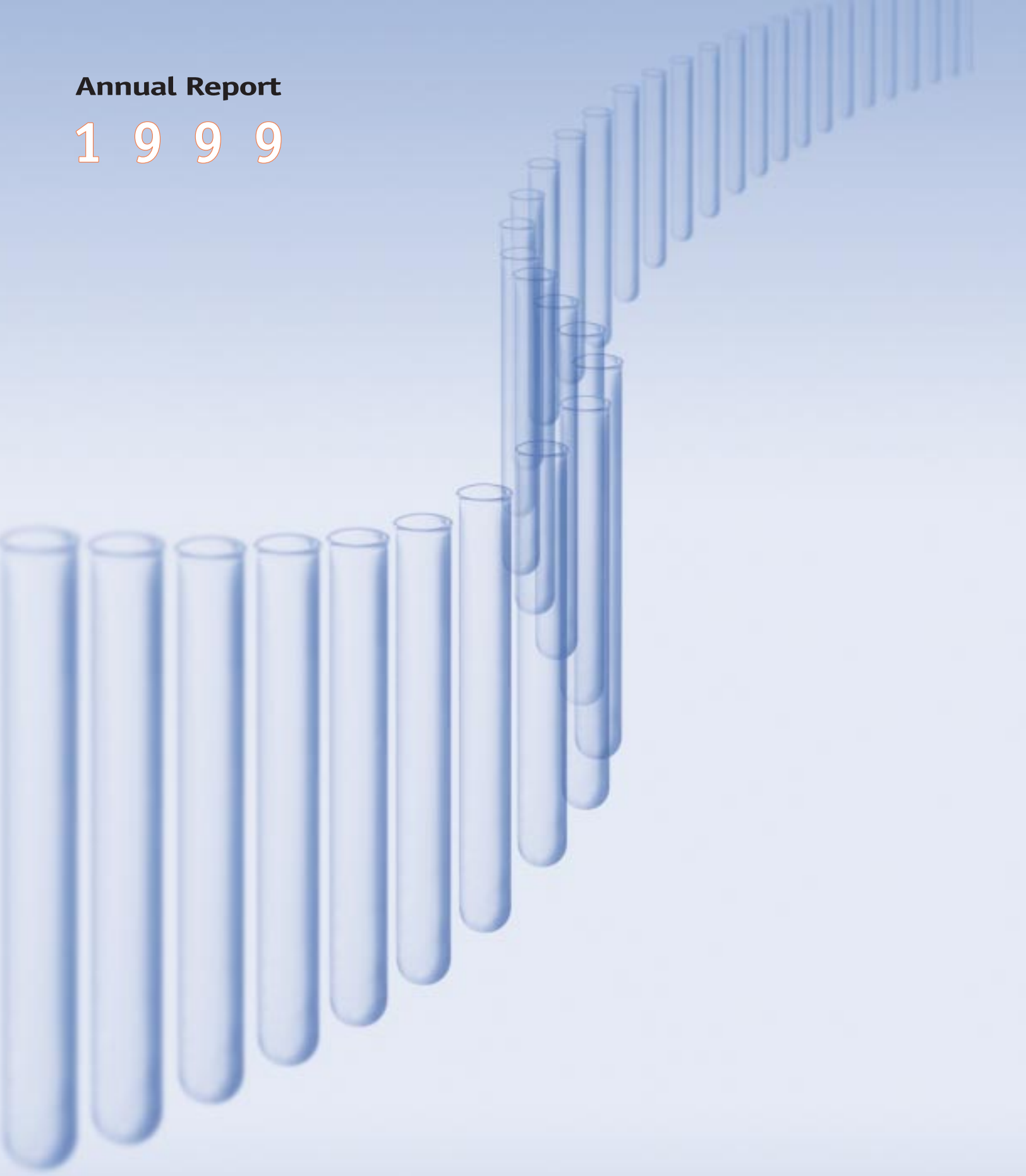


Annual Report

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KURARAY CO., LTD.

Profile

Kuraray Co., Ltd. was established in 1926 in Kurashiki City, Japan, for the industrial manufacture of viscose rayon. Since then, the Company has developed innovative business operations in synthetic resins, chemicals, man-made leather, nonwoven fabrics, medical products, and many other areas by capitalizing fully on its technological strengths. Many of these operations have grown into world-class 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 aromachemicals, pharmaceuticals, and other specialized applications.

Today, the Kuraray Group, composed of Kuraray, its consolidated and unconsolidated subsidiaries, and affiliated companies, consists of about 80 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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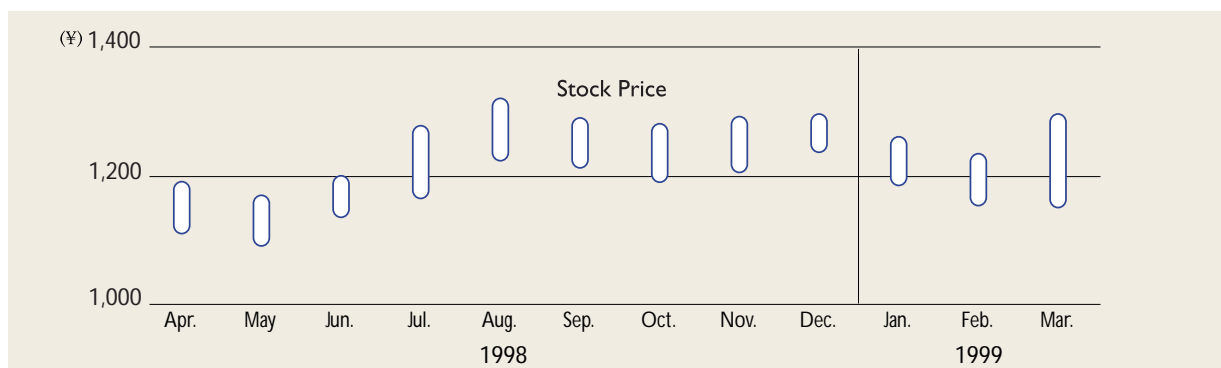
Financial Highlights

Kuraray Co., Ltd. and Consolidated Subsidiaries

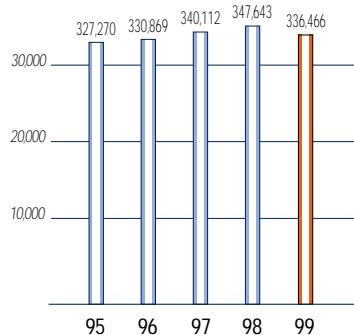
Years ended March 31, 1999, 1998 and 1997	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
Net sales	¥336,466	¥347,643	¥340,112	\$2,780,711
Net income	13,171	13,962	11,741	108,851
Total assets	487,991	478,861	514,167	4,032,983
Total shareholders' equity	259,909	233,494	208,635	2,148,008
Amounts per share:	Yen			U.S. dollars
Net income				
Primary	¥36.83	¥40.46	¥34.99	\$0.30
Fully diluted	34.56	37.68	32.48	0.29
Cash dividends applicable to period	9.00	9.00	9.00	0.07
Financial ratios:				
Equity ratio (%)	53.3	48.8	40.6	
Return on equity (%)	5.3	6.3	6.1	
Payout ratio (%)	24.5	22.2	25.7	
Stock price range (Tokyo Stock Exchange):				
High	¥1,318	¥1,200	¥1,240	
Low	1,091	986	972	
Number of employees	6,823	7,809	6,606	

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥121=\$1.

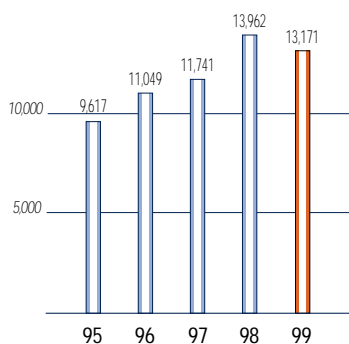
STOCK PRICE RANGE
(Tokyo Stock Exchange)



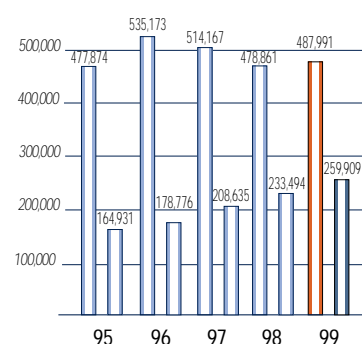
NET SALES
(Millions of Yen)



NET INCOME
(Millions of Yen)



TOTAL ASSETS & TOTAL SHAREHOLDERS' EQUITY
(Millions of Yen)



Toward 2000

Increase in "Clarino" Production Capacity

As part of our efforts to expand our "Clarino" man-made leather business, we added production capacity of 3,000,000m², bringing total annual production capacity to 15,500,000m², and brought the new facilities on-line in December 1998.

Expansion of Thermoplastic Elastomer Production Capacity

In July 1998, we commenced construction of 7,000 tons in additional production capacity for our thermoplastic elastomers "SEPTON" and "HYBRAR," which will take total annual production capacity to 19,000 tons following the expansion.

Beginning of Mass Production Facility for "KURALON K-II"

In April 1998, we commenced operation of a mass production facility for our new synthetic fiber "KURALON K-II." Demand for this product is growing thanks to its special properties, such as water solubility and high strength.



New Plant Conforming to GMP

In November 1998, we commenced operation of a plant for the production of pharmaceutical and agrochemical intermediates. This new plant, which conforms to Good Manufacturing Practice (GMP) (international standards for the production of pharmaceuticals and pharmaceutical intermediates), currently manufactures intermediates for anti-AIDS pharmaceuticals and similar products, and will be active in the development and production of other new products.

Construction Proceeding of a Plant for EVAL Europe N.V.

As part of our global strategy for the EVOH resin "EVAL," we are constructing a plant in Antwerp, Belgium with annual production capacity of around 10,000 tons. Work on the new plant is progressing smoothly, and the plant is scheduled to come on-line in the autumn of 1999.

Acquisition of ISO 14001 Certification

In March 1999, the Kashima Plant obtained ISO 14001 certification, the international standard established by the International Organization for Standardization (ISO) for environmental management systems.



Hisao Nakamura
Chairman

Hiroto Matsuo
President

Business Plan

In order to continue to expand as a competitive enterprise in the face of international mega-competition, the Company formulated its Fourth Five-year Medium-term Business Plan, and this has formed the basis of business strategies since fiscal 1996. The main points of the plan are (1) to expand the scope of the business by aggressive capital investment and developing new businesses, (2) to develop global business operations in Japan, Europe, North America, and Asia.

Business Environment and Results

The business environment remained extremely harsh in fiscal 1998 (the term ended March 31, 1999), marked by declining demand and sluggish markets, due to the negative impacts of the ongoing slump in the Japanese economy and the slowdown in East Asian economies.

Given this business environment, the Kuraray Group undertook a number of initiatives based on its Fourth Medium-term Business Plan, including

(1) the expansion of its business scope, (2) cost rationalization and the development of high value-added products, and (3) boosting its corporate structure by, for example,

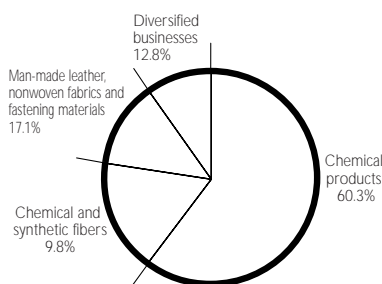
improving management efficiency. For the first of these undertakings, the Company implemented capital investment steadily based on the principle of 'expanding its business while maintaining a sound financial structure.' At the same time, we worked to ensure that investments already made in facilities and equipment will contribute to improved business results as soon as possible.

Despite these efforts, the Company posted consolidated net sales of ¥336,466 million (US\$2,780.7 million), a decline of 3.2% from the previous year, operating income of ¥27,148 million (US\$224.4 million), a drop of 6.1%, and net income of ¥13,171 million (US\$108.9 million), a decline of 5.7%. In view of these business results, we declared an annual dividend of ¥9.0 per share.

