

Semi-annual financial information 2004

Kuraray Co., Ltd

Management Policies

Kuraray's Fundamental Management Policy

The Kuraray Group is at present guided by its "G-21" medium-term business plan, which covers a five-year period that began with fiscal 2001. G-21 is grounded in the realization that there are five prerequisites to corporate development—international competitiveness, concern for the environment (to include manufacturing systems, products, and materials procurement with low environmental impact), the use of electronic information technology and participation in growth markets that emerge as a result of advances in this technology, maximization of synergies growing out of the uniformity of values and strategies across the Group, and achieving a balanced approach to the interests of all stakeholders.

Further, three fundamental policies are needed if we are to achieve our goal of becoming an eco-friendly company with unique technology: expansion of businesses in which we are internationally competitive, expansion of businesses that contribute to the preservation and improvement of the environment, and expansion of businesses that assert the Company's presence worldwide.

Through the execution of G-21, the Kuraray Group will fulfill the social mission that is reflected in its corporate mission statement: "We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life."

Targets for Management Indicators and Medium- to Long-Term Management Strategies

Under the provisions of G-21, the Kuraray Group emphasizes return on assets (ROA) and cash flows as management indicators. We are working to bring ROA above cost of capital (a target value of 8% or higher) by fiscal 2005, the last year of the plan.

Organizational measures include the flattening of corporate structures and broad delegation of authority, greater autonomy for business units and Group companies, maximization of Group synergies through uniformity of values and business strategies, putting together a benefit system that reflects corporate performance, and promotion of business process reengineering and the use of information technology.

With regard to business strategies, the Company places emphasis on both product-specific and market-specific strategies.

In connection with product-specific strategies, the Kuraray Group will be strengthening the following core businesses, in which it is internationally

competitive: the vinyl acetate derivatives businesses (poyal, *EVVAL*, *KURALON*, and *KURALON K-II*); the isoprene-related businesses (thermoplastic elastomers, fine chemicals); and the man-made leather business (*CLARINO*).

In line with market-specific strategies, and basing its activities on analysis of the needs of the market, the Group will be working to expand its business in four strategic domains: the electronic information technology domain (PVA film for LCDs, opto-screens, etc.), the eco-friendly domain (asbestos substitutes, gas-barrier materials, substitutes for polyvinyl chloride and vulcanized rubber), the environmental business domain (activated carbon, PVA gel, industrial membranes), and the medical domain (artificial organs, dental materials).

Dividend Policy

The allocation of profits to shareholders is one of the Company's top management issues. Our policy is to increase dividends through continuous improvement in corporate performance. We also have a target of the payout ratio of 25% of consolidated net income.

Following due consideration of the efficiency of investments, internal reserves are used to expand business revenues through capital investment and strategic M&A activities, for the purchase of treasury stock, and for other appropriate applications.

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, and reducing the number of shares in a trading unit is an effective means of bringing these things about. Therefore, on April 1, 2004, the number of shares in the Company's trading unit will be reduced from 1,000 to 500.

Issues to Be Resolved

Our five-year G-21 medium-term business plan has reached its midpoint. The basic strategies will not change during the plan's final years, as we work toward the goal 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 in-house company has significant

autonomy and is capable of reaching correct decisions speedily, which furthers the goal of efficiency in business operations.

2. In April 2003 the Company established the Corporate Strategy and Planning Division to promote the expansion of new businesses. In March 2003 the Optical Device R&D Center opened, and next spring operations will commence at the Research & Technical Center in the U.S. This will result in faster, more original and creative R&D.

3. To increase the Company's earning power, it is necessary to develop new demand and provide value-added products, both from a global standpoint. To move in this direction, last autumn we commenced the production of the thermoplastic elastomer *SEPTON* at a subsidiary in the U.S. In Europe, we are expanding facilities for manufacturing the ethylene vinyl alcohol copolymer resin *EVVAL* in Belgium, and poval resin in Germany. In Asia, we have established a representative office in Shanghai to help us keep abreast of the growing Chinese market. The Company will continue to pursue overseas expansion, with emphasis on core businesses.

