

KUREHA CHEMICAL

Business Report 2003

Fiscal 2003, year ended March 31, 2003



Profile

Since 1944, Kureha Chemical Industry Co., Ltd. has amassed an array of distinctive technologies as a research and development-oriented enterprise. With “Originality in the development of technology” as the conceptual core of its corporate philosophy, R&D spending at Kureha consistently ranks among the highest in the industry. The result of these expenditures has been the development of a unique lineup of products: polyvinylidene chloride-based products represented by Krewrap and others, pharmaceuticals, and Fortron KPS. These original products have given Kureha a distinctive presence in the marketplace.

Recognizing that in an environment characterized by deflation and a glut in the supply of commodities it is important to conduct business operations more closely aligned to market needs, Kureha focuses on global and specialty fields. Doing so heightens the company’s competitiveness while simultaneously enabling it to provide customers with higher added value.

CONSOLIDATED FINANCIAL HIGHLIGHTS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
For the year:			
Net sales	¥137,647	140,438	\$1,128,262
Operating income	8,289	6,290	67,946
Net income	1,453	2,034	11,915
Year-end:			
Total assets	¥173,129	189,188	\$1,419,095
Shareholders’ equity	85,866	88,817	703,824
Amounts per share (yen/dollars):			
Net income	7.13	10.05	0.06
Shareholders’ equity	442.40	447.44	3.63

FEATURE

– ATTAINING SUPERIORITY IN GLOBAL AND SPECIALTY FIELDS

Strategy for new businesses

Kureha has always strived to optimize its competitive strengths. To further enhance its high-added-value businesses, Kureha announced plans in November 2002 to restructure its operations by better prioritizing resources.

Competitive advantage in general-purpose products begins and ends with mass production and mass marketing strengths. Recognizing this, Kureha made the decision to bow out of polyvinyl chloride, modifiers for plastics and other general-purpose products, after determining that it would be difficult to go head to head with major players in this area. Conversely, Kureha viewed this withdrawal as an opportunity to apply its market-centric approach to generating new demand in specialty fields that showcase the company's technologies and expertise. This opportunity has also enabled Kureha to concentrate on the global expansion of its product line. Specifically, the company plans to focus greater attention on high-barrier films, advanced materials, pharmaceuticals and agrochemicals. Kureha has a technological edge in each of these areas, underscoring the strong potential for global expansion. The following pages outline the products that Kureha will focus resources on enhancing.

Areas of Focus

	Market Creation	Overseas Expansion	Boosting Global Competitiveness
High-Barrier Films	Besela PGA	Krehalon	
Advanced Materials	Electronics Packaging		Fortron KPS
Pharmaceuticals and Agrochemicals	Matsutake mushroom-based health foods	Kremezin	Crop Protection

AT A GLANCE

Besela	Besela, a food packaging film with a high gas barrier material, has superior capabilities in protecting perishable foods compared to conventional products. Besela is the first plastic packaging material of its kind to offer a viable and transparent alternative to metal cans and aluminum retort pouches.
PGA	Polyglycolic acid resin, or PGA, is currently under development as a new type of polyester. The ease with which PGA can be processed and its vastly superior properties as a barrier to oxygen are expected to finally make possible the commercial production of PET bottles for products with a long shelf life.
Krehalon	A polyvinylidene chloride resin, Krehalon is one of Kureha's signature products. Displaying high barrier qualities, Krehalon has long been used in Japan as a wrapping material in the production of sausage.
Electronics Packaging	Kureha has combined its unique technological strengths in carbon fibers with antistatic resin technology to produce compounds, semiconductors and finished products with controlled electrostatic discharge properties. Some of the applications for these products thus far include use as processing components, carriers and cases at semiconductor manufacturing fabrication facilities.
Fortron KPS	Fortron KPS is a linear-type polyphenylene sulfide (or PPS) resin. This engineering plastic is particularly well known for its heat resistance and ability to retain its original dimensions, and has thus found use in electrical and electronic components, automobile parts, and a variety of other sensitive applications.
Matsutake mushroom-based health foods	Health foods derived from the matsutake fungus are highly prized for their immuno-enhancing effects, and show great promise in alleviating the effects of stress, preventing tumors and helping to stave off infection.
Kremezin	Kremezin® is an orally administered adsorbent that was approved in Japan in 1991 for prolonging the time to initiation of hemodialysis and improving uremic symptoms in patients with chronic renal failure (CRF).
Crop Protection	Metconazole was initially developed as a cereal fungicide and has been widely used for wheat and oil seed rape mainly in Europe. Ipconazole is developed as a seed disinfectant having outstanding efficacy for rice and wheat in Japan.

