


'TORAY'



(Consolidated Basis)

Semiannual Report

For the Six Months Ended
September 30, 1998



Toray Industries, Inc.

98

Financial Highlights

Toray Industries, Inc. and Subsidiaries
Six months ended September 30

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Net sales	¥492,378	¥538,136	\$3,647,244
Net income	3,423	13,732	25,356
		Yen	U.S. dollars
Net income per share	¥2.44	¥9.80	\$0.018

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥135 to \$1. Billion is used in the American sense of one thousand million.

Semiannual Net Sales

(Billion ¥)



Semiannual Net Income

(Billion ¥)



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To Our Stockholders

During the six-month period ended September 30, 1998, conditions in Japan's economy became increasingly severe. Amid growing concerns over the stability of the nation's financial system, personal consumption and private-sector capital investment continued to contract, leading to forecasts that Japan's economy would experience its second consecutive year of negative growth.

Overseas, the U.S. economy continued on a path of robust growth, while the majority of countries in Europe also enjoyed modest economic expansion. In Asia, China achieved stable economic growth in line with government targets. However, due to the economic instability caused by the previous year's devaluation of currencies, ASEAN nations will likely see negative economic growth.

Amid this environment, Toray Industries, Inc., and Group companies posted semiannual net sales of ¥492.4 billion, down 8.5% from the corresponding period of the previous year. On the income front, the notable bright spot was higher income from fibers and textiles related Group companies in Southeast Asia. However, with income in

other areas declining across the board, consolidated operating income fell 22.1% from the corresponding period of the previous year, to ¥28.4 billion. Furthermore, due to such special charges as the loss on write-down of investments in securities at the end of the interim period, net income plunged 75.1% from the corresponding period of the previous fiscal year, to ¥3.4 billion.

In fibers and textiles, due to sluggish performances by the parent company and domestic subsidiaries owing to a deteriorating domestic market, sales declined 10.4%, to ¥215.7 billion.

The plastics and chemicals segment enjoyed expanded sales of films and resins by overseas subsidiaries. However, due to a fall in sales by the parent company and domestic subsidiaries, overall segment sales contracted 6.1%, to ¥141.4 billion.

In the housing and engineering segment, as a result of weakness in the engineering business, sales decreased 18.4%, to ¥58.4 billion.

Sales of pharmaceuticals and medical products rose 7.3%, to ¥22.6 billion, bolstered by an expanded market share for our interferon- β preparation as well as efforts to increase sales of artificial kidneys.

In new products and other businesses, Torayca* carbon fiber enjoyed increased sales, mainly for aerospace applications. As a result, segment sales edged up 0.1%, to ¥54.2 billion.

In line with these business developments, Toray is continuing to move forward with the expansion of its global business operations. To this end, the Company is constructing or expanding fibers and textiles as well as plastics related manufacturing facilities at subsidiaries in China, Malaysia, the United States, France, and Italy.

Beginning in 1993, Toray established the Toray Science Foundations in Indonesia, Malaysia, and Thailand, which are now in their fifth year of operations. Toray seeks to continuously broaden the endeavors of these foundations and thereby promote the advance of science in their host nations.

Today, countries around the world are experiencing a period of great change involving the restructuring of political, economic, and social systems. To meet the challenges presented by such circumstances and to chart a course for continued business expansion and success in the 21st

century, Toray launched its long-term corporate vision “New AP-G2000” in April 1997.

In accordance with this vision, the Company is working to strengthen its corporate structure by further integrating the activities of Toray and Toray Group companies as well as striving to promote its global expansion efforts and maximize its R&D capabilities. Through these efforts, Toray aims to facilitate further expansion, foster the securing and development of human resources, achieve steady business results, and implement management strategies that will allow the Company to grow with the times.

In closing, I would like to thank all of you for your unyielding support and ask for your continued cooperation in the future.