Aggressive Capital Investment

During the term under review, we carried out a vigorous program of capital investment amounting to ¥33,497 million (US\$276.8 million), in keeping with the policy of reinforcing corporate capabilities outlined in the Fourth Medium-term Business Plan. Major investments were the construction of a new "EVAL" plant for EVAL Europe N.V., expansion of production capacity for our man-made leather "Clarino," for the thermoplastic elastomer "SEPTON," and for fine

Ratio of operating income by division to total operating income



chemicals and contact lens, and a new facility for Kuraray Chemical Co., Ltd. to produce an automobile cabin air filter.

Fostering New Businesses

During the term a number of new businesses were started which bore the unique characteristics of the Kuraray Group. Chief among these were the commercialization of a new type of synthetic fiber, "KURALON K-II," produced using a new manufacturing method developed by Kuraray, of PA9T, a new heat-resistant polyamide, and of a new polyvinyl alcoholic high-performance resin.

Global Development

Our policy for globalization is to foster businesses and products that transcend borders, and to conduct manufacturing, processing, and sales in the areas where the products are in demand. In practical terms, for the EVOH resin "EVAL," we are implementing a global development strategy, based on a new production facility in Europe, scheduled to go into operation in autumn 1999, in addition to existing facilities in Japan and the United States (EVAL Company of America). In the case of poval, our joint venture with The Nippon Synthetic Chemical Industry Co., Ltd., Poval Asia Pte Ltd, which is located in

Singapore, began operations in April 1999, and at the same time Kuraray Specialities Asia Pte., Ltd., our local sales company in Singapore, commenced full-scale operations. For "Clarino" man-made leather, in addition to our operations in Europe and North America, we are expanding local processing operations in Southeast Asia.

Future Issues

With a continued focus on the Fourth Medium-Term Business Plan, the Kuraray Group will work to fundamentally strengthen its core businesses and expand overseas, aiming to be 'a unique chemical enterprise that continually develops worldwide.' To maintain profitability in the current domestic deflationary environment, we will endeavor to improve the efficiency of our management system, mainly by further cutting costs and rationalizing administrative operations, while pushing ahead with various initiatives that aim to produce a leaner, more powerful corporate structure.

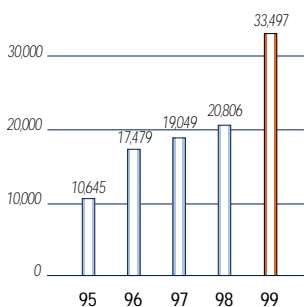
In Japan, during the term under review we steadily added new facilities and expanded existing facilities for "Clarino" man-made leather and fine chemical products. Overseas, as described above, the new poval plant in Singapore have come on stream and we are making progress with a project for the production of the EVOH

resin "EVAL" in Belgium. It will be the most crucial issue that these new and expanded facilities come on stream smoothly after completion of construction and ensure that these investments contribute to improved business results.

Furthermore, fully aware that respecting local communities and the environment is one of the fundamentals of business, we will strive to reduce the emission of environmental pollutants and to develop environmentally-friendly products, while investing in new equipment to promote the thermal recycling system, a system to recover heat energy from plastic waste. We have been actively involved in 'Responsible Care' activities since their inception. As part of these activities, in March 1999 our Kashima Plant received ISO 14001 certification, the international standard for environmental management systems, and we intend to work steadily toward obtaining certification for all our main plants in Japan.

operational support systems, mainly located at head office, were almost all completed in April 1999, and we expect to complete measures for production control systems by the end of October 1999. In addition, we are taking appropriate measures to ascertain the Year 2000 compliance programs of our raw materials suppliers and subcontractors. We expect to conclude the implementation of all countermeasures, including those for suppliers and subcontractors, by the end of October 1999. Reports on the status of response efforts are regularly made to the board of directors.

CAPITAL EXPENDITURES
(Millions of Yen)

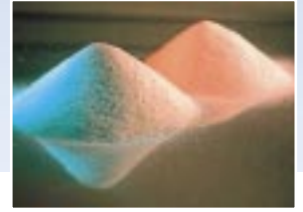


Efforts to Tackle the Year 2000 Computer Problem

From the point of view of risk management, we have established a trans-organization committee, and are working to deal with the Y2K problem. Compliance measures for in-house

Hisao Nakamura
Chairman

Hiroto Matsuo
President



**“KURALON”
(polyvinyl alcohol fiber)**

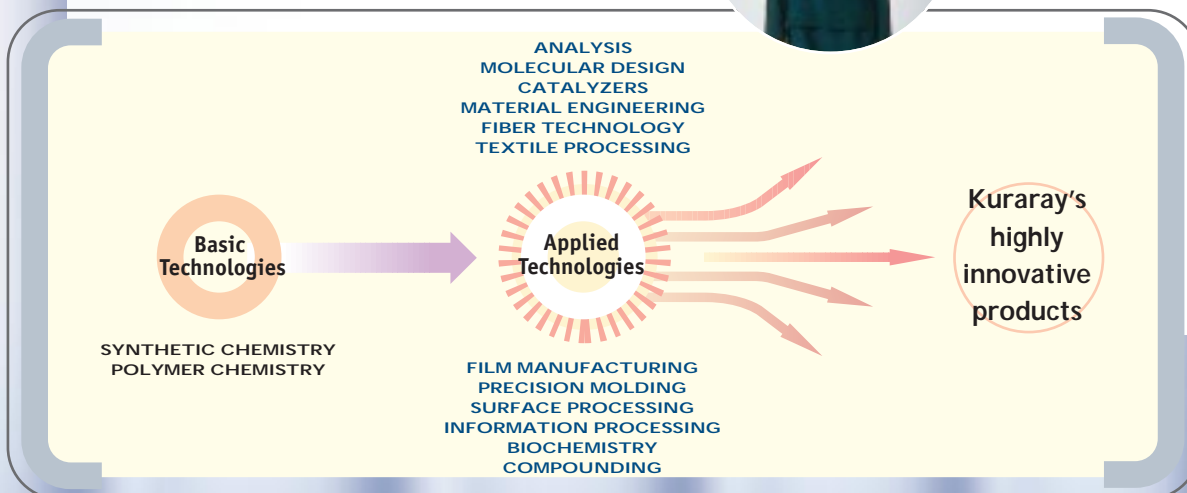
Kuraray was the first company in the world to commercialize the synthetic fiber “KURALON.” It is used as a material throughout a wide range of industrial applications thanks to its high strength, low stretchability, hydrophilic properties, and outstanding weatherability. In line with the heightened consciousness of environmental issues in recent years, demand for “KURALON” has been rising for use as a cement reinforcement material in place of asbestos and as a separator in alkaline batteries to enable the creation of a dry cell that contains no mercury. “KURALON” made by Kuraray holds an approximately 65%* world share. (* According to ‘Fiber Handbook,’ published by the Japan Chemical Fibres Association, data as of March 1999 excluding mainland China.)

“KURALON K-II”

Having developed the world’s first production method for “KURALON K-II,” a new type of synthetic fiber, Kuraray commenced mass production of this synthetic fiber in April 1998. Because of its special properties such as high strength, water solubility at low temperatures, and fractionation characteristics, demand is growing at home and abroad for “KURALON K-II” in a broad spectrum of applications, including industrial materials, household goods, and clothing. We will continue to aggressively increase new applications for “KURALON K-II” utilizing its unique properties.

Poval

Kuraray was the first in the world to commercialize this synthetic resin. Boasting features such as water solubility, adhesive and emulsifying characteristics, and oil resistance, poval is used in a wide variety of fields, including as a fiber sizing agent, paper processing agent, an adhesive, and a polyvinyl butyral safety glass interlayer for automobiles. In the form of poval film, poval is used as polarized film for liquid crystal displays and as a packaging material for textile products. Kuraray holds a world share of approximately 25%* in the manufacture of poval. (* Estimate by Kuraray as of March 1999, excluding mainland China and including poval’s use as “KURALON.”)



Based on its world-class technologies in polymerization and synthetics, Kuraray has created a wide range of products that have claimed the largest market share either in Japan or in the world. Here, we present some of those products.

**"EVAL" Ethylene-Vinyl
Alcohol Copolymer**

Kuraray led the world in commercializing "EVAL," a functional resin with excellent gas barrier properties. It is becoming widely used to package foods such as mayonnaise, and retort pouch foods because it prevents the deterioration of package contents by acting as an oxygen barrier. Recently, it has attracted attention for use in automobile gasoline tanks to reduce the escape of evaporated fuel. Kuraray holds a world share of approximately 70%* in the manufacture of "EVAL." (* Estimate by Kuraray as of March 1999.)



**"Clarino"
Man-made Leather**

Since the launch of "Clarino" in 1965, Kuraray has led the world in man-made leather. "Clarino" is used in shoes, bags, clothing, interior goods, and many other applications because of its many outstanding features, including its flexibility, strength, light weight, and durability. To respond more quickly to market needs, we are establishing a network of processing facilities in Europe, North America, and Asia. Kuraray holds a world share of approximately 20%* in the manufacture of man-made leather. (* Estimate by Kuraray as of March 1999, excluding mainland China.)

Dental Material Products

The "CLEARFIL" series of filling materials consists of high-performance adhesives and composite resins to fill cavities. This series of products, which features high adhesive characteristics, high strength, and superior workability, has been well received by the market. "CLEARFIL" holds a share of approximately 50%* in the Japanese market for adhesive dental filling materials and we are establishing a direct sales network in Europe and the United States in preparation for an expansion of business there. (* According to the findings of R&D Co., Ltd. as of March 1998.)



Isoprene Chemicals

Isoprene refers to chemical compounds with the formula C_5H_8 . As such, they are chemical compounds comprising a wide variety of natural substances, beginning with natural rubber. Isoprene chemicals is the generic term for a range of derivatives derived from isoprene. Kuraray, the only Japanese company that has commercial operations for the synthesis of isoprene chemicals, is developing a unique assortment of products centered on synthetic isoprene, and including thermoplastic elastomers, industrial cleaning agents, aromachemicals, and pharmaceutical and agrochemical intermediates.



Outline

Major Products

Chemical and Synthetic Fibers



¥103,120 million
30.6%



Kuraray's fiber business is centered around rayon, the chemical fiber that started the Company, "KURALON," which pioneered the Japanese synthetic fiber industry and is now used in a broad variety of industrial materials, and polyester, which has applications in industrial and household goods, such as use in apparel. In 1998, the Company commenced the mass production of "KURALON K-II," a new type of synthetic fiber manufactured by a unique production method.

"Kuralon"
(polyvinyl alcohol fiber)

Polyester

Rayon

"Kuralon K-II"
(new type of synthetic fiber)

Chemical Products



¥142,071 million
42.2%



Kuraray has business operations in a wide range of products, including poval, a water-soluble resin the Company led the world in commercializing, "EVAL," an ethylene-vinyl alcohol copolymer with superior gas-barrier properties, methacrylic resin featuring outstanding transparency, activated carbon, rubber materials, and isoprene chemical products such as thermoplastic elastomers, aromachemicals, ingredients for cosmetics, and pharmaceutical and agrochemical intermediates.

Poval
(polyvinyl alcohol resin)

"EVAL"
(ethylene-vinyl alcohol copolymer)

Methacrylic resin

Isoprene chemical products

Activated carbon business

Man-made Leather, Nonwoven Fabrics and Fastening Materials



¥35,557 million
10.6%



"Clarino" is a world-leading man-made leather extensively used in shoes, bags, apparel, and interior goods. Kuraray's nonwoven fabrics, which combine the characteristics of both fabric and paper, enjoy a wide variety of applications ranging from the household to the medical sphere. In hook and loop fasteners, which shut tight with just a light touch, the Company has the largest share of domestic markets.

"Clarino"
(man-made leather)

"Kuraflex"
(dry-laid nonwoven fabric)
Melt-blown nonwoven fabrics

Hook and loop fasteners

Diversified Businesses



¥55,718 million
16.6%



The Company is developing its medical products business, an area where it is active in artificial kidneys and artificial organs to remove harmful substances from blood, a variety of medical equipment, dental materials to repair and beautify teeth, and contact lenses. It is also involved in laser discs for movies, etc., membranes that are very useful in preserving the natural environment, and engineering operations.

