FINANCIAL REPORT 2003

Kuraray Co., Ltd

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Management Policies

Fundamental Management Policy

In 2001 the Kuraray Group implemented its G-21 five-year medium-term business plan. This plan sets forth five conditions for business growth. The first four are maintaining international competitiveness; concern for the global environment, which includes not only environmental conservation activities, but also reduction of the environmental impact of our manufacturing operations, products, and materials procurement; employment of electronic information technology and participation in the new growth fields it has created; and maximizing synergies within the group through shared values and strategies. The fifth is an awareness that a balanced concern for all our stakeholders is necessary. By meeting these five conditions, Kuraray is becoming an eco-friendly company with unique technology. This fundamental policy calls for expanding businesses in which we are internationally competitive, businesses that contribute to the protection and improvement of the environment, and businesses that enhance the Company's global survivability.

Through achievement of the goals set forth in G-21, the Kuraray Group is striving to fulfill the social mission formulated in April 2003— pioneering new business domains through highly original technology, while contributing to the preservation of the natural environment and enhancement of the quality of life.

Medium to Long-Term Management Strategy

In the G-21 plan, the Group emphasizes ROA and cash flows. One goal is to achieve ROA that exceeds the cost of capital by the last year of the plan (fiscal 2005). In February 2003 this level was revised from a minimum of 7% to a minimum of 8%.

Administrative and structural improvements to organizations and systems include flattening of the organization and broad delegation of authority, greater autonomy for business divisions and Group companies, maximizing Group synergies through shared values and business strategies, formulating a compensation and benefits structure that better reflects the Company's performance, and promoting the use of business process reengineering (BPR) and IT.

We are emphasizing both product-specific and market-specific business strategies.

Product-specific strategies call for the designation of three businesses in which we are internationally competitive as core businesses, and the strengthening of those operations. These are the vinyl acetate derivatives business (Poval, *EVAL*, Vinylon, and *KURALON K-II*), the isoprene business (thermoplastic elastomers and fine chemicals), and the man-made leather business (*CLARINO*).

The Company's market-specific strategies designate four strategic domains— electronic information (Poval film for liquid crystal displays, Opto-screens, etc.), eco-friendly products (asbestos substitutes, gas barrier materials, and substitutes for PVC and vulcanized rubber), environmental protection (activated carbon, PVA gel, industrial membranes), and medical products (artificial organs, dental materials).

Dividend Policy

The allocation of profits to shareholders is one of the Company's top management issues. Our basic policy is to offer shareholders the maximum return consistent with strengthening the Company's business structure and future needs for expansion.

To expand business earnings in an environment of fierce international competition, internal reserves are used at need for strategic investments, including M&A activities.

Policy Regarding Reduction in Trading Unit

Increasing trading in Kuraray's stock and expanding the individual-investor stratum are also important issues for the Company. We are giving consideration to reducing the trading unit for Company shares in the future, in the expectation that such a move would bring improvements in share price, number of shareholders, and liquidity.

Issues to Be Resolved

Fiscal 2002, ended March 31, 2003, was the second year of our G-21 medium-term business plan. During the concluding three years we will continue to pursue the basic strategy of becoming a highly regarded enterprise with significant earning power. Of vital importance in achieving this goal are the ability to respond quickly to rapidly changing market environments, and the ability to create and foster the next generation of growth businesses. From these abilities comes the expansion of earning capacity.

1. To achieve greater speed of response to events, we implemented an in-house company system in April 2002. Each company has significant autonomy and is capable of reaching correct decisions speedily, and pursues unified, efficient development, manufacturing, and sales operations.

2. In April 2003 the Company established the Corporate Strategy and Planning Division to promote its expansion into new fields. Kuraray has also established two new research facilities, the Optical Device R&D Center and, in the U.S., the Research & Technical Center. This will concentrate resources to allow faster, more efficient R&D.

3. To increase the Company's earning power during this period of domestic economic weakness, it is necessary to open up new demand from a global standpoint and providing value-added products. To move in this direction, in 2002 we commenced the production of *SEPTON*, a thermoplastic elastomer, at a subsidiary in the U.S. Also, we began the expansion of facilities to manufacture the ethylene vinyl alcohol copolymer *EVAL* in Europe. In Asia, we established a representative office in Shanghai. The Company will

continue to pursue overseas expansion, with emphasis on core businesses.