With its merits for packaging a wide variety of foods already acknowledged in Japan, efforts are now focused on creating and expanding new markets for Besela in other parts of the world. The potential market for Besela in Japan is estimated at ¥70.0 billion, with the global market at 10 times that figure.

Around the globe, an estimated 300 billion bottles are consumed as carbonated beverage containers. Even high-barrier PGA is used to replace even a small percentage of these bottles, the potential scale of this new market would be enormous. In fact, several major beer and beverage manufacturers have already shown keen interest in using PGA bottles. Kureha is presently formulating an optimal business strategy for the full-scale unveiling of its PGA products in 2006. The overarching objective in these efforts is to ensure that Kureha has a number of well-structured plans in place to propel its PGA products directly from their initial debut to the top spot in the market.

In February 2003, Kureha joined forces with a counterpart in China to establish a joint venture specializing in the manufacture of food packaging film. Krehalon now stands ready as a result of this move to meet an expected explosion in demand for processed foods in China, home to some 1.3 billion people.

In Japan, these compounds and their products are already being used at major electronics and semiconductor manufacturers. And, having also been approved for use by major European and American manufacturers, these products are poised for further growth.

Kureha and its U.S.-based joint venture already possess world-class production capacity for this product, which has an annual market growth rate of over 10%. Looking ahead, Kureha intends to enhance its sales capabilities to gain access to untapped demand in Asian markets, with plans to ramp up the production capacity in Japan somewhere on the scale of 10,000 tons.

Plans are in hand to begin sales of these products at the extensive network of drug stores and pharmacies across Japan. These products will be dispensed to customers following consultation with their pharmacist or physician. As healthcare in Japan begins to shift away from a traditional "cure-centered" approach to illness to the "care-oriented" model more common in the United States and Europe, matsutake mushroom-based health foods have begun to attract greater market attention.

Kureha is developing this drug internationally to expand the market and contribute to the health of CRF patients, with Phase II Study currently underway in the United States. Furthermore, applications were filed for the approval of Kremezin for use by CRF patients in South Korea, as well as for use by Crohn's disease patients in Japan this year. Current plans call for Kremezin to be launched in the U.S. market in 2009 subject to progress with clinical trials. Presently, there are 300,000 people suffering from chronic renal failure in Japan. With 800,000 sufferers, the potential market in the U.S. is more than twice that size. Approval for use in the U.S. will be vital to driving the future expansion of this drug worldwide.

Metconazole is now widely adopted worldwide, including in Latin America and Asia, with its remarkable efficacy and ideal safety performance. Development is ongoing for the use of Metconazole on fruits, vegetables and turf. Ipconazole is slated for development globally as a reliable seed treatment fungicide with good selectivity on crops. Through Metconazole and Ipconazole, Kureha is committed to contributing to the protection of plants vital to food production worldwide.

CONSOLIDATED FIVE-YEAR SUMMARY

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 1999, 2000, 2001,
2002 and 2003

	Millions of yen				
	1999	2000	2001	2002	2003
For the year:					
Net sales	¥104,155	¥150,988	¥145,311	¥140,438	¥137,647
Advanced materials	24,588	22,717	24,099	25,144	31,751
Specialty products	29,645	29,054	28,981	28,259	31,102
Plastics	48,476	50,258	50,273	47,344	50,950
Others	1,445	48,959	41,956	39,689	23,843
Operating income	2,805	5,358	6,272	6,290	8,289
Advanced materials	1,254	1,268	1,202	1,416	4,035
Specialty products	(1,366)	(281)	1,018	1,466	1,459
Plastics	2,881	2,849	3,248	2,597	1,778
Others	36	1,152	765	925	1,239
Elimination	–	370	38	(116)	(222)
Net income	1,383	2,528	1,704	2,034	1,453
Capital expenditures	7,924	8,804	7,595	8,434	9,943
Depreciation	6,090	8,377	8,793	8,516	8,790
R&D expenditures	5,623	5,642	5,730	6,097	6,295
Year-end:					
Total assets	¥157,392	¥195,277	¥191,154	¥189,188	¥173,129
Shareholders' equity	86,721	87,920	85,639	88,817	85,866
Interest-bearing debt	47,933	66,882	62,316	58,323	47,200
Number of employees	2,214	4,622	4,419	4,154	4,012
Amounts per share (yen/dollars):					
Net income	¥ 6.04	¥ 11.48	¥ 7.79	¥ 9.76	¥ 7.13
Shareholders' equity	396.48	409.95	411.69	446.72	442.40
Cash dividends	5.00	5.00	6.00	6.00	6.00
Ratio:					
Operating income margin	2.7%	3.5%	4.3%	4.5%	6.0%
Equity ratio	55.1%	45.0%	44.8%	46.9%	49.6%
Return on equity	1.6%	2.9%	2.0%	2.3%	1.7%

