

An abstract 3D graphic design featuring several translucent, faceted geometric shapes. On the left, two tall, thin, faceted prisms stand upright. To their right, a large, complex red structure is composed of multiple overlapping rectangular and triangular planes, creating a sense of depth and volume. The shapes are set against a dark background with a subtle gradient, and the overall composition is framed by a thin orange border at the top and bottom.

# MITSUBISHI RAYON

Annual Report 1999

## PROFILE

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**Mitsubishi Rayon Co., Ltd., established as a producer of rayon staple in 1933, manufactures and markets a wide range of acrylic, polyester, acetate and other fibers, as well as methyl methacrylate, ABS, and MBS resins. Particular emphasis is placed on high-performance materials and products such as carbon fibers, composite materials, plastic optical fibers, and membranes.**

**As of March 31, 1999, the Company had paid-in capital of ¥53,229 million, total assets of ¥317,871 million, and a total of 4,482 employees.**

### Contents

1	Financial Highlights	13	Financial Section
2	A Message from the President	13	Five-Year Summary
5	Status of Readiness for the Year 2000 Problem	14	Financial Review (Non-Consolidated)
6	Review of Operations	15	Non-Consolidated Statements of Income
6	Man-Made Fibers	16	Non-Consolidated Balance Sheets
7	Chemicals	18	Non-Consolidated Statements of Shareholders' Equity
8	Resins and Plastics	19	Non-Consolidated Statements of Cash Flows
9	Specialty Products	20	Notes to Non-Consolidated Financial Statements
10	News of the Year	24	Independent Auditors' Report (Non-Consolidated)
11	Our Safety and Environmental Activities	25	Consolidated Statements of Income and Retained Earnings
12	Board of Directors and Corporate Auditors	26	Consolidated Balance Sheets
		28	Notes to Consolidated Financial Statements
		30	Independent Auditors' Report (Consolidated)
		31	Organization
		32	Subsidiaries and Affiliates
		33	Corporate Data

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#### On the Cover:

Acrylic resins with superior transparency manufactured by Mitsubishi Rayon



## A MESSAGE FROM THE PRESIDENT

### Aiming to become a “unique specialty” business group of unrivaled distinctiveness and strength in the global market.

It is my pleasure to present this report on the performance of the Mitsubishi Rayon Group in fiscal 1998, the term from April 1, 1998 to March 31, 1999. The business circumstances for the materials industry remains extremely difficult due to the current economic sluggishness. In order to triumph in the era of mega-competition, Mitsubishi Rayon has embarked upon a new three-year management plan, “US→21”, and is working to achieve its goals by increasing the power of the whole Mitsubishi Rayon Group.

#### Business Results

Faced with a domestic economy in recession and confusion, the Company redoubled its efforts to boost competitiveness and to increase efficiency as quickly and thoroughly as possible, in the final year of its three-year management plan, the “SS→21 Plan.” However, the operating circumstances remained extremely harsh, affected by continued falls in prices in both of our principal business areas, fibers and resins, and, especially in the second half of the term, by deflationary trends centered on East Asian economies and the high value of the yen.

Consequently, non-consolidated net sales for the term fell 6.4% to ¥232.3 billion (US\$1,927 million), and consolidated net sales decreased 10.5% to ¥310.5 billion (US\$2,576 million). Similarly, we unfortunately posted disappointing earnings. On a non-consolidated basis, operating income dropped 36.5% to ¥14.5 billion (US\$120 million), income before income taxes slumped 27.9% to ¥10.2 billion (US\$84 million), and net income went down 21.6% to ¥5.9 billion (US\$49 million). On a consolidated basis, operating income fell 35.7% to ¥19.5 billion (US\$162 million), income before income taxes and minority interests decreased 30.2% to ¥13.2 billion (US\$109 million), and net income dropped 24.8% to ¥7.2 billion (US\$60 million). I view this inability to reach our numerical targets as a serious matter, and have exhorted everyone at the Company to further increase their efforts to improve business results.

On a non-consolidated basis, total assets amounted

to ¥293.0 billion, the number of employees was 3,898, and interest-bearing debt amounted to ¥99.9 billion as of the end of the term (all figures exclude the effect of the merger with Nitto Chemical Industry Co., Ltd.), and we therefore basically met the numerical targets of the three-year management plan, launched in fiscal 1996. This streamlining of the business and strengthening of the financial standing will be a big boost in building a stronger Mitsubishi Rayon Group.

#### Main Policies Implemented During the Term

During the term, we concentrated the investment of management resources in areas where we excel and growth areas, and at the same time pushed ahead aggressively with the implementation of our global business strategies.

The main event of the term was the absorption of and merger with one of our subsidiaries, Nitto Chemical Industry Co., Ltd. in October 1998. Through this merger, the Company established an integrated organization for its core acrylic-related business, from the procurement of raw materials onward. Moreover, the ideal combination of Nitto Chemical's leading-edge technologies, in areas such as fine chemicals and biotechnology, with Mitsubishi Rayon's specialty technologies, presented us with new business opportunities.

Looking at business sectors individually, as part of our efforts to reorganize the acrylic fiber spinning business, aiming to reduce costs and increase sales by raising overseas production, we decided to greatly increase



production capacity at P.T. Vonex Indonesia, our principal overseas manufacturing base, and at Yarn Ventures Resources, Inc., our affiliate in the Philippines.

In resins operations, in April 1999 production started at Thai MMA Co., Ltd., an MMA monomer manufacturing company established in Thailand as a new base to supply monomer to the Asian and world markets. This move, in conjunction with the start of production at Suzhou Sanyouli Chemicals Co., Ltd., a BMA manufacturing and sales company set up in China, in January 1999, bolstered our position as the top acrylic monomer and resin manufacturer in Asia.

In the specialty products sector, our carbon fiber and advanced composite materials business expanded steadily, underpinned by growth in worldwide demand. In June 1998, as scheduled, we brought on stream a carbon fiber calcination facility at the Toyohashi Production Center. At the same time, we acquired stakes in Structil S.A., a French carbon fiber manufacturer, and Dynetek Industries Ltd., a Canadian producer of carbon fiber tanks for natural gas vehicles, thereby further expanding

our stable supply sources of carbon fiber in the world market.

In addition to these initiatives to strengthen core businesses, in December 1998 we established MRC Holdings (America), Inc. in New York, a holding company for the Company's five wholly-owned American subsidiaries, with the aim of increasing operational efficiency in the U.S.

Turning to our efforts to deal with the Year 2000 (Y2K) computer problem, we have completed the main examinations of the impact of this problem and the correction of data. Currently, we are conducting operational tests and verification at head office and each office. We anticipate that a total of ¥600 million will be needed to deal with this issue.

### **Looking Ahead to the Next Decade Under the New Three-Year Management Plan "US→21"**

The Company has embarked on a new three-year management plan which sets out our vision of what the Mitsubishi Rayon Group should look like in ten years' time and the strategies necessary to get us there.

We have a vision of ourselves as a "unique specialty" enterprise (a "US" enterprise) in which the Group as a whole, as well as each individual business, possesses originality and high earning power, and we aim to create a Mitsubishi Rayon Group with a global presence. As a numerical target, we are determined to achieve consolidated net sales in ten years of ¥450 billion. The first step is "US→21," and in order to build the foundation for the realization of this business scenario, we must swiftly produce good results from the merger with Nitto Chemical.

#### **• Achieving Good Results from the Merger**

As described above, the merger with Nitto Chemical is important for the future growth of Mitsubishi Rayon, and we are determined to produce swift and meaningful results from the merger, from the perspectives of both efficiency and growth. In practical terms, in addition to consolidating overlapping operations and integrating

organizations, within three years we will establish business operations in biotechnology and fine chemicals, including pharmaceutical intermediates, through close cooperation with Mitsubishi Rayon's existing technology divisions.

• **Measures for strengthening business structure**

Based on the scenario that the current harsh situation, characterized by deflationary tendencies and a gap between supply and demand, will continue until 2000, our policy for strengthening our business structure is to thoroughly reduce cost with stress on self-reliance. During the three years of the plan, on a company-wide basis, we intend to reduce processing costs at plants by 10% (¥5 billion), to increase operational and personnel efficiency by 10% (¥2 billion), and to cut logistics expenses by 10% (¥1.5 billion).

Our policy for management resources is to "select and concentrate." We will concentrate investment in the areas where we excel, which are the acrylic fiber and resins related and innovative basic materials fields; the high-performance materials field with acrylic fibers and resins at its core; and downstream fields where we can fully utilize the strengths and characteristics of our main businesses.

We intend to further strengthen consolidated management. For each affiliate, we will conduct performance evaluations based on the consolidated accounts and clarify responsibility, selecting those which can be profitable and pushing ahead with the consolidation, closing down, and merger of unprofitable subsidiaries. We will work to develop superior subsidiaries with the potential of being listed on the stock exchange at any time.

We will clarify issues and directions for each business in accordance with the plan, and urge everyone in the Company and each company in the group to "overcome the harsh environment with a spirit of challenge and creative thinking." Pursuing these policies, we will devote ourselves to achieving consolidated net sales of ¥350 billion by the end of fiscal 2001.

**Efforts to Deal with Environmental Issues**

Mitsubishi Rayon has made tackling environmental issues one of the main pillars of its management, and has established a Safety, Environment, and Quality Committee through which it is actively endeavoring to deal with these issues. Within the next two fiscal years, we intend to obtain ISO 14001 certification, the international standard for environmental management systems, for all our production centers. Our basic approach is not just to "protect" the environment against pollution, but to "minimize" emissions of waste, the cause of pollution, through, for example, innovation in production technology.

Although the harsh business climate is expected to continue, the Mitsubishi Rayon Group, as a global enterprise which responds swiftly to change and has a robust corporate structure capable of triumphing under any conditions, aims to further boost growth and earnings capabilities. We ask for your continued understanding and support.

Respectfully,



Eiichi Taguchi  
*President*

June 1999

# STATUS OF READINESS FOR THE YEAR 2000 PROBLEM

## 1. Y2K Compliance Activities

### • Policy

The Mitsubishi Rayon Group considers the Year 2000 (Y2K) problem to be a major management issue. In order to ensure continued smooth business activities, we are working to ensure compliance, including at raw material suppliers and processing contractors, etc., with proper response to customer needs as the most important issue.

### • Organization

For main information systems, OA and other information systems, and production facilities, in July 1997 we clarified responsibilities in the respective departments and have been working to implement response measures on a company-wide basis. In January 1999, we established a Y2K Compliance Committee, with the director responsible for administration as its chairman and the director responsible for technology as vice-chairman. This committee promotes and manages the Company's overall Y2K compliance activities. At the same time, each operating division is taking the lead in boosting our customer oriented compliance efforts.

### • Progress of Y2K Compliance Activities

For main information systems, we expanded all dates to four digits at the time of reconstructing these systems, and conducted verification tests in May 1999, thus confirming that there were no problems. For OA and other information systems, we intend to complete verification by the end of September 1999.

