

# Management Policy

## Corporate Philosophy

At the center of our corporate philosophy is the desire to be known as an international company whose activities always give rise to new expectations.

We have been pursuing this goal by taking our place on the global stage with conviction and by persisting in maximizing our potential as a unique chemical enterprise of distinct originality. We have also worked to secure the support of our shareholders, employees, and business partners, as well as our regional community.

In our growth strategy, we have taken care to balance business expansion and corporate health, and have acted as a responsible corporate citizen of our community and in our environment.

## Medium-Term Strategy

In running our operations, we have been following the Company's fourth 5-year medium-term business plan, which started in fiscal 1996. The plan assigns priority to: a) boosting the comprehensive strength of the Kuraray Group; b) creating new businesses; c) building an effective management system; d) raising a new corporate culture. By working towards these four main points, we endeavor to realize the objective of 'Continuing Our Global Development as a Unique Chemical Enterprise Into the 21st Century.'

As part of these efforts, we made significant investments in our core operations during the first two years of the management plan. This period served to lay the foundation for realizing our 5-year agenda, while the remaining three years have been dedicated to implementation. In Japan, we invested in additional capacity for the thermoplastic elastomers "SEPTON" and "HYBRAR" and for the man-made leather "CLARINO." Overseas, we set up a new plant for Poval in Singapore

and another one for the EVOH resin "EVAL" in Belgium. All facilities went on stream as scheduled without experiencing problems.

Fiscal 2000, ending March 31, 2001, marks the final year of the management plan, a compelling reason for us to run our business with the focus on maximizing the potential of these investments.

### Dividend Policy

Shareholder participation in the Company's earnings remains a top-ranking management issue. To assure both sustained earnings growth and an adequate dividend level, as for now, a dividend policy has been adopted with a payout ratio targeting 30% and cash dividends payable linked to business performance under application of a basic dividend benchmark of ¥8. Retained funds, on the other hand, will be applied to strengthening and expanding the organization through strategic investments, including M&A transactions, as found necessary both in Japan and overseas.

### Future Issues

Under the framework of its basic management policies, the Company pursues a course of expansion with due regard for corporate health while strengthening the foundations of its core businesses and developing its global operations. Capital expenditures on new facilities, designated business platforms for the next century, are making good progress. At the same time, amid efforts to strengthen the Company's international profile, we are working to speed up earnings contributions from completed facilities.

Fiscal 2000 marks the final year of our fourth medium-term management plan, and also requires us to formulate goals and objectives for the next medium-term planning period. In the course of this process we will also map out our long-range strategies. Among other issues, the focus will be on raising the efficiency of operating and administrative systems through IT applications as measures towards creating a new management system and determining the Group's overall future direction.

The Company highly values the views of its shareholders and investors, and to better convey this management policy, an Office of Investor Relations was set up and started operating in the term under review. This step widens the flow of communication from the dissemination of corporate news to the aggregation of shareholder opinions, and allows incorporating this information into the management process.

We believe that involvement with the regional community and the environment is at the basis of corporate activity. Hence, it is logical that we persist in our efforts to reduce the burden on the environment and develop environmentally sound products. At the same time, we continue to invest in the thermal recycling of plastic waste, a reflection of our desire to contribute to the system of recycling-based manufacturing. We have been participating in Responsible Care activities since the establishment of the Japan Responsible Care Association. As part of these activities, we have acquired ISO14001 certification, the international standard for environmental management systems, for our Kashima Plant, Okayama Plant, and Nakajo Plant. Preparations to acquire ISO14001 for our other plants and research facilities in Japan are making progress, and we expect the certifications to be awarded later this year.

# Business Performance

## Conditions During the Term

The Kuraray Group's business environment remained severe during the term under review against the background of a sluggish recovery by the Japanese economy, aggravated by the yen's steep appreciation and sharply rising prices of crude oil and raw materials. In these circumstances, the Group worked to minimize the decline in earnings by expanding unit sales - centered on in-house developed materials - and reducing costs.

