



# ANNUAL REPORT 2000

For the year ended March 31, 2000



KURARAY CO., LTD.

# 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 businesses, including the polyvinyl alcohol fiber "KURALON," the polyvinyl alcohol resin poval, the ethylene-vinyl alcohol copolymer "EVAL," the man-made leather "Clarino," 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 80 companies with approximately 10,000 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.*

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## Forward-Looking Statements

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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 US., Europe and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the US. 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 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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In this annual report, the names enclosed in double quotation marks are brand names.

# Financial Highlights

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000, 1999 and 1998	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Net sales.....	<b>¥316,444</b>	¥336,466	¥347,643	<b>\$2,985,321</b>
Net income .....	<b>7,452</b>	13,171	13,962	<b>70,302</b>
Total assets .....	<b>503,766</b>	487,991	478,861	<b>4,752,509</b>
Total shareholders' equity.....	<b>282,755</b>	259,909	233,494	<b>2,667,500</b>
Amounts per share:		Yen		U.S. dollars
Net income				
Primary .....	<b>¥20.00</b>	¥36.83	¥40.46	<b>\$0.19</b>
Fully diluted .....	<b>19.42</b>	34.56	37.68	<b>0.18</b>
Cash dividends applicable to period.....	<b>9.00</b>	9.00	9.00	<b>0.08</b>
Financial ratios:				
Equity ratio (%) .....	<b>56.1</b>	53.3	48.8	
Return on equity (%).....	<b>2.7</b>	5.3	6.3	
Payout ratio (%).....	<b>45.4</b>	24.5	22.2	
Number of employees .....	<b>7,433</b>	6,823	7,809	

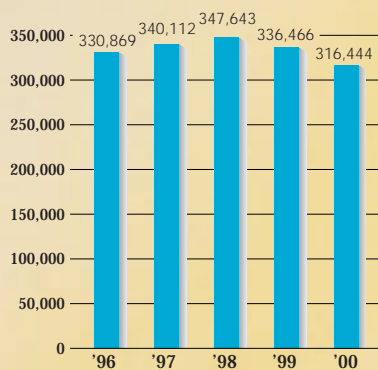
Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥106=\$1.

As discussed in Notes 2(g) to the financial statements, the Company changed its amortization method for past service liability related to the contributory pension plan during the year ended March 31, 2000. This change resulted in recording of a "Special provision for retirement benefits" in the amount of ¥9,492 million (\$89,547 thousand) and reduced net income by ¥5,297 million (\$49,972 thousand).

As discussed in Notes 2(h) to the financial statements, the Company changed the method of accounting for foreign translation adjustments during the year ended March 31, 2000. This change reduced total shareholders' equity by ¥4,496 million (\$42,415 thousand).

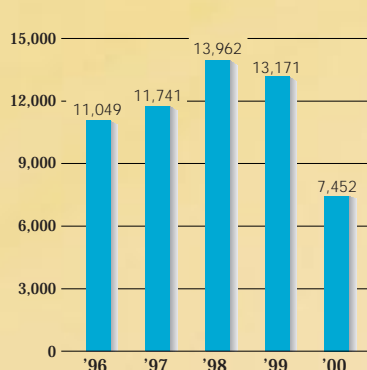
## Net Sales

(Millions of Yen)



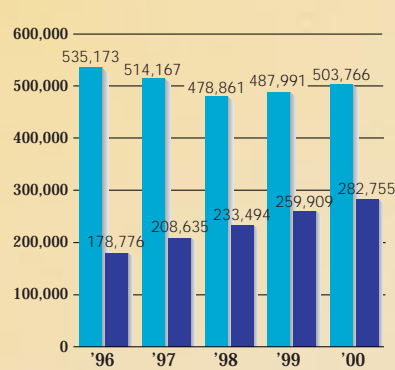
## Net Income

(Millions of Yen)



## Total Assets & Total Shareholders' Equity

(Millions of Yen)



# Management Review of Fiscal 1999



Hiroto Matsuo  
Chairman

Yasuaki Wakui  
President

## Basic Management Policy

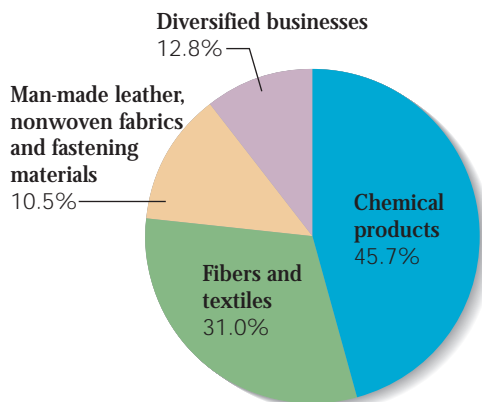
Kuraray aims to maximize its corporate value as a unique chemical enterprise that can operate around the world, and it intends to become an enterprise to be supported and favored by all stakeholders, including stockholders, employees and clients and all acquaintances in the local community. As the managerial strategy to attain these goals, the Company formulated its Fourth Five-year Medium-Term Management Plan and has relied on it as the basis of management since fiscal 1996. Under this plan, the Company has been promoting as priority measures: (1) reinforcement of corporate strength; (2)

creation of new business; and (3) buildup of an efficient management system. While maintaining a sound financial structure, based on this management strategy, the Company will strive to expand its corporate scale and implement business operations in harmony with the community and environment.

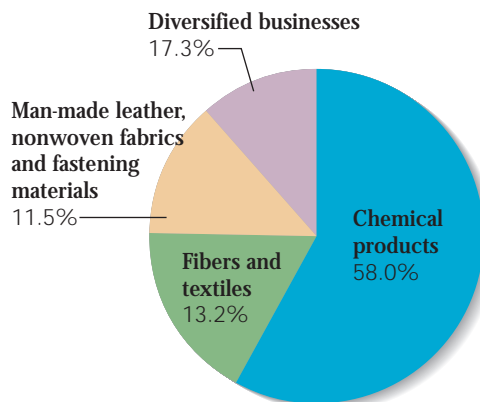
## General State of the Company during the Year under Review

While the pace of domestic business recovery remained slow, the yen appreciated rapidly, and raw materials and fuel costs rose, causing a continuation of the harsh business environment. Amid this state of affairs, we undertook to minimize profit declines through sales expansion of our products, centered on unique materials, and through cost reductions. Sales, however, totaled ¥316,444 million (US\$2,985.3 million), a decline of 6.0% from the previous year, and operating income was ¥20,321 million (US\$191.7 million), down 25.1%. Net income was ¥7,452 million (US\$70.3 million), a decline of 43.4%, as a result of the implementation of various steps, including the package write-off of past work service expenses related to non-consolidated retirement pensions (¥9,492 million).

Net Sales by Segment



Operating Income by Segment





Based on these business achievements, we decided to pay a dividend of ¥9 per share for the term under review.

### Principal Activities during the Year

Under the Fourth Medium-Term Management Plan, we executed new investment in core businesses. During the period, newly installed facilities got off to a smooth start. In Singapore, a poval production plant (productive capacity: 40,000 tons/year) under Poval Asia Pte Ltd, a joint venture with The Nippon Synthetic Chemical Industry Co., Ltd., began operation. In Belgium, production of the EVOH resin “EVAL” was started in a new plant (productive capacity: 10,000 tons/year) at EVAL Europe N.V. In Japan, we completed new thermoplastic elastomer facilities, putting in place capacity for yearly elastomer production of 19,000 tons. Further, a semi-commercial plant of new, heat-resistant resin PA9T started up. Hereafter, the Company will be united in its efforts to make existing plant and equipment investment reflected in our business achievements as soon as possible. Kuraray has decided to withdraw from rayon production as of March 31, 2001. Activities that offer no prospect of profitability now or in the future will be subject to review. In some cases, this process will lead to Kuraray’s withdrawal from certain areas of activity.

### Consideration to Local Society and Environment

Based on the recognition that consideration to the local community and environment is also the foundation of corporate activity, we are striving to curtail environment-polluting substances and to develop products that will contribute to the environment. At the same time, we intend to implement plant and equipment investment to promote thermal recycling of waste plastics, thereby contributing to

the buildup of a recycling-type social system. With regard to environmental issues, we have participated in responsible care activities since times in the movement, and as part of such activities, we have obtained certification under ISO14001, the international standard for environment-related management systems, for the Kashima Plant, Okayama Plant and Nakajo Plant. Regarding the rest of our plants, we plan to gain certification by the end of 2000.

### Outlook for the Current Term

Looking ahead at the Company’s business performance for the current fiscal year, we will exert utmost efforts to register sales of ¥335,000 million and operating income of ¥25,000 million, based on the premise that domestic business recovery will occur in the second half of the fiscal year and that overseas business will remain flat, despite some apprehensions about business decline in the U.S. Net income is expected to be ¥9,000 million, owing to the package write-off of non-accumulated retirement allowance obligations (¥9,500 million).

Finally, we request the continued understanding and support of our shareholders in the years to come.



Hiroto Matsuo  
*Chairman*



Yasuaki Wakui  
*President*

# Interview with the President

## 1. Introduction of the New President

*Please express your aspirations on the occasion of your assuming the office of the president.*

Wakui: The speed of changes in the corporate environment, including the IT revolution, is accelerating rapidly. It is amid such rigorous times, that I have the honor of assuming the presidency. If our company is to attain further development as a 'unique chemical enterprise,' it is important for us to be free of existing ideas from the past and to carry out 'reform' that matches the situation of the times.

*Would you tell us a little bit about yourself and your career?*

Wakui: I feel I am the type to hurry to the conclusion. I have long been in the personnel management sector, and I have striven for the reform of the personnel management system. When I served as the general manager of the Public Relations Department, I frequently contacted the press, analysts and fund managers. Although I have no marketing and sales experience, I am confident that I have no less market-

ing and sales sense than others. My leisure interests include shopping for foods with my wife.

*What are the 'corporate colors' of Kuraray, and the corporate image to be created, seen from the standpoint of the president?*



Wakui: Our company has many theoretical persons with excellent analytical abilities. Hereafter, I would like to create a freer and more generous corporate culture than before, with a suitable degree

of tension. I would like to make Kuraray an enterprise in which employees can have pride, and whose social evaluation is high.

## 2. Implementation of the Fourth Medium-Term Management Plan over the latest and current terms, and outlook for its implementation results

*The Fourth Medium-Term Management Plan will terminate at the end of this term. What is your evaluation of its results?*

Wakui: We were scheduled to carry out plant and equip-

ment investment of about ¥110,000 million in the five years from fiscal 1996, and about 70% of the sum is being used for the growth of our core businesses. The development of our core businesses has been going as planned, and we have executed business growth through concentrated investment nearly as planned. Namely, we carried out new equipment buildup or expansion in all of the five core businesses-"KURALON" and "KURALON K-II," Poval, "EVAL," Isoprene chemicals and "Clarino"- and we will begin reaping the benefits of these businesses from now on. These businesses involve many products that enjoy the highest share in their world markets, and it was a great achievement that overseas business development was put on the right track.

***Q But operations posted declines in both sales and net income during fiscal 1999. Why?***

Wakui: Regarding fiscal 1999, declines in selling prices, due to deflationary effects, were coupled with a sharp appreciation of the yen and higher raw materials costs, to cause, quite regrettably, lower sales as well as smaller net income. Major factors were the unfavorable effect of



the yen's appreciation on "Clarino" and the sales price reduction of agrochemical/vitamin intermediates. Other businesses proceeded steadily. It cannot be denied that our business achievements lag behind overall business recovery, but I am sure that the bottom was reached in fiscal 1999.

***Q Do you think that business performance will recover in fiscal 2000?***

Wakui: During the current fiscal year, facilities that we newly installed or expanded during fiscal 1999 will contribute to our earnings improvement.

Additionally, due to a turnaround to growth for our acrylic business, our chemical products will improve, and their sales and earnings are expected to rise. As for "Clarino," we have introduced new products for interiors, and their sales areas are expanding.

We would like to attain an increase in net income in this fiscal year, although this greatly depends on the tempo of overall business recovery in the future.

### ■ 3. Medium-Range Vision in the Future

#### *What is the medium- to long-term outlook for core businesses?*

Wakui: Our core businesses are developing smoothly. Demand for “EVAL,” which grew substantially as food packaging materials, is expanding in its new applications such as gasoline tanks and beer bottles. We are also looking forward to the future growth of thermoplastic elastomer and pharmaceutical intermediates.

#### *What kinds of new business undertakings are taking place now?*

Wakui: There are some business undertakings whose ‘seeds’ were sown during the present Medium-Term Management Plan and whose ‘buds’ have already appeared. Even in the case of new business undertakings, of course we do not conduct any business that will deviate from our core technologies and know-how. For instance, precise molding technology, which we cultivated in the field of acrylic product development, is bearing fruits in the production of optical materials. We plan to strengthen resin and resin-processed products related to electronic and information fields, including the aforementioned realms. Promising products are also appearing in the environment-related sector.