December 1998



Katsuhiko Hirai
President and Chief Executive Officer

Consolidated Statements of Income and Surplus

Toray Industries, Inc. and Subsidiaries
Six months ended September 30, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Net sales	¥492,378	¥538,136	\$3,647,244
Costs and expenses:			
Cost of sales	365,724	406,047	2,709,067
Selling, general and administrative expenses.....	79,609	77,998	589,696
Research and development expenses.....	18,606	17,602	137,822
	463,939	501,647	3,436,585
Operating income	28,439	36,489	210,659
Other income (expenses):			
Interest expenses.....	(9,976)	(9,729)	(73,896)
Interest and dividend income	2,739	2,606	20,289
Equity in earnings of affiliated companies	1,578	1,816	11,689
Other, net	449	(1,142)	3,326
	(5,210)	(6,449)	(38,592)
Income before special credits (charges)	23,229	30,040	172,067
Special credits (charges):			
(Loss) gain on sales and disposal of property, plant and equipment, net	(1,443)	13,483	(10,689)
(Loss) gain on sale and write-down of investments in securities, net	(12,176)	2,635	(90,193)
Special severance payments and other restructuring expenses.....	(1,105)	(2,551)	(8,185)
Special contributions for retirement pension plan	(323)	(395)	(2,393)
Exchange loss.....	—	(7,630)	—
	(15,047)	5,542	(111,460)
Income before income taxes	8,182	35,582	60,607
Income taxes:			
Current	6,472	14,541	47,941
Deferred	(3,092)	3,798	(22,904)
	3,380	18,339	25,037
Income from consolidated operations	4,802	17,243	35,570
Minority interests in net income of consolidated subsidiaries	(1,379)	(3,511)	(10,214)
Net income	3,423	13,732	25,356
Consolidated surplus:			
At beginning of period	310,638	295,868	2,301,022
	314,061	309,600	2,326,378
Appropriations:			
Cash dividends	4,905	4,905	36,333
Bonuses to directors and corporate auditors	175	160	1,297
	5,080	5,065	37,630
At end of period	¥308,981	¥304,535	\$2,288,748
		Yen	U.S. dollars (Note 2)
Net income per share	¥2.44	¥9.80	\$0.018

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Toray Industries, Inc. and Subsidiaries
September 30, 1998 and 1997

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Current assets:			
Cash.....	¥ 40,125	¥ 57,772	\$ 297,222
Time deposits.....	53,362	55,512	395,274
Marketable securities.....	30,738	26,299	227,689
Trade receivables:			
Notes receivable.....	56,518	67,481	418,652
Accounts receivable.....	160,413	196,437	1,188,244
Allowance for doubtful accounts.....	(2,966)	(2,780)	(21,970)
Inventories.....	225,679	199,578	1,671,696
Deferred income taxes.....	9,663	7,787	71,578
Prepaid expenses and other current assets.....	36,053	32,949	267,059
Total current assets.....	609,585	641,035	4,515,444
Property, plant and equipment:			
Land.....	80,636	84,258	597,304
Buildings.....	341,386	321,835	2,528,785
Machinery and equipment.....	1,130,874	1,077,792	8,376,844
Construction in progress.....	109,929	70,214	814,289
	1,662,825	1,554,099	12,317,222
Accumulated depreciation.....	(1,015,590)	(965,653)	(7,522,889)
	647,235	588,446	4,794,333
Investments, long-term loans and other assets:			
Affiliated companies.....	45,847	42,552	339,608
Marketable equity securities.....	53,144	60,816	393,659
Other securities.....	1,273	9,427	9,430
Deferred income taxes.....	1,670	—	12,370
Other.....	42,161	35,374	312,304
Allowance for doubtful accounts.....	(976)	(308)	(7,230)
	143,119	147,861	1,060,141
Intangible assets.....	3,797	4,775	28,126
Cost in excess of net assets acquired.....	3,868	5,159	28,652
Foreign currency translation adjustment.....	23,591	22,539	174,748
	¥1,431,195	¥1,409,815	\$10,601,444

See accompanying notes to consolidated financial statements.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Current liabilities:			
Bank loans	¥ 162,562	¥ 160,550	\$ 1,204,163
Long-term debt due within one year	53,876	68,731	399,081
Commercial paper	500	500	3,704
Trade payables:			
Notes payable	83,208	94,805	616,356
Accounts payable	94,858	100,109	702,652
Income taxes payable	7,513	14,223	55,652
Accrued liabilities	50,906	50,903	377,081
Other current liabilities	30,195	30,485	223,667
Total current liabilities	483,618	520,306	3,582,356
Long-term debt	373,674	327,589	2,767,955
Employees' retirement benefits	47,236	46,193	349,896
Customers' guarantee deposits and other liabilities	5,268	3,915	39,022
Deferred income taxes	—	681	—
	909,796	898,684	6,739,229
Minority interests in consolidated subsidiaries	29,690	23,868	219,926
Stockholders' equity:			
Common stock:			
Authorized—4,000,000,000 shares			
Issued—1,401,481,403 shares (1,401,481,403 shares—1997)	96,937	96,937	718,052
Additional paid-in capital	85,792	85,792	635,496
Consolidated surplus	308,981	304,535	2,288,748
	491,710	487,264	3,642,296
Treasury stock, at cost	(1)	(1)	(7)
Total stockholders' equity	491,709	487,263	3,642,289
	¥1,431,195	¥1,409,815	\$10,601,444

