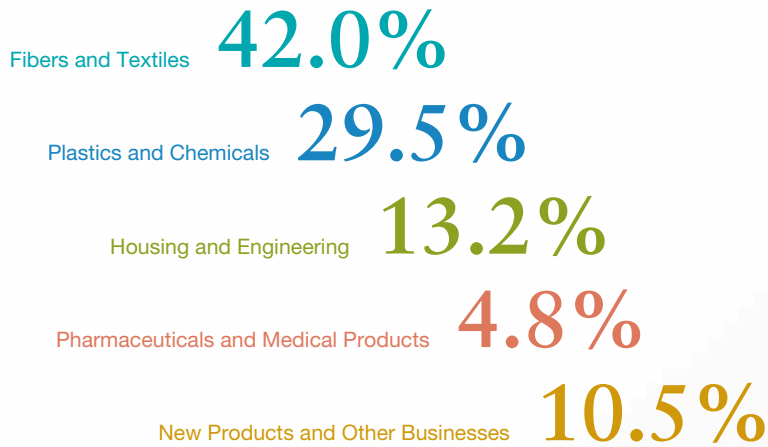


Annual Report 1999

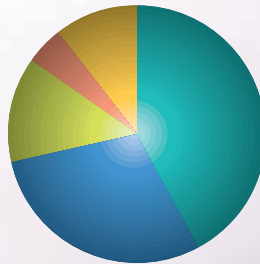
April 1, 1998–March 31, 1999

Growth
Globalization
Group Management

Profile



CONSOLIDATED SALES, BY SEGMENT



Toray Industries, Inc., is the world's leading manufacturer of synthetic fibers and textiles, with 206 subsidiaries and affiliated companies in 17 countries and areas around the world. The Toray Group's diversified businesses include fibers and textiles, plastics and chemicals, housing and engineering, pharmaceuticals and medical products, and new products and other businesses, including carbon fiber and electronics and information-related products. In fiscal 1999, ended March 31, 1999, consolidated net sales totaled ¥1,001.1 billion.

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Product names with an asterisk (*) are trademarks of Toray Industries, Inc., or its subsidiaries or affiliated companies.

Financial Highlights

Toray Industries, Inc. and Subsidiaries
Years ended March 31

	Millions of yen			Thousands of U.S. dollars
	1999	1998	1997	1999
For the year:				
Net sales	¥1,001,117	¥1,087,713	¥1,046,837	\$ 8,273,694
Operating income.....	47,564	71,919	71,661	393,091
Net income.....	8,117	24,740	23,276	67,083
Net cash provided by operating activities	59,984	139,023	76,687	495,735
Capital expenditures	120,968	150,700	96,182	999,736
Per share of common stock (in yen and U.S. dollars):				
Net income:				
Primary	¥ 5.79	¥17.65	¥16.61	\$0.048
Fully diluted	—	17.43	16.41	—
Net cash provided by operating activities (primary).....	42.80	99.20	54.72	0.354
Cash dividends	7.00	7.00	7.00	0.058
At year-end:				
Total assets.....	¥1,437,360	¥1,427,291	¥1,392,496	\$11,879,008
Total stockholders' equity.....	491,497	493,366	478,596	4,061,959

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥121 to \$1.00. Billion is used in the American sense of one thousand million.



From the President

OVERVIEW AND RESULTS

Dear Shareholders,

I am pleased to report on the business performance of the Toray Group in fiscal 1999, ended March 31, 1999.

During the term under review, the Japanese economy recorded its second consecutive year of negative growth as a result of sluggish personal consumption and declining private-sector capital investment. This situation, coupled with the adverse effects of slumping economies elsewhere in Asia, significantly impacted Toray's principal business fields of fibers and textiles and plastics and chemicals.

Under these business conditions, Toray sought to enhance its cost-competitiveness by modernizing and streamlining its production processes while committing management resources to strengthening its R&D capabilities in promising new business areas. Moreover, we pushed forward with strategic initiatives aimed at strengthening and expanding our business operations over the medium-to-long term by aggressively implementing capital investment programs to increase production capacity both in Japan and overseas.

Consolidated net sales declined 8.0%, to ¥1,001.1 billion. Operating income fell 33.9%, to ¥47.6 billion, and net income plunged 67.2%, to ¥8.1 billion.

Looking at sales performances, parent company sales of pharmaceutical and medical products as well as advanced composite materials increased. However, lower sales of fibers and textiles and plastics and chemicals were compounded by sluggish performances by domestic housing and engineering subsidiaries as well as trading-related companies, leading to a drop in consolidated net sales.

With regard to profits, the Toray Group implemented self-improvement efforts to boost earnings through cost reduction programs. However, domestic and overseas large-scale capital expenditures increased the temporary loss. This, along with the deteriorated markets for fibers and textiles as well as plastics and chemicals, resulted in a decrease in consolidated net income compared with the previous fiscal year.

Consequently, net income per share for the fiscal year under review fell to ¥5.79. However, the equity ratio was 34.2%, virtually unchanged from the previous fiscal year-end.

CORPORATE ACTIVITIES

In addition to continuous and steady investments in its production capabilities, R&D, and human resources with a view toward laying a solid foundation for dynamic future growth, Toray increased its efforts to proactively address environmental issues and pushed forward with obtaining ISO 14001 certification for its environmental management systems.



Katsuhiko Hirai,
President and
Chief Executive Officer

Furthermore, as part of corporate efforts to contribute to local communities, Toray supported sports, education, medical, cultural, and science technology programs through the Toray Science Foundation—a pioneering corporate foundation established in 1960 in Japan. Toray Science Foundations in Thailand, Indonesia, and Malaysia marked their fifth year of operations by playing a more active role in social enhancement activities, such as the promotion of science in their respective countries.

OUTLOOK

Business conditions in Japan are expected to become increasingly harsh as pressures to reform the nation's industrial structure continue to mount and the fading of international economic barriers substantially heightens competition.

Against this backdrop, Toray will push forward with the implementation of policies that promote the establishment of its production facilities in optimal locations and further strengthen its marketing systems throughout the world. Furthermore, we are committed to creating additional profit through a continual drive to enhance our cost-effectiveness by improving efficiency on all fronts—production, sales, and administrative functions.

In addition to creating an expanded presence in the core business fields of fibers and textiles as well as plastics and chemicals, the Toray Group will work to extend its leadership position into the 21st century by achieving stable growth in strategic business areas, with a particular focus on new products and other businesses. To achieve these goals, we will concentrate on allocating management resources to promising new fields and pursue management initiatives that create additional synergies within the Toray Group by executing group management and globalization strategies. By carrying out these concrete policies and achieving steady business results, we are confident that we will create an organization that grows in harmony with the times.

We look forward to your being our financial and business partners in fiscal 2000 and beyond.

June 29, 1999

Katsuhiko Hirai
President and Chief Executive Officer

Expanding Operations Globally

Expanding Operations Globally

Over the past three years, Toray has been pushing forward with the globalization of its operations through strategic business expansion. To this end, the Company has aggressively carried out capital investment programs outside Japan.

From 1996 to 1999, Toray has carried out 23 programs totaling ¥160 billion to establish new facilities or increase production capacity in 10 countries and regions around the world.

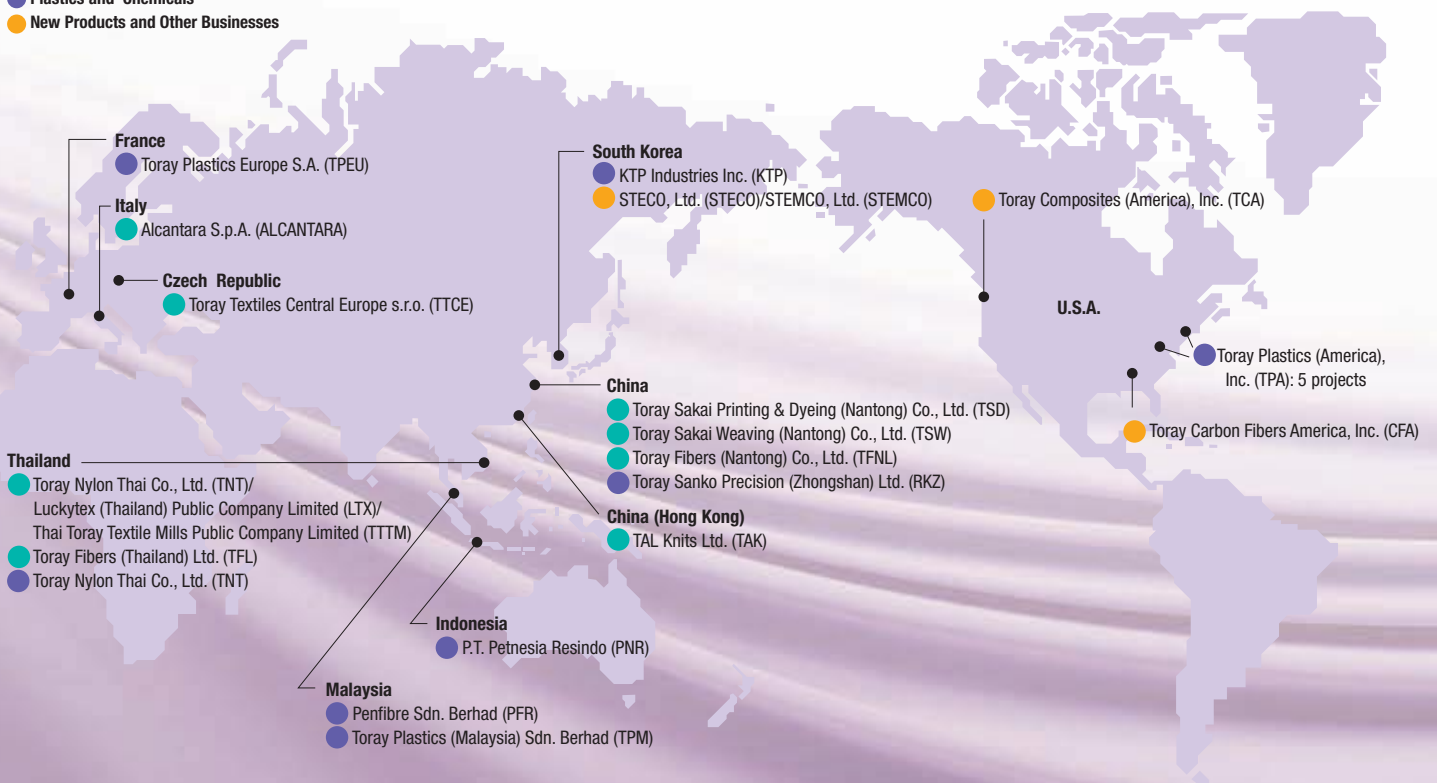
Toray's ultimate goal in implementing this strategy of group management and global operations is to maximize consolidated earnings and shareholder value.



Toray Fibers (Nantong) Co., Ltd. (TFNL)

- Fibers and Textiles
- Plastics and Chemicals
- New Products and Other Businesses

Locations of 23 Overseas Investment Projects



Fibers and Textiles

Expanding Operations Globally

OVERSEAS CAPITAL INVESTMENT PROGRAMS IN THE FIELD OF FIBERS AND TEXTILES— 8 PROJECTS

Toray's comprehensive, vertically integrated fibers and textiles business encompasses fibers, textiles, and sewn products.

Amid forecasts that world demand for synthetic fibers will grow approximately 4% annually, Toray is pushing forward with the expansion of its global operations and sharpening its focus on creating production systems and marketing networks ideally suited for the regions in which they are located.

By mid-1999, approximately 40% of the Group's total fiber production capacity of 590,000 tons per year will be located outside Japan.



Alcantara S.p.A. (ALCANTARA), a production and marketing base for Toray's man-made suede in Italy



The weaving factory at Toray Sakai Weaving (Nantong) Co., Ltd. (TSW)

Business Expansion Projects

(construction of a new plant or start-up of a new production line)

Business Field	Country	Company	Project	Completion	Official Capacity
Fibers and Textiles	China (Hong Kong)	TAK	Shifting knitting and dyeing plant to Zhuhai	1st: Sept. 1996 2nd: Apr. 1997	— —
	Italy	ALCANTARA	Expanding production capacity of man-made suede	July 1998	+5,000,000 m ² /year → Total 9,500,000 m ² /year
	China	TSD	Expanding capacity of polyester filament fabric dyeing	July 1998	+750,000 m ² /month → Total 1,500,000 m ² /month
	China	TSW	Expanding capacity of polyester filament fabric weaving	July 1998	+750,000 m ² /month → Total 1,500,000 m ² /month
	China	TFNL	Manufacturing polyester filament yarns and polyester chips	Aug. 1998	85,000 t/year (chip basis)
	Thailand	TNT/LTX/ TTTM	Manufacturing polyester filament yarns for industrial applications and processing fabrics	Apr. 1998	P-FY: 4,000 t/year P-SF Fabrics: 2,000,000 m ² /year
	Thailand	TFL	Expanding production capacity of polyester filament yarns	Dec. 1998	+1,000 t/month → Total 2,000 t/month
	Czech Republic	TTCE	Polyester filament fabric weaving and dyeing operations	July 1999	4,600,000 m ² /month

Plastics and Chemicals

Expanding Operations Globally

OVERSEAS CAPITAL INVESTMENT PROGRAMS IN THE FIELD OF PLASTICS AND CHEMICALS—12 PROJECTS

Toray's plastics business concentrates on acrylonitrile butadiene styrene (ABS), nylon, polybutylene terephthalate (PBT), and other engineering plastics operations as well as polyester-, polyolefin-, and aramid-based high-performance films operations. Outside Japan, in addition to expanding its ABS resin and polyester film operations, Toray is also increasing its presence in such markets as resin compounds.

By mid-1999, approximately 60% of the Group's total resin and film production capacity of 640,000 tons per year will be located outside Japan.



Toray Plastics Europe S.A. (TPEU)

Business Expansion Projects

(construction of a new plant or start-up of a new production line)

Business Field	Country	Company	Project	Completion	Official Capacity
Plastics and Chemicals	France	TPEU	Acquisition of Rhône-Poulenc Films S.A. and manufacturing Lumirror* PET films Expanding production capacity of PET films	Acquisition: May 1996 Expansion: June 1999	30,000 t/year +20,000 t/year → Total 50,000 t/year
	Malaysia	PFR	Construction of a new plant for Lumirror* PET films	1st: Aug. 1998 2nd: May 1999	14,400 t/year +15,600 t/year → Total 30,000 t/year
	Malaysia	TPM	Expanding production capacity of ABS resins	3rd: Aug. 1996 4th: Apr. 1997	+80,000 t/year → Total 170,000 t/year
	U.S.A.	TPA	Expanding production capacity of Lumirror* PET films	Apr. 1997	+4,000 t/year → Total 30,000 t/year
	U.S.A.	TPA	Construction of a new production line for Torayfan* polypropylene films Construction of a new metalizing machine for films for packing materials	Apr. 1998 Feb. 1998	+14,400 t/year → Total 36,400 t/year +4,500 t/year → Total 12,900 t/year
	U.S.A.	TPA	Commencing production of Toraypef* polyolefin foam in Virginia	Mar. 1997	3,000 t/year
	Thailand	TNT	Manufacturing and marketing engineering plastic compounds	Feb. 1998	500 t/month
	China	RKZ	Molding and assembling plastics in Zhongshan	May 1997	
	South Korea	KTP	Manufacturing and marketing polyacetal resins	Jan. 1998	20,000 t/year

Strengthening Business Structure Projects

(modernization or increase of capacity)

Business Field	Country	Company	Project	Completion
Plastics and Chemicals	U.S.A.	TPA	Construction of new PET polymerizing vessels (manufacturing master chips)	Dec. 1997
	U.S.A.	TPA	Adding film production for condenser usage	Oct. 1998
	Indonesia	PNR	Commencing liquid polymerization	Jan. 1998

New Products and Other Businesses

OVERSEAS CAPITAL INVESTMENT PROGRAMS IN THE FIELD OF NEW PRODUCTS AND OTHER BUSINESSES—3 PROJECTS

Toray is intently focused on carrying out strategic expansion in such businesses as advanced composite materials and electronics and information-related products. In these and other businesses that are expected to show strong growth, Toray is aggressively implementing capital investment

programs with a long-term view of nurturing them into core business areas in the 21st century. In carbon fiber—the core of the Company's advanced composite materials business—Toray has three production bases in Japan, Europe, and North America. Positioned as the world's leading maker of carbon fiber, the Company is developing worldwide demand for this highly advanced material.



Toray Carbon Fibers America, Inc. (CFA)

Overseas Business Expansion Projects

(construction of a new plant or start-up of a new production line)

Business Field	Country	Company	Project	Completion	Official Capacity
Advanced Composite Materials	U.S.A.	CFA	Manufacturing and marketing Torayca® carbon fiber	Apr. 1999	1,800 t/year
	U.S.A.	TCA	Expanding production capacity of Torayca® prepreg carbon fiber	June 1998	+3,000,000 m ² /year → Total 6,000,000 m ² /year
Electronics and Information-Related Products	South Korea	STECO/STEMCO	Commencing operation of tape automated bonding (TAB) business	Jan. 1997	3,000,000 products/month

TOPICS IN 1999

Aggressively Pursuing a Strategy of Business Alliances in Promising New Fields in 1999

In fiscal 2000, Toray aims to forge new business alliances in its core business fields of fibers and textiles and plastics and chemicals. Plans for two joint ventures in the polyethylene terephthalate (PET) film as well as the fiber and non-woven fabrics businesses have already been formulated.