Despite these efforts, net sales on a consolidated basis declined by ¥20,022 million (6.0%) from the previous term, to ¥316,444 million, while operating income was down ¥6,827 million (25.1%) at ¥20,321 million. Net income declined by ¥5,719 million (43.4%) to ¥7,452 million, due to special provision for retirement benefits by the parent company.

Segmental breakdowns of business results are as follows.

## 1. Segmentation by Type of Business

### a. Fibers and Textiles

Net sales by the Company's Fibers and Textiles Division declined ¥5,032 million, or 4.9%, from the previous term, to ¥98,088 million, whereas operating income rose ¥83 million, or 3.1%, to ¥2,769 million.

(1) The polyester business recorded a decline in net sales against the background of sluggish consumption in the Japanese market, but an improvement was seen in earnings thanks to expanded sales of high-quality products and cost reductions.

(2) Although sales of "KURALON" for traditional uses stagnated, net sales overall held firm, thanks to increased sales of "KURALON" for applications that make the most of its unique properties, such use as an asbestos substitute in fiber-reinforced cement. Growth in demand

was also seen for the new synthetic fiber "KURALON K-II," mass-production of which commenced last year. As a result, net sales increased while earnings remained flat from the previous term's level.

(3) A decline in demand pulled down sales of rayon in both the Japanese and overseas markets, and despite efforts to reduce costs, this business remained in the red.

(4) The woven and knitted products business, which has bases in Southeast Asia, trended as per expectations, posting an increase in net sales over the previous term.

## **b. Chemical Products**

Net sales by the Chemical Products Division rose ¥2,364 million, or 1.7%, to ¥144,435 million but operating income fell ¥4,341 million, or 26.3%, to ¥12,160 million.

(1) Poval enjoyed firm sales in the Japanese market for use in polyvinyl butyral safety glass interlayers, while poval film for LCDs also posted good sales. In addition, the Singapore plant - Poval Asia Pte Ltd - a joint venture with The Nippon Synthetic Chemical Industry Co., Ltd., began operation on schedule from the term under review. Thanks to these various factors, total net sales registered an increase over the previous term. Earnings, however, declined as a result of higher fuel and raw material costs and start-up loss relating to the establishment of the Singapore joint venture.

(2) Demand in Japan for an EVOH resin "EVAL," was very strong during the term under review, thanks to growing environmental awareness. Business in the U.S. also followed a firm trend, while a new plant began operation in Belgium. Despite these positive factors, however, both net sales and earnings declined, partly as a result of the yen's appreciation.

Thanks to the establishment of new plants during the term by both the poval and "EVAL" businesses, Kuraray further cemented its position as the world's No. 1 enterprise.

(3) 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 during the latter half of the term, leading to a

year-on-year growth in net sales. An improvement was also seen in earnings thanks to effective cost-cutting measures.

(4) In the field of isoprene chemical products, strong growth was seen in demand for thermoplastic elastomers such as "SEPTON," a substitute for sulfurized rubber, and "HYBRAR," used in making environmentally friendly wrapping film. Production facilities that started operation during the term got smoothly underway according to schedule. However, overall net sales and earnings both declined from the previous term owing to stiff competition in the fields of fine chemicals such as agrochemical intermediates and raw materials of vitamins.

(5) Among other main chemical products, sales of activated carbon products posted a year-on-year decline owing to the effect of the cutback in the nation's public investment budget, but earnings managed to stay flat thanks to the promotion of cost reduction. In processed resin products, the development of new products and new applications led to increased earnings despite a drop in net sales.

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

Net sales for the term by the man-made leather, nonwoven fabrics, and fastening materials business declined ¥2,267 million, or 6.4%, to ¥33,290 million, while operating income was down ¥2,248 million, or 48.3%, at ¥2,402 million.

(1) "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, which had been doing well up to and including the previous term.

