

KURARAY CO., LTD.

Annual Report 2001

For the year ended March 31, 2001



Green, Globalization, Group & Growth

Profile

Kuraray Co., Ltd. was established in 1926 in Kurashiki City, Japan, for the industrial manufacture of chemical fibers. Since then, the Company has developed innovative business operations in synthetic resins, chemicals, man-made leather, nonwoven fabrics, medical products, and many other areas by capitalizing fully on its technological strengths. Many of these operations have grown into world-class core business, including the polyvinyl alcohol fiber "KURALON," the polyvinyl alcohol resin poval, the ethylene-vinyl alcohol copolymer "EVAL," the man-made leather "AMARETTA," and isoprene-based fine chemicals for aromachemicals, pharmaceutical, and other specialized applications.

Today, the Kuraray Group, composed of Kuraray, its consolidated and unconsolidated subsidiaries, and affiliated companies, consists of about 70 companies with approximately 8,000 employees.

Mobilizing the combined power of the Kuraray Group and capitalizing on its many years of technological expertise in polymerization and synthetics, Kuraray intends to take its place as a unique chemical enterprise with worldwide operations.

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 which 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 market; (5) advance or delay 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.

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Financial Highlights

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2001, 2000 and 1999	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	2001
Net sales.....	¥313,651	¥316,444	¥336,466	\$2,529,444
Net income.....	4,045	7,452	13,171	32,621
Total assets.....	512,479	503,766	487,991	4,132,895
Total shareholders' equity.....	289,469	282,755	259,909	2,334,427
Amounts per share	Yen			U.S. dollars
Net income				
Primary.....	¥10.56	¥20.00	¥36.83	\$0.09
Fully diluted.....	10.46	19.42	34.56	0.08
Cash dividends applicable to period.....	9.00	9.00	9.00	0.07
Financial ratios:				
Equity ratio (%).....	56.5%	56.1	53.3	
Return on equity (%).....	1.4	2.7	5.3	
Payout ratio (%).....	85.2	45.4	24.5	
Number of employees.....	7,121	7,433	6,823	

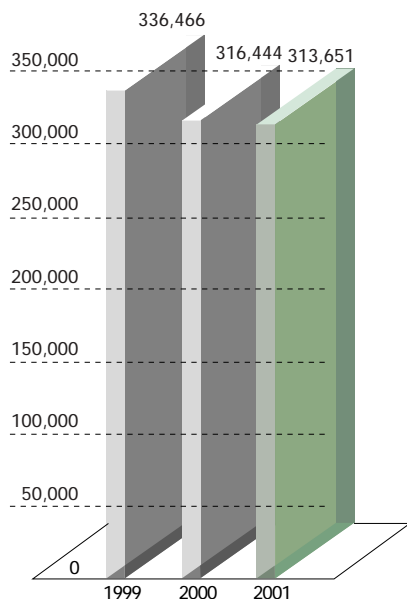
Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥124=\$1.

As discussed in Notes 2(f) to the financial statements, for the year ended March 31, 2001, the Companies adopted the new accounting standard in Japan "Accounting Standard for Employees' Retirement Benefits", effective from April 1, 2000. The effect of adoption of the standard was to decrease net income for the year ended March 31, 2001 by ¥4,768 million (\$38,452 thousand).

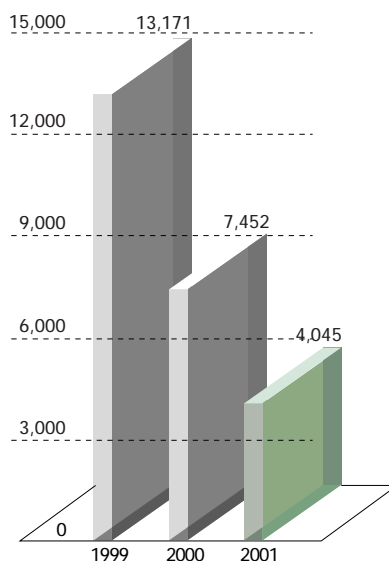
As discussed in Notes 2(g) to the financial statements, effective April 1, 2000, the Companies adopted the amended "Accounting Standard for Foreign currency Transactions, etc.". The effect of adoption of the standard was to increase net income for the year ended March 31, 2001 by ¥647 million (\$5,218 thousand).

As discussed in Notes 2(j), (k) and (l) to the financial statements, for the year ended March 31, 2001, the Companies adopted the new accounting standard in Japan "Accounting Standard for Financial Instruments", which is effective from April 1, 2000. The effect of adoption of the standard was immaterial.

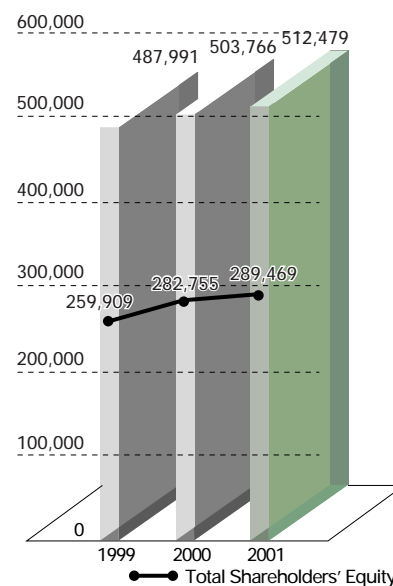
Net Sales (Millions of yen)



Net Income (Millions of yen)



Total Assets & Total Shareholders' Equity (Millions of yen)



To Our Shareholders

>> Management Review of Fiscal 2000



Hiroto Matsuo
Chairman

Yasuaki Wakui
President

Performance

The year ended March 31, 2001 (April 1, 2000 to March 31, 2001) was the final year of the fourth medium-term business plan launched in the year ended March 1997. Over the past five years, the Kuraray Group has used this plan as its blueprint for efforts to build a unique chemical business group that continues to develop on a global scale. The three priority policies during this period have been the strengthening of our corporate power, the generation of

new businesses and the fostering of their growth, and the creation of new management systems and a new company environment.

In fiscal 2000 the Group met the dual challenges of soaring raw material costs and a deflationary trend in the domestic economy. At the same time, we formulated a new medium-term business plan designed to develop and expand the achievements of the past five years over the next five years.

Despite these efforts, the difficulty of the business environment was reflected in results that were below target levels. Consolidated net sales declined by ¥2,793 million, or 0.9%, to ¥313,651 million, while consolidated operating income was ¥390 million, or 1.9%, below the previous year's level at ¥19,931 million. Consolidated net income fell by ¥3,407 million, or 45.7%, to ¥4,045 million, in part because of the need to provide ¥7,596 million for special provisions for retirement benefits, and an extraordinary loss of ¥8,872 million relating to restructuring charges.

As in the previous year, the dividend per share of common stock was set at 8 yen, together with a special dividend of one yen, making a total of 9 yen. This includes the interim dividend of 4.5 yen.

Business Environment and Policies

The Kuraray Group faced difficult business conditions during the year ended March 2001. Crude oil prices soared close to the levels reached during the two oil crises, and natural gas prices also rose sharply under the impetus of energy trends in the United States. Another problem was a tightening of supply and demand in the acetic acid market due to problems affecting manufacturers' facilities. The overall result was increased raw material costs.

The Kuraray Group announced increases in the prices of affected products. However, while the market accepted

new prices for some chemical products, the prices of textile products actually declined in Japanese and overseas markets because of increased supplies of low-priced goods from China and elsewhere. The Japanese economy appeared at one point to be on a recovery trend, but in the second half of the fiscal year the deflationary trend deepened under the impact of an economic slowdown in the United States. This situation had a negative impact on domestic market prices.

Kuraray was also adversely affected by exchange rate movements. Exports from Japan showed a modest rally in the second half, aided by a downward shift in the value of the yen. However, exports to Europe were hit by the weakness of the euro throughout the year.

The Kuraray Group sought to minimize the effects of this environment by working to expand sales in core areas, reduce sales and production costs, and develop new markets. The Group also laid the foundations for future growth by investing a total of ¥15,800 million in manufacturing facilities for IT- and environment-related products, including a microorganism carrier PVA gel and PTV screens made from methacrylic resin. The Group also decided to establish Septon Company of America as a U.S. production subsidiary for the thermoplastic elastomer "SEPTON", and to build a new factory. In February 2001 Kuraray ceased production of rayon, having decided that there was no prospect of a future improvement in the profitability of this product.

These efforts brought increased sales of PTV screens in IT markets, while in the United States a dental material business started to make a significant contribution. However, the Group was unable to overcome the adverse effects of the harsh business environment. As in the previous year, slow sales of raw materials for vitamins and man-made leather were also a drag on overall performance.

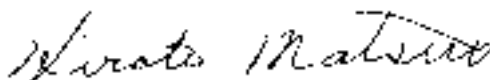
Outlook for Fiscal 2001

Economic conditions in Japan are expected to remain difficult in the year to March 2002. There is particular concern about the prospect of a continuing deflationary trend affecting the chemical and textile sectors. Overseas, the United States is expected to emerge from a slowdown, but the outlook for the European and Asian economies remains uncertain, in part because of trends in crude oil prices.

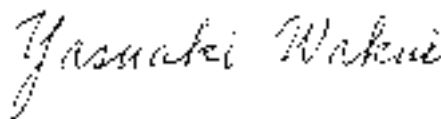
The Kuraray Group will work in this environment to achieve consolidated net sales of ¥325,000 million, consolidated operating income of ¥23,000 million, and consolidated net income of ¥12,000 million.

This report identifies issues and goals for the Kuraray Group. It focuses in particular on the 'G-21' medium-term business plan, which was formulated as a blueprint for the solution to our problems and the attainment of our goals.

We look forward to the understanding and continuing support of shareholders.



Hiroto Matsuo,
Chairman



Yasuaki Wakui,
President

Special Message from the President

>> The 'G-21' Medium-Term Business Plan

— Building a Future for Kuraray as an Eco-Friendly Enterprise with Unique Technology

Overview of the Fourth Medium-Term Business Plan

In the five years between the year ended March 1997 and the year ended March 2001, the Kuraray Group implemented its fourth medium-term business plan. As I have stated at the General Meeting of Shareholders and in other venues, we feel considerable regret that we were unable to achieve the targets set down for the final year of the plan.

The results reflect a deflationary trend in the Japanese economy. While the economic environment obviously has an important influence on business performance, we cannot attribute our failure to achieve our targets solely to external factors. In formulating our new plan for the five-year period starting in the year to March 2002, we examined our activities over the past five years and rigorously looked at ourselves to determine what changes needed to be made.



Under the fourth medium-term business plan, everyone in our organization worked toward establishing a shared identity for Kuraray as a unique chemical enterprise capable of achieving sustained global growth. We focused on three priority goals: the strengthening of our corporate power (particularly by expanding our business scale), the generation of new businesses and the fostering of their growth, and the creation of new management systems and a new company environment. A variety of measures were implemented to realize these aims.

Measures relating to the expansion of our business scale included capital investment totaling ¥108,900 million in Japan and overseas over the five-year period. This

investment centered primarily on the core areas in which we are internationally competitive. We also invested an average of 4.3% of annual sales in research and development. We expect these measures to make an important contribution in the future. In fact, most of our new facilities are already operating successfully, including a thermoplastic elastomer plant in Japan, a Poval resin plant in Singapore, and an "EVAL" resin plant in Belgium. Our IT-related business activities, including PTV screens and PVA film for LCDs, are yielding results in excess of the planned levels.

Our efforts to generate new businesses have also yielded many notable successes. For example, we have achieved growth in our opto-technology activities, and we have launched the heat-resistant resin PA9T onto the market. We have also achieved a successful start-up of our environment-related activities, including PVA gel manufacturing. These successes are expected to translate into increased growth under the next medium-term plan. As far as the creation of new management systems and a new company environment, we laid the foundations for continuing organizational reforms under the new medium-term plan. We also worked to improve our financial fundamentals. The use of this strengthened financial structure as the foundation for business expansion will be an important priority under the new medium-term plan.

However, in some areas of activity we failed to achieve the targets set down in the plan. Difficult structural factors had a severe impact on our polyester business in the area of textiles, and also on some aspects of our fine chemicals business, including raw materials for vitamins and agrochemical intermediates. It also became necessary to terminate our rayon business. We aggressively invested in manufacturing facilities for man-made leather in an effort to expand our business in this area, but the increased capacity brought limited benefit because of sluggish demand for apparel suede in Europe. In addition, we were not able to proceed to the second phase of facility development for "Kuralon K-II", a synthetic fiber with enhanced functions,

because of development delays at both the technical and marketing levels.

The common problems in all of these areas were inadequate awareness of market trends, and delays in taking concrete action in response to changes in the business environment, including the emergence of new competitors and structural changes in our markets. The lessons learned from these problems have been incorporated into our new medium-term plan, 'G-21', which we began to formulate last July and announced in February 2001. The perspective from which we approached the planning process was the need to adapt quickly to market change through market-oriented thinking.

The New Medium-Term Business Plan 'G-21' Building a New Kuraray for the 21st Century — Four Key Words

The name 'G-21' symbolizes the importance of four words — 'growth', 'green', 'group' and 'globalization' — to the creation of a new Kuraray for the 21st century. Behind these four key words is our recognition that companies will need to fulfill five fundamental conditions if they are to survive in the globally competitive environment of the future.

First, companies will need to maintain their international competitiveness by building clearly defined scenarios and improving their asset efficiency. Second, companies will need to contribute to the protection of the global environment by working to develop production systems, products and materials procurement systems that reduce the load on the environment. Third, it will be necessary to use information technology and seek out the new growth opportunities spawned by advances in information technology. Fourth, synergies must be maximized through the sharing of values and strategies at the group level. Fifth, there must be a balanced consideration of all stakeholders.

Details of 'G-21' are provided in 'Targets of G-21' (Page 7), 'Business Strategy' (Page 8) and 'Measures that Support G-21' (Page 9). Key points of the plan are explained below to assist readers in understanding this information.



Target Corporate Image:

An Eco-Friendly Enterprise with Unique Technology

One of the goals of 'G-21' is to create a new corporate image for Kuraray as an Eco-Friendly Enterprise with Unique Technology. To achieve this goal, Kuraray will aim for expansion in three directions: internationally competitive activities, activities that help to maintain and enhance the global environment, and activities that can be used to promote Kuraray as an organization with a unique identity in the world.

Particular emphasis will be placed on activities that help to maintain and enhance the global environment. This does not mean that Kuraray will simply respond passively to growing world concern about the environment by ensuring that its activities are environment-friendly. The Kuraray Group has been an enthusiastic participant in markets relating to environmental protection, and many of its products embody highly unique technology developed by the Group to improve the environment and reduce impact on it. In the future Kuraray will work even more actively than in the past to build on these activities. At the same time, it will strive to meet the targets set down in its medium-term environmental plan, which include 90% reductions in emissions of specified chemical substances and external disposal of industrial waste.

Special Message from the President

The Focus of Business Strategy: Responding to Market Change through Market-oriented Thinking

Our basic policy is to develop a strategy that combines our traditional product-oriented approach with market-oriented thinking. In the past we have tended to place too much emphasis on product-oriented approach, with the result that we have not been sufficiently focused on markets. As a result, we have not always adapted quickly enough to change.

Our strategy will begin with a restructuring of all Kuraray Group activities along the product axis and the market axis. By viewing our activities from these different perspectives, we will be able to accelerate attitude reform, channel management resources into products and markets that have growth potential, and enhance our ability to respond quickly to market change by developing and launching timely products.



Specifically, we have identified the vinyl acetate related fields, the isoprene chemical fields and the man-made leather fields as our core areas of activity. In all of our activities, including these core activities, we will target strategic areas that offer growth potential and opportunities to take advantage of the unique characteristics of the Kuraray Group. Those areas are electronic information technology, eco-friendly products, environment businesses that contribute to the maintenance and improvement of the environment, and medical products. Our aim is to maximize growth by expanding our presence in focus fields of business in which our core activities overlap with strategic areas.

For example, we have introduced a variety of products relating to information technology. However, we also need to recognize the importance of the fact that these products are being supplied into the same market, and we must share information among the various organizational elements that are involved. This approach will help us to develop and launch products that match market needs, and to develop clear, comprehensive market strategies in this area.