Plan for PET Film Joint Venture in China

On June 9, 1999, Toray concluded a basic agreement to establish a joint venture with the prominent Chinese chemical company Yizheng Chemical Fibre Group Corp. (YCF) to handle polyester film business in Yizheng, in Jiangsu Province. Under the agreement, Toray will invest 50% of the new company's approximately US\$25.2 million in capital, and YCF will transfer its

PET film production facilities (annual production capacity of approximately 6,000 tons) to the new company, which will carry out production and sales activities. A metalizing facility will be added, and business will be conducted with the aim of supplying high-value-added products within China.

Plan for PET Film, Polyester Filament Yarn, and Nonwoven Fabrics in Korea

On June 11, 1999, Toray concluded a basic agreement for the establishment of a joint venture with Saehan Industries Inc., of Korea. Saehan will transfer ownership of its existing polyester film operations (annual production capacity of 90,000 tons), its polyester filament yarn operations (annual production capacity of 50,000 tons), and its nonwoven fabrics operations (annual production capacity of 24,000 tons) to the new company. Scheduled for establishment in autumn

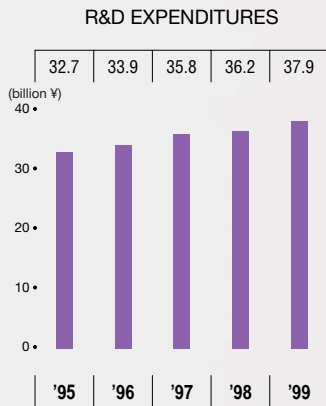
1999, the joint venture will commence operations before the end of the same year.

Toray will contribute 60% and Saehan 40% of the new company's capital, which is expected to total ¥60 billion, including working capital.

This business alliance will give Toray a polyester film production network with bases in six countries and a total production capacity of 300,000 tons per year.

In addition, the new company will play a pivotal role in Toray's fibers operations by producing highly cost-competitive polyester filament yarns. Moreover, Toray sees this joint venture as a means for the further expansion of its comprehensive nonwoven fabrics business through entry into the polypropylene materials business in addition to its existing polyester nonwoven materials businesses.

Research and Development



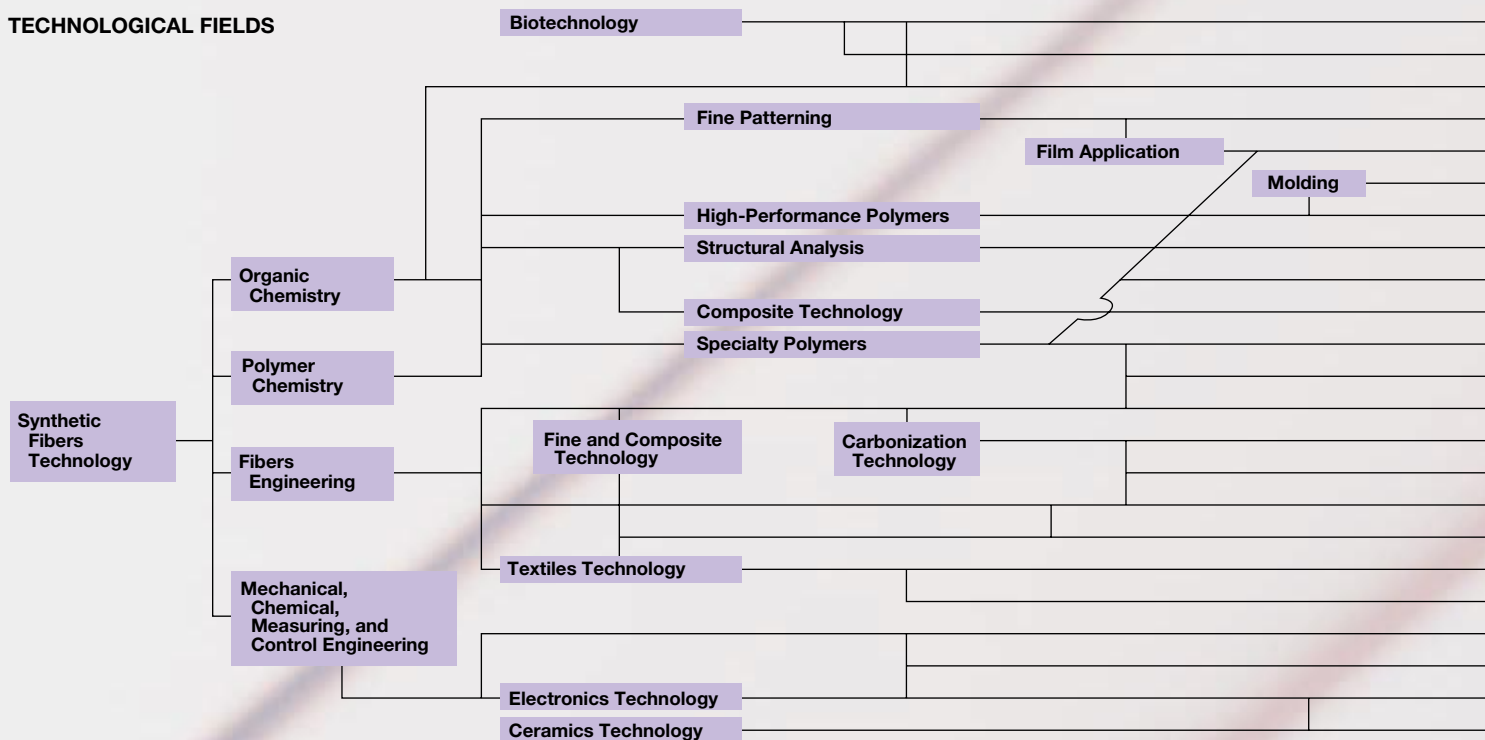
Leveraging its expertise in organic and polymer chemistry, Toray has strengthened its basic research and fundamental technologies in biotechnology and electronics.

In fiscal 1999, Toray invested ¥37.9 billion in R&D. To introduce highly profitable and breakthrough products to the market, the Company carries out unique, basic, and exploratory research in the key business fields of fibers and plastics as well as the growth-oriented fields of advanced and end products. In addition, Toray has systematically improved its total R&D efficiency through better prioritization and cycle time reduction to the market.

In April 1999, Toray reorganized its R&D Division to strengthen its basic research and accelerate its product commercialization by promoting technology transfer and personnel

exchange among laboratories. In this reorganization, Toray has founded the Basic Research Laboratories, consisting of the Pharmaceutical Research Laboratories and the Pioneering Research Laboratories. The Pioneering Research Laboratories focus on such growth-oriented fields as medical products, environmental preservation, and specialty polymers. Toray has also established the Chemicals Research Laboratories by aggregating the laboratories that were in charge of engineering plastics and specialty chemicals. Moreover, Toray has consolidated laboratories in its fibers and films businesses to improve its organizational efficiency. Through this consolidation, Toray will further promote basic research in its core business units.

TECHNOLOGICAL FIELDS



DEVELOPMENT OF MAKSPEC* ANTIBACTERIAL FIBER MATERIAL

For the growing population of senior citizens, Toray has developed the antibacterial fiber material Makspec*, which provides a safe and comfortable living environment as a product in the medical field. Makspec* is a fiber material that possesses superior antibacterial properties for methicillin-resistant *Staphylococcus aureus* (MRSA), *E. coli* O-157, and salmonella bacteria. The properties are effective even after repeated washing.

As particles of antibacterial composition are evenly adsorbed and diffused in the surface layer of the polyester filament, Makspec* possesses superior durability compared with conventional antibacterial materials. Because it does not use formalin, Makspec* is safe and environment friendly.

As the technology of Makspec* can be combined with Toray’s processing technology for deodorization and fire resistance, the Company plans to develop and commercialize a wide range of products for hospital uniforms and other garments in the healthcare field as well as for bedding.

DEVELOPMENT OF NEW WASTEWATER TREATMENT TECHNOLOGY FOR POLY-ESTER TEXTILE MANUFACTURING

Toray and its subsidiary Toray Engineering Co., Ltd., have jointly developed a new, highly efficient technology for the treatment of wastewater in polyester textile manufacturing.

At present, polyester textiles are treated with hot alkaline solution to improve fabric texture. However, this process results in the discharge of liquid wastes containing hard-decomposable terephthalic acid and other raw materials. The burden of wastewater on the environment has become an environmental problem for textile manufacturers.

Toray’s new wastewater treatment technology uses newly discovered microbes to decompose the liquid wastes, and the decomposition rate is 40 times faster than that of existing processes. Not only is the technology highly cost-effective but it also significantly reduces the volume of industrial sludge.

Toray is now promoting the commercialization of this technology and its applications for additional production processes.

DEVELOPMENT OF NONHALOGEN FLAME-RESISTANT RESINS

Toray has successfully developed the world’s first nonhalogen PBT resin with enhanced flame resistance. Moreover, Toray has succeeded in developing a flame-resistant ABS resin—a type of resin that presents much more difficult challenges in imbuing with flame-resistant properties. Developed with Toray’s proprietary technology, the new resins produce no dioxin emissions during product disposal. Toray is pursuing their commercialization as environment-friendly materials for mass-production applications.

Resin-based products used in computers, office equipment, and home electronic appliances as well as electrical and electronic equipment are required to be highly flame-retardant. Until now, the most commonly used flame retardants were halogen based.

Toray’s newly developed PBT flame-resistant resin not only offers the same heat resistance and mechanical properties as existing products but also provides decreased weight and superior electric properties as evidenced by its high degree of antitracking. Toray is now working to develop commercial applications for the resin’s use in home electrical appliance components, office automation equipment, connectors, switches, relays, and other products requiring halogen-free flame retardants.

Toray’s new ABS resin provides superior recycling capabilities—as it is not blended with other resins—while

- Pharmaceuticals, Animal Health Products
- Fine Chemicals
- Synthetic Raw Materials
- High-Performance Films
- Electronic Materials
- Plastic Products
- Engineering Plastics
- Research Assistance
- Printing Materials
- Housing and Engineering Materials
- High-Performance Membrane Separation Systems
- Artificial Organs, Hospital Supplies
- Synthetic Fibers
- Carbon Fiber
- Advanced Composite Products
- Industrial and Interior Products
- Synthetic Suede Products
- Textiles
- Apparel
- Textile Machines
- Data Processing Systems
- Electronics and Information Equipment
- New Ceramics

offering superior heat retention, fade resistance, and low hazardous metal leeching compared with existing products. Toray is moving forward with the practical application of the new resin in printers, copiers, personal computers (PCs), office equipment, and home electronic products as well as working to develop a nonhalogen ABS resin with even better flame resistance.

DEVELOPMENT OF ULTRALIGHT-WEIGHT ELECTROMAGNETIC WAVE SHIELDING TORAYCA* COMPOSITE

Toray has developed a new injection-molding pellet for a strong, ultralightweight composite with electromagnetic wave shielding properties. The development of this new pellet was made possible through the use of thermoplastics reinforced with electric conductive Torayca* carbon fiber. The pellet can be molded with a conventional molding machine and maintains mass-production performance. Moreover, the new pellet does not need the costly metal plating that is necessary for conventional thermoplastics.

This is the first commercial material that simultaneously maintains mass-production performance, cost-effectiveness, and especially high electromagnetic wave shielding properties.

Recognized for its superior performance, the composite is used worldwide for such applications as notebook computer cases.

Looking to the future, Toray expects this ultralightweight electromagnetic shielding material to be used in a wide variety of electronic instruments.

DEVELOPMENT OF PDP REAR PANELS

Toray's new manufacturing technology used in rear panels for plasma display panels (PDPs)—which are expected to be next-generation, large, flat, and thin displays—provides high pattern accuracy as well as superior process efficiency.

Toray is focused on creating superior technologies for the fast-growing display business, especially in the area of LCD color filters. In the field of PDPs, Toray is pushing forward with research on functional polymer materials and microlithography, which incorporate the Company's leading photolithography methods. As a result, Toray could successfully develop the new manufacturing technology for rear panels.

Toray's epoch-making, proprietary Photo Paste Method succeeds in forming barrier ribs with great accuracy. This revolutionary method not only allows PDPs to be made with higher precision and dimensional accuracy compared with ordinary methods but also provides increased production levels through shortened processing times.

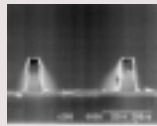
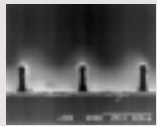
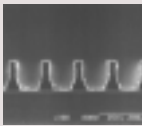

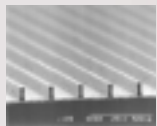
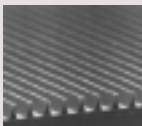
Toray's Photo Paste Method is a process to form glassy barrier ribs. The

first three steps include coating photo paste containing minute glass particles to the entire surface of a circuit board, drying the paste, and then exposing the board with light through a photomask. The final two steps include developing—to remove any unnecessary portions—and firing. Through the improvement of every step in the process, from the design and application of photo paste to firing, Toray's new technology has improved rib formation with superior degrees of pitch and placement. In addition, the new technology has greatly simplified rib formation, requiring only a single round of the process in contrast with multiple rounds required in existing methods.

Toray has already established the development facilities for rear panels using this technology and has begun the trial production of rear panels which are applicable up to 60-inch diagonal PDPs.

10

Scanning electron microscope images of barrier ribs using Toray's Photo Paste Method

Pitch	360 μm	220 μm	140 μm
Cross section			
Aggregate			

Corporate Citizenship

As a good corporate citizen, Toray supplies superior products under a basic tenet of its corporate philosophy, "To contribute to society through the creation of new value by innovative ideas, technologies, and products," while encouraging participation in local community activities at its factories and research laboratories as well as supporting educational, scientific, artistic, cultural, and sporting activities both in Japan and overseas.

LOCAL ACTIVITIES

Toray is committed to a wide range of activities aimed at strengthening ties with communities in the areas in which it operates. These activities range from greening projects and factory site beautification efforts to the implementation of measures to preserve the local environment. The Company also works to enhance communication with local communities and residents through such endeavors as making corporate facilities available for public use and encouraging employees to visit nearby public welfare facilities.

SUPPORTING EDUCATION AND SCIENCE

Since its pioneering establishment in 1960 in Japan, the Toray Science Foundation has served as Toray's chief vehicle for contributing to the promotion of science education and advances in science and technology.

With a view to carrying out similar activities in their respective countries, Toray Science Foundations were established in Indonesia and Malaysia in fiscal 1994 and in Thailand in fiscal 1995.

SUPPORTING ARTISTS AND CULTURAL ENDEAVORS

Toray proudly sponsors domestic and overseas performances of the traditional Japanese theater genres Noh and Bunraku, donating costumes for these performances. Moreover, the Company has backed performances in Japan and China of Orchestra Asia, an orchestra featuring traditional folk instruments from Japan, Korea, and China. To support the emerging genre of digital art, Toray established a dedicated gallery page at its web site in 1996 and launched an award program to attract submissions from digital artists.

SUPPORTING SPORTING EVENTS

Since 1984, Toray has sponsored the annual Toray Pan Pacific Open Tennis Tournament, Asia's largest and most prestigious women's tennis tournament. Since 1997, the Company, together with the Shanghai Sports Federation, has sponsored the Toray Cup Shanghai International Marathon, the first such citizens' marathon to promote friendly relations between Japan and China.

As a good corporate citizen, Toray maintains an ongoing commitment to making substantial contributions to the countries and communities it serves through its global operations.



Imaginary House—by Mr. Hiroyuki Futai, of Japan—won the grand prize in Toray's third annual Digital Creation Awards.



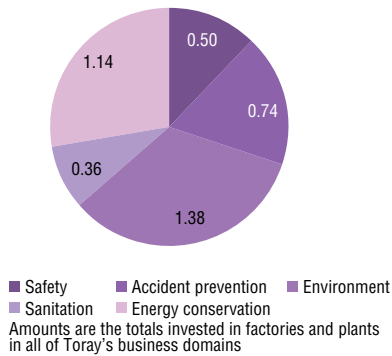
Martina Hingis, winner of the 16th annual Toray Pan Pacific Open Tennis Tournament



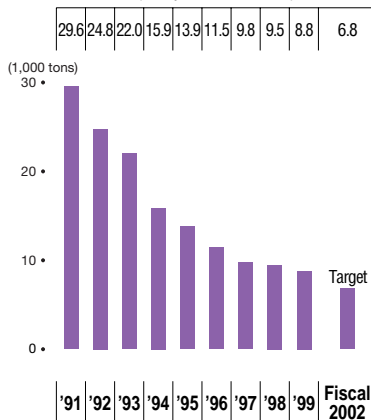
'98 Toray Cup Shanghai International Marathon's award ceremony for the women's full marathon held on November 1

Environmental Activities

FISCAL 1999 INVESTMENT IN SAFETY AND ENVIRONMENTAL PROTECTION EQUIPMENT (billion ¥)
(Toray Industries, Inc.)



INDUSTRIAL WASTE DISPOSAL
(Toray Industries, Inc.)



INVESTMENT IN SAFETY AND ENVIRONMENTAL PROTECTION EQUIPMENT

In the early 1970s, Toray carried out environmental protection investment programs with a focus on such equipment as wastewater treatment facilities and exhaust gas desulfurization units. Since then, Toray has continuously made investments amounting from hundreds of millions to billions of yen every year on equipment used for ensuring a clean environment.

