

Annual Report 2003

April 1, 2002-March 31, 2003



'TORAY'

Profile

Toray—The Advanced Materials Solutions Provider

Toray, a leading diversified chemicals corporate group, has been technology-focused since its foundation in 1926. Our operations are underpinned by technological expertise in organic synthetic chemistry, polymer chemistry, and biochemistry—our three core technologies.

Toray's innovative technologies have yielded advanced materials that we are now exploiting to provide customers with comprehensive solutions through our Fibers and Textiles, Plastics

and Chemicals, IT-related Products, Housing and Engineering, Pharmaceuticals and Medical Products, and New Products and Other Businesses divisions.

Toray's active social-responsibility initiatives include working to protect the environment, respecting human rights, communicating with stakeholders, practicing good corporate citizenship, complying fully with all laws and regulations, and acting ethically. These, too, are major sources of our sustainable competitive strengths.

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

Cautionary Statement with Respect to Forward-Looking Statements

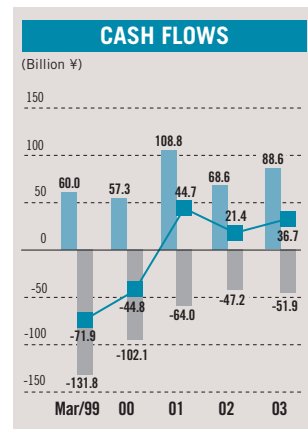
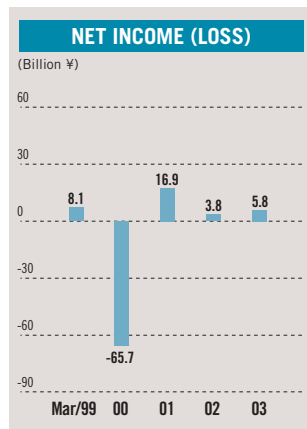
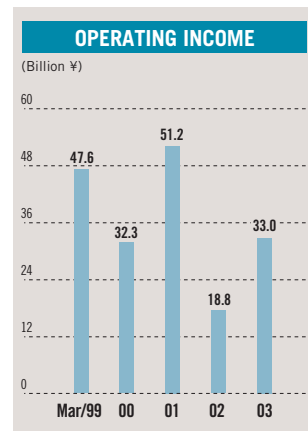
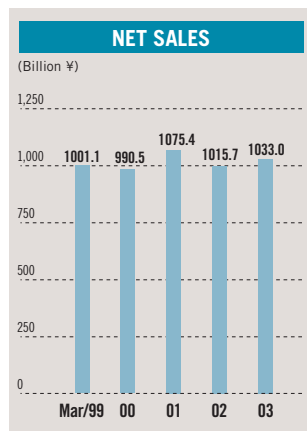
Descriptions of predicted business results, projections and business plans contained in this annual report are based on forecasts and assumptions regarding the future business environment made at the present time. This annual report is not a guarantee of the Company's future business performance.

Financial Highlights

Toray Industries, Inc. and Subsidiaries
Years ended March 31

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
For the year:				
Net sales	¥1,032,991	¥1,015,713	¥1,075,371	\$ 8,608,258
Operating income	33,043	18,845	51,166	275,358
Net income	5,790	3,802	16,937	48,250
Net cash provided by operating activities	88,582	68,590	108,756	738,183
Capital expenditures	57,249	65,367	60,071	477,075
Per share of common stock (in yen and U.S. dollars):				
Net income				
Primary	¥ 4.13	¥ 2.71	¥12.09	\$ 0.034
Fully diluted	—	—	12.02	—
Net cash provided by operating activities (primary)	63.22	48.94	77.60	0.527
Cash dividends	5.00	5.00	7.00	0.042
At year-end:				
Total assets	¥1,300,954	¥1,386,507	¥1,461,133	\$10,841,283
Total stockholders' equity	390,398	413,140	425,193	3,253,317

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥120 to \$1.00, the approximate rate of exchange prevailing on March 31, 2003. Billion is used in the American sense of one thousand million.



*Free Cash Flows:
Cash flows from operating activities + cash flows from investing activities

■ Cash Flows from Operating Activities
■ Cash Flows from Investing Activities
■ *Free Cash Flows

To Our Stockholders

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

Business Environment and Results

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

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

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

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

Corporate Ethics and Contribution to Society

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

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

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



Katsunosuke Maeda
Chairman and Chief Executive Officer

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

A New IR Department

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

Corporate Governance

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

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

Members of our Board of Auditors attend all

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

Management Issues

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



*Sadayuki Sakakibara
President and Chief Operating Officer*

To Our Stockholders

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

in these fields.

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

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

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



June 2003

Katsunosuke Maeda
Chairman and CEO

Sadayuki Sakakibara
President and COO

Corporate Philosophy

CORPORATE PHILOSOPHY

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

CORPORATE MISSIONS

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

GUIDING PRINCIPLES

Safety and Environment

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

Customer Satisfaction

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

International Competitiveness

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

Global Teamwork

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

Identity and Self-Improvement

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

Meaning in Work

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

Fairness and Sincerity

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

Toray Group Identity

1.

A corporate group that continues to develop on the basis of science and technology

Toray Group, building on its core technologies in organic chemistry, polymer chemistry, and fiber engineering, pursues the development of state-of-the-art technology and new products by pioneering new fields, including biotechnology, information technology, and nanotechnology. The Group is striving to achieve further growth and development with these new technological fields as solid foundations for its business.

2.

A corporate group that continuously fosters innovative attitudes and creative ideas while strengthening its corporate structures

Toray Group ceaselessly encourages innovative attitudes and creative ideas to foster a corporate atmosphere conducive to employees' displaying a pioneering frontier spirit, integrity, fortitude, and entrepreneurship. At the same time, the Group works to strengthen its corporate structures strong enough so as to maintain stability even in a rapidly changing business environment.

3.

A corporate group that pursues growth through globalization and group management

Toray Group companies each position themselves competitively through their respective identities and initiative. With Toray at its core, the Group pursues global growth by strengthening synergetic collaborations among its member companies.

4.

A corporate group that strives to carry out business as a "New Value Creator"

Toray Group wants to go beyond just manufacturing and selling products. The Group is moving to transform itself into a "New Value Creator" —a corporate group that creates new business models to play a comprehensive role in providing customers with solutions.

5.

A corporate group that secures and develops outstanding human resources

Toray Group secures and develops the outstanding human resources required by its corporate strategies, and it implements management initiatives designed to put the right human and organizational resources in the right place at the right time so that all can share the joy of improving their abilities and skills and achieving goals in a challenging work environment.

6.

A corporate group that gives priority to safety, accident prevention, and environmental preservation

Toray Group, placing the priority on safety, accident prevention, and environmental preservation, ensures [that its activities promote] the safety and health of employees, customers, and society. The Group also plays an active role in protecting the environment by developing environmentally friendly products and technologies.

7.

A corporate group that recognizes its responsibility to be a good corporate citizen by contributing to society

Toray Group builds beneficial partnerships with the communities it does business in. The Group also makes every effort to improve the transparency of its corporate management and to protect consumers. Its international activities—including those of the Toray Science Foundations, which support and develop science and technology—contribute to the betterment of society everywhere.

8.

A corporate group that develops a vital corporate culture and sets corporate ethics of the highest standards

Toray Group works to establish and develop a vital corporate culture to shape a lively and attractive corporate character appropriate for the 21st century. The Group acts with fairness and high ethical standards to sincerely serve society as a trustworthy corporate citizen.

Long-Term Business Prospects

In fibers and textiles—the foundation businesses of Toray Group—the Group is going to further expand its global operations. Taking a step forward from its current manufacturing-centric model, the Group intends to establish a stable earning base by leveraging its experience and know-how to develop solution businesses and integrating production, distribution, and services to develop a comprehensive fibers and textiles businesses.

In plastics and chemicals—another of the Group's foundation businesses—the Toray Group will form strategic alliances to maintain and further strengthen its global competitiveness, developing a stronger earnings base that focuses not only on materials but also on components and processed products businesses.

The Toray Group positions IT-related products; Life Sciences; and Environment, Safety, and Amenity as its three high growth-potential areas. Business units involved in these segments have been designated as strategically expanding businesses that promise to

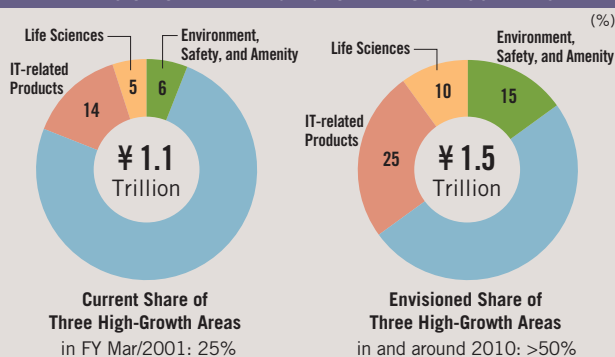
become engines of future growth. We therefore intend to foster develop these fields into core businesses by giving them priority for investment of business resources and adopting advantageous management options, including mergers and acquisitions, as opportunities present themselves.

In peripheral business fields, which include engineering and services, the Toray Group intends to make effective use of available management resources by selectively developing and enhancing businesses with profit potential.



Business Fields	Main Businesses	Long-Term Prospects
Foundation Businesses	<ul style="list-style-type: none"> Comprehensive, global textiles business integrating all aspects from production to distribution and services Global plastics and chemicals business covering materials, components, and processed products 	Toray Group will establish a stable earnings base by moving forward with globalization and group management, developing solutions businesses by widening product lines to include components and processed products and establishing global alliances.
Strategically Expanding Businesses	<ul style="list-style-type: none"> IT-related products Life Sciences Environment, Safety, and Amenity 	Toray Group will encourage growth and expansion through investing on a priority basis and actively forming global alliances and engaging in mergers and acquisitions.
Peripheral Businesses	<ul style="list-style-type: none"> Engineering, services, and other peripheral businesses operated by Toray Group companies 	Toray Group will make efficient use of management resources by selectively developing and enhancing potentially profitable businesses.

BUSINESS STRUCTURE OF TORAY GROUP IN AND AROUND 2010 EXPANSION OF THREE HIGH-GROWTH BUSINESS AREAS



PRINCIPAL BUSINESS PERFORMANCE GOALS IN AND AROUND 2010

Performance Indicators	Envisioned Goals
Net Sales	¥1.5 trillion
Operating Income	¥120 billion
Ratio of Operating Income to Net Sales	8%
ROA (Operating Income/Total Assets)	≈8%
ROE (Net Income / Stockholders' Equity)	≈10%

T o r a y a t a G l a n c e
R e v i e w o f O p e r a t i o n s
R e s e a r c h a n d D e v e l o p m e n t
E n v i r o n m e n t a l A c t i v i t i e s
S u s t a i n a b l e A c t i v i t i e s



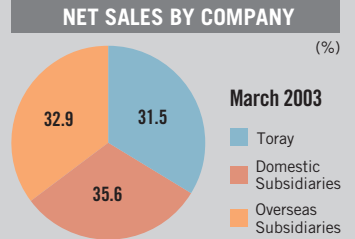
Toray at a Glance

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Businesses and Principle Products and Services

Fibers and Textiles



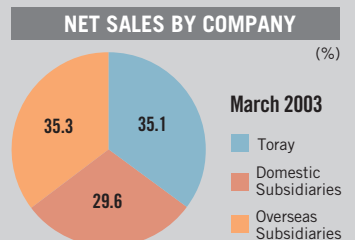
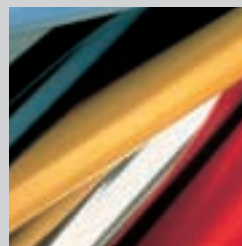
Filament yarns, staple fibers, spun yarns, and woven and knitted fabrics of nylon, polyester, and acrylic, polyphenylene sulfide (PPS) fiber, polytetra fluoro ethylene (PTFE) fiber, polylactic acid (PLA) fiber, 3GT fiber, polyester- and polypropylene-filament non-woven fabrics, man-made suede, apparel products

Topics in FY Mar/03

- PolyTetra-Fluoro Ethylene (PTFE) fibers business grows.
- Polylactic acid fiber business takes off.
- Nylon 66 filaments business expands.
- Production capacity at Chinese filament woven fabric facility increases.

Plastics and Chemicals

Except resins and films included under IT-related Products

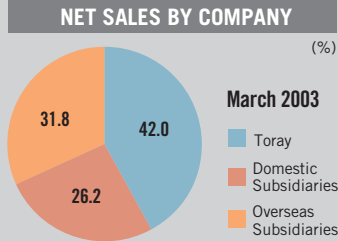
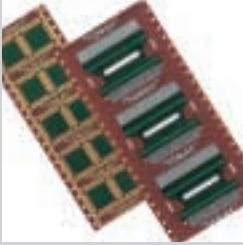


Nylon (PA), acrylonitrile butadiene styrene (ABS), polybutylen terephthalate (PBT), polyphenylene sulfide (PPS), liquid crystal polymer (LCP), and polyacetal (POM) resins and molded products, polyolefin foam, polyester, polypropylene, and para-based aramid films and processed film products. Caprolactam, synthetic gypsum, specialty chemicals for pharmaceuticals and agrochemicals such as rubber and resin additives, aromatic fine chemical products, high-functional catalysts

Topics in FY Mar/03

- ABS resin production capacity increased in Malaysia.
- PPS resin compound production begun in China.
- Plastic molding business launched in China.
- Polyester film production increased in China.

IT-related Products

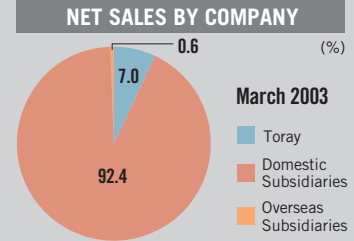


Films and resins for use in IT products, circuit materials, semiconductor packaging materials, printing plate materials, LCD color filters, optical fiber, electronic components, information-processing services

Topics in FY Mar/03

- Metallized film for capacitor set up in China.
- High-density electronic circuit materials see growth.

Housing and Engineering

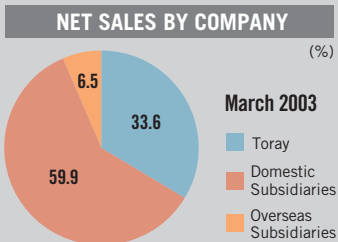


Comprehensive engineering, condominiums and homes, environmental equipment, reverse-osmosis membrane elements and water purification systems, housing and construction, civil engineering [and construction] materials

Topics in FY Mar/03

- Capital and business alliance formed to expand water treatment business.
- Building materials subsidiaries integrated and reorganized to enhance competitiveness.

Pharmaceuticals and Medical Products

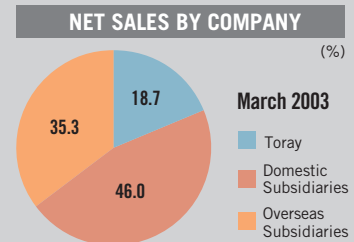
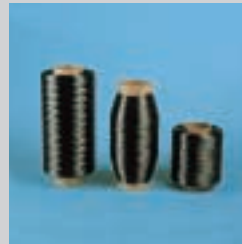


Pharmaceuticals and medical products

Topics in FY Mar/03

- New antipruritus drug developed.

New Products and Other Businesses



Carbon fibers and advanced composite materials, optical products, fine ceramics, analysis, physical evaluation, and research services

Topics in FY Mar/03

- Carbon fiber manufacturing facility to be added in Europe.

Review of Operations

>> FIBERS AND TEXTILES

In Fibers and Textiles, sales declined 3.0% from the previous fiscal year to ¥418.3 billion, but operating income grew 13.1% to ¥10.4 billion as a result of our concentrating on highly profitable business areas and strengthening of the management structure.

In Japan, sales to the apparel sector declined because of a stagnant nylon fiber market and rising imports, but sales of products for industrial applications (such as tire cords and airbags) increased. In the end, overall nylon fiber sales were about the same as in the previous fiscal year. In the polyester fiber business, *Tetoron*^{*} polyester filament yarn sales to the apparel sector decreased on the back of sluggish domestic consumption.

Overseas, the non-woven fabric business in South Korea and polyester filament business for apparel use in China recorded sales growth. However in total, sales were little changed from the previous fiscal year as the textiles business struggled against sluggish demand and falling prices.

Topics for the Fiscal Year ended on March 31, 2003

PolyTetra-Fluoro Ethylene (PTFE) Fibers Business Grows

In July 2002, Toray acquired the PTFE fibers business of E.I. du Pont de Nemours & Company (Du Pont) and established Toray Fluorofibers (America), Inc., in Alabama. PTFE fibers are high-performance fibers that features excellent heat

and chemical resistance, low friction properties, and high durability. They are widely used as a material in industrial products such as waste incinerator filters and bearings.

Polylactic Acid Fiber Business Takes Off

Polylactic acid fiber is an environmentally friendly polymer made from natural, recyclable, non-petrochemical materials such as corn that is readily biodegradable after use. Fibers made from polylactic acid offer excellent biodegradability and anti-bacterial properties, and they are also very safe in applications that involve contact with the skin. Toray intends to build its polylactic acid fiber and textile businesses globally as part of a strategic expansion in growth-promising fields involving such environmentally friendly products.

Over the short term Toray will be working on the development and sales of textile products for industrial and household materials, especially products that make use of the outstanding properties of polylactic acid; such products include interior automotive parts and materials, carpets, bedding, and industrial materials. The



PTFE fibers are used in incinerator filters, bearings, and numerous other industrial applications



Polylactic acid fibers are derived from corn. Toyota Motor Corp. has adopted floor mats made from them for use in its passenger cars.

company intends to then diversifying into apparel, interiors, and other applications. In May 2003, Toray concluded a comprehensive business agreement on polylactic acid fiber with its main materials supplier Cargill-Dow Polymers (US).

Nylon 66 Filaments Business Expands

Toray decided to begin production in Thailand of nylon 66 filament and nylon 66 woven fabrics for use in airbags. The number of vehicles equipped with airbags is rising every year as a result of growing safety consciousness. In addition, not only driver's and passenger's seat airbags but also side airbags and curtain airbags are on the increase, so the volume of nylon 66 filament used per vehicle is likely to grow going forward.

Toray's object is to capture a 30% share of the world airbag market by supplying product from both Japan and Thailand, which is Southeast Asia's automobile-manufacturing hub. Production there of woven fabrics is slated to begin in 2003, and that of filament yarn, in 2004.