(2) In the Company's nonwoven fabric business, finished products did well, while in the fastener business, the "FREEMAGIC" fastener, which boasts special features, enjoyed increased sales, principally for clothing use. All businesses recorded growth in net sales, while earnings were flat.

#### **d. Diversified Business**

Net sales by the Diversified Business Division fell ¥15,087 million, or 27.1%, from the previous term to ¥40,631 million, whereas operating income increased ¥117 million, or 3.3%, to ¥3,629 million.

(1) In the medical products business, the Company's contact lenses were hit by severe competition from disposable contact lenses, causing prices to decline, but increased sales were recorded by dental materials, where overseas developments continued smoothly. As a result, although net sales declined, earnings held flat.

(2) The Kuraray Group's engineering business registered a sharp decrease in sales due to the completion in the previous term of a large-scale plant project for Singapore. The consulting business recorded increased sales thanks to continued brisk business related to the acquisition of ISO series certifications.

## **2. Segmentation by geographical region**

### **a. Japan**

Faced with a difficult business environment in which consumer spending was slack and demand from the automotive industry and housing industry fell, sales totaled ¥283,491 million, while operating income amounted to ¥17,862 million.

### **b. Other regions**

Sales totaled ¥32,953 million, while operating income amounted to ¥2,580 million.

1) In the US, despite robust growth in the chemical products business, an adverse exchange rate led to decreases in sales and income.

2) In Europe, while the opening of the "EVAL" Plant in Belgium contributed to growth, an unfavorable exchange rate and a fall in demand for man-made leather resulted in a decrease in both sales and earnings.

3) In Southeast Asia, output from the newly opened Poval Plant in Singapore, a joint venture with The Nippon Synthetic Chemical Industry Co., Ltd., contributed to a rise in net sales. However, earnings were

held down by start-up loss related to the establishment of the plant.

### 3. Cash Flows

In the term under review, flows of cash and cash equivalents (hereafter, cash) were as follows.

On a consolidated basis, cash outflows of ¥42,752 million used in investing activities exceeded cash inflows of ¥25,066 million provided by operating activities and ¥3,040 million provided by financing activities. As a result, cash at the end of the period decreased by ¥15,048 million (52.0%) from the previous term to ¥13,869 million.

The following is a breakdown of cash flow information by operating, investing, and financing activities.

#### a) Cash flows from operating activities

In the term under review, net income in the amount of ¥7,452 million and depreciation and amortization of ¥16,769 million were partially cancelled out by increase in inventories. As a result, net cash provided by operating activities amounted to ¥25,066 million.

#### b) Cash flows from investing activities

In the term under review, investment activities included capital expenditures and increase in marketable securities for the purpose of building reserves. As a result, net cash used in investment activities amounted to ¥42,752 million.

#### c) Cash flows from financing activities

In the term under review, the Company financed investment in the "EVAL" plant in Europe by increasing the volume of its loans, while the issuance of stock following the exercise of warrants resulted in an improvement in the Company's cash position. These inflows were partially offset by warrant bond redemption and dividend payments by the parent company. As a result, net cash provided by financing activities amounted to ¥3,040 million.

## 4. Other

### a) Dividend payments

The Company will pay a dividend of ¥9 per share. The dividend comprises an ordinary dividend of ¥8 per share and a special dividend of ¥1 per share. The Company has paid an ordinary dividend of ¥4 per share and a special dividend of ¥0.50 per share for the interim term.

### b) The Y2K (Year 2000) Problem

In the term under review, the possible occurrence of computer malfunctions as a result of the Y2K Problem was a topic of concern. The Company made thorough efforts to ensure that its operational support systems and production control systems would be unaffected by the Y2K problem. As a result, no major malfunctions that could have significantly interrupted business operations occurred. Y2K-related expenses, including software costs and outsourcing expenses, totaled ¥229 million (note: ¥58 million incurred during the term under review).