As a result, since 1969, when Toray began compiling statistics on its environment-related activities, the Company had made a cumulative investment in environmental protection equipment totaling ¥31.2 billion as of the end of fiscal 1999.

In fiscal 1999, Toray also began to compile statistics on its investment activities related to safety, accident prevention, and energy conservation. Toray's investment in these three activities combined with that in environmental protection equipment

totaled approximately ¥4.1 billion in the term under review.

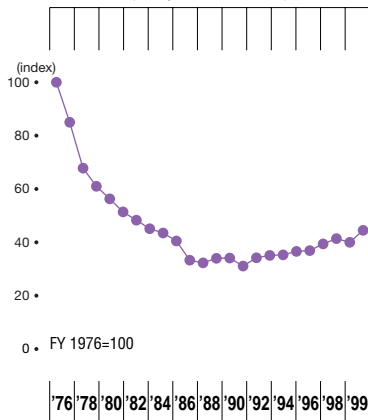
RESULTS OF ENVIRONMENTAL PRESERVATION ACTIVITIES

Reduction of Industrial Waste Disposal

As a result of more effective use of waste materials and efforts to reduce waste amounts, in fiscal 1999 Toray met the target set forth in the Company's Responsible Care Implementation Plan for reducing the volume of waste material disposed of (excluding simple coal ash) 70% from fiscal 1991 levels by fiscal 2001, two years ahead of schedule.

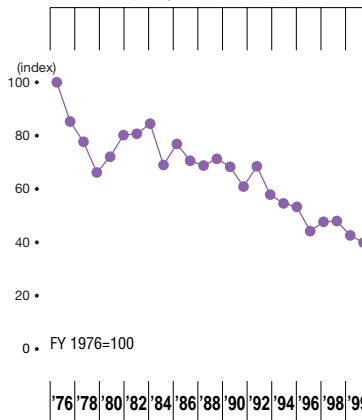
From fiscal 2000, Toray will work under a second-phase plan with a goal of lowering its volume of industrial waste disposed of to less than 6,800 tons and achieving a recycling ratio of 80% or greater. Toray will continue to aggressively pursue efforts to effectively use waste materials and reduce the volume of waste material that results from its operations.

SO_x EMISSIONS
(Toray Industries, Inc.)



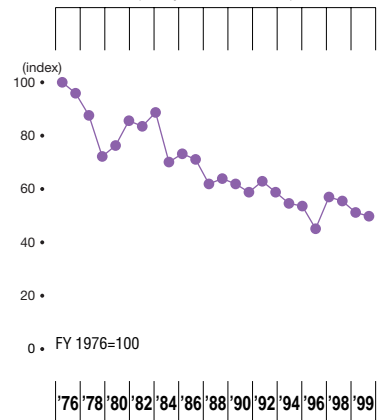
^{SO_x}: Sulfur Oxide Compounds

BOD DISCHARGE
(Toray Industries, Inc.)



^{BOD}: Biochemical Oxygen Demand

COD DISCHARGE
(Toray Industries, Inc.)



^{COD}: Chemical Oxygen Demand

Reduction of SO_x Emissions

Toray has achieved a 55% reduction in the volume of SO_x emissions from the fiscal 1976 level. Toray accomplished this by using low-sulfur fuels to reduce SO_x emissions from boilers and other equipment as well as by using such equipment as desulfurizing units.

Reduction of BOD and COD Discharge

Toray has achieved a 60% reduction in the volume of biochemical oxygen demand (BOD) discharge and a 50% reduction in chemical oxygen demand (COD) discharge from fiscal 1976 levels. Toray realized these cuts through the enhancement of its industrial wastewater process and the increased efficiency of its wastewater treatment facilities.

Energy Conservation

Toray consistently works to achieve 1.0% year-on-year decreases in the energy consumption per unit of production quantity—measured as

petroleum equivalent energy units. In fiscal 1999, Toray exceeded this goal by reducing the amount 1.1% (an 8.6% decrease from 1990 levels) from the previous fiscal year.

Reduction of Greenhouse Gas Emissions

At the Third Conference of Parties to the United Nations Framework Convention on Climate Change (COP3) held in Kyoto in December 1997, six greenhouse gases—carbon dioxide (CO₂), methane, nitrous oxide, and three fluorocarbon gases—thought to promote global warming were targeted for reduced output. Japan seeks to reduce its output of these gases an average of 6% below 1990 levels between 2008 and 2012.

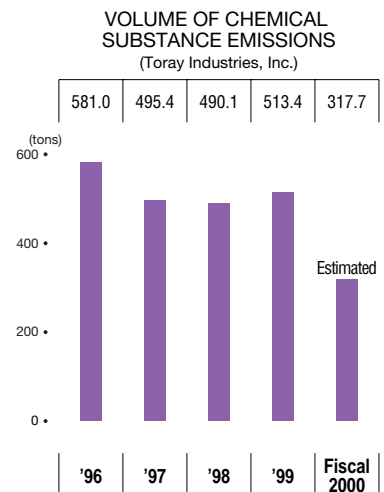
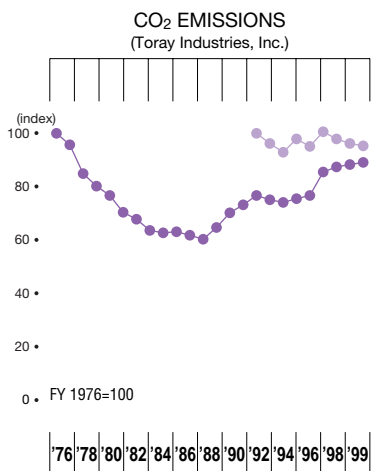
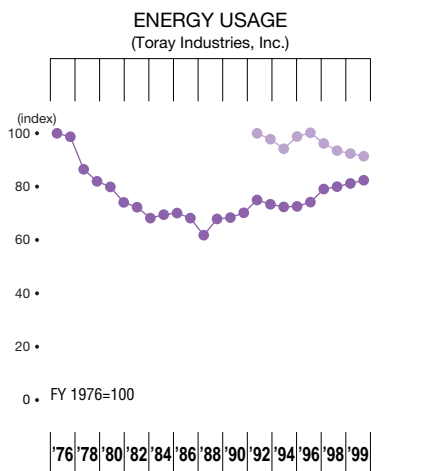
Toray's output of CO₂—the only greenhouse gas released by Toray facilities—as a percentage of total output has risen since fiscal 1991 as a result of increased production levels. However, Toray has successfully decreased its CO₂ emission per unit

of production quantity. By further promoting such activities as energy conservation, Toray will continue to make every effort to meet its targets for the reduction of CO₂ emissions.

Reduction of Chemical Substance Emissions

With the aim of promoting a greater reduction in the volume of chemical substances emitted to the atmosphere, Japan's Air Pollution Control Law was revised in May 1996 to include 12 substances to be independently controlled and managed.

Companies in the chemicals industry in Japan have set the goal of reducing the emission volumes of these chemical substances at 30% below fiscal 1996 levels by fiscal 2000. The five substances applicable to Toray are acrylonitrile, dichloromethane, trichloroethylene, 1,3-butadiene, and benzene. Toray is striving to reach its goal of an overall 45% reduction in the discharge volume of these substances by March 2000.



⁵²Based on Japan's Law Concerning the Rational Use of Energy

⁵³Based on Japan's Law Concerning the Rational Use of Energy

Toray's Main Products at a Glance

PRINCIPAL PRODUCTS

Fibers and Textiles



Filament yarns, staple fibers, spun yarns, woven and knitted fabrics of nylon, Tetoron* polyester, and Toraylon* acrylic; PPS; nonwoven fabrics; Ecsaine* man-made suede; sewn products; and CAD/CAM systems for the apparel industry

Plastics and Chemicals



Nylon, Toyolac* ABS, PBT, Torelina* PPS, Siveras* LCP, and Amilus* Polyacetal resins and their molded products; Lumirror* polyester film; Torayfan* polypropylene film; Mictron* para-based aramid film; Torelina* PPS film; Kapton[†] polyimide film; processed film products; and Toraypef* polyolefin foam
Caprolactam; gypsum; such specialty chemicals as rubber and resin additives; aromatic fine chemical products; catalysts; pure optical isomers; and Intercat* feline interferon agent

[†] Kapton[®] is a registered trademark of E.I. Du Pont de Nemours & Co.

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Housing and Engineering



Spuckturf* artificial turf; Romembra* reverse-osmosis membranes; Toraysurou* water-permeable paving material; Torayvino* home water purifiers; Glasal* and Kanpeki* wall materials; condominium construction; and synthetic fiber plant engineering and machinery

Pharmaceuticals and Medical Products



Feron* natural interferon- β preparation; Dorner* prostacyclin (PGI₂) derivative drug; Filtryzer* artificial kidneys for removing toxic substances; Toraysulfone* polysulfone-based artificial kidneys; Toraymyxin* blood purification columns; Inoue-Balloon catheter; and Anthon* antithrombotic materials

New Products and Other Businesses



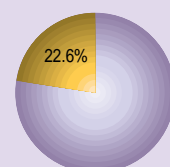
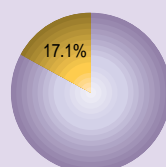
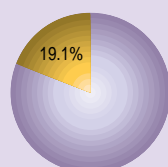
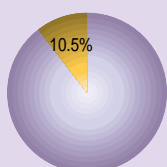
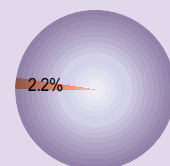
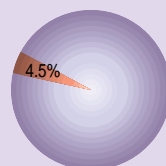
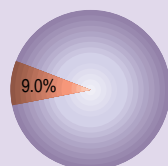
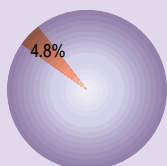
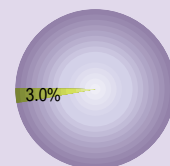
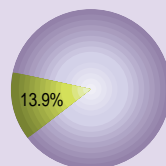
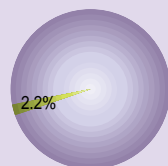
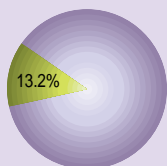
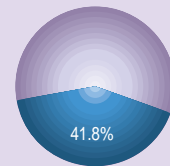
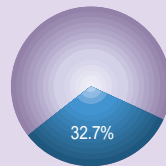
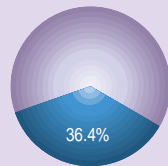
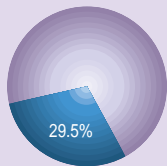
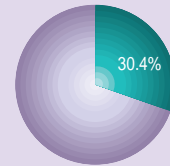
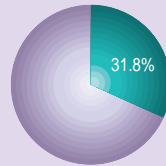
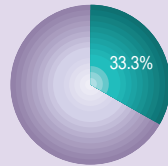
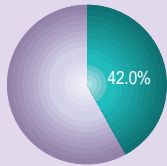
Torayca* carbon fiber and advanced composite materials; Electronic and graphic materials; TOPTICAL* color filters for LCDs; Phasewrite* phase change based rewritable optical disks and Phasewriter* PD/CD-ROM drives; and Raytela* optical fibers
Breath-O* contact lenses and E-Filter* antireflecting PC screen filters

NET SALES

OPERATING INCOME

TOTAL ASSETS

CAPITAL EXPENDITURES



Note: All figures are percentages of the respective total.

Review of Operations

17 Fibers and Textiles

20 Plastics and Chemicals

22 Housing and Engineering

23 Pharmaceuticals and Medical Products

24 New Products and Other Businesses

Fibers and Textiles

Sales of fibers and textiles declined 10.1% from the previous year, to ¥420.0 billion, and accounted for 42.0% of consolidated net sales. Operating income recorded by this segment fell 44.3%, to ¥15.7 billion.

Domestic sales of nylon filament yarns for application in garment fabrics, especially to the mainstay pantyhose and skiwear industries, did not meet expectations. In industrial-purpose materials, although sales of nylon filaments for automotive tire cord declined, those for use in automotive air bags recorded a comparatively stable performance.

Tetoron* polyester filament yarns and textiles for garments experienced increased export shipments. This was contrasted by slumping demand for heavyweight and lightweight polyester woven fabrics. Overall, however, due primarily to price declines resulting from sluggish international market conditions, total sales of polyester filament yarns for garment applications decreased.

Regarding industrial-use polyester filaments, comparatively strong demand for products used in such automotive applications as seat belts partially offset lower sales for construction and civil engineering materials applications. As a result, overall sales of industrial-use polyester filaments registered only a slight decrease.

New products introduced during the term included a new polyester silky texture material for woven and knitted items and a moisture-dispersing, quick-drying material for sportswear applications. Furthermore, the Company aggressively pursued other product development activities during the term, which resulted in the launch of such products as Makspec*, an antibacterial industrial fabric.

In Asia, Toray subsidiaries in ASEAN countries experienced decreased revenues amid a deteriorating market for polyester filament yarns.

The polyester staple fibers business achieved increased export volume. In addition, from the second half of the term, domestic demand rebounded for nonwoven fabrics and fiberfill applications. However, slumping demand for products used in such spinning applications as apparel and interior products resulted in a decline in overall sales of polyester blended fabrics.

Polyester- and cotton-blended fabrics produced by subsidiaries and affiliated companies in Malaysia, Thailand, and Indonesia continued to experience strong export sales, primarily to Europe and the United States.

Toraylon* acrylic staple fibers experienced lower sales due to weak domestic demand and a fall in export volume to China, our principal overseas market for Toraylon*.



Feminos* silky texture fabric for women's apparel

Makspec* environment-friendly, antibacterial fabric is ideal for hospital uniforms.



A program to double the man-made suede production capacity at Alcantara S.p.A. was completed in July 1998.

Although Ecsaine* man-made suede experienced increased exports in the first half of the term, domestic sales of products for application in garments and furniture were sluggish. The Italian subsidiary Alcantara S.p.A. achieved expanded sales, which were supported by a doubling of its production capacity. During the term, Toray purchased the man-made suede division of Springs Industries, Inc., and established Toray Ultrasuede (America), Inc., which began operations in August 1998. Toray Ultrasuede will join forces with parent company factories in Japan and Alcantara in Italy to further expand the man-made suede business in the Americas.

Trading Division

Due to sluggish consumer demand for apparel in Japan, imported garment business volume declined. In addition, despite growth in trading activities by overseas subsidiaries, mainly in the United States and Europe, the effect of deteriorating markets for trading

subsidiaries in Asia resulted in weakened overall business performance.

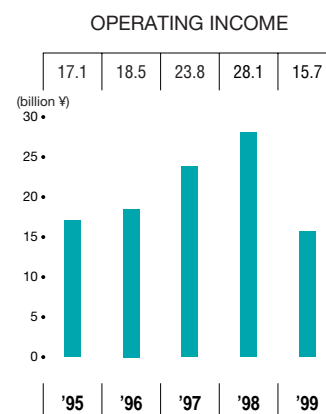
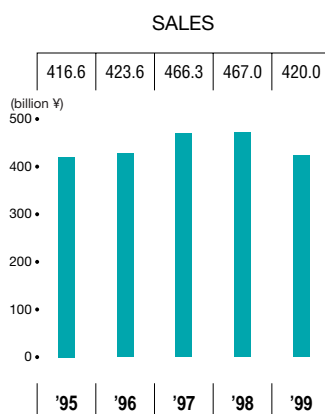
Fashion Division

In the Fashion Division, although several domestic affiliates boast strong apparel brands, a slump across the retail industry led to a sluggish overall business performance.

Capital Investment Activities

Capital investment highlights in fiscal 1999 included the completion of a modernization program for apparel-use Teton* polyester filament yarn production facilities at the Mishima plant in September 1998. At the Okazaki plant, upgraded facilities for the production of nylon filament yarns for use in air bags commenced operations in April 1998. In addition, two programs totaling ¥7.0 billion for increasing Ecsaine* man-made suede production capacity at the Shiga and Gifu plants are scheduled for completion in October 1999.

Overseas capital investments included the July 1998 completion



of two projects to double the weaving and dyeing capacities at Toray Sakai Weaving (Nantong) Co., Ltd., and Toray Sakai Printing & Dyeing (Nantong) Co., Ltd. Also, Toray Fibers (Nantong) Co., Ltd., commenced production of polyester chips and filament yarns in August 1998. This now gives Toray a vertically integrated manufacturing base for making products ranging from polyester chips and filament yarns to textiles, which are targeted mainly at markets in China. Moreover, Alcantara increased man-made suede production facilities in July 1998, and Toray Fibers (Thailand) Ltd. (TFL) put into operation its doubled-capacity polyester filament yarn production facilities in December 1998. In the Czech Republic, Toray Textiles Central Europe s.r.o. (TTCE) will commence operations of its ¥5.5 billion polyester filament fabric weaving and dyeing plant in July 1999. TTCE will team with TFL and other Toray Group companies to achieve expanded business activities.

Outlook

In fiscal 2000, with domestic demand for apparel products expected to remain low, Toray will work to improve market conditions by reducing the volume of filament yarns and textiles it supplies to the domestic market. At the same time, Toray will endeavor to increase profits and maintain high-capacity utilization levels across the Toray Group through a stepped-up drive to carry out global operations.

Moreover, in fiscal 2000, the second year of Action Program for 21—a set of medium-term goals for Toray’s fibers and textiles operations—the Company will work to significantly reduce overall costs and undertake new overseas projects that contribute to steady profit growth.



