

KURARAY CO., LTD.

Annual Report 1998

Profile

Kuraray Co., Ltd. was established in 1926 in Kurashiki City, Japan, for the industrial manufacture of viscose rayon. Thanks to its technological strength, the Company has since then developed innovative operations in synthetic resins, chemicals, man-made leather, non-woven fabrics, medical products, and other areas. A number of these operations have become world-leading core businesses, including the polyvinyl alcohol fiber "Kuralon," the polyvinyl alcohol resin poval, the ethylene-vinyl alcohol copolymer "EVAL," the man-made leather "Clarino," and isoprene-based fine chemicals for perfumes, pharmaceuticals, and other specialized applications.

At present, the Kuraray Group, which consists of Kuraray, its consolidated and unconsolidated subsidiaries, and affiliated companies, embraces about 70 companies with approximately 10,000 employees.

Mobilizing the combined power of the Kuraray Group and capitalizing on its many years of technological expertise in polymerization and synthetics, Kuraray intends to take its place as a unique chemical enterprise with worldwide operations.

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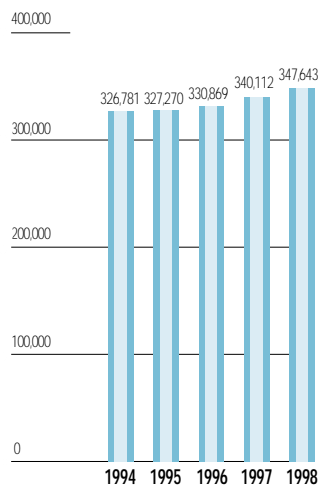
Financial Highlights

Kuraray Co., Ltd. and Consolidated Subsidiaries

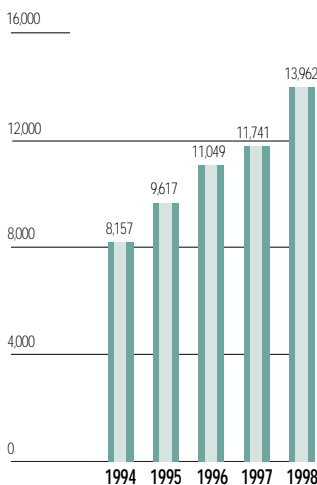
Years ended March 31, 1998, 1997 and 1996	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Net sales	¥347,643	¥340,112	¥330,869	\$2,633,659
Net income	13,962	11,741	11,049	105,773
Total assets	478,861	514,167	535,173	3,627,735
Total shareholders' equity	233,494	208,635	178,776	1,768,895
Amounts per share:	Yen			U.S. dollars
Net income				
Primary	¥40.46	¥34.99	¥35.43	\$0.31
Fully diluted	37.68	32.48	32.71	0.29
Cash dividends applicable to period	9.00	9.00	9.00	0.07
Financial ratios:				
Equity ratio (%)	48.8	40.6	33.4	
Return on equity (%)	6.3	6.1	6.4	
Payout ratio (%)	22.2	25.7	25.4	
Stock price range (Tokyo Stock Exchange):				
High	¥1,200	¥1,240	¥1,160	
Low	986	972	910	
Number of employees	7,809	6,606	6,975	

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥132=\$1.

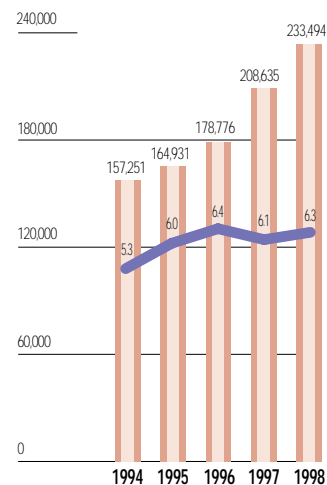
NET SALES
(Millions of Yen)



NET INCOME
(Millions of Yen)



SHAREHOLDERS' EQUITY / ROE
(Millions of Yen) / (%)



Message from the Management

Despite severe business conditions, the Company continued to improve its earnings structure while expanding its overseas bases and improving the efficiency of its earnings systems. Consequently, business results for the term under review registered increases in sales and income.

Business environment and results

The Japanese economy in fiscal 1997 (ended March 31, 1998) saw a slump in consumer spending triggered by a hike in the consumption tax rate. This, coupled with turmoil in export markets brought about by the currency crisis in Southeast Asia and increasing reluctance on the part of companies to invest in plant and equipment, led to a sharp downturn in the economy. In particular, a drop in stock prices in the second half of the term and the string of collapses of financial institutions amplified concerns for the future of the economy, causing consumer spending and capital investment to fall even further in a vicious circle.

Given this business environment, the Kuraray Group worked to maintain growth in income and expand business in its distinctive products, including expanding overseas bases, under the management policy of expanding the scope of business while maintaining a sound foundation. We also aimed to create a corporate structure that can withstand any business environment by striving to cut costs and improve the efficiency of management systems.

As a result, the Company posted consolidated net sales of ¥347,643 million (US\$2,634 million), up 2.2% from the previous year, and net income of ¥13,962 million (US\$106 million), up 18.9%. In view of these business results, we declared an annual dividend of ¥9.0 per share.

Activities during the term

Looking at the chemical and synthetic fibers sector (polyester, the polyvinyl alcohol fiber “Kuralon,” rayon), polyester faced a difficult business climate, with sluggish sales of clothing and intensifying competition, both in Japan and overseas. “Kuralon” maintained stable results due to increased demand for this product as a reinforcement in cement on the back of the worldwide trend toward strengthening regulations against the use of asbestos. Rayon suffered from sluggish clothing sales in Japan, but saw growth in exports.

The chemical products sector (poval, the ethylene-vinyl alcohol copolymer “EVAL,” methacrylic resin, isoprene chemicals, activated carbon, and others) benefited from buoyant demand in North America and Europe, and sales of distinctive products such as the high-performance resin poval, the gas barrier resin “EVAL,” and “SEPTON” thermoplastic elastomer expanded. We were able to achieve favorable business results as a whole, based on our global management system that covers Japan, the United States, Europe, and Asia.

In the man-made leather, nonwoven fabrics, and fastening materials sector, the man-made leather “Clarino” faced growing competition from domestic and overseas manufacturers. However, against the background of flourishing demand in Europe and elsewhere, we strove to increase exports by expanding local finishing bases in Europe, North America, and Southeast Asia, leading to continued growth in sales and profits. As for nonwoven fabrics, we worked to maintain results in “Kuraflex” dry-laid nonwoven fabrics by increasing sales volume for food service napkins and by developing new products.



Hisao Nakamura
Chairman

Hiroto Matsuo
President

In the diversified business sector (medical products, optical discs, high-performance membranes, engineering, and others), we posted a steady growth in results with healthy sales of dental materials, contact lenses, and other medical products, and increased orders in the engineering segment.

Prospects

Fiscal 1997 was the second year of our Fourth Medium-term Business Plan, and despite the unforeseen worsening in the Japanese economy, we were able to achieve results roughly in line with our plan. During the year we forged ahead with various policies of the plan, such as expanding our core business on a global scale and improving the efficiency of management systems, with the aim of developing Kuraray into a company that can assert its global presence.

First, construction work started during the term on the joint-venture poval manufacturing project in Singapore. Preparations for an "EVAL" manufacturing facility in Belgium were completed during the term, and construction work started in April 1998. Work at both sites is running smoothly. We continued to extend the functions of sales

bases and expand finishing bases in North America, Europe, and Southeast Asia for "Clarino," which is manufactured in Japan. We strove to further strengthen our isoprene chemicals business by continuing to build new facilities and expand existing ones for many of our fine chemical products.

We at Kuraray will continue to expand our business especially in our own distinctive products, which are well accepted in the world market, and develop globally with the intention of becoming a unique chemical enterprise with a strong presence.

In closing, we ask for your continued support and encouragement in these endeavors.

Hisao Nakamura
Chairman

Hiroto Matsuo
President

A Wide Range of Business Activities

The Kuraray Group, which consists of Kuraray and about 70 affiliated companies in Japan and abroad, is developing a wide range of businesses that take advantage of the Group's extensive business resources. Each company within the Group, while demonstrating its own individual character, promotes operations that satisfy the diverse needs of society in chemicals, engineering, trade, distribution, information, and other areas.

The Kuraray Group

FOURTH MEDIUM-TERM BUSINESS PLAN

Kuraray and the Kuraray Group launched the fourth Medium-term Business Plan in April 1996. The Plan is designed to create a business group with a commanding business presence suited to today's intensive international competition, while further reinforcing the Company's business foundations and producing steady results.

In order to strengthen the Group's overall capabilities, all Group members not only seek to develop joint overseas operations and business, but also work to harness the synergy derived from the Group's members by closer cooperation in the areas of production, processing, and sales. At the same time, Kuraray strives to strengthen the total Group's business foundations.

Chemical Products

- Kuraray Chemical Co., Ltd.
- Kuraray Plastics Co., Ltd.
- Kuraray Niigata Kasei Co., Ltd.
- Others

Construction, Real Estate & Housing

- Kuraray Engineering Co., Ltd.
- Kuraray Fudosan Co., Ltd.
- Kuraray Interior Co., Ltd.
- Others

Commerce & Distribution

- Kuraray Trading Co., Ltd.
- Kuraray Family Products Corporation
- Kurashiki Unyu Co., Ltd.
- Kuraray Living Co., Ltd.
- Others

Information, Personnel, Development, etc.

- Techno Soft Co., Ltd.
- Secourir Co., Ltd.
- Kuraray Techno Co., Ltd.
- Others

KURARAY CO., LTD.

Overseas

- Kuraray America, Inc.
- EVAL Company of America
- Clarino America Corp.
- Kuraray Europe GmbH
- Kuraray EVAL Europe GmbH
- Haru-Kuraray GmbH
- EVAL Europe N.V.
- Kuraray Hong Kong Co., Ltd.
- Kuraray Singapore Pte., Ltd.
- Poval Asia Pte Ltd
- Kuraray Specialities Asia Pte., Ltd.
- Others

Services

- The Kurashiki Kokusai Hotel, Ltd.
- Iruma Country Club Co., Ltd.
- Kuraray Travel Service Co., Ltd.
- Others

Kuraray's Overseas Presence

As part of efforts to step up its overall business operations, the Company is pushing ahead with total global development, focused on its core businesses. The Company pursues a global business strategy centered on developing products that transcend borders, and conducts production and marketing in the areas where those products are in demand. In keeping with this strategy, we are creating a network based around the four strategic regions of Japan, North America, Europe, and Asia.

