

To Our Stockholders

On behalf of Toray Industries, Inc., we are pleased to report to stockholders on the results of operations in the fiscal year ended on March 31, 2003.

Business Environment and Results

During the fiscal year, the global economy initially showed signs of recovery centered on IT-related demand, but slowed in the second half because of economic downturn in the US, sluggish stock markets worldwide and heightened tensions in the Middle East. In Japan, there were signs of an export-led recovery in the first half, but overall adverse economic conditions persisted as consumption, which should drive economic growth, remained depressed.

Under these operating conditions, the Toray Group launched its "Project New TORAY21" ("Project NT21") management reform program in April 2002, with a focus on enhancing the corporate structure and re-engineering the

business structure. As a result, consolidated net sales grew 1.7% to ¥1,033 billion, operating income grew 75.3% to ¥33.0 billion, and net income grew 52.3% to ¥5.8 billion in the fiscal year ended on March 31, 2003.

Although sales of the Plastics and Chemicals, IT-related Products, and Housing and Engineering segments increased, those of Fibers and Textiles, Pharmaceuticals and Medical Products, and New Products and Other Businesses declined. Operating income advanced across the board, with the IT-related Products and Plastics and Chemicals segments recording sharp growth.

Corporate Ethics and Contribution to Society

To ensure solid and lasting growth into the future, we have made consistent investments in production facilities, research and development, and human resources. We have also positioned corporate ethics as a top management priority, forming the Corporate Ethics Committee in 1997 to ensure compliance with our Code of Ethics and laws and regulations. In the fiscal year ended on March 31, 2003, we formed the Compliance Committee to strengthen our work in this area further through a reworking of our management structure.

We have also been engaged proactively in environmental preservation and improvement activities, and succeeded in obtaining ISO 14001 environmental management system certification for all 12 Toray plants and the 24 plants of our domestic and overseas subsidiaries.

Since the 1965 establishment of the Toray Science Foundation, the Toray Group has continued to support the advancement of science and technology as a social action program. We have also actively supported culture and the arts, medical care, education, and sport. Overseas, through the Toray Science Foundations established in Indonesia, Malaysia, and Thailand from 1993 to 1994, the Toray Group has also continued to provide support for



Katsunosuke Maeda
Chairman and Chief Executive Officer

the promotion of science and technology in each of these countries.

A New IR Department

In June 2002, we also took steps to foster even better communication between management and stockholders and investors by setting up a new Investor Relations Department that reports directly to the president. This move is designed to help keep investors better informed about the Company's businesses and operations, as well as ensure that shareholders' wishes and opinions are reflected in the running of the Company.

Corporate Governance

Our basic stance on corporate governance is clearly articulated in our Corporate Mission as: "to provide our shareholders with dependable and trustworthy management," as well as in our Guiding Principle as: "Fairness and Sincerity; Behaving fairly with a strong feeling of responsibility and a high standard of ethics, thereby establishing a trustworthy relationship with society." We consider this to be one of our most important management policies.

Our Board of Directors has 30 members and our Board of Corporate Auditors has four, of whom two are external auditors. The Toray Group is a manufacturing conglomerate that supplies a wide variety of basic materials to a diverse range of industries, and therefore management needs to make varied judgments and decisions based on specialist knowledge and close liaison with the business field. To ensure that management fulfills its responsibility to our stockholders, we believe that directors who make decisions at board meetings and oversee business operations should be appointed by the general stockholders meeting and be familiar with our businesses. For this reason, we intend to retain the current framework of our Board of Directors and Board of Auditors.

Members of our Board of Auditors attend all

important company meetings, including board meetings, as well as hold meetings to interview individual directors and senior managers. Further, it audits each of our business locations, manufacturing bases, and domestic and overseas affiliates to ensure proper oversight of directors' performance. External auditors have no financial interest in (i.e., no business relationship with) the Company, and we have Audit Department to carry out internal audits, including ones of affiliates. We also ensure that the accounting firm that audits the Company allows its employees to work on our account for a limited duration only.

Management Issues

The economic environment is changing dramatically. China is emerging as an economic powerhouse, and the world economy continues to suffer from global oversupply instead of going through cycles as it did in the past. In this context, the Toray Group launched "Project



*Sadayuki Sakakibara
President and Chief Operating Officer*

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NT21” on April 1, 2002, in a bid to revitalize itself as a highly profitable business group—a New Toray for the 21st century—through a set of corporate reforms envisioned in the program. The Toray Group is working on “Project NT21” by tackling challenges and reform issues in both the near term (the two fiscal years to March 2004) and the longer term (three to five years).

Our priority in the near term is to reinforce our corporate structure, and to that end the Company is moving forward with the following seven projects.

The first is “Promoting Marketing Innovation,” a program in which the Company strives to have sales and marketing staff assimilate innovative attitudes and customer-oriented ideas and practices as they concern the creation of value and profit. It also involves setting marketing management target indices that place greater emphasis on the efficiency of personnel and capital resources and follow-up on progress, and upgrading internal IT and other systems.

The second is “Rationalizing Global Production” in foundation businesses such as Fibers and Textiles, Plastics and Films. The program is designed to enhance and strengthen our global production structure, as well as to optimize our domestic production scale—the ultimate purpose of these steps being to bolster our overall global competitiveness.

The third is “Strengthening Cost Competitiveness.” In the previous fiscal year, we reduced personnel and gross labor costs, fixed production costs, and procurement and logistics expenses as well as head-office and marketing expenses in excess of plan targets, all of which made a substantial contribution to improved earnings. In the current fiscal year, we are working to strengthen the total cost competitiveness of the whole Toray Group, including subsidiaries worldwide.