For the various types of equipment at production facilities, etc., we are working to complete Y2K countermeasures by the end of September 1999, and will conduct verification tests that take advantage of regular service times.

For raw material suppliers, processing contractors, warehouse contractors, building equipment, etc., we conducted a survey to ascertain the status of Y2K compliance in March 1999. For our principal business partners, we will continue to check on their compliance status.

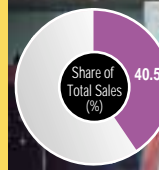
## 2. Expenditure, etc.

Y2K expenditure for the upgrading and repair of production facilities and the improvement of information systems was accounted for in the capital expenditure plan for the whole Company. We estimate that approximately ¥600 million will be required for work related to information systems, and approximately ¥400 million of this had already been spent prior to the current term.

Moreover, to cope with expected situations associated with the switchover to the year 2000, we intend to make investigations and conduct simulations based on our contingency plan.

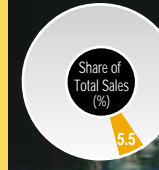
## 3. Contingency Plan

In preparation for a variety of expected situations associated with the switchover to the year 2000, in June 1999 we completed the basic framework of a contingency plan. The contingency plan encompasses individual measures for each operating division and each area of responsibility, and company-wide efforts will be integrated and coordinated by the Y2K Compliance Committee.



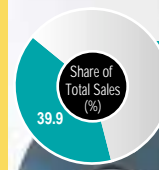
## MAN-MADE FIBERS

- Acrylic Fibers (Filaments, Staples)
- Acetate Fibers (Filaments, Tows)
- Polyester Filaments
- Polypropylene Filaments
- Suede-Type Fabrics



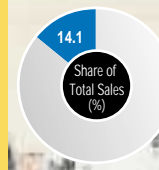
## CHEMICALS

- Organic Chemicals (Fiber and Resin Raw Materials, Agrochemical, Pharmaceutical, and Rubber Chemical Raw Materials, Paper Strengthening Agent and Flocculant Raw Materials)
- Inorganic Chemicals (Dry Ice, Liquid Carbon Dioxide, Sulfuric Acid and Ammonia)
- Catalysts (Acrylonitrile Catalyst, Methylamine Catalyst)
- Functional Materials for Electronics (Organic Conductive Materials, Molding Compound for Semiconductors and Reagents)
- Fertilizers (Ammonium Sulfate and Urea)
- High-Performance Chemicals (Soil Stabilizers, Self-Leveling Materials, Concrete Reforming Materials and Anti-Corrosion Agent)



## RESINS AND PLASTICS

- Methyl Methacrylate Resins (Monomers, Molding Materials, Sheets, Films)
- ABS Resins (Molding Materials)
- PBT Resins (Molding Materials)
- PET Resins (Molding Materials)
- Engineering Plastics and Alloys (Molding Materials)
- Polycarbonate Sheets
- MBS Resins (Plastics Modifiers)
- Coating Resins (For Paints, Recording Materials, Printing, Adhesive and Construction Uses)
- Aerospace Parts



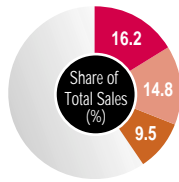
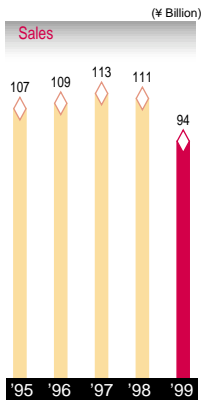
## SPECIALTY PRODUCTS

- Carbon Fibers (Tows, Woven Fabrics, Prepregs, CFRTP, etc.)
- Composite Materials (For Sports and Industrial Uses)
- Plastic Optical Fibers
- Image Display Materials
- Water Purifiers (For Home, Commercial and Portable Uses)
- Cartridge Filters (For Industrial, Power Plant and Medical Uses)
- Printed Circuit Boards

# REVIEW OF OPERATIONS

## MAN-MADE FIBERS

Sales of man-made fibers were ¥94,131 million, a decrease of ¥17,536 million, or 15.7%, from the previous term, and accounted for 40.5% of total sales, down 4.4 percentage points. Exports of man-made fibers were ¥39,626 million, a decrease of ¥4,439 million, or 10.0%, from the previous term, and the ratio of exports to division sales was 42.0%, up 2.6 percentage points.



- Acrylic Fibers
- Acetate Fibers
- Polyester Filaments and Other Fibers

## Acrylic Fibers

In April 1998, we boosted production capacity for acrylic staples, and during the first half maintained a high rate of operation. However, during the second half we reduced production because of a drop in demand. Domestic demand in the apparel and home furnishings markets fell drastically, due to the effects of sluggishness in consumer spending and housing investment. Nevertheless, thanks to increased sales of special materials, such as our anti-microbial/odor-preventing fiber, we were able to increase our market share. As for exports, because of a convergence of negative factors, such as falls in demand in Asian countries, including China, a shortage of foreign currency in Iran, and a dumping suit regarding Indian goods in the U.S., there was an unavoidable decrease in export volume in the second half. There were also large falls in export prices, due to a drop in the price of polyester staples and a price-cutting offensive from Asian manufacturers against the background of weak local currencies. Moreover, domestic and export sales of acrylic filaments remained low.

## Acetate Fibers

With still no sign of a recovery in consumer demand for clothing, domestic sales of acetate filaments fell, particularly in the women's clothing sector. Although exports of diacetate filaments remained sluggish due to turmoil in the Korean economy, we were able to maintain exports of triacetate filaments, especially for the U.S. textiles market, at the same level as the previous period. Due to our efforts to develop new markets, the export volume of acetate tow for cigarette filters increased significantly.



"MITSUBISHI PYLEN" filament is used for interior decoration and automobile interiors. It is attracting attention as a recyclable material that is kind to the environment.

## CHEMICALS

Sales of chemicals were ¥12,694 million, accounting for 5.5% of total sales. Exports of chemicals were ¥1,473 million, and the ratio of exports to division sales was 11.6%.

### Polyester Filaments and Other Fibers

Despite a worldwide imbalance between supply and demand for polyester filaments, textile exports to Europe and the U.S. were comparatively stable. Domestic demand for woven products remained unprecedentedly weak, and we were forced to further reduce production. Sales of polypropylene filaments generally grew smoothly, centered on their use in carpets, where there was a shift to environmentally-friendly materials.



Diacetate "CAROLAN" tow commands a 50% share of the domestic market for cigarette filters.



■ Chemicals



Methylamine and dimethylformamide are used as materials for agrochemicals and in a wide variety of other sectors.

### Chemicals

Domestic sales of organic chemicals, including dimethylformamide and methylamine for agrochemical and synthetic leather applications, were firm. However, exports fell overall, due in part to lower prices resulting from increased competition. Sales of acrylamide for use as a paper reinforcing agent were low due to sluggishness in the paper and pulp industry, as were domestic sales of chelating agents for all applications. Shipments of acrylonitrile were down because of stagnant demand and a large drop in prices resulting from softness in international markets.

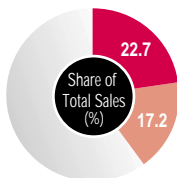
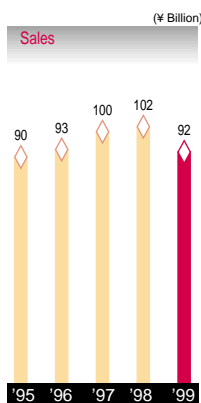
### Specialty Materials & Inorganic Chemicals

In inorganic chemicals, shipments of carbonic acid for its main use in frozen products delivery were sluggish. In specialty chemicals, sales in the main category of soil stabilizing agents remained low, due to a continuing decline in the number of large civil engineering projects.

## REVIEW OF OPERATIONS

### RESINS AND PLASTICS

Sales of resins and plastics were ¥92,753 million, a decrease of ¥9,492 million, or 9.2%, from the previous term, and accounted for 39.9% of total sales, down 1.3 percentage points. Exports of resins and plastics were ¥22,821 million, a decrease of ¥1,854 million, or 7.5%, from the previous term, and the ratio of exports to division sales was 24.6%, up 0.5 of a percentage point.



■ Acrylic Resins  
■ Specialty Resins and Chemicals

#### Acrylic Resins & Plastics

Falls in sales volumes and soft prices continued for monomers, molding materials, and acrylic sheets due to continued sluggishness in the main markets, including the automobile and housing industries. Although the export volume of monomers grew, the volumes of molding materials and acrylic sheets failed to rise, and there were large price falls for these products because of economic turmoil in Southeast Asia, the principal market.

Faced with such business conditions, we boosted our



“DIABEAM” UV coating material, which hardens on exposure to ultraviolet rays, is finding growing applications in such areas as optical disks.

business development capabilities, which included expanding sales of high-value added products, such as impact-resistant acrylic resins and acrylic resins for light conductors, and increasing exports to Europe

and the U.S. At the same time, we increased production capacity at domestic monomer plants and established new monomer plants in Thailand and China, thereby forging ahead with the creation of a base for further business growth.



Developed with a focus on high-value-added content, “DIAPET” is used in a range of electrical appliances.

#### Specialty Resins & Plastics

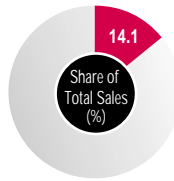
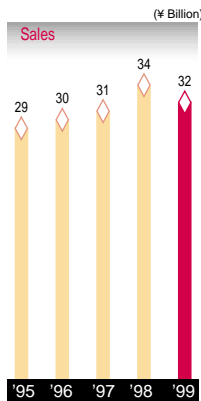
Overall domestic sales reached the same level as the previous year due to expansion in high performance products such as PET resins for use in shrink-wrap film and PBT resins for automobile lamps. In ABS and MBS resins, although we strove to create a wide range of new high-value-added products, including weather-resistant ABS resins and MBS additives for use in non-vinyl chloride, slumps in demand in the main markets of housing materials, automobiles, electrical equipment, and information equipment led to falls in sales volumes and prices. Exports also decreased, principally affected by a disruption in the balance between supply and demand resulting from lower demand in Asian markets.

#### Specialty Chemicals

Although we were able to create new applications for coating materials, including polyester resins for use in toner, resins for use as electronics materials, and ultra-weather-resistant UV paint, there was a large drop in domestic sales due to a sluggish paint market, centered on use for automobiles. However, exports increased, supported by expanded sales of, for example, beads resin for paint use.

## SPECIALTY PRODUCTS

Sales of specialty products were ¥32,805 million, a decrease of ¥1,748 million, or 5.0%, from the previous term, and accounted for 14.1% of total sales, up 0.2 of a percentage point. Exports of specialty products were ¥7,616 million, an increase of ¥904 million, or 13.4%, from the previous term, and the ratio of exports to division sales was 23.2%, up 3.8 percentage points.



■ Specialty Products



Our new "Cleansui PixiePRO" high-powered water purifier has a cartridge with greatly improved ability to filter out trihalomethane.