4. We continue to review our operations, evaluating their profitability and potential, and withdrawing from unprofitable activities.

5. The Company is realizing cost reductions emerging from its manufacturing innovation program, and cost-competitiveness has begun to rise. In addition, we are furthering the integration and efficiency of the Group's administrative service operations through Kuraray Business Service Co., Ltd., established two years ago.

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 an 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, building organizations and operations that task directors with oversight 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, and in accordance with Article 18, Paragraph 1 of the Commercial Code of Japan, three of five are independent auditors with no experience as employees or executives of Kuraray.

2. Business and administrative systems were improved in April 2002 with the implementation of the in-house company system, increasing the speed of decision making. To ensure conformance with Group management policies, 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. To strengthen compliance programs and engender better awareness of ethics standards, the Corporate Ethics Committee was integrated into the CSR Committee. The Kuraray Employees Consulting Office supports the prompt detection of problematic conduct within the Company. The management-level Kuraray Group Risk Management Conference handles risk assessment and response measures for the entire Group.

b. No conflicts of interest exist between the Company and its external auditors.

c. Status of recent measures taken to strengthen corporate governance

As decided at the annual general meeting of shareholders in June 2003 and confirmed by resolution of the Board of Directors, the following steps were taken with regard to the Company's management structure.

1. Strengthening the Board of Auditors

To strengthen its oversight functions, the membership of the Board of Auditors has been increased from four to five.

2. Establishing the Management Advisory Committee

The Management Advisory Committee was established to advise the president on matters of Kuraray Group management, with the objectives of ensuring stricter compliance, establishing a management stance that emphasizes shareholders, and increasing management transparency.

3. Establishing the Executive Officer System

Under the in-house company system, business execution functions are more clearly separated from management decision-making and oversight functions. Executive officers serve a term of one year, exercising authority over their businesses and indirect business functions, and holding responsibility for both operations and profitability in their respective areas. Together with the introduction of the executive officer system, the maximum number of directors has been reduced from 30 to 10, and the term of office for directors was reduced from two years to one. This will make it possible for the Board of Directors to be more active in decision making.

In June 2003, the Corporate Ethics Committee and the Philanthropy and Environment Committee, the latter formerly responsible for formulating the Company's fundamental policies regarding ecology and social contributions, were reorganized and integrated into the newly formed CSR Committee. With this committee at the tip of the spear, Kuraray pursues a spectrum of activities aimed at meeting its wide-ranging corporate social responsibilities.

Results of Operations and Financial Condition

Summary

Continued difficult conditions characterized the overall economy during the six-month term to September 30, 2003. The Japanese economy stalled amid persistent economic downturn, while overseas, the operating environment was impacted by unstable socioeconomic conditions.

Against this backdrop, the Kuraray Group worked diligently to reduce costs and to rationalize underperforming and non-profitable businesses. At the same time, the Company looked to expand businesses in which it maintained competitive advantage, to develop new products and applications, and to cultivate new markets in an effort to promote business growth and raise profits.

As a result, Kuraray recorded a year-on-year increase in net sales of 2.0%, or ¥3,176 million, to ¥161,331 million. Operating income was up 19.1%, or ¥2,200 million, to ¥13,723 million. Net income for the first half surged 129.9%, or ¥4,696 million, to ¥8,312 million.

1. Results by Business Segment

a. Chemicals and Resins

Sales in this segment rose 7.7%, or ¥5,438 million, to ¥76,344 million, and operating income jumped 33.3%, or ¥2,929 million, to ¥11,734 million.

