

Outline of Business Results (Consolidated)

<Summary>

Management Policy

In this era of international megacompetition, we must steadily expand to become an enterprise that boasts a strong business presence, and this forms the basis for the management policy set out in our Fourth Five-Year Medium-Term Business Plan, which began in fiscal 1996. The main points of this plan are: (1) expanding the scope of our business through aggressive capital investment and the fostering of new businesses; (2) furthering our global business development by adding Asian operations to those in Japan, Europe, and North America; and (3) boosting overall Group capabilities through initiatives such as strengthening production and sales tie-ups and integrating administrative functions.

Business Environment and Results

Affected by factors such as continued depressed domestic economic conditions and stagnation in Asian economies, the operating environment for the Kuraray Group remained extremely harsh during the term under review, with falls in demand making for sluggish business conditions.

In response to such conditions, focusing on its Fourth Medium-Term Business Plan, the Kuraray Group endeavored to (1) expand the scope of its business; (2) rationalize cost and develop and market high-value-added products; (3) strengthen the corporate structure by, for example, improving the efficiency of management; and (4) pursue the Group synergistic effects by developing joint businesses and production, processing, and sales tie-ups. The first of these undertakings, with its basic target of 'expanding the scale of the business while maintaining a sound corporate structure,' requires a steady program of capital investment to provide the platform for the next generation, and we have endeavored to ensure that newly-started capital investment has translated quickly into improved business results.

Consequently, the Company posted net sales of ¥336,466 million (US\$2,781 million), operating income of ¥ 27,148 million (US\$224 million) and net income of ¥13,171 million (US\$109 million).

Dividend Policy

Kuraray's policy on profit distribution is to pay dividends that are in line with business results, with ordinary dividends at a basic level of ¥8 per share, while maintaining the dividend payout ratio at 30%. For the term under review, we paid a mid-term dividend of ¥4.50 per share, made up of an ordinary dividend of ¥4 and a special dividend of ¥0.50. Taking into consideration the business results shown above, we intend to pay a term-end dividend of ¥4.50 per share, comprised of an ordinary dividend of ¥4 and a special dividend of ¥0.50, giving a total annual dividend of ¥9.00 per share.

Aggressive Capital Investment

In order to increase our business strength as outlined in the Fourth Medium-Term Business Plan, during the term we actively pushed ahead with capital investment, investing ¥33,497 million (US\$277 million) during the period. This was mainly accounted for by the construction of a new plant for the production of "EVAL" ethylene-vinyl alcohol copolymer in Europe, increasing production capacity for "Clarino" man-made leather, "SEPTON"

thermoplastic rubber, fine chemicals, and contact lenses, as well as new equipment for the production by Kuraray Chemical Co., Ltd. of air purifying filters for automobiles.

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 develop

globally, aiming to create 'a unique chemical enterprise that continually develops worldwide.' Moreover, in order to maintain earnings in the current deflationary environment, we will endeavor to improve the efficiency of our management, mainly by further cost reduction and rationalizing administrative functions, 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 boosted existing facilities for "Clarino" man-made leather and fine chemical products. Overseas we are making progress with projects for poval production in Singapore and the production of "EVAL" ethylene-vinyl alcohol copolymer in Belgium. We will see to it that these new and expanded facilities come on stream quickly and ensure that these investments contribute to improved business results.

Furthermore, fully aware that treating local communities and the environment with respect is one of the fundamentals of business, we will strive to reduce the environmental pollutants and to develop environmentally-friendly products, while investing in new equipment to promote the recycling of plastic waste by the use of heat. We have been actively involved in the 'Responsible Care' activities since its inception. As part of the 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.

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 systems to counter all possible occurrences are scheduled to be completed by the end of October 1999. In addition, we are taking possible measures to ascertain the Year 2000 compliance program of our raw materials suppliers and service providers.

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

2) The financial information herein has not been audited.

3) 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.