Recent Developments

As part of the Company's global strategy for the "EVAL" business, we decided to construct a plant with an annual production capacity of 10,000 tons in Antwerp, Belgium, and construction is proceeding smoothly with a view to beginning production in the fall of 1999. An EVOH resin with superior gas barrier properties, "EVAL" has become popular the world over, primarily in its use as a food packaging material. In recent years new applications have been developed, including its use as a gas barrier material for plastic gasoline tanks, and demand for "EVAL" is expected to increase greatly. The decision to construct a new plant reflects anticipated growth in demand in Europe, and this plant, coupled with our existing sales company and technical center in Germany will enable us to remain in close contact with our customers and respond quickly to their needs.

In the poval business we established a joint-venture production company in Singapore, and construction of a new plant is progressing, scheduled for completion in the spring of 1999. Our existing sales company in Singapore has already started its sales and marketing activities in the Asian market.

EVAL Company of America



*EVAL Company of America,
Pasadena Plant*

In order to swiftly and accurately respond to market needs in each region of the world, we will actively invest in our overseas businesses while striving to broaden and extend the functions of our overseas bases, thereby speeding up the global development of our operations.

Kuraray America, Inc.



**Kuraray America, Inc.
Clarino America Corp.**

Kuraray Hong Kong Co., Ltd.



Kuraray Hong Kong Co., Ltd.

*Kuraray Singapore
Pte., Ltd. and
Kuraray Specialities
Asia Pte., Ltd.*



**Kuraray Singapore Pte., Ltd.
Poval Asia Pte Ltd
Kuraray Specialities
Asia Pte., Ltd.**

**Kuraray Europe GmbH
Kuraray EVAL Europe GmbH
Haru-Kuraray GmbH**

EVAL Europe N.V.

Kuraray Co., Ltd.



*EVAL Europe N.V.
Ground Breaking Ceremony in
Antwerp, Belgium*



*Kuraray Europe GmbH and
Kuraray EVAL Europe GmbH*



Poval Asia Pte Ltd, artist's impression

Main Technologies and Business Development

The Kuraray Group has built up a range of advanced technologies by combining Kuraray's technologies in polymerization and synthetics with the technologies of the other members of the Kuraray Group.

At present the Group provides highly innovative products and services backed by its technological strength in a wide variety of areas, ranging from clothing, food, and housing, to medicine, information, and other advanced areas.

Now, our polyvinyl alcohol fiber "Kuralon," the polyvinyl alcohol resin poval, the gas barrier resin "EVAL," the man-made leather "Clarino," and isoprene chemical products have grown into world-class businesses.

Taking full advantage of our technological strength and expertise, we intend to explore new business areas and to push forward with our original business operations.

Basic technologies

SYNTHETIC CHEMISTRY
POLYMER CHEMISTRY

Applied technologies

- ANALYSIS
- MOLECULAR DESIGN
- CATALYZERS
- MATERIAL ENGINEERING
- FIBER TECHNOLOGY
- TEXTILE PROCESSING
- FILM MANUFACTURING
- PRECISION MOLDING
- SURFACE PROCESSING
- INFORMATION PROCESSING
- BIOCHEMISTRY
- CALCINATION

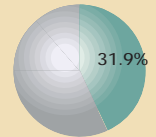
Business Fields

Share of Net Sales

CHEMICAL AND SYNTHETIC FIBERS



Dress made of fabric using polyester filament

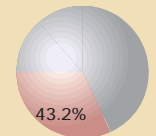


¥111,041 million

CHEMICAL PRODUCTS



Food packaging material made with "EVAL"

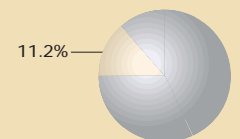


¥150,319 million

MAN-MADE LEATHER, NONWOVEN FABRICS AND FASTENING MATERIALS



Sports goods made from our man-made leather

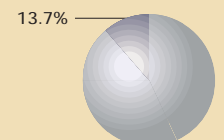


¥38,802 million

DIVERSIFIED BUSINESSES



Dental material products



¥47,481 million

Chemical and Synthetic Fibers



Buildings made with cement reinforced with "Kuralon"

Outline

Kuraray's fiber business is centered around rayon, the chemical fiber that started the Company, the polyvinyl alcohol fiber "Kuralon," which pioneered the Japanese synthetic fiber industry, and polyester, which we launched with the aim of increasing sales of fibers for apparel use. From this base we have been promoting the business in

applications ranging from industrial materials to household goods and fashion clothing.

In recent years we have been working to open up new markets and expand end uses by developing and commercializing high-performance products, such as "Kuralon K-II," a new type of synthetic fiber.

Results

Market conditions for this segment continued to be particularly severe during the term under review, due in part to the slump in consumer spending and the drop in automobile production and new housing starts. Despite this, the Company continued to concentrate on rationalizing costs and expanding its high value-added products, such as "Sophista," a high value-added material for clothing use, and other materials with antibacterial, deodorizing, and other features. In addition, the Company completed the production facilities for "Kuralon K-II," a new type of synthetic fiber, with full operations beginning in April 1998.

Polyester was forced into a tough fight as the slump in clothing sales was compounded by intensifying competition in the second half of the term both in Japan and overseas. However, we soundly brought to maturity unique products like "Sophista," a material

Major products	Major uses
"Kuralon" (polyvinyl alcohol fiber)	Industrial materials (fiber-reinforced cement, rubber reinforcement, nonwoven fabrics, paper, materials for agriculture and fisheries, construction materials, etc.)
Polyester	Woven/knit fabrics for clothing, industrial materials (canvas, tents, construction materials, etc.), household goods (carpets, curtains, etc.)
Rayon	High-grade linings for clothing, fabric for clothing, embroidery yarns, etc.
"Kuralon K-II" (a new type of synthetic fiber)	Woven/knit fabrics for clothing, industrial materials (fiber-reinforced cement, rubber reinforcement, plastic reinforcement, etc.) household goods (packaging, sanitary materials, etc.)

for clothing use that utilizes the Company's hydrophilic resin "EVAL," and the split fiber "Wramp," and we are nurturing them into future pillars of our business.

Despite sluggish domestic conditions for "Kuralon" (polyvinyl alcohol fiber), which is mostly used in industrial materials, its export market for use as rubber reinforcement, mostly for automobile brake fluid hoses, was firm, and demand grew steadily in line with tighter restrictions on the use of asbestos as a reinforcement material in cement.

Exports of rayon were up in spite of a sluggish domestic clothing market.

As a result, the Chemical and Synthetic Fibers Division posted net sales of ¥111,041 million (US\$841 million), down 1.7% from the previous year.

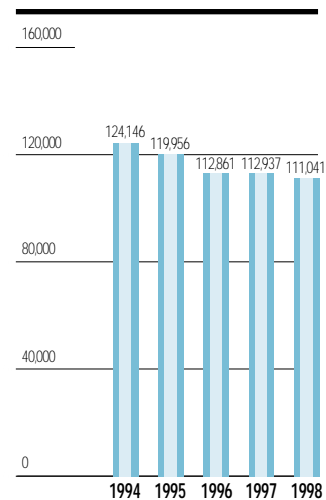


Goods made from anti-bacterial, odor-resistant polyester



"Kuralon K-II" production facility at the Okayama Plant

NET SALES
(Millions of Yen)



New Product News

Developing "Sophista," a comfortable fiber for clothing

The Company has started full-scale expansion of "Sophista," a fiber for use in clothing that uses one of the Company's unique polymers as its raw material.

"Sophista" is a synthetic fiber whose main raw material is "EVAL," an EVOH resin developed by the Company. The molecules of "EVAL" contain hydrophilic groups (OH groups), which are easy on the skin, and can have many different features added to them. Thus "Sophista" feels fresh when worn and has excellent color reproduction.



In addition, it has a range of features, including excellent moisture permeability, fast drying speeds, and resistance to soiling. It holds the possibility of being used for a wide variety of clothing, including underwear, sportswear, ladies' fashions, and lining fabric.

"Sophista" is a new type of fiber with features that distinguish it clearly from conventional synthetic fibers. Kuraray is placing it at the center of its clothing business, and is launching and expanding it simultaneously all over the world.

Chemical Products



Polarized film for liquid crystal displays

Outline

This division makes use of the Company's technological edge in polymers and synthetics to create a range of chemical products.

Kuraray was the world's first to commercialize the synthetic resin poval, which is employed in a wide range of applications, from fiber sizing agents to polarized film for liquid crystal displays. The EVOH resin

"EVAL," which is a highly effective gas barrier, is used as a packaging material to prevent the oxidation of food, and is widely used both in Japan and overseas. Methacrylic resin, which has high weatherability and transparency, is utilized in construction materials as well as in all kinds of displays and projection TV screens.

Further, from the basic raw material isoprene, we have developed a range of products, including thermoplastic elastomers used as rubber molds and plastic modifiers, low-toxicity industrial cleaning agents, aromachemicals, raw materials for cosmetics, and pharmaceutical and agricultural intermediaries.

Results

The conditions for chemical products during fiscal 1997 remained severe, with sluggish domestic demand and the drying up of exports to Asia. Given these conditions, the Company was able to achieve firm results by developing new applications for its distinctive products, reducing costs, and developing overseas demand by further accelerating its global expansion.

We overcame the drop in the domestic use of poval resin as a fiber sizing agent by developing other uses, and made up for the

Major products	Major uses
Poval (polyvinyl alcohol resin)	Fiber sizing agents, paper processing agents, adhesives, intermediate membrane for laminated safety glass, etc.
"EVAL" (ethylene-vinyl alcohol copolymer)	Food packaging materials, wallpaper, balloons, gasoline tank materials, pipe materials for underfloor heating, etc.
Methacrylic resin	Construction materials, displays, opt-screens, optical discs, etc.
Isoprene chemical products	Rubber materials, adhesives, plastic modifiers, low-toxic solvents and cleansers, aromachemicals, pharmaceutical and agrochemical intermediates, etc.

drop in exports to Southeast Asia with sales to other regions. Poval film for liquid crystal displays saw growth in sales.

“EVAL” resin for food packaging materials and wallpaper maintained firm results, mainly thanks to increased demand in Europe. Further, we are currently working to develop those markets where future growth is expected, namely Asia and Oceania. Overall, methacrylic resin faced a tough time with reduced demand and a drop in prices, but overseas demand for projection TV screens was firm.

Turning to isoprene chemical products, the thermoplastic elastomer “SEPTON,” achieved steady growth. In addition, the thermoplastic elastomer “HYBRAR,” with its shock-absorbing properties, transparency, and other properties, gained a great deal of attention as an environmentally friendly material in the food packaging, medical products, and other industries, and saw rapid development of applications. Agrochemical intermediates were sluggish, due to intensifying competition, but pharmaceutical intermediates saw growth.

As a result, the Chemical Products Division registered steady growth, with sales of ¥150,319 million (US\$1,139 million), up 2.4%.

