-made leather sector, but sales of non-woven materials and hook and loop fastener were strong.

Europe The Company strove to increase demand for man-made leathers for use in apparel, and to reduce inventories. Kuraray also strove to expand sales of *PARCASSIO*, a high-value-added product used in interior furnishings and other applications. Our marketing of man-made leathers in Europe has until recently been limited to Germany, but we are now expanding our marketing area to include the entire EU.

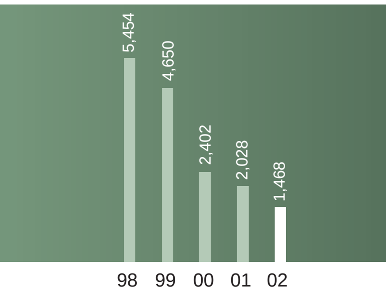
North America In the existing poor business conditions, the Company worked to gain a larger share of this market to expand sales of man-made leather for use in apparel. On April 1, we consolidated Clarino America Corp. (a marketer of *CLARINO*) with Kuraray America, Inc., and are now proceeding with the rationalization and strengthening of their marketing structure.

Asia To strengthen the operations of Kuraray Hong Kong Co., Ltd., we established a Taiwan office on April 1 in a bid to market man-made leathers to the Chinese factories of major athletic shoe manufacturers, and to increase the market penetration of their products.

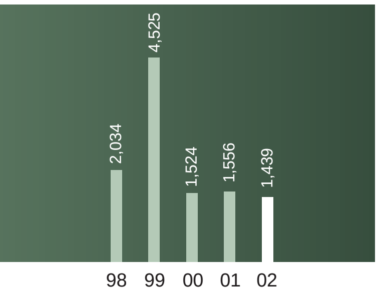
OUTLOOK

In the domestic market, our man-made leather business is

OPERATING INCOME
(¥ millions)



CAPITAL EXPENDITURE
(¥ millions)



emphasizing the rationalization of production costs by reducing the number of man-made leathers produced by approximately half, and is expanding sales of its high-end product, *PARCASSIO*, initially for use in shoes. Overseas, inventory adjustments are proceeding, and we expect that value-added products for use in interior furnishings and car seats will find acceptance in the marketplace, and that demand will subsequently grow. Demand in the Chinese market is rising, chiefly for products used in athletic shoes. Our agreements with firms in North America, Europe and Southeast Asia, which conduct final processing on intermediate products shipped from Japan, will in the future contribute to the expansion of sales volume. During the period in review, the Company improved its capacity utilization to 85%, and plans to improve that figure to 90% by March 31, 2003, and to 100% by March 31, 2004.

The Company is striving for further production cost reductions in its non-woven fabric operations, and to maintain stable profits through strengthened sales of distinctive products with unique properties.

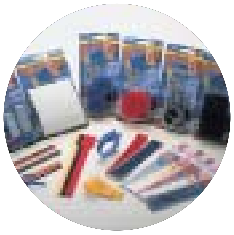
CLARINO: **Supple, strong, lightweight, weather-resistant and easy to care for, *CLARINO* is used in shoes, handbags, athletic shoes, baseball gloves and large balls. *AMARETTA* is another brand of our man-made leather born of microtechnology, and is used in luxury coats, jackets and interior furnishings.**

PARCASSIO: **In addition to the superior properties of man-made leathers, *PARCASSIO* offers the look and feel of natural leather. It is sold throughout the world for a multitude of applications, chiefly shoes and handbags, and will be a key product in our man-made leather business in the coming fiscal year.**

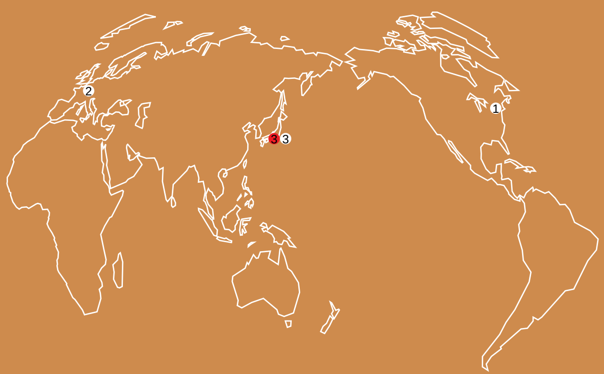
KURAFLEX: **A dry-laid non-woven fabric that combines moisture absorbency, breathability, flexibility and a texture that is pleasant to the touch, *KURAFLEX* is used in products ranging from cosmetics removers, wet wipes, counter cloths, face towels, wiping cloths, surgical masks and filters, to surgical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

Melt-Blown Non-Woven Fabrics: **Our non-woven microfiber textiles are produced through the melt-blowing process. In addition to their superior filtration properties, they are permeable and soft to the touch, making them suitable for coffee filters and other food packaging applications, as well as for surgical masks and filters.**

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. 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.**



Diversified Businesses



Company name	Capital	Activities
1) Kuraray America, Inc.	US$8.72 million	Importing and sales of Kuraray products
2) Kuraray Europe GmbH	€31.2 million	Sales of Kuraray products in Europe
3) Kuraray Co., Ltd.	¥88,955 million	Manufacture and sales of Kuraray products

- Manufacturing facility
- Marketing base

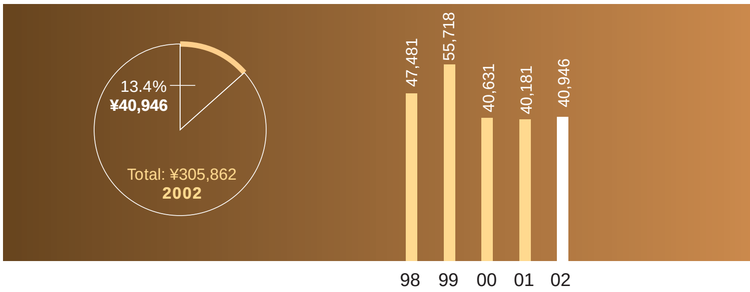
PERFORMANCE IN THE FISCAL YEAR ENDED MARCH 31, 2002

Net sales of diversified businesses increased 1.9%, or ¥765 million, to ¥40,946 million, while operating income jumped 30.6%, or ¥1,029 million, to ¥4,388 million. Profits on sales of medical products increased due to healthy sales of dental materials. These cost-cutting measures by domestic subsidiaries also contributed to increases in their profits.

Medical Products Sales of dental materials showed steady expansion overseas, particularly in North America, and sales of medical devices were strong. Unfortunately, contact lens sales were under severe pressure from competition with disposable contact lenses. Total sales in this sector were flat, but profits increased.

Other Products Engineering and other domestic subsidiaries pursued the rationalization of costs, which allowed them to maintain healthy operations under adverse economic conditions, as well as achieve slight growth in net sales and expansion of profits. As a result of the poor economic conditions, the private sector has been reluctant to invest in wastewater treatment facilities, and the public sector has deferred investments in sewage treatment facilities. This has made the term under review severe for our environmental business. However, sales were steady of PVA gel in connection with water-purification systems that use septic tanks.

NET SALES
(¥ millions)



REGIONAL CONDITIONS

Japan Since poor economic conditions had a detrimental effect on sales of artificial organs and dental materials, the Company concentrated on expanding the markets for new products during the fiscal year under review. Reductions in costs kept domestic subsidiaries healthy, allowing them to contribute to the recovery of profits.

Europe and North America Sales of dental materials were strong in Europe and North America. Acceptance of the Company's new bonding agent increased, particularly in America, and sales volume grew substantially.

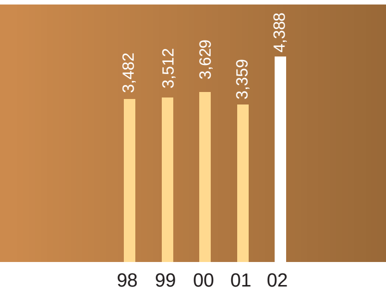
Asia The Company has almost completed procedures for approval to market dental materials and contact lenses in China, and has nearly finished building a network of agents in that market. Marketing of contact lenses has already commenced.

OUTLOOK

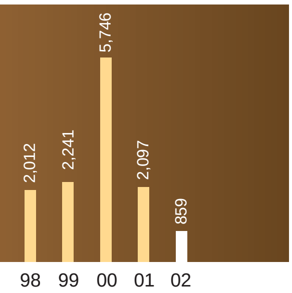
Kuraray is working to expand operations in the environmental and medical fields, as well as other strategic areas.

The business structure of Kuraray's medical operations is

OPERATING INCOME
(¥ millions)



CAPITAL EXPENDITURE
(¥ millions)



different from its other businesses in that, before the implementation of the in-house company system in April 2002, a need for prompt decision-making led to its October 2001 split-off to become an independent company, Kuraray Medical Inc. These measures have accelerated growth in overseas sales, particularly of dental materials, as well as product development and entry into new markets. Further, we project that increased sales and cost reductions will enable us to absorb the effects of revisions in the official government prices of artificial organs.

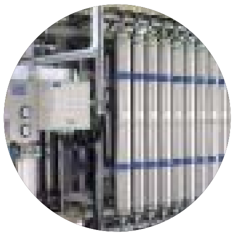
The anticipated revival of investments in environmental countermeasures in both the private and public sectors represents a significant opportunity for the Company. The installation of systems and equipment that use PVA gel and the Company's unique products, such as large-pore membranes, will spur market growth.

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.**

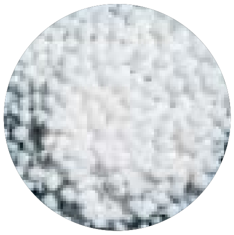
Artificial Kidneys: **These products use hollow-fiber membranes made from *EVAL*, a substance that is not harmful to the body. Kuraray's membranes also retard coagulation and have superior dialytic properties. The Company is expanding the marketing of its filtration plasma exchange system and the rest of its artificial organ business.**

Contact Lenses: **The Company makes contact lenses from polymers with special characteristics, including soft lenses made from hydrophilic acrylic resins, which offer superior comfort, and continuous-wear hard lenses made from siloxane and fluorinated resins.**

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



PVA Gel: **Kuraray manufactures PVA beads in a hive-like structure used to trap microorganisms. Each 4 mm bead is capable of trapping 1 billion microorganisms, which makes this material very useful in wastewater treatment.**



CORPORATE RESEARCH FACILITIES

Kuraray has three corporate research facilities: the Kurashiki Research Laboratories, the Tsukuba Research Laboratories and the Analytical Research Center. These facilities are intensely involved in research and development (R&D) activities, with the primary objectives of creating new core businesses, strengthening and expanding existing businesses, and deepening and reinforcing basic technologies, and seek effective collaboration with organizations both inside and outside the Company.

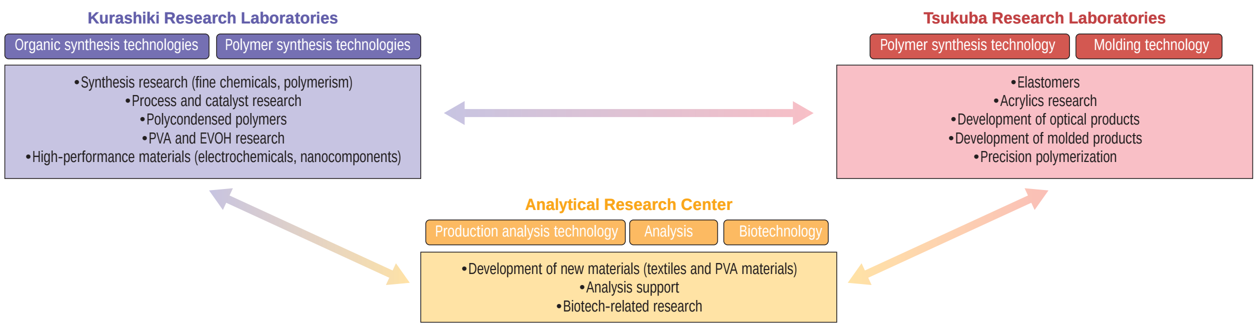
The Kurashiki Research Laboratories are engaged chiefly in research involving chemicals used in organic synthetics and polymer synthesis (monomers, pharmaceutical and agrochemical intermediates, etc.), and the development of such high-performance, sophisticated materials as nanocomposites and new polymers.