#### *Finally, preparation of the next Medium-Term Management Plan will be your first task. Please tell us about your aspirations in that regard.*

Wakui: Certainly the next Medium-Term Management Plan will be my first task, and it is a great task. Based on the present Medium-Term Management Plan, reinforcement of our business foundation was pursued through

‘selection and concentration’ under the leadership of Chairman Matsuo. The unfavorable influence of the business recession was serious, but we did exactly what we needed to do, as stated just now.

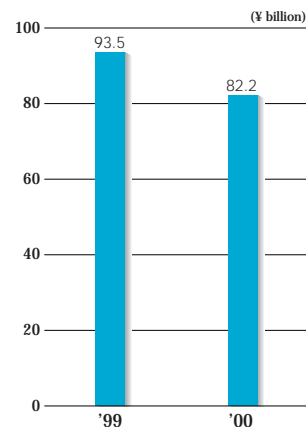
Regarding the next Medium-Term Management Plan, clarification of the direction for our future progress and the corporate image to be aimed at, and preparation of managerial and business strategies for these purposes, are more important than specific target figures. I would like to clarify the stance we should take in increasingly borderless chemical industry circles under the new Medium-Term Management Plan. It will also be my responsibility to harvest the crops to be realized under the current Fourth Medium-Term Management Plan in aiming to broaden our business sphere.



# Global Development

Kuraray is pushing for global business development in which products that can compete in world markets will be created, and in which production, sales and development will be carried out in the most suitable places in the world. Centered on core businesses, including the operations of poval, the EVOH resin "EVAL" and the man-made leather "Clarino," whose overseas demand is growing, we are striving to improve overseas bases and promoting operational expansion, centered on our four key geographic areas—Japan, the U.S., Europe and Asia. Management localization is essential from the viewpoint of global management strategy. For this reason, local people are now being appointed to senior positions in major subsidiaries, and tactics are being tailored to local conditions in each region.

Foreign Sales



## OVERSEAS NETWORK:

### KURARAY EUROPE GMBH

As our strategic base in Europe, this company sells Kuraray products, and provides information gathering and technical services.

### HARU-KURARAY GMBH

Imports and sells man-made leather for clothing and interior goods applications in Europe, and conducts information gathering.

### EVAL COMPANY OF AMERICA

Demand for the EVOH resin "EVAL" is particularly high as a food packaging material, and since its establishment, this company has carried out successive increases in production capacity.

### KURARAY SINGAPORE PTE., LTD.

As our strategic base in Southeast Asia, this company develops new markets for our products, centered on chemical products, and conducts information gathering.

### POVAL ASIA PTE LTD

This production company was established in a joint venture with The Nippon Synthetic Chemical Industry Co., Ltd. to meet growing demand for poval resin.

### EVAL EUROPE N.V.

The European production and sales company for "EVAL" resin, which is mainly used as a food packaging material.

### KURARAY SPECIALITIES ASIA PTE., LTD.

This company is responsible for selling the poval resin produced by Poval Asia Pte Ltd and for providing technical services.

### KURARAY HONG KONG CO., LTD.

This company is responsible for marketing activities in China and Southeast Asia, as well as local processing and sales of Kuraray products such as man-made leather. It is continuing to develop the East Asian market, which has large growth potential.

### KURARAY AMERICA, INC.

This company conducts sales of Kuraray products, market development, and information gathering.

### CLARINO AMERICA CORPORATION

This company is responsible for the local processing and sales of man-made leather in the U.S. In particular, by utilizing the special properties of "Clarino," it works to expand sales for a wide variety of applications.

### Europe

Production of the EVOH resin “EVAL” by EVAL Europe N.V. began in Belgium in September 1999. The plant has a production capacity of 10,000 tons a year, and it will contribute toward expansion of “EVAL” business in Europe. As for man-made leather “Clarino,” the Company invested in Loric Sud S.r.l. in Italy in March 2000, thereby securing a processing and sales base in Italy. Car seats and other interior uses were developed as an effort for expansion, while sales offensives were launched in the Spanish, French and Italian markets.

With regard to Kuraray’s dental materials business, known for the excellent quality of its products, Kuraray reviewed its sales networks and strengthened agency functions by turning Kuraray Europe GmbH into its general agent in Europe. In addition, sales of new products—the new synthetic fiber “KURALON K-II” and the thermoplastic elastomer “SEPTON” entered into the full-fledged marketing stage, and efforts were exerted for their sales expansion.

### North America

EVAL Company of America’s “EVAL” sales in the U.S. grew, centered on gasoline tank and food packaging material applications. However, exports to Europe fell as the European plant of EVAL Europe N.V. was put into operation. As in Europe, the sales network was reviewed with regard to dental materials, and the agency function was reinforced by making Kuraray America, Inc. the general agency in the U.S. In addition, sales of the thermoplastic elastomer “SEPTON” and screens for projection TV grew steadily.

### Asia

In April 1999, the poval production plant of Poval Asia Pte Ltd, a joint venture with The Nippon Synthetic Chemical Industry Co., Ltd., was put into operation in Singapore. This plant, with a yearly production capacity of 40,000 tons, has continued high-level operations since then. Poval manufactured by Poval Asia is distributed favorably through Kuraray Specialities Asia Pte., Ltd., its sales company. Kuraray Hong Kong Co., Ltd., meanwhile, is vigorously pushing for distribution and market cultivation for Kuraray products, centered on man-made leather products, in China and Southeast Asia.

*The Office of Kuraray Europe GmbH*



*The Laboratory of Kuraray Europe GmbH*

## Europe



*The Plant of EVAL Europe N.V.*

*Kuraray America, Inc.*



*Operation Room of EVAL Company of America*



*The Office of Kuraray America, Inc.*

## North America

## Asia

*Poval Asia Pte Ltd*



*Staff of Kuraray Specialities Asia Pte., Ltd.*



*Kuraray Hong Kong Co., Ltd.*

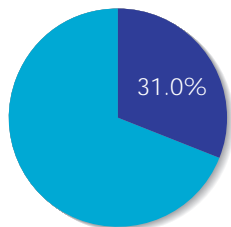


*The Office of Kuraray Hong Kong Co., Ltd.*



# Review of Operations

Net Sales



## Fibers and Textiles

Performance of Fibers and Textiles

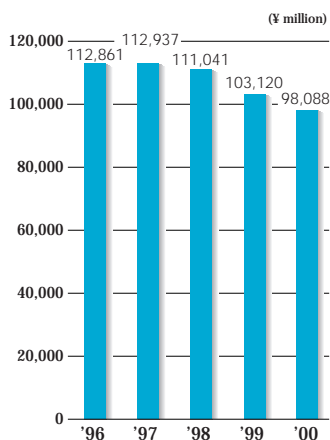
(¥ million)

	2000	1999	1998	1997	1996
Net Sales	¥98,088	¥103,120	¥111,041	¥112,937	¥112,861
Operating Income	2,769	2,686	3,768	3,790	2,785

### Report on the year under review

In the polyester area, we strove to expand the sales of specific value-added items such as the EVOH fiber “SOPHISTA” and other segmented items, under a unique segmentation strategy. Furthermore, multilayer, hollow materials, formaldehyde-adsorption materials and other unique new products were introduced to the market one after another.

Polyvinyl alcohol fiber “KURALON” fared well in its FRC (fiber reinforced cement) application as a replacement for asbestos and as a rubber reinforcement, although its sales in the form of agricultural- and fishing-use products stagnated. “KURALON K-II,” a new type of synthetic fiber, sold steadily as FRC and process auxiliaries.



### MAJOR PRODUCTS:



#### “KURALON” (polyvinyl alcohol fibers)

Synthetic fiber was commercialized by Kuraray for the first time in the world. It features great strength, considerable hydrophilic properties and excellent weather resistance, so it is used in various kinds of industrial materials.

#### [Applications]

- Materials for agriculture and fisheries, cement reinforcement materials, etc.



#### Polyester

Fiber used in a variety of high-added-value materials based on advanced techniques. It is used in a wide spectrum of products, ranging from clothing and industrial materials to household goods.

#### [Applications]

- Fabrics and knitted textiles for clothes, carpets and other interior goods, civil engineering materials and other items



#### Rayon

Chemical fiber derived from natural pulp. It is characterized by a natural touch, rich draping properties and excellent coloring.

#### [Applications]

- High-class lining and surface cloth for apparel, embroidery threads



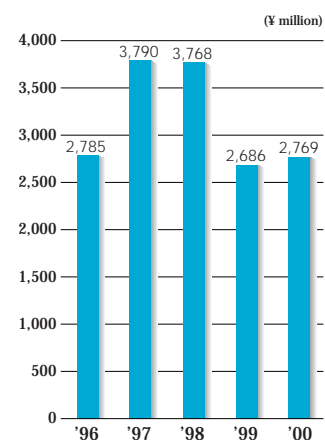
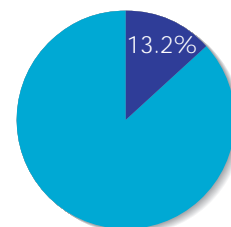
## Outline

Kuraray's fiber business is centered around rayon, the chemical fiber that started the Company, "KURALON," which pioneered the Japanese synthetic fiber industry and is now used in a broad variety of industrial materials, and polyester, which has applications in industrial and household goods, such as use in apparel. In 1998, the Company commenced the mass production of "KURALON K-II," a new type of synthetic fiber manufactured by a unique production method.

Rayon demand declined both in Japan and abroad, and a deficit was recorded as a result. Because little future prospects can be seen for rayon, the Company decided to terminate those operations in March 2001. Meanwhile, the garment business in manufacturing bases in Southeast Asia was in good shape, with increased sales recorded as a consequence.

As a result, sales of fibers and textiles amounted to ¥98,088 million (US\$925.4 million), a decline of 4.9% from the preceding year. Operating income was ¥2,769 million (US\$26.1 million), up 3.1%.

## Operating Income



### "KURALON K-II" (new synthetic fiber)

Highly functional fiber, featuring high strength, water-solubility at a low temperature and easy splittability. Market cultivation is proceeding in Japan and abroad.

#### [Applications]

- Cement reinforcement materials, woven and knitted textiles for clothing use, hygienic materials



### EVOH fiber "SOPHISTA"

Excellent properties include high absorption, temperature releasing and fast-drying characteristics. Its use in sportswear, underwear and a variety of other products is being actively promoted.

#### [Applications]

- Sports/underwear, women's outerwear, uniforms



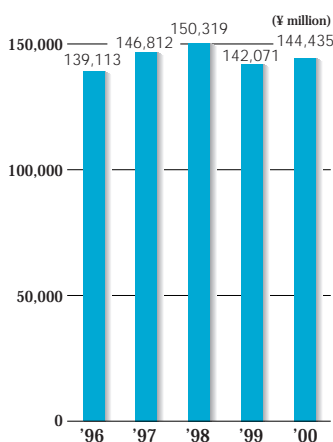
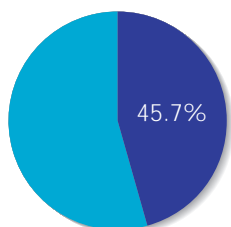
### Antibacterial deodorizing fiber

Fiber that displays deodorant effects and anti-bacterial effects when it reacts to light. Its use in carpets and other household goods is being actively promoted.

#### [Applications]

- Household goods, such as carpets and curtains, clothing, etc.

Net Sales



## Chemical Products

Performance of Chemical Products

(¥ million)

	2000	1999	1998	1997	1996
Net Sales	¥144,435	¥142,071	¥150,319	¥146,812	¥139,113
Operating Income	12,160	16,501	16,540	14,884	14,555

### Report on the year under review

Sales of poval products for use as polyvinyl butyral safety glass interlayer for automobiles in Japan and poval films for liquid crystal display units remained at high levels. Similarly, the production plant in Singapore (Poval Asia Pte Ltd) started up smoothly. We also exerted efforts to cultivate a market for “EXCEVAL,” a newly developed water-soluble resin.

“EVAL” showed excellent performance, particularly in food packaging material and gasoline tank applications. An “EVAL” gasoline tank was adopted by Honda Motor Co., Ltd. for the first time in Japan. In Belgium, a new plant (EVAL Europe N.V.) was put into operation to consummate the establishment of the tri-polar production setup of Japan, the U.S. and Europe.

Among methacrylic resin products, screens for projection TV use continued

### MAJOR PRODUCTS:



#### Poval resin (Polyvinyl alcohol resin)

With features such as water-solubility, adhesiveness and easy emulsification, this resin is used widely in areas ranging from textile processing agents to LCD films.

#### [Applications]

- Adhesive agents, textile/paper-processing agents, polyvinyl butyral safety glass interlayer for automobiles, etc.



#### EVOH resin “EVAL”

Functional resin that has a high-level gas barrier property. It is widely used in the fields of food packaging materials and gasoline tank materials.

#### [Applications]

- Food packaging material, gasoline tank materials, floor-heating pipe materials



#### Methacrylic resin

Excellent transparency and weather resistance. Used in various kinds of building materials, displays, projection TV screens and other products.

#### [Applications]

- Building materials, automotive parts, lighting equipment, optical screens, etc.