## Outlook for Fiscal 2000

The Japanese economy is expected to recover in the second half of fiscal 2000. Although a slowdown in the current expansion of the US economy cannot be entirely ruled out, assuming that it remains largely unchanged, the Company estimates sales of ¥335 billion and ordinary income of ¥26 billion. Kuraray estimates net income of ¥9 billion, taking into account the lump-sum amortization of Kuraray's remaining prior service costs (¥9.5 billion) in fiscal 2000, and losses arising from the Company's scheduled withdrawal from the rayon business in March 2001.

Strong sales growth in the fiber business is unlikely due to an expected lag in the recovery of domestic demand. The Company aims to improve its earnings situation by specializing in the manufacture of distinctive and value-added polyester products.

In the chemical products business, we will aim at raising

sales and earnings by expanding our core businesses such as poval, "EVAL", and thermoplastic elastomers. The absence of start-up loss for the establishment of new plants in fiscal 2000 and the improvement in the profitability of acrylic resins are expected to enhance business performance.

Projections have been made assuming an average exchange rate of ¥105 against the US dollar and a Dubai crude oil price of \$21 per barrel.

The Company is expected to make annual dividend payments of ¥9 per share, comprising ¥8 in ordinary dividends, and ¥1 in special dividends.

Years ended March 31, 2000 and 1999	Millions of yen		Thousands of U.S.dollars
	2000	1999	2000
Net sales	¥316,444	¥336,466	\$2,985,321
Cost of sales	235,603	250,195	2,222,670
Selling, general and administrative expenses	60,520	59,123	570,943
Operating income	20,321	27,148	191,708
Net income	7,452	13,171	\$70,302
Total assets	503,766	487,991	4,752,509
Shareholders' equity	282,755	259,909	2,667,500
Equity ratio(%)	56.1	53.3	56.1
	Yen per share		
Net income per share			
primary	20.00	36.83	\$0.19
fully diluted	19.42	34.56	\$0.18
Book value per share	738.53	714.21	\$697
Return on Equity(%)	2.7	5.3	2.7
Return on Assets(Operating income/ASSETS)(%)	4.1	5.6	4.1

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

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

# CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

March 31, 2000 and 1999	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	¥13,869	¥28,917	\$130,840
Marketable securities	26,033	10,072	245,594
Notes and accounts receivable:			
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)
	93,370	93,940	880,849
Inventories	75,120	70,624	708,679
Deferred income taxes	3,761	3,604	35,481
Other current assets	1,140	956	10,755
Total current assets	213,293	208,113	2,012,198
<b>Property, plant and equipment:</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
	467,440	454,552	4,409,811
Less accumulated depreciation	(339,097)	(325,526)	(3,199,029)
	128,343	129,026	1,210,782
<b>Investments and other assets:</b>			
Investment securities	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	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)
	162,130	150,852	1,529,529
	¥503,766	¥487,991	\$4,752,509

March 31, 2000 and 1999	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term bank loans	¥3,805	¥5,809	\$35,896
Current portion of long-term debt	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	4,312	4,305	40,679
Deferred income taxes	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	94,225	93,923	888,915
Deferred income taxes	3,164	2,866	29,849
Accrued retirement benefits	22,164	12,684	209,094
Other	13,494	9,978	127,302
Total long-term liabilities	133,047	119,451	1,255,160
Minority interests	372	370	3,509
<b>Shareholders' equity:</b>			
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
Issued and outstanding - 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

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

Cash and cash equivalents included 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 according to the issuance of accounting standards for preparation of consolidated statement of cash flows, previously the Companies classified as cash equivalents all time deposits with original maturities of one year or less.

The Companies changed its method of accounting for amortization of prior service costs with the contributory pension plan from a cash basis to an accrual basis in order to provide a more appropriate allocating costs of pension costs and to make its financial position sound.

The Companies changed its presentation of cumulative translation adjustments from "Investments and other assets" to "Shareholders' equity" to conform with an amendment to the Japanese Securities and Exchange Law and related accounting regulations.