- (1) The poval resin business was strong in Japan, Europe, and Asia, enjoying a healthy increase in revenues and profits. This favorable performance was fueled by increased demand for PVA film for application in large-screen LCD displays.
- (2) Revenues and profits for *EVVAL* also expanded favorably, buoyed by solid food packaging-related demand, and growth in fuel tank applications in Japan, Europe, and North America. Construction of new facilities at our European plant continues to progress smoothly, with completion expected in November 2004.
- (3) The methacrylic resin business performed well, reflecting strong demand for light-guide plates and other optical-use products.
- (4) In the isoprene-related business, sales of thermoplastic elastomers grew steadily, while in the fine chemicals field, results were buoyed by solid sales of cosmetics and pharmaceutical intermediates. Accordingly, this business reported increased revenues and profits.

b. Fibers and Textiles

Sales of fibers and textiles declined by ¥1,839 million, or 3.4% from the

corresponding period of the previous fiscal year, to ¥52,508 million. However operating income increased ¥287 million, or 11.5%, to ¥2,781 million.

- (1) Sales of *KURALON* were steady in specialty fields such as fiber-reinforced cement (FRC) in place of asbestos and for reinforcing rubber. On the other hand, results were negatively impacted by a continued cutback in demand from the agriculture and fisheries industries. Although sales of *KURALON K-II* for use in water-soluble application were up, activity in other areas remained sluggish. As a result, this business experienced a drop in revenues, but an increase in profits.
- (2) In the polyester products business, Kuraray worked to increase operational efficiencies by transferring the textile applications business to Group trading companies in April last year. Kuraray transferred control of filament fiber manufacture to a subsidiary in October 2001, and transferred staple fiber operations to a newly established subsidiary in April 2003. The Company is witnessing the fruits of continued efforts to cut costs and downsize operations in unprofitable fields. Kuraray has successfully narrowed the loss in this category despite a year-on-year decline in revenue. The Company is focusing more on the production and sales of highly differentiated materials in an effort to accelerate profit turnaround.
- (3) Strong revenues and profits were posted for the man-made leather *CLARINO*, driven by growing applications in athletic shoes and other footwear, in addition to gloves and other accessories.
- (4) In non-woven products, despite sales volume growth, difficult conditions continued to place downward pressure on prices. Accordingly, while sales were up from the corresponding period of the previous fiscal year, profits fell. The hook and loop fastener business suffered declines in both revenues and profits, as firms that use these products shifted production facilities overseas. Going forward, Kuraray will work to reinforce the operating structures of both the non-woven fabric and the hook and loop fastener businesses.

c. High-Performance Materials, Medical Products and Others

Sales of high-performance materials, medical products and others declined by ¥423 million, or 1.3%, to ¥32,479 million, while operating income increased ¥238 million, or 6.2%, to ¥4,090 million.

- (1) Revenues and profits from optoelectronics products fell as shipments to China of rear-projection TV screens stalled, battered by the effects of severe acute respiratory syndrome (SARS). Conditions were exacerbated by the impact of foreign exchange fluctuations on shipments to North America.

- (2) In the field of medical products, sales of dental materials grew steadily in the U.S. and Europe. Contact lens operations also contributed to results. However, lower official government prices hurt demand for medical devices. As a result, overall medical product revenues and earnings were down.
- (3) In the field of high-performance materials, Kuraray is taking concrete steps to develop the heat-resistant resin market. Driven by sales of *GENESTAR*, the Company has pushed forward moves to increase production. At the same time, Kuraray is working to expand its activities in environment-related businesses such as large-pore hollow fiber membranes, particularly in the field of industrial wastewater treatment.
- (4) Among affiliated companies in Japan, Kuraray Chemical Co., Ltd.'s activated carbon products continued to record strong results. Despite a difficult operating environment, other affiliated companies made vigorous efforts to enhance efficiencies. The overall result was a decline in revenues and a rise in profits.