- Notes: 1. A review of the presentation of consolidated financial statements resulted in a revision in the accounting standard for consolidated subsidiaries from ownership (voting control) to effective control. As a result, Kureha has consolidated all of its subsidiaries since fiscal year 2000.
2. From the year ended March 31, 2003, as a means of improving the accuracy of segment information, Kureha upgraded its information systems. Therefore information previously included in Other is included in the following categories: Advanced Materials, Specialty Products and Plastics.

Background

During the year ended March 31, 2003, the Japanese economy failed to break out of its deflationary spiral. Due to continued instability in the country's financial system, a slowdown in the United States and the growing tensions with Iraq, the future economic environment grew even more uncertain. Factors influencing the economic slump included dim prospects for a recovery in private-sector capital expenditure, company cutbacks on inventory and lackluster personal consumption. Overall, the Japanese economy was unable to overcome these difficult conditions.

In the chemical industry, exports to Asia, especially China, have steadily increased. However, due to the situation in the Middle East and an increase in crude oil prices the price of fuel rose steeply. We were not able to easily pass these manufacturing costs on, and the challenging operating environment already faced by the chemical industry increased in severity.

Against this background, the aim of the Kureha Group companies is to generate high earnings as outlined in our new medium-term corporate strategy known as "DC". We are focusing our efforts in the fields of plastics, advanced materials, as well as pharmaceutical and agricultural chemicals. Kureha is expanding its fine chemicals and specialty products into niche markets worldwide. Under the "select and concentrate" approach adopted in the financial year under review, we decided to withdraw from the commodity chemicals business that includes PVC, plastic additives, and latex.

As a result, consolidated net sales declined ¥2,790 million, or 2.0%, compared to the previous year to ¥137,647 million. Conversely, operating income increased ¥1,999 million, or 31.8%, to ¥8,289 million and recurring income rose by ¥2,846 million, or 61.5%, to ¥7,473 million. Net income dropped to ¥1,453 million due to the revaluation of shares booked as an extraordinary loss; this occurred because of a dramatic drop in the value of both Kureha shares and in those of financial institutions held by Kureha Group companies.

Results by Segment

Advanced Materials

Net sales in the Advanced Materials segment were ¥31,751 million, while operating income rose by ¥2,618 million, or 184.9%, year on year to ¥4,035 million. This was the result of several factors including the income derived from the transfer of the plastic additives business.

The Advanced Materials segment includes products such as polyphenylene sulphide (PPS) plastic and polyvinylidene fluoride (PVDF) plastic. This segment experienced strong earnings growth compared to the previous year due to a recovery in demand for applications related to electrical and electronic materials such as semiconductors. Carbon products, including bead-shaped activated carbon, maintained its favorable sales momentum from a year earlier and operating income also increased. Carbon fiber performed poorly due to lower prices and slow demand for applications related to optic fiber and heat resistant materials for heat processing.

Sales of optical products increased in the area of optical filters used in mobile phones with cameras, and overall net sales and operating income related to optic fiber products increased.

As part of rebuilding its business, Kureha and its Group companies transferred operations in January 2003 for its plastic additives business. In addition, Kureha withdrew from the latex business and transferred operations in this field in March 2003.

Specialty Products

Net sales in the Specialty Products segment were ¥31,102 million, and operating income decreased ¥7 million, or 0.5%, year on year to ¥1,459 million.

The industrial chemicals field has witnessed rapid rises in prices of raw materials such as benzene. This, together with increased sales of para-dichlorobenzene, spurred industrial chemicals to experience an overall improvement in performance.

In the pharmaceutical field, an area of high value added products, sales and operating income increased year on year. This reflected the continuation of favorable sales for Kremezin, a treatment for patients with chronic renal failure. Sales also increased for Krestin, a drug for cancer immunotherapy.