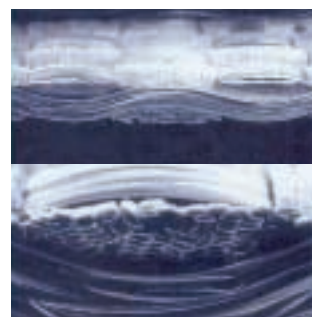
Production Capacity at Chinese Filament Woven Fabric Facility Increases

In China, Toray Sakai Weaving & Dying (Nantong) Co., Ltd., in January 2003 doubled to 5 million meters its monthly production capacity for filament woven fabric. Under the regional management company Toray Industries (China) Co., Ltd., Toray Sakai Weaving & Dying will use high quality filament produced by polyester

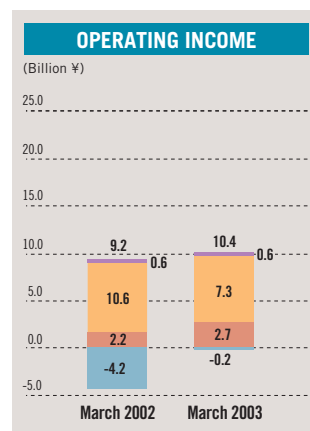
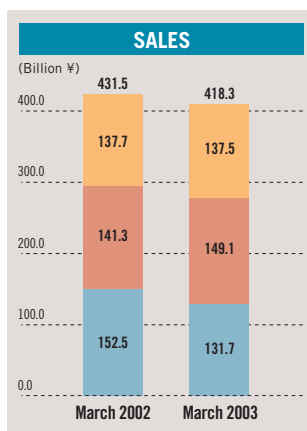
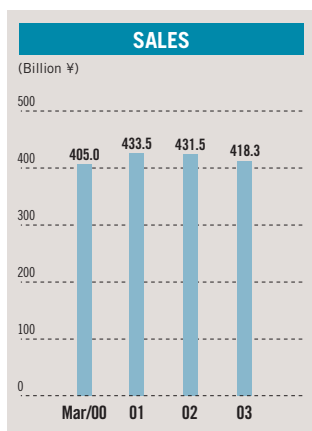
filament maker Toray Fibers (Nantong) Co., Ltd., and strengthen ties with sewing bases in China. The Toray Group will be working in this way to accelerate construction of an integrated supply chain from filament yarn to end product through efforts to strengthen its sales to leading apparel makers and retailers in Japan, the US, and Europe.

Business Environment and Outlook

In the fiscal year ending March 2004, industrial demand for fibers and textiles is expected to grow on a global scale, especially in the automotive industry. Domestic demand from the apparel sector, however, is likely to remain weak across the board due to prolonged deflationary pressures and competition from imports. Toray intends to bolster its strategies for developing new business lines in the retail and apparel sectors by expanding sales of new apparel products and taking advantage of sewing resources in China, increasing sales of functional textile products for industrial use, and enhancing total cost competitiveness for greater earnings growth.



Nylon 66 filament developed by Toray, with its flat cross-section, addresses the needs of automotive airbag manufacturers in making smaller, lighter products.

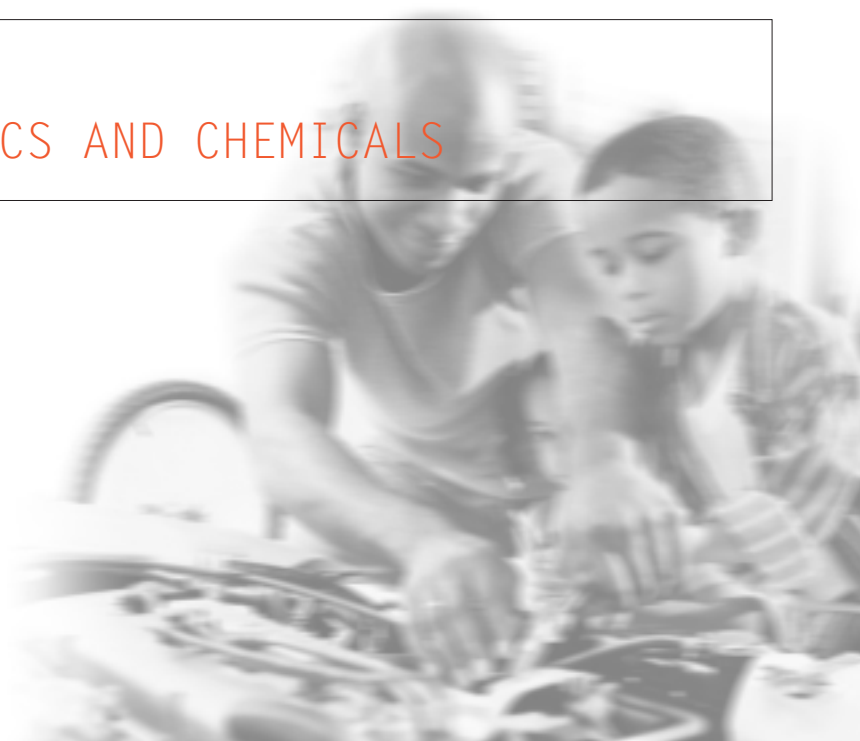


Toray Domestic Subsidiaries Overseas Subsidiaries

Toray Domestic Subsidiaries Overseas Subsidiaries Consolidated Adjustment

Review of Operations

>> PLASTICS AND CHEMICALS



Plastics and Chemicals sales grew 7.6% to ¥241.9 billion. Operating income increased 267.3% to ¥6.0 billion.

In the resins business, strong demand from the Japan's automotive sector, steady export of transparent graded products, and growth of standard products overseas pushed up sales of *Toyolac** acrylonitrile butadiene styrene (ABS) resin. The nylon resin *Amilan** and polybutylene terephthalate (PBT) resin *Toraycon** also posted brisk sales, mainly to the automotive and electrical industries.

In the films business, total sales of our mainstay *Lumirror** polyester (PET) film grew thanks to increased sales volume for packaging and industrial applications in Japan and overseas.

Also, the recovery of domestic demand for capacitors, and packaging and industrial applications worldwide boosted sales of polypropylene film *Torayfan**.

Chemicals sales grew overall thanks to strong export sales of caprolactam.

Topics for the Fiscal Year ended on March 31, 2003

ABS Resin Production Capacity Increased in Malaysia

In the resins business, additional ABS resin production facilities at Toray Plastics (Malaysia) Sdn. Berhad (TPM) were completed in March 2003, raising total production capacity from 170,000 tons to 220,000 tons.

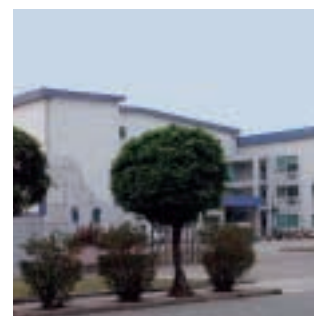
Combined with the Chiba facility in Japan, Toray's annual ABS resin production capacity is now 290,000 tons.

PPS Resin Compound Production Begun in China

Toray decided to add new, specialized compound facility for polyphenylene sulfide (PPS) resin, a high-performance engineering plastic, at LIBI Plastic Compounding (Shenzhen) Co., Ltd. (LCS) in Shenzhen, China. The new facility is scheduled to go live in October 2003 with annual production capacity of 3,000 tons.

With very strong and resistant to heat and chemicals, PPS resin is widely used in electrical and electronic equipment and automotive components. Double-digit growth of world demand is forecasted for the next few years.

Toray's *Torelina** PPS resin is the material of choice for many electrical and electronic equipment component manufacturers and automotive suppliers. The new facility will strengthen Toray's supply structure in China,



China's LIBI Plastic Compounding (Shenzhen) Co. will add polyphenylene sulfide (PPS) resin compound business in October 2003. PPS resins are high-performance engineering plastics, that is used in electrical, electronic and automotive components. World demand is projected to grow by 10% or more moving forward.

providing Japanese customers accelerating their relocation to China with PPS resin products of quality equal to that available in Japan.

Plastic Molding Business Launched in China

Toray's consolidated subsidiary Toyo Plastic Seiko Co., Ltd., a plastic molding, assembly, and processing company, established Shanghai TPS Precision Co., Ltd. (STPS), an injection molding base, in eastern China. STPS will strengthen the supply of Toray products to local customers, mainly Japanese customers with a presence in the region. STPS began supplying small precision equipment components to Japanese IT and office-equipment manufacturers in China in June 2002 from temporary facilities while building a new plant, which began production in June 2003.

Polyester Film Production Increased in China

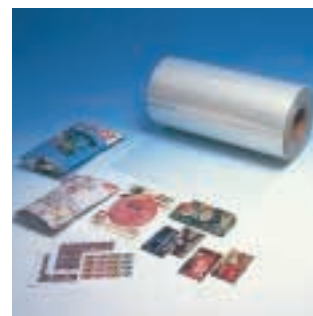
In the films business, we decided to increase our world total polyester film production capacity by setting up a new facility at Yihua Toray Polyester Film Co., Ltd., in China 3½ times to 21,000 tons per year; the additional capacity will go online in 2004. Toray is using this as opportunity to bring in state-of-the-art technology and production know-how

developed by the Toray Group to launch full commercial manufacture of high quality, high value-added products. This move is intended to help us satisfy locally the growing demand as well as increasingly sophisticated quality requirements in China for polyester film used in packaging and electronic components.

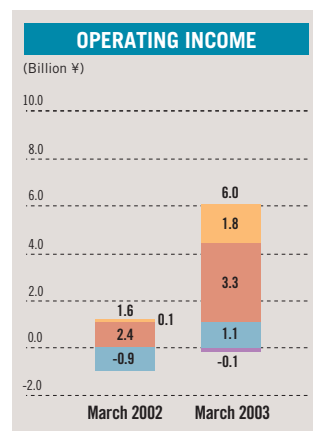
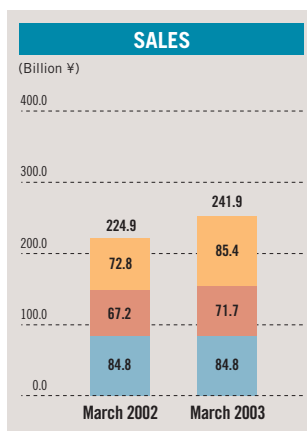
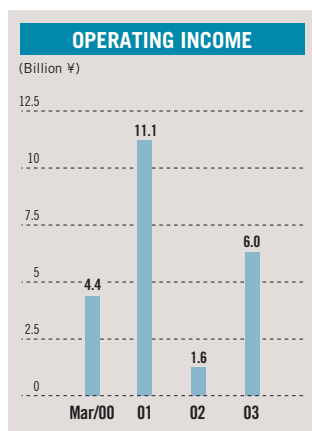
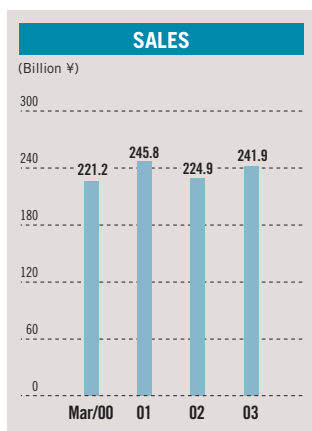
Business Environment and Outlook

In the fiscal year ended on March 31, 2004, we expect steady growth, especially in China, in the production of automobiles and electrical appliances for the home—the main customers for resins and films. We therefore intend to achieve earnings growth in this sector by capturing a greater portion of the expanding overseas demand for resins and films, and by increasing high value-added, outstandingly competitive and high-quality products in Japan.

In chemicals, we are progressively reinforcing the management structure of our basic chemicals business while boosting the efficiency of our fine chemicals business by transferring some sectors to our subsidiary, Toray Fine Chemicals Co., Ltd. (TFC). These efforts, combined with Toray's distinctive approach of leveraging its foundation businesses, are designed to increase the earnings of the whole Toray Group.



At Yihua Toray Polyester Film Co. in China, polyester film production capacity will be increased 3½ times its current level to 21,000 tons per year during 2004. Its Polyester film will be used in packaging and electronic components.



Toray Domestic Subsidiaries Overseas Subsidiaries

Toray Domestic Subsidiaries Overseas Subsidiaries Consolidated Adjustment

Review of Operations

>> IT-RELATED PRODUCTS

IT-related Products sales increased 4.5% to ¥147.7 billion. Operating income grew 600.7% to ¥9.3 billion.

Sales of resins and films for IT-related applications were up across the board in Japan thanks to a recovery in demand, especially for products used in LCDs, electronic components, and mobile phones. Overseas sales also increased, led by sales in China of precision-molded resin products.

In the electronics and information-related materials business, revenue was up in Japan and East Asian countries mainly on growth of electronic circuit materials, including polyimide adhesive tape for TAB (Tape Automated Bonding) and Copper Clad Laminate film, as well as brisk business in TAB tape pattern processing at STEMCO, Ltd., in South Korea.

In the LCD materials business, sales of *Toptical*[®] thin-film transistor (TFT) color filters for compact mobile devices recorded strong growth, but sales declined in the second half due to a less demand for products used in large-screen LCD applications.

Topics for the Fiscal Year ended on March 31, 2003

Metallized Film Business for Capacitor Set Up in China

In Guangdong, China, Toray established Toray Film Products (Zhongshan) Ltd. to manufacture metallized film for capacitor. The company began production in May 2003 and will supply high-performance, high-quality vapor deposition films

for capacitors used in PCs, mobile phones, and other information and communications devices to meet growing demand not only in China, but also Southeast Asia, South Korea, and Taiwan.

High-Density Electronic Circuit Materials See Growth

Our manufacturing subsidiary of film processed products, Toyo Metallizing Co., Ltd., increased production capacity for *Metaloyal*[®], copper electroplated polyimide films for high-density circuit materials; the new capacity came online in April 2003. Demand for this film has increased sharply in recent years, mainly for base films of IC chips that drive LCD and other flat-panel display screens. Annual growth of at least 20% is projected going forward.

Business Environment and Outlook

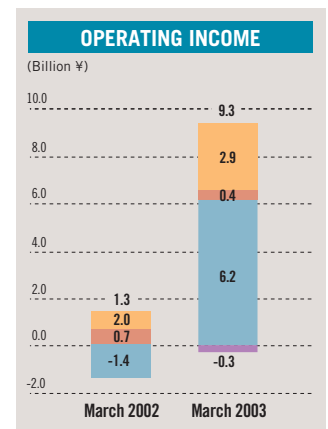
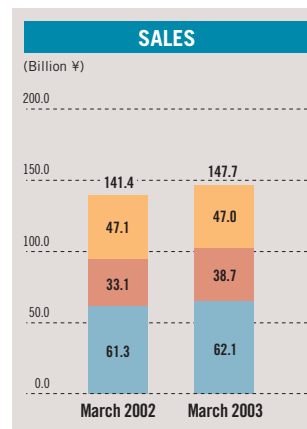
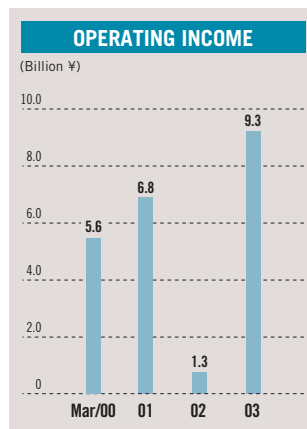
We expect steady growth in global demand for our IT-related products to continue in 2004 and onward. The Company will accelerate efforts to concentrate on highly profitable business areas with good growth potential—such as mainstay films, electronic circuit materials, and semiconductor materials—to maximize earnings growth. We will also be pursuing further earnings improvement in the LCD color filter business by focusing on small displays for color-screen-equipped mobile phones and other applications best served by our proprietary technologies, and by continuing efforts to reinforce the business structure of the sector.



Toray Film Products (Zhongshan) in Guangdong, China, started manufacturing high-performance, high-quality vapor deposition films for capacitors used in PCs, mobile phones, and other information and communications devices in May 2003.



In April 2003 Toyo Metallizing Co. brought new capacity on stream for manufacturing *Metaloyal*[®], a flexible material for high-density electronic circuits formed on copper electroplated polyimide film.



Review of Operations

>> HOUSING AND ENGINEERING

In the Housing and Engineering segment, sales growth in the construction and real estate businesses helped sales grow 12.9% to ¥118.8 billion and operating income increase 42.4% to ¥800 million despite a slowdown of the engineering business in the wake of generally sluggish capital expenditure.

Topics for the Fiscal Year ended on March 31, 2003

Capital and Business Alliance Formed to Expand Water Treatment Business

In the Water Treatment business, Toray embarked on a capital and business alliance with Suido Kiko Kaisha, Ltd., acquiring 20% of its outstanding stock in September 2002.

Suido Kiko is a pioneer of Japan's water treatment industry and one of today's top market players. Toray is confident that efficient cooperation between the two companies, combining our high-performance membrane technology and product development prowess with Suido Kiko's sales network and excellent track record in public sector, will result in further, comprehensive growth of the water treatment business.

Building Materials Subsidiaries Integrated and Reorganized to Enhance Competitiveness

As part of "Project NT21," on April 1, 2003, Toray integrated and reorganized five building materials subsidiaries—Toray Glasal Corp.,

Tecmat Industries Corp., TG Techno, Chuno Cetech Co., Ltd., and Santo Development Co., Ltd. to strengthen and expand the building materials business. These changes are designed to achieve a fusion of the respective building materials companies' technology and utilize their resources effectively, as well as produce far-reaching structural reinforcement and business expansion by making progress with management efficiency improvements and overall cost reduction.

Business Environment and Outlook

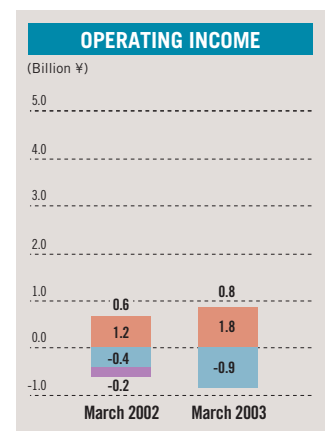
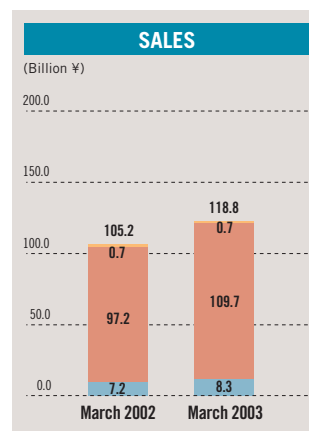
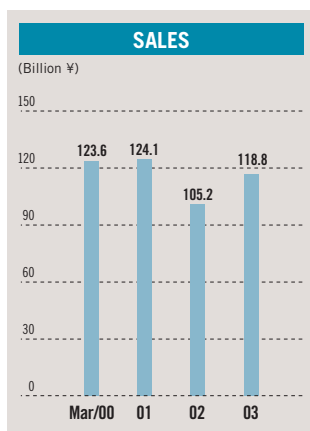
Given the slowdowns in domestic public-infrastructure projects and private capital expenditure, we believe the fiscal year ending March 31, 2004 will remain a challenging year—though condominium sales are providing a bright spot, with promotions of new projects making steady progress. Another area with promise is the water treatment business, where demand for water treatment systems is rising worldwide. Here, Toray will be working worldwide to promote its membrane products for seawater desalination systems and water- and sewerage-treatment systems.



In the Water Treatment sector, Toray embarked on a capital and business alliance with Suido Kiko Kaisha, Ltd., acquiring 20% of its outstanding stock in September 2002. Suido Kiko is a pioneer of Japan's water treatment industry and one of today's top market players.



On April 1, 2003, Toray integrated and reorganized its building materials subsidiaries, which handle exterior cladding (siding) materials for use in homes. The move is designed to further advance the position of the Toray Group's building materials business.