Medical products

Laser discs

High-performance membranes

Engineering business

Real estate business

Major uses

Industrial materials (cement reinforcement, rubber reinforcement, nonwoven fabrics, paper, materials for agriculture and fisheries, construction materials, etc.)

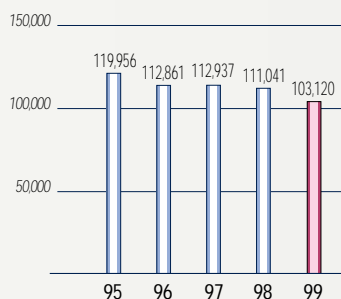
Woven and knit fabrics for clothing, industrial materials (canvas, tents, construction materials, etc.), household goods (carpets, curtains, etc.)

High-grade linings for clothing, fabric for clothing, embroidery yarns, etc.

Woven and knit fabrics for clothing, industrial materials (cement reinforcement, rubber reinforcement, plastic reinforcement, etc.), household goods (packaging, sanitary materials, etc.)

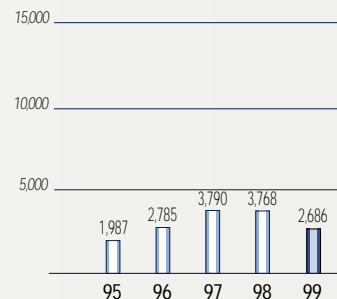
Net Sales

(Millions of Yen)



Operating Income

(Millions of Yen)



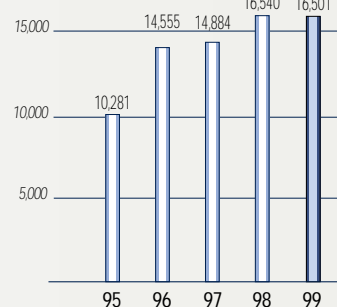
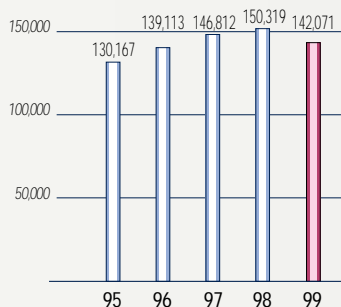
Fiber sizing agent, paper processing agent, adhesive, polyvinyl butyral safety glass interlayer for automobiles, etc.

Food packaging material, wallpaper, balloons, gasoline tank materials, pipe materials for underfloor heating, etc.

Construction materials, automotive parts, lighting equipment, displays, opt-screens, substrates for optical disks, etc.

Rubber materials, adhesives, plastic modifiers, low-toxicity solvents and cleaners, aromachemicals, pharmaceutical and agrochemical intermediates, etc.

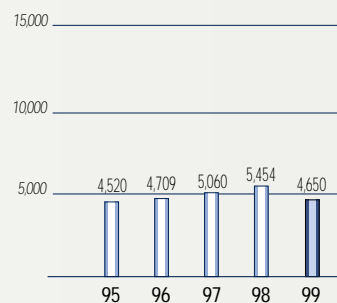
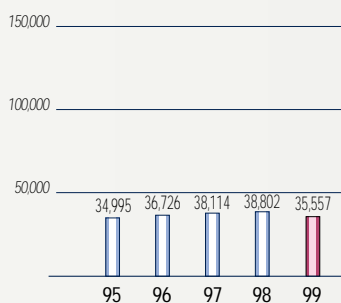
A variety of activated carbon, gas separation equipment using activated carbon, etc.



Shoes, bags, sports goods, high-quality apparel, furniture, etc.

Dust cloths, filters, paper diapers, industrial face masks, wipers, coffee bags, etc.

Fasteners for apparel, shoes, automobile seat covers, construction materials, etc.



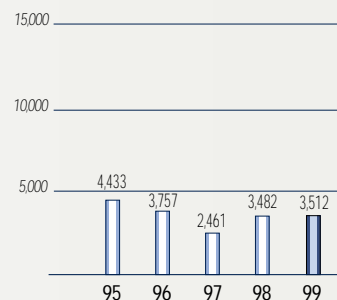
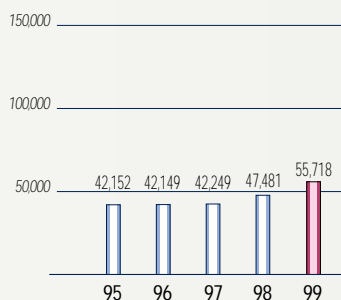
Artificial kidneys, blood-cleansing equipment, dental materials, contact lenses, etc.

Read-only laser discs (for movies, education, karaoke, etc.)

Production of ultra-pure and germ-free water, processing of drug solutions, etc.

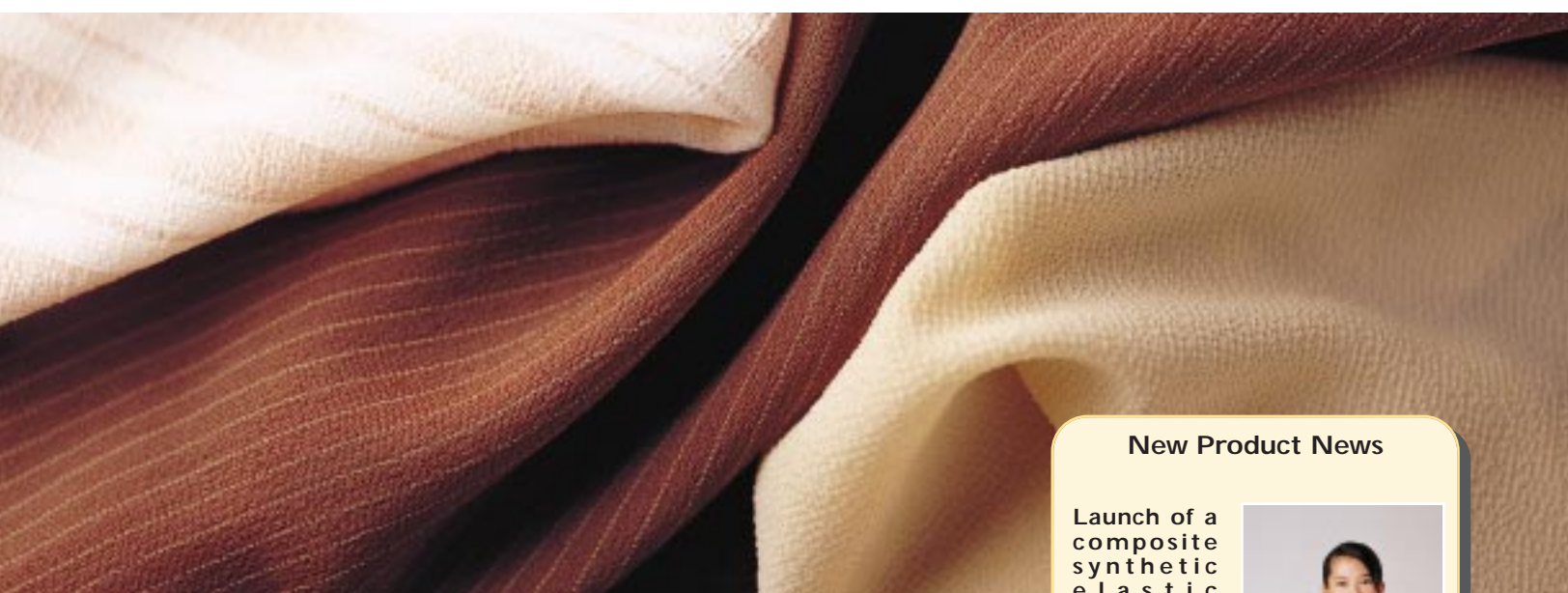
Design and construction of a broad range of plant, etc.

Operations including house construction, leasing of real estate, management of golf courses, landscaping business, etc.



Chemical and Synthetic Fibers

Rayon is a chemical fiber possessing the characteristics of good color reproduction and a cool feeling. "KURALON" polyvinyl alcohol fiber is extensively used as an industrial material thanks to its features of high strength and low stretchability. In polyester, we are expanding sales of high-value-added products.



Polyester suffered a severe slump in revenues as demand plummeted in the apparel sector. Nonetheless, the Company achieved favorable progress in the development of innovative high-value-added products in this area, such as melange fabric, elastic materials made of new composite synthetic fibers, and "Sophista," a comfortable synthetic fiber whose main raw material is "EVAL," an EVOH resin developed by the Company.

Domestic demand for "KURALON" for use in industrial materials was fairly sluggish, but demand increased for use as a cement reinforcement material to replace asbestos and for use in separator

applications in alkaline batteries. In addition, it has been gaining an excellent worldwide reputation for use in reinforcement of hydraulic brake hoses for automobiles.

Rayon exports increased but there was a major decline in domestic demand. Having begun the mass production of "KURALON K-II," a new type of synthetic fiber, in April 1998, the Company has been steadily developing new applications for this product.

As a result of the above efforts, the Chemical and Synthetic Fibers Division posted net sales of ¥103,120 million (US\$852 million), a decline of 7.1%.

New Product News

Launch of a composite synthetic elastic material

Kuraray has launched an elastic material which utilizes an original high-contraction polymer developed in-house. This product successfully combines the all-round elasticity of a knitted fiber with the strength and drapability of a woven fabric. With its excellent flexibility and light feel, it is appropriate for use in suits, jackets, and pants in particular. Kuraray has designated this product as a strategic material for clothing applications, and will actively develop demand for it.



Chemical Products

Poval is a high-performance resin which possesses excellent properties such as water solubility and adhesivity. The EVOH resin "EVAL" is becoming extensively used in Japan and abroad in food packaging and similar applications due to its impermeability to oxygen, thus preventing oxidation. Methacrylic resin, which boasts outstanding transparency and durability, is used in construction materials, automotive parts, lighting equipment, and displays.

From the basic raw material isoprene, the Company has developed a range of products including thermoplastic elastomers used as rubber molding and plastic modifying agents, aromachemicals, cosmetics ingredients, pharmaceutical and agrochemical intermediates. Further, the Company has business operations including activated carbon and rubber materials.



The Company continued to develop new markets for poval ahead of the start of operations at the new poval plant in Singapore. At the same time, there was favorable demand for poval film for its application as polarized film for liquid-crystal displays.

"EVAL," an EVOH resin, attracted attention for use in automobile gasoline tanks in addition to its established application as a food packaging material. EVAL Company of America steadily expanded operations, and in Europe, the Company worked to expand demand in advance of the start of production at its new plant in Belgium. As a result, the Company is steadily building a network spanning Japan, the United States, and Europe.

The Company undertook steps to rationalize its methacrylic resin business,

including production and distribution tie-ups with Sumitomo Chemical Co., Ltd., however, overseas demand for projection TV screens remained firm.

In thermoplastic elastomers, demand was favorable for "SEPTON" and "HYBRAR." We increased production capacity for thermoplastic elastomers by 3,000 tons in July 1998, thus bringing total annual production capacity to 12,000 tons. In response to robust demand, we have already begun constructing an additional 7,000 tons of annual production capacity. Firm growth was also registered in pharmaceutical intermediates and raw materials for vitamins.

As a result, the Chemical Products Division posted net sales of ¥142,071 million (US\$1,174 million), a decline of 5.5%.