Agricultural chemicals managed to maintain operating income at the same level as the previous year. One factor was the decline in export sales of the rice crop fungicide Rabcide. Balanced against this were favorable sales of Metconazole, a fungicide for cereal crops.

PVC plastics recorded an improved performance following the transfer of operations from January 2003 and the outsourcing of manufacturing operations in this area. However, Kureha posted an increased operating loss in this field in the fiscal year under review due to high raw material prices in the first half of the year and depressed market conditions.

Plastics

Sales in the Plastics segment were ¥50,950 million, and operating income declined ¥819 million, or 31.5%, to ¥1,778 million.

Food packaging material sales in the Japanese market remained almost unchanged from the previous year and in Europe sales were favorable for newly developed products. Operating income related to packaging material increased.

PVDC compounds for China suffered falls in sales prices and volumes due to downward pressure caused by intensified competition in that market, but the implementation of cost-cutting measures resulted in an improved performance.

A recovery in demand led to rises in sales and operating income for products used in applications in the electronic and electrical devices field, including metalized film and plastic products.

In the consumer products field, deflationary pressures remain strong. For this reason, although we focused on correcting the market price of New Krewrap household wrapping film, both sales and operating income fell drastically. Sales of Seaguar fishing line were maintained at last year's level by working actively to increase sales within a depressed market.

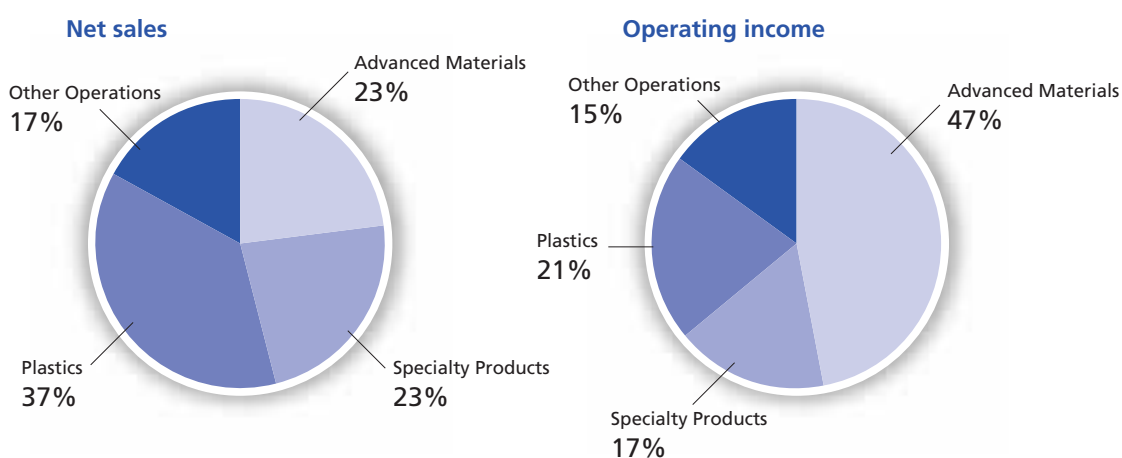
Other Operations

Sales of other operations totaled ¥23,843 million, while operating income increased ¥314 million, or 33.9%, to ¥1,239 million.

Operating income from the construction business greatly increased, although sales fell due to our policy of giving priority to profitability when receiving construction orders.

In our environment-related business, sales declined in line with the completion of large-scale incinerators in the previous year. However, we managed to hold operating income to last year's level.

Sales in the transportation and warehousing field declined. This was in spite of our review of these businesses with the aim of improving profitability in the face of severe competition.



Financial Review

The balance of cash and cash equivalents at the end of fiscal 2002 stood at ¥7,421 million, an increase of ¥570 million over the previous year.

Net cash provided by operating activities was ¥15,732 million, an increase of ¥5,220 million over the previous year. Net income before income tax amounted to ¥3,475 million, but we incurred a ¥3,879 million loss on revaluation of marketable and investment of securities held. On the other hand, we achieved an improvement in asset efficiency by reducing the receivables turnover period. As a result, the change in assets and liabilities was ¥1,879 million. Net cash used in investment activities declined to ¥2,909 million.

