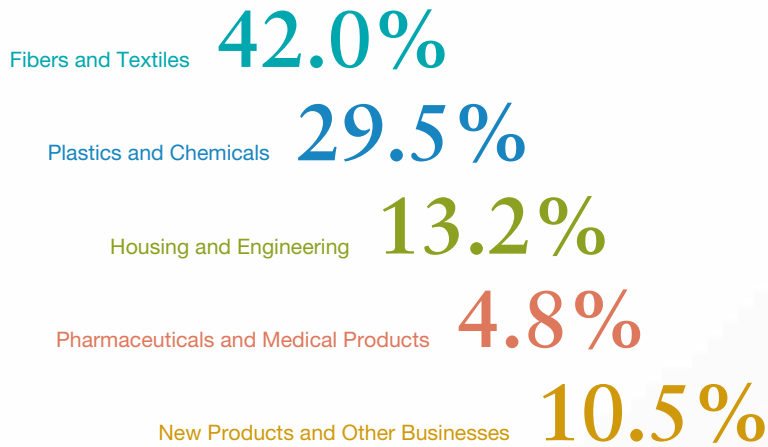


# Annual Report 1999

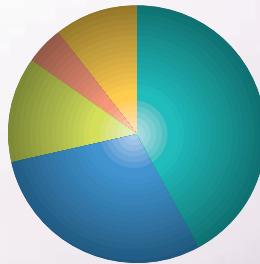
April 1, 1998–March 31, 1999

*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                      |
| <b>For the year:</b>  |                 |            |            |                           |
| 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                   |
| <b>Per share of common stock (in yen and U.S. dollars):</b> |                 |            |            |                           |
| 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                     |
| <b>At year-end:</b>   |                 |            |            |                           |
| 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.

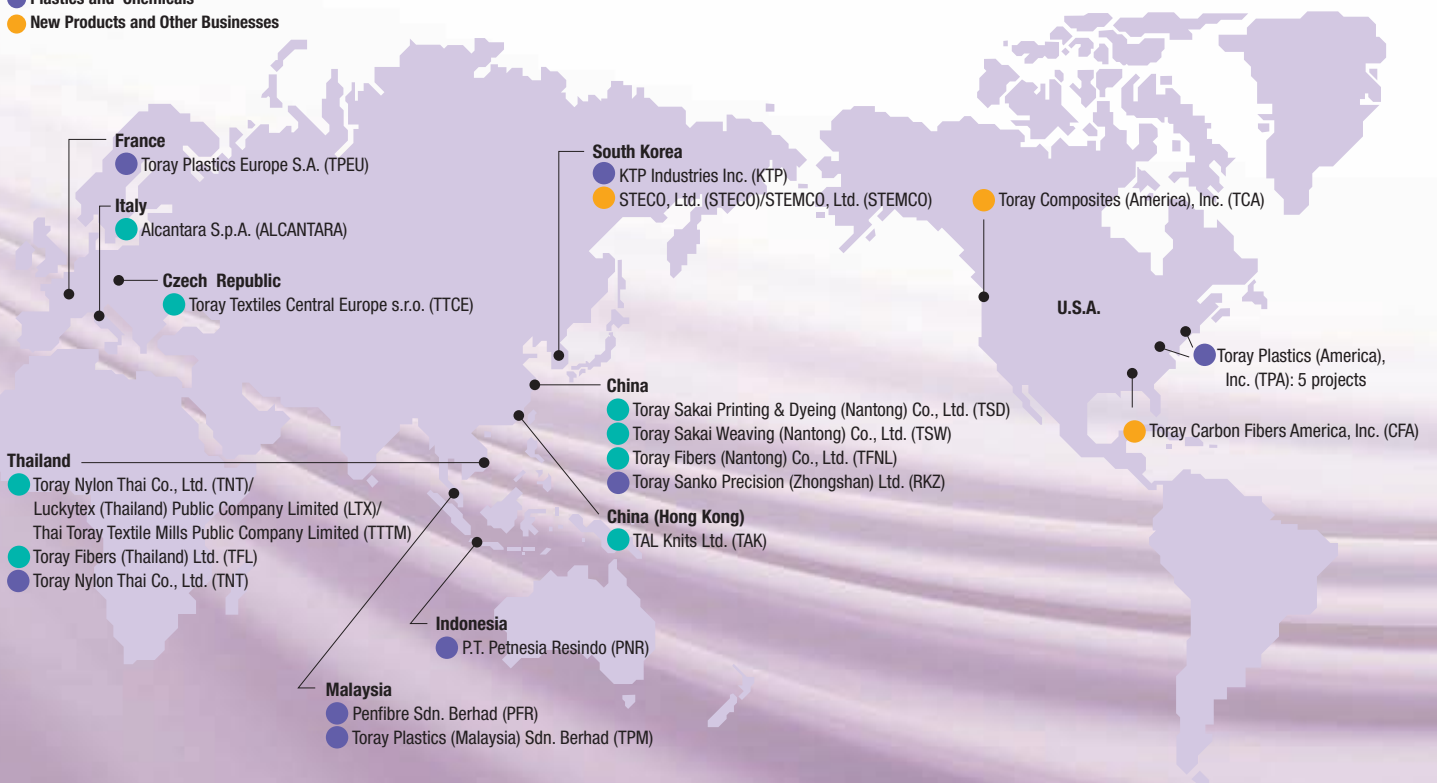


Toray Fibers (Nantong) Co., Ltd. (TFNL)

4

- 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<br>2nd: Apr. 1997 | —<br>—  |
|                     | Italy             | ALCANTARA        | Expanding production capacity of man-made suede   | July 1998                         | +5,000,000 m <sup>2</sup> /year →<br>Total 9,500,000 m <sup>2</sup> /year |
|                     | China             | TSD              | Expanding capacity of polyester filament fabric dyeing                                    | July 1998                         | +750,000 m <sup>2</sup> /month →<br>Total 1,500,000 m <sup>2</sup> /month |
|                     | China             | TSW              | Expanding capacity of polyester filament fabric weaving                                   | July 1998                         | +750,000 m <sup>2</sup> /month →<br>Total 1,500,000 m <sup>2</sup> /month |
|                     | China             | TFNL             | Manufacturing polyester filament yarns and polyester chips                                | Aug. 1998                         | 85,000 t/year (chip basis)  |
|                     | Thailand          | TNT/LTX/<br>TTTM | Manufacturing polyester filament yarns for industrial applications and processing fabrics | Apr. 1998                         | P-FY: 4,000 t/year<br>P-SF Fabrics: 2,000,000 m <sup>2</sup> /year        |
|                     | Thailand          | TFL              | Expanding production capacity of polyester filament yarns                                 | Dec. 1998                         | +1,000 t/month →<br>Total 2,000 t/month                                   |
|                     | Czech Republic    | TTCE             | Polyester filament fabric weaving and dyeing operations                                   | July 1999                         | 4,600,000 m <sup>2</sup> /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<br>Expanding production capacity of PET films                         | Acquisition: May 1996<br>Expansion: June 1999 | 30,000 t/year<br>+20,000 t/year → Total 50,000 t/year                       |
|                        | Malaysia    | PFR     | Construction of a new plant for Lumirror* PET films   | 1st: Aug. 1998<br>2nd: May 1999               | 14,400 t/year<br>+15,600 t/year → Total 30,000 t/year                       |
|                        | Malaysia    | TPM     | Expanding production capacity of ABS resins   | 3rd: Aug. 1996<br>4th: Apr. 1997              | +80,000 t/year →<br>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<br>Construction of a new metalizing machine for films for packing materials | Apr. 1998<br>Feb. 1998                        | +14,400 t/year → Total 36,400 t/year<br>+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 <sup>2</sup> /year → Total 6,000,000 m <sup>2</sup> /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

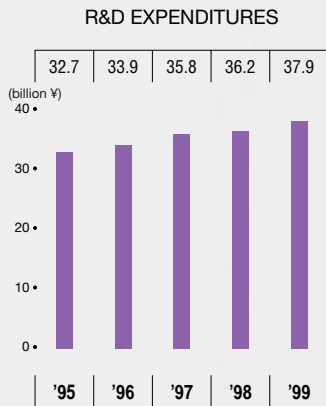
1999, the joint venture will commence operations before the end of the same year.