## Outline

Kuraray has business operations in a wide range of products, including poval, a water-soluble resin the Company led the world in commercializing, "EVAL," an ethylene-vinyl alcohol copolymer with superior gas-barrier properties, methacrylic resin featuring outstanding transparency, activated carbon, resin-processed products, and isoprene chemical products such as thermoplastic elastomers, aromachemicals, ingredients for cosmetics, and pharmaceutical and agrochemical intermediates.

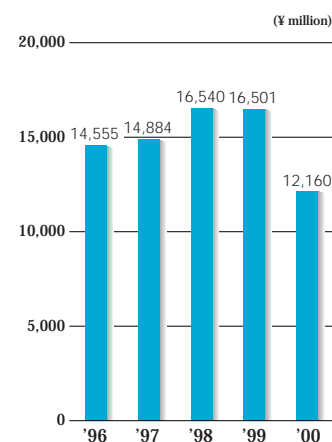
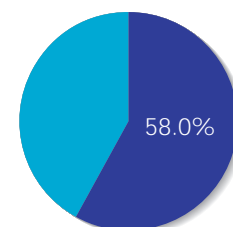
to sell well. The resin itself registered higher sales, in part due to price increases, causing improvement of profitability.

In the field of isoprene products, "SEPTON" and "HYBRAR"-both thermoplastic elastomers whose annual production capacity was raised to 19,000 tons through additional equipment installation-attained steady sales growth.

Regarding other major chemical products, sales of activated carbon decreased, while related earnings leveled off. Although processed resin products posted reduced sales, higher net income was recorded.

As a result of the above, sales of chemical products totaled ¥144,435 million (US\$1,362.6 million), an increase of 1.7%. Operating income was ¥12,160 million (US\$114.7 million), down 26.3%.

## Operating Income



### Isoprene chemical products

Isoprene-based products with a wide range of applications, ranging from thermoplastic elastomer to pharmaceutical and agrochemical intermediates.

#### [Applications]

- Rubber materials, plastic modifiers, pharmaceutical and agrochemical intermediates, etc.



### Activated carbon

With the ability to remove or adsorb odor and stains, this product has diversified applications, ranging from water purification equipment to tobacco filters.

#### [Applications]

- Various kinds of activated carbon, activated carbon-related equipment



### Resin-processed products

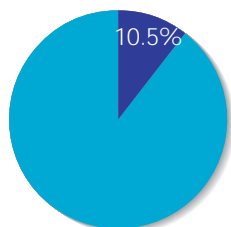
Products based on processing/molding techniques for plastics and rubber. Merits for hoses and other items.

#### [Applications]

- Various kinds of hoses, laminated products, etc.

## Man-made Leather, Nonwoven Fabrics and Fastening Materials

Net Sales



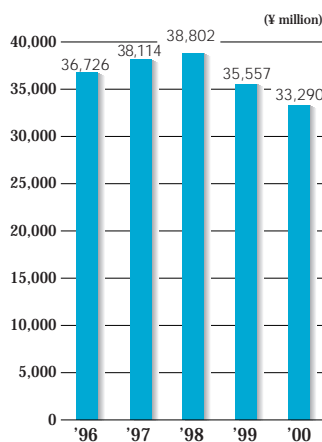
Performance of Man-made Leather, Nonwoven Fabrics and Fastening Materials (¥ million)

	2000	1999	1998	1997	1996
Net Sales	¥33,290	¥35,557	¥38,802	¥38,114	¥36,726
Operating Income	2,402	4,650	5,454	5,060	4,709

### Report on the year under review

Declines in both sales and earnings were recorded in the “Clarino” operation, because of the adverse effects of the yen’s appreciation and also because of a falloff in sales of suede for apparel use to Europe. Even so, nubuck-type products were adopted by Gold Pfeil GmbH, a German high-class leather product manufacturer, so that we were able to expand our sales area in the high-class apparel sector. We also invested in Lorica Sud S.r.l., an Italian man-made leather processing and sales company, thereby securing a processing base in Italy. In addition, we conducted vigorous marketing in Spain, France, etc., steadily executing our market expansion strategy in Europe.

In the field of nonwoven fabrics, business-use dusting cloths made of “Kuraflex,” dry-laid nonwoven fabric, showed excellent sales performance.



### MAJOR PRODUCTS:



#### Man-made leather “Clarino”

Because of its many features, such as great strength and light weight, “Clarino” has been extensively used in the fields of shoes, bags and clothing.

#### [Applications]

- Shoes, bags, sports articles, high-class clothing, car sheets, etc.



#### Man-made leather “Sofrina”

High-quality man-made leather developed using micro-level technology. Its application is being vigorously expanded to top-fashion apparel, interior goods and other sophisticated products.

#### [Applications]

- High-class coats, jackets, interior, etc.



#### Dry-laid nonwoven fabric “Kuraflex”

Excellent water absorption, air permeability and flexibility. This nonwoven fabric has a variety of applications, such as wipers, other household articles and hygienic materials.

#### [Applications]

- Wipers, filters, industrial masks, disposable diapers, etc.



## Outline

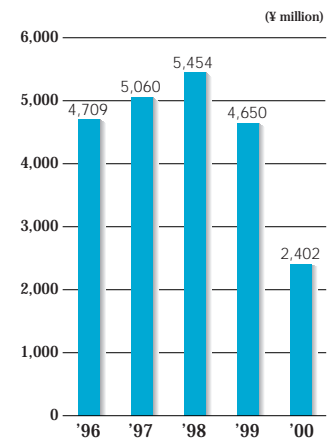
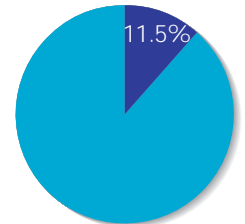
“Clarino” is a world-leading man-made leather extensively used in shoes, bags, apparel, and interior goods. Kuraray’s nonwoven fabrics, which combine the characteristics of both fabric and paper, enjoy a wide variety of applications ranging from the household to the medical sphere. In hook and loop fasteners, which shut tight with just a light touch, the Company has the largest share of the domestic market.

As for melt-blown nonwoven fabrics, we aggressively tackled the development of new applications.

In the fastening business, meanwhile, shipment of “Freemagic” functional hook and loop fasteners expanded, centered on clothing. As a result, nonwoven fabrics and fastening material operations posted slightly increased sales and a leveling of earnings.

Sales of man-made leather, nonwoven fabrics and fastening materials were ¥33,290 million (US\$314.1 million), a fall of 6.4% from the previous year, and operating income stood at ¥2,402 million (US\$22.7 million), a decline of 48.3%.

## Operating Income



### Melt-blown nonwoven fabrics

Nonwoven fabric, made from super-fine fibers based on the melt/blowing method, enjoys a wide variety of applications, including food packing materials and other items, thanks to its excellent filtering functions.

#### [Applications]

- Coffee bags, food packing materials, industrial dust cloths, etc.



### Hook and loop fasteners

Featuring the function of fastening tightly with just a light touch, it is widely used in gloves, shoes and medical articles.

#### [Applications]

- Shoes, automobile sheets, building materials, clothing fasteners



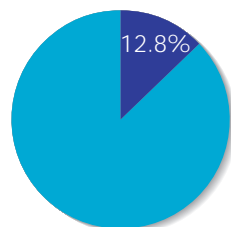
### New hook and loop fasteners “Freemagic”

An epoch-making product in which the hook face and the loop face are intermixed on a single tape. Its applications are spreading in the realms of clothing and nursery care articles.

#### [Applications]

- Fastening units for use in sports articles, care goods and clothing items

Net Sales



## Diversified Businesses

Performance of Diversified Businesses

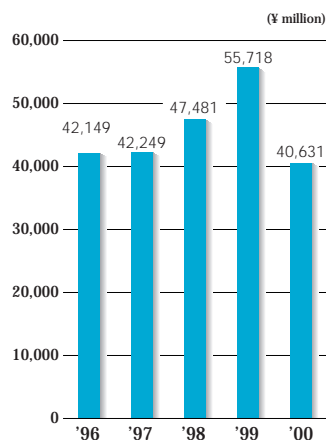
(¥ million)

	2000	1999	1998	1997	1996
Net Sales	¥40,631	¥55,718	¥47,481	¥42,249	¥42,149
Operating Income	3,629	3,512	3,482	2,461	3,757

### Report on the year under review

Although contact lenses suffered from price declines due to fiercer competition with disposable lenses, overall medical product operations maintained the same earnings level as the previous year, despite declining sales. The primary reason was the sales expansion of dental materials, whose overseas sales grew smoothly. We reviewed our overseas sales network and made our local subsidiaries-Kuraray America, Inc. in the U.S. and Kuraray Europe GmbH in Germany-our general agencies for their respective regions, with reinforced agency functions.

In the membranes sector, we earnestly tried to expand our business by selling PVA membranes, which have superior solvent resistance, and PVA-coated



### MAJOR PRODUCTS:



#### Dental materials

High-performance adhesives, fillers and other dental materials for beautiful repair of teeth. Due to their excellent functions, these products have obtained high market evaluation.

#### [Applications]

- Dental fillers and adhesives, hard resin for dental crowns



#### Contact lenses

Both hard and soft contact lenses developed through the use of unique, characteristic high-polymer materials.

#### [Applications]

- Soft/hard contact lenses, care articles, etc.



#### Artificial kidneys

Artificial kidneys, plasma exchange units and artificial organs designed to remove harmful substances from blood.

#### [Applications]

- Dialyzers, plasma exchange equipment, blood purifiers, etc.

## Outline

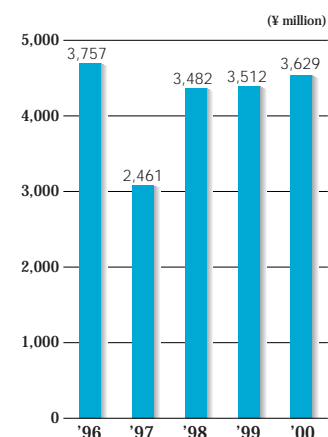
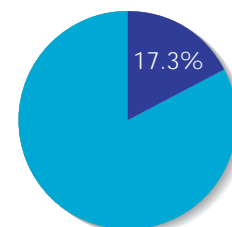
The Company is developing its medical products business, an area where it is active in artificial kidneys and artificial organs to remove harmful substances from blood, a variety of medical equipment, dental materials to repair and beautify teeth, and contact lenses. It is also involved in membranes that are very useful in preserving the natural environment, engineering operations, and consulting activities, etc.

polysulfone membranes, which have excellent resistivity to pollution, for application in water purification, hot water recovery and waste liquid/water treatment application.

Engineering activities posted substantial revenue reduction, because a large-sized plant-related undertaking in Singapore had terminated in the previous year. The consulting business, on the other hand, registered increased sales, as ISO-related consulting expanded.

As a result, sales of diversified business operations were ¥40,631 million (US\$383.3 million), down 27.1%, while operating income totaled ¥3,629 million (US\$34.2 million), up 3.3% over the previous fiscal year.

## Operating Income



### High-function membranes

Filtering membranes, designed to separate solid particles from liquid, are offered to various industries in single units, as well as jointly with related systems.

#### [Applications]

- Industrial-use pure-water manufacturing/recovery, germ-free water production, simple water purification equipment and systems



### Engineering

Utilizing unique development technologies, we offer an integrated service, ranging from design of various kinds of plants to installation work and trial operation.

#### [Applications]

- Design, installation work, etc., of various sorts of plants



### Consulting

We are engaged in a variety of consulting activities. Recently, its support for obtaining ISO certification has obtained favorable evaluation.

#### [Applications]

- Various types of consulting, ISO certification-obtaining support, etc.

# Research and Development



*Research and development activities and support for business operations by analysis, assays and providing technical information.*



*Developing new synthetic and polymerize process and applying to chemical high-molecule synthesis.*



*Tsukuba Research Laboratories*

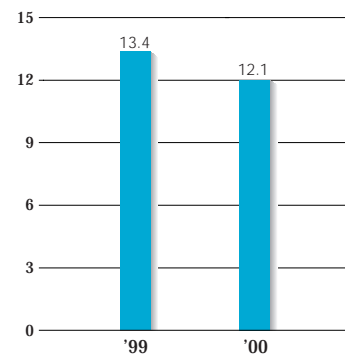
**D**rawing on its expertise in core technologies regarding polymers and synthetics, accumulated over many years, Kuraray is vigorously implementing research and development with the objectives of 'strengthening and expanding its existing core businesses' and 'creating new core businesses for the 21st century.' At present, active R&D efforts are under way in a wide range of areas including fibers, chemical products, high-performance resins, man-made leather, medical products, industrial membranes, thermoplastic elastomers, pharmaceutical/agrochemical intermediates and other fine chemical products, opto-electronics/information-use materials, environmental technologies and activated carbon.

In recent years, we have commercialized a diverse range of unique products, including the new synthetic fiber, "KURALON K-II," a new heat-resisting resin, PA9T, a new water-soluble resin, "EXCEVAL," and optical screens for projection TVs .

These R&D activities are carried out at the Kurashiki Research Laboratories and the Analytical Research Center, the Tsukuba Research Laboratories and the R&D departments at each plant. The close cooperation among all these facilities has achieved solid results.

We intend to continue aggressive research and development and to utilize the fruits of these activities as quickly as possible in order to develop and grow the business.