Toray Domestic Subsidiaries Overseas Subsidiaries

Toray Domestic Subsidiaries Overseas Subsidiaries Consolidated Adjustment

Review of Operations

>> PHARMACEUTICALS AND MEDICAL PRODUCTS

In the Pharmaceuticals and Medical Products segment, sales declined 4.8% to ¥47.6 billion, but operating income grew 46.6% to ¥2.8 billion. Sales volumes were up for *Dorner** and 'Procylin'^{Note}, treatments for circulatory disorders such as chronic arterial occlusion and hypertension; *Toraysulfone**, a polysulfone hollow-fiber artificial kidney; and *Toraymyxin**, a blood purification device for treating severe septicemia by removing endotoxins from the blood. These higher sales volumes were undermined, however, by a steep downward revision of the National Health Insurance list price for *Feron** (a natural interferon-beta preparation) and intensifying competition in the medical products market. Increased revenue from royalties and reduced expenses contributed to the growth of operating income.

Topics for the Fiscal Year ended on March 31, 2003

New Antipruritus Drug Developed

At the end of 2002, Toray filed a marketing application in Sweden for an injectable formulation of an antipruritus drug for the treatment in dialysis patients. Toray and Fujisawa Pharmaceutical Co., Ltd., signed an agreement under which they co-develop the drug and Toray grants the exclusive marketing rights in Europe to Fujisawa.

Business Environment and Outlook

In the fiscal year ended March 31, 2004, Toray will be working to increase sales of *Feron**, *Dorner**, *Toraymyxin**, and *Toraysulfone**—products for which demand growth is projected—in addition to reinforcing the business structure (including that of subsidiaries) to increase business earnings.

Utilizing Toray's core technologies in polymer science, organic chemistry, and biochemistry, we intend to focus our capital and human resources in selected areas and push ahead with the development of new pharmaceuticals in an organic collaboration with the New Frontiers Research Laboratories that opened in May 2003.

Note:

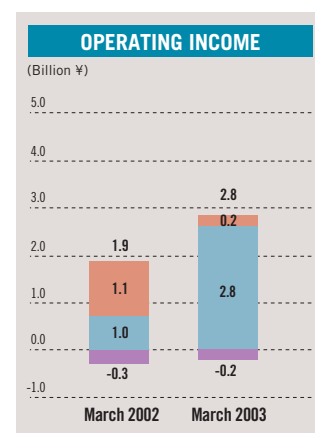
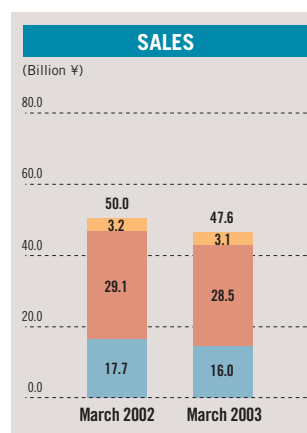
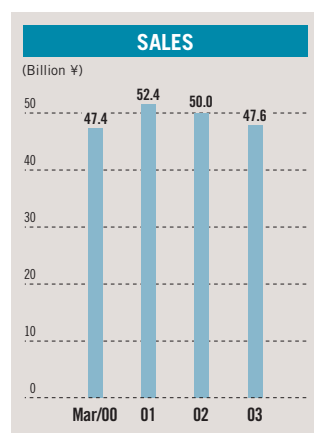
'Procylin' is a trademark of Kaken Pharmaceutical Co., Ltd., to whom Toray supplies the preparation.



*Dorner** is an orally administrable Prostacyclin derivative that is effective for treating chronic arterial occlusion and primary pulmonary hypertension thanks to its antiplatelet and vasodilating actions.



The *Toraysulfone** polysulfone hollow-fiber artificial kidney provides excellent ultrafiltration and biocompatibility.



Review of Operations

>> NEW PRODUCTS AND OTHER BUSINESSES

Sales in New Products and Other Businesses decreased 6.5% to ¥58.7 billion, but operating income increased 12.4% to ¥3.5 billion as a result of various reinforcement effects.

Advanced Composite Materials, the mainstay business unit in this segment, posted lower sales due to weakness in demand for its products in aircraft in the wake of the September 2001 terrorist attacks in the U.S., although sales volume increased for use in sporting goods and industrial applications.

Topics for the Fiscal Year ended on March 31, 2003

Carbon Fiber Manufacturing Facility to be Added in Europe

Toray decided to extend production facilities for its polyacrylonitrile (PAN)-based carbon fiber Torayca* at Société des Fibres de Carbone S.A. (SOFICAR) in France to satisfy long-term growth in demand for carbon fibers. The facility with annual production capacity of 1,800 tons will be installed at SOFICAR, with a proportional increase in precursor production capacity at the Ehime Plant. Operation is scheduled to begin in August 2004.

With this increase, annual carbon-fiber production capacity at SOFICAR jumps from 800 tons to 2,600 tons, raising total capacity of the Toray Group in Japan, the U.S., and Europe from 7,300 tons to 9,100 tons, and maintaining our top world market share.

World PAN-based carbon-fiber demand is currently estimated at 18,000 tons per year, with annual growth of 6% forecast over the next 10 years. Especially in Europe, new demand for aircraft use is expected owing to the start of commercial production of the Airbus A380 large passenger aircraft, as well as increase in demand for general industrial applications including wind-mill (wind-powered electricity generator) blades, high-pressure fuel containers for "clean" vehicles that run on compressed natural gas (CNG), repair and reinforcement of buildings and bridges, and uses in auto bodies and marine vessels.

Business Environment and Outlook

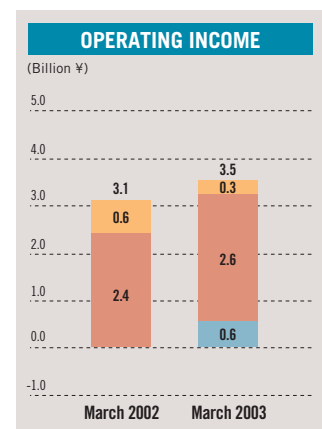
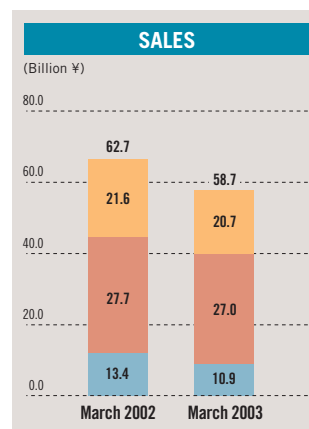
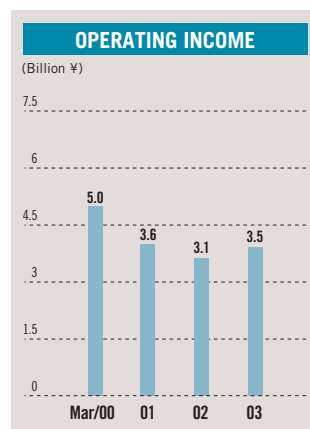
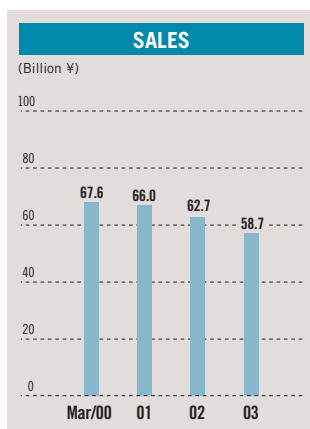
Although demand recovery in the aircraft industry is still slow, we expect our advanced composite materials businesses to post a similar operating income in the fiscal year ending March 31, 2004 as in the previous fiscal year due to demand recovery for aircraft use in the second half, together with worldwide expansion of industrial applications, and increased sales of materials for use in sporting goods. Stable earnings growth is also expected to continue at subsidiaries in the information and services fields.



Torayca* PAN-based carbon fiber has been adopted for use in structural members of the Airbus A380, scheduled to enter airline service in 2006. Photo © Airbus



Toray is extending Torayca* production facilities at SOFICAR in France to satisfy long-term demand growth for carbon fiber. Equipment with a capacity of 1,800 tons/yr will begin operation in August 2004.



Toray Domestic Subsidiaries Overseas Subsidiaries

Toray Domestic Subsidiaries Overseas Subsidiaries

Research and Development



Toray's R&D expenditures totaled ¥35.7 billion in the fiscal year ended on March 31, 2003.

Strengthening the Toray Group's research and technical development capabilities is one of our management priorities. We are concentrating on making the achievements of our 2,800 researchers and engineers count towards business earnings growth. In the fiscal year ended on March 31, 2003, our R&D expenditures of ¥35.7 billion accounted for 3.5% of consolidated sales, of which Toray spent ¥29.5 billion, 6.4% of sales.

Companies that want to survive and prosper in the frenetic, global technical-development race of the 21st century must quickly and accurately identify diversified and sophisticated customers needs, and expeditiously develop technologies and products to fill them.

Based on its core technologies – organic chemistry, polymer chemistry, and biochemistry –Toray is expanding the three potential growth areas of IT-related Products; Life Sciences; and Environment, Safety, and Amenity. Under "Project NT21," we are strategically positioning these businesses as major drivers of further growth and expansion of the Toray Group with our proprietary Advanced Materials.

Looking ahead, Toray will be increasingly allocating management resources like R&D expenditures and R&D personnel to these business areas to further consolidate its technology base. Its growth thus grounded in science and technology, the Company intends to position itself as one of the 21st century's leading Advanced Materials companies.

Topics for the Fiscal Year ended on March 31, 2003

Valuable Proteins Produced from Transgenic Silkworm Silk

Toray has nurtured its biotechnology over many years of its involvement in developing *Feron**, a natural interferon- β preparation, and other products. The Company recently succeeded in the application of a new biotechnology, establishing the world's first basic technology to produce valuable proteins that retain physiological functions in the silk of transgenic silkworms in a joint project with the National Institute of Agrobiological Sciences. With the technology refining valuable proteins from silk, Toray will realize a totally new, highly efficient production process for valuable proteins.

Ultra-fine "Nanofiber" Production Technology Developed

The Company has developed the world's first technology for making ultra-fine "nanofibers" with a diameter of 20–100 nanometers (a nanometer is a billionth of a meter). A 20 nanometers thread is the size that would result if a 0.15g, bean-sized nylon resin granule were stretched, the length would be the same as the distance from the earth to the moon—some 384,400 km (close to 238,000 miles).

"Nanofibers" of such minute size previously could not be produced by extending existing technology, but a combination of two Toray specialties—fiber-making technology and nanostructure control technology—made them a reality. The resulting new technology can be applied to nylon, polyester, and other conventional synthetic fibers, and also can be manufactured in our existing facilities.

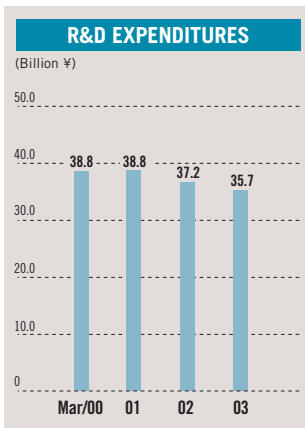
"Nanofibers" have far greater surface area than conventional fibers, a characteristic that gives nanofiber surfaces special properties, and the development of a totally new functional material is expected. The nylon nanofiber produced in the latest trial is 100% nylon, yet has two to three times greater moisture adsorption ratio than conventional nylon, superior even to cotton.

Toray is working towards the commercialization of products that exploit the outstanding moisture adsorption properties of "nanofibers". Potential end products include adsorbent materials and medical supplies as well as apparel.

R&D of CFRP-Based Automotive Safety Components Takes Off

Compressive-failure energy-absorbing components for propeller shafts, which transmit engine torque to a car's rear wheels, were the first of Toray's automotive safety technologies based on carbon fiber reinforced plastics (CFRP). This material is already in use in several mass-produced car models.

Toray's second CFRP material is a metal-CFRP hybrid made from CFRP and aluminum and developed in a joint project with a Tokyo Institute of Technology Precision and Intelligence Laboratory research group led by Assistant Professor Chiaki Sato. The CFRP/aluminum hybrid absorbs three times as much energy as aluminum. Based on this finding, Toray carried out joint research with Kobe Steel, Ltd., to demonstrate the



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hybrid's applicability in automobile impact beams, a bar-shaped component designed to absorb impact energy that are installed inside the door to increase side-impact safety.

In its third CFRP breakthrough, Toray has developed tensile-failure energy-absorbing components made from CFRP processed into rubber-band or belt form. Toray tested and analyzed these products with the Japan Automobile Research Institute to demonstrate their ability to absorb impact energy using the same mechanism as a rubber band absorbing energy when it is stretched. This new concept in safety maximizes the advantages of CFRP's excellent tensile strength (more than three times greater than that of steel) and low specific gravity (less than 25% that of steel). Toray will be looking at applications for parts of the vehicle that require high energy absorption, such as bumpers and pillars.

Taking these developments a step further, Toray and Nissan Motor Co., Ltd., are developing a safe, lightweight auto body that incorporates these three safety technologies. It weighs 50% less and absorbs more energy than the equivalent steel version. As part of pre-national project research in FY Mar/03, a front side member (safety component to reduce front-end impact) was designed and a prototype made and collision-tested to demonstrate the lightweight and safety features of CFRP.

As well as these energy technologies, technologies for enhancing pedestrian safety that utilize carbon fiber composites made with other lightweight materials, are also at the basic research stage. Lightweight, safety-enhancing automotive materials maximizing composite materials' excellent safety-enhancing potential are now at the R&D stage that concentrate on bringing practical new products to market.

Institute of Scientific and Industrial Research, Osaka University builds Research Branch in Toray's New Frontiers Research Laboratories

Located in Kamakura, the New Frontiers Research Laboratories opened its doors on May 16, 2003. As part of Toray's Basic Research Laboratories, the Research Laboratories has made open laboratory space in order to promote collaboration with outside engineering research groups. For example, as a part of 21st Century COE program, Toray has

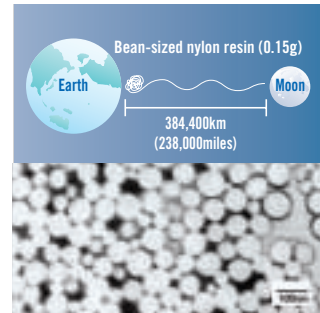
invited Prof. Tomoji Kawai of the Institute of Scientific and Industrial Research (ISIR), Osaka University to conduct research at the laboratories on protein synthesis/analytical chips.

Toray strongly promotes industrial application of interdisciplinary research in a collaborative effort between industry and academia. Such tight collaboration is essential to the creation of new industries, and an incubation function that bridges the gap between basic research and commercialization is essential for academic research findings to make it into practical use by a company.

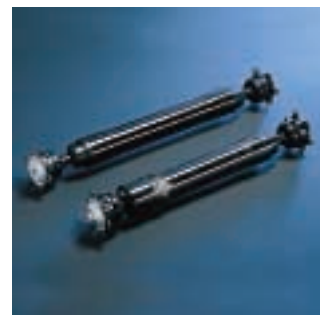
Facilities performing similar functions have recently appeared at several universities in the form of joint research centers and endowed fellowships, but this is the first time in Japan that a research branch of academia has built in a laboratory of private company. We believe that having an academic research laboratory located in the Company's premises offers major advantages, given that a wealth of existing elemental technologies and know-how is required to commercialize the most innovative basic research findings. In new and highly competitive research fields, it is essential to have a clear image of the process from the early states of research through to commercialization, and speed is a critical factor.

From this perspective, the new branch laboratory is designed to speed up the process from research to commercialization in a collaborative effort between Toray and Institute of Scientific and Industrial Research, Osaka University in bio-nanoscience, where international competition is intense.

Exchange of human resources and collaboration with universities and other public organizations is essential if Toray is to excel in the fiercely competitive research discipline of bio-nanoscience. We expect the new research branch to give our researchers and engineers direct access to the latest basic research perspectives, methodologies, and findings, creating an environment that facilitates commercialization of a protein synthesis/analytical chip and other bio-nanoscience research from a broad perspective.



Ultra-fine "nanofiber" with a diameter of 20 nanometers—the fineness of the thread that would result if a bean-sized nylon resin granule (about 0.15g) were stretched the 384,400km (238,000miles) distance from the earth to the moon.



Several automobile manufacturers have already adopted CFRP compressive-failure energy-absorbing components for propeller shafts for their mass-production models, and demand looks set to keep expanding going forward.

Photo © Mitsubishi Motor Corporation



Toray's New Frontiers Research Laboratories, which opened in Kamakura on May 16, 2003, represents Japan's first experience with a university research institution, Osaka University's Institute of Scientific and Industrial Research, setting up a branch laboratory within a corporate research facility.

Environmental Activities

The Toray Group places top priority on safety, accident prevention, and environmental preservation.

During the fiscal year ended on March 31, 2003, the Group was able to achieve major successes thanks to its "Three-Year Environmental Plan" formulated in 2000. These include huge cuts in sulfur-oxide (SOx) and chemical-substance emissions, a large reduction of wastes, and a substantial increase in our recycled waste ratio (a measure of wastes converted back into resources). Going forward, we set new targets under our "Second Environmental Three-Year Plan" that include reducing air pollutants, decreasing air emissions of chemical substances, reducing wastes, and working continuously for environmental preservation.

During the year under review, Toray actively participated in the Third

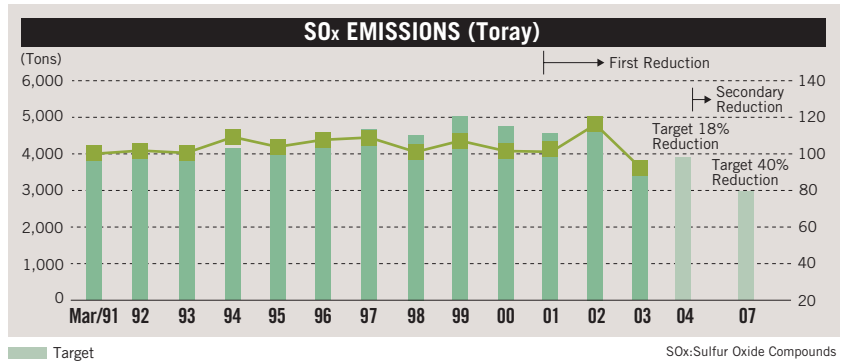
World Water Forum held in Kyoto, Osaka, and Shiga, Japan, in March 2003. The World Water Forums are an international venue for discussing water issues and the global water-resource problem. Toray President Sakakibara served as a panelist at the CEO Panel Session held at the Osaka venue. During the session, he made a presentation on integrated water resource management (IWRM) resulting from the activities of the corporate CEOs whose purpose is to work to solve water-resource issues through cooperation among global corporations involved in water-resource issues.

PREVENTION OF AIR POLLUTION

Reduction of SOx Emissions

Flue gas desulfurization equipment installed at the Ehime Plant and brought on-line in September 2002 helped reduce SOx emissions by 21.7% from the previous year to 3,763 tons.

