

SEMIANNUAL REPORT

April 1 to September 30, 1999

1999

ASAHI CHEMICAL INDUSTRY CO., LTD.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 1999 and 1998 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Net sales	¥ 574,077	¥ 580,373	\$ 5,365,206
Chemicals and Plastics	183,614	187,767	1,716,019
Housing and Construction Materials	189,985	177,235	1,775,561
Fibers and Textiles	70,304	79,675	657,047
Special Products and Services	130,174	135,696	1,216,579
Net income	7,967	7,625	74,458
Total assets	1,216,138	1,221,910	11,365,776
Shareholders' equity	468,463	458,289	4,378,159
		Yen	U.S. dollars
Net income per share	¥5.52	¥5.29	\$0.05
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 ¥107=US\$1, the approximate exchange rate prevailing on September 30, 1999.

MESSAGE FROM THE MANAGEMENT

In the fiscal half ended 30 September 1999, the negative drift of the Japanese economy was arrested by increased public sector investment, rising home construction, and recovering Asian economies. The domestic environment nevertheless remained weak in terms of employment and personal income. Contraction continued in private sector capital investment, and the prospect for self-sustaining economic recovery is not yet clear.

At Asahi Chemical, we are advancing the transformation to high-efficiency corporate management and heightened assets efficiency through organizational and business restructuring, and to higher corporate earning power.

The results for the fiscal half show a net income of ¥8.0 billion, operating profit of ¥28.9 billion, and ordinary profit of ¥34.9 billion, on ¥574.1 billion in net sales. In fibers and textiles and in construction materials, performance was particularly affected by areas of weakness in the domestic economy. Strong performance was registered in housing and in electronics, and the progress in restructuring was clearly shown in the performance of our chemicals and plastics operations. The interim dividend at the end of the fiscal half was ¥3 per share, and thus unchanged from the previous year.

Performance and developments in each of our main business sectors, and comparison with the same period a year ago, were essentially as follows.

In *Chemicals and Plastics*, the net sales of ¥183.6 billion were ¥4.2 billion lower than a year ago, but operating profit rose ¥3.1 billion, to ¥9.1 billion. Sales volume increased for acrylonitrile, but sales and profit were depressed by the yen appreciation and adverse market conditions. Sales and profits rose for synthetic rubber, with higher sales volumes in specialty products.

Sales and profit were also up for specialty chemicals, with sales volumes rising in latex and coating materials, and for fabricated products. For polyethylene a rise in the domestic sales volume led to increased profit, and effective cost reduction brought an improved profit level for styrenic resins. Two major developments were announced in October 1999, for operations in polystyrene and silicone. Our polystyrene manufacturing and R&D, together with those of Mitsubishi Chemical Corporation, were merged into the operations of A&M Styrene Co., Ltd., the joint venture established a year earlier by both companies. With the establishment of our equally owned joint venture with Wacker Chemie GmbH of Germany for silicone, Asahi Chemical has begun the development of a major entry in this field.

For *Housing and Construction Materials*, the net sales of ¥190.0 billion were ¥12.8 billion higher than a year ago, and operating profit rose ¥2.5 billion to ¥6.6 billion. Sales and profit for construction materials were depressed by the weak market in building construction. In contrast, our housing business showed strong gains in both sales and profit, led by new product designs and the favorable market response to our Long Life Home concept and to our loan coordination system for home buyers, together with the effect of increased orders received during the previous year under the stimulus of tax reductions on home ownership.

The net sales in *Fibers and Textiles* were down ¥9.4 billion to ¥70.3 billion and profit was reduced ¥1.8 billion to ¥0.6 billion, by the effects of the strong yen and the depressed market for apparel in Japan. Sales volumes rose for Roica™ elastic polyurethane for women's apparel and for other high-performance fibers, and brought higher sales and profit for Spunbond™ for use in diapers and other products. Synthetic filaments showed improved profit levels as a result of effective cost reductions, but the strong yen and weak domestic market led to lower sales and profit for acrylic fibers, cupro Bemberg™, and rayon fibers.

In *Special Products and Services*, the net sales of ¥130.2 billion were ¥5.5 billion lower than a year ago, largely as an effect of the transfer of our food products business to Japan Tobacco Inc. on 1 July, 1999, but operating profit nevertheless rose ¥3.5 billion to ¥12.7 billion. Sales volumes grew, and sales and profit moved higher, for electronics products led by strong demand growth for LSIs and other devices and materials essential to the rapidly expanding personal computer and mobile phone markets. Membranes and membrane systems registered increased sales and profit, led by the fast-rising demand for use in lithium-ion batteries. Sales and profit also rose for biotechnology and medical products, led by a growth in sales volume for pharmaceuticals intermediates and for hemodialytic and other medical devices. For liquors, however, a market environment of sharply intensifying competition led to lower sales and profit levels.

Near-term recovery in the Japanese economy is by no means assured. Current projections show a continuing downward trend in capital investment, and the outlook for personal consumption and home buying remains uncertain. The business environment is expected to remain difficult, and will also involve greatly expanded application of consolidated financial statements, market-based valuations, and other major revisions, under the nationwide reform of accounting methods and practices.

At Asahi Chemical, we are moving ahead rapidly with the transformation to a growth-oriented corporate business portfolio focused on advancement of competitive-superiority businesses and related operations and to a high-performance, high-efficiency corporate management structure and system, in the first year of our three-year *ISHIN2000* program initiated in April 1999 to achieve these objectives and to win in the emerging global era of international-rules competition.