2. Performance by Geographic Segment

a. Japan

Business was difficult in Japan as a result of deflationary pressures on the domestic economy. Under these conditions, sales came to ¥121,251 million. Kuraray made efforts to expand business in fields exhibiting a high profit margin and to curtail costs with the aim of securing stable profits. As a result, operating income was ¥15,667 million.

b. North America

Sales of thermoplastic elastomers, *EVAL*, and dental materials grew. Sales totaled ¥12,607 million and operating income was ¥1,920 million.

c. Europe

In Europe, the poval business of Kuraray Specialities Europe GmbH and the *EVAL* business of *EVAL* Europe N.V. contributed favorably to performance. Sales in this region came to ¥20,931 million and operating income was ¥1,269 million.

d. Asia

Sales in Asia totaled ¥6,542 million, lifted by recovering markets for poval and increased sales activity of *CLARINO* in China. The operating loss improved to ¥137 million.

3. Interim Dividend

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

Outlook for Fiscal 2003

While there are faint signs of a recovery in certain sectors of the Japanese economy following a period of prolonged recession, Kuraray anticipates conditions to remain unstable amid a persistent slump in personal consumption and developing deflation on a global scale.

In this challenging environment, Kuraray is targeting net sales of ¥330.0 billion, operating income of ¥29.0 billion, and net income of ¥15.0 billion for fiscal 2003 (ending March 31, 2004).

The Company plans to expand business activities in the chemicals and resins business, particularly in poval, *EVAL*, methacrylic resin, and thermoplastic elastomers.

In fibers and textiles, Kuraray will continue to expand the unique applications of *KURALON* and *KURALON K-II* and promote continued growth of *CLARINO* both at home and abroad. In addition, restructuring measures in the polyester business and a focus on highly differentiated materials is expected to improve profits.

The high-performance materials, medical products and others segment will expand its optoelectronic and medical products, while continuing to develop the heat-resistant resin *GENESTAR* into a major material and stressing the development of environment-related businesses.

In the second half, Kuraray has adopted the following figures as a basis for its calculations and forecasts.

Average exchange rates:	US\$1 = ¥110
	1 Euro = ¥130
Dubai crude oil price	US\$26 per barrel

Kuraray expects to announce a full-year cash dividend of ¥10 per share, based on the assumption that performance targets for the fiscal year are met.

Financial Position

Total assets stood at ¥414,617 million as of September 30, 2003, down ¥12,260 million compared with the level at March 31, 2003. The principal factor was a drop in financial assets reflecting redemption of standard bonds.

Total shareholders' equity increased ¥11,185 million to ¥298,448 million. The equity ratio improved 4.7 percentage points to 72.0%.

In the six-month period under review, net cash and cash equivalents provided by operating activities was ¥12,910 million, a fall of ¥7,701 million compared with the corresponding period of the previous fiscal year. Major components were increases in income taxes paid and in inventories.

Net cash and cash equivalents used by investing activities was ¥2,478 million. Principal factors included proceeds from sales of property, plant and equipment totaling ¥7,081 million, and payments for acquisition of property, plant and equipment and intangible assets of ¥14,018 million.

Net cash and cash equivalents used in financing activities was ¥18,746 million, due mainly to the redemption of standard bonds.

As a result of the aforementioned factors, cash and cash equivalents at the end of the period totaled ¥10,215 million, a decrease of ¥3,686 million from the level at March 31, 2003.

Kuraray Group financial indicators are as follows:

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Interim Fiscal 2003
Equity ratio	56.5%	59.6%	67.3%	72.0%
Equity ratio (market basis)	59.8%	66.7%	60.6%	74.3%
Years to redemption of debt	6.1	4.3	1.0	0.8
Interest coverage ratio	6.8	8.5	22.8	24.9

Notes:

Equity ratio = shareholders' equity/total assets

Equity ratio (market basis) = current market value of all shares issued and outstanding/total assets

Years to redemption of debt = interest-bearing liabilities/cash flows from operating activities

Years to redemption of debt at the end of the first half = interest-bearing

liabilities/(cash flows from operating activities × 2)
Interest coverage ratio = cash flows from operating activities/interest payments