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



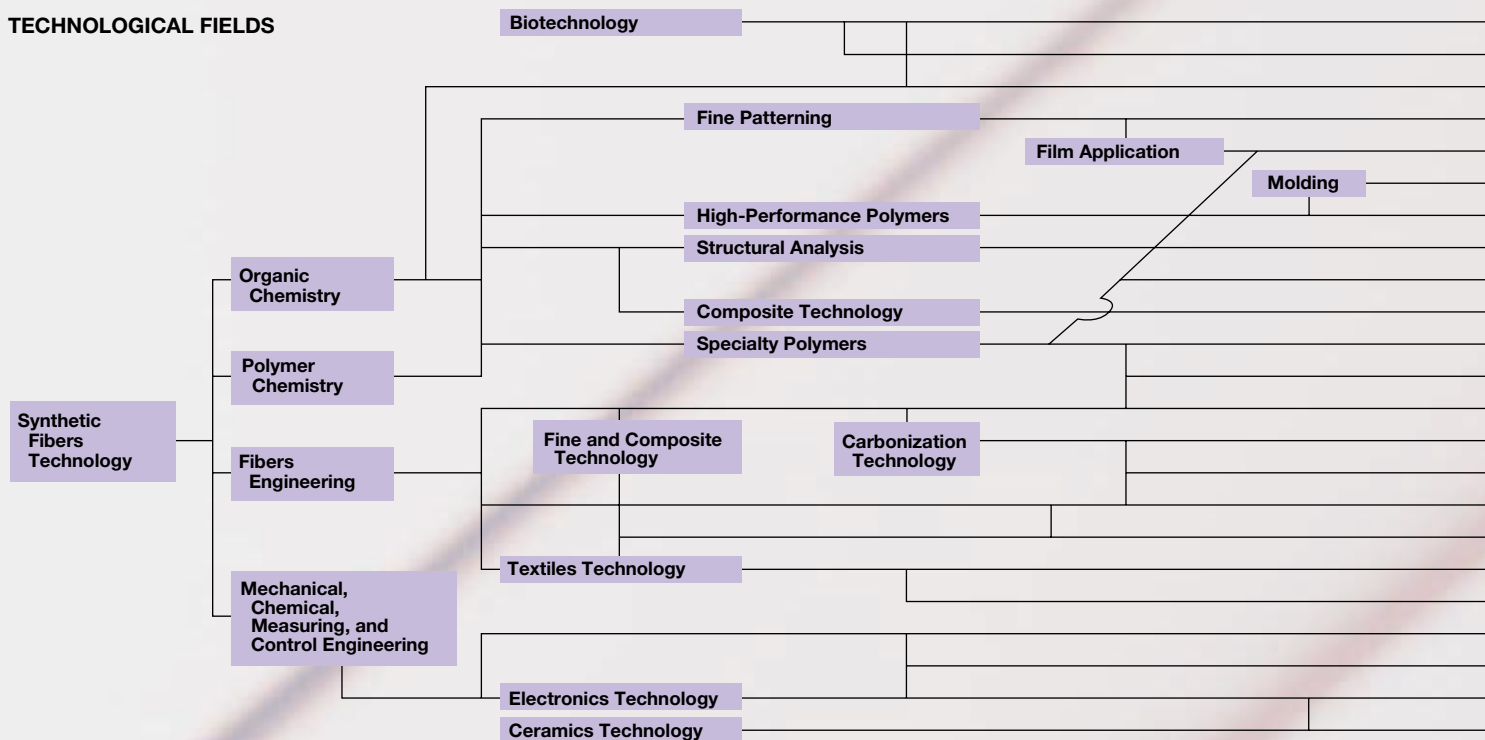
Leveraging its expertise in organic and polymer chemistry, Toray has strengthened its basic research and fundamental technologies in biotechnology and electronics.

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.

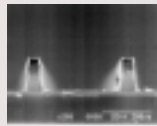
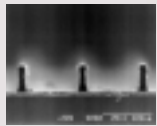
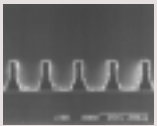

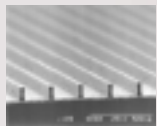
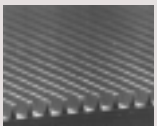
Toray's Photo Paste Method is a process to form glassy barrier ribs. The

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  |
|----------------------|---|--|---|
| <b>Cross section</b> |  |  |  |
| <b>Aggregate</b>     |  |  |  |

# 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.



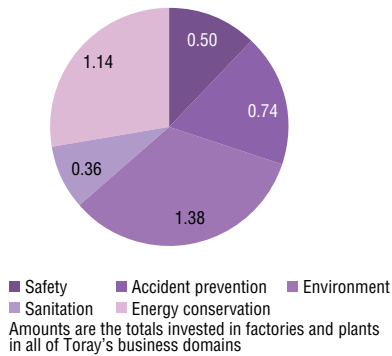
Martina Hingis, winner of the 16th annual Toray Pan Pacific Open Tennis Tournament



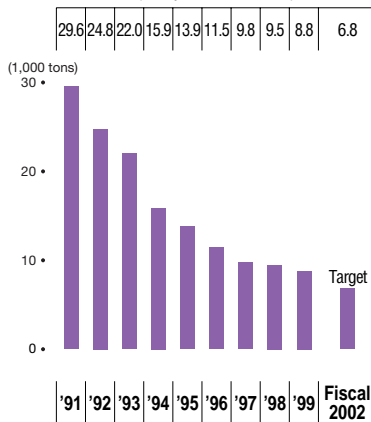
'98 Toray Cup Shanghai International Marathon's award ceremony for the women's full marathon held on November 1

# 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.

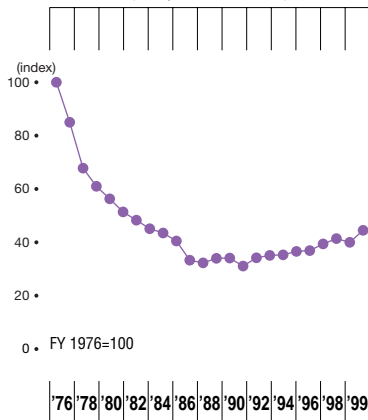
## RESULTS OF ENVIRONMENTAL PRESERVATION ACTIVITIES

### 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.

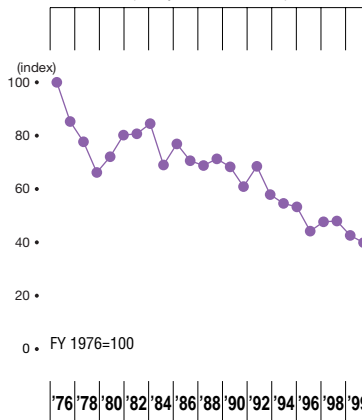
From fiscal 2000, Toray will work under a second-phase plan with a goal of lowering its volume of industrial waste disposed of to less than 6,800 tons and achieving a recycling ratio of 80% or greater. Toray will continue to aggressively pursue efforts to effectively use waste materials and reduce the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

SO<sub>x</sub> EMISSIONS  
(Toray Industries, Inc.)