Although expenditure for property, plant and equipment, notably for purchase of chlorobenzene production facilities, construction of a pilot PGA plant and installation of an Enterprise Resource Planning (ERP) package, amounted to ¥11,075 million, this expenditure was partially offset by income from the sale of shares in consolidated subsidiary Kureha Chemicals (Singapore) Pte. Ltd., which manufactures and sells modifiers for plastics and the sale of shares in affiliated company Rohm and Haas (Scotland) Ltd.

Net cash used in financing activities was ¥12,280 million. Using a Cash Management System we set up last year and a commitment line employing the syndicate method, we consolidated fund procurement to repay debt. As a result, debt declined ¥11,124 million. We also spent ¥1,933 million on the acquisition of treasury stock, as part of our share buy-back program.

CONSOLIDATED BALANCE SHEETS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current assets			
Cash and cash equivalents	¥ 7,421	¥ 6,851	\$ 60,830
Accounts and notes receivable - trade	40,247	43,122	329,899
Short-term investment	506	5	4,149
Inventories	20,352	20,105	166,826
Deferred income taxes	869	959	7,127
Other current assets	3,422	3,122	28,053
Allowance for doubtful accounts	(368)	(318)	(3,020)
Total current assets	72,451	73,849	593,864
Fixed assets			
Property, plant and equipment			
Buildings	26,828	26,292	219,904
Machinery and equipment	22,053	24,252	180,766
Furniture and fixtures	2,130	2,169	17,460
Land	13,582	14,555	111,328
Construction in progress	2,597	2,329	21,295
Total property, plant and equipment	67,191	69,600	550,753
Intangible assets	2,486	2,483	20,381
Investments and other assets:			
Investment securities	22,348	32,548	183,188
Amount invested	3,134	3,113	25,696
Long-term receivables	2,893	4,815	23,714
Deferred income taxes	1,253	1,232	10,272
Other investments	1,743	1,791	14,288
Allowance for doubtful accounts	(373)	(246)	(3,061)
Total investments and other assets:	30,999	43,254	254,097
Total assets	¥173,129	¥189,188	\$1,419,095

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2003 and 2002

1. Basis of financial statements

Kureha Corporation (the "Company") and its consolidated domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan.

The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity

with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

2. U.S. dollar amounts

The U.S. Dollar amounts included in the consolidated financial statements represent the arithmetic results of translating Japanese yen to U.S. dollars at the rate of ¥122=US\$1, the approximate exchange rate on March 31, 2003. Included solely for the convenience of readers, the

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Currents liabilities:			
Accounts and notes payable - trade	¥ 18,842	¥ 18,287	\$ 154,449
Short-term borrowings	33,648	42,029	275,807
Accrued income taxes	525	1,213	4,309
Accrued consumption taxes	585	503	4,798
Accrued expenses	3,849	4,429	31,551
Accrued bonuses	1,368	1,342	11,218
Other current liabilities	7,382	7,001	60,509
Total current liabilities	66,202	74,807	542,641
Long-term liabilities:			
Long-term borrowings	13,551	16,294	111,075
Accrued pension and severance costs	2,670	2,832	21,892
Reserve for retirement benefits for executives	608	734	4,987
Deferred income taxes	2,017	2,917	16,535
Other long-term liabilities	823	887	6,747
Total long-term liabilities	19,670	23,667	161,236
Total liabilities	85,873	98,475	703,877
Minority interests	1,390	1,896	11,394
Shareholders' equity			
Common stock	12,460	12,460	102,133
Additional paid-in capital	9,710	9,701	79,594
Retained earnings	60,562	63,315	496,415
Net unrealized gain on investment securities	3,771	5,243	30,913
Foreign currency translation adjustments	(409)	(436)	(3,357)
Treasury stock	(228)	(1,467)	(1,874)
Total shareholders' equity	85,866	88,817	703,824
Total liabilities, minority interest and shareholders' equity	¥173,129	¥189,188	\$1,419,095

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 U.S. dollars at this or any other rate of exchange.

3. Consolidation

The consolidated financial statements comprise the accounts of the Company and its 36 subsidiaries.

4. Depreciation

Depreciation is mainly computed by the declining balance method for structure, machinery and equipment held by the

Company, and by the straight-line method for buildings held by the Company at rates based on the estimated useful lives of assets as prescribed by the Japanese income tax laws.

5. Income Taxes

The tax effects of temporary differences between the carrying amounts of assets and liabilities used for tax financial reporting purposes and for income tax purposes are recognized as deferred income tax assets and liabilities.