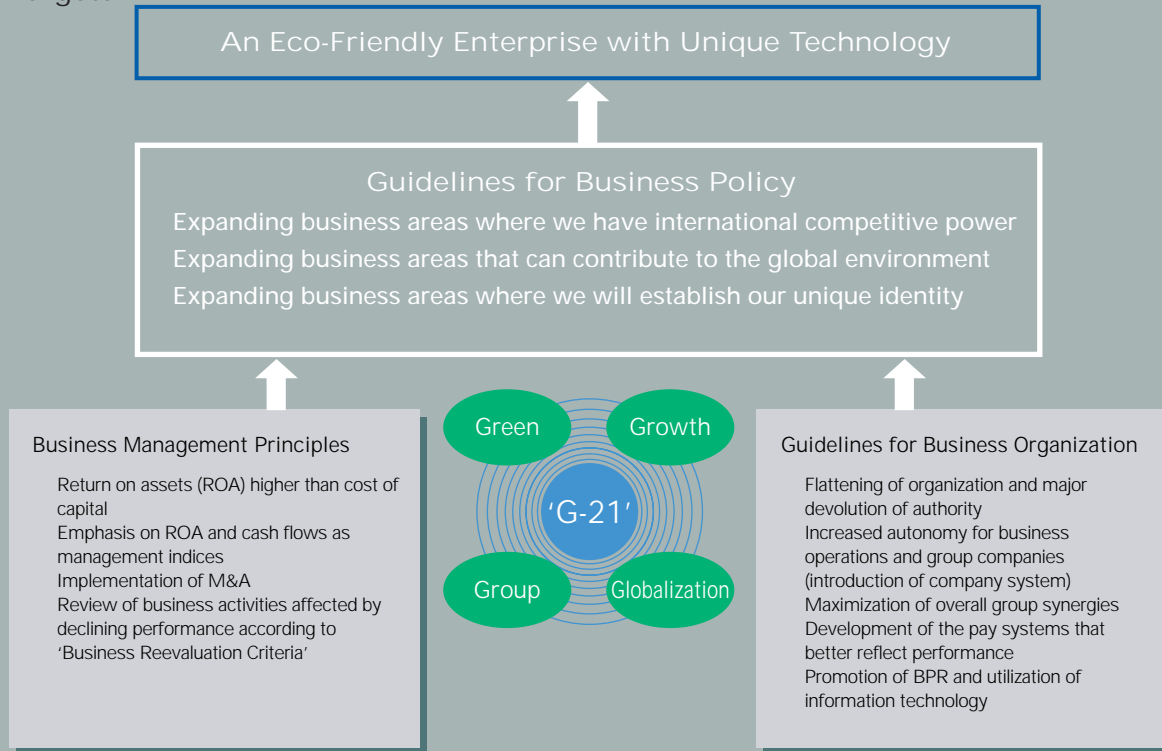
By developing our business activities in this way, we aim to increase our sales in focus business areas from approximately ¥160,000 million in the current year to ¥300,000 million in the year to March 2006. We envision results in that year that will include consolidated net sales of ¥460,000 million and consolidated operating income of ¥44,000 million. These figures are equivalent to approximately 146.6% and 220.1% respectively of the current year's results.

Achieving ROA in Excess of Capital Costs: Key Aspects of Business Management Principles

We regard return on assets (ROA) and cash flows as key operational standards to guide our efforts to maximize management efficiency. A particular priority is the improvement of asset efficiency, including the reduction of inventory assets. We will also work to increase sales profit, reduce costs and maximize operating income by channeling capital investment into focus business areas. Our goal is to raise ROA from 3.9% in the current year to at least 7% in the year to March 2006. Our capital costs are around 7%, and we want to raise ROA above that level. We plan to invest approximately ¥75,000 million, or about 4% of consolidated net sales, in R&D over the next five years. This investment will target strategic areas.

In addition, we will undertake timely reviews, based on our reevaluation criteria, of areas of activity in which performance has declined. At the same time, we will strategically use M&A to strengthen and expand our activities in areas in which the Kuraray Group excels.

'G-21' Targets



Creating a Corporate Culture that Supports

Rapid Adaptation to Environmental Change:

Key Aspects of Guidelines for Business Organization

Our guidelines for business organization calls for the development of a flat organization in which individual divisions and group companies will be autonomous and self-sufficient. Through these organizational reforms we will build a structure that can adapt quickly to market change by shifting to a management structure based on a company system that supports the devolution of authority to allow rapid decision-making and action. We also aim to maximize synergies throughout the Kuraray Group by sharing values and strategies among divisions and group companies. In addition, we will introduce systems that link employees' remuneration more closely with performance.

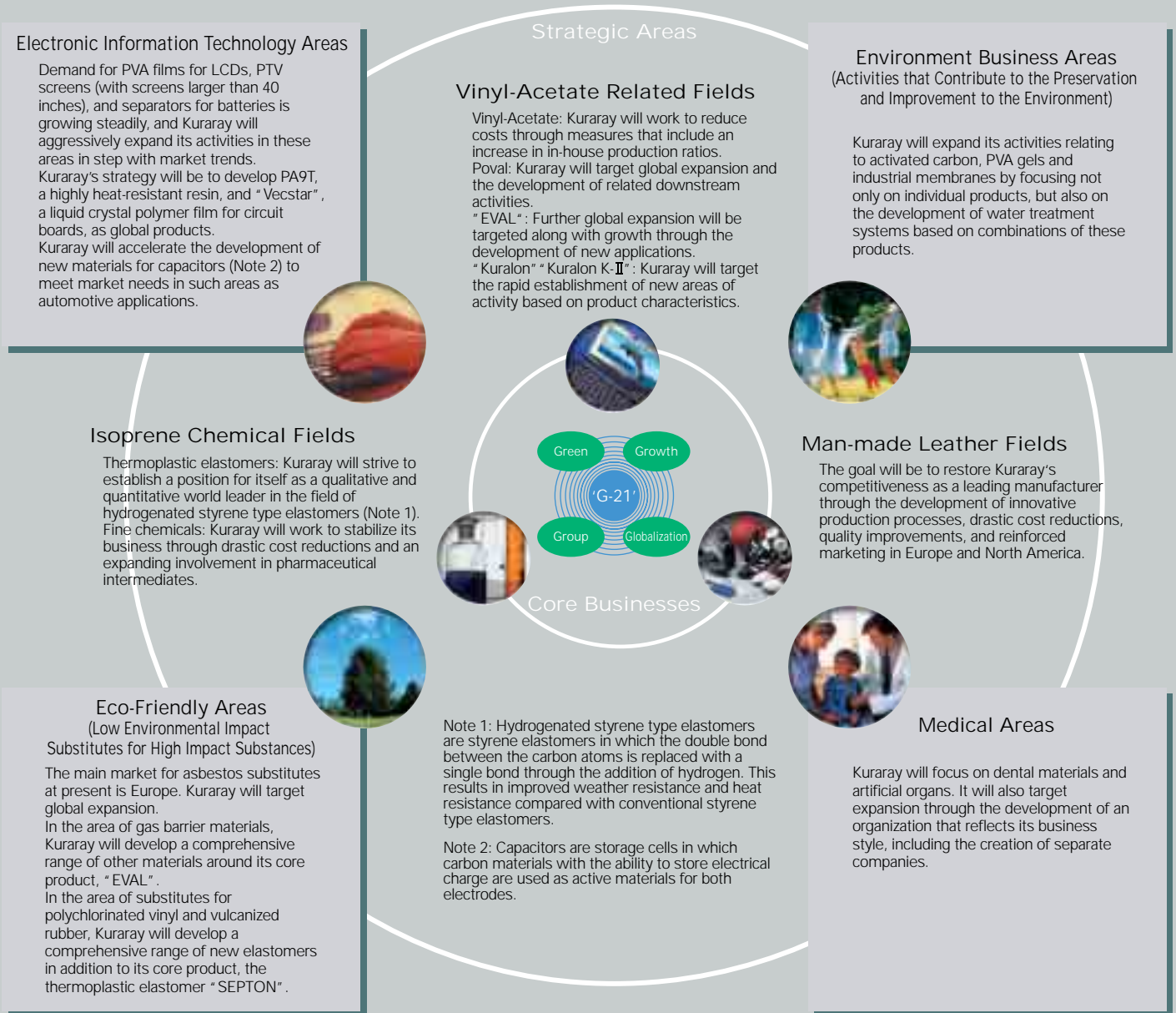
As the first step in this process, we implemented major organizational changes on April 1, 2001. At the same time,

we established the Business Service Center to integrate administrative processes for group companies. The aim of this change is to improve operational efficiency through the promotion of business process re-engineering and the application of information technology. In addition, we have decided to transfer our polyester apparel textiles business to Kuraray Trading in April 2002, to turn our polyester filament production operations into a separate company in October 2001, and to restructure our medical business into a separate company in October 2001. Our target is to complete the introduction of the company system within two years.

Over the next five years we expect change to occur more rapidly and globally and on a bigger scale than ever before. Under the 'G-21' plan, which was summarized above, we intend to write a new history of growth and success for the Kuraray Group by providing a growth scenario that we can all share in this time of dramatic change.

Business Strategies of 'G-21'

Under 'G-21' the Kuraray Group will implement the following strategies by product and strategies by market. It will also work to strengthen its trading functions with a view to global business development.



Strategies by Product Expansion and Reinforcement of Core Businesses

The core business areas in which Kuraray is internationally competitive are vinyl-acetate related fields (Poval, the EVOH resin "EVAL", "Kuralon" "Kuralon K-II"), isoprene chemical fields (thermoplastic elastomers, fine chemicals), and man-made leather fields ("AMARETTA"). Activities in these

areas will be strengthened and expanded. At present these core business areas account for almost 40% of the Group's sales and about 70% of operating income. The expansion and development of these activities will be the basic business strategy.

Strategies by Market Expansion of Strategic Areas through Market-Oriented Thinking

Kuraray has identified four strategic business areas: electronic information technology (PVA films for LCDs, heat-resistant resin PA9T, etc.), eco-friendly products (substitutes for asbestos, gas barrier materials, substitutes for polychlorinated vinyl and vulcanized rubber), environment business (activated

carbon, PVA gel, industrial membranes), and medical products (dental materials, artificial organs). Efforts will focus primarily on expansion in these areas combined with product-based core businesses. Expansion will be targeted through strategies based on market-oriented thinking.

Reinforcement of Trading Functions in Japan, North America, Europe and Asia Enhancing the Effectiveness of Product and Market Strategies

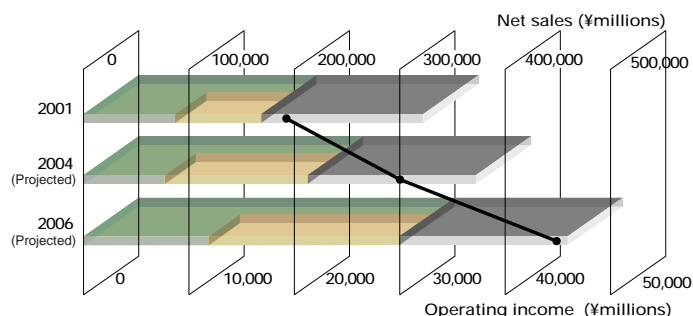
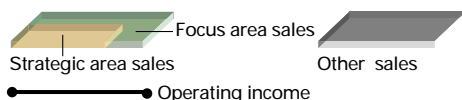
As part of its global business development, Kuraray will strengthen the functions of Kuraray Group trading companies in Japan, North America, Europe and Asia (Kuraray Trading Co., Ltd., Kuraray America, Inc., Kuraray

Europe GmbH, Kuraray Hong Kong Co., Ltd., Kuraray Specialities Asia Pte., Ltd.). The aim is to expand the activities of these companies through an aggressive market-oriented thinking.

Measures that Support 'G-21'

>> Expanding Focus Business Areas

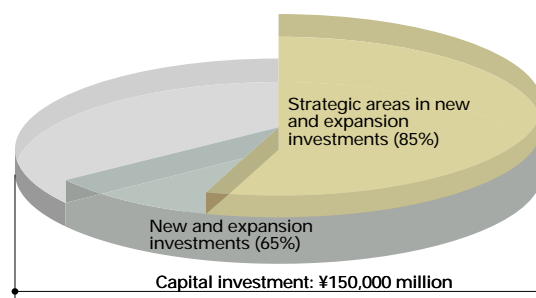
The aim of 'G-21' is to use the expansion of core businesses and strategic areas as the basis for future expansion based on the identification of these areas as focus business areas. (Aspects of these business areas that overlap will be excluded.)



>> Investment of ¥150,000 Million over Five Years — 85% of New Facilities and Expansion Projects in Strategic Areas

Kuraray plans to make capital investments of ¥150,000 million over the next five years. Of this amount, 65% will be devoted to new facilities and expansion projects, of which 85% will be in strategic areas. The main areas targeted for new facilities and expansion projects will be vinyl-acetate, Poval, PVA films for LCDs, "EVAL" in Europe and North America, "Kuralon K-II", thermoplastic elastomers in Japan and overseas, environment-related products (PVA gel, activated carbon), electronic information technology (capacitor materials, PA9T, PTV screens), and medical products (dental materials).

In addition to this capital investment, Kuraray will also engage in M&A activities in areas that offer synergies with its business activities.



>> Improving Asset Efficiency — Emphasis on ROA

Particularly significant is the reduction of the inventory asset level from 2.9 months to 2 months or less. (Financial assets are expected to remain close to the present level, but it is possible that reductions will occur because of M&A and other factors.)

The target for ROA (calculated upon operating income to total assets) is at least 7% in fiscal 2005.

	(¥millions)		
	2001	2006 (Projected)	Increase (Decrease)
Notes and accounts receivable	96,700	130,000	+33,300
Inventory	75,500	77,000	+1,500
Tangible fixed assets	127,500	170,000	+42,500
Financial assets	182,400	177,000	-5,400
Others	30,400	30,000	-400
Total assets	512,500	584,000	+71,500

>> R&D Focused on Strategic Areas

Kuraray's research and development activities will focus primarily on the strategic areas that form the hub of future business expansion efforts. It plans to spend approximately ¥75,000 million, or about 4% of sales, on research and development over

Note 3: Nano-composites are advanced functional materials with structures measured in nanometers (billionths of a meter).

the next five years. The main targets for research will be electronic information technology and opt-related materials, biomedical-related materials, environmental protection materials, and high-performance materials such as nano-composites (Note 3).

>> Medium-term Environmental Plan

Kuraray Group will work toward the achievement of the following reductions for fiscal 2005 (relative to fiscal 1999 levels).

- 90% reduction of emissions, including substances specified by the PRTR Law
- 90% reduction in volume of industrial waste processed externally

- without efficient utilization (target: 1,500 tons/year)
- Increase of 20-point or more in waste utilization efficiency (60% to 80%)
- 6% increase in energy efficiency (1% increase per year)

>> Measures Involving all Group Companies

- Group companies will be integrated, and the Group will work toward the introduction of a company system within two years.
- The head office administrative organization will be streamlined. The Kuraray Business Service Center established in this April will be structured as a separate company.
- The use of e-commerce will be promoted in the areas of procurement and sales.

Fibers and Textiles

Performance in the Year Ended March 31, 2001

Consolidated sales in the fibers and textiles segment amounted to ¥90,822 million, a decline of ¥7,266 million, or 7.4%, from the previous year. Operating income fell by ¥1,049 million, or 37.9%, to ¥1,720 million. Trends in key product areas were outlined below.

Polyester "SOPHISTA", which is manufactured from "EVAL" with hydrophilic radicals, was very popular as a fabric for sportswear and other items. There was also market expansion in other areas. The antibacterial deodorizing fiber was well supported in the apparel and interior products markets.

Kuraray worked to maximize sales of these and other unique products. However, there was a slump in demand for polyester filaments and staples, while prices were pushed down by a rapid influx of cheap goods manufactured in South Korea, Taiwan and China. This trend combined with a rise in raw material costs and other factors to cause a decline in sales and a negative profit result.

"Kuralon" Kuraray enjoyed excellent sales in areas in which it was able to exploit the characteristics of its highly original products, including fiber reinforced cement (FRC), rubber reinforcement materials, and alkaline battery separators. However, both sales and income marked time due to a combination of sluggish demand for fisheries materials and an upward trend in the prices of raw materials.

Rayon Kuraray ceased production at the end of February 2001 and terminated the business after completing stockpiles as requested by users. Sales dropped and deficit remained static in this area.

Diversified Products Sustained demand ensured firm trends in sales of various products. These include a polyarylate fiber, which is used by the Japanese fishing industry for applications that include ropes, because of its excellent strength, water absorption and abrasion resistance.

Forecasts and Policies for the Coming Fiscal Year

Polyester Product prices are unlikely to rise in the present environment of oversupply and reduced consumption. Kuraray will therefore work to improve earnings by targeting further cost reductions and developing new non-apparel, non-fashion applications based on its unique polymers. The medium-term goal is to restructure this area from a polyester filament business into a 'Super PET' business by increasing sales of original polymer materials, such as 'Super PET', from 20% to 70% of total filament sales.

"Kuralon" Kuraray will continue to target increased sales in growth areas, rubber reinforcement materials, and battery separators. It will also work aggressively to increase sales of FRC-related products, including "Kuralon K-II". Another priority will be the maintenance of supply volumes in traditional areas.

Major Products



"Kuralon"
In 1950 Kuraray became the world's first manufacturer to commercialize "Kuralon". In recent years demand for this fiber as an industrial material has increased, and "Kuralon" is increasingly used as an asbestos substitute and an alkaline battery separator.



Polyester
Taking maximum advantage of our cutting-edge technologies, Kuraray offers a wide variety of high-value added polyester materials that contain polymers original to the Company. Kuraray polyester meets customer needs ranging from apparel and industrial fabrics to household applications.



"Kuralon K-II" high-performance fiber
"Kuralon K-II" is a high-performance fiber suited to a variety of applications. The Company is developing variations of this substance including an ultra-strong type for use in fiber-reinforced cement (FRC) in the civil engineering and construction sectors and – jointly with an apparel manufacturer – a water-soluble type for use in high-performance fabrics in the apparel sector.



