Management Policy

Basic Policy

Fiscal 2000 saw the start of the Kuraray Group's new 5-year medium-term business plan — dubbed 'G-21.' The plan was inspired by the belief that a company that wishes to develop in the face of global competition must: (1) maintain international competitive power, (2) give consideration to the natural environment, (3) utilize electronic information technology and carve out and develop markets in that field, (4) maximize synergy among group companies, and (5) give balanced consideration to every stakeholder.

Guided by the plan, we are aiming to build 'an eco-friendly enterprise with unique technology.' To attain this goal, we must expand in three crucial areas — businesses with international competitive strength, those that contribute to the preservation and improvement of the global environment, and those that serve to establish our unique identity throughout the world.

Medium-Term Strategy

Under the plan, we will seek to achieve efficient management of our business operations by (1) attaining an ROA (target: 7.0%) that exceeds capital cost, (2) emphasizing the importance of ROA and cash flow as management indices, (3) utilizing M&A, and (4) making decisions based on 'Business Reevaluation Criteria' concerning businesses with worsening achievements.

To create a corporate culture able to respond swiftly to changes in the market environment, we will implement the following improvements to our organization and management:

(1) Creating a flat management structure and devolving authorization

(2) Making businesses and group companies self-supporting

(3) Maximizing synergy among group businesses by ensuring shared values and business strategies

(4) Creating an employee evaluation system that better reflects the achievements of each individual, and

(5) Promoting BPR and utilizing information technology

The Company's business strategy combines due concern for both product-specific strategy and market-specific strategy. Among our operating fields, our core businesses — which we intend to strengthen further — are vinyl-acetate related fields (poval, "EVAL", “Kuralon” and "Kuralon K-II"), isoprene chemical fields (thermoplastic elastomers, fine chemicals), and man-made leather fields ("Clarino").

In addition to this product-specific strategy, we have also established a market-specific strategy focused on four areas: electronic information technologies (e.g. poval film for LCDs, the highly heat-resistant resin PA9T); eco-friendly areas (asbestos substitutes, gas barrier materials, substitutes for polychlorinated vinyl and vulcanized rubber); environment business areas (activated carbon, PVA gels, industrial membranes); and the medical areas (artificial organs, dental materials). We are seeking to expand these business areas by utilizing the market-in approach.

Basic Dividend Policy

We are keenly aware that the distribution of profit to shareholders is our highest priority, and we regard our mission as being to attain a steady advance in business performance so as to ensure that profit is distributed appropriately. Amid a business environment in which competition is expected to become increasingly fierce, retained earnings will be used for strategic investment aimed at the expansion of operations, including M&A transactions both in Japan and overseas whenever necessary.

Future Issues

In order to survive amid the abrupt changes taking place in the business operating environment, it is essential for companies to increase profitability still further. For this purpose, Kuraray is placing emphasis on the following measures.

(1) We will boost performance by ensuring rapid realization of the effects of capital investment already implemented.
(2) In businesses with strong worldwide growth potential, we will step up production and sales activities in locations close to areas of demand, thereby enhancing competitiveness. As part of this strategy, in the field of the thermoplastic elastomer "Septon", a core businesses, we established the U.S. subsidiary Septon Company of America during the term under review, and started the construction of a new plant.
(3) On April 1, 2001 we carried out a reorganization by which we created a structure characterized by greater emphasis on the market-in business approach. Under this, the Company will devote its full energy to responding quickly to market trends, developing new products and carving out new markets.
(4) We will enhance business efficiency by pushing ahead with BPR. To this end, we established an administration center on April 1, 2001, and will be amalgamating and slimming down support divisions of group companies.
(5) We regard contributing to environmental conservation and to the local community as important issues for corporate management, and will therefore continue to reduce the use of substances that adversely affect the environment, and to develop and supply products that are environmentally beneficial. As part of our Responsible Care activities, we have acquired ISO 14001 certification – the international standard for environmental management systems – at all our domestic plants, and are making progress with preparations to obtain the same certification for our research facilities.

Business Performance

Performance Review

The Group's operating environment remained very difficult during the term under review, owing to factors such as sharp increases in raw material prices and lackluster product prices amid the prevailing deflationary trend in Japan.

To minimize the deterioration in earnings, the Group placed emphasis on such measures as increasing sales in areas where it boasts particular strengths, passing on high materials prices, cutting both selling and manufacturing costs, and cultivating new markets.