**Consolidated R&D Expenses**  
(¥ billion)



\* Figure in 2000 does not include parent application expenditure.



# Environmental Preservation

With a view to conducting business activities that give due consideration to the environment, we established specialized environmental countermeasure departments in 1970, and we have been involved in environmental preservation on our own initiative since then. In 1993, we set the Kuraray Action Guidelines on the Global Environment and subsequently strengthened our commitment to 'environment and safety through independent management and self-responsibility.'

Furthermore, we are in the process of obtaining ISO14001 certification, the environmental management system set forth by the International Standards Organization (ISO), in order to build up an environmental management system that passes international standards. We have already obtained certification for our Kashima Plant, Okayama Plant and Nakajo Plant, and regarding other plants, efforts are under way to obtain certification within the year 2000.

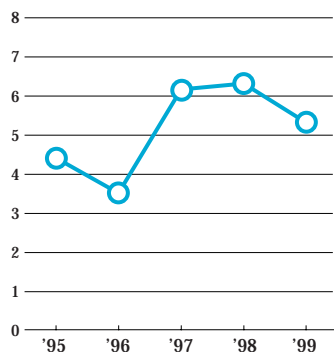
For effective utilization of resources, at our Tamashima Plant we have developed a unique recycling system centered on 'thermal recycling' in which various kinds of waste are re-utilized as thermal energy. This system has recorded great achievements, and we intend to continue business activities, while placing top priority on harmony with the natural environment in the future.



Fluidized bed boiler at the Tamashima Plant

## Investment in Environmental Equipment

(¥ 100 million)



ISO 14001 Certificate of Compliance



Responsible Care

## Contribution to Local Communities



*Chemistry classes for boys and girls*



*A boy's baseball tournament  
at the Okayama Plant*



*Cherry blossom viewing party  
at the Saijo Plant*

**K**uraray is implementing a wide range of activities based on local community participation. Our 'Chemistry Classes for Boys and Girls' are activities started as part of our contributions to local communities. These classes are held on school holidays for upper elementary school students living around our plants. Students are given chances to conduct chemical experiments related to our company to spark interest in chemistry and science. Our long-time activities have been rated highly, and Kuraray was awarded the 'Prize for the Enterprise Conducting Excellent Corporate Activities Oriented toward Consumers' by the Ministry of International Trade and Industry in fiscal 1999.

In addition, we hold a variety of sports meets and summer festivals in order to deepen our ties with local communities. We have also set up a donation-matching system designed for donations to welfare facilities.

We will continue to contribute to local communities and society as a whole through steady activities, based on our employees' creativity, and we will remain committed to good corporate citizenship.



*Christmas festival at the Tamashima Plant*

# Financial Section

## CONSOLIDATED SIX-YEAR SUMMARY

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars
	2000	1999	1998	1997	1996	1995	2000
<b>For period:</b>							
Net sales.....	<b>¥316,444</b>	¥336,466	¥347,643	¥340,112	¥330,869	¥327,270	<b>\$2,985,321</b>
Cost of sales.....	<b>235,603</b>	250,195	259,788	255,240	246,768	249,399	<b>2,222,670</b>
Selling, general and administrative expenses .....	<b>60,520</b>	59,123	58,957	58,324	58,008	56,370	<b>570,943</b>
Operating income .....	<b>20,321</b>	27,148	28,898	26,548	26,093	21,501	<b>191,708</b>
Net income .....	<b>7,452</b>	13,171	13,962	11,741	11,049	9,617	<b>70,302</b>
Net income per share (Exact yen or U.S. dollar)							
Primary .....	<b>20.00</b>	36.83	40.46	34.99	35.43	30.94	<b>0.19</b>
Fully diluted .....	<b>19.42</b>	34.56	37.68	32.48	32.71	—	<b>0.18</b>
Cash dividends applicable to period							
(Exact yen or U.S. dollar).....	<b>9.00</b>	9.00	9.00	9.00	9.00	8.50	<b>0.08</b>
Capital expenditures .....	<b>19,764</b>	33,497	20,806	19,049	17,479	10,645	<b>186,453</b>
Depreciation and amortization.....	<b>16,769</b>	15,557	14,615	14,111	14,263	15,087	<b>158,198</b>
Total research and development expenses.....	<b>12,097</b>	13,429	13,707	13,592	12,646	12,549	<b>114,123</b>
<b>At period end:</b>							
Total assets .....	<b>¥503,766</b>	¥487,991	¥478,861	¥514,167	¥535,173	¥477,874	<b>\$4,752,509</b>
Total shareholders' equity.....	<b>282,755</b>	259,909	233,494	208,635	178,776	164,931	<b>2,667,500</b>

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥106=\$1.

Fully diluted net income per share is required to be disclosed effective from fiscal year ended March 31, 1996.

As discussed in Notes 2(g) to the financial statements, the Company changed its amortization method for past service liability related to the contributory pension plan during the year ended March 31, 2000. This change resulted in recording of a "Special provision for retirement benefits" in the amount of ¥9,492 million (\$89,547 thousand) and reduced net income by ¥5,297 million (\$49,972 thousand).

As discussed in Notes 2(h) to the financial statements, the Company changed the method of accounting for foreign translation adjustments during the year ended March 31, 2000. This change reduced total shareholders' equity by ¥4,496 million (\$42,415 thousand).

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

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# Financial Analysis

## Results of Operations

For the fiscal year ended March 31, 2000 (April 1, 1999-March 31, 2000), consolidated net sales totaled ¥316,444 million (US\$2,985.3 million), down 6.0% from the previous fiscal year due to the sluggish business conditions, the yen's appreciation and the sharp rise in prices of crude oil and raw materials.

Gross profit was ¥80,841 million (US\$762.7 million), a decline of 6.3%, and selling, general and administrative expenses were ¥60,520 million (US\$570.9 million), an increase of 2.4%. As a result, operating income totaled ¥20,321 million (US\$191.7 million), a decrease of 25.1% from the previous fiscal year, and the ratio of operating income to net sales was 6.4%, a reduction of 1.7 of a percentage point.

Net income for the period amounted to ¥7,452 million (US\$70.3 million), down 43.4%, and net income per share (EPS) was ¥20.00 (US\$0.19), a decline of ¥16.83 (US\$0.16). Return on equity (ROE) was 2.7%, a drop of 2.6 percentage point.

Looking at performance by segment, net sales of fibers and textiles totaled ¥98,088 million (US\$925.4 million), a decrease of 4.9%, and operating income in this segment was ¥2,769 million (US\$26.1 million), an increase of 3.1%. Sales of polyester fell against the background of sluggish demand in the Japanese market, but an improvement was seen in earnings thanks to cost reductions and expanded sales of high-quality products. Although sales of "KURALON" for traditional uses stagnated, net sales overall held firm, due to increased sales for use as an asbestos substitute in fiber-reinforced cement. Growth in demand was also seen for the new synthetic fiber "KURALON K-II."

As a result, net sales increased, while earnings remained flat compared to the previous year's level. Meanwhile, the rayon business remained in the red because of a decline in demand in both the Japanese and overseas markets. Results of the garment business were as expected, posting an increase in net sales over the previous year.

In the chemicals sector, net sales were ¥144,435 million (US\$1,362.6 million), an increase of 1.7%, and operating income

totaled ¥12,160 million (US\$114.7 million), a fall of 26.3%. Poval enjoyed firm sales for use in polyvinyl butyral safety glass interlayers and poval film for LCDs. Earnings, however, declined as a result of higher fuel and raw materials costs and start-up losses relating to the establishment of a joint venture in Singapore.

Demand in Japan for the EVOH resin "EVAL" was very strong. Business in the U.S. also followed a firm trend, while a new plant began operation in Belgium. However, both net sales and earnings declined, partly as a result of the yen's appreciation. In the area of methacrylic resin products, sales of projection TV screens remained firm, while prices of the resin itself rose against the background of a shortfall in supply, leading to a year-on-year growth in net sales. An improvement was also seen in earnings, thanks to effective cost-cutting measures.

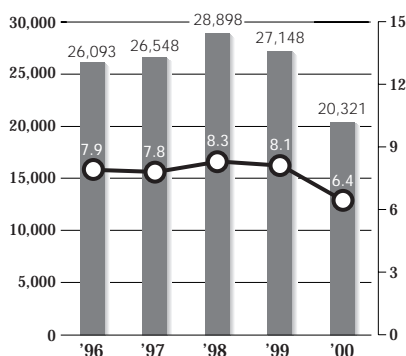
In the field of isoprene chemical products, strong growth was seen in demand for thermoplastic elastomers. However, overall net sales and earnings both declined owing to stiff competition in the fields of fine chemicals such as agrochemical intermediates and vitamin raw materials. Among other main chemical products, sales of activated carbon products fell, owing to the effect of the cutback in the nation's public investment budget, but earnings managed to stay flat thanks to cost reductions. In processed resin products, the development of new products and new applications led to increased earnings despite a drop in net sales.

Man-made leather, nonwoven fabrics and fastening materials posted total net sales of ¥33,290 million (US\$314.1 million), down 6.4%, and operating income was ¥2,402 million (US\$22.7 million), a fall of 48.3%. "CLARINO" man-made leather suffered declines in both sales and earnings as a result of the appreciation of the yen and a falloff in sales of suede to Europe for apparel use. Sales of the nonwoven fabric "Kuraflex" for use as a sanitary material fell due to increased competition, while sales of hook and loop fasteners were stable.

In our diversified businesses, net sales were ¥40,631 million (US\$383.3 million), a decrease of 27.1%, and operating income totaled ¥3,629 million (US\$34.2 million), a rise of 3.3%. In the

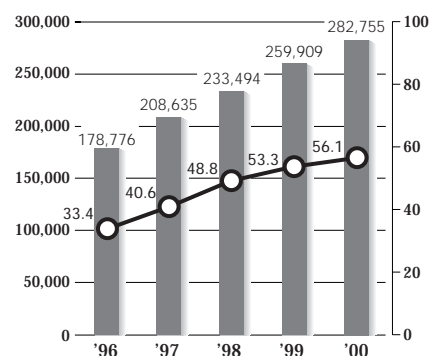
**Operating Income & Operating Income/Net Sales**

(Millions of Yen) (%)



**Shareholders' Equity & Equity Ratio**

(Millions of Yen) (%)





medical products business, the Company's contact lenses were hit by severe competition from disposable contact lenses, but dental materials recorded increased sales. As a result, although net sales declined, earnings held steady. The engineering business registered a sharp decrease in sales due to the completion of the Singapore plant. Meanwhile, the consulting business recorded increased sales thanks to continued brisk business related to the acquisition of ISO series certifications.

#### Financial Position

Total assets at the end of the fiscal year ended March 31, 2000 amounted to ¥503,766 million (US\$4,752.5 million), an increase of ¥15,775 million (US\$148.8 million) compared to the end of the previous fiscal year.

Current assets increased by ¥5,180 million (US\$48.9 million) to ¥213,293 million (US\$2,012.2 million).

Cash and cash equivalents were ¥15,048 million (US\$ 142.0 million) lower at ¥13,869 million (US\$130.8 million), in part because of investing activities including capital expenditures.

Marketable securities increased by ¥15,961 million (US\$150.6 million) to ¥26,033 million (US\$245.6 million), primarily because of transfers from investment securities.

Notes and accounts receivable were ¥750 million (US\$7.1 million) below the previous year's level at ¥93,525 million (US\$882.3 million). However, inventories were ¥4,496 million (US\$42.4 million) higher, at ¥75,120 million (US\$708.7 million), in part because of the start of production at EVAL Europe N.V.

Property, plant and equipment declined by ¥683 million (US\$6.4 million) to ¥128,343 million (US\$1,210.8 million). Capital expenditures amounted to ¥19,764 million (US\$186.5 million), while depreciation and amortization totaled ¥16,769 million (US\$158.2 million).

Major capital investment items included a project to expand the production capacity of thermoplastic elastomers by 7,000 tons per year. Completed in July, the expansion brought total capacity to 19,000 tons. Another key investment was the construction of a

new production plant for PA9T, a new heat-resistant polyamide. The plant was completed in May and has an annual production capacity of 1,000 tons. In March, Kuraray completed a new plant to produce "Exceval," a new water-soluble resin. The plant can produce 10,000 tons annually.

Investments and other assets increased by ¥11,278 million (US\$106.4 million) over the previous year's level to ¥162,130 million (US\$1,529.5 million). Reasons for the increase include the acquisition of investment securities.

Total liabilities decreased by ¥7,073 million (US\$66.7 million) to ¥220,639 million (US\$2,081.5 million).

Notes and accounts payable were ¥2,767 million (US\$26.1 million) higher at ¥59,351 million (US\$559.9 million), in part because of increased purchases of raw materials.

Short-term bank loans and long-term debt were reduced by ¥18,617 million (US\$175.6 million) to ¥101,497 million (US\$957.5 million). Reasons for the reduction include the redemption of warrant bonds.