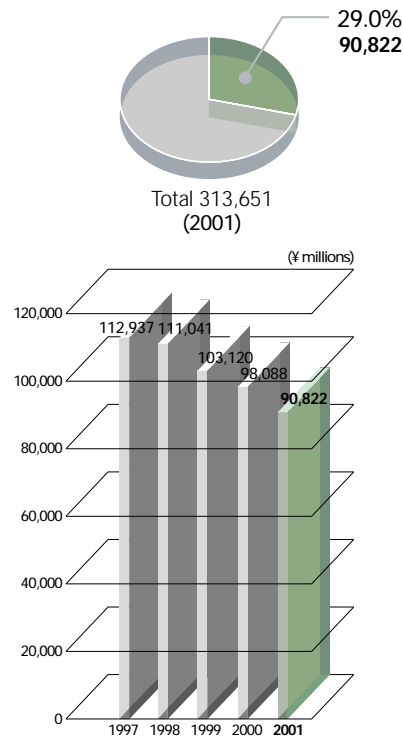
EVOH fiber "Sophista"
"Sophista" is an EVOH fiber that is comfortable to wear, offers excellent moisture control, and dries quickly. This fiber is widely used in sportswear, innerwear and uniforms.

Fibers and Textiles

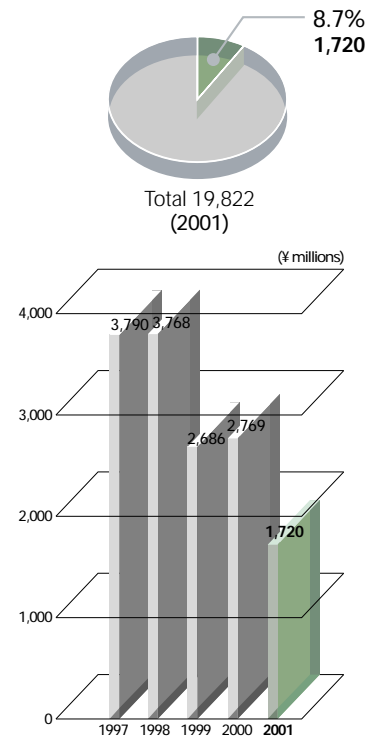
“Kuralon K-II” This new type of synthetic fiber was first launched onto the market in 1998. It is widely used in applications that require process auxiliaries and high-strength fibers, especially fiber reinforced cement (FRC). Efforts to boost sales in the coming year will focus primarily on FRC applications, but Kuraray will also work to develop new uses in the area of engineered cementitious composites (ECC).

In the medium-range future, Kuraray plans to build a second plant that will more than double its current annual capacity of around 7,000 tons. The aim is to reduce production costs and further strengthen Kuraray’s activities in the FRC field.

Net Sales (¥ millions)



Operating Income (¥ millions)
(before eliminations)



Topics



Antibacterial Deodorizing fiber

Kuraray’s high-performance antibacterial deodorizing fiber reacts to light to deliver deodorizing and anti-bacterial effectiveness. A unique product whose production involves photocatalytic technology, this fiber has wide applications including carpeting and household fabrics.



Polyarylate fiber

The Company’s polyarylate fiber is characterized by high strength, low water absorbency, and excellent abrasion resistance. These features make this fiber highly suitable for ropes and other industrial applications as well as sporting goods and other uses.

Withdrawal from the rayon business



With demand for rayon decreasing each year and no prospects for future profitability, Kuraray has decided to withdraw from this business. Although rayon’s unique sheen and touch made it highly popular at one time, in recent years the growth of polyester and other

synthetic fibers has resulted in a contraction of the market. The Company shut down its production facilities in February of 2001 and will discontinue sales during the first half of the year. On a related subject, the Company is currently establishing Business Reevaluation Criteria. In the coming years we will habitually engage in the strict assessment of the viability of our businesses, reviewing and restructuring them as necessary.

Chemical Products

Performance in the Year Ended March 31, 2001

Sales of chemical products amounted to ¥151,007 million, an increase of ¥6,572 million, or 4.6%, compared with the previous year. Operating income was ¥555 million, or 4.6%, higher at ¥12,715 million. Trends in key product areas are summarized below.

Poval Despite sharp rises in raw material costs, Kuraray was able to achieve growth in both sales and income. This reflects the use of PVA resin as a safety glass interlayer film in automobile windshields, a dramatic increase in PVA film for LCDs, and the permeation of new prices.

"EVAL" EVAL Europe N.V. increased its sales in response to buoyant domestic demand. Despite higher raw materials costs, it was able to increase its income. However, operations in the United States were severely affected by rise in raw material costs. While sales increased, income declined.

Methacrylic Resin Products Both sales and income grew, moving this area of business back into the black and making a substantial contribution to earnings. This

improvement reflects the recovery of market prices, especially for monomers, and increased sales of processed polymers, including PTV screens.

Isoprene Chemical Products Kuraray's efforts to develop domestic and overseas markets for the thermoplastic elastomers "SEPTON" and "HYBRAR" brought increased sales, and it was decided that a new plant would be built in the United States. However, performance was again affected by falling prices in the areas of fine chemicals, including raw materials for vitamins and agrochemicals. As a result, both sales and income declined.

Other Products Both sales and income were higher, thanks to increased demand for environment-related applications based on activated carbon.

Forecasts and Policies for the Coming Fiscal Year

Poval Kuraray plans to increase the price of PVA resin again because of persistently high raw material costs. Sales of PVA film for LCDs slowed in the second half of the fiscal year 2000 but are expected to return to an expansionary trend around the middle of the coming year. Kuraray will focus on

the expansion of sales of differentiated products. Sales of the new water-soluble resin "EXCEVAL" are expected to increase because of demand for applications that include emulsions and non-woven textiles.

"EVAL" As in the fiscal year 2000, Kuraray will focus on the expansion of sales for fuel-related applications, such as automobile plastic fuel tanks. There is a risk that raw material costs will remain high, and Kuraray aims to raise and maintain the price that it announced in the fiscal year 2000.

Methacrylic Resin Products Kuraray will work to develop and market high-added-value functional products for IT-related applications, including light guides, mobile telephones, PTV screens, as well as emulsified compound resins and other non-vinyl chloride products. Increased demand for PTV screens necessitated the expansion of some production facilities during the fiscal year 2000. The increased capacity came on line in May 2001. Market conditions for monomers and general-purpose products are expected to be even harsher than in the fiscal year 2000. Kuraray will work to improve its earnings through rationalization measures.

Major Products



Poval
Kuraray pioneered industrial production of this high-performance resin. Offering excellent water solubility, adhesiveness, and emulsiveness, this resin is highly popular for a wide range of applications, from fiber sizing agents to liquid crystal display (LCD) film.



"EVAL" gas barrier material
"EVAL" is a high-performance resin that boasts the great gas barrier properties among all plastics. This characteristic makes "EVAL" advantageous for use in food packaging, automobile gasoline tanks, and a wide variety of other applications.



PVA film for LCDs
Kuraray's PVA film is used to make most of the polarizing plates used in the liquid crystal displays incorporated in many types of electronic information-processing equipment including laptop computers, cellular telephones and car navigation systems.



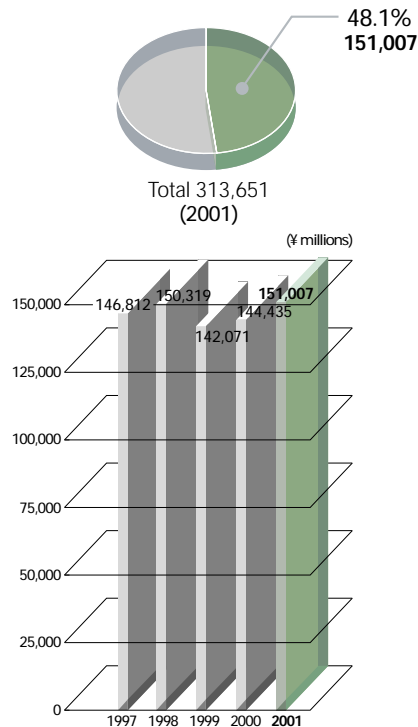
PTV screens
Kuraray's PTV screens are fabricated by applying precision molding techniques to methacrylic resin. With the arrival of the age of digital high-definition TV, demand for these screens is expected to increase.

Isoprene Chemical Products

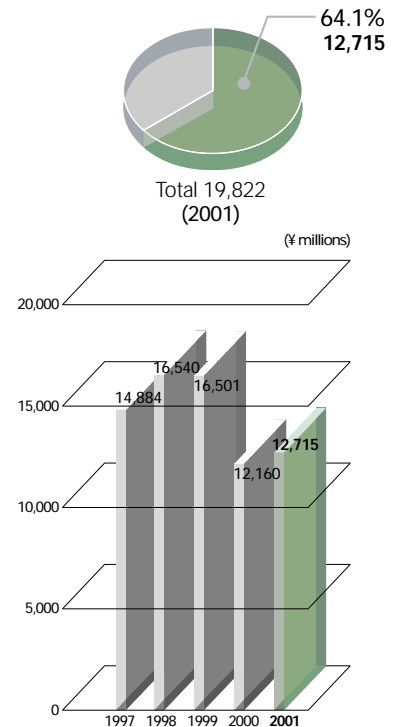
International price competition is intensifying in the area of elastomers. However, Kuraray anticipated increased demand for "SEPTON" as an alternative to vulcanized rubber, and for "HYBRAR" as a substitute for vinyl chloride. Outsourcing of intermediates is becoming increasingly common in the pharmaceutical industry, and Kuraray plans to expand its activities in this area by using materials that it can source within the group, by exploiting its unique technology, and by focusing its R&D efforts on growth areas and areas in which it excels.

PA9T, "Vecstar" The heat-resistant resin PA9T has been in production at a semicommercial plant since 1999. In August 2001 annual production capacity will be increased from the present level of 300 tons of resins and 1,000 tons of compounds to 1,000 tons of resins and 3,000 tons of compounds. In the area of liquid crystal polymer films for circuit boards, Kuraray plans to increase its sales of "Vecstar" to leading copper-laminate board manufacturers, and to develop new applications.

Net Sales (¥ millions)



Operating Income (before eliminations) (¥ millions)



Topics



"SEPTON" thermoplastic elastomer
"SEPTON" is a thermoplastic elastomer that offers the elasticity of rubber and the ready moldability of plastic when subjected to heat. Because "SEPTON" does not emit chlorine gas when incinerated, it is increasingly in demand as a substitute for polyvinyl chloride and vulcanized rubber.



Activated carbon
The Group's Kuraray Chemical Co., Ltd. is engaged in the manufacture of activated carbon, a substance that adsorbs and removes odors and dirt. Activated carbon is widely used in water purification facilities and filters, and demand for this substance is increasing due to enhanced awareness of environmental protection issues.

Full-fledged involvement in the "Vecstar" liquid crystalline polymer film business



The Company has launched a full-fledged program for our "Vecstar" liquid crystalline polymer film product. Offering low water absorption and excellent dimensional stability, "Vecstar" is mainly used as a material in printed circuit boards for electronic equipment.

Attendant on the spread of information technology, electronic equipment is becoming increasingly miniaturized at the same time as performance and functionality are enhanced. Consequently, performance and functionality that differ from those of conventional board materials are required of today's printed circuit board material. "Vecstar" is a material that answers these requirements, and the Company anticipates growth from this business in the coming years.

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

Performance in the Year Ended March 31, 2001

Consolidated sales of man-made leather, non-woven fabrics and fastening materials declined by ¥1,649 million, or 5.0%, to ¥31,641 million in the year ended March 2001. Operating income was ¥374 million, or 15.6%, lower at ¥2,028 million. Trends in key product areas were outlined below.

Man-Made Leather ("AMARETTA")

Sales in the domestic market were marginally higher than in the previous year, thanks to strong demand for apparel materials and bags. In overseas markets, sales trends remained firm in Southeast Asia and North America. Kuraray also worked to expand sales of interior products based on newly introduced materials. However, the results fell short of the target. In Europe sales of apparel materials remained slow, and sales were also affected by the declining value of the Euro. As a result, both sales and income were lower.

Non-Woven Fabrics The dry-laid nonwoven fabric "Kuraflex" was affected by a downward trend in prices in several product areas, including wipers for commercial cleaners. However, sales of raw materials and finished products were strong in volume terms. Kuraray was successful in developing new markets for an ultrafine non-woven fabric produced using the melt-blow method. As a result, both sales and income increased in the area of non-woven fabrics.

Fastening Materials Kuraray achieved steady sales of a new fastener where the hooks and loops are on the same surface, differentiated product, in the area of apparel applications. However, overall sales and income in this area remained static.

Forecasts and Policies for the Coming Fiscal Year

Man-Made Leather ("AMARETTA")

Kuraray will work to maintain its share of the domestic market by introducing new materials

for shoes and bags. It will also aim to maintain the growth trend in sales of apparel materials. In overseas markets, priority will be given to the development of new materials for sports shoes in Asia, while in Europe Kuraray will respond to renewed customer interest in its apparel materials, demand for which is now recovering. In North America efforts will focus on the expansion of sales of products developed as materials for interior products. Kuraray's medium-term business plan calls for an initial emphasis on sales growth, followed by efforts to improve profitability. It aims to increase output at production facilities expanded in 1998 to full capacity level by 2003. At the same time, priority will be given to environmental protection, including the total elimination of solvents, and to the development of production systems that allow a major streamlining of production processes.

Non-Woven Fabrics Competition is expected to escalate in all markets. Kuraray will work to increase its sales by attracting new

Major Products



"AMARETTA" man-made leather
"AMARETTA" is Kuraray's world-leading man-made leather product. Its lightweight, strength and other properties make it suitable for a wide range of uses including shoes, bags, and clothing.



"Kuraflex" dry-laid nonwoven fabric
"Kuraflex" is a dry-laid nonwoven fabric with a distinctive porous structure. Offering excellent moisture absorbance, breathability, and suppleness, this product is used in a variety of applications ranging from paper diapers and other consumer goods to wipers and other commercial applications.



"Sofrina" high-grade man-made leather
"Sofrina" is high-grade man-made leather developed using micro-level technology. It is used in up-market clothing, interior furnishings and other high-end applications. This material has won acclaim in the market as a highly fashionable material.



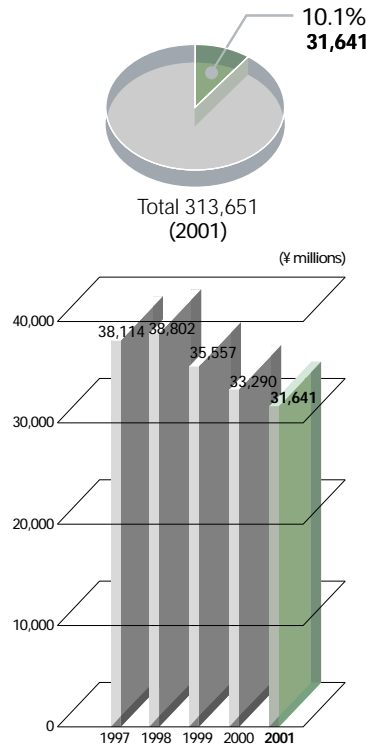
Melt-blown nonwoven fabric
Manufactured using meltblow technology, Kuraray's nonwoven fabric with ultrafine fibers offers excellent filtering capabilities to complement permeability and a soft texture. This fabric is widely used in coffee bags and food packaging.

Man-Made Leather, Nonwoven Fabrics and Fastening Materials

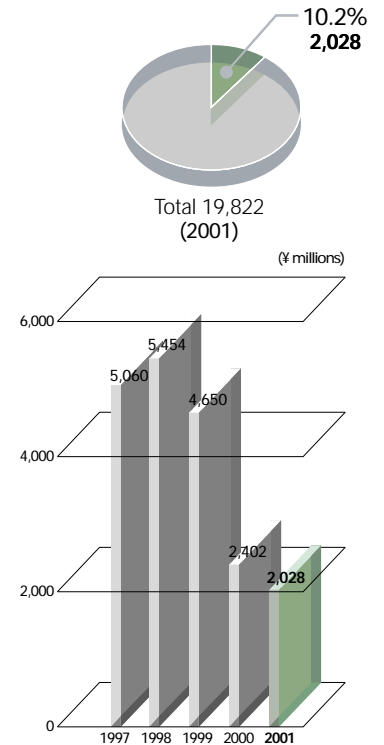
users and developing new applications. It will also focus on cost minimization as a way of ensuring reasonable income. Medium-term goals include the development of new products and applications based on Kuraray's unique polymers, and the reduction of total costs.

Fastening Materials Kuraray will target further growth in sales of differentiated products, such as a new fastener where the hooks and loops are on the same surface. It will also work to reduce costs and improve profitability. At present activities are focusing mainly on woven products, but in the medium-term future Kuraray aims to build an integrated fastener business, including molded products. It will also establish environment-friendly production systems.

Net Sales (¥ millions)



Operating Income (before eliminations) (¥ millions)



Topics



Hook and loop fastener

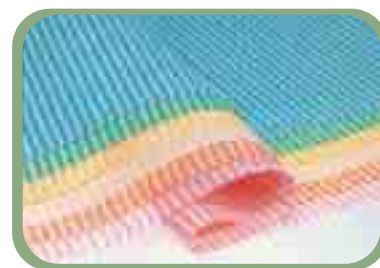
Kuraray's hook and loop fastener fastens tightly with a light touch of the hand. This product is the market share leader in Japan, and is widely used as a fastener for gloves, shoes, and medical products.



Specialty hook and loop fastener

Kuraray has developed a revolutionary hook and loop fastener that features hooks and loops together on a single strip of tape. This product is increasingly being used for sporting goods, nursing care products, and clothing applications.

Establishment of Kuraflex Ibaraki



In April 2001 the Company established Kuraflex Ibaraki Co., Ltd. in a joint venture with Pigeon Corporation and Fukuyo Ibaraki Co., Ltd. Boasting annual production capacity of 3,500 tons, the new company manufactures nonwoven fabrics used in products such as paper

diapers. Establishment of Kuraflex Ibaraki makes it possible for the Company to secure sales channels for nonwoven fabrics, secure a production base in the Kanto region, and increase cost competitiveness. The Company aims to take use establishment of the joint venture as an opportunity to further expand its nonwoven fabrics business.