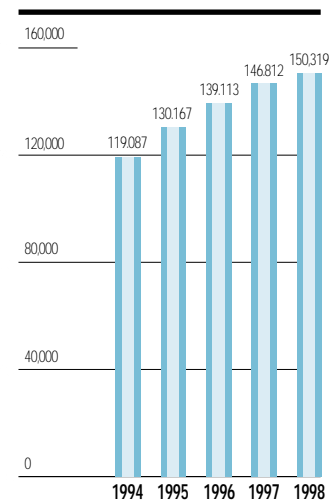


Acrylic-based synthetic marble molded products



Food-packaging film made with “HYBRAR”

NET SALES
(Millions of Yen)



New Product News

Gasoline tanks using the EVOH resin “EVAL”

In environmentally advanced countries of Europe and North America, not only are automobile exhaust gases controlled, but there are also regulations on the amount of volatile gasoline that escapes from the gasoline tank. This is where Kuraray’s EVOH resin “EVAL” comes in. With its excellent gas barrier properties, a layer of “EVAL” molded into plastic gasoline tanks reduces the escape of evaporated gasoline. This has been highly acclaimed, and “EVAL” is now being used in this way by more and more automobile manufacturers in North America and Europe, including the U.S. Big Three.



Man-made Leather, Nonwoven Fabrics, and Fastening Materials



Coffee bags made from a melt-blown nonwoven fabric

Outline

This division boasts a range of distinctive products that command a large market share.

“Clarino” man-made leather is the world’s best seller, and is a favorite for shoes, bags, sporting goods, clothes, and interior goods. Nonwoven fabrics possess the characteristics of both fabric and paper, and are widely used in areas that demand hygiene and convenience, such as the medical sphere and the home. Our hook and loop fasteners sold under the “Magic Tape” brand are not only used for clothes and sporting goods, but also make a contribution to labor-saving in such areas of industry as assembly lines.

Results

We maintained firm performance in man-made leather during the term, thanks to strong demand from overseas, particularly Europe, despite intensifying competition, with domestic and overseas manufacturers continuing to expand facilities. We forged

Major products	Major uses
<p>Man-made leather “Clarino”</p>	<p>Shoes, bags, sporting goods, quality clothes, furniture, etc.</p>
<p>Dry-laid nonwoven fabrics “Kuraflex” Melt-blown nonwoven fabrics</p>	<p>Napkins, filters, disposable diapers, industrial use masks and wipers, coffee bags, food packaging, etc.</p>
<p>Hook and loop fasteners “Magic Tape”</p>	<p>Fasteners for clothes, shoes, household items, automobile seats, building materials, etc.</p>

ahead with expanding production facilities and developing new products, in order to strengthen our industry-leading position. At the same time we promoted a range of measures in line with our main policy of centering production in Japan, with sales and finishing bases in Europe, Asia, and North America.

The dry-laid nonwoven fabric “Kuraflex,” which boasts a large domestic market share in household applications, faced stiff competition as new manufacturers entered the market and existing ones continued to expand facilities. However, we worked to maintain results by developing new products and by expanding sales for food service napkins, which is one of our strong points.

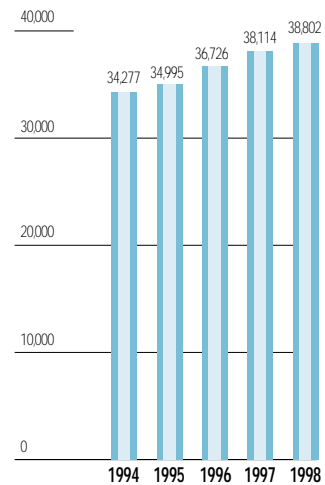
Hook and loop fasteners took advantage of their leading domestic market share to register sound achievements.

As a result, the Man-made Leather, Nonwoven Fabrics, and Fastening Materials Division continued to register growth, posting net sales of ¥38,802 million (US\$294 million), up 1.8%.



Hook and loop fasteners “Magic Tape”

NET SALES
(Millions of Yen)



New Product News

Launch of a washable man-made suede

Kuraray has taken its many years of man-made leather production technology and added new developments in dyeing technology to produce and launch a new man-made suede that can be washed in water.

Because the material is washable, it can be used for applications that were previously



difficult for man-made leather, such as daily clothes and swimwear, as well as being suited for shoes and bags.

We plan to expand sales of this product by widely promoting its excellent features.

Diversified Businesses



Soft contact lens care kit

Outline

Kuraray has used its long history of technological excellence in polymers and synthetics to develop its medical products business that includes artificial organs, dental materials, medical equipment, and contact lenses.

We are also expanding our businesses in laser discs, used for movies among other things, and high-performance membranes, which make a contribution to environmental protection and reducing energy consumption.

Results

In dental materials, where we hold the top market share, we were able to see the results of new product development with the launch of a new type of adhesive. While contact lenses saw intensifying competition in terms of price, there was steady growth in terms of volume. A new automated production facility began operation in June 1998 with a view to reducing costs and increasing output.

Major products	Major uses
Medical products	Artificial kidneys, blood-cleansing equipment, dental materials, contact lenses, etc.
Laser discs	Optical discs for video playback (movies, educational material, karaoke, etc.)
High-performance membranes	Production of ultra-pure and germ-free water, treatment of effluents, etc.



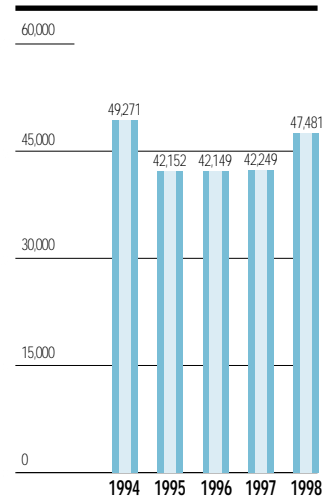
Artificial kidneys

We worked to expand sales of laser discs to the U.S. and Southeast Asia, where demand is flourishing, to make up for a contracting domestic market.

Our engineering business registered increased results on the back of growth in orders for plants from domestic manufacturing industries.

Consequently, the Diversified Business Division saw a healthy increase in results of 12.4%, to ¥47,481 million (US\$360 million).

NET SALES
(Millions of Yen)



New Product News

Successive launches of new dental material products

Kuraray has marked the twentieth anniversary of its dental materials business with the successive launches of a number of new products.

“Clearfil” Linerbond 2V, launched in February 1998, is a new dental adhesive developed from our own unique technology. Its most important feature is its high adhesion to natural teeth, ceramics, and all kinds of metals, which makes it ideal in a wide range of applications. In addition, it has excellent workability.

In March we launched a dental-use metal treatment (primer) that strengthens the adhesion of metal and resin materials used in dental treatment, while being readily workable.

Further, in April we launched a light-cured composite resin for making molds used in orthodontics and the treatment of jaw dysfunctions.

With this lineup of new products, Kuraray is making a real contribution to the development of dental treatment.



Research and Development



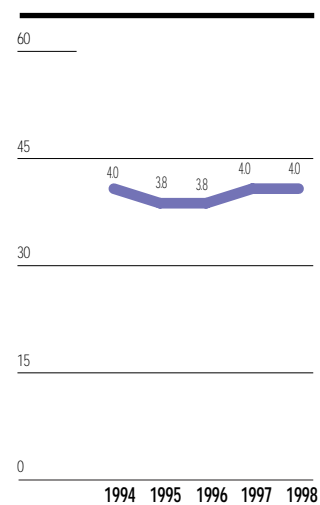
Kurashiki Research Laboratories and Analysis Center

Drawing on the expertise in core technologies like fibers, polymers, and synthetics built up over the years, Kuraray carries out extensive research and development with the objectives of expanding its core technologies and creating new core industries for the 21st century. At present, R&D is underway in areas including fibers, resins, high-performance plastics, elastomers, man-made leathers, pharmaceutical and agrochemical intermediates and other fine chemicals, medical products, environmental technologies, and opto-electronics.

R&D is carried out at the Kurashiki Research Laboratories and Analysis Center (Kurashiki City, Okayama Prefecture) and the Tsukuba Research Laboratories (Tsukuba City, Ibaraki Prefecture), as well as at R&D departments at each plant. The close cooperation between all these facilities has achieved solid results.

We intend to continue aggressive research and development as we fully recognize the key role of practical R&D in driving corporate growth.

RATIO OF R&D EXPENDITURES TO NET SALES (%)



Tsukuba Research Laboratories



Environmental Protection



Responsible Care Logo



This facility at the Tamashima Plant (Okayama Prefecture) recovers heat energy from waste, such as plastic.

With the establishment in 1970 of specialized departments at head office and the plants, and the introduction in 1977 of environmental safety management regulations, we have been involved in environmental protection on our own initiative from an early period.

In order to clarify our position on environmental issues, we established the “Kuraray Global Environmental Activities Manual” in 1993, and in 1995 we participated in planning the “Responsible Care” movement. With such activities we demonstrate our commitment to the environment and to safety throughout the production cycle, from development to disposal.

We will continue to make harmony with the natural environment a top business priority, and fulfill the social responsibilities demanded of a major corporation.

Aiming for ISO14001 certification

The Company is initiating programs at its major domestic plants with the aim of obtaining ISO14001 certification, the International Organization for Standardization’s certificate for environmental management systems.

In working towards certification at each plant, the Company will create environmental management systems as laid out in the standard, and will promote their continued use, with the aim of reducing the various burdens the Company places on the environment.

Good Corporate Citizenship



Chemistry Classes for Boys and Girls

Kuraray participates in a wide range of activities that underline its commitment to the communities in which it operates.

At our plants we hold a wide range of events, including “Chemistry Classes for Boys and Girls,” aimed at upper elementary school students, as well as sports meets and summer festivals, in order to deepen our ties with local communities. We have also set up a system of collecting donations from employees to contribute to welfare facilities.

We will continue to participate in activities that make full use of our employees’ creativity in order to contribute not only to regional communities but to society as a whole. We remain committed to good corporate citizenship.



A boy's baseball tournament at the Okayama Plant

Financial Section

Consolidated Six-Year Summary

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars
	1998	1997	1996	1995	1994	1993	1998
For period:							
Net sales	¥347,643	¥340,112	¥330,869	¥327,270	¥326,781	¥353,187	\$2,633,659
Cost of sales	259,788	255,240	246,768	249,399	251,863	272,594	1,968,091
Selling, general and administrative expenses.....	58,909	58,324	58,008	56,370	55,141	59,419	446,280
Operating income.....	28,946	26,548	26,093	21,501	19,777	21,174	219,288
Net income.....	13,962	11,741	11,049	9,617	8,157	9,444	105,773
Net income per share (Exact yen or U.S. dollar)							
Primary.....	40.46	34.99	35.43	30.94	26.30	30.55	0.31
Fully diluted	37.68	32.48	32.71	—	—	—	0.29
Cash dividends per share							
(Exact yen or U.S. dollar).....	9.00	9.00	9.00	8.50	8.00	8.00	0.07
Capital expenditures.....	20,806	19,049	17,479	10,645	15,626	16,287	157,621
Depreciation and amortization	14,615	14,111	14,263	15,087	15,443	16,225	110,720
Total research and development expenses.....	13,707	13,592	12,646	12,549	13,200	14,869	103,841
At period end:							
Total assets	¥478,861	¥514,167	¥535,173	¥477,874	¥477,690	¥437,754	\$3,627,735
Total shareholders' equity	233,494	208,635	178,776	164,931	157,251	150,003	1,768,895

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥132=\$1.