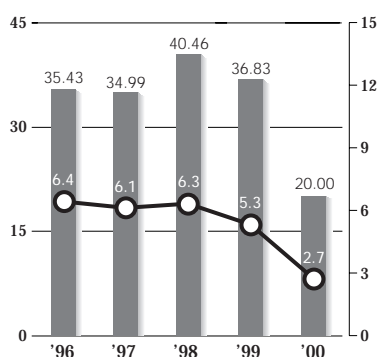
Accrued retirement benefits stood at ¥22,164 million (US\$209.1 million), an increase of ¥9,480 million (US\$89.4 million). The increase reflects a change in its method of accounting for past service liability related to the contributory pension plan.

Total shareholders' equity increased by ¥22,846 million (US\$215.5 million) to ¥282,755 million (US\$2,667.5 million). Common stock and additional paid-in capital were ¥23,217 million (US\$219.0 million) higher, mainly due to the exercise of warrants. Retained earnings increased by ¥4,122 million (US\$38.9 million). Starting in the current fiscal year, cumulative translation adjustments of ¥4,496 million (US\$42.4 million) are being deducted from shareholders' equity. This reflects an amendment to the Japanese Securities and Exchange Law and related accounting regulations.

As a result, the shareholders' equity ratio rose by 2.8 percentage points to 56.1%, and shareholders' equity per share was ¥24.32 higher at ¥738.53.

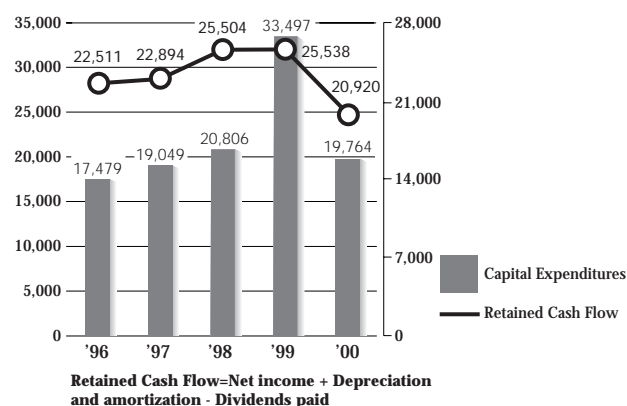
#### EPS & ROE

(Yen) (%)



#### Capital Expenditures & Retained Cash Flow

(Millions of Yen)





# CONSOLIDATED BALANCE SHEETS

Kuraray Co., Ltd. and Consolidated Subsidiaries

March 31, 2000 and 1999	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents.....	¥ 13,869	¥ 28,917	\$ 130,840
Marketable securities (Note 3).....	26,033	10,072	245,594
Notes and accounts receivable (Note 10):			
Trade .....	89,102	89,466	840,585
Unconsolidated subsidiaries and affiliates .....	789	1,316	7,443
Other .....	3,634	3,493	34,283
Loans receivable to unconsolidated subsidiaries and affiliates .....	541	509	5,104
Allowance for doubtful accounts .....	(696)	(844)	(6,566)
	<b>93,370</b>	93,940	<b>880,849</b>
Inventories (Note 4).....	75,120	70,624	708,679
Deferred income taxes (Note 7).....	3,761	3,604	35,481
Other current assets .....	1,140	956	10,755
Total current assets.....	<b>213,293</b>	208,113	<b>2,012,198</b>
<b>Property, plant and equipment (Note 5):</b>			
Land .....	25,176	25,397	237,509
Buildings.....	86,213	79,535	813,330
Machinery and equipment.....	351,695	332,365	3,317,877
Construction in progress.....	4,356	17,255	41,095
	<b>467,440</b>	454,552	<b>4,409,811</b>
Less accumulated depreciation.....	<b>(339,097)</b>	(325,526)	<b>(3,199,029)</b>
	<b>128,343</b>	129,026	<b>1,210,782</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 3 and 5).....	80,910	77,143	763,302
Investments in unconsolidated subsidiaries and affiliates .....	2,687	2,983	25,349
Loans receivable to:			
Unconsolidated subsidiaries and affiliates .....	5,345	6,040	50,425
Other .....	1,293	1,329	12,198
Deferred income taxes (Note 7).....	7,196	3,149	67,887
Cumulative translation adjustments.....	—	1,518	—
Other .....	65,988	59,567	622,528
Allowance for doubtful accounts .....	(1,289)	(877)	(12,160)
	<b>162,130</b>	150,852	<b>1,529,529</b>
	<b>¥503,766</b>	¥487,991	<b>\$4,752,509</b>

See Notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Note 5) .....	¥ 3,805	¥ 5,809	\$ 35,896
Current portion of long-term debt (Note 5) .....	3,467	20,382	32,708
Notes and accounts payable:			
Trade .....	51,257	49,876	483,557
Unconsolidated subsidiaries and affiliates .....	1,149	886	10,840
Other .....	6,945	5,822	65,519
Accrued income taxes (Note 7) .....	4,312	4,305	40,679
Deferred income taxes (Note 7) .....	21	—	198
Accrued expenses and other .....	16,636	21,181	156,943
Total current liabilities .....	87,592	108,261	826,340
<b>Long-term liabilities:</b>			
Long-term debt (Note 5) .....	94,225	93,923	888,915
Deferred income taxes (Note 7) .....	3,164	2,866	29,849
Accrued retirement benefits (Note 8) .....	22,164	12,684	209,094
Other .....	13,494	9,978	127,302
Total long-term liabilities .....	133,047	119,451	1,255,160
<b>Minority interests</b> .....	372	370	3,509
<b>Commitments and contingencies</b> (Note 10)			
<b>Shareholders' equity</b> (Note 6):			
Common stock with par value of ¥50 (\$0.47) per share:			
Authorized — 700,000,000 shares			
Issued and outstanding —			
382,863,603 shares at March 31, 2000 .....	88,955	—	839,198
363,913,184 shares at March 31, 1999 .....	—	78,660	—
Additional paid-in capital .....	87,147	74,225	822,142
Retained earnings .....	111,151	107,029	1,048,594
Cumulative translation adjustments .....	(4,496)	—	(42,415)
	282,757	259,914	2,667,519
Treasury stock at cost .....	(2)	(5)	(19)
Total shareholders' equity .....	282,755	259,909	2,667,500
	¥503,766	¥487,991	\$4,752,509

## CONSOLIDATED STATEMENTS OF INCOME

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000 and 1999	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Net sales</b> .....	<b>¥316,444</b>	¥336,466	<b>\$2,985,321</b>
<b>Cost of sales</b> .....	<b>235,603</b>	250,195	<b>2,222,670</b>
(Gross profit).....	<b>80,841</b>	86,271	<b>762,651</b>
<b>Selling, general and administrative expenses</b> (Note 9) .....	<b>60,520</b>	59,123	<b>570,943</b>
(Operating income) .....	<b>20,321</b>	27,148	<b>191,708</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>3,774</b>	4,464	<b>35,604</b>
Equity in earnings of affiliates.....	<b>83</b>	6	<b>783</b>
Interest expenses .....	<b>(2,659)</b>	(3,269)	<b>(25,085)</b>
Special provision for retirement benefits (Note 8) .....	<b>(9,492)</b>	—	<b>(89,547)</b>
Special charge for pension contribution (Note 8) .....	—	(2,182)	—
Other, net .....	<b>1,350</b>	(2,326)	<b>12,736</b>
	<b>(6,944)</b>	(3,307)	<b>(65,509)</b>
(Income before income taxes) .....	<b>13,377</b>	23,841	<b>126,199</b>
<b>Income taxes</b> (Note 7)			
Current.....	<b>9,461</b>	10,352	<b>89,255</b>
Deferred .....	<b>(3,560)</b>	309	<b>(33,585)</b>
	<b>5,901</b>	10,661	<b>55,670</b>
<b>Minority interests in net income of consolidated subsidiaries</b> .....	<b>(24)</b>	(9)	<b>(227)</b>
<b>Net income</b>	<b>¥7,452</b>	¥ 13,171	<b>\$70,302</b>
		Yen	U.S. dollars (Note 1)
<b>Net income per share:</b>			
Primary .....	<b>¥20.00</b>	¥36.83	<b>\$0.19</b>
Fully diluted .....	<b>19.42</b>	34.56	<b>0.18</b>

See Notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000 and 1999	Millions of yen			
	Common stock	Additional paid-in capital	Retained earnings	Cumulative translation adjustments
<b>Balance at March 31, 1998</b> .....	¥73,694	¥67,932	¥ 91,877	—
Net income.....			13,171	
Effect of change in accounting for income taxes .....			6,069	
Conversion of convertible debentures .....	6	6		
Stock issued on exercise of warrants .....	4,960	6,287		
Cash dividends, ¥9.00 per share .....			(3,190)	
Bonuses to directors and statutory auditors.....			(72)	
Effect of changes in reporting entity .....			(826)	
<b>Balance at March 31, 1999</b> .....	¥78,660	¥74,225	¥107,029	—
Net income.....			<b>7,452</b>	
Conversion of convertible debentures .....	<b>114</b>	<b>114</b>		
Stock issued on exercise of warrants .....	<b>10,181</b>	<b>12,808</b>		
Cash dividends, ¥9.00 per share .....			<b>(3,301)</b>	
Bonuses to directors and statutory auditors.....			<b>(62)</b>	
Effect of changes in reporting entity .....			<b>33</b>	
Cumulative translation adjustments .....				<b>(4,496)</b>
<b>Balance at March 31, 2000</b> .....	<b>¥88,955</b>	<b>¥87,147</b>	<b>¥111,151</b>	<b>(¥4,496)</b>
			Thousands of U.S. dollars (Note 1)	
<b>Balance at March 31, 1999</b> .....	\$742,075	\$700,236	\$1,009,708	—
Net income.....			<b>70,302</b>	
Conversion of convertible debentures .....	<b>1,076</b>	<b>1,076</b>		
Stock issued on exercise of warrants .....	<b>96,047</b>	<b>120,830</b>		
Cash dividends, \$0.08 per share .....			<b>(31,142)</b>	
Bonuses to directors and statutory auditors.....			<b>(585)</b>	
Effect of changes in reporting entity .....			<b>311</b>	
Cumulative translation adjustments .....				<b>(42,415)</b>
<b>Balance at March 31, 2000</b> .....	<b>\$839,198</b>	<b>\$822,142</b>	<b>\$1,048,594</b>	<b>(\$42,415)</b>

See Notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000 and 1999	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
<b>Cash flows from operating activities:</b>			
Net income .....	¥ 7,452	¥13,171	\$ 70,302
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization .....	16,769	15,557	158,198
Write-down of investment securities.....	—	130	—
Provision for accrued retirement benefits, net of payment .....	9,488	1,097	89,509
Gain on sales of properties.....	(948)	(1,512)	(8,943)
Gain on sales of investment securities.....	(2,191)	—	(20,670)
Exchange loss on loans receivable.....	2,559	—	24,142
(Increase) decrease in notes and accounts receivable.....	(143)	4,979	(1,349)
(Increase) decrease in inventories.....	(6,203)	5,119	(58,519)
Increase (decrease) in notes and accounts payable.....	2,686	(9,591)	25,340
Other, net.....	(4,403)	(15,406)	(41,538)
<b>Net cash provided by operating activities .....</b>	<b>25,066</b>	<b>13,544</b>	<b>236,472</b>
<b>Cash flows from investing activities:</b>			
(Increase) decrease in marketable securities .....	(2,498)	7,656	(23,566)
Acquisitions of property, plant and equipment.....	(19,980)	(33,497)	(188,491)
Proceeds from sales of properties .....	1,443	3,353	13,613
Payment for purchases of investment securities.....	(29,327)	(21,695)	(276,670)
Proceeds from sales of investment securities .....	13,474	12,901	127,113
Other, net.....	(5,864)	(1,949)	(55,320)
<b>Net cash used in investing activities .....</b>	<b>(42,752)</b>	<b>(33,231)</b>	<b>(403,321)</b>
<b>Cash flows from financing activities:</b>			
(Decrease) increase in short-term bank loans .....	(594)	198	(5,604)
Proceeds from long-term debt.....	7,028	31,779	66,302
Repayments of long-term debt .....	(20,457)	(16,113)	(192,991)
Proceeds from exercise of warrants .....	20,364	9,922	192,113
Dividends paid .....	(3,301)	(3,190)	(31,141)
Other, net.....	—	(6,275)	—
<b>Net cash provided by financing activities .....</b>	<b>3,040</b>	<b>16,321</b>	<b>28,679</b>
<b>Effect of exchange rate changes on cash &amp; cash equivalents .....</b>	<b>(553)</b>	<b>(182)</b>	<b>(5,217)</b>
<b>Effect of changes in reporting entities .....</b>	<b>151</b>	<b>1,363</b>	<b>1,425</b>
<b>Net decrease in cash and cash equivalents .....</b>	<b>(15,048)</b>	<b>(2,185)</b>	<b>(141,962)</b>
<b>Cash and cash equivalents, beginning of period .....</b>	<b>28,917</b>	<b>31,102</b>	<b>272,802</b>
<b>Cash and cash equivalents, end of period .....</b>	<b>¥13,869</b>	<b>¥28,917</b>	<b>\$130,840</b>

See Notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000 and 1999

## 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 to 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 ¥106=\$1, the approximate exchange rate prevailing on March 31, 2000. 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 that or any other rate.