1. All indicators are calculated on a consolidated basis.
2. The current market value of all shares issued and outstanding is calculated by multiplying the closing stock price on the last day of the accounting period by the number of shares issued as at that day (excluding treasury stock).
3. Cash flows from operating activities are calculated using the Company's Consolidated Statement of Cash Flows, Cash Flows from Operating Activities.
4. Interest-bearing liabilities include bills discounted, short-term bank loans, commercial paper, long-term debt, corporate bonds, and convertible bonds. Interest payments were calculated using the Company's Consolidated Statement of Cash Flows, Interest Paid.

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

	Millions of yen			Thousands of U.S. dollars
	September 30, 2003	March 31, 2003	September 30, 2002	September 30, 2003
ASSETS				
Current assets:				
Cash and cash equivalents	¥9,856	¥13,901	¥22,476	\$88,793
Marketable securities	9,588	16,021	22,035	86,378
Notes and accounts receivable:				
Trade	77,437	81,336	79,754	697,631
Unconsolidated subsidiaries and affiliates	1,660	1,323	839	14,955
Other	1,389	1,733	1,581	12,514
Loans receivable from unconsolidated subsidiaries, affiliates and others	639	467	168	5,756
Allowance for doubtful accounts	(878)	(858)	(705)	(7,910)
	80,247	84,001	81,637	722,946
Inventories	65,716	63,529	66,679	592,036
Deferred income taxes	6,418	6,654	6,420	57,820
Other current assets	2,658	1,642	2,437	23,946
Total current assets	174,483	185,748	201,684	1,571,919
Property, plant and equipment:				
Land	19,185	24,303	24,267	172,838
Buildings	88,173	89,526	89,139	794,351
Machinery and equipment	381,873	378,690	370,288	3,440,298
Construction-in-progress	15,673	10,810	9,819	141,198
	504,904	503,329	493,513	4,548,685
Less accumulated depreciation	(372,940)	(367,344)	(359,666)	(3,359,820)
	131,964	135,985	133,847	1,188,865
Investments and other assets:				
Goodwill	30,123	29,067	28,562	271,378
Other intangible assets	2,740	1,597	1,474	24,685
Investment securities	24,396	22,779	45,837	219,784
Investments in unconsolidated subsidiaries and affiliates	3,391	2,876	2,726	30,549
Loans receivable from:				
Unconsolidated subsidiaries and affiliates	3,957	4,273	4,547	35,649
Other	1,070	1,187	1,242	9,640
Accumulated premiums on insurance	33,876	32,498	33,101	305,189
Deferred income taxes	4,816	6,775	5,483	43,387
Other	5,131	5,405	5,452	46,225
Allowance for doubtful accounts	(1,330)	(1,313)	(1,308)	(11,982)
	108,170	105,144	127,116	974,504
	¥414,617	¥426,877	¥462,647	\$3,735,288

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			<i>Thousands of U.S. dollars</i>
	September 30, 2003	March 31, 2003	September 30, 2002	<i>September 30, 2003</i>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank loans	¥7,851	¥7,715	¥9,877	\$70,730
Current portion of long-term debt	4,362	24,840	51,880	39,297
Commercial paper	5,000	-	-	45,045
Notes and accounts payable:				
Trade	34,136	39,377	38,089	307,531
Unconsolidated subsidiaries and affiliates	1,181	938	735	10,640
Other	6,972	6,788	5,642	62,811
Accrued income taxes	4,169	4,575	2,543	37,558
Deferred income taxes	67	-	24	604
Accrued expenses and other	14,636	13,161	16,364	131,856
Total current liabilities	78,374	97,394	125,154	706,072
Long-term liabilities:				
Long-term debt	3,425	4,427	6,945	30,856
Deferred income taxes	3,386	3,914	4,273	30,505
Accrued retirement benefits	13,962	16,544	19,078	125,784
Other	16,957	17,271	15,752	152,765
Total long-term liabilities	37,730	42,156	46,048	339,910
Minority interests	65	64	47	585
Shareholders' equity:				
Common stock:				
Authorized—700,000,000 shares				
Issued and outstanding—382,863,603 shares	88,955	88,955	88,955	801,396
Additional paid-in capital	87,149	87,147	87,147	785,126
Retained earnings	121,954	115,368	112,655	1,098,685
Unrealized gain on revaluation of securities	4,859	1,521	2,405	43,775
Cumulative translation adjustments	2,949	1,657	347	26,568
	305,866	294,648	291,509	2,755,550
Treasury stock at cost	(7,418)	(7,385)	(111)	(66,829)
Total shareholders' equity	298,448	287,263	291,398	2,688,721
	¥414,617	¥426,877	¥462,647	\$3,735,288