CONSOLIDATED STATEMENTS OF INCOME

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales	¥137,647	¥140,438	\$1,128,262
Cost of goods sold	102,010	107,001	836,154
Gross profit	35,637	33,436	292,108
Selling, general and administrative expenses	27,347	27,146	224,162
Operating income	8,289	6,290	67,946
Non-operating income	1,180	1,104	9,674
Interest and dividend income	498	590	4,090
Equity in earnings of affiliates	59	25	491
Other non-operating income	621	487	5,093
Non-operating expenses	1,995	2,767	16,359
Interest expenses	882	1,252	7,232
Other non-operating expenses	1,113	1,514	9,127
Recurring income	7,473	4,626	61,261
Other incomes	4,290	1,156	35,164
Other expenses	8,288	3,066	67,939
Income before income taxes	3,475	2,716	28,486
Provision for income taxes — Current	1,320	1,505	10,820
— Deferred	452	(687)	3,709
Minority interests in net income (loss)	249	(136)	2,042
Net income	¥ 1,453	¥ 2,034	\$ 11,915

Note: Extraordinary gains (losses) for fiscal 2003 included under "Other income (expenses)" are listed in the chart below.

	2003
Extraordinary gain	
Gain on sale of investment securities	2,234
Gain on sale of intellectual property rights accompanying sale of the modifiers business	1,659
Extraordinary loss	
Loss from devaluation of investment securities	3,879
Loss on sale of investment securities	2,409
Loss on elimination/sale of fixed assets	1,001
Retirement benefit expenses	528

CONSOLIDATED STATEMENTS OF CASH FLOWS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash flows from operating activities:			
Net income before income tax	¥ 3,475	¥ 2,716	\$ 28,485
Depreciation	8,790	8,516	72,050
Increase (decrease) in reserve	(105)	726	(864)
Equity in earnings of affiliates	(59)	(25)	(491)
Interest and dividend income	(498)	(590)	(4,090)
Interest expenses	882	1,252	7,232
Payments for the transfer of intellectual assets	(1,659)	–	(13,602)
Gain (loss) from the sale of fixed assets	807	636	6,618
Gain (loss) on revaluation of marketable and investment securities	3,879	967	31,800
Gain (loss) on sale of marketable and investment securities	174	(862)	1,434
Increase (decrease) in assets and liabilities	1,879	(260)	15,408
Other	350	318	2,871
Sub total	17,915	13,395	146,851
Interest and dividend income, received	537	611	4,409
Interest expenses, paid	(885)	(1,271)	(7,256)
Income taxes, paid	(1,835)	(2,223)	(15,048)
Net cash provided by operating activities	15,732	10,512	128,956
Cash flows from investing activities:			
Payments for the acquisition of tangible and intangible assets	(11,075)	(7,291)	(90,779)
Proceeds from the acquisition of tangible and intangible assets	712	118	5,844
Payments for the acquisition of marketable and investment securities	(2,559)	(2,156)	(20,980)
Proceeds from the acquisition of marketable and investment securities	5,635	1,877	46,191
Proceeds from the sale of intellectual assets	1,659	–	13,602
Short-term and long-term loans	(30)	(945)	(249)
Collection of short-term and long-term loans	2,768	1,242	22,696
Gain (loss) related to other investments	(21)	22	(174)
Net cash used in investing activities	(2,909)	(7,133)	(23,849)
Cash flows from financing activities:			
Proceeds from short-term borrowings	97	8,586	796
Repayment of short-term borrowings	(6,664)	(9,457)	(54,625)
Proceeds from long-term loans	3,627	5,962	29,735
Repayment of long-term loans	(6,192)	(9,918)	(50,755)
Payments for the acquisition of treasury stock	(1,933)	(3,530)	(15,852)
Dividends paid by parent company	(1,191)	(1,245)	(9,762)
Dividends paid to minority interests	(24)	(26)	(199)
Net cash used in financing activities	(12,280)	(9,629)	(100,662)
Effect of exchange rate changes on cash and cash equivalents	27	41	226
Net increase/decrease in cash and cash equivalents	570	(6,208)	4,671
Cash and cash equivalents at beginning of year	6,851	13,060	56,159
Cash and cash equivalents at end of year	¥ 7,421	¥ 6,851	\$ 60,830

The Kureha Group consists of Kureha Chemical Industry Co., Ltd., 37 subsidiaries (of which 36 are consolidated) and four affiliates (of which one applies the equity method). The Group is engaged in the manufacture and sale of products in three main business segments: advanced materials, specialty products, and plastics. In addition, it undertakes construction and maintenance operations associated with each main business segment, transport operations, environmental management services, and other service operations.