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

# CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000 and 1999	Millions of yen		Thousands of U.S.dollars
	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>	<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	<b>(9,492)</b>	-	<b>(89,547)</b>
Special charge for pension contribution	-	(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>			
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
<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>

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

The Companies changed its method of accounting for amortization of prior service costs with the contributory pension plan from a cash basis to an accrual basis in order to provide a more appropriate allocating costs of pension costs and to make its financial position sound.

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

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2000 and 1999	Millions of yen			Cumulative translation adjustments
	Common stock	Additional paid-in capital	Retained earnings	
<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			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	
Cumulative translation adjustments				(4,496)
<b>Balance at March 31, 2000</b>	¥88,955	¥87,147	¥111,151	(¥4,496)

<i>Balance at March 31, 1999</i>	<i>Thousands of U.S. dollars</i>			
	<i>\$742,075</i>	<i>\$700,236</i>	<i>\$1,009,708</i>	
<i>Net income</i>			<i>70,302</i>	-
<i>Conversion of convertible debentures</i>	<i>1,076</i>	<i>1,076</i>		
<i>Stock issued on exercise of warrants</i>	<i>96,047</i>	<i>120,830</i>		
<i>Cash dividends, \$0.08 per share</i>			<i>(31,142)</i>	
<i>Bonuses to directors and statutory auditors</i>			<i>(585)</i>	
<i>Effect of changes in reporting entity</i>			<i>311</i>	
<i>Cumulative translation adjustments</i>				<i>(42,415)</i>
<b><i>Balance at March 31, 2000</i></b>	<b><i>\$839,198</i></b>	<b><i>\$822,142</i></b>	<b><i>\$1,048,594</i></b>	<b><i>(\$42,415)</i></b>

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

The Companies changed its presentation of cumulative translation adjustments from "Investments and other assets" to "Shareholders' equity" in consolidated balance sheets to conform with an amendment to the Japanese Securities and Exchange Law and related accounting regulations.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and Consolidated S

Years ended March 31, 2000 and 1999	Millions of yen	
	2000	1999
<b>Cash flows from operating activities</b>		
Net income	¥7,452	¥13,171
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	16,769	15,557
Write-down of investment securities	-	130
Provision for accrued retirement benefits	9,488	1,097
Gain on sales of properties	(948)	(1,512)
Gain on sales of investment securities	(2,191)	-
Exchange loss on loans receivable to subsidiaries	2,559	-
(Increase) decrease in notes and accounts receivable	(143)	4,979
(Increase) decrease in inventories	(6,203)	5,119
Increase (decrease) in notes and accounts payable	2,686	(9,591)
Other, net	(4,403)	(15,406)
<b>Net cash provided by operating activities</b>	<b>25,066</b>	<b>13,544</b>
<b>Cash flows from investing activities</b>		
(Increase) decrease in marketable securities	(2,498)	7,656
Capital expenditures	(19,980)	(33,497)
Proceeds from sales of properties	1,443	3,353
Payment for purchases of investment securities	(29,327)	(21,695)
Proceeds from sales of investment securities	13,474	12,901
Other, net	(5,864)	(1,949)
<b>Net cash used in investing activities</b>	<b>(42,752)</b>	<b>(33,231)</b>
<b>Cash flows from financing activities</b>		
(Decrease) increase in short-term bank loans	(594)	198
Proceeds from long-term debt	7,028	31,779
Repayments of long-term debt	(20,457)	(16,113)
Proceeds from exercise of warrants	20,364	9,922
Dividends paid	(3,301)	(3,190)
Other, net	-	(6,275)
<b>Net cash provided by financing activities</b>	<b>3,040</b>	<b>16,321</b>
<b>Effect of exchange rate changes on cash &amp; cash equivalents</b>	<b>(553)</b>	<b>(182)</b>
<b>Effect of changes in reporting entities</b>	<b>151</b>	<b>1,363</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(15,048)</b>	<b>(2,185)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>28,917</b>	<b>31,102</b>
<b>Cash and cash equivalents, end of period</b>	<b>¥13,869</b>	<b>¥28,917</b>

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

Cash and cash equivalents included 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 according to the issuance of accounting standards for preparation of consolidated statement of cash flows, previously the company classified as cash equivalents all time deposits with original maturities of one year or less.