The Tsukuba Research Laboratories are developing new elastomers, optical products and molded products, based primarily on research in the areas of polymer synthesis and molding and processing technology.

The Analytical Research Center conducts a broad range of analysis and structural analysis in support of the development of materials and products. The Center's primary function is evaluating the safety of materials in terms of toxicity, biodegradability and environmental hormone activity. Beyond R&D, the Center supports the Kuraray Group's business activities, including manufacturing processes and marketing.

Through the above R&D activities, the Company is able to establish operations in new areas where success is predicted, as well as to formulate innovative technology for application in existing business areas. Basic responsibility for product development and production technology R&D rests with the in-house companies and subsidiaries. As needed, however, the parent company will support them with its corporate research assets. This organizational structure achieves the acceleration of movement from product development to market.

CORPORATE RESEARCH FACILITIES



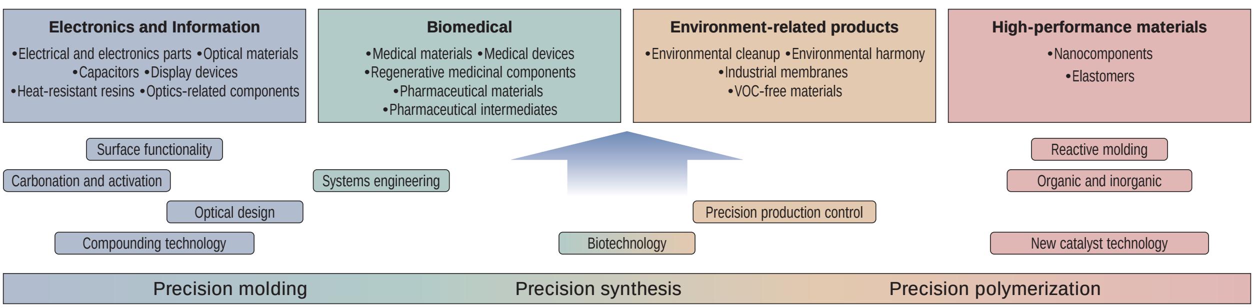
ESTABLISHMENT OF NEW BUSINESS DEVELOPMENT DEPARTMENT AND R&D&M STRUCTURE

In the fiscal year ended March 31, 2001, Kuraray established the New Business Development Department within its R&D organization to speed the planning, proposal and progress of new businesses projects. The new department's two primary objectives are: (1) opening channels for the flow of new technological, operational and market information, and (2) taking a new approach based on the proposal of business development themes that connect technological possibilities with market needs. These two measures are intended to strengthen the Company's ability to open up new business areas by formulating a corporate project directed at market entry.

IMPORTANT R&D AREAS AND FUNDAMENTAL TECHNOLOGIES OF "G-21" PLAN

The "G-21" plan names four important development themes as strategic areas to be targeted by the corporate research organization. These are electronics, information and optical materials, biomedical-related materials, environmental-protection-related materials, and high-performance materials with new and exciting properties. The Company plans to invest ¥75 billion (approximately 4% of net sales) in R&D by fiscal 2005. By concentrating R&D resources in areas in which we are strong—electrical and electronic parts (capacitors, new heat-resistant resins), optical materials (display devices, optics-related components), medical materials (regenerative medicine components, medical devices), pharmaceutical materials (pharmaceutical intermediates), and environment-related products (industrial membranes, VOC-free materials)—and with the Company's basic technologies (synthesis, polymerization, complex compounds, and molding and processing technology) as the common ground, we are able to move rapidly from concept to actual business operations.

IMPORTANT R&D DOMAINS AND BASIC TECHNOLOGIES UNDER THE MEDIUM-TERM BUSINESS PLAN



DEVELOPMENT IN GROWTH FIELDS

In the pursuit of long-term growth, we are scaling back or terminating business operations whose competitiveness has declined, while strengthening and expanding core businesses. In addition, R&D is indispensable to the creation of businesses in growth fields. The Kuraray Group sees IT, environmental businesses, biotechnology, medicine and health care and new materials as growth fields, and is taking aggressive steps to position itself accordingly.

In the IT field, we are employing the high level of precision molding and processing technology accumulated in manufacturing such products as laser discs, light-guide panels and metal stampers in the development of new materials for displays, abrasives for use in semiconductor manufacturing, and highly heat-resistant polyamide resins.

Our environmental businesses include the marketing of flexible acrylic resin, which is a substitute for PVC and can be recycled or incinerated without special controls. In addition, to reduce the environmental burden arising from our manufacturing processes, we are developing an adhesive that does not contain organic solvents.

In the area of medicine and health care, we are developing alternative materials for use in regenerative medicine, and PVC substitutes for use in medical equipment.

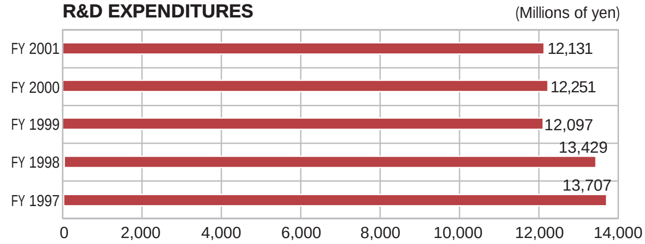
Kuraray is using nanotechnology to develop new gas-barrier nanocomposite materials, metal substitutes and other new materials with new properties.

RESEARCH & TECHNICAL CENTER TO BE ESTABLISHED

As Kuraray moves forward with the global expansion of all its businesses, the Company is increasingly aware of the desirability of having bases in local markets to facilitate the linkage of R&D with all available information, including market research and evaluation. We have reinforced our R&D capabilities in the U.S. market, where growth has been striking. In autumn 2003, we will complete the construction of our Research & Technical Center, which will provide R&D support to the entire Kuraray Group.

At present, we are pressing forward with expansion of operations, including production of our *EVAL* brand of EVOH resin and our *SEPTON* thermoplastic elastomer. We have manufacturing facilities for these products in the United States, and are developing new applications for them, as well as new products related these materials. In the future, we will be broadening R&D in connection with such other businesses as Poval and Opto-screens, which we have been marketing in the United States.

R&D EXPENDITURES (Millions of yen)



KURARAY'S ENVIRONMENTAL PRESERVATION PROGRAMS

An important issue for the 21st century is the development of a recycling-oriented, sustainable society that can exist in harmony with the planet. The Kuraray Group is contributing to the realization of such a society by reducing the burden its operations impose on the environment, and by reducing the amount of waste it generates. The Group's energetic environmental preservation activities also include the development of environmentally friendly products, and supporting both humanity and the planet by providing products that contribute to environmental improvement.

ENVIRONMENTAL PRESERVATION ACTIVITIES

In the interest of environmentally friendly operations, in 1993 Kuraray crafted its "Kuraray Action Guidelines on the Global Environment" and inaugurated 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.

Kuraray has been a member of the Japan Responsible Care Council (JRCC) since its establishment in 1995. The council is made up of producers and handlers of chemicals, and calls for measures to protect the environment, safety and health at each stage of a chemical product's life cycle, from product development to disposal.

Based on the Kuraray Group Action Guidelines on the Global Environment, the Company has moved forward with effective environmental preservation activities, and from 1998 forward each of its operations has been taking steps to acquire ISO 14001 certification for environmental management systems. In December 2001, all of Kuraray's domestic plants and laboratories acquired certification, and the rest of the Group is quickly moving toward certification. In the future as well, the entire Kuraray Group will be employing its environmental management systems, based on its ISO 14001 certification, to further reduce the environmental burden.

KURARAY GROUP ACTION GUIDELINES ON THE GLOBAL ENVIRONMENT

Basic Guideline

We will fulfill our responsibility to future generations through corporate operations that are in harmony with the global environment and the local community.

- Kuraray will undertake the following actions to realize the above basic guideline.

(1) We will assign the highest priority to the environment and safety when undertaking corporate operations.

(2) We will work to improve the global environment and ensure its sustainability.

(3) We will develop technologies and product that contribute to the goal of improving the global environment.

Action Principles

(1) Continual reduction of emissions of specified chemical substances into the environment

(2) Contribution to the prevention of global warming through the promotion of energy conservation

(3) Promotion of conservation, reuse, and recycling of resources

(4) Development and supply of technologies for improving the environment with products having low environmental impact

(5) Utilization of environmentally friendly products

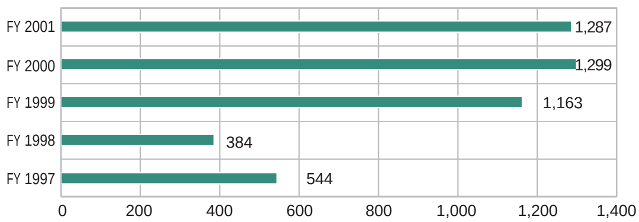
(6) Public disclosure of environmental information and dialog with community

(7) Raising the level of environmental awareness and the level of environmental management

OUR MEDIUM-TERM ENVIRONMENTAL PLAN

The Kuraray Group's "G-21" medium-term business plan also contains the Medium-Term Environmental Plan, which will end in fiscal 2005. This plan calls for the voluntary reduction of environmental pollutants, and by 2001 the Company had reduced industrial waste processed by outside contractors by 8,000 tons, or 55%, from 1999 levels. Through reuse and recycling, Kuraray's effective reuse rate, or recycling rate, rose by 10 percentage points. In pursuing these measures, we achieved the first year's goals of our Medium-Term Environmental Plan, which we consider a success. Kuraray will continue striving to maintain the standards set forth in the plan.

CAPITAL EXPENDITURES FOR ENVIRONMENT (Millions of yen)



Significant Actions Taken

- The Company has installed equipment to incinerate toluene, dimethylformamide, formaldehyde and other waste gasses, thereby reducing environmental impact from the emission of toxic chemicals.
- We are moving forward with the production of solid fuel from waste plastic and other materials (refuse-derived fuel, or RDF), and thermal recycling.
- We decided to convert the boiler fuel at our Nakajo Plant from heavy oil to natural gas, and made the necessary capital investments in fiscal 2001. When the plant is restarted at the end of June 2002, emissions of sulfur oxides (SO_x) and carbon dioxide (CO_2) will be substantially lower.

STATUS OF THE MEDIUM-TERM ENVIRONMENTAL PLAN

Target	Units	Fiscal 1999	Fiscal 2001	Fiscal 2005
Reduction of 90% in emissions of substances covered by Pollutant Release and Transfer Register (PRTR)	Tons	5,968 (100%)	4,557 (76%)	597 (10%)
Reduction of 90% in industrial waste sent to waste disposal firms	Kilotons	14.6 (100%)	6.6 (45%)	1.5 (10%)
Increase of 20 percentage points in effective utilization of industrial waste (60–80%)	%	60	70	80
Increase of 6% in energy usage efficiency (1% per year)	%	—	3.1	6

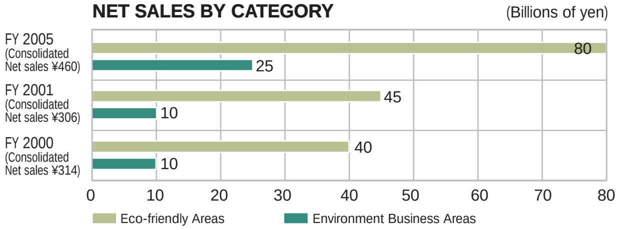
Note: Figures in parentheses above are year-on-year changes, with fiscal 1999 = 100%.

