

**Kuraray Interim**  
**Earnings Presentation**  
**FY2003**

**President Yasuaki Wakui**

November 2003



# 1<sup>st</sup> Half FY2003 Overview

## (1) External Environment

- Domestic economy remained in the doldrums
- Uncertainty over social and economic conditions continued overseas
- Rise in the cost of raw materials, Yen's appreciation against dollar, Yen's depreciation against Euro

## (2) Kuraray's Response

- Focused expansion of growth businesses
- Improvement of earning structure
- Efforts to raise selling prices

	1HFY03 (Results)	1HFY03 (Estimate)	1HFY02
Yen/\$	118	120	123
Yen/Euro	134	120	117
Crude Oil/bl	\$26	\$23	\$22

### Enhancement of Global Competitiveness

- Split off of polyester staple production operation as a separate company(April 03)
- Decision made to expand opto-screen production capacity (increase by 1.8 million screens; scheduled to start operation in April 04)
- Decision made to expand production capacity for methacrylic sheets (increase by 5,000 tons; scheduled to start operation in April 04)
- Enhancement of <Genestar> production capability (total capability to be increased to 3,000 tons by expansion of raw materials in July 04)
- Decision made to expand Poval resin production capacity in Europe (increase by 20,000 tons; scheduled to start operation in early 05)

### Enhancement of Development/Business Origination Capabilities

- Established processing and sales base for hook and loop fasteners in Shanghai. (August 03)
- Established Corporate Strategy and Planning Division (April 03)
- Construction of R&D Center in US (scheduled to start in April 04)

### Realignment of Management Structure

- Formulated Kuraray Group's corporate mission (April 03)
- Introduced executive officer positions (June 03)
- Reinforced auditor functions (June 03)
- Created Management Advisory Council (June 03)
- Created CSR Committee (June 03)
- Stock option made available to all employees (October 03)

# 1<sup>st</sup> Half FY2003 Highlights

## (1) Sales/Income/Cash flow

(Unit: billion of Yen)

	1H FY03	1H FY02	Increase/Decrease	
Sales	161.3	158.2	3.1	2.0%
Operating Income	13.7	11.5	2.2	19.1%
Recurring Income	12.4	10.0	2.4	24.5%
Net Income	8.3	3.6	4.7	129.9%

	1H FY2003	1H FY2002	Increase/ Decrease
Depreciation/Amortization	9.8	9.2	0.6
Operating Cash flow	12.9	20.6	-7.7
Capital Expenditure	13.3	8.2	5.1
Dividends	1.7	1.8	-0.1