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

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Financial Analysis (Based on Consolidated Accounts)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Results of Operations

In the fiscal year ended March 31, 1998, consolidated net sales of Kuraray Co., Ltd. and its subsidiaries totaled ¥347,643 million (US\$2,633.7 million), a 2.2% increase over the previous year.

The ratio of gross profit to net sales increased 0.3 percentage point from the previous year to 25.3%. Selling, general and administrative expenses totaled ¥58,909 million (US\$446.3 million), a 1.0% increase over the previous year. The ratio of selling, general and administrative expenses to net sales was 16.9%.

The net financial revenue and expense was ¥2,021 million (US\$15.3 million), a ¥1,253 million (US\$9.5 million) decrease from the previous year.

As a result, income before income taxes totaled ¥26,205 million (US\$198.5 million), the same level as that of previous year. Net income for the term amounted to ¥13,962 million (US\$105.8 million), an 18.9% increase over the previous year. Primary net income per share increased ¥5.47 (US\$0.04) from the previous year to ¥40.46 (US\$0.31).

Financial Position

Total assets at the end of March 1998 stood at ¥478,861 million (US\$3,627.7 million), a 6.9% decrease from the previous year.

Current assets decreased by 3.2% to ¥216,416 million (US\$1,639.5 million) mainly because marketable securities declined by ¥20,449 million (US\$154.9 million).

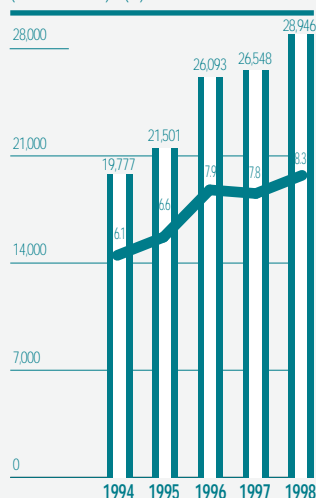
Capital expenditures during the year reached ¥20,806 million (US\$157.6 million), a 9.2% increase over the previous year. Depreciation and amortization expenses totaled ¥14,615 million (US\$110.7 million), a 3.6% increase over the previous year.

Investments and other assets decreased by 23.8% to ¥147,346 million (US\$1,116.3 million).

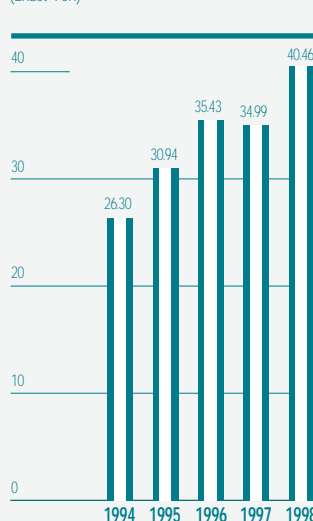
Current liabilities decreased by 27.7% to ¥135,170 million (US\$1,024.0 million) mainly because the current portion of long-term debt decreased. Long-term liabilities decreased by 7.1% to ¥109,826 million (US\$832.0 million) mainly due to a drop in long-term debt.

Shareholders' equity increased by ¥24,859 million (US\$188.3 million) over the previous year, to ¥233,494

OPERATING INCOME & OPERATING INCOME / NET SALES
(Millions of Yen) / (%)



NET INCOME PER SHARE
(Exact Yen)



million (US\$1,768.9 million), mainly as a result of a substantial increase in retained earnings and the issue of stock upon the exercise of warrants.

The ratio of net worth to total assets was 48.8%, an 8.2% increase over the previous year.

With regard to financing activities, Kuraray issued ¥6,000 million (US\$45.5 million) worth of bonds from April to May 1997, mainly for loans to its subsidiaries.

Cash Flows

Net cash provided by operating activities of ¥23,570 million (US\$178.6 million) was lower than the previous year's ¥28,273 million.

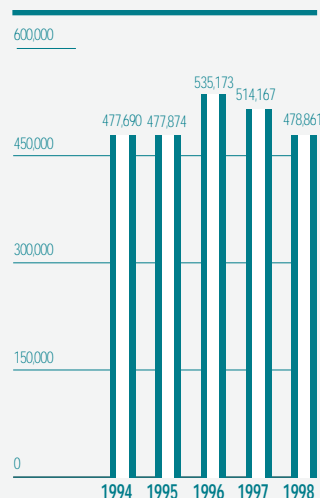
Net cash provided by investing activities totaled ¥36,871 million (US\$279.3 million), compared with the previous year's net cash used of ¥1,245 million. This was mainly attributable to proceeds of ¥34,621 million (US\$262.3 million) from sales of investment securities, and an increase of ¥2,983 million (US\$22.6 million) in investments, mainly investment securities and long-term fixed deposits, compared with the previous

year's increase of ¥32,999 million. Conversely this was partly countered by a decrease of ¥28,929 million (US\$219.2 million) in marketable securities, compared with the previous year's ¥49,885 million decrease.

Net cash used in financing activities totaled ¥60,294 million (US\$456.8 million), substantially more than the previous year's ¥18,893 million. This was mainly attributable to a decrease of ¥22,163 million (US\$167.9 million) in short-term bank loans, compared with the previous year's ¥3,725 million decrease, and a decline in proceeds from long-term debt, which amounted to ¥6,008 million (US\$45.5 million), compared with the previous year's ¥16,640 million.

As a result, cash and cash equivalents at the end of the year under review amounted to ¥31,350 million, up ¥1,765 million (US\$13.4 million), or 6.0%, from the previous fiscal year-end.

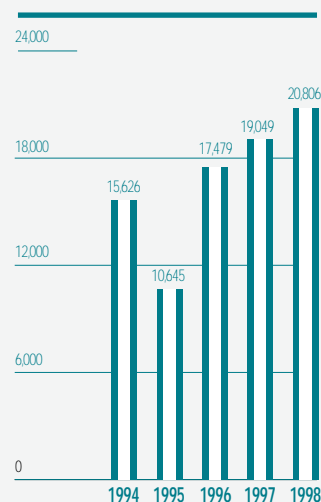
TOTAL ASSETS
(Millions of Yen)



EQUITY RATIO
(%)



CAPITAL EXPENDITURES
(Millions of Yen)



Consolidated Balance Sheets

Kuraray Co., Ltd. and Consolidated Subsidiaries

March 31, 1998 and 1997	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
ASSETS			
Current assets:			
Cash and cash equivalents	¥031,350	¥029,585	\$0,237,500
Marketable securities (Note 3)	8,329	28,778	63,098
Notes and accounts receivable (Note 9):			
Trade	96,759	95,059	733,023
Unconsolidated subsidiaries and affiliates	605	2,235	4,583
Other	2,327	3,369	17,629
Loans receivable to unconsolidated subsidiaries and affiliates	349	3,751	2,644
Allowance for doubtful accounts	(1,097)	(1,865)	(8,312)
	98,943	102,549	749,567
Inventories (Note 4)	76,510	61,265	579,622
Other current assets	1,284	1,366	9,727
Total current assets	216,416	223,543	1,639,514
Property, plant and equipment (Note 5):			
Land	25,125	17,291	190,341
Buildings	78,001	79,245	590,917
Machinery and equipment	320,549	299,567	2,428,401
Construction in progress	9,226	4,138	69,894
	432,901	400,241	3,279,553
Less accumulated depreciation	(317,802)	(302,914)	(2,407,591)
	115,099	97,327	871,962
Investments and other assets:			
Investment securities (Notes 3 and 5)	76,355	116,876	578,447
Investments in unconsolidated subsidiaries and affiliates	3,802	2,522	28,803
Loans receivable to:			
Unconsolidated subsidiaries and affiliates	5,302	9,951	40,168
Other	1,275	1,647	9,659
Other	60,612	62,301	459,182
	147,346	193,297	1,116,259
	¥478,861	¥514,167	\$3,627,735

See Notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥005,937	¥028,100	\$0,244,977
Current portion of long-term debt (Note 5)	16,263	55,632	123,205
Notes and accounts payable:			
Trade	59,818	56,415	453,167
Unconsolidated subsidiaries and affiliates	930	1,614	7,045
Other	5,435	5,581	41,174
Accrued income taxes (Note 7)	4,989	7,979	37,795
Accrued expenses and other	41,798	31,604	316,652
Total current liabilities	135,170	186,925	1,024,015
Long-term liabilities:			
Long-term debt (Note 5)	83,292	93,996	631,000
Accrued retirement benefits (Note 8)	11,596	11,841	87,848
Other	14,938	12,425	113,166
Total long-term liabilities	109,826	118,262	832,014
Minority interests	371	345	2,811
Commitments and contingencies (Note 9)			
Shareholders' equity (Note 6):			
Common stock with par value of ¥50 (\$0.38) per share:			
Authorized — 700,000,000 shares			
Issued and outstanding —			
354,327,992 shares at March 31, 1998	73,694		558,289
340,207,727 shares at March 31, 1997		66,131	
Additional paid-in capital	67,932	60,369	514,636
Legal reserve	5,379	5,064	40,750
Retained earnings	86,498	77,074	655,288
	233,503	208,638	1,768,963
Treasury stock at cost	(9)	(3)	(68)
Total shareholders' equity	233,494	208,635	1,768,895
	¥478,861	¥514,167	\$3,627,735

Consolidated Statements of Income

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1998 and 1997	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Net sales	¥347,643	¥340,112	\$2,633,659
Cost of sales	259,788	255,240	1,968,091
(Gross profit)	87,855	84,872	665,568
Selling, general and administrative expenses	58,909	58,324	446,280
(Operating income)	28,946	26,548	219,288
Other income (expenses):			
Interest and dividend income	5,588	7,313	42,333
Interest expenses	(3,567)	(4,039)	(27,023)
Other, net	(4,762)	(3,617)	(36,075)
(Income before income taxes)	26,205	26,205	198,523
Income taxes (Note 7)	12,229	14,442	92,643
Minority interests in net loss (income) of consolidated subsidiaries ...	18	(22)	136
Amortization of difference between costs of investments and equity in their net assets	(48)	—	(364)
Equity in earnings of affiliates	16	—	121
Net income	¥013,962	¥011,741	\$0,105,773
	Yen		U.S. dollars (Note 1)
Net income per share:			
Primary	¥40.46	¥34.99	\$0.31
Fully diluted	37.68	32.48	0.29

See Notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1998 and 1997	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
	(Millions of yen)			
Balance at March 31, 1996	¥ 55,158	¥ 49,396	¥ 4,762	¥ 69,471
Net income				11,741
Conversion of convertible debentures	226	226		
Stock issued on exercise of warrants	10,747	10,747		
Cash dividends ¥9.00 per share				(2,958)
Transfer to legal reserve			302	(302)
Bonuses to directors and statutory auditors				(80)
Effect of changes in reporting entity		¥000,000		(798)
Balance at March 31, 1997	66,131	¥060,369	5,064	77,074
Net income				13,962
Conversion of convertible debentures	21	21		
Stock issued on exercise of warrants	7,542	7,542		
Cash dividends ¥9.00 per share				(3,073)
Transfer to legal reserve			315	(315)
Bonuses to directors and statutory auditors				(79)
Effect of changes in reporting entity		¥000,000		(1,071)
Balance at March 31, 1998	¥ 73,694	¥ 67,932	¥ 5,379	¥ 86,498
	(Thousands of U.S. dollars) (Note 1)			
Balance at March 31, 1997	\$500,993	\$457,340	\$38,364	\$583,893
Net income				105,773
Conversion of convertible debentures	159	159		
Stock issued on exercise of warrants	57,137	57,137		
Cash dividends \$0.07 per share				(23,280)
Transfer to legal reserve			2,386	(2,386)
Bonuses to directors and statutory auditors				(598)
Effect of changes in reporting entity			\$000,00	(8,114)
Balance at March 31, 1998	\$558,289	\$514,636	\$40,750	\$655,288

See Notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1998 and 1997	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Cash flows from operating activities			
Net income	¥13,962	¥11,741	\$105,773
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	14,615	14,111	110,720
Provision for doubtful accounts, net	241	210	1,826
Provision for loss in relation to guarantee, net.....	792	—	6,000
Write-down of investment securities.....	1,753	—	13,280
Gain on sales of investment securities	(587)	—	(4,447)
Gain on sales of investments in affiliates.....	(590)	—	(4,470)
Loss on sales of investment securities	949	—	7,189
Decrease in accrued retirement benefits.....	(245)	(266)	(1,856)
Decrease in notes and accounts receivable	877	9,793	6,644
(Increase) decrease in inventories	(16,306)	1,833	(123,530)
Increase (decrease) in notes and accounts payable	2,366	(6,250)	17,924
Increase (decrease) in other current liabilities.....	10,240	(3,096)	77,576
Decrease in accrued income taxes	(2,990)	(300)	(22,652)
Other, net	(1,507)	497	(11,417)
Net cash provided by operating activities	23,570	28,273	178,560
Cash flows from investing activities			
Acquisitions of property, plant, and equipment	(20,599)	(19,360)	(156,053)
Decrease in marketable securities	28,929	49,885	219,159
(Increase) decrease in loans receivable	(3,447)	1,131	(26,114)
Increase in investments, mainly investment securities and long-term fixed deposits	(2,983)	(32,999)	(22,598)
Proceeds from sales of investment securities.....	34,621	—	262,280
Proceeds from sales of investments in affiliates	599	—	4,538
Other, net	(249)	98	(1,886)
Net cash provided by (used in) investing activities	36,871	(1,245)	279,326
Cash flows from financing activities			
Decrease in short-term bank loans	(22,163)	(3,725)	(167,902)
Proceeds from long-term debt	6,008	16,640	45,515
Repayments of long-term debt	(56,073)	(50,264)	(424,796)
Proceeds from exercise of warrants	15,086	21,494	114,288
Dividends paid	(3,073)	(2,958)	(23,280)
Other, net	(79)	(80)	(598)
Net cash used in financing activities	(60,294)	(18,893)	(456,773)
Effect of exchange rate changes on cash & cash equivalents.....	(2)	17	(15)
Effect of changes in reporting entities	1,620	(629)	12,273
Net increase in cash and cash equivalents	1,765	7,523	13,371
Cash and cash equivalents, beginning of period	29,585	22,062	224,129
Cash and cash equivalents, end of period	¥31,350	¥29,585	\$237,500

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1998 and 1997

1. Basis of presenting consolidated financial statements:

These consolidated financial statements are prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and the related accounting regulations and in conformity with generally accepted accounting principles and practices in Japan.

In preparing these consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under generally accepted accounting principles and practices in Japan but are presented as additional information.

The United States dollar amounts included herein are given solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥132=\$1, the approximate exchange rate prevailing on March 31, 1998. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at that or any other rate.

2. Significant accounting policies:

(a) Principles of consolidation

These consolidated financial statements include the accounts of Kuraray Co., Ltd. (the 'Company') and its significant subsidiaries (the 'Companies'). During the year ended March 31, 1998, the accounts of Kuraray Techno Co., Ltd. and eleven other companies have been included in consolidation, because the effect of their operations on the results of consolidated operations has become material.

In the case of a change in reporting entity, the consolidated financial statements are not restated, but the effect of the change to retained earnings at beginning of the period is directly credited to retained earnings during the period.

Investments in unconsolidated subsidiaries and affiliates, with minor exception, are accounted for by the equity method.

The difference between the cost of investments and equity in their net assets at dates of acquisition is, in principle, being amortized over five years.

(b) Cash and cash equivalents

Cash and cash equivalents include all time deposits with original maturities of one year or less, which can be withdrawn at least at face amount at any time without penalty.

(c) Inventories

Inventories other than supplies are stated at cost principally determined by the weighted average method. Supplies are stated at cost principally determined by the moving average method.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost.

Depreciation is principally computed by the declining-balance method over the estimated useful lives of the assets. Estimated useful lives of the assets are principally as follows:—

Buildings	35 to 65 years
Machinery and equipment	02 to 10 years

The Companies use machinery and facilities under financing leases without transferring ownership and such leased assets are

not capitalized in the balance sheet in conformity with accounting principles generally accepted in Japan.

(e) Marketable securities and investment securities

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

(f) Bond discounts

Bond discounts, which are included in investments and other assets on the consolidated balance sheets, are amortized by the straight-line method over the life of the bonds.

(g) Income taxes

Accrued income taxes are provided at the amount currently payable. Deferred income taxes on timing differences in recognizing certain income and expenses between reporting for tax and financial purposes are not provided, except pertaining to the timing differences of four foreign consolidated subsidiaries.

(h) Retirement benefits

The Companies principally have unfunded lump-sum benefit plans and funded contributory pension plans, generally covering all employees.

Under the terms of the Companies' retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefits is, in general, based on the length of service, basic salary at the time of retirement, and cause of retirement. The liability for lump-sum payments is principally stated at 68% based on the latest actuarial computation of the amount which would be required if all eligible employees voluntarily retired as of the balance sheet date.

The Companies' contributory pension plans, which cover those employees who retire at age 55 or more, or have served the Companies for more than 20 years and retire at age 50 or more, generally provide for pension payments for a period of ten years subsequent to retirement. The annual provision for these plans includes current period costs, amortization of prior service costs over 14 years and interest on the unfunded portion. The provision is determined actuarially and funded currently through outside trustees.

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

(i) Foreign currency items

Foreign currency items are translated into Japanese yen at the rates in effect at the balance sheet date for current receivables and payables and at the rates when acquired or incurred for non-current receivables and payables. Income and expenses in foreign currency are translated into Japanese yen at exchange rates prevailing at the transaction dates.

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

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

In preparing the consolidated financial statements, assets, liabilities, income and expenses of foreign subsidiaries are translated into Japanese yen at the rates in effect at the balance sheet date.

(j) Stock and bond issue expenses

Stock and bond issue expenses are charged to income when incurred.

(k) Research and development expenses

Expenses relating to research and development activities are charged to income when incurred.

(l) Net income per share

The computation of primary net income per share is based on the weighted average number of shares outstanding during each

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

(m) Allowance for doubtful accounts

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

(n) Allowance for loss in relation to guarantees

An allowance for loss in relation to guarantees, which is included in "accrued expenses and other" in current liabilities and "other" in long-term liabilities, has been provided for future losses in relation to the guarantees at amount determined after consideration of financial condition of the principal debtors.

(o) Reclassifications

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

3. Market value information for securities:

At March 31, 1998 and 1997, book value and market value of marketable securities and investment securities, as to which market value information is available to obtain, were as follows:—

	Millions of yen				Thousands of U.S. dollars	
	1998		1997		1998	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Marketable securities						
Stocks	¥00,424	¥02,106	¥00,702	¥003,961	\$003,212	\$015,955
Bonds	7,722	7,946	7,040	7,123	58,500	60,197
Investment securities						
Stocks	21,322	39,588	24,347	49,753	161,530	299,909
Bonds	19,246	19,636	49,786	51,394	145,803	148,757
	¥48,714	¥69,276	¥81,875	¥112,231	\$369,045	\$524,818

4. Inventories:

Inventories at March 31, 1998 and 1997 consisted of the following: —

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Finished products	¥46,838	¥40,273	\$354,833
Semi-finished products and work in process	20,063	13,176	151,993
Raw materials and supplies	9,609	7,816	72,796
	¥76,510	¥61,265	\$579,622

5. Short-term bank loans and long-term debt:

Short-term bank loans are generally represented by 365-day notes with interest rates principally of 0.98% p.a. and 0.90% p.a. at March 31, 1998 and 1997, respectively.