In spite of our best efforts, however, consolidated net sales slipped by ¥2,793 million, or 0.9%, from the previous year, to ¥313,651 million, and operating income fell ¥390 million, or 1.9%, to ¥19,931 million. After posting items such as ¥7,596 million of special provision for retirement benefits and ¥8,871 million for restructuring charges, net income for the period totaled ¥4,045 million, representing a decline of ¥3,407 million, or 45.7%, from the previous year.

On a segment-specific basis, performance was as follows.

1. Segment Performance

a. Fibers and Textiles

Sales in the Fibers and Textiles segment fell ¥7,266 million, or 7.4 from the preceding year, to ¥90,822 million, accompanied by a decline of ¥1,049 million, or 37.9%, in operating income, to ¥1,720 million.

(1) Polyester suffered declines in both sales and earnings, owing to the sluggishness of demand for apparel in the domestic market, and to increased sales of end-user products overseas.

(2) In the field of polyvinyl alcohol fiber “Kuralon”, however, sales and profits both

remained relatively steady. This was because, in spite of declines in sales in fields such as fisheries materials, the Company achieved steady sales growth in areas where it was able to take advantage of its distinctive capabilities, for example, paper, nonwoven fabrics, and rubber materials.

(3) We decided to withdraw from the business of rayon production, and ceased operations during the term under review.

b. Chemical Products

Sales of Chemical Products increased ¥6,572 million, or 4.5%, to ¥151,007 million, and operating income rose ¥555 million, or 4.6%, to ¥12,715 million.

(1) Poval sales and earnings both rose, buoyed by robust sales of automobile safety glass inter-layers, and of poval film for use in LCD devices.

(2) With regard to the EVOH resin "EVAL," in Europe the performance of the newly operational Belgian subsidiary EVAL Europe N.V. achieved a favorable improvement on the previous term, but operations were hit hard by sharp increases in raw material prices in the United States and elsewhere. As a result, earnings slipped in spite of sales growth.

(3) Methacrylic resins and related products generated increases in both sales and earnings. The principal factors behind this were a tight supply-demand balance, and continued strong demand for optical screens for projection TVs in the United States.

(4) In the isoprene products, thermoplastic elastomers continued to perform well, particularly in Europe and the United States, but raw materials for vitamin, agrochemical intermediates, and other fine chemicals slumped. In consequence, sales and income declined.

(5) Among other principal products, growth in both sales and earnings was recorded by activated carbon products, which were buoyed by increased demand for environmental uses.

c. Man-Made Leather, Nonwoven Fabrics, and Fastening Materials

Sales of Man-Made Leather, Nonwoven Fabrics and Fastening Materials fell ¥1,649 million, or 5.0%, year-on-year, to ¥31,641 million, and operating income declined by ¥374 million, or 15.6%, to ¥2,028 million.

(1) The man-made leather "Clarino" was dealt severe blows by depressed demand for apparel-related use in Europe, and by the weakness of the euro. Both sales and earnings declined from the previous year.

(2) Nonwoven fabrics operations were boosted by the contribution of sales growth posted by wiping cloth, as a result of which both sales and earnings rose. In the fastening business, brisk sales of "Freemagic" functional hook and loop fasteners enabled sales and earnings to maintain their year-earlier levels.

d. Diversified Businesses

Diversified businesses recorded a year-on-year decline in sales of ¥450 million, or 1.1%, to reach ¥40,181 million, while operating income fell ¥270 million, or 7.4%, to ¥3,359 million.

(1) In the medical products business, sales of dental materials increased as a result of the favorable development of this field overseas, but contact lenses saw increasingly intense competition. The net result of this was that both sales and earnings remained unchanged from the previous year.

(2) During the year under review, the Company ceased production of its 30 cm laser discs.

2. Segmentation by Geographical Region

a. Japan

The Company suffered a very difficult operating environment in Japan, under the impact of the deflationary conditions in the economy. In consequence, we posted net sales of ¥276,113 million, and operating income of ¥17,674 million.

b. Other Regions

Aggregate net sales in other regions totaled ¥37,538 million, and operating income came to ¥2,108 million.

(1) In North America, we achieved strong sales of thermoplastic elastomers and optical screens for projection TVs, but sales of "EVAL" were affected by soaring raw materials prices, leading to an increase in sales but a decrease in income.

(2) In Europe, demand for man-made leather was sluggish, but a full contribution was made by EVAL Europe N.V., which started operations during the previous term. The net result of this was that sales remained flat, but profitability improved.

(3) In Asia, an increase in poval sales pushed sales revenues upward but sharp

increases in prices of raw materials caused profits to fall.