Diversified Businesses

Performance in the Year Ended March 31, 2001

Consolidated sales from diversified businesses amounted to ¥40,181 million, a decline of ¥450 million, or 1.1%, from the previous year. Operating income was ¥270 million, or 7.4%, lower at ¥3,359 million. Trends in the main product areas are described below.

Medical Products Sales in the area of medical devices were affected by discounting. However, Kuraray achieved growth in its sales of artificial organs, especially mild dialysis membranes for the elderly. Cost reductions also contributed, and while sales were lower, income marked time. Domestic sales of dental materials stagnated because of a lack of growth in patient numbers. However, the direct selling systems established in the European and North American markets are bearing fruit in the form of sustained sales growth. This was reflected in increased sales and income in this area. In the area of contact lenses, the growing popularity of disposable products has caused a decline in demand for conventional lenses. Prices are also falling, and both sales and income

in this area were below the previous year's level. As a result, overall sales and income in the area of medical products remained static.

Environmental products Kuraray worked to increase sales of its high-performance membranes to leading water treatment engineering firms in the semiconductor industry. The excellent resistivity to pollution of these membranes makes them ideal for this field. These efforts resulted in a gradual upward trend in orders. It also continued its development of large-pore membranes and next-generation high-strength membranes in preparation for the development of new markets. Kuraray's microorganism carrier PVA gels have an excellent affinity with organisms. In February 2001 preparations for mass production were completed with the installation of facilities with an annual capacity of 3,000 cubic meters at the Saijo Plant. Shipments remained buoyant.

Forecasts and Policies for the Coming Fiscal Year

Medical Products Kuraray expects to face escalating competition in the area of

artificial organs. However, the elderly population is growing, and the number of dialysis patients is also increasing. Kuraray is a leader in the area of mild membranes, which reduce the physical strain on patients, and its efforts to expand sales will focus primarily on these products. In the area of dental materials, Kuraray will target a recovery in its sales volumes in the domestic market by introducing new products and strengthening its agency system in the domestic market. Overseas, it will step up its promotional campaigns for popular products in the North American and European markets, in order to raise its profile in these regions. Kuraray's strategy for contact lenses calls for the expansion of OEM sales of these products, including its hard lenses, which have been very popular in the market. Kuraray will also work to increase sales to leading mass-sales outlets. The aim is to restore income performance in this area by combining these efforts with cost reductions. In the medium-term future, Kuraray plans to introduce new products in the area of artificial organs, and to develop and launch new aesthetic restoration materials in the area of dental materials.

Major Products



Dental materials

Kuraray operates a dental materials business, providing high-performance adhesives, fillers, and other products for long-lasting and beautiful dental repair work. Our dental materials feature excellent adhesion, high strength and other superior performance characteristics that have drawn acclaim in the Japanese market and overseas.



Contact lenses

Taking advantage of our distinctive polymeric materials, Kuraray develops and markets both soft contact lenses that offer superb wearability and hard contact lenses that can be worn continuously.



Artificial organs

Kuraray offers artificial organs such as artificial kidneys for removing toxic substances from the blood of renal patients and blood plasma exchange systems. Because Kuraray's hollow fiber membranes are made of "EVAL", a substance harmless to the human body, our artificial kidneys offer superb dialysis performance.



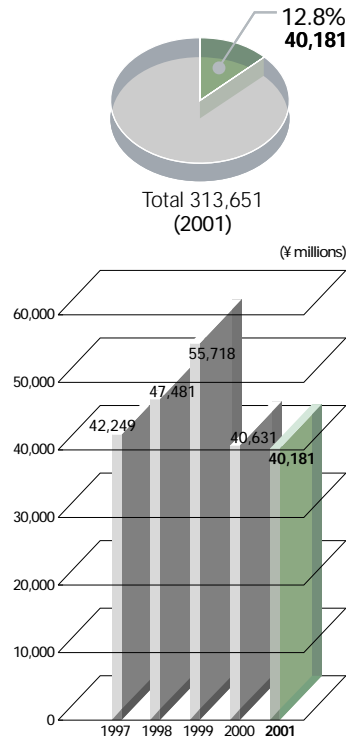
High-performance membranes

Kuraray's filtration membranes for separating fine particles from liquids are essential for the production processes of such diverse industries as food products, sewage treatment, and semiconductors. The Company has developed various types of high-performance membranes that can filter out particles as small as from 0.01 to 0.5 microns in diameter.

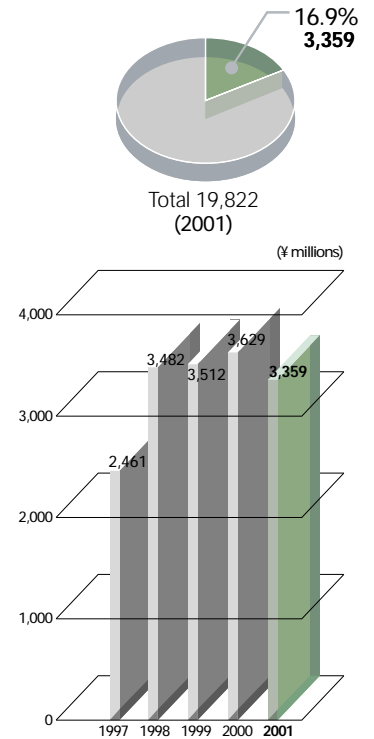
Diversified Businesses

Environmental Products Kuraray has had considerable success as a supplier of high-performance membranes to the semiconductor industry. It aims to link that success to increased sales. Another goal is to expand the market for large-pore filtration membranes for use in small-scale water purification plants, factory water cooling systems and other applications. Kuraray will also use the heat-resistance of its membranes to develop applications in the area of hot water recovery systems. The three priority areas for PVA gels are public sewer systems, shared septic tanks, and industrial waste water treatment facilities. Kuraray will work to establish a presence for itself in these markets. Medium-term business plan calls for market expansion through the development of systems based on large-pore membranes and next-generation high-strength membranes, and through the introduction of full oxidation systems based on membranes and PVA gels.

Net Sales (¥ millions)



Operating Income (¥ millions)
(before eliminations)



Topics



Engineering business

Group affiliate Kuraray Engineering Co., Ltd. is a general engineering company that engages in the integrated design, construction, and test operation of various industrial plants. The company's policy for the future is to expand its business in the area of environment-related plants such as sewage treatment and exhaust treatment facilities.



Consulting business

Group affiliate Technosoft Co., Ltd. engages in various consulting activities, primarily support services for companies aiming to acquire certification for quality assurance and environment management systems in compliance with the ISO series of international standards.

Establishment of technology for a new sewage treatment system using PVA gel



The Company has established a new sewage treatment system that utilizes PVA gel and successfully introduced the system in the market. Whereas the conventional activated sludge method of sewage treatment entails the problem of surplus sludge that requires

disposal, the new Kuraray-developed sewage treatment system uses a combination of PVA gel and industrial membranes to completely eliminate the generation of surplus sludge. The new system has received rave reviews in the market as a revolutionary sewage treatment system, and the Company is aggressively pursuing opportunities in the industrial sewage treatment and public sewage treatment sectors.

The world faces increasingly serious environmental problems, including global warming, ozone layer depletion, and growing volumes of waste. As a member of the global community, Kuraray is helping to reduce the environmental load and build a society that is committed to recycling.

Environmental Activities

Kuraray established the Kuraray Action Guidelines on the Global Environment in 1993. Since then it has worked actively to develop sustainable environmental activities and promote environmental improvement efforts through its business activities. In 2001 the basic policy was revised, leading to the establishment of the Kuraray Group Action Guidelines on the Global Environment. The new Guidelines provide the basis for an increased commitment to global environmental initiatives, and for the sharing of activities across the entire Kuraray Group. Kuraray is working continuously under the 2001 Guidelines to contribute to the protection and improvement of the global environment.

Together with chemical industries throughout the world, Kuraray participates in the Responsible Care activities, the aim for which is to improve public confidence in the chemical sector by maintaining proper environmental, safety and health standards on a voluntary basis at all stages from the development of products through to final disposal. In line with this concept, Kuraray has made steady progress under annual improvement plans affecting

all aspects of its business operations, including production, R&D and physical distribution.

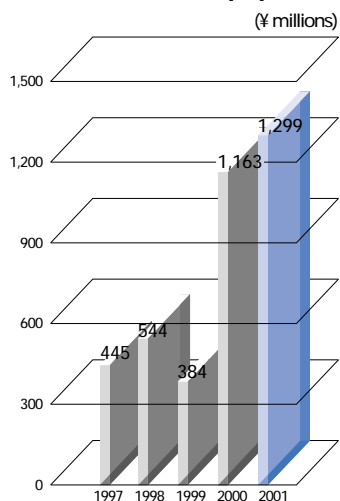
Another goal is the establishment of environmental management systems that measure up to international standards. Kuraray began to work toward certification under the ISO14001 standard system in 1998, and by December 2000 all plants had been certified.

Through these activities, Kuraray is working to improve energy efficiency, reduce industrial waste, and cut emissions of substances that place a load on the environment.

Medium-term Environmental Plan

In February 2001, the Kuraray Group formulated a Medium-term Environmental Plan based on the Kuraray Group Action Guidelines on the Global Environment. The plan sets voluntary targets for reductions in the use of substances that place a load on the environment. At the same time, a model plant was established to explore ways to achieve the targets. The lessons learned will be applied to the technology and systems used in other plants.

Investment in Environmental Equipment



This is the symbol of Responsible Care.



ISO14001 Certificate of Compliance

Medium-term Environmental Plan

— Target year: FY2005 (relative to FY1999 levels)

1. 90% reduction of emissions, including substances specified by the PRTR Law
2. 90% reduction in volume of industrial waste processed externally without efficient utilization (target: 1,500 tons/year)
3. Increase of 20-point or more in waste utilization efficiency (60% to 80%)
4. 6% increase in energy efficiency (1% increase per year)

Designation of Environmental Model Plants

Kurashiki Plant:	Model plant for positive LCA promotion
Kurashiki Plant (Tamashima):	Model plant for ecology related business promotion
Saijo Plant:	Model plant for zero residual sludge
Okayama Plant:	Model plant for zero emissions and energy conservation
Nakajo Plant:	Model plant for early adoption of COD total mass regulations
Kashima Plant:	Model plant for positive PRTR Law implementation



Fluidized bed boiler at the Kurashiki Plant (Tamashima)

Dual Recycling Systems

Unique system ensures effective reutilization of resources

Kuraray is working to ensure the effective utilization of resources. It has developed a dual recycling system that combines materials recycling with thermal recycling.

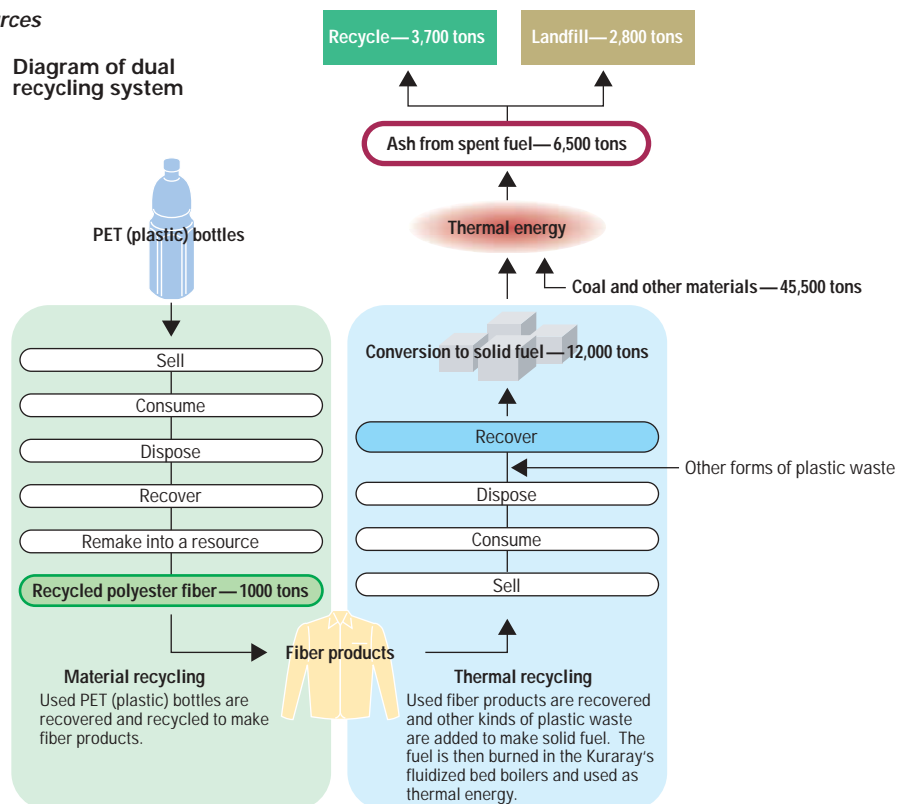
An example of materials recycling is the use of recovered PET resin to produce polyester filaments for use in uniforms and other products. Reused fiber materials are recovered and combined with other waste plastic to produce solid fuel. This is used in our plants instead of coal. This effective utilization of heat energy is a form of thermal recycling.

The ash that remains after solid fuel produced under the dual recycling system has been burnt is also utilized effectively. It is sold for use as a soil improvement material.

In fiscal 2000 recovered PET bottles were used to produce 1,000 tons of fiber products. Used fiber products and other waste plastic were recycled to produce 12,000 tons of solid fuel. Kuraray sold 3,700 tons of ash from the solid fuel for use as soil improvement materials and other products.

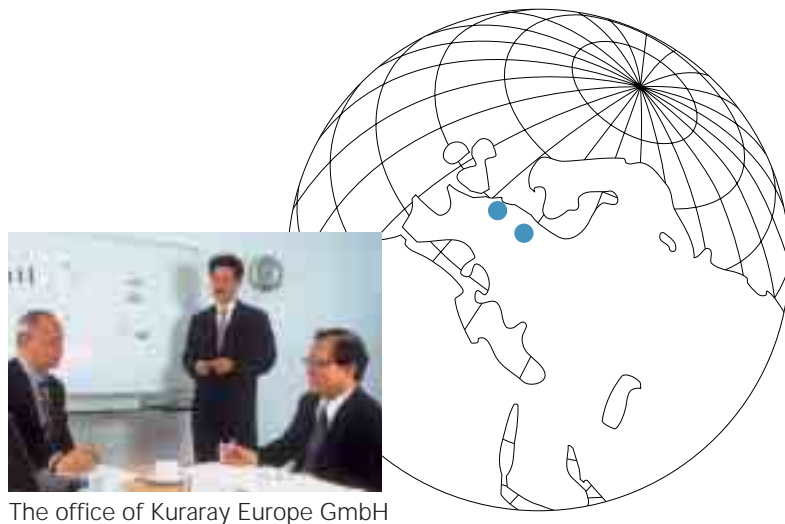
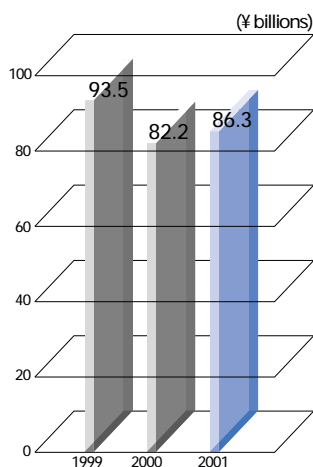
Kuraray is using its dual recycling system to increase the effective utilization of resources.

Diagram of dual recycling system



Results for Japanese operations in fiscal 2000 were affected by the deflationary trend in Japan's domestic economy. Consolidated net sales amounted to ¥276,113 million, a decline of ¥7,377 million, or 2.6% compared with the previous year's result. Consolidated operating income before elimination was ¥188 million, or 1.1%, lower at ¥17,674 million. Consolidated net sales in other regions increased by ¥4,585 million, or 13.9%, to ¥37,538 million. Consolidated operating income before elimination declined by ¥472 million, or 18.3%, to ¥2,108 million. Strong sales of thermoplastic elastomers and PTV screens in the North American market had a positive effect on performance trends. While the start-up of EVAL Europe in the previous fiscal year contributed to performance, Kuraray faced sharp increases in raw materials for "EVAL" in the North American market and Poval in the Asian market. There was also a decline in demand for man-made leather in the European market.

Foreign Sales



The office of Kuraray Europe GmbH

Europe

Kuraray has three associated companies in Europe, Kuraray Europe (KEG), EVAL Europe and Kuraray Finance Europe. EVAL Europe commenced full-scale production in 1999. It manufactures and sells "EVAL" resin, which is used mainly in food packaging materials. It is a key element in the global "EVAL" business, which spans Japan, North America and Europe. In June 2001 EVAL Europe will increase its annual production capacity by 2,000 tons to 12,000 tons to meet strong demand. It has also decided to build additional production facilities with capacity for another 12,000 tons, bringing the company's total capacity to 24,000 tons. The new facilities will come on line in fiscal 2003.

In March 2000, Kuraray acquired a 30% shareholding in the Italian company Lorica Sud Srl as part of a strategy designed to expand

the European market for "AMARETTA" man-made leather. Kuraray has had a long business relationship with Lorica, which processes and sells Kuraray man-made leather. This new capital link will facilitate the development and processing of items that match consumer needs. The relationship is expected to lead to the development of increased uses for "AMARETTA" in such areas as interior products and footwear, and to the reinforcement of the sales network.