### Carbon Fiber & Advanced Composite Materials

In carbon fibers, operations at a new calcination plant began smoothly, and we took aggressive measures to boost sales and develop new applications, while pushing ahead with the development and marketing of new products such as processed products, golf shafts, and processed industrial products. However, in addition to the successive start up of additional facilities by our competitors, growth stalled in the principal markets of golf equipment and civil aviation. Consequently, the gap between supply and demand became more conspicuous in the second half, and business conditions became extremely harsh. As a result, despite higher export volume, depressed domestic economic conditions led to lower sales.

"RODSCOPE," an aspheric surface lens, is used in key components of imaging and reproduction devices contained in such document reading equipment as fax machines, scanners, and printers.



### Information Materials

In spite of sluggishness in the semiconductor sector, domestic sales of optical devices, such as plastic optical fibers, grew for facsimile and scanner applications. Exports also increased, underpinned by stable demand for in-car applications and fiber lighting in Europe and the U.S. However, conditions worsened for image display products and printed circuit boards.

### Water Purifier & Membrane

In order to maintain our position as a top manufacturer of household water purifiers, we boosted product management of "CLEANSUI" and actively developed and launched new products which incorporate advanced and complex features. In order to respond to increased demand for membrane-type waste water treatment systems for industry and the home, we vigorously developed new domestic and overseas markets and new applications. As a result, sales in this business category grew steadily.

## NEWS OF THE YEAR

### **Two New Methacrylate Manufacturing Facilities in East Asia come on stream — Thai MMA Co., Ltd. and Suzhou Sanyouli Chemicals Co., Ltd.**

Methacrylate monomers are raw materials for acrylic resins, which are used in coatings, automobile parts and other applications. Mitsubishi Rayon is developing globally its methacrylate related business toward a top notch player in the industry, and recently began commercial operations at joint-venture production companies both



Thai MMA Co., Ltd.'s manufacturing plant

in Thailand and China.

Thai MMA Co., Ltd. is an MMA (methyl methacrylate) monomer manufacturing company established in January 1997 as a joint venture with Cementhai Chemical Co., Ltd.

In April 1999, it started commercial operation with an annual capacity of 55,000 tons. It is expected to serve not only Southeast Asian countries but also the western hemisphere where demand continues to grow rapidly.

Suzhou Sanyouli Chemicals Co., Ltd., first foothold of Mitsubishi Rayon's acrylic business in China, was established in December 1996 as a joint venture with Suzhuo Anli Chemical Co., Ltd., subsidiary of Jilin Chemical Industry Co. With an annual production capacity of 5,000 tons, Suzhou Sanyouli began production of BMA (butyl methacrylate), one of important specialty methacrylates, in January 1999. This material is used as a raw material for high-end coatings in the automobile, household electric appliance, and construction sectors, and demand is expected to grow in the Chinese domestic market and Southeast Asia.

### **Capital Participation in Structil S.A. and Dynetek Industries Ltd. in order to Ensure a Stable Supply of Carbon Fiber**

To respond to worldwide needs in the area of carbon fiber, Mitsubishi Rayon has created a manufacturing system based around its plants in Japan and the U.S., which is currently the world's third largest. In June 1998 we acquired

stakes in two companies with potential for future growth to act as stable supply sources of carbon fiber, and are furthering our business links with these enterprises.

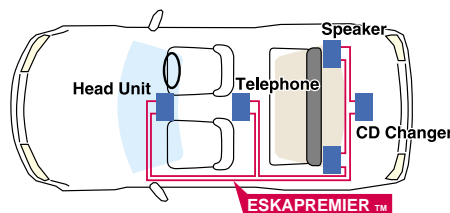
Structil S.A. is a French manufacturer of composite structural materials and was a wholly-owned subsidiary of Groupe SNPE, a chemical business owned by the French government. Mitsubishi Rayon has acquired a 20% stake in this company from SNPE. Structil's main business is the manufacture and sale of adhesives, pultruded carbon fiber products, and prepregs. The main applications of these products are in the sports, industrial materials, and aerospace sectors.

Dynetek, which is located in Canada, designs, manufactures, and sells tanks for compressed natural gas (CNG), and Mitsubishi Rayon acquired a 15% stake in this company (subsequently selling on 5% to Mitsubishi Corporation). With increasing concern about global environmental issues, many automobile manufacturers are looking towards natural gas as an environmentally-friendly fuel, and demand for the tanks produced by Dynetek is expected to grow significantly.

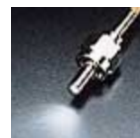
### **New In-car Application for Plastic Optical Fiber — "ESKAPREMIER" Polyamide Cable**

With the introduction of a variety of digital equipment that increases driver comfort, such as car navigation systems, mobile phones, and audio devices, Mitsubishi Rayon's plastic optical fiber is now being used as a data transmission medium for automobile network systems. "ESKAPREMIER" polyamide jacketed cable is a high-grade optical fiber produced by bringing together the Company's resin manufacturing, spinning and mold processing technologies.

In addition to a high transmission capacity, this fiber has superior processability, electromagnetic compatibility and extremely light weight, thus it has attracted a great deal of attention as a next generation medium for in-car communication.



Automobile network system



"ESKAPREMIER" polyamide cable

# OUR SAFETY AND ENVIRONMENTAL ACTIVITIES

## Basic Policies on Safety, the Environment, and Quality

In line with their business philosophy, Mitsubishi Rayon and the Mitsubishi Rayon Group have the following basic policies on safety, the environment, and quality.

- The top priority shall be placed on safety and the environment among all business activities, as these are the essentials for corporate existence.
- Any products supplied by us shall be satisfactory, secure, the reliable to customers.

To implement the basic policies on safety, the environment, and quality, the Company has established a Safety, Environment, and Quality Committee, chaired by the president, an organ which establishes policy for the whole Company. In addition to the members of the Management Council, this committee is comprised of the group general managers of each operating division, the general managers of production centers, and other key personnel. As well as deciding on policy, the committee receives reports from each division, and checks the status of policy implementation through inspections and supervision. In a word, the committee serves as the PDCA (Plan-Do-Check-Action) nucleus for safety, the environment, and quality assurance in the whole Company.

Mitsubishi Rayon has placed a system of operating divisions at the core of its business. Each operating division and plant is responsible for ensuring implementation of the company-wide policies determined by the Safety, Environment, and Quality Committee on

an autonomous basis. The goal of these activities is to prevent all types of accidents and pollution.

Mitsubishi Rayon has participated in Responsible Care (RC) activities since April 1995, the time of the inauguration of the Japan Responsible Care Council. The Company aims to reduce the burden it places on the environment, maintain safety in the workplace, and ensure product safety in all its business operations.

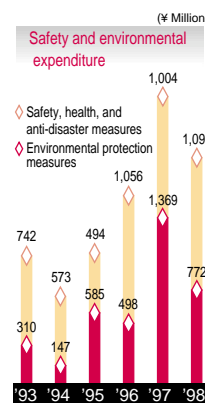
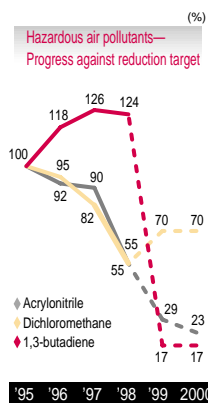
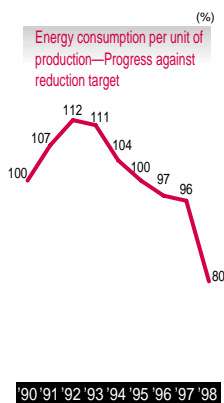


The RC Declaration

## Dianal America, Inc. passes the 430,000-operating hour mark without an accident

At the end of 1998, Dianal America, Inc. (DAI), the Company's consolidated affiliate, passed the 430,000-hour mark of accident-free operations in its seventh year of business. DAI was awarded the "1998 Outstanding Safety Record Award" by the Texas Safety Association, the local branch of the National Safety Council, a non-profit organization which promotes safety and conducts safety education. Three managers from DAI, the personnel safety manager Mr. Herrington, the mechanical maintenance manager, and the production manager, attended the presentation ceremony, and received a standing ovation on receipt of the award.

Everyone at DAI is taking the opportunity presented by the receipt of this award to work toward extending the long run of accident free operations.



## Environmental Management Topics in Fiscal 1998

1. To work towards obtaining ISO 14001 certification in fiscal 1999. Through these activities, to significantly raise employee awareness of environmental preservation.
2. To establish medium-range numerical targets for reducing energy consumption and waste materials which contribute to the promotion of global warming countermeasures, etc.
3. To thoroughly pursue environmental preservation as a major management issue and invest approximately 13% of total capital expenditure in environmental preservation measures.
4. To further reduce emissions of the air pollutant acrylonitrile from the current 50% of the 1995 base year's levels to 20% by 2000.

# BOARD OF DIRECTORS AND CORPORATE AUDITORS



President  
Eiichi Taguchi



Senior Managing Director  
Tsunehiro Kawai



Senior Managing Director  
Shigeki Yamaguchi



Senior Managing Director  
Yoshiyuki Sumeragi



Managing Director  
Koji Mimura



Managing Director  
Hideaki Kawata



Managing Director  
Yahide Kotake



Managing Director  
Isao Yamamoto



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✱✱✱□✱✱▼□□

**President**  
Eiichi Taguchi

**Senior Managing Directors**  
Tsunehiro Kawai  
Shigeki Yamaguchi  
Yoshiyuki Sumeragi

**Managing Directors**  
Koji Mimura  
Hideaki Kawata  
Yahide Kotake  
Isao Yamamoto  
Toshio Koike

**Directors**  
Hideharu Abe  
Masanao Kanbara  
Tomonobu Kokubu  
Isao Sasaki  
Yoji Tanaka  
Yuzo Aoyama  
Toru Ii  
Katsuyoshi Fukuroya

**Corporate Auditors**  
Yoshizo Shimizu  
Yoshiaki Kobayashi  
Masaaki Aoki  
Takashi Masaki

(As of June 29, 1999)

Mitsubishi Rayon Company, Limited

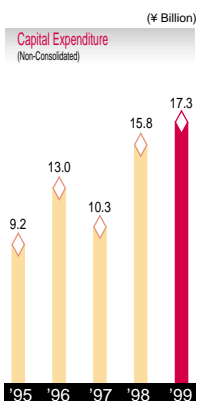
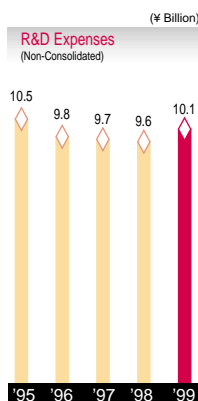
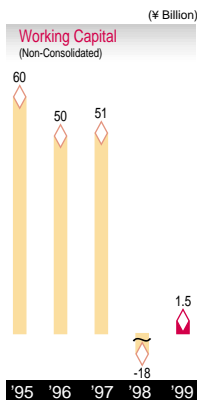
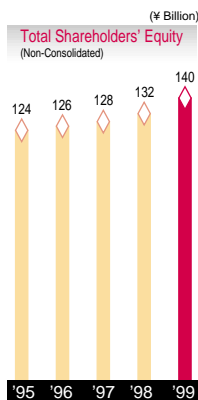
## FIVE-YEAR SUMMARY