Long-term debt consisted of the following: —

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Loans principally from banks and insurance companies with interest rates ranging from 1.025% p.a. to 7.00% p.a. maturing serially until 2022:			
Secured	¥(04,377)	¥004,564	\$(002,856)
Unsecured	16,517	19,753	125,129
3.3% yen convertible sinking fund debentures due 1997.....	—	8,899	—
1.8% yen convertible sinking fund debentures due 2003.....	13,970	13,970	105,833
1.0% yen convertible debentures due 2003	9,551	9,551	72,356
2.2% yen convertible debentures due 2002	14,984	14,993	113,515
1 1/2% United States dollar bonds due 1998 with detachable warrants.....	—	20,305	—
4 1/2% United States dollar bonds due 1999 with detachable warrants.....	8,546	8,546	64,742
2 5/8% United States dollar bonds due 1999 with detachable warrants.....	17,110	17,110	129,622
3/4% Swiss franc notes due 1997 with detachable warrants.....	—	23,437	—
Floating to fixed rate yen Euro medium term notes due March 5, 2004	3,000	3,000	22,727
Floating to fixed rate yen Euro medium term notes due March 4, 2003	3,000	3,000	22,727
2.27% yen Euro medium term notes due January 30, 2004	500	500	3,788
2.02% yen Euro medium term notes due March 26, 2003	1,000	1,000	7,576
2.00% yen Euro medium term notes due February 7, 2003	2,000	2,000	15,152
Fixed and floating rate yen Euro medium term notes due March 27, 2002	1,000	1,000	7,576
Step-up rate yen Euro medium term notes due April 10, 2007.....	500	500	3,788
Floating rate yen Euro medium term notes due April 22, 2002.....	500	500	3,788
Floating rate yen Euro medium term notes due April 25, 2002.....	1,000	1,000	7,576
Step-up rate yen Euro medium term notes due June 11, 2007	600	—	4,545
Floating to fixed rate yen Euro medium term notes due June 18, 2004	3,000	—	22,727
Floating rate yen Euro medium term notes due June 24, 2002	2,000	—	15,152
Floating rate yen Euro medium term notes due June 25, 2002	400	—	3,030
	99,555	149,628	754,205
Current portion	(16,263)	(55,632)	(123,205)
	¥(83,292)	¥093,996	\$(631,000)

The 1.8% yen convertible sinking fund debentures due March 31, 2003, which were issued in Japan in November 1987, can be purchased at any time in their entirety at the option of the Company or may be redeemed, at prices declining from 106% to 100% of their principal amount from April 1, 1996 until 2003. The debentures are convertible into common stock of the Company until March 28, 2003 at the conversion price of ¥1,703.4 (\$12.90) per share.

The 1.0% yen convertible debentures due March 31, 2003, which were issued in Japan in January 1994, can be purchased at any time in their entirety at the option of the Company or may be redeemed, at prices declining from 103% to 100% of their principal amount from April 1, 1999 until 2003. The debentures are convertible into common stock of the Company until March 28, 2003 at the conversion price of ¥1,067.3 (\$8.09) per share.

The 2.2% yen convertible debentures due March 29, 2002, which were issued in Japan in February 1995, can be purchased at any time in their entirety at the option of the Company or may be redeemed, at prices declining from 102% to 100% of their principal amount from April 1, 1999 until 2002. The debentures are convertible into common stock of the Company until March 28, 2002 at the conversion price of ¥1,036.0 (\$7.85) per share.

For the 1.8% yen convertible sinking fund debentures, the Company is required to contribute to a sinking fund, which amount is reduced by the amount of debentures converted or redeemed, ¥1,500 million (\$11,364 thousand) on every March 31 for the 6 years ending March 31, 2002. At March 31, 1998, investment securities with a net book value of ¥3,444 million (\$26,091 thousand), of which market value approximates the amount of sinking fund requirements were deposited with

a designated bank instead of the sinking fund payment.

The indentures under which the 1.8% yen convertible sinking fund debentures due 2003 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 1998, the amount of retained earnings available for the payment of dividends was ¥95,507 million (\$723,538 thousand) under such provision of the indentures.

The indentures under which the 1.0% yen convertible debentures due 2003 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 1998, the amount of retained earnings available for the payment of dividends was ¥60,864 million (\$461,091 thousand) under such provision of the indentures.

The indentures under which the 2.2% yen convertible debentures due 2002 were issued place a limitation on the payment of cash dividends, which relates, in part, to earnings of the Company. At March 31, 1998, the amount of retained earnings available for the payment of dividends was ¥61,464 million (\$465,636 thousand) under such provision of the indentures.

The holders of warrants issued in conjunction with the 4 1/2% United States dollar bonds due February 9, 1999 have the right by way of exercise of warrants to subscribe for shares of common stock of the Company at ¥1,036.0 (\$7.85) per share, which right is exercisable from February 27, 1995 to January 26, 1999. The amount of warrants remaining unexercised was ¥10,045 million (\$76,098 thousand) at March 31, 1998.

The holders of warrants issued in conjunction with the 2 5/8% United States dollar bonds due December 21, 1999 have the right by way of exercise of warrants to subscribe for shares of common stock of the Company at ¥1,087.0 (\$8.23) per share, which right is exercisable from January 8, 1996 to December 7, 1999. The amount of warrants remaining unexercised was ¥20,420 million (\$154,697 thousand) at March 31, 1998.

The conversion prices of the above sinking fund debentures and debentures and the exercise prices of the above warrants are subject to adjustment under certain circumstances, including stock splits pursuant to the relevant agreements.

The number of shares of common stock required for conversion of the above sinking fund debentures and debentures outstanding at March 31, 1998 at the current conversion prices and for exercising of the above warrants remaining unexercised at March 31, 1998 at the current exercise prices would have been 60,095 thousand.

Bonds with warrants issued on and after April 1, 1994 are divided into value of warrants and value of bonds. The value of warrants are included in accrued expenses and other on the consolidated balance sheets.

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

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

The rates of floating to fixed rate yen Euro medium term notes due March 4, 2003, are as follows:—

- January 23, 1997 ~ March 3, 1997
Interpolated JPY LIBOR – 0.15%
- March 4, 1997 ~ Due date
2.00% per annum

The rates of fixed and floating rate yen Euro medium term notes due March 27, 2002, are as follows:—

- February 10, 1997 ~ March 26, 1997
1.00%
- March 27, 1997 ~ March 26, 1998
4.85% –10 YEAR JPY SWAP RATE (Not less than 0%)
- March 27, 1998 ~ March 26, 1999
4.85% –10 YEAR JPY SWAP RATE (Not less than 0%)
- March 27, 1999 ~ March 26, 2000
4.85% –7 YEAR JPY SWAP RATE (Not less than 0%)
- March 27, 2000 ~ March 26, 2001
4.85% –5 YEAR JPY SWAP RATE (Not less than 0%)
- March 27, 2001 ~ Due date
4.85% –3 YEAR JPY SWAP RATE (Not less than 0%)

The rates of step-up rate yen Euro medium term notes due April 10, 2007, are as follows:—

- February 25, 1997 ~ April 9, 2002
2.50% per annum
- April 10, 2002 ~ Due date
3.00% per annum

The rates of floating rate yen Euro medium term notes due April 22, 2002, are as follows:—

- March 10, 1997 ~ April 21, 1997
1 month JPY LIBOR + 0.40%
- April 22, 1997 ~ Due date
6 month JPY LIBOR + 0.40%

The rates of floating rate yen Euro medium term notes due April 25, 2002, are as follows:—

- March 13, 1997 ~ April 24, 1997
1 month JPY LIBOR + 0.41%
- April 25, 1997 ~ Due date
6 month JPY LIBOR + 0.41%

The rates of step-up rate yen Euro medium term notes due June 11, 2007, are as follows:—

- April 24, 1997 ~ June 10, 2002
2.20% per annum
- June 11, 2002 ~ Due date
2.80% per annum

The rates of floating to fixed rate yen Euro medium term notes due June 18, 2004, are as follows:—

- May 2, 1997 ~ June 17, 1997
Interpolated JPY LIBOR + 0.125%
- June 18, 1997 ~ June 17, 2002
6 month JPY LIBOR + 0.20%
- June 18, 2002 ~ Due date
2.80% per annum

The rates of floating rate yen Euro medium term notes due June 24, 2002, are as follows:—

- May 9, 1997 ~ June 23, 1997
2 month JPY LIBOR + 0.50%
- June 24, 1997 ~ Due date
6 month JPY LIBOR + 0.50%

The rates of floating rate yen Euro medium term notes due June 25, 2002, are as follows:—

May 14, 1997 ~ June 24, 1997	Interpolated JPY LIBOR + 0.30%
June 25, 1997 ~ Due date	3 month JPY LIBOR + 0.30%

The annual maturities of long-term debt outstanding at March 31, 1998 for the respective years ending March 31 were as follows:—

	Millions of yen	Thousands of U.S. dollars
1999	¥16,263	\$123,205
2000	19,540	148,030
2001	2,135	16,174
2002	17,366	131,561
2003	34,163	258,811
Thereafter	10,088	76,424
	¥99,555	\$754,205

At March 31, 1998, assets pledged as collateral for notes and accounts payable-trade and long-term debt were as follows:—

	Millions of yen	Thousands of U.S. dollars
Investment securities.....	¥00,032	\$000,242
Property, plant and equipment, net of accumulated depreciation ...	19,628	148,697
	¥19,660	\$148,939

6. Shareholders' equity:

The Japanese Commercial Code provides that a portion of retained earnings equal to at least 10% of cash distributions being paid out by means of appropriation for retained earnings with respect to each financial period be appropriated as a legal reserve until such reserve equals 25% of the common stock account.

This reserve is not available for dividends but may be capitalized by resolution of the Board of Directors or used to reduce a deficit by resolution of the shareholders.

Under the Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be accounted for as common stock. The remainder is accounted for as additional paid-in capital.

7. Income taxes:

The Companies are subject to several taxes based on income which, in the aggregate, resulted in a normal effective tax rate of approximately 51% for each of the two years in the period ended March 31, 1998.

The effective tax rates in the consolidated statements of income differ from the normal statutory tax rates due to such items as permanently non-deductible expenses and timing differences in recognizing certain income and expense items for financial and tax reporting purposes.

8. Retirement benefits:

The total charges to consolidated income for all retirement and pension plans for the years ended March 31, 1998 and 1997 amounted to ¥4,516 million (\$34,212 thousand) and ¥4,562 million, respectively.

The actuarial value of plan assets under the Companies' contributory funded pension plans amounted to ¥12,495 million (\$94,659 thousand) at the most recent valuation dates.

9. Commitments and contingencies:

The Companies were contingently liable with respect to trade notes receivable discounted or endorsed. The amounts of notes endorsed at March 31, 1998 and 1997 were ¥81 million (\$613 thousand) and ¥58 million, respectively. And the amounts of notes discounted with recourse at banks at March 31, 1998 and 1997 were ¥15 million (\$114 thousand) and ¥33 million, respectively.

The Companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates, and others, of ¥4,543 million (\$34,417 thousand) and ¥1,417 million at March 31, 1998 and 1997, respectively.

The amount of guarantees at March 31, 1998 includes that of letters of commitments of guarantees, letters of awareness, and other similar acts.

10. Leases:

The following is disclosed to conform with an amendment to the Japanese securities and exchange law and relating accounting regulation, which are applicable to the information since 1998.

Lease transactions as lessee

Payments of fee for financing leases without transferring ownership of leased assets to lessee were ¥531 million (\$4,023 thousand) for the year ended March 31, 1998.

The future lease payments, including amounts representing interest, at March 31, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥0,474	\$3,591
Due later	765	5,795
	¥1,239	\$9,386

The future lease payments under noncancellable operating leases, including amounts representing interest, at March 31, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥130	\$0,985
Due later	223	1,689
	¥353	\$2,674

Lease transaction as lessor

Revenue of financing leases without transferring ownership of leased assets to lessee were ¥17 million (\$135 thousand) for the year ended March 31, 1998.