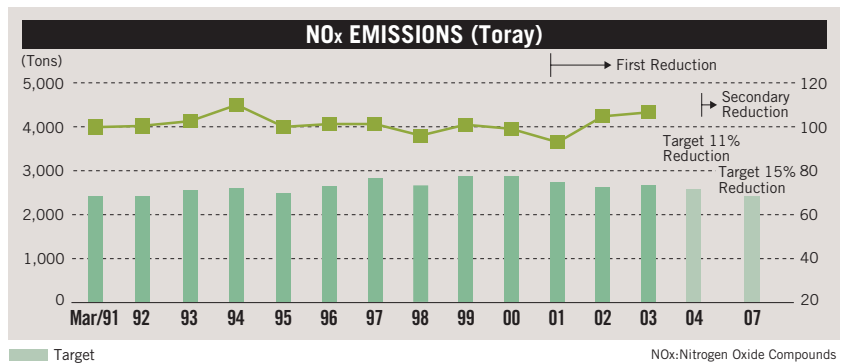
The bar graph represents SOx emissions (left scale); the line graph, SOx emissions per unit of production (right scale).
SOx emissions per unit of production (index): indexed to 1990 as base year.



Reduction of NOx Emissions

New process denitration equipment installed at our Tokai Plant and put into operation in October 2002 reduced NOx emissions by 59 tons, but overall emissions increased 2.0% from the previous year to 2,684 tons.

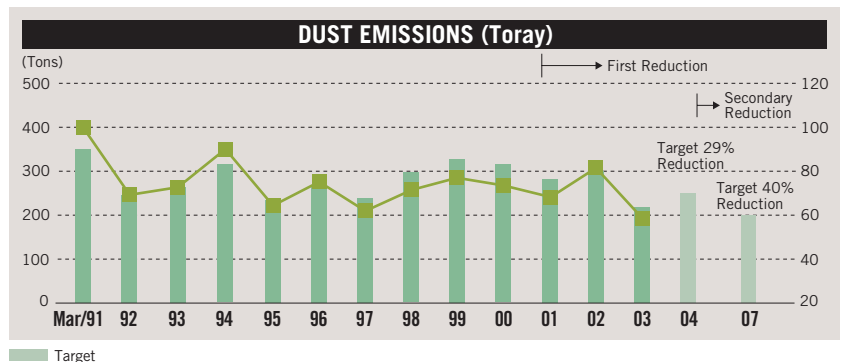
The bar graph represents NOx emissions (left scale); the line graph, NOx emissions per unit of production (right scale).
NOx emissions per unit of production (index): indexed to 1990 as base year.



Reduction of Dust Emissions

Dust emissions in FY Mar/03 were down by 29.1% from the previous year to 210 tons thanks to the installation of new flue gas desulfurization equipment at the Ehime Plant.

The bar graph represents dust emissions (left scale); the line graph, dust emissions per unit of production (right scale).
Dust emissions per unit of production (index): indexed to 1990 as base year.



PREVENTION OF WATER CONTAMINATION

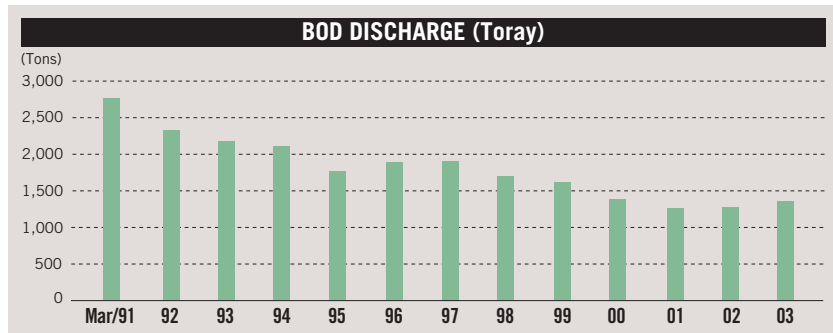
Reduction of BOD Emissions

Toray is working to reduce BOD levels in discharges from plants every year by minimizing the increase through improvements in production facilities and the higher wastewater-treatment efficiency.

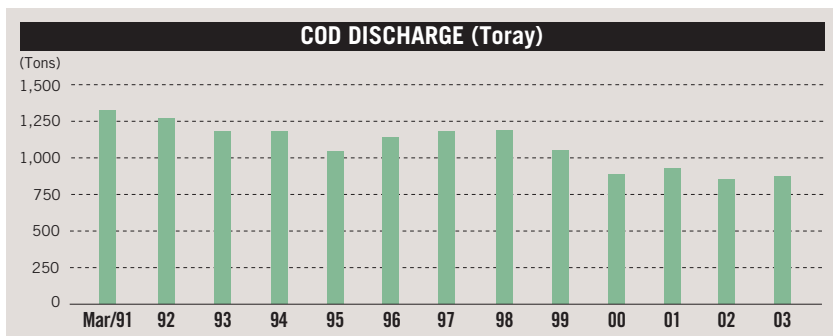
BOD emissions from Toray's 12 plants and one research laboratory totaled 1,324 tons in FY Mar/03, a 7.6% increase from the previous year despite improvements such as the installation of a methane fermentation processing facility at the Tokai Plant, because of temporary wastewater treatment facility problems.

Reduction of COD Emissions

As with BOD emissions, Toray is working to reduce the level of chemical oxygen demand (COD) emissions in the wastewater it discharges, but COD emissions in FY Mar/03 were up by 28 tons from the previous year to 871 tons for the same reason outlined above.



*BOD: Biochemical oxygen demand. Measure of the quantity of oxygen used by micro-organisms in the aerobic oxidation of organic matter. An indicator of river water pollution.



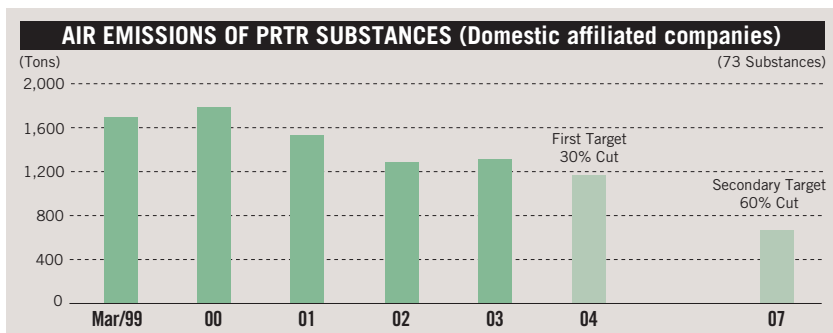
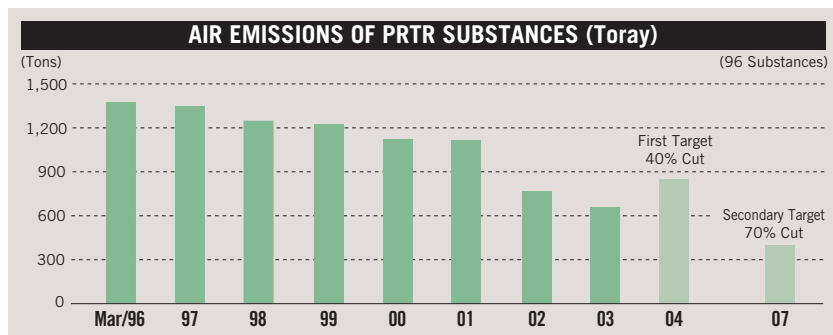
*COD: Chemical oxygen demand. Measure of the quantity of oxygen used when organic matter is chemically oxidized with oxidizers. An indicator of water contamination in oceans, lakes, and marshes.

MANAGEMENT OF CHEMICAL SUBSTANCES

Voluntary Reduction of Chemical Substance Discharge

Toray implemented a voluntary emissions-reduction program designed to reduce by the end of FY Mar/03 the release into the atmosphere of 96 of 480 chemical substances defined by the Japan Chemistry Industry Association's (JCIA) Pollutant Release and Transfer Register (PRTR), which include the 354 substances controlled by Japan's PRTR Law, by 40% compared with their levels in FY Mar/96. The Company's steps included installing absorption recovery units for organic gas emissions and other emission-control equipment. These efforts reduced targeted emissions by 56% compared with ones in FY Mar/96, easily surpassing the 40% objective. The new target under our "Second Environmental Three-Year Plan" is to reduce such emissions by 70% from their levels in FY Mar/97, by the end of March 2007.

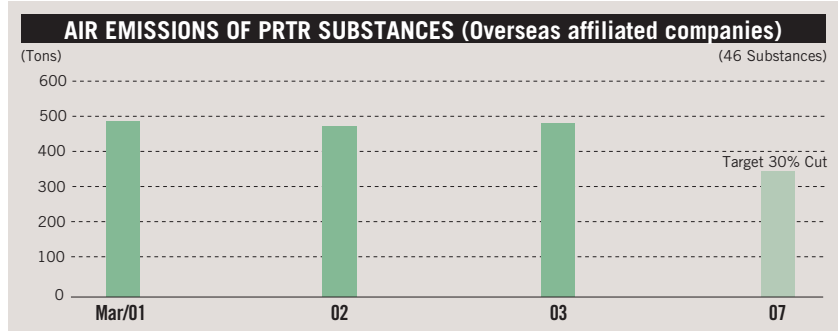
Toray's domestic affiliates are also working on a voluntary program designed to cut certain emissions by 30% from their levels in FY Mar/99, by the end of March 2004.



Environmental Activities

In FY Mar/03, emissions were reduced by 23% compared with the ones in FY Mar/99 as a result of measures such as replacing solvent-based coating materials with water-based alternatives. We intend to achieve our first target by installing a new combustion treatment facility for organic gas and other measures by the end of FY Mar/05, and for this year we set a new target of 60% emissions reduction from the FY Mar/00 levels, to be achieved by the end of March 2007.

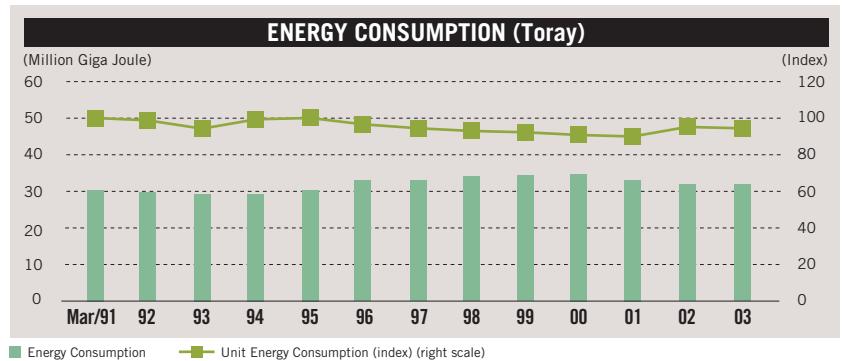
Toray's overseas affiliates also started voluntary plan on reducing 30% of PRTR-substance releases from their levels in FY Mar/01, to be achieved also by the end of March 2007.



PREVENTION OF GLOBAL WARMING

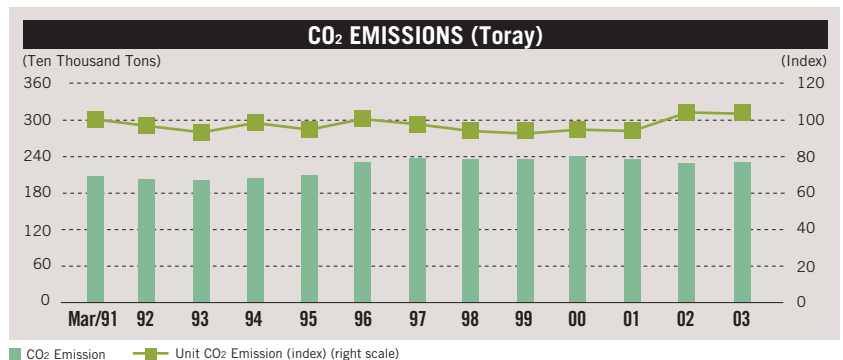
Energy Saving

Toray is pushing forward with energy saving programs designed to reduce our unit energy consumption by 1% per year. In FY Mar/03, our energy consumption declined 0.2% and unit energy consumption fell 0.8% from the previous year as a result of recycling energy using a wastewater methane fermentation facility installed at the Tokai Plant, and energy saving measures based on improving facility efficiency and operating methods. Unit energy consumption has fallen 5.9% from the base year of FY Mar/91, but this is partly attributable to a falloff in production volume, which has not yet recovered the level achieved in FY Mar/01. We will continue our efforts to reduce our unit energy consumption by 1% each year.



Reduction of Greenhouse Gas Emissions

Toray continues working to reduce emissions of greenhouse gases such as carbon dioxide (CO₂) through energy-saving efforts, but both our total emissions and our CO₂ emissions rates increased slightly during FY Mar/03. The Company intends to continue working to reduce CO₂ emissions by strictly implementing energy-saving measures.



Protection of the Ozone Layer

Toray abolished all use of ozone-depleting chlorofluorocarbons (CFCs) in the manufacturing process and purchase of CFC refrigerant refills for freezers in 1994.

ENVIRONMENTAL ACCOUNTING

In FY Mar/00, Toray began disclosing its environmental accounting data, based on total environmental investment and expenses and focusing on environmental preservation costs. Toray follows the 2002 Ministry of the Environment guidelines in compiling environmental accounting data, with some category changes.

The environmental accounting data for this FY Mar/03, are shown in the right table. Toray's total environmental investment for this fiscal year was ¥2.79 billion, spent mainly on installing exhaust desulfurizing facilities and a system that recycles paper tubes for winding filament yarns.

Costs totaled ¥6.17 billion, of which water contamination prevention accounted for the largest share at ¥2.37 billion, mainly operating expenses of wastewater treatment facilities.

The following effects were achieved from our environmental activities: ¥464 million reduction in energy costs, ¥34 million of waste processing cost reduction, and ¥368 million in revenue on the sale of economically viable recyclable wastes (scrap).

FY Mar/03 Environment Accounting (Toray)

Costs		(Million ¥)	
Item	Subcategory	Capital Investment	Expense
1. Costs pertaining to business areas	A. Air (including CFC reduction)	¥ 857	¥1,287
	B. Water	316	2,368
	C. Noise/vibration	9	12
	D. Greening	4	295
	E. Other	39	345
	Energy-saving and global warming measures	1,316	-
	Waste reduction, recycling, disposal (landfill and incineration)	127	972
2. Upstream and downstream costs	(1) Product recycling	67	3
	(2) Container and packaging recycling	59	5
3. Management activity costs	Indirect labor costs, ISO certification and maintenance, environmental public relations, environmental information programs	0	316
4. Community-service costs	Local programs and support for environmental organizations	0	21
5. Environmental damage costs	SOx levies, donations	0	545
Total		¥2,794	¥6,169

Effects		(Million ¥)
Item	Amount	
1. Cost reductions from energy savings	¥ 464	
2. Waste-processing cost reductions	34	
3. Revenue on sale of recycling-related materials	368	

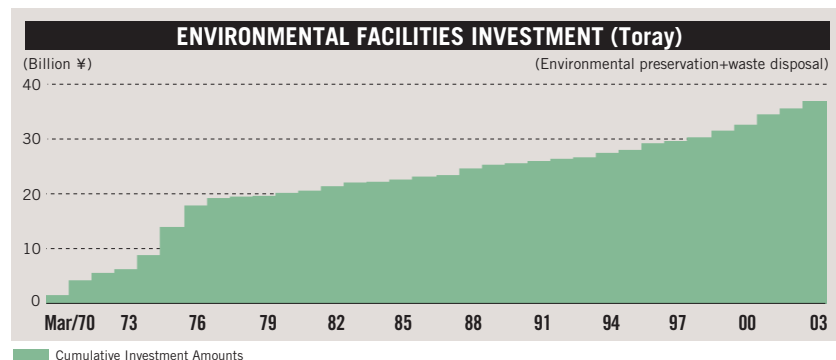
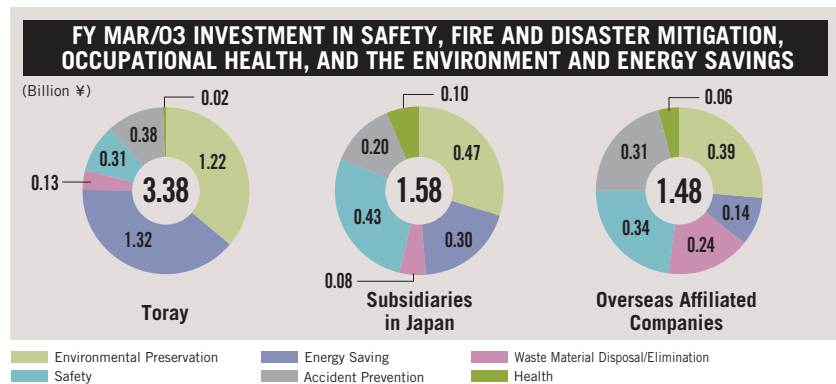
(Data for the year from April 2002 to March 2003)

INVESTMENT IN ENVIRONMENTAL EQUIPMENT

Toray compiles data on investment in safety, fire and disaster mitigation, and occupational health, and as well as environmental and energy-saving equipment, which all fall under the rubric of environmental accounting. Environmental capital investment covering these categories totaled ¥3.38 billion in FY Mar/03, with a breakdown shown in the pie chart.

We also compile the same data for our affiliates. Investment in safety, fire and disaster mitigation, occupational health, and the environment and energy savings totaled ¥1.58 billion for our domestic affiliates and ¥1.48 billion for our overseas affiliates in FY Mar/03. Breakdowns are shown in the pie charts.

Environmental equipment investment (environmental preservation + waste disposal and reduction) totaled ¥1.35 billion, with a cumulative total of ¥36.6 billion since FY Mar/70 (see bar graph).



Sustainable Activities

Corporate Ethics

At Toray Group corporate ethics are a top management priority. In 1997, Toray established the Corporate Ethics Committee chaired by the president, who ensures that all employees personally assimilate and strictly observe the following five principles: 1) comply with laws, rules, and regulations, 2) engage in free and fair competition, 3) maintain transparency and encourage a deeper appreciation of our business among all stakeholders, 4) eliminate prejudice and discrimination and respect the dignity of each individual, and 5) take good care of the Company's property and assets while keeping private and business interests separate.

In 2002, the president led senior management headed in setting up the Compliance Committee to discuss directly with junior managers ways to instill throughout the Company the importance of complying with the law and refraining from any unethical activity, as well as encouraging transparent, spontaneous efforts to promote corporate ethics and compliance by managers at the section level. The Compliance Committee is a subordinate group of the Corporate Ethics Committee.

We also hold training and education programs on corporate ethics and compliance at every one of our offices, plants, and affiliated companies worldwide.

The purpose of these efforts is to ensure that all who work for the Toray Group hold themselves and one another to the highest of ethical standards in all aspects of their conduct.

Human Rights

Toray set up a committee to promote human rights in 1996 to deal with sensitive issues such as sexual harassment and gender-, race-, and ethnicity-based discrimination. We provide employee training and education programs for all our offices, branches, and plants and the group companies, as well as take active steps to ensure that our business partners have a practicing awareness of human-rights issues.

Our Human Rights Committee became a subordinate group of the Corporate Ethics Committee in 2002, and the two committees are working together to further lift the quality in practice of corporate ethics across the board.

Community Service

"Contributing to society through the creation of new value by innovative ideas, technologies, and products" is the corporate philosophy of the Toray Group. Not only do we contribute to society by providing quality products, but we are also active members of communities around the world and extend our support to many scientific, educational, artistic, cultural, sports, and other endeavors.

In support of science education, Toray set a pioneering example in 1960 when it established the Toray Science Foundation in Japan. The Toray Science Foundation is our main vehicle for promoting science education and scientific and technological advances in the wider community. Toray Science Foundations were also established in Indonesia, Thailand, and Malaysia during 1993 and 1994 to carry out similar activities in each of these countries.