Years ended March 31

NON-CONSOLIDATED BASIS	Millions of yen (except per share)				
	1999	1998	1997	1996	1995
Net sales	<b>¥232,385</b>	¥248,466	¥246,278	¥233,548	¥226,798
Operating income	<b>14,524</b>	22,877	18,701	11,336	7,250
Income before income taxes	<b>10,230</b>	14,197	14,330	7,610	1,619
Net income	<b>5,950</b>	7,592	6,624	3,413	1,055
Total assets	<b>317,871</b>	312,080	321,251	323,485	333,980
Shareholders' equity	<b>140,475</b>	132,814	128,722	126,804	124,959
Common stock	<b>53,229</b>	51,926	51,926	51,926	51,926
Amounts per share (yen):					
Net income — basic	<b>¥ 9.34</b>	¥ 12.10	¥ 10.55	¥ 5.43	¥ 1.68
diluted	<b>9.33</b>	11.86	10.39	—	—
Cash dividends	<b>6.00</b>	6.00	5.00	5.00	2.50
Shareholders' equity	<b>218.47</b>	211.68	205.16	202.10	199.16

CONSOLIDATED BASIS	Millions of yen (except per share)				
	1999	1998	1997	1996	1995
Net sales	<b>¥310,556</b>	¥347,282	¥349,116	¥331,782	¥323,121
Operating income	<b>19,595</b>	30,477	24,891	16,103	10,400
Income before income taxes and minority interest	<b>13,205</b>	18,378	17,724	9,803	3,411
Net income	<b>7,268</b>	9,677	8,207	4,157	1,786
Total assets	<b>378,990</b>	402,074	411,955	419,054	430,904
Shareholders' equity	<b>147,315</b>	138,348	132,145	128,572	126,318
Common stock	<b>53,229</b>	51,926	51,926	51,926	51,926
Amounts per share (yen):					
Net income — basic	<b>¥ 11.41</b>	¥ 15.42	¥ 13.08	¥ 6.62	¥ 2.84
diluted	<b>11.29</b>	15.01	12.76	—	—
Cash dividends	<b>6.00</b>	6.00	5.00	5.00	2.50
Shareholders' equity	<b>229.11</b>	220.50	210.61	204.92	201.32

## FINANCIAL REVIEW (NON-CONSOLIDATED)



## Operating Results

During the term, net sales fell 6.4% to ¥232,385 million. Net income declined 21.6% to ¥5,950 million.

These decreases were mainly the result of continued decline in product prices both in our mainstay man-made fiber and resin and plastic businesses amid the worldwide deflation, which resulted in deteriorations of market conditions and the balance between supply and demand.

Looking at sales by product category, sales of man-made fibers fell 15.7%, while resins and plastics and specialty products decreased 9.2% and 5.0% respectively.

Sales of chemicals transferred under the merger came to ¥12,694 million.

Exports fell 5.1% to ¥71,537 million. The ratio of exports to total sales increased 0.4 of a percentage point to 30.7%.

The ratio of cost of sales to net sales rose 0.8 of a percentage point to 75.2%. Selling, general and administrative expenses increased 6.3%. As a result, operating income fell 36.5% to ¥14,524 million.

In other income and expenses, although interest and dividend income fell 0.5%, interest expense rose 12.2%.

The effective tax rate fell from 51.0% to 47.2%.

As a result, net income totaled ¥5,950 million.

## Financial Position

Total assets increased 1.8% to ¥317,871 million. Current assets decreased by 6.1% to ¥124,369 million. Property, plant and equipment increased by 13.8% to ¥433,851 million.

Current liabilities fell 18.5% to ¥122,835 million.

Shareholders' equity increased by 5.7% to ¥140,475 million.

## Cash Flows

Net cash provided by operating activities totaled ¥23,279 million. This amount included net income of ¥5,950 million, and depreciation and amortization of ¥15,061 million. Additions to property, plant and equipment amounted to ¥17,341 million, which was mainly accounted for rationalization of production facilities.

Net cash used in investing activities totaled ¥14,345 million. Net cash used in financing activities amounted to ¥9,226 million.

During the term under review, we issued ¥30,000 million in straight bonds.

As a result, term-end net cash increased by ¥2,139 million to ¥4,667 million.

## Research and Development Expenses

Due to the expanded scale of its business and the synergistic effects produced by its merger with Nitto Chemical Industry Co., Ltd. in October 1998, the Company is conducting aggressive research and development in the fine chemicals field, which includes pharmaceutical intermediates, through the application of biotechnology, an area particularly strengthened through the merger, as well as in the chemicals and specialty materials fields. Furthermore, continuing on from the previous period, aiming to increase competitiveness in its fiber, resin, and specialty products businesses, the Company is working hard to innovate and achieve advances in production technology and to develop new products, centered on its R&D base of polymer chemistry and macromolecular design technology. We are also pushing ahead with active research and development in new business areas such as carbon fibers, information materials, and water purification equipment. As a result of these efforts, research and development expenses during the term under review totaled ¥10,174 million.

Mitsubishi Rayon Company, Limited

## NON-CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
<b>Net Sales</b> .....	<b>¥232,385</b>	¥248,466	<b>\$1,927,706</b>
<b>Cost of Sales</b> .....	<b>174,669</b>	184,980	<b>1,448,934</b>
Gross profit.....	<b>57,715</b>	63,485	<b>478,764</b>
<b>Selling, General and Administrative Expenses</b> (Note 12).....	<b>43,191</b>	40,608	<b>358,283</b>
Operating income.....	<b>14,524</b>	22,877	<b>120,481</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income.....	<b>1,493</b>	1,502	<b>12,385</b>
Interest expense .....	<b>(2,508)</b>	(2,234)	<b>(20,805)</b>
Other, net.....	<b>(3,279)</b>	(7,948)	<b>(27,200)</b>
	<b>(4,293)</b>	(8,680)	<b>(35,612)</b>
Income before income taxes.....	<b>10,230</b>	14,197	<b>84,861</b>
<b>Income Taxes</b> (Note 10).....	<b>4,280</b>	6,605	<b>35,504</b>
Net income.....	<b>¥ 5,950</b>	¥ 7,592	<b>\$ 49,357</b>
		Yen	U.S. dollars (Note 2)
<b>Amounts per Share:</b>			
Net income — basic.....	<b>¥9.34</b>	¥12.10	<b>\$0.077</b>
diluted .....	<b>9.33</b>	11.86	<b>0.077</b>
Cash dividends.....	<b>6.00</b>	6.00	<b>0.050</b>

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED BALANCE SHEETS

March 31, 1999 and 1998

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999 (Note 3)	1998	1999
<b>Current Assets:</b>			
Cash .....	¥ 4,667	¥ 2,528	\$ 38,714
Time deposits .....	5,400	5,200	44,795
Marketable securities (Note 4) .....	8,352	16,144	69,282
Trade receivables:			
Subsidiaries and affiliates .....	8,398	7,400	69,664
Notes .....	7,034	8,025	58,349
Accounts .....	49,479	48,699	410,444
	64,912	64,125	538,465
Less allowance for doubtful receivables .....	(339)	(417)	(2,812)
	64,573	63,708	535,653
Inventories (Note 5) .....	32,186	32,016	266,993
Other current assets (Note 6) .....	9,188	12,921	76,217
Total current assets .....	124,369	132,519	1,031,680
<b>Property, Plant and Equipment</b> (Notes 9 and 13): .....	433,851	381,023	3,598,930
Less accumulated depreciation (Note 9) .....	(316,417)	(279,882)	(2,624,778)
Property, plant and equipment, net .....	117,433	101,141	974,144
<b>Investments and Other Assets:</b>			
Investments in and advances to subsidiaries and affiliates (Note 4) .....	34,936	39,905	289,805
Investments in securities (Note 4) .....	38,263	35,405	317,404
Other assets .....	2,868	3,107	23,791
Total investments and other assets .....	76,068	78,418	631,008
Total assets .....	¥317,871	¥312,080	\$2,636,839

See accompanying notes to non-consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999 (Note 3)	1998	1999
<b>Current Liabilities:</b>			
Short-term bank loans (Note 7) .....	¥ 53,835	¥ 44,000	\$ 446,578
Current portion of long-term debt (Note 7) .....	9,647	38,920	80,025
Trade payables:			
Subsidiaries and affiliates .....	5,184	8,899	43,003
Notes .....	3,139	3,426	26,039
Accounts .....	23,372	22,534	193,878
	<u>31,697</u>	<u>34,860</u>	<u>262,937</u>
Other accounts payable — subsidiaries .....	5,200	7,374	43,136
Accrued expenses .....	3,683	2,941	30,552
Accrued income taxes (Note 10) .....	1,197	2,935	9,929
Other current liabilities .....	17,573	19,832	145,774
Total current liabilities .....	<u>122,835</u>	<u>150,863</u>	<u>1,018,955</u>
<b>Long-Term Liabilities:</b>			
Long-term debt (Notes 7 and 13) .....	44,275	19,209	367,275
Retirement allowances (Note 11) .....	8,822	7,966	73,181
Other long-term liabilities .....	1,462	1,226	12,128
Total long-term liabilities .....	<u>54,560</u>	<u>28,402</u>	<u>452,592</u>
<b>Shareholders' Equity:</b>			
Common stock, ¥50 par value:			
Authorized — 1,189,497,000 shares			
Issued:			
1999 — 642,993,820 shares .....	53,229	—	441,551
1998 — 627,422,658 shares .....	—	51,926	—
Capital surplus (Note 8) .....	42,741	41,484	354,550
Legal reserve (Note 8) .....	8,032	7,241	66,628
Retained earnings (Note 17) .....	36,472	32,162	302,547
Total shareholders' equity .....	<u>140,475</u>	<u>132,814</u>	<u>1,165,284</u>
<b>Contingent Liabilities (Note 14):</b>			
Total liabilities and shareholders' equity .....	<u>¥317,871</u>	<u>¥312,080</u>	<u>\$2,636,839</u>

## NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 1999 and 1998

	Number of shares of common stock	Millions of yen			
		Common stock	Capital surplus	Legal reserve	Retained earnings
<b>Balance at March 31, 1997</b> .....	627,422,658	¥51,926	¥41,484	¥6,890	¥28,421
Bonuses to directors .....	—	—	—	—	(50)
Cash dividends paid .....	—	—	—	—	(3,450)
Transfer to legal reserve .....	—	—	—	350	(350)
Net income .....	—	—	—	—	7,592
<b>Balance at March 31, 1998</b> .....	627,422,658	51,926	41,484	7,241	32,162
Increased due to merger .....	<b>26,074,162</b>	<b>1,303</b>	<b>4,486</b>	<b>409</b>	<b>2,555</b>
Retirement of common stock .....	<b>(10,503,000)</b>	—	<b>(3,229)</b>	—	—
Bonuses to directors .....	—	—	—	—	(50)
Cash dividends paid .....	—	—	—	—	(3,764)
Transfer to legal reserve .....	—	—	—	382	(382)
Net income .....	—	—	—	—	5,950
<b>Balance at March 31, 1999</b> .....	<b>642,993,820</b>	<b>¥53,229</b>	<b>¥42,741</b>	<b>¥8,032</b>	<b>¥36,472</b>