## 2. Significant accounting policies:

### (a) Principles of consolidation

These consolidated financial statements include the accounts of Kuraray Co., Ltd. (the "Company") and its significant subsidiaries (Collectively, the "Companies"). During the year ended March 31, 2000, the accounts of Kuraray Specialities Asia Pte., Ltd., Kuraray Finance & Accounting Co., Ltd., and nine other companies have been included in consolidation, because their effect to consolidated financial statements has become material.

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 period is directly charged or credited to retained earnings during the period.

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

The difference between the cost of investments and 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. The unallocated cost is being deferred and amortized over the estimated period of sustainability of excess earnings to conform with an amendment to the Japanese Securities and Exchange Law and related accounting regulations effective April 1, 1999. Previously the unallocated cost was amortized principally over five years. The effect of this change is immaterial.

### (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 at face amount at any time without penalty. The Companies changed the scope of cash equivalents to conform with an amendment to the Japanese Securities and Exchange Law and related accounting regulations effective April 1, 1999. Previously the Companies classified as cash equivalents all time deposits with original maturities of one year or less. The effect of this change is immaterial.

### (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 estimated useful lives of assets, except for buildings. During the year ended March 31, 1999 the depreciation method for buildings was principally changed from the declining balance method to the straight-line method and the estimated useful lives of buildings were principally reduced from "35 to 65" years to "31 to 50" years. The effect

of these changes is immaterial.

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) Marketable securities and investment securities

Marketable securities and investment securities are principally stated at cost, determined using the moving average method for each particular security.

### (f) Income taxes

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

### (g) Retirement benefits

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

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

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 current service cost of these plans is determined actuarially and funded currently through outside trustee.

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 is charged when incurred and is recorded as provision for past service liability which is included in "Accrued retirement benefits." The Company believes that the new method will reflect more appropriately its financial results by allocating cost of past service liability and enhance its financial position in the financial statements. This change in accounting method resulted in



recording of a "Special provision for retirement benefits" in the amount of ¥9,492 million (\$89,547 thousand) and reduced net income by ¥5,297 million (\$49,972 thousand). The consolidated financial statements in 1999 are not restated retroactively in accordance with accounting practices followed in Japan.

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

#### (h) Foreign currency items

Foreign currency items are translated into Japanese yen at the rates in effect at the balance sheet date for short-term assets and liabilities and at the rates when acquired or incurred for long-term assets and liabilities. When the historical exchange rates differ significantly from the rates in effect at the balance sheet date, the rates in effect at the balance sheet date are used to translate the long-term assets and liabilities. Income and expenses in foreign currency are translated into Japanese yen at exchange rates prevailing at the transaction dates.

Foreign currency items, which are covered by forward exchange contracts including currency swap contracts, are translated into Japanese yen at the contracted rates.

Resulting exchange differences are charged or credited to income as incurred, except for exchange differences resulting from the translation of non-current payables and receivables in foreign currency hedged by long-term forward exchange contracts including currency swap contracts which are deferred and amortized over the period until the year of maturity of the payables and receivables.

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 consolidated balance sheets to conform with an amendment to the Japanese Securities and Exchange Law and related accounting regulations effective April 1, 1999. Previously they were included in assets or liabilities. The consolidated financial statements in 1999 are not restated retroactively in accordance with accounting practices followed in Japan.

#### (i) Research and development expenses

Total research and development expenses for the years ended March 31, 2000 and 1999 amounted to ¥12,097 million (\$114,123 thousand) and ¥13,429 million, respectively.

#### (j) Net income per share

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

#### (k) Allowance for doubtful accounts

Allowance for doubtful accounts, principally at management's estimate of probable bad debts, has in some years exceeded the maximum amount permitted to be charged to income under Japanese tax regulations. When these amounts are reversed into income, then, to that extent, they may be deducted from taxable income for that year.

#### (l) Reclassifications

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

### 3. Market value information for securities:

At March 31, 2000 and 1999, book value and market value of marketable securities and investment securities, as to which market value information is available to obtain, were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2000		1999		2000	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Marketable securities						
Stocks .....	¥ 537	¥ 1,333	¥ 419	¥ 1,847	\$ 5,066	\$ 12,575
Bonds .....	4,339	4,309	4,542	4,569	40,934	40,651
Investment securities						
Stocks .....	18,956	36,701	21,182	37,341	178,830	346,236
Bonds .....	27,434	27,663	27,477	27,558	258,812	260,972
	¥51,266	¥70,006	¥53,620	¥71,315	\$483,642	\$660,434

### 4. Inventories:

Inventories at March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Finished products .....	¥51,950	¥47,367	\$490,094
Semi-finished products and work in process.....	12,531	12,867	118,217
Raw materials and supplies.....	10,639	10,390	100,368
	¥75,120	¥70,624	\$708,679

## 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 1.3% p.a. and 0.98% p.a. at March 31, 2000 and 1999, respectively. Long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Loans principally from banks and insurance companies with interest rates ranging from 0.669% p.a. to 6.405% p.a. maturing serially until 2022:			
Secured.....	¥ 60	¥ 298	\$ 566
Unsecured.....	20,879	19,916	196,972
1.8% yen unsecured bonds due 2003.....	15,000	15,000	141,509
1.8% yen unsecured bonds due 2003.....	5,000	5,000	47,170
1.8% yen convertible sinking fund debentures due 2003.....	13,957	13,957	131,670
1.0% yen convertible debentures due 2003.....	9,423	9,551	88,896
2.2% yen convertible debentures due 2002.....	14,873	14,973	140,311
2 5/8% United States dollar bonds due 1999 with detachable warrants.....	—	17,110	—
Floating to fixed rate yen Euro medium term notes due March 5, 2004.....	3,000	3,000	28,302
Floating to fixed rate yen Euro medium term notes due March 4, 2003.....	3,000	3,000	28,302
2.27% yen Euro medium term notes due January 30, 2004.....	500	500	4,717
2.02% yen Euro medium term notes due March 26, 2003.....	1,000	1,000	9,434
2.00% yen Euro medium term notes due February 7, 2003.....	2,000	2,000	18,868
Fixed and floating rate yen Euro medium term notes due March 27, 2002.....	1,000	1,000	9,434
Step-up rate yen Euro medium term notes due April 10, 2007.....	500	500	4,717
Floating rate yen Euro medium term notes due April 22, 2002.....	500	500	4,717
Floating rate yen Euro medium term notes due April 25, 2002.....	1,000	1,000	9,434
Step-up rate yen Euro medium term notes due June 11, 2007.....	600	600	5,660
Floating to fixed rate yen Euro medium term notes due June 18, 2004.....	3,000	3,000	28,302
Floating rate yen Euro medium term notes due June 24, 2002.....	2,000	2,000	18,868
Floating rate yen Euro medium term notes due June 25, 2002.....	400	400	3,774
	<b>97,692</b>	<b>114,305</b>	<b>921,623</b>
Current portion.....	<b>(3,467)</b>	<b>(20,382)</b>	<b>(32,708)</b>
	<b>¥94,225</b>	<b>¥93,923</b>	<b>\$888,915</b>

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 (\$16.07) per share.

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 (\$10.07) per share.

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 (\$9.77) per share.

For the 1.8% yen convertible sinking fund debentures, the Company is required to contribute to a sinking fund, which amount is reduced by the amount of debentures converted or redeemed, ¥1,500 million (\$14,151 thousand) on every March 31 for the consecutive 6 years ending

March 31, 2002. At March 31, 2000, investment securities with a net book value of ¥7,245 million (\$68,349 thousand), of which market value approximates the amount of sinking fund requirements were deposited with a designated bank instead of the sinking fund payment.

The indentures under which the 1.8% yen convertible sinking fund debentures due 2003 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 2000, the amount of retained earnings available for the payment of dividends was ¥115,329 million (\$1,088,009 thousand) under such provision of the indentures.

The indentures under which the 1.0% yen convertible debentures due 2003 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 2000, the amount of retained earnings available for the payment of dividends was ¥80,687 million (\$761,198 thousand) under such provision of the indentures.

The indentures under which the 2.2% yen convertible debentures due 2002 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 2000, the amount of retained earnings available for the payment of dividends was ¥81,287 million (\$766,858 thousand) under such provision of the indentures.

The conversion prices of the above sinking fund debentures and 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 debentures outstanding at March 31, 2000 at the current conversion prices would have been 31,386 thousand.

The rates of floating to fixed rate yen Euro medium term notes due March 5, 2004, are as follows:

**January 20, 1997 ~ March 4, 1997**  
Interpolated JPY LIBOR + 0.125%  
**March 5, 1997 ~ March 4, 2001**  
6 month JPY LIBOR + 0.2%  
**March 5, 2001 ~ Due date**  
3.70% per annum

The rates of 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 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 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 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 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 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 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 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 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, 2000 for the respective years ending March 31 were as follows:

	Millions of yen	Thousands of U.S. dollars
2001 .....	¥ 3,467	\$ 32,708
2002 .....	19,525	184,198
2003 .....	35,780	337,547
2004 .....	26,605	250,991
2005 .....	5,104	48,151
Thereafter .....	7,211	68,028
	¥97,692	\$921,623

At March 31, 2000, assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	Millions of yen	Thousands U.S. dollars
Property, plant and equipment, net of accumulated depreciation.....	¥ 75	\$ 708
Investment securities .....	100	943
	¥175	\$1,651

## 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 for 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, 2000 amounted to ¥6,041 million (\$56,991 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 to additional paid-in capital.

## 7. Income taxes:

The companies are subject to several taxes based on income which, in the aggregate, resulted in a normal cumulative tax rate of approximately 41.7% (47.3% for 1999) in Japan for the period ended March 31, 2000.

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

	2000	1999
Normal cumulative tax rate .....	<b>41.7%</b>	47.3%
Largely loss by a foreign consolidated subsidiary....	<b>2.4</b>	--
Difference of tax rates between Japan and foreign countries .....	--	(1.5)
Other .....	--	(1.1)
Income tax rate per statement of income.....	<b>44.1%</b>	44.7%

The significant components of deferred tax assets and liabilities at March 31, 2000 are as follows:

### (1) Current:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
<b>Deferred tax assets</b>			
Intercompany profits .....	<b>¥1,397</b>	¥1,353	<b>\$13,180</b>
Accrued enterprise taxes and other taxes.....	<b>576</b>	541	<b>5,434</b>
Accrued expenses.....	<b>826</b>	336	<b>7,792</b>
Other .....	<b>1,032</b>	1,443	<b>9,736</b>
Total deferred tax assets .....	<b>3,831</b>	3,673	<b>36,142</b>
Total deferred tax liabilities .....	<b>70</b>	69	<b>661</b>
Net deferred tax assets.....	<b>¥3,761</b>	¥3,604	<b>\$35,481</b>
<b>Deferred tax liabilities</b>			
Other .....	<b>¥21</b>	¥ --	<b>\$ 198</b>
Net deferred tax liabilities.....	<b>¥21</b>	¥ --	<b>\$ 198</b>

## 8. Retirement benefits:

The charges to consolidated income for retirement and pension plans for the year ended March 31, 2000 amounted to ¥12,589 million (\$118.764 thousands), which included special provision for retirement benefits of the Company of ¥9,492 million (\$89,547 thousand), whereas the charges for the year ended March 31, 1999 amounted to ¥5,735 million, which

### (2) Noncurrent:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
<b>Deferred tax assets</b>			
Accrued retirement benefits.....	<b>¥6,792</b>	¥2,971	<b>\$64,076</b>
Other .....	<b>1,858</b>	1,547	<b>17,528</b>
Total deferred tax assets .....	<b>¥8,650</b>	¥4,518	<b>\$81,604</b>
<b>Deferred tax liabilities</b>			
Deferred gain on sales of fixed assets to public sector.....	<b>896</b>	587	<b>8,453</b>
Special depreciation .....	<b>248</b>	285	<b>2,340</b>
Other .....	<b>310</b>	497	<b>2,924</b>
Total deferred tax liabilities .....	<b>1,454</b>	1,369	<b>13,717</b>
Net deferred tax assets.....	<b>¥7,196</b>	¥3,149	<b>\$67,887</b>
<b>Deferred tax liabilities</b>			
Depreciation .....	<b>¥3,164</b>	¥2,866	<b>\$29,849</b>
Net deferred tax liabilities .....	<b>¥3,164</b>	¥2,866	<b>\$29,849</b>

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

included a special charge for the pension contribution of the Company in the amount of ¥2,182 million.

The actuarial value of plan assets under the Companies' contributory funded pension plans amounted to ¥16,704 million (\$157,585 thousand) as of the most recent valuation dates.

## 9. Selling, general and administrative expenses:

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

Account	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Freight and storage .....	<b>¥12,574</b>	¥12,677	<b>\$118,623</b>
Research and development .....	<b>10,806</b>	12,176	<b>101,943</b>
Salaries and bonuses.....	<b>16,990</b>	16,096	<b>160,283</b>

## 10. 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, 2000 and 1999 were ¥16 million (\$151 thousand) and ¥14 million, respectively.