11, November 1999



Nobuo Yamaguchi
Chairman of the Board



Kazumoto Yamamoto
President

CONSOLIDATED BALANCE SHEETS

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries

As of September 30, 1999 and 1998 (unaudited)

ASSETS	Millions of yen		Thousands of U.S. dollars (note 2)
	1999	1998	1999
Current assets:			
Cash and cash equivalents	¥ 87,119	¥ 88,529	\$ 814,196
Notes and accounts receivable, trade	259,466	255,281	2,424,916
Marketable securities	11,263	28,040	105,262
Inventories	196,340	205,923	1,834,953
Deferred tax assets	14,818	—	138,486
Other current assets	71,051	63,500	664,028
Allowance for doubtful accounts	(5,979)	(8,168)	(55,878)
Total current assets	634,078	633,105	5,925,963
Fixed assets:			
Property, plant and equipment, net of accumulated depreciation—			
Buildings	151,220	147,445	1,413,271
Machinery and equipment	175,482	178,660	1,640,019
Land	63,009	64,613	588,869
Construction in progress	20,945	32,695	195,748
Other	16,592	17,634	155,065
	427,248	441,047	3,992,972
Intangible fixed assets	18,305	8,783	171,075
Investments and other assets—			
Investment securities	99,818	99,112	932,878
Long-term receivables	2,293	3,397	21,430
Deferred tax assets	3,329	—	31,112
Other	21,663	29,959	202,458
Allowance for doubtful accounts	(2,525)	(3,341)	(23,598)
	124,578	129,127	1,164,280
	570,131	578,957	5,328,327
Foreign currency translation adjustment	11,929	9,848	111,486
	¥1,216,138	¥1,221,910	\$11,365,776

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (note 2)
	1999	1998	1999
Current liabilities:			
Notes and accounts payable, trade	¥ 129,095	¥ 124,696	\$ 1,206,495
Short-term borrowings	104,020	173,213	972,150
Accrued expenses	80,305	71,863	750,514
Advance received	40,733	30,549	380,682
Accrued taxes on income	17,876	9,464	167,065
Other current liabilities	61,327	54,901	573,150
Total current liabilities	433,356	464,686	4,050,056
Long-term liabilities:			
Long-term debt	230,723	228,690	2,156,290
Deferred tax liabilities	9,539	–	89,149
Accrued severance indemnities	41,485	39,061	387,710
Customers' guarantee deposits	16,367	15,730	152,963
Other long-term liabilities	1,955	1,106	18,271
	300,069	284,587	2,804,383
Minority interest in consolidated subsidiaries	14,250	14,348	133,178
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	966,252
Additional paid-in capital	79,396	79,396	742,019
Revaluation surplus	873	875	8,159
Retained earnings	284,808	274,631	2,661,757
	468,466	458,291	4,378,187
Common stock in treasury, at cost	(3)	(2)	(28)
	468,463	458,289	4,378,159
Contingent liabilities			
	¥1,216,138	¥1,221,910	\$11,365,776

CONSOLIDATED STATEMENTS OF INCOME

Asahi Chemical Industry Co., Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 1999 and 1998 (unaudited)

	Millions of yen		Thousands of U.S. dollars (note 2)
	1999	1998	1999
Net sales	¥574,077	¥580,373	\$5,365,206
Cost of sales	409,962	421,034	3,831,421
Gross profit	164,115	159,339	1,533,785
Selling, general and administrative expenses	135,195	137,639	1,263,505
Operating profit	28,920	21,700	270,280
Non-operating income:			
Interest and dividend income	2,276	2,921	21,271
Gain on sale of marketable securities	13,293	4,591	124,234
Equity in earnings of unconsolidated subsidiaries and affiliates	284	-	2,654
Other	1,840	2,214	17,196
Total non-operating income	17,693	9,726	165,355
Non-operating expenses:			
Interest expense	4,402	5,781	41,140
Equity in loss of unconsolidated subsidiaries and affiliates	-	291	-
Other	7,328	4,543	68,486
Total non-operating expenses	11,730	10,615	109,626
Ordinary profit	34,883	20,811	326,009
Special gains:			
Gain on sale of investment securities	1,802	-	16,841
Gain on sale of property, plant and equipment	38	638	355
Gain on business transfer	10,488	-	98,019
Other	257	944	2,402
Total special gains	12,585	1,582	117,617
Special losses:			
Loss from devaluation of investment securities	-	2,411	-
Loss on sale of investment securities	-	392	-
Loss on disposal of property, plant and equipment	1,302	1,235	12,168
Special retirement allowance	17,986	-	168,093
Amortization of prior service cost of the welfare pension plan	9,299	-	86,907
Restructuring charge	2,669	-	24,944
Total special losses	31,256	4,038	292,112
Income before income taxes and minority interests	16,212	18,355	151,514
Income taxes:			
Current	(18,636)	(10,311)	(174,168)
Deferred	10,701	-	100,009
	(7,935)	(10,311)	(74,159)
Minority interests in consolidated subsidiaries	(310)	(419)	(2,897)
Net income	¥ 7,967	¥ 7,625	\$ 74,458

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, 1999.

Tax effect accounting has been adopted beginning with the six-month period ended September 30, 1999.

2. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts are included solely for convenience. The approximate current rate prevailing on September 30, 1999, ¥107=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 92 subsidiaries. Unconsolidated subsidiaries and 20% to 50% owned companies for which the equity method is applied totaled 47 as of September 30, 1999.

INVESTOR INFORMATION

(As of September 30, 1999)

Established:

May 21, 1931

Paid-in Capital:

¥103,388,521,767

Outstanding Shares:

1,442,616,332 (¥50 par value)

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1-chome, Kita-ku, Osaka 530-8205, Japan

Phone: 81-6-6347-3111

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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 Depository Receipts).