ENVIRONMENT-RELATED BUSINESSES

The "G-21" plan identifies environment-related businesses as a strategic area, and the Kuraray Group is expanding its presence in this area.

The Group's environment-related businesses are divided into two areas: the Eco-friendly Areas and the Environment Business Areas. In the Eco-friendly Areas, our goal is to expand sales of substitutes for environmentally harmful substances to ¥80 billion by fiscal 2005, through such products as *KURALON* as a substitute for asbestos, *EVAL* as a gas barrier, and *SEPTON*, *HYBRAR* and soft acrylics substitutes for PVC and vulcanized rubber. In the Environment Business Areas, which encompasses areas that contribute to environmental preservation and reform, the Company is engaged in the development and sale of treatment systems for water purification and wastewater. We plan to expand our sales in this area to ¥25 billion by fiscal 2005.

NET SALES BY CATEGORY (Billions of yen)



REGULATORY COMPLIANCE

To clarify administrative procedures for compliance with environmental regulations, the Company has established its internal regulation as a part of its environmental management systems. Further, since even a small incident or unexpected situation in a factory can have expanding effects on the environment, and to ensure that we are able to efficiently comply with relevant regulations, we have established standards for atmospheric and wastewater emissions that are stricter than existing laws and regulations. There were no environmental regulatory compliance problems within the Kuraray Group during fiscal 2001.

Since 1998, Kuraray has published its Environmental Activities Report annually, in the interests of disclosing environmental information. Detailed information regarding fiscal 2001 can be found in the 2002 edition of this report.

Consolidated Six-Year Summary

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars
Years ended March 31	**2002**	2001	2000	1999	1998	1997	**2002**
Net sales	**¥305,862**	¥313,651	¥316,444	¥336,466	¥347,643	¥340,112	**$2,299,714**
Cost of sales	**228,184**	234,946	235,603	250,195	259,788	255,240	**1,715,669**
Selling, general and administrative expenses	**58,720**	58,774	60,520	59,123	58,957	58,324	**441,504**
Operating income	**18,958**	19,931	20,321	27,148	28,898	26,548	**142,541**
Net income	**2,866**	4,045	7,452	13,171	13,962	11,741	**21,549**
Capital expenditure	**50,716**	15,814	19,764	33,497	20,806	19,049	**381,325**
Depreciation and amortization	**16,056**	16,593	16,769	15,557	14,615	14,111	**120,723**
Gross cash flow	**18,922**	20,638	24,221	28,728	28,577	25,852	**142,272**
Total research and development expenses	**12,131**	12,251	12,097	13,429	13,707	13,592	**91,211**
Total assets	**487,432**	512,479	503,766	487,991	478,861	514,167	**3,664,902**
Total current assets	**198,474**	239,654	213,293	208,113	216,416	223,543	**1,492,286**
Property, plant and equipment, net	**134,907**	127,468	128,343	129,026	115,099	97,327	**1,014,338**
Total current liabilities	**122,274**	110,234	87,592	108,261	135,170	186,925	**919,353**
Total long-term liabilities	**74,460**	112,723	133,047	119,451	109,826	118,262	**559,850**
Total shareholders' equity	**290,643**	289,469	282,755	259,909	233,494	208,635	**2,185,286**

Amounts per share:						Yen	U.S. dollars
Net income							
Primary	**¥7.49**	¥10.56	¥20.00	¥36.83	¥40.46	¥34.99	**$0.06**
Fully diluted	**7.45**	10.46	19.42	34.56	37.68	32.48	**0.06**
Cash dividends applicable to period	**9.00**	9.00	9.00	9.00	9.00	9.00	**0.07**
Total shareholders' equity	**759.25**	756.07	738.53	714.21	658.99	613.26	**5.71**
Financial ratio:							
Ratio of cost of sales (%)	**74.6%**	74.9%	74.5%	74.4%	74.7%	75.0%	
Equity ratio (%)	**59.6**	56.5	56.1	53.3	48.8	40.6	
Return on equity (%)	**1.0**	1.4	2.7	5.3	6.3	6.1	
Return on assets (%)	**3.8**	3.9	4.1	5.6	5.8	5.1	
Number of employees	**7,115**	7,121	7,433	6,823	7,809	6,606	

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥133=$1.
Certain reclassifications of previously reported amounts have been made to conform with current classifications.

CONTENTS

The following report refers to the consolidated financial statements of the Kuraray Group for the year ended March 2002 (from April 1, 2001, to March 31, 2002).

Note: Percentage comparisons with the previous year's results have been rounded to one decimal place.

Sales

Total consolidated net sales fell 2.5%, or ¥7,789 million (US$58,564 thousand), to ¥305,862 million (US$2,299,714 thousand) for the fiscal year under review. Sales of fibers and textiles declined ¥10,548 million (US$79,308 thousand), or 11.6%, to ¥80,274 million (US$603,564 thousand), largely due to a withdrawal from rayon operations, and price as well as volume declines in polyester products. Polyester filament suffered significant deterioration due to stagnant consumption and operating cutbacks in women's wear and the uniforms segment, while polyester staple was hurt by competition from Chinese imports. Sales of *KURALON* in applications using such unique characteristics as FRC and rubber reinforcement materials saw firm demand, but demand for traditional applications and *KURALON K-II* were weak.

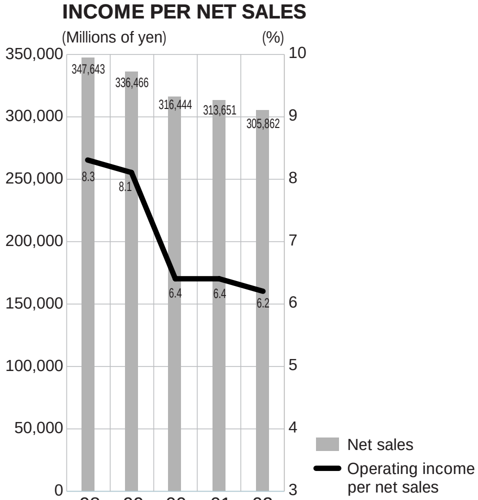
Sales of chemical products grew 1.0%, or ¥1,534 million (US$11,534 thousand), to ¥152,541 million (US$1,146,924 thousand).

Poval sales volumes declined due to a change in the accounting period for Kuraray Specialities Asia Pte., Ltd., while domestic prices remained stable and sales to China and Europe were firm. Kuraray purchased Clariant AG's businesses and established Kuraray Specialities Europe GmbH during the fiscal year under review. However, as the new firm has a December accounting year, its business results will be reflected from next fiscal year. *EVAL* volumes were up owing to good demand from Europe, and prices as a whole were stable. MMA monomer revenues were adversely affected by noticeable unit price declines, while strong demand continued for opto-screens and methacrylic resin used in light-guide panels. *SEPTON* and *HYBRAR* sales recorded increases, while the performance of commodity chemical products was stunted by weak demand. On the other hand, fine chemicals saw increased sales volumes of agrochemicals as well as foreign exchange rate benefits. For other products, Kuraray Chemical Co., Ltd.'s revenues increased, while other chemical product revenues were weak.

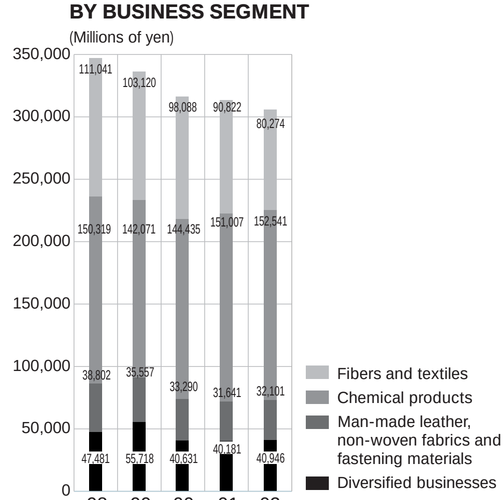
Sales of man-made leather, non-woven fabrics and fastening materials increased 1.5%, or ¥460 million (US$3,459 thousand), to ¥32,101 million (US$241,361 thousand). *CLARINO* sales in Europe recovered slower than our original projections, but the recovery picked up towards the end of the year. However, due to the weak domestic economy and the effects of the September 11 terrorist attacks in the United States, overall sales were flat. Non-woven fabric sales volumes increased thanks to contributions from wet wiper products and others, but intensified price competition led to declines in sales value. Fastening materials were negatively affected by weak consumption, but brisk sales of new products helped produce an overall sales gain.

Sales from diversified businesses, comprising medical products and other items, grew 1.9%, or ¥765 million (US$5,752 thousand), to ¥40,946 million (US$307,865 thousand), compared with the previous fiscal year. In terms of contribution to growth, sales of dental materials continued to be strong in the U.S. and in Europe, and there was also brisk demand for artificial organs. In addition, our domestic affiliated companies showed good

NET SALES & OPERATING INCOME PER NET SALES



NET SALES BY BUSINESS SEGMENT



performance thanks to cost savings as a result of rationalization.

By geographic area, domestic sales in Japan, which struggled because of the deflationary economy, declined 4.5% to ¥263,788 million (US$1,983,368 thousand) during the fiscal year under review. As a result, Japan's percentage of total net sales declined 1.8% to 86.2% compared with 88.0% in the previous fiscal year. Since our assets in Europe now exceed 10% of total consolidated assets, we created a separate "Europe" sales division from the fiscal year ended March 31, 2002. European sales were supported by favorable sales of *EVAL*, and grew 13.6% to ¥12,273 million (US$92,278 thousand) even though inventory liquidations in man-made leather and other products were a limiting factor. As a percentage of total net sales, Europe increased 0.6% to 4.0% compared with 3.4% in the previous fiscal year. Sales to all other areas increased 11.5% to ¥29,801 million (US$224,068 thousand), representing 9.7% of total net sales, compared with 8.5% in the previous fiscal year. In North America, sales were boosted by favorable demand for *SEPTON* and *HYBRAR* thermoplastic elastomers, opto-screens for PTVs and *EVAL*. Sales in Asia were lower than in the previous fiscal year due to a change in the accounting period at Kuraray Specialities Asia.

Operating Costs

The cost of sales fell ¥6,762 million (US$50,842 thousand) to ¥228,184 million (US$1,715,669 thousand), and represented 74.6% of total net sales, versus 74.9% in the previous fiscal year. The decline in cost of sales was mainly attributable to the decline in total net sales, and to cost reduction efforts.

Selling, general and administrative expenses were basically flat compared with the previous fiscal year at ¥58,720 million (US$441,504 thousand), and therefore rose as a percentage of total net sales from 18.7% last year to 19.2%. Increased expenditure to strengthen our overseas sales organization and other miscellaneous expenses prevented a more noticeable decline in these expenses.