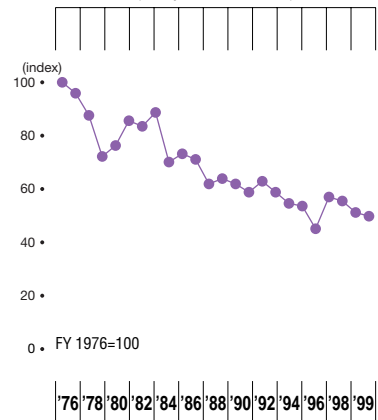
<sup>SO<sub>x</sub></sup>: Sulfur Oxide Compounds

BOD DISCHARGE  
(Toray Industries, Inc.)



<sup>BOD</sup>: Biochemical Oxygen Demand

COD DISCHARGE  
(Toray Industries, Inc.)



<sup>COD</sup>: Chemical Oxygen Demand

**Reduction of SO<sub>x</sub> Emissions**

Toray has achieved a 55% reduction in the volume of SO<sub>x</sub> emissions from the fiscal 1976 level. Toray accomplished this by using low-sulfur fuels to reduce SO<sub>x</sub> 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 (CO<sub>2</sub>), 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.

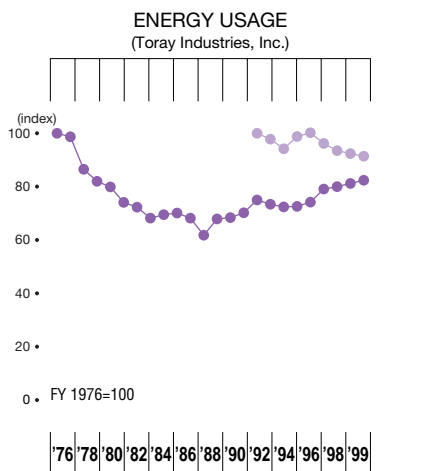
Toray's output of CO<sub>2</sub>—the only greenhouse gas released by Toray facilities—as a percentage of total output has risen since fiscal 1991 as a result of increased production levels. However, Toray has successfully decreased its CO<sub>2</sub> emission per unit

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 CO<sub>2</sub> emissions.

**Reduction of Chemical Substance Emissions**

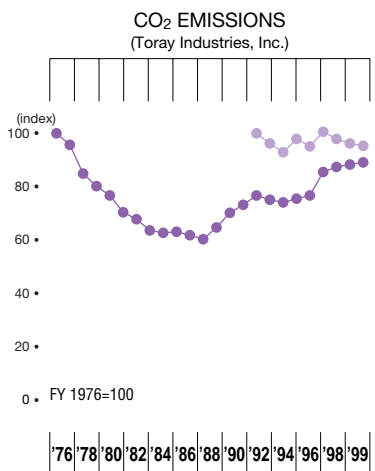
With the aim of promoting a greater reduction in the volume of chemical substances emitted to the atmosphere, Japan's Air Pollution Control Law was revised in May 1996 to include 12 substances to be independently controlled and managed.

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.



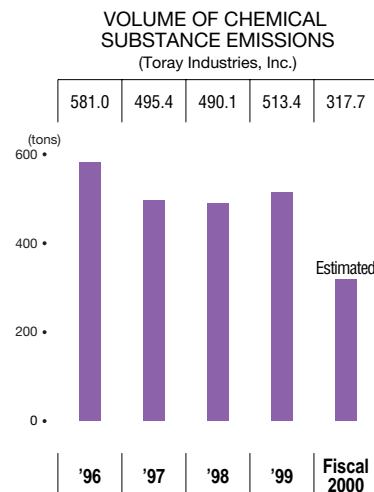
● Volume of energy usage  
● Energy consumption per unit of production quantity<sup>5C</sup>

<sup>5C</sup>Based on Japan's Law Concerning the Rational Use of Energy



● Volume of CO<sub>2</sub> emissions  
● CO<sub>2</sub> emissions per unit of production quantity<sup>5C</sup>

<sup>5C</sup>Based on Japan's Law Concerning the Rational Use of Energy



<sup>5C</sup>Based 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<sup>†</sup> 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

<sup>†</sup> Kapton<sup>®</sup> 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- $\beta$  preparation; Dorner\* prostacyclin (PGI<sub>2</sub>) 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

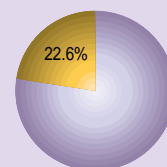
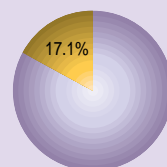
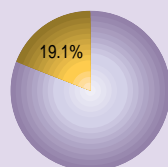
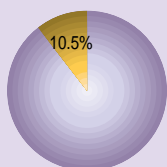
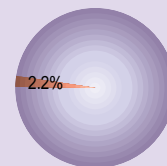
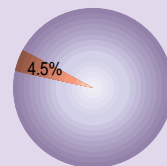
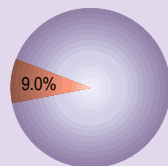
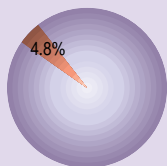
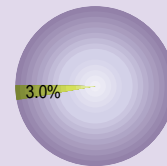
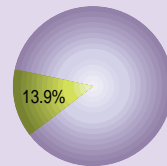
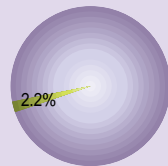
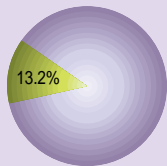
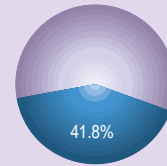
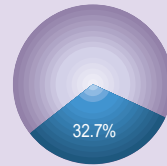
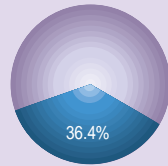
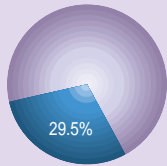
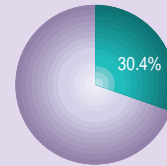
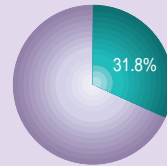
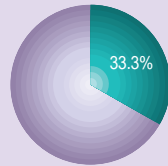
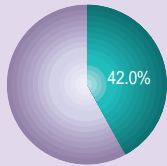


NET SALES

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.

