

SEMIANNUAL REPORT

April 1 to September 30, 2000



ASAHI CHEMICAL INDUSTRY CO., LTD.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2000 and 1999 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Net sales	¥ 611,257	¥ 574,077	\$ 5,659,787
Chemicals and Plastics	206,526	183,614	1,912,278
Housing and Construction Materials	205,745	189,985	1,905,046
Fibers and Textiles	67,710	70,304	626,944
Special Products and Services	131,276	130,174	1,215,519
Net income	12,254	7,967	113,463
Total assets	1,244,609	1,216,138	11,524,157
Shareholders' equity	508,193	468,121	4,705,491
		Yen	U.S. dollars
Net income per share	¥8.49	¥5.52	\$0.08
Interim dividend per share	3.00	3.00	0.03

Note: The U.S. dollar amounts included herein are translated, for convenience only, at the rate of ¥108=US\$1, the approximate exchange rate prevailing on September 30, 2000.

MESSAGE FROM THE MANAGEMENT

During the fiscal half ended September 30, 2000, the Japanese economy continued on a course of gradual recovery, with growing exports to Asia and increasing IT-related capital investment. However, without marked improvement in employment and personal income, private sector demand remained weak.

Operating results attained in this environment reflected the significant progress achieved thus far in our mid-range program to revitalize the business portfolio for increased capital efficiency and a strong, stable earnings base.

In the six months under review, results were strong for chemicals, plastics, housing, and electronics-related operations, while fibers and construction materials operations were adversely affected by poor market conditions. Consolidated net sales were ¥37.1 billion higher than a year ago, at ¥611.2 billion, and operating profit was ¥17.2 billion higher than a year ago, at ¥46.1 billion. Ordinary profit was ¥6.5 billion higher than a year ago, at ¥41.4 billion, and net income was ¥4.2 billion higher than a year ago, at ¥12.2 billion.

RESULTS BY SECTOR

CHEMICALS AND PLASTICS operations were affected by a sharp increase in feedstock and fuel costs, but this was largely overcome

through measures to improve efficiency and expand sales, resulting in net sales of ¥206.5 billion, ¥22.9 billion higher than a year ago, and operating profit of ¥13.8 billion, ¥4.8 billion higher than a year ago. Results for basic chemicals such as acrylonitrile and styrene monomer were particularly strong, as improved demand and market conditions were leveraged by measures to reduce operating costs. Results for polyethylene failed to match the level of a year ago, as the rise in feedstock costs outpaced sale price increases. Sales volume of performance plastics such as modified PPE and nylon 66 grew, but operating profit was lower than a year ago due to the strong yen. With growing sales of specialty elastomer products, operating profit in synthetic rubber operations grew. Operating profit in specialty chemicals grew, with strong results in coating materials and explosives. Sales of Saran Wrap® food wrapping film and Ziploc® food storage bags were successfully expanded, but operating profit was lower than a year ago mainly due to increased advertising costs. Notable developments in the sector include the July 2000 acquisition of Nippon Steel Chemical Company's plastic compounding facilities in the US and Europe, and the July 2000 agreement with Mitsubishi Gas Chemical Co., Inc. for joint construction of a PPE powder production plant in Singapore, in conjunction with an Asahi Chemical facility for production of modified PPE resin to be built at the same site.

In HOUSING AND CONSTRUCTION MATERIALS, steady growth in the number of completed housing units for the half resulted in sales ¥15.7 billion higher than a year ago, at ¥205.7 billion, and operating profit of ¥10.2 billion, ¥3.6 billion higher than a year ago. While interest rates remained low and preferential tax treatment such as home loan deductions continued, new housing starts decreased during the half as concern about the prospects for sustained economic recovery heightened. Despite the slowdown in the housing market, our sales and profit in housing exceeded the level of a year ago, due to successful promotion of Long Life Home™ aspects of our products, closer alignment of the marketing base with geographical districts, and enhanced marketing capabilities. Construction materials were adversely affected by low market prices, but large construction projects such as shopping centers brought an increase in sales volume, and operating loss was lower than a year ago.