4. We are moving forward with a review of our operations, evaluating the profitability and potential of our businesses and withdrawing from unprofitable activities.

5. The Company is realizing cost reductions emerging from its manufacturing innovation program in an effort to improve cost-competitiveness. In addition, through Kuraray Business Service Co., Ltd., established in 2002, we are furthering the integration and efficiency of the Group's administrative service operations.

6. The reduction and efficient utilization of inventories and other assets will be a significant issue for the entire period of the G-21 plan, and the Company will continually intensify this effort.

7. Environmental preservation is one duty of a corporation. Kuraray will meet this duty by offering environmentally friendly products, and by reducing its use and discharge of substances that impose an environmental burden.

Approach to Corporate Governance and Status of Measures Taken

(Fundamental Approach)
In the arena of fierce international competition, Kuraray is striving to improve business performance through the operational agility that swift decision making confers, while strengthening corporate governance to secure transparency and fairness of management. Therefore, the Company is expanding and strengthening management auditing functions, while building organizations and operations that task directors—who have a high level of insight and judgment—with strategic and supervisory functions, while relieving them of operational responsibilities.

(Status of Measures Taken)
a. Status of the Company's corporate governance systems

1. Kuraray employs an internal auditor system, which it has reinforced with independent auditors to ensure satisfactory management oversight. Of a total of four auditors, three are independent. However, we have not yet elected an outside director.

2. Business and administrative systems were improved in April 2002 with the implementation of the in-house company system. Significant operational authority and responsibility for performance were delegated to the presidents of each company, increasing the speed of decision making. However, to provide coordination among the various in-house companies and to ensure conformance with Group management policies,

the Corporate Management Division and other corporate staff organizations were expanded.

3. As a result of the introduction of the in-house company system, the senior managing directors and managing directors who had previously borne operational responsibilities are now in an advisory capacity with respect to their divisions. However, they now bear decision-making and supervisory responsibilities for overall management.

4. Looking at internal control systems, since 1998 our In-house Ethics Committee has met twice a year, addressing such matters as the improvement of compliance programs and engendering better awareness of ethical standards. In August 2001we established the Kuraray Employees Consulting Office to support the prompt detection of problematic conduct within the Company. Then, in March 2002, the management-level Kuraray Group Risk Management Conference was organized to establish risk assessment and response measures for the entire Group.

b. There are no conflicts of interest on the part of between Kuraray and its independent auditors.

c. With regard to corporate-governance improvement measures introduced during the last year, it was decided in March 2003 to introduce the following management measures, in accordance with the basic policy described above. These measures are scheduled for implementation upon the completion of the general meeting of shareholders in June 2003.

1. Increasing our auditing staff
The number of auditors is to be increased from four to five, of whom three are to be independent auditors with no previous history of employment at Kuraray, as required under article 18 paragraph 1 of the Law Concerning Special Exceptions to the Commercial Code.

2. Establishing a Management Advisory Council
To strengthen compliance, establish a management stance that emphasizes concern for shareholders, and improve management transparency, the Management Advisory Council has been established to provide advice to company presidents on Kuraray Group management issues.

3. Implementing an operating officer system
The operating officer system was introduced to deepen the in-house company system introduced in 2002, and to more precisely differentiate between time-critical operational functions on the one hand, and management’s strategic decision-making and supervisory functions on the other. Operating officers’ terms of office are one year, during which time

they have authority over business operations and indirect functions in their respective areas, as well as responsibility for the conduct of operations and profitability. Accordingly, the upper limit on the number of directors will be reduced from its present 30 to 10, and directors' terms of office from two years to one. This will contribute to agility in decision making.

The selection of directors and auditors and changes in bylaws described above will be proposed to the shareholders at the June 2003 general meeting.

Results of Operations and Financial Condition

Summary

The economic environment during the period under review was difficult, marked not only by weakness in the domestic economy, but also by worldwide deflation that gave rise to fears of recession overseas.