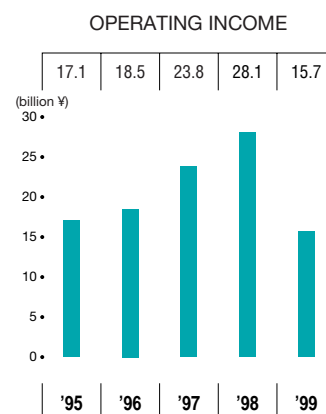
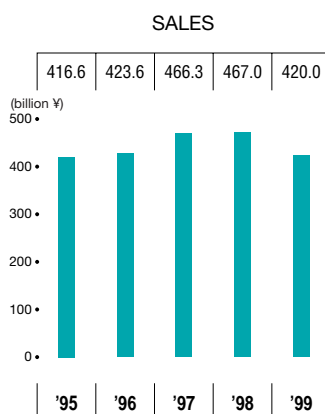
**Fashion Division**

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 Tetoron\* 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

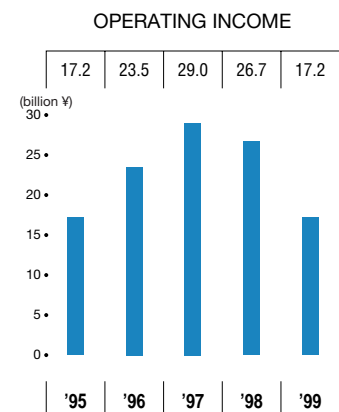
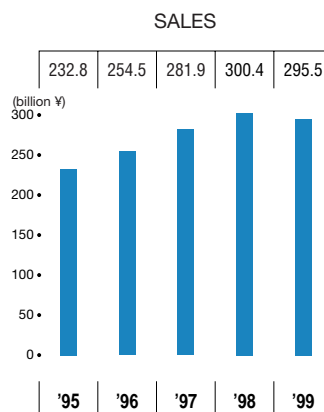
In Japan, Toyolac\* ABS resin, designed for game machine applications, enjoyed firm sales. Moreover, sales of Amilan\* nylon resin and Toraycon\* PBT resin registered increased sales for application in new minicars. However, sales contracted in the mainstay areas of automotive and electrical goods applications, 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- $\gamma$  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 40,000m<sup>3</sup> of fresh-water per day. These elements have recently drawn increased attention as a means of maintaining a stable supply of potable water.

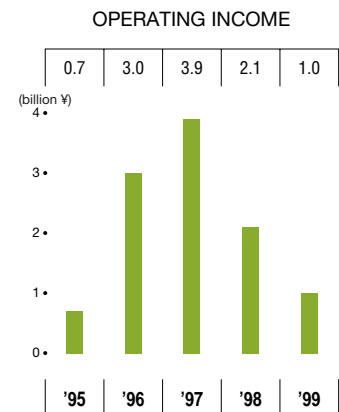
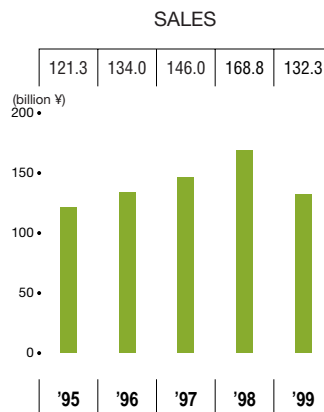
**H**ousing and engineering sales in fiscal 1999 slumped 21.6%, to ¥132.3 billion, and accounted for 13.2% of consolidated net sales. Operating income in the segment sank 51.1%, to ¥1.0 billion.

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

**P**harmaceuticals 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- $\beta$  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 (PGI<sub>2</sub>) 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 PGI<sub>2</sub> 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\*.

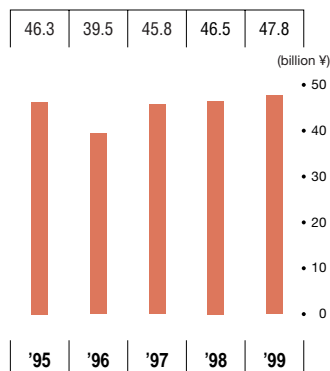


Feron\* natural interferon- $\beta$  preparation

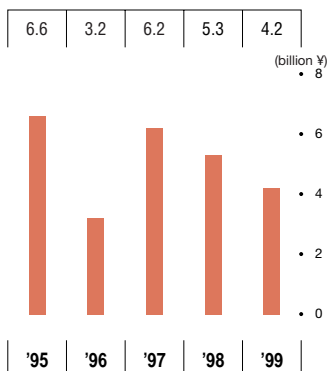
Dorner\*, the world's first PGI<sub>2</sub> derivative

Toraysulfone\* polysulfone-based, hollow-fiber artificial kidney

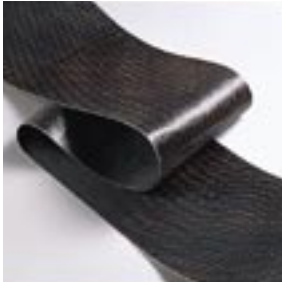
SALES



OPERATING INCOME



## New Products and Other Businesses



24

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.

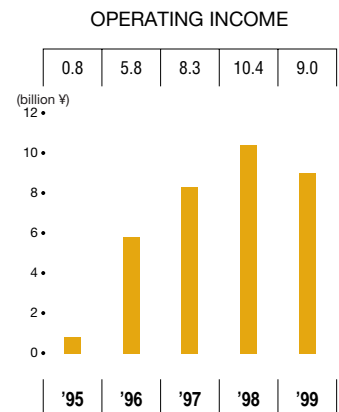
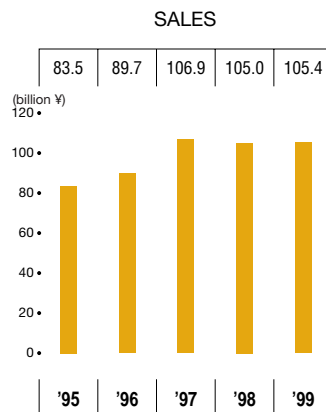
### Advanced Composite Materials

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.

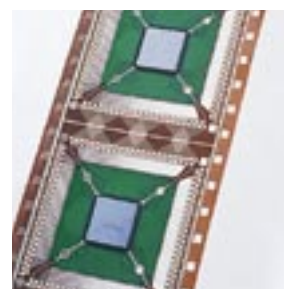
### Other Businesses

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**

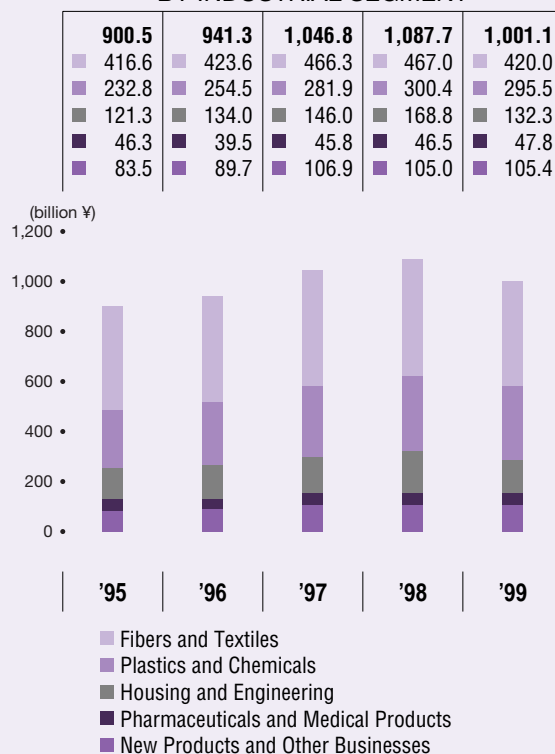
Corporate Auditors

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

# Financial Section

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on the Consolidated Financial Statements

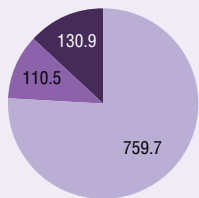
FIVE-YEAR SUMMARY OF SALES  
BY INDUSTRIAL SEGMENT





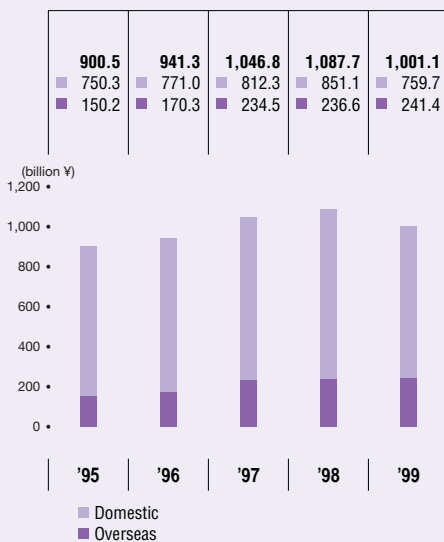
# Management's Discussion and Analysis

FISCAL 1999 SALES BY GEOGRAPHIC SEGMENT (billion ¥)



■ Domestic  
■ Asia  
■ North America and Europe

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.