In the performing and visual arts, Toray has been a supporter of digital art (as a sponsor of the Digital Creation Awards since 1996) as well as various art exhibitions, concerts, and theater programs, events for which we provided costumes. Beginning in 2003, we are also sponsoring a website that features the photographs of Masako Imaoka.

In sports, Toray has sponsored since 1984 the annual Toray Pan Pacific Open Tennis Tournament, Asia's largest and most prestigious women's tennis event. In addition, the Company has been a sponsor of the Toray Cup Shanghai International Marathon since 1997.

Toray teams have been especially successful in volleyball and rowing events.

The Company's community service programs include tree-planting projects and plant site greening efforts to preserve the local environment. We also work to enhance communication with local communities and residents by making corporate facilities available for public use and encouraging employees to visit nearby public welfare facilities.

Human Resources Development

Based on the understanding that people hold the key to a company's performance and future, Toray is keenly aware of the importance of personnel in management and sees human-resources development as a priority management issue.

All Toray Group companies have a range of education and training programs, from basic and business education to ones aimed at changing attitudes. In 1996, the Company established the Toray Human Resources Development Center adjacent to the Mishima Plant. With the latest IT equipment, it is one of Japan's largest corporate training facilities and runs a diverse education and training program covering management, sales, production-control technology, and other professional skills, as well as courses that help employees adapt to an increasingly international business environment and update their IT skills. Training at the center is available to Toray Group employees worldwide.



Toray is sponsoring a website that features the photographs of Masako Imaoka. www.re-birth.net



Training at the Toray Human Resources Development Center is available to Toray Group employees worldwide.

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Six-Year Summary of Selected Financial Data

Toray Industries, Inc. and Subsidiaries
Years ended March 31

Millions of yen

	2003	2002	2001	2000	1999	1998
Net sales	¥1,032,991	¥1,015,713	¥1,075,371	¥ 990,487	¥1,001,117	¥1,087,713
Fibers and Textiles	418,332	431,483	433,500	404,966	420,040	466,973
Plastics and Chemicals	241,882	224,895	245,804	221,230	295,537	300,420
IT-related Products	147,729	141,424	153,612	125,599	—	—
Housing and Engineering	118,764	105,153	124,055	123,615	132,343	168,797
Pharmaceuticals and Medical Products	47,632	50,015	52,425	47,439	47,796	46,514
New Products and Other Businesses	58,652	62,743	65,975	67,638	105,401	105,009
Operating income	33,043	18,845	51,166	32,320	47,564	71,919
Income (loss) before income taxes	22,480	13,140	32,329	(108,093)	23,729	58,955
Net income (loss)	5,790	3,802	16,937	(65,667)	8,117	24,740
Net cash provided by operating activities	88,582	68,590	108,756	57,298	59,984	139,023
Depreciation and amortization	75,544	79,391	82,068	80,698	79,663	74,633
Capital expenditures	57,249	65,367	60,071	109,514	120,968	150,700
Total assets	1,300,954	1,386,507	1,461,133	1,470,850	1,437,360	1,427,291
Property, plant and equipment, net	583,280	633,345	629,007	636,491	643,914	622,689
Interest-bearing liabilities	546,099	585,269	586,723	619,707	611,693	569,291
Total stockholders' equity	390,398	413,140	425,193	415,878	491,497	493,366
				Yen		
Per share of common stock:						
Net income (loss):						
Primary	¥ 4.13	¥ 2.71	¥ 12.09	¥ (46.86)	¥ 5.79	¥ 17.65
Fully diluted	—	—	12.02	—	—	17.43
Cash dividends	5.00	5.00	7.00	7.00	7.00	7.00
Stockholders' equity	278.65	294.80	303.39	296.74	350.70	352.03
Ratios:						
Operating income to net sales	3.20%	1.86%	4.76%	3.26%	4.75%	6.61%
Net income (loss) to net sales	0.56	0.37	1.57	(6.63)	0.81	2.27
Equity ratio	30.0	29.8	29.1	28.3	34.2	34.6
Return on equity	1.4	0.9	3.9	(14.5)	1.6	5.1
Debt/equity ratio (times)	1.40	1.42	1.38	1.49	1.24	1.15
				Yen		
Common stock price range:						
High	¥395	¥585	¥530	¥665	¥745	¥841
Low	230	299	374	326	501	507
Number of employees	33,791	34,910	35,686	35,516	34,263	32,852

Note: Net sales of the IT-related Products segment were included in those of the Plastics and Chemicals, Housing and Engineering, and New Products and Other Businesses segments prior to the year ended March 31, 2000.

Management's Discussion and Analysis

Overview

During fiscal year ended on March 31, 2003, the global economy initially showed signs of recovery led by demand from the IT sector; but in the year's second half, progress weakened as the U.S. economy slowed, stock prices fell worldwide, and Middle East tensions intensified. Although the Japanese economy similarly began with an export-led upturn, the unfavorable business climate continued as personal consumption—which many hoped would drive a recovery—failed to pick up.

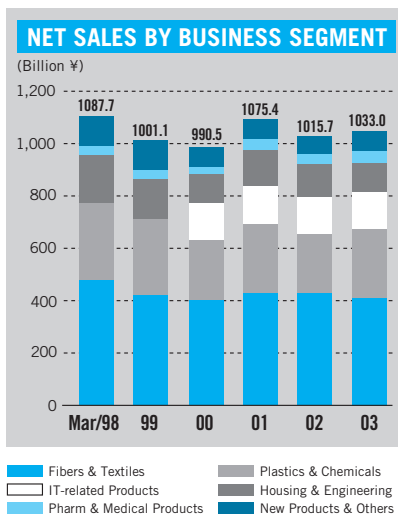
Under these conditions, Toray (“the Company”) and its Group companies launched a management reform program “Project New TORAY21” (“Project NT21” for short) in April 2002 to strengthen management structures and re-engineer business structures. Consolidated sales and earnings were both up as a result of the aggressive promotion of the program.

Income Analysis

Net Sales

Consolidated net sales in FY Mar/03 were up over the previous year by ¥17.3 billion (1.7%) to ¥1,033.0 billion. Sales of Plastics and Chemicals, IT-related Products, and Housing and Engineering segments increased, whereas sales of Fibers and Textiles, Pharmaceuticals and Medical Products, and New Products and Other Businesses shrunk.

Sales by Business Segment



◆ Fibers and Textiles

Total segment sales were down ¥13.2 billion (3.0%) to ¥418.3 billion for the year.

Nylon sales in Japan were much the same as in the previous fiscal year. Sales declined for use in apparel in the shadow of falling prices and rising imports, but grew for industrial uses such as tire cords and airbags. Sales of polyester filament yarns *Tetoron** were lower, with sales volume down for apparel use on the back of weak consumer demand in Japan.

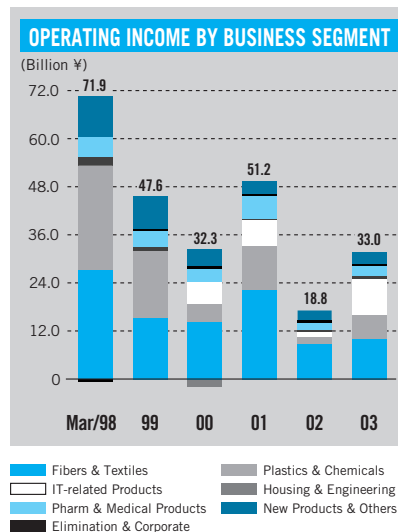
The non-woven fabric business in South Korea and apparel-use polyester filament business in China both increased their sales, but overall overseas sales were unchanged from the previous fiscal year offset by slow demand and falling prices of textile businesses.

◆ Plastics and Chemicals

Total segment sales increased by ¥17.0 billion (7.6%) to ¥241.9 billion for the year.

Sales of resins were up across-the-board. Sales of ABS resins *Toyolac** grew overall on strong demand in Japan for automotive uses, export demand for transparent ABS resin, and overseas demand on general-purpose grades. The nylon resin *Amilan** and PBT resin *Toraycon** also posted sales growth thanks to strong demand for automotive and electrical applications.

Sales of the mainstay polyester film *Lumirror** grew in packaging and industrial applications worldwide. Sales of the polypropylene film



Note: Net sales and operating income of the IT-related Products segment were included in those of the Plastics and Chemicals, Housing and Engineering, and New Products and Other Businesses segments prior to the year ended March 31, 2000.

Management's Discussion and Analysis

*Torayfan** also grew as a result of demand increase in capacitors in Japan as well as in packaging and industrial applications worldwide.

Sales of chemicals were up by brisk caprolactam exports.

◆ IT-related Products

Total segment sales increased ¥6.3 billion (4.5%) to ¥147.7 billion.

Recovering demand brought a total increase in sales of resins and films used in IT applications. In Japan, sales grew for uses in liquid crystal displays (LCDs), electronic components, and mobile (cell) phones, etc. Overseas, sales of precision-molded resin products increased in China.

In electronics and IT-related products, sales of *Toptical**, a high quality TFT color filter for LCDs, increased for use in small mobile-phone screens, but overall sales were down because of a downturn in sales for large LCDs in the second half.

◆ Housing and Engineering

Total segment sales increased by ¥13.6 billion (12.9%) to ¥118.8 billion.

Although sales of engineering businesses decreased by sluggish investment trends, sales grew in the construction and real estate businesses.

◆ Pharmaceuticals and Medical Products

Total segment sales dipped ¥2.4 billion (4.8%) to ¥47.6 billion.

Pharmaceuticals and medical products such as *Dorner**, a treatment for circulatory disorders; *Toraysulfone**, a polysulfone-based artificial kidney; and *Toraymyxin**, a device for treating septicemia by removing endotoxins from the blood, posted higher sales volumes; however, the competition intensified and the

government-mandated price paid for prescription drugs by the National Health Insurance (NHI) program ("NHI list prices") were revised downward.

◆ New Products and Other Businesses

The result was a decline of ¥4.1 billion (6.5%) to ¥58.7 billion in segment sales.

In advanced composite materials, sales of products for industrial and sports applications increased measured by volume, but they declined overall because of sluggish demand from the aerospace industry.

Sales by Geographic Segment

◆ Japan

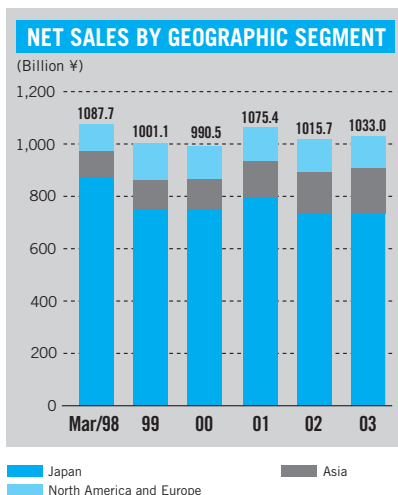
Sales were up ¥7.0 billion (1.0%) to ¥737.0 billion thanks to sales growth at plastics and chemicals, IT-related Products, and Housing and Engineering businesses. Japan's share of consolidated net sales was down slightly from 71.9% to 71.3%.

◆ Asia

Sales of subsidiaries in China, Indonesia, Thailand, Malaysia, South Korea, etc. increased ¥8.0 billion (4.8%) to ¥175.6 billion, mainly due to sales growth of the film businesses in South Korea and Malaysia. Asia's share of consolidated net sales went up from 16.5% to 17.0%.

◆ North America and Europe

Sales of subsidiaries in the United States, the United Kingdom, France, Italy, the Czech Republic, etc. advanced ¥2.2 billion (1.9%)



to ¥120.4 billion because of increased film-business sales. The segment's share of total net sales edged up from 11.6% to 11.7%.

Export Sales and Sales by Overseas Subsidiaries

Sales outside Japan (the sum of exports from Japan and overseas-subsidiary sales) rose ¥16.2 billion (4.0%) to ¥427.4 billion. Growth of film sales in Asia increased, while sales in North America, Europe and other areas declined because of sluggish textile exports from subsidiaries in Southeast Asia. Total sales outside Japan climbed 0.9 percentage point to account for 41.4% of consolidated net sales. Asia accounted for 24.6% of consolidated net sales at ¥253.6 billion; and North America, Europe and other areas, for 16.8% at ¥173.8 billion.

Costs and Expenses

Total cost and expenses ratio to sales fell 1.3 percentage-points, from 98.1% to 96.8%.

Consolidated net sales increased 1.7% and the cost of sales was up 1.3%. This caused the cost of sales to decrease 0.3 percentage-point to 78.9% of sales.

Selling, general and administrative expenses decreased ¥5.9 billion (3.8%) to ¥149.4 billion, falling 0.8 percentage-point to 14.5% of sales as a result of total cost reduction measures carried out. These are part of structural improvement, a near-term goal of "Project NT21".

R&D expenses were down ¥1.6 billion (4.2%) to ¥35.7 billion.

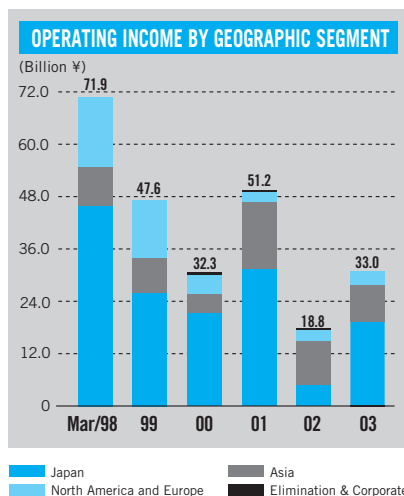
Amortization of cost in excess of net assets acquired was ¥0.4 billion, ¥0.1 billion higher than in the previous fiscal year.

Operating Income and Net Income

Operating income was up from the previous fiscal year by ¥14.2 billion (75.3%) to ¥33.0 billion. Operating income-to-net sales thus rose 1.3 percentage-points to 3.2%.

All business segments posted higher operating income. Fibers and Textiles earnings rose ¥1.2 billion (13.1%) to ¥10.4 billion because of earnings growth at the Company. Plastics and Chemicals earnings increased ¥4.4 billion (267.3%) to ¥6.0 billion due to brisk resin sales for automotive applications and a worldwide recovery in film demand for industrial-materials use. In IT-related Products, earnings rose ¥8.0 billion (600.7%) to ¥9.3 billion thanks to a recovery in IT-related demand and the effects of restructuring in the LCD color filter business. In Housing and Engineering, earnings were up ¥0.3 billion (42.4%) to ¥0.8 billion. In Pharmaceuticals and Medical Products, earnings advanced ¥0.9 billion (46.6%) to ¥2.8 billion, with sales growth of *Dorner** and artificial kidneys, increased royalty income, and reductions in operating expense more than compensating for lower NHI list prices. In New Products and Other Businesses, earnings grew ¥0.4 billion (12.4%) to ¥3.5 billion because of increased advanced composite materials sales for sports applications.

By geographic segment, operating income was up in North America and Europe and in Japan, but down in Asia. In Japan, earnings were up ¥16.4 billion (340.8%) to ¥21.3 billion, mainly thanks to earnings growth at the Company; they fell ¥1.3 billion (12.9%) in Asia because of the textile-business downturn in Southeast Asia. In North America and Europe, earnings increased ¥0.3 billion (9.1%) to ¥3.3 billion on improved film business earnings.



Management's Discussion and Analysis

Net other income (expenses) improved ¥0.6 billion (6.2%) to ¥9.3 billion in expenses. Interest and dividend income declined ¥0.9 billion to ¥1.9 billion and interest expenses fell ¥4.7 billion to ¥9.9 billion. This resulted in a ¥3.8 billion decrease in net financing expenses to ¥8.1 billion. Other income (expenses) worsened ¥3.2 billion to ¥6.1 billion in expenses. Equity in earnings of affiliates was unchanged from the previous fiscal year at ¥4.8 billion.

Special credits increased ¥6.2 billion to ¥35.4 billion. Although gain on sales of investment securities declined, and gain on contribution of securities to retirement benefit trust also fell ¥2.2 billion to ¥15.3 billion, this was offset by a ¥18.6 billion increase in gain on return of employees' pension fund representative service.

Special charges increased ¥11.7 billion to ¥36.7 billion. The main reason was a ¥9.0 billion loss on write-down of property, plant and equipment and a ¥4.0 billion loss on write-off of loans.

As a result, income before income taxes rose ¥9.3 billion to ¥22.5 billion. After income taxes and minority interests in net income of consolidated subsidiaries, net income was up ¥2.0 billion to ¥5.8 billion. Net income per share increased ¥1.42 to ¥4.13. Cash dividends per share applicable to the fiscal year ended on March 31, 2003 were unchanged at ¥5.00.

Financial Position

Assets

Total assets as of March 31, 2003, were ¥85.6 billion less than a year ago, down 6.2% to ¥1,301.0 billion. The primary reasons for the decline were a decrease in property, plant and equipment and the reduction of investment securities due to the contribution of

securities to a retirement benefit trust and lower market value of stocks of listed companies. Assets outside Japan fell 0.4 percentage point to 29.1% of total assets.

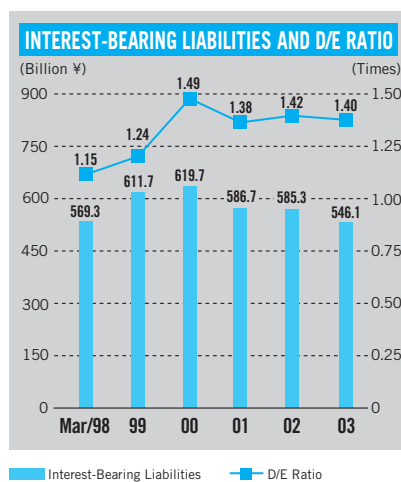
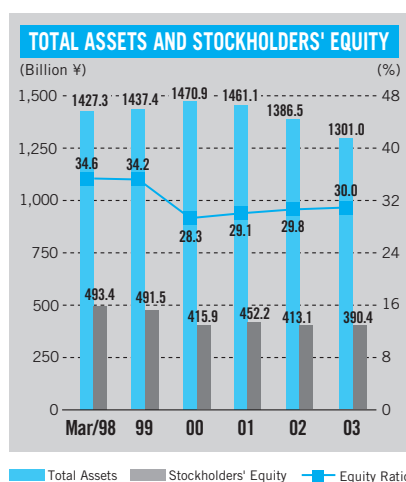
Current Assets

Current assets increased ¥5.8 billion (1.1%) to ¥521.6 billion. Liquid assets, representing cash, time deposits and short-term investment securities, increased ¥1.6 billion (3.0%) to ¥56.1 billion. Trade receivables, the sum of notes and accounts receivable, were up ¥9.5 billion (4.8%) to ¥206.3 billion. Inventories decreased ¥9.2 billion (4.1%) to ¥213.0 billion.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, decreased ¥50.1 billion (7.9%) to ¥583.3 billion. Capital expenditures were reduced by ¥8.1 billion (12.4%) to ¥57.2 billion, based on a policy of investing selectively in business areas with good growth potential, as well as upgrading production facilities to make production processes more efficient.