	Thousands of U.S. dollars (Note 2)			
	Common stock	Capital surplus	Legal reserve	Retained earnings
<b>Balance at March 31, 1998</b> .....	\$430,742	\$344,123	\$60,066	\$266,794
Increased due to merger .....	<b>10,809</b>	<b>37,213</b>	<b>3,393</b>	<b>21,195</b>
Retirement of common stock .....	—	<b>(26,786)</b>	—	—
Bonuses to directors .....	—	—	—	(415)
Cash dividends paid .....	—	—	—	(31,224)
Transfer to legal reserve .....	—	—	3,169	(3,169)
Net income .....	—	—	—	49,357
<b>Balance at March 31, 1999</b> .....	<b>\$441,551</b>	<b>\$354,550</b>	<b>\$66,628</b>	<b>\$302,547</b>

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
<b>Operating Activities:</b>			
Net income.....	¥ 5,950	¥ 7,592	\$ 49,357
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	15,061	13,874	124,936
Provision for doubtful receivables .....	1,238	2,908	10,270
Provision for retirement allowances .....	1,558	2,170	12,924
Retirement allowances paid .....	(1,615)	(2,042)	(13,397)
Loss on sales or disposal of property, plant and equipment .....	595	545	4,936
Loss on devaluation of marketable securities .....	12	632	100
Loss on devaluation of investments in securities .....	387	2,727	3,210
Other, net .....	(732)	106	(6,072)
Changes in operating assets and liabilities:			
Trade receivables .....	7,271	4,043	60,315
Inventories .....	3,157	(1,707)	26,188
Other current assets .....	3,389	1,115	28,113
Trade payables .....	(6,573)	(2,441)	(54,525)
Other accounts payable .....	(3,123)	(821)	(25,906)
Accrued expenses .....	340	175	2,820
Accrued income taxes .....	(1,756)	(2,857)	(14,567)
Other current liabilities .....	(1,882)	(948)	(15,612)
Net cash provided by operating activities .....	<u>23,279</u>	<u>25,072</u>	<u>193,107</u>
<b>Investing Activities:</b>			
(Increase) decrease in time deposits .....	(200)	12,850	(1,659)
Decrease (increase) in marketable securities .....	8,385	(3,884)	69,556
Additions to property, plant and equipment .....	(17,341)	(15,895)	(143,849)
Increase in investments in and advances to subsidiaries and affiliates .....	(1,756)	(5,457)	(14,567)
Increase in investments in securities .....	(2,889)	(486)	(23,965)
Other, net .....	(544)	(489)	(4,513)
Net cash used in investing activities .....	<u>(14,345)</u>	<u>(13,363)</u>	<u>(118,996)</u>
<b>Financing Activities:</b>			
Proceeds from long-term loans .....	3,000	3,000	24,886
Increase (decrease) in short-term bank loans .....	5,000	(7,300)	41,477
Repayment of long-term loans .....	(11,870)	(3,492)	(98,465)
Issuance of unsecured bonds .....	30,000	—	248,859
Redemption of convertible bonds .....	(28,369)	(1,894)	(235,330)
Retirement of common stock .....	(3,229)	—	(26,786)
Cash dividends paid and bonuses to directors .....	(3,814)	(3,500)	(31,638)
Other, net .....	55	(9)	456
Net cash used in financing activities .....	<u>(9,226)</u>	<u>(13,195)</u>	<u>(76,533)</u>
Decrease in cash .....	(293)	(1,487)	(2,431)
Cash at beginning of the year .....	2,528	4,016	20,971
Increase in cash by merger .....	2,432	—	20,174
Cash at end of the year .....	<u>¥ 4,667</u>	<u>¥ 2,528</u>	<u>\$ 38,714</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest .....	¥ 2,378	¥ 2,222	\$ 19,726
Income taxes .....	5,468	9,160	45,359

See accompanying notes to non-consolidated financial statements.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### Basis of presentation:

Mitsubishi Rayon Company, Limited (the "Company") maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted in Japan. The accompanying non-consolidated financial statements have been compiled from those prepared by the Company as required under the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan. Accordingly, the accompanying non-consolidated financial statements are not intended to present the non-consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The Company has prepared non-consolidated statements of cash flows for the purpose of inclusion in these non-consolidated financial statements, although such statements are not currently required in Japan.

As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying non-consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

#### Inventories:

Inventories are stated at cost determined by the average cost method.

#### Property, plant and equipment:

Property, plant and equipment is principally stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the assets, as prescribed by the Corporation Tax Law of Japan. Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income as incurred.

Effective April 1, 1998, the Company changed its accounting for depreciation method of buildings from the declining-balance method to the straight-line method. The effect of this change was to decrease depreciation by ¥564 million (\$4,679 thousand) and increase income before income taxes for the year ended March 31, 1999 by ¥514 million (\$4,264 thousand).

#### Marketable securities and investments in securities:

Marketable securities and investments in securities are stated at cost determined by the moving average cost method. Certain marketable securities are stated at market, if the market drops significantly below its carrying value and the decline in the market is judged to be other than temporary.

#### Investments in subsidiaries and affiliates:

Investments in subsidiaries and affiliates (companies owned 20% to 50%) are substantially stated at cost.

#### Income taxes:

Income taxes are calculated on taxable income and charged to income on an accrual basis. Deferred income taxes pertaining to timing differences between financial and tax reporting are not provided.

#### Retirement allowances and pension plans:

The Company's employees are covered by an unfunded employee retirement allowances plan and a funded contributory employee pension plan.

The employee retirement allowances plan provides for severance indemnities in the form of a lump-sum payment at the time of termination of employment. The amount of the lump-sum payment is based on the basic rate of pay at termination, years of service and certain other factors. The liability for retirement allowances is stated at 40% (the maximum amount allowable for income tax purposes) of the amount which would be required to be paid if all eligible employees terminated their employment voluntarily at the balance sheet date.

The employee pension plan provides for annuity payments (or lump-sum payments) to employees who terminate their employment with the Company upon mandatory retirement at the customary retirement age. Costs with respect to the plan are funded and accrued at an amount determined actuarially. Prior service cost is being funded over a period of approximately 11 years.

In addition, directors and statutory auditors are customarily entitled to lump-sum payments under an unfunded retirement allowances plan. Provision for retirement allowances for these officers is made at an estimated amount.

#### Leases:

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating leases or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

#### Amounts per share:

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common stock to be issued upon the conversion of convertible bonds.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

## 2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥120.55 = U.S.\$1, the approximate exchange rate as of March 31, 1999. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## 3. Merger of Nitto Chemical Industry Co., Ltd.

Effective October 1, 1998, Nitto Chemical Industry Co., Ltd. ("Nitto"), a subsidiary of the Company, was merged into the Company.

The following assets and liabilities of Nitto as of October 1, 1998 were acquired or assumed by the Company:

October 1, 1998	Millions of yen
<b>Assets</b>	
Current assets:	
Cash and time deposits .....	¥ 2,432
Marketable securities.....	606
Trade receivables:	
Notes .....	267
Accounts.....	10,235
	<u>10,502</u>
Less allowance for doubtful receivable .....	(38)
	10,464
Inventories .....	3,327
Other current assets .....	904
Total current assets .....	<u>17,736</u>
Property, plant and equipment, net of accumulated depreciation .....	16,480
Investments and other assets:	
Investments in subsidiaries .....	1,261
Other assets .....	1,674
Total investments and other assets .....	<u>2,936</u>
Total assets .....	<u>¥37,152</u>
<b>Liabilities</b>	
Current liabilities:	
Short-term bank loans.....	¥ 6,064
Trade payables:	
Notes .....	217
Accounts.....	6,766
	<u>6,983</u>
Other accounts payable .....	1,683
Accrued expenses .....	475
Other current liabilities.....	1,830
Total current liabilities .....	<u>17,037</u>
Long-term liabilities:	
Long-term debt .....	1,804
Retirement allowances .....	913
Other long-term liabilities.....	121
Total long-term liabilities .....	<u>2,838</u>
Total liabilities.....	<u>¥19,875</u>

## 4. Marketable and Investment Securities

The carrying amounts and related aggregate market values of current and noncurrent marketable securities included in marketable securities, and investments in and advances to subsidiaries and affiliates and investments in securities, respectively, at March 31, 1999 and 1998 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current:			
Carrying amounts .....	¥ 7,352	¥ 9,673	\$ 60,987
Aggregate market value .....	8,724	11,350	72,368
Net unrealized gains .....	<u>¥ 1,371</u>	<u>¥ 1,676</u>	<u>\$ 11,373</u>
Noncurrent:			
Carrying amounts .....	¥31,448	¥40,903	\$260,871
Aggregate market value .....	37,300	50,414	309,415
Net unrealized gains .....	<u>¥ 5,852</u>	<u>¥ 9,511</u>	<u>\$ 48,544</u>

## 5. Inventories

Inventories at March 31, 1999 and 1998 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Finished goods.....	¥24,726	¥22,963	\$205,110
Work in process.....	2,710	3,396	22,480
Raw materials and supplies .....	4,750	5,656	39,403
	<u>¥32,186</u>	<u>¥32,016</u>	<u>\$266,993</u>

## 6. Other Current Assets

Other current assets at March 31, 1999 and 1998 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Other accounts receivable:			
Subsidiaries and affiliates .....	¥1,675	¥ 3,714	\$13,895
Other.....	6,964	8,927	57,769
Other.....	547	278	4,538
	<u>¥9,188</u>	<u>¥12,921</u>	<u>\$76,217</u>

## 7. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans represent notes generally maturing within 365 days at an interest rate of 1.4% and 1.6% per annum at March 31, 1999 and 1998, respectively.

Long-term debt at March 31, 1999 and 1998 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
March 31,			
1.8% unsecured convertible bonds in yen due 2003.....	¥ 1,695	¥ 1,695	\$ 14,061
1.7% unsecured convertible bonds in yen due 1999.....	—	28,369	—
2.4% unsecured bonds in yen due 2005.....	10,000	—	82,953
2.025% unsecured bonds in yen due 2003.....	10,000	—	82,953
1.95% unsecured bonds in yen due 2004.....	10,000	—	82,953
Unsecured loans from banks and insurance companies.....	22,227	28,065	184,380
	53,922	58,129	447,300
Less current portion.....	(9,647)	(38,920)	(80,025)
	¥44,275	¥19,209	\$367,275

The convertible bonds, unless previously redeemed, are convertible into shares of common stock of the Company at the option of the holders at the following conversion prices:

	Conversion period	Conversion price per share
1.8% bonds.....	Up to March 28, 2003	¥597.10

If all the convertible bonds outstanding at March 31, 1999 had been converted into shares of common stock, 2,838,720 new shares would have been issuable.