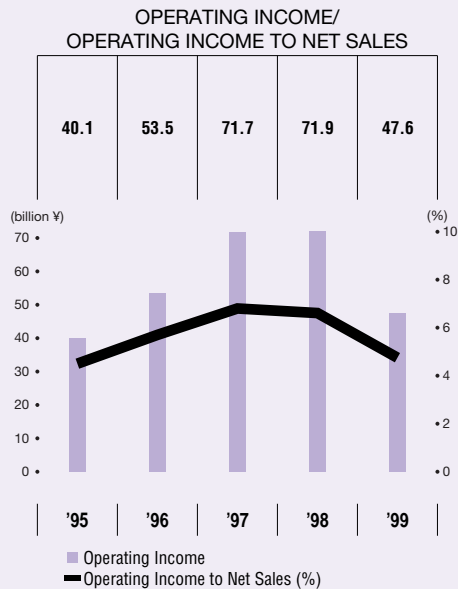
Looking at results by industrial segment, fibers and textiles, plastics and chemicals, and housing and

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

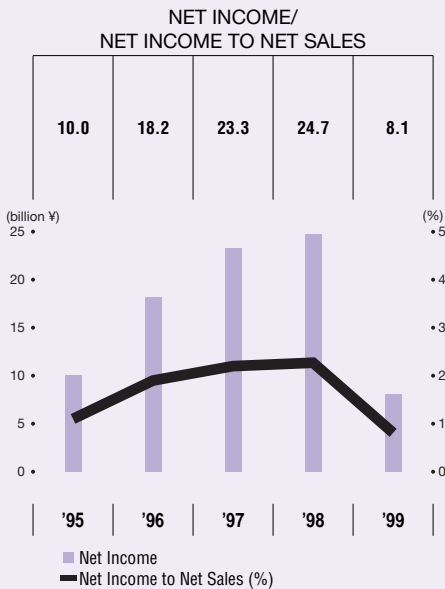
Operating income dropped 33.9%, to ¥47.6 billion, due mainly to a decline in consolidated net sales. As a result, the ratio of operating income to consolidated net sales slipped 1.8 percentage points, to 4.8%.

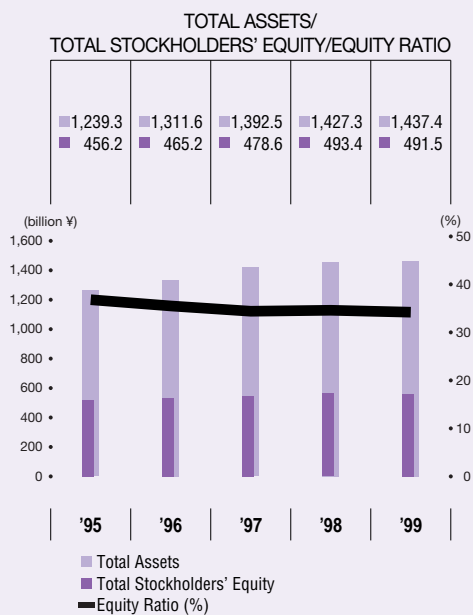
Looking at operating income by industrial segment, all segments showed declines. Operating income in the fibers and textiles segment fell ¥12.5 billion, or 44.3%, to ¥15.7 billion, due mainly to a harsh operating environment for the Company and domestic subsidiaries as a result of slumping market conditions 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.

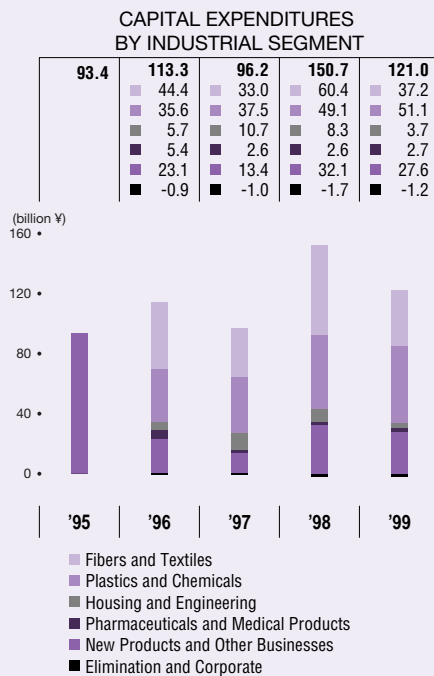
## FINANCIAL POSITION

### 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<br>U.S. dollars<br>(Note 3) |
|---|-----------------|------------|--|
|   | 1999            | 1998       | 1999                                     |
| <b>Current assets:</b>                                |                 |            |  |
| 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                                |
| <b>Property, plant and equipment (Note 7):</b>        |                 |            |  |
| 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                                |
| <b>Investments, long-term loans and other assets:</b> |                 |            |  |
| 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                                |
| <b>Intangible assets</b> .....                        | 4,218           | 2,767      | 34,860                                   |
| <b>Cost in excess of net assets acquired</b> .....    | 2,781           | 4,200      | 22,983                                   |
| <b>Foreign currency translation adjustment</b> .....  | 49,124          | 20,993     | 405,984                                  |
|   | ¥1,437,360      | ¥1,427,291 | \$11,879,008                             |

See accompanying notes to consolidated financial statements.