In the Fibers and Textiles segment, capital expenditures totaled ¥19.6 billion, including additional production facilities for polyester filament fabric and nylon filament fabric at Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd. In Plastics and Chemicals, capital expenditures totaled ¥14.0 billion included additional production facilities for polyester film at the Company and additional ABS resin production facilities at Toray Plastics (Malaysia) Sdn. Berhad. In IT-related Products, capital expenditures of ¥11.3 billion included additional production facilities for the waterless CTP (Computer-To-Plate) printing



plates at the Company. Capital expenditures totaled ¥3.1 billion in Housing and Engineering, ¥2.6 billion in Pharmaceuticals and Medical Products, and ¥7.2 billion in New Products and Other Businesses.

Liabilities

Total liabilities decreased ¥64.8 billion (6.9%) to ¥876.3 billion. The main reasons were declines in interest-bearing liabilities and reserve for employees' retirement benefits.

Interest-bearing liabilities—the sum of short-term bank loans, long-term debt due within one year, commercial paper, and long-term debt—were down ¥39.2 billion (6.7%) to ¥546.1 billion as a result of steps taken to strengthen the Company's financial position.

Reserve for employees' retirement benefits were down ¥42.1 billion (36.4%) to ¥73.6 billion as a result of a contribution of securities to retirement benefit trust and return of employees' pension fund representative service.

Stockholders' Equity

Stockholders' equity shrank ¥22.7 billion (5.5%) to ¥390.4 billion. This reflected net income of ¥5.8 billion, dividends applicable to the previous fiscal year of ¥7.0 billion, a ¥16.1 billion decline in unrealized gain on securities, a ¥5.3 billion increase in foreign currency translation adjustment (deduction item), and a ¥0.1 billion increase in treasury stock, at cost (deduction item). The net result was a ¥16.15 decrease in stockholders' equity per share to ¥278.65. The equity ratio increased 0.2 percentage-point to 30.0%.

Cash Flows

Net cash provided by operating activities exceeded net cash used in investing activities by ¥36.7 billion, mainly as a result of capital expenditure being less than depreciation and amortization. Financing activities used net cash of ¥31.9 billion due to actions to reduce interest-bearing liabilities and strengthen the Toray Group's financial position. The net result was a ¥4.2 billion increase in cash and cash equivalents to ¥55.7 billion.

Cash Flows from Operating Activities

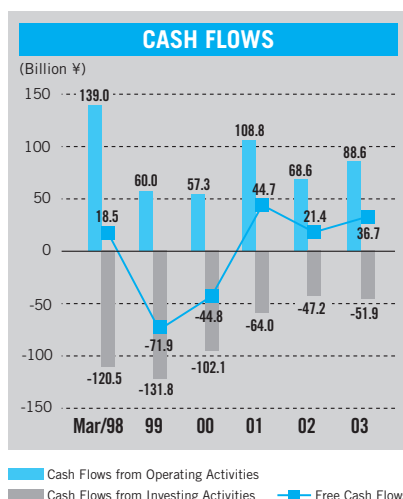
Net cash provided by operating activities increased ¥20.0 billion to ¥88.6 billion. Income before income taxes was ¥22.5 billion, and depreciation and amortization came to ¥75.5 billion; trade payables and accrued liabilities increased by ¥14.8 billion. There was a ¥35.5 billion decrease in reserve for employees' retirement benefits and a ¥9.5 billion increase in trade receivables; ¥8.4 billion was paid in interest expenses.

Cash Flows from Investing Activities

Net cash used in investing activities increased ¥4.7 billion to ¥51.9 billion. Capital expenditures amounted to ¥60.6 billion, while proceeds from sales and disposal of non-current assets came to ¥17.1 billion.

Cash Flows from Financing Activities

Net cash used in financing activities decreased ¥2.5 billion to ¥31.9 billion. Repayments of long-term debt exceeded proceeds from long-term debt by ¥19.5 billion.



Consolidated Balance Sheets

Toray Industries, Inc. and Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note2)
Assets	2003	2002	2003
Current assets:			
Cash	¥ 46,101	¥ 42,226	\$ 384,175
Time deposits (Note 5)	8,968	8,708	74,733
Short-term investment securities (Note 6)	1,037	3,544	8,642
Trade receivables (Note 4):			
Notes receivable	34,174	43,475	284,783
Accounts receivable	172,096	153,287	1,434,133
Inventories (Note 3)	212,981	222,140	1,774,842
Deferred tax assets (Note 9)	12,542	11,221	104,517
Prepaid expenses and other current assets	39,223	34,806	326,858
Allowance for doubtful accounts	(5,473)	(3,545)	(45,608)
Total current assets	521,649	515,862	4,347,075
Property, plant and equipment (Notes 5 and 12):			
Land	83,733	88,943	697,775
Buildings	397,582	398,916	3,313,183
Machinery and equipment	1,318,592	1,331,807	10,988,267
Construction in progress	29,566	26,593	246,383
	1,829,473	1,846,259	15,245,608
Accumulated depreciation	(1,246,193)	(1,212,914)	(10,384,941)
	583,280	633,345	4,860,667
Investments, long-term loans and other assets:			
Affiliates	59,802	52,684	498,350
Marketable equity securities (Notes 5 and 6)	47,760	88,563	398,000
Other securities (Note 6)	5,614	12,828	46,783
Long-term loans receivable	5,920	1,263	49,333
Deferred tax assets (Note 9)	50,258	44,192	418,817
Other	22,582	32,053	188,183
Allowance for doubtful accounts	(5,008)	(1,827)	(41,733)
	186,928	229,756	1,557,733
Intangible assets	9,097	7,544	75,808
	¥1,300,954	¥1,386,507	\$10,841,283

See accompanying notes to consolidated financial statements.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note2)
	2003	2002	2003
Current liabilities:			
Bank loans (Note 5)	¥ 159,859	¥ 179,019	\$ 1,332,158
Long-term debt due within one year (Note 5)	59,253	81,627	493,775
Commercial paper	18,000	7,000	150,000
Trade payables (Note 4):			
Notes payable	39,255	42,875	327,125
Accounts payable	104,420	104,066	870,167
Income taxes payable (Note 9)	5,785	4,932	48,208
Accrued liabilities	41,481	43,445	345,675
Other current liabilities	54,511	34,340	454,258
Total current liabilities	482,564	497,304	4,021,366
Long-term debt (Note 5)	308,987	317,623	2,574,891
Deferred tax liabilities (Note 9)	1,520	2,248	12,667
Reserve for employees' retirement benefits (Note 8)	73,620	115,671	613,500
Customers' guarantee deposits and other liabilities	9,614	8,294	80,117
	876,305	941,140	7,302,541
Commitments and contingent liabilities (Note 11)			
Minority interests in consolidated subsidiaries	34,251	32,227	285,425
Stockholders' equity (Note 10):			
Common stock:			
Authorized—4,000,000,000 shares			
Issued—1,401,481,403 shares	96,937	96,937	807,808
Capital surplus	85,792	85,792	714,933
Retained earnings	231,371	232,594	1,928,092
Unrealized gain on securities	10,481	26,558	87,342
Foreign currency translation adjustment	(34,062)	(28,727)	(283,850)
	390,519	413,154	3,254,325
Treasury stock, at cost	(121)	(14)	(1,008)
Total stockholders' equity	390,398	413,140	3,253,317
	¥1,300,954	¥1,386,507	\$10,841,283

Consolidated Statements of Income

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note2)
	2003	2002	2001	2003
Net sales (Note 4)	¥1,032,991	¥1,015,713	¥1,075,371	\$8,608,258
Costs and expenses:				
Cost of sales (Notes 4, 8 and 12)	814,518	804,116	828,021	6,787,650
Selling, general and administrative expenses (Notes 8 and 12)	149,391	155,289	156,128	1,244,925
Research and development expenses (Notes 8 and 12)	35,654	37,213	38,791	297,117
Amortization of cost in excess of net assets acquired	385	250	1,265	3,208
	999,948	996,868	1,024,205	8,332,900
Operating income	33,043	18,845	51,166	275,358
Other income (expenses):				
Interest expenses	(9,935)	(14,650)	(18,071)	(82,792)
Interest and dividend income	1,859	2,769	4,188	15,492
Equity in earnings of affiliates	4,844	4,823	8,109	40,367
Other, net	(6,065)	(2,849)	(4,526)	(50,542)
	(9,297)	(9,907)	(10,300)	(77,475)
Income before special credits (charges)	23,746	8,938	40,866	197,883
Special credits (charges):				
(Loss) gain on sales or disposal of property, plant and equipment, net	(4,030)	(2,113)	348	(33,583)
Loss on write-down of property, plant and equipment	(8,988)	—	—	(74,900)
Loss on write-down or disposal of inventories	—	(10,785)	—	—
(Loss) gain on sales or write-down of investments in securities, net	(7,572)	5,644	1,080	(63,100)
Adjustment on acquisition cost of property, plant and equipment in foreign subsidiary due to the change of local accounting standards	—	2,316	—	—
Special severance payments and other restructuring expenses	(5,554)	(6,743)	(5,490)	(46,283)
Gain on contribution of securities to retirement benefit trust (Note 1)	15,305	17,473	—	127,542
Gain on return of employees' pension fund representative service (Notes 1 and 8)	18,551	—	—	154,591
Loss on write-off of loans	(4,011)	—	—	(33,425)
Exchange loss	—	—	(2,687)	—
Other, net	(4,967)	(1,590)	(1,788)	(41,392)
	(1,266)	4,202	(8,537)	(10,550)
Income before income taxes	22,480	13,140	32,329	187,333
Income taxes (Note 9):				
Current	9,419	10,185	16,131	78,491
Deferred	4,083	(3,807)	(3,814)	34,025
	13,502	6,378	12,317	112,516
Income from consolidated operations	8,978	6,762	20,012	74,817
Minority interests in net income of consolidated subsidiaries	(3,188)	(2,960)	(3,075)	(26,567)
Net income	5,790	3,802	16,937	48,250

	Yen		U.S. dollars (Note2)
	2003	2002	2003
Net income per share (Note 1):			
Primary	¥4.13	¥2.71	¥12.09
Fully diluted	—	—	12.02

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note2)
	2003	2002	2001	2003
Common stock:				
Balance at beginning of year	¥ 96,937	¥ 96,937	¥ 96,937	\$ 807,808
Balance at end of year	¥ 96,937	¥ 96,937	¥ 96,937	\$ 807,808
Capital surplus:				
Balance at beginning of year	¥ 85,792	¥ 85,792	¥ 85,792	\$ 714,933
Balance at end of year	¥ 85,792	¥ 85,792	¥ 85,792	\$ 714,933
Retained earnings:				
Balance at beginning of year	¥232,594	¥237,336	¥233,152	\$1,938,283
Net income	5,790	3,802	16,937	48,250
Cash dividends	(7,007)	(8,409)	(9,810)	(58,391)
Bonuses to directors and corporate auditors	(6)	(135)	—	(50)
Retained earnings of affiliates previously accounted for under the equity method	—	—	(2,943)	—
Balance at end of year	¥231,371	¥232,594	¥237,336	\$1,928,092
Treasury stock, at cost	¥ (121)	¥ (14)	¥ (2)	\$ (1,008)

See accompanying notes to consolidated financial statements.

Effective from the year ended March 31, 2003, the Company adopted "Accounting Standard for Treasury Stock and Reduction of Legal Reserves." In this connection, consolidated statements of income and surplus is separated into consolidated statements of income and consolidated statements of stockholders' equity.

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

Millions of yen

Thousands of
U.S. dollars (Note2)

	2003	2002	2001	2003
Cash flows from operating activities:				
Income before income taxes	¥22,480	¥13,140	¥32,329	\$187,333
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	75,544	79,391	82,068	629,534
Interest and dividend income	(1,859)	(2,769)	(4,188)	(15,492)
Equity in earnings of affiliates	(4,844)	(4,823)	(8,109)	(40,367)
Interest expenses	9,935	14,650	18,071	82,792
Loss(gain) on sales or disposal of property, plant and equipment, net	4,030	2,113	(348)	33,583
Loss(gain) on sales or write-down of investments in securities, net	7,773	(5,612)	(1,029)	64,775
Adjustment on acquisition cost of property, plant and equipment in foreign subsidiary due to the change of local accounting standards	—	(2,316)	—	—
Loss on write-down of property, plant and equipment	8,988	—	—	74,900
Decrease in reserve for employees' retirement benefits	(35,500)	(21,922)	(6,132)	(295,833)
(Increase)decrease in trade receivables	(9,512)	46,282	5,600	(79,267)
Decrease(increase) in inventories	5,133	13,859	(2,561)	42,775
Increase(decrease) in trade payables and accrued liabilities	14,808	(33,700)	6,355	123,400
Other, net	4,199	1,178	5,236	34,992
Subtotal	101,175	99,471	127,292	843,125
Interest and dividend income received	3,659	5,305	6,503	30,492
Interest expenses paid	(8,358)	(15,189)	(18,823)	(69,650)
Income taxes paid	(7,894)	(20,997)	(6,216)	(65,784)
Net cash provided by operating activities	88,582	68,590	108,756	738,183
Cash flows from investing activities:				
Capital expenditures	(60,607)	(61,963)	(61,316)	(505,058)
Purchase of investment securities	(4,579)	(11,822)	(15,338)	(38,158)
Proceeds from sales and disposal of noncurrent assets	17,053	18,568	15,405	142,108
Other, net	(3,762)	7,983	(2,769)	(31,350)
Net cash used in investing activities	(51,895)	(47,234)	(64,018)	(432,458)
Cash flows from financing activities:				
(Decrease)increase in short-term debt	(3,695)	(5,272)	3,622	(30,792)
Proceeds from long-term debt	61,201	81,051	71,370	510,008
Repayments of long-term debt	(80,744)	(98,753)	(119,077)	(672,866)
Cash dividends paid	(8,548)	(11,427)	(11,590)	(71,233)
Other, net	(107)	(12)	—	(892)
Net cash used in financing activities	(31,893)	(34,413)	(55,675)	(265,775)
Effect of exchange rate changes on cash and cash equivalents	(602)	1,437	789	(5,017)
Net increase(decrease) in cash and cash equivalents	4,192	(11,620)	(10,148)	34,933
Cash and cash equivalents at beginning of year	51,485	62,890	73,023	429,042
Beginning of term balance of cash and cash equivalents at subsidiaries not previously included in consolidated financial statements	—	215	15	—
Cash and cash equivalents at end of year	¥55,677	¥51,485	¥62,890	\$463,975

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

1. Significant Accounting Policies

a) 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.

b) Principles of Consolidation

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

Assets and liabilities in consolidated subsidiaries are revalued to fair market value when the majority interest in the subsidiaries is purchased.

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.

c) Cash and Cash Equivalents

Cash and cash equivalents for the fiscal years ended on March 31, 2003 and 2002 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.

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash	¥46,101	¥42,226	\$384,175
Time deposits	8,968	8,708	74,733
Less—Time deposits with maturities of over 3 months	(6)	(162)	(50)
Short-term investment securities and others with maturities of 3 months or less	614	713	5,117
Cash and cash equivalents	¥55,677	¥51,485	\$463,975

d) Financial Instruments

Derivatives:

All derivatives are stated at fair value, with changes in fair value included in net income or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see Hedge Accounting below).

Securities:

Held-to-maturity debt securities that the Company and its subsidiaries have the intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in stockholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of held-to-maturity debt securities or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to fair value and the resulting losses are included in net income or loss for the period.

Hedge Accounting:

Gains or losses arising from changes in fair value of derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company and its subsidiaries are principally interest rate swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, long-term bank loans and debt securities issued by the Company and its subsidiaries.

The Company and its subsidiaries have a policy to utilize the above hedging instruments in order to reduce their exposure to the risk of interest rate and foreign currency fluctuations. Thus, their purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company and its subsidiaries evaluate the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

e) Allowance for Doubtful Accounts

In the Company and its domestic subsidiaries, an allowance for doubtful accounts, including receivables and loans, is determined from the amounts considered unlikely to be recovered, estimated from past actual bad debt ratio records for general receivables and from studying the probability of recovery in individual cases where there is concern for claims.

Notes to Consolidated Financial Statements

f) 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.

g) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

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	3–60 years
Machinery and equipment	3–15 years

h) 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.

i) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements. The Company also provides for the anticipated tax effect of future remittances of retained earnings from overseas subsidiaries and affiliated companies.

j) Retirement Benefits

The Company and its domestic subsidiaries have two retirement plans in effect (an unfunded lump-sum benefit plan and a funded contributory pension plan) covering all eligible employees.

Under the terms of the unfunded 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 Company's funded pension plan covers all eligible employees. In general, the plan provides for pension payments for life commencing from age 60.

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the standard, unrecognized actuarial differences and unrecognized prior service cost are amortized on a straight-line basis over a period of 15 years.

In the fiscal years ended on March 31, 2003 and 2002, the Company contributed marketable equity securities to retirement benefit trust. Such contribution to the plan has been measured at fair value in the

amount of ¥21,131 million and ¥22,005 million, respectively, and the difference between the fair value and the book value was recorded as a "gain on contribution of securities to retirement benefit trust" in the amount of ¥15,305 million and ¥17,473 million, respectively, on the basis that it is an irrevocable transfer to the plan.

Following the enforcement of the Corporate Pension Law on Defined Benefits Payment, on January 30, 2003, the Health, Labor and Welfare Ministry granted permission for the Company and certain of its domestic subsidiaries to be exempted from the future obligation of payment with respect to the portion of the pension funds managed by the Company and certain of its domestic subsidiaries on behalf of the Government. Accordingly, by applying the temporary measure provided in the clause No. 47-2 of the "Guidelines on the Accounting Treatment of Retirement Benefits (Interim Report)" (Report No. 13 issued by Accounting Committee of Japan Institute of Certified Public Accountants), the Company and certain of its domestic subsidiaries treated both the exemption from the projected benefit obligations and the plan assets account equivalent to the portion deemed returnable as having become null and void as of the date the above permission was granted. The amount affected by this treatment is recorded as a "gain on return of employees' pension fund representative service" of ¥18,551 million. The equivalent amount of pension assets deemed returnable amounts to ¥43,146 million measured as of March 31, 2003.

Allowance for retirement benefits for directors and corporate auditors ("officers") of the Company and certain of its domestic subsidiaries is provided based on the companies' pertinent rules and is calculated as the estimated amount which would be payable if all officers were to retire at the balance sheet date. Any amounts payable to officers upon retirement are subject to approval at the annual stockholders' meeting. The amount is included in "customers' guarantee deposits and other liabilities" on the consolidated balance sheets.

k) Appropriation of Retained Earnings

Cash dividends 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.

l) Foreign Currency Transactions

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net income or loss for the period.

m) 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 their balance sheet dates, with the exception that the translation of stockholders' equity is made by using historical rates. Revenue and expense accounts are translated at the year's average rate of exchange.

Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustment" in stockholders' equity except for the portion belonging to minority stockholders, which is included in "minority interests in consolidated subsidiaries".

n) Net Income per Share

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

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

Effective from the year ended March 31, 2003, the Company adopted "Accounting Standard for Earnings per Share" (Accounting Standard No.2) and "Implementation Guidance on Accounting Standards for Earnings per Share" (Accounting Implementation Guidance No.4). The effect of the adoption of these accounting standard and guidance on net income and stockholders' equity per share was immaterial for the current fiscal year.

o) Treasury Stock and Reduction of Legal Reserves

Effective from the fiscal year ended on March 31, 2003, the Company adopted "Accounting Standard for Treasury Stock and Reduction of Legal Reserves" (Accounting Standard No.1). The adoption of the new standard had no material impact on net income.