Under the provisions of these bonds, the conversion prices of the convertible bonds are subject to adjustment in certain cases which include stock splits.

The aggregate annual maturities of long-term debt subsequent to March 31, 1999 are summarized as follows:

For the year ending March 31,	Millions of yen	Thousands of U.S. dollars
2000.....	¥ 9,647	\$ 80,025
2001.....	4,786	39,701
2002.....	3,110	25,798
2003.....	3,583	29,722
2004 and thereafter.....	32,796	272,053
	¥53,922	\$447,300

## 8. Legal Reserve and Capital Surplus

In accordance with the provisions of the Commercial Code of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Commercial Code provides that neither capital surplus, principally consisting of additional paid-in capital of the Company, nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital by resolution of the Board of Directors.

## 9. Depreciation

Depreciation charged to income for the years ended March 31, 1999 and 1998 was as follows:

Millions of yen		Thousands of U.S. dollars
1999	1998	1999
¥14,838	¥13,666	\$123,086

## 10. Income Taxes

Income taxes applicable to the Company comprised corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 47.2% in 1999 and 51% in 1998. The effective tax rates reflected in the accompanying non-consolidated statements of income differ from the statutory tax rate primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

## 11. Pension Fund

The assets of the pension fund of the Company at September 30, 1998, the most recent valuation date, amounted to ¥16,995 million (\$140,979 thousand), and separately the assets of the pension fund of Nitto at May 31, 1998, the most recent valuation date, amounted to ¥1,073 million (\$8,901 thousand).

## 12. Research and Development Expenses

Research and development expenses for the years ended March 31, 1999 and 1998 were as follows:

Millions of yen		Thousands of U.S. dollars
1999	1998	1999
¥10,174	¥9,699	\$84,397

## 13. Pledged Assets

The assets pledged as collateral for long-term loans of ¥2,343 million (\$19,436 thousand) at March 31, 1999 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value.....	¥11,530	\$95,645

## 14. Contingent Liabilities

The Company had the following contingent liabilities at March 31, 1999:

	Millions of yen	Thousands of U.S. dollars
As guarantor of bank loans of subsidiaries and affiliates.....	¥27,135	\$225,093
As guarantor of bank loans of others.....	2,058	17,072
	¥29,193	\$242,165

## 15. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 1999 and 1998 which would have been reflected as property, plant and equipment in the balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

March 31,	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Acquisition costs .....	<b>¥1,654</b>	¥1,010	<b>\$13,720</b>
Accumulated depreciation .....	<b>790</b>	536	<b>6,553</b>
Net book value .....	<b>¥ 863</b>	¥ 474	<b>\$ 7,159</b>

Pro forma depreciation portion of lease payments relating to finance lease transactions accounted for as operating leases for the years ended March 31, 1999 and 1998 amounted to ¥243 million (\$2,016 thousand) and ¥182 million, respectively, which were computed assuming the straight-line method over the respective lease terms of the leased assets.

Future minimum lease payments (including the interest portion) subsequent to March 31, 1999 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
2000 .....	¥264	\$2,190
2001 and thereafter .....	599	4,969
Total .....	<u>¥863</u>	<u>\$7,159</u>

## 16. Derivative Transactions

The Company has entered into foreign exchange contracts to reduce its exposure to adverse fluctuations in foreign exchange rates relating to receivables and payables denominated in foreign currencies.

In addition, the Company has entered into currency (coupon) and interest rate swap agreements to reduce its interest expense or its exposure to adverse fluctuations in foreign exchange rates and interest rates relating to loans payable.

Summarized below are the contract amounts and estimated fair value of the Company's financial instruments at March 31, 1999 and 1998.

March 31,	Millions of yen				Thousands of U.S. dollars	
	1999		1998		1999	
	Contract amount	Estimated fair value	Contract amount	Estimated fair value	Contract amount	Estimated fair value
Forward exchange contracts:						
To sell U.S. dollars .....	¥ —	¥ —	¥ 5	¥ 5	\$ —	\$ —
To buy U. S. dollars .....	<b>76</b>	<b>81</b>	19	20	<b>630</b>	<b>672</b>
To buy Deutsche Mark .....	<b>2</b>	<b>2</b>	—	—	<b>17</b>	<b>17</b>
Coupon swaps contracts:						
Receive-fixed, pay-variable .....	—	—	10,000	540	—	—
Receive-fixed, pay-fixed .....	—	—	5,000	1	—	—
Interest rate swaps:						
Receive-fixed, pay-variable .....	<b>2,000</b>	<b>221</b>	2,000	213	<b>16,591</b>	<b>1,833</b>
Receive-variable, pay-fixed .....	<b>31,000</b>	<b>(2,016)</b>	31,000	(1,949)	<b>257,155</b>	<b>(16,723)</b>

The contract amount of the interest rate swaps represents the notional principal amount of interest rate swap agreements at March 31, 1999 and 1998, which included the notional principal amounts of ¥23,000 million (\$190,792 thousand) and ¥33,000 million at March 31, 1999 and 1998, respectively, relating to swap positions whose terms extend more than one year subsequent to the balance sheet date.

The following methodologies and assumptions were used by the Company in estimating the fair value of its financial instruments:

Forward exchange contracts:

1999 and 1998: Forward rates for contracts with similar terms

Coupon and interest rate swaps:

1999 and 1998: Estimated fair value provided by financial institutions

The above contract amount of the forward exchange contracts excluded contracts entered into to hedge receivable and payable denominated in foreign currencies which have been translated and reflected at the corresponding contracted rates in the accompanying balance sheets.

## 17. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 1999, were approved at a shareholders' meeting held on June 29, 1999:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends—		
¥3.00 (\$0.025) per share .....	¥1,928	\$15,993
Transfer to legal reserve .....	197	1,634
Bonuses to directors .....	40	332
	<u>¥2,165</u>	<u>\$17,959</u>

## **INDEPENDENT AUDITORS' REPORT (NON-CONSOLIDATED)**



▪ Certified Public Accountants  
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The Board of Directors  
Mitsubishi Rayon Company, Limited

We have examined the non-consolidated balance sheets of Mitsubishi Rayon Company, Limited as of March 31, 1999 and 1998, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying non-consolidated financial statements, expressed in yen, present fairly the financial position of Mitsubishi Rayon Company, Limited at March 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 1999 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the non-consolidated financial statements.

June 29, 1999

*Showa Ota & Co.*

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
<b>Net Sales</b> (Note 7) .....	<b>¥310,556</b>	¥347,282	<b>\$2,576,159</b>
<b>Cost of Sales</b> (Note 7) .....	<b>229,855</b>	253,970	<b>1,906,719</b>
Gross profit .....	<b>80,700</b>	93,311	<b>669,432</b>
<b>Selling, General and Administrative Expenses</b> (Note 7) .....	<b>61,105</b>	62,850	<b>506,885</b>
Operating income (Note 7) .....	<b>19,595</b>	30,461	<b>162,547</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income .....	<b>928</b>	956	<b>7,698</b>
Interest expense .....	<b>(3,316)</b>	(3,080)	<b>(27,507)</b>
Equity in earnings at affiliates .....	<b>262</b>	573	<b>2,173</b>
Other, net .....	<b>(4,264)</b>	(9,974)	<b>(35,371)</b>
	<b>(6,390)</b>	(11,525)	<b>(53,007)</b>
Income before income taxes and minority interests .....	<b>13,205</b>	18,935	<b>109,540</b>
<b>Income Taxes</b> .....	<b>5,730</b>	9,004	<b>47,532</b>
Income before minority interests .....	<b>7,474</b>	9,931	<b>61,999</b>
<b>Minority Interests</b> .....	<b>(205)</b>	(253)	<b>(1,701)</b>
Net income .....	<b>7,268</b>	9,677	<b>60,290</b>
<b>Retained Earnings at Beginning of the Year</b> .....	<b>44,860</b>	38,656	<b>372,128</b>
Adjustments for inclusion of certain subsidiaries in consolidation .....	—	45	—
Adjustment for merger of Nitto .....	<b>2,974</b>	—	<b>24,670</b>
Cash dividends paid .....	<b>(3,764)</b>	(3,450)	<b>(31,224)</b>
Bonuses to directors .....	<b>(71)</b>	(69)	<b>(589)</b>
<b>Retained Earnings at End of the Year</b> .....	<b>¥ 51,267</b>	¥ 44,860	<b>\$ 425,276</b>
		Yen	U.S. dollars (Note 2)
<b>Amounts per Share:</b>			
Net income — basic .....	<b>¥11.41</b>	¥15.42	<b>\$0.095</b>
diluted .....	<b>11.29</b>	15.01	<b>0.094</b>
Cash dividends .....	<b>6.00</b>	6.00	<b>0.050</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

March 31, 1999 and 1998

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
<b>Current Assets:</b>			
Cash and time deposits.....	¥ 14,386	¥ 14,794	\$ 119,336
Marketable securities.....	9,160	20,170	75,985
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates.....	2,678	2,730	22,215
Trade .....	84,416	93,471	700,257
Less allowance for doubtful receivables .....	(785)	(925)	(6,512)
	86,309	95,277	715,960
Inventories .....	48,177	48,521	399,643
Other current assets .....	11,425	15,239	94,774
Total current assets .....	169,459	194,002	1,405,715
<b>Property, Plant and Equipment</b> (Note 3): .....	491,961	453,040	4,080,971
Less accumulated depreciation .....	(359,277)	(318,907)	(2,980,315)
Property, plant and equipment, net.....	132,684	134,133	1,100,655
<b>Investments and Other Assets:</b>			
Investments in and advances to unconsolidated subsidiaries and affiliates .....	18,245	21,460	151,348
Investments in securities.....	42,866	40,540	355,587
Other assets.....	11,274	8,522	93,521
Total investments and other assets .....	72,386	70,524	600,465
<b>Translation Adjustments</b> .....	4,459	3,413	36,989
Total assets (Note 7).....	¥378,990	¥402,074	\$3,143,841

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
<b>Current Liabilities:</b>			
Short-term bank loans .....	¥ 83,154	¥ 80,946	\$ 689,788
Current portion of long-term debt .....	—	28,369	—
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates .....	1,767	1,561	14,658
Trade .....	46,930	52,218	389,299
	48,698	53,780	403,965
Accrued expenses .....	4,904	4,255	40,680
Accrued income taxes .....	1,795	4,494	14,890
Other current liabilities .....	25,632	34,740	212,625
Total current liabilities .....	164,185	206,587	1,361,966
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 3) .....	50,328	30,775	417,487
Retirement allowances .....	10,731	11,069	89,017
Other long-term liabilities .....	3,498	3,465	29,017
Total long-term liabilities .....	64,559	45,310	535,537
<b>Minority Interests in Consolidated Subsidiaries</b> .....	2,930	11,828	24,305
<b>Shareholders' Equity:</b>			
Common stock, ¥50 par value:			
Authorized — 1,189,497,000 shares			
Issued:			
1999 — 642,993,820 shares .....	53,229	—	441,551
1998 — 627,422,658 shares .....	—	51,926	—
Capital surplus .....	42,820	41,563	355,205
Retained earnings (Note 4) .....	51,267	44,860	425,276
Less treasury common stock, at cost .....	(2)	(1)	(17)
Total shareholders' equity .....	147,315	138,348	1,222,024
<b>Contingent Liabilities (Note 5):</b>			
Total liabilities and stockholders' equity .....	¥378,990	¥402,074	\$3,143,841

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared on the basis of the generally same accounting policies as those discussed in Note 1 to the non-consolidated financial statements, except for the following policies.

#### Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates:

The accompanying consolidated financial statements include the accounts of Mitsubishi Rayon Company, Limited (the "Company") and its significant subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Investments in significant affiliates are stated at cost plus equity in undistributed earnings. Consolidated net income includes the Company's equity in the current net income of such companies, after elimination of unrealized intercompany profits.

Investments in unconsolidated subsidiaries and affiliates (companies owned 20% to 50%) not accounted for by the equity method are substantially carried at cost.

The differences between the cost and the underlying net equity of the investments at the dates of acquisition of the consolidated subsidiaries and companies accounted for by the equity method are amortized on a straight-line basis over a period of five years.

#### Foreign currency translation:

The revenue and expense accounts of the foreign consolidated subsidiaries are translated at the rates of exchange in effect at the balance sheet date, and, except for the components of shareholders' equity, the balance sheet accounts are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at the historical exchange rates. Translation differences are shown as translation adjustments in the accompanying consolidated financial statements.

### 2. U.S. Dollar Amounts

The method of translating yen amounts into U.S. dollar amounts is the same as that described in Note 2 to the non-consolidated financial statements.

### 3. Pledged Assets

The assets pledged as collateral for long-term loans of ¥6,402 million (\$53,107 thousand) at March 31, 1999 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value .....	¥15,247	\$126,479

### 4. Legal Reserve

The legal reserves of the Company and its domestic consolidated subsidiaries are included in retained earnings in the accompanying consolidated financial statements.

See Note 8 to the non-consolidated financial statements.

### 5. Contingent Liabilities

At March 31, 1999, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks .....	¥ 667	\$ 5,533
Guarantees of indebtedness of:		
Unconsolidated subsidiaries and affiliates .....	10,176	84,413
Others .....	2,096	17,387
	<u>¥12,940</u>	<u>\$107,341</u>

### 6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property as of March 31, 1999 which would have been reflected as property, plant and equipment in the balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen	Thousands of U.S. dollars
March 31,		
Acquisition costs .....	¥3,995	\$33,140
Accumulated depreciation .....	2,290	18,996
Net book value .....	<u>¥1,705</u>	<u>\$14,144</u>

Pro forma depreciation portion of lease payments relating to finance lease transactions accounted for as operating leases for the years ended March 31, 1999 and 1998 amounted to ¥723 million (\$5,998 thousand) and ¥701 million, respectively, which were computed assuming the straight-line method over the respective lease terms of the leased assets.

Future minimum lease payments (including the interest portion) subsequent to March 31, 1999 for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
2000 .....	¥ 615	\$ 5,102
2001 and thereafter .....	1,089	9,034
Total .....	<u>¥1,705</u>	<u>\$14,144</u>

## 7. Segment Information

The Company and its consolidated subsidiaries are primarily engaged, mainly in Japan, in the manufacture and sale of products in three major segments: the man-made fibers segment which includes acrylic fiber, acetate fiber, polyester filaments and carpet, the plastics and chemicals segment which includes methyl methacrylate resins, ABS resins, and high performance chemicals, and the specialty products and other segment which includes carbon fiber and composite materials, optical fibers, membranes, medical products, engineering and data processing.

As net sales and total assets in Japan constituted more than 90% of the consolidated totals for the years ended March 31, 1998, the disclosure of geographical segment information was omitted.

The business segment information for the Company and its consolidated subsidiaries for the years ended March 31, 1999 and 1998 is summarized as follows:

Year ended March 31, 1999	Millions of yen					Consolidated
	Man-made fibers	Plastics and chemicals	Specialty products and other	Total	Eliminations or corporate	
<b>I. Sales and operating income</b>						
Sales to third parties .....	<b>¥108,842</b>	<b>¥129,616</b>	<b>¥72,097</b>	<b>¥310,556</b>	<b>¥ —</b>	<b>¥310,556</b>
Intergroup sales and transfers .....	<b>259</b>	<b>11,148</b>	<b>25,483</b>	<b>36,892</b>	<b>(36,892)</b>	<b>—</b>
Total sales .....	<b>109,102</b>	<b>140,765</b>	<b>97,581</b>	<b>347,448</b>	<b>(36,892)</b>	<b>310,556</b>
Operating expenses .....	<b>104,438</b>	<b>131,120</b>	<b>92,610</b>	<b>328,169</b>	<b>(37,208)</b>	<b>290,961</b>
Operating income .....	<b>¥ 4,663</b>	<b>¥ 9,644</b>	<b>¥ 4,970</b>	<b>¥ 19,279</b>	<b>¥ 316</b>	<b>¥ 19,595</b>
<b>II. Assets, depreciation and capital expenditures</b>						
Total assets .....	<b>¥109,111</b>	<b>¥122,263</b>	<b>¥86,979</b>	<b>¥318,354</b>	<b>¥60,635</b>	<b>¥378,990</b>
Depreciation .....	<b>6,016</b>	<b>8,245</b>	<b>3,560</b>	<b>17,822</b>	<b>—</b>	<b>17,822</b>
Capital expenditures .....	<b>6,793</b>	<b>7,714</b>	<b>3,217</b>	<b>17,725</b>	<b>—</b>	<b>17,725</b>

Year ended March 31, 1999	Thousands of U.S. dollars					Consolidated
	Man-made fibers	Plastics and chemicals	Specialty products and other	Total	Eliminations or corporate	
<b>I. Sales and operating income</b>						
Sales to third parties .....	<b>\$902,878</b>	<b>\$1,075,205</b>	<b>\$598,067</b>	<b>\$2,576,159</b>	<b>\$ —</b>	<b>\$2,576,159</b>
Intergroup sales and transfers .....	<b>2,148</b>	<b>92,476</b>	<b>211,389</b>	<b>306,031</b>	<b>(306,031)</b>	<b>—</b>
Total sales .....	<b>905,035</b>	<b>1,167,690</b>	<b>809,465</b>	<b>2,882,190</b>	<b>(306,031)</b>	<b>2,576,159</b>
Operating expenses .....	<b>866,346</b>	<b>1,087,681</b>	<b>768,229</b>	<b>2,722,265</b>	<b>(308,652)</b>	<b>2,413,613</b>
Operating income .....	<b>\$ 38,681</b>	<b>\$ 80,000</b>	<b>\$ 41,228</b>	<b>\$ 159,925</b>	<b>\$ 2,621</b>	<b>\$ 162,547</b>
<b>II. Assets, depreciation and capital expenditures</b>						
Total assets .....	<b>\$905,110</b>	<b>\$1,014,210</b>	<b>\$721,518</b>	<b>\$2,640,846</b>	<b>\$502,986</b>	<b>\$3,143,841</b>
Depreciation .....	<b>49,905</b>	<b>68,395</b>	<b>29,531</b>	<b>147,839</b>	<b>—</b>	<b>147,839</b>
Capital expenditures .....	<b>56,350</b>	<b>63,990</b>	<b>26,686</b>	<b>147,034</b>	<b>—</b>	<b>147,034</b>

Year ended March 31, 1998	Millions of yen					Consolidated
	Man-made fibers	Plastics and chemicals	Specialty products and other	Total	Eliminations or corporate	
<b>I. Sales and operating income</b>						
Sales to third parties .....	¥125,169	¥145,354	¥ 76,758	¥347,282	¥ —	¥347,282
Intergroup sales and transfers .....	304	11,592	29,903	41,801	(41,801)	—
Total sales .....	125,474	156,946	106,662	389,083	(41,801)	347,282
Operating expenses .....	115,999	142,563	100,096	358,659	(41,853)	316,805
Operating income .....	¥ 9,474	¥ 14,383	¥ 6,566	¥ 30,424	¥ 52	¥ 30,477
<b>II. Assets, depreciation and capital expenditures</b>						
Total assets .....	¥115,388	¥139,489	¥ 89,924	¥344,802	¥57,271	¥402,074
Depreciation .....	6,155	8,550	2,907	17,612	—	17,612
Capital expenditures .....	6,149	6,714	8,998	21,863	—	21,863

The geographical segment information for the years ended March 31, 1999 is summarized as follows:

Year ended March 31, 1999	Millions of yen				Consolidated
	Japan	Other	Eliminations Total	or corporate	
<b>I. Sales and operating income</b>					
Sales to third parties .....	<b>¥295,032</b>	<b>¥15,524</b>	<b>¥310,556</b>	<b>¥ —</b>	<b>¥310,556</b>
Intergroup sales and transfers .....	<b>6,177</b>	<b>3,351</b>	<b>9,528</b>	<b>(9,528)</b>	<b>—</b>
Total sales .....	<b>301,209</b>	<b>18,875</b>	<b>320,085</b>	<b>(9,528)</b>	<b>310,556</b>
Operating expenses .....	<b>283,841</b>	<b>16,551</b>	<b>300,392</b>	<b>(9,431)</b>	<b>290,961</b>
Operating income .....	<b>¥ 17,368</b>	<b>¥ 2,323</b>	<b>¥ 19,692</b>	<b>¥ (96)</b>	<b>¥ 19,595</b>
<b>II. Assets</b>					
Total assets .....	<b>¥300,903</b>	<b>¥17,354</b>	<b>¥318,257</b>	<b>¥60,732</b>	<b>¥378,990</b>

**CONSOLIDATED**

Thousands of U.S. dollars

Year ended March 31, 1999	Japan	Other	Total	Eliminations or corporate	Consolidated
I. Sales and operating income					
Sales to third parties .....	\$2,447,383	\$128,776	\$2,576,159	\$ —	\$2,576,159
Intergroup sales and transfers .....	51,240	27,798	79,038	(79,038)	—
Total sales .....	2,498,623	156,574	2,655,205	(79,038)	2,576,159
Operating expenses .....	2,354,550	137,296	2,491,846	(78,233)	2,413,613
Operating income .....	\$ 144,073	\$ 19,270	\$ 163,351	\$ (796)	\$ 162,547
II. Assets					
Total assets .....	\$2,496,085	\$143,957	\$2,640,041	\$503,791	\$3,143,841

Sales are analyzed geographically for the years ended March 31, 1999 and 1998 as follows.