As in the United States, Kuraray has switched from agency selling to direct selling of dental materials in the European market. This change was reflected in a healthy increase in sales. Kuraray also improved its sales structures for Poval, "SEPTON" and other products, thereby laying the foundations for further growth in European sales of its products.



The production facility of EVAL Europe N.V.

Eval Company of America



North America

In June 2000, the Kuraray Group established Kuraray Holdings USA (KHA) as a pure holding company. In October it established Septon Company of America (SEPCA) as a production and sales company.

KHU has taken over the coordination and shareholding functions of Kuraray America (KAI), which was established in 1996, allowing KAI to focus on its trading and consulting roles. SEPCA is currently building a plant in Houston, Texas to produce the thermoplastic elastomers "SEPTON" and "HYBRAR". The new plant will become operational in 2002. SEPCA's mission is to produce and sell "SEPTON" and "HYBRAR" to meet growing demand in the U.S. market. Clarino America Corporation merged with KAI on April 1, 2001. The aim of this move was to strengthen man-made leather operations in the United States.

These measures to reinforce Kuraray's operations in the U.S. market have resulted in the creation of a four company structure

consisting of KAI, SEPCA, Eval Company of America and Kuraray Finance America.

Thermoplastic elastomers, dental materials, and PTV screens all sold well during fiscal 2000.

In the area of dental materials, Kuraray switched from agency selling to direct selling and began to develop its own sales channels. This strategy was reflected in healthy results for this product category. Kuraray will continue to strengthen its sales organization with a view to increasing its share of the U.S. market.

Kuraray was able to boost demand for PTV screens through marketing activities focused on the U.S. market, which has a high concentration of demand. The PTV market is expected to expand in step with the growth of digital broadcasting and DVD sales. Kuraray has established a supply structure by increasing its PTV screens production capacity.



Ground Breaking Ceremony of Septon Company of America



Staff of Kuraray America, Inc.



Asia

There are four Kuraray Group companies in Asia, Kuraray Hong Kong, Kuraray Singapore, Kuraray Specialities Asia and Poval Asia. Singapore-based Poval Asia produces Poval, for which Kuraray has the biggest share of the world market. Its output is sold by Kuraray Specialities Asia, which is actively developing new markets, including India and Pakistan, in addition to its traditional markets in Southeast Asia.

Kuraray Hong Kong opened an office in Taiwan in fiscal 2000 as part of efforts to strengthen the man-made leather business. Many leading international sports shoes brands have product planning operations in Taiwan, and a presence there will allow Kuraray to monitor customer needs and develop and propose solutions more quickly. Kuraray will use these advantages to the full as it works to expand its man-made leather business. Another focus in the Asian region will be the expansion of sales of "SEPTON" and other chemical products.



The office of Kuraray Hong Kong Co., Ltd.



Staff of Kuraray Specialities Asia Pte., Ltd.



Poval Asia Pte Ltd

Kuraray's research and development activities are based on the unique technology resources that Kuraray have built through its activities in such areas as polymer chemistry and synthetics. By integrating its leading technologies, including several developed for the first time in the world, Kuraray has been able to accelerate the pace of new product development.

Research and Development Organization

Kuraray's basic and applied R&D activities are carried out under a two-tier structure. Basic and applied R&D is handled by the Kurashiki Research Laboratories, the Tsukuba Research Laboratories and the Analytical Research Center, while R&D departments in each business area are responsible for the development of production technology in preparation for commercialization. To accelerate the development process, the research laboratories also participate actively in joint projects with R&D departments in each business area.

The Kurashiki Research Laboratories conduct research relating to synthetics and polymerization, which are Kuraray's core areas of technology. Current areas of research include organic synthesis products, such as pharmaceutical intermediates and

fine chemicals, polymer composites, such as man-made leather and nano-compounds, environment-friendly products, and electronic materials.

The Tsukuba Research Laboratories carries out polymer research and develops optical materials using precision molding and optical design technologies. Its involvement spans all levels from basic research in such fields as the synthesis of new engineering plastics and functional materials, and compounding, molding and processing technologies, through to technical support services.

The Analytical Research Center analyzes aspects of various substances, including the molecular structures of solids and the physical characteristics of polymers. It also functions as an integrated technical support center through activities that include information gathering and the assessment of substances for safety.

Future Strategy

In 1999 Kuraray established the Research and Development Strategy Council, the role of which is to select R&D themes and coordinate group R&D activities. The results of this work are reflected in the new 'G-21' medium-term business plan, which calls for the application of a market-oriented approach to research and development. From an organizational



Inspection for opt-related materials

R&D Expenses

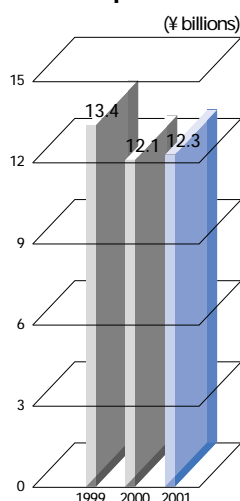


Figure in 2000 and 2001 does not include patent application expenditure.

Kurashiki Research Laboratories / Analytical Research Center



perspective, a Research and New Business Development Division was established in April 2001. In addition to the activities of the old Research and Development Division, the new division is also responsible for the exploration of new areas of business. The aim of these changes is to enhance the pace of product development.

Our basic R&D strategy for electronic information technology and opt-related materials focuses on heat-resistant plastics for use in connectors and circuit boards, capacitor materials, and MMA molded optical products, such as PTV screens and LCD back-lights.

In the area of biomedical-related materials, Kuraray develops pharmaceutical intermediates and a variety of supplementary materials for use in regenerative medicine, including non-PVC blood circuits and catheters.

Kuraray also develops environmental

protection materials. These include next-generation environment cleansing filters for use in industry, and VOC-free materials, such as water-based emulsions and light-hardened resins.

High-performance materials developed by Kuraray include nano-composites*, new barrier materials, and new elastomers.

Over the next five years, Kuraray plans to invest approximately ¥75 billion in R&D focusing primarily on these areas. This is equivalent to about 4% of net sales. Kuraray will maintain its active involvement in R&D. Its goal is the commercialization of research achievements under its market-oriented strategy.

* Nano-composites: High-performance materials with nanometer-scale structures. (One nanometer equals one-billionth of a meter.)



Research and development on synthetics and polymerization



Tsukuba Research Laboratories



Experiment in fine chemicals

During the year under review the Company launched a number of initiatives as strategic moves aimed at the achievement of its new medium-term business plan 'G-21'. Focusing on the strategic areas defined in 'G-21' (electronic information technology, eco-friendly products, environment business, and medical products), the Company has carried out expansion and enhancement of its production facilities. These strategic business areas were defined based on the market-oriented thinking, and the product lines that fall under these areas are designated as the locomotives for business expansion in the new medium-term business plan. Furthermore, the plan calls for aggressive production increases centered on our core businesses and the strategic areas, including planned investment in plant and equipment of ¥150 billion over the next five years.

Electronic information technology areas

In May 2001 an expanded production facility for the PTV screens went into operation at the Nakajo Plant, doubling annual production capacity at the facility to three million screens. Centered on the U.S. market, demand for projection televisions is increasing, and the expansion is aimed at providing impetus for further growth for the PTV screens business.

Also at the Saijo Plant, preparations for expanded production of PVA film for LCDs are underway and expected to be completed in August 2001. The expansion will result in an increase in annual production capacity from 18 to 31 million square meters. PVA film for LCDs is a polarizing material essential for the production of liquid crystal displays (LCD). The Company anticipates further expansion of the PVA film business attendant on increased use of this film in various monitors and laptop computers.

Construction of a mass production facility for PA9T heat-resistant polyamide resin is in progress at the Saijo Plant. With annual production capacity of 1,000 tons,

the facility is expected to be commissioned in August 2001. Offering excellent heat-resistance and molding properties, PA9T is used in connectors and other electronic components and materials. Aiming to achieve further expansion in demand for this substance, the Company will engage in a full-fledged product introduction into the automotive sector.

Eco-friendly areas

"SEPTON" is a thermoplastic elastomer for which demand is surging, primarily as a replacement for vulcanized rubber. Kuraray has decided to establish Septon Company of America, a new plant in Houston Texas, to produce "SEPTON". Expected to start production in autumn of 2002, the new plant will have annual production capacity of 12,000 tons.

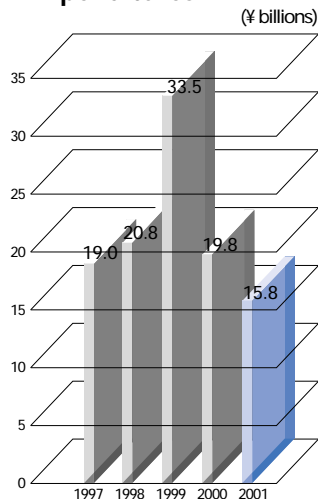
In May of 2000, elimination of a production bottleneck at EVAL Company of America (Texas) resulted in increased production capacity for EVOH resin "EVAL" of 2,000 tons (for total capacity of 23,000 tons). In addition, in June 2000 EVAL Europe N.V. (Belgium) completed a

2,000-ton expansion of annual production capacity (total capacity: 12,000 tons). Attendant on an increase in demand in Europe, in June 2001 the Company decided to increase capacity at EVAL Europe by 12,000 tons (total capacity: 24,000 tons). Having augmented production in Japan, the United States and Europe, the Company will further expand the "EVAL" business.

Environment business

In February 2001 a PVA gel production facility (with annual capacity of 3,000 cubic meters) began its operation at the Saijo Plant. Consisting of spheres of Poval four millimeters in diameter, PVA gel houses microorganisms decompose organic substances and process sewage. Using PVA gel it is possible to produce more compact sewage treatment facilities than with conventional treatment methods. A substance that contributes to environmental preservation, PVA gel is a promising product for which demand is expected to increase.

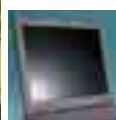
Capital Expenditures



Saijo Plant



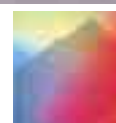
PA9T



LCDs using PVA film



Nakajo Plant



PTV screens



EVAL Company of America

Food packaging materials using "EVAL"

The Kuraray Group is engaged in numerous activities that contribute to the well being of local communities. For instance, aiming to be a good corporate citizen we deepen exchanges with local communities by opening facilities to the public and holding various events.

Kuraray plants conduct 'Chemistry Classes for Boys and Girls'

Since 1992, the plants have conducted 'Chemistry Classes for Boys and Girls' for upper year primary school students, spreading the joy of involvement with chemistry. Covering familiar themes and incorporating numerous experiments, these activities have proved highly popular with the children. In March 2001 the program was held for the first time at the Kashima Plant, where experiments in making jelly and fragrances were conducted and the children experienced the strange and wonderful world of chemistry.

Giant Christmas tree is illuminated at the Kurashiki Plant (Tamashima)

Each year the Kurashiki Plant (Tamashima) decorates a 43-year-old, 15-meter high Himalayan cedar at the main entrance of the plant to celebrate Christmas. In December 2000 the Christmas tree was the main attraction of an event open to area residents and based on the theme of harmonization with nature. For a period of two weeks the great tree was adorned

with 3,500 lights, acting as a beacon for countless people drawn to view the time-honored symbol of the Yuletide.

The Saijo Plant holds its customary cherry blossom viewing event

Each year the Saijo Plant opens its grounds to the general public for cherry blossom viewing. Since it first opened the plant has devoted effort to tree planting within the plant grounds, environmental protection, and exchanges with the local community. This is attested by the cherry blossom viewing event each spring, and in 2001 about 9,000 visitors enjoyed the sight of the trees in full bloom.

EVAL Europe plant tour

In an event held jointly with other area companies, EVAL Europe holds an Open Door Day during which it invites area residents for a tour of the plant. Held once every five years, this event involves a bus tour of area product displays and factories. Attracting 7,000 visitors, the 2000 Open Door Day proved an excellent opportunity for the plant to engage in exchanges with area residents.



EVAL Europe Plant tour



Chemistry Classes for Boys and Girls



Giant Christmas tree



Cherry blossom viewing event

History

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 poval 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
•Nonwoven fabrics business started (Kuraray Chicopee Co., Ltd. established)



Factory for nonwoven 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 established, and marketing of “EVAL” resin in the U.S. begun (production started in 1986)

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

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

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

1990s

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

1991
•Kuraray Europe GmbH established in Düsseldorf, Germany

1995
•Kuraray EVAL Europe GmbH established in Düsseldorf
•Kuraray Hong Kong Co., Ltd. established

1996
•Kuraray America, Inc. established in New York as administrative holding company in the U.S.
•Kuraray Singapore Pte., Ltd. established, and capital participation in Poval Asia Pte Ltd

1997
•EVAL Europe N.V. established in Belgium

1998
•“KURALON K-II” commercialized

1999
•Operations started at Poval Asia Pte Ltd
•Operations at EVAL Europe N.V. started



Completion ceremony of EVAL Europe N.V.

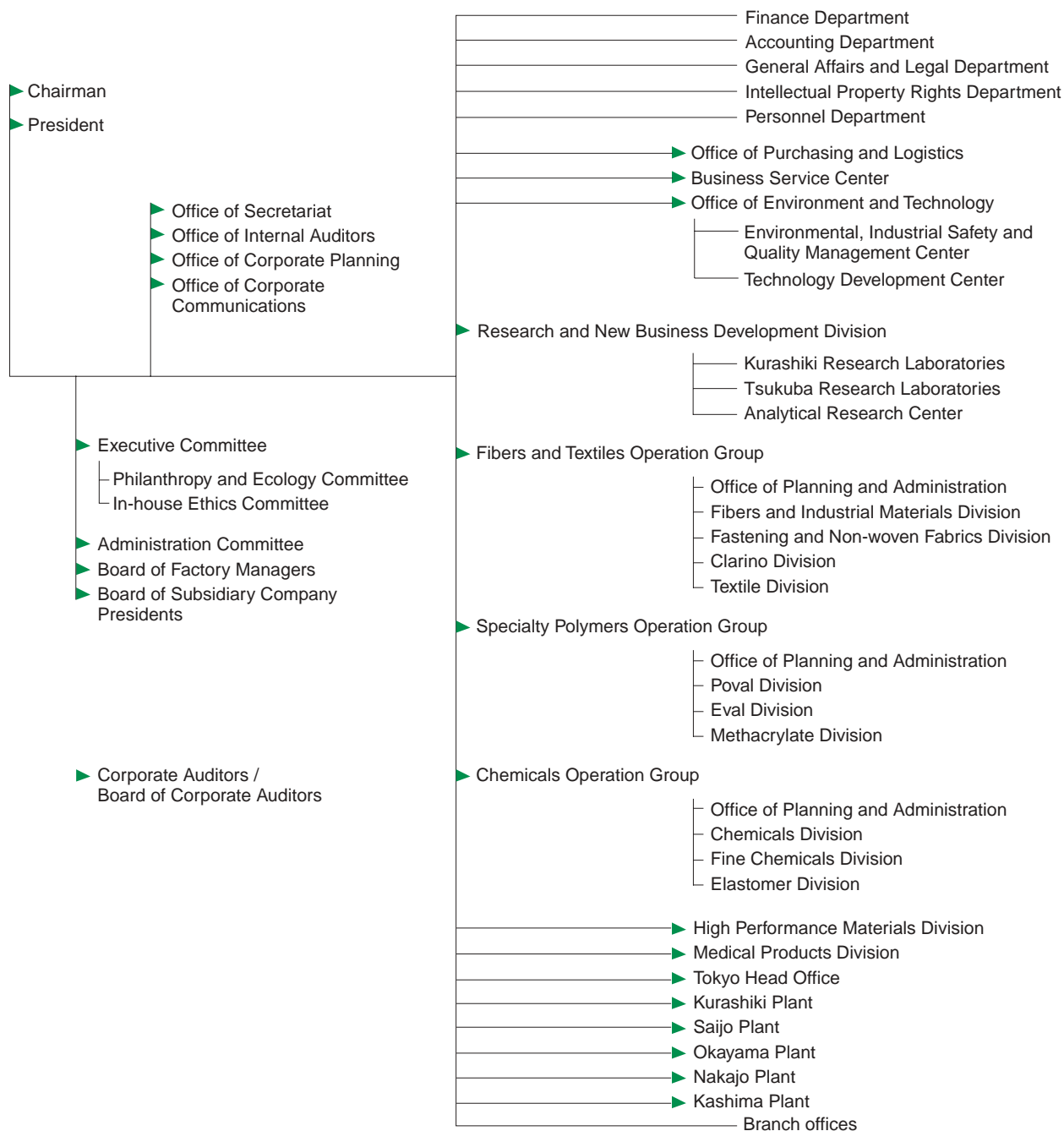
2000

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 terminates 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 PA9T become operational

Organization and Board of Directors

Organization (As of June 2001)



Directors and Corporate Auditors (As of June 2001)

Representative Director and Chairman

Hiroto Matsuo

Representative Director and President

Yasuaki Wakui

Managing Directors

Koichi Kushida

Masayuki Hayashi

Akira Matsuzawa

Masahiro Kaihara

Tsutomu Yabuta

Director and Advisor

Hisao Nakamura

Directors

Shobu Minatono

Katsuhiko Kishi

Yosuke Sekiya

Katsumi Ohashi

Tetsuzo Kimura

Satoru Mizushima

Junsuke Tanaka

Seiji Wajiki

Koichi Kikuchi

Nobusuke Takeuchi

Corporate Auditors

Jun Inoue

Fumio Ohmori

Tatsuya Nakano

Kazuhide Kashiwabara

List of Consolidated Companies

(March 31, 2001)

Companies	Head office	Capital (-millions, except where stated)	Activities
Chemicals			
Kyosei Chemical Co., Ltd.	Tokyo	50	Manufacture of pigments and dyes
Kuraray Niigata Kasei Co., Ltd.	Tokyo	50	Manufacture and sales of methacrylic sheets
*Nihonkai Acetylene Co., Ltd.	Tokyo	60	Manufacture and sales of acetylene gas
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
*Magictape Co., Ltd.	Fukui	30	Manufacture of "Magic Tape"
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
Ibuki Kosan Co., Ltd.	Gifu	10	Manufacture of rubber products
*Houwa Sangyo Co., Ltd.	Miyagi	10	Sales of rubber products
*Hikari Shoes Co., Ltd.	Tokyo	34	Manufacture and sales of shoes

Textiles

*Kuraray Okayama Spinning Co., Ltd.	Okayama	50	Manufacture of synthetic fibers
*Saijo Textured Yarn Co., Ltd.	Ehime	10	Manufacture of processed polyester yarn
*Tamashima Rayon Inspection Co., Ltd.	Okayama	10	Inspection of rayon yarn
Reihoku Textile Co., Ltd.	Fukui	35	Sizing of yarn
*Kuraray Planning System Co., Ltd.	Osaka	10	Planning and sales of uniforms
*Kuraflex Co., Ltd.	Okayama	10	Manufacture and sales of non-woven textile products

Real Estate, Construction, Housing.