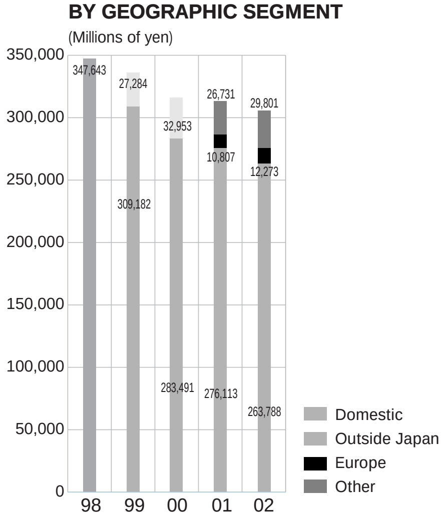
This notwithstanding, Kuraray was able to trim overall operating costs by approximately ¥1,800 million as a result of Group-wide cost reductions implemented during the fiscal year under review, particularly in personnel, logistics and raw materials.

Operating Income and Net Income

Because of ongoing domestic deflation and a global IT recession, both sales volumes and average selling prices declined. This was partially offset by a weaker average yen rate against the U.S. dollar and the euro as well as by lower oil and natural gas prices. The net result was a 4.9% decline in operating income to ¥18,958 million (US$142,541 thousand) from ¥19,931 million in the previous fiscal year. Thus, the operating income ratio deteriorated only slightly to 6.2% from 6.4% in the previous fiscal year.

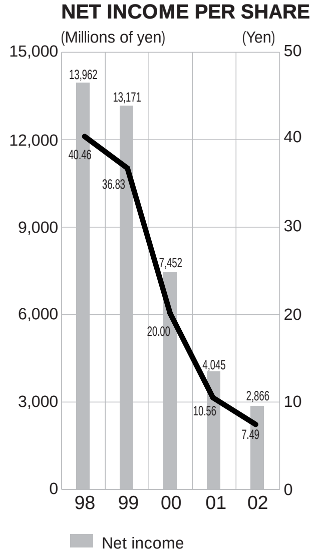
The other income and expenses deficit decreased to ¥12,757 million (US$95,917 thousand) from ¥12,131 million in the previous fiscal year. Interest and dividend income fell ¥1,188 million (US$8,932 thousand) to ¥2,471 million (US$18,579 thousand). In addition to the absence of the ¥3,014 million gain on sale and appreciation of marketable securities recorded last year, a loss

NET SALES BY GEOGRAPHIC SEGMENT

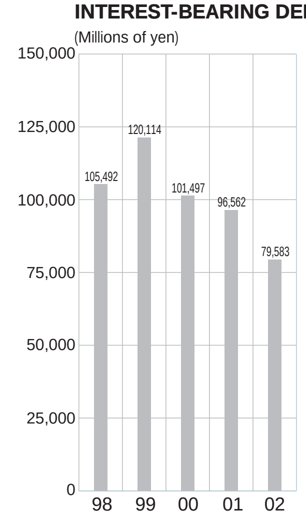


Note: Full geographic segment breakdowns were not released before FY01

NET INCOME & NET INCOME PER SHARE



INTEREST-BEARING DEBT



on write-down of investment securities of ¥6,524 million (US$49,053 thousand) was recorded, which was largely attributable to significant declines in the market value of our holdings of bank stocks. Restructuring charges of ¥7,925 million (US$59,586 thousand) consisted of an approximate ¥4,900 million charge for liquidation and write-downs of inventories, and an approximate ¥3,000 million charge for the split-off of our polyester filament operations. Conversely, a ¥7,596 million charge for a special provision for retirement benefits recorded in the previous fiscal year was absent this year.

Income before income taxes declined ¥1,599 million (US$12,023 thousand) to ¥6,201 million (US$46,624 thousand), representing a 20.5% decline from the previous fiscal year. Net income fell 29.1%, or ¥1,179 million (US$8,865 thousand), to ¥2,866 million (US$21,549 thousand) for the fiscal year under review. Consequently, fully diluted earnings per share fell 28.8% from the previous fiscal year to ¥7.45 (US$0.06) per share, compared with ¥10.46 per share in the previous fiscal year.

Financial Position

Current assets declined ¥41,180 million (US$309,624 thousand) to ¥198,474 million (US$1,492,286 thousand), primarily due to a ¥26,675 million (US$200,564 thousand) decrease in cash and cash equivalents to ¥13,496 million (US$101,474 thousand), and to a ¥7,223 million (US$54,308 thousand) drop in marketable securities, to ¥7,464 million (US$56,120 thousand). These declines in liquidity were attributable to our purchase of Clariant's businesses, and reduction of interest-bearing debt. Slower sales activity led to a ¥7,420 million (US$55,789 thousand) decline in notes and accounts receivable, trade to ¥88,605 million (US$666,203 thousand).

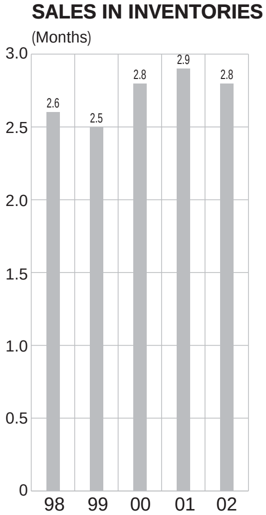
The reported reduction in inventories was ¥4,351 million (US$32,759 thousand) falling to ¥71,194 million (US$535,293 thousand). However, actual inventory reductions of approximately ¥7,000 million were partially offset by the addition of approximately ¥2,000 million of inventories from the newly formed Kuraray Specialities Europe, and an approximate ¥1,000 million effect from the weaker yen.

Property, plant and equipment, excluding accumulated depreciation, increased ¥7,439 million (US$55,932 thousand) to ¥134,907 million (US$1,014,338 thousand), largely owing to the recording of machinery and equipment assets related to Kuraray Specialities Europe, and an increase in construction-in-progress due to the construction of a new plant by Septon Company of America.

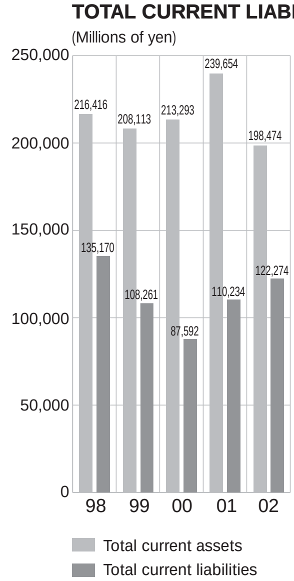
Investments and other assets increased ¥8,694 million (US$65,368 thousand) to ¥154,051 million (US$1,158,278 thousand). This was largely due to the recording of ¥29,591 million (US$222,489 thousand) of goodwill resulting from the purchase of assets related to Kuraray Specialities Europe. Conversely, there was an approximate ¥20,000 million decline in investment securities.

Working capital (the difference between the balance of notes and accounts receivable plus inventories, and notes and accounts payable) was ¥106,496 million (US$800,721 thousand), down ¥8,804 million (US$66,195 thousand) from the previous fiscal year. As a result, the current ratio declined to 162.3% from 217.4% in the previous fiscal year. Return on total assets (ROA) declined 0.1 point from 3.9% to 3.8%.

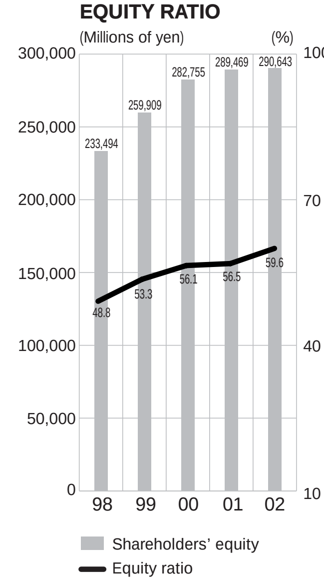
NUMBER OF MONTHS' SALES IN INVENTORIES



TOTAL CURRENT ASSETS & TOTAL CURRENT LIABILITIES



SHAREHOLDERS' EQUITY & EQUITY RATIO



In liabilities and shareholders' equity, total liabilities declined ¥26,223 million (US$197,165 thousand) to ¥196,734 million (US$1,479,203 thousand). Total current liabilities increased ¥12, 040 million (US$90,526 thousand) to ¥122,274 million (US$919,353 thousand), mainly because of the transfer of long-term debt due within one year to current liabilities. Without these transfers, current liabilities actually decreased. Long-term liabilities declined ¥38,263 million (US$287,692 thousand), on account of the noted transfers of long-term debt due within one year to current liabilities, and a net ¥18,643 million (US$140,173 thousand) decline in long-term debt. In addition, accrued retirement benefits declined ¥4,675 million (US$35,150 thousand), mainly due to special severance payments accrued in the previous fiscal year being paid out.

Shareholders' equity increased ¥1,174 million (US$8,827 thousand) to ¥290,643 million (US$2,185,286 thousand), mainly on account of the reversal of a ¥1,609 million cumulative translation adjustment resulting in an overall ¥1,789 million (US$13,451 thousand) gain. This offset a ¥1,353 million (US$10,173 thousand) reduction in the unrealized gain on revaluation of securities. Retained earnings decreased ¥824 million (US$6,195 thousand) to ¥110,798 million (US$833,068 thousand) compared with the previous fiscal year.

The equity ratio on the average equity for the period under review improved 3.1 percentage points to 59.6%, largely due to the decline in interest-bearing debt.

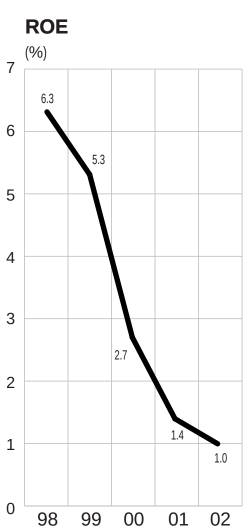
Cash Flows

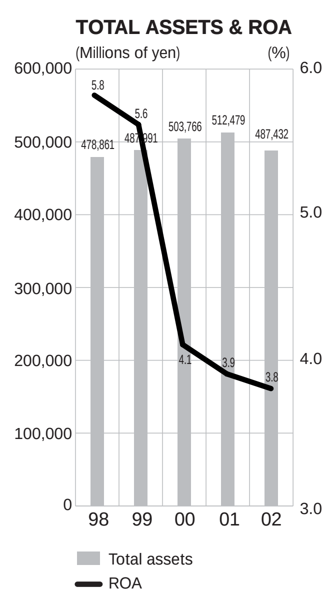
Net cash provided by operating activities recorded a surplus of ¥18,697 million (US$140,579 thousand), compared with ¥15,887 million in the previous fiscal year. As depreciation and amortization expenses were largely unchanged at ¥16,056 million (US$120,722 thousand), the ¥6,524 (US$49,053 thousand) loss on the write-down of investment securities was a major factor in the cash flow increase. Another significant contributor to increased operating cash flow was a ¥5,513 million (US$41,451 thousand) decrease in inventories. Conversely, a ¥7,358 million (US$55,323 thousand) decrease in notes and accounts payable, and a ¥4,699 million (US$35,331 thousand) decrease in accrued retirement benefits worked against the improved cash flows.

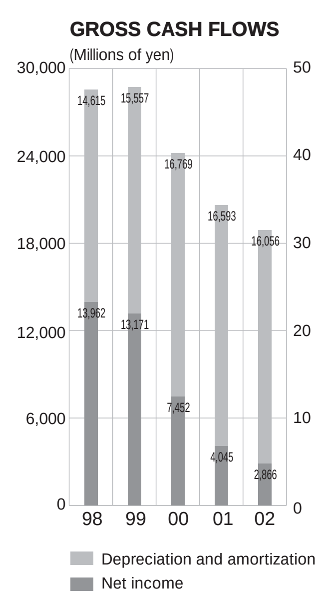
Net cash used in investing activities was ¥24,225 million (US$182,143 thousand), largely due to the acquisitions of property, plant, equipment and intangible assets, which amounted to ¥48,478 million (US$364,496 thousand), the majority of which was attributable to the acquisition of the Clariant (Kuraray Specialities Europe) businesses. Conversely, proceeds from sales of investment securities amounting to ¥24,495 million (US$184,173 thousand) partially offset these cash outflows.