New Product News

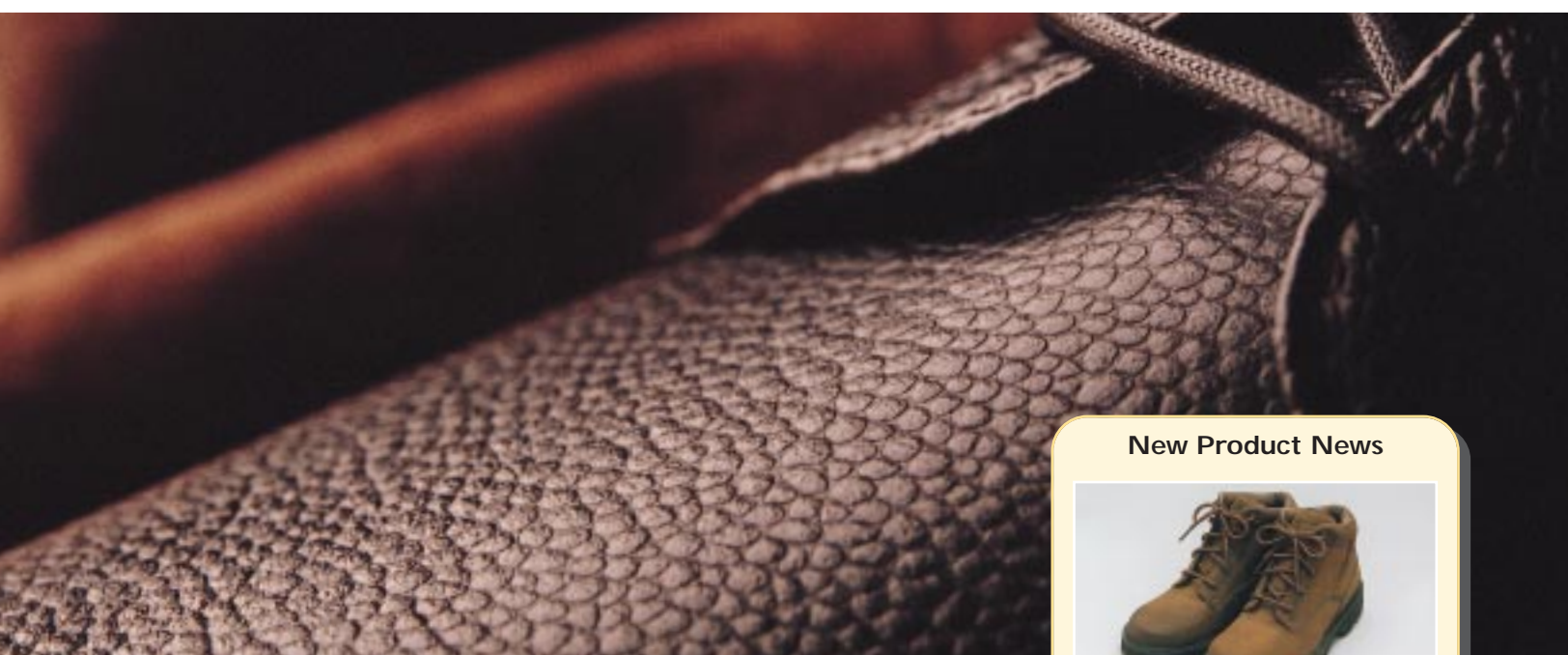


Development of a new water-soluble resin

Kuraray has developed a new water-soluble resin which combines the properties of poval and "EVAL" ethylene-vinyl alcohol copolymer resins. This new product has a number of special characteristics, including water resistance, gas-barrier properties, melt-molding properties, and biodegradability, and may be developed for applications not possible with poval or "EVAL" alone. We are currently operating a pilot facility at our Nakajo Plant, and have drawn up a business plan which calls for the start of commercial production in fiscal 2000.

Man-made Leather, Nonwoven Fabrics and Fastening Materials

“Clarino” man-made leather is a favorite for shoes, bags, sporting goods, clothes, and interior goods, areas in which its special properties can be brought into play, including light weight, flexibility, and strength. Nonwoven fabrics possess the qualities of both fabric and paper, and are used in areas that require hygiene and convenience, such as the home and the medical sphere. Our hook and loop fasteners are used in, for example, clothes and sporting goods.



Although exports of “Clarino” man-made leather to Southeast Asia fell due to economic turmoil in the region, domestic sales and exports to Europe, where sales of suede clothing are buoyant, were firm. Moreover, in November 1998, we completed an additional 3,000,000m² in annual production capacity. In addition to enabling increased production of existing materials, the extra production capacity will allow us to begin production of new materials, such as suede material for interior goods and automobile seats, a sheepskin-type material for clothing, and a nubuck material for high-quality casual shoes.

To counter increasing domestic competition, we made rapid progress in the development of new products in dry-laid nonwoven fabric “Kuraflex.”

Sales of our hook and loop fasteners were stable, and we actively developed this business by successively launching new products, including products for nursing clothing, and an antibacterial fastener.

As a result, the Man-made Leather, Nonwoven Fabrics, and Fastening Materials Division posted net sales of ¥35,557 million (US\$294 million), down 8.4%.

New Product News



Launch of a new nubuck man-made leather

The Company has launched a nubuck leather (a material in which the surface is shaved to raise the nap) as a new material for the 21st century. With a fine-grained raised nap that is shorter than the nap of traditional suede, it can be used to faithfully recreate the look of natural leather using the Company’s special processing techniques. We will develop this material for use in women’s shoes, casual shoes, and bags.

Diversified Businesses

Kuraray is developing the artificial organ business such as artificial kidneys and direct hemoperfusion cartridges, and medical equipment such as a therapeutic plasmapheresis monitor. In our dental materials business, we have developed and firmly established in the market a number of products including high-performance adhesives and composite resins. In our contact lens business, we are developing both soft and hard lenses.

Furthermore, we are also expanding our businesses in laser discs, used for movies among other things; membranes, for applications such as sake brewing and waste water treatment; and engineering, where we design and supply different types of plant.



After reform of the National Health Insurance scheme, which increased the cost burden on patients, domestic demand stalled somewhat in all our medical businesses. However, we were able to maintain performance in our medical equipment business through increased exports. In dental materials, buoyant exports to Europe, where we have established our own marketing organization, led to steady performance overall, and we actively developed this business through the launch of new products such as a composite dental resin. In February 1999, we completed

construction of additional production capacity for contact lenses, bringing total annual capacity to 1,000,000 units.

In membranes, we developed new demand centered on a PVA membrane, which has superior solvent resistance, and a PVA-coated polysulfone membrane, which has excellent resistance to pollution.

In addition, exports of factory equipment to Poval Asia Pte Ltd in Singapore contributed to increased revenue.

As a result, the Diversified Business Division saw net sales increase 17.3% to ¥55,718 million (US\$461 million).

New Product News



Launch of "CLEARFIL SE BOND," a new dental adhesive for use with composite resins

Kuraray has launched a new dental adhesive material for use with composite resins, "CLEARFIL SE BOND," with the aim of improving workability to enable simple and speedy dental repair work. Developed under the concept of 'simple use' by limiting its functions to photopolymerization, this product, with its high adhesivity, is clearly targeted at simplifying and speeding up dental work. We will aggressively market this product to establish it as a helpful item in high quality dental work.



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

In recent years, we have commercialized a diverse range of unique products, including the new synthetic fiber "KURALON K-II," a PET resin for use with the direct blow method, high-performance thermoplastic polyurethane, a variety of thermoplastic elastomers including "SEPTON" and "HYBRAR," a resin modifier, high-performance industrial

membranes, and screens for projection TVs.

Currently, we are in the process of promoting the following areas and products, and are actively developing technologies and markets with the aim of growing them into full-scale businesses.

- The EVOH fiber "Sophista"
- The new heat-resistant polyamide resin PA9T
- A new thermoplastic elastomer
- Environmental protection systems, centered on industrial membranes and PVA gel
- An acrylic impact modifier
- Fine chemicals, including pharmaceutical and agrochemical intermediates

R&D is carried out at the Kurashiki Research Laboratories and Analytical Research 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 and to utilize the fruits of this research as quickly as possible in order to develop and grow the business.

Parent Company	
• R&D Expenditure	¥12,702 million (fiscal 1998)
• R&D Personnel	858 (as of March 31, 1999)
• Patent and Utility Model Patent	3,423 (as of March 31, 1999)



With the establishment in 1970 of specialized environmental countermeasures departments at head office and the plants, and the introduction in 1977 of Regulations for Environmental Control and Industrial Safety, we have been involved in environmental preservation on our own initiative from early on.

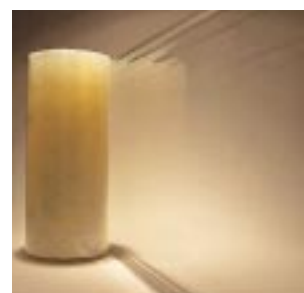
In order to clarify our position on environmental issues, we published the Kuraray Action Guidelines on the Global Environment in 1993, and in 1995 participated in planning the 'Responsible Care' activities in Japan, thereby strengthening our commitment to 'environment and safety through independent management and self-responsibility.'

As part of these efforts, in March 1999 our Kashima Plant obtained ISO 14001 certification, the international

standard established by the International Organization for Standardization (ISO) for environmental management systems.

Moreover, with a view to making the most effective use of resources, we endeavor to use recycling in the uni-forms sector.

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



As it does not generate dioxins when incinerated, "HYBRAR" has attracted attention as a replacement for polychlorinated vinyl.

ISO 14001 Certification





Chemistry Classes for Boys and Girls

Kuraray participates in a wide range of activities in the communities in which it operates.

In particular, our 'Chemistry Classes for Boys and Girls,' where we open our plants to upper elementary school students in an effort to help them learn more about chemistry, has attracted widespread public attention as an activity which could only be conducted by Kuraray with its wealth of advanced polymer and synthetic chemistry technologies.

In addition, we hold a variety of sports meets and summer festivals in order to deepen our ties with local communities.

We have also set up a Donation-by-Matching System for donations to welfare facilities, in which the Company will match the amount of donations made by employees.

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



A boy's baseball tournament at the Okayama Plant

Consolidated Six-Year Summary

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars
	1999	1998	1997	1996	1995	1994	1999
For period:							
Net sales	¥336,466	¥347,643	¥340,112	¥330,869	¥327,270	¥326,781	\$2,780,711
Cost of sales	250,195	259,788	255,240	246,768	249,399	251,863	2,067,728
Selling, general and administrative expenses	59,123	58,957	58,324	58,008	56,370	55,143	488,619
Operating income	27,148	28,898	26,548	26,093	21,501	19,775	224,364
Net income	13,171	13,962	11,741	11,049	9,617	8,157	108,851
Net income per share (Exact yen or U.S. dollar)							
Primary	36.83	40.46	34.99	35.43	30.94	26.30	0.30
Fully diluted	34.56	37.68	32.48	32.71	—	—	0.29
Cash dividends applicable to period							
(Exact yen or U.S. dollar)	9.00	9.00	9.00	9.00	8.50	8.00	0.07
Capital expenditures	33,497	20,806	19,049	17,479	10,645	15,626	276,835
Depreciation and amortization	15,557	14,615	14,111	14,263	15,087	15,443	128,570
Total research and development expenses	13,429	13,707	13,592	12,646	12,549	13,200	110,983
At period end:							
Total assets	¥487,991	¥478,861	¥514,167	¥535,173	¥477,874	¥477,690	\$4,032,983
Total shareholders' equity	259,909	233,494	208,635	178,776	164,931	157,251	2,148,008

Note: The United States dollar amounts represent translation of Japanese yen at the rate of ¥121=\$1.

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

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

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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, 1999, consolidated net sales totaled ¥336,466 million (US\$2,780.7 million), down 3.2% from the previous year due to sluggish business conditions and deflationary pressures in Japan and other Asian countries. This figure included ¥93,486 million (US\$772.6 million) in overseas sales, a rise of 16.6% over the previous year.

Gross profit was ¥86,271 million (US\$713.0 million), a fall of 1.8%, and selling, general and administrative expenses were ¥59,123 million (US\$488.6 million), an increase of 0.3%. As a result, operating income totaled ¥27,148 million (US\$224.4 million), a decrease of 6.1% from the previous year, and the ratio of operating income to net sales was 8.1%, a fall of 0.2 of a percentage point.

Net income for the term amounted to ¥13,171 million (US\$108.9 million), down 5.7%, and net income per share (EPS) was ¥36.83 (US\$0.30), a fall of ¥3.63 (US\$0.03), due to an increase in the number of issued shares and the decrease in net income. Return on equity (ROE) was 5.3%, a drop of 1.0 of a percentage point.