The Kuraray Group responded to these circumstances with efforts to enhance its resistance to deflation by reducing costs and cutting back or withdrawing from under-performing and unprofitable businesses. Together with this, the Group worked to expand its sphere of operations through the development of new products and new applications for existing products, and by opening up new markets.

As a result of these efforts, net sales rose 5.4%, or ¥16,662 million, to ¥322,524 million, and operating income grew 32.9%, or ¥6,228 million, to ¥25,186 million. A ¥4,950 million loss on write-down of investment securities, and a ¥3,856 million extraordinary loss in connection with restructuring charges were posted. As a result of the foregoing, net income jumped 180.9%, or ¥5,184 million, to ¥8,051 million

1. Results by Business Segment

As described in Notes to “Segment Information,” business categories were changed from the fiscal year under review forward. However, all data have been adjusted to reflect the new categories.

To better reflect the state of business categories, corporate operating costs, which were previously allocated to the relevant business segments, will from the fiscal year under review forward be shown as unallocated corporate operating costs in the Elimination and Corporate column. Similarly, corporate assets will be shown as unallocated assets in the Elimination and Corporate column.

a. Chemicals and Resins

Net sales in this segment rose 20.8%, or ¥24,896 million, to ¥144,690 million, and operating income surged 28.6%, or ¥4,441 million, to ¥19,947 million.

1) In addition to the recovery of Asian demand, last fiscal year’s purchase of the PVA- and PVB-related business of Clariant AG and establishment of the European subsidiary Kuraray Specialties Europe GmbH contributed to the expansion of our Poval (PVA) business. Demand for Poval film from LCD manufacturers also recovered.

2) Healthy sales of the EVOH resin *EVAL* for use in food packaging were recorded. In addition, demand for use in automobile fuel tanks expanded not just in the U.S., but also in Europe, Japan, and China.

3) Demand for methacrylic resin for molding products and methacrylic sheets increased, with optical-use and other high-value-added products showing particularly strong growth.

4) In the isoprene-related business, sales of thermoplastic elastomers showed steady expansion, especially in the European and U.S. markets. Looking at fine chemicals operations, sales of vitamins were affected by falling market prices, but sales of agrochemical intermediates and aroma chemicals were healthy.

As a result, each of the four businesses above achieved increases in revenues and profits.

b. Fibers and Textiles

In the fibers and textiles segment, net sales declined 4.2%, or ¥4,852 million, to ¥109,915 million, but operating income grew 27.4%, or ¥1,034 million, to ¥4,801 million

1) Sales of Vinylon as an asbestos substitute for fiber reinforced cement (FRC) were solid, and demand for *KURALON K-II* as a water-soluble material expanded. However, demand from the agricultural and fisheries sectors contracted, and sales overall were flat. Profits, however, showed growth.

2) Conditions in the polyester market remained adverse. Although revenues declined again in the fiscal year under review, the Company succeeded in curtailing the loss by shifting clothing-textile operations to a Group trading company in April 2002, which resulted in heightened operational efficiency, as well as by accelerating the introduction of unique materials and shrinking or divesting unprofitable businesses.

In April 2003, the manufacturing of polyester staples was shifted to a newly established subsidiary. Although production capacity will be reduced, the new firm will specialize in the manufacturing and sale of this highly differentiated material, which will allow the rebuilding of this business.

3) Solid sales were posted of the man-made leather *CLARINO* for use in athletic shoes and other footwear, as well as for use in clothing in Japan and interior furnishings in the U.S. This allowed growth in revenues and profits, and put this business on the road to full-scale recovery.

4) Weak domestic consumer spending and poor conditions in the restaurant industry brought falling prices for non-woven fabrics. An increase in sales volume allowed net sales to remain level, but income declined. Sales of *MAGIC TAPE* hook and loop fastener fell as a result of the overseas shift of users, and this business turned in lower revenues and profits. The Company is striving to strengthen the structure of this business.

c. High-Performance Materials, Medical Products, and Others

Net sales in the functional materials and medical products segment declined 4.7%, or ¥3,382 million, to ¥67,919 million, but operating income grew 23.1%, or ¥1,562 million, to ¥8,322 million.