(1) Advanced Materials

Company:	Business:
Kureha Chemical Industry Co., Ltd.	Manufactures and sells advanced materials and carbon products.
Kureha Chemicals GmbH	Sells Kureha's advanced materials and other products in Europe.
Kureha Corporation of America	Sells Kureha's advanced materials and other products in the U.S.
Kureha KPS, Inc.	Manufactures and sells PPS resin and compounds in the U.S. Has a controlling stake in Fortron Industries.

(2) Specialty Products

Company:	Business:
Kureha Chemical Industry Co., Ltd.	Manufactures and sells synthetic resins, inorganic chemicals, organic chemicals, pharmaceuticals, pharmaceuticals for animals, agrochemicals and other materials for agricultural use.
Rütgers Kureha Solvents GmbH	Manufactures and sells solvents for carbonless copying paper in Germany. Receives technology under license from Kureha.

(3) Plastics

Company:	Business:
Kureha Chemical Industry Co., Ltd.	Manufactures and sells food packaging products, consumer goods and synthetic fiber products, and also sells the raw materials used to make these products.
Kureha Plastics Co., Ltd.	Manufactures and sells food packaging products. Purchases raw materials from and sells its products to Kureha.
Kureha Gosen Co., Ltd.	Manufactures and sells synthetic fibers. Purchases raw materials from and sells its products to Kureha.
Kakogawa Plastics Co., Ltd.	Manufactures and sells metalized films.
Krehalon Industrie B.V.	Manufactures and sells food packaging products in the Netherlands. Receives raw materials from Kureha.
Kureha Europe B.V.	Has controlling stakes in Krehalon Industrie B.V. and four subsidiaries engaged in food packaging products.

(4) Other Operations

Company:	Business:
Kureha Transport Co., Ltd.	Undertakes transportation and storage operations. Receives some of Kureha's business in these areas.
Kureha Techno Eng Co., Ltd.	Undertakes plant engineering and management operations, and safety-related operations. Receives some of Kureha's business in these areas.
Kureha Construction Co., Ltd.	Undertakes engineering and construction work for various companies. Receives some of Kureha's business in these areas.
Kureha Environmental Engineering Co., Ltd.	Undertakes industrial waste processing and in-plant physical distribution for various companies. Receives some of Kureha's business in these areas.
Nishiki Trading Co., Ltd.	Sells advanced materials, specialty products, plastics and others. Also sells products manufactured by Kureha. Supplies raw materials to Kureha.

CORPORATE DATA

Board of Directors and Auditors

(As of June 27, 2003)

Directors

Chairman

Hiroshi Amano

President & Chief Executive Officer

Hiroshi Tanaka

Senior Executive Vice President

Hisatsugu Kaji

Executive Vice President

Masaki Uchiyama

Senior Vice President

Fujitoshi Tomizawa

Vice President

Yoshiyuki Hiramatsu

Vice President

Taketomo Funaki

Vice President

Tsuneo Okamoto

Vice President

Masahiko Fujii

Vice President

Naoya Suzuki

Vice President

Koji Hagino

Vice President

Kunio Arai

Vice President

Masatomo Shigeta

Vice President

Takao Iwasaki

Auditors

Corporate Auditor

Ryuichi Takaoka

Corporate Auditor

Issa Fujiwara

Corporate Auditor

Kazutoshi Kimura

Corporate Auditor

Sueo Urushibara

Head Office:

1-9-11, Nihonbashi Horidome-cho, Chuo-ku, Tokyo 103-8552, Japan

Tel: 81 (03) 3249-4666 Fax: 81 (03) 3249-4601

Date of Establishment:

June 21, 1944

Number of Employees: (As of March 31, 2003)

4,012

Paid-in Capital: (As of March 31, 2003)

¥12,460 million

Number of Shares of Common Stock Issued: (As of March 31, 2003)

194,601,909 shares

Number of Shareholders: (As of March 31, 2003)

24,656

Stock Exchange Listings:

Tokyo Stock Exchange

Osaka Stock Exchange

Transfer Agent:

Mizuho Trust & Banking Co., Ltd.

Certified Public Accountants

Nihombashi Corporation

KUREHA CHEMICAL INDUSTRY CO.,LTD.