A program to double the polyester filament yarn production capacity at Toray Fibers (Thailand) Ltd. was completed in December 1998.

Toray Fibers (Nantong) Co., Ltd., in China’s Jiangsu Province, commenced production of polyester chips and filament yarns in August 1998.

Plastics and Chemicals



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Toyolac* ABS resin is widely used for applications in products ranging from OA equipment, automobile interior parts, and household electric equipment to daily-use items.

Toraycon* PBT resin is widely used in connectors and other automobile parts, bobbins, coil cases and other electronic and electrical components, and precision parts for office equipment.

Penfibre Sdn. Berhad, in Malaysia, commenced production of Lumirror* PET films in August 1998.

Sales of plastics and chemicals shrank 1.6%, to ¥295.5 billion, accounting for 29.5% of consolidated net sales—roughly the same percentage as that in the previous term. However, operating income slumped 35.7%, to ¥17.2 billion.

Resins

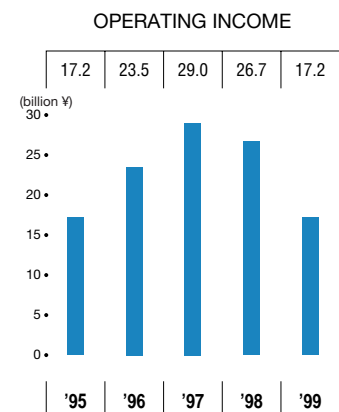
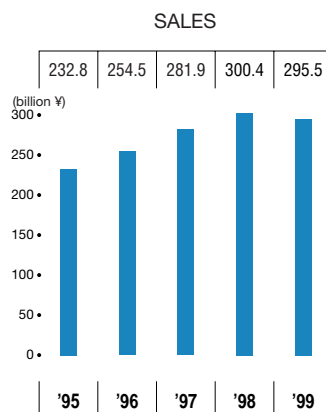
In Japan, Toyolac* ABS resin, designed for game machine applications, enjoyed firm sales. Moreover, sales of Amilan* nylon resin and Toraycon* PBT resin registered increased sales for application in new minicars. However, sales contracted in the mainstay areas of automotive and electrical goods applications, and demand for resins used in housing and building materials was lower than expected. These factors, coupled with the effects of a slumping export market and weak performances by subsidiaries in Japan, resulted in an overall decline in domestic resin sales.

In overseas markets, Toray Plastics (Malaysia) Sdn. Berhad, a production base for ABS resin in Malaysia, achieved a comparatively strong performance. In China, the Company's

resin compounds and precision resin molded products businesses achieved expanded sales. In addition, the Company accelerated efforts to expand its resin business by taking such steps as commencing engineering plastic compounding operations in Thailand and polyacetal resin production in South Korea in early 1998.

Films

Regarding the films business, domestic sales of our mainstay Lumirror* polyester film grew for such applications as packaging, electronics components, and magnetic tape for digital recording media. However, this growth was countered by such factors as shrinking demand for the film's use in such industrial materials as labels and capacitors, lower prices resulting from deteriorating market conditions in Asian markets, and a reduction in exports stemming from the partial transfer of manufacturing operations to overseas subsidiaries. As a result, overall sales of Lumirror* declined. In overseas markets, Toray commenced production of Lumirror* film at a new



production facility in Malaysia in August 1998, while subsidiaries in the United States and France enjoyed higher sales. Nevertheless, a deterioration of worldwide market conditions resulted in price declines.

Torayfan* polypropylene film experienced increased sales volume due to growing demand for uses in industrial applications and packaging in Japan. In the United States, sales of Torayfan* expanded thanks to increased production capacity for its application as a base film in capacitors and enhanced processing capabilities provided by the addition of new metalizing equipment.

Capital Investment Activities

In Malaysia, the Company commenced operations of a Lumirror* production line with a capacity of 14,400 tons in August 1998, which was completed under a first-phase project. A second-phase line with a capacity of 15,600 tons was completed in May 1999. In France, the Company also completed a program to add 20,000 tons to its yearly Lumirror* production capacity by June 1999. One of the capital investment programs undertaken in Japan increased the parent company's production capacity for Mictron* para-based aramid film for application in high-density magnetic recording media. Furthermore, steps were taken to increase the production capacity of domestic subsidiaries for such high-value-added, high-performance products as antireflective film.

Chemicals

In the chemicals business, sales of fine chemical intermediates for use in pharmaceuticals and agrochemicals were buoyant. However, countering this favorable trend was a slump in export prices for the nylon raw material caprolactam in Asian markets. As a result, overall chemicals sales declined.

In new product developments, in November 1998 Japan's Ministry of Agriculture, Forestry and Fisheries approved the Company's new dog interferon agent, which uses recombinant DNA technology, to be manufactured for clinical trials. In the near future, the Company aims to commercialize and market the canine interferon- γ and the feline interferon agent Intercat* around the world.

As part of efforts to expand its consolidated operations during the term, the Company raised its stake in SODA AROMATIC Co., Ltd., which manufactures and markets a variety of aromatic chemicals, to 50.01%, thereby making SODA AROMATIC a key Toray subsidiary in its specialty chemicals business.

Outlook

In the current term, amid sluggish recoveries in markets in Japan and overseas for such mainstay products as resins, films, and caprolactam, Toray aims to increase earnings by leveraging the enhanced sales capabilities provided by capital investment programs undertaken during the term under review.



Demand for heat-resistant film for use as a flexible material in processed, high-precision electrical circuits was boosted by the increased application in small, lightweight mobile communication devices.

The lightest of all plastic films, Torayfan* polypropylene film is ideally suited for use in such applications as capacitors and adhesive tape, glossy and matte laminates for books, and packaging materials for foodstuffs and textiles.

Housing and Engineering



The Toray SK77* home-use water filter is compact enough to be installed in a storage space under the sink.

Spuckturf* artificial turf is used in the Nagoya Dome.

Toray reverse-osmosis membrane elements are used in this Okinawa desalination plant, which has a production capacity of 40,000m³ of fresh-water per day. These elements have recently drawn increased attention as a means of maintaining a stable supply of potable water.

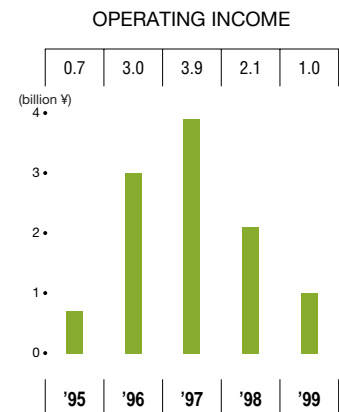
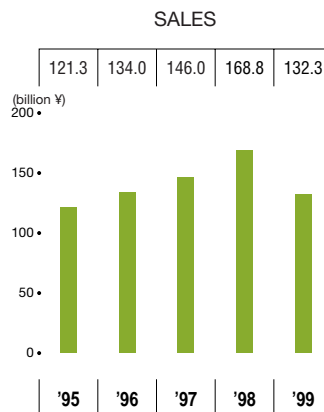
Housing and engineering sales in fiscal 1999 slumped 21.6%, to ¥132.3 billion, and accounted for 13.2% of consolidated net sales. Operating income in the segment sank 51.1%, to ¥1.0 billion.

In the Amenity and Civil Engineering Division, sales of artificial turf and air filters for use in air purifiers and air conditioners expanded. However, in water treatment related operations, demand for Romembra* reverse-osmosis membrane elements for semiconductor manufacturing equipment declined, and sales of Torayrom* rotary drum-filter equipment for use in pool water purification systems were weak. Sales of Torayvino* home water purifiers expanded in Japan thanks to the addition of a new product to the lineup.

In seawater desalination related activities, the Company worked with its subsidiary Toray Engineering Co., Ltd., to generate orders in Japan and overseas for the construction of large-scale facilities that use Toray's high-efficiency, two-step desalination process, which produces 50% more potable water

than existing systems. During the term under review, the Company worked to strengthen its marketing capabilities with a view toward expanding business activities and received an order for the construction of a 4,500-ton-per-day test facility in Las Palmas on Spain's Grand Canary Island.

Amid a harsh business environment, Toray Engineering experienced favorable demand for equipment used in the production of fibers and expanded its activities in the electronics field. Nevertheless, other plant-related orders decreased due to lackluster domestic private-sector capital investment. With sales of condominiums comparatively stable, Toray Construction Co., Ltd., focused its efforts on acquiring profitable orders for the construction of buildings. Toray Glasal Corp. experienced a deterioration in sales due to slumping market conditions in Japan for exterior ceramic wall material for housing applications.



Pharmaceuticals and Medical Products

Pharmaceuticals and medical products sales in fiscal 1999 rose 2.8%, to ¥47.8 billion, and accounted for 4.8% of consolidated net sales. Operating income fell 19.8%, to ¥4.2 billion.

Pharmaceuticals

The domestic business environment for pharmaceuticals further deteriorated due to continued slack demand for interferon and the third consecutive year of large price declines for pharmaceuticals. However, intensified scientific sales promotion activities and the leveraging of the previous year's approval for an expanded indication as a treatment for chronic hepatitis C resulted in increased sales of Toray's natural interferon- β preparation Feron*.

Medical Products

In the medical products business, strong performances by Toraysulfone* polysulfone-based artificial kidneys and Toraymyxin*, a device for treating severe septicemia by removing endotoxins from blood, resulted in increased medical product sales.

Strategic Initiatives

Strategic alliances forged during the term included the acquisition of a 5% stake in United Therapeutics Corporation, of the United States, with a view toward cooperating in the North American development and marketing of a beraprost sodium (BPS) oral prostacyclin (PGI₂) derivative for the treatment of pulmonary vascular disease. This independently developed drug is marketed in Japan under such brand names as Dorner* and is the world's first orally active PGI₂ derivative. While continuing to push forward with efforts to introduce BPS into markets around the world, Toray intends to utilize its new alliance with United Therapeutics to aggressively expand its pharmaceuticals business.

Outlook

Although market conditions are expected to be severe, Toray will strive to expand sales volumes for medical products as well as such mainstay products as Feron* and Dorner*.

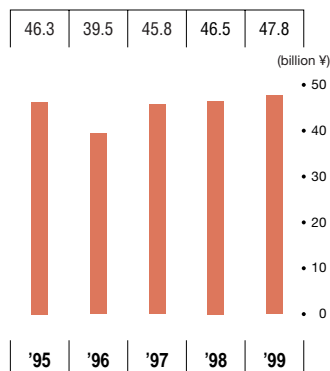


Feron* natural interferon- β preparation

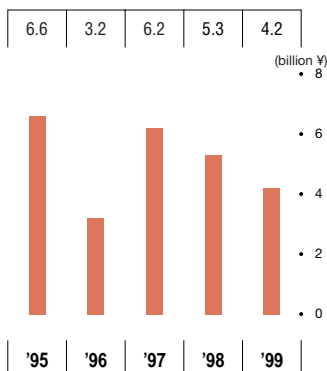
Dorner*, the world's first PGI₂ derivative

Toraysulfone* polysulfone-based, hollow-fiber artificial kidney

SALES



OPERATING INCOME



New Products and Other Businesses



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Carbon fiber reinforced composite is used in notebook PC cases.

Torayca* carbon fiber cloth for civil engineering reinforcement applications

Sales in new products and other businesses in fiscal 1999 rose 0.4% from the previous year, to ¥105.4 billion, accounting for 10.5% of consolidated net sales. Segment operating income declined 13.8%, to ¥9.0 billion.

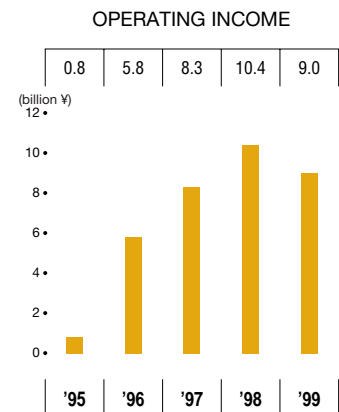
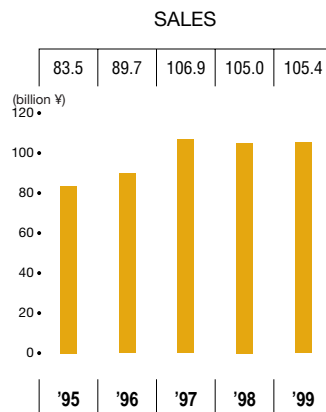
Advanced Composite Materials

The carbon fiber market continued to report strong growth in fiscal 1999, and our composite material businesses enjoyed substantially heightened performances. Worldwide demand for industrial-use carbon fiber expanded greatly despite a sluggish environment for sporting goods applications in the United States and Japan. Sales of Torayca* carbon fiber increased, particularly for use in aerospace and industrial applications in the United States and Europe, while higher sales of composite products were driven by increased demand for use in such information technology related products as

notebook computer components and for use in medical-related products.

Regarding capital investments, Toray commenced operations of a Torayca* large-tow-type production facility at the Ehime plant in July 1998. Furthermore, in April 1999 our subsidiary Toray Carbon Fibers America, Inc. (CFA), in the United States, completed a carbonizing plant with an annual production capacity of 1,800 tons.

In the following term, worldwide demand for carbon fiber is expected to increase steadily. As the world's largest producer of carbon fiber, Toray will take full advantage of its existing production bases in Japan and Europe as well as the new operations at CFA to carry out management strategies aimed at further business expansion over the medium-to-long term. CFA's new operations came on stream in April 1999 and now give the Toray Group a total Torayca* production capacity of 7,300 tons per year.



Electronics and Information-Related Products

Overall sales of electronics and information-related products decreased from the previous year, mainly as a result of sluggish sales of materials used in the semiconductor industry and lower prices of thin-film transistor (TFT) color filters for liquid crystal displays (LCDs).

Among circuit materials, the Company's liquid crystal driver mounting materials achieved expanded market share. However, due to deteriorating conditions in the semiconductor industry, sales of IC molding compounds declined. Sales of display materials declined as a result of the adverse effects of substantial price declines centered on TFT color filters for LCDs. In South Korea, the gradual expansion of tape automated bonding (TAB) operations was accomplished on schedule.

Looking at capital investments, Toray completed the fourth production line for color filters at the Shiga plant. The line is scheduled to start up in the current term, with products aimed primarily at applications in large LCD monitors. The Company is aiming to increase the profitability of its display and circuit materials business and achieve a turnaround in the earnings performance of electronics and information-related products.

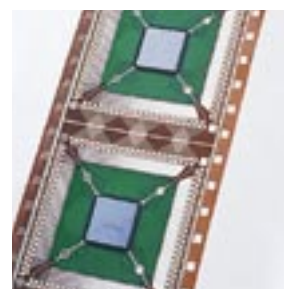
Other Businesses

In the ceramics business, sales of mainstay components for semiconductor manufacturing equipment declined.

Domestic sales in the printer business decreased because of postponed information-technology-related capital investment by major industries; however, export sales of printer engines increased.

In the large-scale structures business, despite lower sales of products for applications in truck bodies, sales of building materials and home elevator cages expanded.

In the contact lenses and optical filters businesses, the Company worked to develop and market new products, launching such new products as Breath-O* Super Hard contact lenses and, in the field of screen filters for preventing eye fatigue, commencing sales of ultralow antireflecting filters for use in LCDs.



E-Filter* antireflecting filters are a hit with PC users.