CONSOLIDATED BALANCE SHEETS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Thousands of U.S. dollars		
	Millions of yen		
March 31, 1999 and 1998	1999	1998	1999
ASSETS			
Current assets:			
Cash and cash equivalents	¥28,902	¥31,350	\$238,860
Marketable securities	10,252	8,329	84,727
Notes and accounts receivable:			
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	70,624	76,510	583,669
Deferred income taxes	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:			
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	1,066,311
Investments and other assets:			
Investment securities	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	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

	Thousands of U.S. dollars		
	Millions of yen		
March 31, 1999 and 1998	1999	1998	1999
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans	¥5,809	¥5,937	\$48,008
Current portion of long-term debt	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	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	93,923	83,292	776,223
Deferred income taxes	2,866	2,325	23,686
Accrued retirement benefits	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
Shareholders' equity:			
Common stock with par value of ¥50 (\$0.41) per share:			
Authorized - 700,000,000shares			
Issued and outstanding - 363,913,184 shares at March 31, 19	78,660		650,083
Issued and outstanding - 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

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

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

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1999 and 1998	Millions of yen		Thousands of U.S. dollars
	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 expense	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:			
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
Net income per share:		
Primary	¥36.83	¥40.46
Fully diluted	¥34.56	¥37.68

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

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

	Millions of yen		
	Common stock	Additional paid-in capital	Retained earnings
Years ended March 31, 1999 and 1998			
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	5	5	
Stock issued on exercise of warrants	4,961	6,288	
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		
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	42	42	
Stock issued on exercise of warrants	41,000	51,967	
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

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

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• CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 1999 and 1998	Millions of yen		Thousands of U. S. dollars
	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 guarantee, 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

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

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SEGMENT INFORMATION

Industrial segment information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Net sales and Operating income

Year ended March 31,1999	Millions of yen			Operating income
	Net sales to outside customers	Net sales to intersegment	Net sales	
Chemical and synthetic fibers	¥103,120	¥1,591	¥104,711	¥2,686
Chemical products	142,071	1,774	143,845	16,501
Man-made leather, nonwoven fabrics and fastening materials	35,557	421	35,978	4,650
Diversified businesses	55,718	16,874	72,592	3,512
Total	336,466	20,660	357,126	27,349
Elimination and Corporate	-	(20,660)	(20,660)	(201)
Consolidated total	¥336,466	¥ -	¥336,466	¥27,148

Year ended March 31,1998	Millions of yen			Operating income
	Net sales to outside customers	Net sales to intersegment	Net sales	
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 and Corporate	-	(23,001)	(23,001)	(346)
Consolidated total	¥347,643	¥ -	¥347,643	¥28,898

Year ended March 31,1999	Thousands of U.S.dollars			
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income
Chemical and synthetic fibers	\$852,231	\$13,149	\$865,380	\$22,198
Chemical products	1,174,141	14,661	1,188,802	136,372
Man-made leather, nonwoven fabrics and fastening materials	293,860	3,479	297,339	38,430
Diversified businesses	460,479	139,455	599,934	29,025
Total	2,780,711	170,744	2,951,455	226,025
Elimination and Corporate	-	(170,744)	(170,744)	(1,661)
Consolidated total	\$2,780,711	\$ -	\$2,780,711	\$224,364

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

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Industrial segment information
(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Identifiable assets, Capital expenditure, Depreciation and amortization

	Millions of yen		
	Identifiable assets	Capital expenditures	Depreciation and amortization
Year ended March 31,1999			
Chemical and synthetic fibers	¥80,160	¥3,919	¥3,833
Chemical products	151,143	22,812	8,212
Man-made leather, nonwoven fabrics and fastening materials	35,739	4,525	2,178
Diversified businesses	51,665	2,241	1,334
Total	318,707	33,497	15,557
Elimination and Corporate	169,284	-	-
Consolidated total	¥487,991	¥33,497	¥15,557

	Millions of yen		
	Identifiable assets	Capital expenditures	Depreciation and amortization
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

	Thousands of U.S.dollars		
	Identifiable assets	Capital expenditures	Depreciation and amortization
Year ended March 31,1999			
Chemical and synthetic fibers	\$662,479	\$32,388	\$31,677
Chemical products	1,249,116	188,529	67,868
Man-made leather, nonwoven fabrics and fastening mater	295,364	37,397	18,000
Diversified businesses	426,983	18,521	11,025
Total	2,633,942	276,835	128,570
Elimination and Corporate	1,399,041	-	-
Consolidated total	\$4,032,983	\$276,835	\$128,570

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

Geographic Segment Information

(unaudited)

Kuraray Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 1999	Millions of yen				
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
Domestic (inside Japan)	¥309,182	¥17,920	¥327,102	¥22,467	¥273,939
Outside Japan	27,284	4,104	31,388	5,121	48,699
Total	336,466	22,024	358,490	27,588	322,638
Elimination and Corporate	-	(22,024)	(22,024)	(440)	165,353
Consolidated total	¥336,466	¥ -	¥336,466	¥27,148	¥487,991

Year ended March 31, 1999	Thousands of U.S. dollars				
	Net sales to outside customers	Net sales to intersegment	Net sales	Operating income	Identifiable assets
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

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