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2003	September 30, 2002	March 31, 2003	September 30, 2003
Net sales	¥161,331	¥158,155	¥322,524	\$1,453,432
Cost of sales	114,363	113,563	230,618	1,030,297
(Gross profit)	46,968	44,592	91,906	423,135
Selling, general and administrative expenses	33,245	33,069	66,720	299,504
(Operating income)	13,723	11,523	25,186	123,631
Other income (expenses):				
Interest and dividend income	637	872	1,643	5,739
Equity in earnings of affiliates	59	142	361	531
Interest expenses	(366)	(784)	(1,480)	(3,297)
Restructuring charges	(1,876)	(2,220)	(3,856)	(16,901)
Loss on write-down of investment securities	—	(884)	(4,950)	—
Other, net	506	(1,802)	(2,532)	4,558
	(1,040)	(4,676)	(10,814)	(9,370)
(Income before income taxes)	12,683	6,847	14,372	114,261
Income taxes:				
Current	4,503	2,915	7,019	40,567
Deferred	(135)	322	(711)	(1,216)
	4,368	3,237	6,308	39,351
Minority interests in net income of consolidated subsidiaries	(3)	6	(13)	(27)
Net income	¥8,312	¥3,616	¥8,051	\$74,883

	Yen			U.S. dollars
Net income per share:				
Primary	¥22.33	¥9.45	¥21.01	\$0.20
Fully diluted	—	9.27	20.71	—

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen					
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on revaluation of securities	Cumulative translation adjustments	Treasury stock
Balance at March 31, 200 2	¥88,955	¥87,147	¥110,798	¥2,002	¥1,789	¥(48)
Net income			3,616			
Cash dividends, ¥4.50 per share			(1,723)			
Bonuses to directors and statutory auditors			(36)			
Changes in unrealized gain on revaluation of securities				403		
Translation adjustments					(1,442)	
Treasury stock acquired, net						(63)
Balance at September 30, 2002	88,955	87,147	112,655	2,405	347	(111)
Net income			4,435			
Cash dividends, ¥4.50 per share			(1,722)			
Changes in unrealized gain on revaluation of securities				(884)		
Translation adjustments					1,310	
Treasury stock acquired, net						(7,274)
Balance at March 31, 2003	¥88,955	¥87,147	¥115,368	¥1,521	¥1,657	¥(7,385)
Net income			8,312			
Cash dividends, ¥4.50 per share			(1,676)			
Bonuses to directors and statutory auditors			(50)			
Changes in unrealized gain on revaluation of securities				3,338		
Translation adjustments					1,292	
Treasury stock acquired, net		2				(33)
Balance at September 30, 2003	¥88,955	¥87,149	¥121,954	¥4,859	¥2,949	¥(7,418)

	Thousands of U.S. dollars					
Balance at March 31, 2003	\$801,396	\$785,108	\$1,039,351	\$13,703	\$14,928	\$(66,532)
Net income			74,883			
Cash dividends, \$0.04 per share			(15,099)			
Bonuses to directors and statutory auditors			(450)			
Changes in unrealized gain on revaluation of securities				30,072		
Translation adjustments					11,640	
Treasury stock acquired, net		18				(297)
Balance at September 30, 2003	\$801,396	\$785,126	\$1,098,685	\$43,775	\$26,568	\$(66,829)