FIBERS AND TEXTILES faced a challenging operating environment with weak domestic demand for apparel and rising feedstock and fuel costs, but restructuring and rationalization measures resulted in operating profit ¥0.8 billion higher than a year ago at ¥1.4 billion, on net sales ¥2.5 billion lower than a year ago at ¥67.7 billion. Acrylics were affected by a sharp increase in feedstock prices, but operating loss was lower than a year ago due to increased sale prices and curtailment of unprofitable exports. Operating loss in synthetic filaments was also lower than a year ago as a result of rationalization and cost-cutting measures. With weak export demand, cellulose reported an operating loss for the half, having been profitable a year ago. Operating profit for functional products was higher than a year ago, with increased sales volume for spunbond. Domestic demand for elastic polyurethane was weak, but sales volume was higher than a year ago with strong export demand. Notable developments in the sector include the May 2000 groundbreaking for a new 13,000 t/y spunbond plant, and the October 2000 announcement to withdraw from viscose rayon operations, with production ending in September 2001 and sale ending in March 2002.

The July 1999 divestment of foods operations had a significant effect on sales in SPECIAL PRODUCTS AND SERVICES, but electronics products performed well with strong demand from IT-related industries, resulting in sales for the sector of ¥131.2 billion, ¥1.1 billion higher than a year ago, and operating profit of ¥20.5 billion, ¥7.9 billion higher than a year ago. With continuing strong demand for electronics parts such as analog/digital ICs for use in mobile phones, personal computers, and digital home electronics, operating profit in electronics was higher than a year ago. Sales of glass fiber fabric for printed circuit boards were also higher

than a year ago. Weak demand in the chlor-alkali industry hampered results in ion-exchange membranes and salt electrolysis equipment, but sales volume for lithium-ion rechargeable battery separators grew, and operating profit for membranes and systems overall was higher than a year ago. Operating profit in biotechnology and medical products was also higher than a year ago, with growing sales of the Flivas® therapy for benign prostatic hyperplasia, Sepacell® leukocyte reduction filters, and polysulfone artificial kidneys. The liquors product lineup was expanded with competitive new low-alcohol products, but sales volume of our mainline *shochu* fizz product decreased, and operating loss was greater than a year ago.

INTERIM DIVIDEND

The dividend for the fiscal half is ¥3 per share, unchanged from a year ago, with a dividend of ¥6 per share forecast for the fiscal year.

FORECAST FOR THE FISCAL YEAR

The Japanese economy does show some indications of recovery, including improved corporate earnings. Nevertheless, persistently high crude oil prices, depressed share prices, and slowing world economies make the prospects for a self-sustaining recovery obscure.

Throughout the Asahi Chemical Group, the ISHIN2000 program of corporate reformation will be further advanced to rapidly achieve a high-earnings, growth-oriented business portfolio through the strengthening and expansion of competitive-superiority businesses and related operations, with enhanced, highly efficient management systems.

For fiscal year 2000 ending March 31, 2001, we forecast consolidated net sales of ¥1,280.0 billion, ordinary profit of ¥90.0 billion, and net income of ¥30.0 billion, an increase of ¥9.4 billion on the previous year.

November 2000



Nobuo Yamaguchi
Chairman of the Board



Kazumoto Yamamoto
President

CONSOLIDATED BALANCE SHEETS

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries
As of September 30, 2000 and 1999 (unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
ASSETS			
Current assets:			
Cash on hand and in banks	¥ 81,925	¥ 93,536	\$ 758,565
Notes and accounts receivable, trade	285,209	259,467	2,640,824
Marketable securities	6,698	28,885	62,018
Inventories	195,897	196,340	1,813,861
Deferred income taxes	15,446	14,817	143,019
Other current assets	39,458	47,012	365,352
Allowance for doubtful accounts	(6,676)	(5,979)	(61,815)
Total current assets	617,957	634,078	5,721,824
Fixed assets:			
Property, plant and equipment, net of accumulated depreciation—			
Buildings	154,607	151,220	1,431,546
Machinery and equipment	166,749	175,482	1,543,972
Land	63,932	63,009	591,963
Construction in progress	22,360	20,945	207,037
Other	16,029	16,592	148,417
	423,677	427,248	3,922,935
Intangible fixed assets	21,715	18,305	201,065
Investments and other assets—			
Investment securities	154,081	99,818	1,426,676
Long-term receivables	3,843	2,293	35,583
Deferred income taxes	3,488	3,329	32,296
Other	21,796	21,663	201,815
Allowance for doubtful accounts	(1,948)	(2,525)	(18,037)
	181,260	124,578	1,678,333
Total fixed assets	626,652	570,131	5,802,333
Foreign currency translation adjustments	—	11,929	—
Total assets	¥1,244,609	¥1,216,138	\$11,524,157