The future lease revenue, including amounts representing interest, at March 31, 1998 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥13	\$099
Due later	18	136
	¥31	\$235

11. Segment Information:

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

A summary of net sales and operating income and identifiable assets, capital expenditures and depreciation and amortization by segments of business activities for the year ended March 31, 1998 and 1997 are as follows: —

Net sales and Operating income

	Millions of yen				Thousands of U.S. dollars			
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
Year ended March 31, 1998								
Chemical and synthetic fibers	¥111,041	¥01,466	¥112,507	¥03,768	\$0,841,220	\$011,106	\$0,852,326	\$028,546
Chemical products	150,319	2,443	152,762	16,540	1,138,780	18,507	1,157,287	125,303
Man-made leather, nonwoven fabrics and fastening materials	38,802	524	39,326	5,454	293,955	3,970	297,925	41,318
Diversified businesses	47,481	18,568	66,049	3,482	359,704	140,667	500,371	26,379
Total	347,643	23,001	370,644	29,244	2,633,659	174,250	2,807,909	221,546
Elimination	—	(23,001)	(23,001)	(298)	—	(174,250)	(174,250)	(2,258)
Consolidated total	¥347,643	¥ —	¥347,643	¥28,946	\$2,633,659	\$ —	\$2,633,659	\$219,288
Year ended March 31, 1997								
Chemical and synthetic fibers	¥112,937	¥0 873	¥113,810	¥ 3,790				
Chemical products	146,812	1,739	148,551	14,884				
Man-made leather, nonwoven fabrics and fastening materials	38,114	464	38,578	5,060				
Diversified businesses	42,249	11,035	53,284	2,461				
Total	340,112	14,111	354,223	26,195				
Elimination	—	(14,111)	(14,111)	353				
Consolidated total	¥340,112	¥0 —	¥340,112	¥26,548				

Identifiable assets, Capital expenditures and Depreciation and amortization

	Millions of yen			Thousands of U.S. dollars		
	Identifiable assets	Capital expenditures	Depreciation and amortization	Identifiable assets	Capital expenditures	Depreciation and amortization
Year ended March 31, 1998						
Chemical and synthetic fibers	¥086,177	¥07,263	¥03,124	\$0,652,856	\$055,023	\$023,667
Chemical products	131,814	9,497	7,841	998,591	71,947	59,401
Man-made leather, nonwoven fabrics and fastening materials	31,752	2,034	2,079	240,545	15,409	15,750
Diversified businesses	71,139	2,012	1,571	538,932	15,242	11,902
Total	320,882	20,806	14,615	2,430,924	157,621	110,720
Corporate assets and elimination	157,979	—	—	1,196,811	—	—
Consolidated total	¥478,861	¥20,806	¥14,615	\$3,627,735	\$157,621	\$110,720
Year ended March 31, 1997						
Chemical and synthetic fibers	¥ 80,349	¥ 2,630	¥ 3,005			
Chemical products	120,873	13,263	7,264			
Man-made leather, nonwoven fabrics and fastening materials	31,897	1,587	2,258			
Diversified businesses	49,017	1,569	1,584			
Total	282,136	19,049	14,111			
Corporate assets and elimination	232,031	—	—			
Consolidated total	¥514,167	¥19,049	¥14,111			

Foreign sales consisting of export sales of the Company and its domestic consolidated subsidiaries and the sales of foreign consolidated subsidiaries for the years ended March 31, 1998 and 1997 totaled ¥80,175 million (\$607,386 thousand) and ¥69,227 million, respectively, and accounted for 23% and 20% of consolidated net sales, respectively.

12. Subsequent event:

(a) The Japanese Commercial Code provides that all appropriations of retained earnings, except interim cash dividends, must be approved at an ordinary general meeting of shareholders. In accordance with customary practice in Japan, the appropriation of retained earnings is not accrued in the financial statements for the year to which it relates but is recorded in the subsequent accounting year after shareholder approval has been obtained. The following appropriations of retained earnings of the Company as of March 31, 1998 were approved by the shareholders on June 26, 1998.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.50 (\$0.03) per share	¥1,594	\$12,076
Transfer to legal reserve	166	1,258
Bonuses to directors and statutory auditors	62	470

The above year-end cash dividends are comprised in annual dividends of ¥9.00 (\$0.07) per share, since interim cash dividends of ¥4.50 (\$0.03) per share were paid to shareholders, aggregating ¥1,543 million (\$11,689 thousand) in December 1997.

(b) According to the resolution at the meeting of the Board of Directors held on April 14, 1998, the Company issued a series of unsecured yen bonds on May 7, 1998.

The total amount of the bonds issued and terms and conditions were as follows:

- (1) Total amount: ¥20,000 million (\$151,515 thousand)
- (2) Date of maturity: May 7, 2003
- (3) Interest rate: 1.8% p.a.

Report of Independent Accountants

Kuraray Co., Ltd. and Consolidated Subsidiaries

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Kuraray Co., Ltd. and its consolidated subsidiaries at March 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



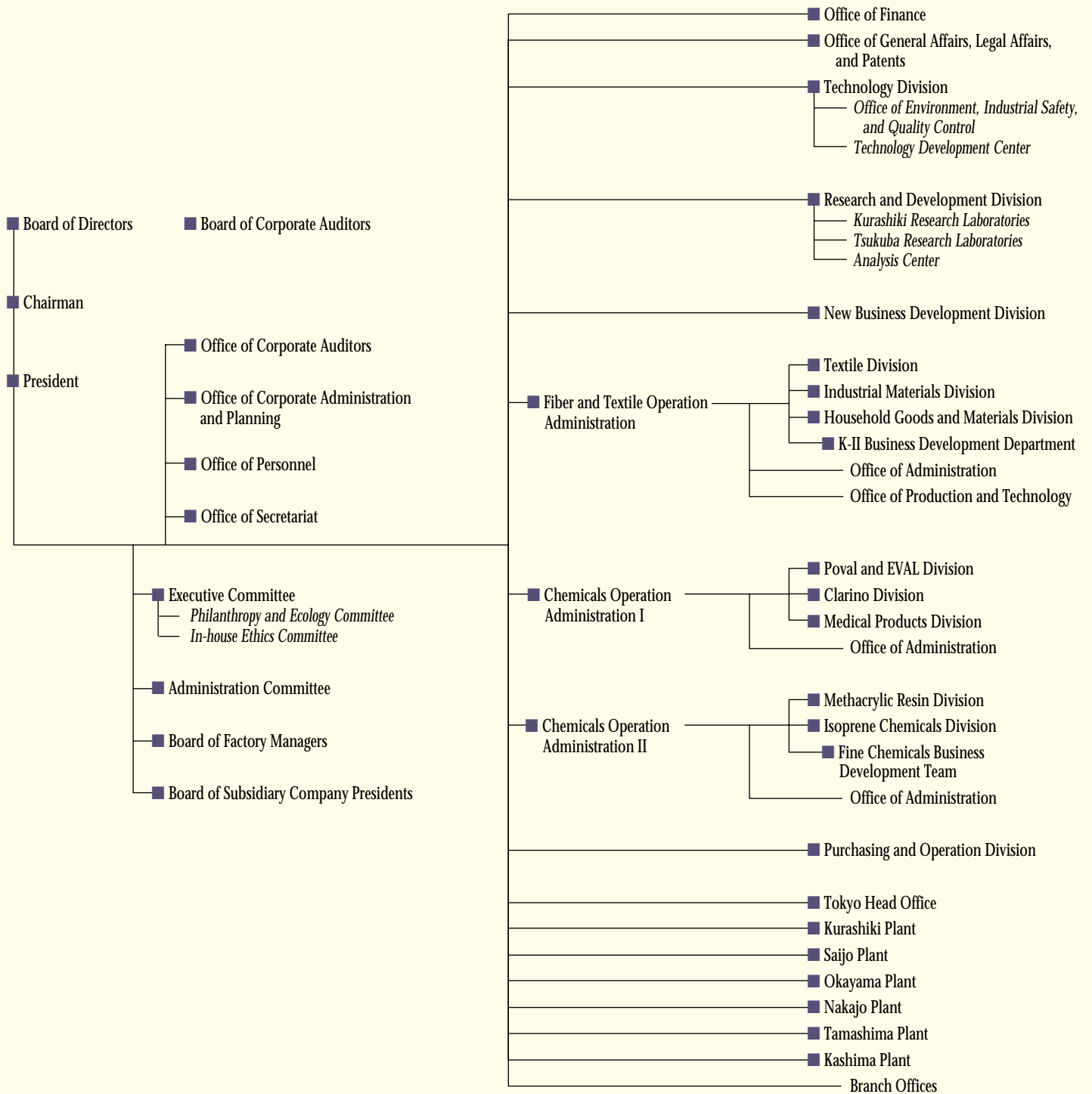
Kohyoh & Co.
(Certified Public Accountants)



Price Waterhouse
(Certified Public Accountants)

Osaka, Japan/June 26, 1998

Organization



(As of June 30, 1998)

Kuraray's History

1920

June 1926

Kurashiki Kenshoku Co. established.

May 1928

Production of rayon filament yarn begins.

1940

Oct. 1940

Studies on vinylon initiated.



New laboratory of Okayama Plant

Dec. 1940

Chuugoku Sangyo Co., Ltd. (now Kuraray Chemical Co., Ltd.) established.

Oct. 1942

Construction of pilot plant to determine the potential of poval and vinylon begins.

Feb. 1943

Capital participation in Kakuichi Rubber Co., Ltd. (now Kuraray Plastics Co., Ltd.)

Dec. 1943

Company name changed to Kurashiki Koku Kako Co., Ltd.

Oct. 1945

Company name changed back to Kurashiki Kenshoku after the war.

Apr. 1949

Company name changed to Kurashiki Rayon Co., Ltd.

1950

Nov. 1950

Production of "Kuralon" (vinylon) started.



Ceremony celebrating completion of construction of our Tamashima Plant

Feb. 1958

Contract signed with Air Reduction Co., Ltd. (U.S.A.) for export of poval production technology.

Nov. 1958

Applications of poval developed; sales started.

Sep. 1959

Contract signed with Hoechst A.G. (Germany) for export of poval and vinylon production technology.

Nov. 1959

Commercial production of methyl methacrylate and methacrylic resin business started at affiliated company Kyowa Gas Chemical Co., Ltd.

Dec. 1959

Contract signed with Rhône Poulenc S.A. (France) for export of poval and vinylon production technology.

1960

Apr. 1960

Contract signed with Air Reduction Co., Ltd. (U.S.A.) for export of vinylon production technology.

Jan. 1961

Production of poval film starts.

Jan. 1961

Osaka Goseihin Co., Ltd. (now Kuraray Trading Co., Ltd.) established.

May 1962

Production of poval by natural gas method starts.

June 1963

Contract signed with China for export of vinylon-poval integrated production plant.