1) In the opto-related business, demand for Opto-screens for rear-projection TVs remained strong in the U.S., and demand in the Chinese market increased. These factors produced growth in earnings and profits.

2) The medical products business enjoyed steady growth in demand for dental materials, chiefly in Europe and North America. Higher sales combined with reductions in costs resulted in a recovery in profits on sales of contact lenses, but income from sales of medical devices was adversely affected by the Japanese government's latest reductions to reimbursement prices. The medical products business overall achieved an increase in profits on flat revenues.

3) In the functional materials business, development of markets for the heat-resistant resin *GENESTAR* as a vital material is proceeding steadily. The environment-related business's large-pore hollow-fiber membranes are in use in a public water purification facility in Tokyo, and we are emphasizing the expansion of this business.

4) Kuraray Chemical Co. Ltd.'s activated carbonl business is performing well, and other subsidiaries and affiliates are striving for greater efficiency in response to this extremely adverse economy. Although revenues of subsidiaries and affiliates declined, an increase in profits was achieved.

2. Performance by Geographic Segment

Corporate operating costs, which were previously allocated to the relevant business segments, will from the fiscal year under review forward be shown as unallocated corporate operating costs in the Elimination and Corporate column. Similarly, corporate assets will be shown as unallocated assets in the Elimination and Corporate column.

a. Japan

Business was of course affected by the troubled domestic economy, but achieving profitability through the rationalization of costs and other measures was a top priority. As a result of these efforts, domestic operating income of ¥28,982 million was posted on domestic net sales of ¥254,543 million.

b. North America

Higher sales of thermoplastic elastomer and *EVAL* in North America resulted in net sales of ¥24,028 million and operating income of ¥2,959 million.

c. Europe

Net sales in Europe were ¥33,801 million, largely on the strength of the contribution of Kuraray Specialties Europe GmbH. Strong sales of *EVAL* were the primary factor in operating income of ¥1,156 million.

d. Asia

Recovery in the Asian markets allowed higher sales of Poval, but an operating loss of ¥351 million on net sales of ¥10,152 million was recorded.

3. Dividends

The Company's fundamental policy is to pursue a stable allocation of profits. Dividends of ¥9 per share are planned for the fiscal year under review. An interim dividend of ¥4.5 per share was declared at mid-term.

Financial Position

Total assets at the end of the fiscal year, at ¥426,877 million, were ¥60,555 million lower than a year earlier. This is primarily attributable to the contraction of financial assets as a result of the redemption of the Company's bonds and convertible bonds, and the acquisition of 10 million shares of treasury stock. The reduction of inventory assets was also a factor.

Treasury stock increased ¥7,337 million, producing a ¥3,380 million decline in shareholders' equity, to ¥287,263 million, and the decline in total assets resulted in a 7.7 percentage-point increase in the equity ratio, to 67.3%.

Net cash and cash equivalents provided by operating activities totaled ¥37,343 million, an increase of ¥18,646 million over the previous fiscal year. This was chiefly the result of growth in net income before income tax, an increase in depreciation and amortization, and a decline in income taxes paid.

Net cash and cash equivalent provided by investing activities was ¥17,431 million, after payments for tangible and intangible fixed assets of ¥18,522 million and income from the sale and redemption of investment securities of ¥35,933 million.

Net cash and cash equivalent used in financing activities totaled ¥54,202 million, primarily employed for the redemption of standard bonds and convertible bonds, and the purchases of treasury stock.

As a result of the foregoing, cash and cash equivalents at the end of the fiscal year stood at ¥13,901 million, an increase of ¥405 million from a year earlier.