Net cash used in financing activities amounted to ¥21,450 million (US$161,278 thousand), largely due to the repayments of long-term debt totaling ¥20,233 million (US$152,128 thousand). This was in keeping with the Company's continuing efforts to strengthen its balance sheet.

Overall, there was a net decrease in cash and cash equivalents of ¥26,675 million (US$200,564 thousand), which resulted in ¥13,496 million (US$101,474 thousand) worth of cash and cash equivalents, at the end of the period.







Research and Development

Kuraray's research and development (R&D) activities have been refocused to maximize the commercial potential of its unique technological resources, and to facilitate accelerated development of new, high-value-added products. For the year under review, total R&D expenditure was ¥12,131 million (US$91,211 thousand), 4.0% of total sales. Chemical products R&D (including research on electronic materials and other fine chemicals in addition to nano-composites) accounts for the largest portion of this expenditure at ¥6,983 million (US$52,504 thousand) or 57.6% of the total, followed by fibers and textiles at ¥1,889 million (US$14,203 thousand), medical products and others at ¥1,849 million (US$13,902 thousand) and man-made leather and non-woven fabrics at ¥1,410 million (US$10,602 thousand).

Capital Expenditure

Capital expenditure for the year under review was ¥50,716 million (US$381,325 thousand), significantly higher than ¥15,814 million in the previous fiscal year. The bulk of this expenditure, ¥45,541 million (US$342,414 thousand), was in our core chemical products businesses. Kuraray expanded its overseas PVA capacity through the purchase of Clariant's businesses, and expanded production capacity for *SEPTON* thermoplastic elastomer in the United States. Other capacity expansions included that for PVA film used for LCDs and *GENESTAR* heat-resistant polyamide resin. At the same time, in order to improve rationalization and production efficiency in fibers and textiles, man-made leather and non-woven fabrics and fastening materials, the Company invested ¥2,877 million (US$21,632 thousand) and ¥1,439 million (US$10,820 thousand), respectively. In medical products and other diversified businesses, ¥859 million (US$6,459 thousand) was invested to further rationalize the production processes.

Outlook

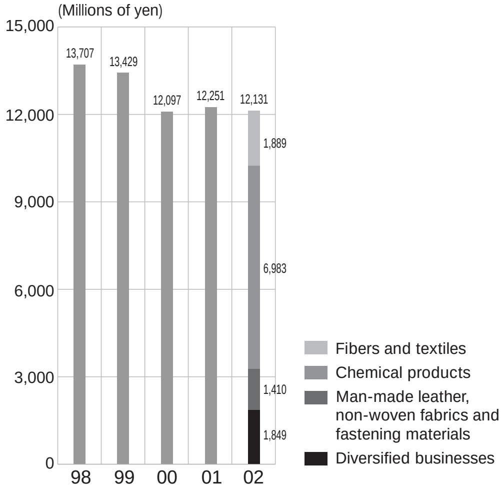
In the fiscal year ending March 31, 2003, the Japanese and world economies are forecast to recover, but numerous uncertainties remain. For Japan, it is expected that current deflationary trends will continue.

Since a significant improvement in the external operating environment is unlikely, it is imperative that Kuraray concentrate its internal efforts on improving profitability. The Company is making every effort to achieve its stated objective of reducing overall operating costs by approximately ¥6 billion over the next fiscal year. As regards specific product division strategies, Kuraray will continue to restructure its polyester business and work to ensure a solid recovery in the man-made leather business. In addition, the Company will strive to further enhance the profit contribution of its chemical businesses, particularly of high-performance resins centering on *EVAL*, *SEPTON* and others, as well as of opto-screens, PVA film and IT-related materials.

Kuraray will also continue to pursue its financial goals of further reductions in inventory levels, and a more strategic use of financial assets, to achieve continued improvements in asset efficiency that will contribute to the Company's goal of achieving an ROA in excess of 7% by the fiscal year ending March 31, 2006.

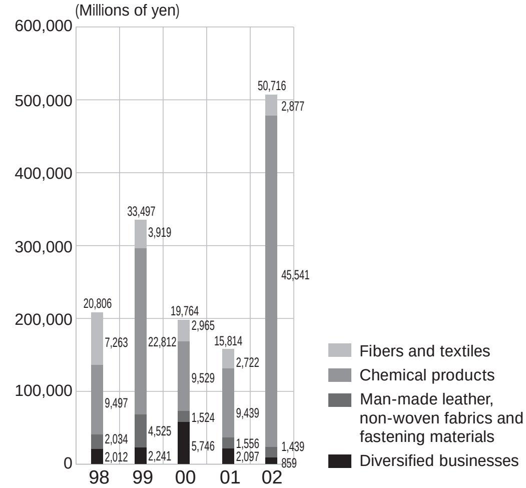
TOTAL R&D EXPENDITURE BY BUSINESS SEGMENT

(Millions of yen)



CAPITAL EXPENDITURE BY BUSINESS SEGMENT

(Millions of yen)



Consolidated Balance Sheets

Kuraray Co., Ltd. and Consolidated Subsidiaries

March 31, 2002 and 2001	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 13,496**	¥ 40,171	**$ 101,474**
Marketable securities (Note 3)	**7,464**	14,687	**56,120**
Notes and accounts receivable (Note 11):			
Trade	**88,605**	96,025	**666,203**
Unconsolidated subsidiaries and affiliates	**1,187**	918	**8,925**
Others	**2,000**	4,396	**15,037**
Loans receivable from unconsolidated subsidiaries and affiliates	**368**	640	**2,767**
Allowance for doubtful accounts	**(486)**	(689)	**(3,654)**
	91,674	101,290	**689,278**
Inventories (Note 4)	**71,194**	75,545	**535,293**
Deferred income taxes (Note 7)	**6,947**	5,355	**52,233**
Other current assets	**7,699**	2,606	**57,888**
Total current assets	**198,474**	239,654	**1,492,286**
Property, plant and equipment:			
Land	**24,239**	24,349	**182,248**
Buildings	**87,704**	86,635	**659,429**
Machinery and equipment	**370,649**	357,405	**2,786,835**
Construction-in-progress	**15,799**	7,897	**118,789**
	498,391	476,286	**3,747,301**
Less accumulated depreciation	**(363,484)**	(348,818)	**(2,732,963)**
	134,907	127,468	**1,014,338**
Investments and other assets:			
Goodwill	**29,591**	—	**222,489**
Other intangible fixed assets	**1,582**	763	**11,895**
Investment securities (Note 3)	**50,423**	71,397	**379,120**
Investments in unconsolidated subsidiaries and affiliates	**2,822**	2,755	**21,218**
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	**5,281**	5,616	**39,707**
Others	**1,275**	1,326	**9,586**
Deferred income taxes (Note 7)	**5,625**	6,323	**42,293**
Others	**58,762**	58,481	**441,820**
Allowance for doubtful accounts	**(1,310)**	(1,304)	**(9,850)**
	154,051	145,357	**1,158,278**
	¥ 487,432	¥ 512,479	**$ 3,664,902**

See notes to consolidated financial statements.

	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 10,471**	¥ 8,807	**$ 78,729**
Current portion of long-term debt (Note 5)	**36,560**	20,228	**274,887**
Notes and accounts payable:			
Trade	**47,647**	54,147	**358,248**
Unconsolidated subsidiaries and affiliates	**791**	1,277	**5,947**
Others	**8,052**	6,160	**60,542**
Accrued income taxes (Note 7)	**1,799**	2,196	**13,526**
Deferred income taxes (Note 7)	**3**	2	**23**
Accrued expenses and other	**16,951**	17,417	**127,451**
Total current liabilities	**122,274**	110,234	**919,353**
Long-term liabilities:			
Long-term debt (Note 5)	**32,552**	67,527	**244,752**
Deferred income taxes (Note 7)	**4,631**	3,859	**34,820**
Accrued retirement benefits (Note 8)	**20,661**	25,336	**155,346**
Others	**16,616**	16,001	**124,932**
Total long-term liabilities	**74,460**	112,723	**559,850**
Minority interests	**55**	53	**413**
Commitments and contingencies (Note 11)			
Shareholders' equity (Note 6)**:**			
Common stock:			
Authorized—700,000,000 shares			
Issued and outstanding—382,863,603 shares	**88,955**	88,955	**668,835**
Additional paid-in capital	**87,147**	87,147	**655,241**
Retained earnings	**110,798**	111,622	**833,068**
Unrealized gain on revaluation of securities (Note 3)	**2,002**	3,355	**15,052**
Cumulative translation adjustments	**1,789**	(1,609)	**13,451**
	290,691	289,470	**2,185,647**
Treasury stock at cost	**(48)**	(1)	**(361)**
Total shareholders' equity	**290,643**	289,469	**2,185,286**
	¥ 487,432	¥ 512,479	**$ 3,664,902**

Consolidated Statements of Income

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars (Note 1) 2002
Net sales	**¥ 305,862**	¥ 313,651	**$ 2,299,714**
Cost of sales (Note 10)	**228,184**	234,946	**1,715,669**
(Gross profit)	**77,678**	78,705	**584,045**
Selling, general and administrative expenses (Notes 9 and 10)	**58,720**	58,774	**441,504**
(Operating income)	**18,958**	19,931	**142,541**
Other income (expenses):			
Interest and dividend income	**2,471**	3,659	**18,579**
Equity in earnings of affiliates	**169**	127	**1,271**
Interest expense	**(2,053)**	(2,377)	**(15,436)**
Restructuring charges	**(7,925)**	(8,872)	**(59,586)**
Loss on write-down of investment securities	**(6,524)**	—	**(49,053)**
Special provision for retirement benefits (Note 8)	**—**	(7,596)	**—**
Gain on sale and appreciation of marketable securities	**—**	3,014	**—**
Other, net	**1,105**	(86)	**8,308**
	(12,757)	(12,131)	**(95,917)**
(Income before income taxes)	**6,201**	7,800	**46,624**
Income taxes (Note 7)**:**			
Current	**3,107**	6,633	**23,361**
Deferred	**217**	(2,879)	**1,631**
	3,324	3,754	**24,992**
Minority interests in net income of consolidated subsidiaries	**(11)**	(1)	**(83)**
Net income	**¥ 2,866**	¥ 4,045	**$ 21,549**

	Yen 2002	Yen 2001	U.S. dollars (Note 1) 2002
Net income per share:			
Primary	**¥7.49**	¥10.56	**$0.06**
Fully diluted	**7.45**	10.46	**0.06**

See notes to consolidated financial statements.