## (2) Financial Ratios

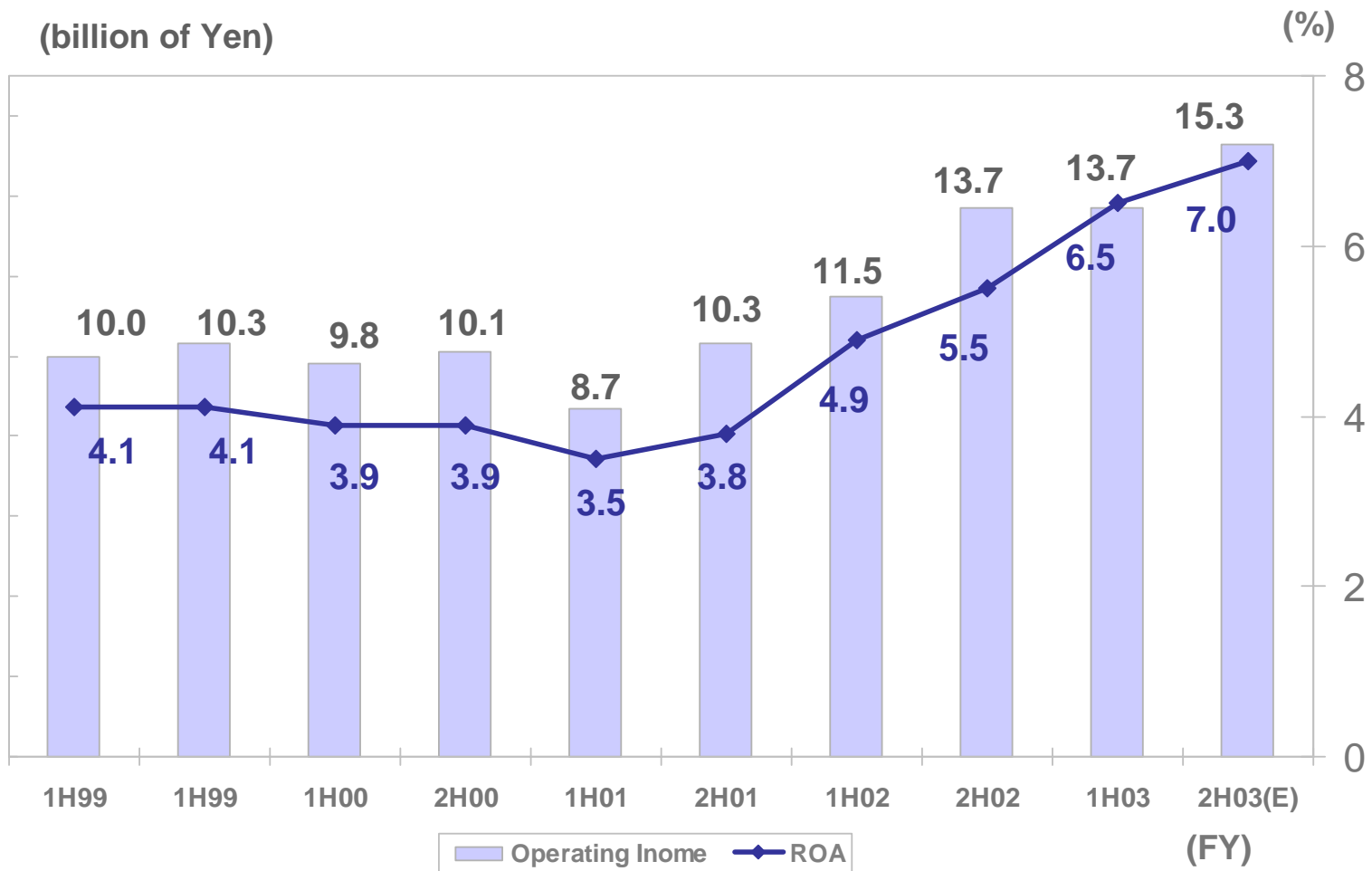
	1H FY2003	1H FY2002	Increase/ Decrease
Gross Profit Margin	29.1%	28.2%	0.9%
Operating Income Ratio	8.5%	7.3%	1.2%

	30-Sep-03	30-Sep-02	Increase/ Decrease
ROA(Annualized)	6.5%	4.9%	1.6%
Total Assets Turnover (Times)	0.76	0.67	0.09
Equity Ratio	72.0%	63.0%	9.0%
ROE(Annualized)	5.7%	2.5%	3.2%

**ROA(Annualized):**  $\text{Interim OP-Income} \times 2 / \text{Total Assets}$

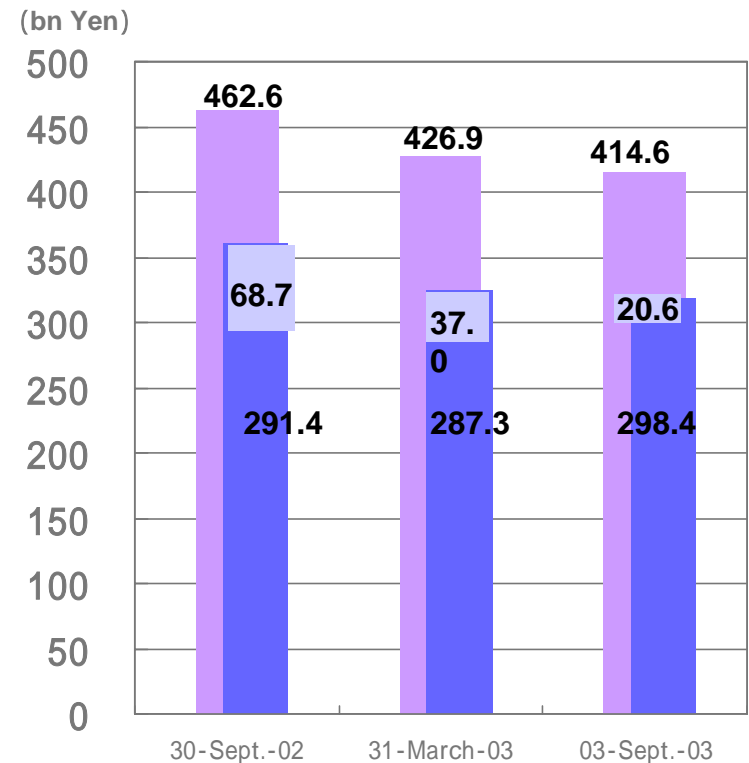
**ROE(Annualized):**  $\text{Interim Net Income} \times 2 / \text{Shareholders' Equity}$