Printed circuit materials of film carrier-tape for TAB

Board of Directors

(As of June 29, 1999)

Chairman of the Board
and Representative Director

KATSUNOSUKE MAEDA

President
and Chief Executive Officer
and Representative Director

KATSUHIKO HIRAI

Executive Vice Presidents
and Representative Directors

**TAKUYA TAKAYAMA
HIDETANE IJIMA
YOICHI SHIMOKAWA**

Senior Managing Directors

**AKIRA SAWAMURA
TERUYA OHNO
HIN IGARASHI
NORIYASU YAMAGUCHI
SADAYUKI SAKAKIBARA**

Managing Directors

**TAKANOBU SHIBUYA
HIROTAKE NAKASHIMA
SATORU MASUZAKI
TAMON HIROYAMA
SHOICHI AKITA
KIYOTERU WAKASUGI
KAZUO TOMIITA
SHINJI KOYAMA
MASAO KATSURAUMA
NOBORU FUJIHARA
HIROAKI KOBAYASHI
YOSHIHIRO OKUMURA**

Directors

**JUNICHI UJIKE
HIROSHI OKA
MOTOO YOSHIKAWA
TOSHIYUKI UMEMOTO
KEIZO SANO
TSUYOSHI WATANABE
CHIAKI TANAKA
SHUNJI NAKAZAWA**

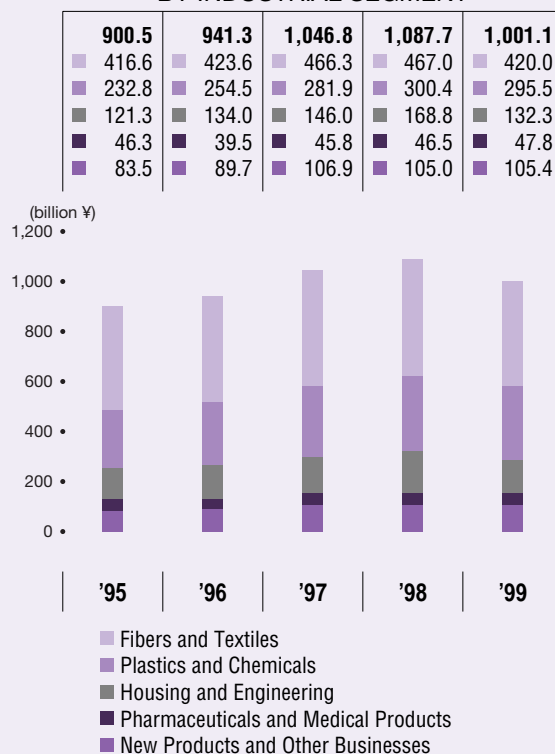
Corporate Auditors

**AKIRA OGURA
JUNICHI KABE
EIICHI KAKEI
KENICHI SUEMATSU**

Financial Section

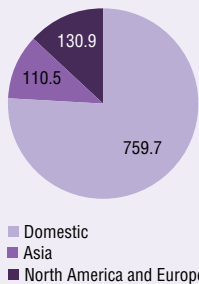
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on the Consolidated Financial Statements

FIVE-YEAR SUMMARY OF SALES
BY INDUSTRIAL SEGMENT

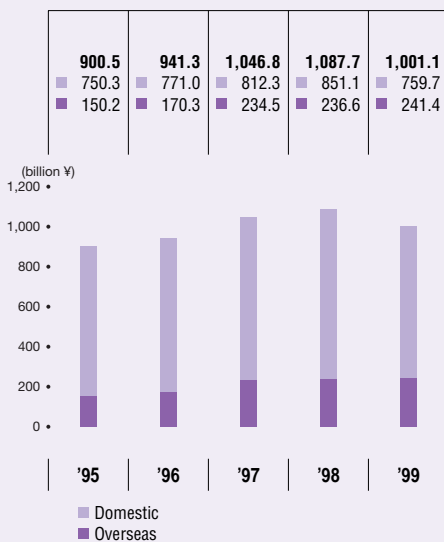


Management's Discussion and Analysis

FISCAL 1999 SALES BY GEOGRAPHIC SEGMENT (billion ¥)



DOMESTIC AND OVERSEAS SALES



OVERVIEW

In fiscal 1999, ended March 31, 1999, Japan's economy experienced its second consecutive year of negative growth due to sluggish personal consumption and declining private-sector capital investment. This, together with the adverse effects of stalled economic growth in Asian countries, created harsh business conditions that substantially affected Toray's financial performance in its principal business fields of fibers and textiles and plastics and chemicals.

In this operating environment, Toray continued to carry out programs to enhance its production processes and boost efficiency with the aim of increasing its cost-competitiveness. In addition, the Company focused investment on R&D in fields—mainly in new products and other businesses—expected to experience strong growth and aggressively invested in plant and equipment both in Japan and overseas with a view toward strengthening and expanding its operation base over the medium-to-long term.

INCOME ANALYSIS

Net Sales

In fiscal 1999, Toray recorded consolidated net sales of ¥1,001.1 billion, down 8.0%, or ¥86.6 billion, from the previous fiscal year.

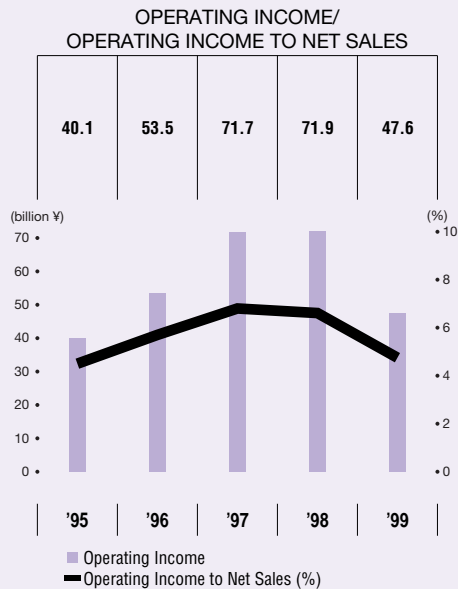
Looking at results by industrial segment, fibers and textiles, plastics and chemicals, and housing and

engineering all experienced lower sales, while pharmaceuticals and medical products as well as new products and other businesses registered sales increases.

In the fibers and textiles segment, overseas subsidiaries recorded increased sales thanks to the start of operations at new production facilities for polyester chips and filament yarns in China and man-made suede in Italy. However, with sales by the Company and domestic subsidiaries adversely affected by stagnant personal consumption in Japan and intense price competition in garment applications, segment sales declined ¥46.9 billion, or 10.1%, to ¥420.0 billion, and accounted for 42.0% of consolidated net sales, down 0.9 percentage point from the previous fiscal year.

In the plastics and chemicals segment, overseas subsidiaries recorded increased sales. However, with the Company's resin business negatively influenced by sluggish demand for automotive and electrical machinery applications, its polyester film business adversely affected by lower demand for polyester film for industrial applications, and its chemicals business hurt by lower prices for the nylon raw material caprolactam, segment sales shrank ¥4.9 billion, or 1.6%, to ¥295.5 billion.

In the housing and engineering segment, due to sluggish private-sector capital investment and a highly competitive operating environment for domestic



subsidiaries, segment sales fell ¥36.5 billion, or 21.6%, to ¥132.3 billion.

Sales of pharmaceuticals and medical products rose ¥1.3 billion, or 2.8%, to ¥47.8 billion, as a result of additional indications for interferon and efforts to expand sales of artificial kidneys amid a deteriorating operating environment and large price declines for pharmaceuticals.

In the new products and other businesses segment, sales of advanced composite materials rose due to expanded worldwide demand for carbon fiber for aerospace and industrial applications. However, sales of electronics and information-related products were adversely affected by lower prices of TFT color filters for LCDs. Consequently, segment sales rose only ¥0.4 billion, or 0.4%, to ¥105.4 billion.

Looking at sales by geographic segment, sales in Japan by the Company and consolidated subsidiaries fell ¥91.4 billion, or 10.7%, to ¥759.7 billion, and accounted for 75.9% of consolidated net sales, down from 78.2% in the previous fiscal year.

Sales by subsidiaries in Asia—comprising operations in China, Thailand, Indonesia, Malaysia, and Singapore—slipped ¥2.2 billion, or 2.0%, to ¥110.5 billion, and accounted for 11.0% of consolidated net sales, up from 10.4% in the previous fiscal year.

Sales by subsidiaries in North America and Europe—comprising operations in the United States, the United Kingdom, France, Italy, and

Germany—rose ¥7.0 billion, or 5.6%, to ¥130.9 billion, and accounted for 13.1% of consolidated net sales, up from 11.4% in the previous fiscal year.

Looking at export sales and sales by overseas subsidiaries on a market basis, sales to and in North America, Europe, and other areas rose, while sales to and in Asia declined. Consequently, the percentage of such sales against consolidated net sales rose 1.7 percentage points, to 37.0%. Broken down by area, sales to and in Asia amounted to ¥165.6 billion, or 16.5% of consolidated net sales, and sales to and in North America, Europe, and other areas totaled ¥204.6 billion, or 20.5% of consolidated net sales.

Costs and Expenses

Against an 8.0% decline in consolidated net sales, cost of sales fell 7.8%. As a result, the cost of sales ratio edged up 0.1 percentage point, to 75.5%, due mainly to an increase in unit fixed costs as a result of decreased sales volume.

Selling, general and administrative (SG&A) expenses shrank ¥2.0 billion, or 1.3%, to ¥157.7 billion, due mainly to a decrease in salaries. SG&A expenses as a percentage of consolidated net sales rose 1.1 percentage points, to 15.8%.

Research and development expenses increased ¥1.7 billion, or 4.8%, to ¥37.9 billion.

In addition, due to amendments made to disclosure methods,

¥2.0 billion in amortization of cost in excess of net assets acquired is included in operating expenses in fiscal 1999.

Consequently, total costs and operating expenses as a percentage of consolidated net sales rose 1.8 percentage points, to 95.2%, in the term under review.

Operating Income and Net Income

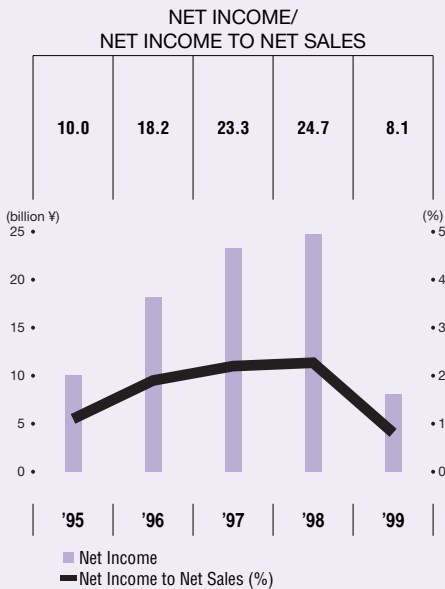
Operating income dropped 33.9%, to ¥47.6 billion, due mainly to a decline in consolidated net sales. As a result, the ratio of operating income to consolidated net sales slipped 1.8 percentage points, to 4.8%.

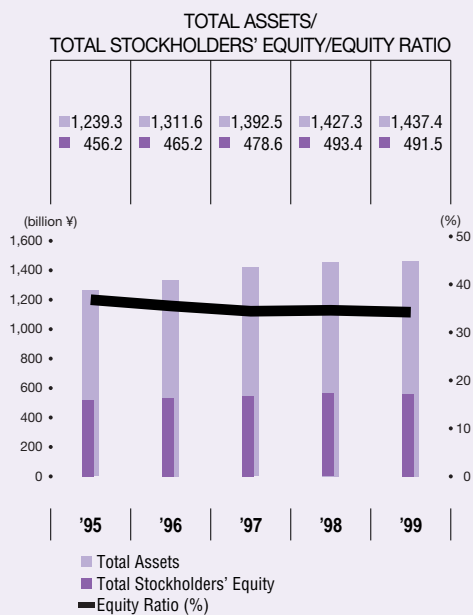
Looking at operating income by industrial segment, all segments showed declines. Operating income in the fibers and textiles segment fell ¥12.5 billion, or 44.3%, to ¥15.7 billion, due mainly to a harsh operating environment for the Company and domestic subsidiaries as a result of slumping market conditions in Japan and losses registered by newly established overseas subsidiaries. Operating income in the fibers and textiles segment accounted for 33.3% of total operating income. Operating income in the plastics and chemicals segment slumped ¥9.5 billion, or 35.7%, to ¥17.2 billion, mainly as a result of sluggish performances by Toray's resins and films businesses. In the housing and engineering segment, operating income sank ¥1.1 billion, or 51.1%, to ¥1.0 billion, that in pharmaceuticals and

medical products dropped ¥1.0 billion, or 19.8%, to ¥4.2 billion, and that in new products and other businesses declined ¥1.4 billion, or 13.8%, to ¥9.0 billion.

By geographic operating segment, operating income from domestic operations dropped ¥19.6 billion, or 42.8%, to ¥26.2 billion. Operating income in Asia fell ¥2.8 billion, or 25.0%, to ¥8.5 billion, due mainly to an overall economic slump in the region and losses recorded by newly established subsidiaries. In North America and Europe, although revenues registered a 5.6% rise, due mainly to lower prices in the films business and a change in disclosure methods that resulted in the inclusion of amortization of cost in excess of net assets acquired being included in operating expenses, operating income fell ¥2.4 billion, or 16.0%, to ¥12.8 billion. Consequently, the ratios of operating income to assets for operations in Japan and outside Japan were 2.5% and 6.0%, respectively, reflecting the high level of profitability of the Company's overseas operations.

Net other income (expenses) improved ¥5.8 billion, to expenses of ¥6.1 billion, compared with expenses of ¥11.9 billion in the previous term. However, due to a change in disclosure methods, this figure includes equity in earnings of affiliates of ¥6.2 billion. By category, interest and dividend income slipped ¥0.2 billion, to ¥5.0 billion, while interest expenses—





comprising interest payments and discount charges—improved ¥0.8 billion, to ¥17.9 billion. As a result, net finance expenses improved ¥0.6 billion, to ¥12.9 billion. Other income (expenses), other, net, fell ¥1.1 billion, to income of ¥0.6 billion, compared with income of ¥1.7 billion in the previous term. This was due largely to an increase in the disposal and write-down of inventories by the Company. In addition, the ¥4.4 billion increase in equity in earnings of affiliates was principally due to contributions by South China (Jersey) Holdings Ltd. and Sanyo Chemical Industries, Ltd.

Net special credits (charges) worsened ¥16.6 billion, to charges of ¥17.7 billion. Among the major factors contributing to this figure were the absence of the sale of land, which contributed to net special credits in the previous term; a ¥4.9 billion loss from the sale or write-down of investments in securities; and a ¥6.7 billion improvement in exchange losses, to ¥4.3 billion, due mainly to exchange rate moves among Asian currencies.

Consequently, income before income taxes fell ¥35.2 billion, or 59.8%, to ¥23.7 billion. After adjustments for income taxes and minority interests in net income of consolidated subsidiaries, net income plunged ¥16.6 billion, or 67.2%, to ¥8.1 billion.

Primary net income per share plummeted ¥11.86 from the previous term, to ¥5.79. However, the Company

maintained cash dividends at ¥7.00 per share.

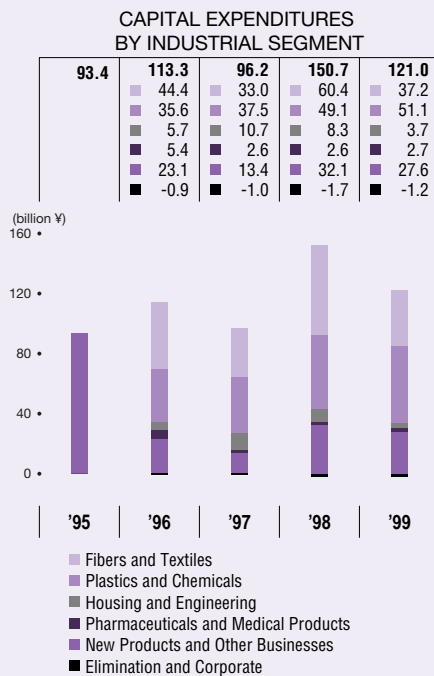
FINANCIAL POSITION

Assets

Total assets at the end of the period under review totaled ¥1,437.4 billion, up 0.7%, or ¥10.1 billion, from the previous year-end. This increase stemmed primarily from an increase in assets outside of Japan as a result of programs implemented to promote Group management and global operations. Domestic assets fell 3.9% and overseas assets rose 5.4%. Consequently, overseas assets as a percentage of total assets rose 1.7 percentage points, to 25.4%.

Current Assets

Total current assets fell ¥51.2 billion, or 8.2%, to ¥575.8 billion. Total liquid assets—including cash, time deposits, and marketable securities—dropped ¥44.7 billion, or 32.3%, to ¥93.6 billion, mainly as a result of activities by the Company to increase fund utilization efficiency through a reduction of cash. Trade receivables—comprising notes receivable and accounts receivable—contracted ¥18.0 billion, or 7.4%, to ¥226.5 billion. Marketable securities rose ¥8.6 billion, or 36.1%, to ¥32.4 billion, mainly because of a rise in the Company's fund utilization efficiency. Inventories climbed ¥17.7 billion, or 8.8%, to ¥219.1 billion.



Property, Plant and Equipment

At the end of the term under review, property, plant and equipment, net, totaled ¥643.9 billion, up 3.4%, or ¥21.2 billion, from the previous year-end. Driving this increase were the Company's aggressive capital investment programs—totaling ¥121.0 billion—aimed at upgrading production capabilities in its core business fields and further strengthening its global operating base. In Japan, these programs were aimed at modernizing Tetron* production facilities—to enhance product quality and achieve greater effectiveness—as well as bolstering production capabilities to meet growing demand for aramid film, color filters, and other high-value-added products made at leading-edge production facilities. Overseas, these programs were aimed at strengthening fiber and textile operations in China and Southeast Asia, film businesses in North America, Europe, and Southeast Asia, and carbon fiber facilities in the United States. The main capital investment programs undertaken from a Group perspective were the construction of a polyester filament yarn plant at Toray Fibers (Nantong) Co., Ltd., in China; the increase of polyester filament yarn production capacity at Toray Fibers (Thailand) Ltd.; the increase of polyester film production capacity at Toray Plastics Europe S.A. in France; the construction of a polyester film plant at Penfibre Sdn. Berhad in

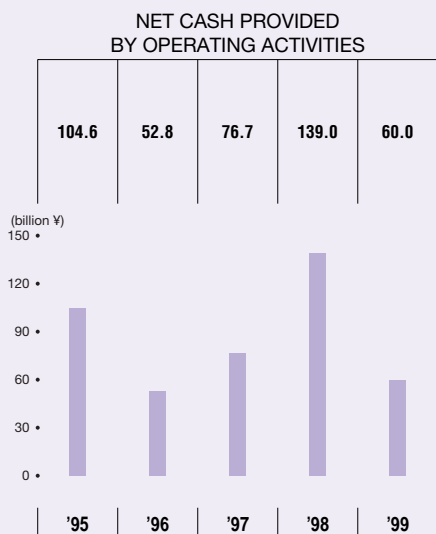
Malaysia; the increase of Ecsaine* production capacity at Alcantara S.p.A. in Italy; and the construction of a carbon fiber plant at Toray Carbon Fibers America, Inc.