The Companies were contingently liable for guarantees, mainly for

bank loans of unconsolidated subsidiaries, affiliates, and others, of ¥944 million (\$8,906 thousand) and ¥921 million at March 31, 2000 and 1999, respectively.

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

## 11. Lease:

### (a) Financing Lease

Lease transactions as lessee:

Payments of fee for financing leases without transferring ownership of leased assets to lessee for the years ended March 31, 2000 and 1999, which are not required to be capitalized, were ¥533 million (\$5,028 thousand) and ¥474 million, respectively.

The future lease payments, including amounts representing interest are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year.....	¥ 485	¥ 478	\$ 4,576
Due later.....	623	749	5,877
	<b>¥1,108</b>	<b>¥1,227</b>	<b>\$10,453</b>

The leased assets are as follows:

	Millions of yen			Thousands of U.S. dollars
	Cost	Accumulated depreciation	Net	Net
Years ended March 31, 2000				
Machinery and equipment....	¥2,334	¥1,226	¥1,108	\$10,453
Other.....	5	5	0	0
	<b>¥2,339</b>	<b>¥1,231</b>	<b>¥1,108</b>	<b>\$10,453</b>

Years ended March 31, 1999	Millions of yen		
	Cost	Accumulated depreciation	Net
Machinery and equipment ..	¥2,284	¥1,058	¥1,226
Other.....	5	4	1
	<b>¥2,289</b>	<b>¥1,062</b>	<b>¥1,227</b>

Lease transaction as lessor is immaterial.

### (b) Operating Lease

The future lease payments under noncancellable operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year.....	¥ 71	¥132	\$ 670
Due later.....	48	132	453
	<b>¥119</b>	<b>¥264</b>	<b>\$1,123</b>

## 12. Derivative Financial Instruments:

The Companies use various financial instruments with off-balance sheet market risk to manage their interest rate and foreign currency exchange rate risks.

The forward foreign currency contracts reduce the Companies' risk due to exchange because gains and losses on these contracts generally offset losses and gains on the assets, liabilities and transactions being hedged. The fair values of foreign currency forward contracts are estimated using quotes from banks as of March 31, 2000.

Interest rate swap agreements require payments to be calculated based upon a notional principal amount. Fair values of these contracts are estimated using obtaining quotes from banks as of March 31, 2000.

At March 31, 2000, the information related to the above financial instruments was as follows:

	Millions of yen		
	Fair Value	Net Unrealized Gain (loss)	Contract or Notional
Forward foreign exchange contracts:			
foreign currency sales	¥1,765	(¥2)	¥1,763
foreign currency purchases	863	(4)	867
Interest rate swaps	(102)	(102)	64,828

	Thousands of U.S. dollars		
	Fair Value	Net Unrealized Gain (loss)	Contract or Notional
Forward foreign exchange contracts:			
foreign currency sales	\$16,651	(\$19)	\$16,632
foreign currency purchases	8,141	(38)	8,179
Interest rate swaps	(962)	(962)	611,585

Derivative Financial Instruments as of March 31, 2000 are disclosed to conform with Japanese Securities and Exchange Law and related accounting regulations, which are applicable to the Company for fiscal years beginning on and after April 1, 1999.



### 13. Segment information:

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

A summary of net sales and operating income and identifiable assets, capital expenditures and depreciation and amortization by industrial segments for the years ended March 31, 2000 and 1999 are as follows:

#### Net sales and Operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
Year ended March 31, 2000								
Fibers and textiles .....	¥ 98,088	¥ 1,817	¥ 99,905	¥ 2,769	\$ 925,358	\$ 17,142	\$ 942,500	\$ 26,123
Chemical products .....	144,435	2,592	147,027	12,160	1,362,595	24,452	1,387,047	114,717
Man-made leather, nonwoven fabrics and fastening materials.....	33,290	338	33,628	2,402	314,057	3,189	317,246	22,660
Diversified businesses.....	40,631	18,636	59,267	3,629	383,311	175,811	559,122	34,236
Total.....	316,444	23,383	339,827	20,960	2,985,321	220,594	3,205,915	197,736
Elimination.....	—	(23,383)	(23,383)	(639)	—	(220,594)	(220,594)	(6,028)
Consolidated total.....	¥316,444	¥ —	¥316,444	¥20,321	\$2,985,321	\$ —	\$2,985,321	\$191,708
Year ended March 31, 1999								
Fibers and textiles .....	¥103,120	¥ 1,591	¥104,711	¥ 2,686				
Chemical products .....	142,071	1,774	143,845	16,501				
Man-made leather, nonwoven fabrics and fastening materials.....	35,557	421	35,978	4,650				
Diversified businesses.....	55,718	16,874	72,592	3,512				
Total.....	336,466	20,660	357,126	27,349				
Elimination.....	—	(20,660)	(20,660)	(201)				
Consolidated total.....	¥336,466	¥ —	¥336,466	¥27,148				

#### Identifiable assets, Capital expenditures and Depreciation and amortization

	Millions of yen			Thousands of U.S. dollars		
	Identifiable assets	Capital expenditures	Depreciation and amortization	Identifiable assets	Capital expenditures	Depreciation and amortization
Year ended March 31, 2000						
Fibers and textiles .....	¥ 78,511	¥ 2,965	¥ 3,406	\$ 740,670	\$ 27,972	\$ 32,132
Chemical products .....	147,081	9,529	9,327	1,387,557	89,896	87,991
Man-made leather, nonwoven fabrics and fastening materials.....	36,830	1,524	2,503	347,453	14,377	23,613
Diversified businesses.....	58,278	5,746	1,533	549,792	54,208	14,462
Total .....	320,700	19,764	16,769	3,025,472	186,453	158,198
Elimination and corporate .....	183,066	—	—	1,727,037	—	—
Consolidated total.....	¥503,766	¥19,764	¥16,769	\$4,752,509	\$186,453	\$158,198
Year ended March 31, 1999						
Fibers and textiles .....	¥ 80,160	¥ 3,919	¥ 3,833			
Chemical products .....	151,143	22,812	8,212			
Man-made leather, nonwoven fabrics and fastening materials.....	35,739	4,525	2,178			
Diversified businesses.....	51,665	2,241	1,334			
Total .....	318,707	33,497	15,557			
Elimination and corporate .....	169,284	—	—			
Consolidated total.....	¥487,991	¥33,497	¥15,557			

A summary of net sales, operating income and identifiable assets by geographic segments for the years ended March 31, 2000 and 1999 are as follows:

	Millions of yen				
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
Year ended March 31, 2000					
Domestic (inside Japan) .....	<b>¥283,491</b>	<b>¥20,436</b>	<b>¥303,927</b>	<b>¥17,862</b>	<b>¥276,542</b>
Outside Japan.....	<b>32,953</b>	<b>3,818</b>	<b>36,771</b>	<b>2,580</b>	<b>47,462</b>
Total.....	<b>316,444</b>	<b>24,254</b>	<b>340,698</b>	<b>20,442</b>	<b>324,004</b>
Elimination and corporate.....	—	<b>(24,254)</b>	<b>(24,254)</b>	<b>(121)</b>	<b>179,762</b>
Consolidated total .....	<b>¥316,444</b>	<b>¥ —</b>	<b>¥316,444</b>	<b>¥20,321</b>	<b>¥503,766</b>

Year ended March 31, 1999					
Domestic (inside Japan) .....	¥309,182	¥17,920	¥327,102	¥22,467	¥273,939
Outside Japan.....	27,284	4,104	31,388	5,121	48,699
Total.....	336,466	22,024	358,490	27,588	322,638
Elimination and corporate.....	—	(22,024)	(22,024)	(440)	165,353
Consolidated total .....	¥336,466	¥ —	¥336,466	¥27,148	¥487,991

	Thousands of U.S. dollars				
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
Year ended March 31, 2000					
Domestic (inside Japan) .....	<b>\$2,674,444</b>	<b>\$192,792</b>	<b>\$2,867,236</b>	<b>\$168,509</b>	<b>\$2,608,887</b>
Outside Japan.....	<b>310,877</b>	<b>36,019</b>	<b>346,896</b>	<b>24,341</b>	<b>447,755</b>
Total.....	<b>2,985,321</b>	<b>228,811</b>	<b>3,214,132</b>	<b>192,850</b>	<b>3,056,642</b>
Elimination and corporate.....	—	<b>(228,811)</b>	<b>(228,811)</b>	<b>(1,142)</b>	<b>1,695,867</b>
Consolidated total .....	<b>\$2,985,321</b>	<b>\$ —</b>	<b>\$2,985,321</b>	<b>\$191,708</b>	<b>\$4,752,509</b>

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, 2000 and 1999 totaled ¥82,192 million (\$775,396 thousand) and ¥93,486 million, respectively, and accounted for 26% and 28% of consolidated net sales, respectively.

#### 14. Subsequent event:

(a) 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, 2000 were approved by the shareholders on June 29, 2000.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.50 (\$0.04) per share	¥1,723	\$16,255
Transfer to legal reserve	179	1,689
Bonuses to directors and statutory auditors	60	566

(b) The Company resolved to withdraw from Rayon business during the year ending March 31, 2001 at the Board of Directors' meeting held on May 22, 2000.

The above year-end cash dividends per share and the interim cash dividends of ¥4.50 (\$0.04) per share paid in December 1999 aggregated the annual cash dividends of ¥9.00 (\$0.08) per share.

# REPORT OF INDEPENDENT ACCOUNTANTS

Kuraray Co., Ltd. and Consolidated Subsidiaries



PricewaterhouseCoopers  
Osaka Center Building  
1-3 Kyutaro-machi 4-chome  
Chuo-ku, Osaka 541-0056

June 29, 2000

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

In our opinion, the accompanying consolidated balance sheet 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, 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 audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in Japan which require that we plan and perform the audit 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 audit provides a reasonable basis for the opinion expressed above.

As discussed in Notes 2(g) and (h) 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.

Osaka, Japan

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

In our opinion, the accompanying consolidated balance sheet 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, 1999 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 generally accepted auditing standards which require that we plan and perform the audit 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, 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 to the financial statements, the Company changed its method of depreciation during the year ended March 31, 1999.

Kohyoh & Co.  
(Certified Public Accountants)  
Osaka, Japan/ June 29, 1999

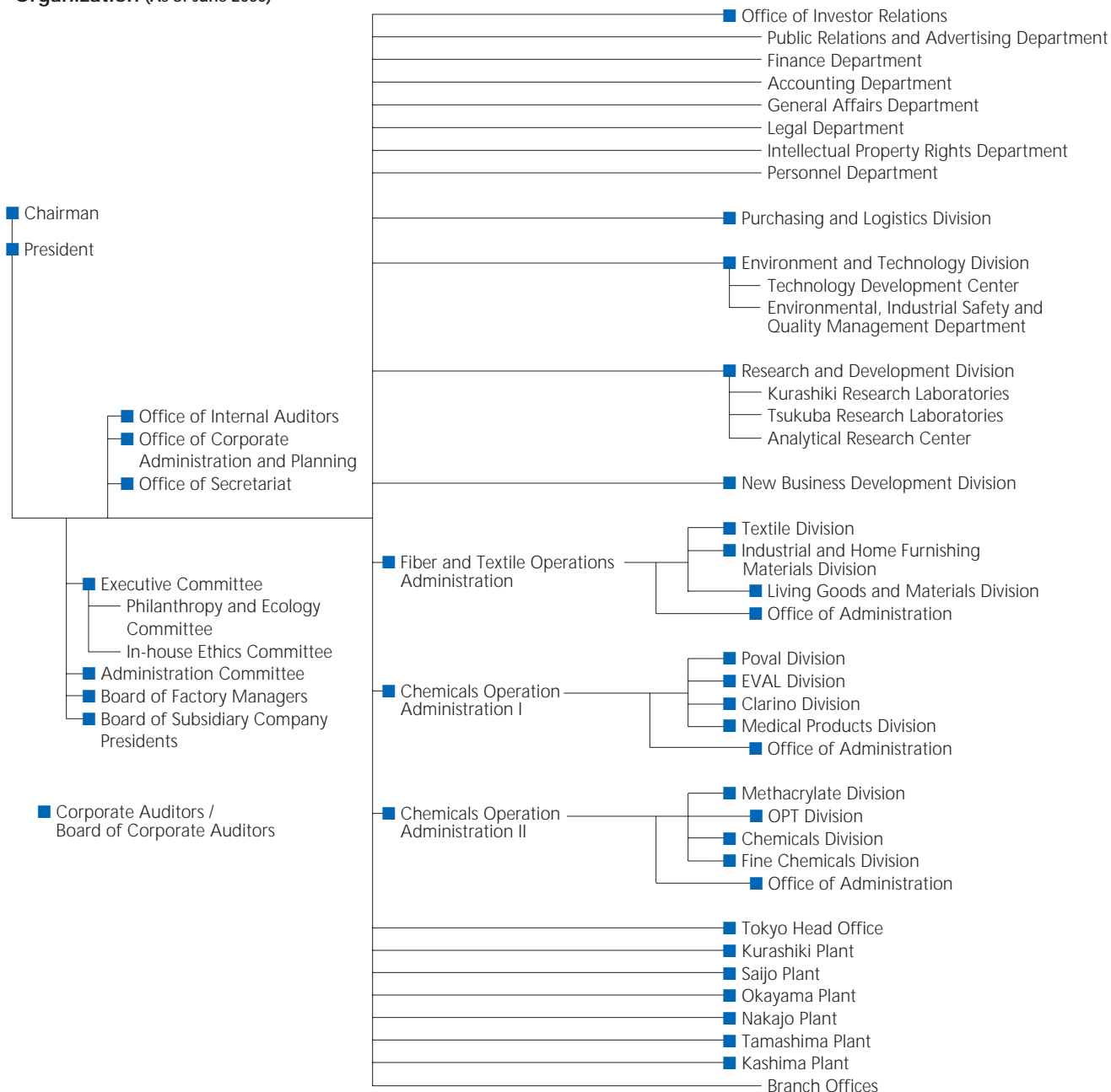
Price Waterhouse  
(Certified Public Accountants)