3. Cash Flow

Cash and cash equivalents (hereinafter 'cash') increased by ¥26,280 million during the term under review. Principal contributing factors in cash flow were ¥15,887 million in cash provided by operating activities, ¥20,323 million in cash provided by investment activities, and ¥10,448 million in cash used in financing activities. As a result, the cash balance at the end of the term stood at ¥40,170 million.

The principal components of operating, investing, and financing cash flows were as follows.

(1) Operating activities

In the term under review, net cash provided by operating activities declined by ¥9,179 million from the previous term, to ¥15,887 million. This was attributable to factors such as a fall in net income.

(2) Investing activities

Net cash generated by investing activities showed an improvement of ¥63,075 million from the previous term, to ¥20,323 million. Major factors were a decline in payments for purchases of investment securities, and an increase in proceeds from sales and redemptions of investment securities.

(3) Financing activities

Net cash used in financing activities amounted to ¥10,448 million, a ¥13,488 million decline from the previous term. This was principally due to a fall in proceeds from long-term debt, and the redemptions of bonds.

4. Dividends

It is proposed to pay a dividend of ¥9 per share of common stock, comprising an ordinary dividend of ¥8 and a special dividend of ¥1. The Company has already paid an interim dividend of ¥4.5 per share, comprising an ordinary dividend of ¥4 per share and a special dividend of ¥0.50 per share.

Outlook for Fiscal 2001

The Japanese economy is expected to remain in a very difficult state in fiscal 2001, and the impact of deflation on the chemical and fiber industries, to which the Kuraray Group belongs, continues to be a cause for concern. Meanwhile, despite expectations of a recovery in the U.S. economy by some observers, the uncertainty of prospects overseas has not yet been dispelled, owing to such factors as the economic situations in Europe and Asia, and trends in crude oil prices.

On the assumption that business conditions remain in their current state, we are targeting net sales in fiscal 2001 of ¥325 billion, operating income of ¥23 billion, ordinary income of ¥24 billion, and net income of ¥12 billion on a consolidated basis.

In fiber operations, we will accelerate the shift of polyester operations toward special-function products in order to enhance profitability, while in the field of polyvinyl alcohol fiber we will sustain our efforts to increase sales in areas where we can take advantage of special features such as high strength and alkali resistance.

In chemical operations, we will be seeking to augment sales in business areas where demand is continuing to expand, including poval, "EVAL," thermoplastic elastomers, and optical screens. We will also be aggressively developing our activities in the areas of electronic information technology, eco-friendly, environment business, and medical products, and will put operations in the fields of man-made leather and fine chemicals back on the growth track. In these ways, we are committed to the achievement of growth in both sales and profits.

The projections for fiscal 2001 results are premised on an average yen exchange rate of ¥115 against the U.S. dollar and ¥110 against the euro, and on an average price of Dubai crude oil of $23 per barrel.

The dividend for the fiscal year is projected at ¥9 per share of common stock, comprising an ordinary dividend of ¥8 and a special dividend of ¥1.

CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Thousands of U.S.dollars (Note 1) 2001
ASSETS			
Current assets:			
Cash and cash equivalents	**¥40,171**	¥13,869	***$323,960***
Marketable securities (Note 2)	**14,687**	26,033	***118,444***
Notes and accounts receivable:			
Trade	**96,025**	89,102	***774,395***
Unconsolidated subsidiaries and affiliates	**918**	789	***7,403***
Other	**4,396**	3,634	***35,452***
Loans receivable from unconsolidated subsidiaries and affiliates	**640**	541	***5,161***
Allowance for doubtful accounts	**(689)**	(696)	***(5,556)***
	101,290	93,370	***816,855***
Inventories	**75,545**	75,120	***609,234***
Deferred income taxes	**5,355**	3,761	***43,185***
Other current assets	**2,606**	1,140	***21,016***
Total current assets	**239,654**	213,293	***1,932,694***
Property, plant and equipment:			
Land	**24,349**	25,176	***196,363***
Buildings	**86,635**	86,213	***698,669***
Machinery and equipment	**359,462**	351,695	***2,898,887***
Construction in progress	**7,897**	4,356	***63,686***
	478,343	467,440	***3,857,605***
Less accumulated depreciation	**(350,875)**	(339,097)	***(2,829,637)***
	127,468	128,343	***1,027,968***
Investments and other assets:			
Investment securities (Note 2)	**71,397**	80,910	***575,782***
Investments in unconsolidated subsidiaries and affiliates	**2,755**	2,687	***22,218***
Loans receivable from:			
Unconsolidated subsidiaries and affiliates	**5,616**	5,345	***45,290***
Other	**1,326**	1,293	***10,694***
Deferred income taxes	**6,323**	7,196	***50,992***
Other	**59,244**	65,988	***477,773***
Allowance for doubtful accounts	**(1,304)**	(1,289)	***(10,516)***
	145,357	162,130	***1,172,233***
	¥512,479	¥503,766	***$4,132,895***