Kuraray Fudosan Co., Ltd.	Osaka	282	Sales and management of housing lots and housing
Iruma Country Club Co., Ltd.	Saitama	40	Golf course management
Kuraray Ohmiya Estate Co., Ltd.	Osaka	31	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
Kuraray Engineering Co., Ltd.	Okayama	450	Plant design and construction
Kuraray Saijo Kiko Co., Ltd.	Ehime	10	Fabrication of machinery parts

Commerce, Services

Kuraray Trading Co., Ltd.	Osaka	1,500	Importing, exporting, wholesaling of textile products, etc.
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Companies	Head office	Capital (-millions, except where stated)	Activities
Kuraray Living Co., Ltd.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Family Products Corporation	Osaka	30	Sales of health foods, etc.
*The Kurashiki Kokusai Hotel, Ltd.	Okayama	450	Hotel management
Kuraray Travel Service Corporation	Osaka	20	Travel agency
Techno Soft Co., Ltd.	Osaka	50	Consulting, temporary staffing
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
KRT Tamashima Co., Ltd.	Okayama	10	Production sub-contracting
Kuraray Finance & Accounting Co., Ltd.	Osaka	100	Financial and accounting services
*Kuraray Information Systems Center Co., Ltd.	Osaka	50	Information systems services

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\$8.102 million	Importing and sales of Kuraray products
Eval Company of America	Illinois, U.S.A.	US\$4.15 million	Manufacture and sales of "EVAL" in the United States
Clarino America Corp.	New York, U.S.A.	US\$0.6 million	Sales of man-made leather in the United States
SEPTON Company of America	New York, U.S.A.	US\$1 million	Manufacture and sale of thermoplastic elastomers in the United States
Kurary Finance America, Inc.	New York, U.S.A.	US\$0.001 million	Money lending
Kuraray Europe GmbH	Düsseldorf, Germany	DM61 million	Sales of Kuraray products in Europe
EVAL Europe N.V.	Antwerp, Belgium	BEF1,200 million	Manufacture and sales of "EVAL" in Europe
Kurary Finance Europe B.V.	Amsterdam, Netherlands	FLS0.7 million	Money lending
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK\$4.65 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Singapore Pte., Ltd.	Singapore	SP\$21.4 million	Marketing of Kuraray products in Southeast Asia
*Poval Asia Pte Ltd	Singapore	SP\$40 million	Manufacture of Poval resins
Kuraray Specialities Asia Pte., Ltd.	Singapore	SP\$1.4 million	Sales of Poval resins

*: equity method subsidiary

FINANCIAL SECTION

Consolidated Six-Year Summary

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars
	2001	2000	1999	1998	1997	1996	2001
For period:							
Net sales.....	¥ 313,651	¥ 316,444	¥ 336,466	¥ 347,643	¥ 340,112	¥ 330,869	\$ 2,529,444
Cost of sales.....	234,946	235,603	250,195	259,788	255,240	246,768	1,894,726
Selling, general and administrative expenses.....	58,774	60,520	59,123	58,957	58,324	58,008	473,984
Operating income.....	19,931	20,321	27,148	28,898	26,548	26,093	160,734
Net income.....	4,045	7,452	13,171	13,962	11,741	11,049	32,621
Net income per share (Exact yen or U.S. dollar)							
Primary.....	10.56	20.00	36.83	40.46	34.99	35.43	0.09
Fully diluted.....	10.46	19.42	34.56	37.68	32.48	32.71	0.08
Cash dividends applicable to period (Exact yen or U.S. dollar).....							
	9.00	9.00	9.00	9.00	9.00	9.00	0.07
Capital expenditure.....	15,814	19,764	33,497	20,806	19,049	17,479	127,532
Depreciation and amortization....	16,593	16,769	15,557	14,615	14,111	14,263	133,815
Total research and development expenses.....	12,251	12,097	13,429	13,707	13,592	12,646	98,798
At period end:							
Total assets.....	¥ 512,479	¥ 503,766	¥ 487,991	¥ 478,861	¥ 514,167	¥ 535,173	\$ 4,132,895
Total shareholders' equity.....	289,469	282,755	259,909	233,494	208,635	178,776	2,334,427

Notes: The United States dollar amounts represent translation of Japanese yen at the rate of ¥124=\$1.

As discussed in Notes 2(f) to the financial statements, for the year ended March 31, 2001, the Companies adopted the new accounting standard in Japan "Accounting Standard for Employees' Retirement Benefits", effective from April 1, 2000. The effect of adoption of the standard was to decrease net income for the year ended March 31, 2001 by ¥4,768 million (\$38,452 thousand).

As discussed in Notes 2(g) to the financial statements, effective April 1, 2000, the Companies adopted the amended "Accounting Standard for Foreign currency Transactions, etc". The effect of adoption of the standard was to increase net income for the year ended March 31, 2001 by ¥647 million (\$5,218 thousand).

As discussed in Notes 2(j), (k) and (l) to the financial statements, for the year ended March 31, 2001, the Companies adopted the new accounting standard in Japan "Accounting Standard for Financial Instruments", which is effective from April 1, 2000. The effect of adoption of the standard was immaterial.

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

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Financial Review

The following report refers to the consolidated financial statements for the Kuraray Group for the year ended March 2001 (from April 1, 2000 to March 31, 2001).

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

Sales

Sales of fibers and textiles declined by ¥7,266 million (\$58,597 thousand), or 7.4%, from the previous year's level to ¥90,822 million (\$732,436 thousand). Sales of "Kuralon" for applications based on the unique characteristics of the material, such as paper, non-woven textiles and rubber materials followed a strong upward trend. However, polyester sales were affected by a downturn in domestic consumer spending on apparel, and by a price decline resulting from increased imports of cheap secondary products.

Sales of chemical products increased by ¥6,572 million (\$53,000 thousand), or 4.6%, to ¥151,007 million (\$1,217,798 thousand). Stagnating markets caused a sharp fall in sales of fine chemicals, including raw materials for vitamins and agrochemicals. However, Kuraray achieved sales growth in all other areas, including poval, "EVAL" and methacrylic resins.

Sales of man-made leather, non-woven fabrics and fastening materials amounted to ¥31,641 million (\$255,170 thousand), a decrease of ¥1,649 million (\$13,298 thousand), or 5.0%, compared with the previous year's result. Sales of non-woven fabrics were higher thanks to increased demand for wiper materials, while sales of fastening materials were about the same as in the previous year. However, sales of "AMARETTA" man-made leather were sharply lower due to a fall in apparel-related demand in Europe and the reduced value of the euro.

Sales from diversified businesses -- medical products and other items -- contracted by ¥450 million (\$3,629 thousand), or 1.1%, to ¥40,181 million (\$324,040 thousand). Despite sustained growth in overseas sales of dental materials, total sales in this category were affected by a reduction in sales of contact lenses due to escalating competition and falling prices.

Total consolidated sales amounted to ¥313,651 million (\$2,529,444 thousand), a decline of ¥2,793 million (\$22,524 thousand), or 0.9%, from the previous year's level.

Cost of Sales, Selling General and Administrative Expenses

The cost of sales reduced by ¥657 million (\$5,298 thousand), or 0.3%, to ¥234,946 million (\$1,894,726 thousand). The fact that the percentage reduction was smaller than the decline in sales is attributable to sharp rises in the prices of raw materials derived from crude oil and natural gas. Efforts were made at the factory level to reduce production costs, but these savings were not sufficient to offset higher raw material costs.

Selling, general and administrative expenses amounted to ¥58,774 million (\$473,984 thousand). This is ¥1,746 million (\$14,081 thousand), or 2.9%, lower than in the previous year. The lower figure reflects a reduction in the amount of salaries and bonuses paid due to the downsizing of personnel numbers.

Operating Income and Net Income

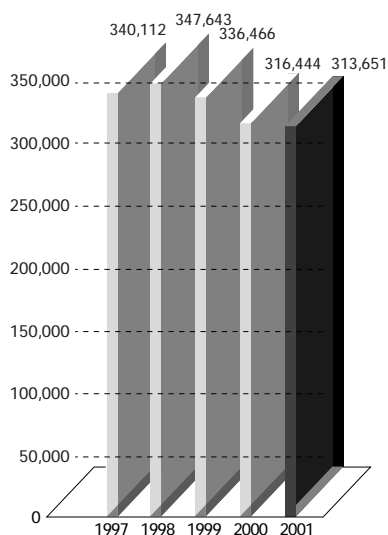
Sales were eroded by reduced sales volumes and stagnating market conditions. Moreover, it was not possible to add the full impact of higher raw material costs to selling prices.

As a result, operating income fell by ¥390 million (\$3,145 thousand), or 1.9%, to ¥19,931 million (\$160,734 thousand). The ratio of operating income to net sales was approximately 6.4%, which is similar to the level in the previous year.

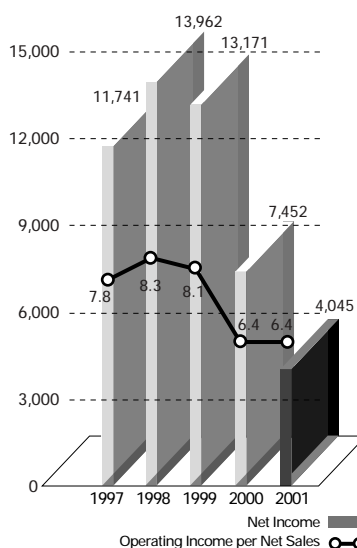
Non-operating income included a ¥3,014 million (\$24,306 thousand) gain on sale and appreciation of marketable securities. This resulted from the sale of shares acquired for trading purposes, and from valuation gains resulting from the introduction of market value accounting. Non-operating expenses included restructuring charges of ¥8,872 million (\$71,548 thousand), resulting from factors that included Kuraray's withdrawal from the rayon business, and the write-down of products. There was also special provision for retirement benefits, which amounted to ¥7,596 million (\$61,258 thousand).

Income before income taxes amounted to ¥7,800 million (\$62,903 thousand). This is ¥5,577 million (\$44,975 thousand), or 41.7%, lower than the previous year's result. Net income declined by ¥3,407 million (\$27,476 thousand), or 45.7%, to ¥4,045 million (\$32,621 thousand).

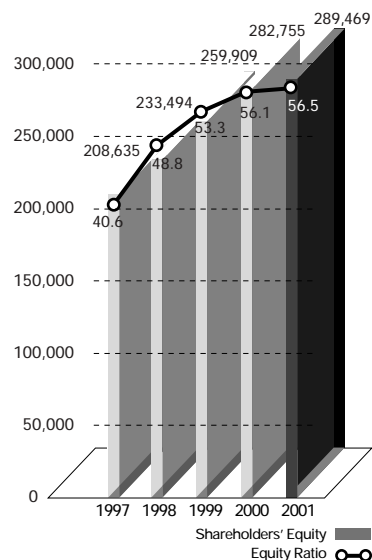
Net Sales
(Millions of yen)



Net Income & Operating Income per Net Sales
(Millions of yen) (%)



Shareholders' Equity & Equity Ratio
(Millions of yen) (%)



Financial Position

Current assets increased by ¥26,361 million (\$212,589 thousand), or 12.4%, compared with the level at the end of the previous accounting period, to ¥239,654 million (\$1,932,694 thousand). This was mainly the result of a ¥26,302 million (\$212,113 thousand) increase in cash and cash equivalents, due to the sale and redemption of investment securities, and a ¥7,814 million (\$63,016 thousand) increase in notes and accounts receivable, which resulted in part from a holiday falling at the end of the accounting period.

Tangible fixed assets declined by ¥875 million (\$7,056 thousand) from the level at the end of the previous accounting period. This was mainly because depreciation and amortization amounted to ¥16,593 million (\$133,815 thousand), compared with capital expenditure of ¥15,814 million (\$127,532 thousand).

Investments and other assets declined by ¥16,773 million (\$135,266 thousand), or 10.3%, to ¥145,357 million (\$1,172,234 thousand). The main reasons for this reduction were sales of investment securities, and transfers to marketable securities.

After adjustment for these factors, total assets amounted to ¥512,479 million (\$4,132,895 thousand). This represents an increase of ¥8,713 million (\$70,266 thousand), or 1.7%, from the position at the end of the previous accounting period.

Working capital, which is calculated by deducting current liabilities from current assets, amounted to ¥129,420 million (\$1,043,710 thousand), and the current ratio was 217.4%, a decline of 26.1 points from the previous year's level. Return on assets (ROA) fell by 0.2 points to 3.9%.

On the liability side, current liabilities increased by ¥22,642 million (\$182,596 thousand), or 25.8%, to ¥110,234 million (\$888,984 thousand). At ¥112,723 million (\$909,056 thousand), fixed liabilities were ¥20,324 million (\$163,903 thousand), or 15.3%, lower than at the end of the previous accounting period. This resulted primarily from the transfer of loans and convertible bonds from fixed liabilities to current liabilities.

Retained earnings at the end of the accounting period was ¥471 million (\$3,798 thousand) higher than the previous year's result at

¥111,622 million (\$900,177 thousand).

The application of market value accounting resulted in a valuation gain of ¥3,355 million (\$27,056 thousand) on securities after the deduction of tax benefits. This amount was recorded as a component of shareholders' equity. Cumulative translation adjustments increased by ¥2,887 million (\$23,282 thousand) due to a fall in the value of the yen at the end of the accounting period. These factors were reflected in an increase of ¥6,714 million (\$54,145 thousand), or 2.4%, in shareholders' equity, which amounted to ¥289,469 million (\$2,334,427 thousand).

The equity ratio improved by 0.4 points to 56.5%. Return on equity (ROE) was 1.3 points lower at 1.4%. Earnings per share (EPS) amounted to ¥10.56 (\$0.09), a decline of ¥9.44 (\$0.08), or 47.2%, from the previous year's level. Retained cash flows, which are calculated by adding depreciation and amortization to net income and subtracting share dividends, amounted to ¥17,192 million (\$138,645 thousand).

Cash Flows

Cash flows from operating activities were ¥9,179 million (\$74,024 thousand) below the previous year's level at ¥15,887 million (\$128,121 thousand). The main reason for this was the decline in net income.

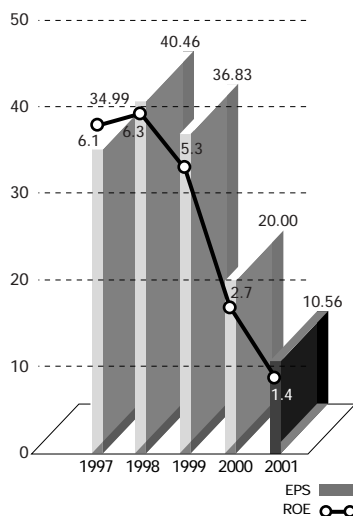
Cash flows from investing activities totaled ¥20,323 million (\$163,895 thousand). This contrasts sharply with the result for the previous year, when there was a net outflow of ¥42,752 million (\$344,774 thousand). The change resulted mainly from a reduction in expenditure relating to the acquisition of securities, and an increase in income from the sale and redemption of securities.

Cash flows from financing activities shifted from a net inflow of ¥3,040 million (\$24,516 thousand) in the previous year to a net outflow of ¥10,448 million (\$84,258 thousand). This was mainly the result of reduced income from long-term loans.

Cash and cash equivalents at the end of the accounting period amounted to ¥40,171 million (\$323,960 thousand). This is ¥26,302 million (\$212,113 thousand) higher than at the end of the previous accounting period.