FINANCIAL SECTION

Consolidated Statements of Shareholders' Equity

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on revaluation of securities (Note 3)	Cumulative translation adjustments
	Millions of yen				
Balance at March 31, 2000	¥88,955	¥87,147	¥111,151	¥ —	¥(4,496)
Net income			4,045		
Cash dividends, ¥9.00 per share			(3,446)		
Bonuses to directors and statutory auditors			(60)		
Effect of changes in reporting entities			(68)		
Changes in unrealized gain on revaluation of securities				3,355	
Translation adjustments					2,887
Balance at March 31, 2001	¥88,955	¥87,147	¥111,622	¥3,355	¥(1,609)
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**
Balance at March 31, 2002	**¥88,955**	**¥87,147**	**¥110,798**	**¥2,002**	**¥ 1,789**
	Thousands of U.S. dollars (Note 1)				
Balance at March 31, 2001	$668,835	$655,241	$839,263	$ 25,225	$(12,098)
Net income			**21,549**		
Cash dividends, $0.07 per share			**(25,909)**		
Bonuses to directors and statutory auditors			**(414)**		
Effect of changes in reporting entities			**0**		
Effect of change in an accounting standard for a foreign affiliate			**(1,421)**		
Changes in unrealized gain on revaluation of securities				**(10,173)**	
Translation adjustments					**25,549**
Balance at March 31, 2002	**$668,835**	**$655,241**	**$833,068**	**$ 15,052**	**$ 13,451**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
Years ended March 31, 2002 and 2001	**2002**	2001	**2002**
Cash flows from operating activities:			
Net income	**¥ 2,866**	¥ 4,045	**$ 21,549**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**16,056**	16,593	**120,722**
(Decrease) increase in accrued retirement benefits	**(4,699)**	3,280	**(35,331)**
Gain on sale and appreciation of marketable securities	**—**	(3,014)	**—**
Loss on write-down of investment securities	**6,524**	—	**49,053**
Decrease (increase) in notes and accounts receivable	**7,971**	(5,799)	**59,932**
Decrease in inventories	**5,513**	1,213	**41,451**
(Decrease) increase in notes and accounts payable	**(7,358)**	2,122	**(55,323)**
Other, net	**(8,176)**	(2,553)	**(61,474)**
Net cash provided by operating activities	**18,697**	15,887	**140,579**
Cash flows from investing activities:			
(Increase) decrease in marketable securities	**(3,349)**	2,667	**(25,180)**
Acquisition of property, plant, equipment and intangible assets (Note 2)	**(48,478)**	(17,583)	**(364,496)**
Payments for purchase of investment securities	**(20)**	(3,116)	**(150)**
Proceeds from sale of investment securities	**24,495**	30,891	**184,173**
Other, net	**3,127**	7,464	**23,510**
Net cash (used in) provided by investing activities	**(24,225)**	20,323	**(182,143)**
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans	**1,204**	(948)	**9,053**
Proceeds from long-term debt	**1,025**	1,550	**7,707**
Repayments of long-term debt	**(20,233)**	(7,604)	**(152,128)**
Dividends paid	**(3,446)**	(3,446)	**(25,910)**
Net cash used in financing activities	**(21,450)**	(10,448)	**(161,278)**
Effect of exchange rate changes on cash and cash equivalents	**303**	518	**2,278**
Effect of changes in reporting entities	**—**	22	**—**
Net (decrease) increase in cash and cash equivalents	**(26,675)**	26,302	**(200,564)**
Cash and cash equivalents at beginning of year	**40,171**	13,869	**302,038**
Cash and cash equivalents at end of year	**¥ 13,496**	¥ 40,171	**$ 101,474**

See notes to consolidated financial statements.

1. Basis of presenting consolidated financial statements:

These consolidated financial statements are 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 are 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 ¥133=$1, the approximate exchange rate prevailing on March 31, 2002. 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 39 subsidiaries (38 subsidiaries at March 31, 2001). Hereinafter, the Company and its consolidated subsidiaries are collectively referred to as the “Companies”.

In the case of a change in reporting entities, 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.

The difference between the cost of investment 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, for 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 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 ($214,045 thousand) 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 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.

In accordance with the new accounting standard in Japan “Accounting Standard for Employees’ Retirement Benefits”, effective from April 1, 2000, a company is required to recognize a pension liability to cover the extent to which the projected benefit obligation is in excess of plan assets at fair value, considering unrecognized items.

Directors and statutory auditors are entitled, subject to shareholder 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

In accordance with the new accounting standard in Japan “Accounting Standard for Foreign Currency Transactions, etc.,” effective from April 1, 2000, income and expenses in foreign currency are translated into Japanese yen at 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 are translated into Japanese yen at the rates in effect at the balance sheet date, and income and expenses are translated at the monthly 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 shares outstanding after consideration of the effect of dilution of common stock equivalents.

(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
In accordance with the new accounting standard in Japan “Accounting Standard for Financial Instruments”, effective from April 1, 2000, 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 value with unrealized gains or losses included in income, and held-to-maturity securities are carried at amortized cost. Available-for-sale securities are carried at fair value with unrealized gains or losses 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 maturity of one year or less and trading securities are classified in “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, account receivables and payables 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
Interest rate swap contracts	Marketable securities and investment securities 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 hedging 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.

3. Securities:

The following is a summary of securities classified as trading, available-for-sale and held-to-maturity securities at March 31, 2002 and 2001:

	Millions of yen			
	Available-for-sale securities			
March 31, 2002	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**

	Millions of yen			
	Available-for-sale securities			
March 31, 2001	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
Equity securities	¥17,228	¥8,814	¥2,680	¥ 23,362
Bonds and debentures	77,198	559	858	76,899
Other	1,000	—	7	993
	¥95,426	¥9,373	¥3,545	¥101,254

March 31, 2001	Book value (carrying amount)	Gross unrealized gains	Gross unrealized losses	Book value (Estimated fair value)
	Millions of yen			
	Held-to-maturity securities			
Bonds and debentures	¥4,649	¥ —	¥16	¥4,633
Other	1	—	—	1
	¥4,650	¥ —	¥16	¥4,634

Trading securities at March 31, 2001

Book value (estimated fair value)	¥771 million
Gross unrealized gains	¥300 million

March 31, 2002	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
	Thousands of U.S. dollars			
	Available-for-sale securities			
Equity securities	**$ 74,120**	**$38,662**	**$ 7,098**	**$105,684**
Bonds and debentures	**337,556**	**2,233**	**7,323**	**332,466**
Other	**7,519**	**—**	**90**	**7,429**
	$419,195	**$40,895**	**$14,511**	**$445,579**

The securities with original maturity of three months or less are transferred to cash and cash equivalents.

4. Inventories:

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Finished products	**¥51,308**	¥53,474	**$385,775**
Semi-finished products and work in process	**9,941**	11,371	**74,744**
Raw materials and supplies	**9,945**	10,700	**74,774**
	¥71,194	¥75,545	**$535,293**

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

Short-term bank loans generally represent 365-day notes with interest rates principally of 3.6% p.a. at March 31, 2002.
Long-term debt consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2002	**2002**
Unsecured loans principally from banks and insurance companies with interest rates ranging from 0.58% p.a. to 6.61% p.a. maturing serially until 2022	**¥ 12,232**	**$ 91,970**
1.8% yen unsecured bonds due May 7, 2003	**15,000**	**112,782**
1.8% yen unsecured bonds due May 7, 2003	**5,000**	**37,594**
1.8% yen convertible sinking fund debentures due March 31, 2003	**13,957**	**104,940**
1.0% yen convertible debentures due March 31, 2003	**9,423**	**70,850**
Floating to fixed rate yen Euro medium term notes due March 4, 2003	**3,000**	**22,556**
2.27% yen Euro medium term notes due January 30, 2004	**500**	**3,759**
2.00% yen Euro medium term notes due February 7, 2003	**2,000**	**15,038**
Step-up rate yen Euro medium term notes due April 10, 2007	**500**	**3,759**
Floating rate yen Euro medium term notes due April 22, 2002	**500**	**3,759**
Floating rate yen Euro medium term notes due April 25, 2002	**1,000**	**7,519**
Step-up rate yen Euro medium term notes due June 11, 2007	**600**	**4,511**
Floating to fixed rate yen Euro medium term notes due June 18, 2004	**3,000**	**22,556**
Floating rate yen Euro medium term notes due June 24, 2002	**2,000**	**15,038**
Floating rate yen Euro medium term notes due June 25, 2002	**400**	**3,008**
	69,112	**519,639**
Current portion	**(36,560)**	**(274,887)**
	¥ 32,552	**$ 244,752**

The 1.8% yen convertible sinking fund debentures due March 31, 2003, which were issued in Japan in November 1987, can be purchased at any time in their entirety at the option of the Company or may be redeemed, at prices declining from 106% to 100% of their principal amount from April 1, 1996 until 2003. The debentures are convertible into common stock of the Company until March 28, 2003 at the conversion price of ¥1,703.4 ($12.81) per share.

For the 1.8% yen convertible sinking fund debentures, the Company is required to contribute to a sinking fund, the amount of which is reduced by the amount of debentures converted or redeemed, ¥1,500 million ($11,278 thousand) every March 31 for the consecutive 6 years ending March 31, 2002. At March 31, 2002, investment securities with a net book value of ¥13,857 million ($104,188 thousand), for which market value approximates to the amount of the sinking fund requirements, were deposited with a designated bank instead of the sinking fund payment.

The indentures, under which the 1.8% yen convertible sinking fund debentures due 2003 were issued place a limitation on the payment of cash dividends, relates, in part, to earnings of the Company. At March 31, 2002, the amount of retained earnings available for the payment of dividends under a provision of these indentures was ¥137,710 million ($1,035,414 thousand).

The 1.0% yen convertible debentures due March 31, 2003, which were issued in Japan in January 1994, can be purchased at any time in their entirety at the option of the Company or may be redeemed, at prices declining from 103% to 100% of their principal amount from April 1, 1999 until 2003. The debentures are convertible into common stock of the Company until March 28, 2003 at the conversion price of ¥1,067.3 ($8.02) per share.

The indentures, under which the 1.0% yen convertible debentures due 2003 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 2002, the amount of retained earnings available for the payment of dividends under a provision of these indentures was ¥103,067 million ($774,940 thousand).

The conversion prices of the above sinking fund debentures and other debentures are subject to adjustment under certain circumstances, including stock splits pursuant to the relevant agreements.

The number of shares of common stock required for conversion of the above sinking fund debentures and other debentures outstanding at March 31, 2002, at the current conversion prices, would have been 17,030 thousand.

The rates of the floating to fixed rate yen Euro medium term notes due March 4, 2003 are as follows:

January 23, 1997 – March 3, 1997
Interpolated JPY LIBOR - 0.15%
March 4, 1997 – Due date
2.00% per annum

The rates of the step-up rate yen Euro medium term notes due April 10, 2007, are as follows:

February 25, 1997 – April 9, 2002
2.50% per annum
April 10, 2002 – Due date
3.00% per annum
April 10, 2002
Redeemed before maturity

The rates of the floating rate yen Euro medium term notes due April 22, 2002, are as follows:

March 10, 1997 – April 21, 1997
1 month JPY LIBOR + 0.40%
April 22, 1997 – Due date
6 month JPY LIBOR + 0.40%

The rates of the floating rate yen Euro medium term notes due April 25, 2002, are as follows:

March 13, 1997 – April 24, 1997
1 month JPY LIBOR + 0.41%
April 25, 1997 – Due date
6 month JPY LIBOR + 0.41%

The rates of the step-up rate yen Euro medium term notes due June 11, 2007, are as follows:

April 24, 1997 – June 10, 2002
2.20% per annum
June 11, 2002 – Due date
2.80% per annum
June 11, 2002
Redeemed before maturity

The rates of the floating to fixed rate yen Euro medium term notes due June 18, 2004, are as follows:

May 2, 1997 – June 17, 1997
Interpolated JPY LIBOR + 0.125%
June 18, 1997 – June 17, 2002
6 month JPY LIBOR + 0.20%
June 18, 2002 – Due date
2.80% per annum
June 18, 2002
Redeemed before maturity

The rates of the floating rate yen Euro medium term notes due June 24, 2002, are as follows:

May 9, 1997 – June 23, 1997
2 month JPY LIBOR + 0.50%
June 24, 1997 – Due date
6 month JPY LIBOR + 0.50%

The rates of the floating rate yen Euro medium term notes due June 25, 2002, are as follows:

May 14, 1997 – June 24, 1997
Interpolated JPY LIBOR + 0.30%
June 25, 1997 – Due date
3 month JPY LIBOR + 0.30%

The annual maturities of long-term debt outstanding at March 31, 2002 for the respective years ending March 31 were as follows:

	Millions of yen	Thousands of U.S. dollars
2003	¥ 36,560	$ 274,887
2004	24,758	186,150
2005	5,693	42,805
2006	1,178	8,857
2007	317	2,384
Thereafter	606	4,556
	¥ 69,112	$ 519,639

The step-up rate yen Euro medium term notes due June 11, 2007, and the floating to fixed rate yen Euro medium term notes due June 18, 2004, were redeemed before maturity. These redemptions are therefore not reflected in the above table.