Kuraray Group Cash Flow Indicators

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Equity ratio	56.1%	56.5%	59.6%	67.3%

Market-value-based equity ratio	71.3%	59.8%	66.7%	60.6%
Years to redemption of liabilities	4.1 years	6.1 years	4.3 years	1.0 years
Interest coverage ratio	9.3	6.8	8.5	22.8

Notes:
Equity ratio: shareholders' equity / total assets
Market-value-based equity ratio: total market value of shares issued and outstanding / total assets
Years to redemption of liabilities: interest-bearing liabilities / net cash provided by operating activities
Interest coverage ratio: net cash provided by operating activities / interest expenses

1. All indicators are calculated from consolidated financial data.
2. The total market value of shares issued and outstanding was calculated by multiplying the closing price at the end of the fiscal year by the total number of shares issued and outstanding (after subtracting treasury stock).
3. The figure for cash flows from operating activities published in the Company's consolidated statement of cash flows was used to calculate net cash provided by operating activities.
4. Interest-bearing liabilities include bills discounted, short-term loans, long-term loans, as well as the Company's bonds, convertible bonds, and bonds with warrants. Interest expenses were calculated using total interest paid as stated in the Company's consolidated statement of cash flows.

Outlook for the Coming Fiscal Year

No signs of recovery in the domestic economy are apparent, and the future of business conditions overseas grows increasingly opaque. A worldwide deflationary trend is gathering momentum, and it appears that the management environment will remain severe.

In these circumstances, forecasts for next fiscal year are as follows: net sales of ¥340.0 billion, operating income of ¥28.0 billion, and net income of ¥14.0 billion.

We will continue to promote the global expansion of our chemical products and resins business, including Poval, *EVAL*, thermoplastic elastomer, and other core operations. In our textile business, we will continue to expand sales of proprietary products such as Vinylon and *KURALON K-II*, and will move forward with the opening of global markets for *CLARINO*. In addition, we will work toward further recovery in the earnings of our polyester business through reorganization measures. Efforts to expand our high-performance materials and medical products business will center on opto-related products and dental materials, and increasing emphasis will be placed on our environment-related business.

Forecasts for the next fiscal year are based on assumptions of average exchange rates of ¥120 to the U.S. dollar and ¥120 to the Euro, and a price of US$23 per barrel for Dubai crude oil.

Dividends for the fiscal year are forecast at ¥9 per share.

Note: The forecasts above are based on data available at time of publication. Actual performance may differ substantially as a result of subsequent events.

CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	\7,715	\10,471	*$64,292*
Current portion of long-term debt	24,840	36,560	*207,000*
Notes and accounts payable:			
Trade	39,377	47,647	*328,142*
Unconsolidated subsidiaries and affiliates	938	791	*7,816*
Others	6,788	8,052	*56,567*
Accrued income taxes	4,575	1,799	*38,125*
Deferred income taxes	0	3	*0*
Accrued expenses and others	13,161	16,951	*109,675*
Total current liabilities	97,394	122,274	*811,617*
Long-term liabilities:			
Long-term debt	4,427	32,552	*36,892*
Deferred income taxes	3,914	4,631	*32,616*
Accrued retirement benefits	16,544	20,661	*137,867*
Others	17,271	16,616	*143,925*
Total long-term liabilities	42,156	74,460	*351,300*
Minority interests	64	55	*533*
Shareholders' equity:			
Common stock:			
Authorized—700,000,000 shares			
Issued and outstanding—382,863,603 shares	88,955	88,955	*741,292*
Additional paid-in capital	87,147	87,147	*726,225*
Retained earnings	115,368	110,798	*961,400*
Unrealized gain on revaluation of securities	1,521	2,002	*12,675*
Cumulative translation adjustments	1,657	1,789	*13,808*
	294,648	290,691	*2,455,400*
Treasury stock at cost	(7,385)	(48)	*(61,542)*
Total shareholders' equity	287,263	290,643	*2,393,858*
	\426,877	\487,432	*$3,557,308*

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

	Yen		*U.S. dollars*
Net income per share:			
Primary	\21.01	\7.49	*$0.18*
Fully diluted	20.71	7.45	*0.17*

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

	Thousands of U.S. dollars					
Balance at March 31, 2002	*$741,292*	*$726,225*	*$923,317*	*$16,683*	*$14,908*	*$(400)*
Net income			*67,092*			
Cash dividends, $0.0 8 per share			*(28,709)*			
Bonuses to directors and statutory auditors			*(300)*			
Changes in unrealized gain on revaluation of securities				*(4,008)*		
Translation adjustments					*(1,100)*	
Treasury stock acquired, net						*(61,142)*
Balance at March 31, 2003	*$741,292*	*$726,225*	*$961,400*	*$12,675*	*$13,808*	*$(61,542)*

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

Notes: Consolidated statements of cash flows have been prepared using a format defined by the Financial Service Agency of Japan, which differs from that used in earlier years, and accordingly, the comparative period's consolidated statements of cash flows have been modified to conform with new form.
The United States dollar amounts represent translation of Japanese yen at the rate of \120=$1.