| <b>Liabilities and Stockholders' Equity</b>                      | Millions of yen |                | Thousands of<br>U.S. dollars<br>(Note 3) |
|--|-----------------|----------------|--|
|  | 1999            | 1998           | 1999                                     |
| <b>Current liabilities:</b>                                      |                 |                |  |
| 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                                |
| <b>Long-term debt (Note 7) .....</b>                             | <b>373,115</b>  | <b>370,552</b> | <b>3,083,595</b>                         |
| <b>Employees' retirement benefits (Note 9) .....</b>             | <b>46,936</b>   | <b>47,317</b>  | <b>387,901</b>                           |
| <b>Customers' guarantee deposits and other liabilities .....</b> | <b>5,665</b>    | <b>5,018</b>   | <b>46,818</b>                            |
| <b>Deferred tax liabilities (Note 8) .....</b>                   | <b>1,183</b>    | <b>233</b>     | <b>9,777</b>                             |
|  | <b>912,390</b>  | <b>913,050</b> | <b>7,540,413</b>                         |
| <b>Minority interests in consolidated subsidiaries .....</b>     | <b>33,473</b>   | <b>20,875</b>  | <b>276,636</b>                           |
| <b>Stockholders' equity (Note 10):</b>                           |                 |                |  |
| 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<br>U.S. dollars<br>(Note 3) |
|--|-------------------|------------|------------|--|
|  | 1999              | 1998       | 1997       | 1999                                     |
| <b>Net sales</b> (Note 6).....   | <b>¥1,001,117</b> | ¥1,087,713 | ¥1,046,837 | <b>\$8,273,694</b>                       |
| <b>Costs and expenses:</b>   |                   |            |            |  |
| Cost of sales .....  | <b>755,900</b>    | 819,895    | 785,191    | <b>6,247,108</b>                         |
| Selling, general and administrative expenses.....                              | <b>157,691</b>    | 159,718    | 154,152    | <b>1,303,231</b>                         |
| Research and development expenses.....   | <b>37,915</b>     | 36,181     | 35,833     | <b>313,347</b>                           |
| Amortization of cost in excess of net assets acquired .....                    | <b>2,047</b>      | —          | —          | <b>16,917</b>                            |
|  | <b>953,553</b>    | 1,015,794  | 975,176    | <b>7,880,603</b>                         |
| Operating income.....  | <b>47,564</b>     | 71,919     | 71,661     | <b>393,091</b>                           |
| <b>Other income (expenses):</b>  |                   |            |            |  |
| Interest expenses.....   | <b>(17,909)</b>   | (18,705)   | (17,321)   | <b>(148,008)</b>                         |
| Interest and dividend income.....  | <b>4,961</b>      | 5,171      | 4,617      | <b>41,000</b>                            |
| Equity in earnings of affiliates .....   | <b>6,243</b>      | —          | —          | <b>51,595</b>                            |
| Other, net .....   | <b>601</b>        | 1,669      | (2,607)    | <b>4,967</b>                             |
|  | <b>(6,104)</b>    | (11,865)   | (15,311)   | <b>(50,446)</b>                          |
| Income before special credits (charges).....                                   | <b>41,460</b>     | 60,054     | 56,350     | <b>342,645</b>                           |
| <b>Special credits (charges):</b>  |                   |            |            |  |
| (Loss) gain on disposal of property,<br>plant and equipment, net.....          | <b>(2,531)</b>    | 17,082     | (1,859)    | <b>(20,917)</b>                          |
| Loss on sale or write-down of investments<br>in securities, net .....          | <b>(4,850)</b>    | (55)       | (1,533)    | <b>(40,082)</b>                          |
| Loss on liquidation of affiliated companies.....                               | <b>—</b>          | (174)      | —          | <b>—</b>                                 |
| Special severance payments and<br>other restructuring expenses .....           | <b>(4,809)</b>    | (5,626)    | (7,005)    | <b>(39,744)</b>                          |
| Special contributions for retirement pension plan .....                        | <b>(665)</b>      | (790)      | (1,087)    | <b>(5,496)</b>                           |
| Exchange loss.....   | <b>(4,328)</b>    | (10,988)   | —          | <b>(35,769)</b>                          |
| Provision for bad debt.....  | <b>(548)</b>      | (548)      | —          | <b>(4,529)</b>                           |
|  | <b>(17,731)</b>   | (1,099)    | (11,484)   | <b>(146,537)</b>                         |
| Income before income taxes.....  | <b>23,729</b>     | 58,955     | 44,866     | <b>196,108</b>                           |
| <b>Income taxes</b> (Note 8):  |                   |            |            |  |
| Current .....  | <b>12,929</b>     | 24,267     | 20,681     | <b>106,851</b>                           |
| Deferred .....   | <b>357</b>        | 3,736      | 1,223      | <b>2,951</b>                             |
|  | <b>13,286</b>     | 28,003     | 21,904     | <b>109,802</b>                           |
| Income from consolidated operations .....                                      | <b>10,443</b>     | 30,952     | 22,962     | <b>86,306</b>                            |
| <b>Minority interests in net income<br/>of consolidated subsidiaries</b> ..... | <b>(2,326)</b>    | (6,164)    | (362)      | <b>(19,223)</b>                          |
| <b>Amortization of cost in excess of net assets acquired</b> .....             | <b>—</b>          | (1,919)    | (2,496)    | <b>—</b>                                 |
| <b>Equity in earnings of affiliates</b> .....                                  | <b>—</b>          | 1,871      | 3,172      | <b>—</b>                                 |
| <b>Net income</b> .....  | <b>8,117</b>      | 24,740     | 23,276     | <b>67,083</b>                            |
| <b>Consolidated surplus:</b>   |                   |            |            |  |
| At beginning of year .....   | <b>310,638</b>    | 271,634    | 258,798    | <b>2,567,256</b>                         |
|  | <b>318,755</b>    | 296,374    | 282,074    | <b>2,634,339</b>                         |
| Appropriations:  |                   |            |            |  |
| Cash dividends .....   | <b>9,810</b>      | 9,810      | 9,810      | <b>81,074</b>                            |
| Transfer to legal reserve.....   | <b>—</b>          | —          | 469        | <b>—</b>                                 |
| Bonuses to directors and corporate auditors .....                              | <b>175</b>        | 160        | 161        | <b>1,447</b>                             |
|  | <b>9,985</b>      | 9,970      | 10,440     | <b>82,521</b>                            |
| At end of year.....  | <b>¥ 308,770</b>  | ¥ 286,404  | ¥ 271,634  | <b>\$2,551,818</b>                       |

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

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<br>U.S. dollars<br>(Note 3) |
|---|-----------------|-----------------|-----------------|--|
|   | 1999            | 1998            | 1997            | 1999                                     |
| <b>Cash flows from operating activities:</b>  |                 |                 |                 |  |
| Net income .....  | ¥ 8,117         | ¥ 24,740        | ¥ 23,276        | \$ 67,083                                |
| Adjustments to reconcile net income to net cash<br>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                                  |
| <b>Cash flows from investing activities:</b>  |                 |                 |                 |  |
| 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)                              |
| <b>Cash flows from financing activities:</b>  |                 |                 |                 |  |
| 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                                  |
| <b>Effect of exchange rate changes on<br/>cash and cash equivalents .....</b>   | <b>(2,337)</b>  | <b>(3,797)</b>  | <b>2,203</b>    | <b>(19,314)</b>                          |
| <b>Net (decrease) increase in cash and cash equivalents.....</b>  | <b>(42,622)</b> | <b>17,313</b>   | <b>5,910</b>    | <b>(352,248)</b>                         |
| <b>Cash and cash equivalents at beginning of year.....</b>  | <b>126,852</b>  | <b>109,539</b>  | <b>103,629</b>  | <b>1,048,364</b>                         |
| <b>Beginning of term balance of cash and cash equivalents<br/>at subsidiaries not previously included<br/>in consolidated financial statements.....</b> | <b>1,589</b>    | <b>—</b>        | <b>—</b>        | <b>13,132</b>                            |
| <b>Cash and cash equivalents at end of year .....</b>   | <b>¥ 85,819</b> | <b>¥126,852</b> | <b>¥109,539</b> | <b>\$ 709,248</b>                        |
| <b>Supplemental information of cash flows:</b>  |                 |                 |                 |  |
| 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<br>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                       |
|   | <b>438,940</b>  | <b>389,832</b>  | <b>3,627,603</b>             |
| Less amounts due within one year .....  | <b>65,825</b>   | <b>19,280</b>   | <b>544,008</b>               |
|   | <b>¥373,115</b> | <b>¥370,552</b> | <b>\$3,083,595</b>           |

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<br>of yen | Thousands of<br>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                      |
|  | <b>¥13,337</b>     | <b>\$110,223</b>             |