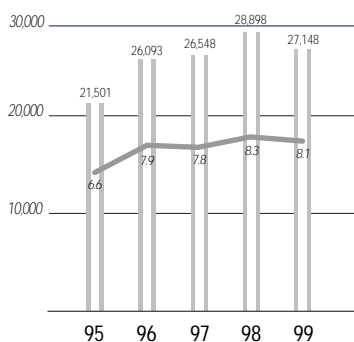
Looking at performance by segment, net sales of chemical and synthetic fibers totaled ¥103,120 million (US\$852.2 million), a decrease of 7.1%, and operating income in this segment was ¥2,686 million (US\$22.2 million), a fall of 28.7%. Although sales of polyester fell due to lower demand for clothing applications, growth in sales of our original distinctive materials meant we were able to minimize the effect of this on earnings. Despite lower sales of "KURALON," a polyvinyl alcohol fiber, as a material for use in domestic manufacturing industries, sales in overseas markets for use as a replacement for asbestos as a cement reinforcing material grew steadily. We began production of "KURALON K-II," a new type of synthetic fiber. Sales of rayon increased overseas, but fell in domestic markets.

In the chemicals sector, net sales were ¥142,071 million (US\$1,174.1 million), down 5.5%, and operating income totaled ¥16,501 million (US\$136.4 million), a fall of 0.2%. Sales of poval, a polyvinyl alcoholic resin, were down in Japan and Asia, but sales of high-value-added poval products, such as polarized films, grew steadily. Sales of "EVAL," an ethylene-vinyl alcohol copolymer resin, grew in North America thanks to its increased use in automobile gasoline tanks, and also in Europe, where a new "EVAL" plant is scheduled to start operations in October 1999. Sales of projection TV screens made of methacrylic resin increased, but methacrylic resin sales fell overall, unable to shake off the effect of the lower prices resulting from worsening market conditions. As for isoprene chemical products, there was steady growth in sales of fine chemical products for use as, for example, pharmaceutical intermediates, and also in sales of thermo-plastic elastomers for non-toxic packaging film applications.

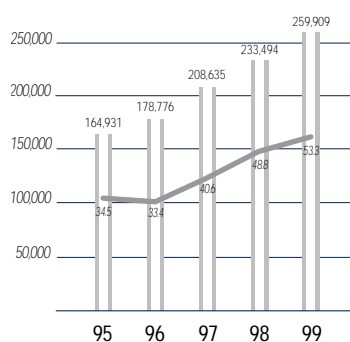
In man-made leather, nonwoven fabrics, and fastening materials, net sales totaled ¥35,557 million (US\$293.9 million), down 8.4%, and operating income was ¥4,650 million (US\$38.4 million), a fall of 14.7%. "Clarino" man-made leather sales decreased in Asia for sports shoe applications, but increased solidly in Europe for use in suede clothing. Sales of the nonwoven fabric "Kuraflex" for use as a sanitary material fell due to increased competition, while sales of hook and loop fasteners were stable.

In our diversified businesses, net sales were ¥55,718 million (US\$460.5 million), an increase of 17.3%, and operating income totaled ¥3,512 million (US\$29.0 million), a rise of 0.9%. There was a large increase in sales in our engineering business, including orders of equipment for a poval plant in Singapore. Sales of dental materials grew in Europe and North America, but sales of our medical products were flat overall.

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



SHAREHOLDERS' EQUITY & EQUITY RATIO
(Millions of Yen) / (%)



Financial Position

Total assets at the end of the term stood at ¥487,991 million (US\$4,033.0 million), an increase of ¥9,130 million (US\$75.5 million) from the end of the previous period.

Notes and accounts receivable were ¥89,466 million (US\$739.4 million), a decrease of ¥7,293 million (US\$60.3 million) due to lower net sales and a decrease in receivables relating to factory equipment delivered in our engineering business. Inventories totaled ¥70,624 million (US\$583.7 million), down ¥5,886 million (US\$48.6 million) mainly because of a decrease in construction work in process.

Property, plant and equipment increased ¥13,927 million (US\$115.1 million) to ¥129,026 million (US\$1,066.3 million). Capital expenditures during the term totaled ¥33,497 million (US\$276.8 million), while depreciation and amortization expenses were ¥15,557 million (US\$128.6 million). The major items of capital expenditure during the term were the addition of 3,000,000m² in annual production capacity for "Clarino" in Japan, which will bring total production capacity to 15,500,000m² on completion in December; 3,000 tons in additional annual production capacity for thermoplastic elastomers, which gave a total capacity of 12,000 tons on completion in July 1998, and we began construction of a further 7,000 tons of capacity; and the construction of a new "EVAL" plant in Belgium, due to be completed in October 1999 with a annual production capacity of 10,000 tons, bringing group-wide annual production capacity to 41,000 tons. Moreover, although investment in companies to which the equity method is applied is not included in the consolidated figure for capital expenditures, in April 1999 a new poval plant with an annual production capacity of 40,000 tons went into operation in Singapore, as part of our joint venture with The Nippon Synthetic Chemical Industry Co., Ltd.

Total liabilities decreased by ¥17,284 million (US\$142.8 million) to ¥227,712 million (US\$1,881.9 million).

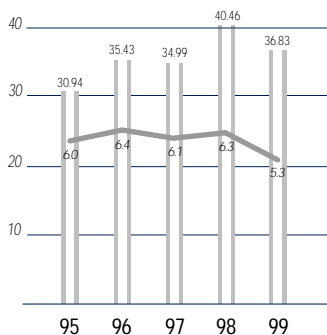
Notes and accounts payable came to ¥49,876 million (US\$412.2 million), a drop of ¥9,942 million (US\$82.2 million), due to decreases in purchases of raw materials and commodities, and in amounts payable relating to factory equipment delivered in our engineering business.

Long-term debts (including debts payable within one year) increased ¥14,750 million (US\$121.9 million) to ¥114,305 million (US\$944.7 million). The principal fund procurement activities undertaken during the term were the issue of straight corporate bonds by the parent company and bank loans obtained by European subsidiaries for capital investment purposes. Accrued expenses and other fell by ¥20,617 million (US\$170.4 million) to ¥21,181 million (US\$175.1 million). This was mainly accounted for by a drop in advances received for engineering projects, and a decrease in deposits because of the scrapping of the employees' savings deposit system.

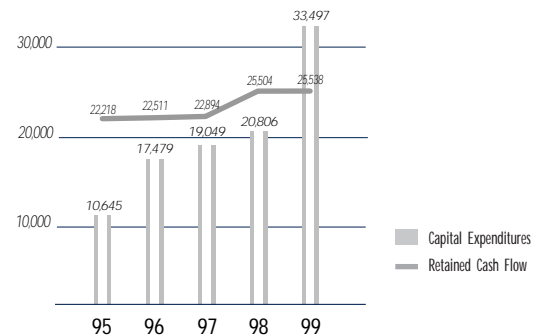
Shareholders' equity grew by ¥26,415 million (US\$218.3 million) to ¥259,909 million (US\$2,148.0 million). Common stock and additional paid-in capital increased by ¥11,259 million (US\$93.0 million) mainly due to the exercise of warrants. Retained earnings rose ¥15,152 million (US\$125.2 million), including ¥6,069 million (US\$50.2 million) in deferred tax from the previous fiscal year transferred to retained earnings due to the introduction of interperiod income tax allocation accounting.

As a result, the ratio of shareholders' equity to total assets was 53.3%, up 4.5 percentage points, and net assets per share were ¥714.21 (US\$5.9), a rise of ¥55.22 (US\$0.5).

EPS & ROE
(Yen) / (%)



CAPITAL EXPENDITURES & RETAINED CASH FLOW
(Millions of Yen)



Retained Cash Flow=Net income+Depreciation and amortization-Dividends paid

Consolidated Balance Sheets

Kuraray Co., Ltd. and Consolidated Subsidiaries

March 31, 1999 and 1998	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 28,902	¥ 31,350	\$ 238,860
Marketable securities (Note 3)	10,252	8,329	84,727
Notes and accounts receivable (Note 10):			
Trade	89,466	96,759	739,388
Unconsolidated subsidiaries and affiliates	1,316	605	10,876
Other	3,493	2,327	28,868
Loans receivable to unconsolidated subsidiaries and affiliates	509	349	4,207
Allowance for doubtful accounts	(844)	(1,097)	(6,974)
	93,940	98,943	776,365
Inventories (Note 4)	70,624	76,510	583,669
Deferred income taxes (Note 7)	3,604	353	29,785
Other current assets	791	931	6,536
Total current assets	208,113	216,416	1,719,942
Property, plant and equipment (Note 5):			
Land	25,397	25,125	209,893
Buildings	79,535	78,001	657,314
Machinery and equipment	332,365	320,549	2,746,818
Construction in progress	17,255	9,226	142,603
	454,552	432,901	3,756,628
Less accumulated depreciation	(325,526)	(317,802)	(2,690,297)
	129,026	115,099	1,066,331
Investments and other assets:			
Investment securities (Notes 3 and 5)	77,143	76,143	637,546
Investments in unconsolidated subsidiaries and affiliates	2,983	3,802	24,653
Loans receivable to:			
Unconsolidated subsidiaries and affiliates	6,040	5,302	49,917
Other	1,329	1,275	10,983
Deferred income taxes (Note 7)	3,149	—	26,025
Other	61,085	61,341	504,834
Allowance for doubtful accounts	(877)	(517)	(7,248)
	150,852	147,346	1,246,710
	¥487,991	¥478,861	\$4,032,983

See Notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 5,809	¥ 5,937	\$ 48,008
Current portion of long-term debt (Note 5)	20,382	16,263	168,446
Notes and accounts payable:			
Trade	49,876	59,818	412,198
Unconsolidated subsidiaries and affiliates	886	930	7,322
Other	5,822	5,435	48,116
Accrued income taxes (Note 7)	4,305	4,989	35,579
Accrued expenses and other	21,181	41,798	175,050
Total current liabilities	108,261	135,170	894,719
Long-term liabilities:			
Long-term debt (Note 5)	93,923	83,292	776,223
Deferred income taxes (Note 7)	2,866	2,325	23,686
Accrued retirement benefits (Note 8)	12,684	11,596	104,826
Other	9,978	12,613	82,463
Total long-term liabilities	119,451	109,826	987,198
Minority interests	370	371	3,058
Commitments and contingencies (Note 10)			
Shareholders' equity (Note 6):			
Common stock with par value of ¥50 (\$0.41) per share:			
Authorized — 700,000,000 shares			
Issued and outstanding —			
363,913,184 shares at March 31, 1999	78,660		650,083
354,327,992 shares at March 31, 1998		73,694	
Additional paid-in capital	74,225	67,932	613,430
Retained earnings	107,029	91,877	884,537
	259,914	233,503	2,148,050
Treasury stock at cost	(5)	(9)	(42)
Total shareholders' equity	259,909	233,494	2,148,008
	¥487,991	¥478,861	\$4,032,983

Consolidated Statements of Income

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1999 and 1998	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Net sales	¥336,466	¥347,643	\$2,780,711
Cost of sales	250,195	259,788	2,067,728
(Gross profit)	86,271	87,855	712,983
Selling, general and administrative expenses (Note 9)	59,123	58,957	488,619
(Operating income)	27,148	28,898	224,364
Other income (expenses):			
Interest and dividend income	4,464	5,588	36,893
Equity in earnings of affiliates	6	16	50
Interest expenses	(3,269)	(3,567)	(27,017)
Other, net	(4,508)	(4,762)	(37,257)
	(3,307)	(2,725)	(27,331)
(Income before income taxes)	23,841	26,173	197,033
Income taxes (Note 7)			
Current	10,352	11,296	85,554
Deferred	309	933	2,553
	10,661	12,229	88,107
Minority interests in net (income) loss of consolidated subsidiaries	(9)	18	(75)
Net income	¥ 13,171	¥ 13,962	\$ 108,851
		Yen	U.S. dollars (Note 1)
Net income per share:			
Primary	¥36.83	¥40.46	\$0.30
Fully diluted	34.56	37.68	0.29

See Notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1999 and 1998	Millions of yen		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	¥ 66,131	¥ 60,369	¥ 82,138
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)
Bonuses to directors and statutory auditors			(79)
Effect of changes in reporting entity			(1,071)
Balance at March 31, 1998	73,694	67,932	91,877
Net income			13,171
Effect of change in accounting for income taxes			6,069
Conversion of convertible debentures	6	6	
Stock issued on exercise of warrants	4,960	6,287	
Cash dividends, ¥9.00 per share			(3,190)
Bonuses to directors and statutory auditors			(72)
Effect of changes in reporting entity			(826)
Balance at March 31, 1999	¥78,660	¥74,225	¥107,029
		Thousands of U.S. dollars (Note 1)	
Balance at March 31, 1998	\$ 609,041	\$ 561,421	\$ 759,314
Net income			108,851
Effect of change in accounting for income taxes			50,157
Conversion of convertible debentures	50	50	
Stock issued on exercise of warrants	40,992	51,959	
Cash dividends, \$0.07 per share			(26,364)
Bonuses to directors and statutory auditors			(595)
Effect of changes in reporting entity			(6,826)
Balance at March 31, 1999	\$650,083	\$613,430	\$884,537

See Notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1999 and 1998	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Cash flows from operating activities:			
Net income	¥13,171	¥13,962	\$108,851
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	15,557	14,615	128,570
Provision for doubtful accounts, net	(78)	241	(645)
Provision for loss in relation to guarantees, net	—	792	—
Write-down of investment securities	130	1,753	1,074
Gain on sales of properties	(1,512)	—	(12,496)
Gain on sales of investment securities	—	(587)	—
Gain on sales of investments in affiliates	—	(590)	—
Loss on sales of investment securities	—	949	—
Increase (decrease) in accrued retirement benefits	1,097	(245)	9,066
Decrease in notes and accounts receivable	4,979	877	41,149
Decrease (increase) in inventories	5,119	(15,245)	42,306
Decrease in deferred income taxes	361	1,972	2,983
(Decrease) increase in notes and accounts payable	(9,591)	2,366	(79,264)
(Decrease) increase in other current liabilities	(12,841)	10,240	(106,124)
Decrease in accrued income taxes	(312)	(2,990)	(2,579)
Other, net	(2,799)	(4,540)	(23,132)
Net cash provided by operating activities	13,281	23,570	109,759
Cash flows from investing activities:			
Acquisitions of property, plant and equipment	(33,148)	(20,599)	(273,950)
Decrease in marketable securities	7,656	28,929	63,273
Increase in loans receivable	(953)	(3,447)	(7,876)
Increase in investments, mainly investment securities and long-term fixed deposits	(25,000)	(4,939)	(206,612)
Proceeds from sales of properties	3,353	—	27,711
Proceeds from sales of investment securities	12,901	34,621	106,620
Proceeds from sales of investments in affiliates	—	599	—
Other, net	1,960	1,707	16,198
Net cash (used in) provided by investing activities	(33,231)	36,871	(274,636)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans	198	(22,163)	1,636
Proceeds from long-term debt	31,779	6,008	262,636
Repayments of long-term debt	(16,113)	(56,073)	(133,165)
Proceeds from exercise of warrants	9,922	15,086	82,000
Dividends paid	(3,190)	(3,073)	(26,364)
Other, net	(6,275)	(79)	(51,858)
Net cash provided by (used in) financing activities	16,321	(60,294)	134,885
Effect of exchange rate changes on cash & cash equivalents	(182)	(2)	(1,504)
Effect of changes in reporting entities	1,363	1,620	11,265
Net (decrease) increase in cash and cash equivalents	(2,448)	1,765	(20,231)
Cash and cash equivalents, beginning of period	31,350	29,585	259,091
Cash and cash equivalents, end of period	¥28,902	¥31,350	\$238,860

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1999 and 1998

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, which are different in certain respects to the application and disclosure requirements of International Accounting Standards.

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 ¥121=\$1, the approximate exchange rate prevailing on March 31, 1999. 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, 1999, the accounts of Eval Europe N.V. and two other companies have been included in consolidation, because their effect to consolidated financial statements has become material. On the other hand, the accounts of Kuraray Kyohei Co., Ltd. have been excluded from consolidation, because the company has been liquidated. Mitsu Country Club Co., Ltd. have been merged into Kuraray Fudosan Co., Ltd., one of the consolidated subsidiaries.

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 estimated useful lives of assets, except for buildings. During the year ended March 31, 1999 the depreciation method for buildings was principally changed from the declining balance method

to the straight-line method and the estimated useful lives of buildings were principally reduced from "35 to 65" years to "31 to 50" years. The effect of these changes are immaterial.

Estimated useful lives of assets are principally as follows: —

Buildings	31 to 50 years
Machinery and equipment	2 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. Interperiod income tax allocation accounting is compulsorily introduced for Japanese public companies from the year ending March 31, 2000, while the companies adopted it for the year ended March 31, 1999 and deferred income taxes on temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amount used for tax purpose are provided, beginning balance of deferred taxes being credited to the beginning retained earnings. The effect of this adoption is to increase net income by ¥520 million (\$4,298 thousand) for the year ended March 31, 1999 and the effect retained earnings as of March 31, 1999 by ¥6,788 million (\$56,099 thousand).

(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 principally 60, 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 and liabilities of foreign subsidiaries are translated into Japanese yen at the rates in effect at the balance sheet date and income and expenses are translated at the monthly average rate for the year then ended.

(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

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 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, 1999 and 1998, 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	
	1999		1998		1999	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
Marketable securities						
Stocks	¥ 419	¥ 1,847	¥ 424	¥ 2,106	\$ 3,463	\$ 15,265
Bonds.....	4,542	4,569	7,722	7,946	37,537	37,760
Investment securities						
Stocks	21,182	37,341	21,322	39,588	175,058	308,603
Bonds.....	27,477	27,558	19,246	19,636	227,082	227,752
	¥53,620	¥71,315	¥48,714	¥69,276	\$443,140	\$589,380

4. Inventories:

Inventories at March 31, 1999 and 1998 consisted of the following: —

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
	Finished products.....	¥47,367	¥46,838
Semi-finished products and work in process.....	12,867	20,063	106,339
Raw materials and supplies	10,390	9,609	85,867
	¥70,624	¥76,510	\$583,669

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. at March 31, 1999 and 1998, respectively.

Long-term debt consisted of the following: —

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Loans principally from banks and insurance companies with interest rates ranging from 0.715% p.a. to 5.60% p.a. maturing serially until 2022:			
Secured	¥ 298	¥ 377	\$ 2,463
Unsecured	19,916	16,517	164,596
1.8% yen unsecured bonds due 2003	15,000	—	123,967
1.8% yen unsecured bonds due 2003	5,000	—	41,322
1.8% yen convertible sinking fund debentures due 2003	13,957	13,970	115,347
1.0% yen convertible debentures due 2003	9,551	9,551	78,934
2.2% yen convertible debentures due 2002	14,973	14,984	123,744
4 1/2% United States dollar bonds due 1999 with detachable warrants	—	8,546	—
2 5/8% United States dollar bonds due 1999 with detachable warrants	17,110	17,110	141,406
Floating to fixed rate yen Euro medium term notes due March 5, 2004	3,000	3,000	24,793
Floating to fixed rate yen Euro medium term notes due March 4, 2003	3,000	3,000	24,793
2.27% yen Euro medium term notes due January 30, 2004	500	500	4,132
2.02% yen Euro medium term notes due March 26, 2003	1,000	1,000	8,264
2.00% yen Euro medium term notes due February 7, 2003	2,000	2,000	16,529
Fixed and floating rate yen Euro medium term notes due March 27, 2002	1,000	1,000	8,264
Step-up rate yen Euro medium term notes due April 10, 2007	500	500	4,132
Floating rate yen Euro medium term notes due April 22, 2002	500	500	4,132
Floating rate yen Euro medium term notes due April 25, 2002	1,000	1,000	8,264
Step-up rate yen Euro medium term notes due June 11, 2007	600	600	4,959
Floating to fixed rate yen Euro medium term notes due June 18, 2004	3,000	3,000	24,793
Floating rate yen Euro medium term notes due June 24, 2002	2,000	2,000	16,529
Floating rate yen Euro medium term notes due June 25, 2002	400	400	3,306
	114,305	99,555	944,669
Current portion	(20,382)	(16,263)	(168,446)
	¥ 93,923	¥83,292	\$776,223

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 (\$14.08) 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 (\$8.82) 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 (\$8.56) 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 (\$12,397 thousand) on every March 31 for the 6 years ending March 31, 2002. At March 31, 1999, investment securities with a net book value of ¥6,793 million (\$56,140 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, 1999, the amount of retained earnings available for the payment of dividends was ¥106,369 million (\$879,083 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, 1999, the amount of retained earnings available for the payment of dividends was ¥71,727 million (\$592,785 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, 1999, the amount of retained earnings available for the payment of dividends was ¥72,327 million (\$597,744 thousand) under such provision of the indentures.

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 (\$8.98) per share, which right is exercisable from January 8, 1996 to December 7, 1999. The amount of warrants remaining unexercised was ¥20,415 million (\$168,719 thousand) at March 31, 1999.

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, 1999 at the current conversion prices and for exercising of the above warrants remaining unexercised at March 31, 1999 at the current exercise prices would have been 50,384 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, 1999 for the respective years ending March 31 were as follows:—

	Millions of yen	Thousands of U.S. dollars
2000	¥ 20,382	\$168,446
2001	3,621	29,926
2002	19,151	158,273
2003	36,295	299,959
2004	25,382	209,768
Thereafter	9,474	78,297
	¥114,305	\$944,669

At March 31, 1999, assets pledged as collateral for short-term bank loans and long-term debt were as follows:—

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥21,220	\$175,372
	¥21,220	\$175,372

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 47.3% in Japan in the period ended March 31, 1999.

Reconciliation of the difference between normal effective tax rate and income tax rate in the accompanying consolidated statement of income is as follows:

Normal effective tax rate	47.3%
Difference of tax rates between Japan and foreign countries	(1.5)
Other	(1.1)
Income tax rate per statement of income	44.7%

The significant components of deferred tax assets and liabilities at March 31, 1999 are as follows:

(1)Current:

	Millions of yen	Thousands of U.S. dollars
	1999	
Deferred tax assets		
Intercompany profits	¥1,353	\$11,182
Accrued enterprise taxes and other taxes	541	4,471
Accrued expenses	336	2,777
Other	1,443	11,925
Total deferred tax assets	3,673	30,355
Total deferred tax liabilities	69	570
Net deferred tax assets	¥3,604	\$29,785

(2)Noncurrent:

Deferred tax assets		
Accrued retirement benefits	¥2,971	\$24,554
Other	1,547	12,785
Total deferred tax assets	4,518	37,339
Deferred tax liabilities		
Deferred gain on sales of fixed assets to public sector	587	4,851
Special depreciation	285	2,355
Other	497	4,108
Total deferred tax liabilities	1,369	11,314
Net deferred tax assets	¥3,149	\$26,025

Deferred tax liabilities

Depreciation	¥2,866	\$23,686
Net deferred tax liabilities	¥2,866	\$23,686

Material deferred taxes of the consolidated subsidiaries are presented as not offset in accordance with the Japanese practice.

8. Retirement benefits:

The total charges to consolidated income for all retirement and pension plans for the years ended March 31, 1999 and 1998 amounted to ¥5,735 million (\$47,397 thousand), which include special amortization of prior service costs of the Company ¥2,182 million (\$18,033 thousand), and ¥4,516 million, respectively.

The actuarial value of plan assets under the Companies' contributory funded pension plans amounted to ¥15,851 million (\$131,000 thousand) at the most recent valuation dates.

9. Selling, general and administrative expenses:

Major components of selling, general and administrative expenses are as follows:

Account	Millions of yen	Thousands of U.S. dollars	
	1999	1998	
Freight and storage	¥12,677	¥12,761	\$104,769
Research and development	12,176	12,414	100,628
Salaries and bonuses	16,096	17,526	133,025

10. 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 was ¥81 million. And the amounts of notes discounted with recourse at banks at March 31, 1999 and 1998 were ¥14 million (\$116 thousand) and ¥15 million, respectively.