# (3)Improvement in Operating Income and ROA



# Financial Condition

	1H FY2003	1H FY200 2	Increase/ Decrease
Inventory turnover (Months)	(2.4)	(2.5)	(-0.1)
Total asset turnover (times)	0.76	0.67	0.09
ROA (%)	6.5	4.9	1.6
Int. bearing debt ratio (%)	6.9	23.6	-16.7
Equity ratio (%)	72.0	63.0	9.0
Interest coverage ratio (times)	39.2	15.8	23.4



■ Total Asset ■ Int.bearing debt ■ Shareholder's equity

Interest coverage ration =  $(\text{OP-income} + \text{Interest received} + \text{Dividends received}) / \text{Interest expenses}$

# Segment Highlights

## (1) Sales/Operating Income

(Unit: billion of Yen)

	1H FY2003		1H FY2002		Increase/Decrease	
	Sales	OP- Income	Sales	OP- Income	Sales	OP- Income
Chemicals and Resins	76.3	11.7	70.9	8.8	5.4	2.9
Fibers and Textiles	52.5	2.8	54.4	2.5	-1.9	0.3
High performance materials, Medical products and Others	32.5	4.1	32.9	3.9	-0.4	0.2
Elimination and Corporate	-	-4.9	-	-3.7	-	-1.2
<b>Total</b>	<b>161.3</b>	<b>13.7</b>	<b>158.2</b>	<b>11.5</b>	<b>3.1</b>	<b>2.2</b>

## (2) Factors Causing Variances in Operating Income

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(Unit: billion of Yen)

	Chemicals and Resins	Fibers and Textiles	High performance materials, Medical products and Others	Elimination and Corporate	Total
Price	1.3	-0.2	-0.1	-	1.0
Sales Volume and Compositions	2.8	-0.5	0	-	2.3
Currency	0.1	0.1	-0.3	-	-0.1
Raw Material Costs	-1.7	-0.3	0.2	-	-1.8
Cost Reduction, etc.	0.4	1.2	0.4	-1.2	0.8
Total	2.9	0.3	0.2	-1.2	2.2

1H FY02

1H FY03

8.8

11.7

2.5

2.8

3.9

4.1

-3.7

-4.9

11.5

13.7

### (3)Chemicals and Resins

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(Unit: Billion of Yen)

	1H FY03	1H FY02	Increase/ Decrease
Sales	76.3	70.9	5.4
OP-Income	11.7	8.8	2.9
Asset Identifiable	176.8	167.0	9.8
ROA(%)	13.4%	10.5%	2.9%

Poval	Increase Sales/Profit	Strong performance in Europe and Japan PVA film for LCDs enjoyed strong sales
<EVAL>	Increase Sales/Profit	Food packaging and automobile fuel tanks enjoyed strong sales in Japan, US and Europe
MMA	Increase Sales/Profit	Positive effects of price increase Excellent performance by light guide plates and other optical components
Isoprene	Increase Sales/Profit	Steady performance by thermoplastic elastomers Solid performance by pharmaceutical intermediates and aroma chemicals

## (4) Fibers and Textiles

(Unit: Billion of Yen)

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	1H FY03	1H FY02	Increase/ Decrease
Sales	52.5	54.4	-1.9
OP-Income	2.8	2.5	0.3
Asset Identifiable	80.4	85.5	-5.1
ROA(%)	6.8%	5.8%	1.0%

<KURALON> <KURALON K-II>	Sales Down Increase Profit	Strong performance by FRC, rubber materials
Polyester	Sales Down Deficit reduced	Progress of restructuring measures
Man-made Leather	Increase Sales/Profit	Excellent performance by athletic shoes and other footwear
Nonwoven Fabric	Increase Sales Profit Down	Weak performance due to price decline, despite volume increase
Fastenings	Decrease Sales/Profit	Continued negative effects of users' relocation of production bases to overseas markets