### 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.

# Organization and Board of Directors

## Organization (As of June 2000)



## Directors and Corporate Auditors (As of June 2000)

### **Representative Director and Chairman**

Hiroto Matsuo

### **Representative Director and President**

Yasuaki Wakui

### **Senior Managing Director**

Hiromi Maki

### **Managing Directors**

Koichi Kushida

Masayuki Hayashi

Akira Matsuzawa

Masahiro Kaihara

Tsutomu Yabuta

### **Director and Advisor**

Hisao Nakamura

### **Directors**

Tatsuya Nakano

Shinsaku Oda

Shobu Minatono

Katsuhiko Kishi

Yosuke Sekiya

Katsumi Ohashi

Tetsuzo Kimura

Satoru Mizushima

Junsuke Tanaka

Seiji Wajiki

Koichi Kikuchi

### **Corporate Auditors**

Jun Inoue

Taiji Naito

Fumio Ohmori

Teruyuki Ouchi

# Kuraray's 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

- 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



# List of Consolidated Companies

Companies	Head Office	Capital (¥ millions, except where stated)	Lines of Business
<b>Chemical Products</b>			
Kyosei Chemical Co., Ltd.	Tokyo	50	Production of pigments and dyes
Kuraray Niigata Kasei Co., Ltd.	Tokyo	50	Production and sales of methacrylic resin
Kamiko Plastic Co., Ltd.	Saitama	14	Molding and pressing of methacrylic resin
*Kuraray Nakajo Methacrylic Processing Co., Ltd.	Niigata	10	Production of plastics
*Nihonkai Acetylene Co., Ltd.	Tokyo	60	Production and sales of acetylene gas
Kuraray Chemical Co., Ltd.	Osaka	600	Production and sales of activated carbon
*KC Processing Co., Ltd.	Okayama	10	Processing of activated carbon
*KC Engineering Co., Ltd.	Okayama	10	Engineering and construction of plant facilities
*Mitsukura Chemical Co., Ltd.	Osaka	10	Production and sales of activated carbon
*Magictape Co., Ltd.	Fukui	30	Production of "Magictape"
Kuraray Plastics Co., Ltd.	Osaka	180	Production and sales of synthetic resins
Ibuki Kosan Co., Ltd.	Gifu	10	Production of rubber products
*Hikari Shoes Co., Ltd.	Tokyo	34	Manufacture and sales of shoes
Kuraray Family Products Corporation	Osaka	30	Sales of health foods and cosmetics

## Fibers

*Kuraray Okayama Spinning Co., Ltd.	Okayama	50	Production of synthetic fibers
*Saijo Textured Yarn Co., Ltd.	Ehime	10	Manufacture of polyester yarn
*Tamashima Rayon Inspection Co., Ltd.	Okayama	10	Inspection of rayon yarn
Reihoku Textile Co., Ltd.	Fukui	35	Sizing of raw yarn
*Kuraray Planning System Co., Ltd.	Osaka	10	Design and sales of uniforms

## Real Estate/Construction/Housing

Kuraray Fudosan Co., Ltd.	Osaka	282	Sales and management of land and housing
Iruma Country Club Co., Ltd.	Saitama	40	Golf course management
Kuraray Ohmiya Estate Co., Ltd.	Osaka	31.25	Leasing of real estate
Kuraray Interior Co., Ltd.	Osaka	330	Manufacture and sales of high-class furniture
Kuraray Engineering Co., Ltd.	Osaka	450	Engineering of plant facilities
Kuraray Saijo Kiko Co., Ltd.	Ehime	10	Manufacture of machinery
*S. Urabe Associates Architects Co., Ltd.	Osaka	11.25	Architectural design and planning

## Commerce and Distribution

Kuraray Trading Co., Ltd.	Osaka	500	Export, import and wholesale of fibers, etc.
*Kuratoray Chemitech Co., Ltd.	Osaka	20	Processing of synthetic resin
*Kuratoray XA Co., Ltd.	Osaka	10	Sales of Kyowaglas-XA
Kuraray Living Co., Ltd.	Osaka	101.8	Production and sales of packaging-related products

Companies	Head Office	Capital (¥ millions, except where stated)	Lines of Business
Kurashiki Unyu Co., Ltd.	Okayama	20	Transportation and cargo handling
Souryou Co., Ltd.	Okayama	10	Transportation and cargo handling
*The Kurashiki Kokusai Hotel, Ltd.	Okayama	450	Management of hotel
Kuraray Travel Service Co., Ltd.	Osaka	20	Travel and insurance agency
Techno Soft Co., Ltd.	Osaka	20	Technical consulting
Securir Co., Ltd.	Tokyo	30	Dispatch of temporary staff and training
Kuraray Techno Co., Ltd.	Osaka	10	Production on a consignment basis
Kuraray Techno Nakajo Co., Ltd.	Niigata	10	Production on a consignment basis
Kuraray Techno Kashima Co., Ltd.	Ibaraki	10	Production on a consignment basis
Kuraray Techno Okayama Co., Ltd.	Okayama	10	Production on a consignment basis
Kuraray Techno Kurashiki Co., Ltd.	Okayama	10	Production on a consignment basis
Kuraray Techno Saijo Co., Ltd.	Ehime	10	Production on a consignment basis
KRT Tamashima Co., Ltd.	Okayama	10	Production on a consignment basis
Kuraray Finance & Accounting Co., Ltd.	Okayama	100	Provision of accounting and administration operations
*Kuraray Information Systems Center Co., Ltd.	Okayama	50	Provision of information systems operations
*Kuraflex Co., Ltd.	Okayama	10	Production of nonwoven fabrics

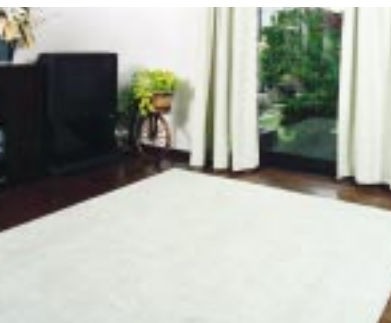
## Overseas

Kuraray America, Inc.	New York, USA	US\$55.03 million	Sales of Kuraray products in the U.S.
Eval Company of America	Illinois, USA	US\$4.15 million	Production and sales of "EVAL" resin in the U.S.
Clarino America Corp.	New York, USA	US\$0.6 million	Sales of man-made leather in the U.S.
Kuraray Finance America, Inc.	New York, USA	US\$0.001 million	Loan financing
Kuraray Europe GmbH	Düsseldorf, Germany	DM61 million	Sales of Kuraray products in Europe
Kuraray EVAL Europe GmbH	Düsseldorf, Germany	DM0.5 million	Sales of "EVAL" resin in Europe
EVAL Europe N.V.	Antwerp, Belgium	BEF1200 million	Production and sales of "EVAL" resin in Europe
Kuraray Finance Europe B.V.	Amsterdam, Netherlands	NLG0.7 million	Financing
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	Production of Poval resin
Kuraray Specialities Asia Pte., Ltd.	Singapore	SP\$0.1 million	Sales of Poval resin

\*Company accounted for under the equity method

# Introduction of New Products

Introducing newly commercialized, remarkable products during the term;



*Carpet and curtain using formaldehyde-adsorbing polyester*

## **Fibers and Textiles: Formaldehyde-adsorbing polyester**

Formaldehyde is considered to be a cause of so-called 'sick-house syndrome'- the headaches and dizziness some people suffer from in a newly built home. This textile has a formaldehyde-adsorbing substance on its surface, so the use of carpets or curtains employing this textile will help curb the sick-house syndrome.



*SMT connector using PA9T*

## **Chemical products: Heat-resistant polyamide resin PA9T**

Heat-resistant polyamide resin PA9T has excellent heat-resistance qualities, moldability, dimensional stability and resistance to abrasion. It has an expanded range of applications, including electronic parts and automotive parts. In May 2000, we decided to start the construction of mass-production facilities for smooth business expansion in this sector.



*Dress made of our man-made leather with sheepskin characteristics*

## **Man-made leather, Nonwoven Fabrics and Fastening Materials: Man-made leather with sheepskin characteristics**

This product is a clothing-use man-made leather that faithfully expresses the properties of sheepskin, which is regarded as the highest-class material among various kinds of natural leather. The product obtained a high rating in new product announcement meetings held in Japan, the U.S., Europe and Asia. The Company will accelerate the operation of business by introducing this material to the market.



*Wound-dressing material*

## **Diversified business: Wound-dressing material**

Kuraray has recently commercialized wound-dressing material. This product is designed to absorb and keep decoction liquid from scars, and to promote moisture wound healing. The product is expected to be greatly helpful in the treatment of pressure ulcers and burns.

# 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: 26,169

(as of March 31, 2000)

## ■ Offices, Laboratories, Plants

Head Offices: Osaka, Tokyo

Offices: Nagoya, Fukui, Fukuoka, Sapporo, Sendai

Laboratories: Kurashiki, Tsukuba

Plants: Kurashiki, Saijo, Okayama, Nakajo, Tamashima,  
 Kashima

## ■ Principal Shareholders

The Mitsubishi Trust and Banking Corporation

The Sumitomo Trust and Banking Co., Ltd.

Nippon Life Insurance Co.

The Industrial Bank of Japan, Ltd.

The Daiwa Bank, Ltd.

The Meiji Mutual Life Insurance Co.

The Dai-ichi Mutual Life Insurance Co.

The Fuji Bank, Ltd.

The Chase Manhattan Bank, N. A., London S. L. Omnibus  
 Account

The Sumitomo Bank, Ltd.

## ■ Transfer Agent

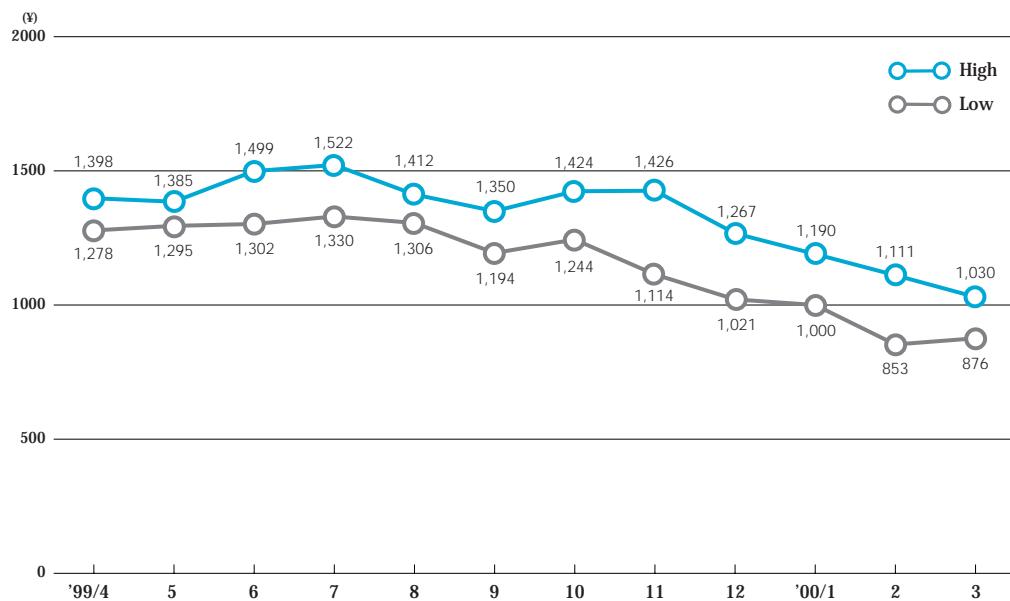
The Sumitomo Trust and Banking Co., Ltd.

Stock Transfer Agency Department

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

TEL: 81-6-6833-4700

## Share Price Movement



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

**Head Offices**

Osaka: Shin-Hankyu Bldg., 1-12-39, Umeda, Kita-ku,  
Osaka 530-8611, Japan

Tel.81-6-6348-2111. Fax.81-6-6348-2165

Tokyo: Kuraray Nihonbashi Bldg., 3-1-6, Nihonbashi,  
Chuo-ku, Tokyo 103-8254, Japan

Tel.81-3-3277-3111. Fax.81-3-3277-3295