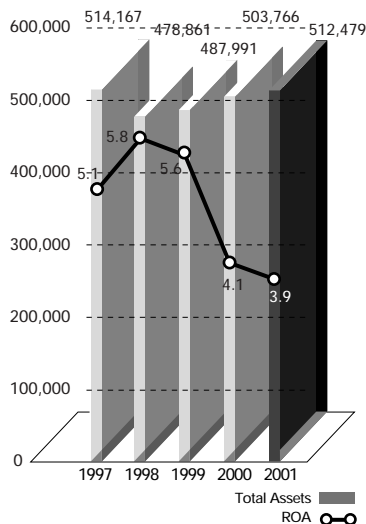
EPS & ROE

(Yen) (%)



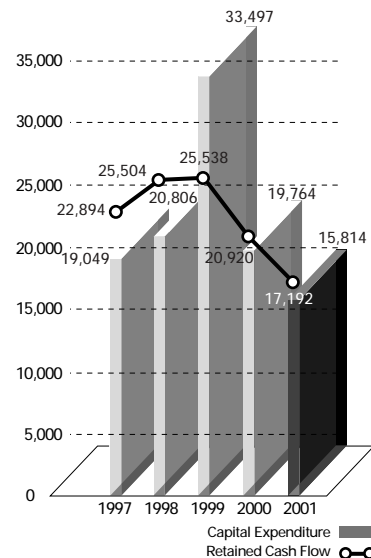
Total Assets & ROA

(Millions of yen) (%)



Capital Expenditure & Retained Cash Flow

(Millions of yen)



Consolidated Balance Sheets

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
ASSETS			
Current assets			
Cash and cash equivalents	¥ 40,171	¥ 13,869	\$ 323,960
Marketable securities (Note 3)	14,687	26,033	118,444
Notes and accounts receivable (Note 11):			
Trade	96,025	89,102	774,395
Unconsolidated subsidiaries and affiliates	918	789	7,403
Other	4,396	3,634	35,452
Loans receivable from unconsolidated subsidiaries and affiliates	640	541	5,161
Allowance for doubtful accounts	(689)	(696)	(5,556)
	101,290	93,370	816,855
Inventories (Note 4)	75,545	75,120	609,234
Deferred income taxes (Note 7)	5,355	3,761	43,185
Other current assets	2,606	1,140	21,016
Total current assets	239,654	213,293	1,932,694
Property, plant and equipment			
Land	24,349	25,176	196,363
Buildings	86,635	86,213	698,669
Machinery and equipment	357,405	351,695	2,882,298
Construction in progress	7,897	4,356	63,686
	476,286	467,440	3,841,016
Less accumulated depreciation	(348,818)	(339,097)	(2,813,048)
	127,468	128,343	1,027,968
Investments and other assets:			
Investment securities (Note 3)	71,397	80,910	575,782
Investments in unconsolidated subsidiaries and affiliates	2,755	2,687	22,218
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	5,616	5,345	45,290
Other	1,326	1,293	10,694
Deferred income taxes (Note 7)	6,323	7,196	50,992
Other	59,244	65,988	477,773
Allowance for doubtful accounts	(1,304)	(1,289)	(10,516)
	145,357	162,130	1,172,233
	¥ 512,479	¥ 503,766	\$ 4,132,895

See Notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5).....	¥ 8,807	¥ 3,805	\$ 71,024
Current portion of long-term debt (Note 5).....	20,228	3,467	163,129
Notes and accounts payable:			
Trade.....	54,147	51,257	436,669
Unconsolidated subsidiaries and affiliates.....	1,277	1,149	10,298
Other.....	6,160	6,945	49,677
Accrued income taxes (Note 7).....	2,196	4,312	17,710
Deferred income taxes (Note 7).....	2	21	16
Accrued expenses and other.....	17,417	16,636	140,461
Total current liabilities.....	110,234	87,592	888,984
Long-term liabilities:			
Long-term debt (Note 5).....	67,527	94,225	544,573
Deferred income taxes (Note 7).....	3,859	3,164	31,121
Accrued retirement benefits (Note 8).....	25,336	22,164	204,323
Other.....	16,001	13,494	129,040
Total long-term liabilities.....	112,723	133,047	909,057
Minority interests	53	372	427
Commitments and contingencies (Note 11)			
Shareholders' equity (Note 6):			
Common stock with par value of ¥50 (\$0.40) per share:			
Authorized --- 700,000,000 shares			
Issued and outstanding --- 382,863,603 shares.....	88,955	88,955	717,379
Additional paid-in capital.....	87,147	87,147	702,798
Retained earnings.....	111,622	111,151	900,177
Unrealized gain on revaluation of securities (Note 3).....	3,355	—	27,057
Cumulative translation adjustments.....	(1,609)	(4,496)	(12,976)
	289,470	282,757	2,334,435
Treasury stock at cost.....	(1)	(2)	(8)
Total shareholders' equity.....	289,469	282,755	2,334,427
	¥ 512,479	¥ 503,766	\$ 4,132,895

See Notes to consolidated financial statements.

Consolidated Statements of Income

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	2001
<i>Years ended March 31, 2001 and 2000</i>			
Net sales	¥ 313,651	¥ 316,444	\$ 2,529,444
Cost of sales (Note 10)	234,946	235,603	1,894,726
(Gross profit)	78,705	80,841	634,718
Selling, general and administrative expenses (Notes 9 and 10)	58,774	60,520	473,984
(Operating income)	19,931	20,321	160,734
Other income (expenses):			
Interest and dividend income	3,659	3,774	29,508
Equity in earnings of affiliates	127	83	1,024
Interest expenses	(2,377)	(2,659)	(19,169)
Restructuring charges	(8,872)	(335)	(71,548)
Special provision for retirement benefits (Note 8)	(7,596)	(9,492)	(61,258)
Gain on sales and appreciation of marketable securities	3,014	1,192	24,306
Other, net	(86)	493	(694)
	(12,131)	(6,944)	(97,831)
(Income before income taxes)	7,800	13,377	62,903
Income taxes (Note 7)			
Current	6,633	9,461	53,492
Deferred	(2,879)	(3,560)	(23,218)
	3,754	5,901	30,274
Minority interest in net income of consolidated subsidiaries	(1)	(24)	(8)
Net income	¥ 4,045	¥ 7,452	\$ 32,621
Net income per share:		Yen	U.S. dollars (Note 1)
Primary	¥ 10.56	¥ 20.00	\$ 0.09
Fully diluted	10.46	19.42	0.08

See Notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen				
	Common stock	Additional paid-in capital	Retained Earnings	Unrealized gain on revaluation of securities (Note 3)	Cumulative translation adjustments
<i>Years ended March 31, 2001 and 2000</i>					
Balance at March 31, 1999	¥ 78,660	¥ 74,225	¥ 107,029	—	—
Net income			7,452		
Conversion of convertible debentures	114	114			
Stock issued on exercise of warrants	10,181	12,808			
Cash dividends, ¥9.00 per share			(3,301)		
Bonuses to directors and statutory auditors			(62)		
Effect of changes in reporting entity			33		
Translation adjustments					(4,496)
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 entity			(68)		
Change in unrealized gain on revaluation of securities (Note 3)				3,355	
Translation adjustments					2,887
Balance at March 31, 2001	¥ 88,955	¥ 87,147	¥ 111,622	¥ 3,355	(¥ 1,609)
	Thousands of U.S. dollars (Note 1)				
Balance at March 31, 2000	\$ 717,379	\$ 702,798	\$ 896,379		(\$ 36,258)
Net income			32,621		
Cash dividends, \$0.07 per share			(27,790)		
Bonuses to directors and statutory auditors			(485)		
Effect of changes in reporting entity			(548)		
Change in unrealized gain on revaluation of securities (Note 3)				27,057	
Translation adjustments					23,282
Balance at March 31, 2001	\$ 717,379	\$ 702,798	\$ 900,177	\$ 27,057	(\$ 12,976)

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)
	2001	2000	2001
<i>Years ended March 31, 2001 and 2000</i>			
Cash flows from operating activities:			
Net income	¥ 4,045	¥ 7,452	\$ 32,621
Adjustments to reconcile net income to net cash provided by operating activities ---			
Depreciation and amortization	16,593	16,769	133,815
Provision for accrued retirement benefits, net of payments	3,280	9,488	26,452
Gain on sales of investment securities	—	(2,191)	—
Gain on sales and appreciation of marketable securities	(3,014)	(1,192)	(24,306)
Exchange loss on loans receivable from subsidiaries	—	2,559	—
Increase in notes and accounts receivable	(5,799)	(143)	(46,766)
Decrease (increase) in inventories	1,213	(6,203)	9,782
Increase in notes and accounts payable	2,122	2,686	17,113
Other, net	(2,553)	(4,159)	(20,590)
Net cash provided by operating activities	15,887	25,066	128,121
Cash flows from investing activities:			
Decrease (increase) in marketable securities	2,667	(2,498)	21,508
Acquisitions of property, plant and equipment	(17,583)	(19,980)	(141,798)
Payments for purchases of investment securities	(3,116)	(29,327)	(25,129)
Proceeds from sales of investment securities	30,891	13,474	249,121
Other, net	7,464	(4,421)	60,193
Net cash provided by (used in) investing activities	20,323	(42,752)	163,895
Cash flows from financing activities:			
Decrease in short-term bank loans	(948)	(594)	(7,645)
Proceeds from long-term debt	1,550	7,028	12,500
Repayments of long-term debt	(7,604)	(20,457)	(61,323)
Proceeds from exercise of warrants	—	20,364	—
Dividends paid	(3,446)	(3,301)	(27,790)
Net cash (used in) provided by financing activities	(10,448)	3,040	(84,258)
Effect of exchange rate changes on cash and cash equivalents	518	(553)	4,178
Effect of changes in reporting entities	22	151	177
Net increase (decrease) in cash and cash equivalents	26,302	(15,048)	212,113
Cash and cash equivalents, beginning of period	13,869	28,917	111,847
Cash and cash equivalents, end of period	¥ 40,171	¥ 13,869	\$ 323,960

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2001 and 2000

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 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 in order to present them in a form which is 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 given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥124=\$1, the approximate exchange rate prevailing on March 31, 2001. 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 or any other rate.

2. Significant accounting policies:

(a) Principles of consolidation

These consolidated financial statements consist of Kuraray Co., Ltd. and its significant 38 subsidiaries (40 subsidiaries at March 31, 2000). Hereinafter, the Company and its consolidated subsidiaries are collectively referred to as the "Companies".

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

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

The difference between the cost of investments 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 maturities of three months or less, which can be withdrawn at least the face amount 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 is principally computed using the declining-balance method over the estimated useful lives of assets, except for buildings. The depreciation method for buildings is principally computed using the straight-line method.

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 facilities under financing leases without transferring ownership and such leased assets are not capitalized in the balance sheet in conformity with accounting principles generally accepted in Japan.

(e) Income taxes

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

(f) 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 cause of retirement.

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

For the year ended March 31, 2001, 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. The effect of adoption of the standard was to decrease net income for the year ended March 31, 2001 by ¥4,768 million (\$38,452 thousand). The consolidated financial statements in 2000 are not restated retroactively in accordance with accounting practices followed in Japan.

For the year ended March 31, 2000, the liability for lump-sum payments was principally stated at 68% based on the latest actuarial computation of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date. During the year ended March 31, 2000, the Company changed its method of accounting for past service liability related to the contributory pension plan. Previously, past service liability was charged to income when contributed. Under the new method, it was charged when incurred and was recorded as provision for past service liability which was included in

“Accrued retirement benefits.” This change in accounting method resulted in recording of a “Special provision for retirement benefits” in the amount of ¥9,492 million and reduced net income by ¥5,297 million.

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

(g) Foreign currency items

Effective April 1, 2000, the Companies adopted the amended “Accounting Standard for Foreign currency Transactions, etc” .

Under the new method, 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 of the balance sheet date. Foreign currency assets and liabilities, which are covered by 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.

The effect of adoption of this standard was to increase net income for the year ended March 31, 2001 by ¥647 million (\$5,218 thousand).

For the year ended March 31, 2000, long-term foreign currency assets and liabilities not covered by forward exchange contracts, including currency swap contracts, were translated into Japanese yen at the rates when acquired or incurred. Where these historical exchange rates differed significantly from the rates in effect at the balance sheet date, the rates in effect at the balance sheet date were used to translate the long-term assets and liabilities. Income and expenses in foreign currency were translated into Japanese yen at exchange rates prevailing at the transaction dates.

(h) Research and development expenses

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

(i) 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.

(j) 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 the estimated uncollectible amount based on the analysis of certain individual accounts.

(k) 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 or available-for-sale securities. Trading securities are carried at fair values with unrealized gains or losses to be included in income, and held-to-maturity securities

are carried at amortized cost. Available-for-sale securities are carried at fair value with unrealized gains or losses to be recorded as a component of shareholders’ equity, net of applicable taxes. 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 Investments and other assets. At the beginning of the year ended March 31, 2001, adoption of the standard caused reclassifications of securities between current assets and non-current assets, the net effect of the reclassifications was to increase securities included in current assets by ¥368 million (\$2,968 thousand), and decrease securities included in Investments and other assets by the same amount as of April 1, 2000. For the year ended March 31, 2000, marketable securities and investments securities were principally stated at cost, determined using the moving average method for each particular security. Classification of securities in the balance sheet as of March 31, 2000 remained unchanged.

(l) Derivative financial instruments and hedging

Derivative financial instruments, which include foreign exchange forward contracts, interest rate swap agreements, and currency swap agreements, 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 deferring any gain or loss over the period of the hedging contract together with offsetting against the deferred loss or gain of the related hedged items.

However, when a forward foreign exchange contract meets certain conditions, account receivables and payables covered by these contracts are translated using the contract rate.

In addition, when an interest rate swap agreement meets certain conditions, the net amount to be paid or received under the agreement 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	Loans receivable in foreign currency
	Accounts receivable and payable in foreign currency
	Future transactions in foreign currency
Currency swap agreements	Loans receivable in foreign currency
Interest rate swap agreements	Bonds and debentures
	Short-term bank loans and long term debt

c. Hedging policy

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

d. Assessment method of hedge effectiveness

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

(m) 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, 2001:

Trading securities at March 31, 2001

Book value (estimated fair value)¥ 771million (\$ 6,218 thousand)
Gross unrealized gains¥ 300million (\$ 2,419 thousand)

	Millions of yen			
	Available-for-sale securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2001				
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

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

	Thousand of dollars			
	Available-for-sale securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book value (estimated fair value)
March 31, 2001				
Equity securities.....	\$ 138,935	\$ 71,081	\$ 21,613	\$ 188,403
Bonds and debentures.....	622,565	4,508	6,920	620,153
Other.....	8,065	-	56	8,009
	\$ 769,565	\$ 75,589	\$ 28,589	\$ 816,565

	Held-to-maturity securities			
	Book value (carrying amount)	Gross unrealized gains	Gross unrealized losses	(Estimated fair value)
March 31, 2001				
Bonds and debentures.....	\$ 37,492	\$ -	\$ 129	\$ 37,363
Other.....	8	-	-	8
	\$ 37,500	\$ -	\$ 129	\$ 37,371

At March 31, 2000, the book value and market value of marketable securities and investment securities, as to which market value information is available, were as follows:

	Millions of yen		
	Book value (carrying amount)	Market value	Unrealized gain(loss)
Marketable securities			
Equity securities.....	¥ 537	¥ 1,333	¥ 796
Bonds and debentures.....	4,339	4,309	(30)
Investment securities			
Equity securities.....	18,956	36,701	17,745
Bonds and debentures.....	27,434	27,663	229
	¥ 51,266	¥ 70,006	¥ 18,740

4. Inventories:

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Finished products.....	¥ 53,474	¥ 51,950	\$ 431,242
Semi-finished products and work in process.....	11,371	12,531	91,702
Raw materials and supplies.....	10,700	10,639	86,290
	¥ 75,545	¥ 75,120	\$ 609,234

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

Short-term bank loans are generally represented by 365-day notes with interest rates principally of 3.8% p.a. at March 31, 2001.

Long-term debt consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Loans principally from banks and insurance companies with interest rates ranging from 0.71% p.a. to 6.61% p.a. maturing serially until 2022		
Unsecured	¥15,002	\$120,984
1.8% yen unsecured bonds due 2003	15,000	120,968
1.8% yen unsecured bonds due 2003	5,000	40,323
1.8% yen convertible sinking fund debentures due 2003	13,957	112,556
1.0% yen convertible debentures due 2003	9,423	75,992
2.2% yen convertible debentures due 2002	14,873	119,944
Floating to fixed rate yen Euro medium term notes due March 4, 2003	3,000	24,194
2.27% yen Euro medium term notes due January 30, 2004	500	4,032
2.00% yen Euro medium term notes due February 7, 2003	2,000	16,129
Fixed and floating rate yen Euro medium term notes due March 27, 2002	1,000	8,064
Step-up rate yen Euro medium term notes due April 10, 2007	500	4,032
Floating rate yen Euro medium term notes due April 22, 2002	500	4,032
Floating rate yen Euro medium term notes due April 25, 2002	1,000	8,064
Step-up rate yen Euro medium term notes due June 11, 2007	600	4,839
Floating to fixed rate yen Euro medium term notes due June 18, 2004	3,000	24,194
Floating rate yen Euro medium term notes due June 24, 2002	2,000	16,129
Floating rate yen Euro medium term notes due June 25, 2002	400	3,226
	87,755	707,702
Current portion	(20,228)	(163,129)
	¥ 67,527	\$ 544,573

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 (\$13.74) 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 (\$12,097 thousand) every March 31 for the consecutive 6 years ending March 31, 2002. At March 31, 2001, investment securities with a net book value of ¥10,642 million (\$85,823 thousand), for which the 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 placing a limitation on the payment of cash dividends, relates, in part, to earnings of the Company. At March 31, 2001, the amount of retained earnings available for the payment of dividends was ¥126,542 million (\$1,020,500 thousand) under a provision of these indentures.