	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	2000	1999	2000
Current liabilities:			
Notes and accounts payable, trade	¥ 150,910	¥ 129,095	\$ 1,397,315
Short-term borrowings	70,378	104,020	651,648
Accrued taxes on income	19,335	17,876	179,028
Accrued expenses	78,100	80,305	723,148
Advance received	45,847	40,733	424,509
Other current liabilities	53,547	61,327	495,806
Total current liabilities	418,117	433,356	3,871,454
Long-term liabilities:			
Long-term debt	218,249	230,723	2,020,824
Deferred income taxes	28,469	9,539	263,602
Accrued severance indemnities	—	41,485	—
Accrued pension and severance costs	39,255	—	363,472
Customers' guarantee deposits	17,602	16,367	162,981
Other long-term liabilities	742	1,955	6,870
Total long-term liabilities	304,317	300,069	2,817,749
Minority interest in consolidated subsidiaries	13,982	14,592	129,463
Shareholders' equity:			
Common stock, ¥50 par value—			
Authorized – 4,000,000,000 shares			
Issued and outstanding – 1,442,616,332 shares	103,389	103,389	957,306
Additional paid-in capital	79,396	79,396	735,148
Revaluation surplus	873	873	8,083
Retained earnings	300,495	284,466	2,782,361
Net unrealized gains on securities	34,896	—	323,111
Foreign currency translation adjustments	(10,848)	—	(100,444)
Total shareholders' equity	508,201	468,124	4,705,565
Common stock in treasury, at cost	(8)	(3)	(74)
Total shareholders' equity	508,193	468,121	4,705,491
Total liabilities, minority interest and shareholders' equity	¥1,244,609	¥1,216,138	\$11,524,157

CONSOLIDATED STATEMENTS OF INCOME

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries

For the six months ended September 30, 2000 and 1999 (unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Net sales	¥611,257	¥574,077	\$5,659,787
Cost of sales	428,632	409,962	3,968,815
Gross profit	182,625	164,115	1,690,972
Selling, general and administrative expenses	136,447	135,195	1,263,398
Operating profit	46,178	28,920	427,574
Non-operating income:			
Interest and dividend income	1,811	2,276	16,768
Gain on sale of marketable securities	–	13,293	–
Equity in earnings of unconsolidated subsidiaries and affiliates	–	284	–
Other	1,427	1,840	13,213
Total non-operating income	3,238	17,693	29,981
Non-operating expenses:			
Interest expense	3,168	4,402	29,333
Equity in loss of unconsolidated subsidiaries and affiliates	813	–	7,528
Other	4,017	7,328	37,194
Total non-operating expenses	7,998	11,730	74,055
Ordinary profit	41,418	34,883	383,500
Special gains:			
Gain on sale of investment securities	10,604	1,802	98,185
Gain on sale of property, plant and equipment	103	38	954
Gain on securities contribution to employee retirement benefit trust	35,557	–	329,231
Gain on business transfer	–	10,488	–
Other	–	257	–
Total special gains	46,264	12,585	428,370
Special losses:			
Loss from devaluation of investment securities	1,250	–	11,574
Loss on disposal of property, plant and equipment	2,645	1,302	24,491
Severance pay to support employees resigning for new career opportunities	–	17,986	–
Contribution to pension plan for amortization of past service costs	–	9,299	–
Amortization of prior years' pension and severance costs	53,841	–	498,528
Restructuring charges	4,323	2,669	40,027
Total special losses	62,059	31,256	574,620
Income before income taxes and minority interests	25,623	16,212	237,250
Income taxes:			
Current	(20,063)	(18,636)	(185,769)
Deferred	7,308	10,701	67,667
	(12,755)	(7,935)	(118,102)
Minority interests in consolidated subsidiaries	(614)	(310)	(5,685)
Net income	¥ 12,254	¥ 7,967	\$ 113,463