The Companies were contingently liable for guarantees, mainly for bank loans of unconsolidated subsidiaries, affiliates, and others, of ¥921 million (\$7,612 thousand) and ¥4,543 million at March 31, 1999 and 1998, respectively.

The amount of guarantees includes that of letters of commitments of guarantees, letters of awareness, and other similar acts.

11. Lease:

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 1999.

(a) Financing Lease

Lease transactions as lessee

Payments of fee for financing leases without transferring ownership of leased assets to lessee, which are not required to capitalize, were ¥474 million (\$3,917 thousand) for the year ended March 31, 1999.

The future lease payments, including amounts representing interest, at March 31, 1999 are as follows: —

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 478	\$ 3,950
Due later	749	6,190
	¥1,227	\$10,140

The leased assets at March 31, 1999 are as follows: —

	Millions of yen		Thousands of U.S. dollars	
	Cost	Accumulated depreciation	Net	Net
Machinery and equipment	¥2,284	¥1,059	¥1,225	\$10,124
Other	5	4	1	8
	¥2,289	¥1,063	¥1,226	\$10,132

Lease transaction as lessor is immaterial.

(b) Operating Lease

The future lease payments under noncancellable operating leases at March 31, 1999 are as follows: —

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥132	\$1,091
Due later	132	1,091
	¥264	\$2,182

12. Segment information:

The Companies operate principally within four industrial 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 industrial segments for the year ended March 31, 1999 and 1998 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, 1999								
Chemical and synthetic fibers	¥103,120	¥ 1,591	¥104,711	¥ 2,686	\$ 852,231	\$ 13,149	\$ 865,380	\$ 22,198
Chemical products	142,071	1,774	143,845	16,501	1,174,141	14,661	1,188,802	136,372
Man-made leather, nonwoven fabrics and fastening materials	35,557	421	35,978	4,650	293,860	3,479	297,339	38,430
Diversified businesses	55,718	16,874	72,592	3,512	460,479	139,455	599,934	29,025
Total	336,466	20,660	357,126	27,349	2,780,711	170,744	2,951,455	226,025
Elimination	—	(20,660)	(20,660)	(201)	—	(170,744)	(170,744)	(1,661)
Consolidated total	¥336,466	¥ —	¥336,466	¥27,148	\$2,780,711	\$ —	\$2,780,711	\$224,364
Year ended March 31, 1998								
Chemical and synthetic fibers	¥111,041	¥ 1,466	¥112,507	¥ 3,768				
Chemical products	150,319	2,443	152,762	16,540				
Man-made leather, nonwoven fabrics and fastening materials	38,802	524	39,326	5,454				
Diversified businesses	47,481	18,568	66,049	3,482				
Total	347,643	23,001	370,644	29,244				
Elimination	—	(23,001)	(23,001)	(346)				
Consolidated total	¥347,643	¥ —	¥347,643	¥28,898				

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, 1999						
Chemical and synthetic fibers	¥ 80,160	¥ 3,919	¥ 3,833	\$ 662,479	\$ 32,388	\$ 31,677
Chemical products	151,143	22,812	8,212	1,249,116	188,529	67,868
Man-made leather, nonwoven fabrics and fastening materials	35,739	4,525	2,178	295,364	37,397	18,000
Diversified businesses	51,665	2,241	1,334	426,983	18,521	11,025
Total	318,707	33,497	15,557	2,633,942	276,835	128,570
Elimination and corporate	169,284	—	—	1,399,041	—	—
Consolidated total	¥487,991	¥33,497	¥15,557	\$4,032,983	\$276,835	\$128,570
Year ended March 31, 1998						
Chemical and synthetic fibers	¥ 86,177	¥ 7,263	¥ 3,124			
Chemical products	131,814	9,497	7,841			
Man-made leather, nonwoven fabrics and fastening materials	31,752	2,034	2,079			
Diversified businesses	71,139	2,012	1,571			
Total	320,882	20,806	14,615			
Elimination and corporate	157,979	—	—			
Consolidated total	¥478,861	¥20,806	¥14,615			

Disclosures of net sales and operating income and identifiable assets by geographic segments are required effective for the year ended March 31, 1999 are as follows: —

	Millions of yen				
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
Year ended March 31, 1999					
Domestic (inside Japan).....	¥309,182	¥17,920	¥327,102	¥22,467	¥273,939
Outside Japan	27,284	4,104	31,388	5,121	48,699
Total.....	336,466	22,024	358,490	27,588	322,638
Elimination and corporate.....	—	(22,024)	(22,024)	(440)	165,353
Consolidated total.....	¥336,466	¥ —	¥336,466	¥27,148	¥487,991
Thousands of U.S. dollars					
Year ended March 31, 1999					
Domestic (inside Japan).....	\$2,555,223	\$148,099	\$2,703,322	\$185,678	\$2,263,959
Outside Japan	225,488	33,917	259,405	42,322	402,470
Total.....	2,780,711	182,016	2,962,727	228,000	2,666,429
Elimination and corporate.....	—	(182,016)	(182,016)	(3,636)	1,366,554
Consolidated total.....	\$2,780,711	\$ —	\$2,780,711	\$224,364	\$4,032,983

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, 1999 and 1998 totaled ¥93,486 million (\$772,612 thousand) and ¥80,175 million, respectively, and accounted for 28% and 23% of consolidated net sales, respectively.

13. Subsequent event:

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, 1999 were approved by the shareholders on June 29, 1999.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4.50 (\$0.04) per share	¥1,638	\$13,537
Transfer to legal reserve	170	1,405
Bonuses to directors and statutory auditors	62	512

The above year-end cash dividends per share and the interim cash dividends of ¥4.50 (\$0.04) per share paid in December 1998 aggregated the annual cash dividends of ¥9.00 (\$0.07) per share.

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, 1999 and 1998, 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.

As discussed in Note 2 to the financial statements, the Company changed its method of depreciation during the year ended March 31, 1999.



Kohyoh & Co.
(Certified Public Accountants)



Price Waterhouse
(Certified Public Accountants)

Osaka, Japan / June 29, 1999

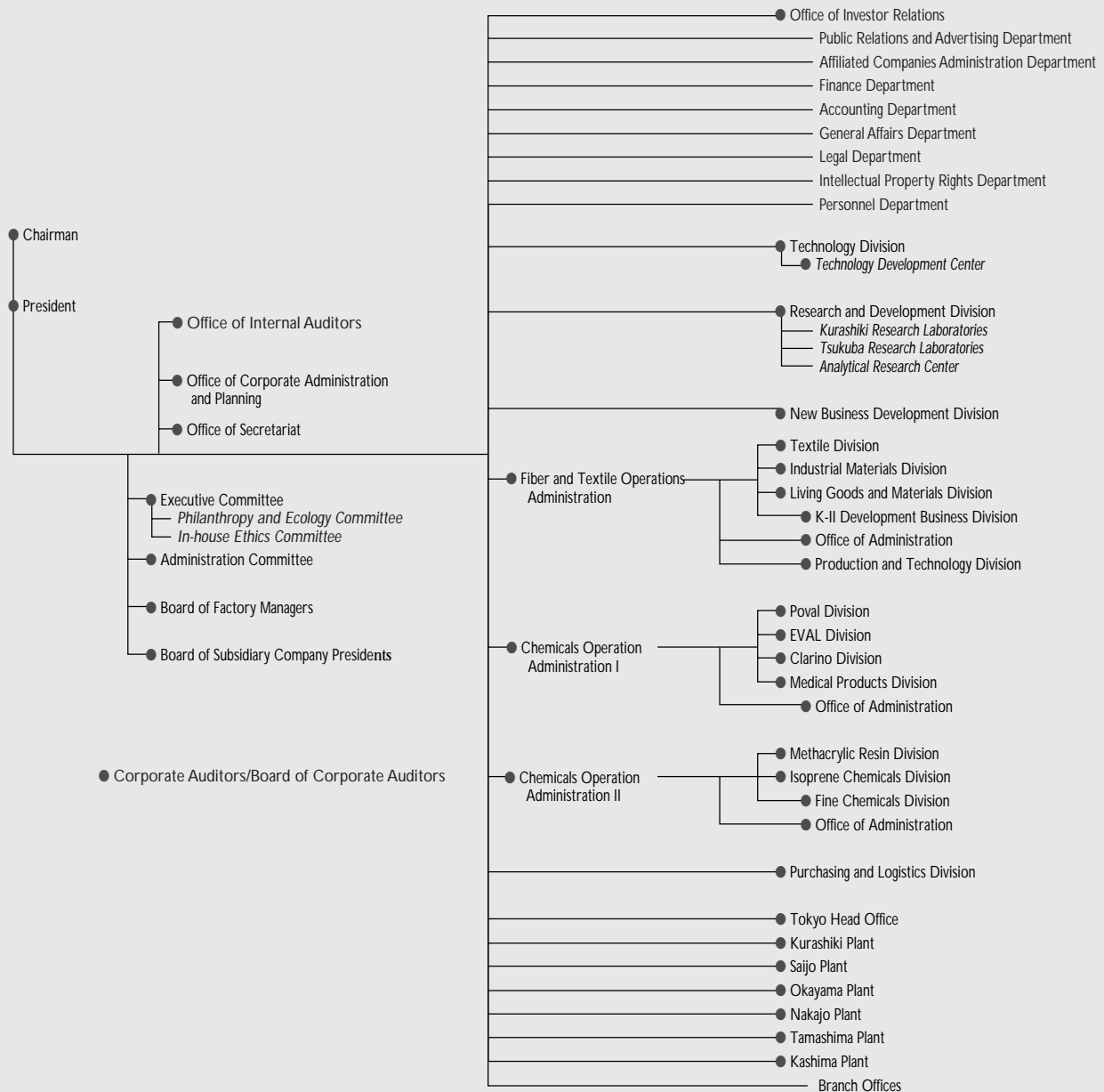
Notice to readers

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accordingly the accompanying consolidated balance sheet and related consolidated statements of income, shareholders' equity and cash flows and their utilization are not designed for those who are not informed about Japanese accounting principles, procedures and practices.

The standards, procedures and practices utilized in Japan to audit such financial statements may differ from those generally accepted in countries and jurisdictions other than Japan.

Organization

(As of June 1999)



Directors and Corporate Auditors

(As of June 29, 1999)

Chairman and Representative Director

Hisao Nakamura

President and Representative Director

Hiroto Matsuo

Senior Managing Director

Kenji Ando

Managing Directors

Mamoru Yamashita

Masami Sato

Hiromi Maki

Koichi Kushida

Yasuaki Wakui

Directors

Masayuki Hayashi

Akira Matsuzawa

Tatsuya Nakano

Koichi Nakai

Masahiro Kaihara

Shinsaku Oda

Tsutomu Yabuta

Shobu Minatono

Katsuhiko Kishi

Yosuke Sekiya

Katsumi Ohashi

Tetsuzo Kimura

Corporate Auditors

Jun Inoue

Taiji Naito

Fumio Omori

Teruyuki Ouchi

Kuraray's History

1920s

1926

- Kurashiki Kenshoku Co. established

1928

- Rayon commercialized: production of rayon filament yarn begun at the Kurashiki Plant

1940s

1940

- Chugoku Sangyo Co., Ltd. (now Kuraray Chemical Co., Ltd.) established



New laboratory of Okayama Plant

1943

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

1949

- Company name changed to Kurashiki Rayon Co., Ltd.