## (5) High Performance Materials, Medical Products and Others

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(Unit: Billion of Yen)

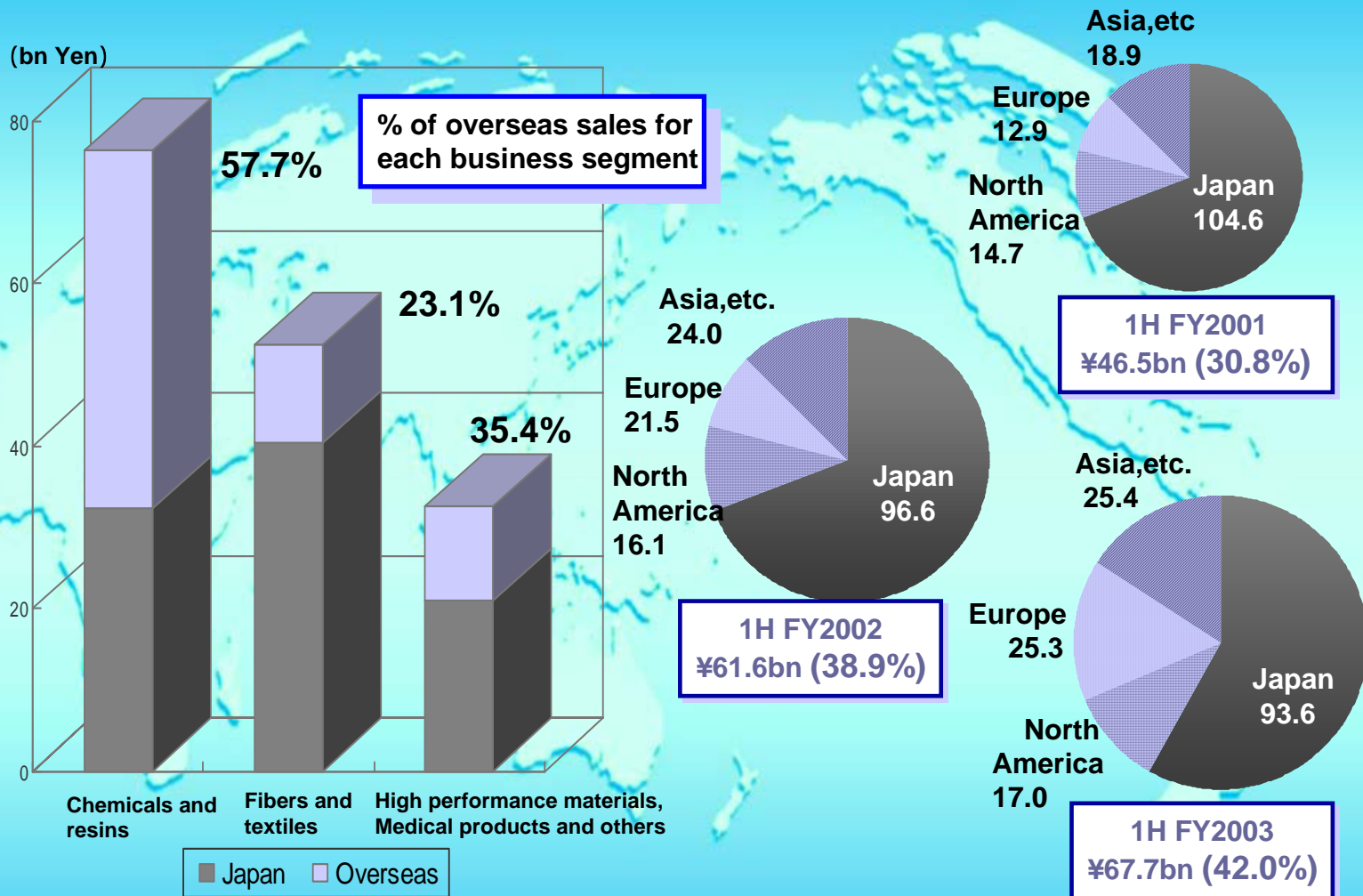
	1H FY03	1H FY02	Increase/ Decrease
Sales	32.5	32.9	-0.4
OP-Income	4.1	3.9	0.2
Asset Identifiable	77.2	77.0	0.2
ROA(%)	10.6%	10.0%	0.6%