Liabilities

Total liabilities at year-end totaled ¥912.4 billion, virtually unchanged from the end of the previous fiscal year. However, due to a change in disclosure methods, minority interests in consolidated subsidiaries, which was included in liabilities in the previous fiscal year, is disclosed independently in the fiscal year under review.

Current liabilities shrank ¥4.4 billion, or 0.9%, to ¥485.5 billion. Although long-term debt due within one year rose, this was substantially offset by declines in notes payable and accounts payable. Consequently, total current liabilities showed only a slight decrease from the previous fiscal year.

Bank loans contracted ¥2.6 billion, to ¥166.1 billion. Long-term debt, including the current portion, rose ¥49.1 billion, to ¥438.9 billion. The principal reason for this increase was the issue of ¥40.0 billion in domestic straight bonds to provide funds for the redemption of corporate bonds and funds for capital investment. Commercial paper fell ¥5.0 billion, to ¥0.5 billion. Consequently, total financial liabilities—comprising bank loans, long-term debt, commercial paper, and discounted notes—at the end of the



term totaled ¥611.7 billion, a rise of ¥7.4%, or ¥42.4 billion, from the previous fiscal year-end.

Stockholders' Equity

Total stockholders' equity decreased 0.4%, or ¥1.9 billion, to ¥491.5 billion. This mainly comprised ¥8.1 billion in net income and ¥10.0 billion in appropriations for cash dividends and bonuses to directors and corporate auditors. Consequently, stockholders' equity per share edged down ¥1.33, to ¥350.70, while the equity ratio slipped 0.4 percentage point, to 34.2%.

CASH FLOWS

Net Cash Provided by Operating Activities

Net cash provided by operating activities plunged ¥79.0 billion, to ¥60.0 billion. The main reasons for this decrease were a ¥16.6 billion decline in net income as well as an increase in working capital principally due to a ¥29.9 billion decrease in trade payables and accrued liabilities, compared with an ¥18.1 billion increase in the previous fiscal year, and a ¥21.6 billion increase in inventories, compared with a ¥1.2 billion increase in the previous fiscal year.

Net Cash Used in Investing Activities

Net cash used in investing activities rose ¥14.2 billion, to ¥134.8 billion. Although the aggressive implementation of investment programs continued, capital expenditures decreased

¥29.7 billion, to ¥121.0 billion, mainly due to the completion of some major investment projects. This decrease partially offset the effects of a ¥30.5 billion drop in proceeds from disposal of non-current assets and an ¥11.3 billion rise in the purchase of investment securities.

Net Cash Provided by Financing Activities

Net cash provided by financing activities rose ¥31.9 billion, to ¥34.5 billion. The primary factors affecting this result were a ¥6.4 billion rise in proceeds from long-term debt, to ¥90.4 billion, resulting from efforts to facilitate business expansion and aggressive investment, whereas repayments of long-term debt decreased ¥36.1 billion, to ¥47.7 billion.

As a result of the above activities and a ¥2.3 billion loss due to the effect of exchange rate changes as well as a ¥1.6 billion increase due to the inclusion of additional consolidated subsidiaries, cash and cash equivalents at the end of the term stood at ¥85.8 billion, down ¥41.0 billion from the end of the previous fiscal year.

From a liquidity point of view, this decrease was offset by committed credit arrangements in the amount of ¥40.0 billion.

YEAR 2000 (Y2K)

COMPLIANCE STRATEGIES

Countermeasures

Fully recognizing that the Y2K computer problem is one of the most important issues facing management today, Toray has taken the following steps to deal with the problem comprehensively and systematically.

Organization

In 1997, Toray conducted an internal study of its information systems, production facilities, and equipment with embedded microchips, and in March 1998 the Board of Directors launched a project to deal with the problem among all Group companies. This included planning a Y2K compliance organization, strategy, and timetable as well as estimating the approximate cost of dealing with the issue. In November 1998, Toray took steps to initiate its Y2K contingency plan and in March 1999 it established a Y2K task force comprised of the Company's relevant divisions.

Progress to Date

With regard to our key business systems—including sales, logistics purchasing, and finance and accounting—Toray has fully restructured these systems since 1993. The Company also is on course to make all manufacturing equipment with embedded chips and production systems Y2K compliant by September 1999. At

present, the project is proceeding according to plan.

Regarding our subsidiaries in Japan and overseas, the implementation of surveys on Y2K compliance measures has allowed us to ascertain progress. We are encouraging our subsidiaries to take similar steps toward compliance based on our example. At the same time, we have asked our major business partners to fill out a questionnaire on the Y2K problem.

Necessary Expenditures

Necessary expenditures that can be clearly identified as relating to the Y2K problem are expected to total approximately ¥1.2 billion. Approximately ¥0.6 billion was spent in fiscal 1999.

Contingency Plan

As outlined above, Toray believes it has foreseen all possible scenarios involving malfunctions of its systems and production facilities as well as those of its business partners. We are currently working on a concrete contingency plan manual and intend to be completed by September 1999.

Consolidated Balance Sheets

Toray Industries, Inc. and Subsidiaries
March 31, 1999 and 1998

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	1999
Current assets:			
Cash	¥ 43,827	¥ 80,911	\$ 362,207
Time deposits (Note 7)	17,344	33,569	143,339
Marketable securities (Note 4).....	32,427	23,833	267,992
Trade receivables (Note 6):			
Notes receivable.....	53,099	64,537	438,835
Accounts receivable	173,410	180,001	1,433,140
Allowance for doubtful accounts.....	(2,897)	(2,817)	(23,942)
Inventories (Note 5)	219,071	201,418	1,810,504
Deferred tax assets (Note 8).....	8,011	8,124	66,206
Prepaid expenses and other current assets.....	31,461	37,366	260,008
Total current assets.....	575,753	626,942	4,758,289
Property, plant and equipment (Note 7):			
Land.....	81,761	79,744	675,711
Buildings.....	355,938	331,677	2,941,636
Machinery and equipment.....	1,180,445	1,094,266	9,755,744
Construction in progress.....	61,894	96,367	511,520
	1,680,038	1,602,054	13,884,611
Accumulated depreciation	(1,036,124)	(979,365)	(8,563,008)
	643,914	622,689	5,321,603
Investments, long-term loans and other assets:			
Affiliates.....	44,413	41,232	367,050
Marketable equity securities (Notes 4 and 7).....	58,059	59,212	479,826
Other securities	17,064	8,539	141,025
Long-term loans receivable.....	2,288	2,941	18,909
Other.....	41,546	38,544	343,355
Allowance for doubtful accounts.....	(1,800)	(768)	(14,876)
	161,570	149,700	1,335,289
Intangible assets	4,218	2,767	34,860
Cost in excess of net assets acquired	2,781	4,200	22,983
Foreign currency translation adjustment	49,124	20,993	405,984
	¥1,437,360	¥1,427,291	\$11,879,008

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	1999
Current liabilities:			
Bank loans (Note 7)	¥ 166,098	¥ 168,708	\$ 1,372,711
Long-term debt due within one year (Note 7)	65,825	19,280	544,008
Commercial paper	500	5,500	4,132
Trade payables (Note 6):			
Notes payable	70,024	88,938	578,711
Accounts payable	100,050	113,177	826,859
Income taxes payable	6,567	15,216	54,273
Accrued liabilities	47,364	49,236	391,438
Other current liabilities	29,063	29,875	240,190
Total current liabilities	485,491	489,930	4,012,322
Long-term debt (Note 7)	373,115	370,552	3,083,595
Employees' retirement benefits (Note 9)	46,936	47,317	387,901
Customers' guarantee deposits and other liabilities	5,665	5,018	46,818
Deferred tax liabilities (Note 8)	1,183	233	9,777
	912,390	913,050	7,540,413
Minority interests in consolidated subsidiaries	33,473	20,875	276,636
Stockholders' equity (Note 10):			
Common stock:			
Authorized—4,000,000,000 shares			
Issued—1,401,481,403 shares (1,401,481,403 shares—1998)	96,937	96,937	801,132
Additional paid-in capital	85,792	85,792	709,025
Consolidated surplus	308,770	310,638	2,551,818
	491,499	493,367	4,061,975
Treasury stock, at cost	(2)	(1)	(16)
Total stockholders' equity	491,497	493,366	4,061,959
	¥1,437,360	¥1,427,291	\$11,879,008

Consolidated Statements of Income and Surplus

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1999	1998	1997	1999
Net sales (Note 6).....	¥1,001,117	¥1,087,713	¥1,046,837	\$8,273,694
Costs and expenses:				
Cost of sales	755,900	819,895	785,191	6,247,108
Selling, general and administrative expenses.....	157,691	159,718	154,152	1,303,231
Research and development expenses.....	37,915	36,181	35,833	313,347
Amortization of cost in excess of net assets acquired	2,047	—	—	16,917
	953,553	1,015,794	975,176	7,880,603
Operating income.....	47,564	71,919	71,661	393,091
Other income (expenses):				
Interest expenses.....	(17,909)	(18,705)	(17,321)	(148,008)
Interest and dividend income.....	4,961	5,171	4,617	41,000
Equity in earnings of affiliates	6,243	—	—	51,595
Other, net	601	1,669	(2,607)	4,967
	(6,104)	(11,865)	(15,311)	(50,446)
Income before special credits (charges).....	41,460	60,054	56,350	342,645
Special credits (charges):				
(Loss) gain on disposal of property, plant and equipment, net.....	(2,531)	17,082	(1,859)	(20,917)
Loss on sale or write-down of investments in securities, net	(4,850)	(55)	(1,533)	(40,082)
Loss on liquidation of affiliated companies.....	—	(174)	—	—
Special severance payments and other restructuring expenses	(4,809)	(5,626)	(7,005)	(39,744)
Special contributions for retirement pension plan	(665)	(790)	(1,087)	(5,496)
Exchange loss.....	(4,328)	(10,988)	—	(35,769)
Provision for bad debt.....	(548)	(548)	—	(4,529)
	(17,731)	(1,099)	(11,484)	(146,537)
Income before income taxes.....	23,729	58,955	44,866	196,108
Income taxes (Note 8):				
Current	12,929	24,267	20,681	106,851
Deferred	357	3,736	1,223	2,951
	13,286	28,003	21,904	109,802
Income from consolidated operations	10,443	30,952	22,962	86,306
Minority interests in net income of consolidated subsidiaries	(2,326)	(6,164)	(362)	(19,223)
Amortization of cost in excess of net assets acquired	—	(1,919)	(2,496)	—
Equity in earnings of affiliates	—	1,871	3,172	—
Net income	8,117	24,740	23,276	67,083
Consolidated surplus:				
At beginning of year	310,638	271,634	258,798	2,567,256
	318,755	296,374	282,074	2,634,339
Appropriations:				
Cash dividends	9,810	9,810	9,810	81,074
Transfer to legal reserve.....	—	—	469	—
Bonuses to directors and corporate auditors	175	160	161	1,447
	9,985	9,970	10,440	82,521
At end of year.....	¥ 308,770	¥ 286,404	¥ 271,634	\$2,551,818

	Yen			U.S. dollars (Note 3)
Net income per share (Note 1):				
Primary	¥5.79	¥17.65	¥16.61	\$0.048
Fully diluted.....	—	17.43	16.41	—

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1999	1998	1997	1999
Cash flows from operating activities:				
Net income	¥ 8,117	¥ 24,740	¥ 23,276	\$ 67,083
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	79,663	74,633	77,530	658,372
Deferred income taxes	357	3,736	1,223	2,951
Loss (gain) on disposal of noncurrent assets.....	7,381	(17,027)	3,392	61,000
Equity in earnings of affiliates, less dividends.....	(3,164)	543	(1,164)	(26,149)
Decrease (increase) in trade receivables.....	13,069	25,622	(25,928)	108,008
Increase in inventories.....	(21,610)	(1,152)	(8,426)	(178,595)
(Decrease) increase in trade payables and accrued liabilities.....	(29,932)	18,105	5,529	(247,372)
(Decrease) increase in employees' retirement benefits.....	(828)	421	(665)	(6,843)
Minority interests	2,326	6,164	362	19,223
Other, net.....	4,605	3,238	1,558	38,057
Net cash provided by operating activities.....	59,984	139,023	76,687	495,735
Cash flows from investing activities:				
Capital expenditures.....	(120,968)	(150,700)	(96,182)	(999,736)
Purchase of investment securities.....	(16,810)	(5,545)	(11,774)	(138,925)
Proceeds from disposal of noncurrent assets.....	2,095	32,569	2,028	17,314
Other, net.....	922	3,144	(2,592)	7,620
Net cash used in investing activities	(134,761)	(120,532)	(108,520)	(1,113,727)
Cash flows from financing activities:				
Increase in short-term debt.....	1,595	12,306	24,704	13,182
Proceeds from long-term debt	90,434	83,995	65,640	747,388
Repayments of long-term debt	(47,727)	(83,872)	(44,994)	(394,438)
Cash dividends paid.....	(9,810)	(9,810)	(9,810)	(81,074)
Net cash provided by financing activities.....	34,492	2,619	35,540	285,058
Effect of exchange rate changes on cash and cash equivalents	(2,337)	(3,797)	2,203	(19,314)
Net (decrease) increase in cash and cash equivalents.....	(42,622)	17,313	5,910	(352,248)
Cash and cash equivalents at beginning of year.....	126,852	109,539	103,629	1,048,364
Beginning of term balance of cash and cash equivalents at subsidiaries not previously included in consolidated financial statements.....	1,589	—	—	13,132
Cash and cash equivalents at end of year	¥ 85,819	¥126,852	¥109,539	\$ 709,248
Supplemental information of cash flows:				
Cash paid during the year for:				
Interest.....	¥17,724	¥18,667	¥17,824	\$146,479
Income taxes	21,578	24,177	19,650	178,331

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 1999, 1998 and 1997

1. Significant Accounting Policies

Basis of Presenting Consolidated Financial Statements

Toray Industries, Inc. (the Company) and its subsidiaries in Japan have prepared their financial statements in accordance with accounting principles and practices generally accepted in Japan.

Overseas subsidiaries have prepared their financial statements in accordance with accounting practices prevailing in their respective domicile countries.

Certain items presented in the original consolidated financial statements in Japanese have been reclassified for the convenience of readers outside Japan.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries.

Investments in unconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation. The excess of acquisition costs over net assets acquired is amortized generally over five years on a straight-line basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash, short-term time deposits which may be withdrawn on demand without diminution of principal and highly liquid investments with original maturities of three months or less.

Marketable Securities

Marketable securities in current assets and marketable equity securities in noncurrent assets are generally carried at the lower of moving average cost or market.

Allowance for Doubtful Accounts

The Company and its domestic subsidiaries have provided an allowance for doubtful accounts principally at an estimated amount of probable bad debts plus the maximum permitted deduction under Japanese tax regulations.

Overseas subsidiaries have provided an allowance for doubtful accounts at an estimated amount of probable bad debts.

Inventories

Finished goods and work in process are generally stated at average cost.

Raw materials and supplies are generally stated at the lower of average cost or current replacement cost.

Other Securities

Other securities in noncurrent assets are stated at average cost or less.

Property, Plant and Equipment

Property, plant and equipment is stated at cost except those of overseas subsidiaries that were revalued in accordance with the regulations of domicile countries and recorded at such revalued amount.

Depreciation for property, plant and equipment of the Company and its domestic subsidiaries is principally computed by the declining balance method and depreciation for those of overseas subsidiaries is principally computed by the straight-line method at rates based on estimated useful lives that are as follows:

Buildings	7–50 years
Machinery and equipment	5–10 years

Following a change in the Corporation Tax Law of Japan in 1998, useful lives of domestic companies' buildings were shortened. As a result of this change, depreciation was ¥869 million (US\$7,182 thousand) higher, operating income was ¥729 million (US\$6,025 thousand) lower and income before income taxes was ¥741 million (US\$6,124 thousand) lower, respectively, than they would have been had the useful life figures used in the previous fiscal year been applied.

The effect of this change on segment information is presented in Note 13.

Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Deferred income taxes (including enterprise taxes) are provided for timing differences between financial and taxable income. The Company also provides for the anticipated tax effect of future remittances of retained earnings from overseas subsidiaries and affiliated companies.

Employees' Retirement Benefits

The Company has two retirement plans in effect (an unfunded lump-sum benefit plan and a funded contributory pension plan) covering all employees in general.

Under the terms of the lump-sum benefit plan, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to indemnities based on compensation at the time of severance and years of service. The liability as shown in the balance sheets for employees' retirement benefits represents 50% of the amount which would be required if all employees voluntarily terminated their service at the respective balance sheet dates.

The Company's pension plan covers all eligible employees. In general, the plan provides for pension payments for life commencing from age 60. The annual provision for this plan includes current period costs, amortization over a 14-year and 11-month period of prior service costs and interest on the unfunded portion. The provision is determined actuarially and funded currently through an outside trustee.

Appropriation of Retained Earnings

Cash dividends, transfers to the legal reserve and bonuses to directors and corporate auditors are recorded in the fiscal year when the proposed appropriation of retained earnings is approved by the Board of Directors and/or stockholders.

Legal Reserve

The Japanese Commercial Code provides that an amount not less than 10% of cash distributions paid out of retained earnings (cash dividends and bonuses to directors and corporate auditors) each year be appropriated to the legal reserve until such reserve equals 25% of the "Common stock" account. The legal reserve may be used to reduce a deficit or may be transferred to the "Common stock" account, but is not available for distribution as dividends. The legal reserve in the accompanying consolidated financial statements includes only that of the Company. The Company's equity in the legal reserves of its consolidated subsidiaries is included in consolidated retained earnings.