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**SEGMENT INFORMATION**  
Industrial segment information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Net sales and Operating income

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
<b>Total</b>	<b>316,444</b>	<b>23,383</b>	<b>339,827</b>	<b>20,960</b>
Elimination	-	(23,383)	(23,383)	(639)
<b>Consolidated total</b>	<b>¥316,444</b>	<b>¥ -</b>	<b>¥316,444</b>	<b>¥20,321</b>

Year ended March 31,1999	Millions of yen			
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
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
<b>Total</b>	<b>336,466</b>	<b>20,660</b>	<b>357,126</b>	<b>27,349</b>
Elimination	-	(20,660)	(20,660)	(201)
<b>Consolidated total</b>	<b>¥336,466</b>	<b>¥ -</b>	<b>¥336,466</b>	<b>¥27,148</b>

Year ended March 31,2000	Thousands of U.S.dollars			
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
<i>Fibers and textiles</i>	<i>\$925,358</i>	<i>\$17,142</i>	<i>\$942,500</i>	<i>\$26,123</i>
<i>Chemical products</i>	<i>1,362,595</i>	<i>24,452</i>	<i>1,387,047</i>	<i>114,717</i>
<i>Man-made leather, nonwoven fabrics and fastening materials</i>	<i>314,057</i>	<i>3,189</i>	<i>317,246</i>	<i>22,660</i>
<i>Diversified businesses</i>	<i>383,311</i>	<i>175,811</i>	<i>559,122</i>	<i>34,236</i>
<b>Total</b>	<b>2,985,321</b>	<b>220,594</b>	<b>3,205,915</b>	<b>197,736</b>
<i>Elimination</i>	<i>-</i>	<i>(220,594)</i>	<i>(220,594)</i>	<i>(6,028)</i>
<b>Consolidated total</b>	<b>\$2,985,321</b>	<b>\$ -</b>	<b>\$2,985,321</b>	<b>\$191,708</b>

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

Industrial segment information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Identifiable assets, Capital expenditure, Depreciation and amortization

Year ended March 31,2000	Millions of yen		
	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
<b>Total</b>	<b>320,700</b>	<b>19,764</b>	<b>16,769</b>
Elimination and Corporate	183,066	-	-
<b>Consolidated total</b>	<b>¥503,766</b>	<b>¥19,764</b>	<b>¥16,769</b>

Year ended March 31,1999	Millions of yen		
	Identifiable assets	Capital expenditures	Depreciation and amortization
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
<b>Total</b>	<b>318,707</b>	<b>33,497</b>	<b>15,557</b>
Elimination and Corporate	169,284	-	-
<b>Consolidated total</b>	<b>¥487,991</b>	<b>¥33,497</b>	<b>¥15,557</b>

Year ended March 31,2000	Thousands of U.S.dollars		
	Identifiable assets	Capital expenditures	Depreciation and amortization
<i>Fibers and textiles</i>	<i>\$740,670</i>	<i>\$27,972</i>	<i>\$32,132</i>
<i>Chemical products</i>	<i>1,387,557</i>	<i>89,896</i>	<i>87,991</i>
<i>Man-made leather, nonwoven fabrics and fastening materials</i>	<i>347,453</i>	<i>14,377</i>	<i>23,613</i>
<i>Diversified businesses</i>	<i>549,792</i>	<i>54,208</i>	<i>14,462</i>
<b>Total</b>	<b>3,025,472</b>	<b>186,453</b>	<b>158,198</b>
<i>Elimination and Corporate</i>	<i>1,727,037</i>	-	-
<b>Consolidated total</b>	<b>\$4,752,509</b>	<b>\$186,453</b>	<b>\$158,198</b>

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

Geographic Segment Information  
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

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, 1999	Millions of yen				
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
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

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

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