Opto-screens	Decrease Sales/ Profit	Negative effects of SARS and stronger Yen against dollar
Medical	Decrease Sales / Profit	Steady performance by dental materials Decline in volume and price of artificial organs
High performanc e Materials	Increase Sales/Deficit reduced	Steady expansion of <Genestar> sales
Affiliated Companies (Domestic)	Decrease Sales/ Increase Profit	Excellent performance by activated carbon

# Progress of the Global Expansion

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billion of Yen



# FY2003 Outlook

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## (1) Highlights

(Unit: billion of Yen)

	1H	2H	Annual	In comparison with FY2002	
Sales	161.3	168.7	330.0	7.5	2%
Operating Income	13.7	15.3	29.0	3.8	15%
Recurring Income	12.4	14.1	26.5	4.1	18%
Net Income	8.3	6.7	15.0	6.9	85%
Capital Expenditure	13.3	15.3	28.6	9.5	50%
Depreciation/Amortization	9.8	11.0	20.8	1.7	9%

\*Major Capital Investment...EVAL EUROPE, Opto- screen, MMA resins

\*Assumption...Currency ¥110/\$, ¥130/EURO, Crude Oil(Dubai) 26\$/bl

## (2) Estimated Segment Profit

(Unit: billion of Yen)

	Sales			Operating Income		
	1H	2H	Annual	1H	2H	Annual
Chemicals and Resins	76.3	80.7	157.0	11.7	12.8	24.5
Fibers and Textiles	52.5	52.5	105.0	2.8	2.7	5.5
High performance materials, Medical products and Others	32.5	35.5	68.0	4.1	4.9	9.0
Elimination and Corporate	-	-	-	-4.9	-5.1	-10.0
<b>Total</b>	<b>161.3</b>	<b>168.7</b>	<b>330.0</b>	<b>13.7</b>	<b>15.3</b>	<b>29.0</b>