2. Changes in Disclosure Methods due to Regulatory Amendments

Due to the amendments of the Consolidated Financial Statement Regulation in Japan, the following presentations of the accounts in the accompanying consolidated financial statements have been changed for the fiscal year ended March 31, 1999.

Consolidated Balance Sheets

The legal reserve and retained earnings, which were disclosed separately in fiscal 1998, are disclosed as consolidated surplus in fiscal 1999.

Consolidated Statements of Income and Surplus

Enterprise taxes, which were included in selling, general and administrative expenses in fiscal 1998, were included in income taxes current in fiscal 1999 and amounted to ¥1,758 million

Foreign Currency Transactions

Noncurrent receivables and payables of the Company and its domestic subsidiaries denominated in foreign currencies are translated into Japanese yen at historical exchange rates.

Other current receivables and payables denominated in foreign currencies are translated at the applicable rates of exchange in effect at year-end.

All realized foreign currency exchange gains and losses and unrealized gains and losses on current receivables and payables are included in net income.

Translation of Foreign Currency Financial Statements

Translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is made by using the current exchange rates prevailing at the balance sheet dates, with an exception that the translation of stockholders' equity is made by using the historical rates. Revenue and expense accounts are translated at the year's average rate of exchange.

Net Income per Share

The computation of net income per share of common stock shown in the consolidated statements of income and surplus is based on the weighted average number of shares of common stock outstanding for the year.

Diluted net income per share is computed to reflect dilutive effect on net income assuming potential issues of new shares of common stock upon conversion of convertible debt securities and exercise of warrants outstanding with the related reduction of interest expenses.

With regard to net income per share on a fully diluted basis, although convertible bonds were issued during the term, as a result of adjustment calculations, net income per share for the term did not decrease and was therefore not recorded.

(US\$14,529 thousand). As a result of this change, operating income and income before income taxes were higher by the aforementioned amount, respectively, than they would have been had enterprise taxes been categorized as in fiscal 1998.

Amortization of cost in excess of net assets acquired, which was independently stated as an additional amount after income before income taxes in fiscal 1998, was included in costs and expenses and amounted to ¥2,047 million (US\$16,917 thousand) in fiscal 1999. As a result of this change, operating income and income before income taxes were lower by the aforementioned amount, respectively, than they would have been had amortization of cost in excess of net assets acquired been categorized as in fiscal 1998.

Equity in earnings of affiliates, which was independently stated as an additional amount after income before income taxes in fiscal 1998, was presented under other income (expenses) and totaled ¥6,243 million (US\$51,595 thousand) in fiscal 1999. As a result of this change, operating income and income before income taxes

were higher by the aforementioned amount, respectively, than they would have been had equity in earnings of affiliates been categorized as in fiscal 1998.

The effect of these changes on segment information is presented in Note 13.

3. U.S. Dollar Amounts

The Company and its domestic consolidated subsidiaries maintain their accounting records in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥121 to \$1.00, the approximate exchange rate

prevailing on March 31, 1999. The inclusion of such U.S. dollar amounts is solely for the convenience of readers outside Japan and is not intended to imply that yen amounts and assets and liabilities that originated in yen have been or could be readily converted, realized, or settled in U.S. dollars at this or at any other rate.

4. Marketable Securities

At March 31, 1999 and 1998, the marketable securities in current assets consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Marketable equity securities.....	¥ 4,134	¥ 4,898	\$ 34,165
Marketable debt securities investments	20,671	—	170,835
Securities purchased under agreements with resale (Bond <i>GENSAKI</i>).....	3,977	12,372	32,868
Other marketable securities.....	3,645	6,563	30,124
	¥32,427	¥23,833	\$267,992
Market value of marketable equity securities.....	¥11,498	¥14,769	\$ 95,025

Also, at March 31, 1999 and 1998, the market value of marketable equity securities in noncurrent assets amounted to ¥162,917 million

(\$1,346,421 thousand) and ¥187,106 million, respectively.

5. Inventories

At March 31, 1999 and 1998, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Finished goods and work in process.....	¥179,631	¥167,360	\$1,484,554
Raw materials and supplies.....	39,440	34,058	325,950
	¥219,071	¥201,418	\$1,810,504

6. Account Balances and Transactions with Affiliates

At March 31, 1999 and 1998, account balances and transactions with unconsolidated subsidiaries and affiliated companies were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Trade receivables.....	¥12,468	¥ 8,241	\$103,041
Trade payables	6,731	3,812	55,628
Sales	45,701	21,366	377,694
Purchases	32,025	19,460	264,669

7. Bank Loans and Long-Term Debt

Bank loans at March 31, 1999 and 1998, were represented by bank overdrafts and short-term notes. The Company is not required

to pay commitment fees on unused balances of the bank overdraft agreements.

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

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Loans principally from banks and insurance companies with interest rates primarily from 0.238% to 9.6%, maturing serially through 2012:			
Collateralized.....	¥ 3,871	¥ 5,271	\$ 31,992
Unsecured.....	187,172	209,968	1,546,877
Medium-term notes of consolidated subsidiaries with interest rates from 0.45% to 6.63% due 1999 to 2002	32,804	—	271,107
Mortgage bonds with an interest rate of 1.8% due 1999	100	100	826
Mortgage bonds with an interest rate of 2.3% due 2006	500	—	4,132
Convertible debentures with an interest rate of 1.7% due 2002	29,493	29,493	243,744
Yen notes with an interest rate of 4.35% due 1999	20,000	20,000	165,289
Yen notes with an interest rate of 4.25% due 2001	20,000	20,000	165,289
Yen notes with an interest rate of 2.65% due 2001	10,000	10,000	82,645
Yen notes with an interest rate of 2.40% due 2009	20,000	20,000	165,289
Yen notes with an interest rate of 2.275% due 2004	15,000	15,000	123,967
Yen notes with an interest rate of 2.25% due 2001	20,000	20,000	165,289
Yen notes with an interest rate of 2.20% due 2003	15,000	15,000	123,967
Yen notes with an interest rate of 2.05% due 2003	1,000	1,000	8,264
Yen notes with an interest rate of 2.03% due 2008	10,000	—	82,645
Yen notes with an interest rate of 1.925% due 2005	20,000	—	165,289
Yen notes with an interest rate of 1.65% due 1999	10,000	10,000	82,645
Yen notes with an interest rate of 1.40% due 2001	5,000	5,000	41,322
Yen notes with an interest rate of 1.40% due 2004	10,000	—	82,645
Yen notes with an interest rate of 1.31% due 2001	1,000	1,000	8,264
Yen floating rate notes due 2002	8,000	8,000	66,116
	438,940	389,832	3,627,603
Less amounts due within one year	65,825	19,280	544,008
	¥373,115	¥370,552	\$3,083,595

At March 31, 1999, assets pledged as collateral for short-term bank loans and collateralized loans and certain mortgage bonds of subsidiaries were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 17	\$ 140
Investments in securities at carrying value	41	339
Property, plant and equipment, at cost less accumulated depreciation	13,279	109,744
	¥13,337	\$110,223

The trust deeds covering the 1.7% convertible debentures provide for the conversion, subject to adjustment under specified conditions,

into 32,162 thousand shares of common stock at ¥917 (\$7.58) per share at March 31, 1999.

The annual maturities of long-term debt are as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2000	¥ 65,825	\$ 544,008
2001	105,742	873,901
2002	77,476	640,298
2003	66,054	545,901
2004	42,346	349,967
2005 and thereafter	81,497	673,528
	¥438,940	\$3,627,603

8. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities in fiscal 1999 and fiscal 1998 were 42.3% and 47.6%, respectively. Due to a change in the tax rate in fiscal 1999,

the balance of deferred tax assets was ¥1,779 million lower, and deferred tax liabilities ¥3,229 million lower, than they would have been using the tax rate applied in fiscal 1998.

At March 31, 1999, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Rebate.....	¥ 689	\$ 5,694
Accrued bonuses.....	701	5,793
Accrued enterprise taxes.....	495	4,091
Allowance for doubtful accounts.....	859	7,099
Long-term prepaid expenses.....	1,213	10,025
Employees' retirement benefits.....	6,903	57,050
Unrealized earnings.....	13,950	115,289
Other.....	3,423	28,290
Total deferred tax assets.....	28,233	233,331
Deferred tax liabilities:		
Reserve for advanced depreciation.....	13,800	114,050
Reserve for special depreciation.....	1,487	12,289
Undistributed earnings of foreign subsidiaries and affiliates.....	5,758	47,587
Other.....	360	2,975
Total deferred tax liabilities.....	21,405	176,901
Net deferred tax assets.....	¥ 6,828	\$ 56,430

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At March 31, 1999, reconciliation of the statutory tax rate and the effective income tax rate was as follows:

Statutory tax rate.....	47.6%
Increase (decrease) in taxes resulting from:	
Permanent differences.....	1.8
Losses by subsidiaries not utilizing tax effect accounting.....	11.7
Change of statutory tax rate.....	(3.1)
Equity in earnings of affiliates.....	(8.7)
Amortization of cost in excess of net assets acquired.....	4.1
Other.....	2.6
Effective income tax rate.....	56.0%

Tax loss carryforwards existing at March 31, 1999, are available to offset future income in certain subsidiaries and will expire as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2000.....	¥ 4,187	\$ 34,603
2001.....	3,030	25,041
2002.....	3,014	24,909
2003.....	5,670	46,860
2004 and thereafter.....	14,914	123,256
	¥30,815	\$254,669

9. Employees' Retirement Benefits

The amounts charged to income for both the employees' lump-sum benefit plan and the pension plan amounted to ¥19,635 million

(\$162,273 thousand), ¥17,739 million and ¥15,483 million in 1999, 1998 and 1997, respectively.

10. Stockholders' Equity

The Japanese Commercial Code requires that at least 50% of the paid-in capital of new share issues be transferred to the "Common stock" account, provided 50% of the paid-in capital is greater than the par value of the shares.

Changes of common stock and additional paid-in capital for the years ended March 31, 1999, 1998 and 1997, are summarized as follows:

	Common stock			Additional paid-in capital	
	Thousands of shares	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
March 31, 1997	1,401,481	¥96,937		¥85,792	
March 31, 1998	1,401,481	96,937		85,792	
March 31, 1999	1,401,481	96,937	\$801,132	85,792	\$709,025

At the June 1999 annual meeting, stockholders approved the payment of cash dividends of ¥3.50 per share, aggregating ¥4,905 million (\$40,537 thousand).

11. Contingent Liabilities

At March 31, 1999, contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes discounted.....	¥ 6,155	\$ 50,868
As guarantors of loans to:		
Affiliates	¥11,458	\$ 94,694
Others	9,126	75,422
	¥20,584	\$170,116
Obligations of guarantee.....	¥ 102	\$ 843

12. Leases

For the year ended March 31, 1999, finance leases other than those that are deemed to transfer the ownership of leased assets to lessees are accounted for as follows:

Equivalent Amount of Purchase, Accumulated Depreciation and Balance at End of Year

	Millions of yen			Thousands of U.S. dollars
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total	Total
Equivalent purchase amount.....	¥2,457	¥5,509	¥7,966	\$65,835
Equivalent accumulated depreciation amount.....	1,450	2,902	4,352	35,967
Equivalent balance at year-end.....	1,007	2,607	3,614	29,868

Note: Equivalent purchase amount is including interest.

Future Minimum Lease Payments for the Remaining Lease Periods

	Millions of yen	Thousands of U.S. dollars
Due within one year.....	¥1,424	\$11,769
Due over one year	2,190	18,099
Total	¥3,614	\$29,868

Note: Lease payments are including interest.

Paid Lease Fees and Equivalent Depreciation Expense Amount

	Millions of yen	Thousands of U.S. dollars
Paid lease fees	¥1,735	\$14,339
Equivalent depreciation expense amount.....	1,735	14,339

Note: Depreciation amounts are calculated using the straight-line method, with the lease period as the useful life and zero (0) as the residual value.

13. Segment Information

Results by Industrial Segment

The Company and its subsidiaries operate principally in five industrial segments: fibers and textiles, plastics and chemicals, housing and engineering, pharmaceuticals and medical products, and new products and other businesses.

Operations in the fibers and textiles segment involve the production and sale of nylon, polyester, acrylic fiber and textile products and synthetic suede. Operations in the plastics and chemicals segment involve the production and sale of nylon and ABS resins, polyester and polypropylene films, synthetic fiber raw materials and fine and specialty chemicals. Operations in the housing and engineering segment involve construction and plant engineering services and the manufacturing of industrial equipment and machinery. Operations in the pharmaceuticals and medical products segment involve the production and sale of interferon- β and beraprost sodium drugs and artificial kidneys. Operations in the new products and other businesses segment involve the production and sale of advanced composite

materials and electronics and information-related products as well as the provision of services in such diverse areas as research support, systems integration and hotel chain operation.

Effects of changes to regulations governing consolidated financial statements are as follows.

As a result of changes in useful life of depreciable assets, classification of enterprise taxes and classification of amortization of cost in excess of net assets acquired, operating income in the fibers and textiles segment was ¥667 million (US\$5,512 thousand) lower, that for the plastics and chemicals segment was ¥831 million (US\$6,868 thousand) lower, that for the housing and engineering segment was ¥115 million (US\$950 thousand) higher, that for the pharmaceuticals and medical products segment was ¥103 million (US\$851 thousand) higher and that for the new products and other businesses segment was ¥221 million (US\$1,826 thousand) higher in fiscal 1999 than they would have been had the methods and classifications used in fiscal 1998 been applied.

Millions of yen

Year ended March 31, 1999:	Fibers and textiles	Plastics and chemicals	Housing and engineering	Pharmaceuticals and medical products	New products and other businesses	Total	Elimination and corporate	Consolidated total
Sales to outside customers.....	¥420,040	¥295,537	¥132,343	¥47,796	¥105,401	¥1,001,117	¥ —	¥1,001,117
Intersegment sales	1,144	25,578	61,192	25	21,066	109,005	(109,005)	—
Total sales	¥421,184	¥321,115	¥193,535	¥47,821	¥126,467	¥1,110,122	¥(109,005)	¥1,001,117
Operating income.....	¥ 15,690	¥ 17,156	¥ 1,041	¥ 4,237	¥ 8,976	¥ 47,100	¥ 464	¥ 47,564
Assets.....	¥466,269	¥478,255	¥204,021	¥66,497	¥249,596	¥1,464,638	¥ (27,278)	¥1,437,360
Depreciation and amortization.....	26,763	30,756	2,957	2,887	15,626	78,989	(1,373)	77,616
Capital expenditures	37,203	51,086	3,666	2,661	27,579	122,195	(1,227)	120,968

Year ended
March 31, 1998:

Sales to outside customers.....	¥466,973	¥300,420	¥168,797	¥46,514	¥105,009	¥1,087,713	¥ —	¥1,087,713
Intersegment sales	1,165	29,183	78,793	31	20,633	129,805	(129,805)	—
Total sales	¥468,138	¥329,603	¥247,590	¥46,545	¥125,642	¥1,217,518	¥(129,805)	¥1,087,713
Operating income.....	¥ 28,149	¥ 26,672	¥ 2,129	¥ 5,283	¥ 10,414	¥ 72,647	¥ (728)	¥ 71,919
Assets.....	¥510,270	¥466,181	¥220,551	¥66,393	¥200,569	¥1,463,964	¥ (36,673)	¥1,427,291
Depreciation and amortization.....	26,375	27,246	2,660	3,245	14,168	73,694	(980)	72,714
Capital expenditures	60,370	49,131	8,251	2,644	32,053	152,449	(1,749)	150,700

Thousands of U.S. dollars

Year ended March 31, 1999:	Fibers and textiles	Plastics and chemicals	Housing and engineering	Pharmaceuticals and medical products	New products and other businesses	Total	Elimination and corporate	Consolidated total
Sales to outside customers.....	\$3,471,405	\$2,442,454	\$1,093,744	\$395,008	\$ 871,083	\$ 8,273,694	\$ —	\$ 8,273,694
Intersegment sales.....	9,455	211,388	505,719	207	174,099	900,868	(900,868)	—
Total sales.....	\$3,480,860	\$2,653,842	\$1,599,463	\$395,215	\$1,045,182	\$ 9,174,562	\$(900,868)	\$ 8,273,694
Operating income.....	\$ 129,669	\$ 141,785	\$ 8,603	\$ 35,017	\$ 74,182	\$ 389,256	\$ 3,835	\$ 393,091
Assets.....	\$3,853,463	\$3,952,520	\$1,686,124	\$549,562	\$2,062,777	\$12,104,446	\$(225,438)	\$11,879,008
Depreciation and amortization.....	221,182	254,182	24,438	23,860	129,140	652,802	(11,347)	641,455
Capital expenditures.....	307,463	422,198	30,297	21,992	227,926	1,009,876	(10,140)	999,736

Results by Geographic Segment

As a result of changes in useful life of depreciable assets, classification of enterprise taxes and classification of amortization of cost in excess of net assets acquired, operating income in Japan was ¥1,029 million (US\$8,504 thousand) higher, that in Asia was ¥126

million (US\$1,041 thousand) lower and that in North America and Europe was ¥1,921 million (US\$15,876 thousand) lower in fiscal 1999 than they would have been had the methods and classifications used in fiscal 1998 been applied.