The fourth project is “Re-engineering Toray Group’s Business Structure.” Based on a management philosophy that focuses on

earnings and asset efficiency, we are integrating, consolidating, reorganizing, or selling businesses and companies with poor earnings and growth potential and low strategic priority. We finalized our policy for the main Japanese affiliates in the fiscal year ended on March 31, 2003 and integrated some chemical subsidiaries as well as selling or liquidating part of several subsidiaries’ businesses in the Fashion and Apparel segment. We are also pushing ahead with strategic M&A and alliances with a global perspective as a means of achieving business and earnings growth.

The fifth is “Further Strengthening Our Financial Structure.” Our goal is to reduce consolidated interest-bearing liabilities to around ¥500 billion by end-March 2005. We intend to do this by enhancing profitability, improving efficiency in capital expenditure, and curtailing inventory. In this area we made solid progress in the fiscal year ended March 2003, surpassing our target for reducing interest-bearing liabilities.

The sixth is “Promoting R&D Innovation.” The world’s cutting-edge technologies are being created by a fusion of technologies in different fields. In this context, we are changing course from independent R&D to a policy of working together in R&D projects and alliances with universities, research organizations, and other companies worldwide.

The seventh project is “Overhauling Salary and Pension Structures.” We have prepared a system of rewarding high flyers and enabling them to work to their full potential. In April 2003, we started a new wage system for management-level staff. We are also making far-reaching changes to our pension program that are designed to reduce the excessive financial burden on the Company.

As well as implementing these projects, we are tackling medium-term issues and reforms, focusing on the following themes.

◆ Transformation into a “New Value Creator.” We are moving to transform our business



activities from merely those of a produce-and-sell 20th-century manufacturer into those of a 21st-century corporate group focused on creating new value for customers—what we call being a “New Value Creator” for the 21st Century. This entails acquiring the ability to create new value by developing new supply chains, and incorporating a wide range of knowledge and know-how to solve customers’ problems. Our businesses are providing solutions and building new supply chains in our foundation businesses, and we are beginning to see successes in these areas.

◆ We are expanding the three potential growth areas of IT-related Products; Life Sciences; and Environment, Safety, and Amenity. Based on our core technologies—organic synthetic chemistry, polymer chemistry, and biochemistry—we intend to nurture these businesses as major drivers of further growth and expansion of the Toray Group into the 21st century.

To strengthen our business expansion strategy in these three growth areas, we have identified four priority strategic businesses—Carbon Fiber Composite Materials, Electronic and Information-related Materials, Water Treatment Systems, and Pharmaceuticals—and will launch a special integrated project structure covering aspects from research to marketing. We plan to accelerate growth and expansion of these businesses by giving them priority in allocation of management resources.

These moves are consistent with our strategy of supplying proprietary “Advanced Materials” to the three growth sectors outlined above, based on a management policy of aggressively growing our “Advanced Materials” businesses. Our foundation businesses—Fibers and Textiles, Plastics, and Chemicals—promise to continue providing stable earnings through global expansion. In addition, we look for strong growth of our “Advanced Materials” businesses as we re-engineer our business structure to give Toray worldwide recognition as a leading manufacturer

in these fields.

In this way, we intend to enhance our earnings base by becoming a “New Value Creator” and developing our “Advanced Materials” businesses as we advance into the 21st century.

◆ We intend to nurture and expand our presence in China and ASEAN countries. In the fiscal year ended on March 31, 2003, we established companies to oversee our operations in these growth-promising regions, transferring significant authority to their local presidents. Looking ahead, we will be working to expand our business and earnings in line with the strong economic growth of these regions, with the local companies following their own strategies and taking responsibility for their own management decision-making.

By steadily implementing these management reforms and addressing issues in a united effort, the Toray Group intends to act on its steadfast commitment to improving ROA and ROE and transforming itself into a highly profitable global business group. We respectfully ask all stockholders for their continued support and understanding as we move forward.



June 2003

Katsunosuke Maeda
Chairman and CEO

Sadayuki Sakakibara
President and COO

Corporate Philosophy

CORPORATE PHILOSOPHY

Contributing to society through the creation of new value by innovative ideas, technologies, and products

CORPORATE MISSIONS

For our customers	To provide new value to our customers through high-quality products and superior services
For our employees	To provide our employees with opportunities for self-development in a challenging environment
For our shareholders	To provide our shareholders with dependable and trustworthy management
For the local community	To act as a responsible corporate citizen to build a long-lasting, beneficial partnership with the local communities in which we do business

GUIDING PRINCIPLES

Safety and Environment

Placing top priority on safety, accident prevention, and environmental preservation, always ensuring the safety and health of our employees, our customers, and society.

Customer Satisfaction

Making full use of our technology and wisdom to remain ahead of the times and ensuring greater customer satisfaction.

International Competitiveness

Increasing the competitiveness of our products and services in quality, cost, and value-in-use, thereby assuring our continued growth in global markets.

Global Teamwork

Joining together in mind and spirit to realize our combined strengths as the TORAY Group active on the global stage.

Identity and Self-Improvement

Solving the task before us through self-improvement efforts, recognizing the role and identity expected of us from the Company and society.

Meaning in Work

Creating an optimal corporate climate for fully motivating our employees and enabling every area of our organizations to function effectively, while sharing the joy of achieving goals in a challenging environment.

Fairness and Sincerity

Behaving fairly with a strong feeling of responsibility and a high ethical sense, thereby establishing a trustworthy relationship with society.