2. 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 ¥120 to \$1.00, the approximate exchange rate

prevailing on March 31, 2003. 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.

3. Inventories

At March 31, 2003 and 2002, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished goods and work in process	¥167,879	¥178,121	\$1,398,992
Raw materials and supplies	45,102	44,019	375,850
	¥212,981	¥222,140	\$1,774,842

4. Account Balances and Transactions with Affiliates

Account balances due to/from unconsolidated subsidiaries and affiliated companies at March 31, 2003 and 2002 and transactions for the years then ended with unconsolidated subsidiaries and affiliated companies were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Trade receivables	¥ 9,801	¥12,095	\$ 81,675
Trade payables	4,538	5,335	37,817
Sales	¥41,348	¥45,005	\$344,567
Purchases	25,878	26,132	215,650

Notes to Consolidated Financial Statements

5. Bank Loans and Long-Term Debt

Bank loans at March 31, 2003 and 2002 represented 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, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Loans principally from banks and insurance companies with interest rates primarily from 0.2500% to 5.9500%, maturing serially through 2012:			
Collateralized	¥ 1,392	¥ 6,632	\$ 11,600
Unsecured	185,916	176,081	1,549,300
Medium-term notes of consolidated subsidiary with an interest rate of LIBOR+0.35% due 2005	432	5,544	3,600
Mortgage bonds with an interest rate of 2.3% due 2006	500	500	4,167
Convertible debentures with an interest rate of 1.7% due 2002	—	29,493	—
Yen notes with an interest rate of 2.40% due 2009	20,000	20,000	166,667
Yen notes with an interest rate of 2.275% due 2004	15,000	15,000	125,000
Yen notes with an interest rate of 2.20% due 2003	15,000	15,000	125,000
Yen notes with an interest rate of 2.05% due 2003	—	1,000	—
Yen notes with an interest rate of 2.03% due 2008	10,000	10,000	83,333
Yen notes with an interest rate of 2.00% due 2013	10,000	10,000	83,333
Yen notes with an interest rate of 1.95% due 2009	10,000	10,000	83,333
Yen notes with an interest rate of 1.94% due 2010	10,000	10,000	83,333
Yen notes with an interest rate of 1.93% due 2009	10,000	10,000	83,333
Yen notes with an interest rate of 1.925% due 2005	20,000	20,000	166,667
Yen notes with an interest rate of 1.48% due 2011	20,000	20,000	166,667
Yen notes with an interest rate of 1.40% due 2004	10,000	10,000	83,333
Yen notes with an interest rate of 1.05% due 2004	10,000	10,000	83,333
Yen notes with an interest rate of 0.60% due 2006	20,000	20,000	166,667
	368,240	399,250	3,068,666
Less amounts due within one year	59,253	81,627	493,775
	¥308,987	¥317,623	\$2,574,891

At March 31, 2003, assets pledged as collateral for short-term bank loans and collateralized loans and certain mortgage bonds of subsidiaries were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 864	\$ 7,200
Investments in securities at carrying value	45	375
Property, plant and equipment, at cost, less accumulated depreciation	21,387	178,225
	¥22,296	\$185,800

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

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2004	¥ 59,253	\$ 493,775
2005	60,978	508,150
2006	51,098	425,817
2007	33,099	275,825
2008	43,075	358,958
2009 and thereafter	120,737	1,006,141
	¥368,240	\$3,068,666

6. Securities

At March 31, 2003 and 2002, the carrying amount and aggregate fair value of the securities classified as held-to-maturity debt securities and other securities for which market quotations were available were as follows:

	Millions of yen							
	2003				2002			
	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	¥ 45	¥ —	¥ —	¥ 45	¥ 10	¥ —	¥ —	¥ 10
Other securities	29,959	19,959	2,203	47,715	42,523	47,578	1,548	88,553

	Thousands of U.S. dollars			
	2003			
	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	\$ 375	\$ —	\$ —	\$ 375
Other securities	249,658	166,325	18,358	397,625

At March 31, 2003 and 2002, the carrying amount of the securities classified as held-to-maturity debt securities and other securities for which market quotations were unavailable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
	Held-to-maturity debt securities	¥ 38	¥ 3,553
Other securities	6,574	12,779	54,783

The difference between the above fair value, carrying amount and the amounts shown in the accompanying consolidated balance sheets principally consisted of subscription certificates.

The carrying values of the securities by contractual maturities for securities classified as held-to-maturity debt securities and other securities at March 31, 2003 and 2002 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2003		2002		2003	
	Held-to-maturity debt securities	Other securities	Held-to-maturity debt securities	Other securities	Held-to-maturity debt securities	Other securities
Due within one year	¥14	¥ —	¥3,516	¥14	\$117	\$ —
Due over one year	69	20	47	10	575	167

7. Derivatives

The Company and its subsidiaries had the following derivatives contracts outstanding at March 31, 2003 and 2002:

	Millions of yen					
	2003			2002		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:						
Buying U.S. dollar	¥2,134	¥2,129	¥ (5)	¥11,391	¥11,339	¥ (52)
Buying euro	—	—	—	169	174	5
Buying Japanese yen	112	122	10	155	153	(2)
Selling U.S. dollar	78	72	6	1,401	1,316	85
Selling Hong Kong dollar	—	—	—	471	531	(60)
Selling euro	999	1,038	(39)	1,127	1,106	21
Selling British pound	—	—	—	47	47	0

	Thousands of U.S. dollars		
	2003		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollar	\$17,783	\$17,741	\$ (42)
Buying Japanese yen	933	1,016	83
Selling U.S. dollar	650	600	50
Selling euro	8,325	8,650	(325)

Notes to Consolidated Financial Statements

8. Retirement Benefit Plan

The reserve for employees' retirement benefits as of March 31, 2003 and 2002 was analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligations	¥272,462	¥342,321	\$2,270,517
Plan assets	133,611	172,687	1,113,425
	138,851	169,634	1,157,092
Unrecognized actuarial differences	68,166	60,727	568,050
Unrecognized prior service cost	(2,895)	(6,697)	(24,125)
	73,580	115,604	613,167
Prepaid pension cost	40	67	333
	¥ 73,620	¥115,671	\$ 613,500

Net pension expense related to the employees' retirement benefits for the year ended March 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥11,453	¥12,102	\$95,442
Interest cost	9,288	10,493	77,400
Expected return on plan assets	(4,709)	(5,212)	(39,242)
Amortization of actuarial differences	4,007	1,667	33,392
Amortization of prior service cost	(431)	(420)	(3,592)
Net pension expense	19,608	18,630	163,400
Gain on return of employees' pension fund representative service	(18,551)	—	(154,591)
	¥ 1,057	¥18,630	\$ 8,809

Assumptions used in calculation of the above information were as follows:

	2003	2002
Method of attributing the projected benefits to periods of services	straight-line basis	straight-line basis
Discount rate	primarily 3.0%	primarily 3.0%
Expected rate of return on plan assets	primarily 3.0%	primarily 3.5%
Amortization period of prior service cost	primarily 15 years	primarily 15 years
Amortization period of actuarial differences	primarily 15 years	primarily 15 years

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities in the fiscal years ended on March 31, 2002 and 2001 was 42.3%. Due to the change in local tax law during the fiscal year ended on March 31, 2003, the statutory tax rate used for calculating non-current deferred tax assets and liabilities was changed to 41.3%, while the rate used for calculating current deferred tax assets and liabilities remained 42.3%.

As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥849 million (\$7,075 thousand), income taxes - deferred and unrealized gain on securities increased by ¥1,039 million (\$8,658 thousand) and ¥190 million (\$1,583 thousand), respectively.

At March 31, 2003 and 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Inventories	¥ 3,600	¥ 5,701	\$ 30,000
Accrued bonuses	3,961	3,489	33,008
Reserve for employees' retirement benefits	28,002	44,428	233,350
Tax loss carryforwards	33,156	26,729	276,300
Unrealized earnings	11,114	13,092	92,617
Other	26,101	17,026	217,508
	105,934	110,465	882,783
Valuation allowance	(15,546)	(12,995)	(129,550)
Total deferred tax assets	90,388	97,470	753,233
Deferred tax liabilities:			
Reserve for advanced depreciation	13,839	14,250	115,325
Depreciation	3,706	5,231	30,883
Undistributed earnings of foreign subsidiaries and affiliates	3,455	3,554	28,792
Unrealized gain on securities	7,485	19,500	62,375
Other	1,219	2,045	10,158
Total deferred tax liabilities	29,704	44,580	247,533
Net deferred tax assets	¥ 60,684	¥ 52,890	\$505,700

At March 31, 2003 and 2002, a reconciliation of the statutory tax rate and the effective income tax rate was as follows:

	2003	2002
Statutory tax rate	(42.3)%	(42.3)%
Increase (decrease) in taxes resulting from:		
Permanent differences	(3.4)	(9.4)
Losses by subsidiaries not utilizing deferred tax accounting	(15.2)	(8.8)
Equity in earnings of affiliates	9.1	15.5
Adjustment of deferred tax assets and liabilities due to tax rate change	(4.8)	—
Other	(3.5)	(3.5)
Effective income tax rate	(60.1)%	(48.5)%

Notes to Consolidated Financial Statements

10. Stockholders' Equity

The Japanese Commercial Code requires that at least 50% of the paid-in capital of new share issues be transferred to common stock.

Capital surplus consists of capital reserve recorded pursuant to the Japanese Commercial Code and other capital surplus. Capital reserve consists of proceeds on issuance of shares of common stock of the Company that were not recorded as common stock. Capital reserve may be transferred to other capital surplus to the extent that the sum of capital reserve and earned reserve (collectively, "legal reserve") does not fall below 25% of common stock. However, capital reserve may not be transferred to retained earnings.

Retained earnings consists of earned reserve recorded pursuant to the Japanese Commercial Code, voluntary reserves and unappropriated retained earnings. The Japanese Commercial Code requires all the companies to appropriate as an earned reserve an amount equivalent to at least 10% of cash payments for appropriation of retained earnings until the legal reserve equals 25% of common

stock. Earned reserve may be transferred to un-appropriated retained earnings to the extent that the legal reserve does not fall below 25% of common stock.

Legal reserve may be transferred to common stock through suitable directors' action or offset against deficit suitable stockholders' action.

Under the amended Japanese Commercial Code, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury stocks does not exceeds the maximum amount available for dividends. Treasury stocks are stated at cost in the stockholders' equity in the accompanying consolidated balance sheets. Net gain on resale of treasury stocks are presented under capital surplus in the stockholders' equity in the accompanying consolidated balance sheets.

At the June 2003 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥2.50 per share, aggregating ¥3,502 million (\$29,183 thousand).

11. Commitments and Contingent Liabilities

At March 31, 2003, commitment line of credit was as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line of credit	¥9,038	\$75,317
Outstanding borrowings	7,439	61,992
Balance	¥1,599	\$13,325

This commitment does not necessarily imply that the Company will extend borrowings to the maximum limit.

At March 31, 2003 and 2002, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
As guarantors of loans to:			
Affiliates	¥11,335	¥15,067	\$ 94,458
Others	5,532	5,856	46,100
	¥16,867	¥20,923	\$140,558
Obligations of guarantee	¥ 54	¥ 66	\$ 450
Notes discounted	¥ —	¥ 143	\$ —
Buyback obligations associated with securitization of receivables	¥ 6,055	¥ 4,910	\$ 50,458

12. Leases

The Group holds certain machinery, equipment and vehicles and other assets (fixtures and tools) by leases. Total lease payments under these leases were ¥2,141 million (\$17,842 thousand) and ¥1,540 million for the fiscal years ended on March 31, 2003 and 2002, respectively.

Pro forma information relating to acquisition costs, accumulated

depreciation and future minimum lease payments for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the fiscal years ended on March 31, 2003 and 2002 was as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Year ended March 31, 2003:			
Acquisition costs	¥2,212	¥13,551	¥15,763
Accumulated depreciation	1,254	8,010	9,264
Net leased property	¥ 958	¥ 5,541	¥ 6,499

	Millions of yen		
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Year ended March 31, 2002:			
Acquisition costs	¥717	¥5,467	¥6,184
Accumulated depreciation	538	2,194	2,732
Net leased property	¥179	¥3,273	¥3,452

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Year ended March 31, 2003:			
Acquisition costs	\$18,433	\$112,925	\$131,358
Accumulated depreciation	10,450	66,750	77,200
Net leased property	\$ 7,983	\$ 46,175	\$ 54,158

Future minimum lease payments under finance leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥2,794	¥1,327	\$23,283
Due over one year	3,705	2,125	30,875
Total	¥6,499	¥3,452	\$54,158

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Notes to Consolidated Financial Statements

13. Segment Information

Results by Business Segment

The Company and its subsidiaries operate principally in six business segments: Fibers and Textiles, Plastics and Chemicals, IT-related (information technology-related) Products, 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 (except films and plastic products included in IT-related Products stated below). Operations in the IT-related Products

segment involve the production and sale of magnetic recording materials, films and plastic products for such information- and telecommunications-related products as electronic devices, electronic circuits, graphic materials and related equipment, optical fibers and color filters for LCDs. Operations in the Housing and Engineering segment involve construction and plant engineering services and the manufacturing of industrial equipment and machinery. Operations in the Pharmaceuticals and Medical Products segment involve the production and sale of interferon- β , beraprost sodium drugs, and artificial kidneys. Operations in the New Products and Other Businesses segment involve the production and sale of advanced composite materials as well as the provision of services in such diverse areas as research support and hotel chain operation.

Year ended March 31, 2003:	Millions of yen								
	Fibers and Textiles	Plastics and Chemicals	IT-related Products	Housing and Engineering	Pharmaceuticals and Medical Products	New Products and Other Businesses	Total	Elimination and corporate	Consolidated total
Sales to outside customers	¥418,332	¥241,882	¥147,729	¥118,764	¥47,632	¥ 58,652	¥1,032,991	¥ —	¥1,032,991
Intersegment sales	1,195	28,156	4,816	36,679	3	17,916	88,765	(88,765)	—
Total sales	¥419,527	¥270,038	¥152,545	¥155,443	¥47,635	¥ 76,568	¥1,121,756	¥(88,765)	¥1,032,991
Operating income	¥ 10,380	¥ 6,023	¥ 9,298	¥ 846	¥ 2,755	¥ 3,471	¥ 32,773	¥ 270	¥ 33,043
Assets	¥438,399	¥357,139	¥221,679	¥149,252	¥69,047	¥119,378	¥1,354,894	¥(53,940)	¥1,300,954
Depreciation and amortization	24,840	23,105	14,717	2,246	2,831	8,156	75,895	(736)	75,159
Capital expenditures	19,649	14,027	11,309	3,132	2,617	7,167	57,901	(652)	57,249

Year ended
March 31, 2002:

Sales to outside customers	¥431,483	¥224,895	¥141,424	¥105,153	¥50,015	¥ 62,743	¥1,015,713	¥ —	¥1,015,713
Intersegment sales	445	23,398	5,943	43,593	54	19,307	92,740	(92,740)	—
Total sales	¥431,928	¥248,293	¥147,367	¥148,746	¥50,069	¥ 82,050	¥1,108,453	¥(92,740)	¥1,015,713
Operating income	¥ 9,174	¥ 1,640	¥ 1,327	¥ 594	¥ 1,879	¥ 3,087	¥ 17,701	¥ 1,144	¥ 18,845
Assets	¥464,945	¥361,556	¥234,414	¥165,599	¥78,568	¥136,495	¥1,441,577	¥(55,070)	¥1,386,507
Depreciation and amortization	26,145	23,995	16,076	2,481	2,649	9,521	80,867	(1,726)	79,141
Capital expenditures	17,531	19,342	15,912	2,034	3,461	7,606	65,886	(519)	65,367

Year ended March 31, 2003:	Thousands of U.S. dollar								
	Fibers and Textiles	Plastics and Chemicals	IT-related Products	Housing and Engineering	Pharmaceuticals and Medical Products	New Products and Other Businesses	Total	Elimination and corporate	Consolidated total
Sales to outside customers	\$3,486,100	\$2,015,683	\$1,231,075	\$ 989,700	\$396,933	\$488,767	\$ 8,608,258	\$ —	\$ 8,608,258
Intersegment sales	9,958	234,634	40,133	305,658	25	149,300	739,708	(739,708)	—
Total sales	\$3,496,058	\$2,250,317	\$1,271,208	\$1,295,358	\$396,958	\$638,067	\$ 9,347,966	\$(739,708)	\$ 8,608,258
Operating income	\$ 86,500	\$ 50,192	\$ 77,483	\$ 7,050	\$ 22,958	\$ 28,925	\$ 273,108	\$ 2,250	\$ 275,358
Assets	\$3,653,325	\$2,976,158	\$1,847,325	\$1,243,766	\$575,392	\$994,817	\$11,290,783	\$(449,500)	\$10,841,283
Depreciation and amortization	207,000	192,541	122,641	18,717	23,592	67,967	632,458	(6,133)	626,325
Capital expenditures	163,742	116,891	94,242	26,100	21,808	59,725	482,508	(5,433)	477,075

Results by Geographic Segment

Year ended March 31, 2003:	Millions of yen					Consolidated total
	Japan	Asia	North America and Europe	Total	Elimination and corporate	
Sales to outside customers	¥737,013	¥175,601	¥120,377	¥1,032,991	¥ —	¥1,032,991
Intersegment sales	68,258	24,555	3,948	96,761	(96,761)	—
Total sales	¥805,271	¥200,156	¥124,325	¥1,129,752	¥(96,761)	¥1,032,991
Operating income	¥ 21,270	¥ 8,614	¥ 3,298	¥ 33,182	¥ (139)	¥ 33,043
Assets	¥935,800	¥233,996	¥150,675	¥1,320,471	¥(19,517)	¥1,300,954

Year ended March 31, 2002:	Millions of yen					Consolidated total
	Japan	Asia	North America and Europe	Total	Elimination and corporate	
Sales to outside customers	¥729,966	¥167,600	¥118,147	¥1,015,713	¥ —	¥1,015,713
Intersegment sales	64,084	27,809	3,927	95,820	(95,820)	—
Total sales	¥794,050	¥195,409	¥122,074	¥1,111,533	¥(95,820)	¥1,015,713
Operating income	¥ 4,825	¥ 9,888	¥ 3,022	¥ 17,735	¥ 1,110	¥ 18,845
Assets	¥995,302	¥247,897	¥168,628	¥1,411,827	¥(25,320)	¥1,386,507

Year ended March 31, 2003:	Thousands of U.S. dollars					Consolidated total
	Japan	Asia	North America and Europe	Total	Elimination and corporate	
Sales to outside customers	\$6,141,775	\$1,463,341	\$1,003,142	\$ 8,608,258	\$ —	\$ 8,608,258
Intersegment sales	568,817	204,625	32,900	806,342	(806,342)	—
Total sales	\$6,710,592	\$1,667,966	\$1,036,042	\$ 9,414,600	\$(806,342)	\$ 8,608,258
Operating income	\$ 177,250	\$ 71,783	\$ 27,483	\$ 276,516	\$ (1,158)	\$ 275,358
Assets	\$7,798,333	\$1,949,967	\$1,255,625	\$11,003,925	\$(162,642)	\$10,841,283

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

Asia: China, Indonesia, Thailand, Malaysia, South Korea

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

Export Sales and Sales by Overseas Subsidiaries

Year ended March 31, 2003:	Millions of yen		
	Asia	North America, Europe and other areas	Total
Export sales and sales by overseas subsidiaries	¥253,580	¥173,849	¥427,429
Percentage of such sales against consolidated net sales	24.6%	16.8%	41.4%

Year ended March 31, 2002:	Millions of yen		
	Asia	North America, Europe and other areas	Total
Export sales and sales by overseas subsidiaries	¥232,221	¥178,965	¥411,186
Percentage of such sales against consolidated net sales	22.9%	17.6%	40.5%

Year ended March 31, 2003:	Thousands of U.S. dollars		
Export sales and sales by overseas subsidiaries	\$2,113,166	\$1,448,742	\$3,561,908

Major countries in the categories Asia and North America, Europe and other areas were as follows:

Asia: China, Indonesia, Thailand, Malaysia, South Korea

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, 2003. 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, 2003.