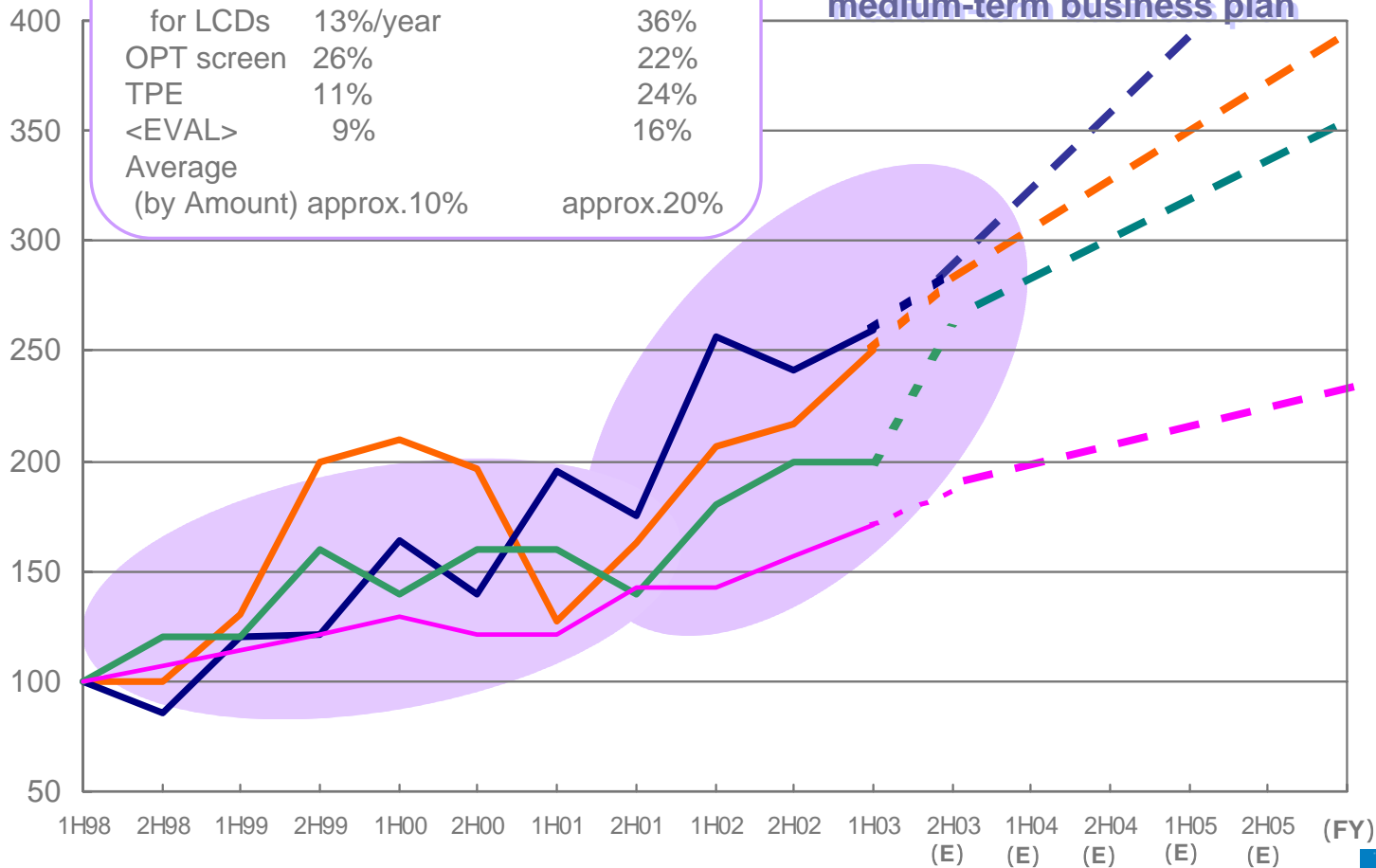
### (3) Strategies by Business Unit

Chemicals and Resins	Poval	Rollout of upward price adjustment initiative; Improvement in KSA profitability; Efficient global operation; Secure dominant share in PVA film for LCDs; Expansion of sales of water-soluble films
	<EVAL>	Expansion of sales of EVAL for use in automobile fuel tanks; Sales expansion in China/Asia in addition to Japan, US and Europe; Launch of new barrier materials
	MMA	Ensure smooth start up of the expanded production capacity in methacrylic resin for molding products; Expansion of sales and launch of new-products in optical application area
	Isoprene	Develop new applications for thermoplastic elastomers (automobiles and substitute for vinyl chloride); Expansion of sales of pharmaceutical intermediates and aroma chemicals
Fibers and Textiles	<KURALON> <KURALON K-II>	Expansion of sales of filament products and FRC application; Accelerated expansion of K-II in water-soluble and ECC areas
	Polyester	Expansion of proprietary polymer products and differentiated products; Further improvement of earning structure
	Man-made Leather	Expansion of sales to shoe-making industry; Generate increased demand for use in interior furnishing and car seats; Acceleration of new process development
	Nonwoven Fabrics Fastening	Cost rationalization and early contribution to revenue by new products; Start operation of fastening processing and sales office in Shanghai
High performance materials, Medical products and Others	Opto-screens	Expansion of sales in US and recovery of sales in China; Enhancement of product development
	Medical	Accelerated global expansion of dental materials, Development of new products; Promotion of new product launch
	High performance materials	Expansion of <Genestar> application (for connectors and automobiles); Reinforced expansion of electronic components in materials markets

# Growth Rate of "Growth Businesses"

Growth rate (by Volume)		
FY98~ FY01(3Y)	FY01~FY03(2Y)	
PVA film for LCDs	13%/year	36%
OPT screen	26%	22%
TPE	11%	24%
<EVAL>	9%	16%
Average (by Amount)	approx.10%	approx.20%

Projections for 2004 and thereafter are based on medium-term business plan



— PVA film for LCDs — OPT screen — TPE — EVAL



# Capital Expenditure Programs in the Areas of Strength<sup>17</sup>

(Unit: billion of Yen)

	FY2003	FY2004	FY2005	Details and contribution to sales	
Poal		3.0		Expansion of KSE production capacity by 20,000 tons	4.5
PVA film for LCDs			2.5	Expansion of production capacity for PVA film for LCDs	3.0
<EVAL>	10.0	3.0	(20.0)	Expansion of EE2nd line Evalca 4th line	9.0 (+18.0)
OPT-screen	2.0	2.5	3.0	1.8 million screens, etc.	8.0
Thermoplastic Elastomer		2.0	2.0	Expansion of SEPTON (Kashima, SEPCA)	6.0
MMA resin for Optical use application	2.0	2.0	0.5	Expansion of production capacity (by 5,000 tons for methacrylic sheets and by 20,000 tons for pellets)	6.0

 = Overseas



# For Speedy Commercializaion of R&D Results

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## SRDT(Strategic Research&Development Theme)

Optical device

New gas barrier materials

Next-generation man-made leather

High-end engineering plastics

# Dividend Policy

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The Company strives to pursue steady increases in dividends with consolidated payout ratio targeted at 25%, taking into account an appropriate balance between investments needed to secure future growth of the Company and distribution of profits to shareholders.