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. And 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 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 the legal reserve equals 25% or more of common stock. If the amount of accumulated "Additional paid-in capital" and the 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.

7. Income taxes:

The Companies are subject to several taxes based on income which, in aggregate, resulted in a normal cumulative tax rate of approximately 41.7% in Japan for the periods ended March 31, 2002 and 2001.

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

	2002	2001
Normal cumulative tax rate	**41.7%**	41.7%
Largely loss by consolidated subsidiaries	**11.9**	6.4
Income tax rate per statements of income	**53.6%**	48.1%

The significant components of deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred tax assets			
Accrued enterprise taxes and other taxes	**¥ 194**	¥ 351	**$ 1,459**
Accrued bonuses	**1,574**	1,276	**11,834**
Other	**5,205**	3,753	**39,135**
Total deferred tax assets	**6,973**	5,380	**52,428**
Total deferred tax liabilities	**26**	25	**195**
Net deferred tax assets	**¥6,947**	¥5,355	**$52,233**
Deferred tax liabilities			
Other	**¥ 3**	¥ 2	**$ 23**
Net deferred tax liabilities	**¥ 3**	¥ 2	**$ 23**

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred tax assets			
Accrued retirement benefits	**¥5,941**	¥7,778	**$44,669**
Other	**2,773**	2,654	**20,850**
Total deferred tax assets	**8,714**	10,432	**65,519**
Deferred tax liabilities			
Deferred gain on sale of fixed assets to public sector	**1,435**	1,419	**10,790**
Special depreciation	**224**	286	**1,684**
Unrealized gain on revaluation of securities	**1,430**	2,404	**10,752**
Total deferred tax liabilities	**3,089**	4,109	**23,226**
Net deferred tax assets	**¥5,625**	¥6,323	**$42,293**
Deferred tax liabilities			
Depreciation	**¥4,631**	¥3,859	**$34,820**
Net deferred tax liabilities	**¥4,631**	¥3,859	**$34,820**

The deferred tax assets and liabilities of consolidated subsidiaries in different tax jurisdictions are presented without offset in accordance with Japanese accounting practice.

8. Retirement benefits:

The following tables set forth the changes in the benefit obligation, plan assets and funded status of the Companies at March 31, 2002 and 2001. Charges for the year ended March 31, 2001 included a special provision for retirement benefits by the Company amounting to ¥7,596 million.

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Benefit obligation at end of year	**¥(49,162)**	¥(48,153)	**$(369,639)**
Fair value of plan assets at end of year	**24,602**	21,958	**184,977**
Funded status:			
Benefit obligation in excess of plan assets	**(24,560)**	(26,195)	**(184,662)**
Unrecognized prior service cost	**(1,067)**	21	**(8,022)**
Unrecognized actuarial loss	**6,005**	1,829	**45,150**
Accrued pension liability recognized in the consolidated balance sheets	**¥(19,622)**	¥(24,345)	**$(147,534)**

Accrued retirement benefits for Directors and statutory auditors at March 31, 2002 and 2001 amounting to ¥1,039 million ($7,812 thousand) and ¥991 million are excluded from the above schedule.

Retirement and pension costs of the Companies for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Service cost	**¥2,067**	¥ 2,101	**$15,541**
Interest cost	**1,369**	1,315	**10,293**
Expected return on plan assets	**(861)**	(639)	**(6,473)**
Amortization:			
Transition obligation at date of adoption	**—**	7,504	**—**
Prior service cost	**6**	5	**45**
Actuarial losses	**124**	(3)	**932**
Net periodic benefit costs	**¥2,705**	¥10,283	**$20,338**

Assumptions used in accounting for the defined benefit plans for the year ended March 31, 2002 are as follows:

Discount rate	Mainly 3.0%
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)

9. 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	**2002**	2001	**2002**
Freight and storage	**¥11,530**	¥12,469	**$ 86,692**
Research and development	**10,850**	10,937	**81,579**
Salaries and bonuses	**15,757**	15,630	**118,474**

10. Research and development expenses:

Total research and development expenses for the years ended March 31, 2002 and 2001 amounted to ¥12,131 million ($91,211 thousand) and ¥12,251 million, respectively.

11. Commitments and contingencies:

The Companies are contingently liable for discounted trade notes receivable. The amount of notes discounted with recourse at banks at March 31, 2002 and 2001 was ¥0 and ¥1 million, respectively.

The Companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates and others, of ¥822 million ($6,180 thousand) and ¥854 million at March 31, 2002 and 2001, respectively.

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

12. 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, 2002 and 2001, were ¥447 million ($3,361 thousand) and ¥480 million, respectively. Future lease payments, including amounts representing interest were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Due within one year	**¥409**	¥414	**$3,075**
Due after more than one year	**574**	553	**4,316**
	¥983	¥967	**$7,391**

The leased assets were as follows:

	Millions of yen			Thousands of U.S. dollars
Year ended March 31, 2002	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	**¥2,151**	**¥1,168**	**¥983**	**$7,391**

	Millions of yen		
Year ended March 31, 2001	Cost	Accumulated depreciation	Net
Machinery and equipment	¥2,145	¥1,178	¥967

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
	2002	2001	2002
Due within one year	**¥ 167**	¥ 77	**$ 1,256**
Due after more than one year	**1,414**	145	**10,631**
	¥1,581	¥222	**$11,887**

13. Derivative financial instruments:

Derivative financial instruments are utilized by the Companies principally to reduce interest rate and foreign exchange rate 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.

At March 31, 2002 and 2001, the forward foreign exchange contracts and currency swap contracts outstanding were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
	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	**¥2,480**	**¥(501)**	**¥(501)**	¥ —	¥ —	¥ —	**$18,647**	**$(3,767)**	**$(3,767)**
Currency swap contracts:									
Yen into foreign currency obligation	**2,975**	**(247)**	**(247)**	—	—	—	**22,368**	**(1,857)**	**(1,857)**
	¥5,455	**¥(748)**	**¥(748)**	¥ —	¥ —	¥ —	**$41,015**	**$(5,624)**	**$(5,624)**

The amounts include contracts entered into in order to hedge foreign currency transactions between the Companies. 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, 2002.

At March 31, 2002 and 2001, outstanding interest rate swap contracts were as follows:

	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
Interest rate swap contracts:									
Fixed-rate into variable-rate obligation	**¥1,200**	**¥14**	**¥14**	¥1,700	¥32	¥32	**$ 9,023**	**$105**	**$105**
Variable-rate into fixed-rate obligation	**500**	**(5)**	**(5)**	1,000	(16)	(16)	**3,759**	**(37)**	**(37)**
	¥1,700	**¥ 9**	**¥ 9**	¥2,700	¥16	¥16	**$12,782**	**$ 68**	**$ 68**

The amounts include contracts entered into in order to hedge foreign currency transactions between the Companies.The amounts exclude certain swap contracts under which the net amount to be paid or received is added or deducted from the interest on the hedged item.

14. Segment information:

The Companies operate principally within four industrial segments: fibers and textiles; chemical products; man-made leather, non-woven fabrics and fastening materials; and diversified businesses.

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, 2002 and 2001 is as follows:

Net sales and operating income

	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income
	Millions of yen				Thousands of U.S. dollars			
Year ended March 31, 2002								
Fibers and textiles	**¥ 80,274**	**¥ 1,571**	**¥ 81,845**	**¥ 161**	**$ 603,564**	**$ 11,812**	**$ 615,376**	**$ 1,211**
Chemical products	**152,541**	**2,380**	**154,921**	**13,298**	**1,146,924**	**17,895**	**1,164,819**	**99,985**
Man-made leather, non-woven fabrics and fastening materials	**32,101**	**221**	**32,322**	**1,468**	**241,361**	**1,662**	**243,023**	**11,038**
Diversified businesses	**40,946**	**24,610**	**65,556**	**4,388**	**307,865**	**185,037**	**492,902**	**32,992**
Total	**305,862**	**28,782**	**334,644**	**19,315**	**2,299,714**	**216,406**	**2,516,120**	**145,226**
Eliminated on consolidation	**—**	**(28,782)**	**(28,782)**	**(357)**	**—**	**(216,406)**	**(216,406)**	**(2,685)**
Consolidated total	**¥305,862**	**¥ —**	**¥305,862**	**¥18,958**	**$2,299,714**	**$ —**	**$2,299,714**	**$142,541**
Year ended March 31, 2001								
Fibers and textiles	¥ 90,822	¥ 858	¥ 91,680	¥ 1,720				
Chemical products	151,007	2,091	153,098	12,715				
Man-made leather, non-woven fabrics and fastening materials	31,641	239	31,880	2,028				
Diversified businesses	40,181	15,858	56,039	3,359				
Total	313,651	19,046	332,697	19,822				
Eliminated on consolidation	—	(19,046)	(19,046)	109				
Consolidated total	¥313,651	¥ —	¥313,651	¥19,931				

Identifiable assets, capital expenditure and depreciation and amortization

	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization
	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2002						
Fibers and textiles	**¥ 64,864**	**¥ 2,877**	**¥ 2,808**	**$ 487,699**	**$ 21,632**	**$ 21,113**
Chemical products	**204,290**	**45,541**	**9,631**	**1,536,015**	**342,414**	**72,414**
Man-made leather, non-woven fabrics and fastening materials	**34,318**	**1,439**	**2,018**	**258,030**	**10,820**	**15,173**
Diversified businesses	**57,352**	**859**	**1,599**	**431,218**	**6,459**	**12,023**
Total	**360,824**	**50,716**	**16,056**	**2,712,962**	**381,325**	**120,723**
Eliminated on consolidation and corporate	**126,608**	**—**	**—**	**951,940**	**—**	**—**
Consolidated total	**¥487,432**	**¥50,716**	**¥16,056**	**$3,664,902**	**$381,325**	**$120,723**
Year ended March 31, 2001						
Fibers and textiles	¥ 73,841	¥ 2,722	¥ 3,246			
Chemical products	162,677	9,439	9,576			
Man-made leather, non-woven fabrics and fastening materials	35,231	1,556	2,241			
Diversified businesses	58,304	2,097	1,530			
Total	330,053	15,814	16,593			
Eliminated on consolidation and corporate	182,426	—	—			
Consolidated total	¥512,479	¥15,814	¥16,593			

A summary of net sales, operating income and identifiable asset by geographic segment for the years ended March 31, 2002 and 2001 is as follows:

	Millions of yen				
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income	Identifiable assets
Year ended March 31, 2002					
Domestic (inside Japan)	**¥263,788**	**¥21,854**	**¥285,642**	**¥16,157**	**¥263,048**
Europe	**12,273**	**111**	**12,384**	**315**	**56,433**
Other	**29,801**	**2,937**	**32,738**	**2,610**	**47,050**
Total	**305,862**	**24,902**	**330,764**	**19,082**	**366,531**
Eliminated on consolidation and corporate	**—**	**(24,902)**	**(24,902)**	**(124)**	**120,901**
Consolidated total	**¥305,862**	**¥ —**	**¥305,862**	**¥18,958**	**¥487,432**
Year ended March 31, 2001					
Domestic (inside Japan)	¥276,113	¥20,231	¥296,344	¥17,674	¥278,770
Europe	10,807	904	11,711	623	19,314
Other	26,731	2,927	29,658	1,485	35,986
Total	313,651	24,062	337,713	19,782	334,070
Eliminated on consolidation and corporate	—	(24,062)	(24,062)	149	178,409
Consolidated total	¥313,651	¥ —	¥313,651	¥19,931	¥512,479

	Thousands of U.S. dollars				
	Net sales to outside customers	Net sales to inter-segment	Net sales	Operating income	Identifiable assets
Year ended March 31, 2002					
Domestic (inside Japan)	**$1,983,368**	**$164,316**	**$2,147,684**	**$121,481**	**$1,977,805**
Europe	**92,278**	**835**	**93,113**	**2,368**	**424,308**
Other	**224,068**	**22,082**	**246,150**	**19,624**	**353,759**
Total	**2,299,714**	**187,233**	**2,486,947**	**143,473**	**2,755,872**
Eliminated on consolidation and corporate	**—**	**(187,233)**	**(187,233)**	**(932)**	**909,030**
Consolidated total	**$2,299,714**	**$ —**	**$2,299,714**	**$142,541**	**$3,664,902**

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, 2002 and 2001 were 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, 2002					
Asia	**¥32,267**	**¥ —**	**10.6%**	**$242,609**	**$ —**
Other	**60,067**	**—**	**19.6**	**451,632**	**—**
Total	**¥92,334**	**¥305,862**	**30.2%**	**$694,241**	**$2,299,714**

	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
Year ended March 31, 2001			
Asia	¥30,981	¥ —	9.9%
Other	55,344	—	17.6
Total	¥86,325	¥313,651	27.5%

15. 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 shareholder approval has been obtained. The following appropriations of retained earnings of the Company as of March 31, 2002 were approved by the shareholders on June 27, 2002.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.50 ($0.03) per share	¥ 1,723	$ 12,955
Bonuses to directors and statutory auditors	37	278

The above year-end cash dividends per share and interim cash dividends of ¥4.50 ($0.03) per share paid in December 2001 made a total annual cash dividend of ¥9.00 ($0.07) per share.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Nihon Seimei Imabashi Bldg.,
7th Floor 3-1-7, Imabashi,
Chuo-ku, Osaka 541-8582,
Japan

June 27, 2002

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, 2002 and 2001, 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 Notes 2 (g), (h) and (l) to the financial statements, the Company and its consolidated subsidiaries have changed their accounting method for employees' retirement benefits, foreign currency translation and financial instruments including hedges and valuation of receivables and securities as they have adopted the new relevant Japanese accounting standards during the year ended March 31, 2001.

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 31, 2002)

Companies	Head office	Capital (¥millions, except where stated)	Activities
CHEMICALS			
Kuraray Medical Inc.	Tokyo	2,500	Manufacture and sales of medical products
Kuraray Chemical Co., Ltd.	Osaka	600	Manufacture and sales of activated carbon
*KC Processing Co., Ltd.	Okayama	20	Processing of activated carbon
*Mitsukura Chemical Co., Ltd.	Osaka	10	Manufacture and sales of activated carbon
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
Ibuki Kosan Co., Ltd.	Gifu	10	Manufacture of rubber products
Kuraray Saijo Co., Ltd.	Ehime	10	Manufacture of chemical products and synthetic fiber
Kuraray Niigata Kasei Co., Ltd.	Tokyo	50	Manufacture and sales of methacrylic sheets
Kyosei Chemical Co., Ltd.	Tokyo	50	Manufacture of pigments and dyes
*Nihonkai Acetylene Co., Ltd.	Tokyo	60	Manufacture and sales of acetylene gas
TEXTILES			
*Magictape Co., Ltd.	Fukui	30	Manufacture of *MAGIC TAPE*
*Kuraray Okayama Spinning Co., Ltd.	Okayama	50	Manufacture of synthetic fibers
*Kuraflex Co., Ltd.	Okayama	10	Manufacture and sales of non-woven fabric products
*Kuraflex Ibaraki Co., Ltd.	Ibaraki	30	Manufacture and sales of non-woven fabric products
*Saijo Textured Yarn Co., Ltd.	Ehime	10	Manufacture of processed polyester yarn
*Kuraray Planning System Co., Ltd.	Osaka	10	Design of uniforms
CONSTRUCTION, REAL ESTATE, HOUSING			
Kuraray Engineering Co., Ltd.	Okayama	450	Plant design and construction
Kuraray Saijo Kiko Co., Ltd.	Ehime	10	Fabrication of machinery parts
Kuraray Fudosan Co., Ltd.	Osaka	382	Sales and management of houses and housing lots
Iruma Country Club Co., Ltd.	Saitama	40	Golf course management
Kuraray Ohmiya Estate Co., Ltd.	Osaka	31.25	Real estate leasing
Kuraray Tsurugashima Estate Co., Ltd.	Osaka	10	Real estate leasing
Kuraray Interior Co., Ltd.	Osaka	330	Manufacture and sales of luxury furniture
COMMERCE, SERVICES			
Kuraray Trading Co., Ltd.	Osaka	2,000	Importing, exporting, wholesaling, manufacture and sales of textile products, chemicals, etc.
Kuraray Living Co., Ltd.	Osaka	101.8	Manufacture and sales of packaging materials
Kuraray Family Products Corporation	Osaka	30	Sales of health foods, etc.
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
Techno Soft Co., Ltd.	Osaka	50	Consulting, temporary staffing
Kuraray Travel Service Corporation	Osaka	20	Travel and insurance agency
Kuraray Business Service Co., Ltd.	Osaka	100	Accounting, personnel and information system services
*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 sale 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 Kurary 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 *MOWIOL*** (PVA) and *MOWITAL*** (PVB)
Kuraray Finance Europe B.V.	Amsterdam, Netherlands	€0.3 million	Fund procurement and management for Group companies
Kuraray Singapore Pte., Ltd.	Singapore	SP$66.8 million	Holding company, coordination of local subsidiaries
Kuraray Specialities Asia Pte., Ltd.	Singapore	SP$19.6 million	Sales of Poval resins
*Poval Asia Pte Ltd	Singapore	SP$40 million	Manufacture of Poval resins
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK$4.65 million	Processing and sales of Kuraray products in China and Southeast Asia

* Equity method subsidiary
** *MOWIOL* and *MOWITAL* are trademarks of KSE.

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)

1971 • Non-woven fabrics business started (Kuraray Chicopee Co., Ltd. established)

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

1972 • *EVAL* commercialized: production facilities for *EVAL* resin completed at Okayama Plant

• 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 cstablished, 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.

1990s

1990 • *SEPTON* commercializcd: 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 • Operations started at Poval Asia Pte Ltd

• Operations 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 terminated its rayon business

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

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

2001 • PVA gel mass-production facilities become operational

• Mass-production facilities for the heat-resistant polyamide resin *GENESTAR* become operational

• Kuraray Specialities Europe GmbH established in Frankfurt, Germany

• Kuraray Medical Inc. established

• Acquired PVA and PVB operations of Clariant AG

Finalizing the aquisition of Clariant's PVA operations

(As of June 2002)

Representative Director and Chairman

Hiroto Matsuo

Representative Director and President

Yasuaki Wakui

Senior Managing Director

Koichi Kushida
Responsible for Corporate Management Division, Poval Company, Eval Company & High-performance Materials Division

Managing Directors

Masayuki Hayashi
Responsible for Fibers and Industrial Materials Company, Fastening and Non-woven Fabrics Company, Clarino Company & Clavella Division, General Manager, Clavella Division

Akira Matsuzawa
Responsible for Methacrylate Company, Chemicals Company, Elastomer Company & OPT Company

Masahiro Kaihara
Responsible for Environment and Technology & Plants (Kurashiki, Okayama, Nakajo, Kashima)

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

Shobu Minatono
Responsible for Research and New Business Development Division

Director and Advisor

Hisao Nakamura

Directors

Katsuhiko Kishi
President of Fibers and Industrial Materials Company

Katsumi Ohashi
President, Kuraray Medical Inc.

Tetsuzo Kimura
General Manager, Corporate Management Division

Satoru Mizushima
General Manager, High-performance Materials Division

Junsuke Tanaka
President of Eval Company

Seiji Wajiki
General Manager, Okayama Plant

Koichi Kikuchi
General Manager, Tokyo Head Office, Deputy General Manager, Corporate Management Division

Nobusuke Takeuchi
General Manager, Kurashiki Plant

Noriaki Yoshimura
General Manager, Research and New Business Development Division

Corporate Auditors

Jun Inoue

Tatsuya Nakano

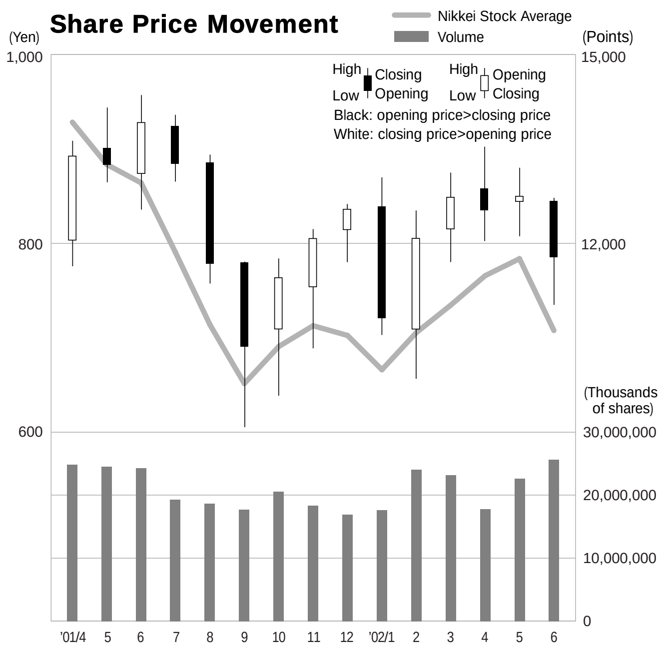
Kazuhide Kashiwabara

Ichiro Kobayashi

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: 26,977
(as of March 31, 2002)

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
1-10, Nikko-cho, Fuchu, Tokyo 183-8701, Japan
TEL. 81-42-351-2211

Principal Shareholders

Principal Shareholders	Number of Shares Held (thousands)	Percentage of Shares Held
The Mitsubishi Trust and Banking Corporation (Trust Account)	35,444	9.26%
Japan Trustee Services Bank Ltd. (Trust Account)	34,190	8.93%
UFJ Trust Bank Limited (Trust Account A)	18,764	4.90%
Nippon Life Insurance Co.	12,737	3.33%
The Industrial Bank of Japan, Ltd.	12,616	3.30%
The Meiji Mutual Life Insurance Co.	8,066	2.11%
The Dai-ichi Mutual Life Insurance Co.	7,652	2.00%
The Fuji Bank, Ltd.	6,984	1.82%
Mitsui Asset Trust and Banking Company, Limited (Pension Tokkin)	6,050	1.58%
Mitsui Asset Trust and Banking Company, Limited (Investment Trust)	5,683	1.48%

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