Aug. 1963

New York Representative Office established (transferred to Kuraray America, Inc. in Apr. 1996).

Mar. 1964

Production of polyester staple started.

Mar. 1964

Capital participation in Nippon Velcro Co., Ltd., a hook and loop fastener sales company.

Nov. 1964

"Clarino" man-made leather launched.

June 1965

European Representative Office established in Hamburg, West Germany (moved to Düsseldorf in June 1968).

July 1968

Central Research Laboratories opened.

Nov. 1969

Production of polyester filament for clothing started.



Early poster advertising polyester filament

1970

June 1970

Company name changed to Kuraray Co., Ltd.

June 1970

Hong Kong Representative Office established.

May 1972

Kuraray Hydron Medical Co., Ltd. established, signaling Kuraray's advance into contact lenses. (Company name changed to Kuraray Contact Lens in Jan. 1984).



Factory for nonwoven fabrics of Kuraray Chicopee Co., Ltd. (now "Kuraflex" processing plant of Okayama Plant)

May 1972

Production of "EVAL" resin started.

May 1972

Production of "EVAL" film started.

Oct. 1972

Production of dry-laid nonwoven fabrics started by subsidiary company Kuraray Chicopee Co., Ltd. (Company name changed to Kuraflex Co., Ltd. in June 1982).

Dec. 1972

Production of polyisoprene rubber started.

Mar. 1973

Contract signed with China for export of poval plant using ethylene method.

June 1976

Trial production of isoprene fine chemicals started.

Nov. 1976

High-performance membrane for industrial use produced.

Jan. 1977

Kuraray Engineering Co., Ltd. established.

Jan. 1978

“Clearfil” adhesive dental filler produced.

May 1978

Contract signed with China for export of “Clarino” man-made leather plant (entered into operation in Sep. 1983).

May 1978

KF-101 artificial kidney produced from “EVAL” hollow fiber.



“Clearfil” adhesive dental filler

1980

Apr. 1980

Production of “Sofrina” high-quality man-made leather for clothing started.

Aug. 1982

Tie-up agreement signed with Unitika, Ltd. on intensive production of vinylon staple and spun yarn.

Apr. 1983

Export of cement-reinforcing vinylon started.

Oct. 1983

Biaxially-oriented “EVAL” film produced.

Dec. 1984

Merges with Nippon Velcro and enters the hook and loop fastener business.

Oct. 1986

Laser Disc production started.

Dec. 1986

Production of “EVAL” resin started at EVAL Company of America in the U.S.A.



Ceremony celebrating completion of construction of EVAL Company of America’s plant

Jan. 1987

Contract signed with ARCO Chemical Co. (U.S.A.) for export of production technology of 1.4 butanediol.

July 1987

Merges with Kuraray Contact Lens.

Oct. 1987

Merges with Kuraflex and enters the nonwoven fabric market.

Apr. 1989

Production of melt-blown nonwoven fabric started.

Oct. 1989

Merges with Kyowa Gas Chemical Co., Ltd. and enters the methacrylic resin business.

1990

July 1990

Commercialization of “SEPTON” thermo-plastic elastomer.

July 1991

Production of MMA by Kyodo Monomer Inc., joint-venture firm with Mitsui Toatsu Chemicals Inc. started.

Dec. 1991

EVAL Company of America (U.S.A.) made wholly-owned subsidiary.



Party after signing ceremony for the acquisition of EVAL Company of America (U.S.A.)

July 1992

Commercialization of “Spantel” polyurethane elastic yarn.

Apr. 1994

Tsukuba Research Laboratories completed.

Dec. 1995

Kuraray EVAL Europe GmbH (Düsseldorf, Germany) and Kuraray Hong Kong Co., Ltd. established.

Apr. 1996

Kuraray America, Inc. established in New York as administrative holding company in the U.S.A.

Apr. 1996

Poval Asia Pte Ltd established in Singapore in a joint venture with Nippon Synthetic Chemical Industry Co., Ltd. to produce poval resin.



Signing ceremony for establishment of joint venture with Nippon Synthetic Chemical Industry Co., Ltd.

Apr. 1996

Trial sales started of “Kuralon K-II” new type of synthetic fibers produced by a solvent wet-cooled gel spinning method.

July 1997

Decides to construct a new “EVAL” resin production plant in Antwerp, Belgium.

Overseas Network

KURARAY AMERICA, INC.

30th Fl. Metlife Bldg.,
200 Park Avenue,
New York, N.Y. 10166, U.S.A.
Tel. (1-)212-986-2230 Fax. (1-)212-867-3543

Centralized management of two subsidiary companies, EVAL Company of America and Clarino America Corporation, market development, market analysis, sales of Kuraray products.

KURARAY HONG KONG CO., LTD.

Unit 314, 3/F, Lippo Sun Plaza,
28 Canton Road, Tsimshatsui,
Kowloon, Hong Kong
Tel. (852-)2377-3781 Fax. (852-)2317-9703

Local finishing and sales of man-made leather in China and Southeast Asia, market analysis.

KURARAY SINGAPORE PTE., LTD.

331 North Bridge Road, #18-02
Odeon Towers,
Singapore 188720
Tel. (65-)337-4123 Fax. (65-)337-1912

Marketing of Kuraray products, especially chemical products, in Southeast Asia, technical service.

KURARAY CO., LTD. KURARAY EUROPE GmbH

Schiess-Strasse 68
40549 Düsseldorf, Germany
Tel. (49-)211-538880 Fax. (49-)211-5388848

Sales of Kuraray products in Europe,
market analysis, technical service.

Corporate Data

Kuraray Co., Ltd.

Established: June 24, 1926
Capital: ¥73,694 million
Shares: Authorized 700,000,000 shares
Issued 354,327,992 shares
Number of Shareholders: 26,886
(as of March 31, 1998)

Offices, Laboratories, Plants

Head Offices: Osaka, Tokyo
Offices: Nagoya, Fukui, Fukuoka,
Sapporo, Sendai
Laboratories: Kurashiki, Tsukuba
Plants: Kurashiki, Saijo, Okayama,
Nakajo, Tamashima, Kashima

Principal Shareholders

The Sumitomo Trust and Banking
Co., Ltd.
Nippon Life Insurance Co.
The Mitsubishi Trust and Banking
Corporation
The Industrial Bank of Japan, Ltd.
The Toyo Trust and Banking Co., Ltd.
The Dai-ichi Mutual Life Insurance Co.
Taiyo Mutual Life Insurance Co.
The Chuo Trust and Banking Co., Ltd.
(Trust Account)
The Chase Manhattan Bank, N. A.
London S. L. Omnibus Account
The Meiji Mutual Life Insurance Co.

Directors and Auditors

Chairman
Hisao Nakamura

President
Hiroto Matsuo

Senior Managing Director
Kenji Ando

Managing Directors
Mamoru Yamashita
Masuhiko Tamura
Masami Sato
Hiromi Maki
Koichi Kushida

Directors
Tomoyasu Takegami
Masayuki Hayashi
Akira Matsuzawa
Tatsuya Nakano
Koichi Nakai
Yasuaki Wakui
Masahiro Kaihara
Shinsaku Oda
Tsutomu Yabuta
Shobu Minatono
Katsuhiko Kishi
Yosuke Sekiya

Corporate Auditors
Jun Inoue
Taiji Naito
Fumio Ohmori
Teruyuki Ouchi

Affiliated Companies

** Consolidated subsidiaries and
affiliated companies*

Chemical Products

- * Kuraray Chemical Co., Ltd.
Production and sale of activated
carbon and related equipment
- * Kuraray Plastics Co., Ltd.
Production and sale of various hoses
and laminated product
- * Kuraray Niigata Kasei Co., Ltd.
Production and sale of methacrylic
resin injection molds
- * Kyosei Chemical Co., Ltd.
Production of pigments and dyes
- * Kamiko Plastic Co., Ltd.
Molding of acrylic resin plates

Fiber

- * Reihoku Textile Co., Ltd.
Fiber sizing, throwing
- * Kuraray Saijo Machinery Co., Ltd.
Manufacturing machinery parts and
maintenance

Commerce and Distribution

- * Kuraray Trading Co., Ltd.
Import, export and wholesale of fiber
products and chemicals, etc.
- * Kuraray Family Products Corporation
Sale of health foods, basic cosmetics,
and clothing, etc.
Sale of Kuraray related products
- * Kurashiki Unyu Co., Ltd.
Shipping and harbor transportation
- * Kuraray Living Co., Ltd.
Production and sale of packaging-
related equipment, and in-plant
distribution services
- * Hikari Shoes Co., Ltd.
Manufacturing and sale of shoes

Information, Personnel Development, etc.

- * Techno Soft Co., Ltd.
Technical consulting, technical infor-
mation analysis, support activities for
research and development
- * Secourir Co., Ltd.
Personnel recruitment and training
- * Kuraray Techno Co., Ltd.
Fiber production and other operations
on consignment basis

Construction, Real Estate and Housing

- * Kuraray Engineering Co., Ltd.
Engineering activities related to plant
construction
- * Kuraray Fudosan Co., Ltd.
Sale and management of residential
land and housing, landscaping and
tree-planting, cultivation and sale of
flowering trees

- * Kuraray Interior Co., Ltd.
Production and sale of high-class
furniture, interior decorating
- * S. Urabe Associates Architects Co., Ltd.
Design and planning of various
buildings
- Services*
- * Kuraray Kyoei Co., Ltd.
Restaurant management
- * The Kurashiki Kokusai Hotel, Ltd.
Hotel and restaurant management
- * Iruma Country Club Co., Ltd.
Golf course management
- * Mitsu Country Club Co., Ltd.
Golf course management
- * Kuraray Travel Service Co., Ltd.
Travel agency, insurance agency

Overseas

- * Kuraray America, Inc.
Centralized management of U.S.
subsidiary companies, market
development, market analysis,
sales of Kuraray products
- * EVAL Company of America
Production and sale of "EVAL" resin
in the U.S.
- * Clarino America Corporation
Sale of man-made leather in the U.S.
- * Kuraray Finance America, Inc.
Lending
- * Kuraray Europe GmbH
Sale of Kuraray products in Europe,
market analysis
- * Kuraray EVAL Europe GmbH
Sale of "EVAL" resin in Europe,
product development
- EVAL Europe N.V.
Production and sale of "EVAL" resin
in Europe

Haru-Kuraray GmbH

Sale of man-made leather in Europe

- * Kuraray Hong Kong Co., Ltd.
Local finishing and sale of
man-made leather, market analysis

Kuraray Singapore Pte., Ltd.

Marketing of Kuraray products in
Southeast Asia, market analysis

Poval Asia Pte Ltd

Production of poval resin

Kuraray Specialities Asia Pte., Ltd.

Sale of poval resin in Southeast Asia