For FY2003:  
Assuming net income of ¥15billion,

**the Company plans to increase annual dividend from ¥9 to ¥10 per share.**

# Changes in Strategic Areas(1)

			Chemicals and Resins	Fibers and Textiles	High performance materials, Medical products and Others
<b>Focused Business</b>	<b>Strategic Areas</b>	IT	PVA film for LCDs	<KURALON> for battery separator	RPTV screens <GENESTAR>
		Eco-friendly	<EVAL> <SEPTON> <HYBRAR>	<KURALON> substitute for asbestos	
		Environment			PVA Gel Membranes Activated Carbon
		Medical			Dental materials Artificial organs
	<b>Diversified Areas</b>	PVA(Other uses) Isoprene Fine Chemical	<KURALON>,<KURALON K- > (Other uses) Man-made Leather		
<b>Other businesses</b> (incl.those subject to restructuring)		MMA monomer, etc.	Polyester, Nonwoven fabrics, etc.	Affiliated companies	

# Changes in Strategic Areas(2)

(unit: Billion of Yen)

			FY2001 Actual Results	FY2002 Actual Results	1H FY2003 Actual Results	FY2003 Estimate (Mid- term plan)	FY2005 Estimate
<b>Focused Business</b>	<b>Strategic Areas</b>	IT	23.0	30.0	16.0	37.0	60.0
		Eco-friendly	45.0	47.0	25.0	52.0	70.0
		Environment	10.0	13.0	6.0	14.0	16.0
		Medical	15.0	15.0	7.5	16.0	18.0
		<b>Strategic Areas Total</b>	<b>93.0</b>	<b>105.0</b>	<b>54.5</b>	<b>119.0</b>	<b>164.0</b>
	<b>Diversified Areas</b>	<b>74.0</b>	<b>95.0</b>	<b>51.0</b>	<b>97.0</b>	<b>106.0</b>	
<b>Focused Business Total</b>		<b>167.0</b>	<b>200.0</b>	<b>105.5</b>	<b>216.0</b>	<b>270.0</b>	
Other Businesses (incl. those subject to restructuring)		139.0	122.5	55.8	124.0	130.0	
<b>Total</b>		<b>306.0</b>	<b>322.5</b>	<b>161.3</b>	<b>340.0</b>	<b>400.0</b>	

[Reference]

# Estimation of Factors Causing Variances in OP- Income(FY02,FY03)

	Chemicals and Resins	Fibers and Textiles	High performance materials, Medical products and Others	Elimination and Corporate	Total					
Price	1.0	-0.4	-0.9	-	-0.3					
Sales Volume and Compositions	4.9	-0.3	1.2	-	5.8					
Currency	-0.7	-0.2	-0.8	-	-1.7					
Raw Material Costs	-2.4	-0.6	0.2	-	-2.8					
Cost Reduction, etc.	1.8	2.2	1.0	-2.2	2.8					
Total	4.6	0.7	0.7	-2.2	3.8					
FY2002	19.9	24.5	4.8	5.5	8.3	9.0	-7.8	-10.0	25.2	29.0
FY2003										



# Forward-Looking Statements

This presentation contains various forward-looking statements which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections and business plans of Kuraray and its group companies constitute forward-looking statements. Although Kuraray believes that its expectations and assumptions are reasonable, actual results and trends of Kuraray's performance could differ materially from those expressed or implied by such figures or statements due to risks and uncertainties in the future business circumstances. The factors which may cause such difference include, without limitation: (1) general market and economic conditions in Asia including Japan, the U.S., Europe and other regions; (2) fluctuations of currency exchange rates, especially between the Japanese yen and the U.S. dollar and other foreign currencies; (3) changes in raw material and fuel costs; (4) industrial competition and price fluctuations in Japan and international market; (5) advance or delay in the construction of new plants and production lines; (6) successful development of new products and technologies; and (7) changes in laws and regulations (including tax and environmental) and legal proceedings.