CONSOLIDATED STATEMENTS OF CASH FLOWS

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries

For the six months ended September 30, 2000 and 1999 (unaudited)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 25,623	¥ 16,212	\$ 237,250
Depreciation and amortization	29,925	31,213	277,083
Amortization of goodwill	248	252	2,296
Increase in allowance for doubtful accounts	865	–	8,009
Interest and dividend income	(1,811)	(2,276)	(16,768)
Interest expense	3,168	4,402	29,333
Equity in (earning) loss of unconsolidated subsidiaries and affiliates	813	(284)	7,528
Gain on sale of marketable securities	–	(13,293)	–
Gain on sale of investment securities	(10,604)	(1,802)	(98,185)
Gain on business transfers	–	(10,488)	–
Loss from devaluation of investment securities (net of reversal of prior year's loss)	1,250	(200)	11,574
Severance pay to support employees resigning for new career opportunities	–	17,986	–
Contribution to pension plan for amortization of past service costs	–	9,299	–
Gain on securities contribution to employee retirement benefit trust	(35,557)	–	(329,231)
Amortization of prior years' pension and severance costs	53,841	–	498,528
Increase in notes and accounts receivable, trade	(24,518)	(573)	(227,019)
Increase in inventories	(12,209)	(5,578)	(113,046)
Increase (decrease) in notes and accounts payable, trade	8,890	(1,229)	82,315
Increase (decrease) in accrued expenses	(2,139)	7,664	(19,806)
Increase in advances received	9,220	15,020	85,370
Other	1,558	(2,489)	14,426
Sub total	48,563	63,836	449,657
Interest and dividend income, received	2,314	2,952	21,426
Interest expense, paid	(4,144)	(4,421)	(38,370)
Severance payment to support employees resigning for new career opportunities	(3,996)	(11,812)	(37,000)
Contribution to pension plan for amortization of past service costs, paid	(7,805)	(8,380)	(72,269)
Income taxes, paid	(20,644)	(9,957)	(191,148)
Net cash provided by operating activities	14,288	32,218	132,296
Cash flows from investing activities:			
(Increase) decrease in time deposits	8	(1,734)	74
(Increase) decrease in marketable securities	(273)	16,699	(2,528)
Payments for acquisition of property, plant and equipment	(31,040)	(29,084)	(287,407)
Proceeds from sales of property, plant and equipment	349	560	3,231
Payments for acquisition of intangible fixed assets	(2,294)	(3,094)	(21,241)
Payments for purchases of investment securities	(4,710)	(1,622)	(43,611)
Proceeds from sales of investment securities	13,385	3,032	123,935
Payments for purchases of new consolidated subsidiaries, net of cash acquired	(7,431)	–	(68,805)
(Increase) decrease in loan receivables	3,760	(390)	34,815
Proceeds from business transfers	–	18,598	–
Other	579	960	5,361
Net cash provided by (used in) investing activities	(27,667)	3,925	(256,176)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	8,851	(1,701)	81,954
Increase (decrease) in commercial papers	10,000	(15,000)	92,592
Proceeds from long-term debt	2,365	2,062	21,898
Repayment of long-term debt	(5,026)	(7,310)	(46,537)
Repayment of bonds	(21,000)	–	(194,444)
Dividends paid by parent company	(4,328)	(4,328)	(40,074)
Other	(227)	(85)	(2,102)
Net cash used in financing activities	(9,365)	(26,362)	(86,713)
Effect of exchange rate changes on cash and cash equivalents	105	(204)	973
Net increase (decrease) in cash and cash equivalents	(22,639)	9,577	(209,620)
Cash and cash equivalents at beginning of year	104,968	75,690	971,926
Cash and cash equivalents held by newly consolidated subsidiaries	110	1,852	1,018
Cash and cash equivalents at end of half-year	82,439	87,119	763,324

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES

The semiannual consolidated financial statements are prepared in accordance with the same accounting principles as those listed in the Notes to Consolidated Financial Statements for the fiscal year ended March 31, 2000.

New accounting standards concerning pension and severance obligations and valuation of investments and securities have been adopted beginning with the six-month period ended September 30, 2000.

2. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts are included solely for convenience. The approximate current rate prevailing on September 30, 2000, ¥108=US\$1, has been used.

3. CONSOLIDATION AND INVESTMENTS IN AFFILIATED COMPANIES

The consolidated financial statements consist of the accounts of the parent company and 101 subsidiaries. Unconsolidated subsidiaries and 20% to 50% owned companies for which the equity method is applied totaled 49 as of September 30, 2000.

INVESTOR INFORMATION

(As of September 30, 2000)

ESTABLISHED:

May 21, 1931

PAID-IN CAPITAL:

¥103,388,521,767

OUTSTANDING SHARES:

1,442,616,332 (¥50 par value)

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Nobeoka Office

Fuji Office

Moriyama Office

Ohito Office

OVERSEAS OFFICES:

Beijing Office

Shanghai Office

N.V. Asahi Chemical Industry (Europe) S.A.

Asahi Chemical Industry (Deutschland) GmbH

Asahi Chemical Industry America Inc.

Asahikasei Asia Pte. Ltd.

Asahi Chemical Industry (H.K.) Ltd.

OVERSEAS STOCK INFORMATION:

Frankfurt: The stocks are listed on the Frankfurt Stock Exchange (in the form of Global Bearer Certificates).

Luxembourg: The stocks are listed on the Luxembourg Stock Exchange (in the form of Bearer Depositary Receipts).