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen			Thousands of U.S. dollars
	Six months ended		Year ended	Six months ended
	September 30, 2003	September 30, 2002	March 31, 2003	September 30, 2003
Cash flows from operating activities:				
Income before income taxes	¥12,683	¥6,847	¥14,372	\$114,261
Adjustments to reconcile income before income taxes to net cash and cash equivalents provided by operating activities:				
Depreciation and amortization	9,776	9,186	19,108	88,072
Increase in allowance for doubtful accounts	39	220	378	351
Decrease in accrued retirement benefits, net	(2,159)	(1,615)	(4,252)	(19,450)
Loss on write-down of investment securities	—	884	4,950	—
Interest and dividend income	(637)	(872)	(1,643)	(5,739)
Interest expenses	366	784	1,480	3,297
Decrease in notes and accounts receivable	4,046	8,629	6,940	36,450
(Increase) decrease in inventories	(2,264)	4,280	7,059	(20,396)
Decrease in notes and accounts payable	(4,278)	(9,218)	(7,917)	(38,540)
Other, net	213	957	(1,318)	1,919
Sub-total	17,785	20,082	39,157	160,225
Interest and dividend received	519	674	1,405	4,676
Interest paid	(519)	(878)	(1,640)	(4,676)
Income taxes (paid) received	(4,875)	733	(1,579)	(43,919)
Net cash and cash equivalents provided by operating activities	12,910	20,611	37,343	116,306
Cash flows from investing activities:				
Decrease (increase) in marketable securities	8,362	(11,440)	(18,355)	75,333
Payments for acquisition of property, plant, equipment and intangible assets	(14,018)	(8,792)	(18,522)	(126,288)
Proceeds from sales of property, plant, equipment and intangible assets	7,081	175	2,047	63,793
Payments for purchase of investment securities	(514)	(3,465)	(4,547)	(4,631)
Proceeds from sales and redemption of investment securities	2,650	4,562	35,933	23,874
Payments of premiums on insurance	(1,246)	(1,056)	(1,079)	(11,225)
Withdrawals from accumulated premiums on insurance	21	21,165	21,878	189
Other, net	142	227	76	1,279
Net cash and cash equivalents used in investing activities	2,478	1,376	17,431	22,324
Cash flows from financing activities:				
Decrease in short-term bank loans	(368)	(793)	(3,270)	(3,315)
Increase in commercial paper	5,000	—	—	45,045
Proceeds from long-term debt	455	—	—	4,099
Repayments of long-term debt	(2,127)	(2,252)	(3,758)	(19,162)
Redemption of standard bonds	(20,000)	(8,000)	(13,000)	(180,180)
Redemption of convertible bonds	—	—	(23,393)	0
Dividends paid	(1,676)	(1,723)	(3,445)	(15,099)
Increase in treasury stock	(30)	(63)	(7,336)	(270)
Net cash and cash equivalents used in financing activities	(18,746)	(12,831)	(54,202)	(168,882)
Effect of exchange rate changes on cash and cash equivalents	(328)	(193)	(184)	(2,955)
Net (decrease) increase in cash and cash equivalents	(3,686)	8,963	388	(33,207)
Cash and cash equivalents, beginning of period	13,901	13,496	13,496	125,234
Effect of changes in reporting entities	—	17	17	—
Cash and cash equivalents, end of period	¥10,215	¥22,476	¥13,901	\$92,027

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

SEGMENT INFORMATION

Industrial segment information

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Net sales and operating income