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

See Notes to consolidated financial report.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

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

	Yen 2001	Yen 2000	*U.S.dollars 2001*
Net income per share:			
Primary	**¥10.56**	¥20.00	***$0.09***
Fully diluted	**¥10.46**	¥19.42	***$0.08***

See Notes to consolidated financial report.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

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

See Notes to consolidated financial report.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen				
Years ended March 31, 2001 and 2000	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on revaluation of securities (Note 2)	Cumulative translation adjustments
Balance at March 31, 1999	¥78,660	¥74,225	¥107,029	–	–
Net income			7,452		
Conversion of convertible debentures	114	114			
Stock issued on exercise of warrants	10,181	12,808			
Cash dividends, ¥9.00 per share			(3,301)		
Bonuses to directors and statutory auditors			(62)		
Effect of changes in reporting entity			33		
Translation adjustments					(4,496)
Balance at March 31, 2000	88,955	87,147	111,151	–	(¥4,496)
Net income			4,045		
Cash dividends, ¥9.00 per share			(3,446)		
Bonuses to directors and statutory auditors			(60)		
Effect of changes in reporting entity			(68)		
Change in unrealized gain on revaluation of securities (Note 2)				3,355	
Translation adjustments					2,887
Balance at March 31, 2001	¥88,955	¥87,147	¥111,622	¥3,355	(¥1,609)
	Thousands of U.S.dollars (Note 1)				
Balance at March 31, 2000	*$717,379*	*$702,798*	*$896,379*	–	*($36,258)*
Net income			*$32,621*		
Cash dividends, $0.07 per share			*($27,790)*		
Bonuses to directors and statutory auditors			*($485)*		
Effect of changes in reporting entity			*($548)*		
Change in unrealized gain on revaluation of securities (Note 2)				*$27,057*	
Translation adjustments					*$23,282*
Balance at March 31, 2001	***$717,379***	***$702,798***	***$900,177***	***$27,057***	***($12,976)***

See Notes to consolidated financial report.

SEGMENT INFORMATION

Industrial segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Net sales and Operating income

Year ended March 31, 2001	Millions of yen Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
Fibers and textiles	¥90,822	¥858	¥91,680	¥1,720
Chemical products	151,007	2,091	153,098	12,715
Man-made leather, nonwoven fabrics and fastening materials	31,641	239	31,880	2,028
Diversified businesses	40,181	15,858	56,039	3,359
Total	313,651	19,046	332,697	19,822
Elimination	—	(19,046)	(19,046)	109
Consolidated total	¥313,651	¥ —	¥313,651	¥19,931

Year ended March 31, 2000	Millions of yen Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
Fibers and textiles	¥98,088	¥1,817	¥99,905	¥2,769
Chemical products	144,435	2,592	147,027	12,160
Man-made leather, nonwoven fabrics and fastening materials	33,290	338	33,628	2,402
Diversified businesses	40,631	18,636	59,267	3,629
Total	316,444	23,383	339,827	20,960
Elimination	—	(23,383)	(23,383)	(639)
Consolidated total	¥316,444	¥ —	¥316,444	¥20,321

Year ended March 31, 2001	*Thousands of U.S.dollars (Note 1)* *Net sales to outside customers*	*Net sales to intersegment*	*Net sales*	*Operating income*
Fibers and textiles	*$732,436*	*$6,919*	*$739,355*	*$13,871*
Chemical products	*1,217,798*	*16,863*	*1,234,661*	*102,540*
Man-made leather, nonwoven fabrics and fastening materials	*255,170*	*1,928*	*257,098*	*16,355*
Diversified businesses	*324,040*	*127,887*	*451,927*	*27,089*
Total	*2,529,444*	*153,597*	*2,683,041*	*159,855*
Elimination	—	*(153,597)*	*(153,597)*	*879*
Consolidated total	*$2,529,444*	*$ —*	*$2,529,444*	*$160,734*

See Notes to consolidated financial report.