Millions of yen

Year ended March 31, 1999:	Japan	Asia	North America and Europe	Total	Elimination and corporate	Consolidated total
Sales to outside customers.....	¥ 759,745	¥110,455	¥130,917	¥1,001,117	¥ —	¥1,001,117
Intersegment sales.....	70,490	11,510	8,249	90,249	(90,249)	—
Total sales.....	¥ 830,235	¥121,965	¥139,166	¥1,091,366	¥(90,249)	¥1,001,117
Operating income.....	¥ 26,239	¥ 8,530	¥ 12,817	¥ 47,586	¥ (22)	¥ 47,564
Assets.....	¥1,051,585	¥176,754	¥180,647	¥1,408,986	¥ 28,374	¥1,437,360

Year ended March 31, 1998:

Sales to outside customers.....	¥ 851,120	¥112,652	¥123,941	¥1,087,713	¥ —	¥1,087,713
Intersegment sales.....	74,854	9,922	4,327	89,103	(89,103)	—
Total sales.....	¥ 925,974	¥122,574	¥128,268	¥1,176,816	¥(89,103)	¥1,087,713
Operating income.....	¥ 45,843	¥ 11,371	¥ 15,261	¥ 72,475	¥ (556)	¥ 71,919
Assets.....	¥1,093,842	¥176,739	¥162,233	¥1,432,814	¥ (5,523)	¥1,427,291

Year ended March 31, 1999:

Thousands of U.S. dollars

Sales to outside customers.....	\$6,278,884	\$ 912,851	\$1,081,959	\$ 8,273,694	\$ —	\$ 8,273,694
Intersegment sales.....	582,562	95,124	68,173	745,859	(745,859)	—
Total sales.....	\$6,861,446	\$1,007,975	\$1,150,132	\$ 9,019,553	\$(745,859)	\$ 8,273,694
Operating income.....	\$ 216,851	\$ 70,496	\$ 105,926	\$ 393,273	\$ (182)	\$ 393,091
Assets.....	\$8,690,785	\$1,460,777	\$1,492,950	\$11,644,512	\$ 234,496	\$11,879,008

Major countries in the categories Asia and North America and Europe are as follows:

Asia: China, Indonesia, Thailand, Malaysia

North America and Europe: U.S.A., U.K., France, Italy

Export Sales and Sales by Overseas Subsidiaries

	Millions of yen		
	Asia	North America, Europe and Other areas	Total
Year ended March 31, 1999:			
Export sales and sales by overseas subsidiaries	¥165,577	¥204,560	¥370,137
Percentage of such sales against consolidated net sales.....	16.5%	20.5%	37.0%

Year ended March 31, 1998:

Export sales and sales by overseas subsidiaries	¥194,866	¥189,016	¥383,882
Percentage of such sales against consolidated net sales.....	17.9%	17.4%	35.3%

Year ended March 31, 1999:

	Thousands of U.S. dollars		
Export sales and sales by overseas subsidiaries	\$1,368,405	\$1,690,578	\$3,058,983

Major countries in the categories Asia and North America, Europe and Other areas are as follows:

Asia: China, Indonesia, Thailand, Malaysia

North America, Europe and Other areas: U.S.A., U.K., France, Italy

14. Directors' Interests

None of the Company's directors held a material interest in any contract significant to the Company or its affiliates at any time during the three years in the period ended March 31, 1999. Furthermore,

none of the directors or members of their families held interests of 5% or more in shares of the Company at any time during the three years in the period ended March 31, 1999.

Report of the Independent Certified Public Accountants on the Consolidated Financial Statements

Coopers
& Lybrand

**Chuo
Audit
Corporation**

certified public accountants

Head office:
Kasumigaseki Building
32nd Floor
3-2-5 Kasumigaseki
Chiyoda-ku
Tokyo 100-6088

telephone:(03)3581-6281

The Board of Directors
Toray Industries, Inc.

We have audited the accompanying consolidated balance sheets of Toray Industries, Inc. and its consolidated subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of income and surplus, and cash flows for each of the three years in the period ended March 31, 1999, all expressed in Japanese Yen. Our audits 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 consolidated financial statements referred to above present fairly the consolidated financial position of Toray Industries, Inc. and its consolidated subsidiaries at March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1999 in conformity with accounting principles and practices generally accepted in *Japan* (see Note 1) consistently applied during the periods.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.



Tokyo, Japan
June 26, 1999

The Toray Group

(As of March 31, 1999)

		SUBSIDIARIES (174 COMPANIES)	
		CONSOLIDATED SUBSIDIARIES	
FIBERS, TEXTILES & FASHION	<p>Japan (25 Companies) Toray Monofilament Co., Ltd. Toyo Tire Cord Co., Ltd. Ogaki Spinning Co., Ltd. Fuso Spinning Co., Ltd. Toyo Dyeing Co., Ltd. Marusa Co., Ltd. Toray Textiles, Inc. Inami Textiles, Inc. Toray Kimono Co., Ltd. Ronze Inc. Toray Fishing Corp. Towa Orimono Co., Ltd. (Osaka) Ichimura Sangyo Co., Ltd. Towa Orimono Co., Ltd. (Ishikawa) Maruichi Fiber Co., Ltd. Maruwa Orimono Co., Ltd. Toray Diplomode, Inc. Japan Apparel System Science Co., Ltd. Sunrich Mode Inc. Ecsaine Plaza-Aoyama, Inc. San e Origin Co., Ltd. Daiichi Lace Mfg. Co., Ltd. Others</p>	<p>U.S.A. (1 Company) Toray Ultrastuede (America), Inc.</p> <p>United Kingdom (2 Companies) Toray Textiles Europe Ltd. Toray Komatsu Printing (EU) Ltd.</p> <p>Italy (1 Company) Alcantara S.p.A.</p> <p>Czech Republic (1 Company) Toray Textiles Central Europe s.r.o.</p> <p>Indonesia (4 Companies) P.T. Indonesia Toray Synthetics P.T. Indonesia Synthetic Textile Mills P.T. Acryl Textile Mills P.T. Eastertex</p> <p>Thailand (3 Companies) Toray Nylon Thai Co., Ltd. Luckytex (Thailand) Public Company Limited Toray Fibers (Thailand) Ltd.</p>	<p>Malaysia (5 Companies) Penfibre Sdn. Berhad Penfabric Sdn. Berhad Pentex Sdn. Berhad Woodard Textile Mills Sdn. Berhad Pentley Sdn. Berhad</p> <p>Singapore (1 Company)</p> <p>China (4 Companies) Toray Sakai Printing & Dyeing (Nantong) Co., Ltd. Toray Sakai Weaving (Nantong) Co., Ltd. Toray Fibers (Nantong) Co., Ltd. Other</p> <p>China (Hong Kong) (5 Companies) TAL Knits Ltd. Others</p>
(80 COMPANIES) TRADING	<p>Japan (3 Companies) Toray International, Inc. Toray Ireeve Corp. Toray Alphart Co., Ltd.</p> <p>U.S.A. (1 Company) Toray Marketing and Sales (America), Inc.</p>	<p>Germany (1 Company) Toray Deutschland GmbH</p> <p>United Kingdom (1 Company) Toray Europe Ltd.</p> <p>Singapore (1 Company) Toray Industries (Singapore) Pte. Ltd.</p>	<p>China (Hong Kong) (2 Companies) Toray Industries (H.K.) Ltd. Other</p>
(14 COMPANIES) PLASTICS & CHEMICALS	<p>Japan (10 Companies) Toray PEF Products Inc. Toyo Plastic Seiko Co., Ltd. Toyo Metalizing Co., Ltd. Toray Plastic Films Co., Ltd. Toray Fine Chemicals Co., Ltd. Toray Thiokol Co., Ltd. SODA AROMATIC Co., Ltd. Others</p>	<p>U.S.A. (1 Company) Toray Plastics (America), Inc.</p> <p>France (1 Company) Toray Plastics Europe S.A.</p> <p>China (2 Companies) LIBI Plastic Compounding (Shenzhen) Co., Ltd. Toray Sanko Precision (Zhongshan) Co., Ltd.</p>	<p>China (Hong Kong) (2 Companies) LIBI Plastic Compounding (Hong Kong) Co., Ltd. Toray Sanko Precision (Hong Kong) Co., Ltd.</p> <p>Malaysia (3 Companies) Pensanko Precision Sdn. Berhad Toray Plastics (Malaysia) Sdn. Berhad Other</p>
(32 COMPANIES) HOUSING & ENGINEERING	<p>Japan (12 Companies) Toray Construction Co., Ltd. Toray Engineering Co., Ltd. Toray Living Co., Ltd. Toray Precision Co., Ltd. Toray Glasal Corp.</p>	<p>Santo Development Co., Ltd. Tecmat Industries Corp. Others</p> <p>U.S.A. (1 Company)</p>	<p>Malaysia (1 Company)</p> <p>Singapore (1 Company)</p> <p>South Korea (1 Company)</p>
(22 COMPANIES) PHARMACEUTICALS & MEDICAL PRODUCTS	<p>Japan (1 Company) Toray Medical Co., Ltd.</p>		<p>(16 Companies)</p>
(5 COMPANIES) NEW PRODUCTS & OTHER BUSINESSES	<p>U.S.A. (2 Companies) Toray Composites (America), Inc. Toray Carbon Fibers America, Inc.</p>	<p>France (1 Company) Société des Fibres de Carbone S.A.</p>	<p>(3 Companies)</p>
(7 COMPANIES) INFORMATION & SERVICES	<p>Japan (10 Companies) Eastern Viva Co., Ltd. Toray Enterprise Corp. Toray Agency Inc. Toray Research Center Inc. Toyo Logistics Co., Ltd. Toray Systems Center Inc. Toyo Jitsugyo Co., Ltd. Toray Finance Inc. Mishima Shokusan Inc. Other</p>	<p>U.S.A. (3 Companies) Toray Industries (America), Inc. Toray Holding (U.S.A.), Inc. Toray Capital (America), Inc.</p> <p>Netherlands (1 Company) Toray Capital (Europe) B.V.</p>	<p>(14 Companies)</p>
(46 COMPANIES) TOTAL: 206 COMPANIES			<p>114 COMPANIES</p>

		AFFILIATES (32 COMPANIES)	
SUBSIDIARIES ACCOUNTED FOR BY EQUITY METHOD		AFFILIATES ACCOUNTED FOR BY EQUITY METHOD	
<p>Japan (10 Companies) Toyo Flocking Co., Ltd. Toyo Waso Kogyo Co., Ltd. Toray Ecsaine Plaza, Inc. Others</p> <p>Indonesia (2 Companies) P.T. Jakarta Triapparel P.T. OST Fibre Industries</p> <p>Vietnam (1 Company) Vietnam TNT Fibers Co., Ltd.</p> <p>China (Hong Kong) (1 Company)</p> <p>Brazil (1 Company)</p> <p style="text-align: right;">(15 Companies)</p>		<p>Japan (4 Companies) Du Pont-Toray Co., Ltd. Matsumoto Textiles Co., Ltd. Pennyblack Marella Japan Co., Ltd. Other</p> <p>United Kingdom (1 Company)</p> <p>Indonesia (2 Companies) P.T. Century Textile Industry Other</p> <p>Thailand (2 Companies) Thai Toray Textile Mills Public Company Limited Other</p> <p style="text-align: right;">(13 Companies)</p>	<p>Malaysia (1 Company)</p> <p>Singapore (1 Company)</p> <p>China (Hong Kong) (1 Company)</p> <p>South Korea (1 Company) Saehan Industries, Inc.</p>
<p>Italy (1 Company) Toray Italia S.r.l.</p> <p>Indonesia (1 Company) P.T. Toray Trading Indonesia</p> <p>China (1 Company) Toray Trading (Shanghai) Co., Ltd.</p> <p style="text-align: right;">(4 Companies)</p>	<p>Chinese Taipei (1 Company) Tong Shing Inc.</p> <p style="text-align: right;">(1 Company)</p>	<p>Japan (1 Company) Chori Co., Ltd.</p> <p style="text-align: right;">(1 Company)</p>	
<p>Japan (2 Companies)</p> <p>U.S.A. (1 Company) Toray Resin Co.</p> <p>South Korea (1 Company) KTP Industries Inc.</p> <p style="text-align: right;">(4 Companies)</p>		<p>Japan (4 Companies) East Three Technology Co., Ltd. Dow Corning Toray Silicone Co., Ltd. Sanyo Chemical Industries, Ltd. Other</p> <p>Indonesia (1 Company) P.T. Petnesia Resindo</p> <p style="text-align: right;">(9 Companies)</p>	<p>Thailand (1 Company) 3TM Plastics Co., Ltd.</p> <p>U.S.A. (1 Company) MonTor Performance Plastics Co.</p> <p>Chinese Taipei (2 Companies)</p>
<p>Japan (4 Companies) Chuno Cetech Co., Ltd. Toray Fine Machinery Co., Ltd. Others</p> <p style="text-align: right;">(4 Companies)</p>		<p>U.S.A. (1 Company)</p> <p>South Korea (1 Company) Daehan Precision Co., Ltd.</p> <p style="text-align: right;">(2 Companies)</p>	
<p>Japan (2 Companies)</p> <p style="text-align: right;">(3 Companies)</p>	<p>Singapore (1 Company) S&J Dialysis Centre Ltd.</p> <p style="text-align: right;">(1 Company)</p>	<p>Japan (1 Company)</p> <p style="text-align: right;">(1 Company)</p>	
<p>Chinese Taipei (1 Company) Advanced Sporting Composites Inc.</p> <p style="text-align: right;">(1 Company)</p>		<p>Japan (1 Company) Sakai Composites Co., Ltd.</p> <p style="text-align: right;">(3 Companies)</p>	<p>South Korea (2 Companies) STEMCO, Ltd. STECO, Ltd.</p>
<p>Japan (27 Companies) Toray Corporate Business Research, Inc. Toray Travel Co., Ltd. Toray Techno Co., Ltd. Toray Intellectual Property Experts Co., Ltd. Kanto General Service Inc. Shiga Shokusan Inc. Toyo Shokusan Inc. Meinan Service Inc. Toyo Service Inc. Okazaki Shokusan Inc. Mishima Shokushan Inc.</p> <p>Gifu Shokusan Inc. Ishikawa Shokusan Inc. Chiba Shokusan Inc. Tsuchiura Shokusan Inc. Others</p> <p>U.S.A. (1 Company)</p> <p>Indonesia (1 Company) P.T. Jabato International</p> <p style="text-align: right;">(29 Companies)</p>		<p>Japan (3 Companies) Chiryu Hotel Corp. Shiga Cable Network Inc. Other</p> <p style="text-align: right;">(3 Companies)</p>	
	60 COMPANIES		32 COMPANIES

Global Network

(As of June 29, 1999)

NORTH AMERICA

New York

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Facsimile: 82 (2) 752-2974

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● Frankfurt Toray Deutschland GmbH

Milan Toray Italia S.r.l.

Seoul Toray Industries, Inc., Seoul Office

Beijing Toray Industries, Inc., Beijing Office

Shanghai Toray Industries, Inc., Shanghai Office

Hong Kong Toray Industries (H.K.) Ltd.

Taipei Tong Shing Inc.

Bangkok Luckytex (Thailand) Public Company Limited

Penang Penfabric Sdn. Berhad

Singapore Toray Industries (Singapore) Pte. Ltd.

Jakarta P.T. Indonesia Toray Synthetics

New York
Toray Industries (America), Inc.



Investor Information

(As of March 31, 1999)

Toray Industries, Inc.

Head Office

2-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo 103-8666, Japan
Telephone: 81 (3) 3245-5113
Facsimile: 81 (3) 3245-5459
URL: <http://www.toray.co.jp>

2nd Head Office Building

8-1, Mihama 1-chome,
Urayasu, Chiba 279-8555, Japan
Telephone: 81 (47) 350-6001
Facsimile: 81 (47) 350-6075

Osaka Head Office

6-20, Dojima 1-chome,
Kita-ku, Osaka 530-8222, Japan
Telephone: 81 (6) 6445-4101
Facsimile: 81 (6) 6452-7774

Established: January 1926

Common Stock:

Authorized: 4,000,000,000 shares
Issued: 1,401,481,403 shares

Number of Stockholders: 138,616

Listings:

Common stock is listed on the Tokyo Stock Exchange, the Osaka Securities Exchange, and six other domestic stock exchanges. Overseas listings are on exchanges in London, Luxembourg, Frankfurt, Düsseldorf, and Paris.

Transfer Agent:

The Mitsui Trust & Banking Co., Ltd.
1-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo 103-8666, Japan

Common Stock Price Range:	1999		1998	
	High	Low	High	Low
First quarter	¥728	¥631	¥841	¥698
Second quarter.....	745	545	830	666
Third quarter.....	598	502	724	507
Fourth quarter	657	501	720	510

Cash Dividends per Share:	1999	1998
Total for the year	¥7.00	¥7.00
Interim	3.50	3.50

Composition of Stockholders:	Percent of total	Thousands of shares
Financial institutions.....	56.27%	788,690
Securities companies.....	0.52	7,239
Other corporations	6.37	89,324
Foreign investors.....	12.38	173,476
Individuals and others	24.45	342,599
Public bodies.....	0.01	151

Number of Employees:	Parent company	9,510
	Domestic subsidiaries	8,880
	Overseas subsidiaries	15,873
	Total	<u>34,263</u>

'TORAY'

Toray Industries, Inc.

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