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<br>of yen | Thousands of<br>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                      |
|                           | <b>¥438,940</b>    | <b>\$3,627,603</b>           |

## 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<br>of yen | Thousands of<br>U.S. dollars |
|--|--------------------|------------------------------|
| <b>Deferred tax assets:</b>  |                    |                              |
| 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                       |
| <b>Total deferred tax assets.....</b>                              | <b>28,233</b>      | <b>233,331</b>               |
| <b>Deferred tax liabilities:</b>                                   |                    |                              |
| 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                        |
| <b>Total deferred tax liabilities.....</b>                         | <b>21,405</b>      | <b>176,901</b>               |
| <b>Net deferred tax assets.....</b>                                | <b>¥ 6,828</b>     | <b>\$ 56,430</b>             |

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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%        |
| <b>Increase (decrease) in taxes resulting from:</b>             |              |
| 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          |
| <b>Effective income tax rate.....</b>                           | <b>56.0%</b> |

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

|                               | Millions<br>of yen | Thousands of<br>U.S. dollars |
|-------------------------------|--------------------|------------------------------|
| <b>Years ending March 31:</b> |                    |                              |
| 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                      |
|                               | <b>¥30,815</b>     | <b>\$254,669</b>             |

## 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                     |                           |
| <b>March 31, 1999 .....</b> | <b>1,401,481</b>    | <b>96,937</b>   | <b>\$801,132</b>          | <b>85,792</b>              | <b>\$709,025</b>          |

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                    |
| <b>Total .....</b>       | <b>¥3,614</b>   | <b>\$29,868</b>           |

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- $\beta$  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<br>March 31, 1999:         | Fibers<br>and<br>textiles | Plastics<br>and<br>chemicals | Housing<br>and<br>engineering | Pharmaceuticals<br>and<br>medical products | New products<br>and<br>other businesses | Total             | Elimination<br>and<br>corporate | Consolidated<br>total |
|---------------------------------------|---------------------------|------------------------------|-------------------------------|--|---|-------------------|---------------------------------|-----------------------|
| Sales to outside<br>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)                       | —                     |
| <b>Total sales .....</b>              | <b>¥421,184</b>           | <b>¥321,115</b>              | <b>¥193,535</b>               | <b>¥47,821</b>                             | <b>¥126,467</b>                         | <b>¥1,110,122</b> | <b>¥(109,005)</b>               | <b>¥1,001,117</b>     |
| 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<br>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<br>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)         | —                 |
| <b>Total sales .....</b>              | <b>¥468,138</b> | <b>¥329,603</b> | <b>¥247,590</b> | <b>¥46,545</b> | <b>¥125,642</b> | <b>¥1,217,518</b> | <b>¥(129,805)</b> | <b>¥1,087,713</b> |
| 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<br>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<br>March 31, 1999:         | Fibers<br>and<br>textiles | Plastics<br>and<br>chemicals | Housing<br>and<br>engineering | Pharmaceuticals<br>and<br>medical products | New products<br>and<br>other businesses | Total        | Elimination<br>and<br>corporate | Consolidated<br>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<br>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<br>and Europe | Total      | Elimination<br>and<br>corporate | Consolidated<br>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,<br>Europe and<br>Other areas | Total           |
| <b>Year ended March 31, 1999:</b>                            |                 |   |                 |
| Export sales and sales by overseas subsidiaries .....        | <b>¥165,577</b> | <b>¥204,560</b>                             | <b>¥370,137</b> |
| Percentage of such sales against consolidated net sales..... | <b>16.5%</b>    | <b>20.5%</b>                                | <b>37.0%</b>    |

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 ..... | <b>\$1,368,405</b>        | <b>\$1,690,578</b> | <b>\$3,058,983</b> |

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:  
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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><b>Japan</b> (25 Companies)<br/>Toray Monofilament Co., Ltd.<br/>Toyo Tire Cord Co., Ltd.<br/>Ogaki Spinning Co., Ltd.<br/>Fuso Spinning Co., Ltd.<br/>Toyo Dyeing Co., Ltd.<br/>Marusa Co., Ltd.<br/>Toray Textiles, Inc.<br/>Inami Textiles, Inc.<br/>Toray Kimono Co., Ltd.<br/>Ronze Inc.<br/>Toray Fishing Corp.<br/>Towa Orimono Co., Ltd. (Osaka)<br/>Ichimura Sangyo Co., Ltd.<br/>Towa Orimono Co., Ltd. (Ishikawa)<br/>Maruichi Fiber Co., Ltd.<br/>Maruwa Orimono Co., Ltd.<br/>Toray Diplomode, Inc.<br/>Japan Apparel System Science Co., Ltd.<br/>Sunrich Mode Inc.<br/>Ecsaine Plaza-Aoyama, Inc.<br/>San e Origin Co., Ltd.<br/>Daiichi Lace Mfg. Co., Ltd.<br/>Others</p> | <p><b>U.S.A.</b> (1 Company)<br/>Toray Ultrastuede (America), Inc.</p> <p><b>United Kingdom</b> (2 Companies)<br/>Toray Textiles Europe Ltd.<br/>Toray Komatsu Printing (EU) Ltd.</p> <p><b>Italy</b> (1 Company)<br/>Alcantara S.p.A.</p> <p><b>Czech Republic</b> (1 Company)<br/>Toray Textiles Central Europe s.r.o.</p> <p><b>Indonesia</b> (4 Companies)<br/>P.T. Indonesia Toray Synthetics<br/>P.T. Indonesia Synthetic Textile Mills<br/>P.T. Acryl Textile Mills<br/>P.T. Eastertex</p> <p><b>Thailand</b> (3 Companies)<br/>Toray Nylon Thai Co., Ltd.<br/>Luckytex (Thailand) Public Company Limited<br/>Toray Fibers (Thailand) Ltd.</p> | <p><b>Malaysia</b> (5 Companies)<br/>Penfibre Sdn. Berhad<br/>Penfabric Sdn. Berhad<br/>Pentex Sdn. Berhad<br/>Woodard Textile Mills Sdn. Berhad<br/>Pentley Sdn. Berhad</p> <p><b>Singapore</b> (1 Company)</p> <p><b>China</b> (4 Companies)<br/>Toray Sakai Printing &amp; Dyeing (Nantong) Co., Ltd.<br/>Toray Sakai Weaving (Nantong) Co., Ltd.<br/>Toray Fibers (Nantong) Co., Ltd.<br/>Other</p> <p><b>China (Hong Kong)</b> (5 Companies)<br/>TAL Knits Ltd.<br/>Others</p> |
| (80 COMPANIES)                     |   |   | (52 Companies)  |
| TRADING                            | <p><b>Japan</b> (3 Companies)<br/>Toray International, Inc.<br/>Toray Ireeve Corp.<br/>Toray Alphart Co., Ltd.</p> <p><b>U.S.A.</b> (1 Company)<br/>Toray Marketing and Sales (America), Inc.</p>   | <p><b>Germany</b> (1 Company)<br/>Toray Deutschland GmbH</p> <p><b>United Kingdom</b> (1 Company)<br/>Toray Europe Ltd.</p> <p><b>Singapore</b> (1 Company)<br/>Toray Industries (Singapore) Pte. Ltd.</p>  | <p><b>China (Hong Kong)</b> (2 Companies)<br/>Toray Industries (H.K.) Ltd.<br/>Other</p>  |
| (14 COMPANIES)                     |   |   | (9 Companies)   |
| PLASTICS & CHEMICALS               | <p><b>Japan</b> (10 Companies)<br/>Toray PEF Products Inc.<br/>Toyo Plastic Seiko Co., Ltd.<br/>Toyo Metalizing Co., Ltd.<br/>Toray Plastic Films Co., Ltd.<br/>Toray Fine Chemicals Co., Ltd.<br/>Toray Thiokol Co., Ltd.<br/>SODA AROMATIC Co., Ltd.<br/>Others</p>   | <p><b>U.S.A.</b> (1 Company)<br/>Toray Plastics (America), Inc.</p> <p><b>France</b> (1 Company)<br/>Toray Plastics Europe S.A.</p> <p><b>China</b> (2 Companies)<br/>LIBI Plastic Compounding (Shenzhen) Co., Ltd.<br/>Toray Sanko Precision (Zhongshan) Co., Ltd.</p>   | <p><b>China (Hong Kong)</b> (2 Companies)<br/>LIBI Plastic Compounding (Hong Kong) Co., Ltd.<br/>Toray Sanko Precision (Hong Kong) Co., Ltd.</p> <p><b>Malaysia</b> (3 Companies)<br/>Pensanko Precision Sdn. Berhad<br/>Toray Plastics (Malaysia) Sdn. Berhad<br/>Other</p>  |
| (32 COMPANIES)                     |   |   | (19 Companies)  |
| HOUSING & ENGINEERING              | <p><b>Japan</b> (12 Companies)<br/>Toray Construction Co., Ltd.<br/>Toray Engineering Co., Ltd.<br/>Toray Living Co., Ltd.<br/>Toray Precision Co., Ltd.<br/>Toray Glasal Corp.</p>   | <p>Santo Development Co., Ltd.<br/>Tecmat Industries Corp.<br/>Others</p> <p><b>U.S.A.</b> (1 Company)</p>  | <p><b>Malaysia</b> (1 Company)</p> <p><b>Singapore</b> (1 Company)</p> <p><b>South Korea</b> (1 Company)</p>  |
| (22 COMPANIES)                     |   |   | (16 Companies)  |
| PHARMACEUTICALS & MEDICAL PRODUCTS | <p><b>Japan</b> (1 Company)<br/>Toray Medical Co., Ltd.</p>   |   |   |
| (5 COMPANIES)                      |   |   | (1 Company)   |
| NEW PRODUCTS & OTHER BUSINESSES    | <p><b>U.S.A.</b> (2 Companies)<br/>Toray Composites (America), Inc.<br/>Toray Carbon Fibers America, Inc.</p>   | <p><b>France</b> (1 Company)<br/>Société des Fibres de Carbone S.A.</p>   |   |
| (7 COMPANIES)                      |   |   | (3 Companies)   |
| INFORMATION & SERVICES             | <p><b>Japan</b> (10 Companies)<br/>Eastern Viva Co., Ltd.<br/>Toray Enterprise Corp.<br/>Toray Agency Inc.<br/>Toray Research Center Inc.<br/>Toyo Logistics Co., Ltd.<br/>Toray Systems Center Inc.<br/>Toyo Jitsugyo Co., Ltd.<br/>Toray Finance Inc.<br/>Mishima Shokusan Inc.<br/>Other</p>   | <p><b>U.S.A.</b> (3 Companies)<br/>Toray Industries (America), Inc.<br/>Toray Holding (U.S.A.), Inc.<br/>Toray Capital (America), Inc.</p> <p><b>Netherlands</b> (1 Company)<br/>Toray Capital (Europe) B.V.</p>  |   |
| (46 COMPANIES)                     |   |   | (14 Companies)  |
| TOTAL: 206 COMPANIES               |   |   | 114 COMPANIES   |