1950s

1950

- "KURALON" commercialized: production of "KURALON" staple started

1958

- Poval commercialized: production of poval for market sale started

1960s

1960

- Capital participation in Kyowa Gas Chemical Co., Ltd., which conducts methacrylic resin business

1961

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

1962

- Production of poval film started at Saijo Plant

1963

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

1964

- Production of polyester staple started at Tamashima Plant
- Kuraray Fudosan Co., Ltd. established
- "Clarino" commercialized: production of "Clarino" man-made leather started at Kurashiki Plant

1965

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

1969

- Production of polyester filament started at Saijo Plant

1970s

1970

- Company name changed to Kuraray Co., Ltd.
- Hong Kong Representative Office established (transferred to Kuraray Hong Kong Co., Ltd. in June 1998)

1971

- Nonwoven fabrics business started (Kuraray Chicopee Co., Ltd. established)



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

1972

- "EVAL" commercialized: production facilities for "EVAL" resin completed at Okayama Plant
- Isoprene chemicals business launched: operation at Kashima Plant started, and production of polyisoprene rubber begun

1975

- Artificial organs business started

1976

- NIC (new isoprene chemicals) facilities completed at Nakajo Plant

1977

- Kuraray Engineering Co., Ltd. established

1978

- Advanced into the dental materials field: "CLEARFIL" adhesive dental filler produced



"CLEARFIL" adhesive dental filler

1980s

1983

- Cement-reinforcing "KURALON" developed
- EVAL Company of America established, and marketing of "EVAL" resin in the U.S.A. begun (production started in 1986)

1984

- Haru-Kuraray GmbH, a man-made leather sales company, established in Germany jointly with Marubeni Corp. and Haru Holding & Management GmbH
- Merged with Nippon Velcro Co., Ltd. which produces hook and loop fasteners

1986

- Clarino America Corporation, a man-made leather sales company, established in the U.S.A. jointly with Marubeni Corp.

1990s

1990

- "SEPTON" commercialized: production of "SEPTON" thermoplastic elastomer started at Kashima Plant

1991

- Kuraray Europe GmbH established in Düsseldorf, Germany

1995

- Kuraray EVAL Europe GmbH established in Düsseldorf
- Kuraray Hong Kong Co., Ltd. established

1996

- Kuraray America, Inc. established in New York as administrative holding company in the U.S.A.
- Kuraray Singapore Pte., Ltd. established, and capital participation in Poval Asia Pte Ltd



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

1997

- EVAL Europe N.V. established in Belgium

1998

- "KURALON K-II" commercialized

1999

- Operations started at Poval Asia Pte Ltd
- Operations at EVAL Europe N.V. scheduled to start in the fall

Overseas Business Strategy

As part of its efforts to further expand the scale of its business, Kuraray is actively pushing ahead with global development. We are expanding our overseas bases, centered on areas where we have highly innovative products, including poval, the EVOH resin "EVAL," and "Clarino" man-made leather, products for which overseas demand is growing. In line with our strategies of developing products that transcend borders and conducting manufacturing and sales in the areas where the products are in demand, we are creating a four-base network centered on Japan, the U.S., Europe, and Asia. By making the most of its unique products, for which global demand continues to grow, Kuraray aims to remain an enterprise which boasts a worldwide business presence.



Kuraray America, Inc.

Kuraray America, Inc.

This is a central holding company established to strengthen activities and increase operational efficiency at our companies in the U.S. In addition to managing the operations of local subsidiaries, it conducts sales of Kuraray products, market development, and information gathering.

Clarino America Corporation

This company is responsible for the local processing and sales of man-made leather in the U.S. In particular, by utilizing the special properties of "Clarino," it works to expand sales for a wide variety of applications.



EVAL Company of America, Pasadena Plant

EVAL Company of America

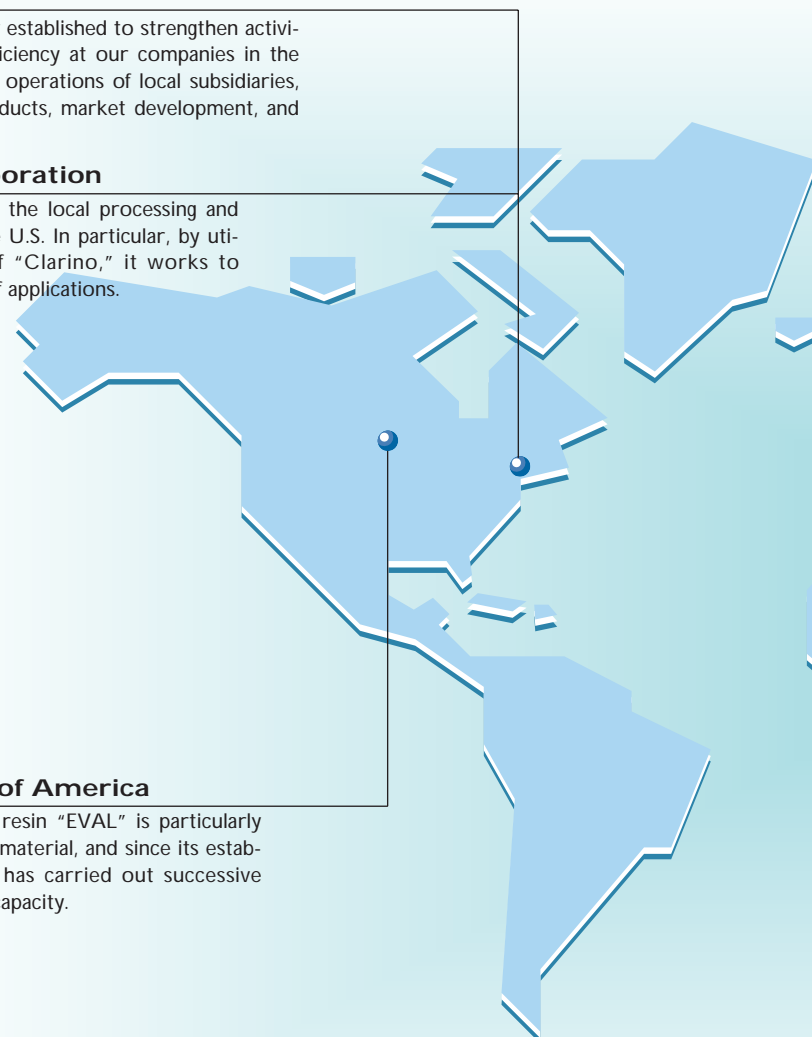
Demand for the EVOH resin "EVAL" is particularly high as a food packaging material, and since its establishment, this company has carried out successive increases in production capacity.



*EVAL Europe N.V.
Ground breaking ceremony in Antwerp, Belgium*

EVAL Europe N.V.

The European production and sales company for "EVAL" resin, which is mainly used as a food packaging material.



Kuraray Europe GmbH

As our strategic base in Europe, this company sells Kuraray products, and provides information gathering and technical services.

Kuraray EVAL Europe GmbH

This company sells the EVOH resin "EVAL" in Europe, provides technical services to users, and conducts product development.

Haru-Kuraray GmbH

Imports and sells man-made leather for clothing and interior goods applications in Europe, and conducts information gathering.



Kuraray Europe GmbH and Kuraray EVAL Europe GmbH



Kuraray Hong Kong Co., Ltd.

Kuraray Hong Kong Co., Ltd.

This company is responsible for marketing activities in China and Southeast Asia, as well as local processing and sales of Kuraray products such as man-made leather. It is continuing to develop the East Asian market, which has large growth potential.

Kuraray Singapore Pte., Ltd.

As our strategic base in Southeast Asia, this company develops new markets for our products, centered on chemical products, and conducts information gathering.

Poval Asia Pte Ltd

This production company was established in a joint venture with The Nippon Synthetic Industrial Chemical Co., Ltd. to meet growing demand for poval resin.

Kuraray Specialities Asia Pte., Ltd.

This company is responsible for selling the poval resin produced by Poval Asia Pte Ltd and for providing technical services.



Poval Asia Pte Ltd

List of Consolidated Companies

(as of March 31, 1999)

Company
Head Office
Capital (¥ millions, except where stated)
Business Line

Chemical Products



Activated carbon products

Kuraray Chemical Co., Ltd.

Osaka 600
Production and sales of activated carbon and related facilities and equipment

Kuraray Plastics Co., Ltd.

Osaka 180
Production and sales of hoses and laminated products



Rolls for OA equipment

Kuraray Niigata Kasei Co., Ltd.

Tokyo 50
Production and sales of methacrylic resin sheets

Kyosei Chemical Co., Ltd.

Tokyo 50
Production of pigments and dyes

Kamiko Plastic Co., Ltd.

Saitama 14
Molding and processing of methacrylic resin sheets

Hikari Shoes Co., Ltd.

Chiba 34
Manufacture and sales of shoes

Commerce and Distribution

Kuraray Trading Co., Ltd.

Osaka 500
Exporting, importing and wholesale of fibers, chemical products, etc.

Kuraray Family Products Corporation

Osaka 30
Sales of health foods, basic cosmetics, clothes, etc.



Various health products

Kurashiki Unyu Co., Ltd.

Okayama 20
Transportation and port cargo handling

Kuraray Living Co., Ltd.

Osaka 101.8
Production and sales of packing-related products

Fibers

Reihoku Textile Co., Ltd.

Fukui 35
Sizing of raw yarn and processing of twisted yarn

Information, personnel development, etc.

Techno Soft Co., Ltd.

Osaka 20
Technical consulting and technological data survey



Classroom training

Securix Co., Ltd.

Tokyo 30
Personnel recruiting, dispatch of temporary staff and training

Kuraray Techno Co., Ltd.

Osaka 10
Synthetic fiber production and other operations on a consignment basis

Construction, real estate and housing

Kuraray Engineering Co., Ltd.

Osaka 450
Engineering activities related to plant construction

Kuraray Fudosan Co., Ltd.

Osaka 282
Sale and management of land and housing

Kuraray Interior Co., Ltd.

Osaka 330
Manufacture and sales of high-quality furniture, and interior decoration work

S. Urabe Associates Architects Co., Ltd.

Osaka 11.25
Architectural design in various fields

Kuraray Saijo Kiko Co., Ltd.

Ehime 10
Manufacture and maintenance of machinery parts

Services

The Kurashiki Kokusai Hotel, Ltd.

Okayama 450
Management of hotels and restaurants

Iruma Country Club Co., Ltd.

Saitama 40
Management of a golf course

Kuraray Travel Service Co., Ltd.

Osaka 20
Travel and insurance agent

Overseas

Kuraray America, Inc.

New York, U.S.A. US\$55.03 million
Administrative management of U.S. subsidiaries, market development and sales of Kuraray products

Eval Company of America

Illinois, U.S.A. US\$4.15 million
Production and sales of "EVAL" resin in the U.S.

Clarino America Corporation

New York, U.S.A. US\$0.6 million
Sales of man-made leather in the U.S.

Kuraray Finance America, Inc.

New York, U.S.A. US\$0.001 million
Loan finance

Kuraray Europe GmbH

Düsseldorf, Germany DM41 million
Sales of Kuraray products and information gathering in Europe

Kuraray EVAL Europe GmbH

Düsseldorf, Germany DM0.5 million
Sales of "EVAL" resin and development of new products in Europe

EVAL Europe N.V.

Antwerp, Belgium BEF800 million
Production of "EVAL" resin

Kuraray Finance Europe Inc.

Amsterdam, Netherlands FLS0.7 million
Loan finance

Kuraray Hong Kong Co., Ltd.

Hong Kong, China HK\$4.65 million
Processing and sales of Kuraray products, e.g. man-made leather, in China and Southeast Asia

Kuraray Singapore Pte., Ltd.

Singapore SP\$21.4 million
Marketing of Kuraray products and information gathering in Southeast Asia



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

Poval Asia Pte Ltd

Singapore SP\$40.0 million
Production of poval resin

Note

• The above list is limited to consolidated subsidiaries.

Corporate Data

Kuraray Co., Ltd.

Established: June 24, 1926
Capital: ¥78,659 million
Shares: Authorized 700,000,000 shares
 Issued 363,913,184 shares
Number of Shareholders: 26,022
(as of March 31, 1999)

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

Transfer Agent

The Sumitomo Trust and Banking Co., Ltd.
Stock Transfer Agency Department
4-5-33, Kitahama, Chuo-ku, Osaka 540-8639
TEL: 81-6-6833-4700



KURARAY CO., LTD.

Head Offices

Osaka: Shin-Hankyu Bldg., 1-12-39, Umeda, Kita-ku, Osaka
530-8611, Japan

Tel. 81-6-6348-2111. Fax. 81-6-6348-2165

Tokyo: Kuraray Nihonbashi Bldg., 3-1-6, Nihonbashi, Chuo-ku, Tokyo
103-8254, Japan

Tel. 81-3-3277-3111. Fax. 81-3-3277-3295