Industrial segment information
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Identifiable assets, Capital expenditures and Depreciation and amortization

	Millions of yen		
Year ended March 31, 2001	Identifiable assets	Capital expenditures	Depreciation and amortization
Fibers and textiles	**¥73,841**	**¥2,722**	**¥3,246**
Chemical products	**162,677**	**9,439**	**9,576**
Man-made leather, nonwoven fabrics and fastening materials	**35,231**	**1,556**	**2,241**
Diversified businesses	**58,304**	**2,097**	**1,530**
Total	**330,053**	**15,814**	**16,593**
Elimination and Corporate	**182,426**	**—**	**—**
Consolidated total	**¥512,479**	**¥15,814**	**¥16,593**

	Millions of yen		
Year ended March 31, 2000	Identifiable assets	Capital expenditures	Depreciation and amortization
Fibers and textiles	¥78,511	¥2,965	¥3,406
Chemical products	147,081	9,529	9,327
Man-made leather, nonwoven fabrics and fastening materials	36,830	1,524	2,503
Diversified businesses	58,278	5,746	1,533
Total	320,700	19,764	16,769
Elimination and Corporate	183,066	—	—
Consolidated total	¥503,766	¥19,764	¥16,769

	Thousands of U.S.dollars (Note 1)		
Year ended March 31, 2001	*Identifiable assets*	*Capital expenditures*	*Depreciation and amortization*
Fibers and textiles	***$595,492***	***$21,952***	***$26,177***
Chemical products	***1,311,911***	***76,121***	***77,226***
Man-made leather, nonwoven fabrics and fastening materials	***284,121***	***12,548***	***18,073***
Diversified businesses	***470,194***	***16,911***	***12,339***
Total	***2,661,718***	***127,532***	***133,815***
Elimination and Corporate	***1,471,177***	***—***	***—***
Consolidated total	***$4,132,895***	***$127,532***	***$133,815***

See Notes to consolidated financial report.

Geographic Segment Information
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2001	Millions of yen Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
Domestic (inside Japan)	**¥276,113**	**¥20,231**	**¥296,344**	**¥17,674**	**¥278,770**
Outside Japan	**37,538**	**3,831**	**41,369**	**2,108**	**55,300**
Total	**313,651**	**24,062**	**337,713**	**19,782**	**334,070**
Elimination and Corporate	**—**	**(24,062)**	**(24,062)**	**149**	**178,409**
Consolidated total	**¥313,651**	**¥ —**	**¥313,651**	**¥19,931**	**¥512,479**

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

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

See Notes to consolidated financial report.

Notes to consolidated financial report
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial report

In preparing the consolidated financial report, certain reclassifications have been made to the Consolidated Financial Statements issued domestically in order to present it in a form which is more familiar to readers outside Japan. In addition, certain reclassifications of previously reported amounts have been made to conform with current classifications.

The United States dollar amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥124=$1, the approximate exchange rate prevailing on March 31, 2001. The translations should not be construed as representations that the Japanese yen amounts have been or could have been or could in the future be, converted into United States dollars at that or any other rate.

2. Accounting procedures employed for the consolidated financial report which are different from those used in financial statements for a previous fiscal year:

・ In accordance with the new accounting standard in Japan "Accounting Standard of Financial Instruments", which is effective on and after April 1, 2000, marketable securities and investment securities are classified in the three categories, i.e. held-to-maturity, trading or available-for-sale securities. Trading securities are carried at fair values with unrealized gains or loss to be included in income, and held-to-maturity securities are carried at amortized cost. Available-for-sale securities are carried at fair value with unrealized gains or losses to be recorded as a component of shareholders' equity, net of applicable taxes. Moreover, available-for-sale securities with maturity of one year or less and trading securities are classified in current assets, and other securities are classified in Investments and other assets. At beginning of the year ended March 31, 2001, adoption of the Standard caused reclassifications of securities between current assets and non-current assets, and net effect of the reclassifications was to increase securities in current assets by ¥368 million ($2,968 thousand), and decrease securities included in Investments and other assets by the same amount as of April 1, 2000. Classification of securities in the balance sheet as of March 31, 2000 was remained unchanged.

・ In accordance with the new accounting standard in Japan "Accounting Standard of Employees' Retirement Benefit", which is effective on and after April 1, 2000, a company is required to recognize a pension liability to cover the amount of projected benefit obligation in excess of plan assets at fair value, considering unrecognized items, plus previously recognized unfunded accrued retirement benefit. The effect of adoption of the Standard was to decrease income before income taxes for the year ended March 31, 2001 by ¥8,181 million ($65,976 thousand).

- Effective April 1, 2000, the Company adopted the amended "Accounting Standards for Foreign Currency Transactions, etc". The effect of adoption of the Standard was to increase income before income taxes for the year ended March 31, 2001 by ¥1,109 million ($8,944 thousand).