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 (\$8.61) per share.

The indentures under which the 1.0% yen convertible debentures due 2003 were issued placing a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 2001, the amount of retained earnings available for the payment of dividends was ¥91,899 million (\$741,121 thousand) under a provision of these indentures.

The 2.2% yen convertible debentures due March 29, 2002, which were issued in Japan in February 1995, can be purchased at any time in their entirety at the option of the Company or may be redeemed, at prices declining from 102% to 100% of their principal amount from April 1, 1999 until 2002. The debentures are convertible into common stock of the Company until March 28, 2002 at the conversion price of ¥1,036.0 (\$8.35) per share.

The indentures under which the 2.2% yen convertible debentures due 2002 were issued placing a limitation on the payment of cash dividends, related, in part, to earnings of the Company. At March 31, 2001, the amount of retained earnings available for the payment of dividends was ¥92,499 million (\$745,960 thousand) under a provision of these indentures.

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, 2001 at the current conversion prices would have been 31,386 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 fixed and floating rate yen Euro medium term notes due March 27, 2002, are as follows:

February 10, 1997 ~ March 26, 1997

1.00%

March 27, 1997 ~ March 26, 1998

4.85% - 10 YEAR JPY SWAP RATE (Not less than 0%)

March 27, 1998 ~ March 26, 1999

4.85% - 10 YEAR JPY SWAP RATE (Not less than 0%)

March 27, 1999 ~ March 26, 2000

4.85% - 7 YEAR JPY SWAP RATE (Not less than 0%)

March 27, 2000 ~ March 26, 2001

4.85% - 5 YEAR JPY SWAP RATE (Not less than 0%)

March 27, 2001 ~ Due date

4.85% - 3 YEAR JPY SWAP RATE (Not less than 0%)

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

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

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

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, 2001 for the respective years ending March 31 were as follows:

	Millions of yen	Thousands of U.S. dollars
2002.....	¥20,228	\$163,129
2003.....	35,503	286,315
2004.....	24,202	195,178
2005.....	5,312	42,838
2006.....	1,107	8,927
Thereafter.....	1,403	11,315
	¥87,755	\$707,702

6. Shareholders' equity:

The Japanese Commercial Code provides that a portion of retained earnings equal to at least 10% of cash distributions being paid out by means of appropriation of retained earnings with respect to each financial period be appropriated as a legal reserve until such reserve equals 25% of the common stock account.

This reserve is not available for dividends but may be capitalized by resolution of the Board of Directors or used to reduce a deficit by resolution of the shareholders. The legal reserve as of March 31, 2001 amounted to ¥6,392 million (\$51,548 thousand).

Under the Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be accounted for as common stock. The remainder is accounted for as additional paid-in capital.

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, 2001 and 2000.

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

	2001	2000
Normal cumulative tax rate.....	41.7%	41.7%
Largely loss by consolidated subsidiaries	6.4	2.4
Income tax rate per statement of income.....	48.1%	44.1%

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

(1) Current:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets			
Intercompany profits.....	¥ 1,500	¥ 1,397	\$ 12,097
Accrued enterprise taxes and other taxes.....	351	576	2,831
Accrued expenses.....	1,276	826	10,290
Other	2,253	1,032	18,169
Total deferred tax assets.....	5,380	3,831	43,387
Total deferred tax liabilities.....	25	70	202
Net deferred tax assets.....	¥ 5,355	¥ 3,761	\$ 43,185
Deferred tax liabilities			
Other.....	¥ 2	¥ 21	\$ 16
Net deferred tax liabilities.....	¥ 2	¥ 21	\$ 16

8. Retirement benefits:

Charges for the year ended March 31, 2000 amounted to ¥12,589 million, which included a special provision for retirement benefits by the Company amounting to ¥9,492 million.

The following tables set forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2001.

(2) Non-current:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets			
Accrued retirement benefits.....	¥ 7,778	¥ 6,792	\$ 62,726
Other	2,654	1,858	21,403
Total deferred tax assets.....	10,432	8,650	84,129
Deferred tax liabilities			
Deferred gain on sales of fixed assets to public sector.....	1,419	896	11,444
Special depreciation	286	248	2,306
Unrealized gain on revaluation of securities	2,404	-	19,387
Other	-	310	-
Total deferred tax liabilities.....	4,109	1,454	33,137
Net deferred tax assets.....	¥ 6,323	¥ 7,196	\$ 50,992

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax liabilities			
Depreciation.....	¥ 3,859	¥ 3,164	\$ 31,121
Net deferred tax liabilities.....	¥ 3,859	¥ 3,164	\$ 31,121

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

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Benefit obligation at end of year	(¥ 48,153)	(\$ 388,331)
Fair value of plan assets at end of year	21,958	177,081
Funded status:		
Benefit obligation in excess of plan assets	(26,195)	(211,250)
Unrecognized prior service cost	21	169
Unrecognized actuarial loss	1,829	14,750
Accrued pension liability recognized in the consolidation balance sheets	(¥ 24,345)	(\$ 196,331)

Accrued retirement benefits for Directors amounting to ¥991 million (\$7,992 thousand) are excluded from the above schedule.

Retirement and pension costs of the Companies for the year ended March 31, 2001 were as follows.

	Millions of yen		Thousands of U.S. dollars	
	2001	2001	2001	2001
Service cost	¥ 2,101		\$ 16,944	
Interest cost	1,315		10,604	
Expected return on plan assets	(639)		(5,153)	
Amortization:				
Transition obligation				
at date of adoption	7,504		60,516	
Prior service cost	5		40	
Actuarial losses	(3)		(24)	
Net periodic benefit costs	¥ 10,283		\$ 82,927	

Assumptions used in the accounting for the defined benefit plans for the year ended March 31, 2001 were 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:

Account	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Freight and storage	¥ 12,469	¥12,574	\$ 100,556	
Research and development	10,937	10,806	88,202	
Salaries and bonuses	15,630	16,990	126,048	

10. Research and development expenses:

Total research and development expenses for the years ended March 31, 2001 and 2000 amounted to ¥12,251 million (\$98,798 thousand) and ¥12,097 million, respectively.

11. Commitments and contingencies:

The companies were contingently liable with respect to discounted trade notes receivable. The amounts of notes discounted with recourse at banks at March 31, 2001 and 2000 were ¥1 million (\$8 thousand) and ¥16 million, respectively.

The Companies were contingently liable for guarantees, mainly for

bank loans of unconsolidated subsidiaries, affiliates, and others, of ¥854 million (\$6,887 thousand) and ¥944 million at March 31, 2001 and 2000, respectively.

The amount of guarantees includes that of letters of commitments of guarantees, letters of awareness, and other similar acts.

12. Leases:

(a) Financing Leases

Lease transactions as lessee:

Payment of fees for financing leases, whose ownership of the leased assets is not transferred to the lessee and which were not required to be capitalized for the years ended March 31, 2001 and 2000, were ¥480 million (\$3,871 thousand) and ¥533 million, respectively. Future lease payments, including amounts representing interest were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2001	2000	2001	2000
Due within one year	¥ 414	¥ 485	\$ 3,339	
Due later	553	623	4,459	
	¥ 967	¥ 1,108	\$ 7,798	

The leased assets were as follows:

Years ended March 31, 2001	Millions of yen			Thousands of U.S. dollars	
	Cost	Accumulated depreciation	Net	Cost	Net
Machinery and equipment ...	¥ 2,145	¥ 1,178	¥ 967	\$ 7,798	

Years ended March 31, 2000	Millions of yen		
	Cost	Accumulated depreciation	Net
Machinery and equipment	¥ 2,334	¥ 1,226	¥ 1,108
Other	5	5	0
	¥ 2,339	¥ 1,231	¥ 1,108

Lease transactions as 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	
	2001	2000	2001	2001
Due within one year	¥ 77	¥ 71	\$ 621	
Due later	145	48	1,169	
	¥ 222	¥ 119	\$ 1,790	

13. Derivative Financial Instruments:

Derivative financial instruments are utilized by the Companies principally to reduce interest rate and foreign exchange risks. The Companies have established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments.

The Companies do not hold or issue derivative financial instruments for trading purposes.

At March 31, 2001 and 2000, the forward foreign exchange contracts outstanding were as follows:

Millions of yen

	2001			2000		
	Notional amount	Market value	Unrealized gain(loss)	Notional amount	Market value	Unrealized gain(loss)
Forward foreign exchange contracts:						
Foreign currency sales	¥ -	¥ -	¥ -	¥ 1,763	¥ 1,765	(¥ 2)
Foreign currency purchases	¥ -	¥ -	¥ -	¥ 867	¥ 863	(¥ 4)

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, 2001.

At March 31, 2001 and 2000, outstanding interest rate swap agreements were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2001			2000			2001		
	Notional amount	Market value	Unrealized gain(loss)	Notional amount	Market value	Unrealized gain(loss)	Notional amount	Market value	Unrealized gain(loss)
Interest rate swap agreements:									
Fixed-rate into variable-rate obligation	¥ 1,700	¥ 32	¥ 32	¥ 27,900	¥ 370	¥ 370	\$ 13,710	\$ 258	\$ 258
Variable-rate into fixed-rate obligation	1,000	(16)	(16)	26,028	(598)	(598)	8,064	(129)	(129)
Variable-rate into variable-rate obligation	-	-	-	10,900	126	126	-	-	-
	¥ 2,700	¥ 16	¥ 16	¥ 64,828	(¥ 102)	(¥ 102)	\$ 21,774	\$ 129	\$ 129

At March 31, 2001, the amounts exclude certain swap agreements 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, nonwoven 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, 2001 and 2000 were as follows:

Net sales and Operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales to outside customers	Net sales intersegment	Net sales	Operating income	Net sales to outside customers	Net sales intersegment	Net sales	Operating income
<i>Year ended March 31, 2001</i>								
Fibers and textiles	¥ 90,822	¥ 858	¥ 91,680	¥ 1,720	\$ 732,436	\$ 6,919	\$ 739,355	\$ 13,871
Chemical products	151,007	2,091	153,098	12,715	1,217,798	16,863	1,234,661	102,540
Man-made leather, nonwoven fabrics and fastening materials...	31,641	239	31,880	2,028	255,170	1,928	257,098	16,355
Diversified businesses	40,181	15,858	56,039	3,359	324,040	127,887	451,927	27,089
Total	313,651	19,046	332,697	19,822	2,529,444	153,597	2,683,041	159,855
Eliminated on consolidation	-	(19,046)	(19,046)	109	-	(153,597)	(153,597)	879
Consolidated total	¥ 313,651	¥ -	¥ 313,651	¥ 19,931	\$ 2,529,444	\$ -	\$ 2,529,444	\$ 160,734
<i>Year ended March 31, 2000</i>								
Fibers and textiles	¥ 98,088	¥ 1,817	¥ 99,905	¥ 2,769				
Chemical products	144,435	2,592	147,027	12,160				
Man-made leather, nonwoven fabrics and fastening materials...	33,290	338	33,628	2,402				
Diversified businesses	40,631	18,636	59,267	3,629				
Total	316,444	23,383	339,827	20,960				
Eliminated on consolidation	-	(23,383)	(23,383)	(639)				
Consolidated total	¥ 316,444	¥ -	¥ 316,444	¥ 20,321				

Identifiable assets, Capital expenditure and Depreciation and amortization

	Millions of yen			Thousands of U.S. dollars		
	Identifiable assets	Capital expenditure	Depreciation and amortization	Identifiable assets	Capital expenditure	Depreciation and amortization
<i>Year ended March 31, 2001</i>						
Fibers and textiles	¥ 73,841	¥ 2,722	¥ 3,246	\$ 595,492	\$ 21,952	\$ 26,177
Chemical products	162,677	9,439	9,576	1,311,911	76,121	77,226
Man-made leather, nonwoven fabrics and fastening materials	35,231	1,556	2,241	284,121	12,548	18,073
Diversified businesses	58,304	2,097	1,530	470,194	16,911	12,339
Total	330,053	15,814	16,593	2,661,718	127,532	133,815
Eliminated on consolidation and corporate	182,426	-	-	1,471,177	-	-
Consolidated total	¥ 512,479	¥ 15,814	¥ 16,593	\$ 4,132,895	\$ 127,532	\$ 133,815
<i>Year ended March 31, 2000</i>						
Fibers and textiles	¥ 78,511	¥ 2,965	¥ 3,406			
Chemical products	147,081	9,529	9,327			
Man-made leather, nonwoven fabrics and fastening materials	36,830	1,524	2,503			
Diversified businesses	58,278	5,746	1,533			
Total	320,700	19,764	16,769			
Eliminated on consolidation and corporate	183,066	-	-			
Consolidated total	¥ 503,766	¥ 19,764	¥ 16,769			

A summary of net sales, operating income and identifiable assets by geographic segments for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen				
	Net sales to outside customers	Net sales intersegment	Net sales	Operating income	Identifiable Assets
<i>Year ended March 31, 2001</i>					
Domestic (inside Japan)	¥ 276,113	¥ 20,231	¥ 296,344	¥ 17,674	¥ 278,770
Outside Japan	37,538	3,831	41,369	2,108	55,300
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
<i>Year ended March 31, 2000</i>					
Domestic (inside Japan)	¥ 283,491	¥ 20,436	¥ 303,927	¥ 17,862	¥ 276,542
Outside Japan	32,953	3,818	36,771	2,580	47,462
Total	316,444	24,254	340,698	20,442	324,004
Eliminated on consolidation and corporate	-	(24,254)	(24,254)	(121)	179,762
Consolidated total	¥ 316,444	¥ -	¥ 316,444	¥ 20,321	¥ 503,766

	Thousands of U.S. dollars				
	Net sales to outside customers	Net sales intersegment	Net sales	Operating income	Identifiable Assets
<i>Year ended March 31, 2001</i>					
Domestic (inside Japan)	\$ 2,226,718	\$ 163,153	\$ 2,389,871	\$ 142,532	\$ 2,248,145
Outside Japan	302,726	30,895	333,621	17,000	445,968
Total	2,529,444	194,048	2,723,492	159,532	2,694,113
Eliminated on consolidation and corporate	-	(194,048)	(194,048)	1,202	1,438,782
Consolidated total	\$ 2,529,444	\$ -	\$ 2,529,444	\$ 160,734	\$ 4,132,895

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, 2001 and 2000 totaled ¥86,325 million (\$696,169 thousand) and ¥82,192 million, respectively, and accounted for 28% and 26% of consolidated net sales, respectively.

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, 2001 were approved by the shareholders on June 28, 2001.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.50(\$0.04) per share	¥ 1,723	\$ 13,895
Transfer to legal reserve	178	1,435
Bonuses to directors and statutory auditors	55	444

The above year-end cash dividends per share and interim cash dividends of ¥4.50 (\$0.04) per share paid in December 2000 made a total annual cash dividend of ¥9.00 (\$0.07) per share.

Report of Independent Accountants

Kuraray Co., Ltd. and Consolidated Subsidiaries



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

June 28, 2001

To the Board of Directors and Shareholders
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, 2001 and 2000, and the results of their operations and their cash flows for the year 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 statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 2 (f), (g), (j), (k) 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.

As discussed in Notes 2(f) and (g) to the financial statements, the Company changed its amortization method for past service liability related to the contributory pension plan and the method of accounting for foreign translation adjustments during the year ended March 31, 2000.

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

A handwritten signature in cursive script, appearing to read "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.

Corporate Data

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: 26,836

(as of March 31, 2001)

Transfer Agent

The Sumitomo Trust and Banking Co., Ltd.

Stock Transfer Agency Department

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

TEL. 81-6-6833-4700

Offices, Laboratories, Plants

Head Offices: Osaka, Tokyo

Offices: Nagoya, Fukui, Fukuoka, Sapporo, Sendai

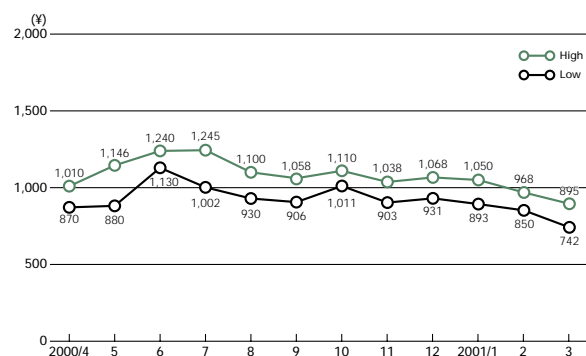
Laboratories: Kurashiki, Tsukuba

Plants: Kurashiki, Saijo, Okayama, Nakajo, Kashima

Principal Shareholders

Principal Shareholders	Number of Shares Held (thousand)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd.(Trust Account)	30,922	8.08%
The Mitsubishi Trust and Banking Corporation (Trust Account)	22,861	5.97%
Nippon Life Insurance Co.	12,737	3.33%
The Industrial Bank of Japan, Ltd.	12,616	3.30%
The Toyo Trust and Banking Co., Ltd. (Trust Account)	9,655	2.52%
Nippon Life Insurance Co. (Separate Account)	8,798	2.30%
The Meiji Mutual Life Insurance Co.	8,066	2.11%
The Dai-ichi Mutual Life Insurance Co.	7,652	2.00%
The Dai-ichi Mutual Life Insurance Co. (Separate Account)	7,371	1.93%
The Fuji Bank, Ltd.	6,984	1.82%

Share Price Movement



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



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