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Subsidiaries
Six months ended September 30, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Cash flows from operating activities:			
Net income	¥ 3,423	¥ 13,732	\$ 25,356
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	37,950	38,499	281,111
Exchange loss	939	6,738	6,956
Deferred income taxes	(3,092)	3,798	(22,904)
Loss (gain) on sales and disposal of noncurrent assets	2,347	(19,640)	17,385
Loss on write-down of investment securities.....	11,272	3,522	83,496
Undistributed earnings of affiliated companies.....	(317)	(530)	(2,348)
Decrease in trade receivables	28,614	7,164	211,956
Increase in inventories.....	(23,468)	(5,347)	(173,837)
(Decrease) increase in trade payables and accrued liabilities	(30,082)	11,578	(222,829)
Decrease in employees' retirement benefits.....	(153)	(626)	(1,133)
Minority interests.....	1,379	3,511	10,214
Other, net	882	(126)	6,533
Net cash provided by operating activities.....	29,694	62,273	219,956
Cash flows from investing activities:			
Capital expenditures	(57,162)	(62,339)	(423,422)
Purchase of investment securities	(4,385)	(4,799)	(32,481)
Proceeds from sales and disposal of noncurrent assets	1,277	26,269	9,459
Other, net	(1,108)	(1,658)	(8,208)
Net cash used in investing activities	(61,378)	(42,527)	(454,652)
Cash flows from financing activities:			
Decrease in short-term debt	(10,772)	(4,923)	(79,793)
Proceeds from long-term debt.....	43,272	25,992	320,533
Repayments of long-term debt	(10,224)	(20,133)	(75,733)
Cash dividends paid.....	(4,905)	(4,905)	(36,333)
Net cash provided by (used in) financing activities.....	17,371	(3,969)	128,674
Effect of exchange rate changes on cash and cash equivalents	(2,384)	1,467	(17,659)
Net (decrease) increase in cash and cash equivalents	(16,697)	17,244	(123,681)
Cash and cash equivalents at beginning of period	126,852	109,539	939,644
Cash and cash equivalents at end of period	¥110,155	¥126,783	\$815,963
Supplemental information of cash flows:			
Cash paid during period for:			
Interest	¥ 9,776	¥ 8,745	\$ 72,415
Income taxes	14,175	12,862	105,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Subsidiaries
September 30, 1998 and 1997

1. Accounting Principles

The accompanying semiannual consolidated financial statements have been prepared in accordance with the same accounting principles as those adopted for the preparation of the annual consolidated financial statements included in the Company's Annual Report for the year ended March 31, 1998.

Due to the amendment of disclosure rules in Japan, necessary reclassifications have been made as to the balance sheet at September 30, 1997, and the statements of income and surplus for the six-month period then ended.

2. U.S. Dollar Amounts

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

¥135 to \$1, the approximate exchange rate prevailing on September 30, 1998.

3. Contingent Liabilities

The Company and its subsidiaries were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥4,529 million (\$33,548 thousand) at September 30, 1998.

In addition, the Company and its subsidiaries were contingently liable as guarantors of loans to affiliated companies and others in the amount of ¥15,539 million (\$115,104 thousand) at September 30, 1998.

4. Interim Dividends

In December 1998, interim cash dividends of ¥3.50 (\$0.026) per share, aggregating ¥4,905 million (\$36,333 thousand), were paid.

Certificate of Principal Financial and Accounting Officer

I, Masao Katsurauma, director of Toray Industries, Inc., do hereby certify that, in my opinion, the accompanying consolidated balance sheets at September 30, 1998 and 1997, and the related consolidated statements of income and surplus and cash flows for the six-month periods then ended have been prepared to present a true and fair view of the consolidated financial position at September 30, 1998 and 1997, and the consolidated results of operations and cash flows for the six-month periods then ended.

December 1998



Masao Katsurauma
Director

Board of Directors and Corporate Auditors

September 30, 1998

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

Shigeo Mitsui
Yoshihiro Harada
Takuya Takayama

Senior Managing Directors

Noriyuki Kohguchi
Hidetane Iijima
Akira Sawamura
Yoichi Shimokawa
Teruya Ohno
Hin Igarashi

Managing Directors

Noriyasu Yamaguchi
Takanobu Shibuya
Hiroki Bessho
Hirotaka Nakashima
Satoru Masuzaki
Tamon Hiroyama
Akikazu Shimomura
Shoichi Akita
Kiyoteru Wakasugi
Sadayuki Sakakibara

Directors

Kazuo Tomiita
Shinji Koyama
Masao Katsurauma
Noboru Fujihara
Hiroaki Kobayashi
Junichi Ujike
Hiroshi Oka
Yoshihiro Okumura
Motoo Yoshikawa

Corporate Auditors

Akira Ogura
Junichi Kabe
Eiichi Kakei
Kentaro Kawahara

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Global Network

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Investor Information

September 30, 1998

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Established

January 1926

Common Stock

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

Number of Stockholders

137,540

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