March 31,	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Sales designated for:			
Japan .....	¥225,296	¥253,701	\$1,868,901
Asia .....	48,241	53,710	400,174
Other .....	37,018	39,871	307,076
Total .....	¥310,556	¥347,282	\$2,576,159

The sales for Asia and other comprise export sales and sales, excluding sales to Japan, generated by overseas consolidated subsidiaries.

**8. Subsequent Event**

See Note 17 to the non-consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT (CONSOLIDATED)**

■ Certified Public Accountants  
Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo 100-0011  
C.P.O. Box 1196, Tokyo 100-8641

■ Phone: 03 3503-1100  
Fax: 03 3503-1197

The Board of Directors  
Mitsubishi Rayon Company, Limited

We have examined the consolidated balance sheets of Mitsubishi Rayon Company, Limited and its consolidated subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income and retained earnings for the years then ended, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

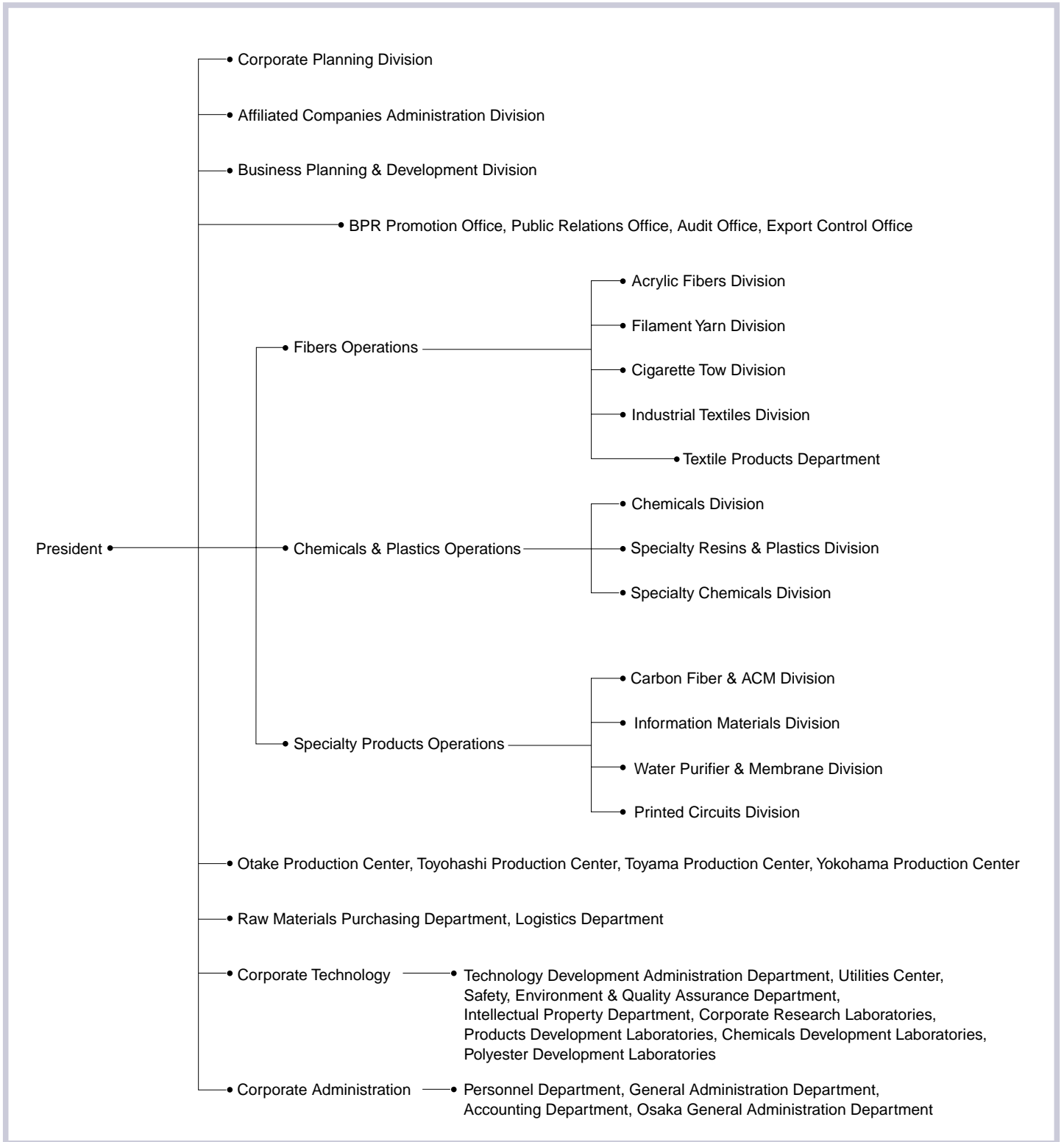
In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mitsubishi Rayon Company, Limited and its consolidated subsidiaries at March 31, 1999 and 1998, and the consolidated results of their operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 1999 are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

June 29, 1999

*Showa Ota & Co.*

# ORGANIZATION



(As of June 29, 1999)

## SUBSIDIARIES AND AFFILIATES

### Principal Domestic Subsidiaries (Consolidated)

Company	Issued share capital (Millions of yen)	Principal activities
Mitsubishi Rayon Engineering Co., Ltd.	2,000	Engineering, real estate and insurance
Mitsubishi Burlington Co., Ltd.	800	Production and sales of carpets, interior decoration
Ryoko Electronics Industries Ltd.	408	Production and sales of printed circuit boards
Diafloc Co., Ltd.	325	Production and sales of high molecule weight flocculants and industrial cleaners
Nitto Sekko Boad Co., Ltd.	200	Production and sales of construction materials
MRC Koda Co., Ltd.	150	Processing of plastics products, membranes and medical products
Nitto FRP Techno Co., Ltd.	100	Production and sales of FRP products
Ryoko Co., Ltd.	100	Sales of MMA-related products
Dia Sports Development Co., Ltd.	100	Construction of sports facilities
MRC Tex Co., Ltd.	99	Production and sales of spun yarn
Diatec Co., Ltd.	95	Production and sales of dial plates
Tosen Co., Ltd.	60	Dyeing, processing and sales of textile products
MRC Information Systems Co., Ltd.	50	Information systems
MRC Composite Products Co., Ltd.	50	Production and sales of carbon fiber composites
Ryoko Sizing Co., Ltd.	50	Sizing of acetate
Acrymirror Co., Ltd.	40	Sales of acrylic resin mirrors
Costem Yoshida Co., Ltd.	40	Sales of dry ice and cryogenic equipment, etc.
Dia Suntex Co., Ltd.	36	Sales of textile products
MRC Finance Co., Ltd.	30	Finance
Nitto Institute of Chemical Research Co., Ltd.	30	Production and sales of perfumes, functional monomers and catalysts
MRS Co., Ltd.	10	Contract work in Otake Production Center
Horyo Co., Ltd.	10	Contract work in Toyohashi Production Center
Hokuriku Ryoko Sangyo Co., Ltd.	10	Contract work in Toyama Production Center

### Principal Overseas Subsidiaries (Consolidated)

Company	Issued share capital (Millions)	Principal activities
P.T. Vonex Indonesia	IDR 8,366	Production and sales of acrylic yarn
Qingdao Lingtong Textile Co., Ltd.	CNY 42.9	Production and sales of acrylic yarn
Dianal America, Inc.	US\$ 25	Production and sales of coating resins
Mirwec Film, Inc.	US\$ 2.7	Production and sales of polypropylene film
Newport Adhesives and Composites, Inc.	US\$ 2.1	Production and sales of adhesives and composites
Grafil, Inc.	US\$ 1.2	Production and sales of carbon fibers
Mitsubishi Rayon America Inc.	US\$ 0.8	Sales and information services
MRC Holdings (America), Inc.	US\$ 54	Holding company

### Principal Domestic Affiliates

Company	Issued share capital (Millions of yen)	Principal activities
Du Pont-MRC Co., Ltd.	1,000	Production and sales of artificial marbles
Leilian Co., Ltd.	600	Sales of ready-made women's clothes
Kawagoe & Co., Ltd.	300	Wholesaler of textile products
Tomoe Chemical Industry Co., Ltd.	200	Production and sales of chemical fertilizers and agricultural materials

### Principal Overseas Affiliates

Company	Issued share capital (Millions)	Principal activities
Metablen Company B.V.	NLG 81	Production and sales of plastics modifiers
Metco North America, Inc.	US\$36.8	Production and sales of plastics modifiers

## CORPORATE DATA

(As of March 31, 1999)

### Date of Establishment

March 31, 1933

### Paid-in Capital

¥53,229 million

### Authorized Shares

1,189,497,000 shares

### Issued and Outstanding Shares

642,993,820 shares

### Shareholders

105,758 (including those holding less than one unit)

### Employees

4,482

### Major Shareholders

The Bank of Tokyo-Mitsubishi, Ltd.  
The Sumitomo Trust & Banking Co., Ltd.,  
Trust Account  
Meiji Life Insurance Company  
The Mitsubishi Trust and Banking Corp.  
Nippon Life Insurance Company  
The Dai-ichi Kangyo Bank, Limited  
The Mitsubishi Trust and Banking Corp.,  
Trust Account  
The Industrial Bank of Japan, Limited  
Mitsubishi Heavy Industries, Ltd.  
Morgan Stanley Japan, Ltd.

### Major Banks

The Bank of Tokyo-Mitsubishi, Ltd.  
The Mitsubishi Trust and Banking Corp.  
The Dai-ichi Kangyo Bank, Limited  
The Norinchukin Bank  
The Industrial Bank of Japan, Limited

## Offices

(As of June 29, 1999)

### Head Office

(Public Relations Office)  
6-41, Konan 1-chome, Minato-ku,  
Tokyo 108-8506, Japan  
Phone: (03) 5495-3100  
Fax: (03) 5495-3184  
E-mail: koho@mrc.co.jp

### Osaka Branch

OAP tower,  
8-30, Tenmabashi 1-chome, Kita-ku,  
Osaka 530-6040, Japan  
Phone: (06) 6881-6326  
Fax: (06) 6881-6338

### Nagoya Branch

### Hokuriku Office

### Otake Production Center

### Toyohashi Production Center

### Toyama Production Center

### Yokohama Production Center

### Hachinohe Factory

### Corporate Research Laboratories

### Products Development Laboratories

### Chemicals Development Laboratories

### Polyester Development Laboratories

### Tokyo Technology & Information Center

## Overseas Service Bases

(As of June 29, 1999)

### Mitsubishi Rayon America Inc.

520 Madison Avenue, New York,  
NY 10022, U.S.A.  
Phone: (212) 759-5605  
Fax: (212) 355-7994

### MRC Asia (Thailand) Ltd.

175 Sathorn City Tower, Rm 1307  
South Sathorn Road, Bangkok, 10120,  
Thailand  
Phone: (2) 679-6351  
Fax: (2) 679-6354

### MRC Hong Kong Co., Ltd.

Rm 801, Tower 3, China Hong Kong  
City, 33 Canton Road, Tsimshatsui,  
Kowloon, Hong Kong  
Phone: 2368-0121  
Fax: 2724-4174

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