Six months ended September 30, 2003	Millions of yen			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	¥76,344	¥290	¥76,634	¥11,734
Fibers and textiles	52,508	832	53,340	2,781
High performance materials, medical products and others	32,479	9,810	42,289	4,090
Total	161,331	10,932	172,263	18,605
Eliminated on consolidation and corporate		(10,932)	(10,932)	(4,882)
Consolidated total	¥161,331	¥ —	¥161,331	¥13,723

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

Six months ended September 30, 2003	Thousands of U.S. dollars			Operating income
	Net sales			
	outside customers	inter-segment	total	
Chemicals and resins	\$687,783	\$2,613	\$690,396	\$105,712
Fibers and textiles	473,045	7,496	480,541	25,054
High performance materials, medical products and others	292,604	88,378	380,982	36,847
Total	1,453,432	98,487	1,551,919	167,613
Eliminated on consolidation and corporate	—	(98,487)	(98,487)	(43,982)
Consolidated total	\$1,453,432	\$ —	\$1,453,432	\$123,631

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

Industrial segment information

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Identifiable assets, capital expenditure and depreciation and amortization

Six months ended September 30, 2003	Millions of yen		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	¥176,758	¥8,800	¥5,715
Fibers and textiles	80,432	1,632	1,980
High performance materials, medical products and others	77,213	2,262	1,446
Total	334,403	12,694	9,141
Eliminated on consolidation and corporate	80,214	653	635
Consolidated total	¥414,617	¥13,347	¥9,776

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

Six months ended September 30, 2003	Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization
Chemicals and resins	\$1,592,414	\$79,279	\$51,486
Fibers and textiles	724,613	14,703	17,838
High performance materials, medical products and others	695,612	20,378	13,027
Total	3,012,639	114,360	82,351
Eliminated on consolidation and corporate	722,649	5,883	5,721
Consolidated total	\$3,735,288	\$120,243	\$88,072

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

Geographic segment information

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months ended September 30, 2003	Millions of yen				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	¥121,251	¥12,999	¥134,250	¥15,667	¥233,435
North America	12,607	1,745	14,352	1,920	32,131
Europe	20,931	506	21,437	1,269	64,124
Asia	6,542	732	7,274	(137)	8,674
Total	161,331	15,982	177,313	18,719	338,364
Eliminated on consolidation and corporate	—	(15,982)	(15,982)	(4,996)	76,253
Consolidated total	¥161,331	¥ —	¥161,331	¥13,723	¥414,617

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

Six months ended September 30, 2003	Thousands of U.S. dollars				
	Net sales			Operating income (loss)	Identifiable assets
	outside customers	inter-segment	total		
Domestic (inside Japan)	\$1,092,351	\$117,108	\$1,209,459	\$141,144	\$2,103,018
North America	113,577	15,720	129,297	17,297	289,468
Europe	188,567	4,559	193,126	11,433	577,694
Asia	58,937	6,595	65,532	(1,234)	78,144
Total	1,453,432	143,982	1,597,414	168,640	3,048,324
Eliminated on consolidation and corporate	—	(143,982)	(143,982)	(45,009)	686,964
Consolidated total	\$1,453,432	\$ —	\$1,453,432	\$123,631	\$3,735,288

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.

Foreign sales

(unaudited)

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Six months ended September 30, 2003	Millions of yen			Thousands of U.S. dollars	
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales	Foreign sales	Consolidated net sales
North America	¥16,978	¥ —	10.5 %	\$152,955	\$ —
Europe	25,341	—	15.7	228,297	—
Asia	22,517	—	14.0	202,856	—
Other	2,881	—	1.8	25,955	—
Total	¥67,717	¥161,331	42.0 %	\$610,063	\$1,453,432

Six months ended September 30, 2002	Millions of yen		
	Foreign sales	Consolidated net sales	Percentage of consolidated net sales
North America	¥16,056	¥ —	10.1 %
Europe	21,498	—	13.6
Asia	20,902	—	13.2
Other	3,115	—	2.0
Total	¥61,571	¥158,155	38.9 %

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥111=\$1.