Report of Independent Accountants

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

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, 2003 and 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2003, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toray Industries, Inc. and its consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in *Japan* (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation

Tokyo, Japan

June 26, 2003

Toray Group Worldwide Network (As of August 1, 2003)

EUROPE

United Kingdom

- Toray Europe Ltd. (TEL)
- Toray Textiles Europe Ltd. (TTEL)

Germany

- Toray Deutschland GmbH (TDG)

France

- ★ Toray Plastics Europe S.A. (TPEU)
- ♣ Société des Fibres de Carbone S.A. (SOFICAR)

Italy

- Toray Italia S.r.l. (TITA)
- Alcantara S.p.A.

Czech

- Toray Textiles Central Europe s.r.o. (TTCE)

Switzerland

- ◆ Ropur AG

Netherlands

- ♣ Toray Capital (Europe) B.V. (TCEP)

ASIA

Indonesia

- P.T. Toray Industries Indonesia (TIN)
- P.T. Toray Trading Indonesia (TRI)
- P.T. Acryl Textile Mills (ACTEM)
- P.T. Century Textile Industry Tbk (CENTEX)
- P.T. Easterntex (ETX)
- P.T. Indonesia Synthetic Textile Mills (ISTEM)
- P.T. Indonesia Toray Synthetics (ITS)
- P.T. OST Fibre Industries (OST)
- ★ P.T. Petnesia Resindo (PNR)

...Others

Thailand

- Toray Industries (Thailand) Co., Ltd. (TTH)
- Luckytex (Thailand) Public Company Limited (LTX)
- Thai Toray Textile Mills Public Company Limited (TTTM)
- Toray Fibers (Thailand) Ltd. (TFL)
- ★ Toray Nylon Thai Co., Ltd. (TNT)
- ★ Thai PET Resin Co., Ltd. (TPRC)
- ★ 3TM Plastics Co., Ltd. (3TP)

Malaysia

- Toray Industries (Malaysia) Sdn. Berhad (TML)
 - Penfabric Sdn. Berhad (PAB)
 - ★ Penfibre Sdn. Berhad (PFR)
 - ★ Pensanko Precision Sdn. Berhad (PSP)
 - ★ Toray Plastics (Malaysia) Sdn. Berhad (TPM)
- ...Others

Singapore

- Toray Industries (Singapore) Pte. Ltd. (TSP)
- ...Others

China

- Toray Industries (China) Co., Ltd. (TCH)
 - Toray Trading (Shanghai) Co., Ltd. (TSL)
 - Toray Fibers (Nantong) Co., Ltd. (TFNL)
 - Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd. (TSD)
 - ★ LIBI Plastic Compounding (Shenzhen) Co., Ltd. (LCS)
 - ★ Toray Film Products (Zhongshan) Ltd. (TFZ)
 - ★ Toray Sanko Precision (Zhongshan) Ltd. (RKZ)
 - ★ Yihua Toray Polyester Film Co., Ltd. (YTP)
 - ♣ Toray Fibers & Textiles Research Laboratories (China) Co., Ltd (TFRC)
 - Toray Industries (South China) Co., Ltd. (TSCH)
 - Toray Industries (H.K.) Ltd. (THK)
 - TAL Knits Ltd. (TAK)
 - ★ LIBI Plastic Compounding (Hong Kong) Co., Ltd. (LCH)
 - ★ Toray Film Products (Hong Kong) Ltd. (TFH)
 - ★ Toray Sanko Precision (Hong Kong) Ltd. (RKH)
- ...Others

Chinese Taipei

- Tong Shing Inc.
- ...Others

Korea

- ★ KTP Industries Inc. (KTP)
 - ★ ■ ♣ Toray Saehan Inc. (TSI)
 - ◆ Daehan Precision Co., Ltd.
 - ♣ STECO, Ltd. (STECO)
 - ♣ STEMCO, Ltd. (STEMCO)
- ...Others



NORTH AMERICA

U.S.A.

- Toray Marketing and Sales (America), Inc. (TOMAC)
 - Toray Fluorofibers (America), Inc. (TFA)
 - Toray Ultrasuede (America), Inc. (TUA)
 - ★ Toray Plastics (America), Inc. (TPA)
 - ★ Toray Resin Co. (TREC)
 - ◆ Toray Membrane America, Inc. (TMA)
 - ♣ Toray Carbon Fibers America, Inc. (CFA)
 - ♣ Toray Composites (America), Inc. (TCA)
 - ♣ Toray Capital (America), Inc. (TCAM)
- ...Others

- Regional Supervisory Organization
- Fibers and Textiles
- ◆ Housing and Engineering
- Trading
- ★ Plastics and Chemicals
- ♣ New Products and Other Businesses

*204 companies including Japan and 2 companies in 2 countries in 18 countries and regions (114 in Japan and 90 overseas)

Toray Group

(As of March 31, 2003)

		SUBSIDIARIES (170 Companies)	
		CONSOLIDATED SUBSIDIARIES	
FIBERS & TEXTILES, FASHION	<p>Japan (21 Companies) Toray Monofilament Co., Ltd. Toyo Tire Cord Co., Ltd. Ogaki Spinning Co., Ltd. Fuso Spinning Co., Ltd. Toyo Dyeing Co., Ltd. Marusa Co., Ltd. Toray Textiles, Inc. Inami Textiles, Inc. Toray Kimono Co., Ltd. Ronze Inc. Toray Fishing Corp. Towa Orimono Co., Ltd. (Osaka) Toray Coatex Co., Ltd. Ichimura Sangyo, Co., Ltd. Towa Orimono Co., Ltd. (Ishikawa) Maruichi Fiber Co., Ltd. Maruwa Orimono Co., Ltd. Toray Diplomode, Inc. Japan Apparel System Science Co., Ltd. Sunrich Mode Inc. San e Origin Co., Ltd Others</p>	<p>U.S.A. (2 Companies) Toray Ultrasuede (America), Inc. Toray Fluorofibers (America), Inc.</p> <p>United Kingdom (1 Company) Toray Textiles Europe Ltd.</p> <p>Italy (1 Company) Alcantara S.p.A.</p> <p>Czech Republic (1 Company) Toray Textiles Central Europe s.r.o.</p> <p>Indonesia (5 Companies) P.T. Indonesia Toray Synthetics P.T. Indonesia Synthetic Textile Mills P.T. Acryl Textile Mills P.T. Easterntex P.T. Century Textile Industry Tbk</p>	<p>Thailand (3 Companies) Toray Nylon Thai Co., Ltd. Luckytex (Thailand) Public Company Limited Toray Fibers (Thailand) Ltd.</p> <p>Malaysia (5 Companies) Penfibre Sdn. Berhad Penfabric Sdn. Berhad Pentex Sdn. Berhad Woodard Textile Mills Sdn. Berhad Pentley Sdn. Berhad</p> <p>China (3 Companies) Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd. Toray Fibers (Nantong) Co., Ltd. Taltex (Zhuhai) Ltd.</p> <p>Hong Kong, China (4 Companies) TAL Knits Ltd. Others</p>
(66 Companies)			(46 Companies)
TRADING	<p>Japan (3 Companies) Toray International, Inc. Toray Ireeve Corp. Toray Alphart Co., Ltd.</p>	<p>U.S.A. (1 Company) Toray Marketing and Sales (America), Inc.</p> <p>United Kingdom (1 Company) Toray Europe Ltd.</p> <p>Germany (1 Company) Toray Deutschland GmbH</p>	<p>Singapore (1 Company) Toray Industries (Singapore) Pte. Ltd.</p> <p>Hong Kong, China (2 Companies) Toray Industries (H.K.) Ltd. Other</p>
(14 Companies)			(9 Companies)
PLASTICS & CHEMICALS	<p>Japan (9 Companies) Toray PEF Products Inc. Toyo Plastic Seiko Co., Ltd. Toyo Metallizing Co., Ltd. Toray Plastic Films Co., Ltd. Toray Fine Chemicals Co., Ltd. SODA AROMATIC Co., Ltd. Others</p>	<p>U.S.A. (1 Company) Toray Plastics (America), Inc.</p> <p>France (1 Company) Toray Plastics Europe S.A.</p> <p>Malaysia (3 Companies) Pensanko Precision Sdn. Berhad Toray Plastics (Malaysia) Sdn. Berhad Other</p>	<p>China (2 Companies) LIBI Plastic Compounding (Shenzhen) Co., Ltd. Toray Sanko Precision (Zhongshan) Ltd.</p> <p>Hong Kong, China (2 Companies) LIBI Plastic Compounding (Hong Kong) Co., Ltd. Toray Sanko Precision (Hong Kong) Ltd.</p> <p>South Korea (1 Company) Toray Saehan Inc.</p>
(35 Companies)			(19 Companies)
HOUSING & ENGINEERING	<p>Japan (14 Companies) Toray Construction Co., Ltd. Toray Engineering Co., Ltd. Toray Precision Co., Ltd. Toray Glasal Corp. Santo Development Co., Ltd. Others</p>	<p>U.S.A. (1 Company)</p>	<p>Malaysia (1 Company)</p> <p>Singapore (1 Company)</p> <p>China (1 Company)</p> <p>South Korea (1 Company)</p>
(27 Companies)			(19 Companies)
PHARMACEUTICALS & MEDICAL PRODUCTS	<p>Japan (1 Company) Toray Medical Co., Ltd.</p>		
(4 Companies)			(1 Company)
NEW PRODUCTS & OTHER BUSINESSES		<p>U.S.A. (2 Companies) Toray Composites (America), Inc. Toray Carbon Fibers America, Inc.</p> <p>France (1 Company) Société des Fibres de Carbone S.A.</p>	<p>South Korea (1 Company) STEMCO, Ltd.</p>
(8 Companies)			(4 Companies)
INFORMATION & SERVICES	<p>Japan (11 Companies) Toray Enterprise Corp. Toray Agency Inc. Toray Research Center Inc. Toyo Logistics Co., Ltd. Toray Systems Center, Inc. Toyo Jitsugyo Co., Ltd. Others</p>	<p>U.S.A. (3 Companies) Toray Industries (America), Inc. Toray Holding (U.S.A.), Inc. Toray Capital (America), Inc.</p> <p>The Netherlands (1 Company) Toray Capital (Europe) B.V.</p>	<p>China (1 Company) Toray Industries (China) Co., Ltd.</p>
(50 Companies)			(16 Companies)
Total: 204 Companies			114 Companies

SUBSIDIARIES ACCOUNTED FOR BY EQUITY METHOD		AFFILIATES (29 Companies) AFFILIATES ACCOUNTED FOR BY EQUITY METHOD	
Japan (10 Companies) Toyo Flocking Co., Ltd. Toyo Waso Kogyo Co., Ltd. Toray Ecsaine Plaza, Inc. Others	Indonesia (1 Company) P.T. OST Fibre Industries Vietnam (1 Company) Vietnam TNT Fibers Co., Ltd. Brazil (1 Company)	Japan (2 Companies) Du Pont-Toray Co., Ltd. Matsumoto Textiles, Co., Ltd. Indonesia (1 Company) Thailand (1 Company) Thai Toray Textile Mills Public Company Limited Malaysia (2 Companies) Singapore (1 Company)	
	(13 Companies)		(7 Companies)
Italy (1 Company) Toray Italia S.r.l. Indonesia (1 Company) P.T. Toray Trading Indonesia	China (1 Company) Toray Trading (Shanghai) Co., Ltd. Chinese Taipei (1 Company) Tong Shing Inc.	Japan (1 Company) Chori Co., Ltd.	
	(4 Companies)		(1 Company)
Japan (2 Companies)	U.S.A. (1 Company) Toray Resin Co. China (2 Companies) Toray Film Products (Zhongshan) Ltd. Other Hong Kong, China (1 Company) Toray Film Products (Hong Kong) Ltd. South Korea (1 Company) KTP Industries Inc.	Japan (3 Companies) Dow Corning Toray Silicone Co., Ltd. Sanyo Chemical Industries, Ltd. Other Indonesia (1 Company) P.T. Petnesia Resindo Thailand (2 Companies) 3TM Plastics Co., Ltd. Thai PET Resin Co., Ltd.	China (1 Company) Yihua Toray Polyester Film Co., Ltd. Chinese Taipei (2 Companies)
	(7 Companies)		(9 Companies)
Japan (2 Companies) Chuno Cetech Co., Ltd. Toray Water Treatment Maintenance Co., Ltd.	U.S.A. (1 Company) Toray Membrane America, Inc. Switzerland (1 Company) Ropur AG	Japan (2 Companies) U.S.A. (1 Company)	South Korea (1 Company) Daehan Precision Co., Ltd.
	(4 Companies)		(4 Companies)
Japan (2 Companies)		Japan (1 Company)	
	(2 Companies)		(1 Company)
Chinese Taipei (1 Company) Advanced Sporting Composites Inc.		Japan (2 Companies) Sakai Composites Co., Ltd. Matsushita PDP Co., Ltd.	South Korea (1 Company) STECO, Ltd.
	(1 Company)		(3 Companies)
Japan (24 Companies) Toray Corporate Business Research, Inc. Toray Travel Co., Ltd. Toray Techno Co., Ltd. Toray Intellectual Property Experts Co., Ltd. Kanto General Service Inc. Shiga Shokusan Inc. Toyo Shokusan Inc. Meinan Service Inc. Toyo Service Inc. Okazaki Shokusan Inc. Gifu Shokusan Inc. Ishikawa Shokusan Inc. Chiba Shokusan Inc. Tsuchiura Shokusan Inc. Kamakura Techno Science Inc. Others	U.S.A. (1 Company) Indonesia (2 Companies) P.T. Toray Industries Indonesia P.T. Jabato International Thailand (1 Company) Toray Industries (Thailand) Co., Ltd. Malaysia (1 Company) Toray Industries (Malaysia) Sdn. Berhad China (1 Company) Toray Industries (South China) Co., Ltd.	Japan (4 Companies) Chiryu Hotel Corp. Shiga Cable Network Inc. Eitopia Co., Ltd. Others	
	(30 Companies)		(4 Companies)
61 Companies		29 Companies	

Board of Directors

(As of June 26, 2003)

TORAY

Chairman of the Board and Chief Executive Officer and Representative Director

Katsunosuke Maeda

Vice Chairman of the Board and Director

Katsuhiko Hirai

President and Chief Operating Officer and Representative Director

Sadayuki Sakakibara

Executive Vice President and Representative Directors

Hin Igarashi

Kazuo Tomiita

Senior Managing Directors and Representative Directors

Akikazu Shimomura

Satoru Masuzaki

Senior Managing Directors

Masao Katsurauma

Hiroaki Kobayashi

Nobuyuki Matsubara

Managing Directors

Motoo Yoshikawa

Keizo Sano

Chiaki Tanaka

Shunji Nakazawa

Osamu Nakatani

Directors

Koichi Minorikawa

Masayoshi Kamiura

Katsutoshi Ono

Hidehiro Okamoto

Junichi Fujikawa

Kozo Nagai

Eizo Tanaka

Akihiro Nikkaku

Hiroshi Miyazaki

Yuji Takita

Norihiko Saitou

Toshio Nakamoto

Ginjiro Ishii

Hitoshi Morino

Kazuhiro Maruyama

Corporate Auditors

Tomojiro Morigaki

Shinsuke Imamura

Kunihisa Hama

Keno Yamamoto

Investor Information

(As of March 31, 2003)

Toray Industries, Inc.

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Facsimile: 81 (47) 350-6075

Osaka Head Office

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3-3, Nakanoshima 3-chome,
Kita-ku, Osaka 530-8222, Japan
Telephone: 81 (6) 6445-4101
Facsimile: 81 (6) 7688-3774

Overseas Offices

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461 Fifth Ave, 9th Fl., New York,
NY 10017, U.S.A.
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Facsimile: 1 (212) 972-4279

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3rd Fl., 7 Old Park Lane, London W1K 1AD,
England, U.K.
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Facsimile: 44 (20) 7663-7770

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Beijing Fortune Bldg., No.802,
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Chao Yang District, Beijing 100004, China
Telephone: 86 (10) 6590-8961~3
Facsimile: 86 (10) 6590-8964

Seoul

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6th Fl., Kolon Bldg., 45 Mugyo-Dong,
Chung-Ku, Seoul, Korea
Telephone: 82 (2) 776-2949, 753-5511
Facsimile: 82 (2) 752-2974

Established: January 1926

Number of Employees

Parent company	7,790
Domestic subsidiaries	8,751
Overseas subsidiaries	17,250
Total	33,791

Common Stock Price Range	2003		2002	
	High	Low	High	Low
First quarter	¥395	¥310	¥585	¥470
Second quarter	331	281	528	300
Third quarter	297	230	356	300
Fourth quarter	281	238	376	299

Cash Dividends per Share	2003	2002
Total for the year	¥5.00	¥5.00
Interim	2.50	2.50

Composition of Stockholders	Percent of total	Thousands of shares
Nippon Life Insurance Co.	5.00%	69,589
Japan Trustee Services Bank, Ltd.	4.77	66,404
Mitsui Mutual Life Insurance Co.	4.66	64,865
The Master Trust Bank of Japan, Ltd.	4.65	64,707
Sumitomo Mitsui Banking Corporation	3.23	45,043
The Dai-ichi Mutual Life Insurance Co.	2.71	37,815
The Chase Manhattan Bank, N.A., London S.L. Omnibus Account	2.40	33,475
The Chuo Mitsui Trust and Banking Co., Ltd.	2.18	30,359
Shinsei Bank, Limited	1.96	27,332
Mitsui Sumitomo Insurance Co., Ltd.	1.43	20,002

Common Stock:

Authorized: 4,000,000,000 shares

Issued: 1,401,481,403 shares

Number of Stockholders: 164,760

Listings:

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

Transfer Agent:

The Chuo Mitsui Trust and Banking Co., Ltd.

33-1, Shiba 3-chome, Minato-ku,

Tokyo 105-0014, Japan

Toray IR Dept. e-Mail Address: ir@nts.toray.co.jp



2-1, Nihonbashi-Muromachi 2-chome, Chuo-ku,
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