SEGMENT INFORMATION
Industrial segment information
(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

	Millions of yen			
	Net sales			Operating
Year ended March 31, 2003	outside customers	inter-segment	total	income
Chemicals and resins	\144,690	\3,037	\147,727	\19,947
Fibers and textiles	109,915	1,228	111,143	4,801
High performance materials,				
medical products and others	67,919	21,672	89,591	8,322
Total	322,524	25,937	348,461	33,070
Eliminated on consolidation and corporate	—	(25,937)	(25,937)	(7,884)
Consolidated total	\322,524	\ —	\322,524	\25,186

	Millions of yen			
	Net sales			Operating
Year ended March 31, 2002	outside customers	inter-segment	total	income
Chemicals and resins	\119,794	\2,340	\122,134	\15,506
Fibers and textiles	114,767	1,946	116,713	3,767
High performance materials,				
medical products and others	71,301	21,861	93,162	6,760
Total	305,862	26,147	332,009	26,033
Eliminated on consolidation and corporate	—	(26,147)	(26,147)	(7,075)
Consolidated total	\305,862	\ —	\305,862	\18,958

	Thousands of U.S. dollars			
	Net sales			*Operating*
Year ended March 31, 2003	*outside customers*	*inter-segment*	*total*	*income*
Chemicals and resins	*$1,205,750*	*$25,308*	*$1,231,058*	*$166,225*
Fibers and textiles	*915,958*	*10,234*	*926,192*	*40,008*
High performance materials,				
medical products and others	*565,992*	*180,600*	*746,592*	*69,350*
Total	*2,687,700*	*216,142*	*2,903,842*	*275,583*
Eliminated on consolidation and corporate	*—*	*(216,142)*	*(216,142)*	*(65,700)*
Consolidated total	*$2,687,700*	*$ —*	*$2,687,700*	*$209,883*

Notes: Effective April 1, 2002, the Company has rearranged its industrial segments. As a result, former "Fibers and textiles", "Chemical products", "Man-made leather, non-woven fabrics and fastening materials" and "Diversified business" have been reclassified "Chemicals and resins", "Fibers and textiles" and "High performance materials, medical products and others", and accordingly, the comparative period's segment information is shown by the same classification as rearranged.
The United States dollar amounts represent translation of Japanese yen at the rate of \120=$1.

Industrial segment information

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

	Millions of yen		
Year ended March 31, 2003	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\172,445	\7,821	\11,134
Fibers and textiles	84,322	4,655	4,037
High performance materials, medical products and others	76,633	5,177	3,007
Total	333,400	17,653	18,178
Eliminated on consolidation and corporate	93,477	1,438	930
Consolidated total	\426,877	\19,091	\19,108

	Millions of yen		
Year ended March 31, 2002	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\182,544	\40,248	\7,767
Fibers and textiles	98,280	3,214	4,600
High performance materials, medical products and others	74,038	3,819	2,966
Total	354,862	47,281	15,333
Eliminated on consolidation and corporate	132,570	3,435	723
Consolidated total	\487,432	\50,716	\16,056

	Thousands of U.S. dollars		
Year ended March 31, 2003	*Identifiable assets*	*Capital expenditure*	*Depreciation and amortization*
Chemicals and resins	*$1,437,042*	*$65,175*	*$92,783*
Fibers and textiles	*702,683*	*38,792*	*33,642*
High performance materials, medical products and others	*638,608*	*43,142*	*25,058*
Total	*2,778,333*	*147,109*	*151,483*
Eliminated on consolidation and corporate	*778,975*	*11,983*	*7,750*
Consolidated total	*$3,557,308*	*$159,092*	*$159,233*

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

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

Geographic segment information

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

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

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

Foreign sales

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

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