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

Toray Industries (America), Inc.  
5th Floor, 600 Third Avenue,  
New York, NY 10016, U.S.A.  
Telephone: 1 (212) 697-8150  
Facsimile: 1 (212) 972-4279

## EUROPE

### London

Toray Industries, Inc., Europe Office  
3rd Floor, 7 Old Park Lane,  
London W1Y 4AD, England, U.K.  
Telephone: 44 (20) 7663-7760  
Facsimile: 44 (20) 7663-7770

### Frankfurt

Toray Deutschland GmbH  
Nibelungenplatz 3,  
60318 Frankfurt am Main,  
Germany  
Telephone: 49 (69) 959400  
Facsimile: 49 (69) 95940294

### Milan

Toray Italia S.r.l.  
Via Mecenate 86,  
20138 Milan, Italy  
Telephone: 39 (02) 580-3911  
Facsimile: 39 (02) 580-16317

## ASIA

### Jakarta

P.T. Indonesia Toray Synthetics  
3rd Floor, Summitas II 61-62,  
Jalan Jenderal Sudirman,  
Jakarta, Indonesia  
Telephone: 62 (21) 520-1216~20  
Facsimile: 62 (21) 520-1222

### Bangkok

Luckytex (Thailand) Public Company Limited  
5th Floor, Bubhajit Building,  
20 North Sathorn Road,  
Bangrak, Bangkok 10500,  
Thailand  
Telephone: 66 (2) 266-6600~7  
Facsimile: 66 (2) 238-3957~8

### Penang

Penfabric Sdn. Berhad  
Plots 117-119 & 200-202,  
Prai Free Industrial Zone,  
13600 Prai, Penang, Malaysia  
Telephone: 60 (4) 3907000  
Facsimile: 60 (4) 3908018, 3908260

### Singapore

Toray Industries (Singapore) Pte. Ltd.  
31 Exeter Road, #31-01 Comcentre,  
Singapore 239732, Republic of Singapore  
Telephone: (65) 533-3288  
Facsimile: (65) 533-2215

### Beijing

Toray Industries, Inc., Beijing Office  
Beijing Fortune Building, No. 802,  
5, Dong San Huan Bei-Lu,  
Chao Yang District,  
Beijing 100004, China  
Telephone: 86 (10) 6501-8961~3  
Facsimile: 86 (10) 6501-8964

### Shanghai

Toray Industries, Inc., Shanghai Office  
10th Floor, Shanghai Senmao  
International Building,  
101 Yin Cheng East Road,  
Pudong New Area,  
Shanghai 200120, China  
Telephone: 86 (21) 6841-1303  
Facsimile: 86 (21) 6841-2454

### Hong Kong

Toray Industries (H.K.) Ltd.  
3rd & 15th Floors, TAL Building,  
49 Austin Road, Kowloon,  
Hong Kong, China  
Telephone: 85 (2) 27386400  
Facsimile: 85 (2) 27303780

### Taipei

Tong Shing Inc.  
6th Floor, Shinkong Life Insurance Building,  
No. 123, Nanking East Road,  
Section 2, Taipei, Taiwan  
Telephone: 886 (2) 2506-0700  
Facsimile: 886 (2) 2508-0662

### Seoul

Toray Industries, Inc., Seoul Office  
7th Floor, Kolon Building,  
45 Mugyo-Dong,  
Chung-ku, Seoul, South Korea  
Telephone: 82 (2) 776-2949, 753-5511  
Facsimile: 82 (2) 752-2974

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London Toray Industries, Inc., Europe Office  
● 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.**

2-1, Nihonbashi-Muromachi 2-chome,

Chuo-ku, Tokyo 103, Japan

Telephone: 81 (3) 3245-5113

Facsimile: 81 (3) 3245-5459

URL: <http://www.toray.co.jp>